capco

Annual report

2022

Capital & Counties Properties PLC

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

Strategic Report

Governance

Financial Statements

A leading London property company

A prime central London REIT

About us

A prime central London REIT driving long-term value creation centred around our landmark Covent Garden estate.

Our purpose

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

Our values

- **Collegiate, supportive and inclusive**
- **Environmentally and socially responsible**
- **High performance and entrepreneurial**
- **Innovative and creative**
- **Professional: We act with integrity and hold ourselves to the highest standards**

Covent Garden
£1,742m **80%**

Shaftesbury Investment
£357m **16%**

Lillie Square[2]
£79m **4%**

See pages 28 to 42 for our operating review

1. Includes Capco's property interests and its investment in Shaftesbury shares.
2. Includes Capco's interests in the Lillie Square joint venture and properties in the adjacent area.

About Capco

2022 financial results

2.2p
Underlying earnings per share

2.5p[1]
Dividend per share

182.1p
EPRA net tangible assets per share

2.8%
Total property return

1. Including distributions of Shaftesbury dividend received in February 2023.

Financial strength

£1.6bn Group net assets	**£423m** Access to liquidity
£622m Group net debt	**28%** Group net debt to gross assets
£366m Covent Garden net debt	**21%** Covent Garden loan to value

See page 20 to 21 and 201 where we discuss our alternative performance measures.

See page 52 to 62 for the financial review.

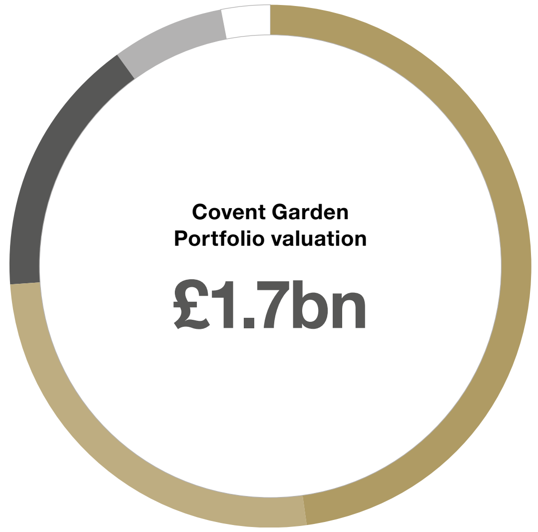
Covent Garden portfolio

Lettable space

1.1m sq ft

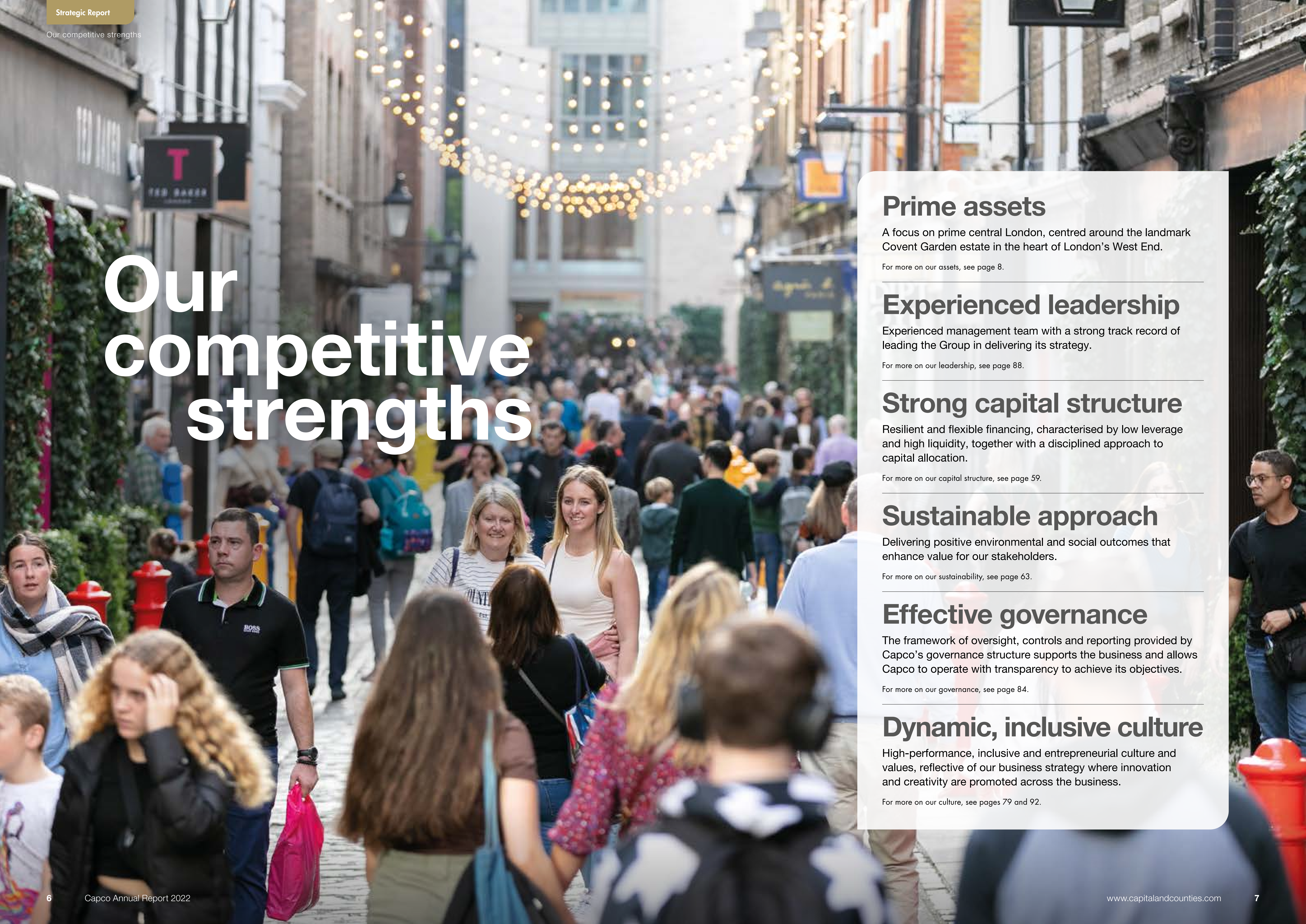
70 buildings

504 units



Sector	Sq ft	% of portfolio by value
Retail	0.4m	48%
Food & beverage	0.2m	26%
Office	0.2m	16%
Residential	0.2m[1]	7%
Leisure	0.1m	3%

1. Residential includes units sold on long lease interest covering approximately 159,000 square feet.



Our competitive strengths

Prime assets

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

For more on our assets, see page 8.

Experienced leadership

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

For more on our leadership, see page 88.

Strong capital structure

Resilient and flexible financing, characterised by low leverage and high liquidity, together with a disciplined approach to capital allocation.

For more on our capital structure, see page 59.

Sustainable approach

Delivering positive environmental and social outcomes that enhance value for our stakeholders.

For more on our sustainability, see page 63.

Effective governance

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

For more on our governance, see page 84.

Dynamic, inclusive culture

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

For more on our culture, see pages 79 and 92.

World-class estate in the heart of London's West End

Covent Garden

Portfolio valuation

£1.7bn

Lettable space

1.1m sq ft

Buildings

70

Units

504

Prime West End location

Scale and concentrated ownership

Rich in heritage

Global brand recognition

Capco Ownership
Shaftesbury Ownership

The landowners' map is indicative

Capco holds a 25.2 per cent interest in Shaftesbury PLC

2022
An active year

Every Can Counts installation

Spring

- A new urban farm initiative in partnership with Square Mile Farms launches which is an interactive way for local schools, offices and community groups to enjoy sustainably grown produce
- A recycled can rainbow installation in partnership with Every Can Counts marked Global Recycling Day encouraging visitors to make better environmental choices
- Beauty innovator brands open pop-up space in Covent Garden including VIEVE, The Inkey List, Eve Lom and Space NK x Tatcha
- The digital audience across social channels continues to increase as a result of an engaging campaign calendar with brand partnerships which resonate with the consumer

Wimbledon Piazza screenings

Summer

- In June 2022, Capco announces its intention to merge with Shaftesbury PLC. Shareholder support received for the proposed merger on 29 July 2022
- Events across the Piazza include the Rosé Garden Party with a selection of pop up bars and terraces, the Great Piazza Party in celebration of the Queen's Platinum Jubilee as well as daily screenings of the Wimbledon Tennis Championships
- Luxury watch brand Tudor, in partnership with Bucherer, sign a new mono-brand boutique in the Royal Opera House Arcade joining watch brand TAG Heuer on James Street
- A number of new brands including Parfums de Marly, Vuori, Rails, Sacred Gold and e&e introduced to the estate
- Capco joins the UN Race to Zero supporting its commitment to becoming Net Zero by 2030

Autumn

- Four new pop-up initiatives welcomed to the estate from digitally native, lifestyle and beauty brands; Beauty Pie, Lisa Eldridge, AYBL and Raye
- Covent Garden partnered with multi award-winning food influencer Clerkenwell Boy to launch the Covent Garden Good Food Club, a celebration of the best restaurants in the area
- Peloton opens its state-of-the-art European flagship studio on Floral Street
- Kylie Cosmetics by Kylie Jenner and a partnership with Disney on Stage launch installations across the Piazza
- Smart Works charity and Covent Garden partners with the British Fashion Council to bring an exclusive retail pop-up shop to Floral Street with 100% of proceeds going to Smart Works
- Refurbishment of 35 King Street and 5-6 Henrietta Street complete with a number of floors let ahead of ERV
- Premium Sportwear brand Hoka signs on James Street
- Extension of £300 million unsecured revolving credit facility by one year to September 2025

Good Food Club partnership

Winter

- Luxury Swiss watchmaker IWC Schaffhausen host an exhibition on the Piazza, beauty concepts from Rose Inc. and Shiseido open on James Street
- Covent Garden launches its Christmas programme, with a 60 foot Christmas tree, daily snowfall, Santa's sleigh and brand partnerships with Dolce & Gabbana, Jaeger-LeCoultre and American Express
- Covent Garden's Christmas charity auction 'Gift for Good' raises over £15k with proceeds going to Only A Pavement Away to help the homeless
- Ten new openings across Covent Garden, including new late night dining and music venue Stereo, from the Experimental Group, L'Or Coffee and Missoma
- Argentinian restaurant Gaucho agrees terms to open on James Street

Covent Garden Christmas

Chief Executive's review

Ian Hawksworth
Chief Executive

"There is positive momentum across the Covent Garden estate with strong demand, high occupancy levels and rental growth across all uses which has continued into 2023. Despite the macroeconomic backdrop, the West End has clearly demonstrated its resilience and enduring appeal with strong recovery in footfall and customer sales ahead of pre-pandemic levels"

James Street

Confident in future growth prospects

Overview

Covent Garden and the West End have demonstrated remarkable resilience with a strong recovery in footfall and consistent growth in customer sales following the disruption caused by the pandemic. Our creative approach has generated excellent leasing demand across all uses and delivered rental growth, however broader macroeconomic factors adversely affected investment market sentiment particularly in the second half of the year. The strong trading performance and resilience across the West End are in contrast with the weaker consumer sentiment being reported more widely and this underpins our confidence in the long-term prospects for our exceptional portfolio.

In June 2022, Capco and Shaftesbury PLC ("Shaftesbury") announced the terms of a recommended all-share merger to form Shaftesbury Capital PLC. We were pleased to receive shareholder support for the proposed merger and very much look forward to bringing the two companies together to create the leading central London mixed-use REIT.

It has been a very busy year, the team has worked incredibly hard and we very much appreciate the professionalism and commitment shown which has delivered strong performance.

Proposed merger with Shaftesbury PLC

Capco acquired a 25 per cent interest in Shaftesbury in 2020 which represented a unique opportunity to own a significant stake in a high quality real estate portfolio, adjacent to Capco's world-class Covent Garden estate. Capco has a strong track record of accretive investment and aggregation of ownership in the Covent Garden area, and the investment in Shaftesbury was consistent with our strategy of pursuing opportunities to expand our ownership to grow the business.

On 16 June 2022, Capco and Shaftesbury announced a recommended all-share merger. Both Boards were pleased that shareholders recognised the benefits of the merger by voting overwhelmingly in favour of the transaction. Completion of the merger was subject to clearance by the Competition and Markets Authority ("CMA"), which was received on 22 February 2023. The merger is expected to complete on 6 March 2023.

We now look forward to combining the two companies to create an impossible to replicate portfolio and the leading central London mixed-use REIT. By combining both companies' strengths, cultures and values, we will take a 'best of both' approach to operations with the aim of delivering long-term economic and social value for all stakeholders. The combination will generate both immediate and long-term benefits including greater efficiencies and synergies, a more diverse portfolio with a stronger operational platform of scale and enhanced access to capital. There is significant revenue growth potential to be captured across the combined portfolio through the difference between annualised gross income and ERV, together with ERV growth over time.

With cost and operational synergies, a strong corporate governance framework, increased scale, enhanced access to capital and greater equity market liquidity, the combination provides a firm foundation to ensure a sustainable and prosperous future for our destinations, the communities they serve and our wider stakeholders.

Strong leasing demand delivering rental growth

There is strong momentum across Covent Garden. Since early summer there have been growing numbers of international visitors contributing to increased footfall and positive trading performance across the estate. The Elizabeth Line opened during 2022 and has further improved the West End's connectivity and accessibility, adding to central London's rail network capacity. The changing travel and footfall patterns are expected to benefit Covent Garden and create valuable medium-term asset management opportunities. Public transport disruption around the festive period had a short-term impact on visitor numbers, nevertheless our hospitality and retail customers reported a successful trading period. Our targeted categories including F&B, luxury and premium were amongst the highest performing.

Capco continues to evolve the customer mix through its creative asset management and leasing strategy. Converting demand into new leasing transactions continues to capture income and strengthen the customer line-up. Capco introduced a number of new retail and hospitality brands to the estate across a range of unit sizes with broad appeal to consumers.

Covent Garden continues to attract target brands in key categories providing confidence in our leasing strategy for further rental growth. The retail and hospitality pipeline is encouraging with current leasing discussions ahead of prevailing ERV. Rental income collection has reverted to pre-pandemic levels. Covent Garden rents remain 19 per cent below 2019 levels, with aggregate customer sales ahead of pre-pandemic levels. From April 2023, there will be a reduction in business rates which is generally expected to reduce occupancy costs for our customers. Leases have reverted to conventional, pre-pandemic terms with turnover rental top-ups in place for certain customers, providing the opportunity for both Capco and the customer to benefit from increased sales.

There is continued leasing momentum in targeted categories with leasing activity overall in 2022 being 13 per cent ahead of December 2021 ERV and high occupancy levels. Following the success of its existing stores in Covent Garden, Bucherer agreed terms in December to further expand its presence in the Royal Opera House Arcade taking additional units for Messika, Girard-Perregaux and Hublot. The proven success of premium retail concepts on the estate has generated further demand from the sector with Tudor and TAG Heuer joining luxury brand Tiffany & Co. amongst others.

The Experimental Group, operator of the Henrietta Hotel, has expanded its operations by opening a new late night live music and dining concept on the Piazza. Argentinian restaurant Gaucho has signed on James Street adding to the high quality dining offer of Covent Garden.

Upcoming openings include jewellery brand Mejuri, artisanal fragrance house Creed and premium sportswear brand Hoka. Global apparel brand Uniqlo will open its new flagship store with dual frontage on Long Acre and Floral Street in spring 2023.

Recent office refurbishments attracted strong demand and are now fully let setting a new rental tone of £100 per square foot for the office portfolio. The main themes driving demand are amenity value and overall quality of offer, heritage architecture and the managed environment providing Covent Garden with a competitive advantage. The residential portfolio is fully occupied.

We continue to implement our market-leading estate marketing strategy. This is enhanced by our advanced digital channels, partnering with retail and dining brands as well as cultural partners and a programme of activity to promote both Covent Garden and the West End. The team successfully implemented our marketing strategy to capture the increased levels of international visitors and hosted an extensive calendar of activities throughout the year alongside strategic partnerships including Dolce&Gabbana, American Express, Disney and Jaeger-LeCoultre.

Investment activity

The Group has a strategic focus on Covent Garden and the West End, and seeks to invest in complementary opportunities on or near the Covent Garden estate. Having assembled the portfolio since 2006 and established Covent Garden as a world-class estate, its scale and comprehensive ownership would be incredibly difficult to replicate making the portfolio a scarce and valuable real estate investment.

Although macroeconomic headwinds have impacted the broader investment market with increased debt costs reducing investment volumes particularly in larger lot sizes, the resilience of West End assets as well as sterling weakness continue to attract interest from international investors. Acquisition opportunities which meet our strict criteria to deliver long-term rental growth have remained limited during the year, with assets in the area tightly held.

Active asset management and refurbishment initiatives continue to accelerate value and enhance environmental performance across the estate. Capco completed a number of schemes during the year including the refurbishment of several offices which have been let significantly ahead of ERV. A number of refurbishment projects are being brought forward, which are expected to result in capital expenditure of approximately £25 million over the next two years.

Valuation of investments

Total property return for the year was 2.8 per cent versus the MSCI Total Return Index which recorded -10.1 per cent. The Covent Garden valuation was unchanged over the year at £1.7 billion. The 5 per cent increase in the first half was offset by the second half decrease driven by widening of the equivalent yield by 25 basis points to 4.07 per cent as a result of a macroeconomic environment characterised by higher interest rates and inflationary pressures.

There has been continued ERV growth over the last 12 months, up 6 per cent on a like-for-like basis to £81 million, reflecting the positive leasing activity and high occupancy levels across the estate. Over the same period, there was a 19 basis point expansion in the equivalent yield to 4.07 per cent. The total valuation remains 27 per cent below the 31 December 2019 valuation on a like-for-like basis. Total ERV remains 19 per cent below 31 December 2019 ERV.

+2.8%
Total Property Return

71
New leasing transactions

+13%
Leasing vs Dec 21 ERV

+6%
ERV growth

Covent Garden independent valuation 2022

£1.7bn

	Market Value 2022 £m	Market Value 2021 £m	Valuation Change Like-for-Like[1]
Covent Garden	**1,742**	1,729	0%
Other[2]	**79**	86	-7%
Group share of total property[3]	**1,821**	1,815	0%

1. Valuation change takes account of amortisation of tenant lease incentives, capital expenditure, disposals, fixed head leases and unrecognised trading surplus.
2. Includes Capco's interest in the Lillie Square joint venture and Lillie Square Holdings Group.
3. A reconciliation of carrying value of investment, development and trading property to the market value is shown in note 14 'Property Portfolio'.

CBRE has undertaken an independent valuation of the Covent Garden estate. The total valuation of the estate is £1.7 billion and represents the aggregated value of the individual properties, with no reflection of any additional estate premium which potential investors may ascribe to the comprehensive nature of ownership within the estate. The predominantly freehold nature, concentrated ownership and scale of the estate as well as the portfolio mix may lead prospective purchasers to regard certain parts of the portfolio, for example by street, to have a greater value than the aggregate of the individual property values.

Capco's investment in Shaftesbury shares was valued at £357 million based on a share price of 368 pence per share on 31 December 2022 (2021: £596 million based on a share price of 615 pence on 31 December 2021). This reflects the movement in the Shaftesbury share price rather than underlying asset values.

Capco's investment at Lillie Square decreased in value by 6 per cent (like-for-like) to £79 million at 31 December 2022. The Lillie Square joint venture continues to progress with the sale of 5 units completed during the year representing £6.6 million. The joint venture is in a cash position of £11.8 million (£5.9 million Capco share) having distributed £35 million to the partners during the year (£17.5 million Capco share).

Financial performance and position

Capco's total shareholder return for the year, which comprises share price performance plus dividends paid during the year, was -35.9 per cent, and total return for the year, which represents the change in net assets plus the dividends paid during the year, was -13.6 per cent.

Covent Garden net rental income increased by 22.7 per cent like-for-like compared with December 2021. 71 new leases and renewals representing £10 million of rental income completed in the year. EPRA vacancy was 2.5 per cent (2021: 2.6 per cent). Properties representing an additional 6.2 per cent of ERV are under, or held for, refurbishment or development.

Underlying administration costs for the year were £26 million compared with £20 million in 2021. There are a number of items contributing to the increase including more normalised activity levels post-COVID, inflationary pressures and increased people costs, primarily variable and share option charges. Non-underlying costs incurred in connection with the proposed merger with Shaftesbury amount to £14.6 million.

Capco has a strong balance sheet. Group net debt of £622 million resulted in a net debt to gross assets ratio of 28 per cent, whilst Covent Garden's loan to value ratio was 21 per cent and net debt was £366 million. The Board has set an upper limit on balance sheet leverage of up to 40 per cent, represented by the net debt to gross assets ratio. The interest cover ratio in relation to the Covent Garden debt for 2022 was 3.9 times, comfortably ahead of the covenant level of 1.2 times.

During the year, Capco exercised a one-year extension option on its £300 million unsecured revolving credit facility for Covent Garden, taking the maturity to September 2025. The facility is undrawn and has an additional one-year extension option, subject to lender consent. In combination with cash deposits, the Group has access to significant liquidity.


Market Building & Piazza

Dividend

Our objective is to deliver long-term sustainable total returns to shareholders, including growing dividend distributions. Dividend payments will be determined having regard to growth trends in both underlying and cash earnings, which are expected to be delivered through income growth and cost discipline.

Capco declared a dividend in respect of the year to 31 December 2022 of 2.5 pence per share compared to 1.5 pence in 2021. This includes £2.6 million (0.3 pence per Capco share) of dividend income received post-year end from our investment in Shaftesbury.

Our people

Our people are key to our business. We promote a culture of creative passion for Covent Garden and the West End to allow employees to reach their potential whilst creating value for our stakeholders.

Our people conduct their day-to-day activities guided by a core set of Company values which are to be:

– collegiate, supportive and inclusive;
– environmentally and socially responsible;
– high performance and entrepreneurial;
– innovative and creative; and
– professional, acting with integrity and hold ourselves to the highest standards.

We have introduced a number of initiatives to support our employees during the year through regular Company-wide meetings, business updates and seminars focusing on well-being, financial planning, equality and inclusion.

Sustainability and environment

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

During the year, we made good progress implementing our extensive ESG agenda overseen by the Board Committee. Capco joined the UN Race to Zero supporting our commitment to becoming Net Zero by 2030 by securing Science-based Targets Initiative ("SBTi") validation of our targets. We take a holistic approach to responsible stewardship and tackling climate change through promotion of heritage preservation and energy efficiency initiatives and were pleased that Capco was recognised as a Climate Leader in the 2022 Financial Times survey, recognising the progress made in reducing our energy emission intensity.

Key sustainability activities include continued investment in our buildings, delivery of enhanced pedestrianisation and an extensive greening programme. Currently 68 per cent of our units have an EPC grade of C or above and we continue to make energy performance enhancements to meet energy performance standards and customers' expectations. All of our refurbishment projects achieved an EPC rating of at least B during the year. Capco has initiated its first Carbon Risk Real Estate Monitor ("CRREM") analysis on a number of properties which supports the development of science-based carbon reduction pathways at an individual building level.

Net Zero Carbon by 2030

Responsible stewardship

We are focused on promoting a cleaner, greener estate through enhanced air quality, biodiversity, energy efficiency and waste management initiatives. During the year we installed new air quality monitors across the estate. We will continue to work closely with our stakeholders in the years ahead to help deliver our shared sustainability goals.

Community and stakeholders

As a responsible, long-term investor, community engagement and collaboration are integral to delivering our strategy.

Our stakeholders include local authorities, neighbouring owners and business improvement districts, industry groups, residents, and charitable organisations. Our active engagement helps progress the ambitions and shared goals of our stakeholders. We continue to work with local authorities and residents to make public realm enhancements, including extending pedestrianisation, street scape improvements, providing outdoor seating and improving air quality through reducing traffic congestion and pollution. These are important aspects of our long-term sustainability strategy and demonstrate how collaboration can leverage our experience to produce positive social outcomes for our stakeholders.

Being a good neighbour is important to us. Our community programme prioritises initiatives and charity partners in Covent Garden. This includes the provision of financial aid supporting homelessness, food banks and the elderly as well as hospitality, cultural and retail foundations.

Outlook

There is strong momentum building as we look ahead to completing the merger of Capco and Shaftesbury to create the leading central London mixed-use REIT with an impossible to replicate portfolio. Although the West End is not immune from the current macroeconomic challenges, it has clearly demonstrated its resilience and enduring appeal with a strong recovery post pandemic in footfall and trading conditions. Our creative approach is generating rental growth across all uses and our positive leasing pipeline has continued into 2023.

In combining both companies' strengths, cultures and values, we will take a 'best of both' approach with the aim of delivering long-term economic and social value for all stakeholders. Both companies' employees have a shared passion for the West End and are key to our future. We have a wonderful opportunity to blend the talented teams and with greater scale provide enhanced opportunities for individuals.

The combination will generate a number of benefits including greater efficiencies and synergies, and a more diverse portfolio with a stronger operational platform of considerable scale, bringing together ownership and management across adjacent portfolios to unlock opportunities. There is significant revenue growth potential to be captured over time through the difference between annualised gross income and ERV while continuing to generate rental growth.

Shaftesbury Capital will be financially strong with a resilient and flexible capital structure, significant liquidity and will benefit from enhanced access to capital over time. We look ahead with confidence as we aim to create the leading central London mixed-use REIT and deliver long-term economic and social value for our stakeholders.

Ian Hawksworth
Chief Executive

28 February 2023

Driving long-term value creation

Purpose

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

Our resources

- World-class Covent Garden estate
- Strong financial position
- Experienced management
- High-performing team
- Extensive stakeholder relationships

How we deliver

Group strategy

As a central London focused REIT, Capco creates, grows and delivers value from our assets centred around the landmark Covent Garden estate, to deliver superior long-term total returns for our shareholders, while bringing benefits to our stakeholders.

1. Customer at heart of the business
2. Creative asset management
3. Strategic investment and capital allocation
4. Strategic partnerships
5. Responsible stewardship
6. Strong capital structure

How we measure

- Financial indicators
- Non-financial measures

See pages 20 to 21 to read more.

Creating value for our stakeholders

See pages 22 to 25 to read more on our stakeholders

Customers | Employees | Suppliers | Visitors | Community | Investors | Finance providers | Joint venture partners | Local authorities | Our neighbours

Underpinned by

Dynamic, Inclusive Culture and Embedded Values
See pages 79 and 92 to read more on our culture, and pages 3 and 19 to read more about our values.

Effective Governance
See page 84 to read more on our governance.

Environment, Sustainability and Community
See page 63 to read more on our ESC activities.

Our values

Our values underpin Capco's culture and the way we operate as a business. They guide our decisions as we implement our strategy, creating economic and social value for our stakeholders.

Collegiate, supportive and inclusive

We value collaboration and creativity and treat our colleagues with respect. The well-being of our people is important to us and we provide a wide range of benefits and initiatives in support of this. We champion diversity and support and promote a range of programmes that aim to increase inclusivity and diversity across our industry.

See page 79 for more information.

Environmentally and socially responsible

We aim to make Covent Garden a UK leader in sustainability for heritage environments and have a comprehensive ESC strategy, aligned to our corporate values, pursuant to which we will address climate change, improve air quality, drive innovation, and support community and people. We support the community in and around our properties through collaboration, projects and financial support.

See page 63 for more information.

High performance and entrepreneurial

We have a high-performance and entrepreneurial culture, and work as a team to deliver our strategy. We are ambitious for our business and our employees. We have a clear business model and strategy which explain how we deliver value for our investors. We provide training and development opportunities to encourage our employees to reach their full potential.

See page 80 for more information.

Innovative and creative

We take an innovative approach to the management of our assets, seeking creative opportunities to deliver value for our stakeholders. This approach will help us address the challenge of climate change through our Net Zero Carbon Pathway.

See page 28 for more information.

Professional: We act with integrity and hold ourselves to the highest standards

We expect the highest standards across the business, from health and safety, professional ethics and corporate governance, to the standards we apply across our property portfolio. We have a range of policies that set out our expectations to ensure that our employees, suppliers, partners and stakeholders understand and work with us to maintain those standards.

See pages 22 and 63 for more information.

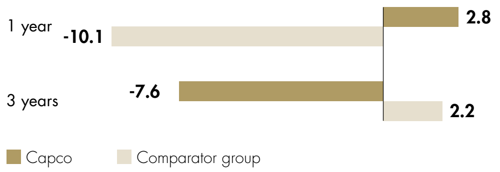
Measuring performance

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

R A performance measure under Executive Directors' short-term or long-term incentive arrangements. Read more, including the basis of calculation, in the Directors' Remuneration Report from page 105.

R Total property return

+2.8%

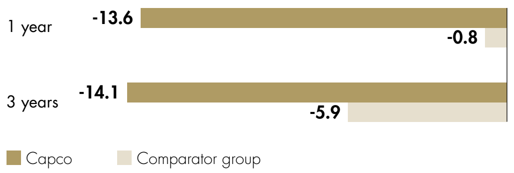


Measures gains and losses on portfolio valuation including disposals, and rents received less associated costs, including ground rent. Benchmarked against the MSCI Total Return All Property Index.

During 2022, the Group generated TPR of 2.8%, outperforming its benchmark of -10.1% by 12.9%. (Target: 1.5% per annum outperformance.)

R Total return

-13.6%

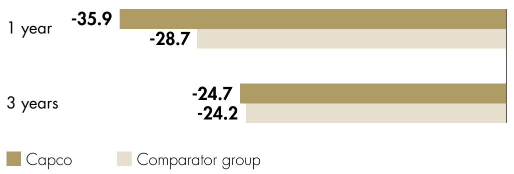


Measures growth in EPRA NTA per share plus dividends per share paid during the year. 1 year is benchmarked against the FTSE 350 Real Estate companies. 3 years is benchmarked against a bespoke group of peer companies.

The Group generated total return of -14.1% per annum on a rolling three-year basis, underperforming the comparator group by 8.2%.

R Total shareholder return

-35.9%



Measures shareholder value creation (share price movement plus dividend per share paid during the year). 1 year is benchmarked against the FTSE 350 Real Estate companies. 3 years is benchmarked against a bespoke group of peer companies.

The Group generated total shareholder return of -24.7% per annum on a rolling three-year basis, underperforming the comparator group by 0.5%.

R Underlying earnings per share

2.2p

Measures income generation and cost control.

During 2022, the Group generated underlying EPS of 2.2 pence.

R Net tangible assets per share

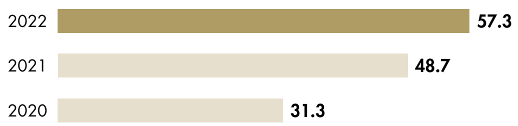
182.1p

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

NTA per share as at 31 December 2022 was 182.1 pence, a decrease of 14.5% from 31 December 2021.

Underlying net rental income (Covent Garden)

£57.3m



Measures gross rental income less property and service charge expenses, expected credit losses and for 2022 impairments in tenant lease incentives.

Covent Garden underlying NRI for 2022 was £57.3 million, a 22.7% increase on a like-for-like basis and 43.3% on an absolute basis (as per the analysis of net rental income for the year on page 208. See note 2 'Segmental Reporting' for reconciliation to IFRS NRI.

Following clarification by IFRIC during 2022 on how a lessor should account for the forgiveness of lease payments the 2020 and 2021 comparatives have been restated to reflect the change in accounting policy. Details of the restatement and impact on prior year comparatives are set out in Note 1 'Change in accounting policies'.

Other measures

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

Read more within our Responsibility reporting from page 63.

CDP | Dow Jones Sustainability Indices | ISS ESG Prime | FTSE4Good | GRESB | EPRA sBPR Gold

Engaging with our stakeholders

As the long-term steward of a globally recognised estate, our business can impact a wide range of stakeholders. We work collaboratively with our stakeholders to understand their needs and priorities. This stakeholder engagement reflects our corporate values and is integral to delivery of our strategy, as an environmentally and socially responsible business. We believe that the resulting mutual understanding is essential as we curate and maintain a vibrant, thriving environment in which the Company and all its stakeholders can flourish.

Information on our key stakeholder groups and examples of our engagement during 2022 are set out below. No set of stakeholders stands alone, which means that engagement and benefits often span more than one group. During the coming year we will continue this engagement, to ensure that we understand the wider impact of our activities on those around us, and will seek opportunities to work with stakeholders to pursue our shared goals. This includes continuing to work towards our target of becoming Net Zero Carbon by 2030.

Occupiers

We provide high quality space with a focus on user experience and strong environmental credentials to allow our retail, hospitality and office occupiers' businesses to prosper and flourish. Our residential properties are of a high standard. Understanding and responding to changing priorities is fundamental to our strategy. We undertake regular direct engagement with our retail, hospitality and office occupiers, and work closely with our residential occupiers to ensure high standards are maintained. Our engagement includes surveys and more informal feedback through our experienced property management team which maintains close working relationships with our occupiers.

Our engagement in 2022:

We continued to work closely with our occupiers to proactively support and understand their individual priorities. Occupiers appreciate our creative and innovative approach, which supports both their physical and digital presence. There has been high occupancy throughout the year, with £10 million contracted income signed in 2022. We work with brands on campaigns which both promote existing occupiers and introduce new brands.

Our consumer-focused marketing strategy promotes Covent Garden and the wider West End in collaboration with our occupiers via online channels, press coverage, estate events and an extensive cultural programme. These initiatives enhance visitor experience and drive footfall, benefiting of all our occupiers.

We work with our hospitality occupiers to ensure Covent Garden continues to be London's leading dining destination, with over 1,000 outdoor covers for al fresco dining. We provide extensive cleaning and security regimes across the estate, as well as a comprehensive greening programme.

During the year, we engaged with our commercial occupiers on carbon, water and waste reduction in support of our ESC strategy and Net Zero Carbon goals. We will continue this engagement during 2023, and encourage our occupiers to reduce their own environmental impact.

Read more on page 28.

Employees

Our employees are key to our business. We have a collaborative, highly engaged, experienced and motivated team, and this is reflected in our dynamic and inclusive culture. Our employees' collective knowledge, experience and commitment is critical to the delivery of our strategy. It is important that we continue to retain and attract talented people who share our values.

Following the pandemic we implemented more flexible working practices whilst ensuring our employees are provided with the resources, training and well-being support to allow them to reach their potential. We engage with our employees regularly via Company-wide meetings and updates from management. Charlotte Boyle, the Chair of the ESC Board Committee, updates the Board on employee views regularly.

Our engagement in 2022:

During 2022, we undertook an employee well-being survey, which sought views on employees' experience of working for Capco and the range of well-being support offered. We received an overall well-being score of 75 per cent (which is above the global benchmark score) and a very high participation rate of 87 per cent. Following the employee engagement survey undertaken in 2021, a number of employee-led working groups were established to consider focus areas highlighted in the survey results. These included: New Ways of Working; Office & Facilities; People, Team and Collaboration; and Business Processes. The groups engaged with their colleagues to better understand employees' views and the group leaders collaborated to present their combined recommendations to the Company. The Company has implemented a number of these recommendations, with further progress planned for 2023.

A number of Company-wide meetings were held during 2022. During these meetings, Company news is shared, and questions are answered, providing a two-way open dialogue between management and employees. Topics covered in the year included financial results, the proposed merger with Shaftesbury and the recommendations from the employee-led working groups. We continue to deliver seminars focusing on well-being, and diversity, equality and inclusion initiatives.

Read more on page 79.

Suppliers

To ensure the provision of a high quality service to our customers, we develop and maintain constructive relationships with our suppliers, including those that help us manage and develop our assets, and our professional service providers. We operate a responsible procurement policy and sustainable development framework, and engage directly with our suppliers to ensure our expectations are met. We expect our suppliers to consider ethical and sustainability matters further down the supply chain, including modern slavery, and actions to reduce their impact on the environment. We require that providers of managed services to our offices and estates pay the London Living Wage to those working with Capco. We aim to pay invoices within 30 days.

Our engagement in 2022:

The smooth running of the Covent Garden estate relies in part on outsourced services provided by those who provide cleaning and security services to the estate. We engage collaboratively with these providers, working closely with them to maintain a best in class clean and safe estate. We ensure that the various cultural installations and pop-up experiences which animate our estate are provided by reputable suppliers with a proven track record in health and safety, and engage with them to ensure they understand the standards we expect to be maintained.

We continue to work closely with our suppliers to deliver our Net Zero Carbon commitment in the years ahead. In 2022, we formalised a Timber Procurement Policy and minimum scaffolding standards on our development projects, setting out our expectations in these areas. We engage with our suppliers to ensure that the requirements of our Sustainability Framework are incorporated from the beginning of each project. During the year, we engaged directly with our suppliers to re-iterate the importance of health, safety and well-being to Capco. We expect this same commitment from our suppliers by working collaboratively which is key to delivery of our shared goals.

Visitors

Visitors contribute to the vibrancy of our estate. We have a customer-focused approach, vibrant mix of retail, hospitality and leisure, innovative installations, seating, greening and wayfinding providing a world-class estate attracting visitors from around the world. We provide a clean and secure environment to allow visitors to enjoy our estate. Our estate management efforts were recognised in 2022 as we won the Open City Stewardship Award for Outstanding Estate Management. We engage with our visitors and consumers through a variety of channels, including providing physical support and information on the estate, through our digital channels and extensive marketing initiatives.

Our engagement in 2022:

During 2022, we provided an extensive programme of estate animation to enhance our visitors' experience. This included art installations, live performances, including a brand partnership with Disney on Stage, food festivals, over 1,000 al fresco dining seats, pop-up bars and terraces, and extensive Christmas experiences, including festive late night shopping. Our leading digital engagement continued via our Covent Garden website, emails and social media channels, appealing to both UK and overseas consumers.

In addition we continued our commitment to enhancing the air quality and biodiversity of our estate, expanding our air quality monitoring, continuing our extensive greening on the estate and replacing our diesel street cleaners with electric cleaning equipment.

Read more on page 28.

Community

We regularly engage and collaborate with the wider community and residents who live in and around the Covent Garden estate. We keep our community regularly informed of our activities and initiatives, and respond to the views and needs of local people and organisations. We co-ordinate initiatives that promote a greener and more bio-diverse estate. We support and engage with a range of local community-focused educational and charitable programmes.

Our engagement in 2022:

During 2022, we launched a website for the district, to encourage community engagement. We also engaged directly with local community programmes and charitable partners to provide them with the support they need. Our engagement comes in many forms, from acting as a corporate sponsor of the Mousetrap Theatre Project and Single Homeless Project, to ensuring our employees each contribute five hours per year towards an ESC activity. This has included gardening at Penfold community hub and decorating at Kean Street hostel, in Covent Garden. We continued our long-standing charitable efforts during 2022, supporting homelessness charities, local food banks and the elderly, as well as hospitality and retail foundations. We are a partner of Wild West End, a charitable partnership, which aims to enhance the quality of green space and the local environment for our community and wildlife. During 2022, we received the results of our first ecological survey of the Covent Garden estate, undertaken in partnership with the London Wildlife Trust. The results will help inform our biodiversity action plan, which will be evolved during 2023, to help protect priority conservation species for the benefit of our local community and future stakeholders.

Read more on page 77.

Investors

We engage regularly with our existing shareholders, potential investors and investment analysts, to provide updates on our activities, communicate our investment case and governance framework, and understand their priorities and concerns.

Our engagement in 2022:

An extensive programme of investor relations activities continued during 2022. This included meetings with our Chief Executive, Chief Financial Officer, Executive Director and Director of Commercial Finance and Investor Relations to explain the Company's purpose, strategy and objectives to investors and analysts. We continued to host asset tours and attended a number of industry events and investor conferences. We updated the market as a whole via our results announcements, trading updates and public documents, including a shareholder circular and prospectus on the proposed merger with Shaftesbury. We value our relationships with our shareholders and use our engagement to update them regularly on our activities and understand their priorities. Prior to the 2022 AGM we provided an opportunity for shareholders to submit questions, which were answered in advance of the meeting. We continue to engage with shareholders on a range of matters, including remuneration and ESC.

Read more on page 92.

Finance providers

We have well-established and transparent relationships with a range of finance providers, and regularly engaged with them throughout 2022, to ensure Capco's resilient and flexible capital structure and strong balance sheet was maintained.

Our engagement in 2022:

During 2022, we worked closely with, and maintained regular dialogue with, our panel of lending banks, exchangeable bondholders and private placement loan note holders on a range of financing matters. This included the exercise of a year's option to extend the undrawn £300 million unsecured revolving credit facility to September 2025, the repayment of the £125 million secured loan and a £75 million prepayment of the previously issued private placement notes. In preparation for the proposed merger with Shaftesbury, we secured a £576 million loan facility to cover the potential repayment of Shaftesbury mortgage bonds. Our strong relationships with our lending banks was particularly important during these discussions. Ensuring the Company's financial stability, via our ongoing engagement with our finance providers, directly benefits a range of other stakeholders.

Read more on page 52.

Collaboration with Northbank BID

Joint venture partners

We work closely with our joint venture partners to deliver projects that benefit both parties, working in line with Capco's strategy and ethos. Our engagement includes regular dialogue between operational and management teams, outside of formal Board and Executive Committee meetings.

Our engagement in 2022:

During 2022, we worked with our joint venture partner at Lillie Square to meet strategic goals. As property manager for the Lillie Square joint venture, we also ensured that our joint venture partner was kept updated on the provision of estate management services at Lillie Square, including legislative and regulatory developments. During the year, £35 million of cash was distributed from the joint venture to the partners (£17.5 million Capco share).

Read more on page 42.

Local authorities and conservation bodies

Capco is a responsible steward and remains committed to constructive engagement with local councils and conservation bodies, to ensure the quality of our world-class estate is maintained and that proposals to improve the district are appropriately developed. We engage via regular formal meetings and informal dialogue.

Our engagement in 2022:

During 2022, we worked collaboratively with Westminster City Council on public realm enhancements, including the extension of pedestrianisation and other streetscape improvements, which together provide outdoor seating and improved air quality on both our estate and neighbouring areas, reducing traffic congestion and pollutants.

We also engage regularly with the Covent Garden Area Trust on proposals which fall within its area of responsibility.

We play an important co-ordinating role at the heart of the district, and work to ensure other local stakeholders are kept updated and are engaged with on matters that affect them. This includes bringing together a range of different bodies, who can work together for the benefit of all. These initiatives include a zero emissions working group, inclusivity and disability awareness initiatives and place-making. We believe in proactive and open engagement, and so we provide our views on relevant consultations and draft policies.

Read more on page 63.

Our neighbours

Being a good neighbour is important to Capco, and we aim to continually improve the West End for our occupiers and all those who live, work and socialise in the area. We have long-standing relationships with neighbouring land owners and work collaboratively with many of them, both directly and via associations, to achieve this.

Our engagement in 2022:

During 2022, we continued to share knowledge, experience and insight with our neighbouring land owners. Our Estate Director provides a co-coordinating chairmanship role on behalf of our neighbours in the Northbank BID and Long Acre Business Alliance. We also continued our involvement and engagement in a number of other bodies that work to improve central London, with an increasing focus on the important action required to address climate change. These included the Westminster Property Association, Heart of London Business Association, London & Partners and other industry bodies and tourism partners. We maintain a close relationship with the Royal Opera House and nearby theatres. Capco is also a patron of the British Fashion Council and the British Beauty Council, working with them to promote the retail industries.

Companies Act 2006 – S172(1) statement

The Board confirms that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006.

Stakeholder engagement

Pages 22 to 25 outline the ways in which key stakeholder groups have been engaged with during 2022, and the outcomes of such engagement.

Methods used by the Board

When taking Board decisions, the Directors give careful consideration to the likely impact of any recommended proposal, to ensure that the decision aligns with Group strategy and is likely to promote the success of the business, whilst giving consideration to the potential impact of any decision on the Company's stakeholders. Pages 91 to 93 of the Governance section include further details of the matters considered by the Board during the year and the engagement undertaken.

To ensure the Board considers the interests of all stakeholders, Directors receive regular updates on stakeholder views from the Executive Directors and senior management. A dedicated section within Board approval papers sets out the likely impact of the proposed recommendation on relevant stakeholders. As the Non-executive Director responsible for employee engagement, Charlotte Boyle updates the Board on employee views.

Whilst it is not always possible to meet the preferences of all stakeholders, the Board aims to ensure all relevant factors are considered before a decision is taken.

The main matter considered by the Board during the year was the prospective merger. The table below explains how the Board considered stakeholder interests and the matters set out in S172(1) of the Companies Act 2006 when considering the proposal. Other ways in which these matters are considered are set out in the table on the adjacent page.

Key matter	Description	Stakeholders considered
Proposed merger with Shaftesbury	In considering the proposed merger with Shaftesbury, the Board recognised that such a significant transaction could impact many of the Company's stakeholders, including employees and suppliers, and would bring a degree of uncertainty in addition to the anticipated benefits of the merger. The Board determined that the merits of the proposed merger exceeded any potential negative effects, and accordingly, after an extremely thorough period of consideration which included (amongst other things) each of the matters set out in sections (a) to (f) of 172(1) of the Companies Act, the Board concluded that the proposed merger was most likely to promote the success of the Company for the benefits of its members as a whole. The consideration given to stakeholders included: **Investors** In considering the proposed merger, the Board recognised the potential benefits of becoming a larger company which may be an attractive investment for a wider range of investors. The Board also gave careful consideration to likely future returns of the post-merger business and how this would align with investors' goals. In agreeing the terms of the merger, the Board took great care to ensure that the terms of the merger, including the agreed exchange ratio of Capco shares for Shaftesbury shares, ensured that shareholder value was preserved for the Company's existing investors. Prior to launch of the proposed merger, as is good practice, the Company also engaged with a number of its largest investors, obtaining irrevocable letters of support from Norges Bank and Madison International Realty. **Employees** The Board acknowledged that the proposed merger would result in a period of uncertainty for employees, who may be concerned about employment security, both prior to and following completion. The Board agreed that it was essential that existing statutory rights be preserved and that employees be treated fairly throughout the process, and an enhanced redundancy policy was approved that would apply where redundancies were made as a result of the merger. The Board also recognised the future professional development and career opportunities that would be available for employees within the enlarged group. The Board ensured that employees were kept updated as the merger progressed, and the Board received regular updates on morale within the business and employee feedback on the proposed merger. **ESC** The Board considered whether the proposed merger would impact the Company's ESC strategy and commitments. It was noted that Shaftesbury had also made a commitment to become net zero carbon as a business by 2030, and operated a responsible sustainability strategy, participating in many of the same reporting indices as the Company. As such it was concluded that the merger should not hinder the Company's ESC commitments, and that it should be possible for the Combined Business to take a best of both approach to this important area, consolidating each Company's expertise and delivering benefits for a wide range of stakeholders. **Occupiers** The Board considered the impact of the proposed merger on the Group's occupiers and concluded that the transaction would not have any direct effect on them as the Covent Garden business would continue to operate on its existing basis. The Board ensured that appropriate updates were provided, within the confidentiality restrictions of the transaction. A fuller summary of matters considered by the Board in connection with the proposed merger is set out in the Governance Report on page 92.	

S172 factor	Relevant disclosure and page number
The likely consequences of any decision in the long-term	– Business model and Group strategy – page 18 – Risk management – page 43 – Financial review – page 52 – Going concern and Viability statement – pages 50 and 51 – Our people – page 79 – Employee engagement – pages 16, 23 and 80 – Matters considered by the Board in 2022 – page 91 – Diversity and inclusion – pages 81 and 98 – Health and safety – page 82
The interests of the Company's employees	– Our people – page 79 – Stakeholder engagement – page 22 – Modern Slavery and Human Trafficking Statement – website – Nomination Committee report – page 96 – Our values – pages 3 and 19 – Our approach to remuneration below Board level – pages 80, 106 and 113 – Human rights – page 81 – Matters considered by the Board in 2022 – page 91 – Oversight of culture and values – page 92 – ESC strategy – page 63
The need to foster the Company's business relationships with suppliers, customers and others	– Stakeholder engagement – page 22 – Our values – pages 3 and 19 – Modern Slavery and Human Trafficking Statement – website – Human rights – page 81 – Matters considered by the Board in 2022 – page 91 – ESC strategy – page 63
The impact of the Company's operations on the community and the environment	– ESC strategy – page 63 – Environment and sustainability – page 69 – Stakeholder engagement – page 22 – Community – page 77 – Health and safety – page 82 – TCFD disclosure – page 74 and website – Net Zero Carbon Pathway – website
The desirability of the Company maintaining a reputation for high standards of business conduct	– Our values – pages 3 and 19 – Culture – pages 80 and 92 – Purpose – pages 3 and 18 – Risk management – page 43 – Stakeholder engagement – page 22 – Corporate governance report – page 86 – Whistleblowing – page 102 and website – Internal controls – page 102 – Health and safety governance – page 82
The need to act fairly as between members of the Company	– Shareholder engagement – pages 24 and 92 – Annual General Meeting – pages 93, 130 and website – Rights attached to shares – page 129 – Voting rights – page 129

COVENT GARDEN

Michelle McGrath
Executive Director

Covent Garden Independent Valuation

£1,742m

Summary
- Total property value £1.7 billion
- Net rental income £57.3 million
- 6% ERV growth to £81.0 million
- 71 leasing transactions, £10 million of contracted income 13% ahead of December 21 ERV

Strategy
- Drive rental growth and capture value appreciation
- Creative asset management across the portfolio
- Attract the best brands and concepts to meet evolving consumer demand
- Investment to drive expansion, accelerate returns and change
- Emphasis on customer engagement to provide differentiated experiences
- Responsible stewardship of the estate – minimise environmental impact and generate benefits to stakeholders

Covent Garden Piazza

"Operational performance at Covent Garden has been strong with a return to rental and income growth, and low vacancy. As the market continues to polarise to the best locations, Covent Garden continues to attract target brands and experiences."

Michelle McGrath, Executive Director

A world-class destination
The Covent Garden estate represents a carefully assembled portfolio in the heart of London's West End, comprising retail, dining, leisure and cultural space complemented by high quality offices and residential apartments. Through creative asset management and disciplined investment, Capco has established Covent Garden as an exceptional mixed-use portfolio of approximately 1.1 million square feet, across 70 buildings and 504 units. Covent Garden provides a broad range of unit sizes, ensuring it attracts a wide spectrum of retail and hospitality customers. Capco has transformed Covent Garden into a global destination having curated a strong retail and dining line-up within a heritage setting.

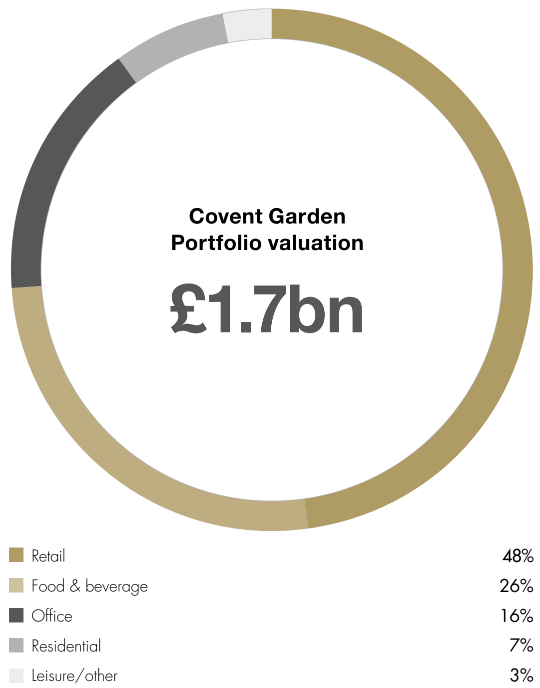
Performance
The Covent Garden portfolio was valued at £1.7 billion at 31 December 2022 and was unchanged for the year. The total valuation remains 27 per cent (like-for-like) lower than 31 December 2019, comprising a 19 per cent ERV decline and 43 basis point outward yield movement.

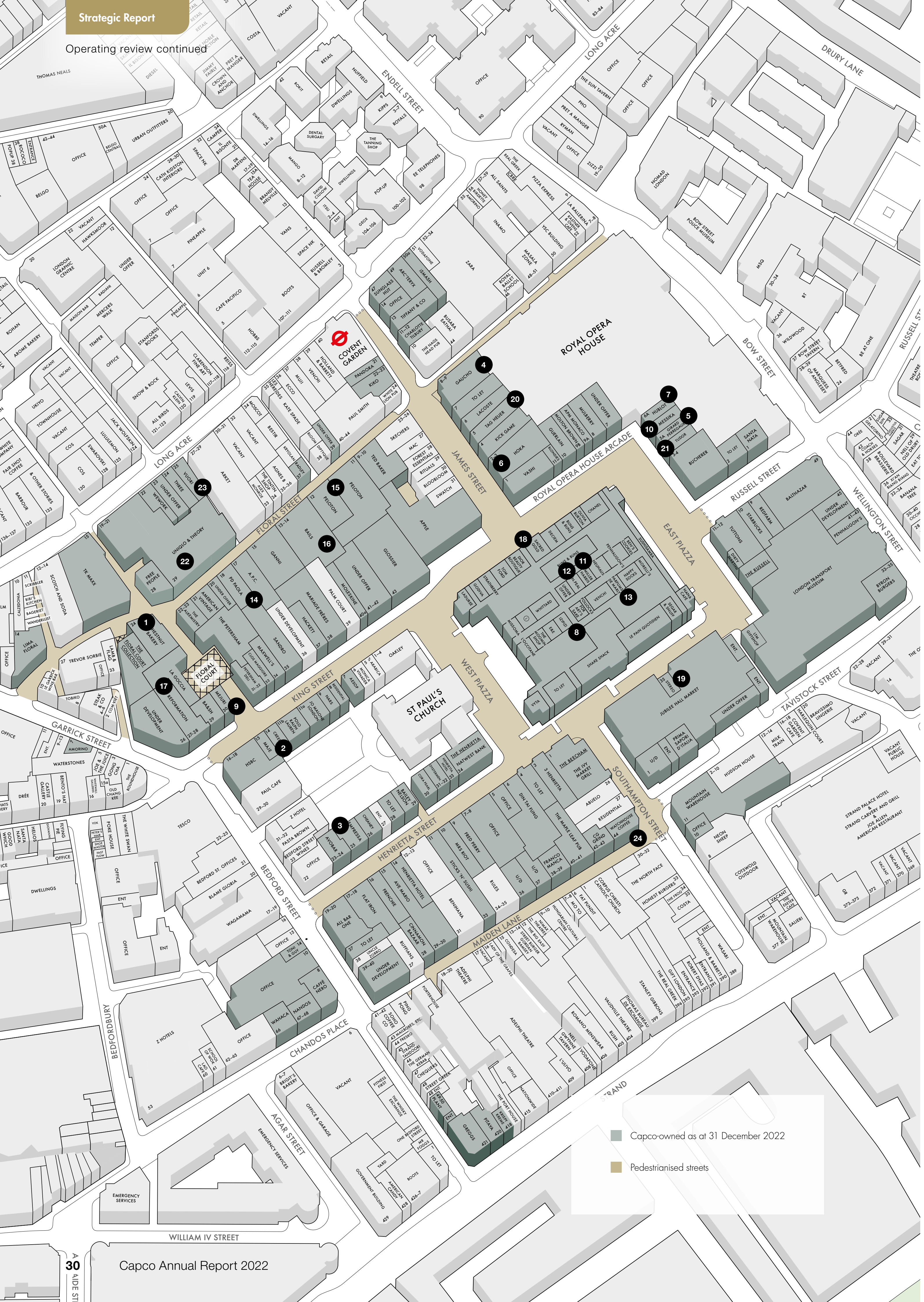
The 5 per cent property value increase in the first half was offset by the second half decrease driven by widening of yields as a result of a macroeconomic environment characterised by higher interest rates and inflationary pressures. Over the full year, there has been continued ERV growth, increasing by 6 per cent on a like-for-like basis to £81 million, reflecting the positive leasing activity and high occupancy levels across the estate. There was a 19 basis point expansion in the equivalent yield to 4.07 per cent.

71 leasing transactions representing £10 million contracted income were completed 13 per cent ahead of December 2021 ERV. In the first half, 25 leasing transactions took place 9 per cent ahead of 31 December 2021 ERV and 46 transactions took place in the second half, 5 per cent ahead of 30 June 2022 ERV. Covent Garden continues to attract high quality brands and operators. At 31 December 2022, EPRA vacancy was 2.5 per cent (2021: 2.6 per cent). 6.2 per cent of ERV is in or is held for development or refurbishment (2021: 5.8 per cent).

Covent Garden underlying net rental income was £57.3 million for the year, compared with £48.7 million for 2021. Capco continues to bill quarterly in advance for substantially all commercial leases. Rent collection has reverted to pre-pandemic patterns with 99 per cent of 2022 rents having been collected and to date 98 per cent of rents in respect of the first quarter of 2023.

Portfolio value by use





New brands introduced

1. Chestnut Bakery
2. CREED 1760
3. EMPRESA
4. GAUCHO
5. GIRARD-PERREGAUX
6. HOKA
7. HUBLOT
8. IZIPIZI
9. MEJURI
10. MESSIKA PARIS
11. Miller Harris Perfumer London
12. N.PEAL London
13. PARFUMS de MARLY PARIS
14. PDPAOLA
15. PELOTON
16. Rails
17. Reformation
18. sacred gold BVLA
19. STEREO
20. TAG HEUER
21. TUDOR
22. UNI QLO
23. vuori
24. WatchHouse.

Underlying net rental income (Covent Garden)

£57.3m

2022	57.3
2021	48.7 (restated)
2020	31.3 (restated)

Estimated rental value (ERV)

£81.0m

2022	81.0
2021	76.2
2020	80.8

Capital value

£1.7bn

2022	1,742
2021	1,729
2020	1,825

Gross Income[1]

£62.0m

2022	62.0
2021	57.4
2020	65.3

Historic metrics above are not adjusted for 2020 and 2021 disposals

1. Covent Garden passing rent plus sundry non-leased income.

Retail

Capco's emphasis on the consumer is essential to ensuring that the estate is positioned as a leading destination for visitors. During the year, Covent Garden was named Europe's most popular shopping destination by the Retail Times. There has been continued improvement in trading over the year with aggregate retail sales 7.5 per cent ahead of 2019 levels, with premium and luxury categories significantly outperforming.

Retail represents 48 per cent of the portfolio by value. Capco's retail strategy is to closely monitor trends in both customer and consumer demand, whilst attracting brands and concepts relevant to the consumer in targeted categories with a strong omni-channel presence. Our retail strategy draws on the best of global, independent and British brands focusing on targeted categories including luxury, digital, jewellery, gifting, cosmetics, accessories, contemporary fashion, beauty, lifestyle and sports.

Luxury brand Tudor Watches opened in partnership with Bucherer. Following the success of its existing store portfolio in Covent Garden, Bucherer has agreed terms to further expand its presence in the Royal Opera House Arcade taking an additional c.3,000 square feet of space for Messika, Girard-Perregaux and Hublot. Swiss watch brand TAG Heuer has opened a new store on James Street. The boutique offers a selection of TAG Heuer's iconic heritage timepieces as well as the brand's more modern styles.

Brands with strong sustainability credentials are increasingly important to the consumer and this is a key factor in our customer selection process with many examples during the year. Sustainable, digitally native fashion brand Reformation opened its new London flagship store on King Street offering contemporary designs with sustainable practices. Performance brand Vuori opened its first European flagship store on Long Acre, offering active wear, whilst pursuing its climate neutral certification.

Covent Garden's well-established beauty offer has been further strengthened by the addition of two luxury fragrance houses Creed and Parfums de Marly. Creed, a heritage, luxury perfume house will open on King Street offering artisan fragrances made from the finest perfume ingredients and Parfums de Marly has opened in the Market Building offering signature perfume collections alongside scented candles and gifts.

There have been a number of openings in the Market Building including premium jewellery boutique Sacred Gold, contemporary jewellery brand e&e and eyewear concept Izipizi. N.Peal and Miller Harris have relocated into new stores within the Market Building.

Fine jewellery brand Mejuri has signed on King Street. Sportswear brand Hoka will open on James Street and Peloton has taken additional space alongside its studio on Floral Street further strengthening the performance wear offering on the estate. Global apparel brand Uniqlo is expected to open its new flagship store in spring 2023, as it continues the fit out of the combination of Carriage Hall and two Long Acre units spanning 22,000 square feet. Los Angeles-based lifestyle brand Rails opened its first London store on Floral Street while jewellery brand PD Paola opened retailing timeless signature pieces.

Successful retailers continue to need physical stores to build brand awareness, customer capture and loyalty. Retailers are increasingly focused on fewer stores, placing greater emphasis on global location, customer experience, service and flagship retailing with better digital engagement. The estate resonates with target audiences, providing digital brands with the opportunity to showcase products and service and build brand recognition and loyalty through a deeper connection with consumers.

Shorter term pop-ups generate publicity and footfall with a halo effect on adjacent stores and productivity. During the year, innovative concept Beauty Pie opened its first pop up on James Street while jewellery brand Missoma opened in the Market Building and Lounge Underwear on James Street. Raye the store opened on Floral Street which is a limited edition experiential store showcasing a selection of emerging food, drink and wellness brands focussing on sustainable and transparent business practices.

Over the Christmas trading period, Dolce&Gabbana launched a Piazza pop-up shop, installing a Christmas Market, offering exclusive merchandise and Jaeger-LeCoultre created an exhibition space displaying its iconic watches, an art exhibition and cafe.

At 31 December 2022, three retail units, representing 4,100 square feet in total, were available to let (ERV: £0.8 million).

New leasing transactions
71

Leasing vs Dec 21 ERV
+13%

New openings
16

Outdoor seats
1,000

Al fresco restaurants
55

Pedestrianised Streets
6

Dining

Covent Garden offers a diverse range of high quality innovative food concepts, from casual to premium, and is one of London's best dining destinations. F&B represents 26 per cent of the portfolio by value. Covent Garden continues to introduce high quality innovative food concepts which have been central to the dining strategy.

Demand for hospitality space has been strong throughout the year. With limited vacancy across the estate, the F&B accommodation has attracted multiple potential occupiers. Argentinian restaurant Gaucho will open on James Street later this year in a contemporary setting, inspired by modern Argentina and all of its global influences.

Stereo, a new late night live music and dining venue by international hospitality brand Experimental Group opened at The Piazza. Stereo offers a mix of music, an American inspired menu by restaurateur Andrew Clarke and an extensive drinks menu. The group, which already operates the Henrietta Hotel, has expanded its footprint, a positive endorsement for the trading prospects of the estate.

Chestnut Bakery has opened on Floral Street offering all day dining options while Watchhouse Coffee will open on Southampton Street in the coming months.

The Covent Garden estate offers an open-air pedestrianised environment with a successful al fresco dining scheme offering 1,000 outdoor dining seats, across 55 restaurants and spanning six pedestrianised streets as well as the Piazza. The al fresco dining scheme delivers direct benefits to Capco's customers, visitors and the local community and continues to be popular with consumers. This offer emphasises Covent Garden's position as London's leading outdoor dining destination.

At 31 December 2021, there were three restaurants available to let, over 8,150 square feet and with an ERV of £0.6 million.

Estate dining

A consumer focused marketing programme

2022 Marketing activity snapshot

An active programme of campaigns and estate activations delivering a world-class consumer experience and driving footfall:

- Championing family friendly initiatives appealing to the consumer in partnership with Harry Potter and Disney on Stage
- Attracting digital brands to physical spaces with pop ups from beauty disruptors including Beauty Pie, Rose Inc., Tatcha and The Inkey List
- Supporting our customers via partnerships with American Express and multi award-winning food influencer Clerkenwell Boy, launching the Covent Garden Good Food Club
- In celebration of the Queen's Platinum Jubilee over 4,000 Union Jack flags adorned the estate
- One-of-a-kind hospitality experiences were showcased on the Piazza including Wimbledon screenings and food festivals
- World-first retail installations from luxury brands Dolce&Gabbana, Jaeger-LeCoultre and IWC Schaffhausen
- Community and charity initiatives included a pop up shop from women's charity Smart Works, our third annual online auction supporting homelessness charity Only a Pavement Away and an estate-wide campaign with Magic Radio supporting Cash for Kids
- An extensive Christmas programme including late night shopping evenings, gospel choir performances, daily snowfall and an interactive Santa's sleigh

Total social audience

c.630k

Website page views in 2022

>4m

Email subscribers:

53k

Active digital channels

Office

Covent Garden has a contemporary office portfolio offering both multi-tenanted and single occupancy workspace. The portfolio attracts financial services, technology, creative industries and SMEs. Office accommodation represents 16 per cent of the portfolio by value.

Demands of consumers of workspaces are becoming more refined. The flight to quality within the office market remains, with a preference for fully fitted space, with strong amenities and low-density use, provided on flexible lease terms. Consequently, Capco's office product continues to be well received, achieving strong levels of pricing within the district, with more recent transactions setting a new rental tone of £100 per square foot.

At 31 December 2022, there were two units available to let, representing 7,500 square feet in total and with an ERV of £0.5 million.

Residential

The central London residential letting market has been particularly strong this year, with interest from a broad range of customers. Covent Garden is established as a premium residential address and continues to generate competitive demand. There was limited vacancy during the year with units generally let within days. Residential accommodation represents 7 per cent of the portfolio by value and is fully occupied.

Covent Garden, Residential

Accelerating value creation through active asset management

Active asset management and refurbishment initiatives continue to accelerate value and enhance environmental performance across the estate. These initiatives unlock value and enhance our portfolio's long-term income prospects.

Capco completed a number of schemes this year including the refurbishment of 35 King Street with a number of the floors let significantly ahead of ERV. The refurbishment of office space at 5-6 Henrietta Street attracted significant demand, setting new rental tone for the office portfolio.

A number of capital initiatives have commenced which include two office to F&B conversions on Maiden Lane and Bedford Street, a flagship F&B townhouse on King Street and an office refurbishment on Long Acre. These new initiatives are targeting high BREEAM certification and a minimum EPC rating of B. They are expected to complete over the next two years at a cost of approximately £25 million.

At 31 December 2022, space held for, or under, refurbishment represented 6.2 per cent of total ERV. Total capital commitments across the Covent Garden estate were £1.7 million.

Acquisition opportunities have remained limited with assets in the area tightly held. In February 2023, Capco acquired the remaining interest in the Royal Opera House Arcade for £12.9 million. This purchase consolidates Capco's ownership to include the final unit in the arcade not owned by Capco.

Capco has a strong balance sheet and access to significant liquidity enabling it to take advantage of such opportunities should they arise. There are a number of properties on or around the estate being actively tracked for repositioning opportunities. Capco's extensive knowledge of the district, close network of contacts and proven track record mean Capco is often in the best positioned to acquire properties.

Positioning a world-class estate through consumer engagement

Capco offers a unique customer experience, utilising the historic Piazza, through events and cultural installations to increase estate recognition and brand engagement. There was an extensive programme of activities including a brand partnership with Disney on Stage to bring family fun to the Piazza over the summer with the launch of 'Something Magical in Covent Garden'. Other events across the Piazza included the Rosé Garden Party with a selection of pop-up bars and terraces, the Great Piazza Party in celebration of the Queen's Platinum Jubilee as well as daily screenings of the Wimbledon Tennis Championships. Covent Garden also hosted the Harry Potter Photographic Exhibition.

Over the summer months, Covent Garden partnered with multi award-winning food influencer Clerkenwell Boy to launch its summer Good Food Festival on the Piazza, with a range of international flavours. In celebration of the 50th anniversary of Pride marches, the bollards on Floral Street were rainbow painted for a limited time. In addition, Covent Garden was the home of British Beauty Week and London Cocktail Week offering immersive experiences.

Covent Garden launched its extensive Christmas programme of activities for the important trading period, offering unique customer experiences and an extensive programme of activities. These included a brand partnership with Dolce&Gabbana, on the Piazza with an Italian food market and exclusive products and Jaeger-LeCoultre showcasing watches, as well as creating a café and art exhibition. There were live performances from the cast of Elf the musical and the London International Gospel Choir. Festive late night shopping was introduced over the period, boosting the night time economy with spend-driving incentives from many stores open until 9pm.

The Covent Garden estate offers an open-air pedestrianised environment with a successful al fresco dining scheme offering 1,000 outdoor dining seats, across 55 restaurants and spanning six pedestrianised streets as well as the Piazza. Capco is currently in consultation with Westminster City Council on streetscape design enhancements to Henrietta Street and Southampton Street to provide a more inviting environment for the consumer.

Capco continues to engage directly with the consumer with 630,000 followers across its ten social media channels. The digital audience across social channels continues to increase as a result of an engaging campaign calendar with brand partnerships which resonate with the consumer. The Covent Garden website continues to see increasing numbers of repeat visits which is a consistent theme when compared to the footfall demographics with increased repeat visits from Londoners in particular.

Committed to sustainability and minimising our environmental impact

During the year, Capco joined the UN Race to Zero supporting its commitment to becoming Net Zero Carbon by 2030, securing Science-Based Target validation of our targets in the process. As a long-term steward of the Covent Garden estate, Capco aims to make Covent Garden a UK leader in sustainability by delivering positive environmental and social outcomes that enhance value for stakeholders while protecting the unique character and heritage of the estate. Capco's approach recognises that its heritage buildings represent a long-term store of carbon.

Capco was recognised as a Climate Leader in the 2022 Financial Times survey. The survey recognises the top 400 companies in Europe for emissions intensity reduction over 6 years.

Capco has a strong track record of supporting its stakeholders and positioning the estate sustainably. A number of initiatives were implemented across the estate. All diesel estate cleaning equipment has been replaced with electric equipment. Capco implemented rainwater harvesting at Floral Court which combined with the improved water efficiency of the new cleaning equipment is expected to reduce our water requirement by approximately 50 per cent. In 2022, Capco enhanced its internal and external air quality monitoring through the addition of three new outdoor air quality monitors across the estate and indoor air quality trials in Capco's Head Office at Regal House.

Capco has initiated its first Carbon Risk Real Estate Monitor ("CRREM") analysis on a number of properties which supports the development of science-based carbon reduction pathways at an individual building level.

Capco's long-term management of its properties' EPC performance means it is well-placed to meet targets ahead of statutory regulation timelines. All commercial EPC certificates across the estate are D or above, with 68 per cent C or above, the minimum level by April 2027. There has been a 5 per cent year on year increase in the volume of units rated C or above.

All of Capco's units now meet the Minimum Energy Efficiency Standards ("MEES") regulations commencing April 2023 (rating of D or above). Capco continues to set targets to meet the requirements ahead of time with approximately 21 per cent of units already meeting the April 2030 regulations. Capco continues to improve its EPC performance whenever refurbishment works are undertaken on assets and the costs are incorporated into capital expenditure budgets. These are not disaggregated given the Capco design process incorporates both high MEES standards and its Net Zero Carbon Pathway. Capco is targeting a minimum EPC rating of B on all refurbishment projects.

Capco is committed to transparent reporting through recognised indices. For the fourth consecutive year Capco has been awarded EPRA sBPR Gold. Capco also improved its GRESB score by 5 per cent, two green star ratings, and we have maintained our CDP B rating, indicating the coordinated action we are taking on climate issues. In addition, our co-ordinated work across our ESC strategy resulted in an improved S&P Global CSA benchmark score, an uplift to our MSCI Index to AA and Capco continues to hold a Prime rating from the ISS ESG Rating. Capco continues to report under FTSE4Good. 38 commercial green leases representing 18 per cent of the portfolio are now in place.

Capco is a partner of Wild West End, a not-for-profit partnership which aims to enhance biodiversity across the West End through the quality of green space and the local environment for people and wildlife across Westminster. The results of the first ecological survey of the Covent Garden estate, undertaken in partnership with the London Wildlife Trust, were received with a number of priority conservation species identified which will be incorporated into Capco's biodiversity plan for the estate. In this regard, 2023 will see the second estate ecological surveys and the evolution of Capco's biodiversity action plans.

Broad community engagement

Capco continues to support local charities and community foundations including the Young Westminster Foundation "Brighter Futures" programme including supporting young carers, young LGBT+ people, refugees and addressing youth violence. Capco is a corporate sponsor of the Mousetrap Theatre Project, which provides a range of subsidised theatre programmes and creative learning projects accessible to young people, low-income families and those with additional needs.

We continue to focus on our community programme prioritising initiatives and charity partners in Covent Garden. During the year, Capco supported the local community's Platinum Jubilee street party and partnered with Square Mile Farms to launch an Urban Farm pop-up. The pop-up farm is an interactive way for local schools, offices and community groups to enjoy sustainably grown produce and for visitors to learn more about sustainable urban farming.

Capco employees took part in several volunteering days including gardening at Penfold community hub in Westminster, attending the local Westminister dementia centre, as well as participating in the Lord Mayor's Cup, a fundraiser football tournament with neighbouring property companies to kick off the World Cup.

Floral Street

In September, Capco hosted a charity pop-up shop in partnership with Smart Works, to empower women to return to the workplace. The pop-up brought together items donated from over 30 fashion brands, including customers, for sale with 100 per cent of profits being donated to the charity.

Capco has also donated towards Covent Garden Dragon Hall Trust foodbank to help local residents affected by the cost of living crisis. During November 2022, in partnership with charity Only A Pavement Away which works alongside Crisis, Capco ran its third charity auction with prizes from shops and restaurants from across the Covent Garden estate.

Capco became a sponsor for the Single Homeless Project, a charity which supports over 10,000 people each year offering a range of services including hostels, supported housing and community support services. The sponsorship focuses on the Kean Street hostel which is located in Covent Garden. Capco's community contribution totalled £0.5 million made up of donations and time committed by employees.

Our people

Our people are key to our business, we promote a culture of creative passion for Covent Garden and the West End to allow employees to reach their potential whilst creating value for our stakeholders. We have introduced a number of initiatives to support our employees through regular Company-wide meetings, business updates and seminars focusing on well-being, diversity, equality and inclusion.

Following an employee survey, employee working groups were set up to focus on the following areas: New Ways of Working; Office & Facilities; People, Team and Collaboration; and Business Processes. These groups presented their recommendations for implementation to the Company with many areas having been implemented.

During the year, Capco conducted an employee well-being survey, which received a very high overall well-being score and a response rate of over 87 per cent.

Minimising our environmental impact

During 2022, we took a range of actions to deliver a cleaner and greener estate for the benefit of all our current and future stakeholders. Covent Garden has some of the cleanest air in central London as a result of Capco's actions. To further improve air quality, diesel estate cleaning equipment has been replaced by electric equipment, which not only reduced diesel pollutants and water usage, but is much quieter in its operation. Internal and external air quality monitoring has been enhanced, with three new outdoor air quality monitors installed across the estate and indoor air quality monitors trialled at our Head Office. We expanded our extensive greening on the estate, with bio-diverse plant species chosen to maximise their potential to further improve air quality and peat-free compost to reduce watering requirements. Through rainwater harvesting we have significantly reduced our mains water consumption.

In 2023, we intend to continue working in collaboration with our stakeholders, to help deliver our shared sustainability goals, to minimise our environmental impact and to tackle accelerating climate change.

Other investments

Investment in Shaftesbury shares

Capco has a 25.2 per cent shareholding in Shaftesbury, comprising 96.97 million shares. At 31 December 2022, the share price of Shaftesbury shares was 368 pence, resulting in Capco's investment being valued at £357 million (31 December 2021: £596 million). During the year, Capco received £13.5 million dividend income and a further £2.6 million dividend income post year-end.

On 16 June 2022, Capco announced its intention to merge with Shaftesbury and the shareholder approval conditions were satisfied on 29 July 2022. The merger received clearance from the Competition and Markets Authority on 22 February 2023, and it is expected to complete on 6 March 2023. The merger represents a major corporate transaction for the business and was an area of significant activity during the year.

The merger unites two complementary real estate businesses to create an impossible to replicate portfolio in some of the most iconic destinations across London's West End primarily focused on three locations: Covent Garden including Seven Dials, the Opera Quarter and Coliseum; Carnaby including Soho; and Chinatown. The portfolio comprises 2.9 million square feet of lettable space across approximately 670 predominantly freehold buildings with approximately 2,000 individual units. As at 31 December 2022, the combined portfolio was valued at £4.9 billion. In addition, the combined group will have 50 per cent interests in the Longmartin joint venture and Lillie Square.

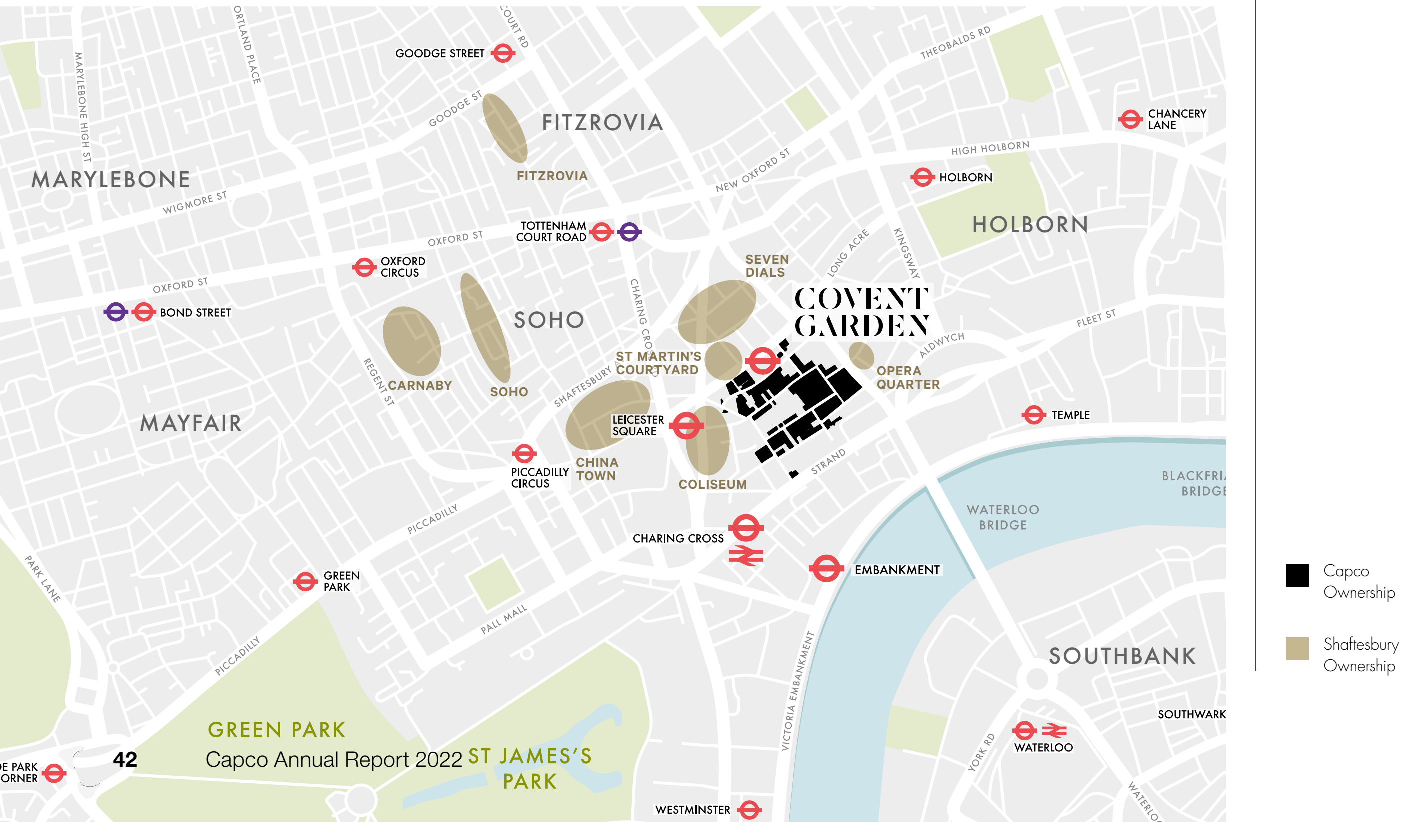
By combining both companies' strengths, cultures and values, a 'best of both' approach will be taken to deliver long-term economic and social value for all stakeholders. The combination will generate both near-term and longer term benefits including greater efficiencies and synergies, a more diverse portfolio with a stronger operational platform of scale and efficiency as well as enhanced access to capital.

The merger is expected to unlock the opportunity to enhance the connectivity of Capco's and Shaftesbury's complementary portfolios. The combination will enable the combined group to leverage insights from rich data to inform investment and leasing decisions through broader and deeper knowledge. A holistic marketing strategy will also be implemented to take advantage of cross locational marketing opportunities. The combined group will be well-positioned to deliver long-term growth in income, value and dividends through comprehensive, long-term management of its exceptional portfolio.

Lillie Square

Capco owns 50 per cent of the Lillie Square joint venture, a residential development located in West London. The property valuation as at 31 December 2022 was £77 million (Capco share), a 6 per cent decline (like-for-like) against the 31 December 2021 valuation of £84 million. In addition, Capco owns £2 million of other related assets adjacent to the Lillie Square estate.

In total, 351 Phase 1 and 2 units have been handed over, with 69 units available. The sale of 5 units completed during the year representing £6.6 million (Capco share: £3.3 million). The joint venture is in a cash position of £11.8 million (£5.9 million Capco share). During the year, £17.5 million of cash was distributed from the joint venture to Capco.



Effective risk management

Risk management structure

Board
Overall responsibility for risk framework and internal control
Determines its risk appetite
Ongoing review of control effectiveness

Audit Committee
Monitors internal control framework

Executive Risk Committee
Executive level management forum for the review and discussion of risks, controls and mitigation measures
Reports to Board on its work and conclusions

Senior management team
Identifies and manages risks
Compiles Group risk register
Implements mitigation measures
Reports to Executive Risk Committee

Risk Management

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

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

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

Senior management from each part of the business identify and manage the risks for their area or function and complete and maintain a risk register. The severity of each risk is assessed through a combination of each risk's likelihood of an adverse outcome and its impact. In assessing impact, consideration is given to financial, reputational and regulatory factors, and risk mitigation plans are established. A full risk review is undertaken annually in which the risk registers are aggregated and reviewed by the Executive Risk Committee. The Directors confirm that they have completed a robust assessment of the principal risks faced by the business, assisted by the work performed by the Executive Risk Committee.

Risk Appetite Statement

The Board has set the Group's risk appetite statement to provide guiding principles to support decision-making at both a Board and senior management level. The Group's risk appetite statement is reviewed and updated by the Board at appropriate intervals and in any event on an annual basis. The Group's risk appetite statement has been communicated to Senior Management who are responsible for incorporating the identified principles in decision-making. The Group's risk appetite statement is as follows:

"We use our expertise in property investment and development and our commitment to a strong balance sheet to take commercial risks in a measured way so that we are able to deliver sustainable growth and long-term market leading returns for our shareholders.

We are risk averse in relation to the impact of our business on the environment and on the health and safety of our people and the public and it is a key priority for us that our business operates in compliance with laws, regulations and our contractual commitments."

Risk outlook

Management actions have positioned the business to emerge strongly as markets recover. During 2022 there has been strong operational momentum at Covent Garden, with excellent leasing demand across all uses, high occupancy levels and rent collection normalising to pre-pandemic levels. The long-term impact of the pandemic alongside broader macroeconomic factors, in particular inflationary pressures and increasing interest rates, on the future demand for and use of lettable space, evolution of consumer behaviour and travel patterns remains a consideration and the Board continues to monitor this.

Whilst the challenges and disruption caused by COVID-19 have reduced as restrictions were lifted and customer trade conditions reverted to pre-pandemic levels, the mitigating actions imposed by the UK government and internationally, together with other factors, had a material adverse effect on the retail and hospitality industry and any reinstatement of restrictive measures as a result of a new strain of COVID-19 or any other infectious disease may have an impact on consumer confidence and visitor numbers, including international visitors, impacting the operations and viability of customers of the Group's properties.

Risk Appetite Criteria	Risk Appetite Scale: Risk averse	Risk neutral	Risk aware
Risk-taking in pursuit of strategic objectives	The Company is cautious and takes as little risk as possible	The Company takes a balanced approach to risk taking	The Company is willing to take greater than normal risks
Principal Risk			
Economic, political and operating environment			●
People		●	
Compliance with law and regulations	●		
Climate change	●		
Leasing and asset management			●

Despite the recovery in the operating environment and trading conditions, risk remains heightened as the current macroeconomic backdrop is characterised by higher energy costs, inflation and higher interest rates which have potential impact on valuations, funding, customers and consumer behaviour.

If current global or UK macroeconomic conditions continue to deteriorate, or there is an increase in geopolitical uncertainty, this could impact UK real estate markets, resulting in downward pressure on the value of the Group's properties and net rental income. The risks and challenges are further exacerbated by the economic and geopolitical consequences of Russia's invasion of Ukraine.

Many of the Group's customers are exposed to the changes and challenges facing the retail and hospitality sectors, including macroeconomic factors, such as availability and cost of credit for customers and their businesses, the potential for the level of consumer spending to be impacted by the increase in the cost of living, business and consumer confidence, inflation rates, rising energy costs, supply chain disruption, labour shortages and other operational costs.

In recent years the UK has also experienced heightened economic and political uncertainty after voting to leave the EU. Uncertainty remains in relation to long-term international trade arrangements and the overall impact on the UK economy.

The Group's operations may be adversely affected if it fails to comply with climate and environmental regulation or its own environmental, social or governance standards. Operations may also be adversely affected by climate and environment related risks, which could lead to significant costs to mitigate the impact.

Investment in Shaftesbury PLC and proposed merger

As at 31 December 2022, the Group's portfolio included a 25.2 per cent shareholding in Shaftesbury PLC ("the Investment"). Due to the listed nature of the Investment, the market price of Shaftesbury PLC shares may be volatile and subject to wide fluctuations as a result of a variety of factors, including, but not limited to, Shaftesbury's operating results, financial position, performance or prospects.

Although the Group currently owns a minority interest, the Investment represents a material proportion of the Group's value. The terms of the Investment do not provide the Group with the ability to influence the strategic direction of Shaftesbury, or its financial or operating performance, as our influence is limited to the extent of our voting rights over matters requiring Shaftesbury shareholder approval. The interests of other shareholders in Shaftesbury may not always be aligned with those of the Group.

The operational and business risks faced by Shaftesbury are similar to those faced by the Group which are set out in the principal risks table, but the steps taken to address and respond to any such risks by Shaftesbury are outside of the control of the Group.

On 16 June 2022, Capco announced its intention to merge with Shaftesbury and the shareholder approval conditions were satisfied on 29 July 2022. The merger received clearance by the CMA on 22 February 2023, and is subject to court approval, and it is expected to complete on 6 March 2023.

The prospectus dated 7 July 2022 issued in connection with the proposed merger, as supplemented by the supplementary prospectus dated 29 November 2022, sets out a detailed description of the material risk factors of the merger and the combined group.

On completion of the proposed merger, the combined group's success will be dependent upon its ability to integrate the two companies to deliver the full benefits and synergies as well as harmonising the business cultures. Dedicated integration working groups have been established, in line with restrictions imposed by Competition laws, comprising employees across both companies to discuss day one integration requirements. A steering committee has been created to oversee and co-ordinate this process, review the outputs of the working groups and to provide direction.

Emerging risks

The Group monitors its emerging risks and considers mitigating actions which the Group currently deploys and could deploy with regards to these emerging risks. Emerging risks include the economic and geopolitical consequences of Russia's invasion of Ukraine, UK political uncertainty, the longer-term implications of COVID-19 including on consumer behaviour and changes to the way in which real estate will be used in the future, how lease arrangements are structured, as well as changes to tax and economic policy impacting real estate (including landlord and tenant legislation, residential rent control, capital gains, VAT and other sales taxes, stamp duty and business rates).

Strategic priorities and risk

Risks

Our group strategy

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

1 Customer at the heart of the business

2 Creative asset management

3 Strategic investment and capital allocation

4 Strategic partnerships

5 Responsible stewardship

6 Strong capital structure

Underpinned by

Dynamic, inclusive culture • Effective Governance • Environment, Sustainability and Community

Principal risks and uncertainties

The Group's principal risks and uncertainties, which are set out on the following pages, are reflective of where the Board has invested time during the year. Following a detailed review of the 2021 principal risks certain risks have been consolidated in the current year as reflected below. These principal risks are not exhaustive. The Group monitors a number of additional risks and adjusts those considered 'principal' as the risk profile of the business changes. See also the risks inherent in the compilation of financial information, as disclosed in note 1 'Principal Accounting Policies' within 'Critical accounting judgements and key sources of estimation and uncertainty'.

Principal risks overview

2021 risk	2022 risk	Change in the year
Economic conditions Funding Political climate Catastrophic external event	Economic, political and operating environment	⊖
People	People	⊖
Health and safety Compliance with law, regulations and contracts	Compliance with law and regulations	⊖
Climate change	Climate change	⊖
Leasing and asset management Planning and development	Leasing and asset management	⊖

Key: Increase, Stable, Decrease, New Risk

Economic, political and operating conditions

Inability of the Group to adopt the appropriate strategy or to react to changing market conditions or changing consumer behaviour

Decline in real estate valuations due to macroeconomic conditions

Impact of higher interest rates and lack of availability or increased cost of debt or equity funding

Inflationary pressures on operating costs including energy

Uncertain political climate and/or changes to legislation and policies

Adverse impact on business and consumer confidence, increase material costs, prolonged supply chains and reduced labour supply

Decline in fair value of listed investments held

Catastrophic event such as a terrorist attack, natural disaster, health pandemic or cyber security crime

Impact on strategy

Inability to deliver business plan or a structural change to the business plan impacting returns or capital values

Reduced return on property and listed investment

Reduced rental income and/or capital values as customers could suffer staff shortages, increased costs, longer lead times and lower availability of inventory

Higher operating and finance costs

Reduced financial and operational flexibility

Diminishing London's status

Business disruption or damage to property

Reputational damage

Mitigation

Focus on prime assets

Regular assessment of investment market conditions including bi-annual external valuations

Regular strategic reviews with focus on creating mixed use destinations and residential districts with unique attributes

Maintain appropriate liquidity to cover commitments

Target longer and staggered debt maturities, and diversified sources of funding

Consideration of early refinancing

Covenant headroom monitored and stress tested

Fixed rate financing and derivative contracts to provide interest rate protection

Monitoring proposals and emerging policy and legislation, with industry lobbying where appropriate

Engagement with key stakeholders and local authorities

Terrorist insurance

On-site and cyber security

Health and safety policies and procedures

Close liaison with police, National Counter Terrorism Security Office (NaCTSO) and local authorities

Context and actions taken:

The Group focuses on prime assets in the West End of London primarily in the retail and hospitality sector. During 2022 consumer and business confidence has returned reflected in footfall and spend improving with customer sales in aggregate trading in excess of 2019 levels.

Through regular dialogue with our customers we are able to understand their financial position.

We remain in close dialogue with local authorities to understand future plans and work constructively to position the estate in the best possible manner to prosper over the medium-term.

The Group has had a long-term focus on maintaining a strong balance sheet, with sufficient liquidity, to ensure it is able to withstand market volatility and take advantage of opportunities.

Extensive forecasting, stress testing and modelling of various scenarios has been undertaken, including sensitivities arising from the current macroeconomic environment, to help plan for future impacts on the business.

Funding, debt and treasury metrics are monitored on a continual basis with a focus on preserving liquidity and capital.

A downside scenario has been analysed in connection with the going concern assessment, details of which are set out in note 1 'Principal Accounting Policies' within 'Going concern'. The financial statements have been prepared on a going concern basis.

The Group has comprehensive ownership in Central London, which also heightens the risk of an external event. It is therefore important that the Group maintains recommended levels of insurance and implements effective security and health and safety policies.

A review of cyber security was performed in 2022 to ensure appropriate controls are in place and ensure that all employees remain vigilant to potential risks. Regular phishing tests and penetration testing are undertaken.

See Chief Executive's review on page 12 for further information.

People

Inability to retain and recruit the right people and develop leadership skills within the business

The Group has a relatively limited headcount, resulting in key person risk

Impact on strategy

Inability to execute strategy and business plan

Constrained growth, lost opportunities

Pressure on corporate costs

Mitigation

Succession planning, performance evaluations, training and development

Long-term and competitive incentive rewards

Flexible and modern working practices

Context and actions taken

The success of the business is down to a dedicated team of skilled and talented individuals working collaboratively together. The health and well-being of our people is of the utmost importance including the ability to create a culture and environment that allows each person to grow, develop and perform to the best of their abilities.

There remains a risk of illness across employees, management or service providers which would disrupt the day-to-day activities of the Group's business and running of the estate. Team communication strategies have been implemented to ensure managers can adequately supervise and support employees working from home.

Business continuity plans for both employees and service providers, including introduction of external resources if required, and other policies have been reviewed together with HR policies, technology and communication where appropriate. IT security systems that support data security and disaster recovery are in place.

Recruiting and on-boarding policies have been adjusted where necessary to ensure that the business is able to continue to attract, develop and retain the best possible resources.

We continue to monitor closely employees' mental and physical well-being and the health and safety of our employees and service providers remains a top priority with regular seminars and webinars from external experts.

See People on page 79 for further information.

Compliance with law and regulations

Breach of legislation, regulation or contract

Inability to monitor or anticipate legal or regulatory changes

Accidents causing loss of life or very serious injury to employees, contractors, customers and visitors to the Group's properties; or near misses of the same

Exit from REIT regime due to non-compliance with REIT requirements

Impact on strategy

Prosecution for non-compliance with legislation

Litigation or fines

Reputational damage

Distraction of management

Mitigation

Appointment of external advisers to monitor changes in law or regulation

Members of staff attend external briefings to remain cognisant of legislative and regulatory changes

Health and safety procedures, training and governance across the Group

Appointment of reputable contractors

Adequate insurance held to cover the risks inherent in property ownership and construction projects

Compliance with law and regulations, including health and safety, remains a key priority for the Board.

Protocols are in place and communicated across the various stakeholder groups to ensure everyone is aware of new legislation and requirements.

The health and safety of our people and the public is a key priority. The Group works closely with its stakeholders to mitigate health and safety risks.

We remain in close communication with HMRC regarding our REIT status, the Group's ability to comply with the requirements and the approach which HMRC will take in relation to a breach of the REIT conditions.

See Governance on page 86 for further information.

Key: Increase, Stable, Decrease, New Risk

Climate change

1 2 5

Physical impact on our assets from rising temperatures or other extreme climate-related event such as flooding

Transitional challenge of increasing and more onerous compliance and reporting requirements, as well as retrofitting, insuring or leasing our assets in a heritage environment on an appropriate whole life carbon basis

Inability to keep pace with customer and consumer demand for proactive action to manage and mitigate climate-related risk

Impact on strategy

Reduced capital values or business disruption, reduced income through disruption

Increased operating costs to meet reporting and target metrics and compliance. Increased capital costs of retrofitting, or inability to resolve listed building or planning challenges, leads to buildings becoming carbon stranded

Reduced income through lower rents and longer void periods due to reduced customer demand

Mitigation

Board and management ESC Committees established to manage climate-related risks and opportunities and Sustainability team in place

Net Zero Carbon commitment by 2030 backed by published Net Zero Carbon pathway. For more detail on the mitigation measures in place for climate risk, please refer to the Group's TCFD disclosures in the 2022 Annual Report as well as the Group's Net Zero Carbon Pathway

Active management plan with external reporting via recognised indices and benchmarks, including EPRA, CDP and GRESB

Continued engagement with stakeholders in order to preserve heritage buildings, while enhancing environmental performance

Pro-active customer and consumer engagement programme and setting of appropriate climate related targets on both development and operations

Context and actions taken

Capco believes in taking a responsible and forward-looking approach to environmental issues and the principles of sustainability. We recognise the urgent responsibility to tackle climate change and this is reflected in our 2030 Net Zero Carbon target. As a long-term steward of the Covent Garden estate we understand the benefits of a strong track record of restoring and celebrating the heritage of the Covent Garden estate through considered refurbishments and developments.

Following publication of our Net Zero Carbon Pathway, our activities have focused on the first three year cycle and improving data reporting and transparency. We have completed our climate scenario analysis for full TCFD compliance. In addition to the ongoing activities to improve the Energy Efficiency of each asset focussing on the MEES EPC regulations, we continue to explore the addition of renewable energy generation and have commenced removal of gas heating and cooking within our residential portfolio. Long-term planning and mobilisation of asset by asset carbon mitigation strategy also continues using the CRREM model in pilot across a number of assets.

See ESC strategy on page 63, TCFD report on page 74 and our website for further information.

Leasing and asset management

1 2 3 5

Inability to achieve target rents or to attract target customers due to market conditions

Competition from other locations/formats

Unfavourable planning policy, legislation or action impacting on the ability to secure planning approvals or consents

Impact on strategy

Decline in customer demand for the Group's properties

Reduced income and increased vacancy

Reduced return on investment and development property

Mitigation

High quality customer mix

Strategic focus on creating mixed use destinations with unique attributes

Engagement with local and national authorities

Pre-application and consultation with key stakeholders and landowners

Regular assessment of market conditions and development strategy

Business strategy based on long-term total returns

Context and actions taken

We take measured risks by using our expertise in place-making and creative and active asset management to deliver long-term value through rental growth and attracting new customers. During the course of 2022 leasing activity improved and rent collections have returned to pre-pandemic levels. Capco maintained high occupancy levels reflecting the strength of demand for its prime central London real estate.

Although the Group has largely kept rental payments on a quarterly in advance basis we are aware that evolving lease structures may also have an impact on underlying property valuations and rental income. In addition, the impact on customer demand and supply chains as well as inflationary pressures is kept under review.

We look for opportunities to create or enhance value in our portfolio through the planning process, cognisant of the risks but using our experience and skill to deliver our objectives.

We have a focused leasing and marketing strategy, ensuring the business is well-positioned.

We regularly engage with our suppliers to understand their ability to meet our requirements and standards.

See Operating review on page 28 for further information.

Key: Increase, Stable, Decrease, New Risk

Viability statement

The Directors have considered the prospects of the Group over the three-year period to December 2025. The Directors have determined that this remains an appropriate period over which to provide the viability statement as it is the period covered by the latest business plan which takes into account the Group's current position, group financial forecasts and the potential impact of the principal risks set out on pages 43 to 49.

The proposed merger with Shaftesbury PLC is expected to complete during the viability period, therefore the viability assessment has also been undertaken on a combined group as well as a standalone basis.

In making the assessment, the Directors have taken account of the Group's resilient financial position, access to substantial liquidity, the Group's ability to raise new finance, and the low level of capital commitments together with the flexibility of future expenditure.

Standalone basis

During 2022, there has been continued improvement in operational activity at Covent Garden. Trading remains resilient with strong recovery in footfall and customer sales in aggregate being ahead of 2019 levels. There is strong leasing demand across all uses delivering rental growth, vacancy remains low and rent collection patterns have normalised.

There are, however, significant macroeconomic and political headwinds including the rising interest rate and inflationary environment, domestic political uncertainty, geopolitical risks, supply chain and labour market disruption. The West End and our unique portfolio of prime investments are not completely insulated, however they have demonstrated remarkable resilience.

Capco has a strong balance sheet with net debt to gross assets of 28 per cent and access to substantial cash and undrawn facilities, amounting to £423 million as at 31 December 2022. The Covent Garden net debt position is £366 million and there is substantial headroom against the Covent Garden covenants, with the current loan to value ratio of 21 per cent compared to the limit of 60 per cent and interest cover ratio of 3.9 times compared to the limit of 1.2 times. The business plan considers the Group's cash flow, capital commitments, financial resources, debt covenants and other key financial risks.

All of the Group's risks could have an impact on viability. Climate change is considered by the Directors to be an urgent issue and investment will be required to enhance the environmental performance and to meet the commitment to achieve Net Zero Carbon by 2030, but the costs anticipated within the viability period are not expected to be significant. The impact of climate change risks within the viability assessment period is expected to be limited. Interruptions to trade from severe weather events are possible but would likely be consistent with the impact considered in the severe but plausible downside assumptions.

The Directors consider the key principal risks that could impact the viability of the Group to be:

- Economic, political and operating environment; and
- Leasing and asset management.

The Directors placed particular emphasis on those risks which could result in reduced income and valuations or a shortfall in liquidity. Sensitivity analysis was carried out which involved flexing a number of downside assumptions to consider alternative macroeconomic conditions and the impact of these principal risks both individually and in combination.

The severe but plausible downside scenario reflects an economic downturn and incorporates the following assumptions:

- The projections represent a reduction in forecast net rental income (including impairment of tenant incentive balances and impact of lease modifications) of approximately 20 per cent on average across the three year period, with this reduction weighted towards later years of the viability period primarily due to non-completion of refurbishment and development projects.
- A further decline in property valuations of approximately 20 per cent compared to the 31 December 2022 valuation with outward yield movement of a further 75 basis points to 4.8% equivalent yield. This represents a cumulative decline of 42 per cent compared to pre COVID-19 levels.

The revolving credit facility of £300 million, which is currently fully undrawn, has a maturity date of September 2025 with a one-year extension option to September 2026 subject to lender consent. It is anticipated that the extension will be exercised or a similar form of financing will be put in place. £95 million of private placement debt matures in the second half of 2024. The Group is projected to have sufficient cash reserves and undrawn facilities to meet these debt maturities during the viability period.

The severe but plausible downside analysis was carried out to evaluate the potential impact of certain principal risks materialising, in particular to stress test the Group's financing covenants. There is sufficient headroom within the Covent Garden loan to value and interest cover covenants to withstand a significant reduction in the property valuation and net rental income before a breach would occur.

Based on stress testing analysis and before taking account of any mitigating actions, the Group could withstand a further 50 per cent decline in property valuations before a breach of the Loan to Value covenant and approximately 70 per cent decline in rental income before a breach of the interest cover covenant.

Based on this assessment, the Directors have a reasonable expectation that the Group and Company will be able to continue in operation on a standalone basis and meet their liabilities as they fall due over the period to December 2025.

In making this statement, the Directors have considered the resilience of the Group, taking account of its current position, the risk appetite, the principal risks facing the business and the effectiveness of any mitigating actions.

Impact of the proposed merger

On 16 June 2022 Capco announced its intention to merge with Shaftesbury and the shareholder approval conditions were satisfied on 29 July 2022. Completion of the merger is subject to the satisfaction of a number of other conditions, including clearance by the Competition and Markets Authority, which was received on 22 February 2023. Subject to approval by the court it is intended that the merger will be effected by means of a court-sanctioned scheme of arrangement which will result in Capco owning 100 per cent of the issued share capital of Shaftesbury. The merger is expected to complete on 6 March 2023. The viability assessment has therefore also been undertaken on the basis of the combined group.

Under the terms of the Shaftesbury financing arrangements, holders of its secured mortgage bonds totalling £575 million have the ability to require payment in full or part following a change of control of Shaftesbury taking place. Capco has entered into a loan facility agreement of £576 million to provide funding certainty in the event that Shaftesbury mortgage bond holders exercise this right. Shaftesbury's secured term loans totalling £385 million will remain in place.

In preparing its viability assessment, using an approach consistent with that set out above, the Board reviewed a forecast of liquidity, cash flow and covenant compliance of the combined group under the severe-but-plausible downside scenario.

The severe-but-plausible downside scenario considers lower levels of rent collection, reduction in ERVs and increased vacancy and costs, occurring in combination. No mitigating actions have been taken into account in this assessment. Mitigating actions within management's control may include, among other things, the reduction of non-essential costs and capital expenditure.

Refinancing

The viability assessment includes pessimistic assumptions in relation to the refinancing of the combined group's debt. Debt maturities during the viability assessment period are:

- £95 million of Capco's private placement loan notes which mature in the second half of 2024. These are assumed to be redeemed using a combination of cash reserves and undrawn facilities
- £576 million standby facility, expires in December 2024 (assuming the initial six-month extension option is exercised by the borrower). The combined group assessment of covenants described below assumes the lenders grant a further six-month extension and that it is then refinanced on final maturity in June 2025 on a basis consistent with the terms of that final extension.
- Capco's £300 million revolving credit facility expires in September 2025, with a further one year extension subject to lender consent. It is assumed the facility is extended until September 2026.

The Board considered the projected combined group loan to value ratio, the interest cover ratio and the quantity of unencumbered assets for the standby facility under the severe but plausible downside scenario. This assumes a further valuation decline for the combined group of approximately 20 per cent relative to 31 December 2022. A decline of this magnitude would result in a projected group loan to value ratio of approximately 40 per cent in December 2024 when the £576 million loan facility would need to be extended or refinanced. Unencumbered assets would amount to £3.3 billion. Despite the severe but plausible downside assumptions applied to both income and net interest expense, group interest cover would be approximately 1.9x against a covenant of 1.0x.

Whilst the Board considers that financing risk is a critical factor in assessing the viability of the combined group, it has assumed that, even in the severe-but-plausible downside scenario, replacement financing could be put in place for both the £576 million loan facility and the £300 million revolving credit facility.

Covenant compliance

Before taking into account any mitigating actions which may be taken, the combined group has significant headroom against its financial covenants and estimates that the combined group could withstand a decrease in valuations from 31 December 2022 of over 40 per cent and a decline in net property income of approximately 45 per cent before breaching its loan-to-value and interest cover covenants. Despite the severe-but-plausible downside group interest cover would be approximately 1.9x against a covenant of 1.0x.

Having considered the debt facilities in place, the Board is satisfied that there is sufficient liquidity to fund potential debt repayments and with the ability of the combined group to remain compliant with its financing arrangements and meet its financial obligations as they fall due over the viability period.

The combined group anticipates to retain significant liquidity and that debt covenants will be satisfied, however in the severe but plausible scenario the interest cover covenant on one of the Shaftesbury term loans could be breached marginally. For this loan, throughout the viability period the combined group has the ability to cure income shortfalls using a small amount of cash deposits or additional assets with sufficient contractual income from its pool of unsecured properties. The Group has sufficient liquidity to satisfy this requirement.

Based on this assessment, the Directors have a reasonable expectation that the combined group will be able to continue in operation and meet their liabilities as they fall due over the viability period to December 2025.

Going Concern

The Company has a strong balance sheet with net debt to gross assets of 28 per cent and access to cash and undrawn facilities of £423 million as at 31 December 2022. The Covent Garden group had net debt of £366 million and a loan to value ratio of 21 per cent, which compares with a debt covenant level of 60 per cent. In addition, the Company has analysed a severe but plausible downside forecast as part of its going concern assessment as detailed in note 1 'Principal Accounting Policies'. Based on this assessment, the going concern basis of accounting has been adopted in preparing the 2022 Annual Report & Accounts.

Financial review

Situl Jobanputra
Chief Financial Officer

2022 Financial results

Net rental income	£57m
Loss for the year	£(212)m
Underlying earnings	£19m[1]
Total property value	£1.7bn[1]
Dividends per share	2.5p
Net assets	£1.6bn
EPRA NTA per share	182p
Net debt to gross assets	28%[1]
Cash and undrawn facilities	£423m[1]
Total return	-13.6%
Total property return	2.8%

1. Group share.

Market Building and Piazza

Strong financial position

2022 has been characterised by continued operational momentum in the Covent Garden estate, with rental income collection returning to pre-pandemic levels, strong leasing demand across all uses resulting in high occupancy and rental growth, and sustained footfall recovery resulting in growth in sales for our retail and hospitality customers. This performance reflects the appeal of Covent Garden and London's West End. Broader macroeconomic factors will have an impact on future performance, however the West End has demonstrated remarkable resilience and we are encouraged to see strong demand continuing to deliver rental growth in our portfolio.

"The Group has strong prospects for earnings growth and long-term value creation, with a well-positioned portfolio and improving operating performance, backed by a resilient and flexible capital structure."

Situl Jobanputra, Chief Financial Officer

Underlying earnings improved from £0.7 million in 2021 to £18.6 million (2.2 pence per share) in 2022, driven by increased net rental income, additional dividend income and lower finance costs, offset in part by higher administration expenses. The Company has declared total dividends in respect of the year of 2.5 pence per share, reflecting improved underlying and cash earnings and the additional dividend received in relation to Q4 2022 from the investment in Shaftesbury shares post-year end.

2021 comparative information has been restated to reflect a change in accounting policy following an IFRIC (IFRS Interpretations Committee) agenda decision in relation to the accounting for rent concessions, which in the Company's case were provided during the COVID-19 period. Any forgiveness of rent after the point at which it was due is now accounted for as an expected credit loss and not as a rent free asset (with the impact amortised over the remaining life of the lease). Due to the resulting restatement, there has been a reduction in 2021 net rental income by £6.2 million to £40.2 million. On an underlying basis, 2021 net rental income has reduced by £3.4 million from £52.3 million to £48.9 million. Due to improving trading conditions, and completion of historical COVID-19 concessions, underlying net rental income increased by 17.0 per cent to £57.2 million in the year. On an IFRS reported basis net rental income increased by 43.3 per cent to £57.3 million. The financial statements also reflect a further adjustment resulting from the requirement to include tenant deposits (£13.4 million at the end of 2022) within cash and cash equivalents rather than trade receivables.

The Group's investments are concentrated on real estate in London's West End with the Covent Garden estate and the investment in Shaftesbury shares representing over 95 per cent of total portfolio value. The independent property valuation of Covent Garden remained broadly unchanged over the year on a like-for-like basis, at £1,741.6 million. The increase of 6.3 per cent in ERV on a like-for-like basis was offset by an increase in the equivalent yield by 19 basis points to 4.07 per cent. The ERV growth is reflective of positive asset management and leasing activity, and high occupancy levels across the estate. Total property return for the year was 2.8 per cent. The Group's 25.2 per cent investment in Shaftesbury has decreased in value by £239.5 million to £356.9 million reflecting the share price of 368 pence as at 31 December 2022 (2021: 615 pence per share). Dividends received from this investment during the year were £13.5 million and after the year end, the Group received a further dividend of £2.6 million on 15 February 2023.

Capco owns 50 per cent of the Lillie Square joint venture. The property valuation as at 31 December 2022 was £77.0 million, a 6 per cent decline (like-for-like) against the 31 December 2021 valuation of £84.1 million. In total, 351 Phase 1 and 2 units have been handed over, with 69 units available. The sale of five units completed during the year representing £6.6 million (£3.3 million Capco share) and five units have been leased in the near term. The joint venture is in a cash position of £5.9 million (Capco share) as at 31 December 2022. During the year, £35.0 million of cash was distributed from the joint venture to the partners (£17.5 million Capco share). In addition, Capco owns £2.1 million of other related assets adjacent to the Lillie Square estate.

As a result primarily of the lower Shaftesbury share price, overall EPRA NTA (net tangible assets) per share decreased by 14.5 per cent during the year, from 213.0 pence at 31 December 2021 to 182.1 pence. Combined with the 1.8 pence per share dividend paid to shareholders during the year, the total return for the period is -13.6 per cent. Total shareholder return for the year, reflecting the movement in the share price from 168 pence to 107 pence, together with dividends, was -35.9 per cent.

The Group maintains a strong capital structure with low financial leverage, access to significant liquidity, substantial headroom against debt financial covenants and a modest capital commitment profile. During the year, £200 million of borrowings were repaid early with closing net debt as at 31 December 2022 of £621.8 million (31 December: £599.3 million). Cash and cash equivalents, excluding tenant deposits, were £122.6 million as at 31 December 2022 (31 December 2021: £341.7 million) and when combined with undrawn committed facilities, liquidity was £422.6 million (31 December 2021: £641.7 million). The maturity date of the £300 million revolving credit facility, which is currently undrawn, was extended by one year to September 2025. Through a combination of all drawn debt being at fixed rates, cash deposits held and interest rate collars being in place, the Company's finance costs are currently well-protected against interest rate movements.

On 16 June 2022, Capco announced its intention to merge with Shaftesbury PLC and the shareholder approval conditions were satisfied on 29 July 2022. The merger received clearance from the Competition and Markets Authority on 22 February 2023, and it is expected to complete on 6 March 2023. During the year, the Group incurred costs of £14.6 million associated with the merger, which have been accounted for as non-underlying administration costs. In connection with the merger, a standby loan facility was put in place in order to enable the Group to fund in full the repayment of Shaftesbury bonds of up to £575 million if holders of the bonds exercise their put rights following the change of control of Shaftesbury.

Basis of preparation

Group share and alternative performance measures

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

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

The Group uses Alternative Performance Measures ("APMs"), financial measures which are not specified under IFRS, to monitor the performance of the business. These include a number of the financial highlights shown on page 5. Many of the APMs included are based on the EPRA Best Practice Recommendations reporting framework, which aims to improve the transparency, comparability and relevance of published results of public real estate companies in Europe.

One of the key performance measures the Group uses is underlying earnings. The Group considers the presentation of underlying earnings to be useful supplementary information as it removes unrealised gains and certain other items and therefore represents the recurring, underlying performance of the business. Items that are excluded are net valuation gains/losses (including profits/losses on disposals), fair value changes, impairment charges, net refinancing charges, costs of termination of derivative financial instruments and other non-recurring costs and income. Net rental income as a component of underlying earnings remains an important alternative performance measure for the Group.

Lease modification expenses comprised directly attributable lease costs previously held on balance sheet and amortised in accordance with IFRS 16. These non-cash costs were incurred as a result of the Group providing rental support to its tenants during the COVID-19 pandemic and were written off in accordance with the Group's accounting policy. During 2021 tenant lease incentives were impaired in respect of tenants which had entered administration or experienced significant disruptions to cash flows during the pandemic. Accordingly these items were excluded from underlying earnings during 2020 and 2021. Tenant support measures implemented during the pandemic have now been concluded and as such impairment of tenant incentives have been included in underlying earnings with effect from 2022.

A summary of EPRA performance measures and key Group measures included within these financial statements is shown in EPRA measures on pages 202 to 206.

Change in accounting policy

During 2022, the IFRS Interpretations Committee ("IFRIC") finalised an agenda decision in relation to how a lessor should account for the forgiveness of lease payments under IFRS 9 "Financial Instruments" and IFRS 16 "Leases". The decision concluded that for any rent receivable past its due date which was subsequently forgiven, the lessor should apply the expected credit loss model under IFRS 9 and account for the forgiveness as an impairment to the income statement. Alongside this, any forgiveness of future rent would be deemed to meet the definition of a lease modification under IFRS 16, with the resulting impact accounted for by spreading the concession over the remaining lease term in accordance with IFRS 16. On entering into a lease modification, any directly attributable costs associated with the lease are derecognised. The Group had previously concluded that under IFRS there had been a policy choice to account for any rent forgiveness for rent receivable after its due date under either IFRS 9 or IFRS 16. Accordingly the Group had elected to account for all relevant rent concessions as a lease modification under IFRS 16, and in addition the directly attributable costs associated with the leases were derecognised as non-underlying costs. The Group had applied this treatment during the pandemic period in 2020 and 2021. Due to the IFRIC agenda decision, the Group has retrospectively applied the change in accounting policy with the 2021 comparative information being restated as a result. In summary, the adjustment has had the following impact:

– Cumulative expected credit loss of £20.5 million has been recorded through net rental income during 2020 and 2021;

– Reversal of recognition of £13.3 million rent-free assets and write-back of £3.0 million of directly attributable costs. This has led to an overall reduction in tenant lease incentives, including letting fees, of £10.3 million as at 31 December 2021 to a total balance sheet value of £35.2 million; and

– Reduction in IFRS net rental income of £6.2 million to £40.0 million and underlying earnings from £4.1 million to £0.7 million for the year ended 31 December 2021 (31 December 2020: Reduction in IFRS net rental income of £4.5 million to £11.4 million and underlying loss from £6.2 million loss to £18.7 million loss).

The reduced balance of tenant lease incentives will result in a lower charge against rental income on an accounting basis over the coming years, including an estimated positive impact of £2.5 million in 2023.

-35.9%
Total Shareholder Return

-13.6%
Total Return

2.8%
Total Property Return

All COVID-19 concessions have been finalised with no further adjustments expected. Further details on the adjustment and impact on prior year comparative information are set out in Note 1 to the financial statements.

Financial Performance

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

Net rental income

Rent receivable has increased by 1.8 per cent, adjusting for 2021 disposals of £2.1 million. This reflects new letting and increased contracted income as a result of improving trading conditions.

Straight lining of tenant lease incentives, reflecting the non-cash rent free adjustment, has increased by £1.8 million to £6.3 million due to new leases and renewals signed in the year. The movement reflects the change in accounting policy and reduction in rent free amortisation for COVID-19 concessions which have now been accounted for through expected credit loss.

With improving trading conditions, including cash collections for the year at 99 per cent, the expected credit loss has been a reversal of £1.6 million during 2022. The adjustment is calculated as the reduction in the balance sheet provision of £7.4 million offset by £5.8 million of bad debt write-offs in the year for rent forgiveness for historical COVID-19 concessions and tenants which vacated or went into administration. The provision for expected credit loss in 2021 reflects the rent forgiveness for COVID-19 concessions provided in relation to rent past its due date.

Summary Income Statement

	2022			Restated 2021		
	Group share £m	Joint ventures[1] £m	IFRS £m	Group share £m	Joint ventures[1] £m	IFRS £m
Net rental income[2]	**57.2**	**0.1**	**57.3**	40.2	(0.2)	40.0
Loss on revaluation and sale of investment and development property	**(0.8)**	**–**	**(0.8)**	(4.1)	–	(4.1)
Change in fair value of listed equity investment	**(239.5)**	**–**	**(239.5)**	44.6	–	44.6
Dividend income	**13.5**	**–**	**13.5**	2.3	–	2.3
Administration expenses[3]	**(40.7)**	**0.1**	**(40.6)**	(22.7)	(0.1)	(22.8)
Net finance costs[4]	**(24.6)**	**–**	**(24.6)**	(31.4)	0.2	(31.2)
Taxation	**(6.0)**	**–**	**(6.0)**	(0.7)	–	(0.7)
Other[5]	**21.9**	**7.0**	**28.9**	(75.6)	82.3	6.7
(Loss)/profit for the year	**(219.0)**	**7.2**	**(211.8)**	(47.4)	82.2	34.8
Adjustments[6]:						
Net rental income – non-underlying[2]			**–**			8.7
Loss on revaluation and sale of investment and development property			**0.8**			4.1
Change in fair value of listed equity investment			**239.5**			(44.6)
Administration expenses – non-underlying[3]			**14.6**			2.8
Other[5]			**(29.1)**			(6.2)
Taxation on non-underlying items			**4.6**			1.1
Underlying earnings			**18.6**			0.7
Underlying earnings per share (pence)			**2.2**			0.1
Weighted average number of shares			**851.3m**			851.3m

1. Lillie Square and Innova Investment.
2. Net rental income is stated after deducting £nil (2021: £8.7 million) of non-underlying costs in relation to lease modification and impairment of tenant incentives. Underlying net rental income, excluding these items, is £57.3 million (2021: £48.7 million).
3. Administration expenses includes £14.6 million of non-underlying costs substantially related to proposed merger with Shaftesbury PLC which are considered non-recurring in nature. 2021 includes £2.8 million of non-underlying costs primarily related to the assignment of the Group's previous head office lease totalling £1.8 million and other transaction related costs which are all considered non-recurring in nature.
4. Excludes other finance income and costs and change in fair value of derivative financial instruments.
5. Includes other costs, impairment of other receivables and other finance income including change in fair value of derivatives.
6. Further details regarding the EPRA and Company specific adjustments are disclosed within EPRA measures on page 202.

Net rental income

	2022			Restated 2021		
	Group share £m	Joint ventures £m	IFRS £m	Group share £m	Joint ventures £m	IFRS £m
Rent receivable	**61.7**	**(0.2)**	**61.5**	62.7	(0.2)	62.5
Straight lining of tenant lease incentives	**6.3**	**–**	**6.3**	4.5	–	4.5
Service charge income	**7.5**	**(1.2)**	**6.3**	7.1	(1.8)	5.3
Revenue	**75.5**	**(1.4)**	**74.1**	74.3	(2.0)	72.3
Reversal of/(provision for) expected credit adjustment	**1.6**	**–**	**1.6**	(7.6)	–	(7.6)
Property expenses	**(10.5)**	**0.3**	**(10.2)**	(10.7)	–	(10.7)
Service charge expenses	**(7.5)**	**1.2**	**(6.3)**	(7.1)	1.8	(5.3)
Impairment of tenant lease incentives	**(1.9)**	**–**	**(1.9)**	–	–	–
Underlying net rental income	**57.2**	**0.1**	**57.3**	48.9	(0.2)	48.7
Impairment of tenant lease incentives	**–**	**–**	**–**	(2.3)	–	(2.3)
Lease modification expense	**–**	**–**	**–**	(6.4)	–	(6.4)
Net rental income	**57.2**	**0.1**	**57.3**	40.2	(0.2)	40.0

As at 31 December 2022 the balance sheet provision is £4.0 million reflecting 33.3 per cent of the rent receivable balance. As at 31 December 2021 the provision was £11.4 million reflecting 53.3 per cent of the rent receivable balance. The reduction in the absolute and relative provision reflects positive trading conditions.

Property costs have reduced by £0.2 million to £10.5 million mainly due to £0.5 million of COVID-19 related security, cleaning and equipment costs incurred in 2021 offset in part by cost inflation in 2022.

During the course of 2020 and 2021 the impact of COVID-19 was in large part removed from underlying earnings through the exclusion of lease modification expenses and incentive impairments as non-recurring charges. Tenant support measures implemented during the pandemic period have now concluded and as such any further impairment of tenant incentives from 2022 onwards are included in underlying earnings. During the course of 2022, this has resulted in an impairment of £1.9 million.

Administration expenses

	2022			2021		
	Group share £m	Joint ventures £m	IFRS £m	Group share £m	Joint ventures £m	IFRS £m
Depreciation	**0.2**	**–**	**0.2**	0.2	–	0.2
Administration expenses	**25.9**	**(0.1)**	**25.8**	19.7	0.1	19.8
Underlying administration expenses	**26.1**	**(0.1)**	**26.0**	19.9	0.1	20.0
Non-underlying costs	**14.6**	**–**	**14.6**	2.8	–	2.8
Administration expenses	**40.7**	**(0.1)**	**40.6**	22.7	0.1	22.8

Loss on revaluation of investment and development property

The loss on revaluation of the Group's investment and development property was £0.8 million. The property valuation of the Covent Garden estate has remained broadly unchanged on a like-for-like basis at £1,741.6 million, as a result of a 6.3 per cent like-for-like increase in ERV to £81.0 million and outward movement in the equivalent yield of 19 basis points to 4.07 per cent.

Dividend income

Dividend income of £13.5 million has been received from the Shaftesbury investment during the year. An additional £2.6 million dividend was received on 15 February 2023 in relation to the final quarter of 2022.

Administration expenses

Underlying administration expenses have increased by £6.2 million to £26.1 million for the year ended 31 December 2022. This increase reflects a number of factors including more normalised levels of activity post-COVID-19, inflationary pressures and increased people costs and share option charges.

Non-underlying administration costs, which are considered non-recurring, of £14.6 million have been incurred, substantially in connection with the proposed merger with Shaftesbury.

Net finance costs

Net finance costs have been reduced by £6.8 million to £24.6 million. The decrease is due to a lower average level of gross debt following the prepayment of £75 million of private placement loan notes on 28 February 2022 and the £125 million secured loan on 20 June 2022.

Finance income increased by £2.1 million to £2.6 million during the year, comprising £1.4 million for cash on deposit and £1.2 million in relation to interest rate hedging arrangements. Based on market forecasts of interest rates, expected liquidity levels and the Group's in-place hedging arrangements, there should be a further increase in interest income during 2023.

Taxation

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

Consistent with the Group's policy of complying with relevant tax obligations, the Group maintains a constructive and open working relationship with HMRC which regularly includes obtaining advance clearance on key transactions where the tax treatment may be uncertain. The Group maintains a low risk rating from HMRC, which has been confirmed following a detailed business risk review during 2022.

As a UK REIT, the Group is exempt from UK corporation tax on income and gains from qualifying activities. As a minimum, 90 per cent of the income arising from qualifying activities and 100 per cent of the UK REIT investment profits are required to be distributed as Property Income Distribution ("PID") to the shareholders of the Group. Non-REIT activities, such as disposals of trading property, are subject to UK corporation tax. A tax charge can arise for the Group (currently at 19 per cent) if the minimum PID requirement is not met within 12 months of the end of the relevant year. The Group expects to meet the PID requirements for the year ended December 2022 and for the current year within the allowed timelines.

The UK REIT provisions also require a group to satisfy certain tests to maintain its REIT status. The Group satisfied all requirements needed to maintain REIT status throughout 2022. The UK REIT provisions can impose a UK tax charge on the Group if certain interest cover tests are not met. HMRC has indicated that it is not within the intention of the REIT regime to issue a tax charge in relation to these interest cover tests, where it can be established that COVID-19 is the reason for a breach. As a result of accounting adjustments resulting from the treatment of rental concessions during the pandemic period, the Group did not meet the interest cover test for the year ended December 2022, however as this relates to the COVID-19 period, HMRC has confirmed that this will not result in a tax charge.

The tax charge of £6.0 million in the income statement comprises a deferred tax charge of £1.3 million in relation to share-based payments and capital allowances, and a deferred tax charge of £4.7 million to unwind the remainder of the deferred tax asset recognised for the trading losses carried forward. IAS 12 provides for the recognition of a deferred tax asset where it is probable there will be future taxable profit against which a deductible temporary difference can be utilised. As a result of the application of this provision, the Group has not recognised a deferred tax asset on certain losses carried forward.

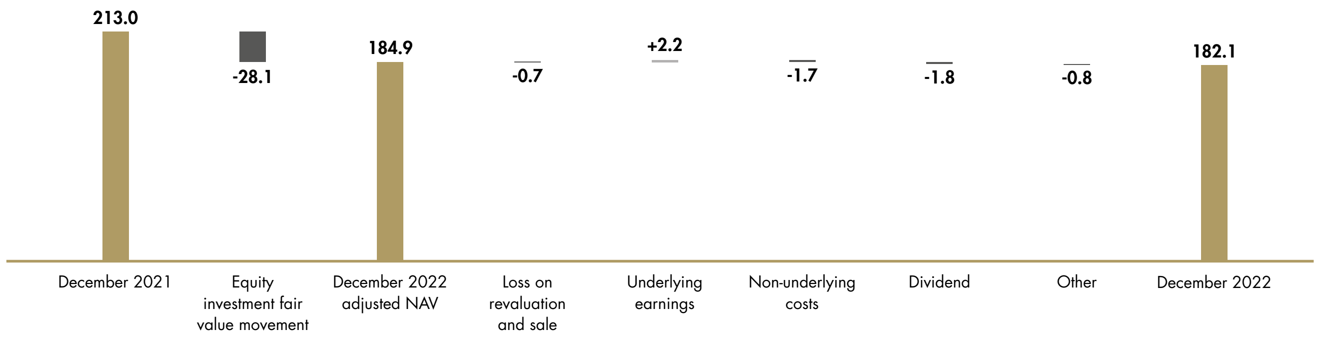
The main rate of corporation tax remained unchanged at 19 per cent throughout the year. The increase in the main corporation tax rate from 19 to 25 per cent with effect from 1 April 2023 has been substantively enacted on 24 May 2021 and therefore is reflected in the Group's deferred tax balances where applicable.

Whilst the Group is a REIT, it is subject to a number of taxes and certain charges in the same way as non-REIT companies. The Group is committed to paying its fair share of taxes to HMRC and local authorities including other taxes such as VAT, business rates, stamp duty land tax, employment taxes, corporation tax on non-REIT income and withholding tax on PIDs. During the year, the total amount borne and collected in respect of these areas amounted to £16.6 million (2021: £12.5 million).

Dividends

On 30 January 2023, the Board declared a second interim dividend of 1.7 pence per share bringing the total dividend for the year to 2.5 pence per share (2021: 1.5 pence). The dividend is to be paid 0.7 pence as a PID and 1.0 pence as a non-PID, and is expected to be paid on 20 March 2023 to shareholders on the register at 3 March 2023. This payment takes into account dividend income in relation to Q4 2022 from Shaftesbury PLC received on 15 February 2023.

EPRA net tangible assets per share -14.5% to 182.1 pence



Financial Position

At 31 December 2022 the Group's EPRA NTA was £1.6 billion (31 December 2021: £1.8 billion) representing 182.1 pence per share (31 December 2021: 213.0 pence).

Summary Adjusted Balance Sheet

	2022			Restated 2021		
	Group share £m	Joint ventures[1] £m	IFRS £m	Group share £m	Joint ventures[1] £m	IFRS £m
Investment, development and trading property	**1,785.0**	**(69.9)**	**1,715.1**	1,789.6	(84.0)	1,705.6
Financial assets at fair value through profit and loss	**356.9**	**–**	**356.9**	596.4	–	596.4
Net debt	**(621.8)**	**(6.1)**	**(627.9)**	(599.3)	(22.7)	(622.0)
Other assets and liabilities[2]	**41.5**	**76.0**	**117.5**	7.4	99.4	106.8
Net assets attributable to owners of the Parent	**1,561.6**	**–**	**1,561.6**	1,794.1	(7.3)	1,786.8
Adjustments:						
Fair value of derivative financial instruments			**(12.1)**			(1.1)
Fair value adjustment of financial instruments – exchangeable bond option			**(4.8)**			21.2
Unrecognised surplus on trading property			**7.1**			0.1
Revaluation of other non-current assets			**–**			7.3
Deferred tax adjustments			**0.4**			0.2
EPRA net tangible assets			**1,552.2**			1,814.5
EPRA net tangible assets per share (pence)[3]			**182.1**			213.0

1. Primarily Lillie Square.
2. IFRS includes amounts receivable from joint ventures which eliminate on a Group share basis.
3. Adjusted, diluted number of shares in issue at 31 December 2022 was 852.3 million (2021: 851.9 million).

Investment, development and trading property

The Group share of investment, development and trading property carrying value has decreased by £4.6 million from £1,789.6 million to £1,785.0 million. This movement primarily comprises a revaluation loss of £0.8 million on the Covent Garden portfolio, write-down of trading at Lillie Square of £12.4 million, gain on transfer from trading to investment property of £0.3 million on Lillie Square, capital expenditure of £11.0 million and disposals of £2.7 million of Lillie Square properties.

The independent property valuation of Covent Garden for the year remained broadly unchanged on a like-for-like basis, at £1,741.6 million (2021: £1,728.5 million). The increase of 6.3 per cent in ERV on a like-for-like basis was offset by an increase in the equivalent yield by 19 basis points to 4.07 per cent. The Lillie Square independent property valuation decreased in value by 6 per cent (like-for-like) to £79.1 million at 31 December 2022 (2021: £86.2 million).

The revaluation on Group investment and development property together with movements on trading property resulted in a total revaluation loss of £5.8 million, representing a 0.3 per cent decrease in value, which compares with the MSCI Capital Return for the equivalent period of a 14.2 per cent reduction.

Total property return for the year was 2.8 per cent. The MSCI Total Return Index recorded a 10.1 per cent reduction for the corresponding period.

Trading property is carried at the lower of cost and net realisable value, therefore valuation surpluses on trading property are not recorded. Any unrecognised surplus is however reflected within the EPRA net tangible assets measure. At 31 December 2022, the unrecognised surplus on trading property was £7.1 million (31 December 2021: £0.1 million) which arises solely on the Group's share of trading property at Lillie Square. The increase in the unrealised surplus is due to change in valuation methodology.

Financial assets at fair value through profit or loss

The value of the Group's 25.2 per cent shareholding in Shaftesbury as at 31 December 2022 based on the closing share price of 368 pence was £356.9 million (2021: £596.4 million based on share price of 615 pence) resulting in a fair value loss of £239.5 million during the year.

Debt and gearing

The Group maintains a strong financial position, diversified sources of funding, headroom against debt covenants, access to significant liquidity, modest capital commitments, a balanced debt maturity profile and protection against interest rate movements.

The Group's cash and undrawn committed facilities at 31 December 2022 were £422.6 million (31 December 2021: £641.7 million). A reconciliation between IFRS and Group share is shown below:

	2022			2021		
	Group share £m	Joint ventures[1] £m	IFRS £m	Group share £m	Joint ventures[1] £m	IFRS £m
Cash and cash equivalents[2]	**122.6**	**(6.1)**	**116.5**	341.7	(22.7)	319.0
Undrawn committed facilities	**300.0**	**–**	**300.0**	300.0	–	300.0
Cash and undrawn committed facilities	**422.6**	**(6.1)**	**416.5**	641.7	(22.7)	619.0

1. Primarily Lillie Square.
2. Excludes tenant deposits of £13.4 million (2021: £12.1 million).

	2022	2021
Net debt to gross assets	**27.9%**	24.3%
Loan to value – Covent Garden debt covenant[1]	**21.0%**	14.8%
Interest cover – Group[1]	**181.3%**	101.0%
Interest cover – Covent Garden debt covenant[1]	**394.7%**	191.3%
Weighted average debt maturity – drawn and undrawn facilities[2]	**4.2 years**	4.8 years
Weighted average debt maturity – drawn facilities	**4.5 years**	4.9 years
Weighted average cost of debt	**2.7%**	2.8%
Gross debt with interest rate protection	**100%**	100%

1. The 2021 covenants have been recalculated due to the change in accounting policy as discussed in note 1.
2. Excludes the £576 million loan facility agreement.

Balanced capital structure

Group net debt: gross assets

28%

Covent Garden

Net debt of £366 million[1]

– (2021: £256 million)

£300 million revolving credit facility

– Fully undrawn
– September 2025 maturity, with further one-year extension option subject to lender consent

£475 million private placement loan notes

– Fixed rate debt (average cost 2.8%)
– Range of maturities 2024 – 2037

1. Comprises £475m of private placement notes and cash

Shaftesbury investment

£275 million exchangeable bond with pledge over c.10% of Shaftesbury PLC shares

– 2% per annum coupon, March 2026 maturity
– Exchange price of 719.1p (two-way adjustment subject to dividend threshold)

Lillie Square

– Debt free, net cash of £5.9 million

In addition to cash and cash equivalents of £123 million, interest rate collars in place for £200 million notional value through to December 2024 capped at 1.23 per cent.

Net debt increased by £22.5 million to £621.8 million in the year, consisting of £21.9 million cash outflows and £0.6 million non-cash amortisation of debt issue costs. Net debt on an IFRS basis has increased by £5.9 million with the majority of the difference to Group share resulting from a £17.5 million part repayment of loan received from the Lillie Square joint venture.

The gearing measure most widely used in the industry is loan to value ("LTV"), however in order to address the fact that LTV does not take into account the value of the shareholding in Shaftesbury, the Group focuses on the ratio of net debt to gross assets which stood at 27.9 per cent at 31 December 2022. This is comfortably within the Group's limit of no more than 40 per cent. EPRA LTV was 28.0 per cent.

The Group's policy is to eliminate substantially the medium and long-term risk arising from interest rate volatility. The Group's banking facilities are arranged on a floating rate basis but are generally swapped to fixed rate, capped or collared using derivative contracts. At 31 December 2022, all of the Group's drawn debt (comprising £475 million of private placement loan notes and £275 million of exchangeable bonds) was at fixed rates. Interest rate collars are currently in place for £200 million of notional value through to December 2024, capped at 1.23 per cent.

The £300 million revolving credit facility was undrawn at the year end. During the year, the first of two 1-year extension options was exercised to extend the maturity date to September 2025.

On 16 June 2022, the Group completed a £576 million loan facility agreement in connection with the proposed merger with Shaftesbury. Shaftesbury has two secured mortgage bonds totalling £575 million, each of which contain change of control provisions which will be triggered by the merger.

In order to provide funding certainty in the event that the Shaftesbury mortgage bond holders exercise their redemption right in respect of their Shaftesbury mortgage bonds following completion of the merger the Group has entered into the new facility. The £576 million loan facility matures in June 2024, with the ability to extend for a further six months at the option of Capco subject to the satisfaction of the extension requirements as outlined in the facility. There is subsequently a further six month extension option available subject to lender consent.

On 28 February 2022, the Group repaid £75 million of private placement loan notes, incurring a make-whole cost of £5.0 million. On 20 June 2022, the Group repaid the £125 million secured loan, which was secured on Shaftesbury shares.

The principal financial covenants within the Covent Garden debt are to maintain a loan to value ratio of not more than 60 per cent and an interest cover ratio of at least 120 per cent. Based on the current level of net debt of £366 million the loan to value ratio is 21.0 per cent, resulting in substantial headroom with the ability for property valuations to fall by 65 per cent. The interest cover ratio for the year in relation to the Covent Garden debt was 395 per cent, comfortably ahead of the covenant level of 120 per cent.

As at 31 December 2022, the Group had capital commitments of £2.5 million (£5.4 million at 31 December 2021), comprising £1.7 million for Covent Garden and £0.8 million for Lillie Square. At Covent Garden, there are a number of targeted capital initiatives which are expected to be brought forward in 2023, with estimated capital expenditure of £25 million over the next two years, including the office to F&B conversions on Maiden Lane and Bedford Street, F&B townhouse on King Street and office refurbishment on Long Acre.

	2022			2021		
	Group share £m	**Joint ventures[1] £m**	**IFRS £m**	Group share £m	Joint ventures[1] £m	IFRS £m
Capital commitments	**2.5**	**(0.8)**	**1.7**	5.4	(1.3)	4.1

1. Lillie Square.

Cash Flow

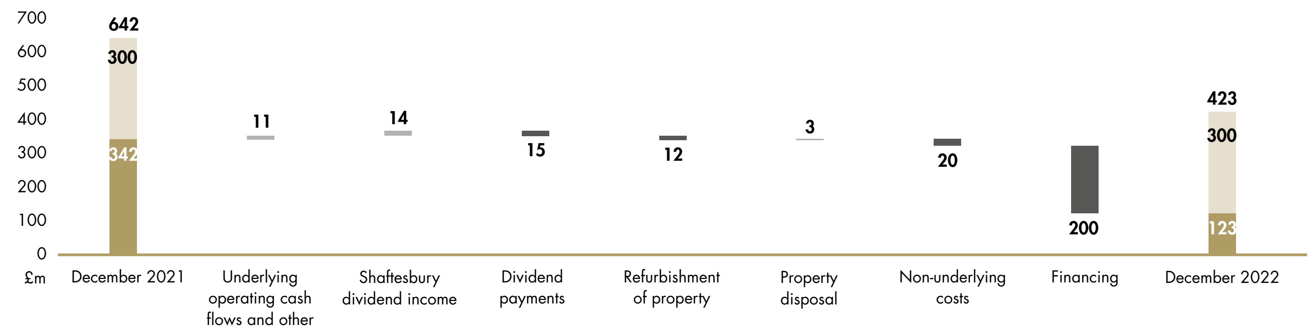
A summary of the Group's cash flow for the year ended 31 December 2022 is presented below:

Summary Cash Flow

	2022			Restated 2021		
	Group share £m	**Joint ventures[1] £m**	**IFRS £m**	Group share £m	Joint ventures[1] £m	IFRS £m
Operating cash flows after interest and tax	**5.7**	**1.3**	**7.0**	0.1	(1.0)	(0.9)
Purchase and development of property, plant and equipment	**(12.0)**	**0.9**	**(11.1)**	(9.5)	1.6	(7.9)
Transactions with joint venture partners	**0.4**	**17.8**	**18.2**	(0.5)	(0.5)	(1.0)
Net sales proceeds from discontinued operations	**–**	**–**	**–**	15.2	–	15.2
Net sales proceeds from property and investments	**3.3**	**(3.3)**	**–**	118.0	(23.3)	94.7
Net cash flow before financing	**(2.6)**	**16.7**	**14.1**	123.3	(23.2)	100.1
Financing	**(200.0)**	**–**	**(200.0)**	(149.5)	5.9	(143.6)
Dividends paid	**(15.3)**	**–**	**(15.3)**	(4.0)	–	(4.0)
Net cash flow[2]	**(217.9)**	**16.7**	**(201.2)**	(30.2)	(17.3)	(47.5)

1. Primarily Lillie Square.
2. Net cash flow is based on unrestricted cash and cash equivalents. The movement in Lillie Square deposits on a Group share basis of £0.2 million is therefore not included (2021: £5.3 million).

Cash and undrawn facilities



IFRS cash and cash equivalents, which includes tenant deposits, decreased by £201.2 million to £129.9 million.

Operating cash inflows have increased by £5.6 million to £5.7 million for the year ended 31 December 2022 due mainly to an increase in rental collections. Dividend income of £13.5 million has been received from the Shaftesbury investment in the year. This is offset by higher administrative costs and £20.4 million of non-recurring administrative expenses, comprising merger-related costs, the make-whole cost on the private placement loan notes and loan facility arrangement fees.

During the year, £11.1 million was invested at Covent Garden for capital expenditure on a number of projects with £0.9 million incurred at Lillie Square.

The sale of five units at Lillie Square generated £3.3 million (Group share) of net proceeds.

Financing cash outflows relate to the repayment of the £75 million of private placement loan notes and the repayment of the £125 million secured loan.

Going concern

Further information on the going concern assessment is set out in note 1 to the financial statements.

The Company has a strong balance sheet with net debt to gross assets of 27.9 per cent and access to cash and undrawn facilities of £422.6 million as at 31 December 2022. The Covent Garden group had net debt of £366.1 million and a loan to value ratio of 21.0 per cent, which compares with a debt covenant level of 60 per cent. The interest cover ratio for the year ended 31 December 2022 in relation to the Covent Garden debt was 395 per cent, comfortably ahead of the covenant level of 120 per cent. There remains sufficient liquidity and debt covenant headroom even in a downside "severe but plausible" scenario. Similarly base case and downside scenarios have been analysed on the basis that the merger with Shaftesbury is completed.

On the basis of both the standalone and combined analyses, there continues to be a reasonable expectation that the Group will have adequate resources to meet both ongoing and future commitments for at least 12 months from the date of signing these financial statements. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the 2022 Annual Report.

Situl Jobanputra
Chief Financial Officer

28 February 2023

Delivering positive outcomes

Our Environment, Sustainability and Community ("ESC") strategy

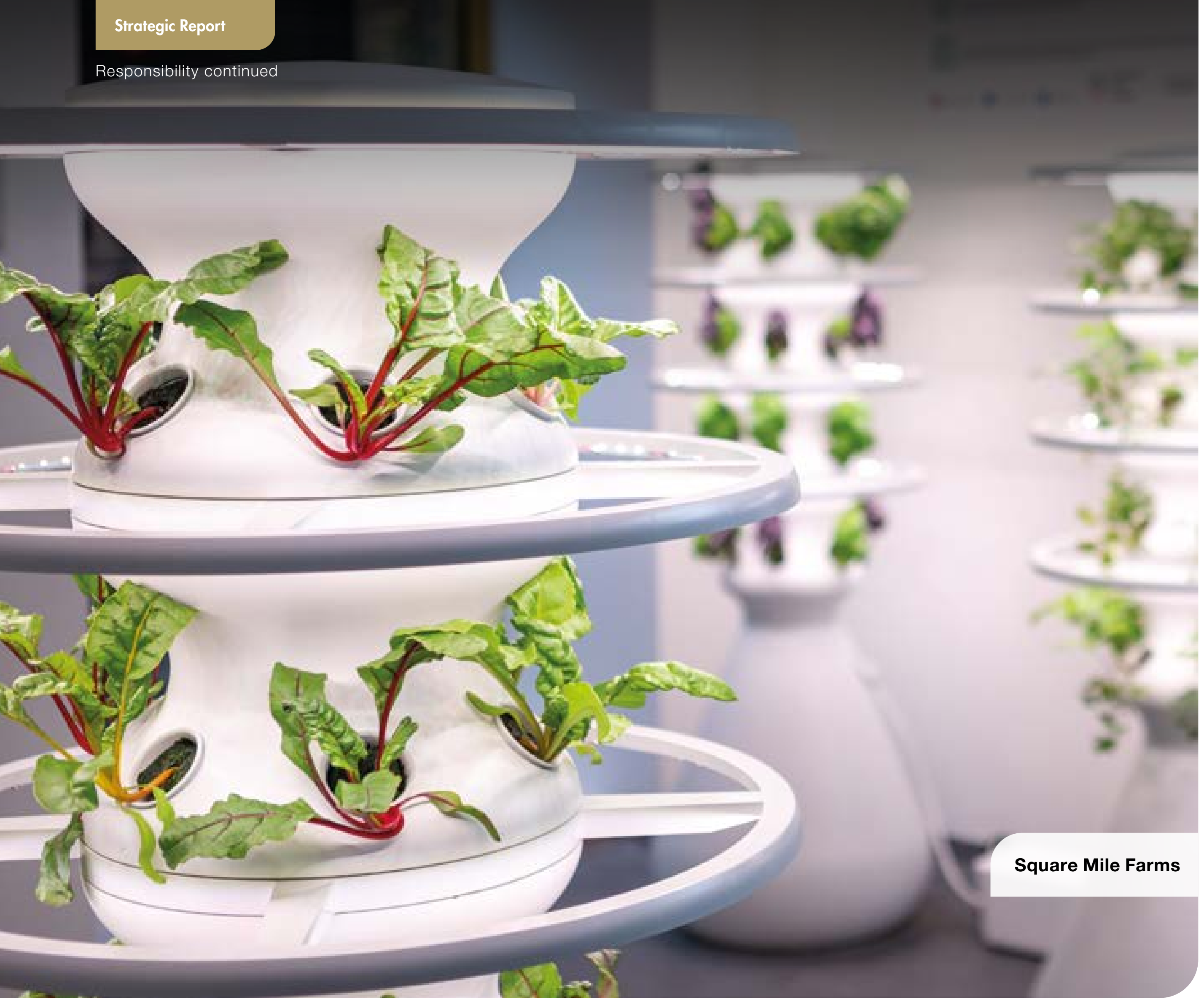
As a long-term steward of the Covent Garden estate, Capco aims to make Covent Garden a UK leader in sustainability by delivering positive environmental and social outcomes that enhance value for stakeholders while protecting the unique character and heritage of the estate. This strategy is underpinned by four pillars which align with UN Sustainable Development Goals[1] ("SDGs") as shown below.

Underpinned by a commitment to

The highest standards of health and safety	Ethical practices and transparent reporting	Well-being

For more on health, safety and well-being, see pages 79 and 82.

1. More information on the UN Sustainable Development Goals can be found at sdgs.un.org



Square Mile Farms

Capco's ESC strategy is fundamental to our business, delivering value for stakeholders through our long-term approach and responsible stewardship. Following the publication of our Net Zero Carbon Pathway in December 2021, our activities during 2022 continued to deliver progress against all four pillars of our ESC strategy.

Capco joined the UN Race to Zero, receiving SBTi confirmation that our limits align with a 1.5°C trajectory. Our focus is first to reduce greenhouse gas emissions from our buildings and operations as far as possible in a way that recognises the needs of our heritage estate and stakeholders, and then to offset any residual emissions. During the year, we have broadened and deepened our understanding of individual building requirements through use of both GRESB transitional risk assessment and CRREM pilot. We continue to champion use of industry recognised tools.

Progress against the Pathway's first three-year cycle is shown in the table on page 68.

Complementing the seventh year of supporting London air quality monitoring through our partnership with Imperial College, in 2022, we enhanced our internal and external air quality monitoring through the addition of three new outdoor air quality monitors across the Covent Garden estate and indoor air quality trials in our Head Office at Regal House.

Covent Garden has consistently had some of the cleanest air in central London, and we continue to support the consultation to make the Covent Garden Neighbourhood Traffic Management Scheme permanent. Our regular collaboration with stakeholders includes initiatives which fulfil dual goals of air quality improvement and tackling climate change, such as removal of gas heating and cooking, vehicle consolidation and encouraging the switch to electric deliveries.

Further details regarding engagement with our stakeholders during the year can be found on pages 22 to 25.

Capco recognises the rising importance of biodiversity and the recent progress on the Global Biodiversity Framework at COP15 in Montreal. We are an active member of the Wild West End partnership, and remain committed to increasing biodiversity across our estate, incorporating nature-based solutions in our refurbishment projects and prioritising pollinators and native plants in our extensive estate planting. Supporting biodiversity feeds into all four pillars of our ESC strategy through mitigating the effects of climate change, improving air quality using natural methods, using innovative nature-based solutions which would otherwise require more carbon intensive solutions and providing a welcoming environment to the Covent Garden community and visitors alike. In this regard, 2023 will see our second estate ecological surveys and the evolution of our biodiversity action plans.

We continue to innovate through both new technology and creative new approaches to deliver our ESC strategy. During 2022, we undertook case studies on a variety of technologies in our refurbishments, including air source pumps, use of Photovoltaic tiles, and the use of technology to increase the accuracy of our Scope 3 tenant emissions. The latter has increased the proportion of our reported occupier Scope 3 emissions data based on actuals to 54 per cent. by area compared to fully estimated Scope 3 tenant emissions for 2021. Finally, we have completed an initial pilot on six assets using the CRREM tool to model out asset performance against our Net Zero Pathway with the results incorporated into our plans.

Sustainability indices

A core element of all our sustainability activities is transparency of reporting. This includes through participation in external sustainability indices and benchmarks, which help us monitor performance and identify improvement opportunities. In 2022, we achieved our fourth consecutive Gold award for reporting in line with the EPRA sBPR, as well as a five per cent improvement in our GRESB rating, and now hold two GRESB green stars. We maintained our CDP B rating. We continue to report under FTSE4Good and S&P Global and engage actively with MSCI and mainstream benchmarks.

2022 commitments

Commitments	Achieved?	Commentary
Secure Science Based Target initiative validation of our Net Zero targets	Yes	Joined UN Race to Zero
Publish Net Zero documents: Carbon Offsetting Policy, Occupier Sustainable Fitout Guide, climate change risk analysis	In Progress	Progressed and to be issued H1 2023 Climate scenario risk analysis complete and incorporated into TCFD
Achieve greater than 5 per cent like-for-like operational energy improvement based on a 2019 benchmark	No	3.7 per cent achieved. Capco achieved an average 6 per cent reduction in Q1, Q2 and Q4, however, in Q3 there was a 7 per cent increase due to a heatwave
Integrate operational and embodied carbon budget for each building using Whole Life Carbon methodology	In Progress	Initial CRREM pilot undertaken, work in progress
Intensify customer engagement programme on sustainability through use of surveys	Yes	Customer engagement survey completed, which included sustainability
Increase proportion of EPCs compliant with 2027 C rating target by 5 per cent	Yes	Increase of 5.3 per cent
Implement identified rainwater harvesting and greywater recycling and establish water targets	In Progress	Rainwater harvesting in place, water targets being updated
Continue to divert at least 95 per cent of waste from landfill arising from our projects and development	Yes	Achieved 99.7 per cent
Launch Biodiversity Action Plan	In Progress	Progressed and to be issued H1 2023
Launch Covent Garden Community Charter	In Progress	Progressed and to be issued H1 2023
Determine approach for publication of air quality (internal and external) across the estate	In Progress	Three additional air quality monitors on estate monitoring more pollutants – publication upon completion of calibration period
Establish parameters for London university sustainable engineering intern programme for innovation	Yes	Partnership agreed with UCL Mechanical Engineering department – commencing 2023

Key Yes In Progress No

Net Zero Pathway

The five key actions within our Net Zero Pathway are:

50% embodied carbon reduction

to below 475kg CO_2e per m^2 by 2030, by prioritising innovative refurbishment using sustainable materials and using Whole Life Carbon assessments

60% operational carbon reduction

by 2030 to 90kWh/m^2/GIA per annum (commercial), by driving down energy demand in all our activities

Prioritise innovation and renewables

through new technologies and energy initiatives, as well as working with an innovative supply chain

Enhance climate adaptation

to improve building resilience

Residual emission offsetting

using certified schemes

Net Zero Pathway

Three-year cycle of pathway

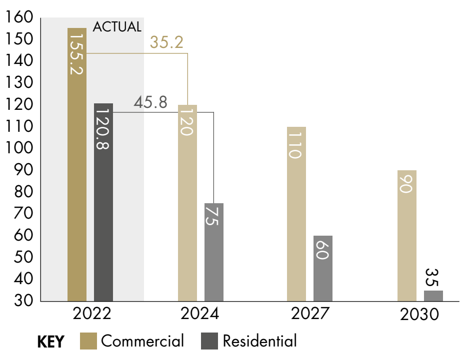
Complete

Topics	Commentary
Secure Science-Based Targets Initiative validation that our Net Zero Carbon targets align to 1.5°C trajectory	Through joining UN Race to Zero
Build out occupier carbon data model, reducing data estimation below 50% and reach 40% occupier carbon data coverage	Use of PropTech has achieved 54% (area) data coverage under Scope 3

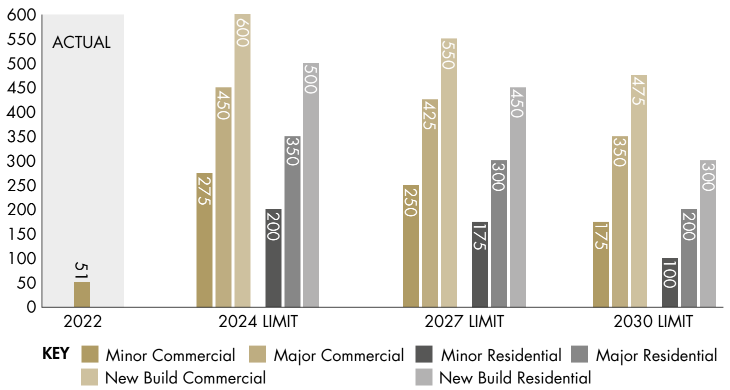
On Track

Topics	Commentary
Net Zero Carbon on Capco corporate activities by end of 2024	Achieved 90% recycling rate at Capco office, and actual data now held for employee commuting
Internal carbon price on developments and refurbishments implemented and complete first zero carbon refurbishment	£14,326 set aside for 2022 (151 tCO_2e)
All Capco controlled supplies on Automated Meter Reading/smart meters	Ongoing meter installation
Publish Carbon offsetting policy, Occupier Sustainable Fit-out guide, Climate change risk analysis	Climate scenario risk complete and incorporated to TCFD. Other documents on track
Green lease clauses for all new customers	38 green leases now in place, with provisions captured in new leases or renewals as appropriate
Complete estate-wide renewable energy feasibility study	Commencing 2023
Develop and cost plan for removal of all gas boilers (under Capco's control)	Commencing 2023
Commence formal best practice sharing customer engagement programme	Initial customer survey undertaken and actions to continue
Engage with key suppliers to commence transition to Net Zero Carbon	Review of top 50 suppliers shows c. 33% have net zero commitments in place
80% of estate to be compliant with MEES energy 2027 targets of C rating	Now at 68%, target set for 75%
Publish Whole Life Carbon targets	Commencing 2023
Determine feasibility of Power Purchase Agreements	Commencing 2023

Operational Carbon – kWh/m²



Embodied Carbon – $kgCO_2e/m^2$ GIA



Environment and sustainability

Estate-wide greening

Capco takes a responsible and forward-looking approach to environmental issues and the principles of sustainability.

Our focus has been on delivery against the four pillars underpinning our ESC strategy, and in particular the first year of our first three-year cycle of our Net Zero Carbon Pathway. Together, our ESC strategy and Pathway drive both 2022 achievements and future commitments. Such commitments address both climate-related risks and opportunities. A table showing progress against our 2022 commitments is shown on page 65 and a summary of our 2022 achievements and our 2023 commitments is set out below. Further detail on our activities is set out on pages 70 to 73. More detail on the fourth pillar of People and Community can be found from page 77.

2022 Achievements

- Joined UN Race to Zero, securing SBTi validation of our targets
- Completed climate scenario risk analysis to secure full TCFD compliance
- Commercial operational energy use of 155 kWh/m² GIA pa (2024 limit – 120 kWh/m²)
- Embodied carbon of 51 kg CO_2e/m^2 (2024 limit – 175 – minor refurb)
- Operational energy: A like-for-like reduction of 3.7 per cent against 2019 levels and 94 per cent of landlord areas in Covent Garden now have energy efficient lighting
- First A rated EPC and >21 per cent of units now meet 2030 EPC rating requirement (B)
- 38 commercial green leases (18 per cent) now in place
- >50 per cent water saved compared to 2021 through rainwater harvesting and use of new electric water efficient street cleaners
- 100 per cent diversion of waste from landfill for the Covent Garden Market Building
- >90 per cent recycling of Capco Head Office waste (100 per cent landfill diversion)
- >40 per cent of buildings hold sustainability certification
- First full customer survey – 24 per cent response rate
- Agreed partnership with University College London Mechanical Engineering department
- 99.7 per cent diversion of project and development waste from landfill
- Recognition for compound emission reduction by FT Climate Leaders 2022
- Three additional external air quality monitors measuring additional pollutants
- Electric street cleaning equipment replaced diesel equipment at Covent Garden
- Donation of approximately £600,000 in value of time, in-kind contributions and cash to local community

Our 2023 Commitments

- Incorporate Pathway into Carbon Transition Plan
- Undertake sustainability materiality assessment
- Publish Carbon Offsetting Policy, Occupier Sustainable Fit-out Guide
- Operational energy five per cent reduction and landfill targets retained
- Develop use of CRREM pilot learnings into estate wide net zero asset plans
- Raise proportion of EPCs compliant with 2027 C rating requirement to 75 per cent
- Deliver on estate power generation
- Publish regular estate air quality monitoring results
- Intensify customer engagement programme on sustainability through sharing of best practice
- Launch Covent Garden Community Charter
- Undertake biodiversity audit and publish action plan

Tackling climate change

Capco recognises the urgent responsibility as an owner of physical assets to reduce carbon emissions associated with building use. Our heritage buildings represent a long-term store of embodied carbon. We have a strong track record of restoring and celebrating the heritage of the Covent Garden estate through considered refurbishments and developments. Our Pathway also emphasises the incorporation of climate adaptation and resilience measures, to ensure our buildings respond to and mitigate climate change to date. Such measures derive from our climate scenario analysis and include allowing for more extreme summer temperatures, and the impact of heavy rainfall and storms.

In tackling these risks, there are also opportunities to both maximise the rental value of our assets through early adoption, as well as a wider opportunity to prioritise natural capital. Our approach prioritises both nature-based solutions and biodiversity, and we remain an active member of Wild West End.

Our next steps are principally set out in the Net Zero Pathway and in our 2023 commitments. We continue to focus on:

- stakeholder communication and engagement with suppliers and customers;
- holistic integration of environmental and social sustainability issues across all aspects of our business, including leasing, customer selection, development, property management, marketing, events and future consideration of sustainability-linked financing; and
- employee sustainability development through training and development programmes.

We continue to embed sustainable practices and make year-on-year improvements in all areas of our performance as set out in our 2022 achievements and 2023 commitments.

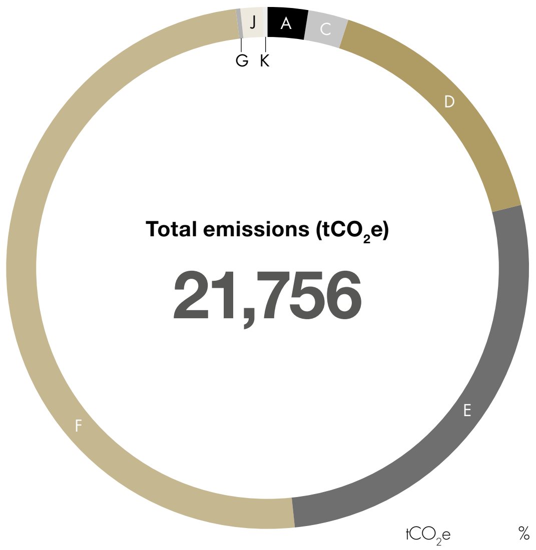
We are proud of the way our ESC strategy is being delivered by our passionate and talented people. Our teams understand that sustainability is core to the creation and maintenance of a vibrant and thriving environment at Covent Garden, and engage proactively to ensure all our stakeholders can flourish.

Carbon footprint and energy management

Our 2019 carbon footprint was published in our Net Zero Carbon Pathway, and our 2022 footprint (set out to the right) uses the same GHG protocol methodology. The landlord (Scope 1 & 2) emissions (over which we have direct operational control) have fallen by c.25 per cent compared to the 2019 baseline, driven by disposals and like-for-like Covent Garden GHG emissions falling by 11 per cent compared to 2019. While the like-for-like movement partly reflects reduced post pandemic building utilisation, there is also an impact from our continued energy efficiency programme. In addition, our overall Scope 3 emissions have fallen by 23,266 tCO_2e (53 per cent), driven in large part by a significantly reduced capital programme in 2022 compared to 2019. Given the nature of long-term capital investment in our assets, it is expected that this element of the footprint will vary with the volume of works completed in any given financial year, but with a long-term downward trend on an absolute and per m^2 basis. The chart on page 68 reflects the embodied carbon per m^2 and allows an understanding of this over time. We will continue to increase the amount of data we capture to reduce the proportion of estimation required, as well as enhancing transparency over time. While our operational carbon performance as shown in the chart on page 68 is behind our 2024 target, the detailed unit by unit data allows us to focus our efforts in the short-term where we have the most impact.

We continue to electrify lighting, heating and cooking across the estate. In this context, Capco notes the recent Westminster City Council ("WCC") policy decision to pause the replacement of gas street lights with LEDs. We will continue to engage with WCC and other stakeholders to ensure that lighting consistent with the heritage nature of the area is delivered which provides consistently well-lit safe streets in a carbon neutral way. The graph on page 72 shows the current EPC performance of our estate, showing a 5 per cent year-on-year increase in the number of units rated C or above. All of our active units now meet the Minimum Energy Efficiency Standards ("MEES") regulations commencing April 2023 (all units D or above). Our targets are set to meet the requirements ahead of 2030 and 21 per cent of our units already meet the April 2030 regulations.

2022 Carbon footprint (tCO_2e)



		tCO_2e	%
A	Scope 1: Landlord Gas[1]	559	2.6%
B	Scope 1: Landlord Refrigerant Gas & Fuel	3	0.0%
C	Scope 2: Landlord Electricity[1]	537	2.5%
D	Scope 3: Capital Goods	3,512	16.1%
E	Scope 3: Purchased Goods & Services	5,967	27.4%
F	Scope 3: Tenant Operations	10,778	49.5%
G	Scope 3: Business Travel	33	0.2%
H	Scope 3: Waste	30	0.1%
I	Scope 3: Employee Commuting	18	0.1%
J	Scope 3: Transmission & Distribution	285	1.3%
K	Scope 3: Water Usage	34	0.2%

1. Includes common parts, shared services and voids

52%
Carbon footprint reduction on 2019 baseline

25%
Reduction in Scope 1 & 2 emissions on 2019 baseline

100%
Scope 1 & 2 emissions offset

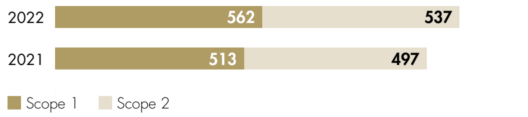
2030
Net Zero Carbon commitment

68%
Covent Garden estate rated EPC A-C

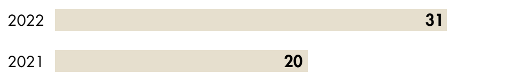
54%
of area now reports actual Scope 3 customer emissions

Greenhouse Gas ("GHG") emissions Data for year ended December 2022

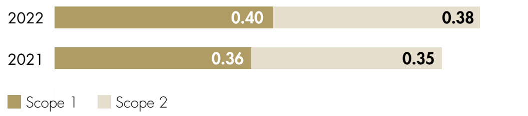
Total Scope 1 & 2 GHG emissions (location-based method[1])



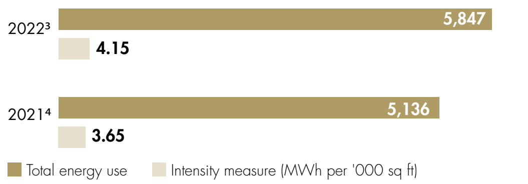
Total Scope 2 GHG emissions (market-based method[2])



Intensity measure: Tonnes of CO_2e per '000 sq ft



Total energy consumption (MWh)



1. The location-based method reports emissions as tonnes of carbon dioxide equivalent (tCO_2e). 100 per cent of the emissions stated are UK-based. Details of what is included in Scope 1 and Scope 2 emissions can be found on page 214.
2. The market-based method reports emissions as tonnes of carbon dioxide (tCO_2). 100 per cent of the emissions stated are UK-based. Details of what is included in Scope 1 and Scope 2 emissions can be found on page 214.
3. The total energy consumption for 2022 comprised: 3,059,707 kWh (52 per cent) gas, 2,748,957 kWh (48 per cent) electricity and 1,230 kWh (zero per cent) transport.
4. The total energy consumption for 2021 comprised: 2,765,529 kWh (54 per cent) gas, 2,342,495 kWh (46 per cent) electricity and 27,600 kWh zero per cent) transport.

We continue to improve EPC performance whenever we undertake works to our assets, and the costs of this programme are incorporated into capital expenditure budgets. These are not disaggregated given that our design process incorporates both high MEES standards and our Net Zero Carbon Pathway. Our green lease structures also ensure that customers do not undertake works which will reduce the rating of the individual unit. A total of 323 lettable units are required to be assessed for EPC purposes. This excludes residential properties where the rental level is below the MEES threshold (primarily long leasehold), as well as other units, including outdoor barrows, storage, electricity substation and other ancillary units. Currently 68 per cent of units are rated A-C, which is the minimum April 2027 level. Our long-term management of EPC performance means we are well-placed to meet our targets ahead of statutory regulation timelines. Approximately 94 per cent of landlord areas in Covent Garden now use LED lighting, and approximately 60 per cent of landlord meters are now "smart".

Greenhouse Gas emissions including Streamlined Energy and Carbon Reporting ("SECR")

Capco has engaged Carbon Footprint Limited to provide independent verification of the calculation of 2022 GHG emissions assertion data, in accordance with the industry recognised standard ISO 14064-3. Our absolute Scope 1 and Scope 2 emissions have increased since 2021, reflecting increased post pandemic building utilisation, particularly at Lillie Square. Despite our renewable energy procurement, the disruption to the energy markets has increased the difficulty in transferring supply on lease expiry leading to a further increase in market-based emissions. Our overall Scope 1 and 2 emissions are down 25 per cent compared to our 2019 baseline. Our verification process has additionally included a review of our Scope 3 emissions given the high proportion of our overall carbon footprint which these make up.

Further details of our methodology to calculate GHG emissions can be found on page 214.

Embodied carbon

The volume of refurbishment and development activity during 2022 increased compared to 2021, reflecting the ability to operate more normally following COVID-19 related interruptions. In order to track embodied carbon and work collaboratively with our supply chain throughout the design and implementation phases of a project, we have introduced industry standard software to capture embodied carbon data throughout a project's life. Accordingly, we can track live projects against the limits set out in our Net Zero Carbon Pathway, and the current run rate is shown in the table on page 68. A total of 151 tCO_2e was generated through Capco's refurbishment and project activity during 2022. Therefore, based on our internal Carbon price of £95/tCO_2e, a sum of £14,326 has been set aside to be used for energy efficient asset improvements or carbon offsets. This sum is not formally recognised in the accounts due to IFRS accounting rules.

Waste and water management

We continue to work with our customers and stakeholders to raise awareness of recycling opportunities across the estate, to improve recycling rates and to maximise use of the two food waste recycling facilities on the estate. At our Head Office, in addition to diverting 100 per cent of waste from landfill, we have also achieved recycling rates in excess of 90 per cent. All excess IT or furniture equipment continues to be diverted for refurbishment or re-use through our charitable partners. We continue to divert 100 per cent of non-hazardous waste from the Covent Garden Market Building from landfill.

Significant improvements to our use of water have been made during 2022. We have reduced the estate operational annualised water demand by 448 m^3 (56 per cent). This is achieved through using our own supply of rainwater harvesting at Floral Court and reducing demand by using our new electric powered street cleaning equipment which uses up to 70 per cent less water. Our approach to planting across the estate using peat-free compost continues to reduce our watering requirement. We continue to monitor water usage across the assets we control and incorporate water-efficient appliances and fittings into our refurbishment and development projects. All the above measures mean that total Covent Garden like-for-like water usage has fallen by more than 50 per cent since 2019.

No fines or penalties related to non-compliant actions that harmed the environment were incurred by Capco during 2022.

Energy Performance Certificates (EPC) by number

A-C	68.1%
D-E	29.7%
Units undergoing refurbishment	2.2%

Carbon offset

Capco's Net Zero Carbon commitment aims to reduce emissions as far as possible, and then offset the residual emissions. For 2022, Capco will again fully offset the Scope 1 and Scope 2 emissions arising from real estate activities. These total 1,086 tCO_2e as shown in our SECR reporting on page 71.

All of our offsets are nature-based, remove incremental atmospheric carbon and provide long-term carbon storage solutions. Our Carbon Offsetting Policy will be published in 2023.

Responsible development

In addition to embodied carbon software, we use a number of tools to maximise the benefit our internal and external project teams gain from our Sustainability Framework for Projects and Development which sets out the detailed standards required. Our Pathway sets clear short and medium-term embodied carbon targets to reach our Net Zero Carbon commitment by 2030. Our framework is being refreshed to align with these targets, taking in the first year learnings of tracking embodied carbon and the CRREM pilot. We target an EPC B rating on all developments where heritage buildings allow, as well as a minimum SKA level of 'Silver' on all major projects and refurbishments. Our internal carbon price, £95 per tonne, aligns with the 2021 London Plan, and we continue to review building certification to increase the proportion and level of certification across the estate.

There was relatively modest capital activity across the estate during 2022 with just five minor commercial projects completed. None of these were additionally certified and all achieved an EPC rating of at least B, with our first A rating achieved on Long Acre. Certification, including BREEAM and SKA, are being targeted for projects starting on site during 2023 where appropriate.

Capco remains an active member of the UK Green Building Council. One of our employees has been appointed to the UKGBC Future Leadership Forum Board, and we are currently working with UKGBC on their Commercial Retrofit Task Group.

Improving air quality

During 2022, we expanded our air quality monitoring, installing three new monitors across the estate. The new monitors track PM10, PM2.5, Ozone and Nitrogen Dioxide helping identify hotspots, and allowing our operational teams to take action on specific activities. We continue to review the outcome of our indoor Head Office air quality sensor trial. We have replaced our diesel street cleaners with electric cleaning equipment. This reduced diesel pollutants, reduced water usage by more than 70 per cent and significantly reduced noise for local residents. Capco has consistently sought to introduce additional pedestrian streets across the Covent Garden district. We continue to engage with stakeholders, including WCC, to make the Covent Garden Neighbourhood Traffic Management Scheme permanent. Our operational teams help manage parts of the Scheme. In addition, we have continued to expand our extensive greening of the estate, further improving the pedestrianised environment. Plant species are chosen to maximise their potential to improve air quality and biodiversity. Through the Westminster City Council Zero Emissions Group, we collaborate with our neighbours and WCC itself to explore further ways to reduce service vehicle traffic through delivery and waste consolidation. This included participating in a trial of a Thames river freight programme aimed at removing vehicles from streets with electric "last mile" deliveries. We continue to explore ways to improve access to universal electric vehicle charging points to maximise their use, particularly by commercial vehicles.

Creativity and innovation are fundamental to Capco's business. We have used this in our approach to greening and on a number of our developments. The installation of PV tiles on King Street is under way to trial this technology. Our Scope 3 customer emissions reporting has also been significantly enhanced through the use of a property technology solution to source data directly from energy providers which reduces the overhead required of us and our customers to capture this data. We have a proud history of working with universities and academics, and during 2023, we are launching an intern programme with University College London's Mechanical Engineering department to explore innovative solutions to emissions management in heritage buildings. Such partnerships will continue to be considered in order to champion change.

We continue to seek out opportunities to partner with third parties, to trial sustainability technology for the built environment, while recognising that our heritage buildings are long-term carbon stores that should be celebrated.

Electric street cleaners

Task Force on Climate-related Financial Disclosures ("TCFD")

This is Capco's third response to the TCFD recommendations. We are a formal TCFD supporter committed to strengthening our approach to addressing climate-related risks and opportunities. Under the oversight of the Company's Board ESC Committee, we have continued to embed the TCFD recommendations into all our relevant practices. The following pages set out our approach to achieving this.

Our disclosures are consistent with the eleven recommendations of TCFD disclosure, and we publish supplementary information on our risks and opportunities on our website. During 2022, we completed our formal initial assessment of both physical and transitional risk. The assessment was completed using the GRESB Climate Risk Platform tool which allowed us to better understand and benchmark our assets' exposure to physical climate risk across three different temperature rise scenarios, 2.0°C, 2.4°C and 4.3°C IPCC scenarios and time horizons to 2050 and 2100. These timeframes allow us to track long-term movements, but our planning runs in line with our Pathway and UK climate change commitments. The Group has also run an initial six asset pilot using the CRREM tool to determine the current and projected carbon performance of these assets.

Governance

Describe the Board's oversight of climate-related risks and opportunities	The Capco Board maintains ultimate oversight and responsibility for the identification and management of climate-related risks and opportunities. The Board also sets and oversees the Company's Environment, Sustainability & Community Strategy ("ESC Strategy"). The Board has established a Board ESC Committee, which is chaired by independent Non-executive Director Charlotte Boyle and comprises the Chairman, the Chief Executive, and all other independent Non-executive Directors, to ensure delivery of the Company's ESC Strategy on its behalf. In line with the process set out on page 43, consideration of climate-related risk is integrated into the Group's risk management process overseen by the Executive Risk Committee. The Executive Risk Committee monitors climate-related risks and opportunities quarterly and reports these to the Board. Recognising the importance of climate change, and the physical nature of the Group's assets, the Board has determined that climate-related risk is a principal risk in its own right. The Board ESC Committee and the Company's Audit Committee also consider the reporting of climate-related risk. The ESC Management Committee is responsible for managing and implementing activities associated with climate change, actions to mitigate climate-related risks, as well as those to take advantage of climate-related opportunities and monitoring progress made against Capco's target to be a Net Zero Carbon business by 2030. During 2022, the Capco Board approved the 2023-25 capital expenditure budget which included a sum of £2m over the next three years relating to net zero carbon specific expenditure including individual asset by asset net zero carbon audits. Our refurbishment budgets requirements include EPC B as a minimum and sums related to this are included in the general refurbishment budget. The Board is fully supportive of the Groups' climate-related initiatives, recognising the strategic importance of these matters to the business and stakeholders. In addition to the Board ESC, climate-related matters have been considered by the Executive Risk Committee and the Audit Committee during 2022. Each of the Executive Directors' non-financial performance measures under the annual bonus include ESC matters. During 2023, we will deliver further climate-related training to the Board. More information on the Board ESC Committee, the Audit Committee, the Executive Risk Committee and ESC Management Committee, including the frequency of their meetings, can be found on pages 43, 91, 95, 99 and 103.
Describe management's role in assessing and managing climate-related risks and opportunities	The Chief Executive is Chair of the ESC Management Committee and maintains operational oversight of the Committee on behalf of the Board. This Committee is responsible for supporting the Board ESC Committee in assessing, monitoring and mitigating climate-related risks and acting upon climate-related opportunities. The ESC Management Committee includes Charlotte Boyle, the Chief Financial Officer, the Executive Director, the Company Secretary, the General Counsel, the Head of HR, the Director of Sustainability and Technology and employees from relevant areas of the Company. Climate-related risks are considered by the Executive Risk Committee, as part of the risk management process, based on assessments submitted by the business units and the Director of Sustainability and Technology. In order to better manage climate-related risk and maximise adaptation and mitigation measures, management has developed an in-house tool to support Capco's commercial and project teams through the design and construction phases for projects of all sizes. This is enhanced by use of Embodied Carbon software OneClick which is used in collaboration with our supply chain. Further details on the matters considered by the ESC Management Committee and the frequency of its meetings can be found on page 95.

Strategy

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	In identifying and assessing the potential climate-related risks and opportunities that may impact Capco, risk and opportunities are considered over the following three time horizons, as these allow for appropriate financial planning to allow for the execution of strategies to address climate-related risks and action for opportunities. – Short-term: 0 – 3 years – Medium-term: 3 – 10 years – Long-term: 10 – 30 years The time horizons defined are also influenced by the financial planning cycle and the rolling timing of lease extensions across the estate. Capco's buildings have an average age in excess of 100 years, and our long-term time horizon reflects this and our own Net Zero Carbon commitment for 2030. Further details surrounding risk and the Group's risk appetite can be found on pages 43 to 51. Risks arise from i) long-term physical risk through changes in climate, flood risk and extreme weather, ii) short-term transition risk from emerging regulation including EPC and enhanced disclosures, iii) medium-term transition risk through customer demand for more sustainable assets faster than these can be delivered, and iv) medium-term transition risk from inability to upgrade heritage buildings due to policy, legislation or building configuration. Opportunities arise in the short-term from i) improved ability to attract and retain customers in energy efficient buildings and ii) consequent reduced energy costs and associated emissions. Medium-term opportunity arises through demonstrating the whole life carbon benefit of heritage stock and the ability to leverage our skill set. Capco does not apply specific incremental financial sums to these risks and opportunities as the costs, risks and opportunities are managed on an integrated basis alongside other related risks and these are not disaggregated. Further detail on our climate-related transitional and physical risks and opportunities can be found at www.capitalandcounties.com At this stage, the identification is based upon forthcoming UK Government strategy and policy and the UK climate change projections ("UKCP18") published by the Met Office.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	In addition to the impacts on financial strategy and planning set out above and the Principal Risks and Uncertainties set out on pages 43 to 51, this section provides further details on the impact of climate-related risks and opportunities on Capco's business, strategy and financial planning. Capco has published its Net Zero Carbon Pathway, which sets out how the Group will deliver its Net Zero Carbon commitment by 2030. The Group continues to allocate resources to improve our products and services through refurbishment and energy efficiency improvements. Capco uses an internal carbon price of £95 per tonne when considering capital investment decisions. We are committed to enhancing the reporting of our own and customer use of resources and continue to invest modest sums to improve the coverage of "smart" meters. The Group has set a minimum SKA standard of 'Silver' on all major refurbishments and an energy performance (EPC rating) of B for its refurbishment programmes. This investment may also present opportunities as lower operational costs may result in improved commercial terms, reduced void periods and improved investment yields as assets meet occupier and investor requirements. In our supply and value chains, we continue to prioritise partners and products which demonstrate high ethical and environmental standards. Our design scope prioritises climate resilience and adaptation for instance in creating flash flooding capacity using water attenuation tanks. We continue to work with industry bodies and technology partners to invest in research and development to trial technologies which support our goals. Further detail on impact on operations, acquisitions and access to capital can be found at www.capitalandcounties.com, this includes consideration of a Sustainable Finance Framework.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	As a steward of the landmark Covent Garden estate, Capco's strategy has been to invest for the long-term, taking climate risk and opportunity into consideration in its investment decisions. In 2021, Capco published its Pathway to be Net Zero Carbon by 2030, setting a GHG emissions baseline using our 2019 performance. This baseline was used to determine targets that align with SBTi climate-related scenarios to limit global temperature rises to 1.5°C. These scenarios allow us to identify the core areas for focused action to reduce emissions and enhance the long-term resilience of the estate. For example, we will explore the impact of embodied carbon emissions by assessing the Whole Life Carbon of buildings and implementing measures to achieve performance benchmarks set by industry guidance such as LETI. In 2022, Capco updated its climate risk scenario analysis using the GRESB portal as described above, and completed a six-asset pilot using the CRREM tool. The results of both exercises did not identify any material new transition risks, and the findings have been incorporated into our strategy.

Risk management

Describe the organisation's processes for identifying and assessing climate-related risk	Capco's processes for identifying and assessing climate-related risks use the same methodologies as all business risks and these risks are incorporated into the Group's principal risks. The climate-related risk assessment is reviewed by the Executive Risk Committee to ensure completeness and that appropriate mitigation measures are in place. The processes for identifying and assessing risk are detailed comprehensively on pages 43 to 51. In order to assess the relative significance of each of the principal risks (which are detailed extensively on pages 45 to 49), each has been assigned a likelihood and impact score from which a risk ranking is allocated, more information about the process for assessing the size and scope of risks can be found on page 43.

Risk management continued

Describe the organisation's processes for managing climate-related risk	Capco has an Executive Risk Committee, comprising the Executive Directors, the General Counsel, the Group Financial Controller and the Director of Sustainability and Technology, which is the executive level management forum for the review and discussion of risks, controls and mitigation measures. Senior management from each division and corporate function identify and manage risks for their division and complete and maintain a risk register. Climate-related risks and opportunities are presented to the Board via the Company's ESC Board Committee and ESC Management Committee. Principal risks have been mapped to the most relevant strategic priority which can be found on pages 45 to 49. Detail can also be found on whether the risk is increasing, decreasing or stable, which is a useful mechanism for risk prioritisation.
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Climate-related risks are a principal risk and are managed within the Group's overall risk management framework, described on pages 43 to 49. The Board has overall responsibility for the Group's risk management, determining risk appetite and reviewing principal risks and uncertainties regularly, together with the actions taken to mitigate them. Management of climate-related risks is integrated into the organisation via a programme of staff engagement and training. The training includes individual job-specific activities relating to matters such as EPCs, gathering of data and embodied carbon calculations. The Group will be launching a wider sustainability-related training platform during 2023.

Metrics and targets

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Capco uses the following metrics to assess climate-related risks and opportunities: – Embodied and Operational carbon metrics which align with the targets set out in our Net Zero Carbon Pathway, using industry recognised tools such as CRREM, see detail on our 2022 commitments on page 65 and our Net Zero tracker on page 68 – Energy use, including like-for-like performance for controlled assets – Energy performance concerning the MEES regulations and EPCs – Scope 1, 2 and 3, including occupier GHG emissions – Electricity purchased via renewable energy sources – Water use in controlled assets – Proportion of portfolio with sustainability ratings (e.g. BREEAM, Code for Sustainable Homes and SKA) – Destinations of waste resulting from our offices and the Covent Garden Market Building – Monitoring of biodiversity through membership of Wild West End Capco continues to follow the best practice sustainability recommendations (sBPR) set by EPRA, and retained a Gold rating for the fourth consecutive year. A copy of the Company's EPRA data report can be found in the Responsibility section on our website. Capco also discloses performance via a number of industry benchmarks and our scoring across these benchmarks improved during 2022: CDP; FTSE4Good; Global Real Estate Sustainability Benchmark (GRESB); S&P Global/Corporate Sustainability
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks	A detailed breakdown of Scope 1, Scope 2 and Scope 3 GHG emissions is disclosed on page 71, and the methodology for the calculations can be found on page 214. In line with Streamlined Energy and Carbon Reporting ("SECR") requirements, energy use and an intensity metric are disclosed on page 71.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Within the Net Zero Carbon Pathway, several detailed targets have been set to be achieved by 2030, alongside extensive interim targets broken down into three three-year cycles. We have provided a detailed progress report against the first three-year cycle on page 68 and embodied carbon and operational carbon performance against targets are shown on page 68. Please refer to page 13 and 14 of the Net Zero Carbon Pathway, published on our corporate website, for a full breakdown of targets. Key targets include: – Reducing embodied carbon by 50 per cent – Reducing operational carbon by 60 per cent – Prioritising innovation and on-site renewable technologies – Enhancing climate change adaptation and resilience – Offsetting 100 per cent of residual carbon emissions (after taking all viable efficiency and carbon reduction actions) Performance against these targets is monitored by the ESC Management Committee and Board ESC Committee and is reported to the Board.

Community

Remembrance ceremony on the Piazza

During 2022, Capco continued to work to benefit the community in which we operate and to support our chosen charities.

2022 Achievements

- Continued to engage with schools participating in the Capco Education Programme and identified new initiatives to benefit young people in the district
- Encouraged our employees to engage in responsibility initiatives by including an ESC objective in every employee's performance objectives

Our 2023 Commitments

- Continue our education programme, collaborating with local Covent Garden schools
- Continue working with ULI's Urban Plan Initiative and supporting the Brighter Futures Fund through the Young Westminster Foundation
- Employees to contribute a minimum of five hours during the year towards the wider community, either through an ESC-related project or a matched funded activity

Supporting the local community

Engaging with and supporting our local community has always been integral to Capco. We co-ordinate initiatives to promote a greener, more biodiverse and culturally rich estate at Covent Garden for the benefit of the local community. We provide support to a range of local community-focused programmes and are one of the main sponsors of the Covent Garden food bank, making significant contributions and providing assistance throughout the year.

Supporting Covent Garden's cultural heritage

Maintaining the unique heritage of our landmark Covent Garden estate is important, and we support a number of organisations that work in the local area to ensure Covent Garden's culture heritage.

During 2022, Capco was a corporate sponsor of the Mousetrap Theatre Project, which provides a range of subsidised theatre programmes and creative learning projects accessible to young people, low-income families and those with additional needs.

We continued to support the arts as a patron of the British Fashion Council and British Beauty Council. We supported Covent Garden Area Trust's Christmas Carol Service. During the summer, we hosted the Ukrainian National Ballet for two days, promoting their performance at the Coliseum Theatre where all funds were donated to the Ukrainian relief fund. In support of the arts, we donated space to "West End Live" performances, an initiative by our stakeholder WCC and the Society of London Theatre.

Tackling homelessness

Capco hosted its third "Gift for Good" charity auction in partnership with charity Only a Pavement Away, which works alongside Crisis. The auction raised a total of £16,000 for the charity.

£80,000
profit raised by charity pop-up shop in partnership with Smart Works

Over 7,000
participants in the Apple Market Challenge during its 16 years

Capco has supported a number of homeless charities since its inception. During 2022, Capco became a sponsor for the Single Homeless Project, a charity that supports over 10,000 people each year by providing a range of services, including hostels, supported housing and community support services. Capco's sponsorship focuses on the Kean Street hostel, which is located in Covent Garden, and includes day trips for residents, provision of a Christmas dinner and presents and emergency grants. Two volunteering days were also held during 2022 at the Kean Street hostel, during which Capco employees helped to renovate the interior and exterior spaces of the hostel and also decorate it for Christmas. Capco remains a partner of LandAid, the property industry charity aimed at ending youth homelessness in the UK.

Educational programmes

Young Westminster Foundation

Capco is a Growth Partner of the Foundation, and supports its 'Brighter Futures' programme, as well as specific project areas including supporting young carers, young LGBT+ people, refugees and addressing youth violence. We are proud to have been a supporter of this charity since its inception five years ago. A number of Capco employees participated in the Lord Mayor's Cup, a football fundraising tournament with neighbouring property companies to kick off the football World Cup.

Covent Garden Apple Market Business Challenge

Capco facilitated the Covent Garden Apple Market Business Challenge for its 16th year. The initiative continues to be hugely successful and has now involved over 7,000 children since its inception. This year, pupils from local schools presented ideas for an innovative new product, which could be sold from the Apple Market in the Covent Garden Market Building. Four teams made the final round, and delivered their presentations to a panel of judges from our staff before a winner was chosen. The Challenge helps younger children to understand the various skills involved in running a small business, including marketing, design and finance, along with personal skills such as team work, organisation and presentation skills. It also helps the sixth form helpers develop their leadership and communication skills. Our Director of Sustainability and Technology also spoke to the children about Capco's ESC strategy and sustainability initiatives.

Urban Land Institute

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

Pathways to Property

Capco participated in the Pathways to Property summer school presentation alongside 30 other businesses. This was held at the University of Reading, with students participating in a number of events and lectures. Through this programme, Capco also hosted a number of work experience students.

Dragon Hall

We support the Covent Garden Dragon Hall Trust Boys and Girls clubs, supporting various workshops from martial arts, photography, jewellery making and offsite trips. Capco also provides financial support to the Covent Garden foodbank run by Dragon Hall, which helps to support local residents affected by the rising cost of living.

Blind Veterans

We continue to support Blind Veterans UK, a charity which helps ex-servicemen and women of every generation rebuild their lives after sight loss, via rehabilitation, training practical advice and emotional support. As a result of our support, a number of local Westminster residents have been able to access the support of Blind Veterans' Community Teams.

Community events

Capco provided financial support to facilitate the local community's Platinum Jubilee street party, which was attended by 3,000 local residents and visitors. In November, we hosted an Armistice Day commemoration event, to honour those who worked in the Covent Garden Markets and served during wartime. The event included the 24th Invicta Rifles Military Marching Band. We also supported Covent Garden Community Association's Christmas Carol Service.

Capco hosted a charity pop-up shop in partnership with Smart Works, to empower women to return to the workplace. The pop-up shop contained items donated from over 30 fashion brands, with over £80,000 profit being raised and all being donated to the charity.

Employees from the Company volunteered at Penfold community hub in Westminster organised through the charity One Westminster, undertaking some gardening. Employees from across the Company also volunteered at a local dementia centre in Westminster.

In collaboration with EcoActive, Capco sponsored educational workshops on food waste for Years 2 and 3 from St Clement Danes primary school.

We partnered with Square Mile Farms to launch an Urban Farm pop-up, which is an interactive way for local community groups to enjoy sustainably grown produce. A number of our employees attended an educational session run at the pop-up, which explained how the farm works and delved into food system sustainability. Collaborative educational sessions were also arranged with our charity partners, The Connection at St Martins and Dragon Hall community centre. Harvests from the Urban Farm pop-up were delivered to both the centres, for use in their catering facilities.

People

The Lord Mayor's cup

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

87%
employee participation in well-being survey

75%
well-being score, above global benchmark

2022 Achievements

- Continued to support initiatives that aim to increase diversity, equality and inclusion within the property industry and strengthen a diverse talent pipeline
- Continued to encourage and inspire our employees to look after their health and well-being by building on our educational sessions, with a continued focus on mental health and financial well-being
- Further improved employee performance through executive leadership training for newly promoted team heads

Our 2023 Commitments

- Culture & Engagement: Creating a working environment in which employees are inspired to give their best every day and are motivated to be part of the Company's success
- Performance, Development & Growth: Encouraging employees to take personal responsibility for their own performance, development and career
- Rewarding & Recognising Excellence: Building on our high performance culture by ensuring that we have capable employees who are appropriately incentivised, rewarded and motivated to deliver excellent performance
- Equality, Diversity & Inclusion: Building on our diverse and inclusive culture that actively attracts and engages diverse, talented individuals from many different backgrounds and lifestyles, promoting equality and inclusion
- Launch sustainability training platform
- People & Community: Recognising the balance between social and environmental impact, we are committed to making a difference for the good of society by supporting our people, local community and stakeholders and working towards a more sustainable environment

Well-being

The well-being of our people is of the utmost importance. During 2022, we continued to deliver our lifestyle programme, focusing on financial well-being in collaboration with our financial well-being partners Schroders and Charles Cameron & Associates, which included retirement planning, remortgaging and a parents-focused session. A number of sessions were run in November to mark Talk Money Week, covering topics such as dealing with the rising cost of living, saving and investing.

Well-being sessions included a session on women's health to mark International Women's Day, a session to mark Mental Health Awareness Week focusing on resilience, and a session to mark men's health, which focused on stress and anxiety.

An employee well-being survey was undertaken in June. There was a very high participation rate of 87 per cent and an overall well-being score of 75 per cent (compared to a global benchmark of 73 per cent). Overall, the employee feedback received within the survey was very positive. Following the completion of the merger with Shaftesbury, the well-being programme provided to employees will be reviewed to ensure a "best of both" approach.

Annual complimentary flu vaccinations were arranged for employees.

Employees were encouraged to participate in the annual health and well-being steps challenge, which takes place to encourage everyone to keep healthy and get exercise as the days shortened. A charitable donation was made to LandAid's Stepober challenge.

5
hours ESC volunteering per employee

1,288
hours of employee training

Employee engagement

As a result of the employee engagement survey completed during 2021, a number of employee working groups were set up. The groups were employee-led and focused on the following areas: New Ways of Working; Office & Facilities; People, Team and Collaboration; and Business Processes. The groups presented their collaborative recommendations to the Company at the start of the year, and many areas have since been implemented. This includes monthly coffee meet-ups where employees from across the business both by department and mixed seniority level get to know each other and regular breakfasts hosted by our Executive Directors for small groups of employees.

Proposed merger

To ensure that our employees were kept updated on the proposed merger, our Executive Directors led all-employee meetings throughout the year to explain the merger proposal and its progression, and allow employees to ask questions. These meetings sat alongside the more formal communications required in corporate transactions and a Q&A document covering matters of interest to employees. Our Executive Directors held informal breakfast meetings for small groups of people towards the end of the year. Support was also provided to our employees through Heads of Department, Line Managers and HR.

Talent

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

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

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

Training and development

Capco training and development programmes are designed to strengthen our teams and develop aspiring leaders. A number of employees completed Executive Leadership training to support this during the year.

We make training available to all employees, and individual training and development needs are identified and discussed at performance check-in meetings. During 2022, our employees recorded 1,288 hours of training activity.

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

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

Performance management

Annual performance objectives for each employee are agreed at performance check-in meetings, which take place at the beginning of the calendar year. Ongoing performance check-in meetings then take place regularly throughout the year, building upon our continuous performance and development culture and driving productivity. This is supported by our online performance management system. Performance is measured against objectives set for the previous year and individual performance underpin discretionary annual bonus awards.

Culture and Values

Capco promotes a high performance and entrepreneurial culture, reflective of our business strategy. Capco people operate with integrity and work together as supportive colleagues across the business. Employees are particularly engaged with the business and understand the difference they can make in delivering our strategic objectives.

Capco's values set out in detail on page 19 underpin our culture and the way we operate as a business.

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

We support new parents returning to the workplace, and encourage our people to adopt a healthy attitude to work-life balance and to participate in the community. We provide maternity coaching to senior female employees, to provide additional support in transitioning back into the workplace.

Benefits

In addition to core elements, an attractive package of additional benefits is available to all our people, which includes private medical insurance and dental cover. The Company contributes 17.5 per cent of salary towards the MyCapco pension scheme. Our policy is to enable employees to take their full annual leave entitlement of 28 days per annum, rising to 30 days after four years' service, and we offer a flexible leave policy under which employees have the ability to buy and sell up to 10 days' holiday per calendar year. All employees have access to a biennial medical check through our external company GP based in Harley Street.

Reward

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

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

Bonus awards are made annually and take into account performance during the year.

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

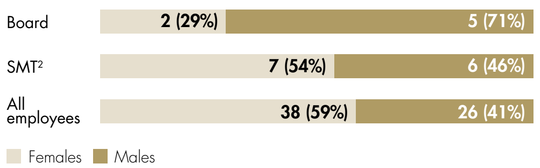
Diversity, equality and inclusion

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

We are keen to develop female talent across the business and provide executive coaching to our senior leadership team. There is strong female representation across the business. A summary of gender diversity across the Company as at 31 December 2022 is set out below.

Capco's maternity pay and shared parental leave benefits each pay six months' full pay. In addition, we regularly review our policies to be a more inclusive and supportive employer. We have a policy to promote equality in relation to race, religion, gender, age, sexual orientation, disability and nationality among our employees, and also an anti-harassment and bullying policy, both of which are published on our corporate website. Reflective of the importance of this to Capco as an employer, mandatory Company-wide training was provided on Anti-Harassment and Discrimination during the year, as well as mandatory inclusive recruitment training for those with Line Manager responsibilities.

Gender diversity[1]



1. As at 31 December 2022
2. Senior Management (excluding Directors). Senior Management (excluding Executive Directors) and any additional subsidiary company Directors comprises seven Males (50%) and seven Females (50%).

To mark Pride, a session was held in conjunction with the Employers' Network for Equality and Inclusion ("ENEI") covering the history of Pride. To celebrate Black History Month, an informative session on allyship was run in conjunction with ENEI.

We continue to support a number of initiatives which aim to increase diversity within the property industry, including remaining a signatory to the RICS Inclusive Employer Quality Mark, a member of the ENEI, a member of Real Estate Balance, a sponsor of the Reading Real Estate Foundation and a supporter of the Pathways to Property work experience programme. Capco is a corporate member of the British Property Federation ("BPF") and supports the BPF Futures programme. In addition, Capco is a member of the BPF Diversity and Inclusion Champions network. A number of employees are involved with the Urban Land Institute ("ULI") and the ULI Next and Young Leaders Programmes.

During the year, a number of employees participated in a Real Estate Balance speed mentoring event, attending as both mentors and mentees. One of our employees co-chairs the Real Estate Balance NextGen Committee and participated in a number of events to mark International Women's Day.

We supported the 10,000 Black Interns work experience initiative and had one student on placement with us for six weeks. We continue to partner with the social mobility charity upReach and provided work experience to one student. We are an active supporter of the Reading Real Estate Foundation's Access programme, which aims to provide work experience to students coming from under privileged backgrounds.

Human rights and UN Sustainable Development Goals

Capco does not have a standalone human rights policy, as the standards we expect to be adhered to are integrated within a number of our policies and procedures which relate to both our own employees and those of our supply chain. Capco's ESC strategy is aligned with the UN Sustainable Development Goals ("SDGs").

More information on the relevant SDGs can be found on page 63. Capco's ESC strategy and Supply Chain Policy can be found on our corporate website.

Modern slavery

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

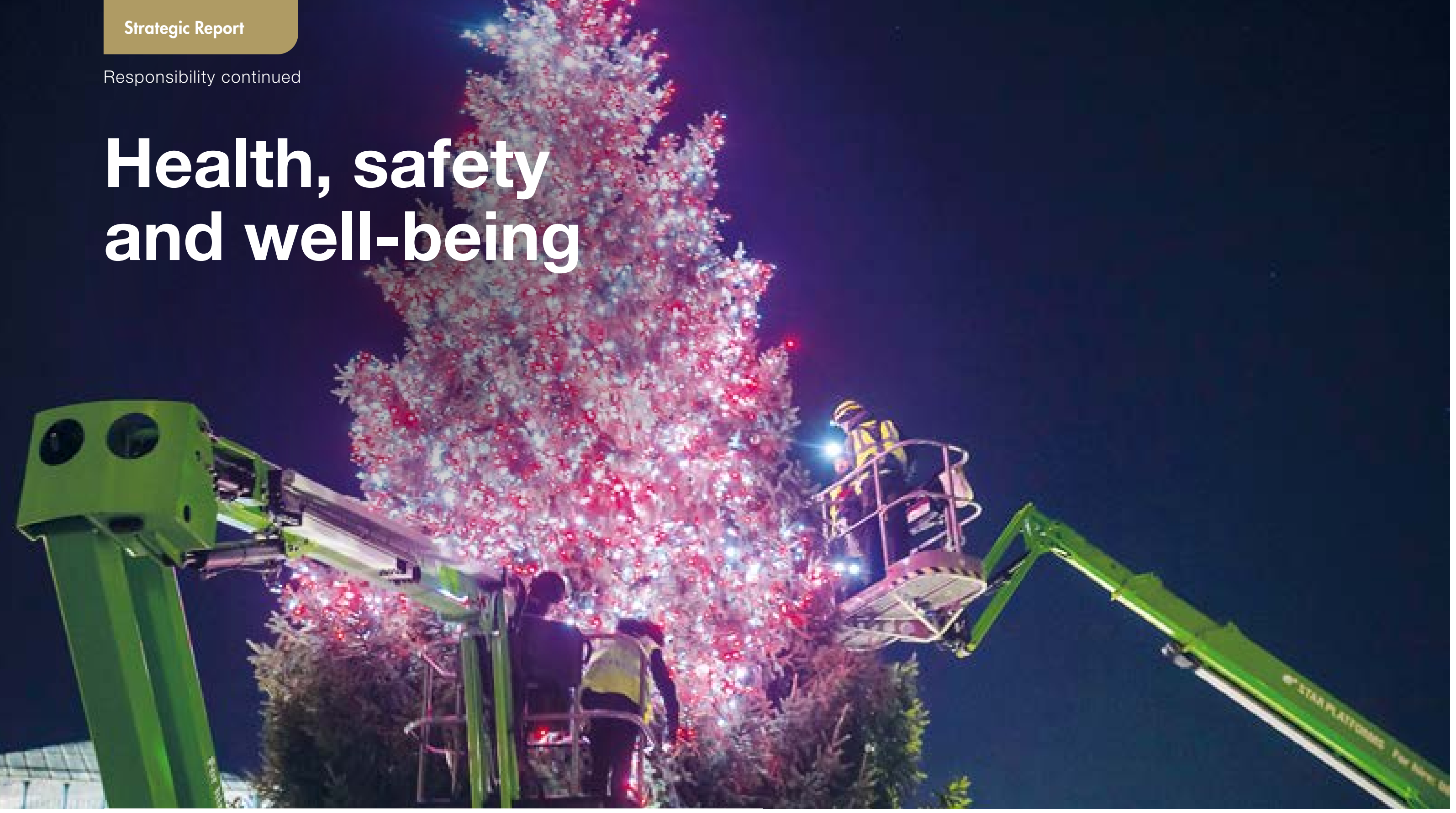
We support a number of diversity initiatives

RICS INCLUSIVE EMPLOYER

REAL ESTATE BALANCE

upReach

Health, safety and well-being



Ensuring the highest standards of health, safety and well-being is at the forefront of all our activities and operations.

2022 Achievements

- Enhanced our visible leadership and health and safety aware culture
- Continued to provide a wide range of well-being support to our employees
- Undertook employee well-being survey
- Ensured preparedness for phased commencement of measures within the Building Safety Act 2022
- As a CLOCs Champion, we encouraged our contractors to implement best practice on road and vehicle safety measures
- Implemented minimum scaffolding standards for our capital projects
- Maintained an Accident Frequency Rate ("AFR") of 0.00

2023 Commitments

- Continue to promote a health and safety aware culture among our employees and supply chain, through Directors' tours, targeted new or refresher training
- Upskill relevant employees on the measures within the Building Safety Act 2022
- Provide safe, healthy and secure environments without incident and maintain an AFR of less than 0.20 across our projects

Ensuring the health and safety of our stakeholders remains at the forefront of all our decision-making and is embedded in the actions we take. We work closely with our supply chain, to ensure that the high standards we set are implemented by those working on our behalf.

Activities during the year

Reflecting our values of holding ourselves to the highest standards and being environmentally and socially responsible, maintaining the highest standards of health and safety is fundamental to Capco. Our health and safety aware culture is led by the Board and is embedded throughout the business. During 2022, there was a continued focus on visible health and safety leadership, with various formal and informal Director tours of the estate. The location of Capco's head office at the heart of the Covent Garden estate means that the Company's Directors and employees are a constant presence on the estate and able to continually monitor health and safety in its operations.

This visible leadership is supported by a programme of formal weekly health and safety inspections of our estate operation and occupier fit-outs, where particular attention is paid to compliance with the Construction Leadership Council Site Operating Procedures. This programme is further supported by additional detailed health and safety inspections across the estate. Prior to any new project or operation taking place, health and safety risk assessments are undertaken in accordance with best practice. This risk aware approach ensured that, in addition to the day-to-day operations on the estate, the various marketing events and activations that animated the Covent Garden estate during the year were implemented without incident.

We work closely with our key suppliers to provide a safe, healthy and secure environment for our stakeholders. We monitor the performance of these suppliers closely to ensure our standards are maintained, and this is reflected in their high scores in performance reviews, audits and best practice awards. To promote a collaborative health and safety culture a Safety Action Group was created, with "Safety Champions" appointed to support the safety focused culture at Covent Garden and drive continual improvement.

During 2022, a new health and safety online compliance platform was introduced to provide enhanced management and reporting functionality.

The safety of those who visit and enjoy our assets is fundamental to Capco. We work vigilantly to ensure that appropriate security provision is maintained. Our security strategy is flexible in nature, to allow us to respond quickly to the changing demands on our assets, and to allow security to be scaled up when needed. Estate activities at Lillie Square continue to adhere to the highest standards of health and safety.

Following a successful trial in 2021, our enhanced health, safety and well-being standards for contractors are now included in tender packs for new projects, and we require these to be adhered to.

A total of 538,628 working hours were completed on our development sites during the year, and we achieved both an AFR and lost time incident frequency rate ("LTIFR") of 0.00 for the year.

We maintained our membership of the Considerate Constructors Scheme ("CCS") Client Partnership and the Construction Clients Leadership Group, reflecting our commitment to ensuring the highest standards of health and safety on construction projects across the Group. As a Client Partner, Capco requires the contractors we engage to be registered with the CCS and comply with all aspects of the Scheme's Code on our sites. During the year, we implemented minimum scaffolding standards to drive best practice in this area, protecting workers and visitors alike, and further embed our responsible development approach.

We are implementing the requirements of the Fire Safety Act 2021 and the Building Safety Act 2022, and continue to monitor the related programme of secondary legislation as it is issued. We continue to contribute as part of the British Property Federation Sounding Board and Construction Clients Leadership Group's working group on this important area.

Health and well-being initiatives

During 2022, Capco continued to ensure that health and well-being were given equal consideration with safety.

The wide range of well-being support and initiatives provided to our employees is described in more detail page 79. In 2022, we undertook an employee survey to assess our people's well-being and the survey results were above the benchmark standard. For more information on how we engaged with our employees during the year, please refer to the Stakeholder engagement section on page 23. Health and well-being initiatives are also championed for the workers on our projects.

Governance

The health and safety governance and reporting framework continues to function effectively across the business, ensuring robust management and monitoring of health and safety.

Sector Safety Leadership Teams ("SSLTs") for each of the Group's activities, comprising senior management and relevant employees, met regularly during the year to consider health, safety and well-being matters for each asset and to implement the Group's Occupational Health and Safety Management System ("OH&SMS") at operational level. The SSLTs are overseen by the Group Safety Leadership Team ("GSLT"), which is chaired by our General Counsel and attended by our Chief Executive, who is also responsible for health and safety at Board level. The GSLT reports to the Board and facilitates the sharing of lessons learned and evolving best practice recommendations across the operational SSLTs. It also reviews health and safety performance across the Group throughout the year.

The Board receives regular formal reports on health and safety, which summarise health and safety performance, risks and achievements across the Group, in addition to the Group's preparedness for legislative and compliance changes.

The governance structure and OH&SMS continue to remain appropriate and operate effectively across the Group.

Training

Our training programme ensures a strong health and safety culture remains embedded within the organisation and is communicated to our supply chain. Structured Health & Safety IOSH Leading Safely and IOSH Managing Safely training programmes are provided to our employees as appropriate. Upskilling on the Building Safety Act will continue to take place during 2023. A programme of new and refresher training is planned for 2023. In support of our well-being initiatives, certain employees have received mental health first aider training.

Reporting

There have been no work-related employee fatalities in 2022 or since Capco's inception. An internal audit of operational health and safety at Covent Garden was completed during the year, with no material findings. There were no RIDDOR incidents reported across the Group during 2022. The AFR for Capco development and small projects at the end of 2022 stood at 0.00. Capco's LTIFR for 2022 was 0.00.

538,628
working hours on Capco development sites during the year

0.00
AFR

0.00
LTIFR

The sections of the Annual Report which make up the Strategic Report are set out on page 128. The Strategic Report has been approved for issue by the Board of Directors on 28 February 2023.

On behalf of the Board

Ian Hawksworth
Chief Executive

Governance at a glance

Our Board in 2022

Merger with Shaftesbury PLC

The Board devoted time throughout the year to the development and finalisation of the proposed merger with Shaftesbury, including the merger terms, Board composition, public documents and the financial and governance analysis and reporting associated with the transaction. Through this process the Board gave significant consideration to the implications of the transaction for the Company's employees, shareholders and other stakeholders.

Operations and team

The Board received regular updates throughout the year on operational matters, including new lettings, asset management and capital initiatives, openings, footfall and customer sales, rental collection rates, potential acquisitions and disposals and the business' marketing initiatives.

The Board continued to take a keen interest in the views of Capco's employees, receiving updates from Charlotte Boyle, who is the Non-executive Director designated to report to the Board on employee views and the Executive Directors.

Finance

During the year, the Board gave careful consideration to financing arrangements, to ensure that the Company maintained a strong balance sheet and that the financial implications of the proposed merger with Shaftesbury were understood and appropriately managed. This included repayment of £200 million of debt and agreement of a £576 million standby facility which is available to draw down following completion of the merger. The Board continued the Company's progressive dividend programme and, together with the Audit Committee, received regular updates on COVID-19 accounting requirements.

Application of the Principles of the UK Corporate Governance Code 2018 (the "Code")

In addition to the reports listed on the contents page, the following sections of this Governance report outline how the Principles of the Code have been applied throughout the year:

Chairman's letter

"The Board ensures that we deliver the Company's strategy in a responsible manner and the way we do business reflects Capco's culture and values."

Henry Staunton, Chairman

Dear Shareholder,

I am pleased to introduce Capco's 2022 Corporate governance report.

Capco has had an active year with strong operational momentum at Covent Garden, excellent leasing demand, high occupancy levels and normalised rent collection patterns. The sustained recovery in footfall and consumer appeal of Covent Garden has resulted in customer sales tracking ahead of 2019 levels.

Covent Garden continues to attract high quality retailers and restaurateurs, with a number of introductions, including Tag Heuer, Tudor and Gaucho alongside established customers such as Apple, Chanel, Balthazar and SUSHISAMBA. Capco's innovative and engaging cultural and digital marketing programmes ensure that Covent Garden continues to be a location of choice for occupiers and visitors.

Whilst there are macroeconomic headwinds, the West End has consistently demonstrated its resilience, and we are encouraged to continue to see rental growth in our portfolio. We look ahead with confidence in the long-term prospects of the Covent Garden estate and London's West End.

Merger with Shaftesbury

During 2022, the Board recommended the merger of the Company with Shaftesbury via a scheme of arrangement to create a new leading London mixed-used REIT, Shaftesbury Capital PLC. I was pleased that the proposal received the approval of the Group's shareholders in July 2022. The merger clearance from the Competition and Markets Authority in February 2023, and now remains subject to the final steps, with completion expected to occur on 6 March 2023.

Delivery of this ambitious merger which will create the leading central London mixed-use REIT is a significant achievement. The merger will create a business with a balanced portfolio focused on iconic destinations in the West End with diversified income streams, led by an experienced management team with a strong track record of delivering long-term value across the West End. The future business will build on the success and strengths of both companies, establishing a dynamic, inclusive culture, a strong capital structure and a robust governance structure. The combined business intends to take a sustainable approach, delivering positive environmental and social outcomes for stakeholders.

The Board's year

During 2022, in addition to the Board's oversight of the Group's people, operations and financial matters, the Board's focus was the development and progression of the merger. I am proud of the Board's achievement in delivering this transaction, which has been accomplished whilst delivering strong operational performance and establishing an appropriate financial structure to facilitate completion of the transaction.

You can read more about the matters that the Board considered before recommending the merger on pages 26 and 92.

Performance and dividend

Capco delivered total property return for the year of 2.8 per cent, significantly outperforming our comparator group. Total return for the year was -13.6 per cent, primarily driven by the decline in the Shaftesbury share price resulting in a reduction in the valuation of our interest in Shaftesbury. The Covent Garden valuation was unchanged for the year with six per cent ERV growth offset by outward yield movement. The Board has declared a second interim dividend of 1.7 pence per share, bringing the total dividend for the year to 2.5 pence per share.

Governance framework

The Board ensures that Capco operates responsibly as we deliver the Company's strategy, and that the way we do business reflects our culture and values. The corporate governance and Board Committee reports explain the matters that the Board and its Committees consider, and how they and our broader governance framework work together to achieve our purpose of investing in and creating world-class places. Under this oversight, our focus on central London, vision, long-term approach and responsible stewardship, delivers economic and social value and generates benefits for our stakeholders. In considering the proposed merger, it was important to the Board that the Company maintained its strong governance structure.

The Board

I reported last year that a search for my replacement as Chair of the Company was ongoing, and that the Board was also considering the appointment of one or more additional Non-executive Directors with the intention of improving the diversity of the Board. Work on the merger meant that it was not possible to progress these projects as originally planned, and so they were each suspended during the year, pending the outcome of the proposed merger.

Should the merger complete, the current Capco entity will be the continuing listed company. I will step down as Chairman of the Company, and Jonathan Nicholls, the current Chairman of Shaftesbury PLC, will become Chairman of the Combined Group.

Richard Akers, Ruth Anderson, Helena Coles and Jennelle Tilling, who are each currently non-executive directors of Shaftesbury PLC, will join the Board of the merged company, and Jonathan Lane will retire as a Non-executive Director of Capco. Together these changes will refresh the skills and experience on the Board, improve Board diversity and increase the number of the Company's Non-executive Directors, achieving the Board's established aims.

Ian Hawksworth and Situl Jobanputra will continue as Chief Executive and Chief Financial Officer respectively. As part of completion of the merger, Chris Ward, currently Chief Financial Officer of Shaftesbury, will join the Board as Chief Operating Officer, and Michelle McGrath, Executive Director, will join the newly established Executive Committee, with responsibility for the leadership of the enlarged Covent Garden portfolio and supporting the Chief Executive in the development of Group strategy. I would like to thank Michelle for her outstanding contribution to Capco's Board, particularly during the global pandemic and the transaction between Capco and Shaftesbury.

Should the merger for any reason not complete, then the Board changes would not take effect, Michelle McGrath would continue as an Executive Director and the search for a new independent Chair would be a priority for the Board.

Our stakeholders

The Board continues to value stakeholder engagement and receives regular updates on their views. This is key to the delivery of our Group strategy as a responsible business. The likely impact on stakeholders of recommended proposals is given careful consideration by the Board, to ensure that each decision aligns with the Group's strategy and values.

You can read more about our engagement with our stakeholders on page 22.

Culture and values

The Board ensures that corporate culture and values are aligned with the Company's purpose and the delivery of corporate strategy, and are appropriately integrated into the business. In bringing together two businesses under the merger, it will be a priority to ensure that a dynamic, inclusive corporate culture is established and embedded within the combined business, ensuring that the future business embodies the best of the two companies.

You can read more about our culture and values on pages 16, 19, 80 and 92.

Risk management

The Board has overall responsibility for risk management across the Group and consideration of risk and assessment of the effectiveness of the Group's risk management structure is embedded into the Board's processes. The Board receives regular updates from the Executive Risk Committee (which assesses risk at management level) and Audit Committee throughout the year which ensures that the Board takes its decisions and considers the Group's principal risks from an informed position. In assessing the Group's principal risks, the Board considers those risks identified that were not realised, the effectiveness of mitigations, and whether there were any significant matters that had not previously been captured in the Group's risk register.

You can read more about our approach to risk management on pages 43 to 51.

Sustainability

The Board, and its ESC Committee, continue to oversee delivery of the Company's sustainability strategy as we make progress towards our net zero commitment. During the year, Capco joined the UN Race to Zero, which ensures that our targets receive SBTi verification, and we have continued to improve EPC ratings across the estate when refurbishment works are undertaken. I was pleased that Capco has been recognised as a Climate Leader by the Financial Times, and that the Company's sustainability disclosures have received an EPRA Gold rating for the fourth consecutive year.

Diversity

There is great diversity throughout Capco, and the Board hugely values this diversity and the benefits that it brings. The Board supports the Company's diversity initiatives and is impressed by the efforts of the business to help make the property sector more inclusive for young people.

You can read more about the Company's diversity initiatives on pages 81 and 98.

I am pleased that the changes to the Board anticipated on completion of the merger will increase Board diversity and mean that the Company's Directors are more representative of the business as a whole.

Looking ahead

Whilst there are macroeconomic headwinds, the Company enters 2023 at a moment of great potential. The resilience of the Covent Garden estate, the Company's strong financial position and the opportunities that will arise from the merger mean that the Company is strongly positioned to grow and deliver long-term economic and social value for our stakeholders. We believe in the long-term potential of the West End and look forward to the Company's continued success.

Thanks

The delivery of a merger requires a commitment from Directors and employees that goes far beyond their day jobs, and such a transaction inevitably creates understandable uncertainty. Our employees have performed exceptionally well throughout a very demanding year, and I would like to extend my thanks to each of them, both personally, and on behalf of the Directors.

It has been a privilege to serve as your Chairman, and I look forward to seeing the Company's future success.

Henry Staunton
Chairman

28 February 2023

Board of Directors

E N

Ian Hawksworth, FRICS
Chief Executive

Year of first appointment: 2010

Ian has led Capco since inception, shaping strategy and driving performance. He has over 36 years' experience in global real estate investment, development, asset and corporate management, having been an Executive Director of Hongkong Land Ltd and Liberty International PLC. Ian is a Chartered Surveyor and a member of leading international industry bodies.

External appointments: Non-executive Director of ChanceryGate Limited

Situl Jobanputra
Chief Financial Officer

Year of first appointment: 2017

Situl leads the Capco finance function (which includes reporting, treasury, corporate finance, investor relations and tax) and works closely with the Chief Executive on strategy, capital allocation, investment and transactions. He is also responsible for the management of the Shaftesbury investment. Having joined Capco in 2014, he undertook a number of senior roles in the business and was appointed as CFO in 2017. Situl is an experienced corporate financier, having led Deutsche Bank's UK real estate investment banking team before joining Capco.

Michelle McGrath
Executive Director

Year of first appointment: 2020

Michelle leads the Group's asset management and leasing teams, as well as asset acquisitions and disposals. Michelle works closely with the Chief Executive on strategy and investment and was appointed to the Board in 2020. Having joined Capco in 2014, she has undertaken a number of senior roles across the business. Michelle is an experienced corporate broker, having previously been at UBS Investment Bank focusing on the UK listed real estate sector.

A Audit Committee

E Board ESC Committee

N Nomination Committee

R Remuneration Committee

Committee Chair

E N R

Henry Staunton
Chairman

Year of first appointment: 2010

Henry is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Henry was appointed as Chairman in 2018, having joined the Board in 2010. A Chartered Accountant, Henry has extensive financial and commercial experience. His previous roles include Finance Director of Granada and ITV, Chairman of WH Smith, Phoenix Group Holdings and Ashtead Group, and Vice Chairman of Legal & General.

External appointments: Chairman of Post Office Limited

A E N R

Anthony Steains
Independent Non-executive Director and Senior Independent Non-executive Director

Year of first appointment: 2016

Anthony is the CEO of Comprador Limited, a strategic corporate finance advisory firm based in Hong Kong, and has over 30 years of corporate finance experience. A Chartered Accountant, prior to founding Comprador Anthony was a Senior Managing Director and Head of Blackstone Advisory Partners in Asia and held senior positions in Asia at Lehman Brothers, Deutsche Bank and ING Barings. Anthony is also a Director of Twelve Seas Investment Company II, which is listed on NASDAQ.

External appointments: CEO of Comprador Limited and a Director of Twelve Seas Investment Company II

A E N R

Charlotte Boyle
Independent Non-executive Director

Year of first appointment: 2017

Charlotte is a former partner of The Zygos Partnership, an international search and board advisory firm. Prior to this, Charlotte worked for Goldman Sachs International and Egon Zehnder International. Charlotte is a Non-executive Director of Coca-Cola HBC AG and Thatchers Cider Company Limited, a Non-executive adviser to Knight Frank LLP, and a Trustee of Alfanar, the venture philanthropy organisation. Charlotte is also Chair of UK for UNHCR.

External appointments: Chair, UK for UNHCR. Non-executive Director of Coca-Cola HBC AG and Thatchers Cider Company Limited. Non-executive adviser to Knight Frank LLP, and a Trustee of Alfanar

A E N R

Jonathan Lane OBE
Independent Non-executive Director

Year of first appointment: 2019

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

The Board

The Board is collectively responsible for the long-term success of the Company, and for its leadership, purpose, strategy, culture, values, standards, control and management. Day-to-day management of the Group is delegated to the Executive Directors, subject to formal delegated authority limits; however, certain matters have been reserved for Board approval. These matters are reviewed annually and include Board and Committee composition, strategy, corporate reporting, significant funding decisions and corporate transactions, ESC strategy, Net Zero Carbon Pathway, Modern Slavery Statement, delegated authority limits and our dividend and tax policies.

Board composition

As at 31 December 2022, the Board comprised the Chairman, three Executive Directors and three Non-executive Directors. The table on page 93 summarises the membership of the Board and Committees.

Biographies of each of the Directors can be found on pages 88 to 89, and additional information on Directors' skills and experience is included on page 98.

Board independence

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

The Board has considered the independence of the Non-executive Directors, including potential conflicts of interest, and the table on page 91 sets out those Directors considered to be independent in character and judgement. Each of these Directors has also confirmed that there is no reason why they should not continue to be considered independent.

The key responsibilities of Board members are set out in the table on page 95.

The Chairman

Henry Staunton was appointed as Chairman of Capco in 2018, before the publication of the UK Corporate Governance Code 2018 which states that a chair should not remain in post beyond nine years from the date of their first appointment, and has been Chairman for less than five years, although he was appointed to the Capco Board in 2010.

In 2021, the Company reported that a search for a new Chair was ongoing and the Company expected to announce the appointment of a new Chair before the end of the year. It has been announced that Henry will step down as Chairman on completion of the proposed merger with Shaftesbury. Accordingly the search for a new Chair was suspended during the year. Should the merger not complete, the search for a new independent Chair would be a priority for the Board. Henry continues to be viewed as independent by the Directors and has the full support of the Board until completion of the merger or appointment of his successor.

The Board in 2022

The Board met formally throughout the year. Main meetings were timed around the financial calendar, with an annual strategy day, and additional meetings convened throughout the year to consider matters related to the proposed merger with Shaftesbury. Attendance at Board and Committee meetings held during 2022 is shown on page 91.

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

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

As matters that require the Board's decision are often complex and evolve over a period of time, informal update meetings are held between Board meetings to allow Board members adequate time to explore, understand and challenge matters under consideration, and the Chief Executive provides regular updates to Directors between meetings. The informal Board updates provide an opportunity for the Non-executive Directors to meet senior management and other Group employees.

During 2022, the Board received regular updates on assets, finance, ESC, people and performance from the Executive Directors and senior management from each business area, and reports from the General Counsel, Company Secretary and Committee Chairs. The table on the following page shows the key areas considered by the Board during the year.

The Board establishes the Company's:

Purpose

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

Read more on pages 3 and 18.

Values

Collegiate, supportive and inclusive
Environmentally and socially responsible
High performance and entrepreneurial
Innovative and creative
Professional: We act with integrity and hold ourselves to the highest standards

Read more on pages 3 and 19.

Strategy

As a central London focused REIT, Capco creates, grows and delivers value from our assets centred around the landmark Covent Garden estate, to deliver superior long-term total returns for our shareholders, while bringing benefits to our stakeholders.

Read more on page 18.

and ensures that they are aligned with the Company's culture

Capco promotes a high-performance, entrepreneurial and inclusive culture, reflective of our business strategy.

Read more on pages 16, 80 and 92.

Matters considered by the Board in 2022

Business strategy, new business and Directors	– Proposed merger with Shaftesbury – Macroeconomic, political and market conditions, including the impact of COVID-19, evolving macroeconomic environment and Brexit – Investor relations – Corporate strategy and value maximisation – Performance of investment in Shaftesbury – New business opportunities	– Capital allocation and key investment decisions – Third-party interests – Board and Committee composition, diversity and succession planning – REIT compliance – Tax policy
Properties	– Property valuations – Covent Garden performance – Property market conditions	– Lillie Square operations – Acquisitions and disposals
Financial management and performance	– Annual and half-year results and trading updates – Monitoring of liquidity – Covenant compliance – Going concern and viability analysis – Treasury and cash management – Debt repayment, extensions and new facility	– Group tax position and structure, and HMRC business risk review – Market and broker updates – Dividends, including property income distribution – Budget and business planning – Review of financing and hedging opportunities
ESC, employees, stakeholders, governance, internal controls and risk	– Employee well-being, development, engagement and reward – Assessment and monitoring of Company purpose, values and culture – Shareholder engagement – Updates from Board Committees – Environmental, sustainability and community strategy, including approval of TCFD disclosures – Risk appetite, and principal and emerging risks – Health and safety – Modern slavery statement	– Legal and regulatory updates – AGM resolutions and voting – General meeting resolutions and voting – Directors' training – Board Committees' terms of reference and schedule of matters reserved for the Board – UK MAR and disclosure – Corporate policies – Corporate insurance – Internal audits – IT and cyber security

Attendance at meetings

The table below shows Directors' attendance at Board and Committee meetings held during 2022. In addition, the General Counsel attends each Board and Audit Committee meeting and the Company Secretary attends each Board and Committee meeting. Additional Board updates were held between formal meetings.

Name	Independent[1]	Board	Audit	Remuneration	Nomination	ESC
Henry Staunton (Chairman)	N/A	24/24	–	13/13	3/3	3/3
Ian Hawksworth (Chief Executive)	No	24/24	–	–	3/3	3/3
Situl Jobanputra	No	24/24	–	–	–	–
Michelle McGrath	No	24/24	–	–	–	–
Charlotte Boyle	Yes	24/24	3/3	13/13	3/3	3/3
Jonathan Lane	Yes	24/24	3/3	13/13	3/3	3/3
Anthony Steains	Yes	24/24	3/3	13/13	3/3	3/3
Total meetings held during the year		**24**	**3**	**13**	**3**	**3**

1. 50 per cent of the Board, excluding the Chairman, is independent.

Oversight of culture and values

Throughout the year, the Board monitors corporate culture and values to ensure that they are aligned with Company purpose and the delivery of corporate strategy, and are appropriately reflected across the business. The Board receives regular updates on HR matters and the Group's people and community initiatives under the ESC strategy, and, with assistance from its Committees, reviews and monitors corporate policies. For example, the Remuneration Committee receives updates on employee pay and conditions, the Board ESC Committee reviews ESC strategy and activity and the Group's HR policies, the Audit Committee reviews policies relating to financial crime and internal controls, and the Nomination Committee reviews policies relating to equal opportunities and diversity and inclusion. The Board also received an update on the results of the employee well-being survey. The Group has an independent whistleblowing hotline which can be used to raise concerns, and the Board would receive updates from the General Counsel on any matters raised. This broad range of oversight allows the Board to monitor corporate culture effectively.

Ensuring an effective Board

The Board conducts an evaluation of its own performance and that of its Committees and Directors each year, to ensure that it continues to operate effectively and to identify potential areas for improvement. The Code recommends that companies undertake an externally facilitated board evaluation at least every three years. Capco undertook an externally facilitated evaluation in 2020 and so an internal evaluation was conducted in 2022 with the support of the Company Secretary.

The Directors were each asked to complete a questionnaire covering all matters relating to the operation and performance of the Board, its Committees and its Directors. A report was prepared by the Chairman and Company Secretary which concluded that the Board is effectively run and administered, with Directors indicating a high degree of satisfaction with the performance and operation of the Company. The report, which was accepted by the Board, noted a number of priorities for the Board following completion of the proposed merger with Shaftesbury and identified some areas for consideration in the event that the merger did not complete. Some of the agreed actions are shown on page 93.

In addition, the Senior Independent Director conducted an appraisal of the Chairman's performance which confirmed that, notwithstanding his tenure, Henry remains independent and continues to have the full confidence of the Board, and that the Directors are satisfied that he continues to commit sufficient time to the Company. The Chairman also undertook appraisals of the other Directors' performance.

It is anticipated that an externally facilitated Board evaluation will be undertaken in 2023, although a final decision will be taken during the year.

Communication with stakeholders

Our policy

The Board is keen to ensure that our shareholders and potential investors have a good understanding of Capco's business and performance, and that Directors are aware of any issues and concerns that shareholders and other stakeholders may have, so that these may be properly considered by the Board.

The Board in action

During 2022, the Board devoted a significant amount of time to the proposed merger with Shaftesbury, meeting a total of 24 times during the year.

The Board's agendas covered a wide range of topics, to ensure that full consideration was given to the opportunities and risks relating to the proposed merger, and that the impact, benefits and challenges for the Company's different stakeholder groups were considered and taken properly into account when considering and approving the proposal.

Significant matters considered by the Board in relation to the proposed merger included:

- The merger terms, including preservation of shareholder value and deal structure
- Financial implications and required financing
- Change of control considerations
- Board and Committee composition
- Culture and values
- Future financial management and governance structures
- Dividends
- Impact of the proposal on the Company's employees
- Impact on other stakeholder groups
- Directors' duties and responsibilities in respect of the transaction
- The prospectus, supplementary prospectuses and shareholder circular
- Treatment of remuneration arrangements
- Shareholder feedback and shareholder votes
- Risks

Communication with shareholders and other stakeholders

Communication with the Company's investors is a priority for the Board. The Company runs an extensive investor relations programme, and the Chief Executive, Chief Financial Officer, Executive Director and Director of Commercial Finance and Investor Relations hold meetings with institutional investors and analysts throughout the year, including results presentations, webcasts, roadshows, one-to-one meetings, industry conferences and investor tours. The Company's major shareholders are encouraged to meet with the Chairman and the Senior Independent Director to discuss any matters they may wish to raise. During 2022, Directors engaged with shareholders on matters including the Company's remuneration arrangements and the proposed merger with Shaftesbury.

Shareholders' and stakeholders' views

The Directors receive regular updates on the Company's major shareholders' and stakeholders' views, and Board approval papers include a dedicated section on stakeholders. You can read more about the Company's consideration of and engagement with its stakeholders on pages 22 to 25 and in the Company's s172(1) statement on pages 26 and 27.

The Non-executive Directors are invited to attend the Company's results presentations. Private shareholders may raise questions through the Company Secretary's office either by telephone (+44 (0)20 3214 9170) or by email (feedback@capitalandcounties.com).

Our Non-executive Director Charlotte Boyle ensures the views of our employees are considered by the Board. As part of this engagement process, Charlotte attends the management level ESC Committee which provides a forum for employee views to be shared.

The Directors also receive regular updates from the Executive Directors and Head of HR on employee matters. This year, particular updates were provided on employee views of the proposed merger, the findings of an employee well-being survey and diversity and inclusion training provided to employees.

Corporate website

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

Annual General Meeting

Information on the Company's 2023 AGM will be made available to shareholders on the Company's website. The Notice of Meeting will be issued to shareholders at least 20 working days before the meeting, and will also be made available on the Company's website. We encourage shareholders to submit any questions they may wish to have answered by sending an email to feedback@capitalandcounties.com or by calling +44 (0)20 3214 9170 and a response will be provided. Shareholders are advised to vote in advance of the meeting, prior to the proxy deadline.

Separate resolutions will be proposed on each issue and, in accordance with the Code, each Director will offer themselves for election or re-election. We publish the results of the votes on all resolutions on our website following the meeting. Shareholders are requested to check the Company's website for the latest details concerning the 2023 AGM.

Conflicts of interest and time

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

2022 Board evaluation

The Company had undertaken an externally facilitated evaluation in 2020

The Chairman and Company Secretary considered the approach to be taken and recommended that an internal evaluation be undertaken

The Nomination Committee approved the proposed approach

Each Director completed a questionnaire about the operation of the Board and its Committees

A report was prepared by the Chairman and Company Secretary and provided to the Board for consideration

A number of actions were agreed

Actions for 2022

Consider Board size and composition

Ensure continued effective operation of Board ESC Committee

Ensure appropriately incentivising remuneration arrangements are in place

Progress

Considered within the context of the proposed merger

Directors have confirmed that, whilst it continues to develop following its initial establishment, the Board ESC Committee is working well

A remuneration review is expected to be undertaken following completion of the proposed merger

Actions for 2023

Completion of the merger

Integration, particularly Company purpose, values and culture

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

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

Leadership structure

Board committees

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

Each Committee has written terms of reference, which are reviewed annually. Minutes of all Committee meetings are made available to all Directors. The Committee Chairs attend the AGM to answer any questions on the Committees' activities.

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

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

A summary of the role of each Committee is shown below, and the activity of each Committee during 2022 is described on pages 96 to 127.

UK Corporate Governance Code 2018

Other than as explained within this report and below, the Company has applied the principles and complied with the provisions of the UK Corporate Governance Code 2018 during 2022.

At the beginning of 2022, the Company was not in full compliance with provision 38 of the Code which requires the pension contribution rates for Executive Directors to be aligned with those of the workforce. However, the pension contribution rates for Executive Directors have been in alignment with the maximum opportunity available to other employees since April 2022.

DTR disclosure

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee reports, except for information required under DTR 7.2.6, which is contained in the Directors' Report on pages 128 to 130.

Board

Collectively responsible for the long-term success of the Company.

Sets the Company's purpose, values, culture and strategy. Monitors culture. Management of strategy, leadership and risk.

Audit Committee	Remuneration Committee	Nomination Committee	Board ESC Committee
Oversees financial reporting Monitors impact of corporate transactions and COVID-19 on financial reporting Monitors internal controls, including risk management Monitors internal and external auditors	Sets Remuneration Policy Sets remuneration and incentives for Executive Directors and designated senior management Approves annual performance objectives	Recommends Board appointments Board succession planning Reviews Directors' skills, experience, diversity and independence Board evaluation	Monitors implementation of ESC strategy and Net Zero Carbon Pathway Monitors employee engagement and people matters
Further information can be found in the Audit Committee report on pages 99 to 102, and Principal risks and uncertainties on pages 43 to 51.	Further information can be found in the Directors' Remuneration Report on pages 105 to 127.	Further information can be found in the Nomination Committee report on pages 96 to 98.	Further information can be found in the Board ESC Committee Report on pages 103 to 104 and the Responsibility report on pages 63 to 81.

Business committees

Executive Risk Committee	Executive management forum for review and discussion of risks, controls and mitigation measures Meets at least three times a year
Disclosure Committee	Monitors whether there is inside information within the business Ensures disclosure requirements are met and that appropriate records are maintained Meets bi-weekly
Group Safety Leadership Team	Provides Group-wide oversight of management and implementation of Capco's Health and Safety Policy and management system Provides Group-wide oversight of the management of security risk Meets at least three times a year
Environment, Sustainability and Community Management Committee	Reports on and co-ordinates sustainability, environmental management, community engagement and charitable activities Considers employee views and people initiatives Sets targets and objectives and monitors progress in line with ESC strategy Monitors progress against the five key actions and SBTi validated targets stated in Net Zero Carbon Pathway Meets at least three times a year

Roles of Board members

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

Position	Name	Responsibilities
Chairman	Henry Staunton	Leads the Board, ensures its effectiveness and sets its agenda. Ensures an effective link between shareholders, other stakeholders, the Board and management.
Chief Executive	Ian Hawksworth	Develops the Company's strategic direction, implements policies and strategies agreed by the Board and manages the business.
Chief Financial Officer	Situl Jobanputra	Responsible for financial matters, and works closely with the Chief Executive in developing and implementing Group strategy and overseeing investment and transactions.
Executive Director	Michelle McGrath	Responsible for investment, asset management, leasing, portfolio and operational management. Supports the Chief Executive in developing and implementing Group strategy and objectives.
Non-executive Directors	Charlotte Boyle, Jonathan Lane and Anthony Steains	Constructively challenge the Executive Directors and monitor the delivery of the agreed corporate strategy within the risk and control framework set by the Board.

All Directors have access to the advice and services of:

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

Nomination Committee report

"During 2022, the Board and Nomination Committee ensured that the future Board and Executive Committee of the combined Shaftesbury Capital business will bring together the best of both companies to generate future value for our stakeholders."

Henry Staunton
Chairman

28 February 2023

Matters considered by the Committee during 2022 included:

- Proposed merger, including Board and Committee composition
- Chairman succession planning
- Succession planning below Board level
- Diversity at Board level and across the Company
- Internal Board evaluation
- Directors' skills, experience and training opportunities
- Directors' time commitments and independence

Members:

- Henry Staunton (Chairman)
- Ian Hawksworth
- Charlotte Boyle
- Jonathan Lane
- Anthony Steains

The Committee

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

The members of the Committee as at 31 December 2022 and the date of this report are listed in the box below. The Nomination Committee met three times during the year, and attendance at these meetings is shown in the table on page 91.

Overview

During 2022, the Board's primary focus was the agreement and progression of the proposed merger with Shaftesbury, to create the leading central London mixed-use REIT, culminating in the publication of the Prospectus and Circular which received shareholder approval in July 2022. The preparation of these documents, which included the composition of the future Board following completion of the proposed merger, meant that a number of matters which would ordinarily have been considered by the Nomination Committee were instead considered by the Board as a whole, within the context of the transaction.

Ian Hawksworth and Situl Jobanputra will be Chief Executive and Chief Financial Officer of the combined business, Charlotte Boyle will Chair the Board ESC Committee and Anthony Steains will be a Non-executive Director of the combined business.

Following completion of the merger, Michelle McGrath will join the Executive Committee of the Company, which will comprise senior executives from each business and will oversee the day-to-day management and operation of the Company. Michelle will have responsibility for the leadership of the enlarged Covent Garden portfolio and will support the Chief Executive in the development of Group strategy.

From the Shaftesbury Board, the current Chairman of Shaftesbury, Jonathan Nicholls, will become Chairman of the Company, Chris Ward, current Chief Financial Officer of Shaftesbury, will become Chief Operating Officer, Richard Akers will become Senior Independent Director, Ruth Anderson will become Audit Committee Chair, Jennelle Tilling will become Remuneration Committee Chair and Helena Coles will become a Non-executive Director of the Company.

Henry Staunton and Jonathan Lane will each retire from the Board on completion of the merger.

As it is intended that Jonathan Nicholls will become Chairman of the Board on completion of the merger, the search for an external successor to Henry Staunton as Chairman of the Company was paused during the year, and then suspended pending completion of the merger.

The Board had also previously indicated that it expected to announce the appointment of one or more new Non-executive Directors during the course of 2022. The merger discussions inevitably meant that it was not possible for these discussions to be progressed. However, on completion of the merger, the Board will comprise a combination of directors from both Capco and Shaftesbury which will provide the Board with an excellent balance of skills, experience and diversity, well-positioned to deliver future success for our shareholders.

Should the merger for any reason not complete, then the Board changes would not take effect, Michelle McGrath would continue as an Executive Director and the search for a new independent Chair and new Non-executive Directors would be a priority for the Board.

Capco continues to champion diversity as a business, and we are rightfully proud of the diversity of our employees throughout the business, which is reflective of the Company's inclusive culture. Our diversity brings great benefits to the business, and the Board continues to encourage and support the Company's initiatives which aim to promote diversity and inclusion within the property industry.

During 2023, the Committee will continue to monitor Board composition, skills, experience and diversity, to ensure that the Board continues to be positioned to deliver our strategy, as we integrate the two businesses to deliver long-term economic and social value for our stakeholders and contribute to the success of London's West End.

Board composition and succession

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

A summary of current Directors' core skills and experience is shown in the table on page 98.

Director recruitment

Capco operates a rigorous and transparent recruitment process for new Directors, which is summarised in the graphic on the right.

Chairman succession

Henry Staunton was appointed as Chairman of the Company in 2018, having first been appointed as a Non-executive Director in 2010. During 2021 the Committee, at the request of the Board, began the search for a new Chair. A role description and person specification were prepared, and Lygon Group, who provide no other services to the Company, was engaged to identify potential successor candidates. Lygon Group was selected because the firm has undertaken director searches for the Company in the past, and has a good understanding of Capco's business. Due to progression of the merger with Shaftesbury, the search was paused and then suspended during 2022. Should the merger not complete, the search for a new independent Chair will be a priority for the Board.

Board composition

The Board had previously determined that it would be beneficial for its diversity to be improved, and that there would be benefit to expanding the Board from its current compact size. The Committee had therefore engaged Lygon to conduct searches for one or more additional Non-executive Directors. Due to progression of the merger with Shaftesbury these searches were suspended. However, the post-merger Board will satisfy each of the Committee's goals, increasing the number of Directors to 10 and improving both the gender and ethnic diversity of the Board.

Director induction

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

Director development

The Chairman and the Committee together ensure that Directors keep their skills and knowledge up to date, to allow them to fulfil their roles on the Board and Board Committees. The General Counsel and Company Secretary regularly update the Board on legal and corporate governance matters, and information on training opportunities and seminars is circulated to Directors. Directors also receive periodic briefings from external advisers. For example, in 2022, the Directors received refresher training on Directors' duties and responsibilities, particularly in relation to prospectuses and circular, and received regular business updates from the Executive Directors. Directors may also take independent advice at the Company's expense where they feel this is appropriate.

Typical Director recruitment process

1. Nomination Committee considers Board composition and determines desired skills and experience
2. A person specification is prepared
3. An appropriate executive search firm is appointed and a selection process followed
4. A list of candidates is identified
5. The Chairman and Chief Executive meet with shortlisted candidates and provide feedback to the Committee
6. All Directors and the Company Secretary are given the opportunity to meet the preferred candidate
7. The Committee makes a formal recommendation to the Board

Succession planning below Board level

The Committee ensures that appropriate succession plans are in place for both Board and senior management positions. During the year, the Chief Executive updated the Committee on succession planning across the business and the Board considered the composition of the future Executive Committee.

Diversity and inclusion

Capco embraces diversity as a business, and this is reflected throughout our team. Diversity covers many characteristics, and we consider these as a whole.

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

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

Capco has a great level of diversity on our Board, and this will increase further on completion of the merger with Shaftesbury. Capco's current diversity is summarised in the adjacent charts. The Board Diversity and Inclusion Policy does not include targets for gender or other characteristics; however, in conducting searches, Capco will only use executive search firms that are signatories to the Voluntary Code of Conduct for Executive Search Firms, and will require diverse candidate shortlists, from which appointments will be made on merit. The Board believes that diverse shortlists increase the likelihood of identifying the best candidates for each appointment.

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

We are proud that we have strong representation from female employees across the business. Almost 60 per cent of our workforce, and 50 per cent of our senior management, is female; a great achievement, which has been recognised by the FTSE Women Leaders Review.

Capco is supportive of employee development, including those who wish to seek non-executive roles elsewhere, and provides development opportunities, including executive coaching and mentoring from our Non-executive Directors. We regularly review our employment policies to ensure we are an inclusive employer, and intend to continue to build on our diverse and inclusive culture, attracting and engaging talented individuals from different backgrounds. It is hoped that such initiatives will help develop the next generation of Board members, either within Capco or in the wider business world.

Capco supports a range of initiatives which promote diversity across the property industry, and we encourage all our employees to get involved. We continue to provide diversity and inclusion seminars and training to our team, and these are championed by Situl Jobanputra.

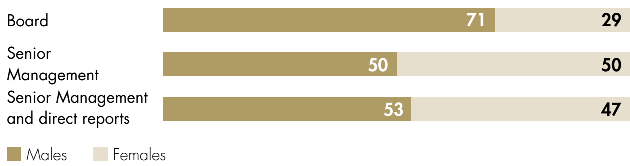
The Committee reviews the Group's diversity policies each year and receives updates on the diversity initiatives supported by the Company which include sponsorship of Real Estate Balance (where one of our employees is co-chair of the NextGen Committee), the RICS Inclusive Employer Quality Mark, which we have held since 2016, the Employers' Network for Equality & Inclusion who provided sessions to celebrate Pride and Black History Month, Pathways to Property run by the Reading Real Estate Foundation, Women Talk Real Estate, a non-profit organisation helping the industry work to improve gender diversity, Freehold, a networking forum for LGBT real estate professionals, and upReach, which supports university students from less advantaged backgrounds, helping them to secure career opportunities. Capco also participates in the BPF Futures and the 10,000 Black Interns programmes, and is a supporter of the Young Westminster Foundation Brighter Futures Fund.

More information on Capco's people practices and diversity initiatives, including our policies that make Capco a more inclusive employer, can be found on page 81.

Summary of Directors' skills and experience

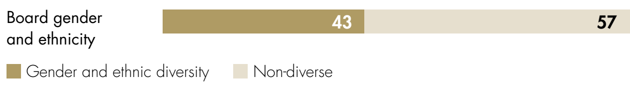
Director	Skills and experience
Henry Staunton	Financial and commercial management
Ian Hawksworth	Global real estate investment and development. Corporate leadership and management
Situl Jobanputra	Corporate finance, capital markets, strategy, investment, and commercial and financial management
Michelle McGrath	Commercial, leasing and asset management, investment and capital markets. Portfolio and operational management
Charlotte Boyle	Commercial and business leadership, with a particular focus on people, environmental and sustainability matters
Jonathan Lane	Real estate investment and commercial management
Anthony Steains	Corporate finance, Asian markets and strategy

Capco's Diversity (%)



Board ethnicity (%)

Board gender and ethnic diversity (%)



Audit Committee report

"Transparent and responsible oversight of financial reporting, internal controls and risk management procedures."

Anthony Steains, Chairman

Members:

- Anthony Steains (Chairman)
- Charlotte Boyle
- Jonathan Lane

I am pleased to introduce Capco's 2022 Audit Committee report.

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

This report provides an overview of the work undertaken by the Committee during 2022. The most significant topics considered by the Committee during the year included oversight of the financial reporting and rigorous control processes relating to the proposed merger with Shaftesbury, the Group's property valuations, the continued accounting treatment of matters relating to the COVID-19 pandemic and the application of the IFRIC decision in 2022 on the required accounting treatment of rent concessions to Capco's financial statements, taxation and the accounting treatment of other significant or corporate transactions, including the repayment of £200 million of debt and entrance into a new £576 million standby facility agreement in relation to the proposed merger. In considering each of these matters, the Committee appropriately challenged management and the Company's advisers to ensure that the accounting treatment and assumptions were robust. The Committee also reviewed the Company's risk, going concern and viability statement disclosures before they were recommended to the Board.

PricewaterhouseCoopers LLP ("PwC") were reappointed as the Group's external auditors in 2020 following a tender process undertaken in 2019, and the 2022 audit was the third led by the current audit partner. I am pleased to report that PwC continue to provide an appropriately robust audit, with significant upfront involvement and challenge throughout the year, particularly on significant areas, including the application of IFRIC's decision on the accounting treatment of rent concessions, asset valuation, financing structures and the going concern assessment.

Anthony Steains
Chairman

28 February 2023

The Audit Committee, reporting to the Board, monitors the integrity of the financial statements of the Group, oversees the financial reporting process, reviews significant financial reporting judgements, reviews and monitors the effectiveness of the Group's internal controls, internal audit, risk management controls and the effectiveness of the external audit and assesses the independence of the statutory auditors and the provision of non-audit services.

As at 31 December 2022 and the date of this report, the Committee comprises three independent Non-executive Directors and is chaired by Anthony Steains, who is considered to have significant recent and relevant financial experience. The Board believes that the Committee as a whole has competence in real estate matters.

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

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

The Audit Committee met three times during 2022. Attendance at these meetings is shown in the table on page 91. The Committee also met privately during the year with both the external and internal auditors.

The Committee follows an annual programme, which is agreed with the Committee Chair, management and external auditors prior to each financial year, and ensures it gives thorough consideration to matters of particular importance to the Company, and additional matters are considered when appropriate. The Committee's agenda over the past 12 months, and the significant matters considered by the Committee during the year, are set out in this report below.

The Company was not subject to any Financial Reporting Council ("FRC") reviews during 2022.

The Audit Committee over the past 12 months

Regular meeting items	– Report from Group Financial Controller – Accounting treatment of significant transactions, specifically the financial reporting and control considerations related to proposed merger with Shaftesbury – Accounting standards and policies – Property valuations – External auditors' report – Risk management review – Regulatory update – Internal auditor report – Tax update – Alternative performance measures – Update on compliance with TCFD recommended disclosures
July 2022 meeting	– Interim results announcement – Liquidity forecasting – Going concern – External auditors' report on interim review – 2022 external auditors' engagement letter
November 2022 meeting	– Effectiveness and independence of external auditors – Internal controls – 2022 external auditors' audit plan – Preliminary viability statement review – Corporate governance policies, Non-audit Services Policy and Committee terms of reference – 2023 internal audit plan – Impact of IFRIC decision related to accounting for COVID-19
February 2023 meeting	– Going concern assessment and viability statement – Preliminary results, Annual Report, Viability Statement and Management Representation Letter – Determining and recommending to the Board that the Annual Report taken as a whole was fair, balanced and understandable – Effectiveness of internal auditors

Significant issues considered by the Committee in 2022

Matter considered	What the Committee did
Proposed merger with Shaftesbury PLC	Throughout the year, the Committee retained close oversight of the work streams undertaken in respect of the technical accounting matters, financial reporting issues, financial control and financial integration planning prepared in connection with the public documents and regulatory announcements related to the proposed merger with Shaftesbury. The Committee also considered the repayment of £75 million of private placement loan notes and the £125 million secured loan facility and entrance into a £576 million standby facility agreement when assessing liquidity and going concern in the context of the proposed merger. The Committee discussed matters related to the proposed merger with management and the external auditors, and remains satisfied that the appropriate approach has been taken.
Valuations	As in previous years, the independent external valuers presented the year end and half year valuations to the Committee. Additional valuations were also undertaken in connection with the public documents related to the intended merger with Shaftesbury. The Committee reviewed the valuation process and component parts of the valuations, discussed the year end and half year valuations with the external auditors and challenged the valuers on the assumptions used. The Committee also advised the Board on the independence of the valuers and obtained confirmation that management had provided all requested information. The Committee was satisfied that the approach taken by the valuers was appropriate. Further information can be found in note 14 to the financial statements.
Impact of IFRIC decision on rent concessions	Following the IFRS Interpretations Committee ("IFRIC")'s agenda decision on the appropriate accounting treatment under IFRS 9 and IFRS 16 of rental concessions, the Committee reviewed how this decision would impact Capco's 2022 and prior year financial statements in conjunction with the Group Financial Controller, management and the external auditors. Following discussions, it was concluded that the change in accounting policy would require the restatement of prior period figures with the addition of a third balance sheet included for the represented 31 December 2021 position. Further information can be found in Note 1 to the financial statements.
Recoverability of rental receivables, deferrals and tenant lease incentives	Both prior to and following the IFRIC decision, the Committee received updates from the Group Financial Controller on the accounting treatment for final rental income support provided to tenants as a result of the impact of COVID-19. The accounting treatment was subsequently updated in light of the IFRIC decision made in 2022. The Committee also reviewed and assessed the assumptions used in calculating the expected credit loss for rent receivables and the overall levels of impairment provision. Due to improving trading conditions in the year, COVID-19 support concluded and lower level of rent receivables as at 31 December 2022, it was concluded that the impairment of rent receivables was no longer considered a significant area of significant estimation and uncertainty.

External auditors

Committee responsibilities

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), the external auditors, and is responsible for developing, implementing and monitoring the Company's policy on external audit, and for monitoring the auditors' independence, objectivity and compliance with ethical, professional and regulatory requirements. PwC were first appointed as external auditors of the Company in 2010, and were reappointed in 2020 following a competitive audit tender process. Under current regulations, the Company is required to retender the audit by no later than the 2030 financial year.

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

Access to Committee

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

Assessment of the effectiveness of auditors

Following the reappointment of PwC as the external auditors in January 2020, the Committee has continued to monitor and assess the effectiveness of the external audit, which includes PwC's effectiveness and performance, and considered a paper prepared by the Group Financial Controller which confirmed that in management's view the external auditors were providing an independent and good-quality audit service and continued to deliver against all services considered at their appointment. Matters considered in reaching this conclusion included audit partner rotation (which occurred at the start of 2020), continuity of audit team, commitment to understanding the Group's business and transactions, the level of technical challenge on the Group's accounts and accounting policies, and if applicable any required segregation of work between audit and non-audit services teams.

The Committee further considered a number of areas where the auditors had challenged the accounting treatment proposed by management, and the resolutions reached, and concluded that the service provided by the external auditors during 2022 was independent, objective, professionally sceptical and that they were able to challenge management where appropriate, and that the Group's audit was robust and objective. A key area of challenge from the external auditors during the year has been on the IFRIC decision relating to accounting for rent concessions, as this is significant to the Company's financial statements, requiring restatement of the prior period comparative information within the 2022 Annual Report. Discussions continued during the year between management and the external auditors, to ensure the appropriate accounting and disclosure requirements have been met for both 2022 and prior year financial statements.

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

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

Non-audit services

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

The Company has adopted a Non-Audit Services Policy that is consistent with the FRC's current Ethical Standard of permissible non-audit services. The purpose of the policy is to ensure that the provision of non-audit services by the external auditors does not compromise their independence or objectivity. The policy requires the Audit Committee Chairman to approve in advance any non-audit work with a cost exceeding £75,000 for work related to the interim review or, for other projects, the lower of £50,000 or 15 per cent of the estimated annual level of the auditors' fees at that time. Unless an exemption has been obtained from the FRC, the total value of non-audit services in a financial year must not exceed 70 per cent of the average of the audit fees paid to the external auditors in the last three consecutive years for the audit of Capco, its Group undertakings and joint ventures. Services below this limit are pre-approved by the Audit Committee under the policy, subject to the non-audit services falling within a permitted category, consideration and approval by an Executive Director. Approval is only given following a full and thorough assessment of the value case for using the auditors, the skills and experience the auditors would bring and determination that the auditors are the most suitable provider of the service. Non-audit services commissioned by an Executive Director under the terms of the policy are reported to the Audit Committee.

Additionally, consideration must be given to the preservation of auditor independence; and in advance of providing permitted non-audit services the external auditors are required to report that they are acting independently, that provision of the non-audit services to be provided is not prohibited and does not impair their objectivity.

Following a review of the Non-Audit Services Policy, the Committee remains satisfied that the policy continues to operate effectively.

The total fees paid and payable to PwC in 2022 were £848,000, of which £91,000 related to non-audit work (2021: £522,000 of which £93,000 related to non-audit work). The 2022 total fee paid to PwC includes £95,000 of overruns and fee scope changes for the 2021 year end audit. The additional fee increase reflects scope changes for 2022 alongside a general inflationary rise. Non-audit work during 2022 and 2021 relates to the interim review and agreed-upon procedures related to the verification of share scheme performance outcomes. The total fees for non-audit services represented 11 per cent of the total audit fees payable for the year (2021: 18 per cent). The total fees paid and payable to PwC in 2022 and 2021 are set out in the table below.

KPMG LLP acted as reporting accountants in relation to the offer documents published during the year for the proposed merger with Shaftesbury.

Fees for non-audit services

	2022	2021
Total fees paid to PwC	**£848,000**	£522,000
Non-audit related services	**£91,000**	£93,000

Internal auditor

Internal audit plan

BDO LLP ("BDO") has been appointed to act as Capco's internal auditor. During 2022, BDO's audit plan included reviews of property and investment acquisitions and disposals, commercial leasing at Covent Garden, accounts payable, ESC, anti-corruption and Bribery Act, VAT, corporation tax, employee benefits, Lillie Square estate management and health and safety at Covent Garden. No significant issues were raised during the reviews. During 2023, it is expected that the audit plan will include reviews of health and safety at Lillie Square, risk management, procurement, residential leasing, asset management, payroll, IT general controls, property management and UK GDPR. The audit plan will be reassessed once the proposed merger has completed.

Committee responsibilities

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

Access to the Committee

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

Internal control and risk management

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

Risk management

The Committee receives and considers a report from the Group Financial Controller on the Group's internal controls relating to risks, including the operation of the Group's risk management framework, collation of the Group risk register and the various matters considered by the Executive Risk Committee. The Committee also reviews the proposed principal risk disclosures before they are approved by the Board.

A description of the Group risk management framework and the review undertaken during the year is set out on pages 43 to 49.

Internal controls

In reviewing the effectiveness of the Group's internal controls, the Committee considers reports provided by the Group Financial Controller, external auditors and internal auditor. No significant failings or weaknesses were identified in the review process, during the reporting year or up to the date of this report.

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

Day-to-day procedures and internal control framework

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

Specific controls relating to financial reporting and consolidation process

- Appropriately staffed management structure, with clear lines of responsibility and accountability
- A comprehensive budgeting and review system. Board and Audit Committee updates from the Chief Financial Officer which include forecasts, performance against budget and financial covenants
- Led by the Chief Executive, the Group Finance team participates in the control self-assessment and policy compliance elements of the Group risk management framework and sets formal requirements which specify the reports and approvals required
- BDO conducts regular audits of the Group's financial control procedures and reports its findings to the Audit Committee
- The Committee is satisfied that the Group's internal controls are operating effectively and that systems are in accordance with prevailing FRC guidance.

Viability Statement

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

The viability statement can be found on pages 50 to 51.

Fair, balanced and understandable

Prior to the approval of the Annual Report & Accounts, the Audit Committee considers the matters reviewed during the year and the Group's principal risks, and makes a recommendation to the Board that, taken as a whole, the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Board ESC Committee report

"The Committee oversaw significant activity and progress across all pillars of the Company's ESC commitments."

Charlotte Boyle, Chair

Matters considered by the Committee during 2022 included:

- ESC strategy
- Sustainability activities
- Community initiatives
- Net Zero Carbon Pathway actions
- TCFD disclosures and climate-related risks
- Proposed merger
- Sustainable Timber Procurement Policy
- People policies
- Employee benefits
- Employee well-being survey and initiatives
- Diversity and inclusion training
- Charitable donations

Members:

- Charlotte Boyle (Chair)
- Ian Hawksworth
- Jonathan Lane
- Henry Staunton
- Anthony Steains

I am pleased to introduce the Board ESC Committee report.

The Board Environment, Sustainability and Community ("ESC") Committee oversees the Company's ESC activities on behalf of the Board, to ensure delivery of the Company's ESC strategy.

Responsible stewardship continues to be a key strategic priority for Capco, as we work to ensure that Covent Garden becomes a UK leader in sustainability for heritage environments. To achieve this goal, we will deliver environmental and social outcomes that enhance value for stakeholders while protecting the unique character and heritage of the estate. During 2022, the Committee was particularly pleased that Capco was recognised as a Climate Leader by the Financial Times, recognising our emission reduction of c.19 per cent. in the period 2015-2020.

Following the launch of the Company's ESC strategy and Net Zero Carbon commitment in 2021, 2022 was a busy year as the business developed and embedded the strategic goals and actions required to deliver these commitments.

Committee

The Committee is chaired by Charlotte Boyle, an independent Non-executive Director, and its membership includes the Company Chairman, Chief Executive and all other independent Non-executive Directors. In addition, the other Executive Directors, Director of Sustainability and Technology and Company Secretary are invited to attend the Committee's meetings, and external advisers join meetings to contribute as required.

The remit of the Committee includes oversight of sustainability and environmental management across Capco's assets and business areas, the Company's Net Zero Carbon by 2030 commitment, certain people-related matters, community engagement and Capco's charitable donations.

The main areas considered by the Committee during the year are explained below. The Company's full Responsibility report can be found on pages 63 to 83. Our Net Zero Carbon Pathway can be found on our website.

Oversight

During 2022, the Company continued to progress actions under the four pillars laid out in the ESC strategy, which align with UN Sustainable Development Goals. This important strategy sets out Capco's vision for the future, focusing on the themes of Environment & Sustainability and Community & People. The Committee receives regular updates from the Director of Sustainability and Technology and the ESC Management Committee on progress made against the Company's strategic commitments, and implementation of ESC activities across the business. The Committee Chair meets regularly with the Director of Sustainability and Technology and also attends the ESC Management Committee in her role as the designated Director for the workforce. The Committee was pleased to see the progress that had been made in many areas, from a continued improvement in EPC ratings across the Covent Garden portfolio, to an inaugural CRREM analysis, further well-being initiatives for Capco's people and the support provided to a wide range of charities and foundations within the local Covent Garden community.

Net Zero Carbon

Our Net Zero Carbon Pathway, under which Capco committed to becoming Net Zero Carbon as a business by 2030, was published in 2021. During 2022, the Committee received regular progress updates against the five key actions set out in the Pathway, particularly the progress being made during the Pathway's first three-year cycle. A table detailing progress against such actions can be found on page 68. The Committee supported Capco's registration with UN Race to Zero application, under which the business' net zero targets have received SBTi validation as aligning with a 1.5°C trajectory. During the year, the Committee also approved a Sustainable Timber Procurement Policy, which will help ensure projects instructed by the Company meet its certification requirements. It is intended that the Committee members will receive additional tailored training on climate change matters during 2023.

TCFD

Before they were approved by the Board, the Committee reviewed Capco's TCFD disclosures, to ensure that they accurately reflected the Company's approach to the management and reporting of climate-related risks and opportunities. The Committee was pleased that Capco became fully compliant with the TCFD recommendations during 2022, following completion of a formal climate scenario risk analysis, on which the Committee was kept updated.

People

As part of its oversight of people-related matters, other than remuneration, the Committee reviews Capco's people policies on an annual basis on behalf of the Board to ensure that they remain appropriate and are aligned with the Company's culture and values (which are set out on page 19). During the year, the Committee monitored progress of the proposed merger and the impact of the associated uncertainty on the Company's employees. The Committee also received updates during the year on the results of the employee well-being survey, benchmarking of the Group's employee benefits, diversity and inclusion training that was provided to employees and the range of well-being initiatives that continue to be delivered to employees.

Outlook

Over the coming year, the Committee will continue its oversight of progress within the Company as the business progresses Capco's ESG Strategy and will ensure that the Board is kept fully updated. Delivering progress against the Net Zero Carbon Pathway is a priority, and the Committee will continue to ensure that the Company properly implements the actions required to achieve the goals set in the Pathway, with a governance framework to support this, and that the wider ESG activities remain thorough and effective. Finally, if the proposed merger with Shaftesbury becomes effective, the Committee will also oversee the critical integration of the sustainability activities currently undertaken within both companies.

Charlotte Boyle
Chair

28 February 2023

King Street

Directors' Remuneration report

"Remuneration for 2022 reflects excellent operational performance and strategic progress, the importance of retention and motivation of our talented team and the impact of the proposed merger."

Jonathan Lane OBE, Chairman

Matters considered by the committee during 2022 included:

- Executive Director and senior management remuneration
- Impact of the proposed merger on remuneration arrangements
- Engagement with shareholders
- Remuneration across the Group and review of workforce policies
- Setting, and evaluation, of performance against Executive Directors' performance targets
- Share scheme awards and performance targets
- Directors' shareholdings and ownership requirements
- Legislative and regulatory developments
- Investor body guidelines
- 2022 Directors' Remuneration report
- Committee terms of reference
- Chairman's remuneration
- Chairman's and Chief Executive's expenses
- Institutional investor voting reports and voting at 2022 AGM
- Performance of the remuneration adviser

Members:

- **Jonathan Lane (Chairman)**
- Charlotte Boyle
- Henry Staunton
- Anthony Steains

Annual Statement

Dear Shareholder,

I am pleased to introduce the Directors' Remuneration report.

The two key areas of focus for the business in 2022 were managing the continued recovery from the pandemic, and our proposed merger with Shaftesbury.

In 2022, the Committee met 13 times. At those meetings the Committee gave very careful consideration to the impact of the proposed merger on remuneration at Capco, in addition to the matters normally considered each year. I explain below the decisions that were taken as a direct result of the proposed merger and the context to these decisions.

The Committee seeks to ensure that Executive Director and senior management remuneration is appropriately motivating, retentive, and aligned with the shareholder experience. The motivational and retentive aspects are of particular importance to the Committee during the periods of uncertainty which inevitably arise when corporate combinations are contemplated. The Committee engages regularly with the Company's shareholders, and has continued to emphasise the importance of these matters to investors.

The Company has recovered strongly from the pandemic and this is reflected in the strong leasing demand and rental growth delivered during the year. During the pandemic Capco did not take any direct government support, including the government's furlough scheme, or seek any funding from shareholders. In addition, no employees were made redundant as a result of the pandemic, and the Company did not reduce any employee salaries.

We have good visibility on remuneration decisions taken for the wider employee population. The Committee takes its decisions with this in mind and is aware of the impact that decisions we take have on the Company as a whole.

Merger with Shaftesbury

As announced on 16 June 2022 and approved by both companies' shareholders on 29 July 2022, Capco and Shaftesbury are expected to combine through Capco issuing shares to Shaftesbury shareholders in exchange for shares in Shaftesbury. In agreeing the structure of the transaction, the Capco and Shaftesbury Boards determined that this structure was in the best interest of shareholders, as opposed to Shaftesbury, the larger company, issuing its shares to acquire Capco. Whilst this structure may have resulted in only Shaftesbury's share awards being triggered, this would have created an inequitable situation where two groups of employees were to be combined, but only the smaller company's employees' share awards would continue, under amended performance targets. However, Capco's share plan rules permitted the Committee to treat the merger as equivalent to a takeover and therefore trigger the awards, creating equality of treatment, for all employees.

The Committee considered the extent to which the Capco share awards should be permitted to vest, having regard to any performance conditions and employment requirements attached to those awards. The Capco Remuneration Committee and the Shaftesbury Remuneration Committee were requested by financial advisers to make these assessments at the time that the ratio of Capco to Shaftesbury shares for the all share merger was calculated, to ensure that as accurate a ratio as was possible could be determined, and that one group of shareholders was not disadvantaged over the other.

The Committee assessed the relative Total Shareholder Return and relative Total Return performance conditions attaching to the 2020, 2021 and 2022 PSP awards having regard to the relative TSR ranking shortly before the time it made its decision and analysts' projections at that time for the TR of the peer companies for the end of each of the three-year performance periods. It then reflected on the fact that reducing the PSP awards for early vesting would permanently deprive the recipients of some of the shares they had expected to receive if they had remained with Capco until the end of each three-year performance period. (In some mergers "replacement awards" are granted to compensate for these lost share awards, but that compensation was not permitted under our PSP rules and is not taking place here for either the Capco or Shaftesbury share awards).

Finally, the Committee reflected on whether the resultant level of vesting was reasonable and appropriate in the circumstances, considering all of Capco's stakeholders. The outcome of our deliberations was that on completion of the merger, the 2020 PSP award should vest at 25 per cent (median threshold), the 2021 PSP award at 63 per cent (between median threshold and upper quartile full vesting) and the 2022 PSP award top quartile full vesting but scaled back by a third to 66.7 per cent, and the performance conditions applying to these awards were determined at these levels to reflect this assessment, in the event that the proposed merger completed. Should the proposed merger not complete then outstanding PSP awards revert to their original performance conditions. The 2022 award was reduced by a third to reflect its early vesting date. To reflect the early vesting of these awards, the Capco Executive Directors were required to agree to retain half of the post-tax value of shares that will vest from these three awards for a period of two-years. These shares will also count towards the two-year post-cessation shareholding requirements for Executive Directors under our Directors' Remuneration Policy. As disclosed in the Prospectus dated 7 July 2022 (the "Prospectus"), this results in approximately 53 per cent of the 10.3 million shares under PSP awards vesting, which the Committee felt was sensible, balanced and reasonable.

The Committee determined that on completion of the merger, the Deferred Bonus share awards will also vest. Executive Directors will then be required to retain these shares (net of sales to meet taxation liabilities) until their normal vesting dates. The shares awarded in respect of the 2021 annual bonus will also count towards the two-year post-cessation shareholding requirements.

Each member of the post-merger management team will participate in the 2023 annual bonus plan and will receive 2023 PSP awards. Critically there will be no misalignment arising from legacy share awards potentially vesting for one group of executives compared to the other over the next two years. This alignment from day one will help accelerate the integration of the teams and the creation of a single Group culture. The 2023 PSP awards for Executive Directors and current employees of Capco have been approved by the Committee and will be implemented as soon as practicable after the completion of the proposed merger, together with 2023 PSP awards for those future Group employees who are currently employed by Shaftesbury.

Performance measurement in 2022 and variable remuneration outcomes

The Company performed strongly during 2022 following its rapid recovery from the impact of the pandemic, reflecting the positive effects of its active management strategy and dynamic leasing and marketing strategies. During the year, the Committee decided that the Net Tangible Assets per share performance targets that had been set for 25 per cent of the bonus would be rendered unsuitable as they had included the market value of the Company's shareholding in Shaftesbury on an undisturbed basis, whereas from the date that the merger terms were set, the Shaftesbury shares would be expected to trade in line with the performance of both Shaftesbury and Capco and the merger terms. This created an outcome for which the NTA targets had not been set. The Committee felt that it was not sensible to change the targets during the year. Accordingly, we decided to reallocate the 25 per cent weighting from this measure to the EPS measure, for 2022 only, because that could be most influenced in a positive or negative manner by management between the announcement of the merger and the year end. We specifically retained our discretion to take a holistic view of the bonus outcome following the year end. The EPS and TPR targets were met in full, with performance significantly exceeding the stretch targets that had been set, delivering the 75 per cent of bonus opportunity allocated to these measures.

The non-financial targets were assessed at 100 per cent, reflecting the achievement by each of the Executive Directors of strategic, financial, ESC and operational goals. The Committee felt that the achievement of these objectives, alongside delivery of the significant actions required throughout the year to achieve the steps needed to deliver the merger, demonstrated each individual's outperformance. Taking a holistic view, the Committee concluded that the performance of the Executive Directors was consistent with the overall 100 per cent formulaic outcome for the year. In reaching this conclusion the Committee took into account the degree of outperformance of the financial targets and the recovery of the Company's share price by the time of the CMA announcement in late February. I would remind shareholders that the Committee exercised downward discretion two years ago when 2020 bonus levels were reduced to zero to reflect the shareholder experience that year. Overall bonuses of 100 per cent of maximum were awarded to the three Executive Directors. Once the merger has completed, 40 per cent of each bonus award to the Executive Directors will be deferred for three years in shares in accordance with the Remuneration Policy.

Executive Director remuneration in 2023

When setting Executive Director remuneration, the Committee considers a range of factors, including scope of the role, market comparators, personal and individual performance and employee remuneration across the business.

Employees

The remuneration structure for Capco's employees mirrors that of the Executive Directors, with employees being eligible for a discretionary bonus and PSP awards, as well as their salary, pension and employee benefits. Employees have regular opportunities to engage with Non-executive Directors via Charlotte Boyle's attendance at the ESC Management Committee and the Board receives feedback throughout the year, including the findings of the Company's employee well-being survey. Changes made benefiting employees include:

– Inflationary salary increases which take place with effect from 1 April 2023 will be c. five per cent.
– Promotional salary increases will be on top of these inflationary increases and relate to market levels for the new roles.
– All employees are eligible to receive an annual cash bonus, and we intend to recognise the significant efforts and achievements made throughout the Company during the year to position the Company for the merger.
– Share awards will continue to be made to the majority of our directly employed staff at levels of between 25 per cent and 100 per cent of their salaries.
– In April 2022, the employer pension contribution rate was increased from 15 per cent to 17.5 per cent. This has been a contributory matching scheme with employees paying in from two per cent to five per cent upwards which is matched by the company from 14.5 per cent to a maximum of 17.5 per cent. From 1 April 2023, employee contributions will no longer be required, and all employees will receive the full 17.5 per cent.

All eligible employees will receive annual bonuses and are expected to receive share awards post-completion of the merger.

You can read more about our employee benefits on page 80.

Salary review

As disclosed in the Prospectus, reflecting the increased scope that the roles of the Chief Executive and Chief Financial Officer will be performing in the merged company, on completion of the proposed merger Ian Hawksworth and Situl Jobanputra's salaries will increase to £725,000 and £520,000 respectively, which represents an increase of 4.0 per cent and 12.6 per cent respectively in addition to the annual increase of 4.0 per cent which would take effect from 1 April 2023 in the event that the proposed merger did not complete. Michelle McGrath will not be an Executive Director of the Board following completion of the merger, however should the merger not complete her salary will increase by 4.0 per cent to £390,000 with effect from 1 April 2023.

Annual bonus

The annual bonus opportunity for 2023 will remain at 150 per cent of salary. The financial measures and the weightings of financial and non-financial measures will be unchanged from the original 2022 levels. The annual bonus measures and targets will be subject to adjustment following completion of the proposed merger, reflecting the combined business. The non-financial performance targets for 2023 continue to include a significant emphasis on ESC matters, reflecting Capco's focus on these areas and aligning with Capco's ESC strategy.

Pension contributions

As previously committed, the employer pension contributions for the Executive Directors (including any future appointments) are now aligned with the employer pension contribution for employees, having reduced since 2020 from 24 per cent of salary to 17.5 per cent of salary. In addition, employee pension contributions will now made on a non-contributory basis, ensuring that all employees receive the full pension contribution.

PSP awards

The annual PSP award of 300 per cent of salary will be made to each Executive Director following the completion of the merger. The performance conditions that apply to the awards will be the same as in previous years, and may be subject to necessary adjustments following completion of the proposed merger.

Benefits

Benefits will continue to operate as in prior years.

ESC

As mentioned above, each of the Executive Director's non-financial performance targets include ESC targets which are aligned with the Company's ESC strategy. The Committee believes that it is important that the Company's Executive remuneration reflects its ESC commitments, and the post-merger Remuneration Committee is expected to consider how ESC targets can be further incorporated into the remuneration structure as it reviews the Company's Remuneration Policy over the course of the coming year.

Non-Executive Directors' Fees

The fees paid to the Non-executive Directors were not increased in the last two years. No review has been undertaken this year.

New Directors' Remuneration Policy

The Directors' Remuneration Policy falls for renewal at the 2023 AGM. Given that the Board of the merged company will include a number of Shaftesbury directors, including a new Board Chair and Remuneration Committee Chair, the Committee is proposing only minor adjustments in line with best practice and does not include any new elements of remuneration. Consequently, we did not feel that it was proportionate to consult with shareholders and their representative bodies on this renewal. Our expectation is that a full review will be undertaken should the merger complete, and this may result in shareholder consultation and approval being sought for a revised Policy at the 2024 AGM.

Conclusion

We will be asking shareholders to approve the updated Directors' Remuneration Policy, the Annual Report on Remuneration and this Annual Statement at the 2023 AGM. As explained within this report, the Committee's decisions reflect the delivery of a key strategic opportunity for the Company and the need to motivate the management team as Capco enters a new phase of great opportunity. I encourage shareholders to support each of the resolutions at the AGM.

Finally, I will be stepping down from the Board on completion of the merger, and would like to take this opportunity to thank my Committee colleagues and the Executive Directors for their considerable contribution and support, and to wish every success to the Company and its future Board.

Jonathan Lane OBE
Chair

28 February 2023

Supporting clarity, simplicity, proportionality, and predictability and ensuring risk mitigation and alignment to culture

The table below explains how both the current Remuneration Policy, and the Committee's practice in applying the Policy over the year under review, address the factors set out in Provision 40 of the UK Corporate Governance Code:

Clarity	Simplicity	Risk
– Clarity and transparency is achieved through a combination of explanations for decisions taken and disclosure of the nature and weighting of annual bonus and PSP performance measures. – The Remuneration Policy and its implementation look to support the wider Capco business strategy.	– Achieved by Executive Directors' remuneration being composed of a limited number of elements designed to balance the retention and incentivisation of Executive Directors with the delivery of strategy and shareholder returns. – Executive Director remuneration is composed of only four elements: base salary, pension and other benefits, annual bonus and PSP.	– A range of features of Executive Directors' remuneration assist in mitigating the risks of excessive rewards and inappropriate behaviour. – Executive Directors are expected to build a material shareholding which must be maintained for a period following departure, which aligns them with the long-term interests of Capco.

Predictability	Proportionality	Alignment to culture
– Some of the same features of Executive Directors' remuneration arrangements that mitigate risk also ensure that outcomes are within a predictable range. – Shareholders are provided with potential values which can be awarded to Executive Directors under the annual bonus and PSP.	– Achieved through strong links between Executive Directors' remuneration and corporate performance.	– Achieved through strong links between Executive Directors' remuneration and Capco's values: – Collegiate, supportive and inclusive – Environmentally and socially responsible – High performance and entrepreneurial – Innovative and creative – Professional: We act with integrity and hold ourselves to the highest standards

Remuneration Policy

1. Policy report

This section of the Directors' Remuneration Report sets out Capco's new Remuneration Policy which will take effect following the 2023 AGM, subject to shareholder approval. Details of actual remuneration paid, share awards made, and the approach to remuneration for 2023 are set out within the Annual Report on Remuneration, which starts on page 117.

1.1 Remuneration policy

The key objectives of the Company's Remuneration Policy are to:

- Strongly align executive and shareholder interests
- Underpin an effective pay-for-performance culture
- Support the retention, motivation and recruitment of talented people who are commercially astute
- Encourage executives to acquire and retain significant holdings of Capco shares

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

The Remuneration Policy is aligned to the strategy and nature of the Company, and reflects the importance of total return and the long-term nature of Capco's business, rewarding the Executive Directors for delivering strong performance against the Company's key performance indicators ("KPIs").

In order to avoid any conflict of interest, remuneration is managed through well-defined processes ensuring that no individual is involved in the decision-making process related to their own remuneration. In particular, the remuneration of all Executive Directors is set and approved by the Committee; none of the Executive Directors are involved in the determination of their own remuneration arrangements.

Each year, with the support of external advisers, the Committee undertakes a review of the remuneration of the Executive Directors. It has oversight of the remuneration of the senior managers immediately below Board level, and the Company Secretary. It considers the responsibilities, experience and performance of the Executive Directors and pay across the Group.

Subject to approval by shareholders at the 2023 AGM, this Policy will be effective for the 2023 financial year and will apply to incentive awards with performance periods beginning on 1 January 2023. Payments to Directors can only be made if they are consistent with a shareholder approved Policy or amendment to the Policy.

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

1.2 Executive Director policy table

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary To provide an appropriately competitive base salary, whilst placing emphasis on the performance-related elements of remuneration. The Committee believes base salary for high-performing experienced Executive Directors should be at least median.	Base salaries are normally reviewed on an annual basis, with any increase normally taking effect from 1 April. The Committee reviews base salaries with reference to: – Other property companies (including the constituents of the long-term incentive plan's comparator group) – UK companies of a similar size – Each Executive Director's performance and contribution during the year – Scope of each Executive Director's responsibilities – Changes to the remuneration and overall conditions of other employees When reviewing base salaries, the Committee is mindful of the gearing effect that increases in base salary will have on the potential total remuneration of the Executive Directors.	Base salary increases will be applied in line with the outcome of the review and will normally be in line with increases awarded to other employees. However, the Committee may make additional adjustments in certain circumstances to reflect, for example, an increase in scope or responsibility, development in role, to address an increase in size or complexity of the business, to address a gap in market positioning and/or to reward the long-term performance of an individual. For the purposes of stating a maximum as required by the remuneration regulations, no increase will be applied to an Executive Director's base salary if the resulting base salary would be above the upper quartile base salary for CEOs at companies in the FTSE 350.	The Committee considers individual and Company performance when setting base salary, as well as the general increase awarded other employees.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Benefits To be appropriately competitive with those offered at comparator companies.	Benefits will be in line with those offered to some or all employees and may include private dental and health care, life insurance, personal accident cover, travel insurance, income protection, and a car allowance, which may be paid in cash. Directors may participate in flexible benefit arrangements offered to other employees, including the ability to buy or sell annual leave. Directors may receive seasonal gifts and a gift on leaving the Board (including payment of any tax thereon), in appropriate circumstances. Other benefits may be introduced from time to time to ensure the benefits package is appropriately competitive and reflects individual circumstances. For example, Directors may be offered relocation and/or expatriate benefits should a Director be required to relocate as a result of emerging business requirements.	Set at a level which the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of all benefits will not normally exceed 10 per cent of base salary, with the exception of any future expatriate and/or relocation benefits, which would be disclosed in the Annual Report on Remuneration. Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	N/A
Pension To be appropriately competitive with that offered by comparator companies.	Capco offers a defined contribution pension scheme. Executive Directors may elect to be paid some or all of their entitlement in cash.	The maximum contribution for any Executive Director will be in line with the level available for other employees at any given time (which is currently 17.5 per cent of salary).	N/A
Annual bonus To incentivise and reward performance. The Committee selects performance measures and targets each year to reinforce the strategic business priorities for the year. The deferral into shares of 40% any annual bonus is designed to further align executives with shareholders' interests.	The annual bonus arrangements are reviewed at the start of each financial year to ensure performance measures and weightings are appropriate and support the business strategy. The Committee reviews performance against the annual bonus targets but has the ability to take into account broader factors and, subject to the 150 per cent of salary maximum, may exercise two-way discretion to ensure that the annual bonus awarded properly reflects the performance of the Company and each Director. The rationale for award of bonuses will be explained in the Directors' Remuneration Report. Bonus may be deferred in Capco shares or nil-cost options for three years under the Performance Share Plan without further performance conditions but subject to risk of forfeiture should an Executive Director leave the Company in certain circumstances. Directors may be entitled to be paid dividend equivalents on deferred bonus. Deferred bonus is subject to malus as described in the notes to this table.	The maximum bonus opportunity for Executive Directors is 150 per cent of annual salary with a bonus of 75 per cent of salary payable for achieving target levels of performance. No bonus is payable for below threshold performance. The payment for threshold performance will not exceed 10 per cent of maximum. Awards are made on a straight-line basis for performance between threshold and target, and on a separate straight-line basis for performance between target and maximum.	Executives' performance is measured relative to challenging one-year targets in key financial, operational and strategic measures. The measures selected and their weightings may vary each year according to the strategic priorities. At least 75 per cent of the bonus will be measured against financial performance.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Performance Share Plan 'PSP' To incentivise and reward long-term outperformance, and help retain Executive Directors over the longer-term.	Executive Directors are eligible to receive awards of shares under the PSP, which may be made as awards of shares or nil-cost options, at the discretion of the Committee. In assessing the outcome of the performance conditions, the Committee must satisfy itself that the figures are a genuine reflection of underlying financial performance, and may exercise downward discretion when determining the proportion of an award that will vest. Dividend equivalents may be paid. The Committee has the discretion in certain circumstances to grant and/or settle an award in cash. In practice this will only be used in exceptional circumstances for Executive Directors. PSP awards are subject to malus and clawback as described in the notes to this table.	The maximum grants which may be made to participants as awards or nil-cost options are 300 per cent of salary. 25 per cent of an award vests for threshold performance, with full vesting taking place for equaling or exceeding maximum performance conditions and straight-line vesting between threshold and maximum.	PSP awards usually vest on the third anniversary of the date of grant, and are subject to a two-year post-vesting holding period. The vesting of awards is usually subject to continued employment and the Company's performance over a three-year performance period. It is intended that the performance measures that will apply to the 2023 awards will be split equally between relative Total Return and relative Total Shareholder Return metrics vs. FTSE 350 REITs. The performance measures, weightings and targets which apply to the PSP are reviewed by the Committee annually and, subject to consultation with shareholders, the Committee has discretion to make changes to the measures, the weightings and/or the comparator group for future awards to ensure that they remain relevant to the Company strategy and are suitably stretching.
All employee share schemes	The Company does not currently operate any all employee share schemes. However, if such a scheme were introduced the Executive Directors would be able to participate on the same terms as other employees.	In line with HMRC-approved limits.	

1.3 Notes to the policy table performance measurement selection

Annual bonus scheme

Executive Directors may earn bonuses depending on the Company's financial performance and performance against individual performance targets designed to deliver strategic goals. The current structure of the annual bonus performance conditions is illustrated within the Annual Report on Remuneration on page 120. The financial performance measures and the importance of each are set out in the table below. The Remuneration Committee has discretion to change the performance conditions in the annual bonus, but within the bounds set out in the Remuneration Policy Table.

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

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

Measure	Reason
EPRA Net Tangible Assets per share (NTA)	Considered by the Committee to be an important driver of value creation for Capco.
Underlying Earnings per share	Rewards value growth in net rental income as well as the management of administration, financing and other costs.
Relative Total Property Return	Rewards the additional portfolio value created by management over and above any changes in value from tracking the property market as a whole, as measured by the MSCI Total Return All Property Index, an external benchmark widely used in the property industry.

Long-term incentives

The performance conditions for the PSP currently comprise two measures:

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

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

The Committee believes that NTA growth is an important internal measure of success for Capco at this time. Accordingly, the Committee considered it appropriate to reward NTA performance in both the short- and long-term incentive arrangements, with a one-year absolute NTA target being used in respect of the annual bonus arrangements and three-year relative NTA (as the main component of three-year Total Return) being used in respect of the long-term incentives.

A significant element of the Company's NTA is the value of properties which are based on independent external valuations carried out in accordance with RICS Valuation Professional Standards.

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

The current long-term incentive performance conditions are summarised within the Annual Report on Remuneration on page 118. Performance is measured relative to a bespoke comparator group of property companies and Capco. The members of the current comparator group are shown in the table on page 118.

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

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

Discretions

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

Payments resulting from existing arrangements

The Committee may make any remuneration payments and payments for loss of office (including exercising any discretions it has relating to such payments) even though they are not in line with the Policy set out in this report. This will apply where the entitlement to the payment arose:

(i) before the 2014 AGM; (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company; or (iii) under a remuneration policy previously approved by the Company's shareholders. For these purposes entitlements arising under the Company's previous remuneration policies (as approved by shareholders at the 2014, 2017 and 2020 AGMs) will be incorporated into this policy, 'payments' includes the Committee satisfying awards of variable remuneration, and an entitlement under an award over shares arises at the time the award is granted.

Malus and clawback

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

Summary of changes to Remuneration Policy

The proposed new Remuneration Policy does not include any new elements of remuneration. A summary of key changes from the provisions of the previous Remuneration Policy is set out below, and the details of the new Remuneration Policy are set out within the Policy Table. Minor changes are also being proposed to update the Policy and provide greater clarity in how it can operate:

Element of remuneration	Change under new Policy
Annual bonus	Amount deferred into shares changed to 40% of bonus, from any element of bonus greater than 100% of salary. On recruitment of an Executive Director, the ability to provide up to an additional 50% of salary is being removed.

Remuneration of employees below the Board

No element of remuneration is operated solely for Executive Directors. Capco employees below the Board receive base salary, benefits, pension, annual bonus, and some participate in the PSP. However, there are some differences in operation as set out below:

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

Shareholding requirements

The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of base salary and the other Executive Directors are required to achieve a shareholding in the Company equivalent to 200 per cent of base salary, to be achieved normally within five years by retaining at least 50 per cent of any vested share awards (net of tax and NIC). There is a two-year post-cessation shareholding requirement of 200 per cent of salary for all Executive Directors, capturing annual bonus awards made from 1 January 2022 (in respect of 2021) and all Performance Share Plan awards made from 1 January 2021. The current shareholdings of the Executive Directors are also set out on page 125.

1.4 Performance Scenario charts

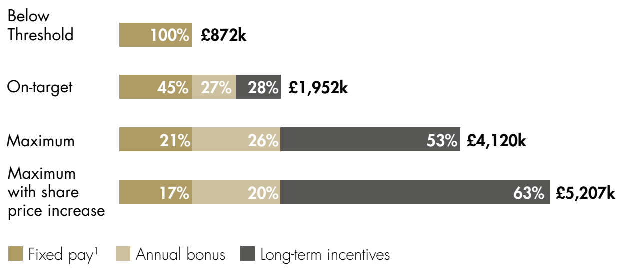
The potential reward opportunities illustrated in Figure 1 are based on the policy which will apply in 2023, applied to the base salary that will apply for Ian Hawksworth and Situl Jobanputra from completion of the proposed merger on 6 March 2023, and the salary that would apply for Michelle McGrath from the salary review date, 1 April 2023, were the proposed merger not to complete, and provide estimates of the potential future reward opportunity for each of the three current Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Below Threshold', 'Target' and 'Maximum'.

The Below Threshold scenario includes base salary, pension and benefits (fixed pay). No annual bonus or PSP elements are included (variable pay). The Target scenario includes fixed pay, on-target bonus (50 per cent of opportunity) and threshold vesting of PSP awards. The Maximum scenario includes fixed pay, maximum bonus and full vesting of PSP awards. For variable pay, the amounts illustrated are the normal maximum opportunities. The Maximum scenarios also include an illustration of the amount that would be payable under the PSP elements if there was share price appreciation of 50 per cent between the date of award and the date of vesting.

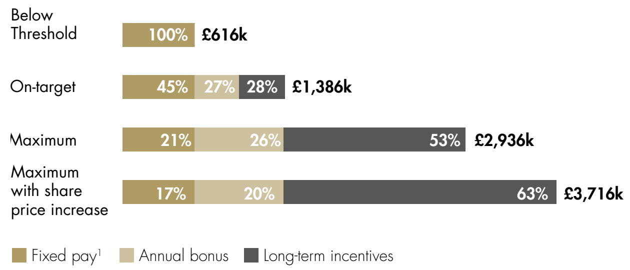
It should be noted that the PSP awards granted in a year do not normally vest until the third anniversary of the date of grant and are subject to a two-year post-vesting holding period. The projected values of long-term incentives shown here exclude the impact of share price movement and dividends (other than where 50 per cent share price appreciation is assumed).

Figure 1

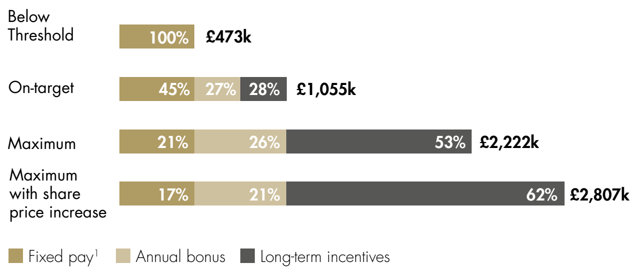
Ian Hawksworth, Chief Executive



Situl Jobanputra, CFO



Michelle McGrath, Executive Director



1. Fixed pay comprises salary, pension and benefits.

1.5 Approach to Recruitment Remuneration

When hiring or appointing a new Executive Director, which includes appointing an individual who is not an Executive Director but who still falls within this Policy, the Committee may make use of any of the existing components of remuneration, as follows:

Element of remuneration	Policy on recruitment	Maximum opportunity
Salary	Based on scope and nature of responsibilities of the proposed role; the candidate's experience; implications for total remuneration positioning vs market pay levels for comparable roles; internal relativities; and the candidate's current salary. A new Director may be appointed at a salary which is less than the prevailing market rate but increased over a period to the desired positioning subject to satisfactory performance.	N/A
Pension	A contribution in line with the level available for other employees at any given time (currently 17.5 per cent of salary) may be offered, consistent with policy.	Consistent with Policy Table limit.
Benefits	Appropriate benefits will be provided, which may include the continuation of benefits received in a previous role.	Consistent with Policy Table limit.
Annual bonus	Executive Directors will be eligible to participate in the annual bonus scheme on the same basis as existing Executive Directors, pro-rated for proportion of year served. Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions from the current Executive Directors in the first performance year of appointment.	150 per cent of salary, consistent with Policy Table.
Performance Share Plan	New Executive Directors will be eligible to participate in the long-term incentive scheme set out in the Remuneration Policy Table. A PSP award can be made shortly following an appointment (assuming the Company is not in a prohibited period).	300 per cent of salary, consistent with Policy Table.
Other	In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of Capco and its shareholders. Remuneration, which may be outside the usual policy limits, may include: – An award made in respect of a new appointment to 'buy out' existing incentive awards forfeited on leaving a previous employer. In such cases the compensatory award would typically be a like-for-like award with similar time to vesting, performance conditions and likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. To facilitate such a buyout, the Committee may use an award under a different structure or an additional award under the PSP – A relocation package, should this be required – For an overseas appointment, the Committee will have discretion to offer cost-effective benefits and pension provisions which reflect local market practice and relevant legislation – In the event that an employee is promoted to the Board, the Company would honour any existing contractual arrangements	

1.6 Service contracts and exit payment policy

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

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

When considering exit payments, the Committee reviews all potential incentive outcomes, having regard to the reason for leaving and the Director's performance. The payment of any annual bonus is subject to the discretion of the Committee, and both the cash and deferred share elements of an annual bonus would normally be payable at the normal payment date. Any deferred share element could be paid in cash. Any outstanding deferred bonus may be released or paid in cash, subject to clawback for a period of three years from the date of grant.

	Commencement date	Notice period
Ian Hawksworth	17 May 2010	12 months
Situl Jobanputra	1 January 2017	12 months
Michelle McGrath	26 February 2020	12 months

An individual would generally be considered a 'good leaver' if they left the Group's employment for reasons including injury, ill-health, disability approved by the Committee, redundancy, retirement with the agreement of the employing company, the employing company ceasing to be a member of the group, the transfer of the undertaking or part of the undertaking in which the Director works to a person which is not a member of the Group, or in any other circumstances at the discretion of the Committee. The table below summarises how PSP awards are typically treated in specific leaver circumstances, with the final treatment remaining subject to the Committee's discretion. For example, an individual may be considered a 'good leaver' for any other reason at the absolute discretion of the Committee, and the vesting of awards may be reduced for 'good leavers'.

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

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

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

1.7 Non-Executive Director policy table

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

Non-executive Directors' dates of appointment and unexpired terms

	Date of appointment	Date of most recent letter of appointment	Unexpired term as at 31 December 2022
Charlotte Boyle	1 October 2017	28 June 2022	6 months
Jonathan Lane	1 March 2019	28 June 2022	6 months
Henry Staunton	2 June 2010	28 June 2022	6 months
Anthony Steains	1 March 2016	28 June 2022	6 months

Remuneration report

The table below summarises each of the components of the remuneration package for the Non-executive Directors (including the Chairman). The Non-executive Directors do not receive any pension, bonus or long-term incentive benefits from the Company. This policy also applies to the recruitment of new Non-executive Directors.

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

1.8 External directorships

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

1.9 Consideration of conditions elsewhere in the company

When setting Executive Director pay the Committee considers the remuneration and overall conditions of all employees. As Capco has a relatively small workforce, the Committee does not consult with employees when deciding Remuneration Policy, but it receives regular updates from the Head of HR on salary increases, bonus and share awards made to Group employees and is aware of how the remuneration of Directors compares with that of other employees. For example, salary increases are generally no higher than increases awarded to other employees, which are set with reference to market data.

1.10 Consideration of shareholder views

It is the Committee's policy to engage with major shareholders as appropriate. For example prior to finalising any major changes to its executive Remuneration Policy. Shareholder feedback on the previous Remuneration Policy and investor guidelines were considered by the Committee when preparing the Remuneration Policy, and a number of best practice measures were incorporated.

2. Annual report on remuneration

This section of the Directors' Remuneration report explains how Capco's current Remuneration Policy has been implemented during the year.

2.1 Remuneration Committee

The Remuneration Committee is responsible for determining and recommending to the Board the policy for the remuneration of the Executive Directors, setting targets for the Company's incentive schemes and determining the total individual remuneration package for each Executive Director, and certain members of senior management. Membership of the Committee throughout 2022 and as at the date of this report is set out on page 105. In addition, the Chief Executive, Company Secretary and the Committee's remuneration adviser, Korn Ferry, are invited to attend Committee meetings and contribute to discussions. The Committee meets regularly throughout the year to consider matters relating to executive and employee remuneration, and provides updates to the Board on the matters considered and the decisions reached. Attendance at the 13 meetings held during the year is shown in the table on page 91 and a summary of the matters considered by the Committee during the year when reviewing remuneration matters and making decisions about executive remuneration is set out on page 105. To ensure that conflicts of interest are avoided or managed, those attending the meeting are requested to leave the meeting when matters relating to their own remuneration, or any other matters which may be judged to be a potential conflict of interest, are discussed.

2.2 Statement of policy for 2023

Salary

The Executive Directors' salaries are reviewed annually. As disclosed in the prospectus, reflecting the increased scope that the roles of the Chief Executive and CFO will be performing in the merged company, Ian Hawksworth and Situl Jobanputra's salaries will increase to £725,000 and £520,000 respectively on completion of the merger, which represents an increase of 4.0 per cent and 12.6 per cent respectively in addition to the annual increase of 4.0 per cent that would otherwise have taken effect on 1 April 2023. Michelle McGrath will not be an Executive Director of the Board following the merger. Should the merger not complete her salary will increase by 4.0 per cent to £390,000. The salaries for the Executive Directors are set out in the table below:

Executive Director salaries – 2022 and 2023

	2022	2023	%	2023 (If no completion)	%
Ian Hawksworth	£671,500	**£725,000**	**8.0**	£698,500	4.0
Situl Jobanputra	£446,000	**£520,000**	**16.6**	£464,000	4.0
Michelle McGrath[1]	£375,000	**N/A**	**N/A**	£390,000	4.0

1. Michelle McGrath will not be an Executive Director of the Board on completion of the merger.

Pension and benefits

As described in the Remuneration Policy on page 110.

Annual bonus

Opportunity

The annual bonus opportunity will remain unchanged for 2023. As explained in the Chair's letter on page 105, 40 per cent of the whole amount of any bonus awarded will be deferred into shares for three years.

Performance conditions

In common with previous years, the financial performance targets for the year ending 31 December 2023 will be based on growth in EPRA Net Tangible Assets per share ("NTA"), Total Property Return relative to the MSCI Total Return All Property Index, and underlying EPS. The weightings of each measure, which are unchanged from the original targets set in 2022, are shown in the table below. The relative weighting of financial and individual performance measures will also remain unchanged. Individual non-financial targets are set for each Executive Director.

Performance targets

The TPR target is included in the Company's KPIs on page 20. The KPIs are in part dependent upon the occurrence of certain discrete events. Therefore, whilst the outperformance targets that apply to the long-term incentives are disclosed, the Board has decided that as the Group operates in specific locations within the competitive central London property market, prospective disclosure of specific short-term NTA and EPS targets, or non-financial performance targets, would provide a level of information to counterparties that could prejudice the Company's commercial interests. The Committee will publish the performance targets retrospectively once they have ceased to be commercially sensitive, which is expected to be when the bonus amounts are determined. Further information on the Company's KPIs can be found on pages 20 and 21.

2023 annual bonus financial performance measures

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

Performance Share Plan (Audited)

PSP awards of 300 per cent of 2023 salary will be made to each Executive Director as awards or nil-cost options. The performance conditions and comparator group that will apply to these awards, and all outstanding awards, are set out in the tables below.

Performance conditions for PSP awards

	Threshold (25%)	Maximum
TR v FTSE 350 REITS (50 per cent)	Median	Upper Quartile
TSR v FTSE 350 REITS (50 per cent)	Median	Upper Quartile

TR and TSR comparator group for PSP awards

- For awards made since 2021, the comparator group is the REITS that are members of the FTSE 350
- For awards made prior to 2021, the comparator group is British Land, Capco, Derwent London, Great Portland Estates, Hammerson, Intu Properties, Land Securities, Shaftesbury and Workspace

Use of market purchased shares

The rules of the Performance Share Plan provide the Board with flexibility on whether the shares awarded will ultimately be delivered by issuing new equity, or purchasing shares on the stock market. In deciding whether to issue or purchase shares the Board will consider a number of factors with a view to minimising dilution of shareholders' interests; these include whether and by how much the shares are trading at a discount/premium to Net Tangible Assets, Group liquidity and market outlook. If there is sufficient liquidity and shares are trading at a discount to Net Tangible Assets then it is expected that shares would be purchased rather than issued. It is confirmed that the share awards made in 2023 are expected to be settled using shares purchased in the market. Due to the exceptional circumstances of the proposed merger, it was not possible for the Company's Employee Benefit Trust to acquire market purchased shares to satisfy the awards that are expected to vest prior to completion. Newly issued shares representing c. 0.3 per cent of the post-completion share capital will therefore be used to satisfy these awards.

Chairman and Non-executive Director remuneration

The Committee reviews the Chairman's fee and the remuneration of the Non-executive Directors is considered by the Chairman and the Chief Executive. The fees paid to the Chairman and Non-executive Directors are reviewed annually, although fees may not be increased every year. No increase was awarded for 2022. No review has been undertaken this year. The Chairman's annual base fee for 2022 was £284,000 and has not been reviewed.

Non-executive Director fees for 2023 and 2022

	2023 (not reviewed)	2022	% increase
Basic fee	**£55,000**	£55,000	–
Committee member (except Nomination Committee)	**£7,000**	£7,000	–
Committee member (Nomination Committee)	**£6,200**	£6,200	–
Committee Chairman (except Nomination Committee)	**£16,600**	£16,600	–
Senior Independent Director	**£13,400**	£13,400	–

2.3 Single figure of remuneration

The table below shows the single figures of total remuneration paid to each Director in 2022 and 2021. The charts in Figure 1 on page 120 illustrate the contribution that each element of remuneration made to the total remuneration of the Executive Directors.

Single figure of remuneration 2022 and 2021 (Audited)

Executive Directors

	Fixed remuneration								**Performance-related remuneration**									
									Annual Bonus[4]									
	Base salary £000		Taxable benefits[2] £000		Pension-related benefits[3] £000		Total fixed £000		Cash £000		Deferred into shares £000		Multiple-year variable[5] (long-term) £000		Total performance-related £000		Total £000	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Ian Hawksworth	**664**	640	**31**	28	**120**	134	**815**	802	**604**	425	**403**	283	**299**	–	**1,306**	708	**2,121**	1,510
Situl Jobanputra	**441**	425	**20**	24	**80**	89	**541**	538	**401**	282	**268**	188	**198**	–	**867**	470	**1,408**	1,008
Michelle McGrath[1]	**368**	347	**19**	3	**62**	52	**449**	402	**338**	229	**225**	153	**138**	–	**701**	382	**1,150**	784

Chairman and Non-executive Directors

	Fees £000		Taxable benefits[6] £000		Total Remuneration £000	
	2022	2021	**2022**	2021	**2022**	2021
Henry Staunton	**284**	284	**20**	17	**304**	301
Charlotte Boyle	**85**	85	**–**	–	**85**	85
Jonathan Lane	**85**	82	**–**	–	**85**	82
Anthony Steains	**98**	98	**37**	–	**135**	98

1. The 2021 salary figure for Michelle McGrath includes approximately six weeks' maternity pay calculated on a weekly basis, as required by HMRC.
2. Comprises medical insurance and car allowance and/or benefit in kind value of company car, where applicable.
3. Comprises pension contributions or payments in lieu of pension contributions.
4. Part of the annual bonus earned is deferred in Capco shares or nil-cost options for three years, subject to forfeiture should the Executive Director leave the Company. For 2021 and 2022, 40 per cent of the bonus was deferred in Capco shares.
5. The 2022 disclosure for Executive Directors comprises the estimated value on maturity of the 2020 PSP awards which had a performance period that ran from 2020 to 2022. These awards are included in the 2022 single figure as the performance conditions relating to these awards had been substantially (but not fully) completed during 2022. The figure was calculated assuming that the merger will complete and twenty five per cent of the PSP awards would vest, and the value was calculated using the average share price over the period 1 October to 31 December 2022 of 104.83p. Dividend equivalents have been included, calculated using the same price, on a reinvestment basis. The multiyear variable comparators in respect of 2021 were previously disclosed on the basis described above, assuming vesting of zero per cent, and it is confirmed that the awards lapsed as the performance conditions were not satisfied.
6. Comprises medical insurance and travel expenses relating to Board meeting attendance where these are taxable or would be if the Director were resident in the UK for tax purposes. Where applicable, the Company pays the tax payable on Non-executive Director expenses as they are incurred in the fulfilment of Directors' duties.

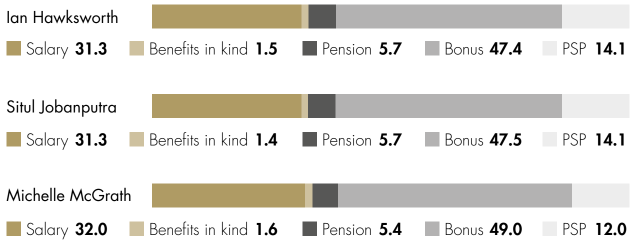
What is included in the single figure?

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

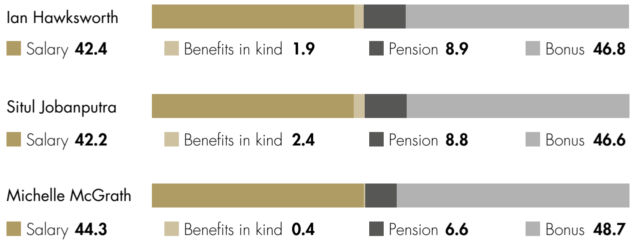
The figures below illustrate the contribution that each element of the Executive Directors' remuneration made to the single figure disclosures.

Figure 1

Composition of 2022 single figures (%)



Composition of 2021 single figures (%)



2.4 Annual bonus outcomes for 2022

Opportunity

Executive Directors can earn bonuses of up to 150 per cent of salary. The Committee has committed that 40 per cent of the total amount of any bonus earned is deferred in Capco shares or nil-cost options for three years, subject to forfeiture should the Executive Director leave the Company.

Performance measures and targets

Awards made in respect of the year ended 31 December 2022 were based 75 per cent on financial performance, and 25 per cent on individual performance.

Financial measures: The original financial performance targets for the year ended 31 December 2022, which are set out in the table on page 122, were based on NTA per share, Total Property Return relative to the MSCI Total Return All Property Index, and underlying EPS. During the year, the Committee determined that the NTA target was no longer appropriate as it had included the market value of the Company's shareholding in Shaftesbury PLC on an undisturbed basis, whereas from the date that the merger terms were set, the Shaftesbury shares would be expected to trade in line with the performance of both Shaftesbury, Capco and the merger terms. This created an outcome for which the NTA targets had not been set. Accordingly, the Committee decided to reallocate the 25 per cent weighting from this measure to the EPS measure for 2022 only, because EPS could be most influenced in a positive or negative way by management between the announcement of the merger and the year end.

Non-financial measures: The Committee assessed individual performance against a set of KPIs which align with the Company's objectives outlined on page 20 of the Annual Report. A summary of Directors' personal objectives is set out on page 121.

Outcome of 2022 annual bonus performance measures (Audited)

Outcome of financial measures: The Company's performance for the year ended 31 December 2022 exceeded the maximum performance target for TPR and EPS performance. Accordingly, awards were made to the Executive Directors in respect of these financial performance measures.

Outcome of non-financial measures: The Committee considered the performance of each Executive Director against the personal targets set for 2022. The Committee concluded that all three Executive Directors had performed exceptionally well, leading the business throughout the year and successfully implementing operational, financial and strategic objectives. The Executive Directors ensured that the day-to-day running of the business was unaffected by the preparations for the proposed merger, and their proactive approach to management of the Covent Garden estate generated excellent leasing demand resulting in 6 per cent ERV growth and low vacancy rates. A strong capital structure has been maintained, including the arrangement of a £576 million standby facility which can be drawn down on completion of the merger. The Executive Directors promoted Capco's culture and values across the business and maintained focus on the well-being of the Company's employees throughout the merger process. There has been good progress against the Company's ESC agenda, with the Company making positive steps towards meeting its target of becoming Net Zero Carbon by 2030. This performance means that each Executive Director has been awarded a bonus in respect of the non-financial target element (under which up to 37.5 per cent of salary is payable).

A breakdown of the personal objectives, and achievements in the year, is set out on the following page.

Summary of Executive Directors' annual bonuses (Audited)

	2022			2021		
Executive Director	Cash	Deferred Shares	Total	Cash	Deferred Shares	Total
Ian Hawksworth	**£604,350**	**£402,900**	**£1,007,250**	£424,800	£283,200	£708,000
Situl Jobanputra	**£401,400**	**£267,600**	**£669,000**	£282,094	£188,062	£470,156
Michelle McGrath	**£337,500**	**£225,000**	**£562,500**	£228,994	£152,662	£381,656

Outcomes of 2022 financial objectives (Audited)

	Measure		
	Relative TPR (25/25)	Underlying EPS (50/50)	Total
Ian Hawksworth	25/25	50/50	**75/75**
Situl Jobanputra	25/25	50/50	**75/75**
Michelle McGrath	25/25	50/50	**75/75**

Outcomes of 2022 annual bonus non-financial objectives (Audited)

	Area of focus				
	Corporate	Financial	Commercial/ Transactions	People/ESC/ Organisational	Total
Ian Hawksworth	7.5/7.5	5.0/5.0	7.5/7.5	5.0/5.0	**25/25**
Situl Jobanputra	5.0/5.0	10.0/10.0	5.0/5.0	5.0/5.0	**25/25**
Michelle McGrath	2.5/2.5	3.75/3.75	11.25/11.25	7.5/7.5	**25/25**

Corporate

- Ran extensive investor relations programme throughout the year to promote Capco as a leading central London REIT including results presentations, webcasts, roadshows, one to one meetings, industry conferences and investor tours
- Received shareholder support for the proposed merger with Shaftesbury
- Managed the CMA notification process and the steps required to implement the approved transaction, and undertook integration preparation within the constraints of competition law
- Management of investment in Shaftesbury

Financial

- Managed debt covenant and liquidity position effectively through the year ensuring compliance, and maintaining significant liquidity and available finance facilities
- Obtained lender consent to exercise the first extension of the Covent Garden revolving credit facility, enhancing liquidity and preserving comparatively low interest rate
- Undertook appropriate capital management,including repayment of £200 million of debt during the year, to reduce net finance costs and manage financing risk
- Proactively secured a £576 million standby facility agreement in advance of the proposed merger with Shaftesbury to ensure Group liquidity following completion of the proposed merger
- Delivered improved rent collection rates of 99 per cent for the year
- Achieved 23 per cent growth in Net Rental Income to £57.3 million
- Successful detailed business risk review process with HMRC to maintain "low risk" rating

Commercial/Transactions

- Generated excellent leasing demand resulting in six per cent ERV growth across the portfolio to £81.0 million on a like-for-like basis
- Completed 71 new leases and renewals reflecting £10 million of contracted income
- Delivered successful openings across the estate, ensuring continued appeal to visitors
- Completion of capital initiatives, including an office refurbishment which set a new rental tone of £100 psf on the office portfolio
- Completion of the sale of 5 units at Lillie Square totalling £6.6 million gross proceeds
- High occupancy levels maintained across the estate with EPRA vacancy of 2.5 per cent at 31 December 2022

People/ESC/Organisational

- Ensured continued health and safety of employees, tenants and visitors, including maintaining a 0.00 accident frequency rate on projects
- Delivered progress against Net Zero Carbon Pathway, completed climate scenario risk analysis, obtained SBTi validation of net zero carbon targets and enhanced internal monitoring and reporting of ESC commitments
- Promoted Capco's culture and values across the business
- Maintained motivated team throughout a busy year in which employees were subject to considerable uncertainty
- Launched employee well-being survey with high engagement and positive results
- Promoted wide range of initiatives across the business to promote diversity, inclusion and well-being
- Implemented successful strategic marketing programme including cultural events, pop-ups and digital engagement, driving estate footfall and generating income

Disclosure of 2022 annual bonus financial performance targets (Audited)

The Committee has previously committed to publishing the financial performance targets once they cease to be commercially sensitive. The Committee has determined that the financial performance targets that applied in respect of the year ended 31 December 2022 are no longer commercially sensitive; accordingly, the targets and the Company's performance against them are set out below. In future, the Committee expects to continue to disclose annual bonus targets following completion of the performance period.

2022 Financial targets

Performance measure	Weighting	Target range		Actual performance	% of bonus opportunity awarded
		Threshold (10% payout)	Maximum (100% payout)		
Relative Total Property Return	33.33%	0%	Out-performance of 1.5%	12.9% out-performance	100%
Underlying Earnings per Share	66.67%	0.60p	0.75p	2.2p	100%

2.5 Long-term incentive outcomes for 2022 (Audited)

In 2020, awards of 350 per cent of salary (Chief Executive and Chief Financial Officer) and 300 per cent of salary (Executive Director) were made to Executive Directors under the Company's Performance Share Plan ("PSP"). The awards were subject to relative TR and relative TSR performance conditions over a performance period of 2020-2022. As explained on page 105, in advance of publication of the merger documents, the Committee considered the extent to which these awards should be permitted to vest. The Committee assessed the relative Total Shareholder Return and Total Return performance conditions attaching to the awards (as well as the 2021 and 2022 awards) having regard to the relative TSR ranking shortly before the time it made its decision and analysts' projections at that time for the TR for the peer companies for the end of each of the three-year performance periods. Reflecting this assessment, the Committee determined that on completion of the merger, the 2020 PSP award should vest at 25 per cent (median threshold) and determined the performance conditions applying to the outstanding PSP awards, in the event that the proposed merger completed. Accordingly, 25 per cent of the 2020 PSP awards are expected to vest.

	2020 Award[1] (Number of shares)	Performance[2] (estimate)	Value of shares vesting (£)	Dividend equivalents[3] (£)	Single figure (£)	Impact of share price growth/(reduction) (£)
Ian Hawksworth	1,112,490	25% of maximum	291,560	7,032	298,592	(268,440)
Situl Jobanputra	738,763		193,614	4,670	198,284	(178,261)
Michelle McGrath	514,030		134,716	3,249	137,965	(124,033)

1. The awards were based on a share price of 201.35p.
2. The vesting level is based on the expectation that the merger will complete and the value is calculated using the average share price over the period 1 October to 31 December 2022 of 104.83p.
3. Dividend equivalents have been included, calculated using the price above, on a reinvestment basis.

2.6 Scheme interests awarded during the financial year (audited)

The 2022 PSP awards are set out in the table below. The awards are subject to the performance measures set out on page 118.

PSP (Audited)[1]

	Basis of award	Market price on date of grant[2]	Exercise price if any	Face value of award	Number awarded	Performance period[3]	Post-vesting holding period	Threshold vesting %[4]	Exercisable between
Ian Hawksworth	300 per cent of salary	164.86p	Nil	£2,014,499	1,221,945	2022–2024	2025–2026	12.5%	2025–2032
Situl Jobanputra	300 per cent of salary	164.86p	Nil	£1,337,999	811,597	2022–2024	2025–2026	12.5%	2025–2032
Michelle McGrath	300 per cent of salary	164.86p	Nil	£1,125,000	682,397	2022–2024	2025–2026	12.5%	2025–2032

1. PSP awards are granted as nil-cost options.
2. Average closing share price on the three business days preceding the date of grant.
3. The performance period runs from 1 January 2022 to 31 December 2024.
4. Assumes threshold vesting under one performance condition for annual PSP awards.

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

No payments for loss of office or payments to previous Directors in respect of relevant services were made during 2022.

2.8 Total pension entitlement (Audited)

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

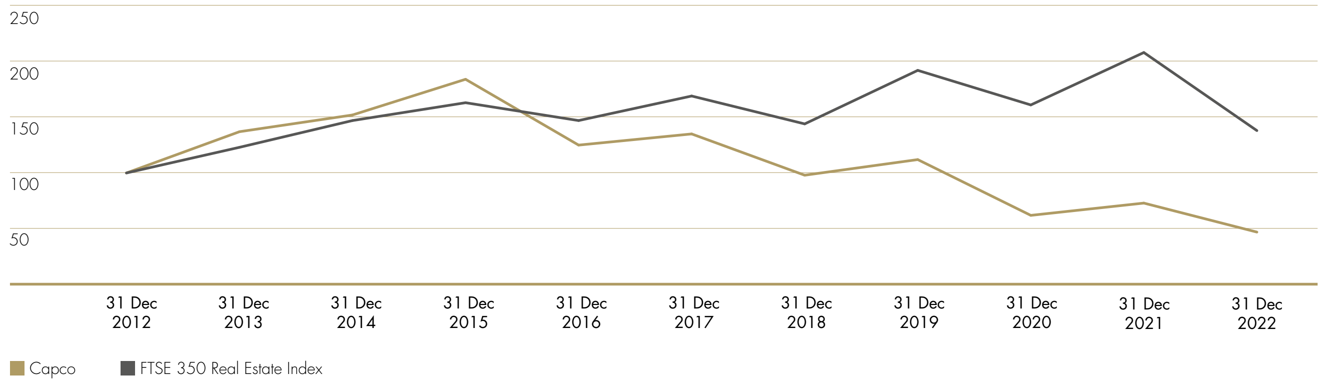
2.9 Chart of single figure of Chief Executive's remuneration vs TSR

The graph below shows the total shareholder return at 31 December 2022 of £100 invested in Capital & Counties Properties PLC on 1 January 2013, compared with the FTSE 350 Real Estate Index. The Committee considers this benchmark to be the most relevant benchmark for the Company's performance.

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

Figure 2:

Total shareholder return



Financial year	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
Single figure £000	3,530	3,396	3,275	918	1,307	991	1,566	813	1,510	**2,121**
Annual bonus % of max	94.67	96.73	91.25	21.25	61.60	23.75	83.33	0	73.75	**100.00**
MSP vesting % of max	100	93.1	40 or 80[1]	0	0	0	N/A	N/A	N/A	**N/A**
PSP vesting % of max	100	93.1	60	0	0	0	0	0	0	**25**

1. Depending on the award. Please refer to 2015 Annual Report for more information.

2.10 Percentage change in remuneration of Directors and employees

The table below shows the year-on-year percentage change in the remuneration for the years ended 31 December 2022, 31 December 2021 and 31 December 2020 of each Director compared with the average percentage change in remuneration for Capco employees.

	Salary/Fees			Benefits			Annual bonus		
	2022	2021	2020	**2022[1]**	2021	2020	**2022**	2021[2]	2020
Executive Directors									
Ian Hawksworth	**3.75**	0.79	2.92	**10.71**	7.69	-	**42.23**	N/A	-100
Situl Jobanputra	**3.76**	1.67	7.18	**-16.67**	-4.00	4.17	**42.34**	N/A	-100
Michelle McGrath[3]	**6.05**	20.49	N/A	**533.33**	50.00	N/A	**47.38**	N/A	N/A
Non-executive Directors									
Henry Staunton	**-**	1.07	2.55	**17.65**	13.33	25.0	**N/A**	N/A	N/A
Charlotte Boyle	**-**	1.19	1.20	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Jonathan Lane	**3.66**	13.89	30.91	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Anthony Steains	**-**	11.36	35.28	**N/A**	-100.00	-80.49	**N/A**	N/A	N/A
Average employee[4,5]	**10.30**	4.63	4.94	**2.95**	30.51	12.34	**20.99**	54.18	-69.47

1. Changes in benefits reflect increased costs of health insurance, benefit in kind of car contract for Situl Jobanputra and payment of car allowance to Michelle McGrath. It has not been possible to calculate the 2022 percentage increase in Anthony Steains' benefits as these reflect resumption of travel following the pandemic and there were no amounts paid in 2021. Due to the relatively small values of these amounts, small absolute increases can result in large percentage changes.
2. The Executive Directors were not awarded bonuses in 2020 and so it is not possible to provide a percentage increase for 2021.
3. Michelle McGrath was appointed as an Executive Director in 2020.
4. 2021 increases reflect increased costs of health insurance and larger bonus awards made to employees in 2021.
5. As Capital & Counties Properties PLC has no direct employees, information for Group employees has been disclosed on a voluntary basis. To allow a meaningful comparison, the analysis for employees is based on a consistent group of individuals for each comparison, being those employed at 1 January and 31 December of each period, and has been calculated on a full-time equivalent basis. The Directors are excluded from the employee figures.

2.11 Chief Executive pay ratio

As Capco has fewer than 250 employees, it is not legally required to report pay ratios. However, the ratios below are disclosed on a voluntary basis.

The table below sets out the Chief Executive pay ratio compared with the 25th, median and 75th percentile employee within the Group. Option A as defined in the Companies (Miscellaneous Reporting) Regulations 2018 was used to calculate the ratios, as this calculation methodology was considered to be the most accurate method. The employees included in the calculations are those employed by the Group at each year end, on a FTE basis. The remuneration figures for employees other than Executive Directors have been calculated using salaries payable from the April of the relevant year. The figure for Executive Directors' remuneration is the single figure of remuneration for each financial year.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Modified option A	31.0:1	17.3:1	10.9:1
2021	Modified option A	23.9:1	14.2:1	9.5:1
2020	Modified option A	14.4:1	7.9:1	6.0:1

The remuneration used to calculate the 2022 pay ratios is set out below.

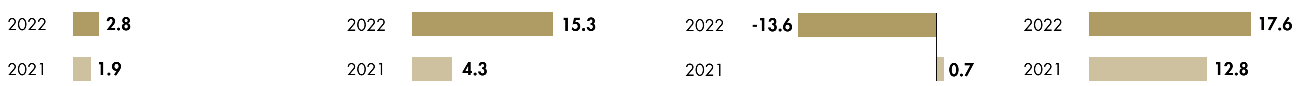
	Chief Executive £000	25th percentile £000	Median £000	75th percentile £000
Base salary	664	48	86	120
Total remuneration	2,121	68	123	194

Due to the relative weighting of variable remuneration for the Executive Directors, the pay ratios will be significantly smaller in years when PSP awards do not vest, such as 2021. In addition, due to the Group's relatively small number of employees, the ratios calculated may vary between years as a result of employees joining or leaving the Company.

2.12 Distribution statement

The bar graphs in Figure 3 below illustrate Capco's dividends paid and total employee pay expenditure (this includes pension, variable pay, and social security) for the financial years ended 31 December 2021 and 31 December 2022, and the year-on-year change in each. The aforementioned measures are those prescribed by the remuneration disclosure regulations; however, they do not reflect Capco's KPIs, which are explained on page 20. Accordingly, bar graphs showing Capco's one-year TPR and TR are also included.

Figure 3



Year-on-year change

Total property return (%)	Dividends (£m)	Total return (%)	Employee costs (£m)
+0.9%	+£11.0m	-14.3%	+4.8m

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

(a) Directors' shareholdings

The beneficial interests in the shares of the Company for each Director who served during the year as at 31 December 2022 (which are unchanged as at 28 February 2023, being a date not more than one month before the date of the Notice of Annual General Meeting) are set out in the table below. The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of salary and the other Executive Directors are currently required to achieve a shareholding in the Company equivalent to 200 per cent of base salary, to be achieved by retaining at least 50 per cent of any vested share awards (net of tax). There is a post-cessation shareholding requirement of 200 per cent of salary for all Executive Directors, capturing annual bonus awards made from 1 January 2022 (in respect of 2021) and all Performance Share Plan awards made from 1 January 2021.

The current shareholdings of the Executive Directors, and their value based on a share price of 106.5 pence, being the price of a Capital & Counties Properties PLC share on 30 December 2022 (being the last day for trading during the year), are illustrated in the table below. The shares which are included in these holdings are those held beneficially by the Director, their spouse or dependant family members, shares held within ISAs, PEPs or pensions, shares that are subject to a holding period, such as deferred bonus, and vested but unexercised awards. The latter three categories are included on a net of tax basis. All the shares held by the Chief Financial Officer and Executive Director were purchased in the market, as no share awards (subject to corporate performance conditions) have vested since they joined the Company.

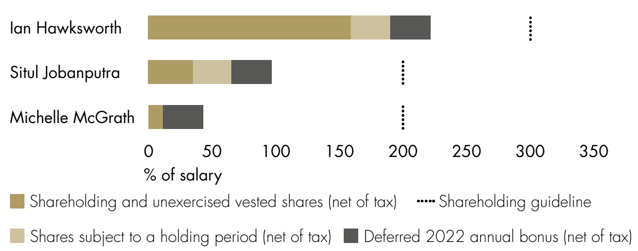
Directors' shareholdings (including connected persons) – 2022 and 2021 (Audited)

	2022 Number	2021 Number
Chairman		
Henry Staunton	**350,000**	350,000
Executive		
Ian Hawksworth[1]	**1,002,628**	909,492
Situl Jobanputra[1]	**100,000**	100,000
Michelle McGrath[1]	**40,000**	40,000
Non-executive		
Charlotte Boyle	**15,052**	15,052
Jonathan Lane	**450,000**	250,000
Anthony Steains	**–**	–

1. Excludes deferred bonus awards.

Figure 4:

Value of Executive Director shareholdings and share interests as at 31 December 2022 (Audited)



(b) Directors' share interests (Audited)

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

(i) Summary of Executive Directors' interests in shares and share schemes

Executive Director	Shares held	Nil-cost option awards in respect of deferred bonus	Awards no longer subject to performance conditions	Nil-cost option awards, subject to performance conditions	Total
Ian Hawksworth	1,002,628	364,232	–	3,477,564	4,844,424
Situl Jobanputra	100,000	325,510	–	2,309,469	2,734,979
Michelle McGrath	40,000	92,601	–	1,812,645	1,945,246
Total	**1,142,628**	**782,343**	**–**	**7,599,678**	**9,524,649**

Outstanding awards made under PSP

a) Annual PSP awards[1] (Audited)

Name	Year granted	Option price (pence) if any	Held at 1 January 2022	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2022	Exercisable during or between
Ian Hawksworth	2019	Nil	897,584	–	–	897,584	–	–
	2020[2]	Nil	1,112,490	–	–	–	1,112,490	2023–2030
	2021[2]	Nil	1,143,129	–	–	–	1,143,129	2024–2031
	2022[2]	Nil	–	1,221,945	–	–	1,221,945	2025–2032
Situl Jobanputra	2019	Nil	571,848	–	–	571,848	–	–
	2020[2]	Nil	738,763	–	–	–	738,763	2023–2030
	2021[2]	Nil	759,109	–	–	–	759,109	2024–2031
	2022[2]	Nil	–	811,597	–	–	811,597	2025–2032
Michelle McGrath	2019	241.76	12,409	–	–	12,409	–	–
	2019	Nil	202,680	–	–	202,680	–	–
	2020	Nil	514,030	–	–	–	514,030	2023–2030
	2021[2]	Nil	616,218	–	–	–	616,218	2024–2031
	2022[2]	Nil	–	682,397	–	–	682,397	2025–2032
Total			**6,568,260**	**2,715,939**	–	**1,684,521**	**7,599,678**	

1. Subject to performance conditions that apply to awards made under the PSP as set out on page 118.
2. Subject to a two-year post-vesting holding period.

b) Deferred bonus awards

Name	Year granted	Option price (pence) if any	Held at 1 January 2022	Granted during the year	Exercised during the year[2]	Lapsed during the year	Held at 31 December 2022	Exercisable during or between
Ian Hawksworth	2017	Nil	29,528	–	29,528	–	–	–
	2018	Nil	102,153	–	102,153	–	–	–
	2019	Nil	44,722	–	44,722	–	–	–
	2020	Nil	192,450	–	–	–	192,450	2023–2030
	2022	Nil	–	171,782	–	–	171,782	2025–2032
Situl Jobanputra	2018[1]	Nil	58,289	–	–	–	58,289	2021–2028
	2019[1]	Nil	28,986	–	–	–	28,986	2022–2029
	2020	Nil	124,161	–	–	–	124,161	2023–2030
	2022	Nil	–	114,074	–	–	114,074	2025–2032
Michelle McGrath	2022	Nil	–	92,601	–	–	92,601	2025–2032
Total			**580,289**	**378,457**	**176,403**	–	**782,343**	

1. Vested but unexercised.
2. The share price on exercise was 102.8p per share.

The market price of Capital & Counties Properties PLC shares on 30 December 2022 (being the last day for trading during the year) was 106.5 pence and during the year the price varied between 179.3 pence and 95.6 pence. The aggregate gain on exercise of share options by Directors during the year ended 31 December 2022 was £181,342.28.

2.14 Remuneration Committee adviser

The Committee appointed Korn Ferry as its independent remuneration adviser in 2020, following a competitive process. During the year, the Committee received advice on matters including remuneration structure, incentive design and target-setting from its advisers. Korn Ferry is a member of the Remuneration Consultants Group and adheres to its code of conduct. The Committee has received confirmation of independence from Korn Ferry, and is satisfied that the advice received was objective and independent. In addition to advice provided to the Committee, Korn Ferry also provided share award valuation services to the Company. During 2022, the Company was charged a total of £94,660 by Korn Ferry in respect of advice to the Committee. Fees were charged on a time basis.

2.15 Statement of shareholder voting

The table below shows the results of the advisory vote on the 2021 Directors' Remuneration Report at the 2022 AGM and the binding vote on the current Remuneration Policy at the 2020 AGM.

Voting on Remuneration Policy and Remuneration Report at 2020 and 2022 AGMs

Year		Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
2022	Approval of Remuneration Report	575,655,231	91.65	52,422,326	8.35	628,077,557	188,206
2020	Approval of Remuneration Policy	491,278,465	70.41	206,419,016	29.59	697,697,481	5,337,096

An explanation of the reasons for the 2020 AGM voting results and the actions taken by the Committee was included in the 2020 Remuneration report.

This Remuneration report has been approved for issue by the Board of Directors on 28 February 2023.

Jonathan S. Lane

Jonathan Lane OBE
Chairman of the Remuneration Committee

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2022.

Additional disclosures

Certain Directors' Report disclosures, including a number of those required under the Companies Act 2006, Listing Rules and Disclosure and Transparency Rules, have been incorporated into this Directors' Report by reference and can be found within the following sections of the Annual Report:

Company's listings

The Company has a primary and premium listing on the London Stock Exchange main market and a secondary listing on the Johannesburg Stock Exchange. For the purposes of its listing on the Johannesburg Stock Exchange, the Company maintains an overseas branch register in South Africa. The Company's secured exchangeable bonds due 2026 are listed on the Frankfurt Stock Exchange.

Directors

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

Chairman:	Henry Staunton
Executive Directors:	Ian Hawksworth Situl Jobanputra Michelle McGrath
Non-executive Directors:	Charlotte Boyle Jonathan Lane Anthony Steains

Biographies of each current Director can be found on pages 88 and 89, and details of each Director's interests in the Company's shares are set out on page 125.

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

The rules governing the appointment and replacement of Directors are contained in the Company's Articles and UK legislation. The Prospectus dated 7 July 2022 set out the proposed Directors of the Company should the proposed merger with Shaftesbury complete. In compliance with the 2018 UK Corporate Governance Code, all the Directors will retire from office and will offer themselves for election or re-election at the 2023 Annual General Meeting.

Compensation for loss of office

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

Directors' conflicts of interest

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

Directors' indemnities and insurance

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

Articles of Association

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

Dividends

The Directors have proposed the following dividends:

First Interim dividend paid on 19-20 September 2022[1]	0.8p per ordinary share
Second Interim dividend to be paid on 20 March 2023	1.7p per ordinary share
Total dividend for 2022	2.5p per ordinary share

1. As a result of the UK bank holiday for Her Majesty Queen Elizabeth II's State Funeral, the payment date for the first interim dividend was 19 September 2022 for shareholders who held their shares on the South Africa register, and 20 September 2022 for shareholders who held their shares on the UK register.

The first interim dividend was paid wholly as a Property Income Distribution ("PID"). The second interim dividend (of which 0.7 pence will be paid as a PID and 1.0 pence will be paid as an ordinary dividend) will be paid on 20 March 2023 to shareholders whose names are on the register at 3 March 2023.

Substantial shareholdings, disclosed as at 28 February 2023

Holder	Shares held at time of last notification	Percentage held at time of last notification	Nature of holding	Date of last DTR 5 notification
Norges Bank	127,656,465	14.999%	Direct interest	1 July 2020
BlackRock, Inc.	62,556,255	7.32%	Indirect interest	27 November 2019
Public Investment Corporation SOC Limited	42,370,771	4.994%	Direct interest	28 May 2020
Legal & General Investment Management Limited	41,006,796	4.81%	Indirect interest	15 November 2022
Madison International Realty	36,658,505	4.30%	Direct interest	13 November 2020
Foord Asset Management (Pty) Ltd	33,956,458	3.99%	Indirect interest	6 June 2022

Capital structure

Details of the Company's issued ordinary share capital, including details of movements in the issued share capital during the year, and authorities to issue or repurchase shares are shown in note 26 to the financial statements on page 187. Each share carries the right to one vote at general meetings of the Company. In 2020, the Company announced the repurchase for cancellation of 6.06 million of its ordinary shares of 25 pence each as part of a share buyback programme. As announced on 7 November 2022, as a result of an administrative issue, the purchase by the Company of 1,468,393 of its ordinary shares of 25 pence each on the Johannesburg Stock Exchange during the period from February 2020 to March 2020 as part of the buyback programme was void. To rectify this, the Company corrected its register of members by restoring 1,468,393 ordinary shares of 25 pence each to the UK register, with such shares admitted to trading on the main market of the London Stock Exchange and listed on the Johannesburg Stock Exchange on 8 November 2022. Shortly thereafter, the Company conducted an on-market share buyback of 1,468,393 ordinary shares of 25 pence pursuant to the Company's general authority to repurchase shares, which completed on 14 November 2022. The purpose of the buyback programme was to restore the share capital of the Company to the same number of shares as were in issue prior to the correction of the register of members. No further shares were repurchased by the Company during the year.

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

Use of financial instruments

Information on financial risk management objectives and policies, including hedging policies, and exposure of the Company in relation to the use of financial instruments, can be found in note 24 on pages 179 to 185.

Change of control provisions

There are a number of agreements which (should consent not be obtained from the counterparty to a change of control) alter or terminate upon a change of control of the Company. The £300 million Covent Garden facility, the Covent Garden £75 million, £175 million and £225 million loan notes and the £576 million standby facility provide that outstanding facilities are required to be repaid on a change of control. The £275 million exchangeable bonds due 2026 provide a bondholder right of early redemption on a change of control, subject to certain exceptions. The Lillie Square development joint venture contains provisions which are triggered by a change of control. The Performance Share Plan ("PSP") includes provisions relating to the treatment of awards in the event of a change of control.

Substantial shareholdings

The significant holdings of voting rights in the share capital of the Company notified to the Financial Conduct Authority and disclosed in accordance with Disclosure and Transparency Rule 5, as at 28 February 2023, being a date not more than one month before the date of the Notice of Annual General Meeting, are shown in the table above.

Corporate governance statement

The information fulfilling the requirements of the corporate governance statement can be found on pages 85 to 127, which should be deemed to be incorporated within this Directors' Report. Application of the Principles of the UK Corporate Governance Code 2018 (the "Code") can be found on page 85. Full details of the Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

Employees

Information on Group employees, and engagement with employees during the year, can be found on pages 16, 19, 23, 26 to 27, 39, 79 to 81, 83, 85, 92, 98, 105 to 107, and in note 6 on page 163.

Engagement with stakeholders

Information on the ways in which the Directors have regard to the need to foster the Company's business relationships with stakeholders, including suppliers, customers and others, and the effect of that regard on principal decisions taken by the Company is set out in our Stakeholder engagement section on pages 22 to 25 of this report. Further information related to engagement with various stakeholders during the year can be found on pages 17, 18, 26 to 27, 38, 63 to 83, 87, 92 to 93.

The environment

Details of the Group's Environment, Sustainability and Community ("ESC") strategy and its aims and activities are set out on pages 63 to 83, and is available on the Company's website www.capitalandcounties.com.

Additional disclosures

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

Going concern
As set out on page 51, the Directors have a reasonable expectation that the Company and the Group will have adequate resources to meet both ongoing and future commitments over a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

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

Independent auditors
The Board has recommended that PricewaterhouseCoopers LLP, who have indicated their willingness to continue in office, be reappointed as the Company's independent auditors and a resolution seeking their reappointment will be proposed at the forthcoming Annual General Meeting. The external audit contract was last put out to competitive tender in 2019. Under current regulations, the Company is required to retender the external audit contract by no later than the 2023 financial year.

Events after the reporting period
Details of events after the reporting period can be found in note 33 of the financial statements on page 193.

Annual General Meeting
Information on the Company's 2023 AGM will be made available to shareholders on the Company's website. The Notice of Meeting will contain the specific details, and, together with an explanation of the business to be dealt with at the meeting, will be included as a separate document sent to shareholders via electronic or hard copy means dependent on their election. The Notice of Meeting will be issued to shareholders at least 20 working days before the meeting, and will also be made available on the Company's website. Shareholders are requested to check the Company's website for the latest details concerning the 2023 AGM.

By Order of the Board.

Ruth Pavey
Company Secretary

28 February 2023

Directors' responsibilities

Statement of directors' responsibilities
The Directors are responsible for preparing the Annual Report, which includes the financial statements, in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards ("UK-adopted IFRS" or "IFRS").

Under company law, 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 Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also 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 Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

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

Each of the Directors, whose names and functions are listed in the Governance section of the Annual Report confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the financial result of the Group;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces;
- so far as the Directors are aware, there is no relevant audit information of which the Group and 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 Group and Company's auditors are aware of that information.

The financial statements on pages 141 to 200 were approved by the Board of Directors on 28 February 2023 and signed on its behalf by:

Ian Hawksworth
Chief Executive

Situl Jobanputra
Chief Financial Officer

28 February 2023

Independent auditors' report to the members of Capital & Counties Properties PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheets as at 31 December 2022; the Consolidated statement of comprehensive income; the Consolidated and Company statements of changes in equity; and the Consolidated and Company statements of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 6 (c) of the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope	– We audited the complete financial information of the Group, which comprises Covent Garden, Lillie Square and Other
Key audit matters	– Valuation of investment and development property (Group) – Application of the IFRS Interpretations Committee Agenda Decision in relation to lessor forgiveness of lease payments (Group) – Valuation of investment in Group companies and amounts owed by subsidiaries (Company)
Materiality	– Overall Group materiality: £23.5 million (2021: £27.9 million) based on 1 per cent of total assets – Overall Company materiality: £23.1 million (2021: £23.1 million) based on 1 per cent of total assets – Performance materiality: £17.6 million (2021: £20.9 million) (Group) and £17.3 million (2021: £17.3 million) (Company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Application of the IFRS Interpretations Committee Agenda Decision in relation to lessor forgiveness of lease payments (Group) is a new key audit matter this year. Recoverability of rental receivables, deferrals and lease incentives (Group), which was a key audit matter last year, is no longer included because of improved cash collection rates reducing the estimation uncertainty associated with determining expected credit loss. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment and development property (Group) Refer to the Audit Committee report and notes 1, 7, 14 and 24 of the financial statements. The valuation of the Group's investment and development property is the key component of the net asset value. The directors' engage real estate valuation experts to support them with determining the fair value of the Group's properties. These valuers were engaged by the Directors, in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards ("RICS"). The result of the revaluation this year was a loss of £0.8 million (2021: £1.8 million gain) as set out in notes 7 and 14, which is accounted for within 'Loss on revaluation and sale of investment and development property'. The Group's property portfolios, which comprise investment property (including retail, food and beverage, office and residential) as well as development property located in central London, are not uniform in nature. There are a number of different assumptions made by the Group's third party valuers, CBRE (for the Covent Garden properties), and JLL (for the Lillie Square joint venture development) in determining fair value: – Investment property (Covent Garden) – represents £1,713.0 million (near 100 per cent) of the Group's property value measured on an United Kingdom-adopted international accounting standards ('IFRS') basis and is therefore highly material. There are a number of different assumptions made by the valuer in determining the fair value of the Group's properties in the Covent Garden estate. The assumptions on which the property values are based are influenced by tenure and tenancy details for each property, prevailing market yields and the estimated rental value of each property. – Development property – the valuation of development property (principally comprising the Group's share of the Lillie Square joint venture development) is included in the Group's balance sheet as part of its investment in joint ventures. The Group's share of the carrying value and unrecognised surplus of Lillie Square property (£77.0 million) is disclosed in note 14 as an alternative performance measure, and the carrying value of the Lillie Square joint venture is held at £Nil (2021: £Nil) in the Group's balance sheet as a result of cumulative losses in the joint venture. Whilst the development is therefore not material to the Group's IFRS balance sheet, we focused on the valuation given its relevance to the recoverability of amounts due from the joint venture in the Group's accounts as set out in note 24. The Lillie Square development properties are valued using a combination of valuation techniques. A market comparison approach is used for the completed developments and a residual approach is used for the remaining developments. This latter method involves estimating the fair value of the completed project using either a sales comparison or income capitalisation method, less amounts for estimated costs to completion, finance costs and a market based profit margin providing a return on development risk. Macroeconomic factors and uncertain market conditions impact the valuation of investment and development property.	**Assessing the valuers' expertise and objectivity** The valuers are reputable and established real estate valuation firms. We assessed the competence and capabilities of the valuers and verified their qualifications. We also assessed their independence by discussing the scope of their work and reviewing the terms of their engagement for unusual terms or fee arrangements. Based on this work, we are satisfied that the valuers were independent and competent and the scope of their work was appropriate. We engaged our own auditors' real estate valuation experts who are qualified chartered surveyors with relevant market knowledge in reading the external valuation reports prepared by CBRE (in respect of the Covent Garden portfolio) and JLL (in respect of the Lillie Square development). We confirmed that the valuation approaches for each were in accordance with the RICS standards and in accordance with IFRS 13, and therefore suitable for use in determining the fair value for the purpose of the financial statements. **Data provided to the valuers** For investment properties, we validated a sample of the data provided to the valuers by management and found that it was consistent with the information we audited. This data included tenancy schedules, cost schedules, square footage details, capital receipts from residential sales completions and capital expenditure over the period, which we agreed back to appropriate supporting documentation. For development properties, we agreed that the planned schemes being valued were consistent with the actual completed and planned developments. **Assumptions and estimates used by the valuers** We met with the valuers independently of management and gained an understanding of the valuation methods and assumptions used. We selected a sample of properties, and compared the movement in capital values over the period with our own assessment of market sector benchmarks to help identify significant changes in assumptions. The nature of assumptions used varied across the portfolio, depending on the nature of each property but they included estimated capital values, investment yields, estimated rental values, estimates of void rates and rent free periods, construction costs, finance cost and developers' margins. We discussed the selected properties with the valuers including obtaining an understanding of the rationale for the valuation, why it may differ from our own assessment of the most relevant market benchmark, and then obtained supporting audit evidence. We then evaluated whether, based on these procedures together with our experience in this sector, the estimate or assumption applied was appropriate. As part of this work, we considered the reasonableness of assumptions that are not so readily comparable with published benchmarks, in particularly ERV where, for a sample of individual units, we specifically challenged the valuers to support their individual ERV assumptions with reference to available evidence and in the context of the impact of macroeconomic uncertainties and trends.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment and development property (Group) continued	**Assumptions and estimates used by the valuers continued**
The fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus on this area. In addition, the valuation of the investment and development property is particularly subjective given the current macroeconomic conditions. There is also growing scrutiny on the valuation of assets given the potential impacts of climate change. Accordingly we identified this area as a key audit matter.	It was evident from our interaction with the external valuers, and from our review of the valuation reports, that close attention had been paid to each property's individual characteristics at a detailed, tenant by tenant level, as well as considering specific factors such as the latest leasing and sale activity, the desirability of the asset and the extent to which macroeconomic factors impacted or not on the asset. Our testing evidenced that the estimates and assumptions used were appropriate in the context of the Group's property portfolio and location, and reflected the circumstances of the market at the time of the valuation. We also challenged the valuers and management on the extent to which the potential impact of climate change had been appropriately factored into the valuation of investment and development properties. This included corroborating management's views that the cost of climate change predominantly manifests in the planned capital expenditure assumptions. We also corroborated that the valuers had had access to other studies management had commissioned on the physical risks of climate change and obtained their views on the extent to which these impacted current valuations. Our auditors' experts supported our understanding and own independent views and we concluded climate change impacts had been properly factored into the valuation assumptions. We have not identified any issues from our audit procedures performed and the evidence we obtained.
Application of the IFRS Interpretations Committee Agenda Decision in relation to lessor forgiveness of lease payments (Group)	
Refer to the Audit Committee report and note 1 of the financial statements. During the year, the IFRS Interpretations Committee ('IFRIC') issued their decision on the treatment of lessor forgiveness of lease payments. The application of this decision represents a change to the previous accounting policy applied in the financial statements, and accordingly, required a restatement of comparative information. The IFRIC decision concluded that: – Before a rent concession is granted, the lessor should measure the expected credit loss using the requirements of IFRS 9; and – For rental concessions in respect of future lease payments, the lessor should account for this as a lease modification under IFRS 16 from the date the rent concession is granted. The impact of this change in accounting policy is material to the comparative information. Our audit therefore focused on this area, specifically that the restatements made were accurate and that adequate disclosures were made in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	We obtained an understanding of the Group's processes and controls for assessing the quantum of adjustments required to the comparative information. We evaluated management's methodology for applying the revised accounting policy and ensured that it conforms with the requirements of the IFRIC agenda decision, and tested the mathematical accuracy of the calculations of the adjustments required. We also selected a sample of the underlying data used in the calculations of the adjustments required for both the 2020 and 2021 financial years, verifying that the data was accurate and complete. We reviewed the disclosures that management has included in note 1 to explain the change in accounting policy, and ensured that the restated comparative information is accurately adjusted and completely identified. We have not identified any issues from our audit procedures performed and the evidence we obtained.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment in Group companies and amounts owed by subsidiaries (Company)	
Refer to note II (Investment in Group companies) and note III (Trade and other receivables) of the financial statements. The Company holds investments in Group companies of £516.4 million (2021: £516.4 million), and amounts owed by subsidiaries of £1,795.8 million (2021: £1,793.2 million). In aggregate these amounts are higher than the current carrying value of the Group's net assets of £1,561.6 million. The impairment assessment of the Company's investments in subsidiaries and determination of any expected credit loss allowance in respect of amounts owed by subsidiaries was identified as a key audit matter given these assessments are impacted by the key judgements made in relation to the underlying valuation of investment and development property held by the subsidiaries as well as by the market value of the Group's listed investment in Shaftesbury. Management's assessment concluded that no impairment was required.	We assessed the accounting policies for investments and amounts owed by subsidiaries to ensure these were compliant with UK-adopted international accounting standards. We verified that the methodology used by management in arriving at the carrying value of each subsidiary, and the expected credit loss for amounts owed by subsidiaries, was compliant with UK-adopted international accounting standards. We obtained management's impairment assessments and validated that input data used was consistent with the Group financial statements and underlying subsidiary carrying values. For management's expected credit allowance calculation we verified that forecasts were consistent with our work in other areas of the financial statements. We identified that key inputs comprising part of management's assessments for any requirement for impairment of investments in subsidiaries and amounts owed by subsidiaries included the outlooks for valuations of investment property held by the Group's subsidiaries and the Group's investment in Shaftesbury. We also took into account the extent to which both the Group's property portfolio and its listed investments have been the subject of volatility given current macroeconomic conditions. Based on our audit procedures and evidence obtained we concluded that no material impairments were required in relation to the investment in Group companies or amounts owed by subsidiaries. We have not identified any issues from our audit procedures performed and the evidence we obtained.

How we tailored the audit scope

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

The Group is structured along the following business lines: Covent Garden, Lillie Square and Other. The Group engagement team audited all business lines centrally.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group's financial statements and to support the disclosures made within note 14 of the financial statements.

In addition to enquiries with management, we also read disclosures of the governance processes in place to assess climate risk and additional reporting made by the Group on climate within the Responsibility section of the Strategic Report.

The Group joined the UN Race to Zero and has made commitments to a Net Zero Carbon Pathway by 2030. A detailed description of the three year cycle of commitments and targets to achieve this is set out in the Responsibility section of the Strategic Report.

The key area of the financial statements where management evaluated that climate risk has a potential significant impact is in relation to the valuation of investment and development properties. We also considered this an area which may be potentially materially impacted by climate risk and consequently we focused our audit work in this area. Further details of our audit work performed is set out in the key audit matters section of this report, 'Valuation of investment and development property (Group)'.

We also considered the consistency of the disclosures in relation to climate change in the financial statements with the disclosures in the Task Force on Climate-related Financial Disclosures (TCFD) section and more broadly within the Responsibility section of the Strategic Report.

Our procedures did not identify any material issues in the context of our audit of the financial statements as a whole, and as set out in the key audit matters section of this report, 'Valuation of investment and development property (Group)'.

Materiality

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

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

	Financial statements – Group	Financial statements – Company
Overall materiality	£23.5 million (2021: £27.9 million).	£23.1 million (2021: £23.1 million).
How we determined it	1 per cent of total assets	1 per cent of total assets
Rationale for benchmark applied	The key measure of the Group's performance is the valuation of investment and development properties and the balance sheet as a whole. On this basis, and consistent with the prior year, we set an overall Group materiality level based on total assets.	The Company is predominantly an investment holding Company and therefore total assets is deemed the most appropriate benchmark.

In addition to overall Group materiality, a specific materiality was also applied to certain areas of the income statement and related working capital balances. Our specific materiality is aligned with the metrics in the consolidated income statement that we believe are of particular interest to the members and we determined those metrics to be net rental income and finance costs. In order to reflect their specific characteristics, we applied materiality levels of 5 per cent of the current year net rental income (2021: 5 per cent average of past 4 years) and 5 per cent of current year gross finance costs (2021: 5 per cent).

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75 per cent (2021: 75 per cent) of overall materiality, amounting to £17.6 million (2021: £20.9 million) for the Group financial statements and £17.3 million (2021: £17.3 million) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.2 million (Group audit) (2021: £1.4 million) and £1.2 million (Company audit) (2021: £1.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's analysis of the going concern of the Group and Company and supporting cash flow forecasts and covenant compliance calculations. Management analysed both the continuing Group on a standalone basis ('standalone group') and also the combined group to take account of the proposed merger with Shaftesbury ('combined group');
- Understanding and assessing the appropriateness of the key assumptions used both in the base case and in the severe but plausible downside scenario forecasts, including assessing whether we considered the downside sensitivities to be appropriately severe;
- Corroborating key assumptions in both the standalone and combined group forecasts (e.g. Investment property valuation, rental income and finance costs) to other evidence including external research and historical performance, and ensuring this was consistent with our audit work in these and other areas;
- Testing the mathematical accuracy of management's cash flow models;
- Obtaining and reperforming the Group's forecast covenant compliance calculations, including assessing sensitivities and stress tests of the forecasts of net rental income and property values to assess the potential impact of downside sensitivities on covenant compliance;
- Enquiring of Shaftesbury management to understand the basis for forecasts and downsides applied, and evaluating the audit evidence obtained to support these;
- In relation to the combined group, obtaining evidence of cash cure rights available in respect of one of Shaftesbury's loan contracts, and where appropriate, evidence of agreement by lenders waiving change of control clauses. For loan contracts where change of control clauses are not expected to be waived we have inspected evidence of a £576 million Standby facility entered into by the Group and which would allow these loans to be repaid; and
- Reviewing the disclosures in the financial statements relating to the going concern basis of preparation, and evaluating that these provided an explanation of the Directors' assessment that was consistent with the audit evidence we obtained.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

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

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section of the Annual Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and London Stock Exchange Listing Rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the rules above and compliance with UK income tax rules, specifically the Real Estate Investment Trust ("REIT") requirements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to revenue primarily, and management bias in accounting estimates and judgemental areas of the financial statements particularly in relation to the estimation of the fair value of investment and development property. Audit procedures performed by the engagement team included:

- Enquiries with management and parties outside of the finance function, including the Group's internal auditors, regarding any known or suspected instances of non compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Evaluation of audit evidence obtained to support the Group's compliance with the REIT requirements, including considering the impact of accounting policy changes on the REIT compliance tests;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of investment and development property (see key audit matter set out earlier in this report);
- Identifying and testing journal entries, in particular any journal entries posted to revenue with unusual account combinations; and
- Reviewing the whistleblowing log and relevant minutes of meetings, including those of the Board and Audit Committee.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; 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.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 3 June 2010 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2010 to 31 December 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 February 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	2022 £m	Restated[1] 2021 £m
Revenue	4	**74.1**	72.3
Costs[2]	4	**(16.8)**	(32.3)
Gross profit	4	**57.3**	40.0
Other income	5	**13.5**	3.0
Administration expenses	6	**(40.6)**	(22.8)
Loss on revaluation and sale of investment and development property	7	**(0.8)**	(4.1)
Change in value of investments and other receivables	8	**(7.9)**	11.6
Change in fair value of financial assets through profit or loss	16	**(239.5)**	44.6
Operating (loss)/profit		**(218.0)**	72.3
Finance income	9	**2.6**	0.5
Finance costs	10	**(27.2)**	(31.7)
Other finance income	9	**3.5**	8.1
Other finance costs	10	**(6.5)**	(5.2)
Change in fair value of derivative financial instruments	17	**39.8**	(8.5)
Net finance income/(costs)		**12.2**	(36.8)
(Loss)/profit before tax		**(205.8)**	35.5
Taxation	11	**(6.0)**	(0.7)
(Loss)/profit and comprehensive (expense)/income for the year		**(211.8)**	34.8
(Loss)/earnings per share			
Basic and diluted (loss)/earnings per share		**(24.9)p**	4.1p
Weighted average number of shares	13	**851.3m**	851.3m

1. Prior year comparatives have been restated to reflect a change in accounting policy following clarification by the IFRS Interpretations Committee ("IFRIC") during 2022 of how a lessor should account for the forgiveness of lease payments and a change in accounting policy relating to the presentation of interest and fair value adjustments on interest rate derivatives. Details of the restatements and impact on prior year comparatives are set out in note 1 'Changes in accounting policies'.
2. Included in costs is a £1.6 million reversal (2021: £7.6 million provision) of expected credit loss in relation to rent receivables.

Consolidated balance sheet

as at 31 December 2022

	Note	2022 £m	2021 Restated[1] £m	2021 Opening Restated[1] £m
Non-current assets				
Investment and development property	14	**1,715.1**	1,705.6	1,795.2
Property, plant and equipment		**0.6**	0.6	4.4
Investment in joint ventures	15	**0.2**	0.3	0.3
Financial assets at fair value through profit or loss	16	**356.9**	596.4	551.8
Derivative financial assets	17	**12.1**	1.1	–
Deferred tax	25	**–**	6.1	6.8
Trade and other receivables	18	**115.6**	108.8	119.0
		2,200.5	2,418.9	2,477.5
Current assets				
Trade and other receivables	18	**20.8**	48.4	46.9
Tax assets		**–**	0.5	–
Cash and cash equivalents	19	**129.9**	331.1	378.6
		150.7	380.0	425.5
Total assets		**2,351.2**	2,798.9	2,903.0
Non-current liabilities				
Borrowings, including lease liabilities	21	**(743.7)**	(940.3)	(1,079.0)
Derivative financial liabilities	17	**(3.3)**	(32.1)	(22.5)
		(747.0)	(972.4)	(1,101.5)
Current liabilities				
Borrowings, including lease liabilities	21	**(0.7)**	(0.7)	(1.6)
Tax liabilities		**–**	–	(1.0)
Trade and other payables	20	**(41.9)**	(39.0)	(44.3)
		(42.6)	(39.7)	(46.9)
Total liabilities		**(789.6)**	(1,012.1)	(1,148.4)
Net assets		**1,561.6**	1,786.8	1,754.6
Equity				
Share capital	26	**212.8**	212.8	212.8
Other components of equity		**1,348.8**	1,574.0	1,541.8
Total equity		**1,561.6**	1,786.8	1,754.6

1. Prior year comparatives have been restated to reflect a change in accounting policy following clarification by IFRIC during 2022 of how a lessor should account for the forgiveness of lease payments. In addition cash and cash equivalents have been restated to include tenant deposits following clarification by IFRIC on classification of funds with externally imposed restrictions. Details of the restatements and impact on prior year comparatives are set out in note 1 'Changes in accounting policies'.

These consolidated financial statements on pages 141 to 193 have been approved for issue by the Board of Directors on 28 February 2023 and signed on its behalf by:

Ian Hawksworth
Chief Executive

Situl Jobanputra
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve[1] £m	Share-based payment reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2021		212.8	232.2	1.5	313.7	6.4	(0.4)	993.5	1,759.7
Rent forgiveness restatement[2]		–	–	–	–	–	–	(5.1)	(5.1)
Restated balance at 1 January 2021		212.8	232.2	1.5	313.7	6.4	(0.4)	988.4	1,754.6
Profit and total comprehensive income for the year ended 31 December 2021[2]		–	–	–	–	–	–	34.8	34.8
Transactions with owners									
Ordinary shares issued	26	–	0.3	–	–	–	–	–	0.3
Dividends	12	–	–	–	–	–	–	(4.3)	(4.3)
Realisation of merger reserve[1]		–	–	–	(20.0)	–	–	20.0	–
Realisation of share-based payment reserve on issue of shares		–	–	–	–	(0.2)	–	–	(0.2)
Fair value of share-based payment		–	–	–	–	1.5	–	–	1.5
Realisation of cash flow hedge		–	–	–	–	–	0.1	–	0.1
Balance at 31 December 2021[2]		**212.8**	**232.5**	**1.5**	**293.7**	**7.7**	**(0.3)**	**1,038.9**	**1,786.8**
Loss and total comprehensive expense for the year ended 31 December 2022		**–**	**–**	**–**	**–**	**–**	**–**	**(211.8)**	**(211.8)**
Transactions with owners									
Ordinary shares issued	26	**0.4**	**–**	**(0.4)**	**–**	**–**	**–**	**1.7**	**1.7**
Share buyback	26	**(0.4)**	**–**	**0.4**	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Dividends	12	**–**	**–**	**–**	**–**	**–**	**–**	**(15.3)**	**(15.3)**
Realisation of share-based payment reserve on issue of shares		**–**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.1)**	**(0.3)**
Fair value of share-based payment		**–**	**–**	**–**	**–**	**2.3**	**–**	**–**	**2.3**
Realisation of cash flow hedge		**–**	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Balance at 31 December 2022		**212.8**	**232.5**	**1.5**	**293.7**	**9.8**	**(0.4)**	**811.7**	**1,561.6**

1. Represents non-qualifying consideration received by the Group following the share placing in May 2014 and previous share placements. The amounts taken to the merger reserve do not currently meet the criteria for qualifying consideration and therefore will not form part of distributable reserves as they form part of linked transactions. Realised merger reserve relates to disposal of Southampton Street properties during the prior year as these properties were originally acquired using proceeds from the share placement.
2. Prior year comparatives have been restated to reflect a change in accounting policy following clarification by IFRIC during 2022 of how a lessor should account for the forgiveness of lease payments. Details of the restatement and impact on prior year comparatives are set out in note 1 'Changes in accounting policies'.

Consolidated statement of cash flows

for the year ended 31 December 2022

	Note	2022 £m	2021 Restated[1] £m
Cash flows from operating activities			
Cash generated from operations	29	**33.5**	26.5
Finance costs paid		**(29.7)**	(26.3)
Interest received		**2.7**	0.4
Tax received/(paid)		**0.5**	(1.5)
Net cash inflow/(outflow) from operating activities		**7.0**	(0.9)
Cash flows from investing activities			
Purchase and development of property		**(11.1)**	(7.9)
Sale of property		**–**	94.7
Sale of discontinued operation[2]		**–**	15.2
Loan to joint ventures repaid/(advanced)		**18.2**	(1.0)
Net cash inflow from investing activities		**7.1**	101.0
Cash flows from financing activities			
Issue of shares		**1.7**	–
Share buyback		**(1.7)**	–
Borrowings repaid		**(200.0)**	(140.0)
Principal element of lease payments		**–**	(0.2)
Repayment of derivative financial instruments		**–**	(3.4)
Cash dividends paid	12	**(15.3)**	(4.0)
Net cash outflow from financing activities		**(215.3)**	(147.6)
Net decrease in cash and cash equivalents		**(201.2)**	(47.5)
Cash and cash equivalents at 1 January		**331.1**	378.6
Cash and cash equivalents at 31 December	19	**129.9**	331.1

1. Cash and cash equivalents have been restated following clarification by IFRIC on classification of funds with externally imposed restrictions. Details of the restatement and its impact on prior year comparatives is set out in note 1 'Changes in accounting policies'.
2. Sale of discontinued operation in 2021 relates to the receipt of deferred consideration in relation to the sale of Earls Court during 2019.

Notes to the accounts

for the year ended 31 December 2022

1 Principal accounting policies

General information

Capital & Counties Properties PLC (the "Company") was incorporated and registered in England and Wales and domiciled in the United Kingdom on 3 February 2010 under the Companies Act 2006 as a public company limited by shares, registration number 7145051. The registered office of the Company is Regal House, 14 James Street, London, WC2E 8BU, United Kingdom. The principal activity of the Company is to act as the ultimate parent company of Capital & Counties Properties PLC Group (the "Group"), whose principal activity is the investment, development and management of property.

The Group's assets principally comprise investment and development property at Covent Garden.

Basis of preparation

The Group's consolidated financial statements are prepared in accordance with United Kingdom-adopted international accounting standards ("UK-adopted IFRS" or "IFRS"), and the applicable legal requirements of the Companies Act 2006.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention as modified for the revaluation of property, derivative financial instruments and equity investments held at fair value through profit or loss.

All income, expenses and cash flows are generated from continuing operations.

The Directors have taken advantage of the exemption offered by section 408 of the Companies Act 2006 not to present a separate income statement or statement of comprehensive income for the Company. The financial statements of the Company are set out on pages 194 to 200.

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board that are effective for annual periods that begin on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards:

- IFRS 3 'Business Combinations' (amendment) (Reference to the Conceptual Framework)
- IAS 16 'Property, Plant and Equipment' (amendment) (Proceeds before intended use)
- IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' (amendment) (Onerous Contracts – Cost of Fulfilling a Contract)
- Amendments to IFRS (Annual improvements cycle 2018-2020)

At the date of approval of the consolidated financial statements the following standards and interpretations which have not been applied in these consolidated financial statements were in issue but not effective, and in some cases have not been adopted for use under UK-adopted international accounting standards:

- IAS 1 'Presentation of Financial Statements' (amendment) (Classification of Liabilities as Current and Non-Current)
- IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 (amendment) (Disclosure of Accounting Policies)
- IAS 8 'Accounting Policies, Changes in Accounting Estimates, and Errors' (amendment) (Definition of Accounting Estimates)
- IAS 12 'Income Taxes' (amendment) (Deferred Tax related to Assets and Liabilities arising from a Single Transaction)

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

A summary of the Group's principal accounting policies, which have been applied consistently across the Group, is set out on the following pages.

Changes in accounting policies

Rent concessions

During 2022, IFRIC finalised an agenda decision in regards to how a lessor should account for the forgiveness of lease payments under IFRS 9 'Financial Instruments' ("IFRS 9") and IFRS 16 'Leases' ("IFRS 16").

The decision concluded that for any forgiveness of past due rent receivables, the lessor should apply the expected credit loss model under IFRS 9 and account for the forgiveness as an impairment in the consolidated statement of comprehensive income. Any directly attributable costs, including surrender premia and letting fees previously paid, continue to be held on balance sheet and are amortised over the life of the lease.

On the other hand, any forgiveness of future rent receivables met the definition of a lease modification under IFRS 16, with the resulting impact accounted for by straight-lining the forgiveness over the remaining lease term in accordance with IFRS 16. On entering into a lease modification any directly attributable costs were derecognised.

The Group had previously concluded that under IFRS there had been a policy choice to account for rent forgiveness of past due rent receivables either under IFRS 9 or IFRS 16. The Group elected to account for rent forgiveness of past due rent receivables as a lease modification under IFRS 16 and in addition the directly attributable costs associated with the leases were derecognised as non-underlying costs. The Group had applied this treatment since 2020 on the commencement of COVID-19 support measures.

1 Principal accounting policies continued

Changes in accounting policies continued

The agenda decision issued by IFRIC has required the Group to retrospectively reverse the accounting treatment followed under IFRS 16 and adopt the accounting treatment required under IFRS 9. This change in accounting policy has been applied retrospectively and comparative information in this Annual Report, including the opening retained earnings to reflect the impact of the 2020 rent forgiveness granted, has been restated.

Overall impact of the restatement

Gross profit has reduced by £6.2 million in 2021. This included an additional £7.6 million of expected credit loss, representing £7.1 million rent forgiveness provided during the year as well as an additional £0.5 million expected credit loss on the 31 December 2021 rent receivable balance.

Retained earnings have increased by £0.4 million as at 31 December 2021 based on the additional £5.1 million loss in 2020 and £5.5 million profit in 2021.

For the year ended 31 December 2021, underlying earnings have been reduced by £3.4 million (0.4 pence per share), to £0.7 million (0.1 pence per share). The adjustment for lease modification expenses, impairment of tenant lease incentives and (loss)/gain on revaluation and sale of investment and development property are excluded from the underlying earnings calculation. Further details of the underlying earnings calculation is shown in note 3 'Underlying earnings'.

As at 31 December 2021 tenant lease incentives, accounted for through prepayments and accrued income, have reduced by £10.3 million cumulatively. The carrying value of investment property and the loss on revaluation of investment and development property as a result of the adjustment to tenant lease incentives, excluding letting fees, has been increased by £11.1 million as at 31 December 2021.

The impact on the consolidated balance sheet has been reflected on page 142 where the 31 December 2021 and 1 January 2021 restated position has been shown. The restated EPRA NTA as at 31 December 2021 is £1,814.5 million (213.0 pence per share).

The restatement adjustments are all non-cash and therefore there is no impact on the consolidated statement of cash flows.

Impact on profit or loss

Due to the materiality of the restatement in 2020 and 2021, reflecting the period during which COVID-19 concessions were provided, the impact of the restatement on the consolidated statement of comprehensive income for the each of the years ended 31 December 2020 and 2021 has been presented below:

	31 December 2021			31 December 2020		
Consolidated statement of comprehensive income	**Reported £m**	**Adjustment £m**	**Restated £m**	Reported £m	Adjustment £m	Restated £m
Revenue	**68.0**	**4.3**	**72.3**	73.9	0.1	74.0
Costs	**(21.8)**	**(10.5)**	**(32.3)**	(58.0)	(4.6)	(62.6)
Gross profit	**46.2**	**(6.2)**	**40.0**	15.9	(4.5)	11.4
Other income/(costs)	**3.0**	**–**	**3.0**	(1.0)	–	(1.0)
Administration expenses	**(22.8)**	**–**	**(22.8)**	(31.0)	–	(31.0)
(Loss)/gain on revaluation and sale of investment and development property	**(15.8)**	**11.7**	**(4.1)**	(693.1)	(0.6)	(693.7)
Change in value of investments and other receivables	**11.6**	**–**	**11.6**	(28.2)	–	(28.2)
Fair value gain on financial assets at fair value through profit or loss	**44.6**	**–**	**44.6**	50.9	–	50.9
Operating profit/(loss)	**66.8**	**5.5**	**72.3**	(686.5)	(5.1)	(691.6)
Net finance costs	**(36.8)**	**–**	**(36.8)**	(18.2)	–	(18.2)
Profit/(loss) before tax	**30.0**	**5.5**	**35.5**	(704.7)	(5.1)	(709.8)
Taxation	**(0.7)**	**–**	**(0.7)**	1.0	–	1.0
Profit/(loss) for the year	**29.3**	**5.5**	**34.8**	(703.7)	(5.1)	(708.8)
Basic and diluted earnings/(loss) per share (pence)	**3.4**	**0.7**	**4.1**	(82.6)	(0.6)	(83.2)
Weighted average number of shares	**851.3m**		**851.3m**	852.2m		852.2m
Underlying earnings/(loss)	**4.1**	**(3.4)**	**0.7**	(6.2)	(12.5)	(18.7)
Underlying earnings/(loss) per share (pence)	**0.5**	**(0.4)**	**0.1**	(0.7)	(1.5)	(2.2)

1 Principal accounting policies continued

Changes in accounting policies continued

The gross profit note has been provided to further show the impact of the change in accounting policy:

	31 December 2021			31 December 2020		
	Reported £m	**Adjustment £m**	**Restated £m**	Reported £m	Adjustment £m	Restated £m
Rent receivable	**55.6**	**6.9**	**62.5**	59.1	6.5	65.6
Straight-lining of tenant lease incentives[1]	**7.1**	**(2.6)**	**4.5**	9.7	(6.4)	3.3
Service charge income	**5.3**	**–**	**5.3**	5.1	–	5.1
Revenue	**68.0**	**4.3**	**72.3**	73.9	0.1	74.0
Expected credit loss[2]	**–**	**(7.6)**	**(7.6)**	(14.0)	(12.9)	(26.9)
Property expenses	**(10.6)**	**(0.1)**	**(10.7)**	(11.1)	(0.1)	(11.2)
Service charge expenses	**(5.3)**	**–**	**(5.3)**	(5.1)	–	(5.1)
Lease modification expenses[3]	**(2.6)**	**(3.8)**	**(6.4)**	(16.7)	8.4	(8.3)
Impairment of tenant lease incentives[4]	**(3.3)**	**1.0**	**(2.3)**	(11.1)	–	(11.1)
Costs	**(21.8)**	**(10.5)**	**(32.3)**	(58.0)	(4.6)	(62.6)
Gross profit	**46.2**	**(6.2)**	**40.0**	15.9	(4.5)	11.4

1. The adjustment to straight-lining of tenant lease incentives of £2.6 million includes a reversal of the 2021 lease incentive income recorded for lease modifications, offset by an unwind of the 2020 lease modification incentives that have been reversed.
2. A reversal of the rent forgiveness accounted for as lease modifications by reversing the income and asset position and accounting for the forgiveness as an expected credit loss in costs. This resulted in an additional expected credit loss for 2020 and 2021 of £20.5 million.
3. For transactions where a modification has no longer occurred, a cumulative reversal of £4.6 million of lease modification expenses to the balance sheet to be amortised over the remaining life of the lease.
4. Where tenant lease incentives related to lease modifications as a result of rent forgiveness had been impaired, a reversal of the impairment and subsequent adjustment to expected credit loss of £1.0 million was recognised in costs during 2021.

1 Principal accounting policies continued

Change in accounting policy continued

Impact on balance sheet

The below summary of trade and other receivables show the main impact on the consolidated balance sheet resulting from the adjustment to the expect credit loss provision and tenant lease incentives.

Tenant lease incentives are included within non-current and current prepayments and accrued income. As at 31 December 2021 tenant lease incentives have reduced by £10.3 million which reflects the cumulative reduction in rent free assets of £13.3 million, offset by the write back of £3.0 million of surrender premia and letting fees. The write back of surrender premia and letting fees reflect the directly attributable costs adjusted for when a lease modification has not occurred. The reduction in the tenant lease incentives balance is reflective of the reduction in lease incentive adjustments to revenue and the increased expected credit loss.

	31 December 2021				31 December 2020			
	Reported £m	Rent concession adjustment £m	Tenant deposit adjustment £m	Restated £m	Reported £m	Rent concession adjustment £m	Tenant deposit adjustment £m	Restated £m
Non-current								
Other receivables	**–**	**–**	**–**	**–**	0.1	–	–	0.1
Prepayments and accrued income	**37.9**	**(12.0)**	**–**	**25.9**	33.1	0.8	–	33.9
Amounts receivable from joint ventures	**82.9**	**–**	**–**	**82.9**	85.0	–	–	85.0
Trade and other receivables	**120.8**	**(12.0)**	**–**	**108.8**	118.2	0.8	–	119.0
Current								
Rent receivable	**10.5**	**(0.5)**	**–**	**10.0**	22.3	(6.1)	–	16.2
Other receivables	**14.2**	**0.1**	**(12.1)**	**2.2**	30.4	(0.1)	(13.4)	16.9
Prepayments and accrued income	**11.1**	**1.7**	**–**	**12.8**	12.4	0.8	–	13.2
Amounts receivable from joint ventures	**23.4**	**–**	**–**	**23.4**	0.6	–	–	0.6
Trade and other receivables	**59.2**	**1.3**	**(12.1)**	**48.4**	65.7	(5.4)	(13.4)	46.9
Total trade and other receivables	**180.0**	**(10.7)**	**(12.1)**	**157.2**	183.9	(4.6)	(13.4)	165.9

Tenant deposit adjustment

The above summary also includes an adjustment to other receivables to reclassify tenant deposits totalling £12.1 million in 2021 (2020: £13.4 million) from other receivables to cash and cash equivalents. The Group previously disclosed tenant deposits as other receivables in the consolidated financial statements. Following the IFRIC agenda decision regarding Demand Deposits with Restrictions on Use arising from a Contract with a Third Party in April 2022, the Group has adopted the treatment set out in the IFRIC agenda decision, which concluded that the contractual restrictions on the use of the amounts held in the demand deposit do not change the nature of the deposit and that the Group can access those amounts on demand, therefore, the demand deposit should be included as a component of cash and cash equivalents in its consolidated statement of cash flows. This change in accounting treatment has been applied retrospectively and comparative information has been restated in the consolidated balance sheet and consolidated statement of cash flows. From an alternative performance measure perspective tenant deposits have been excluded from cash and available facilities and net debt calculations as it does not represent liquidity of the Group.

Changes in fair value of derivative financial instruments

Changes in the fair value of interest rate derivatives are split into interest (calculated as the accrued and realised cash flows) and other changes in fair value.

Previously the Group's policy had been to present both the interest and the fair value components as change in fair value of derivative financial instruments under net finance income or costs in the consolidated statement of changes in comprehensive income.

During the year the Group reviewed this presentation and in order to better reflect the Group's rationale for entering into interest rate hedging arrangements in accordance with the Group's risk management strategy, a change in accounting policy was made to re-present the interest from change in fair value of derivative financial instruments to other finance costs and income.

As a result of the change in accounting policy comparative information has been re-presented and interest costs of £3.4 million in the prior year were re-presented from change in fair value of derivative financial instruments to other finance costs.

These costs were excluded from EPRA and underlying earnings in the prior year as they related to an early close out of interest rate derivatives during the COVID-19 pandemic.

1 Principal accounting policies continued

Going concern

The Directors have considered the appropriateness of adopting the going concern basis in preparing the Company and consolidated financial statements. The Group's going concern assessment covers the period to 30 June 2024 (the "going concern period"), being at least 12 months from the date of authorisation of these consolidated financial statements.

During 2022, there has been continued improvement in operational activity at Covent Garden. Trading remains resilient with strong recovery in footfall and customer sales in aggregate being ahead of 2019 levels. There is strong leasing demand across all uses delivering rental growth, vacancy remains low and rent collection patterns have normalised.

There are, however, significant macroeconomic and political headwinds including the rising interest rate and inflationary environment, domestic political uncertainty, geopolitical risks, supply chain and labour market disruption. The West End and our unique portfolio of prime investments are not completely insulated, however they have demonstrated remarkable resilience.

In preparing the assessment of going concern, the Board has considered projections of the Group's liquidity, committed capital expenditure, income, costs, cash flows and debt covenants. The Group has assessed a "severe but plausible" downside scenario which analyses the impact of deterioration in rent collection, vacancy levels and rental growth as well as increased costs and yield expansion over the going concern period.

This includes the following key assumptions:

– Substantial reduction in forecast net rental income due to a combination of extended voids and tenant failures focusing particularly on the retail, F&B and leisure sectors;
– Declines in rental values along with a widening of valuation yields, resulting in reduced asset values

The impact of climate change risk is expected to be very limited within the going concern period. Interruptions to trade from severe weather events are possible but would be consistent with the impact considered in the severe but plausible downside scenario.

The Group's financial resources are expected to be sufficient to cover forecast property operating costs, administrative expenses, finance and other costs over the going concern period including in the severe but plausible downside scenario. The Covent Garden debt facilities have two principal financial covenants, being a loan to value ratio of up to 60 per cent and interest cover of at least 120 per cent. Each of these is tested as at or in respect of the six months ending 30 June and the 12 months ending 31 December.

As at the year end, the Covent Garden Group had net debt of £366.1 million and a loan to value ratio of 21 per cent, which compares with a debt covenant level of 60 per cent. The interest cover ratio in relation to the Covent Garden debt for 2022 was 3.9 times, comfortably ahead of the covenant level of 1.2 times. The Covent Garden debt matures between August 2024 and 2037, with the revolving credit facility currently undrawn.

The Group is projected to have sufficient cash reserves and undrawn facilities to meet debt maturities during the going concern period. All of the current drawn debt is at fixed rates and the £300 million revolving credit facility was undrawn at year end. The revolving credit facility has a maturity of September 2025 with a one-year extension option to September 2026 subject to lender consent. It is anticipated that the extension will be exercised or a similar form of financing will be put in place. £95 million of private placement debt matures in the second half of 2024 and is expected to be funded through cash and undrawn facilities.

The independent property valuation of Covent Garden could withstand a substantial valuation decline (approximately 50 per cent) during the going concern period before a breach of the loan to value covenant, before taking into account any mitigating actions which may be taken. There is projected to be significant headroom against the interest cover covenants under the severe but plausible downside scenario, with the ability to withstand a decline in net rental income of over 75 per cent during the going concern period before a breach of the interest cover covenant, without taking any mitigating actions.

Based on their analysis, the Directors are satisfied that there is a reasonable expectation that each of the Company and Group will be able to meet its ongoing and future commitments for at least 12 months from the date of approval of the consolidated financial statements and have therefore resolved that the Company and Group's consolidated financial statements be prepared on a going concern basis.

1 Principal accounting policies continued

Going concern continued

Impact of the proposed merger

On 16 June 2022, Capco announced its intention to merge with Shaftesbury PLC ("Shaftesbury") and the shareholder approval conditions were satisfied on 29 July 2022. Completion of the merger is subject to the satisfaction of a number of other conditions and it is expected that the transaction will be completed on 6 March 2023. It is intended that the merger will be effected by means of a court-sanctioned scheme of arrangement which will result in Capco owning 100 per cent of the issued share capital of Shaftesbury. The going concern assessment has therefore also been undertaken on the basis of the combined group assuming merger completion.

Capco has also entered into a loan facility agreement of £576 million to cover potential repayment of Shaftesbury bonds on merger completion. This is currently undrawn. Under the terms of the Shaftesbury financing arrangements, holders of its secured mortgage bonds totalling £575 million have the ability to require payment in full or part following the change of control of Shaftesbury taking place. Shaftesbury's secured term loans totalling £385 million will remain in place.

In preparing its assessment of going concern, using an approach consistent with that set out above, the Board reviewed a forecast of liquidity, cash flow and covenant compliance of the combined group. Under the severe-but-plausible downside scenario, the interest cover test has been assessed against SONIA rates in excess of current market expectations.

Absent any mitigating actions which may be taken, the combined group has significant headroom against its financial covenants and estimates that the combined group could withstand a decrease in valuations from 31 December 2022 of over 40 per cent, and a decline in net rental income of approximately 50 per cent before breaching its loan-to-value and interest cover covenants.

Having considered the debt facilities that the Group has put in place, the Board is satisfied that there is sufficient liquidity to fund potential debt repayments and for the combined group to remain compliant with its financing arrangements and meet its financial obligations as they fall due over the going concern period.

The combined group anticipates retaining significant liquidity and that debt covenants will be satisfied, however in the severe but plausible downside scenario the interest cover covenant on one of the Shaftesbury term loans could be subject to a marginal breach. For this loan, throughout the going concern period the combined group has the ability to cure income shortfalls using cash deposits or additional assets with sufficient contractual income from its pool of unsecured properties. The Group has sufficient liquidity to satisfy this requirement.

Based on their analysis in relation to the combined group assuming that the merger is completed, the Directors are satisfied that there is a reasonable expectation that the Group will be able to meet its ongoing and future commitments for at least 12 months from the date of approval of the consolidated financial statements and have therefore resolved that the consolidated financial statements be prepared on a going concern basis.

Basis of consolidation

These consolidated financial statements include the consolidation of the following limited partnerships: Capital & Counties CGP, Capco CGP 2012 LP (up until dissolution on 30 June 2021), CG Investments 2016 LP (up until dissolution on 30 June 2021) and Innova Investment Group Holdings LP. The members of these qualifying partnerships have taken advantage of exemptions available in Statutory Instrument 2008/569 and therefore will not produce consolidated financial statements at the partnership level or submit such annual reports to Companies House.

The consolidated financial statements are prepared in British pounds sterling, which is also determined to be the functional currency of the Company.

Subsidiaries

Subsidiaries are fully consolidated from the date on which the Group has control, is exposed, or has rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over an entity. Subsidiaries cease to be consolidated from the date this control is lost.

1 Principal accounting policies continued

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of consolidated financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses from sources not readily apparent. Although these estimates and assumptions are based on management's best knowledge of the amount, historical experiences and other factors, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

The significant areas of estimation and uncertainty are:

Property valuation: The most significant area of estimation uncertainty in the consolidated financial statements is in respect of the valuation of the property portfolio, where external valuations are obtained.

The fair value of the Group's investment, development and trading property at 31 December 2022 was determined by independent, appropriately qualified external valuers CBRE for the Covent Garden estate and JLL for Lillie Square. The valuations conform to the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards.

As various inputs used in the valuation calculations are based on assumptions, property valuations are inherently subjective and subject to a degree of uncertainty. The Group's external valuers have made a number of assumptions as outlined within note 14 'Property Portfolio' in forming their opinion on the valuation of the Group's investment, development and trading properties and although these assumptions are in accordance with the RICS Valuation Professional Standards, if any prove to be incorrect, it may mean that the value of the Group's properties differs from their valuation reported in the consolidated financial statements, which could have a material effect on the Group's financial position. The key unobservable inputs used in the valuation models and a sensitivity analysis for each are disclosed on page 171.

Other areas of estimation and uncertainty include the impairment of trade receivables. In the prior year, this was considered a critical estimate, however, based on strong operational performance, evidenced by rent collection rates of 99 per cent for the year and conclusion of tenant support measures implemented during the pandemic period, the Group no longer considers the estimation of expected credit loss a key area of estimation uncertainty. As at 31 December 2022 the rent receivables balance prior to impairment was £12.0 million compared to £21.4 million as at 31 December 2021. £4.0 million (2021: £11.4 million) has been provided against this balance as at 31 December 2022, which includes all arrears over one year and arrears under one year at a calculated expected credit loss. All tenants with significant financial issues are provided for in full.

The Directors did not make any significant judgements in the preparation of these consolidated financial statements.

Other less significant areas of judgement include REIT compliance, provisions, share-based payments, contingent liabilities and assessing the degree of control or influence the Group exercises over its investments, including its 25.2 per cent shareholding in Shaftesbury. Although the Group holds more than 20 per cent of the voting power, it has concluded that it does not exercise significant influence over Shaftesbury as it does not have representation on the Shaftesbury board, nor have there been any other areas where the Group has exercised significant influence, such as an exchange of managerial personnel. The Group has not provided any guarantees of indebtedness, nor extended any credit to Shaftesbury. On 16 June 2022, Capco announced its intention to merge with Shaftesbury and the shareholder approval conditions were satisfied on 29 July 2022 with clearance from the Competition and Markets Authority gained on 22 February 2023. Due to the restrictions imposed by the merger process there has been no additional control gained and as such the investment continues to be accounted for at fair value through profit and loss in accordance with IFRS 9.

Operating segments

Management has determined the operating segments with reference to reports on divisional financial performance and position that are regularly reviewed by the Executive Directors, who are deemed to be the chief operating decision makers.

1 Principal accounting policies continued

Revenue recognition

Rental income is recognised as revenue on a straight-line basis over the lease term.

Tenant lease incentive payments, and in certain instances surrender premium payments which are directly linked to new leases, are amortised on a straight-line basis over the lease term as a reduction in net rental income. Surrender premiums received for early termination of leases are reflected in net rental income.

A lease modification occurs when an existing lease is renegotiated for future rental periods. Lease modifications are accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. On entering into a lease modification any initial direct costs associated with the lease, including surrender premia previously paid, are derecognised through costs in the year.

When a concession is provided for rent receivables past due the concession is accounted for as an impairment through the expected credit loss model in accordance with IFRS 9.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews and turnover rent, are recorded as income in the periods in which they are earned.

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

Where revenue is obtained by the sale of property, it is recognised when the buyer obtains control of the property. This will normally take place on legal completion.

Other income

Other income includes management fees charged to joint ventures for services associated with the management of properties and other general expenses as defined by management agreements. These fees are recognised over time, using time elapsed as the input method which measures the benefit simultaneously received and consumed by the customer, over the period the services are provided.

Dividend income is included in other income in the consolidated statement of comprehensive income and recognised when the right to receive payment is established.

Income taxes

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates that have been enacted or substantially enacted by the balance sheet date.

In accordance with IAS 12 'Income Taxes', deferred tax is provided for using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of those assets and liabilities. However, temporary differences are not recognised to the extent that they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss; or are associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that management believes it is probable that future taxable profit will be available against which the deferred tax assets can be recovered. Deferred tax assets and liabilities are only offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable group or different taxable entities where there is an intention to settle balances on a net basis.

Tax is included in the consolidated statement of comprehensive income except when it relates to items recognised directly in equity, in which case the related tax is also recognised directly in equity.

1 Principal accounting policies continued

Share-based payment

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the consolidated statement of comprehensive income with reference to the fair value of the instrument at the date of grant.

The consolidated statement of comprehensive income is charged over the vesting period of the options with a corresponding increase in equity. An option pricing model is used applying assumptions around expected yields, forfeiture rates, exercise price and volatility.

Upon eventual exercise, a reserves transfer occurs with no further charge reflected in the consolidated statement of comprehensive income.

Own shares held in connection with employee share plans and other share-based payment arrangements are treated as treasury shares and deducted from equity.

Investment and development property

Investment and development property is owned or leased by the Group and held for long-term rental income and capital appreciation.

The Group has chosen to use the fair value model. Property and any related obligations are initially recognised when the significant risks and rewards attached to the property have transferred to the Group. Payments made in respect of the future acquisition of investment and development property are initially recognised as prepayments until the recognition criteria outlined above have been met. Investment and development property is recorded at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value.

The fair value of property is arrived at by adjusting the market value as above for directly attributable tenant lease incentives and fixed head leases.

Property held under leases is stated gross of the recognised lease liability.

The valuation is based upon assumptions as outlined within the property portfolio note. These assumptions conform to the RICS Valuation Professional Standards. The cost of properties includes capitalised interest and other directly attributable outgoings, with the exception of properties and land where no development is imminent in which case no interest is included. Interest is capitalised (before tax relief) on the basis of the weighted average cost of debt outstanding until the date of practical completion.

When the Group redevelops a property for continued future use, that property is classified as investment and development property during the redevelopment period and continues to be measured at fair value.

Gains or losses arising from changes in the fair value of investment and development property are recognised in the consolidated statement of comprehensive income in the period in which they arise. Depreciation is not provided in respect of investment property including plant and equipment integral to such investment property. Investment and development properties cease to be recognised as investment and development property when they have been disposed of or when they cease to be held for the purpose of generating rental income or for capital appreciation.

Disposals are recognised on completion. Gains or losses arising are recognised in the consolidated statement of comprehensive income. The gain on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

A property ceases to be recognised as investment and development property and is transferred at its fair value to trading property when in the Directors' judgement, development commences with the intention of sale. Criteria considered in this assessment include the Board's stated intention, contractual commitments and physical, legal and financial viability.

When the use of a property changes from trading property to investment and development property, the property is transferred at fair value with any resulting gain or loss recognised in the consolidated statement of comprehensive income.

Trading property

Trading property comprises those properties that in the Directors' view are not held for long-term rental income or capital appreciation and are expected to be disposed of within one year of the balance sheet date or to be developed with the intention to sell.

Such property is constructed, acquired, or if transferred from investment and development property, transferred at fair value which is deemed to represent cost. Subsequently trading property is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling costs. This approximates market value as determined by professionally qualified external valuers at the balance sheet date. Details of the valuation methodology are set out in note 14 'Property Portfolio'.

The amount of any write down of trading property to market value is recognised as an expense in the period the write down occurs. Should a valuation uplift occur in a subsequent period, the amount of any reversal shall be recognised as a reduction in the previous write down in the period in which the uplift occurs. This may not exceed the property's cost.

The sale of trading property is recognised as revenue when the buyer obtains control of the property. Total costs incurred in respect of trading property are recognised simultaneously as an expense.

1 Principal accounting policies continued

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract.

As a lessee the Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Investment in joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Investments in joint ventures are accounted for using the equity method. On initial recognition the investment is recognised at cost, and the carrying amount is subsequently increased or decreased to recognise the Group's share of the profit or loss of the joint venture after the date of acquisition.

The Group's investment in joint ventures is presented separately on the balance sheet and the Group's share of the joint venture's post-tax profit or loss for the period is also presented separately in the consolidated statement of comprehensive income.

Where there is an indication that the Group's investment in joint ventures may be impaired the Group evaluates the recoverable amount of its investment, being the higher of the joint venture's fair value less costs to sell and value in use. If the recoverable amount is lower than the carrying value an impairment loss is recognised in the consolidated statement of comprehensive income.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has legal or constructive obligations to make payments on behalf of the joint venture.

Investments and other financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

For assets measured at fair value through profit or loss, gains and losses will be recorded in profit or loss.

Purchases and sales of financial assets are recognised on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Financial assets at fair value through profit or loss comprise listed equity investments and include the Group's investment in Shaftesbury. The Group subsequently measures all equity investments at fair value. Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gains or losses in the consolidated statement of comprehensive income.

Financial assets at amortised costs include amounts receivable from joint ventures.

Derivative financial instruments

The Group uses non-traded derivative financial instruments to manage exposure to interest rate risk. They are initially recognised on the trade date at fair value and subsequently remeasured at fair value based on market price. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Instruments that have not been designated as qualifying for hedge accounting are classified as fair value through profit and loss. Changes in the fair value of these instruments are split into interest (calculated as the accrued and realised cash flows) and other changes in fair value. Interest is recognised in finance income or costs and changes in fair value are recognised in change in fair value of financial instruments in the consolidated statement of comprehensive income.

1 Principal accounting policies continued

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. The methodology for assessment of impairment is defined in the following paragraph.

Impairment of financial assets

The Group applies the IFRS 9 expected credit loss model in order to calculate a lifetime expected loss allowance for all financial assets. To measure the expected credit loss, receivables are reviewed on an individual contract basis. The expected loss rates are based on forward-looking information as well as historical evidence of collection.

For rent receivables, all tenants are allocated a risk rating, as determined by management, and provided a rating of maximum, high, medium and low risk. The classification is developed by taking into consideration information on the tenant's credit rating, current financial position, historical trading performance, historical default rate and the operational performance of the business. In assessing the provision the Group identifies risk factors associated by sector (food and beverage, retail, office, leisure and residential) and the type of rent receivable outstanding (rent arrears, service charge, other). In determining the provision on a tenant by tenant basis, the Group considers both recent payment history and future expectations of the tenant's ability to pay or possible default in order to recognise an expected credit loss allowance. Based on sector and rent receivable type a provision is provided in addition to a full provision for maximum risk tenants or tenants with significant financial issues.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the impairment reversal is recognised in the consolidated statement of comprehensive income on a basis consistent with the original charge.

Tenant lease incentives are impaired based on an assessment of tenant affordability.

For amounts receivable from joint ventures, impairment is assessed by comparing the carrying amount of the loans and receivables to the discounted present value of the estimated future cash flows from the joint ventures.

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, and other short-term highly liquid investments with original maturities of three months or less. Following a decision by the IFRIC 'Demand Deposits with Restrictions on Use arising from a Contract with a Third Party', tenant deposits have been reclassified from other receivables to cash and cash equivalents. Details are set out in note 1 'Changes in accounting policies'. Comparatives have been restated to reflect this change.

Trade and other payables

Trade payables are obligations for goods or services acquired in the ordinary course of business. Trade and other payables are recognised at fair value and subsequently measured at amortised cost until settled.

Borrowings

Borrowings comprise bank loans (revolving credit facility and standby loan facility), loan notes (Private Placement loan notes) and compound financial instruments (exchangeable bonds).

Bank loans and loan notes are ordinarily recognised initially at their net proceeds as an approximation of fair value. If the transaction price is not an approximation of fair value at initial recognition, the Group determines the fair value as evidenced by a quoted price in an active market for an identical instrument or based on a valuation technique that uses data from observable markets. Bank loans and loan notes are subsequently carried at amortised cost. Any transaction costs, premiums or discounts are capitalised and recognised over the contractual life of the loan using the effective interest rate method, or on a straight-line basis where it is impractical to do so.

In the event of early repayment, transaction costs, premia or discounts paid or unamortised costs are recognised immediately in the consolidated statement of comprehensive income.

Compound financial instruments issued by the Group comprise exchangeable bonds that are convertible into shares of another entity. The exchangeable bonds are bifurcated into a liability and embedded derivative option component on initial recognition. The carrying value of the liability at initial recognition is the difference between the fair value of the entire instrument as a whole and the embedded derivative's fair value. Any directly attributable transaction costs are allocated to each component in proportion to their initial carrying amounts. The issue costs apportioned to the embedded derivative are recognised immediately in the consolidated statement of comprehensive income.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. Any transaction costs apportioned to the liability are included in the carrying amount and recognised over the contractual life of the liability using the effective interest rate method.

Interest related to the financial liability is recognised in the consolidated statement of comprehensive income. The embedded derivative is measured at fair value with the fair value adjustment accounted for in the consolidated statement of comprehensive income.

1 Principal accounting policies continued

Pensions

The costs of the defined contribution scheme and the Group's personal pension plans are charged against profits or losses in the year in which they are incurred.

Contingent liabilities and capital commitments

Contingent liabilities are disclosed where there are present or possible obligations arising from past events, but the economic impact is uncertain in timing, occurrence or amount. A description of the nature and, where possible, an estimate of the financial effect of contingent liabilities are disclosed.

Capital commitments are disclosed when the Group has a contractual future obligation which has not been provided for at the balance sheet date. Amounts are only provided for where such obligations are onerous.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2 Segmental reporting

Management has determined the operating segments based on reports reviewed by the Executive Directors, who are deemed to be the chief operating decision makers. The principal performance measures have been identified as net rental income, underlying earnings per share and net asset value.

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

- Covent Garden;
- Other, which comprises the Shaftesbury investment, the Group interest in Innova and GCP and other head office companies and investments;
- Lillie Square which represents the Group's interests in the Lillie Square joint venture and a number of smaller properties in the adjacent area.

Management information is reported to the chief operating decision makers on a Group share basis. Outlined below is the Group share by segment:

Segment	Group share
Covent Garden	**100%**
Other	
Investment in Shaftesbury	**100%**
Innova	**50%**
GCP[1]	**0%**
Other	**100%**
Lillie Square	
Lillie Square joint venture	**50%**
Lillie Square Holding Group	**100%**

1. GCP represented the Group's 50% interest in The Great Capital Partnership up until being dissolved on 6 April 2022. Subsequent to this the Group's ownership share in GCP is nil.

Segmental reporting has been presented in line with management information and therefore consolidation adjustments are presented to reconcile segmental performance and position to the IFRS total.

The Group's operating segments derive their revenue primarily from rental income from lessees and dividend income from investments. Unallocated expenses consist primarily of costs incurred centrally which are neither directly nor meaningfully attributable to individual segments.

Segmental assets and segmental liabilities exclude loans between and investments in Group undertakings. Unallocated assets represents Group cash held outside of the Covent Garden group. The Group operates a central treasury function which manages and monitors the Group's finance income and costs and a portion of the Group's cash balances.

2 Segmental reporting continued

Reportable segments

	2022					
	Covent Garden £m	Other £m	Lillie Square £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Rental income	74.1	–	1.4	75.5	(1.4)	74.1
Proceeds from sale of trading property	–	–	3.3	3.3	(3.3)	–
Revenue	74.1	–	4.7	78.8	(4.7)	74.1
Rent receivable	61.5	–	0.2	61.7	(0.2)	61.5
Straight-lining of tenant lease incentives	6.3	–	–	6.3	–	6.3
Service charge income	6.3	–	1.2	7.5	(1.2)	6.3
Rental income	74.1	–	1.4	75.5	(1.4)	74.1
Property and service charge expenses	(16.5)	–	(1.5)	(18.0)	1.5	(16.5)
Reversal of expected credit loss	1.6	–	–	1.6	–	1.6
Impairment of tenant lease incentives	(1.9)	–	–	(1.9)	–	(1.9)
Underlying net rental income/(expense)	57.3	–	(0.1)	57.2	0.1	57.3
Gross profit/(loss)	57.3	–	(0.1)	57.2	0.1	57.3
Other income	–	13.5	–	13.5	–	13.5
Profit on sale of trading property	–	–	0.9	0.9	(0.9)	–
Write down of trading property	–	–	(12.4)	(12.4)	12.4	–
Loss on revaluation and sale of investment and development property	(0.8)	–	–	(0.8)	–	(0.8)
Change in value of investments and other receivables	–	–	0.1	0.1	(8.0)	(7.9)
Change in fair value of financial assets at fair value through profit or loss	–	(239.5)	–	(239.5)	–	(239.5)
Segment profit/(loss)	56.5	(226.0)	(11.5)	(181.0)	3.6	(177.4)
Unallocated costs:						
Administration expenses				(40.7)	0.1	(40.6)
Operating loss				(221.7)	3.7	(218.0)
Net finance costs				(24.6)	–	(24.6)
Net other finance costs				(6.5)	3.5	(3.0)
Change in fair value of derivative financial instruments				39.8	–	39.8
Loss before tax				(213.0)	7.2	(205.8)
Taxation				(6.0)	–	(6.0)
Loss for the year				(219.0)	7.2	(211.8)
Summary balance sheet						
Total segment assets	1,903.7	359.6	87.0	2,350.3	(0.8)	2,349.5
Total segment liabilities	(513.3)	(276.2)	(0.9)	(790.4)	0.8	(789.6)
Segmental net assets	1,390.4	83.4	86.1	1,559.9	–	1,559.9
Unallocated assets				1.7	–	1.7
Net assets				1,561.6	–	1,561.6

2 Segmental reporting continued

Reportable segments

	Restated 2021					
	Covent Garden £m	Other £m	Lillie Square £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Rental income	72.3	–	2.0	74.3	(2.0)	72.3
Proceeds from sale of trading property	–	–	24.7	24.7	(24.7)	–
Revenue	72.3	–	26.7	99.0	(26.7)	72.3
Rent receivable	62.5	–	0.2	62.7	(0.2)	62.5
Straight-lining of tenant lease incentives	4.5	–	–	4.5	–	4.5
Service charge income	5.3	–	1.8	7.1	(1.8)	5.3
Rental income	72.3	–	2.0	74.3	(2.0)	72.3
Property and service charge expenses	(16.0)	–	(1.8)	(17.8)	1.8	(16.0)
Provision for expected credit loss	(7.6)	–	–	(7.6)	–	(7.6)
Underlying net rental income	48.7	–	0.2	48.9	(0.2)	48.7
Lease modification and impairment of tenant lease incentives	(8.7)	–	–	(8.7)	–	(8.7)
Gross profit	40.0	–	0.2	40.2	(0.2)	40.0
Other income	–	2.7	–	2.7	0.3	3.0
Profit on sale of trading property	–	–	5.6	5.6	(5.6)	–
Write down of trading property	–	–	(12.0)	(12.0)	12.0	–
Loss on revaluation and sale of investment and development property	(4.0)	–	(0.1)	(4.1)	–	(4.1)
Change in value of investments and other receivables	–	(56.1)	(0.5)	(56.6)	68.2	11.6
Change in fair value of financial assets at fair value through profit or loss	–	44.6	–	44.6	–	44.6
Segment profit/(loss)	36.0	(8.8)	(6.8)	20.4	74.7	95.1
Unallocated costs:						
Administration expenses				(22.7)	(0.1)	(22.8)
Operating (loss)/profit				(2.3)	74.6	72.3
Net finance costs				(31.4)	0.2	(31.2)
Net other finance costs				(4.5)	7.4	2.9
Change in fair value of derivative financial instruments				(8.5)	–	(8.5)
(Loss)/profit before tax				(46.7)	82.2	35.5
Taxation				(0.7)	–	(0.7)
Loss for the year				(47.4)	82.2	(34.8)
Summary balance sheet						
Total segment assets	2,067.0	601.5	121.1	2,789.6	(9.6)	2,780.0
Total segment liabilities	(585.6)	(426.5)	(2.3)	(1,014.4)	2.3	(1,012.1)
Segmental net assets	1,481.4	175.0	118.8	1,775.2	(7.3)	1,767.9
Unallocated assets				18.9	–	18.9
Net assets				1,794.1	(7.3)	1,786.8

3 Underlying earnings

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

One of the key performance measures the Group uses is underlying earnings. The measure aligns with the main principles of the European Public Real Estate Association ("EPRA") best practices recommendations for EPRA earnings which provides a measure of recurring income on a transparent and consistent basis to enable comparison between European property companies. Certain Group adjustments, such as adjusting for non-recurring costs, which are not removed from EPRA earnings, are made in order to calculate the Group underlying earnings.

The Group considers the presentation of underlying earnings to be useful supplementary information as it represents the recurring, underlying performance of the business. Underlying earnings removes unrealised gains/losses and non-recurring items. Unrealised gains and losses that are excluded are net valuation gains/losses (including profits/losses on disposals), fair value changes and impairment charges. Non-recurring items that are excluded include net refinancing charges, costs of termination of derivative financial instruments and non-recurring income and costs including the proposed merger transaction costs. Taxation charges in relation to these items, which include tax adjustments relating to non-REIT group losses, are excluded.

Net rental income as a component of underlying earnings remains an important alternative performance measure of the Group. Lease modification expenses and impairment of tenant lease incentives resulting from the Group providing rental support to its tenants during the COVID-19 pandemic were excluded from underlying earnings during the prior year. Given the scale of the rental support provided to tenants as a result of the COVID-19 pandemic, these non-cash expenses were material and at levels not experienced in the past nor expected to be incurred once tenant support measures required as a result of COVID-19 conclude. These costs recorded in rental expenses were excluded from underlying profit on that basis, as disclosed in the Group's APM policy. Tenant support measures required as a result of the COVID-19 pandemic have now been concluded and as such future impairments of tenant lease incentives have been included in underlying earnings with effect for 2022.

Details of all APMs used by the Group are set out in the APM section on page 201.

Internally, the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures. Underlying earnings is reported on a Group share basis.

3 Underlying earnings continued

The calculation of underlying earnings per share, reconciled to the IFRS (loss)/profit for the year, is set out below:

	Note	2022 £m	Restated 2021 £m
Rental income		**75.5**	74.3
Property and service charge expenses		**(18.0)**	(17.8)
Impairment of tenant lease incentives[1]	4	**(1.9)**	–
Reversal of/(provision for) expected credit loss		**1.6**	(7.6)
Underlying net rental income		**57.2**	48.9
Other income		**13.5**	2.7
Underlying administration costs		**(26.1)**	(19.9)
Underlying operating profit		**44.6**	31.7
Finance costs		**(27.2)**	(31.8)
Finance income		**2.6**	0.4
Underlying net finance costs		**(24.6)**	(31.4)
Underlying profit before tax		**20.0**	0.3
Taxation		**(1.4)**	0.4
Underlying earnings		**18.6**	0.7
Underlying earnings per share (pence)		**2.2**	0.1
Weighted average number of shares in issue	13	**851.3m**	851.3m
Underlying earnings		**18.6**	0.7
Reconciliation to IFRS:			
Lease modification expenses	4	**–**	(6.4)
Impairment of tenant lease incentives[1]	4	**–**	(2.3)
Loss on revaluation and sale of investment and development property	7	**(0.8)**	(4.1)
Change in value of investments and other receivables	8	**(7.9)**	11.6
Non-underlying administration expenses	6	**(14.6)**	(2.8)
Other finance income	9	**3.5**	8.1
Other finance costs	10	**(6.5)**	(5.2)
Change in fair value of derivative financial instruments	17	**39.8**	(8.5)
Change in fair value of financial assets at fair value through profit or loss	16	**(239.5)**	44.6
Taxation		**(4.6)**	(1.1)
Other		**0.2**	0.2
(Loss)/profit for the year		**(211.8)**	34.8

1. Due to the impact of COVID-19, lease modification expenses and impairment of tenant lease incentives of £8.7 million have been excluded from underlying earnings for 2021. Tenant support measures required as a result of the COVID-19 pandemic have now been concluded and as such impairments of tenant lease incentives have been included in underlying earnings for 2022 onwards.

4 Gross profit

	2022 £m	Restated 2021 £m
Rental receivable	**61.5**	62.5
Straight-lining of tenant lease incentives	**6.3**	4.5
Service charge income	**6.3**	5.3
Revenue	**74.1**	72.3
Reversal of/(provision for) expected credit loss	**1.6**	(7.6)
Property expenses	**(10.2)**	(10.7)
Service charge expenses	**(6.3)**	(5.3)
Lease modification expenses	**–**	(6.4)
Impairment of tenant lease incentives	**(1.9)**	(2.3)
Costs	**(16.8)**	(32.3)
Gross profit	**57.3**	40.0

All revenue has been generated from operations within the United Kingdom.

5 Other income

	2022 £m	2021 £m
Dividend income[1]	**13.5**	2.3
Management fee income[2]	**–**	0.7
Other income	**13.5**	3.0

1. Dividend income earned from the Group's investment in Shaftesbury.
2. Management fees charged to joint ventures for services associated with the management of properties and other general expenses as defined by management agreements.

6 Administration expenses

Included within administration expenses in the consolidated statement of comprehensive income are:

	2022 £m	2021 £m
Depreciation	**0.2**	0.2
Other administration expenses	**25.8**	19.8
Non-underlying administration expenses[1]	**14.6**	2.8
Total administration expenses	**40.6**	22.8

1. Non-underlying administration expenses totalled £14.6 million (2021: £2.8 million). Current period costs relate to transaction fees and expenses in respect of the proposed all-share merger with Shaftesbury. Prior period costs included £1.8 million lease assignment costs in respect of the office building previously occupied by the Group, while the remainder of the costs related to legal and other costs incurred in respect of group restructurings and transactions. These costs have been classified as non-underlying as they do not represent the recurring, underlying performance of the Group.

6 Administration expenses continued

(a) Employee costs

		2022 £m	2021 £m
Wages and salaries		**12.4**	9.3
Social security costs		**2.0**	1.1
Other pension costs		**0.9**	0.8
Share-based payment[1]	31	**2.4**	1.6
Total employee costs		**17.7**	12.8

1. Includes £0.1 million (2021: £0.1 million) for national insurance on share options are due to changes in vesting and forfeiture assumptions.

(b) Employee numbers

Average monthly number of people (including Executive Directors) employed	2022	2021
Total average headcount	**67**	69

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Directors' Remuneration Report on pages 105 to 127 form part of these consolidated financial statements.

Share-based payment charges are calculated based on the expected fair value of share awards as calculated using the Black-Scholes option pricing model.

The Group recharges corporate head office costs based primarily on asset value to its operations.

(c) Auditors' remuneration

	2022 £m	2021 £m
Remuneration to the principal auditors in respect of audit fees:		
Company and Group consolidated financial statements	**0.5**	0.3
Audit of the financial statements of the Company's subsidiaries	**0.2**	0.1
Fees related to the audit of the Company and its subsidiaries	**0.7**	0.4
Audit related assurance services including interim review	**0.1**	0.1
Total fees for audit and audit related services	**0.8**	0.5

The Group's auditors, PricewaterhouseCoopers LLP, are engaged on assignments in addition to their audit engagement duties where their expertise and experience of the Group are important. 2022 non-audit fees, including the interim review and agreed upon procedures, represented 11.0 per cent of the total fee (2021: 18.0 per cent). Further details on the Audit Committee's non-audit services policy can be found on page 101.

7 Loss on revaluation and sale of investment and development property

	2022 £m	Restated 2021 £m
(Loss)/gain on revaluation of investment and development property	**(0.8)**	1.8
Loss on sale of investment and development property	**–**	(5.9)
Loss on revaluation and sale of investment and development property	**(0.8)**	(4.1)

8 Change in value of investments and other receivables

	2022 £m	2021 £m
(Impairment)/write-back of investments and other receivables	**(7.9)**	67.7
Waiver of joint venture loan	**–**	(56.1)
Change in value of investments and other receivables	**(7.9)**	11.6

8 Change in value of investments and other receivables continued

The change in value of investments and other receivables relates to amounts receivable from the Lillie Square joint venture. The investment and other receivables in Lillie Square consist of the equity investment, interest bearing loans issued by the joint venture and a working capital facility.

Due to the joint venture being in a net liability position, and incurring losses in the year, the equity investment is held at nil (2021: nil).

As at the balance sheet date, prior to impairment, the Group held an interest bearing loan at £86.4 million (2021: £83.0 million) and working capital facility of £28.2 million (2021: £45.5 million). The reduction in working capital facility in the year reflects a repayment from the joint venture of £17.5 million to each partner following property sales at the end of 2021.

As required by IFRS 9, an impairment assessment was performed comparing the carrying amount of the interest bearing loans and working capital facility to the present value of the estimated future cash flows from the joint venture.

The key assumptions made in the impairment assessment were the cash flows to be generated over the project life and the timing thereof. In terms of IFRS 9 requirements the Group applied a discount rate of 4.25 per cent (being the effective interest rate on the loan to the joint venture) to the cash flows which are in line with the strategic plan of the joint venture.

As a result, the Group has booked an impairment of £7.9 million during 2022 leading to a cumulative impairment of £30.6 million (2021: £22.7 million cumulative impairment). The cumulative impairment takes into consideration the losses from the joint venture.

Factoring in the impairment, the interest bearing loan is held at a net book value of £84.0 million (2021: £82.9 million) and working capital facility at nil (2021: £22.8 million). The balances are included within Trade and other receivables at the balance sheet date. Further details are set out in note 18 'Trade and other receivables'.

In August 2021, deep discount bonds, with a nominal value of £276.1 million, which were issued by the joint venture to the Group and KFI in August 2012, were due to mature. Ahead of the bonds maturing, the Group and KFI waived a portion of the bonds and reduced the nominal redemption value to £163.0 million (Capco share £81.5 million) which resulted in a write back of £50.3 million of the previously impaired balance and the crystallisation of a debt waiver loss of £56.1 million recognised in the prior year.

9 Finance income

	2022 £m	2021 £m
Finance income:		
On deposits and other	**1.4**	0.5
On interest rate derivatives[1]	**1.2**	–
Finance income	**2.6**	0.5
Other finance income:		
On loan to joint venture[2]	**3.5**	1.4
On deep discount bonds[2]	**–**	6.6
On deferred consideration	**–**	0.1
Other finance income	**3.5**	8.1

1. The Group earned interest on interest rate derivatives entered into to manage its exposure to interest rate risk.
2. The Group earned interest on the deep discount bonds issued by the Lillie Square joint venture up to their redemption on 31 July 2021. In the prior year, the Group and KFI each provided an interest bearing loan to the joint venture that was used to redeem the bonds. The interest earned on both these instruments are excluded from the calculation of underlying earnings as deep discount bonds and loans to joint ventures eliminate on a Group share basis due to the Lillie Square joint venture having the corresponding finance cost.

10 Finance costs

	2022 £m	Restated 2021 £m
On bank facilities and loan notes	**18.2**	22.8
On exchangeable bonds[1]	**8.3**	8.2
On obligations under lease liabilities	**0.7**	0.7
Finance costs	**27.2**	31.7
Other finance costs:		
Non-underlying finance charges[2]	**6.5**	5.2
Other finance costs	**6.5**	5.2

1. On 30 November 2020 the Group issued £275 million of secured exchangeable bonds maturing in March 2026. The net proceeds received from the issue of the exchangeable bonds have been split between the financial liability element and an option component. The debt component is accounted for at amortised cost and, after taking into account transaction costs, accrues interest at an effective interest rate of 3.1 per cent, of which 2 per cent (£5.5 million) represent the cash coupon on the bond.
2. Non-underlying finance charges have been excluded from the calculation of underlying earnings as the charges relate to non-recurring costs in connection with the early repayment of £75 million of private placement notes, the repayment of the £125 million secured loan and the cost of entering into the standby loan facility during the current period. Prior year costs related to non-recurring costs in connection with the re-financing of the Revolving Credit Facility, early settlement of interest rate derivatives and costs associated with debt covenant waivers.

11 Taxation

	2022 £m	2021 £m
Deferred income tax:		
On accelerated capital allowances	**0.1**	0.1
On fair value of derivative financial instruments	**–**	2.2
On Group losses	**4.7**	(1.1)
On other temporary differences	**1.2**	(0.5)
Deferred tax on losses	**6.0**	0.7
Total taxation charge in the consolidated statement of comprehensive income[1]	**6.0**	0.7

Factors affecting the tax charge for the year

The tax charge for the year is £6.0 million (2021: £0.7 million) against a loss before tax of £205.8 million (2021: £35.5 million profit). A reconciliation against the standard rate of corporation tax in the United Kingdom ("UK") is set out below:

	2022 £m	Restated 2021 £m
(Loss)/profit before tax	**(205.8)**	35.5
(Loss)/profit on ordinary activities multiplied by the standard rate in the UK of 19% (2021: 19%)	**(39.1)**	6.7
Revaluation losses/(profits) attributable to REIT business	**45.6**	(8.8)
Expenses disallowed	**2.4**	3.1
Non-taxable items	**(0.2)**	(0.5)
REIT tax-exempt rental profits	**(8.3)**	0.6
Other temporary differences not provided	**0.9**	0.7
Unwind deferred tax on prior period group losses	**4.7**	–
Restatement of deferred income tax following change in corporation tax rate	**–**	(1.1)
Total taxation charge in the consolidated statement of comprehensive income[1]	**6.0**	0.7

1. Refer to note 25 'Deferred tax' for further detail on deferred tax amount unwound for the year ended 31 December 2022.

As a UK REIT, the Group is exempt from UK corporation tax on income and gains from qualifying activities. Non-qualifying activities are subject to UK corporation tax. As a UK REIT, Capco must distribute at least 90 per cent of the Group's income profits from its tax-exempt property rental business (calculated by reference to tax rather than accounting rules), and 100 per cent of the Group's UK REIT investment profits, by way of a dividend, which is known as a Property Income Distribution ("PID"). A corporation tax charge will arise for the Group at 19 per cent if the minimum PID requirement is not met within 12 months of the end of the period. Further details regarding the PID is set out in note 12 'Dividends'.

The UK Budget announced on 3 March 2021 confirmed an increase in the main corporation tax rate from 19 to 25 per cent with effect from 1 April 2023. This change was substantively enacted on 24 May 2021 and no further amendments to the corporation tax rate have been enacted to date.

12 Dividends

Group and Company	2022 £m	2021 £m
Ordinary shares		
Prior year final dividend of 1.0 pence per share (2021: nil pence)	**8.5**	–
Interim dividend of 0.8 pence per share (2021: 0.5 pence)	**6.8**	4.3
Dividend expense	**15.3**	4.3
Bonus issue in lieu of cash dividends[1]	**–**	(0.3)
Cash dividends paid	**15.3**	4.0
Second interim dividend of 1.7 pence per share (2021: 1.0 pence)	**14.5**	8.5

1. Adjustments for bonus issue arise from those shareholders who elect to receive their dividends in scrip form prior to the declaration of dividend which occurs at the Company's Annual General Meeting and shareholders who elect to receive their shares on an evergreen basis. These shares are treated as a bonus issue and allotted at nominal value.

As a UK REIT, Capco must distribute at least 90 per cent of the Group's income profits from its tax-exempt property rental business, and 100 per cent of the Group's UK REIT investment profits, by way of a PID.

These distributions can be subject to withholding tax at 20 per cent. Dividends from profits of the Group's taxable residual business are ordinary dividend and will be taxed as an ordinary dividend. A corporation tax charge would arise for the Group if the minimum PID requirement is not met within 12 months of the end of the period.

On 8 July 2022, the Group paid a final dividend for 2021 of 1.0 pence per ordinary share split equally between a PID and non-PID.

On 19 September 2022 for shares registered in South Africa and 20 September 2022 for shares registered in the UK, the Group paid an interim dividend for 2022 of 0.8 pence per ordinary share. The interim dividend was paid wholly as a PID. Together, these dividend payments fully settled the Group's PID requirement for the year ended 31 December 2021.

On 30 January 2023, the Directors declared a second interim dividend of 1.7 pence per ordinary share (of which 0.7 pence per ordinary share will be paid as a PID and 1.0 pence per ordinary share as a non-PID), bringing the total dividend for 2022 to 2.5 pence per ordinary share. The second interim dividend will be paid on 20 March 2023 to all shareholders on the register on 3 March 2023. The payment will settle the PID requirement for the year ended 31 December 2022.

13 Earnings per share and net assets per share

(a) Weighted average number of ordinary shares

	2022 m	2021 m
Weighted average number of ordinary shares in issue	**851.3**	851.3
Adjustments:		
Dilutive effect of contingently issuable share option awards[1]	**0.8**	0.5
Dilutive effect of contingently issuable deferred share awards[1]	**–**	0.1
Adjusted, diluted weighted average number of ordinary shares in issue	**852.1**	851.9

1. The dilutive effect of contingently issuable share option awards were not included in the calculation of diluted earnings per share for the year ended 31 December 2022 because they are anti-dilutive. These options could potentially dilute basic earnings per share in the future.

(b) Basic and diluted (loss)/earnings per share

	2022 £m	Restated 2021 £m
(Loss)/earnings used for calculation of basic and diluted loss per share	**(211.8)**	34.8
Basic and diluted (loss)/earnings per share (pence)	**(24.9)**	4.1

EPRA Earnings per share is disclosed in table 1of the EPRA measures on page 203.

(c) Headline (loss)/earnings per share

Headline earnings per share is calculated in accordance with Circular 1/2021 issued by the South African Institute of Chartered Accountants, a requirement of the Group's Johannesburg Stock Exchange secondary listing. This measure is not a requirement of IFRS.

	2022			Restated 2021		
	Loss £m	Shares million	Loss per share (pence)	Earnings £m	Shares million	Earnings per share (pence)
Basic (loss)/earnings	**(211.8)**	**851.3**	**(24.9)**	34.8	851.3	4.1
Group adjustments:						
Loss on revaluation and sale of investment and development property	**0.8**			4.1		
Headline (loss)/earnings	**(211.0)**	**851.3**	**(24.8)**	38.9	851.3	4.6
Dilutive effect of contingently issuable share option awards[1]	**–**	**0.8**		–	0.5	
Dilutive effect of contingently issuable deferred share awards[1]	**–**	**–**		–	0.1	
Diluted headline (loss)/earnings	**(211.0)**	**852.1**	**(24.8)**	38.9	851.9	4.6

1. Further information on these potential ordinary shares can be found in note 31 'Share-based payments'.

13 Earnings per share and net assets per share continued

(d) Closing number of ordinary shares

	2022 m	2021 m
Number of ordinary shares in issue	**851.5**	851.3
Adjustments:		
Dilutive effect of contingently issuable share option awards	**0.8**	0.5
Dilutive effect of contingently issuable deferred share awards	**–**	0.1
Adjusted, diluted number of ordinary shares in issue	**852.3**	851.9

(e) Net assets per share

EPRA NRV, NTA and NDV are alternative performance measures that are calculated in accordance with the Best Practices Recommendations of the EPRA to provide a transparent and consistent basis to enable comparison between European property companies. See Alternative Performance Measures and EPRA measures on pages 201 to 206 for further information.

	2022			Restated 2021		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS total equity[1]	**1,561.6**	**1,561.6**	**1,561.6**	1,786.8	1,786.8	1,786.8
Diluted NAV	**1,561.6**	**1,561.6**	**1,561.6**	1,786.8	1,786.8	1,786.8
Group adjustments:						
Revaluation of other non-current assets[2]	**–**	**–**	**–**	7.3	7.3	7.3
Unrecognised surplus on trading property – joint venture	**7.1**	**7.1**	**7.1**	0.1	0.1	0.1
Diluted NAV at Fair Value	**1,568.7**	**1,568.7**	**1,568.7**	1,794.2	1,794.2	1,794.2
Fair value of derivative financial instruments[3]	**(12.1)**	**(12.1)**	**–**	(1.1)	(1.1)	–
Fair value adjustment of exchangeable bond[4]	**(4.8)**	**(4.8)**	**–**	21.2	21.2	–
Real Estate Transfer Tax	**116.0**	**–**	**–**	115.9	–	–
Excess fair value of debt over carrying value[5]	**–**	**–**	**(121.4)**	–	–	6.5
Deferred tax adjustments	**0.4**	**0.4**	**–**	0.2	0.2	–
NAV	**1,668.2**	**1,552.2**	**1,447.3**	1,930.4	1,814.5	1,800.7
Diluted number of shares	**852.3**	**852.3**	**852.3**	851.9	851.9	851.9
NAV per share (pence)	**195.7**	**182.1**	**169.8**	226.6	213.0	211.4

1. IFRS total equity of 183.2 pence per share (2021: 209.7 pence per share).
2. This relates to the impairment under IFRS 9 of amounts receivable from joint ventures compared to the Group's share of losses in the joint venture.
3. This relates to the fair value of interest rate derivatives. Further details are disclosed within note 17 'Derivative financial instruments'.
4. Adjustment to remove the exchangeable bond option fair value and include the exchangeable bond liability at nominal value of £275 million.
5. Excludes fair value of exchangeable bond option component included under derivative liabilities as disclosed in note 17 'Derivative financial instruments'.

14 Property portfolio

(a) Investment and development property

	Property portfolio			Tenure	
	Covent Garden £m	Other £m	Total £m	Freehold £m	Leasehold £m
Restated balance at 1 January 2021	1,793.1	2.1	1,795.2	1,035.1	760.1
Additions from subsequent expenditure	6.8	–	6.8	5.2	1.6
Disposals	(98.2)	–	(98.2)	(93.4)	(4.8)
Gain/(loss) on revaluation	1.8	–	1.8	4.8	(3.0)
Restated balance at 31 December 2021	1, 703.5	2.1	1,705.6	951.7	753.9
Additions from subsequent expenditure	**10.3**	**–**	**10.3**	**5.5**	**4.8**
Loss on revaluation	**(0.8)**	**–**	**(0.8)**	**2.6**	**(3.4)**
At 31 December 2022	**1,713.0**	**2.1**	**1,715.1**	**959.8**	**755.3**

(b) Market value reconciliation of total property

	Covent Garden £m	Other £m	Total £m
Carrying value of investment and development property at 31 December 2022	**1,713.0**	**2.1**	**1,715.1**
Adjustment in respect of fixed head leases	**(6.1)**	**–**	**(6.1)**
Adjustment in respect of tenant lease incentives	**34.7**	**–**	**34.7**
Market value of investment and development property at 31 December 2022	**1,741.6**	**2.1**	**1,743.7**
Joint venture:			
Group share of carrying value of joint venture investment, development and trading property at 31 December 2022	**–**	**69.9**	**69.9**
Group share of unrecognised surplus on joint venture trading property[1]	**–**	**7.1**	**7.1**
Market value of investment, development and trading property on a Group share basis at 31 December 2022	**1,741.6**	**79.1**	**1,820.7**

	Covent Garden £m	Other £m	Total £m
Carrying value of investment and development property at 31 December 2021 (restated)	1,703.5	2.1	1,705.6
Adjustment in respect of fixed head leases	(6.1)	–	(6.1)
Adjustment in respect of tenant lease incentives (restated)	31.1	–	31.1
Market value of investment and development property at 31 December 2021	1,728.5	2.1	1,730.6
Joint venture:			
Group share of carrying value of joint venture investment, development and trading property at 31 December 2021	–	84.0	84.0
Group share of unrecognised surplus on joint venture trading property[1]	–	0.1	0.1
Market value of investment, development and trading property on a Group share basis at 31 December 2021	1,728.5	86.2	1,814.7

1. The unrecognised surplus on trading property is shown for informational purposes only and is not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value in the consolidated financial statements.

14 Property portfolio continued

The fair value of the Group's investment, development and trading property at 31 December 2022 was determined by independent, appropriately qualified external valuers, CBRE for the Covent Garden estate and JLL for Lillie Square. The valuations conform to the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. Fees paid to valuers are based on fixed price contracts.

Each year the Company appoints the external valuers. The valuers are selected based upon their knowledge, independence and reputation for valuing assets such as those held by the Group.

Valuations are performed bi-annually and are performed consistently across all properties in the Group's portfolio. At each reporting date appropriately qualified employees of the Group verify all significant inputs and review computational outputs. Valuers submit and present summary reports to the Group's Audit Committee, with the Executive Directors reporting to the Board on the outcome of each valuation round.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, discount rates, construction costs including any site specific costs (for example Section 106), professional fees, planning fees, developer's profit including contingencies, planning and construction timelines, lease re-gear costs, planning risk and sales prices based on known market transactions for similar properties or properties similar to those contemplated for development. As at 31 December 2022 all Covent Garden properties are valued under the income capitalisation technique.

As highlighted within the Group's Net Zero Carbon Pathway published in December 2021, developments and refurbishments form a key element of the Group's 2030 Net Zero Carbon Commitment. During the year the Group's additions from subsequent expenditure was £10.3 million (2021: £6.8 million). This sum included both capital works which enhanced the environmental performance of assets, and design stage work to deliver environmental enhancements. While new ground up development forms a limited part of the Group activity, the design stage on refitting and refurbishment, particularly of heritage buildings, is equally important to deliver Whole Life Carbon efficiency. For further details, refer to the Responsibility section of the Strategic Report on pages 63 to 83.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and the likelihood of achieving and implementing this change in arriving at its valuation.

A number of the Group's properties, held within the Lillie Square joint venture, have been valued on the basis of their development potential. In respect of development valuations, the valuer ordinarily considers the gross development value of the completed scheme based upon assumptions of capital values, rental values and yields of the properties which would be created through the implementation of the development. Deductions are then made for anticipated costs, including an allowance for developer's profit, before arriving at a valuation.

At 31 December 2022, the Group was contractually committed to £1.7 million (2021: £4.1 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Refer to note 27 'Capital commitments' for further information on capital commitments.

Non-financial assets carried at fair value, as is the case for investment and development property held by the Group, are required to be analysed by level depending on the valuation method adopted under IFRS 13 'Fair Value Measurement' ("IFRS 13"). Trading property is exempt from IFRS 13 disclosure requirements.

The different valuation levels are defined as:

Level 1: valuation based on quoted market prices traded in active markets;

Level 2: valuation based on inputs other than quoted prices included within Level 1 that maximise the use of observable data either directly or from market prices or indirectly derived from market prices; and

Level 3: where one or more inputs to valuation are not based on observable market data. Valuations at this level are more subjective and therefore more closely managed, including sensitivity analysis of inputs to valuation models.

When the degree of subjectivity or nature of the measurement inputs changes, consideration is given as to whether a transfer between fair value levels is deemed to have occurred. Unobservable data becoming observable market data would determine a transfer from Level 3 to Level 2. All investment and development properties held by the Group are classified as Level 3 in the current and prior year.

14 Property portfolio continued

The following table sets out the valuation techniques used in the determination of market value of investment and development property on a property by property basis, as well as the key unobservable inputs used in the valuation models.

Property portfolio	Market value 2022 £m	Market value 2021 £m	Valuation technique	Key unobservable inputs	Range (weighted average) 2022	Range (weighted average) 2021
Covent Garden	**1,741.6**	1,728.5	Income capitalisation	Estimated rental value per sq ft[1] per annum ("p.a.")	**£18-£250 (£81)**	£15–£214 (£76)
				Equivalent yield	**1.9%-6.2% (4.1%)**	1.8%–6.0% (3.9%)
Other	**2.1**	2.1	Income capitalisation	Estimated rental value per sq ft[1] p.a.	**£30-£38 (£33)**	£30–£38 (£31)
				Equivalent yield	**2.8%-3.7% (3.4%)**	2.8%–3.7% (3.3%)
At 31 December	**1,743.7**	1,730.6				

1. Estimated rental value and capital value are expressed per square foot on a net internal area basis.

Sensitivity to changes in key assumptions

Covent Garden properties are valued under the income capitalisation method and if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £73.0 million (2021: £71.9 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £71.7 million (2021: £71.0 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £102.2 million (2021: £105.2 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £115.3 million (2021: £119.8 million).

For Other properties valued under the income capitalisation method and if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £0.1 million (2021: £0.1 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £0.1 million (2021: £0.1 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £0.2 million (2021: £0.2 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £0.2 million (2021: £0.2 million).

These key unobservable inputs are interdependent, partially determined by market conditions. All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation, and an increase in estimated rental value would increase the capital value, and vice versa. However, there are interrelationships between the key unobservable inputs which are partially determined by market conditions, which would impact these changes.

15 Investment in joint ventures

Investment in joint ventures is measured using the equity method. All joint ventures are held with other joint venture investors on a 50:50 basis. At 31 December 2022, joint ventures comprise the Lillie Square joint venture ("LSJV") and Innova Investment ("Innova"). On 6 April 2022 The Great Capital Partnership ("GCP") was dissolved.

LSJV

LSJV was established as a joint venture arrangement with the Kwok Family Interests ("KFI") in August 2012. The joint venture was established to own, manage and develop land interests at Lillie Square. LSJV comprises Lillie Square LP, Lillie Square GP Limited, acting as general partner to the partnership, and its subsidiaries. All major decisions regarding LSJV are taken by the Board of Lillie Square GP Limited, through which the Group shares strategic control.

The summarised statement of comprehensive income and balance sheet of LSJV are presented below.

LSJV	2022 £m	2021 £m
Summarised statement of comprehensive income		
Revenue	**6.8**	49.6
Net rental (expense)/income	**(0.3)**	0.3
Proceeds from the sale of trading property	**6.6**	49.3
Profit on transfer of trading property to investment property	**0.6**	–
Cost of sale of trading property	**(5.3)**	(37.8)
Agent, selling and marketing fees	**(0.1)**	(0.1)
Write down of trading property	**(24.7)**	(24.0)
Administration expenses	**(0.2)**	(0.5)
Net finance costs[1]	**(7.0)**	(11.3)
Loss for the year after taxation	**(30.4)**	(24.1)

1. Net finance costs include £7.0 million (2021: £2.9 million) interest payable on the interest bearing loans issued to the joint venture by the Group and KFI. The prior year finance costs also included £8.4 million of amortisation of deep discount bonds up to their redemption on 31 July 2021. Finance income receivable by the Group from LSJV of £3.5 million (2021: £8.0 million) is recognised in the consolidated statement of comprehensive income within other finance income.

LSJV	2022 £m	2021 £m
Summarised balance sheet		
Investment and development property	**8.8**	3.3
Trading property	**131.0**	164.8
Cash and cash equivalents[1]	**11.8**	44.6
Other non-current assets	**5.5**	5.0
Other current assets	**1.9**	1.1
Amounts payable to joint venture partners[2]	**(217.5)**	(246.0)
Other current liabilities	**(3.1)**	(4.0)
Net liabilities	**(61.6)**	(31.2)
Capital commitments	**1.6**	2.6
Carrying value of investment, development and trading property	**139.8**	168.0
Unrecognised surplus on trading property[3]	**14.2**	0.1
Market value of investment, development and trading property[3]	**154.0**	168.1

1. Prior year cash and cash equivalents included restricted cash of £0.5 million relating to amounts received as property deposits that had not been available for use by LSJV until completion of building work. There was a corresponding liability of £0.5 million within other current liabilities.
2. Amounts payable to joint venture partners include working capital facilities advanced by the Group and KFI of £28.2 million (2021: £45.5 million) and a £163.0 million loan advanced by the Group and KFI to the joint venture. The carrying value of the loan, including accrued interest was £172.9 million (2021: £165.9 million). Recoverable amounts receivable by the Group, net of impairments, are recognised on the consolidated balance sheet within non-current trade and other receivables.
3. The unrecognised surplus on trading property and the market value of LSJV's property portfolio are shown for informational purposes only and are not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value.

15 Investment in joint ventures continued

Innova

On 29 June 2015, the Group acquired a 50 per cent interest in Innova, a joint venture arrangement with Network Rail Infrastructure Limited. The joint venture will explore opportunities for future redevelopments on and around significant railway station sites in London.

Innova comprises Innova Investment Limited Partnership and Innova Investment GP Limited, acting as general partner to the partnership. All major decisions regarding Innova are taken by the Board of Innova Investment GP Limited, through which the Group shares strategic control.

The summarised balance sheet of Innova is presented below. There was no movement through the statement of comprehensive income during the year.

Innova	2022 £m	2021 £m
Summarised balance sheet		
Cash and cash equivalents	**0.4**	0.9
Other current liabilities	**–**	(0.5)
Net assets	**0.4**	0.4

Reconciliation of summarised financial information

The table below reconciles the summarised joint venture financial information previously presented to the carrying value of investment in joint ventures as presented on the consolidated balance sheet.

	GCP £m	LSJV £m	Innova £m	Total £m
Net assets/(liabilities) of joint ventures at 31 December 2021	0.1	(31.2)	0.4	(30.7)
Elimination of joint venture partners' interest	–	15.6	(0.2)	15.4
Cumulative losses restricted[1]	–	15.6	–	15.6
Carrying value at 31 December 2021	0.1	–	0.2	0.3
Net assets/(liabilities) of joint ventures at 31 December 2022	**0.1**	**(61.6)**	**0.4**	**(61.1)**
Elimination of joint venture partners' interest	**–**	**30.8**	**(0.2)**	**30.6**
Cumulative losses restricted[1]	**–**	**30.8**	**–**	**30.8**
Unwind of joint venture	**(0.1)**	**–**	**–**	**(0.1)**
Carrying value at 31 December 2022	**–**	**–**	**0.2**	**0.2**

1. Cumulative losses restricted represent the Group's share of losses in LSJV which exceed the Group's investment in the joint venture. As a result the carrying value of the investment in LSJV is nil (2021: nil) in accordance with the requirements of IAS 28.

Reconciliation of investment in joint ventures

The table below reconciles the opening to closing carrying value of investment in joint ventures as presented on the consolidated balance sheet.

Investment in joint ventures	GCP £m	LSJV £m	Innova £m	Total £m
At 1 January 2021	0.1	–	0.2	0.3
At 31 December 2021	**0.1**	**–**	**0.2**	**0.3**
Loss for the year[1]	**–**	**(15.2)**	**–**	**(15.2)**
Loss restricted[1]	**–**	**15.2**	**–**	**15.2**
Unwind of joint venture	**(0.1)**	**–**	**–**	**(0.1)**
At 31 December 2022	**–**	**–**	**0.2**	**0.2**

1. The share of post-tax loss from joint ventures in the consolidated statement of comprehensive income of nil (2021: nil) comprises the loss for the year of £15.2 million (2021: £12.0 million) and loss restricted totalling £15.2 million (2021: £12.0 million).

16 Financial assets at fair value through profit or loss

Financial assets mandatorily measured at fair value through profit or loss include the following:

Non-current assets	2022 £m	2021 £m
Listed equity securities[1]	356.9	596.4

1. Listed equity securities comprise 97.0 million shares in Shaftesbury held at the 31 December 2022 closing share price of 368 pence per share (2021: 615 pence per share).

During the year, the following was recognised in the consolidated statement of comprehensive income:

Profit or loss	2022 £m	2021 £m
Fair value (loss)/gain on financial assets at fair value through profit or loss	(239.5)	44.6

17 Derivative financial instruments

Derivative financial assets	2022 £m	2021 £m
Non-current		
Interest rate derivatives	12.1	1.1
Derivative financial assets	12.1	1.1

Derivative financial liabilities	2022 £m	2021 £m
Non-current		
Derivative liability – exchangeable bonds[1]	3.3	32.1
Derivative financial liabilities	3.3	32.1

1. On 30 November 2020 the Group issued £275 million of secured exchangeable bonds maturing in March 2026. The notes are exchangeable into cash or ordinary shares of Shaftesbury. The net proceeds received from the issue of the exchangeable bonds have been split between the financial liability element and an option component, representing the fair value of the embedded option to convert the financial liability into equity of Shaftesbury. The debt component is accounted for at amortised cost at the effective interest rate method and the derivative liability is accounted for at fair value through profit or loss.

During the year, the following movements on derivative financial instruments were recognised in profit or loss:

Profit or loss	2022 £m	Restated 2021 £m
Fair value gain on interest rate derivatives	11.0	8.3
Fair value gain/(loss) on derivative liability – exchangeable bonds	28.8	(16.8)
Change in fair value of derivative financial instruments	39.8	(8.5)

18 Trade and other receivables

	2022 £m	Restated 2021 £m
Non-current		
Prepayments and accrued income[1]	31.6	25.9
Amounts receivable from joint ventures[2]	84.0	82.9
Trade and other receivables	115.6	108.8
Current		
Rent receivable[3]	8.0	10.0
Other receivables	2.6	2.2
Prepayments and accrued income[1]	10.2	12.8
Amounts receivable from joint ventures[2]	–	23.4
Trade and other receivables	20.8	48.4

1. Includes tenant lease incentives, comprising surrender premia paid and incentives offered to tenants, of £34.7 million (2021: £31.1 million).
2. Non-current amounts receivable from joint ventures of £84.0 million (2021: £82.9 million) relate to an interest bearing loan of £86.4 million (2021: £82.9 million) that the Group and KFI provided to the joint venture. The loan has been impaired by £2.4 million (2021: nil). The loan bears interest at 4.25 per cent per annum and is repayable on demand, however it is not the intention of the Group to call on the loan in the next 12 months and therefore it has been presented as non-current. Current amounts receivable from joint ventures include working capital funding advanced to Lillie Square joint venture from the Group of £28.2 million (2021: £45.5 million) which has been impaired by £28.2 million (2021: £22.7 million).
3. Rent receivable is shown net of expected credit loss provision of £4.0 million (2021: £11.4 million).

19 Cash and cash equivalents

	2022 £m	Restated 2021 £m
Cash at hand	2.1	1.9
Cash on short-term deposits	114.4	317.1
Cash	116.5	319.0
Tenant deposits[1]	13.4	12.1
Cash and cash equivalents	129.9	331.1

1. Tenant deposits included above and in the consolidated statement of cash flows relate to cash held on deposit as security against tenant rent payments which are subject to certain restrictions and therefore not available for general use by the Group. Cash and cash equivalents have been restated as at 31 December 2021 to include tenant deposits previously included in Trade and other receivables following clarification by IFRIC 'Demand Deposits with Restrictions on Use arising from a Contract with a Third Party'. Details of the restatement are set out in note 1 'Changes in accounting policies'.

20 Trade and other payables

	2022 £m	2021 £m
Rent in advance	15.4	13.6
Accruals	10.4	9.3
Other payables	14.7	13.6
Other taxes and social security	1.4	2.5
Trade and other payables	41.9	39.0

21 Borrowings, including lease liabilities

2022	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m	Nominal value £m
Current							
Lease liability obligations	**0.7**	**0.7**	**–**	**0.7**	**–**	**0.7**	**0.7**
Borrowings, including lease liabilities	**0.7**	**0.7**	**–**	**0.7**	**–**	**0.7**	**0.7**
Non-current							
Bank loans	**(2.5)**	**–**	**(2.5)**	**–**	**(2.5)**	**–**	**–**
Loan notes	**473.9**	**–**	**473.9**	**473.9**	**–**	**393.4**	**475.0**
Exchangeable bonds	**266.9**	**266.9**	**–**	**266.9**	**–**	**228.9**	**275.0**
Borrowings	**738.3**	**266.9**	**471.4**	**740.8**	**(2.5)**	**622.3**	**750.0**
Lease liability obligations	**5.4**	**5.4**	**–**	**5.4**	**–**	**5.4**	**5.4**
Borrowings, including lease liabilities	**743.7**	**272.3**	**471.4**	**746.2**	**(2.5)**	**627.7**	**755.4**
Total borrowings, including lease liabilities	**744.4**						

2021	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m	Nominal value £m
Current							
Lease liability obligations	0.7	0.7	–	0.7	–	0.7	0.7
Borrowings, including lease liabilities	0.7	0.7	–	0.7	–	0.7	0.7
Non-current							
Bank loans	122.4	124.0	(1.6)	–	122.4	125.0	125.0
Loan notes	548.4	–	548.4	548.4	–	554.1	550.0
Exchangeable bonds	264.1	264.1	–	264.1	–	259.1	275.0
Borrowings	934.9	388.1	546.8	812.5	122.4	938.2	950.0
Lease liability obligations	5.4	5.4	–	5.4	–	5.4	5.4
Borrowings, including lease liabilities	940.3	393.5	546.8	817.9	122.4	943.6	955.4
Total borrowings, including lease liabilities	941.0						

On 28 February 2022, the Group prepaid £75 million of private placement loan notes, consisting of £37.5 million loan notes that were set to mature on 16 December 2024 with an interest rate of 3.63 per cent and £37.5 million loan notes that were set to mature on 16 December 2026 with an interest rate of 3.68 per cent. On 20 June 2022, the Group repaid the £125 million secured loan.

The Group holds a £300 million revolving credit facility, which is undrawn at 31 December 2022. The facility had an initial three year term, which was extended for a further one year period to September 2025. The facility has a further one year option to extend, subject to lender consent.

On 16 June 2022, the Group entered into a £576 million standby loan facility in connection with the proposed merger with Shaftesbury. Shaftesbury has two secured mortgage bonds totalling £575 million, each of which contain change of control provisions which will be triggered by the merger. The Group has entered into the new facility to provide funding certainty in the event that the Shaftesbury mortgage bond holders exercise their redemption right in respect of the bonds following completion of the merger. The facility remains undrawn as at 31 December 2022. The term of the £576 million loan facility is 24 months, which may be extended for a further six months at the option of the Group, subject to the satisfaction of the extension requirements as outlined in the facility. There is subsequently a further six month extension option available which requires lender approval.

The market value of investment and development property secured as collateral against borrowings at 31 December 2022 was nil (2021: nil).

Undrawn facilities and cash attributable to the Group, excluding tenant deposits, at 31 December 2022 were £416.5 million (2021: £619.0 million).

The fair value of the Group's borrowings have been estimated using the market value for floating rate borrowings, which approximates nominal value, and discounted cash flow approach for fixed rate borrowings, representing Level 2 fair value measurements as defined by IFRS 13. The different valuation levels are defined in note 14 'Property portfolio'.The lease liability obligations are in respect of leasehold interests in investment and development property. Details of these leases are set out in note 22 'Lease liabilities'.

21 Borrowings, including lease liabilities continued

2022	Current borrowings £m	Non-current borrowings £m
Analysis of movement in borrowings, including lease liabilities		
Balance at 1 January	**0.7**	**940.3**
Borrowings repaid	**–**	**(200.0)**
Other net cash movements	**–**	**(7.1)**
Other non-cash movements	**–**	**10.5**
Balance at 31 December	**0.7**	**743.7**

2021	Current borrowings £m	Non-current borrowings £m
Analysis of movement in borrowings, including lease liabilities		
Balance at 1 January	1.6	1,079.0
Borrowings repaid	–	(140.0)
Other net cash movements	(0.2)	(8.4)
Other non-cash movements	(0.7)	9.7
Balance at 31 December	0.7	940.3

The maturity profile of gross debt (excluding lease liabilities) is as follows:

	2022 £m	2021 £m
Wholly repayable in more than one year but not more than two years	**–**	125.0
Wholly repayable in more than two years but not more than five years	**582.5**	607.5
Wholly repayable in more than five years	**167.5**	217.5
	750.0	950.0

Certain borrowing agreements contain financial and other covenants that, if contravened, could alter the repayment profile. Details of financial covenants are included in the Other Information section on page 209.

22 Lease liabilities

Lease liabilities included within investment and development property

(a) Minimum lease payments under lease obligations

	2022 £m	2021 £m
Not later than one year	**0.7**	0.7
Later than one year and not later than five years	**2.9**	2.9
Later than five years	**18.0**	18.0
	21.6	21.6
Future finance charges on lease liabilities	**(15.5)**	(15.5)
Present value of lease liability	**6.1**	6.1

(b) Present value of minimum lease obligations

	2022 £m	2021 £m
Not later than one year	**0.7**	0.7
Later than one year and not later than five years	**2.3**	2.3
Later than five years	**3.1**	3.1
	6.1	6.1

Lease liabilities included under investment and development property are in respect of leasehold interests in investment and development property. Certain leases provide for payment of contingent rent, usually a proportion of rental income in addition to the minimum lease payments above. £0.3 million contingent rent has been paid during the year (2021: £0.5 million).

These lease liabilities are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default.

23 Operating leases

The Group earns rental income by leasing its investment property to tenants under operating leases.

In the United Kingdom standard commercial leases vary considerably between markets and locations but typically are for a term of five to fifteen years at market rent with provisions to review every five years.

The Group is exposed to changes in the residual value of properties at the end of the current leases. This residual value risk is mitigated through the implementation of active asset management initiatives which aim to ensure the Group enters into new leasing deals prior to the expiry of current leases. The Group also offers lease incentives to encourage high quality tenants to remain in properties for longer lease terms. Expectations about the future residual values are reflected in the fair value of the properties.

The future minimum lease amounts receivable under non-cancellable operating leases are as follows:

	2022 £m	2021 £m
Not later than one year	**57.0**	53.7
Later than one year and not later than five years	**176.3**	174.0
Later than five years	**212.0**	233.1
	445.3	460.8

The consolidated statement of comprehensive income includes nil (2021: £0.1 million) recognised in respect of expected increased rent resulting from outstanding reviews where the actual rent will only be determined on settlement of the rent review.

24 Financial risk management

The Group's financial risk management strategy seeks to set financial limits for treasury activity to ensure they are in line with the risk appetite of the Group. The Group is exposed to a variety of risks arising from the Group's operations: market risk (including interest rate risk and price risk), liquidity risk and credit risk.

The following table sets out each class of financial asset and financial liability as at 31 December:

Categories of financial instruments

		2022		Restated 2021	
	Note	Carrying value £m	Gain/(loss) to profit or loss £m	Carrying value £m	Gain/(loss) to profit or loss £m
Derivative financial assets	17	**12.1**	**11.0**	1.1	8.3
Total held for trading assets		**12.1**	**11.0**	1.1	8.3
Cash and cash equivalents	19	**129.9**		331.1	
Other financial assets[1]		**94.6**		118.5	
Total cash and other financial assets		**224.5**		449.6	
Investment held at fair value through profit or loss	16	**356.9**	**(239.5)**	596.4	44.6
Total investment held at fair value through profit or loss		**356.9**	**(239.5)**	596.4	44.6
Derivative financial liabilities	17	**(3.3)**	**28.8**	(32.1)	(16.8)
Total held for trading liabilities		**(3.3)**	**28.8**	(32.1)	(16.8)
Borrowings, including lease liability	21	**(744.4)**		(941.0)	
Other financial liabilities[2]		**(26.5)**		(25.4)	
Total borrowings and other financial liabilities		**(770.9)**		(966.4)	

1. Includes rent receivable, amounts due from joint ventures, tax assets and other receivables.
2. Includes trade and other payables (excluding rents in advance).

24 Financial risk management continued

The majority of the Group's financial risk management is carried out by the Group's treasury function under policies approved by the Board of Directors. The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below.

Market risk

Interest rate risk

Interest rate risk comprises both cash flow and fair value risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market interest rates.

The Group's interest rate risk arises from borrowings issued at variable rates that expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed interest rates expose the Group to fair value interest rate risk.

It is Group policy, and often a requirement of our lenders, to eliminate substantially all short and medium-term exposure to interest rate fluctuations in order to establish certainty over medium-term cash flows by using fixed interest rate derivatives. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate caps protect the Group by capping the maximum interest rate payable at the caps ceiling. Interest rate collars protect the Group by capping the maximum interest rate payable at the collar's ceiling but sacrifice the profitability of interest rate falls below a certain floor.

The table below shows the effects of derivative contracts on the drawn external borrowings profile of the Group. The table is calculated on a Group share basis in line with the reporting of this information internally to management.

	Fixed/Capped 2022 £m	**Floating 2022 £m**	Fixed/Capped 2021 £m	Floating 2021 £m
Nominal value of Group borrowings excluding lease liability	**750.0**	**–**	825.0	125.0
Derivative impact (nominal value of derivative contracts)	**–**	**–**	125.0	(125.0)
Borrowings profile net of derivative impact	**750.0**	**–**	950.0	–
Interest rate protection		**100%**		100%

Group policy is to ensure that interest rate protection on Group external debt is greater than 25 per cent.

During 2021, the Group replaced LIBOR with SONIA as the pricing benchmark on the secured bank loan, RCF and hedging arrangements.

The Group has entered into various non-traded derivative instruments to manage its exposure to interest rate risk. These derivatives have not been designated as hedging instruments and therefore they are classified as financial derivatives at fair value through profit or loss. Interest rate derivatives are currently in place for £200 million of notional value through to December 2024 capped at 1.23 per cent.

The sensitivity analysis below illustrates the impact of a 100 basis point ("bps") shift, upwards and downwards, in the level of interest rates on the movement in fair value of interest rate derivatives entered into by the Group.

	Increase in interest rates by 100 bps 2022 £m	**Decrease in interest rates by 100 bps 2022 £m**	Increase in interest rates by 50 bps 2021 £m	Decrease in interest rates by 50 bps 2021 £m
Effect on profit before tax (change in fair value of derivative financial instruments):				
Increase/(decrease)	**3.5**	**(3.5)**	2.1	(2.1)

The sensitivity analysis above is a reasonable illustration of the possible effect from the changes in slope and shifts in the yield curve that may actually occur and represents management's assessment of possible changes in interest rates. 100 bps has been used in 2022 (2021: 50 bps) to reflect current macroeconomic conditions of increasing costs. The fixed rate derivative financial instruments are matched by floating rate debt, therefore such a movement would have a very limited effect on Group cash flow overall.

24 Financial risk management continued

Price risk

The Group is exposed to price risk in respect of its investment in listed property securities. The Group limits its exposure to equity price risk by only investing in securities that are listed on a recognised stock exchange and where the Directors are satisfied with the overall strategies implemented by such companies.

The primary goal of the Group's investment in equity securities is to hold the investments for the long-term. Management is assisted by external advisers in this regard. Certain investments are designated as at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The effect of a one per cent change to the share price of the listed investments will have the following impact on the 31 December consolidated statement of comprehensive income:

Change in fair value of financial assets at fair value through profit or loss	**1% increase in share price 2022 £m**	**1% decrease in share price 2022 £m**	1% increase in share price 2021 £m	1% decrease in share price 2021 £m
Effect on profit before tax:				
Increase/(decrease)	**3.6**	**(3.6)**	6.0	(6.0)

Liquidity risk

Liquidity risk is managed to ensure that the Group is able to meet future payment obligations when financial liabilities fall due.

The Group's policy is to seek to minimise its exposure to liquidity risk by managing its exposure to interest rate risk and to refinancing risk. The Group seeks to achieve an appropriate balance between a number of factors, including tenor and costs.

Liquidity analysis is intended to provide sufficient headroom to meet the Group's operational requirements and investment commitments.

The Group's policy also includes maintaining adequate cash, as well as maintaining adequate committed and undrawn facilities.

A key factor in ensuring existing facilities remain available to the Group is the borrowing entity's ability to meet the relevant facility's financial covenants. The Group has a process to monitor regularly both current and projected compliance with the financial covenants.

The Group regularly reviews the maturity profile of its financial liabilities and will seek to avoid concentrations of maturities through the regular replacement of facilities and by staggering maturity dates. Refinancing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk. This is subject to credit facilities being available at the time of the desired refinancing.

The tables below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal. The RCF and standby loan facility are not included for 2022 as these facilities are undrawn as at 31 December 2022. Where interest payment obligations are based on a floating rate, the rates used are those implied by the par yield curve.

	2022										
	Carrying value	**1 yr**		**Between 1-2 yrs**		**Between 2-5 yrs**		**Over 5 yrs**		**Total**	
Group	**£m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**
Loan notes	**473.9**	**13.0**	**–**	**13.0**	**95.0**	**26.5**	**212.5**	**18.1**	**167.5**	**70.6**	**475.0**
Exchangeable bonds	**266.9**	**5.5**	**–**	**5.5**	**–**	**8.2**	**275.0**	**–**	**–**	**19.2**	**275.0**
Lease liabilities	**6.1**	**–**	**0.7**	**–**	**–**	**–**	**2.3**	**–**	**3.1**	**–**	**6.1**
Other payables	**26.5**	**–**	**26.5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26.5**
	773.4	**18.5**	**27.2**	**18.5**	**95.0**	**34.7**	**489.8**	**18.1**	**170.6**	**89.8**	**782.6**

24 Financial risk management continued

Liquidity risk continued

	2021										
	Carrying value	1 yr		Between 1-2 yrs		Between 2-5 yrs		Over 5 yrs		Total	
Group	£m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m
Bank loans	122.4	5.6	–	6.1	125.0	1.2	–	–	–	12.9	125.0
Loan notes	548.4	15.7	–	15.7	–	38.9	332.5	24.1	217.5	94.4	550.0
Exchangeable bonds	264.1	5.5	–	5.5	–	13.8	275.0	–	–	24.8	275.0
Lease liabilities	6.1	–	0.7	–	–	–	2.3	–	3.1	–	6.1
Other payables	25.4	–	25.4	–	–	–	–	–	–	–	25.4
	966.4	26.8	26.1	27.3	125.0	53.9	609.8	24.1	220.6	132.1	981.5

Contractual maturities reflect the expected maturities of financial instruments.

As disclosed in note 21 'Borrowings', the Group has an unsecured revolving credit facility, loan notes and a standby loan facility that contain loan covenants. A future breach of covenant may require the Group to repay the facilities earlier than indicated in the above table. Details of the non-recourse loan covenants are set out on page 209 'Financial covenants'.

Under the various debt agreements, covenants are monitored on a regular basis and regularly reviewed by management to ensure compliance with the agreement. The interest payments on variable interest rate loans and bonds issued in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change. The future cash flows on derivative instruments may be different from the amount in the above table as interest rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts based on the current drawn facility balances.

Credit risk

The Group's principal financial assets are trade and other receivables, amounts receivable from joint ventures, listed equity investments and cash and cash equivalents. Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables relating to tenants but also from the Group's undrawn commitments and holdings of assets such as cash deposits and loans with counterparties. The carrying value of financial assets recorded in the consolidated financial statements represents the Group's maximum exposure to credit risk without taking into account the value of any deposits or guarantees obtained.

Trade and other receivables:

Credit risk associated with trade receivables is actively managed; tenants are managed individually by asset managers, who continuously monitor and work with tenants, anticipating and wherever possible identifying and addressing risks prior to default. Tenants are managed through a large and diverse tenant base to reduce the credit risk to the Group. Trade receivables are less than one per cent of total assets at 31 December 2022 (2021: less than one per cent) and have reduced to £12.0 million as at 31 December 2022 (2021: £21.4 million).

Prospective tenants are assessed through an internally conducted review process, by obtaining credit ratings and reviewing financial information. As a result, deposits or guarantees may be obtained. The amount of deposits held as collateral at 31 December 2022 was £13.4 million (2021: £12.1 million).

During the year tenant default risk, and as such credit risk, has reduced due to improved trading conditions. All COVID-19 support, provided on a case-by-case basis, concluded with no further support expected.

Rent receivable balances are provided against by applying the IFRS 9 expected credit loss model which uses a lifetime expected loss allowance. In assessing the provision the Group identifies risk factors associated by sector and the type of rent receivable outstanding (rent arrears, service charge, other). In determining the provision on a tenant by tenant basis, the Group considers both recent payment history and future expectations of the tenant's ability to pay or possible default in order to recognise an expected credit loss allowance.

Trade receivable balances are written off when there is no reasonable expectation of recovery or when a rent concession is provided for past due rent. Indicators that there is no reasonable recovery include the failure of the debtor to engage in a repayment plan with the Group and a failure to make contractual payments.

The amounts of trade receivables presented in the balance sheet are net of impairment for doubtful receivables.

24 Financial risk management continued

Credit risk continued

Ageing of gross trade receivables and loss allowances were as follows:

	2022 £m		Restated 2021 £m	
	Gross carrying amount	**Loss allowance**	Gross carrying amount	Loss allowance
Not yet due	**0.4**	**(0.1)**	0.6	(0.3)
0-90 days	**6.1**	**(0.6)**	6.5	(1.4)
91-180 days	**0.6**	**(0.3)**	5.1	(0.7)
Over 180 days	**4.9**	**(3.0)**	9.2	(9.0)
Trade receivables	**12.0**	**(4.0)**	21.4	(11.4)

As at 31 December 2022 there is a provision for trade receivables of £4.0 million (2021: £11.4 million). The total credit for the year is £1.6 million (2021: a charge of £7.6 million), as shown in note 4 'Gross Profit', reflecting impairments during the year and movement in the provision.

As the Group operates predominantly in central London, it is subject to some geographical concentration risk. However, this is mitigated by the extensive range of tenants from varying business sectors and the credit review process as noted above.

Amounts receivable from joint ventures:

Included within receivables, net of impairment is £nil (2021: £22.8 million) working capital facility advanced to the Lillie Square joint venture and an interest bearing loan of £84.0 million (2021: £82.9 million). The carrying value of the investment in the joint venture is nil (2021: nil) as the Group's share of losses exceeds the cost of its investment. Total funding advanced to the joint venture, including the working capital facility and an interest bearing loan has been impaired by £30.6 million cumulatively. Details of the impairment are set out in note 8 'Change in value of investments and other receivables'.

The Lillie Square joint venture is in a net liability position due to carrying trading property at the lower of cost and net realisable value and the amortisation of the previously issued deep discount bonds. However, based on a market valuation undertaken by the Group's valuers JLL, there is an unrecognised surplus of £7.1 million (Group share) as at 31 December 2022. This surplus will only be evidenced on sale of trading property when significant risks and rewards have transferred to the buyer. Therefore, while Lillie Square demonstrates positive pricing evidence commercially and funding provided is not deemed to be at risk of default, for reporting purposes the Group is required to allocate losses against amounts advanced to the joint venture, to the extent that losses do not exceed the investment, until the unrecognised surplus on trading property is realised through sale.

Cash, deposits and derivative financial instruments:

The credit risk relating to cash, deposits and derivative financial instruments is actively managed by the Group's treasury fucntion. Relationships are maintained with a number of institutional counterparties, ensuring compliance with Group cash investment policy relating to limits on the credit ratings of counterparties. The maximum exposure to cash and deposits, excluding tenant deposits, as at 31 December 2022 amounted to £122.6 million (2021: £341.7 million), including the Group's share of joint venture cash. The maximum fair value exposure to derivative financial instruments is £8.8 million (2021: £31.0 million).

Gross carrying value and loss allowance of other receivables (excluding trade receivables) are set out in the table below:

	2022 £m		Restated 2021 £m	
	Gross carrying amount	**Loss allowance**	Gross carrying amount	Loss allowance
Amounts receivable from joint ventures	**114.6**	**(30.6)**	106.4	(22.7)
Other receivables[1]	**44.4**	**(1.9)**	42.2	(2.3)

1. £1.9 million (2021: £2.3 million) loss allowance relates to the provision against tenant lease incentives.

24 Financial risk management continued

Capital structure

The Group seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure appropriately. The Group uses a mix of equity, debt and other financial instruments, and aims to access both debt and equity capital markets efficiently.

The key ratios used to monitor the capital structure of the Group are net debt to gross assets and the interest cover ratio. The Group aims not to exceed an underlying net debt to gross assets ratio of more than 40 per cent and to maintain interest cover above 125 per cent. These ratios are disclosed on a Group share basis in line with the reporting of this information internally to management. These metrics are discussed in the Financial Review on page 59.

Net debt to gross assets	2022 £m	Restated 2021 £m
Total assets	**2,352.0**	2,808.5
Less: cash	**(122.6)**	(341.7)
	2,229.4	2,466.8
Net debt	**(621.8)**	(599.3)
	27.9%	24.3%

Net debt	2022 £m	Restated 2021 £m
Borrowings, including lease liabilities	**(744.4)**	(941.0)
Less: cash	**122.6**	341.7
	(621.8)	(599.3)

Interest cover	2022 £m	Restated 2021 £m
Finance costs	**(27.2)**	(31.8)
Finance income	**2.6**	0.4
	(24.6)	(31.4)
Underlying operating profit	**44.6**	31.7
	181.3%	101.0%

The Covent Garden debt facilities have two principal financial covenants, being a loan to value ratio of up to 60 per cent and interest cover of at least 120 per cent. Loan to value is calculated based on total borrowings less cash divided by the market value of the portfolio. As at 31 December 2022 the loan to value is 21.0 per cent (2021: 14.8 per cent). Interest cover ratio is calculated based on net rental income less a fixed administration cost divided by net finance costs. For the year ended 31 December 2022 the interest cover ratio is 394.7 per cent (2021: 191.3 per cent).

24 Financial risk management continued

Fair value estimation

Financial instruments carried at fair value are required to be analysed by level depending on the valuation method adopted under IFRS 13. The different valuation levels are defined in note 14 'Property portfolio'.

The table below present the Group's financial assets and liabilities recognised at fair value at 31 December 2022 and 31 December 2021. There were no transfers between levels during the year.

	2022				2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss								
Listed equity investment	**356.9**	**–**	**–**	**356.9**	596.4	–	–	596.4
Held for trading assets								
Derivative financial assets	**–**	**12.1**	**–**	**12.1**	–	1.1	–	1.1
Total assets	**356.9**	**12.1**	**–**	**369.0**	596.4	1.1	–	597.5
Held for trading liabilities								
Derivative financial liabilities	**–**	**(3.3)**	**–**	**(3.3)**	–	(32.1)	–	(32.1)
Total liabilities	**–**	**(3.3)**	**–**	**(3.3)**	–	(32.1)	–	(32.1)

The fair values of derivative financial instruments are determined from observable market prices or estimated using appropriate yield curves at 31 December each year by discounting the future contractual cash flows to the net present values. Listed equity investments are carried at fair value on the balance sheet and representing Level 1 fair value measurement. The fair value of listed equity investments are based on quoted market prices traded in active markets.

The fair values of the Group's cash and cash equivalents, other financial assets carried at amortised cost and other financial liabilities are not materially different from those at which they are carried in the consolidated financial statements.

25 Deferred tax

The change in corporation tax rate referred to in note 11 'Taxation' has been enacted for the purposes of IAS 12 'Income Taxes' ("IAS 12") and therefore has been reflected in these consolidated financial statements based on the expected timing of the realisation of deferred tax.

Deferred tax on investment and development property is calculated under IAS 12 provisions on a disposals basis by reference to the properties' original tax base cost. Properties that fall within the Group's qualifying REIT activities will be outside the charge to UK corporation tax subject to certain conditions being met. The Group's recognised deferred tax position on investment and development property as calculated under IAS 12 is nil at 31 December 2022 (2021: nil).

A disposal of the Group's trading properties at their market value as per note 14 'Property portfolio', before utilisation of carried forward losses, would result in a corporation tax charge to the Group of £1.3 million (19 per cent of £7.1 million).

	Accelerated capital allowances £m	Fair value of derivative financial instruments £m	Other temporary differences £m	Non-REIT group losses £m	Total £m
Provided deferred tax provision:					
At 1 January 2021	0.2	(2.3)	(1.1)	(3.6)	(6.8)
Recognised in income	0.1	2.2	(0.5)	–	1.8
Adjustment in respect of rate change	–	–	–	(1.1)	(1.1)
At 31 December 2021	**0.3**	**(0.1)**	**(1.6)**	**(4.7)**	**(6.1)**
Recognised in income	**–**	**–**	**1.3**	**4.7**	**6.0**
Recognised directly in equity	**–**	**0.1**	**–**	**–**	**0.1**
Adjustment in respect of rate change	**0.1**	**–**	**(0.1)**	**–**	**–**
At 31 December 2022	**0.4**	**–**	**(0.4)**	**–**	**–**

			Other temporary differences £m	Non-REIT group losses £m	Total £m
Unrecognised deferred tax assets:					
At 1 January 2021			–	(8.3)	(8.3)
Income statement items			–	(9.1)	(9.1)
At 31 December 2021			**–**	**(17.4)**	**(17.4)**
Income statement items			**(0.3)**	**(6.8)**	**(7.1)**
At 31 December 2022			**(0.3)**	**(24.2)**	**(24.5)**

In accordance with the requirements of IAS 12, deferred tax assets are only recognised to the extent that the Group believes it is probable that future taxable profit will be available against which the deferred tax assets can be recovered. As a result of the application of this provision and due to uncertainty as to future non-REIT taxable activities, the Group has unwound all of the £6.1 million deferred tax asset previously recognised in respect of trading losses carried forward and other temporary differences. As at 31 December 2022, the Group has unrecognised deferred tax assets of £24.5 million in relation to £96.9 million of gross losses carried forward within its residual business and £1.2 million of other deductible temporary differences.

26 Share capital and share premium

Group and Company

Issue type	Transaction date	Issue price (pence)	Number of shares	Share capital £m[1]	Share premium £m
At 1 January 2021			851,083,643	212.8	232.2
Scrip dividend – 2021 interim	September	176	153,071	–	0.3
Share-based payment[2]			35,958	–	–
At 31 December 2021			**851,272,672**	**212.8**	**232.5**
Reinstatement of void shares[3]	November	113	**1,468,393**	**0.4**	**–**
Share buyback[3]	November	112	**(1,468,393)**	**(0.4)**	**–**
Share-based payment[2]			**177,966**	**–**	**–**
At 31 December 2022			**851,450,638**	**212.8**	**232.5**

1. Nominal value of share capital of 25 pence per share.
2. In 2022 a total of 177,966 (2021: 35,958) new shares were issued to satisfy employee share scheme awards.
3. In 2020, the Company announced the repurchase for cancellation of 6.06 million of its ordinary shares of 25 pence each as part of a share buyback programme. As announced on 7 November 2022, as a result of an administrative issue, the purchase by the Company of 1,468,393 of its ordinary shares of 25 pence each on the Johannesburg Stock Exchange during the period from February 2020 to March 2020 as part of the buyback programme was void. To rectify this, the Company corrected its register of members by restoring 1,468,393 ordinary shares of 25 pence each to the UK register, with such shares admitted to trading on the main market of the London Stock Exchange and listed on the Johannesburg Stock Exchange on 8 November 2022. Shortly thereafter, the Company conducted an on-market share buyback of 1,468,393 ordinary shares of 25 pence each pursuant to the Company's general authority to repurchase shares, which completed on 14 November 2022. The purpose of the buyback programme was to restore the share capital of the Company to the same number of shares as were in issue prior to the correction of the register. The rectification was recorded as a reinstatement of the void shares and a subsequent buyback of the shares at the prevailing market value.

27 Capital commitments

At 31 December 2022, the Group was contractually committed to £1.7 million (31 December 2021: £4.1 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. The full amount is committed 2022 expenditure.

The Group's share of joint venture capital commitments arising on LSJV amounts to £0.8 million (2021: £1.3 million).

28 Contingent liabilities

The Group has contingent liabilities in respect of legislation, sustainability targets, legal claims, guarantees and warranties arising from the ordinary course of business. There are no contingent liabilities that require disclosure or recognition in the consolidated financial statements.

29 Cash flow information

(a) Cash generated from operations

	Note	2022 £m	Restated 2021 £m
(Loss)/profit before tax		**(205.8)**	35.5
Adjustments:			
Loss on revaluation and sale of investment and development property	7	**0.8**	4.1
Change in value of investments and other receivables	8	**7.9**	(11.6)
Change in fair value of financial assets at fair value through profit or loss	16	**239.5**	(44.6)
Depreciation	6	**0.2**	0.2
Amortisation of tenant lease incentives and other direct costs		**(2.6)**	6.0
(Reversal of)/provision for expected credit loss		**(1.6)**	7.6
Share-based payment[1]	31	**2.4**	1.5
Finance income	9	**(2.6)**	(0.5)
Other finance income	9	**(3.5)**	(8.1)
Finance costs	10	**27.2**	31.7
Other finance costs[2]	10	**6.5**	5.2
Change in fair value of derivative financial instruments	17	**(39.8)**	8.5
Change in working capital:			
Change in trade and other receivables		**2.0**	(4.7)
Change in trade and other payables		**2.9**	(4.3)
Cash generated from operations		**33.5**	26.5

1. Relates to the IFRS 2 'Share-based payment' charge. Refer to note 31 'Share-based payments' for further details.
2. Includes £5.0 million make whole costs on the repayment of £75.0 million private placement loan notes during the year.

(b) Reconciliation of cash flows from financing activities

The table below sets out the reconciliation of movements of liabilities to cash flows arising from financing activities:

	Note	Long-term borrowings £m	Short-term borrowings £m	Derivative liability – exchangeable bond £m	Total liabilities from financing activities £m
Balance at 1 January		**940.3**	**0.7**	**32.1**	**973.1**
Cash flows from financing activities					
Repayment of revolving credit facility and secured loan	21	**(200.0)**	**–**	**–**	**(200.0)**
Total cash flows used in financing activities		**(200.0)**	**–**	**–**	**(200.0)**
Non-cash movements from financing activities					
Amortisation		**3.4**	**–**	**–**	**3.4**
Changes in fair value		**–**	**–**	**(28.8)**	**(28.8)**
Total non-cash flows from financing activities		**3.4**	**–**	**(28.8)**	**(25.4)**
Balance at 31 December		**743.7**	**0.7**	**3.3**	**747.7**

30 Related party transactions

(a) Transactions with Directors

Key management compensation[1]	2022 £m	2021 £m
Salaries and short-term employee benefits	**4.7**	3.9
Share-based payment	**1.8**	1.2
	6.5	5.1

1. Key management comprises the Directors of the Company who have been determined to be the only individuals with authority and responsibility for planning, directing and controlling the activities of the Company.

Anthony Steains, Senior Independent Director of Capital & Counties Properties PLC, entered into a short-term rental agreement with Capco Covent Garden Residential Limited, a Group subsidiary undertaking, in respect of an apartment on the Covent Garden estate. The short-term rental agreement ran from 23 June 2022 to 7 September 2022 and was conducted at a fair and reasonable market price. The total rent payable was £20,763 (inclusive of utilities and services) and no amounts remained outstanding as at 31 December 2022. Where applicable, appropriate approval was provided.

Share dealings

No Director had any dealings in the shares of any Group company between 31 December 2022 and 28 February 2023, being a date not more than one month prior to the date of the notice convening the Annual General Meeting.

Other than as disclosed in these consolidated financial statements, no Director of the Company had a material interest in any contract (other than service contracts), transaction or arrangement with any Group company during the year ended 31 December 2022.

(b) Transactions between the Group and its joint ventures

Transactions during the year between the Group and its joint ventures, which are related parties, are disclosed in notes 15 'Investment in joint ventures', 18 'Trade and other receivables' and 27 'Capital commitments'. During the year the Group received management fees of nil (2021: £0.7 million) that were charged on an arm's length basis.

Property purchased by Directors of the Company

A related party of the Group, Lillie Square GP Limited, entered into the following related party transactions as defined by IAS 24 'Related Party Disclosures':

– Henry Staunton, Chairman of Capital & Counties Properties PLC, and Situl Jobanputra, Chief Financial Officer of Capital & Counties Properties PLC, either solely or together with family members, own apartments in the Lillie Square development. The disclosures in respect of these purchases were included in previous financial statements. In addition, Henry Staunton, together with a family member, owns a car park space in the Lillie Square development.
– As owners of apartments and car park space in the Lillie Square development, the Directors are required to pay annual ground rent and insurance premium fees and bi-annual service charge fees. During 2022, £17,774 had been paid to a related party of the Capco Group, Lillie Square GP Limited, in relation to these charges. A further £289 invoiced during the year was outstanding at 31 December 2022, as it was not yet due for payment.

The above transactions with Directors were conducted at fair and reasonable market price based upon similar comparable transactions at that time. Where applicable, appropriate approval has been provided.

Lillie Square GP Limited acts in the capacity of general partner to Lillie Square LP, a joint venture between the Group and KFI.

31 Share-based payments

The Group operates a number of share-based payment schemes relating to employee benefits and incentives. All schemes are equity settled with the increase in equity measured by reference to the fair value of the Group's equity instruments at the grant date of the share awards. The corresponding expense is recognised on a straight-line basis over the vesting period based on Group estimates of the number of shares that are expected to vest. The total expense recognised in the consolidated statement of comprehensive income in respect of share-based payments for 2022 was £2.3 million (2021: £1.5 million). All options have a vesting period of three years and a maximum contractual life of 10 years. The fair value of share awards is determined by the market price of the shares at the grant date.

Full details of the performance criteria, vesting outcomes and any additional holding periods for the performance share plan are set out within the Directors' Remuneration Report on pages 105 to 127.

1. Performance share plan

Market value and nil cost options to subscribe for ordinary shares and conditional awards of free shares may be awarded under the Performance Share Plan ("PSP"). The Company may make a proportion of awards as HMRC approved market value options.

Share options outstanding at 31 December 2022 were exercisable between nil pence and 242 pence and have a weighted average remaining contractual life of six years and are exercisable between 2023 and 2032.

(a) Market value option awards

	2022		2021	
	Number of market value options	**Weighted average exercise price (pence)**	Number of market value options	Weighted average exercise price (pence)
Outstanding at 1 January	**691,022**	**216.5**	605,884	231.6
Awarded during the year	**183,587**	**164.9**	188,170	168.0
Forfeited during the year	**(466,375)**	**(234.4)**	(75,239)	(238.4)
Exercised during the year[1]	**–**	**–**	(27,793)	(157.7)
Outstanding at 31 December	**408,234**	**172.9**	691,022	216.5
Exercisable at 31 December	**–**	**–**	–	

1. The weighted average share price at the date of exercise of shares excerised during 2021 was 180.8 pence.

(b) Nil cost option awards

	Number of nil cost options	
	2022	2021
Outstanding at 1 January	**6,933,460**	5,690,598
Awarded during the year	**3,094,396**	2,518,456
Forfeited/lapsed during the year	**(1,469,432)**	(1,275,594)
Exercised during the year[1]	**(176,403)**	–
Outstanding at 31 December	**8,382,021**	6,933,460
Exercisable at 31 December	**87,275**	189,970

1. The weighted average share price at the date of exercise was 102.8 pence.

(c) Deferred share awards

	Number of deferred share awards	
	2022	2021
Outstanding at 1 January	**2,147,386**	1,948,215
Awarded during the year	**1,148,190**	890,188
Forfeited/lapsed during the year	**(664,618)**	(682,852)
Exercised during the year[1]	**(1,563)**	(8,165)
Outstanding at 31 December	**2,629,395**	2,147,386

1. The weighted average share price at the date of exercise was 169.7 pence (2021: 134.6 pence).

31 Share-based payments continued

2. Fair value of share-based payment

The fair value of share awards is calculated using the Black-Scholes option pricing model for the half that is subject to the total return performance condition and using the stochastic pricing model for the half that is subject to the total shareholder return performance condition. Inputs to the models for share awards during the year are as follows:

Year of share award	**2022**	2021	2020	2019
Closing share price at grant date	**133p**	173p	209p	241p
Exercise price	**0 – 242p**	0 – 188p	0 – 201p	0 – 241p
Expected option life	**3 – 6.5 years**	3 – 6.5 years	3 – 6.5 years	3 – 6.5 years
Risk-free rate	**(0.11)%**	0.2 – 0.5%	0.2 – 0.3%	0.6 – 0.8%
Expected volatility	**36%**	32.3 – 43.1%	26.8 – 33.0%	23.7 – 24.6%
Expected dividend yield[1]	**0.8%**	0.6%	0.7%	0.6%
Average share price	**141p**	167p	162p	238p
Value per option	**158p**	48 –137p	40–142p	26–87p

1. Expected dividend yield is based on public pronouncements about future dividend levels; all other measures are based on historical data.

32 Related undertakings

The Company's subsidiaries and other related undertakings at 31 December 2022 are listed below. All Group entities are included in the consolidated financial statements.

Unless otherwise stated, the Company holds 100 per cent of the voting rights and beneficial interests in the shares of the subsidiaries listed below. The share capital of each of the companies, where applicable, comprises ordinary shares unless otherwise stated.

Registered address: Regal House, 14 James Street, London, WC2E 8BU

Related undertakings	
20 The Piazza Limited	Capital & Counties Limited[2,3]
20 The Piazza Management Limited[1]	CG Treasury Limited[2]
22 Southampton Street Limited	Covent Garden (43 Management) Limited[1]
22 Southampton Street Management Limited[1]	Covent Garden (49 Wellington Street) Limited
34 Henrietta Street Limited	Covent Garden Group Holdings Limited
34 Henrietta Street Management Company Limited[1]	Covent Garden Holdings (No.1) Limited[1]
C & C Management Services Limited[2]	Covent Garden Holdings (No.2) Limited[1]
C&C Properties UK Limited[2]	Covent Garden Management Services Limited[2]
Capco Covent Garden Limited[2]	Floral Court Collection Management Limited[1]
Capco Covent Garden Residential Limited	Floral Court Limited
Capco Group Treasury Limited[2]	Innova Investment Partnership GP Limited (50%)[4]
Capco Investment London Limited[2]	Innova Investment Limited Partnership (50%)[4]
Capco Investment London 2 Limited[2]	Innova Investment Group Holdings GP Limited[1]
Capco Investment London (No.1) Limited	Innova Investment Group Holdings LP
Capco Investment London (No.2) Limited	Innova Investment Group Holdings Nominee Limited[1]
Capco Investment London (No.3) Limited	Innova Investment Management Limited[1]
Capco Investment London (No.4) Limited	Lillie Square Clubhouse Limited (50%)[1,4]
Capco Investment London (No.5) Limited	Lillie Square Developments Limited (50%)[4]
Capco London Limited[1]	Lillie Square GP Limited (50%)[4]
Capital & Counties CG Limited	Lillie Square LP (50%)[4]
Capital & Counties CGP	Lillie Square Management Limited (50%)[4]
Capital & Counties CG Nominee Limited[1]	Lillie Square Nominee Limited (50%)[1,4]

1. Dormant entity.
2. Direct undertakings of the Company.
3. Ordinary and non-voting deferred shares.
4. Equity accounted joint ventures.

Registered address: C/O Shepherd and Wedderburn LLP, 1 Exchange Crescent, Conference Square, Edinburgh, Scotland, EH3 8UL

Related undertakings	
Capco Investment London (No.6) Limited[1,2]	Capco Investment London (No.7) Scottish Limited Partnership[2]

1. Direct undertaking of the Company.
2. Dormant entity.

Registered address: 27 Esplanade, St Helier, Jersey, JE1 1SG

Related undertakings	
Capital & Counties Properties (Jersey) 3 Limited[1]	Capvestco Limited[1,2]
Capvestco 2 Limited[1]	Innova Investment Group Holdings LP Limited
Capvestco 3 Limited[1]	Innova Investment Holdings Limited[2]
Capvestco 3 Holdings Limited	Lillie Square LP Limited
Capvestco Earls Court Limited[2]	

1. Direct undertakings of the Company.
2. Dormant entity.

33 Events after the reporting date

On 16 June 2022, Capco and Shaftesbury announced that they had reached an agreement on the terms of a recommended all-share merger to form the combined group.

It is intended that the merger will be implemented by way of a scheme of arrangement of Shaftesbury, which, together with the Group's existing 25.2 per cent shareholding in Shaftesbury, will result, on completion, in the Group owning 100 per cent of the issued and to be issued share capital of Shaftesbury.

As at the 31 December 2022 a number of conditions remained outstanding, including clearance from the Competition and Markets Authority ('CMA').

On 22 February 2023, the CMA confirmed that its intention not to make a Phase 2 CMA reference and that the decision has been issued on an unconditional basis. The remaining conditions of the merger include Shaftesbury implementing the scheme of arrangement by proceeding with obtaining the Court sanctions of the scheme, the scheme becoming effective, and admission of new Capco shares.

Under the terms of the merger, once conditions have been satisfied, Capco will issue 3.356 new Capco shares for each Shaftesbury share held as at the Scheme Record Time. As a result, Shaftesbury shareholders (other than the holders of the existing Capco shareholding in Shaftesbury) will own approximately 53 per cent of the combined group and Capco shareholders will own approximately 47 per cent of the combined group, subject to satisfaction or, where applicable, waiver of the conditions to completion. Completion is expected to occur on 6 March 2023 upon issuance and admission of the new Capco shares and the court order sanctioning the scheme being delivered to the Registrar at Companies House.

As set out in IFRS 3 'Business Combinations', one of the combining entities is required to be identified as the acquirer and one as the acquiree. In a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. In some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. The pertinent facts and circumstances of the merger have been reviewed and considered by management, and, at this stage, it is expected that Capital & Counties Properties PLC will be assessed as the acquirer for IFRS 3 accounting purposes. This is a balanced judgement, which requires various factors to be taken into account.

It is the Directors' view that although Shaftesbury shareholders (excluding the existing Capco shareholding in Shaftesbury) will own approximately 53 per cent of the combined group, the expected balance of executive directors in the combined group, combined with the fact that Capco will be the entity issuing its equity interests and already holds a 25.2 per cent interest in Shaftesbury, will result in Capco being the acquirer for accounting purposes.

Assuming the transaction proceeds, the financial effect of the merger will be dependent on the fair value of assets and liabilities at the future acquisition date and the Shaftesbury closing share price prior to its delisting.

On 28 February 2023 the Group acquired the remaining interest in the Royal Opera House Arcade for £12.9 million, including transaction costs.

Capital & Counties Properties PLC Company balance sheet

as at 31 December 2022

	Note	2022 £m	2021 £m
Non-current assets			
Investment in Group companies	II	**516.4**	516.4
		516.4	516.4
Current assets			
Trade and other receivables	III	**1,798.1**	1,793.6
		1,798.1	1,793.6
Total assets		**2,314.5**	2,310.0
Non-current liabilities			
Borrowings	IV	**(265.7)**	(264.1)
Derivative financial instruments	V	**(3.3)**	(32.1)
		(269.0)	(296.2)
Current liabilities			
Trade and other payables		**(1.5)**	(0.9)
		(1.5)	(0.9)
Total liabilities		**(270.5)**	(297.1)
Net assets		**2,044.0**	2,012.9
Equity			
Share capital	26	**212.8**	212.8
Other components of equity		**1,831.2**	1,800.1
Total equity		**2,044.0**	2,012.9

The profit for the year attributable to shareholders of the Company is £44.3 million (2021: £18.6 million loss). References in roman numerals refer to the notes to the Company financial statements, references in numbers refer to the notes to the Group financial statements.

These financial statements of Capital & Counties Properties PLC (registered number: 07145051) have been approved for issue by the Board of Directors on 28 February 2023 and signed on its behalf by:

Ian Hawksworth
Chief Executive

Situl Jobanputra
Chief Financial Officer

Capital & Counties Properties PLC Company statement of changes in equity

for the year ended 31 December 2022

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve[1] £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2021		212.8	232.2	1.5	313.7	6.4	1,267.6	2,034.2
Loss and total comprehensive expense for the year ended 31 December 2021		–	–	–	–	–	(18.6)	(18.6)
Transactions with owners								
Ordinary shares issued	26	–	0.3	–	–	–	–	0.3
Dividends	12	–	–	–	–	–	(4.3)	(4.3)
Realisation of merger reserve[1]		–	–	–	(20.0)	–	20.0	–
Realisation of share-based payment reserve on issue of shares		–	–	–	–	(0.2)	–	(0.2)
Fair value of share-based payment		–	–	–	–	1.5	–	1.5
Balance at 31 December 2021		**212.8**	**232.5**	**1.5**	**293.7**	**7.7**	**1,264.7**	**2,012.9**
Profit and total comprehensive income for the year ended 31 December 2022		**–**	**–**	**–**	**–**	**–**	**44.3**	**44.3**
Transactions with owners								
Ordinary shares issued	26	**0.4**	**–**	**(0.4)**	**–**	**–**	**1.7**	**1.7**
Share buyback		**(0.4)**	**–**	**0.4**	**–**	**–**	**(1.7)**	**(1.7)**
Dividends	12	**–**	**–**	**–**	**–**	**–**	**(15.3)**	**(15.3)**
Realisation of share-based payment reserve on issue of shares		**–**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Fair value of share-based payment		**–**	**–**	**–**	**–**	**2.3**	**–**	**2.3**
Balance at 31 December 2022		**212.8**	**232.5**	**1.5**	**293.7**	**9.8**	**1,293.7**	**2,044.0**

1. Represents non-qualifying consideration received by the Group following the share placing in May 2014 and previous share placements. The amounts taken to the merger reserve do not currently meet the criteria for qualifying consideration and therefore will not form part of distributable reserves as they form part of linked transactions. Realised merger reserve relates to disposal of Southampton Street properties during the prior year as these properties were originally acquired using proceeds from the share placement.

Capital & Counties Properties PLC Company statement of cash flows

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from operations	VI	**22.5**	8.8
Interest paid		**(7.2)**	(4.6)
Net cash inflow from operating activities		**15.3**	4.2
Cash flows from financing activities			
Issue of shares		**1.7**	–
Share buyback		**(1.7)**	–
Principal element of lease payment		**–**	(0.2)
Cash dividends paid	12	**(15.3)**	(4.0)
Net cash outflow from financing activities		**(15.3)**	(4.2)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at 1 January		**–**	–
Cash and cash equivalents at 31 December		**–**	–

Capital & Counties Properties PLC Notes to the Company financial statements

I Principal accounting policies

General information

Capital & Counties Properties PLC (the "Company") was incorporated and registered in England and Wales and domiciled in the United Kingdom on 3 February 2010 under the Companies Act as a public company limited by shares, registration number 7145051. The registered office of the Company is Regal House, 14 James Street, London, WC2E 8BU, United Kingdom. The principal activity of the Company is to act as the ultimate parent company of Capital & Counties Properties PLC Group (the "Group"), whose principal activity is the investment, development and management of property.

Basis of preparation

The Company's financial statements are prepared in accordance with IFRS and in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on a going concern basis under the historical cost convention as modified for the revaluation of derivative financial instruments.

The Directors have taken advantage of the exemption offered by section 408 of the Companies Act 2006 not to present a separate income statement or statement of comprehensive income for the Company.

In the current year, the Company has applied the amendments to IFRS Standards and Interpretations issued by the Board as set out in the accounting policies of the Group on page 145 that are effective for annual periods that begin on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Investment in Group companies

Investment in Group companies, which eliminates on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. Impairment losses are determined with reference to the investment's fair value less estimated selling costs and value-in-use calcuaitons. Fair value is derived from the subsidiaries', and their subsidiaries', net assets at the balance sheet date. Value-in-use calculations which require the use of estimates, comprise discounted cash flows based on the latest strategic plan. On disposal, the difference between the net disposal proceeds and its carrying amount is included in the income statement.

Other

All accounting policies have been applied consistently and are the same as those applied by the Group as set out on pages 145 to 156. No significant areas of estimation and uncertainty have been identified. The Directors did not make any significant judgements in the preparation of these financial statements.

The auditors' remuneration for audit and other services is disclosed in note 6 to the Group financial statements.

II Investment in Group companies

	2022 £m	2021 £m
At 1 January	**516.4**	516.4
At 31 December	**516.4**	516.4

Investments in Group companies are carried at cost less impairment losses, if any. An impairment test is performed on an annual basis. An impairment charge of nil was recorded in the current year (2021: nil).

III Trade and other receivables

	2022 £m	2021 £m
Current		
Amounts owed by subsidiaries	**1,795.8**	1,793.2
Prepayments and accrued income	**2.3**	0.4
Trade and other receivables	**1,798.1**	1,793.6

An impairment test is performed on an annual basis to determine the recoverability of amounts owed by subsidiaries. The expected credit loss was evaluated and scenarios determined that may result in an impairment. No material impairment was identified and therefore no expected credit loss has been recognised.

IV Borrowings

	2022						
	Carrying value £m	**Secured £m**	**Unsecured £m**	**Fixed rate £m**	**Floating rate £m**	**Fair value £m**	**Nominal value £m**
Non-current							
Bank loans	**(1.2)**	**–**	**(1.2)**	**–**	**(1.2)**	**–**	**–**
Exchangeable bonds	**266.9**	**266.9**	**–**	**266.9**	**–**	**228.9**	**275.0**
Borrowings	**265.7**	**266.9**	**(1.2)**	**266.9**	**(1.2)**	**228.9**	**275.0**
Total borrowings	**265.7**						

	2021						
	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m	Nominal value £m
Non-current							
Exchangeable bonds	264.1	264.1	–	264.1	–	259.1	275.0
Borrowings	264.1	264.1	–	264.1	–	259.1	275.0
Total borrowings	264.1						

The fair values of the Company's borrowings have been estimated using the market value for floating rate borrowings, which approximates nominal value, and discounted cash flow approach for fixed rate borrowings, representing Level 2 fair value measurements as defined by IFRS 13. The different valuation levels are defined in note 14 'Property portfolio'.

	2022	
Analysis of movement in net debt	**Current borrowings £m**	**Non-current borrowings £m**
Balance at 1 January	**–**	**264.1**
Other net cash movements	**–**	**(6.7)**
Other non-cash movements	**–**	**8.3**
Balance at 31 December	**–**	**265.7**

IV Borrowings continued

	2021	
Analysis of movement in net debt	Current borrowings £m	Non-current borrowings £m
Balance at 1 January	0.9	263.2
Other net cash movements	(0.2)	(4.4)
Other non-cash movements	(0.7)	5.3
Balance at 31 December	–	264.1

The maturity profile of gross debt is as follows:

	2022 £m	2021 £m
Wholly repayable in more than two years but not more than five years	**275.0**	275.0
	275.0	275.0

V Derivative financial instruments

Derivative liabilities	2022 £m	2021 £m
Non-current		
Derivative liability – exchangeable bonds[1]	**(3.3)**	(32.1)
Derivative financial liabilities	**(3.3)**	(32.1)

1. On 30 November 2020 the Company issued £275 million of secured exchangeable bonds maturing in March 2026. The notes are exchangeable into cash or ordinary shares of Shaftesbury. The net proceeds received from the issue of the exchangeable bonds have been split between the financial liability element and an option component, representing the fair value of the embedded option to convert the financial liability into equity of Shaftesbury. The debt component is accounted for at amortised cost at the effective interest rate method and the derivative liability is accounted for at fair value through profit or loss.

VI Cash flow information

(a) Cash generated from operations

	2022 £m	2021 £m
Profit/(loss) before tax	**44.3**	(18.6)
Adjustments:		
Finance costs	**8.8**	8.2
Other finance income	**(40.8)**	(10.8)
Change in fair value of derivative financial instruments	**(28.8)**	16.8
Change in working capital:		
Change in trade and other receivables	**38.4**	10.5
Change in trade and other payables	**0.6**	2.7
Cash generated from operations	**22.5**	8.8

(b) Reconciliation of cash flows from financing activities

The table below sets out the reconciliation of movements of liabilities to cash flows arising from financing activities:

	Long-term borrowings £m	Derivative liability – exchangeable bond £m	Total liabilities from financing activities £m
Balance at 1 January	**264.1**	**32.1**	**296.2**
Non-cash movements from financing activities			
Amortisation	**1.6**	**–**	**1.6**
Changes in fair value	**–**	**(28.8)**	**(28.8)**
Total non-cash flows from financing activities	**1.6**	**(28.8)**	**(27.2)**
Balance at 31 December	**265.7**	**3.3**	**269.0**

VII Related party transactions

(a) Transactions between the Company and its subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Significant transactions between the Company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	2022 £m	2021 £m
Funding activities			
Capco Group Treasury Limited	Interest on intercompany loan	**40.8**	10.8

Significant balances outstanding at 31 December between the Company and its subsidiaries are shown below:

	Amounts owed by subsidiaries	
Subsidiary	**2022 £m**	2021 £m
Capco Group Treasury Limited	**1,795.8**	1,793.2

The amount due from Capco Group Treasury Limited is unsecured, interest bearing and repayable on demand.

Alternative performance measures

for the year ended 31 December 2022

Alternative performance measures

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

Set out below is a summary of the APMs used in this Annual Report.

Many of the APMs included are based on the EPRA Best Practice Recommendations reporting framework, a set of standard disclosures for the property industry, which aims to improve the transparency, comparability and relevance of published results of public real estate companies in Europe.

The Group also uses underlying earnings, property portfolio and financial debt ratio APMs. The property portfolio presents the Group share of property market value which is the economic value attributable to the owners of the Company. Financial debt ratios are supplementary ratios which we believe are useful in monitoring the capital structure of the Group. Additionally, loan to value and interest cover are covenants within many of the Group's borrowing facilities.

Internally, the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures but excludes the non-controlling interest share of the Group's subsidiaries.

APM	Definition of measure	Nearest IFRS measure	Explanation and reconciliation	2022	Restated 2021
Underlying earnings[1]	Profit/(loss) for the period excluding unrealised and one-off items	Profit/(loss) for the year	Note 3	**£18.6m**	£0.7m
Underlying earnings per share[1]	Underlying earnings per weighted number of ordinary shares	Basic earnings per share	Note 3	**2.2p**	0.1p
EPRA earnings[1]	Recurring earnings from core operational activity	Profit/(loss) for the year	EPRA measures Table 1	**£36.9m**	£(20.3)m
EPRA earnings per share[1]	EPRA earnings/(loss) per weighted number of ordinary shares	Basic earnings/(loss) per share	EPRA measures Table 1	**4.3p**	(2.4)p
EPRA NTA[1]	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model	Net assets attributable to shareholders	Note 13 Table E	**£1,552.2m**	£1,814.5m
EPRA NTA per share[1]	EPRA NTA per the diluted number of ordinary shares	Net assets attributable to shareholders per share	Note 13 Table E	**182.1p**	213.0p
Market value of property portfolio	Market value of investment, development and trading properties	Investment, development and trading properties	Note 14	**£1,820.7m**	£1,814.7m
Interest cover[1]	Underlying operating profit divided by net underlying finance costs	N/A	Note 24	**181.3%**	101.0%
Net debt to gross assets	Net debt divided by total assets excluding cash and cash equivalents, excluding tenant deposits	N/A	Note 24	**27.9%**	24.3%
Gross debt with interest rate protection	Proportion of the gross debt with interest rate protection	N/A	Note 24	**100%**	100%
Weighted average cost of debt	Cost of debt weighted by the drawn balance of external borrowings	N/A	Financial Review, page 59	**2.7%**	2.8%
Cash and undrawn committed facilities (Group share)	Cash and cash equivalents, excluding tenant deposits, plus undrawn committed facilities shown on a Group share basis	N/A	Financial Review, page 59	**£422.6m**	£641.7m
Cash and undrawn committed facilities (IFRS)	Cash and cash equivalents, excluding tenant deposits, plus undrawn committed facilities shown on an IFRS basis	N/A	Financial Review, page 59	**£416.5m**	£619.0m
Occupancy	ERV of occupied space as a percentage of ERV of combined portfolio	N/A	N/A	**97.5%**	97.4%

1. Prior year comparatives have been restated to reflect a change in accounting policy following clarification by IFRIC during 2022 on how a lessor should account for the forgiveness of lease payments. In addition cash and cash equivalents have been restated following clarification by IFRIC on classification of funds with externally imposed restrictions. Details of the restatements and impact on prior year comparatives are set out in note 1 'Changes in accounting policies'.

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

EPRA measures

for the year ended 31 December 2022

EPRA measures

EPRA Net Reinstatement Value ("EPRA NRV"), EPRA Net Tangible Assets ("EPRA NTA") and EPRA Net Disposal Value ("EPRA NDV") are alternative performance measures that are calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA) to provide a transparent and consistent basis to enable comparison between European property companies. EPRA NTA is considered to be the most relevant measure for the Group's operating activity and is the primary measure of net asset value.

During the year the Group has adopted the EPRA cost ratio and the EPRA LTV metrics. The EPRA LTV metric is effective for accounting periods starting on or after 1 January 2022. The metric is intended to provide a consistent LTV that would be more relevant for equity holders reflecting a shareholder's gearing metric.

The following is a summary of EPRA performance measures and key Group measures included within this Annual Report. The measures are defined in the Glossary.

EPRA measure	Definition of measure	Table	2022	Restated 2021
EPRA earnings[1]	Recurring earnings from core operational activity	1	**£36.9m**	(£20.3)m
EPRA earnings per share[1]	EPRA earnings per weighted number of ordinary shares	1	**4.3p**	(2.4)p
EPRA NTA[1]	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model	Note 13 Table E	**£1,552.2m**	£1,814.5m
EPRA NTA per share[1]	EPRA NTA per the diluted number of ordinary shares	Note 13 Table E	**182.1p**	213.0p
EPRA NDV[1]	EPRA NTA amended to include the fair value of financial instruments and debt	Note 13 Table E	**£1,447.3m**	£1,800.7m
EPRA NDV per share[1]	EPRA NDV per the diluted number of ordinary shares	Note 13 Table E	**169.8p**	211.4p
EPRA NRV[1]	EPRA NTA amended to include real estate transfer tax	Note 13 Table E	**£1,668.2m**	£1,930.4m
EPRA NRV per share[1]	EPRA NRV per the diluted number of ordinary shares	Note 13 Table E	**195.7p**	226.6p
EPRA net initial yield	Annualised rental income less non-recoverable costs as a percentage of market value plus assumed purchaser's costs	2	**3.5%**	3.2%
EPRA topped-up initial yield	Net initial yield adjusted for the expiration of rent-free periods	2	**4.0%**	3.8%
EPRA vacancy	ERV of un-let units expressed as a percentage of the ERV of the Covent Garden portfolio excluding units under development	3	**2.5%**	2.6%
EPRA cost ratio	Total costs as a percentage of gross rental income (including direct vacancy costs)	5	**75.7%**	60.0%
	Total costs as a percentage of gross rental income (excluding direct vacancy costs)	5	**71.0%**	55.9%
EPRA LTV (Loan-to-Value)	Ratio of adjusted net debt, including net payables, to the sum of the net assets, including net receivables, of the Group, its subsidiaries and joint ventures, all on a proportionate basis, expressed as a percentage	6	**28.0%**	24.5%
Like-for-like net rental growth[1]	Net rental income for properties which have been owned throughout both years without significant capital expenditure in either year, so income can be compared on a like-for-like basis.	Property portfolio Table 3	**22.3%**	40.3%

1. Prior year comparatives have been restated to reflect a change in accounting policy following clarification by IFRIC during 2022 on how a lessor should account for the forgiveness of lease payments. In addition cash and cash equivalents have been restated following clarification by IFRIC on classification of funds with externally imposed restrictions. Details of the restatements and impact on prior year comparatives are set out in note 1 'Changes in accounting policies'.

EPRA measures continued

1) EPRA Earnings per share

	2022			Restated 2021		
	(Loss)/ earnings £m	Shares million	(Loss)/ earnings per share (pence)	Earnings/ (loss) £m	Share million	Earnings/ (loss) per share (pence)
Basic (loss)/earnings	**(211.8)**	**851.3**	**(24.9)**	34.8	851.3	4.1
Group adjustments:						
Change in value of investments and other receivables[1]	**7.9**			(11.6)		
Loss on revaluation and sale of investment and development property	**0.8**			4.1		
Change in fair value of listed investments	**239.5**			(44.6)		
Change in fair value of derivative financial instruments[2]	**(11.0)**			(8.3)		
Early close-out of financial instruments	**–**			(3.4)		
Deferred tax adjustments	**0.1**			2.3		
Joint venture adjustments:						
Profit on sale and transfer of trading property[3]	**(0.9)**			(5.6)		
Write down of trading property	**12.3**			12.0		
EPRA earnings/(loss)[4]	**36.9**	**851.3**	**4.3**	(20.3)	851.3	(2.4)

1. Change in value of investments and other receivables of £7.9 million (2021: £11.6 million) includes impairments under IFRS 9. Further details are disclosed within note 8 'Change in value of investments and other receivables'.
2. Change in fair value of derivative financial instruments excludes a fair value gain of £28.8 million (2021: loss of £16.8 million) relating to the derivative liability on bifurcated exchangeable bonds.
3. Profit on sale and transfer of trading property relates to sales and transfers of rental units from trading to investment property at Lillie Square.
4. EPRA earnings has been reported on a Group share basis.

2) EPRA Net initial yield and EPRA 'topped-up' net initial yield

EPRA Net Initial Yield and EPRA 'topped-up' Net Initial Yield	2022 £m	2021 £m
Investment property – wholly owned	**1,743.7**	1,730.6
Investment property – share of joint ventures	**4.4**	1.6
Trading property (including share of joint ventures)	**72.6**	82.5
Less: developments	**(245.8)**	(251.2)
Completed property portfolio	**1,574.9**	1,563.5
Allowance for estimated purchasers' costs	**105.3**	105.4
Gross up completed property portfolio valuation (A)	**1,680.2**	1,668.9
Annualised cash passing rental income	**62.1**	57.5
Property outgoings	**(3.5)**	(4.1)
Annualised net rents (B)	**58.6**	53.4
Add: notional rent expiration of rent periods or other lease incentives	**8.8**	9.2
Topped-up net annualised rent (C)	**67.4**	62.6
EPRA Net Initial Yield (B/A)	**3.5%**	3.2%
EPRA 'topped-up' Net Initial Yield (C/A)	**4.0%**	3.8%

The EPRA Net Initial Yield and EPRA 'topped-up' Net Initial Yield are calculated based on EPRA guidelines and includes both Covent Garden and the Group's share of Lillie Square. The Covent Garden initial yield as determined by the valuer is disclosed in Table 4 of the Analysis of Property Portfolio on page 208.

EPRA measures continued

3) EPRA vacancy rate

EPRA vacancy rate	2022 £m	2021 £m
Estimated rental value of vacant space	**1.9**	1.9
Estimated rental value of the portfolio less development and refurbishment estimated rental value	**76.0**	71.8
EPRA vacancy rate	**2.5%**	2.6%

EPRA vacancy rate is performed only for the Covent Garden portfolio. Other investment and development properties held at Lillie Square total £4.4 million Group share (2021: £1.6 million Group share) and disclosure is not applicable.

A discussion of significant factors affecting vacancy rates is included within the Operating review on page 28.

4) Property related capex

	2022			2021		
	Group (excluding Joint Ventures)	**Joint Ventures**	**Total Group**	Group (excluding Joint Ventures)	Joint Ventures	Total Group
Acquisitions	**–**	**–**	**–**	–	–	–
Development	**–**	**0.6**	**0.6**	–	2.0	2.0
Investment property						
No incremental lettable space[1]	**9.0**	**–**	**9.0**	6.3	–	6.3
Tenant lease incentives	**1.3**	**–**	**1.3**	0.5	–	0.5
Capitalised interest	**–**	**–**	**–**	–	0.2	0.2
Total CapEx	**10.3**	**0.6**	**10.9**	6.8	2.2	9.0
Conversion from accrual to cash basis	**0.8**	**0.3**	**1.1**	1.1	(0.6)	0.5
Total CapEx on cash basis	**11.1**	**0.9**	**12.0**	7.9	1.6	9.5

1. Capital expenditure incurred in 2022 related to existing lettable space, with no incremental space being added.

EPRA measures continued

5) EPRA cost ratio

EPRA cost ratio	2022 £m	2021 £m
Administrative expenses[1]	**40.6**	22.8
Total property outgoings[2]	**18.4**	16.0
Expected credit loss	**(1.6)**	7.6
Less: Service charge expense	**(6.3)**	(5.3)
Management fee	**–**	(0.7)
Share of joint venture expenses	**0.6**	0.4
Exclude:		
Ground rent cost	**(1.0)**	(1.2)
EPRA Cost (including direct vacancy costs) (A)	**50.7**	39.6
Direct vacancy costs	**(3.1)**	(2.7)
EPRA Costs (excluding direct vacancy costs) (B)	**47.6**	36.9
Gross Rental Income less ground rent costs	**73.1**	71.1
Less: Service charge income	**(6.3)**	(5.3)
Share of joint ventures property income	**0.2**	0.2
Adjusted gross rental income (C)	**67.0**	66.0
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**75.7%**	60.0%
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**71.0%**	55.9%
Company specific adjustments:		
Non-underlying administrative expenses[1]	**(14.6)**	(2.8)
Adjusted Company Cost (including direct vacancy costs) (D)	**36.1**	36.8
Adjusted Company Cost (excluding direct vacancy costs) (E)	**33.0**	34.1
Adjusted Company Cost ratio (including direct vacancy costs) (D/C)	**53.9%**	55.8%
Adjusted Company Cost ratio (excluding direct vacancy costs) (E/C)	**49.3%**	51.7%

1. Company specific adjustments relate to non-underlying administrative expenses and do not represent the recurring, underlying performance of the Group. Details of non-underlying expenses are set out in note 6 'Administration expenses'.
2. Prior year excludes lease modification and tenant lease incentives as these non-cash costs had been incurred as a result of the Group providing rental support to its tenants during the COVID-19 pandemic.

No property or administrative expenses were capitalised during the year.

EPRA measures continued

6) EPRA LTV

EPRA LTV	Group £m (2022)	Share of joint venture £m (2022)	Total £m (2022)
Borrowings from financial institutions	475.0	–	475.0
Bond loans	275.0	–	275.0
Exclude:			
Cash and cash equivalents[1]	(129.9)	(6.1)	(136.0)
Net debt (B)	620.1	(6.1)	614.0
Owner-occupied property	–	–	–
Investment properties at fair value	1,743.7	4.4	1,748.1
Properties under development	–	72.6	72.6
Net receivables	94.5	(75.8)	18.7
Financial assets	356.9	–	356.9
Total property value (A)	2,195.1	1.2	2,196.3
EPRA LTV (B/A)			28.0%

1. Includes tenant deposits of £13.4 million held as security against tenant rent payments which are subject to certain restrictions and therefore not available for general use by the Group.

EPRA LTV	Group £m (2021)	Share of joint venture £m (2021)	Total £m (2021)
Borrowings from financial institutions	675.0	–	675.0
Bond loans	275.0	–	275.0
Exclude:			
Cash and cash equivalents[1]	(331.1)	(22.7)	(353.8)
Net debt (B)	618.9	(22.7)	596.2
Investment properties at fair value	1,730.6	1.6	1,732.2
Properties under development	–	82.4	82.4
Net receivables	118.7	(99.3)	19.4
Financial assets	596.4	–	596.4
Total property value (A)	2,445.7	(15.3)	2,430.4
EPRA LTV (B/A)			24.5%

1. Includes tenant deposits of £12.1 million held as security against tenant rent payments which are subject to certain restrictions and therefore not available for general use by the Group.

Property portfolio

for the year ended 31 December 2022

Analysis of property portfolio

1. Property data as at 31 December 2022

	Market value £m	Ownership
Covent Garden	1,741.6	100%
Lillie Square	77.0	50%
Other	2.1	100%
Group share of total property	1,820.7	
Investment and development property	1,748.1	
Trading property	72.6	

2. Analysis of capital return for the year

Like-for-like capital	Market value 31 December 2022 £m	Market value 31 December 2021 £m	Revaluation loss[1] 31 December 2022 £m	Decrease
Covent Garden	1,741.6	1,728.5	(0.8)	–
Other[2]	79.1	83.5	(5.0)	(6.5)%
Total like-for-like capital	1,820.7	1,812.0	(5.8)	(0.3)%
Investment and development property	1,748.1	1,732.2	(0.7)	(0.0)%
Trading property[3]	72.6	79.8	(5.1)	(7.2)%
Non like-for-like capital				
Disposals	–	2.7	–	–
Group share of total property	1,820.7	1,814.7	(5.8)	(0.3)%
Investment and development property	1,748.1	1,732.2	(0.7)	–
Trading property[3]	72.6	82.5	(5.1)	(7.2)%
All property				
Covent Garden	1,741.6	1,728.5	(0.8)	–
Other[2]	79.1	86.2	(5.0)	(7.2)%
Group share of total property	1,820.7	1,814.7	(5.8)	(0.3)%

1. Revaluation loss includes amortisation of tenant lease incentives and fixed head leases.
2. Relates to the Group's interest in Lillie Square.
3. Represents unrecognised surplus and write down or write back to market value of trading property. Presented for information purposes only.

Analysis of property portfolio continued

3. Analysis of net rental income for the year

The below provides an analysis of the net rental growth of the Covent Garden portfolio and Other, including the Group's 50 per cent investment in Lillie Square which primarily owns trading properties. Like-for-like net rental growth compares the growth of the net rental income of the portfolio that has been consistently in operation, and not under development, during the current and prior year. The portfolio valuation for Covent Garden and Other are reflected in Table 2 of the Property Portfolio analysis. All properties are located in London therefore a geographic spread is not included.

Like-for-like net rental income	2022 £m	2021 £m	Increase
Covent Garden	**57.2**	46.6	**22.7%**
Other	**(0.1)**	0.1	
Total like-for-like net rental income	**57.1**	46.7	**22.3%**
Like-for-like investment and development property	**57.3**	46.7	**22.7%**
Like-for-like trading property	**(0.2)**	–	
Non like-for-like net rental income			
Disposals	**0.1**	2.1	
Group share of total net rental income (underlying)	**57.2**	48.9	**17.0%**
Investment and development property	**57.4**	48.8	**17.6%**
Trading property	**(0.2)**	0.1	
All property			
Covent Garden	**57.3**	48.7	**17.7%**
Other	**(0.1)**	0.2	
Group share of total net rental income (underlying)	**57.2**	48.9	**17.0%**
Lease modifications and impairment of tenant lease incentives	**–**	(8.7)	
Reported net rental income	**57.2**	40.2	**42.3%**
Covent Garden	**57.3**	40.0	**43.3%**
Other	**(0.1)**	0.2	

4. Analysis of Covent Garden by use

31 December 2022

	Initial yield	Nominal equivalent yield	Passing rent £m	Occupancy rate	Weighted average unexpired lease years	Market value £m	ERV £m	Net area million Sq. ft.
Retail						**840.2**	**38.3**	**0.4**
F&B						**454.4**	**19.5**	**0.2**
Office						**269.9**	**17.0**	**0.2**
Residential						**126.6**	**4.1**	**0.2**
Leisure and other						**50.5**	**2.1**	**0.1**
Total	**3.2%**	**4.1%**	**62.0**	**97.5%**	**7.5**	**1,741.6**	**81.0**	**1.1**

Financial covenants

for the year ended 31 December 2022

Financial covenants

Financial covenants on unsecured non-recourse debt

	31 December 2022			
Group share	Maturity	Loans outstanding at 31 December 2022[1] £m	LTV covenant	Interest cover covenant
Covent Garden[2]	**2024-2037**	**475.0**	**60%**	**120%**
Standby loan facility[3]		**–**	**60%**	**100%**
Total		**475.0**		

1. The loan values are the nominal values at 31 December 2022 shown on a Group share basis. The balance sheet value of the loans includes unamortised fees.
2. Covent Garden comprise of a £300 million RCF, which is undrawn at 31 December 2022, and £475 million Private Placement loan notes maturing between 2024 and 2037. The RCF had an initial three year term, which was extended for a further one year period to September 2025. The facility has a further one year option to extend subject to lender consent.
3. On 16 June 2022, the Group entered into a £576 million loan facility in connection with the proposed merger with Shaftesbury. Shaftesbury has two secured mortgage bonds totalling £575 million, each of which contain change of control provisions which will be triggered by the merger. The Group has entered into the new facility to provide funding certainty in the event that the Shaftesbury mortgage bond holders exercise their redemption right in respect of the bonds following completion of the merger. The facility remains undrawn as at 31 December 2022. The term of the £576 million loan facility is 24 months, which may be extended for a further six months at the option of Capco subject to the satisfaction of the extension requirements as outlined in the facility. There is subsequently a further six month extension option available which requires lender approval.

Historical record

for the year ended 31 December 2022

Historical Record

Continuing and discontinued operations

Consolidated statement of comprehensive income	2022 £m	Restated 2021 £m	Restated 2020 £m	2019 £m	2018 £m
Net rental income[1]	**57.2**	40.2	11.3	63.3	63.5
Profit on sale of trading property	**0.9**	5.6	8.9	0.9	6.7
Other income/(costs)	**13.5**	2.7	(0.5)	1.0	1.8
Loss on revaluation and sale of investment and development property	**(0.8)**	(4.1)	(693.9)	(139.8)	(78.8)
Profit/(loss) on disposal and IFRS 5 impairment of discontinued operation	**–**	–	1.0	(94.2)	29.5
Revaluation of equity investment	**(239.5)**	44.6	50.9	–	–
Non-recurring costs	**(12.3)**	(68.6)	(1.4)	(15.4)	(4.3)
Administration expenses[2]	**(40.7)**	(22.7)	(31.5)	(46.6)	(41.6)
Operating loss	**(221.7)**	(2.3)	(655.2)	(230.8)	(23.2)
Net finance income/(costs)	**8.7**	(44.4)	(29.7)	(25.5)	(17.1)
Loss before tax	**(213.0)**	(46.7)	(684.9)	(256.3)	(40.3)
Taxation	**(6.0)**	(0.7)	1.0	0.1	(4.3)
Loss for the year	**(219.0)**	(47.4)	(683.9)	(256.2)	(44.6)

Consolidated balance sheet	2022 £m	Restated 2021 £m	Restated 2020 £m	2019 £m	2018 £m
Investment and development property	**1,719.5**	1,707.1	1,796.7	2,547.3	3,066.7
Other non-current assets	**404.0**	625.8	600.5	165.1	157.2
Cash and cash equivalents	**136.0**	353.8	389.3	170.6	49.9
Other current assets	**92.5**	121.8	163.4	302.3	181.8
Total assets	**2,352.0**	2,808.5	2,949.9	3,185.3	3,455.6
Non-current borrowings, including lease liabilities	**(743.7)**	(940.3)	(1,084.5)	(610.8)	(621.9)
Other non-current liabilities	**(2.9)**	(32.2)	(22.5)	(3.6)	–
Current borrowings, including lease liabilities	**(0.7)**	(0.7)	(1.6)	(1.6)	(0.7)
Other current liabilities	**(43.1)**	(41.2)	(53.3)	(82.2)	(84.5)
Total liabilities	**(790.4)**	(1,014.4)	(1,161.9)	(698.2)	(707.1)
Net assets	**1,561.6**	1,794.1	1,788.0	2,487.1	2,748.5

Prepared on a Group share basis.

Per share information	Pence	Pence	Pence	Pence	Pence
Basic (loss)/earnings per share	**(24.9)**	4.1	(80.3)	(29.7)	(6.7)
Underlying earnings/(loss) per share	**2.2**	0.1	(2.2)	1.0	0.9
Basic net assets per share	**183.4**	209.9	210.0	290.0	321.6
EPRA NTA per share	**182.1**	213.0	211.5	292.9	325.7
Dividend per share	**1.8**	0.5	–	1.5	1.5

1. Underlying net rental income as at 31 December 2022 is £57.2 million (2021: £48.9 million).
2. Included in administration expenses as at 31 December 2022 is £14.6 million (2021: £2.8 million) of non-recurring administration costs which are excluded from the calculation of underlying earnings. Details are set out in note 6 'Administration expenses'.

Board and advisers

Chairman
Henry Staunton

Executive directors
Ian Hawksworth, Chief Executive
Situl Jobanputra, Chief Financial Officer
Michelle McGrath, Executive Director

Non-executive directors
Charlotte Boyle
Jonathan Lane OBE
Anthony Steains

Company secretary
Ruth Pavey

Registered office
Regal House
14 James Street
London
WC2E 8BU
Telephone: 020 3214 9150
Fax: 020 3214 9151

Registered number
7145051

Websites
www.capitalandcounties.com
www.coventgarden.london

Independent auditors
PricewaterhouseCoopers LLP

Solicitors
Herbert Smith Freehills LLP

Financial adviser
Rothschild & Co.

Corporate brokers
Jefferies International Limited
Peel Hunt LLP
UBS AG London Branch

SA sponsor
Java Capital Trustees and Sponsors Proprietary Limited

Dividends

Dividends

On 30 January 2023, the Directors of Capital & Counties Properties PLC declared a 2022 second interim cash dividend of 1.7 pence per ordinary share (ISIN GB00B62G9D36) payable on 20 March 2023.

Dates

The following are the salient dates for payment of the 2022 second interim cash dividend:

Second interim dividend announced	30 January 2023
Sterling/Rand exchange rate struck	20 February 2023
Sterling/Rand exchange rate and dividend amount in Rand announced	21 February 2023
Split between PID and Non-PID confirmed	21 February 2023
Ordinary shares listed ex-dividend on the JSE, Johannesburg Stock Exchange	1 March 2023
Ordinary shares listed ex-dividend on the London Stock Exchange	2 March 2023
Record date for the second interim dividend in UK and South Africa	3 March 2023
Dividend payment date for shareholders	**20 March 2023**

South African shareholders should note that, in accordance with the requirements of Strate, the last day to trade cum-dividend will be 28 February 2023 and that no dematerialisation of shares will be possible from 1 March 2023 to 3 March 2023 inclusive. No transfers between the UK and South Africa registers may take place from close of business on 22 February 2023 to 3 March 2023 inclusive.

The above dates are proposed and subject to change.

The Property Income Distribution ("PID") element (being 0.7 pence) will be subject to a deduction of a 20 per cent UK withholding tax unless exemptions apply. The non-PID element (being 1.0 pence) will be treated as an ordinary UK company dividend.

Information for shareholders

The information below is included only as a general guide to taxation for shareholders based on Capco's understanding of the law and the practice currently in force. Any shareholder who is in any doubt as to their tax position should seek independent professional advice.

UK shareholders – PIDs

Certain categories of shareholders may be eligible for exemption from the 20 per cent UK withholding tax and may register to receive their dividends on a gross basis. Further information, including the required forms, is available from the 'Investors' section of the Company's website (www.capitalandcounties.com), or on request from our UK registrars, Link Group. Validly completed forms must be received by Link Group no later than the dividend Record Date, as advised; otherwise the dividend will be paid after deduction of tax.

South African shareholders

The 2022 second interim cash dividend declared by the Company is a foreign payment and the funds are sourced from the UK.

PIDs: South African shareholders may apply to HMRC after payment of the PID element of the 2022 second interim cash dividend for a refund of the difference between the 20 per cent UK withholding tax and the UK/South African double taxation treaty rate of 15 per cent.

The PID element of the 2022 second interim cash dividend will be exempt from income tax but will constitute a dividend for Dividends Tax purposes, as it will be declared in respect of a share listed on the exchange operated by the JSE. SA Dividends Tax will therefore be withheld from the PID element of the 2022 second interim cash dividend at a rate of 20 per cent, unless a shareholder qualifies for an exemption and the prescribed requirements for effecting the exemption are in place by the requisite date. Certain shareholders may also qualify for a reduction of SA Dividends Tax liability to 5 per cent, (being the difference between the SA dividends tax rate and the effective UK withholding tax rate of 15 per cent) if the prescribed requirements for effecting the reduction are in place by the requisite date.

Non-PID: The non-PID element of the cash dividend will be exempt from income tax but will constitute a dividend for SA Dividends Tax purposes, as it will be declared in respect of a share listed on the exchange operated by the JSE. SA Dividends Tax will therefore be withheld from the non-PID element of the 2022 second interim cash dividend at a rate of 20 per cent, unless a shareholder qualifies for an exemption and the prescribed requirements for effecting the exemption are in place by the requisite date.

Other overseas shareholders:

Other non-UK shareholders may be able to make claims for a refund of UK withholding tax deducted pursuant to the application of a relevant double taxation convention. UK withholding tax refunds can only be claimed from HMRC, the UK tax authority.

Additional information on PIDs can be found at https://www.capitalandcounties.com/uk-real-estate-investment-trust-reit

Glossary

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.

Capco

Capco represents Capital & Counties Properties PLC (also referred to as "the Company") and all its subsidiaries and group undertakings, collectively referred to as "the Group".

Cash and undrawn committed acilities

Cash and cash equivalents, excluding tenant deposits, plus undrawn committed facilities.

CDP

Carbon Disclosure Project Worldwide, a global not-for-profit sustainability disclosure system. Capco participates in the CDP Climate Change Programme.

CMA

Competition and Markets Authority.

Combined group

The Capco Group and Shaftesbury Group after the merger has taken effect.

CRREM

Carbon risk real estate monitor.

Diluted figures

Reported amounts adjusted to include the dilutive effects of potential shares issuable under employee incentive arrangements.

EPRA

European Public Real Estate Association, the publisher of Best Practice Recommendations intended to make financial statements of public real estate companies in Europe clearer, more transparent and comparable.

EPRA cost ratio (including direct vacancy costs)

EPRA cost ratio (including direct vacancy costs) is a proportionally consolidated measure of the ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses, net of any service fees, recharges or other income specifically intended to cover overhead and property expenses.

EPRA cost ratio (excluding direct vacancy costs)

EPRA cost ratio (excluding direct vacancy costs) is the ratio defined above, but with direct vacancy costs removed from the net overheads and operating expenses balance.

EPRA earnings

Profit or loss for the year excluding gains or losses on the revaluation and sale of investment and development property, profit on sale of subsidiaries, impairment of other receivables, write down of trading property, changes in fair value of derivative financial instruments and associated close-out costs and the related tax on these items.

EPRA earnings per share

EPRA earnings divided by the weighted average number of shares in issue during the year.

EPRA loan to value (LTV)

Ratio of adjusted net debt, including net payables, to the sum of the net assets, including net receivables, of the Group, its subsidiaries and joint ventures, all on a proportionate basis, expressed as a percentage. The calculation includes trading properties at fair value and debt at nominal value.

EPRA net disposal value (NDV)

The net assets as at the end of the year including the excess of the fair value of trading property over its cost, revaluation of other non-current investments and the fair value of fixed interest rate debt over their carrying value.

EPRA net disposal value per share

EPRA net disposal value divided by the diluted number of ordinary shares.

EPRA net initial yield

Annualised net rent (after deduction of revenue costs such as head rent, running void, service charge after shortfalls and empty rates) on investment and development property expressed as a percentage of the gross market value before deduction of theoretical acquisition costs.

EPRA net tangible assets (NTA)

The net assets as at the end of the year including the excess of the fair value of trading property over its cost and revaluation of other non-current investments, excluding the fair value of financial instruments and deferred tax on revaluations.

EPRA net tangible assets per share

EPRA net tangible assets divided by the diluted number of ordinary shares.

EPRA net reinstatement value (NRV)

The net assets as at the end of the year including the excess of the fair value of trading property over its cost and excluding the fair value of financial instruments, deferred tax on revaluations plus a gross up adjustment for related costs such as Real Estate Transfer Tax.

EPRA net reinstatement value per share

EPRA net reinstatement value divided by the diluted number of ordinary shares.

EPRA sBPR

European Public Real Estate Association Sustainability Best Practice Recommendations for Reporting, a guidance framework for reporting environmental performance. Capco publishes details of its environmental performance in line with the EPRA sBPR.

EPRA topped-up initial yield

EPRA net initial yield adjusted for the expiration of rent-free periods.

EPRA vacancy

ERV of un-let units, excluding under offer, expressed as a percentage of the ERV of the Covent Garden portfolio excluding units under development.

ESC

Environment, Sustainability and Community.

Estimated rental value (ERV)

The external valuers' estimate of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of the property.

FTSE4GOOD

FTSE4GOOD Index Series, hosted by FTSE Russell, a sustainability index in which Capco participates.

F&B

Food and Beverage.

FRC

Financial Reporting Council.

GCP

The Great Capital Partnership was a 50 per cent joint venture between Capital & Counties Limited and Great Portland Estates PLC until it was dissolved on 6 April 2022.

GEA

Gross external area.

GRESB

The Global Real Estate Sustainability Benchmark, a sustainability index. Capco participates in the GRESB Real Estate Assessment.

Greenhouse Gas (GHG) Emissions Methodology

Capco continues to monitor and report all greenhouse gas emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 and the extension of these regulations to include the Streamlined Energy and Carbon Emissions Reporting ("SECR"). The GHG emissions data is prepared by following the 'Greenhouse Gas ("GHG") Protocol: A Corporate Accounting and Reporting Standard' published by the World Resources Institute ("WRI") and the operational consolidation method is adopted, as this reflects where Capco has the ability to influence GHG emissions. Scope 1 emissions for 2021 and 2022 throughout comprise direct emissions, including fuel combustion in owned or controlled boilers, backup generators and vehicles. Scope 2 emissions for 2021 and 2022 comprise indirect emissions released from purchased electricity. Capco was responsible for all Scope 1 and Scope 2 emissions stated. For Scope 2 emissions, those arising from generated electricity usage are reported in two ways. Firstly, Capco calculates the 'location-based' emissions which reflect emissions according to the energy mix of the National Grid. Secondly, Capco reports 'market-based' emissions which reflect the energy mix provided by our energy suppliers. This helps Capco to demonstrate the reduction in emissions as a result of purchasing energy from suppliers who generate renewable energy. Scope 3 emissions comprise other indirect emissions from sources not owned or controlled by Capco, including customer and supply chain emissions. Capco has engaged Carbon Footprint Limited to provide independent verification of the 2022 greenhouse gas emissions assertion, in accordance with the industry recognised standard ISO 14064-3.

Gross income

The Group's share of passing rent plus sundry non-leased income.

FTSE 350 Real Estate Index

London Stock Exchange index derived from real estate companies in the FTSE 100 and FTSE 250 indices.

Headline earnings

Headline earnings per share is calculated in accordance with Circular 1/2021 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's JSE listing. This measure is not a requirement of IFRS.

HMRC

HM Revenue and Customs.

IFRIC

International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards.

Innova

Innova Investment Limited Partnership is a 50 per cent joint venture between the Group and Network Rail Infrastructure Limited.

JSE

Johannesburg Stock Exchange.

Kwok Family Interests (KFI)

Joint venture partner in the Lillie Square development.

Like-for-like property

Property which has been owned throughout both years without significant capital expenditure in either year, so income can be compared on a like-for-like basis. For the purposes of comparison of capital values, this will also include assets owned at the previous balance sheet date but not necessarily throughout the prior year.

Loan to value (LTV)

LTV is calculated on the basis of the Group's net debt divided by the carrying value of the Group's property portfolio.

LSJV

The Lillie Square joint venture is a 50 per cent joint venture between the Group and KFI.

MSCI

Producer of an independent benchmark of property returns.

NAV

Net Asset Value.

Net debt

Total borrowings less cash and cash equivalents, excluding tenant deposits.

Net debt to gross assets

Net debt divided by the Group's total assets excluding cash and cash equivalents.

Net rental income (NRI)

Gross rental income less ground rents, payable service charge expenses and other non-recoverable charges, having taken due account of expected credit loss provisions and adjustments to comply with IFRS regarding tenant lease incentives.

Net Zero Carbon

When there is a balance between the amount of GHG emissions produced and the amount removed from the atmosphere targeting initially reduction in GHG emissions resulting from our buildings and operations and then offset any unavoidable residual emissions.

NIA

Net Internal Area.

Nominal equivalent yield

Effective annual yield to a purchaser on the gross market value, assuming rent is receivable annually in arrears, and that the property becomes fully occupied and that all rents revert to the current market level (ERV) at the next review date or lease expiry.

Occupancy rate

The ERV of let and under offer units expressed as a percentage of the ERV of let and under offer units plus ERV of un-let units, excluding units under development. This is equivalent to 100 per cent less the EPRA vacancy rate.

Passing rent

Contracted annual rents receivable at the balance sheet date. This takes no account of accounting adjustments made in respect of rent-free periods or tenant lease incentives, the reclassification of certain lease payments as finance charges or any irrecoverable costs and expenses, and does not include excess turnover rent, additional rent in respect of unsettled rent reviews or sundry income.

P.A.

Per annum.

Property Income Distributions (PID)

Distribution under the REIT regime that constitutes at least 90 per cent of the Group's taxable income profits arising from its qualifying property rental business, by way of dividend. PIDs can be subject to withholding tax at 20 per cent. If the Group distributes profits from its non-qualifying business, the distribution will be taxed as an ordinary dividend in the hands of the investors.

Real Estate Investment Trust (REIT)

A REIT is exempt from corporation tax on income and gains of its property rental business (qualifying activities) provided a number of conditions are met. It remains subject to corporation tax on non-exempt income and gains (non-qualifying activities) which would include any trading activity, interest income and development and management fee income.

Real Estate Transfer Tax

Purchasers' cost as included within the independent valuation of investment, development and trading properties.

RICS

Royal Institution of Chartered Surveyors.

RIDDOR

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

S&P Global Corporate Sustainability Assessment

A sustainability index of Standard & Poor Global to which Capco submits information.

Section 106

Section 106 of the Town and Country Planning Act 1990, pursuant to which the relevant planning authority can impose planning obligations on a developer to secure contributions to services, infrastructure and amenities in order to support and facilitate a proposed development.

Shaftesbury

Shaftesbury represents Shaftesbury PLC and all its subsidiaries and group undertakings, collectively referred to as the Shaftesbury Group.

Shaftesbury Capital PLC

Shaftesbury Capital PLC, the name of the combined group should the merger take effect.

Sterling Overnight Interbank Average Rate (SONIA)

The average overnight Sterling risk-free interest rate, set in arrear, paid by banks for unsecured transactions.

Tenant lease incentives

Any incentives offered to tenants to enter into a lease. Typically incentives are in the form of an initial rent-free period and/or a cash contribution to fit-out the premises. Under IFRS the value of incentives granted to tenants is amortised through the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Total property return (TPR)

Capital growth including gains and losses on disposals plus rent received less associated costs, including ground rent.

Total return (TR)

The movement in EPRA NTA per share plus dividends per share paid during the year.

Total shareholder return (TSR)

The increase in the price of an ordinary share plus dividends paid during the year assuming re-investment in ordinary shares.

Underlying earnings

Profit for the year excluding unrealised gains/losses and non-recurring items. Unrealised gains and losses that are excluded are net valuation gains/losses (including profits/losses on disposals), fair value changes and impairment charges. Non-recurring items that are excluded include net refinancing charges, costs of termination of derivative financial instruments and non-recurring income and costs including the proposed merger transaction costs. Taxation charges in relation to these items, which include tax adjustments relating to non-REIT group losses, are excluded.

Given the scale of the rental support provided to tenants during 2020 and 2021 as a result of the COVID-19 pandemic, non-cash lease modification expenses and impairment of tenant lease incentives had been excluded from underlying net rental income during those years. Tenant support measures required as a result of the COVID-19 pandemic have now been concluded and as such future impairments of tenant lease incentives are included in underlying net rental income with effect from 2022. Underlying earnings is reported on a Group share basis.

Underlying earnings per share (EPS)

Underlying earnings divided by the weighted average number of shares in issue during the year.

Underlying net rental income

Net rental income excluding lease modification expenses and impairment of tenant lease incentives. Given the scale of the rental support provided to tenants during 2020 and 2021 as a result of the COVID-19 pandemic, non-cash lease modification expenses and impairment of tenant lease incentives had been excluded from underlying net rental income in the prior year. Tenant support measures required as a result of the COVID-19 pandemic have now been concluded and as such future impairments of tenant lease incentives are included in underlying net rental income for 2022 onwards.

Weighted average unexpired lease term

The unexpired lease term to lease expiry weighted by ERV for each lease.

WCC

Westminster City Council.

Zone A

A means of analysing and comparing the rental value of retail space by dividing it in to zones parallel with the main frontage. The most valuable zone, Zone A, falls within a 6m depth of the shop frontage. Each successive zone is valued at half the rate of the zone in front of it. The blend is referred to as being 'ITZA' ("In Terms of Zone A").

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C001785

Printed by Park Communications on FSC® certified paper. Park works to the EMAS standard and its Environmental Management System is certified to ISO 14001. This publication has been manufactured using 100% offshore wind electricity sourced from UK wind. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled and the remaining 1% used to generate energy. This document is printed on Heaven 42 paper made of material from well-managed, FSC®-certified forests and other controlled sources. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

Design and production by Black Sun www.blacksunplc.com

Shareholder information

Electronic communication

Capco has adopted electronic communications. This means that shareholders will receive documents from the Company electronically unless they elect to receive hard copies.

The Group's annual results and interim results will be published on the Company's website www.capitalandcounties.com. If you are a shareholder who receives hard copies of documents and you wish to elect to receive electronic communications, please contact the appropriate Registrar.

Shareholders may revoke an election to receive electronic communications at any time.

Registrars

All enquiries concerning shares or shareholdings, including notification of change of address, queries regarding loss of a share certificate and dividend payments should be addressed to:

For shareholders registered in the UK:

Link Group
10th Floor, Central Square,
29 Wellington Street, Leeds,
LS1 4DL

Telephone: 0371 664 0300.
Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00 am - 17.30 pm, Monday to Friday excluding public holidays in England and Wales

Email: shareholderenquiries@linkgroup.co.uk
Website: www.linkgroup.com

For shareholders registered in South Africa:

Computershare Investor Services Proprietary Limited

Rosebank Towers, 1st Floor, 15 Biermann Avenue, Rosebank, 2196, South Africa

Postal address: Private Bag X9000, Saxonwold, 2132, South Africa

Telephone: +27 (0) 11 370 5000 or 086 1100 933 (lines are open 8.00 am - 4.30 pm Monday to Friday)

Email: web.queries@computershare.co.za
Website: www.computershare.com

Web-based enquiry service for shareholders

Shareholders registered in the UK can register at www.signalshares.com to access a range of online services including:

- Updating your address details or registering a mandate to have your dividends paid directly to your bank account
- Online proxy voting
- Electing to receive shareholder communications electronically
- Viewing your holding balance, indicative share price and valuation
- Viewing transactions on your holding including any dividend payments you have received
- Accessing a wide range of shareholder information, including downloadable forms

To register to use this service, you will need your investor code ("IVC"), which can be found on your share certificate(s).

Share price information

The latest information on the Capital & Counties Properties PLC share price is available on the Company's website www.capitalandcounties.com.

The shares are traded on the LSE with LSE code CAPC, SEDOL B62G9D3, ISIN GB00B62G9D36. The shares are traded on the JSE under the abbreviated name CAPCO and JSE code CCO.

Share dealing services

Many banks, building societies and investment managers offer share dealing services. Additionally, UK shareholders may trade their shares using the online and telephone dealing service that Link Group provide. To use this service, shareholders should contact Link: info@linksharedeal.com or telephone 0371 664 0445 (calls are charged at the standard geographic rate and will vary by provider; calls outside the UK are charged at the applicable international rate. Lines are open 8.00 am - 4.30 pm Monday to Friday, excluding public holidays in England and Wales). Alternatively, you can log on to www.linksharedeal.com. This service is only available to private individuals resident in the UK, the EEA, Channel Islands and the Isle of Man who hold shares in a company for which Link Group provides share registration services, or a nominee programme administered by Link Market Services Trustees Limited.

ShareGift

ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomical to sell on a commission basis. Further information can be found on its website www.sharegift.org, by telephoning 020 7930 3737 or by emailing help@sharegift.org.

Strate Charity Shares (SCS)

SCS is an independent non-profit and registered charity share donation scheme for shareholders who may wish to dispose of small holdings of shares that are too costly to sell via a stock broker on a commission basis. Further information can be found at www.strate.co.za, by emailing charityshares@computershare.co.za or by calling 0800 202 363 or +27 (0) 11 506 4713 if you are phoning from outside South Africa.

Investment scams

Shareholders are advised to be wary of any unsolicited calls, mail or emails that offer free advice, the opportunity to buy shares at a discount or to provide free company or research reports. Such approaches are often investment scams. Information on how to protect yourself from investment scams can be found at www.fca.org.uk/scamsmart or by calling the FCA's consumer helpline on 0800 111 6768.

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