capco

Capital & Counties Properties PLC

Annual Report & Accounts 2016

DRIVING LONG-TERM VALUE CREATION

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

Competitive strengths

CLEAR AND FOCUSED STRATEGY *See p.12*

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

PRIME ASSETS *See p.18*

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

STRONG CAPITAL STRUCTURE *See p.40*

- Conservative leverage and substantial liquidity

EXPERIENCED MANAGEMENT *See p.56*

- Strong track record

EFFECTIVE GOVERNANCE *See p.58*

- Strong commitment to effective corporate governance

For more information visit:
www.capitalandcounties.com

In this report

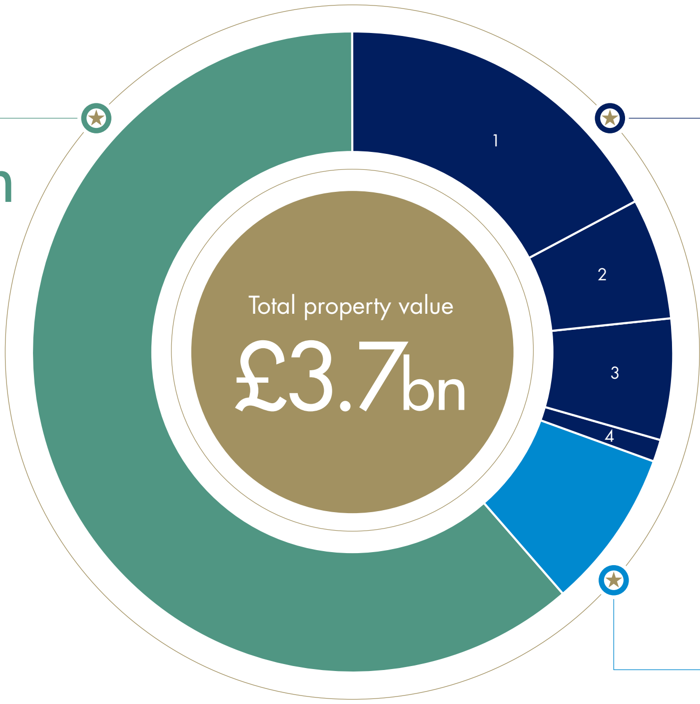
North Piazza
Covent Garden

Demolition progress
Earls Court, November 2016

First units complete
Lillie Square, December 2016

Cover image: View of the North Piazza in Covent Garden

PROPERTY PORTFOLIO[1]



Covent Garden

£2,275m

61%

See page 20

Earls Court Properties

£1,142m

31%

1. ECPL	£644m
2. Lillie Square	£223m
3. Empress State Building	£230m
4. Other	£45m

See page 28

Venues

£293m

8%

See page 38

1. Market value on Group share basis

Royal Opera House Arcade Covent Garden

Artist's impression of improved plans for Empress Place, Earls Court

BUSINESS MODEL AND STRATEGY

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

BUSINESS MODEL

GROUP STRATEGY

ESTATE STRATEGIES

- Covent Garden
- Earls Court Properties
- Venues

See page 12

EFFECTIVE GOVERNANCE

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

THE BOARD

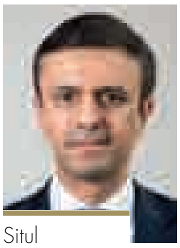
Audit Committee	Remuneration Committee	Nomination Committee

See page 58

EXPERIENCED MANAGEMENT


Ian Hawksworth


Gary Yardley


Situl Jobanputra

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

See page 56

FINANCIAL RESULTS

Equity attributable to owners	EPRA net asset value per share
£2.8bn	340p
Total return	**Total dividend per share**
-6%	1.5p
Total property return	**Total shareholder return**
-2%	-32%
Property valuation movement on a like-for-like basis	**Loan to value (LTV)**
-4%	23%

See pages 13 & 40

AN ACTIVE YEAR

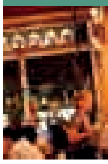
Covent Garden

NARS signs lease
Luxury beauty brand NARS signs lease on King Street for its first stand-alone boutique, joining Covent Garden's Beauty Quarter

Covent Garden

SUSHISAMBA signs to the Opera Terrace
SUSHISAMBA agrees terms to occupy the Opera Terrace site in the Market Building, one of the most prominent dining locations in London, set to open in 2017

Covent Garden

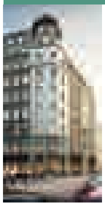


RedFarm signs to Russell Street
Acclaimed New York Chinese restaurant RedFarm signs to the unit next to Balthazar on Russell Street. The restaurant is to open in 2017

Covent Garden

Petersham Nurseries first anchor tenant for Floral Court
Petersham Nurseries signs to the Floral Court development, taking over 16,000 sq ft across four units. Petersham Nurseries will create new bespoke retail and dining concepts at Covent Garden, adding to the strong dining offer

Covent Garden

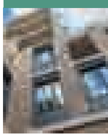


The Wellington Hotel planning permission granted
Capco, together with Robert De Niro and BD Hotels, is granted planning approval by Westminster City Council to create a visionary new 83-room luxury boutique hotel

Covent Garden

Covent Garden After Hours shopping campaign
A four-week late night shopping campaign, which resulted in an increase in footfall and positive sales. The campaign included a series of events with street food pop-ups and an installation by fashion designer Jean-Charles de Castelbajac

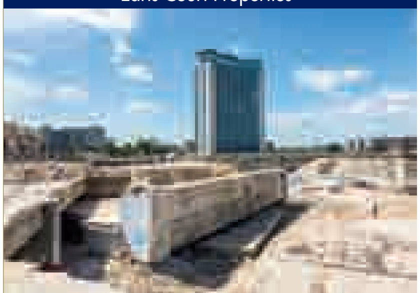
Covent Garden



Progress at Floral Court
Topping out of Floral Court development achieved in August

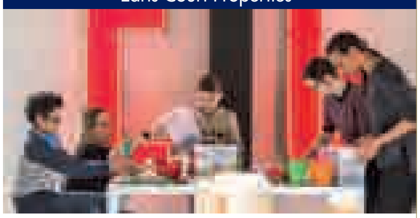
JANUARY 2016 | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY

Earls Court Properties



ECPL Funding
£150 million HCA loan facility signed to fund infrastructure-related works on ECPL land interests

Earls Court Properties



Project Rooms open to the community
Earls Court Project Rooms open for the first monthly 'Second Saturdays' community event

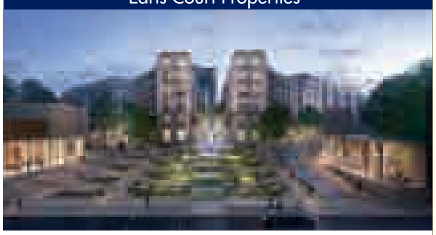
Earls Court Properties

Lillie Square Garden Collection launches
The launch of the Lillie Square Garden Collection offering duplex homes with exclusive private outdoor spaces designed by Andy Sturgeon

Earls Court Properties

New Homes Space opens
New purpose-built engagement facility for residents of the West Kensington and Gibbs Green estates opens to provide information about the Earls Court development

Earls Court Properties



Public consultation for Exhibition Square
Plans brought forward for the detailed design of Exhibition Square – the gateway to the Earls Court development from Warwick Road. Detailed consent achieved in January 2017

Covent Garden

Acquisition of Tower House

Capco purchases Tower House, a substantial corner building at 10 Southampton Street, from Derwent London plc for £67.5 million

Covent Garden

£175 million US Private Placement debt

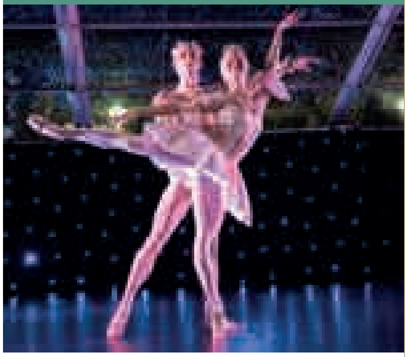
Signed agreement with five US institutional investors for a private placement of £175 million 10-year and 12-year senior unsecured notes

Covent Garden

Repositioning of the Royal Opera House Arcade

The UK's leading independent luxury watch retailer The Watch Gallery opens in the Royal Opera House Arcade, joining Mulberry and Lulu Guinness, to introduce luxury accessories to the Arcade for the first time

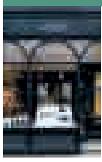
Covent Garden



Covent Garden Christmas Launch

In partnership with the Royal Opera House, Christmas at Covent Garden launches with a public open air performance on the Piazza from the Royal Opera Chorus, followed by excerpts from The Nutcracker performed by artists of the Royal Ballet

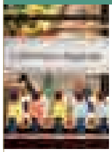
Covent Garden



Joseph Cheaney & Sons signs lease

Fine British shoe brand Cheaney signs lease on Henrietta Street for a 1,000 sq ft unit, further enhancing the retail offer on the street

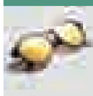
Covent Garden



Hotel Chocolat and Atelier Cologne open in the Market Building

The openings from the new chocolate store and the premium fragrance brand enhance the retail offer in the Market Building

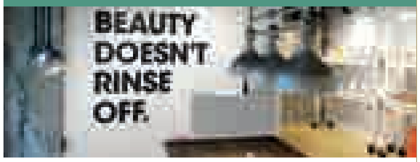
Covent Garden



New brands join the estate

US 'gastro-fast' restaurant Buns & Buns signs to the Market Building and outerwear brand K-Way agrees lease for Henrietta Street, while Tom Davies and N. Peal sign to the Royal Opera House Arcade

Covent Garden

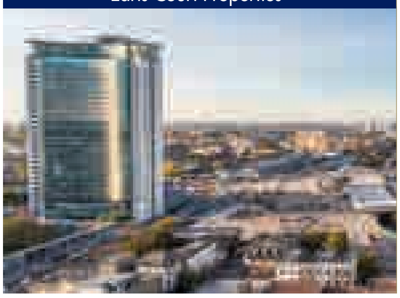


Luxury beauty offer strengthened in the Market Building

Signings from Tom Ford, DECIEM and Giorgio Armani Beauty's Armani Box London strengthen the luxury beauty offering on the North side of the Market Building, joining established beauty boutiques from Chanel, Dior and Burberry

AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | Q1 2017

Earls Court Properties



First phase of demolition complete

Demolition of both former Earls Court Exhibition Centres to ground level is complete

Venues

Debt facility

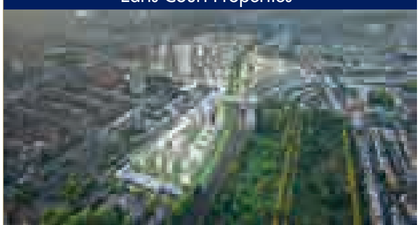
New £100 million debt facility secured

Earls Court Properties

Heavy Lifting Crane arrives in Earls Court

The largest crane ever used in London arrives in Earls Court to remove the portal beams from over the London Underground lines

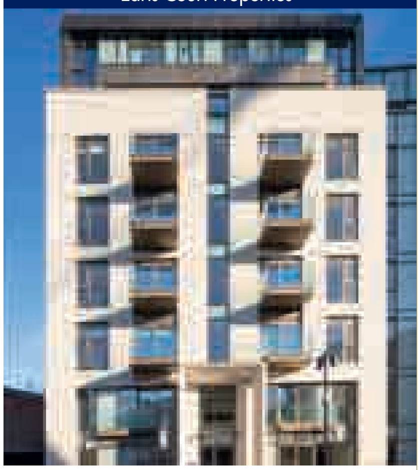
Earls Court Properties



London Plan submissions

Representations made to the GLA 'London Plan' consultation, highlighting that Earls Court can accommodate 10,000 homes

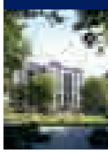
Earls Court Properties



Lillie Square first completions

First residents move into their new homes at Lillie Square as the first units complete

Earls Court Properties



Empress Place consultation

ECPL engaged in public consultations on proposals for 400 new homes at Empress Place

Ian Durant, Chairman

DRIVING LONG-TERM VALUE CREATION WITH RESPONSIBLE OVERSIGHT

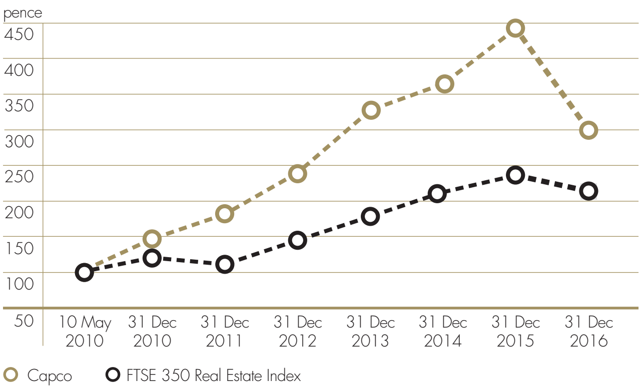
Total return

-6%

Dividend

1.5p

Total shareholder return



OVERVIEW

2016 was a year of notable political and economic dislocation which has affected the London property market. London remains a very attractive investment market, a desirable retail destination and residential location. Looking through short-term market movements Capco's long-term strategy for its two unique estates remains unchanged. During 2016, Capco achieved good progress at both Covent Garden and Earls Court and, although it was a challenging year in the residential market, I am confident that Capco will deliver value creation for our shareholders over the coming years.

PERFORMANCE

Despite strong rental growth at Covent Garden and significant progress on site at Earls Court, Capco's total shareholder return for the year, which comprises share price performance plus the dividends paid during the year, was -32.3 per cent. Total return for the year was -5.5 per cent, which represents the change in net assets plus the dividends paid during the year. The total value of Capco's property portfolio fell by 4.4 per cent on a like-for-like basis to £3.7 billion.

Covent Garden delivered ERV growth of 7.9 per cent during the year resulting in a valuation increase of 6.4 per cent on a like-for-like basis. The excellent performance of Covent Garden was not sufficient to offset the decline in land values at Earls Court which fell by 20.4 per cent like-for-like due to adverse conditions in the

London residential market following stamp duty changes and the outcome of the EU Referendum.

The Covent Garden team continues to focus on achieving rental growth through creative asset management, strategic investment and place-making. Covent Garden is an internationally renowned destination successfully attracting global brands and visitors. Following a record year of leasing activity, new Zone A rental levels were achieved across the estate and management has released a new ERV target of £125 million to be achieved by December 2020. Work on the Floral Court development continues on schedule and will create high quality retail, restaurant and residential space on the estate.

It has been another year of progress on the ground at Earls Court. The demolition to ground level of the former Exhibition Centres was completed during the year and land enablement works are now underway preparing the site for future development. The first residential completions at Lillie Square took place at the end of 2016 with the first units being handed over in time for Christmas. The strategy remains focused on value creation by exploring opportunities to evolve and enhance the Earls Court Masterplan.

The Venues business continues to strengthen with a reliable and growing income stream reflecting its excellent prospects as a central London venue.

The Board and I would like to thank Capco's employees for their work during the year and the achievements made in delivering Capco's business plans at Covent Garden, Earls Court and Venues.

FINANCIAL POSITION AND DIVIDENDS

Capco's financial position is strong with low leverage, high liquidity and modest capital commitments. Responsible management of capital and prudent financing from a variety of sources is a key feature of Capco's strategy to ensure the Company maintains a strong balance sheet. During the year, Capco's liquidity was significantly strengthened by the completion of a £100 million financing of the Olympia business, a US Private Placement totalling £175 million and the £150 million (£95 million Capco share) HCA facility at Earls Court to fund infrastructure works on site. The business is well positioned to support its future activities and withstand periods of uncertainty.

The Directors are proposing a final dividend of 1.0 pence per share, which brings the total dividend for 2016 to 1.5 pence per share.

DIRECTORS

There were a number of changes to the Board in 2016. In March we welcomed Anthony Steains as a new independent Non-executive Director. He brings a diverse perspective to the Board, being resident in Asia and experienced in corporate finance activity. Following the retirement of Ian Henderson at the AGM, Gerry Murphy became Chairman of the Remuneration Committee and Henry Staunton became Senior Independent Director.

Situl Jobanputra was appointed as Chief Financial Officer with effect from 1 January 2017, following Soumen Das' departure at the end of the year. Soumen had been with the Company since its listing in 2010 and we are grateful for his substantial contribution. Situl's appointment reflects Capco's commitment to developing the talent of our employees and promoting from within the Company where possible. I am delighted to welcome him to the Board.

The Board is committed to encouraging diversity and the development of our people across the business.

You can read more on the Board's succession planning in the Nomination Committee report on page 68.

During the year Gerry Murphy has led a review of our remuneration arrangements for Executive Directors and the Remuneration Committee is proposing a revised remuneration package that will simplify our existing arrangements whilst seeking to incentivise management and align their interests with those of our shareholders. The proposals will be put to shareholders for approval at our forthcoming AGM.

You can read more about the proposals in the Directors' Remuneration Report on page 70.

BOARD OVERSIGHT

The Board and individual Directors regularly take opportunities to visit Capco's assets and see for ourselves the transformations that are taking place. This and the regular briefings we receive from operational management help us gain a real understanding of the business challenges and opportunities.

In taking its decisions the Board assesses and balances the interests of the different stakeholders who have involvement with Capco, its properties and the surrounding communities. As well as our shareholders, this includes our employees, partners, tenants, lenders, government and the communities where we operate. In developing and delivering our plans we undertake significant stakeholder engagement and the Board is kept fully informed of feedback received.

The delivery of Capco's strategy is underpinned by comprehensive policies designed to ensure that the business plan is delivered in line with the Board's expectations. These policies are promoted across the Company to create a culture of accountability and responsibility and to ensure that all of our employees understand their role within the business and the standards to which they must operate. Reflecting this, I am pleased to report that the Group's revised risk management structure which was implemented in 2016 is operating effectively and efficiently and the Board is pleased with the health and safety record achieved at the Group's project sites.

LOOKING AHEAD

Despite macro-economic uncertainty and challenging market conditions, Capco's strategy remains clear and focused. London is an outstanding global city and we have two of its best estates. Capco's strong balance sheet and unique assets are well-placed for management to create and deliver long-term value for shareholders.

Ian Durant
Chairman

21 February 2017

Ian Hawksworth, Chief Executive

CLEAR AND FOCUSED STRATEGY DRIVING LONG-TERM VALUE CREATION

A year of operational progress across Capco

2016 has been a challenging year but despite macro-economic and political upheaval, Covent Garden has continued to deliver excellent growth and is now established as one of the best retail estates in the world. The success of our investment strategy at Covent Garden was not sufficient to offset the decline in land value at Earls Court, which was affected negatively by the correction in the London residential market as a result of stamp duty increases and the outcome of the EU Referendum. As a result, EPRA net asset value fell by 5.9 per cent over the year to 340 pence per share with 4.7 per cent of this occurring in the first six months of 2016.

Covent Garden continues to deliver excellent rental and value growth. Demand for the estate from retailers, restaurateurs and consumers is very strong as reflected in a record amount of leasing activity in 2016 resulting in an increase in value of 6.4 per cent like-for like.

The London residential market has been affected negatively by the EU Referendum and the substantial increase in stamp duty taxation. These factors were the major contributors to the decline in our Earls Court interests which decreased by 20.4 per cent (like-for-like) of which 14 per cent (like-for-like) was in the first six months of the year.

Our disciplined approach to capital allocation has meant Capco is in a robust financial position with a low loan to value of 23 per cent. The balance sheet has been further strengthened by the financing activities across the Group this year resulting in high liquidity of £556 million, an extension of our loan maturities to 5.9 years and a lower average cost of debt of 2.7 per cent.

Our strategy remains clear and focused on driving long-term value creation from our two unique central London estates. London is a growing and global city and underpinned by a clear strategy; Capco's two estates are well-placed for long-term success.

Capco regularly considers opportunities where its core skills of place-making and masterplanning can be utilised and in 2015 acquired a 50 per cent interest in the Solum Developments joint venture with Network Rail which is exploring potential opportunities for future redevelopments at significant railway station sites across London.

King Street Covent Garden

	Market Value 2016 £m	Market Value 2015 £m	Valuation Change Like-for-Like[1]
Covent Garden	2,275	2,005	6.4%
Earls Court Properties			
Earls Court Partnership Limited ("ECPL")[2]	644	803	(22.6)%
Lillie Square[3]	223	222	(17.0)%
Empress State	230	286	(20.0)%
Other	45	46	(4.2)%
Group share of Earls Court Properties	1,142	1,357	(20.4)%
Venues	293	295	(1.3)%
Other	–	5	–
Group share of total property[4]	3,710	3,662	(4.4)%

1. *Valuation change takes account of amortisation of tenant lease incentives, capital expenditure, fixed head leases and unrecognised trading surplus.*
2. *Represents the Group's 63 per cent interest in ECPL.*
3. *Represents the Group's 50 per cent interest in Lillie Square.*
4. *A reconciliation of the carrying value of investment, development and trading property to the market value is shown in note 14 'Property Portfolio' within the consolidated financial statements.*

Valuations

The total property value of the Group declined 4.4 per cent (like-for-like) in the year to 31 December 2016 to £3.7 billion. The December 2016 valuations incorporate the 1 per cent increase in Stamp Duty Land Tax ("SDLT") that was enacted earlier this year, which was applicable to most of our portfolio and had an impact of £32.4 million (0.9 per cent of property value).

The valuation of Covent Garden has risen by 6.4 per cent (like-for-like) to £2.3 billion, driven by ERV growth of 7.9 per cent achieved over the year. The equivalent yield is 3.5 per cent, reflecting the valuers' current view of the strength of demand for central London retail investments.

The valuation of Earls Court Properties is £1.1 billion, a decrease of 20.4 per cent (like-for-like) principally driven by a greater risk premium through a higher developer's margin for consented development land, trimming of sales values, as well as some cost inflation. This reflects the valuer's assessment of weakened sentiment and a correction in the central London residential market.

The Group has a 63 per cent controlling interest in Earls Court Partnership Limited ("ECPL"), the investment vehicle with Transport for London ("TfL") which owns the land formerly occupied by the Earls Court Exhibition Centres ("EC1 & EC2"). As a result, it is fully consolidated in the financial statements and TfL's interest is represented as a non-controlling interest. See page 40 of the Financial Review for further information.

Covent Garden – a leading global destination for brands and visitors

Covent Garden has been transformed into one of the leading destinations for global 'street retail' and its success has continued throughout 2016. The uncompromising asset management strategy has driven strong leasing momentum, attracting global premium brands, many of which choose Covent Garden as their first or only London store, resulting in solid rental performance across the estate. Our creative approach to managing Covent Garden continues to create value for our retailers through attracting high quality footfall and positive sales growth.

We achieved a record level of leasing activity in 2016 with 95 new lettings and renewals agreed, securing £13.3 million of rent at 9.3 per cent above December 2015 ERV. The ERV of the estate is £96 million, up 7.9 per cent on a like-for-like basis. A new ERV target of £125 million to be achieved by December 2020 has been set, reflecting the positive growth prospects of the estate.

Following positive leasing progress across the estate, new Zone A levels have been achieved reflecting the strong demand for space in this iconic setting. Tom Ford, Giorgio Armani Beauty's Armani Box London ("Armani Box London") and Hotel Chocolat are the latest signings to the Market Building while the strategy to reposition the Royal Opera House Arcade with a luxury accessories focus has seen the introduction of The Watch Gallery, Mulberry and N.Peal.

The dining offering at Covent Garden has further strengthened this year. We are delighted to welcome Michelin-starred chef Ollie Dabbous to the estate through the restaurant at the Henrietta Hotel on Henrietta Street, while SushiSamba, RedFarm and VyTA add to the depth of variety and quality on the estate.

The Floral Court development (formerly Kings Court) is on track for completion towards the end of 2017 and will transform the pedestrian flows on the northern side of the estate. Petersham Nurseries, the renowned lifestyle brand, will open later in 2017 following a pre-lease for 60 per cent of the commercial space reflecting the strong appeal of the Floral Court development.

We have continued to expand our presence on the estate through strategic acquisitions, investing £85 million in properties located at key access points to the estate and will continue to seek opportunities to further enhance our footprint on the area. The estate now comprises over 1.1 million square feet of lettable space, establishing itself as one of the largest managed retail-led estates in London.

Earls Court Masterplan – over 70 acres of consented land in central London

At Earls Court, the complex demolition of the former Earls Court Exhibition Centres to ground level completed on schedule after almost two years of intensive work on the site. Demolition to basement level has commenced which further de-risks the site and enables the land for its future development.

The Earls Court Masterplan is a unique opportunity to create the next great estate in London. The Masterplan is one of the Greater London Authority's ("GLA") designated Opportunity Areas making it a strategic scheme for London. Representations have been submitted by Capco to the GLA's London Plan signalling Earls Court's potential to deliver an additional 2,500 homes above the current consented scheme, bringing the total number of new homes to 10,000.

Further to Capco's ambitions for Earls Court, during 2016 ECPL engaged in public consultations on proposals to redevelop Empress Place. These are strategic assets located on or around the Lillie Road which ECPL has acquired in recent years. These consultations relate to a scheme comprising 400 new homes and retail space, covering circa 500,000 square feet (GEA), creating one of the key access points to the Earls Court Masterplan and Lillie Square. Plans are progressing to submit a detailed planning

Site progress at Earls Court

application in spring 2017, signalling the start of the enhancements to the Earls Court Masterplan.

At Lillie Square, construction of Phase 1 is progressing well and the scheme recently welcomed its first residents. Sales of Phase 2 have continued with 59 apartments now reserved or exchanged and levels of enquiries remain positive. Preparations are being made for the next release of apartments in the coming months. The residential sales market remains challenging as a result of stamp duty increases and the EU Referendum result which has impacted buyers' decision making. Nevertheless, reflecting the strong location and transport connectivity of the scheme, sales prices achieved in Phase 2 have been at a modest premium to comparable units in Phase 1.

Venues – operational excellence

The Venues business continues to strengthen with EBITDA of £19 million up 29 per cent compared to 2015 reflecting its excellent prospects as a central London venue.

Olympia London has re-established itself as London's venue of choice for premium exhibitions attracting 1.5 million visitors to the historic venue in 2016. Olympia London played host to the UK's largest exhibition, the Ideal Home Show, and continues to attract new business welcoming 5G World for the first time this year.

Outlook

Capco is very well positioned with two significant prime estates in central London. London remains a very attractive investment market and whilst we expect market challenges to continue into 2017, Capco has a clear strategy to deliver long-term value creation from its two estates in Covent Garden and Earls Court.

Covent Garden has been transformed into one of the leading destinations for global 'street retail'. Following the strong demand in 2016 from excellent brands and dining concepts, 2017 will be one of our most active years for retail and dining openings across the estate, further underpinning the estate's reputation as a premier global retail and dining destination. We remain focused on our ambitious strategy to introduce the best brands for our visitors, invest in strategically expanding the portfolio and manage the estate to create value for our retailers to underpin rental growth. The estate remains well-placed for continued success and accordingly we will be focused on achieving a new ERV target of £125 million by December 2020.

The Earls Court Masterplan is the only central London GLA Opportunity Area of scale and is a strategic scheme for the Capital. With its excellent existing transport infrastructure, it has the potential to deliver much-needed homes across various tenures and places for Londoners to enjoy. Our strategy remains focused on maximising the potential of this strategically important mixed-use scheme and de-risking the site through land enablement, preparing it for future development.

Capco's financial position has been strengthened by the financing activities undertaken during the year. With low leverage, high liquidity and modest capital commitments, the Group is well positioned to take advantage of opportunities as they arise. We enter a new year focused on our strategy to deliver long-term value creation for our shareholders from our two exceptional central London estates.

Ideal Home Show at Olympia London

Ian Hawksworth
Chief Executive

21 February 2017

DEFINING PERFORMANCE

Our unique business model underpins our strategy to drive value creation

BUSINESS MODEL

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

GROUP STRATEGY

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

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

Allocation of capital based on assessment of risk-adjusted returns

ESTATE STRATEGIES

COVENT GARDEN

Continue to drive rental growth through asset management, acquisitions and selective development. Attract new tenants to grow ERV and NRI, and set new pricing levels for residential space

Read more on page 20

VENUES

Continue the enhancement of Olympia London and maximise its performance by winning new customers

Read more on page 38

EARLS COURT PROPERTIES

Continue to drive value creation through planning, land assembly, land enablement and selective development

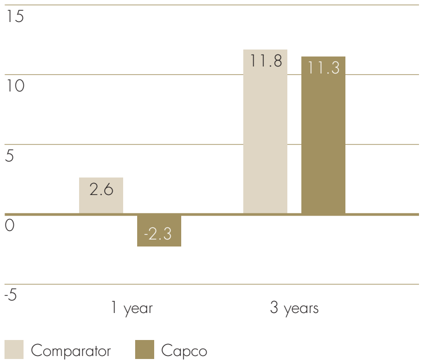
Read more on page 28

MEASURING PERFORMANCE

The Group's Key Performance Indicators are selected to ensure clear alignment between its strategy, shareholder interests and remuneration of its employees

TOTAL PROPERTY RETURN

-2.3%



DESCRIPTION

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

This metric allows comparability with the IPD Total Return All Property Index

★ ONE OF THE PERFORMANCE MEASURES FOR THE EXECUTIVE DIRECTORS' 2016 ANNUAL BONUS

2016 TARGET

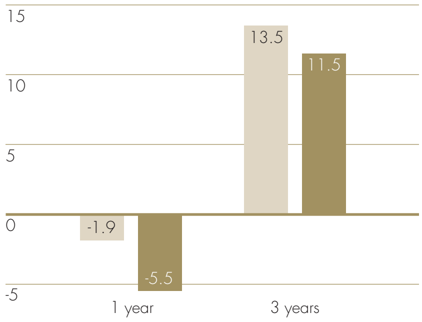
1.5 per cent per annum outperformance

PERFORMANCE

During the year the Group has underperformed by 4.9 per cent

TOTAL RETURN

-5.5%



DESCRIPTION

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

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

★ PART OF EXECUTIVE DIRECTORS' LONG-TERM INCENTIVE, TOGETHER WITH SPECIFIC ANNUAL NAV TARGETS RELATING TO 2016 BONUS

2016 TARGET

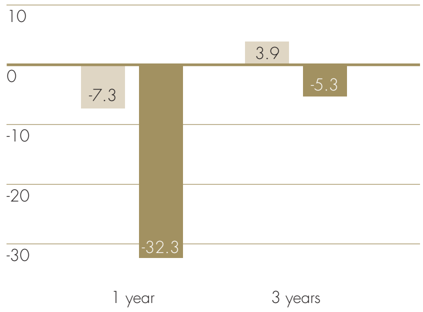
2.5 per cent per annum outperformance on a rolling three-year basis

PERFORMANCE

The Group has generated a total return of 11.5 per cent per annum on a rolling three-year basis, underperforming the comparator group by 2.0 per cent[1]

TOTAL SHAREHOLDER RETURN

-32.3%



DESCRIPTION

Total shareholder return is the increase in the price of an ordinary share plus dividends during the year

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

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

★ PART OF EXECUTIVE DIRECTORS' LONG-TERM INCENTIVE

2016 TARGET

4.0 per cent per annum outperformance on a rolling three-year basis

PERFORMANCE

The Group generated a total shareholder return of -5.3 per cent per annum on a rolling three-year basis, underperforming the comparator group by 9.2 per cent

1. *Based on consensus estimates at 16 February 2017 for comparator group where results unavailable.*

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

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

EFFECTIVE RISK MANAGEMENT

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

Risk Management

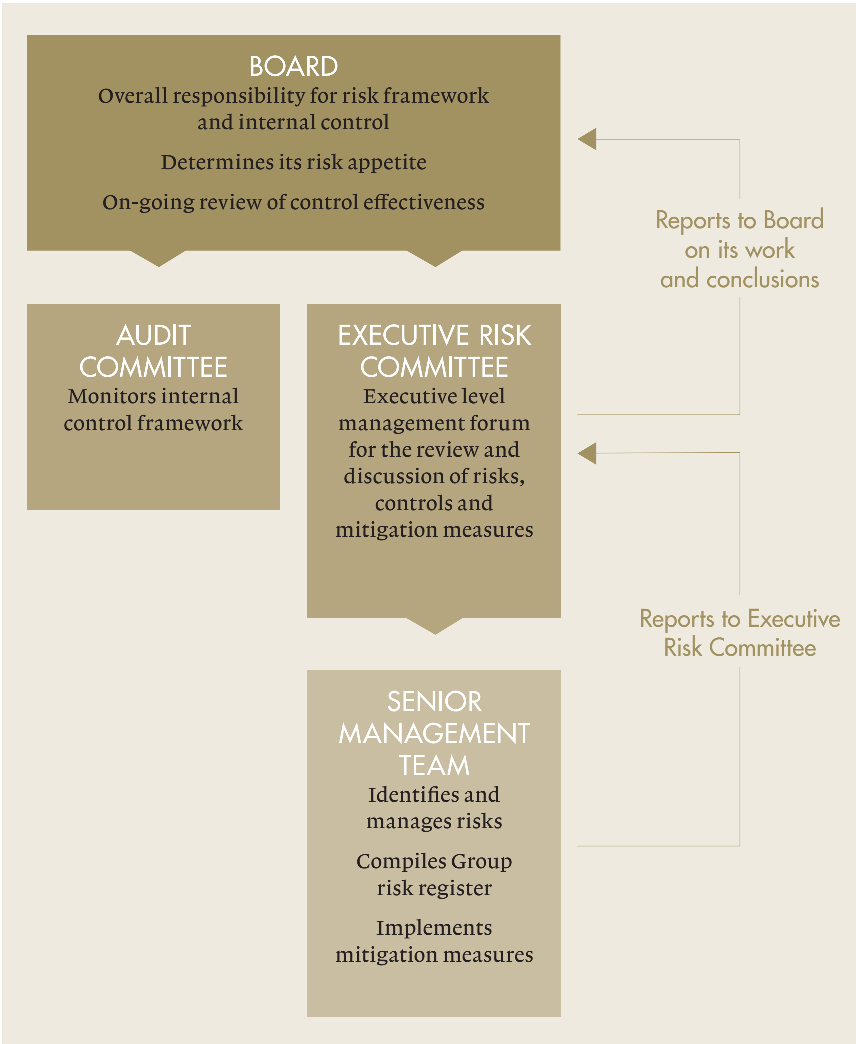
The Board has overall responsibility for Group risk management. It determines its risk appetite and reviews principal risks and uncertainties regularly, together with the actions taken to mitigate them. The Board has delegated responsibility for the review of the adequacy and effectiveness of the Group's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

Following a comprehensive review of risk management undertaken in 2015, 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 operational and commercial 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 and the Financial Controller, is the executive level management forum for the review and discussion of risks, controls and mitigation measures. The corporate and business division risks are reviewed on a quarterly basis by the Executive Risk Committee so that trends and emerging risks can be identified and reported to the Board.

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



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. These principal risks are not exhaustive. The Group monitors a number of additional risks and adjusts those considered 'principal' as the risk profile of the business changes. See also the risks inherent in the compilation of financial information, as disclosed within note 1 'Principal Accounting Policies' to the consolidated financial statements, 'Critical accounting judgements and key sources of estimation and uncertainty'.

The EU Referendum has resulted in economic and political uncertainty during 2016 and this is expected to continue into the foreseeable future. To date there has been no adverse impact on occupier demand, footfall or the trading results of our tenants at the Covent Garden estate, which has seen strong rental growth, although the valuation of residential-led development land has been impacted by the overall economic and political backdrop. London, as a highly desirable global city, continues to attract businesses and people and we would expect this leading position to be maintained over time. Uncertainty remains, however, around the exit mechanism and longer term implications of Brexit, and this will continue to have a direct or indirect impact on a number of the principal risks set out on the following pages.

GROUP STRATEGY

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

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

CORPORATE

Risk	Impact on strategy	Mitigation	Change in 2016
Economic conditions Decline in real estate valuations due to macro-economic conditions Relative attractiveness of other asset classes or locations Inability of the Company to adopt the appropriate strategy or to react to changing market conditions	2 3 5 Reduced return on investment and development property Higher finance costs Reduced profitability	Focus on prime assets Regular assessment of investment market conditions including bi-annual external valuations Regular strategic reviews Strategic focus on creating retail destinations and residential districts with unique attributes	▲ Greater uncertainty over macro-economic conditions following the EU Referendum result
Funding Lack of availability or increased cost of debt or equity funding	1 2 3 Reduced financial and operational flexibility Increased cost of borrowing Delay to development works Constrained growth, lost opportunities	Maintain appropriate liquidity to cover commitments Target longer and staggered debt maturities Consideration of early refinancing Derivative contracts to provide interest rate protection Development phasing to enable flexibility and reduce financial exposure Covenant headroom monitored and stress tested	▲ Whilst interest rates have declined, economic uncertainties could adversely impact the availability and pricing of future funding

Key

▲ Increase

▬ Stable

▼ Decrease

CORPORATE CONTINUED

Risk	Impact on strategy	Mitigation	Change in 2016
Political climate and public opinion Uncertain political climate or changes to legislation The Group's business (or aspects of it) is opposed or challenged by public interest or activist groups	4 6 Prosecution for non-compliance Litigation Reputational damage Distraction of management	Monitoring proposals and emerging policy and legislation Engagement with key stakeholders and politicians Review activity and communications of activist groups	▲ EU Referendum result, election of new London Mayor and change of Prime Minister result in increased uncertainty over future policy and legislation
Catastrophic external event Such as a terrorist attack, health pandemic or cyber crime	2 3 5 Diminishing London's status Heightened by concentration of investments Reduced rental income and/or capital values Business disruption or damage to property Reputational damage	Terrorist insurance On-site security Health and safety policies and procedures Close liaison with police, National Counter Terrorism Security Office (NaCTSO) and local authorities Regular training	—
People Inability to retain the right people and develop leadership skills within the business	2 3 4 6 Inability to execute strategy and business plan Constrained growth, lost opportunities	Succession planning, performance evaluations, training and development Long-term and competitive incentive rewards	—
Health, safety & the environment Accidents causing loss of life or very serious injury to employees, contractors, occupiers and visitors to the Group's properties Activities at the Group's properties causing detrimental impact on the environment	3 5 6 Prosecution for non-compliance with legislation Litigation or fines Reputational damage Distraction of management	Health and safety procedures across the Group Appointment of reputable contractors External consultants undertake annual audits in all locations Adequate insurance held to cover the risks inherent in construction projects	—
Compliance with law, regulations and contracts Breach of legislation, regulation or contract Inability to monitor or anticipate legal or regulatory changes	2 6 Prosecution for non-compliance with legislation Litigation or fines Reputational damage Distraction of management	Appointment of external advisers to monitor changes in law or regulation Members of staff attend external briefings to remain cognisant of legislative and regulatory changes	—

PROPERTY

Risk	Impact on strategy	Mitigation	Change in 2016
Leasing Inability to achieve target rents or to attract target tenants due to market conditions Competition from other locations	3 5 Decline in tenant demand for the Group's properties Reduced income Expansion of yield	Quality tenant mix Strategic focus on creating retail destinations with unique attributes	—
Planning Unfavourable planning policy or legislation impacting on the ability to secure future planning approvals or consents Secretary of State or Mayoral intervention or judicial review	3 4 5 Delay or failure to achieve growth in land valuation	Outline planning permission already granted for the Earls Court Masterplan Engagement with local and national authorities Pre-application and consultation with key stakeholders and landowners Engagement with local community bodies	—
Development Decline in returns from development and impact on land valuations due to: • Market conditions • Increased construction costs or delays (including as a result of complexity of developing adjacent to and above public transport infrastructure) • Failure to implement strategic land deals with adjacent landowners on acceptable terms	3 4 5 Lower development returns due to lower sales proceeds, higher costs or delay	Focus on prime assets Regular assessment of market conditions, pricing and sales strategy Business strategy based on long-term returns Professional teams in place to manage costs and deliver programme Earls Court Masterplan designed to allow phased implementation	▲ Greater uncertainty over macro-economic conditions and central London residential market following the EU Referendum result

VIABILITY STATEMENT

The Directors have assessed the viability of the Group over a three-year period to December 2019, the period covered by the latest business plan, taking account of the Group's current position, individual asset performance forecasts and the potential impact of the principal risks disclosed on pages 15-17. Based on this assessment, the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2019. In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the risk appetite, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions.

The business plan considers the Group's cash flow, capital commitments, financial resources, debt covenants and other key financial risks. A sensitivity analysis was carried out which involved flexing a number of the main assumptions to consider alternative macro-economic conditions, both positive and negative. This analysis was carried out to evaluate the potential impact of the Group's principal risks actually occurring. The Directors believe that the Group is well-placed to manage its principal risks successfully. The Group also considered the impact of significant economic downturn leading to asset value and rental income decline, as well as rising interest rates. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three-year period to December 2019 is an appropriate period over which to provide its viability statement. In making their assessment, the Directors have taken account of the Group's robust and flexible balance sheet position with a debt to asset ratio well below the 40 per cent limit set, substantial cash and available facilities, the Group's ability to raise new finance and the flexibility of future development expenditure.

OUR ASSETS

Our assets are concentrated around two prime estates in central London with a combined value of £3.7 billion

Covent Garden

100% Capco owned

Earls Court Properties

1

Earls Court Partnership Limited
Capco share 63% under terms of investment vehicle with TfL

2

Empress State Building
100% Capco owned

3

Lillie Square
A 50:50 joint venture with KFI

CLSA Land

Capco has exercised its option under the CLSA to acquire LBHF land

TfL

Lillie Bridge Depot owned by TfL

Consented Earls Court Masterplan (including Empress State Building)

Venues

100% Capco owned

Consented area shown includes The Empress State Building which has a separate consent for residential conversion.

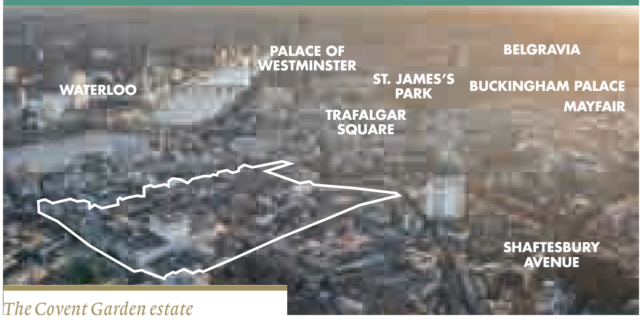
The landowners' map to the right is indicative.

The Covent Garden area has been magnified by 1.4 times.

EARLS COURT PROPERTIES

The Earls Court Opportunity Area including Lillie Square

COVENT GARDEN



The Covent Garden estate

COVENT GARDEN: A LEADING DESTINATION FOR GLOBAL 'STREET RETAIL'

View of the Market Building and West Piazza

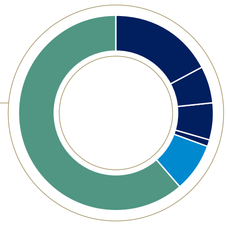
Capital value

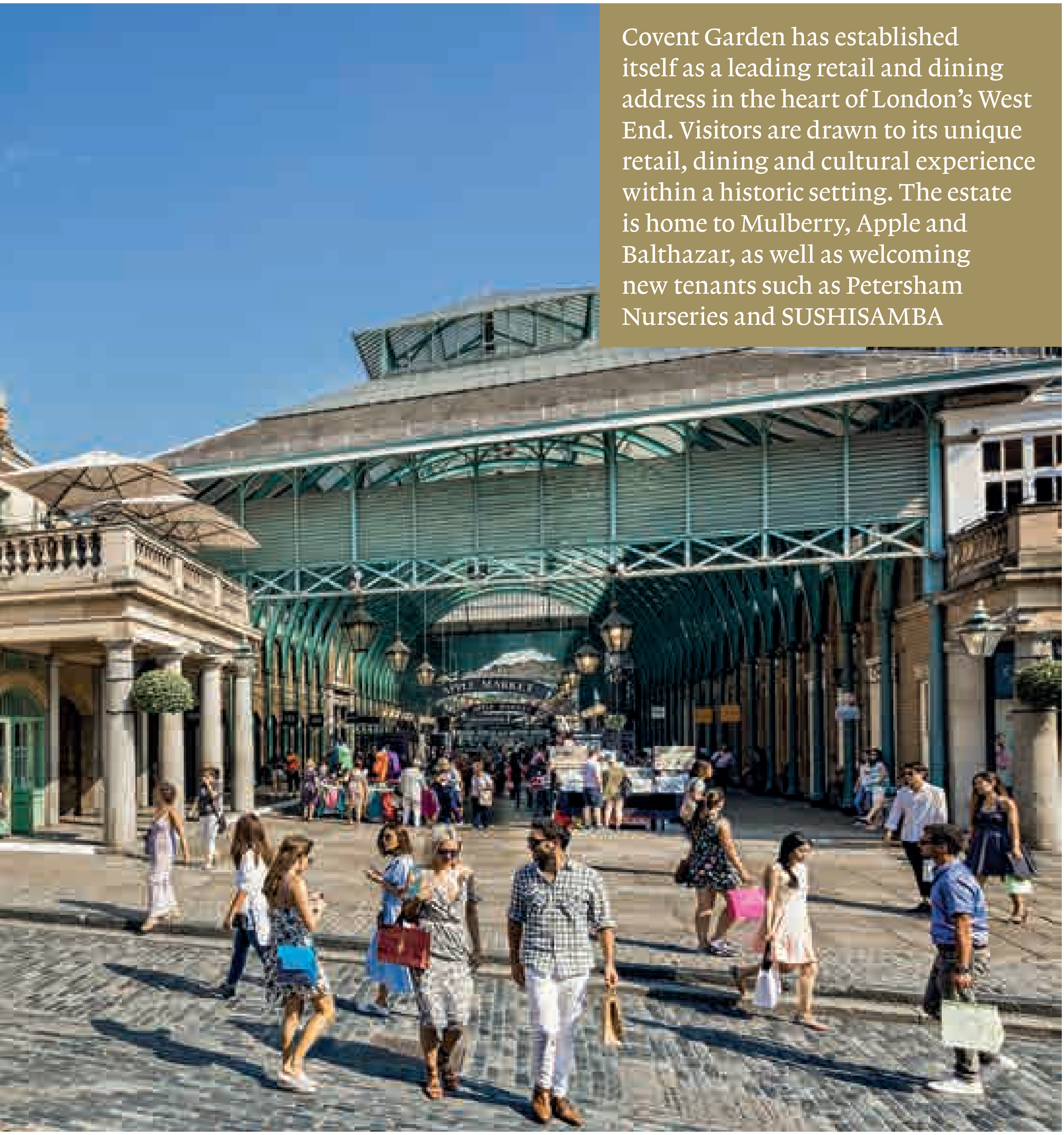
£2,275m

Contribution to portfolio value

61%

Covent Garden





Covent Garden has established itself as a leading retail and dining address in the heart of London's West End. Visitors are drawn to its unique retail, dining and cultural experience within a historic setting. The estate is home to Mulberry, Apple and Balthazar, as well as welcoming new tenants such as Petersham Nurseries and SUSHISAMBA

"Covent Garden is one of the world's leading destinations for global 'street retail.' The strength of demand over 2016 has resulted in a record year of leasing, setting new rental tones across the estate."

Ian Hawksworth, Chief Executive

COVENT GARDEN

HIGHLIGHTS

- Total property value of £2.3 billion an increase of 6 per cent (like-for-like) (2015: £2.0 billion)
- 95 new leases and renewals transacted representing £13.3 million of income at 9 per cent above 31 December 2015 ERV
- ERV increased by 8 per cent (like-for-like) to £96 million (2015: £86 million)
- New ERV target of £125 million by December 2020
- Floral Court (formerly known as Kings Court) on track for completion towards the end of 2017
- £85 million invested in acquisitions expanding ownership of the estate

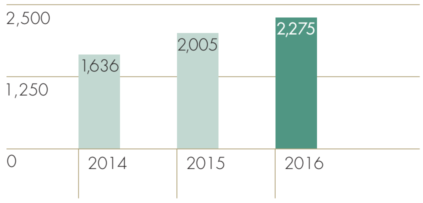
STRATEGY

- ERV target of £125 million by December 2020
- Drive passing rent
- Reposition retail mix of streets and set new Zone A levels throughout the estate
- Improve variety and quality of the dining experience
- Expand premium retail offer throughout the estate
- Extend the high quality residential portfolio
- Continue to expand the estate through strategic acquisitions and selective developments

RESULTS AT A GLANCE

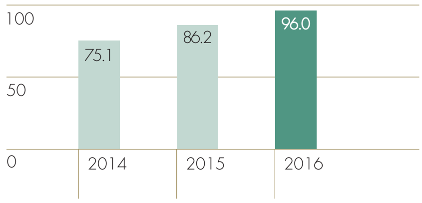
Covent Garden capital value

£2,275m
+6.4% (LfL)



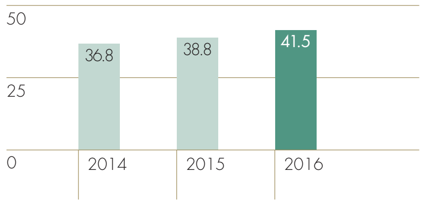
Covent Garden ERV

£96.0m
+7.9% (LfL)



Covent Garden net rental income

£41.5m
+5.3% (LfL)



North Piazza
Covent Garden

OPERATING PERFORMANCE

A leading global retail, dining and cultural destination in the heart of central London

Covent Garden has established itself as a leading global retail and dining address in the heart of London's West End. Visitors are drawn to its unique retail, dining and cultural experience within a historic setting. Capco's distinct approach to creative asset management and place-making continues to attract the best retail and dining brands.

Overview

Providing over 1.1 million square feet of lettable space in the heart of London's West End, the Covent Garden estate represents 61 per cent of Capco's portfolio by value. At Covent Garden, Capco drives value creation through asset management, strategic investment and creativity, underpinned by a vision to establish the estate as a global destination for brands and visitors.

2016 was another year of significant progress for Covent Garden as the business continued to implement its leasing and investment strategy. The value of the estate increased by 6.4 per cent on a like-for-like basis to £2.3 billion. ERV is £96 million, a like-for-like increase of 7.9 per cent. 2016 was a record year of leasing which reflects the success of the innovative repositioning strategy through asset management and strategic investment. A new ERV target of £125 million has been set, reflecting the positive growth prospects of the estate.

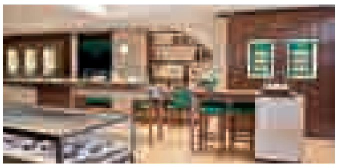
Reflecting the demand for space in this iconic setting, 95 leasing transactions including new leases and renewals representing £13.3 million of rental income per annum were transacted at 9.3 per cent above 31 December 2015 ERV. Net rental income is £41.5 million, up 5.3 per cent (like-for-like) compared to 2015. Occupancy on the estate remains high at 97 per cent.

As the owner of the Covent Garden estate, Capco regularly hosts events on the Piazza attracting footfall to the estate. This year 'Reflect London' has been created to offer striking new perspectives of the Market Building while concealing renovation building works which will house an iconic new restaurant from SushiSamba with stunning views overlooking the Piazza.

Capco continues to work closely with the community stakeholders including Westminster City Council ("WCC") and Covent Garden Area Trust ("CGAT") to maintain and celebrate the attributes which make the area unique. This year was marked by the opening of a pedestrianised King Street, improving the pedestrian flow on the estate.

1 Petersham Nurseries

Petersham Nurseries will bring bespoke new retail and al fresco dining concepts to the Floral Court public courtyard, to open in 2017

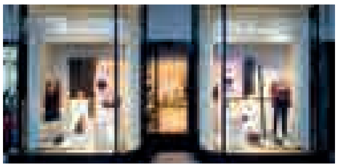


2 The Watch Gallery

The UK's leading independent luxury watch retailer opened in the Royal Opera House Arcade, with half of the store dedicated to Rolex

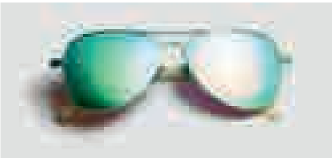
3 Tower House

Major acquisition of the significant corner building in Southampton Street with views of the Piazza



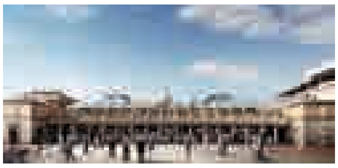
4 Mulberry

The British lifestyle brand, known for their craftsmanship and leather goods, has opened a new store in Covent Garden's Royal Opera House Arcade



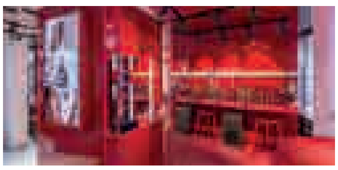
5 Tom Davies

The prestigious British handmade eyewear brand will stock a limited edition range of sunglasses in the Royal Opera House Arcade store



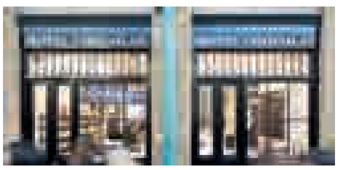
6 SUSHISAMBA

Global restaurant SUSHISAMBA will bring its unique blend of Japanese, Brazilian and Peruvian culture and cuisine to the Opera Terrace, providing diners with exceptional views of the Piazza



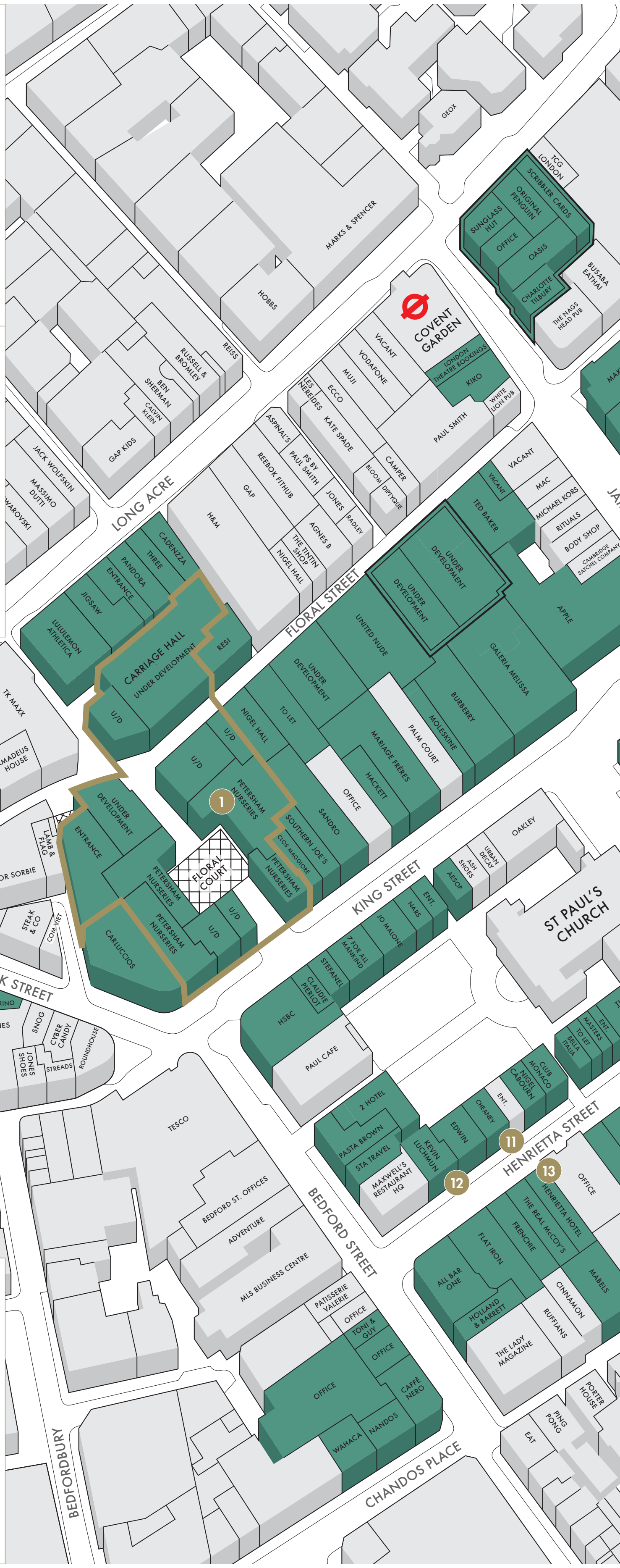
7 Armani Box

Armani Box, the Giorgio Armani Beauty pop-up, opens its first London store, showcasing the brand's stunning make-up universe



8 Hotel Chocolat

Hotel Chocolat brings its new flagship store to the Market Building, with a café concept and school of chocolate launching in 2017

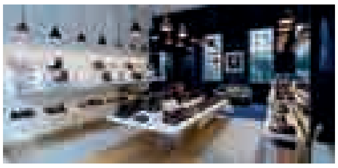


9 Atelier Cologne

Premium fragrance brand Atelier Cologne opens its first stand-alone UK store in the Market Building

10 K-Way

The brand behind the original rainproof classic 'Pac-a-Mac', K-Way is the latest store to join Henrietta Street



11 Cheaney

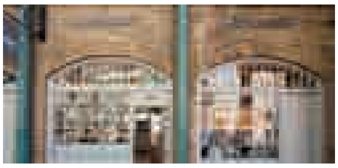
British fine shoe brand Cheaney signs to Henrietta Street selling men's and ladies' footwear

12 Kevin Luchmun

Award-winning British hair stylist Kevin Luchmun signs to Henrietta Street for a new men's hairdressers and barber shop concept including a bar and basement studio

13 Henrietta Hotel

Henrietta Hotel will be the first UK boutique hotel by the Experimental Group, with an 80-cover restaurant led by Michelin-starred chef Ollie Dabbous



15 Aubaine

The celebrated French brasserie, with its own patisserie and boulangerie, launched the first Aubaine Deli in the heart of the Market building with a seasonally changing menu

14 VyTA

The Italian boulangerie and restaurant takes a prominent café pitch on the West Piazza side of the Market Building, to offer al fresco informal dining upon opening in 2017

CURRENT DEVELOPMENTS

Floral Court and Carriage Hall

This scheme, which exceeds 100,000 square foot, will connect Long Acre to King Street via a new public passage, creating a new public courtyard and new retail, restaurant and residential space.

Long-term development opportunities

Capco owned as at 31 December 2016

Retail

Capco has successfully transformed the Royal Opera House Arcade through its strategy of a luxury accessories and gifting focus. The Watch Gallery, the UK's leading independent luxury watch retailer, and British lifestyle brand, Mulberry, have opened stores this year. The latest signings to complement this offering are luxury British cashmere brand N.Peal and British eyewear brand, Tom Davies, which are due to open later in 2017.

The iconic Market Building has seen strong demand over the year and a new Zone A rental level of £675 per square foot has been achieved. Hotel Chocolat opened in November, offering Covent Garden inspired recipes and bespoke gift collections which reference the historic Market Building. There have been a number of premium beauty brand lettings in the Market Building, including the luxury beauty boutique Tom Ford, fragrance brand Atelier Cologne, the first Armani Box London store and the beauty company Deciem.

Covent Garden has now become the premier Beauty Quarter for London, with more stand-alone beauty boutiques in one square mile than anywhere else in the Capital. New signings in the Market Building add to the existing strong line-up of Chanel, Dior, NARS and Charlotte Tilbury.

Henrietta Street continues to strengthen its retail offer, following an array of new signings including luxury men's shoe brand, Cheaney, award-winning British hair stylist, Kevin Luchmun and Parisian outerwear clothing concept K-Way. These signings continue the successful transformation of Henrietta Street following the implementation of a menswear and complementary dining strategy.

Dining

Covent Garden has strengthened its reputation as a global dining destination with a number of new concepts signed this year.

The Market Building's dining offering has evolved and enhanced following a new letting to acclaimed US fast casual restaurant Buns & Buns. The Miami based 'breadery' and grill will be another London first for Covent Garden and will offer an all-day casual foodie destination. This builds upon restaurant signings in the Market Building earlier in the year including Italian-style boulangerie VyTA Santa Margherita, French delicatessen Aubaine and renowned fusion dining restaurant SushiSamba which will open on the iconic Opera Terrace, one of the most prominent dining locations in London.

Acclaimed New York restaurant, RedFarm, has taken space alongside Balthazar on Russell Street. The new restaurant, the group's first outside of New York, will bring RedFarm's famed menu of modern and inventive Chinese food to London's West End and is due to open later in 2017.

ROYAL OPERA HOUSE ARCADE REPOSITIONED

The Royal Opera House Arcade has transformed with a new focus on luxury accessories and gifting, evidenced by brands such as The Watch Gallery, Mulberry, Lulu Guinness and Tom Davies opening stores in the Arcade

A new letting to Experimental Group will see the opening of their latest concept in London on Henrietta Street. Plans from the team behind The Experimental Cocktail Club include a new restaurant and bar as well as an 18 bedroom hotel. The Experimental Group is partnering with Michelin-starred chef Ollie Dabbous to create a French seasonal menu. Adding to the leisure offering is Z Hotels which has taken space on Bedford Street and will provide luxurious yet compact rooms for visitors. In addition, Capco together with Robert De Niro and BD Hotels, were granted planning approval by Westminster City Council to create The Wellington, a visionary new 83-room luxury boutique hotel on Wellington Street.

DINING ENHANCES HENRIETTA STREET

The arrival of the much-celebrated Frenchie and Flat Iron has elevated the dining mix on Henrietta Street, with a new restaurant by Ollie Dabbous to open at Henrietta Hotel in 2017

Developments

Floral Court will provide over 85,000 square feet (NIA) of space with eight retail and two restaurant units as well as 45 premium apartments above the development. The Floral Court development continues to make positive progress and is on track for completion towards the end of 2017 at an expected total cost of £105 million. At Carriage Hall, the refurbishment of 15,000 square feet (NIA) nears completion.

The schemes will transform pedestrian flow, creating a new connecting passage between Long Acre and King Street providing the opportunity to unlock Floral Street's place-making potential.

Highlighting the strong appeal of the scheme, world-renowned lifestyle brand Petersham Nurseries have pre-leased approximately 60 per cent of the commercial space at Floral Court. Petersham Nurseries will occupy over 16,000 square feet (NIA), creating new bespoke retail and dining concepts across four units.

The redevelopment of 11-12 Floral Street, the building formerly occupied by The Sanctuary, is well underway and will include the creation of two new retail units with flagship potential.

Acquisitions

Capco has continued to expand its footprint on the estate, most notably through the strategic acquisition of Tower House, on Southampton Street, a key access point of the estate, for £67.5 million before purchaser's costs.

The property is a substantial corner building well located at the junction of Southampton Street and Tavistock Street with views towards the Piazza. The property offers prime retail frontage with repositioning opportunities and further enhances Capco's presence on Southampton Street, a key access point to the Piazza.

Residential

Capco continues to restore the estate's residential heritage. The lettings market has been very active with strong demand for Capco's brand of premium residential product across the estate with average rents between £70 and £85 per square foot setting new rental tones for the area.

This year saw the sale of three apartments, including two penthouses, at The Beecham, a luxury development overlooking the Piazza. The average price achieved for the scheme is in excess of £2,800 per square foot, with one of the penthouse apartments achieving over £3,000 per square foot.

The most recent conversion is at 26-27 Southampton Street, a premium residential development, which is due to complete shortly and will offer 10 apartments to let.

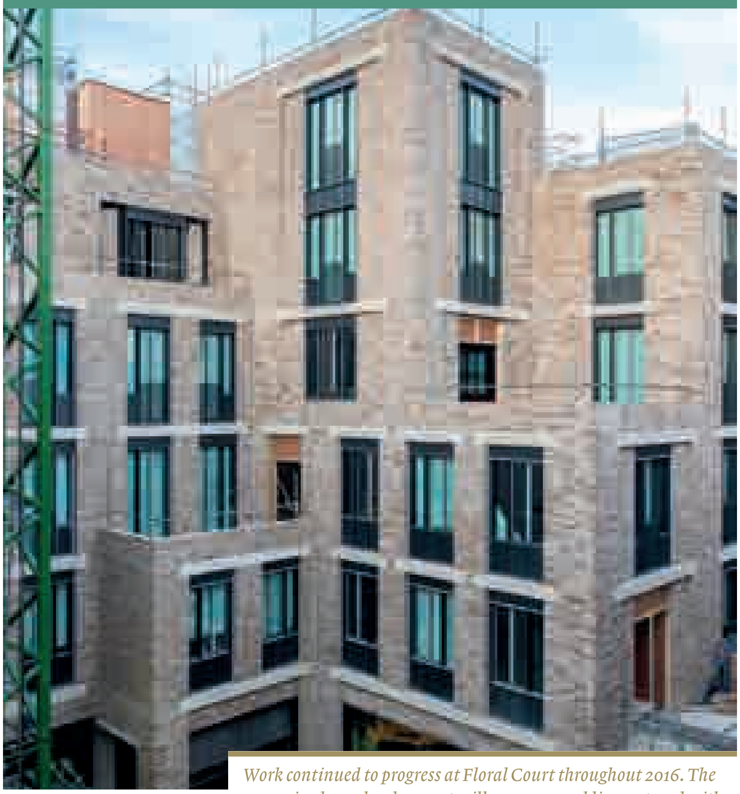
FUTURE PRIORITIES

The strategy for Covent Garden remains focused on driving value through its creative asset management and investment strategy. The focus will be on continuing to attract excellent brands and dining concepts to the estate as well as continued investment through strategic acquisitions to expand the footprint of the estate. Completing the repositioning strategy for the Royal Opera House Arcade, as well as adding further retail and dining depth to Henrietta Street are key areas of priority.

Further to this, the Floral Court and Carriage Hall developments will complete in 2017 which will transform pedestrian flow in the area and will provide the opportunity to extend Capco's place-making approach to Floral Street, realising the unlocked potential in this part of the estate. Reflecting the positive growth prospects of the estate, a new ERV target of £125 million to be achieved by December 2020, has been set.

Following a record year of leasing activity, 2017 will see a large number of retail and dining openings across the estate with brands such as SushiSamba, Petersham Nurseries, Henrietta Hotel, Tom Ford and Armani Box London providing additional animation and quality to the portfolio, further underpinning the estate's reputation as a premier global retail and dining destination.

DEVELOPMENT PROGRESSES AT FLORAL COURT



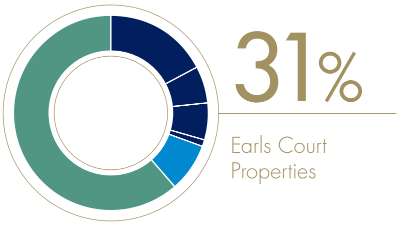
Work continued to progress at Floral Court throughout 2016. The new mixed-use development will open up a public courtyard with new high quality residential, retail and restaurant space, anchored by dining and retail concepts from Petersham Nurseries

EARLS COURT: A UNIQUE OPPORTUNITY TO CREATE LONDON'S NEXT GREAT ESTATE

Capital value

£1,142m[1]

Contribution to portfolio value



1. Group share

Earls Court is one of the most important and exciting development opportunities in the Capital, with the potential to evolve in line with London's growing needs

The Earls Court Opportunity Area including Lillie Square as per the Greater London Authority (GLA). The Empress State Building has been approved for residential conversion

"2016 has been a year of good progress at Earls Court. We completed the first phase of demolition of the former Exhibition Centres and commenced enabling works to prepare the site for its development potential. We are delighted to have welcomed our first residents to the area following completion of the first apartments at Lillie Square."

Gary Yardley, Managing Director & Chief Investment Officer

EARLS COURT PROPERTIES

HIGHLIGHTS

- Earls Court interests valued at £1.1 billion, a decrease of 20 per cent (like-for-like) (2015: £1.4 billion)
- Completion of first phase of demolition of EC1 & EC2; final phase of demolition underway, preparing the site for future development
- Representations submitted to GLA's London Plan to enhance the Earls Court Masterplan

STRATEGY

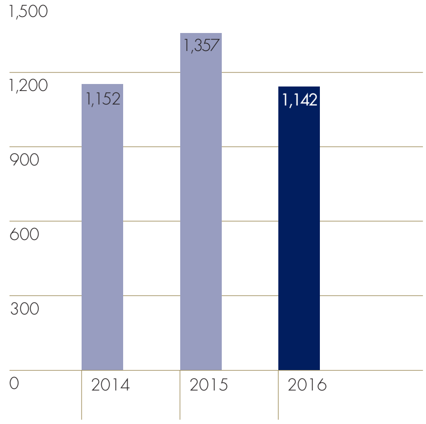
- Establish a new exciting address for London
- Progress planning to enhance the Earls Court Opportunity Area
- Continue land assembly and land enablement
- Progress sales and construction of Lillie Square
- Animate the Masterplan through place-making initiatives

RESULTS AT A GLANCE

Earls Court Properties capital value

£1,142m

-20.4% (LfL)



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

2 Empress State Building (100% Capco)

3 Lillie Square (50:50 Capco: KFI)

CLSA Land (Capco has exercised its option under the CLSA to acquire LBHF land)

Lillie Bridge Depot (100% TfL)

— Consented Earls Court Masterplan (including Empress State Building)

The landowners' map is indicative.

Artist's impression of Earls Court in 2030

OPERATING PERFORMANCE

Opportunity to create London's next great estate

Covering over 70 acres of prime, strategic land in Chelsea and Fulham, the consented Earls Court Masterplan is the largest redevelopment opportunity in central London. The site is located in an established London neighbourhood and provides excellent transport infrastructure. Underpinned by Capco's distinct approach to place-making, the Earls Court Masterplan represents an opportunity to create the next great estate of London.

The mixed-use scheme is a GLA 'Opportunity Area', making it a key strategic scheme for the Capital and is currently consented to provide 7,500 new homes, creating 10,000 jobs and will deliver over £450 million in community benefits. The scheme is the only central London Opportunity Area of scale with the potential to deliver substantially more housing. Accordingly, representations have been made by Capco to the GLA's London Plan to deliver 10,000 new homes, an additional 2,500 homes above the current consented scheme.

Against the backdrop of London's growing housing needs, maximising Opportunity Areas is seen as vital in order to meet London's demands. The current GLA London Plan estimates that London's population will grow by two million by 2036 and the provision of housing a key priority with the Capital requiring over 40,000 new homes per annum.

Earls Court Properties represents Capco's interests in Earls Court, which principally comprise:

- 63 per cent interest in ECPL: the investment vehicle with TfL in respect of EC1 & EC2, and including certain assets on and around Lillie Road
- 100 per cent of the Empress State Building
- 50 per cent interest in the Lillie Square joint venture

In addition, in 2013, Capco exercised its option under the Conditional Land Sale Agreement ("CLSA"), a binding agreement in relation to the West Kensington and Gibbs Green Estates.

The valuation of Earls Court Properties is £1.1 billion, a decrease of 20.4 per cent (like-for-like) principally driven by a greater risk premium through a higher developer's margin for consented development land, trimming of sales values, as well as some cost inflation. This reflects the valuer's assessment of weakened sentiment and a correction in the central London residential market.

The Masterplan is located in two London Boroughs, the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith & Fulham. Capco remains committed to working positively and constructively with all its stakeholders.

Earls Court Properties saw continued operational progress and achieved a number of milestones throughout 2016.

ENABLING THE LAND FOR FUTURE DEVELOPMENT

The Earls Court site is the largest regeneration project in central London transforming over 70 acres of prime real estate into a visionary, mixed-use district

Artist's impression of Empress Place Garden Square

Artist's impression of improved plans for Empress Place, Earls Court

Planning

As a designated GLA Opportunity Area, The Earls Court Masterplan is a strategic scheme for the Capital with outline planning consent for 10.7 million square feet (including The Empress State Building). In preparation for the next revision of the London Plan, which is expected next year, representations have been submitted by Capco to the GLA outlining The Earls Court Masterplan's ability to deliver a minimum of 10,000 new homes, well in excess of the 7,500 currently consented, demonstrating the site's potential to deliver more housing and maximise this important London scheme. The additional density will deliver much needed homes for all Londoners including additional affordable housing and a diversity of residential tenures.

ECPL has consolidated its ownership in the Masterplan area in recent years, acquiring a number of smaller assets on and around Empress Place. During 2016, ECPL engaged in public consultations on proposals for 400 new homes and retail space, covering circa 500,000 square feet (GEA), creating one of the key access points to the Earls Court Masterplan and Lillie Square. Preparations are being made for the submission of the planning application by ECPL for the Empress Place scheme. The application is expected to be submitted in spring 2017 and could add an additional circa 200,000 square feet (GEA) of space to the Masterplan area, aligning with Earls Court's ability to deliver greater density.

In October 2016, a detailed planning application was submitted to the Royal Borough of Kensington and Chelsea for Exhibition Square which is located at the entrance of the Earls Court estate adjacent to Earls Court Underground station. Detailed planning consent was granted in January 2017. The consent which covers 1.8 acres will create an important gateway to the Earls Court scheme and its new high street, including a public square and gardens, a signature hotel, offices and an entrance to Earl's Court Underground station.

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

Land assembly and enablement

ECPL, the venture with TfL in respect of EC1 & EC2 owns 999 year leases over the EC1 & EC2 land together with certain adjacent properties primarily located on or around Lillie Road. Capco owns 63 per cent share and is leading the venture in its role as business and development manager.

ECPL has made significant progress in the enablement of land interests at Earls Court. The first phase of the complex demolition of the former Earls Court Exhibition Centres to ground level completed this year at a cost of £60 million. Demolition to basement level will further de-risk the site and prepares the land for future development. This final phase of demolition is expected to take 12 months at a cost of circa £40 million.

In 2013, Capco exercised its option under the CLSA, a binding agreement in relation to the West Kensington and Gibbs Green Estates. To date, Capco has paid £60 million of the £105 million cash consideration payable to LBHF including two of the five annual instalments of £15 million. Enabling works have commenced on Block D of Lillie Square foundations to facilitate the first phase of replacement housing for the West Kensington and Gibbs Green estates residents.

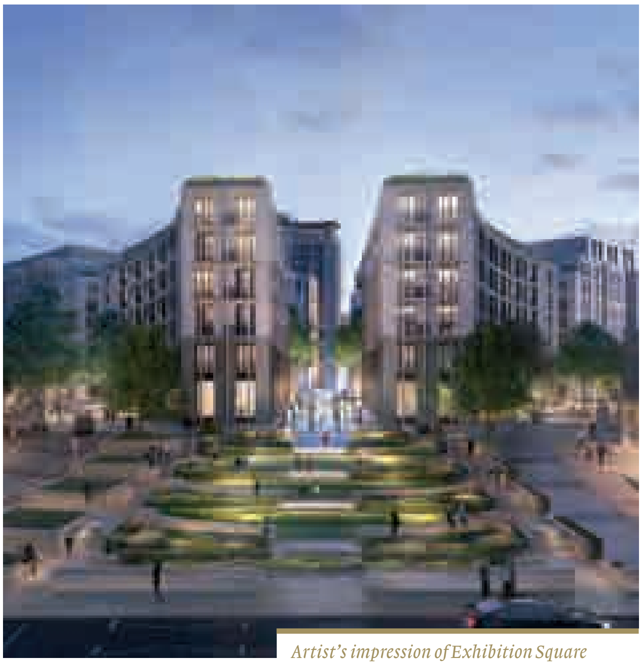
The first phase of demolition of the former Earls Court Exhibition Centres completed in 2016. The Heavy Lifting Crane was introduced for enabling works to prepare the site for further use

Artist's impression of the Lost River Park

DETAILED DESIGNS FOR THE EARLS COURT MASTERPLAN

Artist's impression of the High Street

Artist's impression of the Lost River Park



Artist's impression of Exhibition Square

LILLIE SQUARE[1]

HIGHLIGHTS

- Construction of Phase 1 of Lillie Square progressing well and the first residents have moved in
- Sales of Phase 2 continue at a modest premium to comparable units in Phase 1

STRATEGY

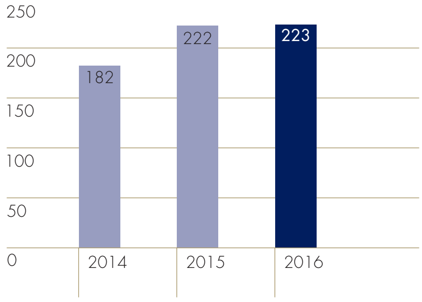
- Create value through the delivery of a high quality residential-led scheme with joint venture partner
- Continued sales and price progression

1. Lillie Square forms part of Earls Court Properties

RESULTS AT A GLANCE

Lillie Square capital value

£223m
-17.0% (LfL)



First units complete at Lillie Square

LILLIE SQUARE

Lillie Square will offer modern garden square living through over 800 new homes

OPERATING PERFORMANCE

The Lillie Square development is a one million square feet (GEA) residential scheme located adjacent to the Earls Court Masterplan. The development will deliver 608 private and 200 affordable homes across three phases.

The valuation of Capco's 50 per cent interest in Lillie Square, which is held in a joint venture with the Kwok Family Interests ("KFI"), decreased to £223 million, a like-for-like decrease of 17.0 per cent over the year.

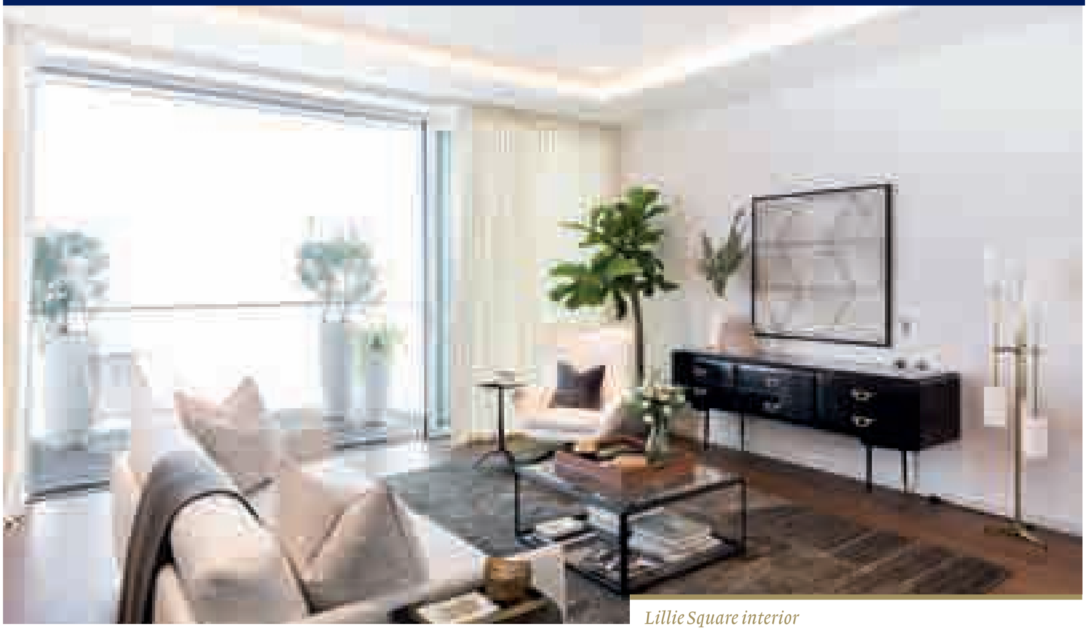
Phase 1 launched in 2014 and is substantially pre-sold. The average price per square foot of Phase 1 is approximately £1,500 with the range of pricing achieved at £1,200 – £2,800 per square foot including a penthouse pre-sold for £6.3 million. Construction of Phase 1 nears completion and the scheme welcomed its first residents in December 2016. Over £125 million of sales proceeds (Capco's share) are expected in the coming year on completion of handovers of Phase 1.

Sales of Phase 2 have continued with 59 apartments now reserved or exchanged. Sales prices achieved in Phase 2 have remained positive with prices at a modest premium to comparable units in Phase 1. Preparations are being made to enable the next release in the coming months while plans are progressing to enable construction of Phase 2.

Construction costs in relation to the private element of the Lillie Square scheme are currently expected to be in the order of £420 million, reflecting market conditions in the construction industry.

Columbia Gardens Lillie Square

FIRST RESIDENTS WELCOMED AT LILLIE SQUARE



Lillie Square interior

FUTURE PRIORITIES

Capco's strategy at Earls Court is to drive long-term value creation through planning, land assembly, land enablement and selective development activities.

At Earls Court, the focus of activities will be the completion of the complex demolition of the former Earls Court Exhibition Centres to below ground level, preparing the land for its future development potential. At Empress Place, the priority is to obtain approval for the planning application which could increase the potential consented Masterplan area by circa 200,000 square feet (GEA).

The Earls Court Masterplan is currently consented to deliver 7,500 new homes and is the only designated GLA Opportunity Area of scale in central London making it a strategic scheme for the Capital. Representations recently made by Capco to the GLA's London Plan outline the ability of The Earls Court Masterplan to deliver a minimum of 10,000 new homes, well in excess of the currently consented scheme. Capco remains focused on maximising the potential of this important London scheme.

At Lillie Square, the focus will be to complete and deliver Phase 1, continue sales of Phase 2 through the next release of units later in 2017 and progress plans to enable the construction of Phase 2.

First residents welcomed to Lillie Square

OLYMPIA LONDON

HIGHLIGHTS

- EBITDA of £19 million, up 29 per cent (2015: £15 million)
- Property valuation at £293 million, a decrease of 1 per cent (like-for-like) (2015: £295 million)

STRATEGY

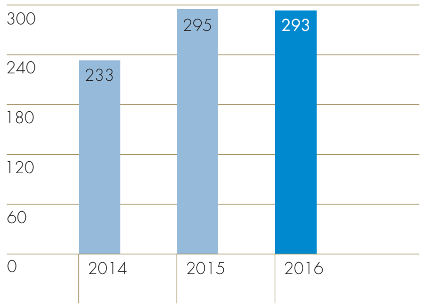
- Maximise performance by continuing to attract new shows

RESULTS AT A GLANCE

Venues capital value

£293m

-1.3% (LfL)



Spirit of Christmas Fair at Olympia London

ATTRACTED OVER 1.5 MILLION VISITORS IN 2016

100% Design at Olympia London

OPERATING PERFORMANCE

A leading central London venue

Olympia London is now established as a preferred central London venue for premium shows welcoming over 1.5 million visitors each year. The business has performed very well during 2016, delivering EBITDA of £19 million, up 29 per cent compared to 2015 driven by improved pricing and utilisation as well as a business rates rebate. The valuation of the Venues business, which includes Olympia London property assets and Maclise Road, decreased to £293 million, a like-for-like decrease of 1.3 per cent.

This year, Olympia London played host to inspiring showcases for L'Oreal and Samsung and also the UK's largest exhibition: the Ideal Home Show and it continues to attract some of the best shows in the exhibition industry.

Olympia Horse Show

FINANCIAL REVIEW

Situl Jobanputra, Chief Financial Officer

FINANCIAL HIGHLIGHTS

- EPRA NAV of 340 pence per share, a 5.9% decrease
- Total return of -5.5%
- Total property value of £3.7 billion[1]
- LTV of 23%
- Five new debt agreements increasing available facilities by £425 million[1]
- Cash and undrawn facilities £556 million[1]

1. *Group share*

"Capco maintains a robust and disciplined financial position with low leverage of 23 per cent and available liquidity of £556 million. Our capital structure positions the Group to withstand prevailing market conditions and deliver long-term returns to shareholders by driving value across our assets."

During 2016 political and economic uncertainties have had a negative impact on the property sector, in particular London residential property, which is reflected in the fall in valuations.

EPRA net asset value per share fell by 5.9 per cent during the year, decreasing from 361 pence at 31 December 2015 to 340 pence. This 21 pence decrease together with the 1.5 pence dividend paid during the year represents a total return of -5.5 per cent.

At Covent Garden rental growth achieved during the year was the main driver of the increase in value of the estate by 6.0 per cent (6.4 per cent like-for-like).

The market value of Earls Court Properties, which comprises the Group's interests at Earls Court, has decreased by 20.4 per cent, reflecting the valuers' assessment of the weakened sentiment in the central London residential market.

Basis of preparation

In line with the requirements of IFRS 11 'Joint Arrangements', the Group is required to present its joint ventures under the equity method in the consolidated financial statements. Under the equity method, 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 but excludes the non-controlling interest share of our subsidiaries. Therefore, to align with the way the Group is managed, this financial review presents the financial position, performance and cash flow analysis on a Group share basis. In previous years the Board focused on and reviewed information on a proportionally consolidated basis therefore the comparative summary income statement and summary cash flow statements have been re-presented.

EPRA net assets per share
-5.9% to 339.6p

FINANCIAL POSITION

At 31 December 2016 the Group's EPRA net asset value was £2.9 billion (31 December 2015: £3.1 billion) representing 340 pence per share (31 December 2015: 361 pence).

The Group presents EPRA net asset value in addition to the net assets attributable to owners of the Parent. The EPRA alternative performance measures are widely used by public real estate companies in Europe and therefore assist with comparability.

Summary adjusted balance sheet

	2016				2015			
	IFRS £m	Joint ventures[1] £m	NCI[2] £m	Group share £m	IFRS £m	Joint ventures[1] £m	NCI[2] £m	Group share £m
Investment, development and trading property	3,822.8	176.0	(378.5)	3,620.3	3,870.7	130.9	(471.6)	3,530.0
Net debt	(815.4)	(40.1)	8.2	(847.3)	(559.2)	(9.4)	(10.3)	(578.9)
Other assets and liabilities[3]	165.8	(135.9)	2.1	32.0	91.3	(121.5)	13.1	(17.1)
Non-controlling interest	(368.2)	–	368.2	–	(468.8)	–	468.8	–
Net assets attributable to owners of the Parent	2,805.0	–	–	2,805.0	2,934.0	–	–	2,934.0
Adjustments:								
Fair value of derivative financial instruments				13.7				2.4
Unrecognised surplus on trading property				48.1				99.9
Deferred tax adjustments				11.5				28.9
Non-controlling interest in respect of the adjustments				–				(5.8)
EPRA net asset value				2,878.3				3,059.4
EPRA net asset value per share (pence)[4]				340				361

1. *Primarily Lillie Square.*
2. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*
3. *IFRS includes amounts receivable from joint ventures which eliminate on a Group share basis.*
4. *Adjusted, diluted number of shares in issue at 31 December 2016 was 847.6 million (31 December 2015: £847.7 million).*

Investment, development and trading property

The revaluation deficit on the Group's property portfolio was £170.4 million for the year, representing a 4.4 per cent decrease in value on a like-for-like basis compared with the IPD Capital Return for the equivalent period of a 2.8 per cent loss. Revaluation gains at Covent Garden of £129.4 million were not sufficient to offset revaluation loss at Earls Court of £292.7 million. On an IFRS basis, which includes ECPL at 100 per cent and Lillie Square at 50 per cent, revaluation loss and sale of investment property was £235.0 million.

Total property return for the year was a deficit of 2.3 per cent. The IPD Total Return index recorded a 2.6 per cent gain for the corresponding period. The 2016 valuations incorporate the increased SDLT levels that were enacted earlier this year which had an impact of £32.4 million (0.9 per cent of property value).

Trading property is carried on the consolidated balance sheet at the lower of cost and market value, therefore valuation surpluses on trading property are not recorded. Any unrecognised surplus is however reflected within the EPRA net asset value measure. At 31 December 2016, the unrecognised surplus on trading property was £48.1 million (31 December 2015: £99.9 million). This arises primarily on trading property at Lillie Square.

Debt and gearing

During the year the Group increased its share of available facilities by £425 million, with five new agreements.

- In January, the Group replaced the £665 million Covent Garden debt facility with a £705 million five year Covent Garden debt facility which increased available facilities by £40 million. £640 million of the facility matures in 2021 with the remaining £65 million maturing in 2020 with an option to extend to 2021. There is a further option to extend the facility to 2022.
- In March, a £150 million (£95 million Group share) 10 year secured credit agreement was signed by Earls Court Partnership Limited to fund infrastructure-related costs on land interests at Earls Court.
- In June, the Group entered into an agreement to extend the existing construction facility which funds the Lillie Square development by £30 million (£15 million Group share) for a one year period.
- In September, the Group signed an agreement with five institutional investors for a private placement of £175 million 10 and 12 year senior unsecured notes which enhance the unsecured debt platform at Covent Garden. Closing occurred in November and proceeds were used to repay bank debt.
- In December, a £100 million four year secured credit agreement was signed by Olympia Exhibitions Holdings Limited.

The Group's cash and undrawn committed facilities at 31 December 2016 were £556.3 million (31 December 2015: £412.1 million). A reconciliation between IFRS and Group share is shown below:

	2016				2015			
	IFRS £m	Joint ventures[1] £m	NCI[2] £m	Group share £m	IFRS £m	Joint ventures[1] £m	NCI[2] £m	Group share £m
Cash and cash equivalents	30.9	37.4	(3.5)	64.8	66.9	34.4	(10.3)	91.0
Undrawn committed facilities	532.7	2.4	(43.6)	491.5	300.0	21.1	–	321.1
Cash and undrawn committed facilities	563.6	39.8	(47.1)	556.3	366.9	55.5	(10.3)	412.1

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

Net debt increased by £268.4 million to £847.3 million, principally as a result of further investment in and the acquisition of property. As set out in the summary adjusted balance sheet net debt on an IFRS basis was £815.4 million.

The gearing measure most widely used in the industry is loan to value ("LTV"). LTV is calculated on the basis of net debt divided by the carrying value of the Group's property portfolio. The Group focuses most on an LTV measure that includes the notional share of joint venture interests but excludes the share of the non-controlling interest. The LTV of 23.4 per cent remains comfortably within the Group's limit of no more than 40 per cent.

	2016	2015
Loan to value	23.4%	16.4%
Interest cover	173%	124%
Weighted average debt maturity	5.9 years	4.1 years
Weighted average cost of debt	2.7%	3.3%
Gross debt with interest rate protection	86%	91%

The Group's policy is to substantially eliminate the medium and long-term risk arising from interest rate volatility. The Group's banking facilities are arranged on a floating rate basis but are generally swapped to fixed rate or capped using derivative contracts. At 31 December 2016 the proportion of gross debt with interest rate protection was 86 per cent (31 December 2015: 91 per cent).

The Group remains compliant with all of its debt covenants and has substantial levels of headroom against its covenants across all its debt facilities. Details of the covenants are included on page 143.

At 31 December 2016 the Group had capital commitments of £156.6 million compared to £206.5 million at 31 December 2015, of which Covent Garden represents £74.2 million, Earls Court Properties £64.2 million (including the £45.0 million of CLSA instalments) and Lillie Square £18.2 million. The pipeline has been significantly de-risked, for example at Floral Court where approximately 60 per cent of the commercial space has been pre-let to Petersham Nurseries, and through over £300 million (£150 million Group share) of pre-sales at Lillie Square. On a pro forma basis, not taking into account any property valuation movements or any receipts, expenditure on capital commitments would increase the LTV from 23.4 per cent to 27.7 per cent.

	2016				2015			
	IFRS £m	Joint ventures[1] £m	NCI[2] £m	Group share £m	IFRS £m	Joint ventures[1] £m	NCI[2] £m	Group share £m
Capital commitments	149.2	18.2	(10.8)	156.6	162.5	48.6	(4.6)	206.5

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

Conditional Land Sale Agreement ("CLSA")

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

The CLSA remains unrecognised in the consolidated financial statements of the Group as its main underlying asset (the land relating to the Estates) does not currently meet the recognition criteria under IFRS required for investment and development property. Annual payments of £15 million commenced in December 2015 and will run through to December 2019. Where amounts are paid prior to the transfer of property, they will be carried on the Group's balance sheet as prepayments against future land draw down. Of the £60 million paid to date, £15 million relates to the acquisition of two properties and £45 million is held as a prepayment. The remaining future payments totalling £45 million are disclosed as a capital commitment. A transfer from prepayment to investment and development property will occur once the risks and rewards of ownership have passed to the Group. Once this occurs, in line with the Group's accounting policy, the land will become subject to bi-annual valuation with any changes reflected in the Group's reported net asset measure.

CASH FLOW

A summary of the Group's cash flow for the year ended 31 December 2016 is presented below:

Summary cash flow

	2016				Re-presented[1] 2015			
	IFRS £m	Joint ventures[2] £m	NCI[3] £m	Group share £m	IFRS £m	Joint ventures[2] £m	NCI[3] £m	Group share £m
Operating cash flows after interest and tax	(29.5)	1.4	(2.5)	(30.6)	(2.3)	(4.3)	(16.0)	(22.6)
Purchase and development of property, plant and equipment	(216.1)	(41.4)	16.8	(240.7)	(250.2)	(32.7)	12.8	(270.1)
Transactions with joint venture partners and non-controlling interests	(12.3)	6.4	3.9	(2.0)	(16.7)	4.2	–	(12.5)
Net sales proceeds from property and investments	19.4	1.3	–	20.7	17.7	(1.6)	–	16.1
Deferred consideration on purchase of subsidiary	–	–	–	–	(7.1)	–	–	(7.1)
Net cash flow before financing	(238.5)	(32.3)	18.2	(252.6)	(258.6)	(34.4)	(3.2)	(296.2)
Issue of shares	0.1	–	–	0.1	0.1	–	–	0.1
Financing	209.9	31.6	(11.4)	230.1	238.3	36.9	–	275.2
Dividends paid	(7.5)	–	–	(7.5)	(7.7)	–	–	(7.7)
Net cash flow[4]	(36.0)	(0.7)	6.8	(29.9)	(27.9)	2.5	(3.2)	(28.6)

1. *The 31 December 2015 summary cash flow has been prepared on a Group share basis. In the 'Annual Report for the year ended 31 December 2015' the summary cash flow was presented on a proportionate consolidation basis.*
2. *Primarily Lillie Square.*
3. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*
4. *Net cash flow is based on unrestricted cash and cash equivalents and therefore does not include the movement in Lillie Square deposits on a Group share basis of £3.7 million (2015: £14.9 million).*

Operating cash outflows of £30.6 million, of which £15.0 million relates to the CLSA annual payment, have increased from £22.6 million for the year to 31 December 2015 as a result of changes to net working capital requirements.

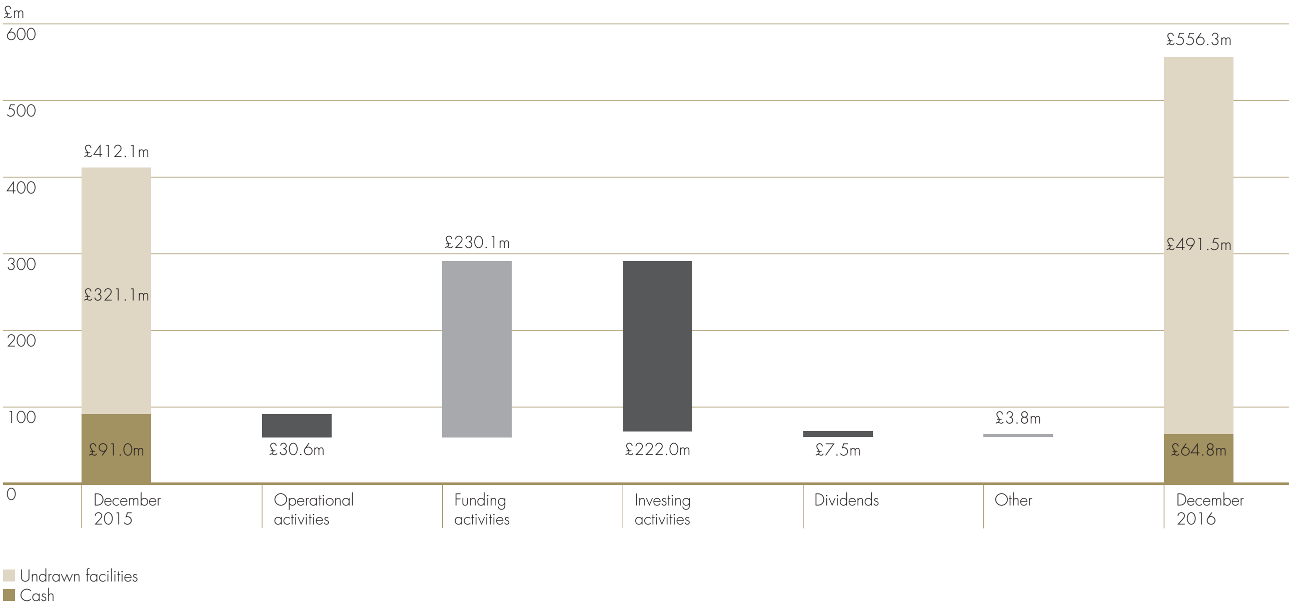
During the year, £164.0 million was invested at Covent Garden for the purchase of two properties and subsequent expenditure for the development of property predominantly at Floral Court. At Earls Court £75.0 million was spent on subsequent expenditure for the construction of Lillie Square Phase 1 and the demolition of the Earls Court Exhibition Centres.

Net sales proceeds from property and investments comprise the disposal of three residential units at The Beecham, Covent Garden and five residential units at Lillie Square, net of sales and marketing fees. Marketing fees include costs for units that have not yet completed.

Net borrowings drawn during the year were £239.7 million. Refinancing activities and purchase of derivatives resulted in a cash outflow of £9.6 million.

Dividends paid of £7.5 million reflect the final dividend payment made in respect of the 2015 financial year and the 2016 interim dividend paid in September. This was lower than the previous year due to a higher take up of the scrip dividend alternative, 41 per cent versus 38 per cent in 2015.

Cash and undrawn facilities



FINANCIAL PERFORMANCE

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

Summary income statement

	2016				Re-presented[1] 2015			
	IFRS £m	Joint ventures[2] £m	NCI[3] £m	Group share £m	IFRS £m	Joint ventures[2] £m	NCI[3] £m	Group share £m
Net rental income	82.0	(0.1)	(0.4)	81.5	75.3	–	(0.4)	74.9
(Loss)/gain on revaluation and sale of investment and development property	(235.0)	(0.1)	110.3	(124.8)	453.9	0.1	(32.2)	421.8
Administration expenses	(50.6)	(0.8)	0.9	(50.5)	(52.1)	(0.7)	0.3	(52.5)
Net finance costs	(19.3)	(0.2)	–	(19.5)	(20.1)	–	–	(20.1)
Taxation	16.8	–	(5.9)	10.9	(2.7)	–	5.8	3.1
Other	(17.4)	1.2	–	(16.2)	2.9	0.6	0.4	3.9
Non-controlling interest	104.9	–	(104.9)	–	(26.1)	–	26.1	–
(Loss)/profit for the period attributable to owners of the Parent	(118.6)	–	–	(118.6)	431.1	–	–	431.1
Adjustments:								
Loss/(gain) on revaluation and sale of investment and development property				124.8				(421.8)
Other				18.9				(1.4)
Taxation on non-underlying items				(13.3)				(0.1)
Underlying earnings				11.8				7.8
Underlying earnings per share (pence)				1.4				0.9
Weighted average number of shares				844.4m				841.1m

1. *The 31 December 2015 summary income statement has been prepared on a Group share basis. In the 'Annual Report for the year ended 31 December 2015' the summary income statement was presented on a proportionate consolidation basis.*
2. *Lillie Square and Solum Developments.*
3. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*

Income

Net rental income has increased by £6.6 million (7.8 per cent like-for-like) during the year as a result of strong performances at Covent Garden and Olympia London.

(Loss)/gain on revaluation and sale of investment and development property

The loss on revaluation and sale of the Group's investment and development property was £124.8 million. Covent Garden recorded a gain on revaluation of £126.1 million as a result of rental growth. The loss on revaluation at Earls Court of £247.2 million reflects the valuers' assessment of the weakened sentiment and corrections in the central London residential market with the major contributors being market uncertainty following the result of the EU Referendum and the increase in SDLT.

Administration expenses

Administration expenses have decreased by £2.0 million due to a reduction in performance related employment costs, which have been partly offset by an increase in establishment costs. It is expected that there will be further reduction in administration expenses as efficiency initiatives are pursued.

Net finance costs

Net finance costs have decreased by 3.0 per cent to £19.5 million, with a lower weighted average cost of debt offsetting an increased level of net debt.

Taxation

The total tax credit is made up of both underlying tax and non-underlying tax and for the year is £10.9 million. This credit predominantly arises from the loss on revaluation of the Group's investment and development property at Earls Court.

Tax on underlying profits of the Group was £2.4 million, which reflects a rate in line with the current rate of UK corporation tax being 20 per cent. Following the enactment of Finance (No. 2) Act 2015 and Finance Act 2016 the corporation tax rate will reduce to 19 per cent from April 2017 and 17 per cent from April 2020.

SELECTED PERFORMANCE MEASURES

Measure	Definition of Measure	2016	2015
EPRA earnings[1]	Recurring earnings from core operational activity	£9.1m	£6.0m
EPRA earnings per share[1]	EPRA earnings per weighted number of ordinary shares	1.1p	0.7p
Underlying earnings[1]	Profit for the year excluding unrealised and one-off items	£11.8m	£7.8m
Underlying earnings per share[1]	Underlying earnings per weighted number of ordinary shares	1.4p	0.9p
EPRA NAV[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	£2,878m	£3,059m
EPRA NAV per share[1]	EPRA NAV per the diluted number of ordinary shares	340p	361p
EPRA triple net assets[1]	EPRA NAV amended to include the fair value of financial instruments and debt	£2,841m	£3,016m
EPRA triple net assets per share[1]	Diluted triple net assets per the diluted number of ordinary shares	335p	356p
EPRA net initial yield	Annualised rental income less non-recoverable costs as a percentage of market value plus assumed purchaser's costs	2.5%	2.6%
EPRA topped-up initial yield	Net initial yield adjusted for the expiration of rent-free periods	2.7%	2.7%
Occupancy	ERV of occupied space as a percentage of ERV of combined portfolio	97.1%	97.8%

These are alternative performance measures as defined by the FRC. Please refer to the Glossary for further detail on the definition of each measure.

1. *A reconciliation between IFRS and the above performance measures can be found in note 13 to the accounts.*

Taxation continued

Contingent tax, the amount of tax that would become payable on a theoretical disposal of all investment property held by the Group, was £nil (31 December 2015: £17.6 million). A disposal of the Group's trading property at market value would result in a corporation tax charge to the Group of £9.6 million (20 per cent of £48.1 million).

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

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

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

Dividends

The Board has proposed a final dividend of 1.0 pence per share to be paid on 31 May 2017 to shareholders on the register at 21 April 2017. Subject to SARB approval, a scrip dividend alternative will be offered. Together with the interim dividend paid in September this brings the total dividend for the year to 1.5 pence per share.

Going concern

At 31 December 2016 the Group's cash and undrawn committed facilities were £556.3 million and its capital commitments were £156.6 million. With weighted average debt maturity of nearly six years, LTV of 23.4 per cent and sufficient headroom against all financial covenants, there continues to be a reasonable expectation that the Company and Group will have adequate resources to meet both ongoing and future commitments over a period of at least 12 months from the date of approval of the financial statements.

Accordingly, the Directors have prepared the 2016 Annual Report & Accounts on a going concern basis.

Situl Jobanputra
Chief Financial Officer

21 February 2017

CORPORATE RESPONSIBILITY REPORT

Covent Garden Apple Market Challenge

"Capco is making a positive impact in the Capital from a social and environmental perspective."

The Company's Corporate Responsibility ("CR") strategy remains at the heart of what we do and our programme of activities ensures that Capco is making a positive social and environmental impact in the Capital.

Our programme of community outreach reflects our desire to improve key social problems in London, namely youth employment, homelessness and the support of ex-military personnel. As responsible stewards of leading London estates, enhancement of the environment is an important priority across the Group.

We are committed to providing the highest standards of health and safety at our assets and for our employees and expect our suppliers to support us in achieving this commitment.

CR activity across the business is driven by the operational committees that focus on environmental and community strategy and report to the CR Executive Committee.

Our talented people are at the core of our success and we continue to develop people by building individual careers in order to further embed our entrepreneurial culture.

We report on performance against our key targets for 2016 in this report and further information can be found on our website.

KEY FACTS

Hours of training activities

462

Volunteer hours on CR activities

882

Support of charitable causes

£156k

Reduction in absolute greenhouse gas emissions across our portfolio

14%

MATERIALITY

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

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

A summary of progress against all our 2016 targets can be found in the Responsibility section of the Capco corporate website.

See pages 49 & 50

PEOPLE

TALENT

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

REWARD

We benchmark our remuneration and aim to be at upper quartile in our sector. We reward performance against objectives set through competitive salaries, discretionary bonus and share awards.

CULTURE

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

GIVING BACK

We aim to make a difference in the Capital's society and have well-established associations with our volunteer organisations and chosen charities. We make every effort to identify volunteering opportunities for our staff and we are proud of their commitment and engagement with our CR programme.

See pages 51 & 52

COMMUNITY

SUPPORTING LOCAL ECONOMIES

We work hand-in-hand with the community in the areas of London in which we invest, and have bespoke programmes centred on youth employment, the homeless and military veterans.

EDUCATIONAL PROGRAMMES

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

CHARITY PROGRAMMES

We have long-standing relationships with selected charities which are aligned with our CR strategy. We remain focused on benefiting young people, veterans and the homeless.

See pages 53 & 54

ENVIRONMENT

ENERGY & CARBON MANAGEMENT

We are committed to improving the energy efficiency of our portfolio and to lowering our carbon emissions. In 2016 we made a number of upgrades to install energy efficient equipment and continue to increase our purchasing of green tariff electricity.

RESPONSIBLE DEVELOPMENT

We are committed to integrating responsible and sustainable practices into the delivery of projects and development. We achieved BREEAM Very Good certification for the refurbishment of Grade II listed retail unit 38 King Street, installed solar panels as part of the refurbishment works at 26-27 Southampton Street and installed rainwater harvesting at Lillie Square.

SUSTAINABILITY INDICES

We continue to monitor and report performance in line with industry sustainability reporting benchmarks. We remain a participant of the FTSE4Good Index and achieved a B rating in the CDP Climate Change Programme. In 2016 we made our first submission to the Global Real Estate Sustainability Benchmark (GRESB) and achieved a Green Star rating.

See page 55

HEALTH & SAFETY

We continue to strive for health and safety excellence across all of our property activities in order to offer the highest levels of protection for our employees, supply chain partners and the members of the public who interact with our business operations.

THE COVENT GARDEN ESTATE RELAUNCHED A STREET CLEANING PROGRAMME

The Lord Mayor of Westminster joined our team to clean King Street and helped launch the new heritage style cleaners' uniforms

WE AIM TO BENEFIT YOUNG PEOPLE IN AREAS WHERE OUR ASSETS ARE LOCATED

Local primary schools took part in this year's Apple Market Challenge and the finalists met with traders and presented their ideas to a panel of judges

THE EARLS COURT PROJECT TEAM PUT THEIR LANDSCAPING SKILLS TO USE

The Earls Court project team put their landscaping and construction skills to good use by helping to plant some of Hammersmith Community Gardens Association's (HCGA's) 8,000 spring bulbs in Wormholt Park

PEOPLE

People are the key to our success and we are proud of our team ethos and results oriented approach.

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

TALENT

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

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

New opportunities that arise in the business are advertised internally and we aim to promote internal candidates in order to enhance career development and encourage mobility across the company. We have extended our approach to induction to include transition coaching to those in new roles.

TRAINING AND DEVELOPMENT

Capco training and development programmes are designed to augment the bench strength of our teams and challenge aspiring leaders.

Individual training and development needs are identified and discussed at performance review meetings with line managers. During 2016, our employees spent 462 hours on training activity.

Through our sponsorship of individuals undertaking further professional qualifications, we encourage continuous learning, reflecting our intention to create a knowledgeable environment.

In order to promote knowledge transfer across the Company, we run a series of 'lunch and learn' sessions, where business leaders showcase their strategy to other employees, in order to enhance understanding of wider business objectives.

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

PERFORMANCE MANAGEMENT

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

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

2016 ACHIEVEMENTS

Benefits

We engaged a new pension provider, giving staff access to enhanced tools for their pension arrangements.

Leadership development

Recognising that effective line management is a key component of business success, we ran a series of manager toolkit sessions which received positive feedback across the business.

Graduate intake

We continue to hand pick top graduates to join our development programme and enjoy the challenge of early responsibility.

OUR COMMITMENTS IN 2017

Performance measurement

In 2017 we will introduce a revised performance review process that will support meaningful individual discussion regarding past and future performance.

Graduate intake

We will make further investment in the recruitment of new graduates and the on-going extension of the graduate development programme to preserve our talent pipeline.

Leadership capability

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

CULTURE

The high performance culture at Capco is reflective of our ambitious and innovative business strategy. Typically, 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 have a good track record of supporting staff development and promoting from within the business. We aim to fill vacancies from our existing people where possible.

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

DIVERSITY

We believe that every person in the Company has a part to play in generating value and we understand fully the benefits of a diverse workforce. Diversity is considered when making appointments at all levels. As a sign of our commitment to diversity in the work place we have signed up to the RICS Inclusive Employer Quality Mark and we work with peer companies to promote diversity and equal opportunities within the property sector.

We are keen to develop female talent across the business and provide mentoring to management. We are proud that 50 per cent of the senior management team are female. A summary of gender diversity across the Company is set out on page 50.

We support a number of initiatives which aim to increase diversity in business including the University of Reading Pathways to Property Programme.

BENEFITS

In addition to core elements, we reward people with an attractive package of additional benefits.

Our competitive package of benefits includes private medical insurance and also covers dental treatment. The Company contributes up to 10 per cent of salary into the MyCapco pension scheme.

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

LIFESTYLE PROGRAMME

The lifestyle programme continued during 2016 with sessions on the importance of balanced nutrition and further information on financial matters such as mortgages and financial planning.

REWARD

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

Core compensation packages at Capco comprise three elements of base salary, discretionary performance bonus and discretionary share awards.

We regularly benchmark our approach to reward to ensure that we remain competitive in the market and we aim to remain within the upper quartile range of our sector.

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

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.

HUMAN RIGHTS

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

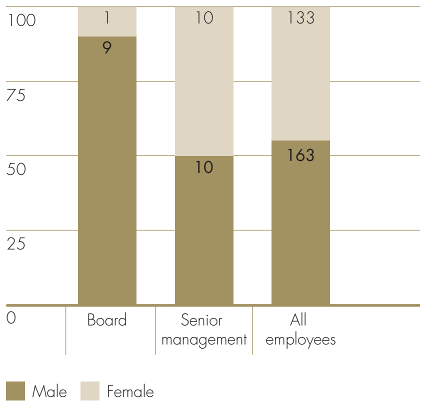
MODERN SLAVERY

In accordance with the Modern Slavery Act 2015, the Board has approved a Modern Slavery and Human Trafficking Statement which has been published on our website. The statement details the steps we take to avoid slavery and human trafficking in our own operations and in our supply chain. We believe that our own operations present minimal risk, but recognise that a higher level of risk is posed by the suppliers we engage with to provide goods and services. In 2016 we undertook to review our suppliers in order to establish any areas of risk. In the year ahead we plan to update relevant policies to include specific reference to modern slavery and we will continue to raise awareness by engaging with our supply chain and our employees.

WE ENCOURAGE COLLABORATIVE WORKING WITHIN AND ACROSS TEAMS

The Annual Finance CR day took place during September, with 30 employees preparing activities and socialising with 30 Equal People Mencap clients. The events of the day were aimed at assisting members of the charity with communication skills and confidence

Gender diversity (%)



COMMUNITY

During 2016, Capco continued to work to benefit the communities in which we operate and to support our chosen charities. Capco staff committed a total of 882 hours to CR related activity (against a target of 450 hours) and volunteered to help with CR projects.

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

2016 ACHIEVEMENTS

Local initiatives
We have delivered a range of local community and education projects on our estates that have benefited people of all ages.

Charitable donations
This year we have developed close ties with our chosen charities which align with our overarching CR strategy, and have provided £156,000 of support to charitable causes.

Staff CR engagement
Capco staff remain committed to participating in CR related activities and undertook 882 hours of CR related activity during the year.

SUPPORTING LOCAL ECONOMIES

Workplace Coordinators recruitment breakfast
In January 2016, Capco sponsored a breakfast for local businesses, jointly hosted by Councillor Astaire from Westminster City Council, promoting both the Recruit London initiative and an apprenticeship scheme run by FM Conway, Westminster's maintenance supplier. Capco has supported Westminster City Council in the employment of a Workplace Coordinator under the Recruit London scheme who has successfully placed 32 candidates, including 11 long-term unemployed, all of whom live in Westminster.

District stewardship
The Covent Garden team took part in the cleaning of the district in August. Each team member spent two hours with a member of the cleaning team picking up litter, emptying bins, cleaning pavements or removing chewing gum. The Lord Mayor of Westminster joined Andy Hicks, Estate Director, to clean King Street and help launch the new heritage style cleaners' uniform. Our cleaning teams continue to supplement Westminster City Council's street cleaning activities throughout the district.

OUR COMMITMENTS IN 2017

Apprenticeships
We will continue to identify opportunities for apprenticeships for local young people across our assets and encourage our contractors to support this initiative.

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

Charitable work
We will promote a volunteering programme with Bishop Creighton House, an active community-based charity in Earls Court, working with disadvantaged people of all ages.

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

ENABLING ENTERPRISE COLLABORATION

When collaborating with Enabling Enterprise, we hosted an event for Year 5 pupils of Wendell Primary School. Students researched and created plans for the renovation of a fictitious town within budgetary constraints

Capco continues to fund additional security teams patrolling the estate following an increase in the national security threat level. This includes 24 hour monitoring of CCTV and extensive patrolling of the estate throughout the day and night.

Working with Westminster City Council, Capco initiated the pedestrianisation of King Street in Covent Garden. Businesses have seen an increase in trade and we hope that by removing vehicles during trading hours there will be an improvement in air quality and the environment for residents and visitors.

Apple Market Challenge
A total of 10 primary schools took part in this year's challenge to design a product that could be sold in the Apple Market in the Covent Garden Market Building. The finalists visited the Apple Market to meet traders and then present their ideas to a panel of judges. This year's winner was St Clement Danes School with their multi-function designer glasses incorporating tourist information. Santa made a surprise visit to hand out the prizes.

CHARITABLE SUPPORT

Sir Simon Milton Foundation quiz night

We once again co-hosted the annual Sir Simon Milton Foundation quiz night, raising £37,860, the highest amount to date, with 18 Capco employees taking part and volunteering at the event.

Covent Garden treasure hunt

Covent Garden teams went up against our consultants and contractors in a bid to be crowned champion of the spy themed treasure hunt.

Ten teams raced around Covent Garden with GPS tablets answering clues, raising £5,000 for St Paul's Church in Covent Garden.

Poppy appeal

Capco once again sponsored London Poppy Day, hosting a range of activities on the Piazza, including the Spitfire choir and the Central Band of the Royal Air Force, raising £6,878. Capco contributed a further £16,000.

Homelessness

We launched a volunteering programme with the homeless centre, The Connection at St. Martin's, with employees serving lunches each Friday.

EDUCATIONAL PROGRAMMES

The Fulham Primary School project explored how the Earls Court development would impact children in the future. The children explored the history of the Earls Court development and visited the Lillie Square marketing suite and show apartments, discussing the details of the project with a Capco representative. Their work was presented at Hammersmith and Fulham Town Hall.

During the Fulham Boys School project, the students were able to become familiar with real life case studies of changing urban landscapes and visited the Lillie Square construction site.

In the summer of 2016, we worked with Year 4 at Sir John Lillie Primary School and Year 5 at Bousfield Primary School. At Sir John Lillie Primary School, the pupils learned about the history of Normand Park and the Clem Attlee Estate, and the Bousfield Primary School project focused on learning about the plans for Earls Court. The children visited Earls Court and carried out shop and traffic surveys.

The Little Architect project continued in 2016, working with St Joseph's Primary School, Covent Garden and Queens Manor Primary School, Fulham. The aim of the project was to foster enjoyment in the built environment at an early age.

SIR SIMON MILTON FOUNDATION QUIZ NIGHT

Capco once again co-hosted the Sir Simon Milton Foundation quiz night, raising £37,860

During the year we collaborated with a not-for-profit social organisation called Enabling Enterprise by hosting an event led by Enabling Enterprise for Year 5 pupils from Wendell Park Primary School in Hammersmith. The students researched and created plans for the renovation of a fictitious town within budgetary constraints and Capco volunteers assisted with the facilitation of the session.

We collaborated with the Urban Land Institute on their Urban Plan Project which introduced students to the various market and non-market forces involved in the built environment industry. Working in teams, students formed a property development company and responded to a brief to redevelop a blighted site. The first project was based at Fulham College.

ENVIRONMENT

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

ENERGY & CARBON

We met our target to reduce energy use by 3 per cent on a like-for-like basis compared to 2015. Implementing energy efficiency measures has contributed towards meeting our target, including installing new efficient lighting at a number of assets in Covent Garden and recommissioning energy controls at Olympia London.

To minimise our carbon impact, we have taken steps to purchase electricity through green energy tariffs where possible. At Covent Garden, we have in place our first green gas tariff, where biogas is sourced through our supplier from processes such as anaerobic digestion.

We monitor assets with an Energy Performance Certificate (EPC) lower than an E rating. Although many of our assets are listed and exempt from the Minimum Energy Efficiency Standards, we are regularly reviewing opportunities to improve energy efficiency and to lower tenant energy bills.

WASTE & WATER MANAGEMENT

Across our estates, we have continued to drive improvements in recycling and achieved zero operational non-hazardous waste to landfill at Olympia London, the Covent Garden estate and our 15 Grosvenor Street office.

A key focus in 2016 has been developing a waste consolidation strategy for the Covent Garden estate. By engaging with tenants and employees, we have made a strong start by lowering waste vehicle collections, improving street cleanliness and recycling rates. We will continue our consolidation activities in 2017.

We continue to monitor water consumption across our estates and are committed to installing water efficient equipment during refurbishment works and in new assets. We recognise that our main opportunity to influence water efficiency in the longer term is by designing for water efficiency.

2016 ACHIEVEMENTS

Reduced energy use by 3 per cent compared to 2015 on a like-for-like basis, meeting our 3 per cent reduction target.

Achieved BREEAM Very Good certification for the refurbishment of Grade II listed 38 King Street and attained design-stage BREEAM Excellent certification for the residential refurbishments at Floral Court and 26-27 Southampton Street.

71 per cent of electricity purchased via green energy tariffs and switched to a green gas energy tariff for the Covent Garden estate.

Lillie Square Phase 1 scored an exemplary Considerate Constructors Score of 45 out of 50, which puts the site in the top 1 per cent of all participating construction sites in the country.

100 per cent of operational non-hazardous waste diverted from landfill at Olympia London, the Covent Garden estate and our 15 Grosvenor Street office.

Participated in the Global Real Estate Sustainability Benchmark (GRESB) for the first time and achieved a Green Star rating.

OUR COMMITMENTS IN 2017

Energy & carbon

Continue to identify opportunities to reduce energy use across our estate and maintain a target of 3 per cent energy reduction for managed assets on a like-for-like basis compared to 2016.

Waste & water management

Aim to minimise waste to landfill from our managed properties and continue with the development of the Covent Garden estate waste consolidation strategy.

Divert at least 90 per cent of non-hazardous waste from landfill in major refurbishment and construction projects.

Responsible development

Continue to work towards achieving a minimum rating of BREEAM Very Good on major construction projects and, where existing planning conditions apply, Code for Sustainable Homes Level 4 certification.

To understand opportunities to reduce carbon impacts over a building's life cycle, undertake an embodied carbon assessment of a project.

GREENHOUSE GAS EMISSIONS

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, Capco continues to monitor and report on the greenhouse gas emissions associated with its operations. We have used DEFRA Environmental Reporting Guidelines and the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard to calculate emissions. We have adopted the operational control consolidation method, as this reflects where we have the ability to influence energy use, and we have set a materiality threshold of 5 per cent for greenhouse gas reporting purposes.

Capco has engaged with Carbon Credentials Energy Services Limited to provide independent verification of the 2016 greenhouse gas emissions assertion in accordance with industry recognised standard ISO14064-3.

GREENHOUSE GAS EMISSIONS DATA FOR YEAR ENDED DECEMBER 2016

	Market-based method (tCO_2)[1]		Location-based method (tCO_2e)[2]	
Emission Source	2016	2015	2016	2015
Scope 1 emissions: Direct emissions including fuel combustion in owned or controlled boilers and vehicles	–	–	1,289	1,356
Scope 2 emissions: Indirect emissions released into the atmosphere including purchased electricity	277	801	4,645	5,553
Total annual scope 1 and 2 emissions:	–	–	5,934	6,909
Intensity Ratio: Tonnes of CO_2e per £m of Net Assets	–	–	1.87	2.03

1 Tonnes of carbon dioxide (tCO_2)

2 Tonnes of carbon dioxide equivalent (tCO_2e)

RESPONSIBLE DEVELOPMENT

Capco is committed to integrating responsible and sustainable practices into the delivery of our projects and development. In 2016 we launched our Sustainability Framework that sets out our approach to embedding sustainability principles into the design and construction of our developments. Notable achievements this year include attaining BREEAM Very Good certification for the refurbishment of a Grade II listed retail unit 38 King Street, installing our first solar panels at 26-27 Southampton Street and installing our first rainwater harvesting system at Lillie Square. At Floral Court and Lillie Square, we continue to work towards achieving a minimum of BREEAM Very Good and Code for Sustainable Homes Level 4 certification.

On-site projects are participants in the Considerate Constructors Scheme and in 2016 Lillie Square scored an exemplary 45 out of 50, which puts the site in the top 1 per cent of all participating construction sites in the country. We continue to meet our target to divert at least 85 per cent of waste from landfill and at the Earls Court demolition site we have achieved 99 per cent diversion rate to date.

Capco remains an active member of the UK Green Building Council, participating in the creation of the Council's new guidance on embodied carbon in development.

SUSTAINABILITY INDICES

We monitor and report our performance in line with industry sustainability benchmarks. In 2016 we remained a participant in the FTSE4Good Index and responded to the CDP Climate Change Programme, achieving a B rating. To further our reporting, we participated in the Global Real Estate Sustainability Benchmark and achieved a Green Star rating. We are also reporting in line with EPRA Sustainability Best Practice Recommendations. For more information on our reporting visit www.capitalandcounties.com/responsibility/environment.

CDP DRIVING SUSTAINABLE ECONOMIES

GRESB

FTSE4Good

GARDEN MASTERCLASS AT THE EARLS COURT PROJECT ROOMS

Mini-garden masterclass at the Earls Court Project Rooms

HEALTH AND SAFETY

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

MILESTONES

2016 saw a number of key project milestones safely accomplished in partnership with our contractors, including the completion of the main demolition works at Earls Court and significant works carried out at Floral Court, Covent Garden. The completion of the first phase of residential units at Lillie Square accomplished the significant milestone of achieving two million man hours worked without a RIDDOR reportable incident.

Three of our development projects won Bronze awards at the Considerate Constructors Scheme 2016 National Awards ceremony in London. The winning projects were Lillie Square Phase 1 at Earls Court, and Floral Court and 23/24 Henrietta Street at Covent Garden. In May 2016 Olympia London undertook the British Safety Council 5* Audit programme and was awarded all five stars with an overall compliance score of 92 per cent.

GOVERNANCE

At a Group level the reinvigorated governance and reporting framework was fully implemented during 2016 with Sector Safety Leadership Teams ("SSLT"s) established for each asset, overseen by the Group Safety Leadership Team ("GSLT"), which is chaired by our General Counsel and championed by the Managing Director and Chief Investment Officer.

The GSLT continued to regularly review the health and safety performance across the Group during the year and facilitated the sharing of lessons learnt and best practice across the management team.

The Board continues to take a keen interest in health and safety risks and achievements across the Group, receiving regular formal reports on health and safety, summarising health and safety performance.

As well as updating our governance and reporting framework, the overarching Occupational Health and Safety Management System has also been reviewed and updated to create better alignment to OHSAS 18001.

Our resilience to respond to incidents was enhanced during 2016 with specific health and safety incident response plans being integrated into the Group-wide business continuity and major incident response planning processes. Scenario based desk top exercises were held at each asset to familiarise the major incident response teams with the enhanced plans.

Reporting

No work related fatalities were recorded in 2016. There was a total of 11 RIDDOR reportable injuries reported across the Group during 2016. Five RIDDOR incidents on the Covent Garden estate were reported, all caused by slips and trips involving members of the public. At Olympia London there were three RIDDOR incidents reported, two involving event contractor employees and one involving an event exhibitor employee.

2016 ACHIEVEMENTS

Successful completion of the main Earls Court demolition works with a good health and safety performance.

Achievement of two million man hours worked at Lillie Square Phase 1, RIDDOR free.

Enhancing our focus on the health and safety standards on our small works projects to ensure that high levels of performance are maintained.

Olympia London achieved British Safety Council 5* Audit.

Embedding the enhanced governance and reporting framework across the business.

A decrease in total RIDDOR injuries from 13 in 2015 to 11 in 2016.

OUR COMMITMENTS IN 2017

Continue to develop and embed health and safety strategies at sector levels to support business plans and further develop key performance indicators to enhance the measurement of continual improvement. In addition to this commitment, our 2017 health and safety objectives are to:

- Improve performance through sponsoring initiatives on our development projects and establishing mechanisms to communicate and embed lessons learned across the Group.
- Enhance compliance by completing the delivery of the IOSH Managing Safely course to the property and project management teams and rolling out bespoke health and safety training to all senior operational and executive level employees.
- Recognise achievement through identifying suitable awards and submitting applications for whole and/or parts of the Group.

There were three RIDDOR reportable injuries recorded involving contractor employees on Capco development projects. The Accident Frequency Rate (AFR) for Capco development projects at the end of 2016 stood at 0.13 and the Lost Time Incident Frequency Rate (LTIFR) for 2016 was 0.35.

Training

Members of operational management have attended the Institution of Occupational Safety and Health (IOSH) Directing Safely course and delivery of the IOSH Managing Safely course to the property and project management teams commenced in 2016.

The sections of the Annual Report which make up the Strategic Report are set out on page 89. The Strategic Report has been approved for issue by the Board of Directors on 21 February 2017.

Ian Hawksworth
Chief Executive

Executive Directors

IAN HAWKSWORTH

Chief Executive Age 51

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

SITUL JOBANPUTRA

Chief Financial Officer Age 43

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

GARY YARDLEY

Managing Director & Chief Investment Officer Age 51

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

COMMITTEE MEMBERSHIP KEY

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

Chairman and Non-executive Directors

IAN DURANT
Chairman Age 58

Ian is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Ian is a Chartered Accountant with a background in international financial and commercial management. Ian's career includes leadership roles with the retail division of Hanson, and Jardine Matheson, Hongkong Land, Dairy Farm International, Thistle Hotels, Sea Containers and Liberty International.

External appointments

Chairman of Greggs plc

HENRY STAUNTON
Independent Non-executive Director and Senior Independent Non-executive Director Age 68

Henry was appointed to the Board in June 2010 and became Chairman of the Audit Committee shortly after in July 2010. A Chartered Accountant, he was Finance Director of Granada and ITV, Chairman of Ashtead Group and Vice Chairman of Legal & General.

External appointments

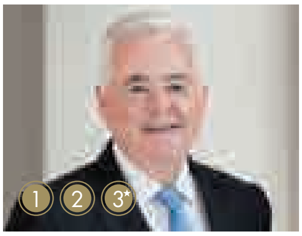
Chairman of Brighthouse Group PLC, Phoenix Group Holdings and WH Smith PLC

GRAEME GORDON
Non-executive Director Age 53

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

External appointments

Director of Creative Investments Limited and Mymarket Limited



GERRY MURPHY
Independent Non-executive Director Age 64

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

External appointments

Non-executive Director of Dixons Carphone plc, Non-executive member of the Department of Health Board

DEMETRA PINSENT
Independent Non-executive Director Age 42

A former partner of McKinsey & Co, Demetra was leader of McKinsey's European Apparel, Fashion and Luxury Goods Practice for five years and has also acted as an adviser to emerging British luxury businesses. Demetra is CEO of Charlotte Tilbury Beauty.

External appointments

CEO of Charlotte Tilbury Beauty Limited, and Director of The Diana, Princess of Wales Memorial Fund Trustee Company and The Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry

ANTHONY STEAINS
Independent Non-executive Director Age 50

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

External appointments

CEO of Comprador Limited and Chair of the FilmAid Asia Board

ANDREW STRANG
Independent Non-executive Director Age 64

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

External appointments

Member of the Investment and Governance Committees of AEW UK, Non-executive Director of Intu Properties plc and member of the Norges Bank Investment Management Real Estate Advisory Board

OUR GOVERNANCE FRAMEWORK

Ian Durant, Chairman

Dear Shareholder,

I am pleased to introduce Capco's 2016 Corporate Governance Report.

The geopolitical climate of 2016 resulted in a challenging year for Capco, and the economic environment continues to be uncertain. Against this backdrop the importance of a robust governance framework comes to the fore, and I am pleased to confirm that Capco's system of controls and reporting, which is overseen by the Board, continues to ensure the Company operates effectively.

In this report, and the Committee reports that follow, we explain the operation of Capco's Board and its Committees, and how the Company applied the principles of the UK Corporate Governance Code during the year. We also provide information on some of the management committees that strengthen the controls and reporting framework across the Group. During the year, with increased construction and demolition activity across the business, the Board paid particular attention to health and safety. There was also a continued focus on risk management to ensure that the alignment of risk and strategy remains appropriate in the changing market environment.

In anticipation of the introduction of the new Market Abuse Regulations, a Disclosure Committee was established to oversee the Company's compliance with the new regulations.

The main matter considered by the Nomination Committee during 2016 was the appointment of a new Chief Financial Officer following Soumen Das' departure from the Company at the end of the year. Descriptions of the recruitment process followed when appointing Situl Jobanputra and the tailored inductions that we provide to new Directors are included in the Nomination Committee report from page 67.

The Board regularly reviews its composition to ensure the Directors continue to have an appropriate mix of skills and experience to deliver Capco's strategic goals, and a clear succession plan is being prepared. During 2016 Ian Henderson retired from the Board, and we welcomed Anthony Steains as a new independent Non-executive Director. Anthony's corporate finance career in Asia brings a diverse perspective to the Board's discussions. As I reported last year, the Board would like to appoint an additional Non-executive Director with a property background, and we will seek to make an appointment when an opportunity arises.

"A governance framework that supports the achievement of Capco's strategic objectives."

As in previous years, all of the Directors will be seeking election or re-election at our AGM. This year, Andrew Strang, Henry Staunton and Graeme Gordon will each have served on the Board for more than six years. Accordingly, before recommending that they be reappointed, the Nomination Committee gave particular consideration to the continued contribution of each Director and the balance of independence of the Board.

Gerry Murphy became Chairman of the Remuneration Committee during the year, and has led the Committee in a review of executive remuneration. Details of the proposed simplified remuneration policy which is aligned with shareholder interests, and includes a new single performance share plan, are included in the Directors' Remuneration Report from page 70.

As we move into 2017, the economic and political conditions remain uncertain, however I am confident that Capco's Board and governance structures provide a sound base for Capco to respond to the challenges and opportunities ahead.

Ian Durant
Chairman

21 February 2017

STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

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

THE BOARD

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

Board composition

As at 31 December 2016, the Board comprised the Chairman, three Executive Directors and six Non-executive Directors. The table on page 60 summarises the membership of the Board and Committees.

Biographies of each of the Directors, which include information on their skills and experience, can be found on pages 56 and 57.

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 60 sets out those Directors considered to be independent in character and judgement. Each of these Directors has also confirmed that there is no reason why they should not continue to be considered independent.

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

The key responsibilities of Board members are set out in the table on page 61.

THE BOARD IN 2016

The Board met formally throughout the year with main meetings timed around the financial calendar, and additional meetings convened to consider specific matters as required. Attendance at Board and Committee meetings held during 2016 is shown on page 60.

The annual Board calendar includes a two-day strategy meeting. At this meeting the Board receives detailed updates from external advisers and the business units, and is able to consider strategic issues in depth, and spend time with members of senior management in a less formal environment.

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

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

As matters that require the Board's decision are often large, complex and evolve over a period of time, informal update meetings are held between Board meetings to allow Board members adequate time to explore, understand and challenge matters under consideration. These are often combined with site visits and provide an opportunity for the Non-executive Directors to meet senior management. Four such updates were held during 2016, including a presentation on health and safety matters.

During 2016, the Board received regular asset, financial and performance updates from the Executive Directors and reports from the Company Secretary, General Counsel, Director of HR & CR and Committee Chairmen. The table below shows the key areas considered by the Board during the year.

BOARD COMMITTEES

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

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

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

A summary of the role of each Committee is shown on page 60, and the activity of each Committee during 2016 is described on pages 64 to 88.

MATTERS CONSIDERED BY THE BOARD IN 2016

Business Strategy, New Business and Directors	Properties	Financial Performance	Governance, Internal Controls and Risk
Strategy	Property valuations	Annual and half year results and dividends	Risk appetite and principal risks
Change of CFO	Covent Garden performance	Treasury and cash management including refinancings	Health & Safety, Security Risk and IT security updates
New business opportunities	Floral Court and Carriage Hall developments	Group tax position	Board evaluation and action plan
Key investment decisions	Earls Court demolition and Lillie Square completions	Market and Broker updates	Legal and regulatory updates
Board composition and succession planning	Planning consents and submissions	Budget	The Market Abuse Regulations 2016
			AGM resolutions and voting
			Modern Slavery Act 2015
			Board Committees' terms of reference and schedule of matters reserved for the Board

LEADERSHIP STRUCTURE

THE BOARD

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

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

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

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

Further information can be found in:

Audit Committee Report on pages 64 to 66

Risk Management Report on pages 14 to 17

Directors' Remuneration Report on pages 70 to 88

Nomination Committee Report on pages 67 to 69

Business Committees:

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

Business Services Committee
- Supports the business and streamlines delivery of business services
- Establishes and promotes Group-wide policies and systems to enable the Company to operate efficiently

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

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

Corporate Responsibility Executive Committee
- Manages the CR activities of the Group
- Prepares CR policy
- Sets CR targets and monitors progress

Security Risk Committee
- Provides Group-wide oversight of the management of security risk

BOARD INDEPENDENCE

Name	Year of first election	Independent	Audit Committee	Nomination Committee	Remuneration Committee
Ian Durant (Chairman)	2011	n/a		★	
Ian Hawksworth (Chief Executive)	2011	No		★	
Situl Jobanputra	n/a	No			
Gary Yardley	2011	No			
Graeme Gordon	2011	No			
Gerry Murphy	2015	Yes	★	★	★
Demetra Pinsent	2013	Yes		★	★
Henry Staunton (SID)	2011	Yes	★	★	★
Anthony Steains	2016	Yes		★	
Andrew Strang	2011	Yes	★	★	★
		56% independent			

ROLES OF BOARD MEMBERS

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

Roles of Board Members

Position	Name	Responsibilities
Chairman	Ian Durant	Leads the Board, ensures its effectiveness and sets its agenda. Ensures an effective link between shareholders, the Board and management.
Chief Executive	Ian Hawksworth	Develops the Company's strategic direction, implements policies and strategies agreed by the Board and manages the business.
Chief Financial Officer	Situl Jobanputra	Responsible for developing and implementing financial strategy for the Group.
Managing Director & Chief Investment Officer	Gary Yardley	Responsible for leading the Group's real estate investment, overseeing significant real estate transactions.
Non-executive Directors	Graeme Gordon, Gerry Murphy, Demetra Pinsent, Henry Staunton, Anthony Steains, Andrew Strang	Constructively challenge the Executive Directors and monitor the delivery of the agreed corporate strategy within the risk and control framework set by the Board.
All Directors have access to the advice and services of:		
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	Anne Byrne	Provides legal advice and guidance to the Board; reports on business services activities.

Earls Court demolition site

HEALTH & SAFETY BRIEFING

In September 2016, one of the Board updates was used to provide a briefing on health and safety. The presentation covered the safety culture at Capco, the role of the Board, Directors' duties in respect of health and safety, relevant legislation, governance and reporting.

The Directors found the refresher training beneficial, and hearing the details of Capco's highlights for 2016 and priorities for the coming year brought to life the matters covered in the regular health and safety updates included in the Board papers.

You can read more about Health & Safety at Capco in the Corporate Responsibility Report on page 55.

ENSURING AN EFFECTIVE BOARD

Recognising that Capco's Board must be effective, the Board conducts an annual evaluation of its own performance and that of its Committees and Directors. In 2016 the evaluation was externally facilitated by NJMD Corporate Services Limited ("NJMD"), which provides no other services to the Group. The Directors and Company Secretary were each asked to complete a questionnaire covering all matters relating to the performance of the Board, its Committees and its Directors, following which each participant was interviewed by NJMD with comments being noted on a confidential basis. A report was prepared by NJMD which concluded that the Board is effectively run and administered and the Board appears to have an open and honest culture reflecting the values held by the Company.

The report made a number of recommendations, although no areas of major concern were found. The outcomes of the evaluation were considered by the Board and a Board action plan for 2017 was agreed.

In addition, the Senior Independent Director conducted an appraisal of the Chairman's performance which confirmed the Board's continued confidence in the Chairman and outlined areas for future focus. The Chairman also undertook appraisals of the other Directors' performance.

COMMUNICATION WITH STAKEHOLDERS

Our policy

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

Corporate website

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

Annual General Meeting

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

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

Our 2017 AGM will be held on Friday 5 May 2017. The notice of Annual General Meeting will be issued to shareholders at least 20 working days before the meeting. Separate resolutions will be proposed on each issue and, in accordance with the Code, each Director will offer themselves for election or re-election.

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

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

2016 EXTERNAL BOARD EVALUATION

The Chairman and Company Secretary considered the approach to be taken for the 2016 Board Evaluation

The Nomination Committee considered the proposed approach and approved the appointment of NJMD

Each Director and the Company Secretary completed a questionnaire and structured interview with NJMD

A report was prepared by NJMD and provided to the Board for consideration

An action plan was agreed

ACTIONS FOR 2016	PROGRESS
Implement annual health and safety briefing in addition to the regular reports to each meeting	Health & Safety briefing held (see page 61)
Ensure effective reporting of corporate responsibility to the Board following dissolution of CR Committee	Corporate responsibility is included on each Board agenda
Review the effectiveness of the new risk management structure	The new risk management structure reviewed and considered to be effective

ACTIONS FOR 2017

- Ensure Board agendas allow effective strategic discussion
- Document approach to succession and continue to consider Board diversity
- Periodically review past Board decisions

ATTENDANCE AT MEETINGS

The table below shows Directors' attendance at Board and Committee meetings held during 2016. In addition the General Counsel attends each Board and Audit Committee meeting and the Company Secretary attends each Board and Committee meeting:

Name	Board	Audit	Remuneration	Nomination
Ian Durant (Chairman)	5/5	–	–	5/5
Ian Hawksworth (Chief Executive)	5/5	–	–	5/5
Soumen Das	5/5	–	–	–
Gary Yardley	5/5	–	–	–
Graeme Gordon	5/5	–	–	–
Ian Henderson (retired 6 May 2016)	2/2	1/1	2/2	2/2
Gerry Murphy	5/5	3/3	7/7	5/5
Demetra Pinsent[1]	5/5	–	4/4	5/5
Henry Staunton (SID)	5/5	3/3	7/7	5/5
Anthony Steains (appointed 1 March 2016)	4/4	–	–	3/3
Andrew Strang	5/5	3/3	7/7	5/5
	5	3	7	5

1. *Appointed to the Remuneration Committee in April 2016*

Communications with shareholders and other stakeholders

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

The Company's major shareholders are encouraged to meet with the Chairman and the Senior Independent Director to discuss any matters they may wish to raise. During 2016, the Chairman and Chairman of the Remuneration Committee held a number of meetings with shareholders, in connection with the review of executive remuneration.

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

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

The Company maintains active relations with community stakeholders.

Please see pages 51 and 52 in the CR Report for more details of Capco's stakeholder engagement.

CONFLICTS OF INTEREST AND TIME COMMITMENTS

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

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

The Chairman is also Chairman of Greggs plc. The Board is satisfied that the Chairman's additional commitments allow him to devote sufficient time to perform his duties as Chairman of Capco.

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

DTR DISCLOSURE

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' Report on pages 89 and 90.

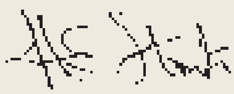
AUDIT COMMITTEE REPORT

Henry Staunton, Chairman of the Audit Committee

I am pleased to introduce Capco's 2016 Audit Committee Report. The Committee plays 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 in the past year. During 2016, the most significant topics considered by the Committee included the Group's property valuations, taxation and the accounting treatment of various significant corporate transactions. The Committee also reviewed the updated risk disclosures and the viability statement disclosure before they were recommended to the Board.

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



Henry Staunton
Chairman of the Audit Committee, 21 February 2017

Members:
Henry Staunton (Chairman)
Gerry Murphy
Andrew Strang

The Audit Committee, reporting to the Board, oversees the financial reporting process, monitors the effectiveness of internal control, internal audit, risk management and the statutory audit and monitors the independence of the statutory auditors and the provision of non-audit services. As at 31 December 2016 and the date of this report, the Committee comprises three independent Non-executive Directors and is chaired by Henry Staunton who is considered to have significant, recent and relevant financial experience. The Board believes that the Committee as a whole has competence in real estate matters.

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

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

The Audit Committee met three times during 2016. Attendance at these meetings is shown in the table on page 63. 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 2016 agenda is shown in the table on the next page, and the significant matters considered by the Committee during the year are also explained on the next page.

During the year, as part of the Financial Reporting Council's ("FRC") normal cycle of reviews, the Group received a letter from the FRC arising from their review of the Group's 2015 annual report and accounts. No significant issues were identified and the enquiry was concluded by the inclusion of enhanced disclosure in this year's Annual Report and Accounts.

THE AUDIT COMMITTEE IN 2016

Regular meeting items	February Meeting	July Meeting	December Meeting
Report from Financial Controller	Going concern assessment	Interim results announcement	Effectiveness of External Auditor and recommendation for re-appointment
Accounting treatment of significant transactions	Preliminary results, Annual Report and Management Representation Letter	2016 Audit Plan	Risk management review
Accounting standards and policies	Determining and recommending to the Board that the Annual Report taken as a whole was fair, balanced and understandable	Liquidity forecasting	Internal controls
Property valuations	Effectiveness of Internal Audit	Risk management	Viability statement review
External Auditor report including regulatory update		Viability statement	Corporate governance policies and Committee Terms of Reference
Internal Auditor report from BDO			2017 Internal Audit Plan
Tax update			

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE IN 2016

Matter considered	What the Committee did
Valuations	As in previous years, the independent external valuers presented the year end and half year valuations to the Committee at the February and July meetings respectively. The Committee reviewed the valuation process and component parts of the valuations, discussed the valuations with the external auditors and challenged the valuers on the assumptions used. The Committee also advised the Board on the independence of the valuers and obtained confirmation that management had provided all requested information. The Committee was satisfied that the approach taken by the valuers was appropriate. Further information can be found in note 14 on pages 115 to 118 of the notes to the accounts.
Tax	The Director of Finance presented a report to the Committee at the February and July meetings, explained the basis of the Group's tax position, identified key taxation risks to the Group and updated the Committee on the ongoing relationship with HMRC. The Committee challenged the assumptions made in arriving at the tax position and discussed with the external auditors the assumptions and judgements made in arriving at the deferred tax position. The Committee was satisfied that the policy was appropriate for the Group. Further information can be found in note 26 on page 129 of the notes to the accounts.
Significant and complex transactions	As in previous years, the Committee received updates from the Financial Controller on significant and complex transactions at each meeting. With regard to each transaction, such as the CLSA, the Solum joint venture and the Olympia strategic review, the Committee discussed the accounting treatments with management and the external auditors and is satisfied that the appropriate approach has been taken.

EXTERNAL AUDITORS

Committee Responsibilities

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), the external auditors, and is responsible for developing, implementing and monitoring the Company's policy on external audit, and for monitoring the auditors' independence, objectivity and compliance with ethical, professional and regulatory requirements. The external auditors are not permitted to perform any work that they may subsequently need to audit or which might either create a conflict of interest or affect the auditors' objectivity and independence.

Access to Committee

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

Effectiveness of Auditors

The Committee monitored PwC's effectiveness and performance during 2016, and considered a paper prepared by the Financial Controller which confirmed that in management's view PwC were providing a good-quality audit service and continued to deliver against all facilities considered at their appointment.

The Committee is satisfied that the external auditors remain independent and objective and that the Group is receiving a robust and challenging objective audit and has therefore recommended to the Board that PwC be reappointed in 2017.

Tendering of External Audit Contract

Capco tendered its external audit contract in 2010, and PwC were appointed as Group auditors on an annual rolling contract. The Directors plan to complete an audit tender by 2020, the date by which the external audit contract must be tendered to comply with regulatory requirements, unless issues are identified which require a tender to be undertaken earlier. This is in the best interest of the Company's members because it will ensure continuity of service from the external auditors.

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 policy to ensure that the provision of non-audit services by the external auditor does not compromise its independence or objectivity. The policy requires the Audit Committee Chairman to pre-approve any non-audit work with a cost exceeding the lower of £50,000 or 15 per cent of the estimated annual level of the auditor's fees at that time. Services below this limit are pre-approved by the Audit Committee under the policy, subject to consideration and approval by an Executive Director. Approval is only given following a full and thorough assessment of the value case for using the auditor and the skills and experience the auditor would bring. Additionally, consideration must be given to the preservation of auditor independence; and the external auditors are required to confirm that they are acting independently and are not:

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

The Committee is satisfied that the policy remains effective.

The total fees paid and payable to PwC in 2016 were £464,000, of which £14,000 related to non-audit work. These fees primarily relate to corporate transactions and verification of performance against share scheme performance conditions. The total fees paid and payable to PwC in 2016 and 2015 are set out in the table below.

	2016	2015
Total fees paid to PwC	**£464,000**	£454,000
Non-audit fees	**£14,000**	£14,000
Ratio of non-audit fees	**3.0%**	3.1%

INTERNAL AUDITOR
Internal Audit Plan
BDO LLP ("BDO") has been appointed to act as Capco's internal auditor. During 2016, BDO's audit plan included reviews of:

- IT security;
- Covent Garden residential leasing;
- training and talent management;
- health & safety (in relation to development projects);
- accounts payable and expenses;
- insurance; and
- VAT compliance.

During 2017, it is expected that the audit plan will include reviews of payroll, employee benefits, health & safety, procurement, Bribery Act policies and procedures, Lillie Square completions and management, financial management and budgetary control, and IT controls.

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

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

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

A description of the Group risk management framework and the review undertaken during the year is set out on page 14.

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

The viability statement can be found on page 17.

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

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

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

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

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

NOMINATION COMMITTEE REPORT

Ian Durant, Chairman of the Nomination Committee

I am pleased to introduce Capco's 2016 Nomination Committee Report.

During 2016 the Committee's main task was to oversee the recruitment of a new Chief Financial Officer to succeed Soumen Das. In line with the Committee's policy on Board succession a rigorous selection process was followed, with a number of internal and external candidates being considered for the position. I am pleased that Situl Jobanputra's appointment reflects Capco's commitment to developing the talent of our employees and promoting from within the Company where possible.

In addition to Situl, in March 2016 we welcomed Anthony Steains to the Board. The Committee ensured that appropriate Board inductions were provided to each new Director.

The Committee also continued to consider Board composition to ensure that the Board has the right mix of skills and experience to deliver Capco's strategy. As I have previously reported, we are seeking to appoint an additional Non-executive Director with property expertise. However, a suitable candidate who is free to take up an appointment has not yet been found. The Committee is satisfied that there is currently no urgency in making the appointment and so will continue the search. A recommendation will be made to the Board as and when an appropriate candidate is found.

Andrew Strang, Henry Staunton and Graeme Gordon, who have each served on the Board for more than six years, will be seeking re-election at the forthcoming AGM. In recommending that each of these Directors be reappointed, the Nomination Committee carefully considered the continued contribution that each Director makes to the Board, as well as the balance of independence and overall Board composition.

Finally, the Committee has reviewed the Board's diversity policy and disclosures. The Committee was satisfied that the policy did not need to be updated, however, we have included more information on the Company's approach to diversity both in this report and the CR Report.

Ian Durant
Chairman of the Nomination Committee, 21 February 2017

Members:
Ian Durant (Chairman)

Ian Hawksworth	Henry Staunton
Gerry Murphy	Anthony Steains
Demetra Pinsent	Andrew Strang

MATTERS CONSIDERED BY THE COMMITTEE DURING 2016 INCLUDE:

- Board and Committee composition, including diversity
- Appointment of new CFO
- Non-executive Director recruitment
- Succession planning
- Board evaluation
- Directors' skills, experience and independence
- Directors' time commitments
- Committee terms of reference

DIRECTOR RECRUITMENT PROCESS

Nomination Committee considers Board composition and determines desired skills and experience

A person specification is prepared

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

A list of candidates is identified

The Chairman and Chief Executive meet with short-listed candidates and provide feedback to the Committee

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

The Committee makes a formal recommendation to the Board

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

The members of the Committee as at 31 December 2016 and the date of this report are listed in the box on the previous page. The Nomination Committee met five times during the year, and attendance at these meetings is shown in the table on page 63.

Board composition and succession

The Committee regularly considers Board composition and succession planning for both Executive and Non-executive Directors. In considering Executive Director succession, the Board's strategy is to consider both internal and external candidates, whilst aiming to develop a choice of internal potential successors. The focus of Non-executive Director succession planning is to ensure that the Board and its Committees continue to have the right mix of skills and experience to deliver Capco's strategy. A summary of Directors' core areas of experience as at the date of this report is shown in the figure to the right. Board succession and composition will continue to be considered at Committee meetings during 2017, and the Committee will make recommendations to the Board where appropriate.

Director recruitment

Capco operates a rigorous and transparent recruitment process for new Directors which is summarised above. Information about the Committee's activities in this area during the year is given below.

Chief Financial Officer:
Following Soumen Das' decision to leave Capco, a rigorous internal and external search was undertaken to identify appropriate candidates to succeed him. The Zygos Partnership, which provides no other services to the Group, was engaged to assist with the external search. To ensure that the long-list of candidates reflected diversity of both gender and skills, a broad brief was provided to the Zygos Partnership. Following an interview process led by the Chairman and Chief Executive with the assistance of the Chairman of the Audit Committee, it was recommended to the Committee that Situl Jobanputra be appointed as Chief Financial Officer of the Company. After thorough consideration, the Committee made a formal recommendation of the appointment to the Board.

Non-executive Directors:
As reported in previous years, following a full review of the skills, experience, independence and knowledge of Board members, the Committee had agreed to seek two new Non-executive Directors, of whom at least one should have specific property expertise. As a result of this review Anthony Steains joined the Board in 2016. During the year the Committee continued to consider potential candidates, however at this time it has been unable to identify an appropriately qualified candidate who is free of conflicts of interest. The Committee is satisfied that the Board currently has sufficient property expertise, and will therefore continue to consider potential candidates, and recommend an appointment, when an opportunity arises.

Director induction

An induction programme is provided for each new Director, which is tailored depending on the Director'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 visits to Capco's estates, and an introduction by the Chairman to 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 and the property market. A tailored Board induction was provided to Situl Jobanputra on his promotion to the Board.

Director development

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

Diversity

Diversity is important to Capco and the Board recognises the business benefits that the experience of a diverse Board and workforce can bring.

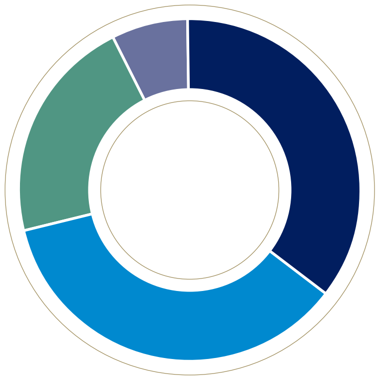
The Committee regularly reviews the Board Diversity Policy to ensure it aligns with the Committee's aim of ensuring that the Board has the right mix of skills and experience to deliver Capco's strategy.

Capco currently has one female Director which does not meet the Hampton-Alexander Review target for women on boards or reflect the diversity within the Company. However, the Board remains committed to encouraging diversity, and although the Board does not feel that it would be appropriate to set targets on gender diversity as all appointments must be made on merit, diversity will continue to be considered in a broad context when evaluating the skills, knowledge and experience desirable to fill each Board vacancy.

The Company supports a number of initiatives to promote diversity within the property industry, including the RICS Inclusive Employer Quality Mark and working with peer companies to promote diversity and equal opportunities. We are keen to develop female talent across the business, and provide mentoring to management. We are proud that the ratio of women to men within Capco's senior management team is 1:1.

Please refer to pages 49 and 50 of the Corporate Responsibility Report for more information on Capco's people practices, and on our Community initiatives which promote diversity.

Directors' core areas of experience:



Property	36%
Finance	36%
Consumer & Retail	21%
Luxury Goods	7%

Both Executive and Non-executive Directors are included. Some Directors are represented in more than one category.

DIRECTORS' REMUNERATION REPORT

"A new, simplified, remuneration policy which will continue to incentivise our executive team to deliver market-leading levels of performance."

Gerry Murphy, Chairman of the Remuneration Committee

ANNUAL STATEMENT

Dear Shareholder,

Having succeeded Ian Henderson as Chairman of the Remuneration Committee at the 2016 AGM, I am pleased to present both the Annual Report on Remuneration for 2016 and the new Directors' remuneration policy.

The Committee's key objectives, as in previous years, are to ensure that Capco's executive team is appropriately incentivised by remuneration arrangements that are fully aligned with the Company's strategy of providing long-term market-leading returns to shareholders. Management incentives are linked to the Key Performance Indicators ("KPIs") which the Company uses to measure the creation and growth of value for shareholders. These KPIs are described in full on page 13.

Performance in 2016 and variable remuneration outcomes

Since its establishment in 2010, Capco has delivered TSR performance which ranks in the top quartile when compared to its listed peers. However, in 2016 external market circumstances have impacted Capco's financial performance and therefore the variable remuneration outcomes for our executive team. The financial elements of the bonus paid out at 6.67 per cent of maximum, reflecting achievement of the EPS target but NAV and TPR results which were below threshold. In addition, the long-term incentive awards which would have vested in 2017 based on TSR and TR performance up to the end of 2016 are expected to lapse as neither the TSR or TR targets are expected to be met. These outcomes demonstrate that the performance measures are effective in aligning executive remuneration with shareholder returns.

Approval of the new Directors' Remuneration Policy

Following the review of remuneration conducted in 2015 and 2016, and extensive shareholder consultation covering over 80 per cent of the share register, the Remuneration Committee has developed a new remuneration policy which will be submitted for shareholder approval at the 2017 AGM. I would like to thank those shareholders who provided feedback on the Committee's proposals.

The new policy has been designed to address shareholders' concerns regarding the Matching Share Plan ("MSP") and the complexity of the current remuneration arrangements, and also to provide variable remuneration which can continue to incentivise our executive team to deliver market-leading levels of performance.

In summary, the new policy:

- Radically simplifies our long-term incentives by removing the exceptional award facility and combining the three long-term incentive and matching schemes into a single Performance Share Plan ("PSP");
- Reduces the maximum level of long-term incentive award (including exceptional awards) which could be granted in any one year from 450 per cent to 350 per cent of salary;
- Provides a similar level of long-term incentive opportunity as the actual historical average;
- Introduces a two-year post-vesting holding period and clawback for all long-term incentive awards; and
- Brings pension contributions for future Executive Directors in line with the levels available for other employees at Capco Head Office (including Earls Court Properties) and Covent Garden.

No changes have been made to the policy regarding base salary, benefits or annual bonus. Fifty per cent of any bonus earned will continue to be deferred into shares for three years.

The key feature of this new policy is the change to the long-term incentive arrangements. The current long-term incentives comprise three schemes: the 2010 Performance Share Plan ("Existing PSP"), the MSP and the Co-Investment Plan ("CIP"). The Committee has taken account of shareholder feedback and believes that these arrangements are too complex. Therefore, under the new policy, these three schemes will be replaced with a single annual award under a new PSP. Shareholders will be asked to approve the PSP at Capco's 2017 AGM and a full description of the plan will be included in the notice of meeting.

Averaged over three years, the current policy allowed the Committee to grant an annual long-term incentive award of up to 450 per cent of base salary, but in practice the actual historical level of annual award for the Chief Executive was just under 350 per cent of base salary. These historical awards have been a key factor in incentivising our executive team to deliver a market-leading level of TSR, and the Committee believes it is important that any new long-term incentive plan continues to provide a similar level of incentive opportunity in order to continue to drive exceptional performance for our shareholders. As a result, under the new PSP, the maximum annual award will be 350 per cent of base salary, which is broadly in line with the average award level received by Executive Directors since Capco's establishment in 2010. The Committee believes that this level of PSP award is appropriate because it does not increase quantum above historical levels, provides a reduction in the level of long-term incentive award that can be made in any one year, removes the exceptional award facility and replaces the matching schemes all with a single annual award.

Awards made under the PSP will continue to be subject to a relative TSR performance measure and a relative TR performance measure. The Committee did consider introducing absolute measures of performance, but believes that relative measures remain most appropriate as they ensure that management are rewarded for outperformance against other property companies rather than for changes in market conditions.

The new policy also incorporates a number of areas of best practice in corporate governance and strengthens alignment between our executives and shareholders. All awards made under the new PSP will be subject to a two-year post-vesting holding period, and will be subject to clawback as well as malus. Pension contributions for new Executive Directors appointed after the 2017 AGM will be reduced from 24 per cent to 10 per cent of base salary, which is in line with the contribution level available for employees at Capco Head Office (including Earls Court Properties) and Covent Garden.

As part of the review, the Committee also considered the base salary positioning of the Chief Executive. On Capco's establishment in 2010, the Chief Executive's base salary was initially set at the bottom of the market because the management team was untested. His base salary was then frozen for three years and market positioning worsened. Thereafter, whilst above market salary increases were made, these have been insufficient to bring the base salary to the Committee's desired market positioning and appropriately reflect the contribution and performance of the Chief Executive. As a result, the positioning of the Chief Executive's base salary continues to be below the level that the Committee believes to be appropriate. However, in light of current market conditions and the need to keep fixed costs under control, the Committee has concluded that it would not be justifiable to make a significant increase to the Chief Executive's base salary at present. Accordingly the Committee will only increase his base salary by 2.9 per cent, in line with increases awarded to the rest of the workforce.

The Remuneration Committee believes that the proposed remuneration policy will continue to motivate Capco's exceptional executive team to drive the future success of the Company, whilst achieving the aims of the review to simplify remuneration, reduce complexity, and remove the exceptional award opportunities. It also introduces elements of best practice such as holding periods, clawback and reduced pension contributions, which will sit alongside our 300 per cent of base salary shareholding guideline for the Chief Executive, and 200 per cent of base salary shareholding guideline for our executive team. The Committee believes that these proposals do not represent an increase to remuneration when compared to historical grant levels, and can continue to provide a strong incentive for our executives over the next three-year period.

Implementation of the Remuneration Policy in 2017

The Committee intends to operate the new remuneration policy in 2017, subject to the new remuneration policy being approved at the 2017 AGM. Base salary increases for Executive Directors will be in line with those for the general workforce, and there will be no change to the operation of benefits, pension and annual bonus when compared to prior years. In anticipation of the introduction of the new remuneration policy, no long-term incentive awards will be made until after the AGM.

In 2017, following shareholder approval, we intend to make the first grant under the new PSP of 350 per cent of base salary. Half of this award will be subject to a relative TSR performance condition, whilst the remainder will be subject to a relative TR performance measure. Threshold and maximum targets will be set for both the TSR and TR performance measures and are explained below.

As part of the remuneration review, the Committee considered the appropriate level of challenge for the TSR and TR targets. The Committee determined that the current threshold performance target for both the TSR and TR performance measures, under which 33 per cent of an award will vest for median performance, and the current maximum TSR target of median +4 per cent per annum remained appropriately challenging, and these will continue to be the threshold TR and TSR targets and maximum TSR targets for awards under the new PSP.

In reviewing the TR maximum target, the Committee noted that the current target of median + 2.5 per cent per annum was above normal market practice at other companies which use similar relative metrics. In addition, current broker forecasts for Capco and the comparator group suggest that the difficulty in achieving the current target of median +2.5 per cent will increase substantially over the next two years as a result of the changing outlook for the property sector. Accordingly, for awards granted in 2017, the Committee intends to set the maximum TR target at median +2 per cent per annum. This target remains above market practice for relative outperformance targets at other property companies, and the Committee believes that it maintains an equivalent level of challenge to previous years. However, the Committee will keep this target under review and the remuneration policy provides flexibility for the Committee to increase this target for future awards if market conditions change.

Appointment of new Chief Financial Officer

Situl Jobanputra was appointed as Chief Financial Officer of the Company on 1 January 2017 at a base salary of £325,000. Situl's base salary has been initially positioned at below market rate for equivalent roles, and it will be brought to market levels over time subject to his performance and development in the role. As a result, his base salary will be subject to review by up to 15 per cent in 2019, to recognise the experience gained.

Conclusion

Capco's current remuneration policy was approved by shareholders at the 2014 AGM held on 2 May 2014. This year, we are asking shareholders to vote for the resolution regarding the Annual Report on Remuneration and this Annual Statement, and also to vote for the resolution regarding the new Directors' remuneration policy, and the resolution to approve the new PSP. The Committee believes that this new remuneration policy achieves our aims to simplify remuneration whilst providing an appropriate level of incentive to drive future performance. We look forward to receiving your support at the forthcoming AGM to be held on 5 May 2017.

Gerry Murphy
Chairman of Remuneration Committee, 21 February 2017

Members:

Gerry Murphy (Chairman)	Henry Staunton
Demetra Pinsent	Andrew Strang

1. POLICY REPORT

This section of the Directors' Remuneration Report sets out Capco's new remuneration policy which will take effect from the 2017 AGM, subject to shareholder approval. Details of actual remuneration paid, share awards made, and the approach to remuneration for 2017 are set out within the Annual Report on Remuneration which starts on page 78.

1.1 Remuneration policy

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

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

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

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

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

1.2 Executive Director Policy Table

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

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

Maximum opportunity	Performance metrics
Base salary increases will be applied in line with the outcome of the annual review and will normally be in line with increases awarded to other employees. However, the Committee may make additional adjustments in certain circumstances to reflect, for example, an increase in scope or responsibility, development in role, to address an increase in size or complexity of the business, to address a gap in market positioning and/or to reward the long-term performance of an individual. For the purposes of stating a maximum as required by the remuneration regulations, no increase will be applied to an Executive Director's base salary if the resulting base salary would be above the upper quartile base salary for CEOs at companies in the FTSE 350.	The Committee considers individual and Company performance when setting base salary, as well as the general increase awarded to other employees.
Set at a level which the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of all benefits will not normally exceed 10 per cent of base salary, with the exception of any future expatriate and/or relocation benefits, which would be disclosed in the annual report on remuneration. Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	N/A
The maximum contribution is 10 per cent of base salary for any Executive Director appointed on or after the 2017 AGM, in line with the level available for other head office and Covent Garden employees. Executive Directors appointed before the 2017 AGM receive 24 per cent of base salary as a defined contribution.	N/A
The maximum bonus opportunity for Executive Directors is 150 per cent of annual salary with a bonus of 75 per cent of salary payable for achieving target levels of performance. No bonus is payable for below threshold performance. The payment for threshold performance will not exceed 10 per cent of maximum. Awards are made on a straight-line basis for performance between threshold and target, and on a separate straight-line basis for performance between target and maximum.	Executives' performance is measured relative to challenging one-year targets in key financial, operational and strategic measures. The measures selected and their weightings vary each year according to the strategic priorities. At least 75 per cent of the bonus will be measured against financial performance. Measures and respective weightings used for the annual bonus for 2016 and proposed for next year's annual bonus are set out in the Annual Report on Remuneration on pages 80 and 81, and 84. An explanation of how the performance measures were chosen and how the performance targets are set is given on page 74.
Each year participants may be granted up to 350 per cent of salary in awards or nil cost options. 33 per cent of an award vests for threshold performance, with full vesting taking place for equalling or exceeding maximum performance conditions and straight-line vesting between threshold and maximum.	PSP awards vest on the third anniversary of the date of grant, and are subject to a two-year post-vesting holding period. The vesting of awards is subject to continued employment and the Company's performance over a three-year performance period based: • 50 per cent on relative Total Return (Net Asset Value growth plus dividends); and • 50 per cent on relative Total Shareholder Return For both measures, performance is measured relative to a comparator group comprising the largest FTSE350 property companies. The performance measures and weightings which apply to the PSP are reviewed by the Committee annually, and, subject to consultation with shareholders, the Committee has discretion to make changes to the measures, the weightings and/or comparator group for future awards to ensure that they remain relevant to the Company strategy and are suitably stretching. Details of the performance conditions for previous years' awards, and those proposed for 2017 awards, are set out in the Annual Report on Remuneration on page 82. An explanation of how the performance measures were chosen and how the performance targets are set is given on page 74.
In line with HMRC approved limits.	None

1.3 Notes to the Policy Table

Changes to previous Remuneration Policy

A full explanation of the changes made from the previous remuneration policy is set out in the letter from the Chairman on pages 70 and 71. The changes made, which are intended to simplify Capco's executive remuneration arrangements, are:

- The replacement of the Existing PSP, MSP and CIP with a new PSP with a maximum annual award of 350 per cent of salary;
- The introduction of a two-year post-vesting holding period and clawback under the PSP; and
- The reduction of pension contribution rates for future Executive Directors to be in line with the levels available for other employees at Capco Head Office (including Earls Court Properties) and Covent Garden.

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 81. The financial performance measures and the importance of each are set out in the table below. The Remuneration Committee has discretion to change the performance conditions in the annual bonus, but within the bounds set out in the Remuneration Policy Table.

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

Long-term incentives

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

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

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

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

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

The current long-term incentive performance conditions are summarised within the Annual Report on Remuneration on page 82. Performance is measured relative to a comparator group comprising the largest FTSE350 property companies and Capco. The members of the comparator group are shown in Figure 4 on page 82.

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.

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

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

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 current remuneration policy (as approved by shareholders at the 2014 AGM) will be incorporated into this policy, 'payments' includes the Committee satisfying awards of variable remuneration, and an entitlement under an award over shares arises at the time the award is granted.

Malus and clawback

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

Remuneration of employees below the Board

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

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

The Venues business has separate remuneration arrangements appropriate for that business. These comprise salary, separate pension arrangements and discretionary bonuses.

Shareholding guidelines

The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of salary and the other Executive Directors are required to achieve a shareholding in the Company equivalent to 200 per cent of base salary, to be achieved by retaining at least 50 per cent of any vested share awards (net of tax) or within three years. The current shareholdings of the Executive Directors are set out on page 86. The current Chairman is required to maintain a shareholding in the Company equivalent to 100 per cent of his base fee, but this would be reviewed on any new appointment.

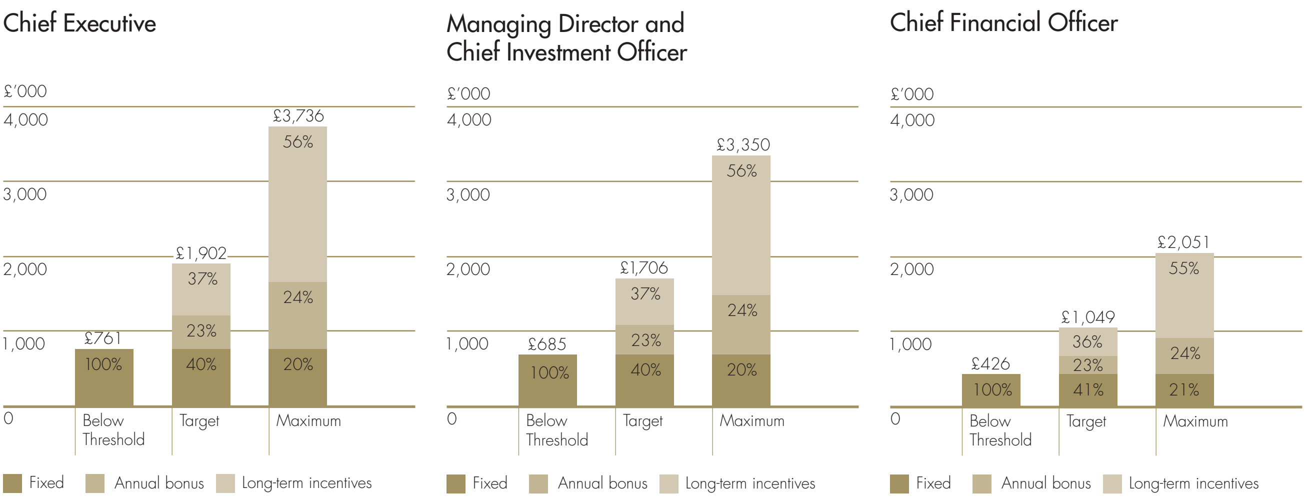
1.4 Performance scenario charts

The potential reward opportunities illustrated in Figure 1 are based on the policy which will apply in 2017, applied to the base salary at the salary review date, 1 April 2017, and provide estimates of the potential future reward opportunity for each Executive Director, and the potential split between the different elements of remuneration under three different performance scenarios: 'Below Threshold', 'Target' and 'Maximum'.

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

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

Figure 1



Salary for Chief Executive assumes a 2.9 per cent increase on prior year

Salary for Managing Director and Chief Investment Officer assumes a 2.9 per cent increase on prior year

Salary for Chief Financial Officer assumes a 0 per cent increase on prior year

1.5 Approach to recruitment remuneration

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

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

1.6 Service contracts and exit payment policy

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

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

The Committee may pay reasonable outplacement fees where considered appropriate.

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

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

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

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

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

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

1.7 Non-executive Director Policy Table

The Non-executive Directors do not have service contracts but instead have letters of appointment. The letters of appointment of the Non-executive Directors are reviewed by the Board annually and contain a one-month notice period. The Chairman's letter of appointment contains a 12-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 2016
Graeme Gordon	23 February 2010	6 May 2016	4 months
Gerry Murphy	1 March 2015	6 May 2016	4 months
Demetra Pinsent	1 May 2012	6 May 2016	4 months
Henry Staunton	2 June 2010	6 May 2016	4 months
Anthony Steains	1 March 2016	26 February 2016	4 months
Andrew Strang	23 February 2010	6 May 2016	4 months

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

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

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

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

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

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

2.1 Remuneration Committee
The Remuneration Committee is responsible for determining and recommending to the Board the policy for the remuneration of the Executive Directors, setting targets for the Company's incentive schemes and determining the total individual remuneration package for each Executive Director. Membership of the Committee as at 31 December 2016 and the date of this report is set out on page 71. In addition, the Company Chairman, Chief Executive, Company Secretary and the Director of HR & CR are invited to attend Committee meetings and contribute, except on matters relating to their own remuneration. Attendance at the seven meetings held during the year is shown in the table on page 63 and a summary of the matters considered by the Committee during the year is set out in the adjacent shaded box in column 3.

2.2 Remuneration Committee and its advisers
The Committee appointed Aon Hewitt (formerly New Bridge Street) as its independent remuneration adviser in 2014 following a competitive process. During the year, the Committee received advice on matters including remuneration structure, incentive design and target setting from Aon Hewitt. Aon Hewitt is a member of the Remuneration Consultants Group and adheres to its code of conduct. The Committee has received confirmation of independence from Aon Hewitt, and is satisfied that the advice received was objective and independent. In addition to advice provided to the Committee, Aon Hewitt also provided share award valuation services to the Company. During 2016, the Company was charged a total of £124,345 by Aon Hewitt in respect of advice to the Committee. Fees were charged on a time basis.

2.3 Statement of shareholder voting
The table below shows the results of the advisory vote on the 2015 Directors' Remuneration Report at the 2016 AGM and the binding vote on remuneration policy at the 2014 AGM.

2.4 Single figure of remuneration
The table on page 79 shows the single figures of total remuneration paid to each Director in 2016 and 2015. The charts in Figure 2 on page 80 illustrate the contribution that each element of remuneration made to the total remuneration of the Executive Directors.

Matters considered by the Committee over the past year include:
- Executive Director remuneration
- Shareholder consultation
- CFO exit and terms of appointment
- Shareholder and investor body correspondence
- Directors' remuneration report
- Committee terms of reference
- Institutional investor voting reports and voting at 2016 AGM
- Setting of and evaluation of performance against Executive Directors' performance targets
- Annual bonus structure and application across the Group
- Share scheme awards and performance targets
- Chairman's remuneration
- Change of team at remuneration consultant
- Chairman and Chief Executive's expenses

Voting on Remuneration Report 2016 AGM

	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	632,017,361	97.94	13,297,296	2.06	645,314,657	1,571,113

Voting on Remuneration Policy 2014 AGM

	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Policy	434,538,113	80.33	106,423,033	19.67	540,961,146	29,203,785

Single figure of remuneration 2016 and 2015 (Audited)

	Base salary and fees £000		Taxable benefits[1] £000		Single-year variable £000		Multiple-year variable[2] £000		Pension related benefits[3] £000		Other £000		Total £000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Chairman														
Ian Durant	254	243	5	4	–	–	–	–	–	–	–	–	259	247
Executive Directors														
Ian Hawksworth	573	550	23	22	184	764	–	1,213	138	132	–	–	918	2,681
Gary Yardley	513	489	24	23	165	660	–	1,061	123	117	–	–	825	2,350
Non-executive Directors														
Graeme Gordon	50	48	20	14	–	–	–	–	–	–	–	–	70	62
Gerry Murphy[4]	74	55	–	–	–	–	–	–	–	–	–	–	74	55
Demetra Pinsent	61	59	–	–	–	–	–	–	–	–	–	–	61	59
Henry Staunton	85	73	–	–	–	–	–	–	–	–	–	–	85	73
Anthony Steains[5]	46	–	28	–	–	–	–	–	–	–	–	–	74	–
Andrew Strang	68	66	1	1	–	–	–	–	–	–	–	–	69	67
Former Directors														
Soumen Das[6]	440	401	22	22	–	561	–	711	106	96	–	–	568	1,791
Ian Henderson[7]	32	97	1	3	–	–	–	–	–	–	–	–	33	100
Andrew Huntley[8]	–	22	–	1	–	–	–	–	–	–	–	–	–	23
Total	2,196	2,103	124	90	349	1,985	–	2,985	367	345	–	–	3,036	7,508

1. *Comprises Executive Director car allowance of £18,000, medical insurance and Non-executive Directors' travel expenses relating to Board meeting attendance where these are taxable or would be if the Director were resident in the UK for tax purposes. Where applicable the Company pays the tax payable on Non-executive Director travel expenses as they are incurred in the fulfilment of Directors' duties.*
2. *The 2016 disclosure comprises the expected value on maturity of the 2014 Existing PSP and MSP awards which have a performance period that ran from 2014 to 2016, and were expected to vest in early 2017. These awards have been included in the 2016 single figure as the performance conditions relating to these awards had been substantially (but not fully) completed during 2016. The disclosure has been calculated assuming that zero per cent of the Existing PSP awards and MSP awards will vest. As required under the remuneration regulations, the 2015 multi-year variable comparators (which were previously disclosed on the basis described above assuming vesting of 60 per cent for the Existing PSP awards and, depending on the award, 40 or 80 per cent for the MSP awards and using a price of £4.333, being the average share price for the last three months of 2015) have been restated with values calculated using the actual vesting outcome of 54.1 per cent of the Existing PSP awards and, depending on the award, 36 or 72 per cent of the MSP awards and the actual share prices on the date that the awards vested, which were £3.349 and £2.837 respectively. The previously disclosed 2015 multi-year variable figures were: Ian Hawksworth £1,807,394, Soumen Das £1,341,206, Gary Yardley £1,577,463.*
3. *Comprises payments in lieu of pension contributions.*
4. *Appointed on 1 March 2015.*
5. *Appointed on 1 March 2016.*
6. *Stepped down from the Board on 31 December 2016.*
7. *Retired from the Board on 6 May 2016.*
8. *Retired from the Board on 1 May 2015.*

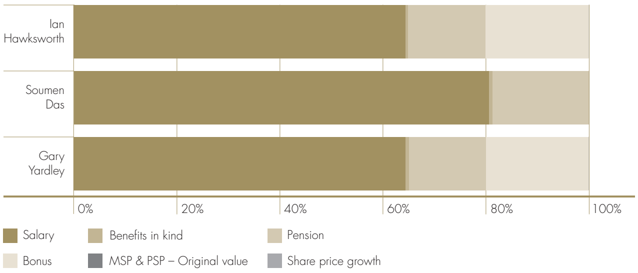
What is included in the Single Figure?

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

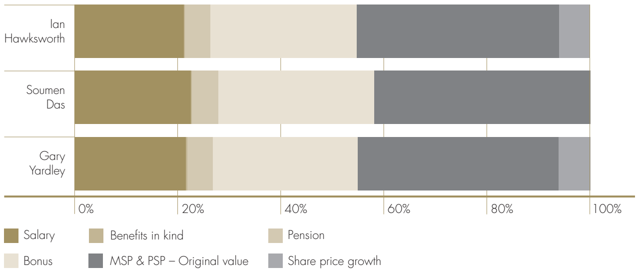
The figures below illustrate the contribution that each element of the Executive Directors' remuneration made to the single figure disclosures.

Figure 2

Composition of 2016 single figures



Composition of 2015 single figures



2.5 Annual bonus outcomes for 2016

Opportunity

Executive Directors can earn bonuses of up to 150 per cent of salary. 50 per cent of bonus earned is deferred in Capco shares or nil cost options for three years, subject to forfeiture should the Executive Director leave the Company.

Performance measures and targets

Awards made in respect of the year ended 31 December 2016 were based 75 per cent on financial performance, and 25 per cent on individual performance.

Financial measures: The financial performance element for the year ended 31 December 2016 was based on growth in absolute NAV per share ("NAV"), Total Property Return relative to the IPD Total Return All Property Index ("TPR"), and underlying EPS ("EPS"). In determining the annual targets for these measures in 2016, the Committee recognised the long-term nature of some aspects of the Company's strategy, and the extent to which this would be reflected in these measures on a 12-month horizon. The performance measures, weightings and targets that applied in respect of the 2016 annual bonus are summarised in the table on page 81.

The Committee has previously committed to publish the financial performance targets once they cease to be commercially sensitive. The financial performance targets that applied in respect of the year ended 31 December 2014 are no longer commercially sensitive; accordingly, the targets and the Company's performance against these targets are set out on the following page, together with the 2016 measures and outcomes.

Personal measures: The Committee assessed individual performance against a set of KPIs which align with the Company's objectives outlined on page 13 of the Annual Report. These KPIs include:

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

Outcome of 2016 annual bonus performance measures (Audited)

Outcome of financial objectives: In respect of the year ended 31 December 2016, the Company's performance did not meet the threshold performance targets for NAV or TPR, however the underlying EPS target was exceeded. Accordingly awards of 5.63 per cent of salary were made to Ian Hawksworth and Gary Yardley in respect of the financial performance measures.

Outcome of personal objectives: The Executive Directors were considered to have delivered good performance in 2016, including the achievement of targeted returns and expansion opportunities at Covent Garden, operation of joint ventures with TfL and Network Rail, optimisation of corporate liquidity, consideration of new business opportunities and control of costs and capital expenditure. Accordingly, awards of 26.25 per cent of salary were made to Ian Hawksworth and Gary Yardley in respect of the individual performance measures.

A summary of the overall outcomes of 2016 annual bonus performance measures is shown in Figure 3 on page 81.

As Soumen Das left the business, any annual bonus for the year was forfeited.

Summary of Executive Directors' Bonuses (Audited)

			2016			2015
Executive Director	Cash	Deferred shares[1]	Total	Cash	Deferred shares[1]	Total
Ian Hawksworth	£92,118	£92,118	£184,236	£381,881	£381,881	£763,763
Soumen Das	N/A	N/A	N/A	£280,500	£280,500	£561,000
Gary Yardley	£82,556	£82,556	£165,112	£330,000	£330,000	£660,000

1. 50 per cent of bonus earned is deferred in Capco shares or nil cost options for three years, subject to forfeiture should the Executive Director leave the Company.

Outcome of 2016 Annual Bonus performance measures (Audited)

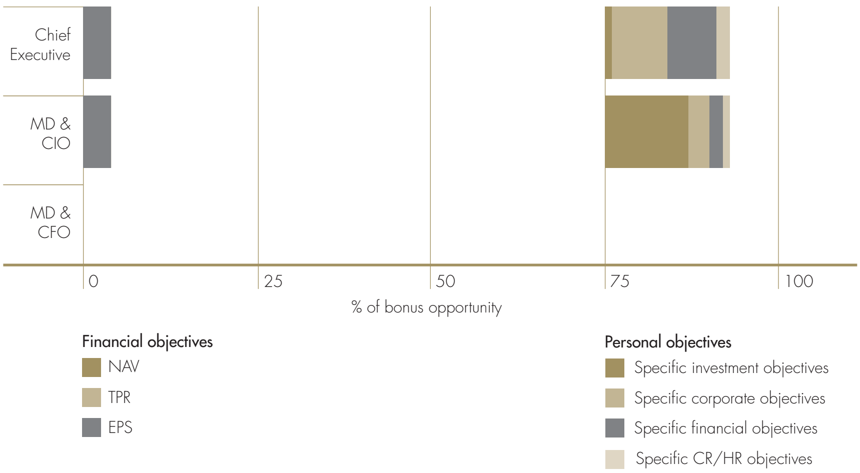
Performance measure	Weighting			Performance	Outcome		
	Chief Executive	MD & CIO	MD & CFO		Chief Executive	MD & CIO	MD & CFO
Financial performance (% of max)							
Comprising:	**75%**	**75%**	**75%**				
• Absolute Net Asset Value per share	60%	60%	60%	Below threshold	Nil	Nil	N/A
• Relative Total Property Return	35%	35%	35%	Below threshold	Nil	Nil	N/A
• Underlying Earnings per Share	5%	5%	5%	Above the top end of the target range	5%	5%	N/A
Individual performance (% of max)	**25%**	**25%**	**25%**		17.5%	17.5%	N/A
Total performance outcome (% of salary)					**31.88%**	**31.88%**	**N/A**

Disclosure of 2014 annual bonus financial performance targets (Audited)

Performance measure	Weighting	Target range		Actual performance	% of bonus opportunity awarded
		Threshold (0% payout)	Maximum (100% payout)		
Absolute Net Asset Value per share	55%	260p	281p	311p	100%
Relative Total Property Return	35%	0p	1.5% outperformance	2.6% outperformance	100%
Underlying Earnings per Share	10%	1.1p	1.5p	1.6p	100%

Figure 3

Outcome of 2016 annual bonus performance objectives



2.6 Long-term incentive outcomes for 2016

Existing PSP Opportunity

In 2014 awards of 150 per cent of salary were made to Executive Directors under the Existing PSP.

MSP Opportunity

Match of deferred 2013 bonus: In 2014, shares awarded in respect of Executive Directors' deferred 2013 bonus were matched under the MSP on a 2:1 basis.

Co-investment invitation: In 2013 the Committee offered Executive Directors an opportunity to invest up to 150 per cent of 2013 salary between 2013 and 2015 (subsequently extended to early 2016) when permitted by scheme headroom with an exceptional matching opportunity of 2:1.

Performance measures and outcomes for 2014 awards under the Existing PSP and MSP

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

Three-year relative Total Return (TR, growth in NAV per share plus dividends)

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

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

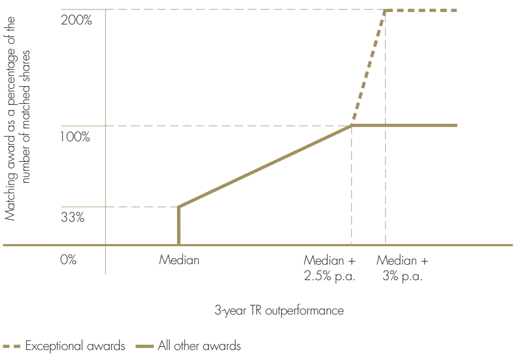
Performance outcome: In early 2017, the Committee determined that Capco's TR was not expected to equal the median of the comparator group (vs. an outperformance target of 2.5 per cent per annum or 3 per cent for exceptional awards), and that Capco's TSR was not expected to equal the median of the comparator group (vs. an outperformance target of 4 per cent per annum or 5 per cent for exceptional awards), and as such the performance conditions relating to the 2014 Existing PSP and MSP awards had not been met. Accordingly, the 2014 Existing PSP and MSP awards are expected to lapse and no value has been included in the single figure disclosures in respect of these awards.

Figure 4

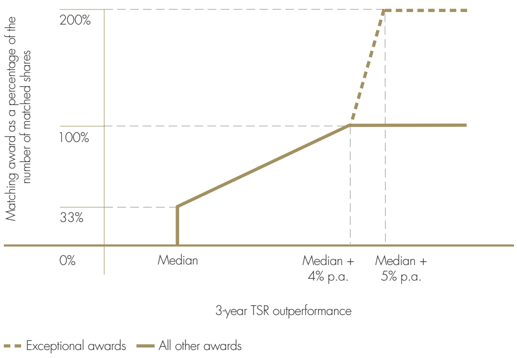
Performance measures for the MSP

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

50% on Total Return



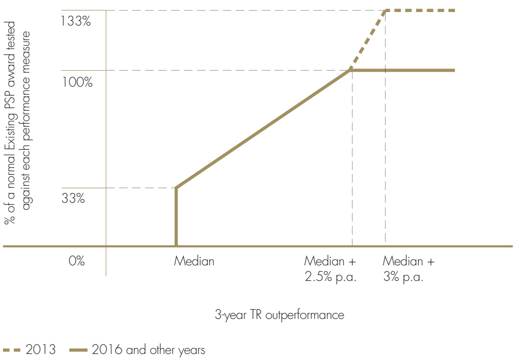
50% on TSR



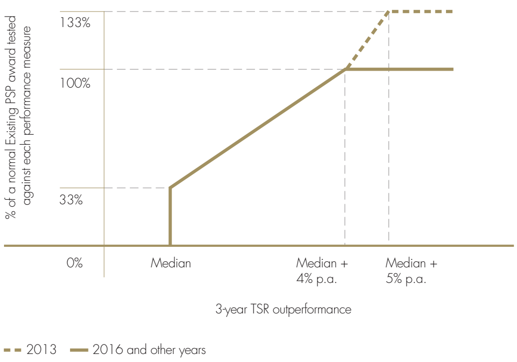
Performance conditions for the Existing PSP

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

50% on Total Return



50% on TSR



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

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

Scheme interests awarded during the financial year

MSP (AUDITED)[1]

	Basis of award	Market price on date of grant[2]	Exercise price if any	Face value of award	Number awarded	Performance/ Holding period	Threshold Vesting %[3]	Exercisable between
Ian Hawksworth	Match of Co-Investment	317.8p	Nil	£601,907	189,398	2016 – 2019	8.3%	01/03/19 – 28/02/26
Soumen Das[4]	Match of Co-Investment	317.8p	Nil	£339,715	106,896	2016 – 2019	8.3%	01/03/19 – 28/02/26
Ian Hawksworth	Value of Deferred Bonus	315.3p	Nil	£381,879	121,116	2016 – 2019	100%	11/03/19 – 10/03/26
Soumen Das[4]	Value of Deferred Bonus	315.3p	Nil	£280,497	88,962	2016 – 2019	100%	11/03/19 – 10/03/26
Gary Yardley	Value of Deferred Bonus	315.3p	Nil	£329,999	104,662	2016 – 2019	100%	11/03/19 – 10/03/26
Ian Hawksworth	Match of Deferred Bonus	315.3p	Nil	£381,879	121,116	2016 – 2019	16.5%	11/03/19 – 10/03/26
Soumen Das[4]	Match of Deferred Bonus	315.3p	Nil	£280,497	88,962	2016 – 2019	16.5%	11/03/19 – 10/03/26
Gary Yardley	Match of Deferred Bonus	315.3p	Nil	£329,999	104,662	2016 – 2019	16.5%	11/03/19 – 10/03/26
Ian Hawksworth	Match of Co-Investment	332.8p	Nil	£124,500	37,410	2016 – 2019	16.5%	05/04/19 – 04/04/26
Soumen Das[4]	Match of Co-Investment	332.8p	Nil	£135,000	40,565	2016 – 2019	16.5%	05/04/19 – 04/04/26
Gary Yardley	Match of Co-Investment	332.8p	Nil	£116,999	35,156	2016 – 2019	16.5%	05/04/19 – 04/04/26
Ian Hawksworth	Match of Co-Investment	285.8p	Nil	£396,542	138,748	2016 – 2019	8.3%	01/11/19 – 31/10/26
Gary Yardley	Match of Co-investment	285.8p	Nil	£325,849	114,013	2016 – 2019	8.3%	01/11/19 – 31/10/26

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	Threshold Vesting %[3]	Exercisable between
Ian Hawksworth	150 per cent of salary	315.3p	Nil	£866,999	274,976	2016 – 2019	16.5%	11/03/19 – 10/03/26
Soumen Das[4]	150 per cent of salary	315.3p	Nil	£674,997	214,081	2016 – 2019	16.5%	11/03/19 – 10/03/26
Gary Yardley	150 per cent of salary	315.3p	Nil	£776,997	246,431	2016 – 2019	16.5%	11/03/19 – 10/03/26

1. *MSP and PSP awards are granted as nil cost options.*
2. *Average closing share price on three business days preceding the date of grant.*
3. *Assumes threshold vesting under one performance condition.*
4. *Awards lapsed in full on date Soumen Das gave notice of his intention to resign from the Company.*

The performance measures and targets for awards made under the Existing PSP and MSP are set out on page 82.

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 qualifying services were made during 2016. Soumen Das resigned as a Director with effect from 31 December 2016. His unvested long-term incentive awards lapsed. Any annual bonus for the year was forfeited and there were no payments for loss of office.

2.8 Total pension entitlement (Audited)

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

2.9 External Non-executive Directorships

No Executive Director currently serves as a Non-executive Director elsewhere (in 2015 Ian Hawksworth received a fee of £40,000 in respect of his former Non-executive Directorship of AIM-listed Japan Residential Investment Company Limited from which he stepped down on 30 December 2015).

2.10 Statement of implementation of policy for 2017

Salary

The Executive Directors' salaries are reviewed annually. In April 2017 the salary of the Chief Executive and Managing Director and Chief Investment Officer will be increased by 2.9 per cent to £595,000 and £533,000 respectively, which is in line with the increase expected to be applied to Group employees. As explained in the Committee Chairman's letter on page 70, the salary of the Chief Financial Officer will be reviewed in April 2019 by up to 15 per cent.

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

Executive Director Salaries – 2016 and 2017

	2017	2016	% Increase
Ian Hawksworth	£595,000	£578,000	2.9%
Soumen Das	N/A	£450,000	N/A
Gary Yardley	£533,000	£518,000	2.9%
Situl Jobanputra	£325,000	N/A	N/A

Pension and benefits

As described in the policy table on pages 72 and 73.

Annual bonus

Opportunity

The annual bonus opportunity will remain unchanged for 2017.

Performance conditions

The financial performance targets for the year ended 31 December 2016 were based on growth in absolute NAV per share, Total Property Return relative to the IPD Total Return All Property Index, and underlying EPS. The Committee has decided that, whilst NAV and TPR continue to be of greatest importance to Capco's strategy, in 2017 the weighting of EPS as a performance measure will be increased to 10 per cent of the financial performance measures, in line with years prior to 2016, in order to maintain appropriate focus on the Group's cost structure. The rebalancing of weightings of the financial performance measures for 2017 is shown in the table below. The relative weighting of financial and individual performance measures will remain unchanged. The Committee will consider the appropriate weighting of the EPS measure on an annual basis.

Performance targets

The TPR target is included in the Company's KPIs on page 13. 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 three specific locations within the competitive central London property market, prospective disclosure of specific short-term NAV and EPS targets would provide a level of information to counterparties that could prejudice the Company's commercial interests. The Committee expects to publish the performance targets retrospectively once they have ceased to be commercially sensitive. Further information on the Company's KPIs can be found on page 13.

2017 financial performance measures

Absolute Net Asset Value per share	55%
Relative Total Property Return	35%
Underlying Earnings per Share	10%

Matching Share Plan

No further MSP awards will be made.

Performance Share Plan

If the new remuneration policy is approved at the 2017 AGM, PSP awards of 350 per cent of salary will be made in May 2017 as awards or nil cost options. The applicable performance conditions are set out in the table below:

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

Chairman and Non-executive Director remuneration

The Chairman has been appointed for a three-year term, subject to annual re-election by shareholders, which will expire at the 2019 AGM. The Chairman's annual base fee for 2016 was £257,000. The remuneration of the Chairman is reviewed annually. Following the 2016 review it was agreed that the Chairman's annual base fee would be increased to £265,000 with effect from 1 May 2017.

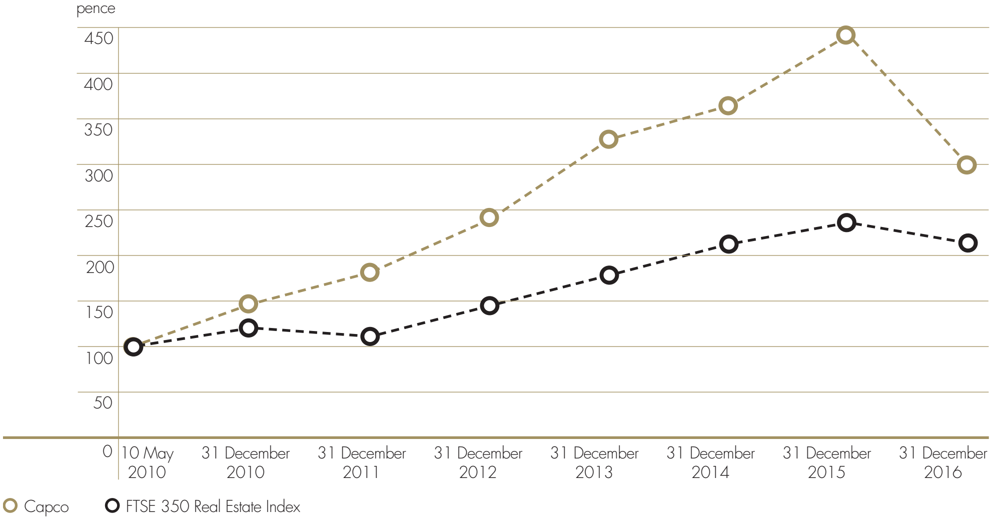
The remuneration of the Non-executive Directors is considered by the Chairman and the Chief Executive, with regard to market comparatives, and recommended to the Board as a whole. The Non-executive Director fees are reviewed annually. Following the 2016 review it was agreed that the Non-executive Director fees would be increased as set out in the table below with effect from 1 May 2017.

Non-executive Director fees – 2016 and 2017

	2017	2016
Basic fee	£51,500	£50,000
Committee member (except Nomination Committee)	£6,700	£6,500
Committee member (Nomination Committee)	£6,000	£6,000
Committee Chairman (Audit and Remuneration Committee)	£16,000	£15,500
Senior Independent Director	£12,900	£12,500

2.11 Chart of single figure vs. TSR

Figure 5: Total shareholder return



This graph shows the total shareholder return at 31 December 2016 of £100 invested in Capital & Counties Properties PLC at the start of the first day of trading in its shares following its demerger from Liberty International PLC (10 May 2010), compared to the FTSE 350 Real Estate Index. The Committee considers this benchmark to be the most appropriate for illustrating the Company's performance.

Financial Year	2010	2011	2012	2013	2014	2015	2016
CEO Single Figure	£1,184,082	£1,253,235	£8,967,543	£3,529,554	£3,396,392	£3,275,065	£918,236
Annual bonus % of max	97.50%	100%	95%	94.67%	96.73%	91.25%	21.25%
MSP vesting % of max	n/a	n/a	100%	100%	93.1%	40 or 80%[1]	0%
PSP vesting % of max	n/a	n/a	100%	100%	93.1%	60%	0%

1. *Depending on the award.*

2.12 Percentage increase of Chief Executive remuneration

The table below shows the percentage change in the Chief Executive's remuneration from the prior year compared to the average percentage change in remuneration for employees at Capco Head Office (including Earls Court Properties) and Covent Garden, who have been selected as the comparator as they participate in similar remuneration arrangements to the Executive Directors. To allow a meaningful comparison, the analysis for employees is based on a consistent group of individuals.

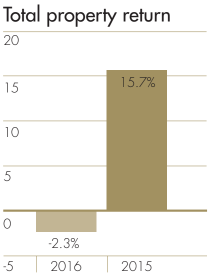
	Chief Executive			Employees
	2016 £	2015 £	% change	% change
Salary	573,000	549,750	4.23%	5.66%
Taxable benefits	23,430	22,218	5.46%	24.94%
Single-year variable	184,236	763,763	-75.88%	-50.39%
Total	**780,666**	**1,335,731**		

2.13 Distribution statement

The graphs in Figure 6 below illustrate Capco's dividends paid and total employee pay expenditure (this includes pension, variable pay, and social security) for the financial years ended 31 December 2015 and 31 December 2016, and the percentage change in each. The measures above are those prescribed by the remuneration disclosure regulations, however they do not reflect Capco's KPIs, which are explained on page 13. Accordingly, graphs showing Capco's one-year TPR and TR are also included below.

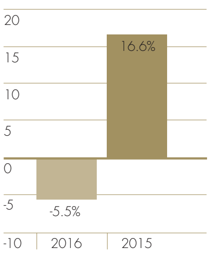
Figure 6

Total property return



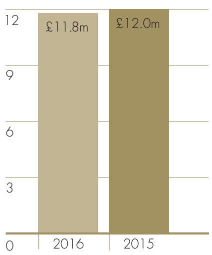
-18.0% change from 2015 to 2016

Total return



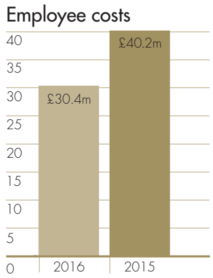
-22.1% change from 2015 to 2016

Dividends



-1.7% change from 2015 to 2016

Employee costs



-24.4% change from 2015 to 2016

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

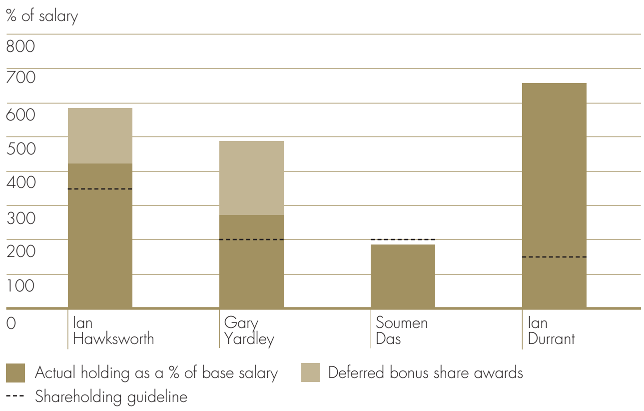
(a) Directors' shareholdings

The beneficial interests in the shares of the Company for each Director who served during the year are set out in the table below. The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of salary and the other Executive Directors are required to achieve a shareholding in the Company equivalent to 200 per cent of base salary, to be achieved by retaining at least 50 per cent of any vested share awards (net of tax) and/or within three years. The Chairman is required to maintain a shareholding equivalent to 100 per cent of his base fee. The current shareholdings of the Chairman and Executive Directors are illustrated in Figure 7.

Directors' shareholdings (including connected persons) – 2016 and 2015 (Audited)

	2016	2015
Chairman		
Ian Durant	568,632	568,632
Executive		
Ian Hawksworth	820,604	770,604
Gary Yardley	472,972	442,972
Non-executive		
Graeme Gordon	30,450,061	30,450,061
Gerry Murphy	30,000	–
Demetra Pinsent	–	–
Henry Staunton	250,000	250,000
Anthony Steains	–	–
Andrew Strang	–	–
Former Directors		
Soumen Das[1]	282,018	252,018
Ian Henderson[2]	37,601	37,601

Figure 7: Executive Director and Chairman Shareholdings as at 31 December 2016



1. *Shareholdings as at 31 December 2016, being the date that Soumen Das stepped down from the Board.*
2. *Shareholdings as at 6 May 2016, being the date that Ian Henderson retired from the Board.*

(b) Directors' share interests (Audited)

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

(i) Summary of Executive Directors' interests in shares and share schemes (full details are set out on pages 87 and 88)

Executive Director	Shares held	Share awards in respect of deferred bonus	Share awards, no longer subject to performance conditions[1]	Share awards, subject to performance conditions[2]	Total
Ian Hawksworth	820,604	315,536	585,778	1,515,341	3,237,259
Soumen Das[3]	282,018	–	–	–	282,018
Gary Yardley	472,972	377,706	347,095	1,309,355	2,507,128
Total	**1,575,594**	**693,242**	**932,873**	**2,824,696**	**6,026,405**

1. *Comprises vested but unexercised Existing PSP and MSP awards.*
2. *Comprises Existing PSP and MSP awards that remain subject to performance conditions.*
3. *Shares held as at the date that Soumen Das stepped down from the Board, being 31 December 2016.*

(ii) Outstanding awards made under Performance Share Plan[1]

Name	Year granted	Option price (pence) if any	Held at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2016	Exercisable between
Ian Hawksworth[2]	2011	157.73	19,019	–	–	–	19,019	2014 – 2021
Ian Hawksworth[2]	2012	Nil	329,535	–	52,558	–	276,977	2015 – 2022
Ian Hawksworth[2]	2013	Nil	369,265	–	–	169,493	199,772	2016 – 2023
Ian Hawksworth	2014	Nil	223,766	–	–	–	223,766	2017 – 2024
Ian Hawksworth	2015	Nil	207,728	–	–	–	207,728	2018 – 2025
Ian Hawksworth	2016	Nil	–	274,976	–	–	274,976	2019 – 2026
Soumen Das	2012	Nil	219,689	–	219,689	–	–	2015 – 2022
Soumen Das	2013	Nil	268,556	–	145,288	123,268	–	2016 – 2023
Soumen Das	2014	Nil	159,561	–	–	159,561	–	2017 – 2024
Soumen Das	2015	Nil	152,631	–	–	152,631	–	2018 – 2025
Soumen Das	2016	Nil	–	214,081	–	214,081	–	2019 – 2026
Gary Yardley[2]	2011	157.73	19,019	–	–	–	19,019	2014 – 2021
Gary Yardley	2012	Nil	292,920	–	292,920	–	–	2015 – 2022
Gary Yardley	2013	Nil	328,235	–	–	150,660	177,575	2016 – 2023
Gary Yardley	2014	Nil	195,020	–	–	–	195,020	2017 – 2024
Gary Yardley	2015	Nil	186,136	–	–	–	186,136	2018 – 2025
Gary Yardley	2016	Nil	–	246,431	–	–	246,431	2019 – 2025
Total			2,971,080				2,026,419	

1. *Subject to performance conditions that apply to awards made under the Existing PSP and MSP, as set out on pages 72 and 73.*
2. *Vested but unexercised or not exercised in full.*

(c) Matching Share Plan (Audited)

(i) Deferred shares

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

Name	Year granted	Market price on date of grant (pence)	Option price (pence) if any	Held at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2016	Exercisable between
Ian Hawksworth	2012	190.70	Nil	176,979	–	176,979	–	–	2015 – 2022
Ian Hawksworth	2013	268.10	Nil	119,591	–	119,591	–	–	2016 – 2023
Ian Hawksworth	2014	351.93	Nil	99,863	–	–	–	99,863	2017 – 2024
Ian Hawksworth	2015	402.93	Nil	94,557	–	–	–	94,557	2018 – 2025
Ian Hawksworth	2016	315.30	Nil	–	121,116	–	–	121,116	2019 – 2026
Soumen Das	2012	190.70	Nil	117,986	–	117,986	–	–	2015 – 2022
Soumen Das	2013	268.10	Nil	93,248	–	93,248	–	–	2016 – 2023
Soumen Das	2014	351.93	Nil	72,628	–	–	72,628	–	2017 – 2024
Soumen Das	2015	402.93	Nil	68,374	–	–	68,374	–	2018 – 2025
Soumen Das	2016	315.30	Nil	–	88,962	–	88,962	–	2019 – 2026
Gary Yardley	2012	190.70	Nil	157,315	–	157,315	–	–	2015 – 2022
Gary Yardley[1]	2013	268.10	Nil	106,303	–	3,305	–	102,998	2016 – 2023
Gary Yardley	2014	351.93	Nil	88,767	–	–	–	88,767	2017 – 2024
Gary Yardley	2015	402.93	Nil	81,279	–	–	–	81,279	2018 – 2025
Gary Yardley	2016	315.30	Nil	–	104,662	–	–	104,662	2019 – 2026
Total				1,276,890				693,242	

1. *Vested but unexercised or not exercised in full.*

(ii) Matched deferred shares[1]

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

Name	Year granted	Market price on date of grant (pence)	Option price (pence) if any	Held at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2016	Exercisable between
Ian Hawksworth	2012	190.70	Nil	164,767	–	164,767	–	–	2015 – 2022
Ian Hawksworth	2013	268.10	Nil	119,591	–	86,105	33,486	–	2016 – 2023
Ian Hawksworth	2014	351.93	Nil	199,726	–	–	–	199,726	2017 – 2024
Ian Hawksworth	2015	402.93	Nil	94,557	–	–	–	94,557	2018 – 2021
Ian Hawksworth	2016	315.30	Nil	–	121,116	–	–	121,116	2019 – 2026
Soumen Das	2012	190.70	Nil	109,844	–	109,844	–	–	2015 – 2022
Soumen Das	2013	268.10	Nil	93,248	–	67,138	26,110	–	2016 – 2023
Soumen Das	2014	351.93	Nil	145,256	–	–	145,256	–	2017 – 2024
Soumen Das	2015	402.93	Nil	68,374	–	–	68,374	–	2018 – 2025
Soumen Das	2016	315.30	Nil	–	88,962	–	88,962	–	2019 – 2026
Gary Yardley	2012	190.70	Nil	146,460	–	146,460	–	–	2015 – 2022
Gary Yardley[2]	2013	268.10	Nil	106,303	–	–	29,765	76,538	2016 – 2023
Gary Yardley	2014	351.93	Nil	177,534	–	–	–	177,534	2017 – 2024
Gary Yardley	2015	402.93	Nil	81,279	–	–	–	81,279	2018 – 2025
Gary Yardley	2016	315.30	Nil	–	104,662	–	–	104,662	2019 – 2026
Total				1,506,939				855,412	

1. *Subject to performance conditions that apply to awards made under the Existing PSP and MSP, as set out on pages 72 and 73.*
2. *Vested but unexercised.*

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

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

Name	Year granted	Option price (pence) if any	Held at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2016	Exercisable between
Ian Hawksworth[2]	2013	Nil	250,028	–	–	160,018	90,010	2016 – 2023
Ian Hawksworth	2014	Nil	27,916	–	–	–	27,916	2017 – 2024
Ian Hawksworth	2016	Nil	–	365,556	–	–	365,556	2019 – 2026
Soumen Das	2012	Nil	200,248	–	200,248	–	–	2015 –2022
Soumen Das	2013	Nil	184,738	–	–	184,738	–	2016 – 2023
Soumen Das	2014	Nil	47,858	–	–	47,858	–	2017 – 2024
Soumen Das	2016	Nil	–	147,461	–	147,461	–	2019 –2026
Gary Yardley[2]	2013	Nil	205,454	–	–	131,491	73,963	2016 – 2023
Gary Yardley	2014	Nil	16,336	–	–	–	16,336	2017 – 2024
Gary Yardley	2015	Nil	152,788	–	–	–	152,788	2018 –2025
Gary Yardley	2016	Nil	–	149,169	–	–	149,169	2019 – 2026
Total			1,085,366				875,738	

1. *Subject to performance conditions that apply to awards made under the Existing PSP and MSP, as set out on pages 72 and 73.*
2. *Vested but unexercised.*

The market price of Capital & Counties Properties PLC shares on 30 December 2016 (being the last day for trading during the year) was 297.1 pence and during the year the price varied between 433.0 pence and 263.1 pence. The aggregate gain made by the Executive Directors following the exercise of share options during the year was £7,281,881.50.

This Remuneration Report has been approved for issue by the Board of Directors on 21 February 2017.

Gerry Murphy
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 2016.

STRATEGIC REPORT

The Group's 2016 Strategic Report, which includes a review of the Group's business during the financial year, the Group's position at year end and a description of the principal risks and uncertainties facing the Group, comprises the following sections of the Annual Report:

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:

I.C. Durant

Executive Directors:

I.D. Hawksworth

S. Das (Resigned 31 December 2016)

S. Jobanputra (Appointed 1 January 2017)

G.J. Yardley

Non-executive Directors:

I.J. Henderson (Retired 6 May 2016)

G.J. Gordon

J.G. Murphy

D. Pinsent

H.E. Staunton

A Steains (Appointed 1 March 2016)

A.D. Strang

Biographies of each Director can be found on pages 56 and 57 and details of each Director's interests in the Company's shares are set out on page 86.

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

The rules governing the appointment and replacement of Directors are contained in the Company's Articles and UK legislation. In compliance with the 2016 UK Corporate Governance Code, at the 2017 Annual General Meeting all the Directors will retire from office and will offer themselves for election or re-election.

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 managing 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 update any changes to these conflicts.

DIRECTORS' INDEMNITIES AND INSURANCE

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

ARTICLES OF ASSOCIATION

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

DIVIDENDS

The Directors have proposed the following dividends:

Interim Dividend paid on 30 September 2016	0.5p per ordinary share
Proposed Final Dividend to be paid on 31 May 2017	1p per ordinary share
Total proposed dividend for 2016	1.5p per ordinary share

Subject to SARB approval, it is intended that a scrip dividend alternative be offered to shareholders in respect of the proposed final dividend for 2016. The proposed final dividend will be paid on 31 May 2017 to shareholders whose names are on the register at 21 April 2017.

CAPITAL STRUCTURE

Details of the Company's issued ordinary share capital, including details of movements in the issued share capital during the year, authorities to issue or repurchase shares and details of shares repurchased by the Company during the year, of which there were none, are shown in note 27 to the financial statements on page 130. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the transfer of shares beyond those standard provisions set out in the Articles of Association. No shareholder holds shares carrying special rights with regard to control of the Company. Details of significant shareholdings are set out on page 90.

USE OF FINANCIAL INSTRUMENTS

Information on risk management objectives and policies, including hedging policies, and exposure of the Company in relation to the use of financial instruments, can be found in note 25 on pages 125 to 129.

CHANGE OF CONTROL PROVISIONS

There are a number of agreements which take effect, alter or terminate upon a change of control of the Company. The agreements that would be considered significant are the £705 million Covent Garden facility, the Covent Garden £150 million and £175 million notes issued pursuant to a US Private Placement, the Empress State £118.5 million term and revolving facility and the Lillie Square development joint venture.

Holder	Shares held at time of last notification	Per cent held at time of last notification	Nature of holding	Date of last notification
BlackRock, Inc.	86,799,190	10.25%	Indirect Interest	16 February 2017
Coronation Asset Management (Pty) Limited	92,894,111	10.98%	Direct Interest	15 November 2016
Foord Asset Management (Pty) Ltd	85,342,860	10.09%	Indirect Interest	10 October 2016
Gordon Family Interests	92,083,204	10.96%	Direct Interest	3 March 2015
Investec Asset Management (PTY) Ltd and Investec Asset Management Ltd	41,951,373	4.96%	Indirect Interest	28 June 2016
Norges Bank	67,715,767	8.00%	Direct Interest	20 February 2017
Old Mutual plc	41,548,620	4.91%	Indirect Interest	15 July 2016
Public Investment Corporation SOC Limited	60,613,380	7.16%	Direct Interest	17 February 2017

SUBSTANTIAL SHAREHOLDINGS

The significant holdings of voting rights in the share capital of the Company notified and disclosed in accordance with Disclosure and Transparency Rule 5, as at 21 February 2017, are shown in the table above.

EMPLOYEES

Capco's intranet, The Wire, and staff briefings are used to update employees on Capco's activities and financial performance during the year. Regular staff briefings are also held by the Olympia business.

Certain of the Group's employees are eligible to participate in annual bonus arrangements. These arrangements, which may include awards under the Group's Performance Share Plan, help to develop employees' interest in the Company's performance. Full details of the Performance Share Plan are contained in note 32 to the accounts on pages 132 to 134.

Capco operates a non-discriminatory employment policy and full and fair consideration is given to applications for employment made by disabled applicants, having regard to their particular aptitudes and abilities, and to the continued employment of staff who become disabled.

The Company encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of all employees.

Further information on Group employees can be found on pages 49 and 50 and in note 7 on page 110. The Group provides retirement benefits for the majority of its employees. Details of the Group pension arrangements are set out in note 33 on pages 135 to 137.

THE ENVIRONMENT

Details of the Group's corporate responsibility policy and its aims and activities are described on the Company's website www.capitalandcounties.com. An overview of the Group's CR activity is on pages 47 to 55.

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

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

OVERSEAS BRANCH REGISTER

For the purposes of its listing on the Johannesburg Stock Exchange, the Company maintains an overseas branch register in South Africa.

LISTING RULES DISCLOSURES

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

	Page
○ Interest capitalised	111
○ Non-pre-emptive issue of equity	130
○ Interests in significant contracts	131

GOING CONCERN

As set out on page 46, the Directors have a reasonable expectation that the Company and the Group will have adequate resources to meet both on-going and future commitments over a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

DISCLOSURE TO AUDITORS

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

INDEPENDENT AUDITORS

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

ANNUAL GENERAL MEETING

The 2017 Annual General Meeting of the Company will be held from 11.30 am on 5 May 2017 at The Canary Riverside Plaza at Canary Wharf. The Notice of the Meeting, together with an explanation of the business to be dealt with at the Meeting, is included as a separate document sent to shareholders who have elected to receive hard copies of shareholder information and is also available on the Company's website.

By Order of the Board.

R.E. Pavey
Secretary

21 February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report & Accounts, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Governance section, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Directors' report contained includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- having taken all matters considered by the Board and brought to the attention of the Board during the year into account, the Directors consider that the Annual Report & Accounts, taken as a whole are fair, balanced and understandable. The Directors believe that the disclosures set out in the Annual Report & Accounts provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The financial statements on pages 97 to 139 were approved by the Board of Directors on 21 February 2017 and signed on its behalf by

Ian Hawksworth
Chief Executive

Situl Jobanputra
Chief Financial Officer

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion:

- Capital & Counties Properties PLC's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's loss and the Group's and the Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Group and Company Balance sheets as at 31 December 2016;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Group and Company Statements of cash flows for the year then ended;
- the Consolidated and Company Statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach

Context

Our 2016 audit was planned and executed having regard to the fact that Capital & Counties Properties PLC's operations were largely unchanged in nature from the previous year; and that there have been no significant changes to the valuation methodology and accounting standards relevant to the Group. In light of this, our approach to the audit in terms of scoping and areas of focus was largely unchanged.

Overview

Materiality	– Overall group materiality: £41 million (2015: £42 million) which represents 1% of total assets. – For income statement line items that are deemed to be of particular relevance, we applied a lower materiality.
Audit scope	– We audited the complete financial information of each of the Group's four business lines of which Covent Garden, Earls Court and Venues are financially significant.
Areas of focus	– Valuation of investment and development properties. – Taxation.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of investment and development properties *Refer to pages 64 to 66 (Audit Committee Report), pages 103 to 107 (Principal Accounting Policies) and pages 103 to 139 (notes to the financial statements).* The valuation of the Group's investment and development properties is the key component of the net asset value and underpins the Group's result for the year. The result of the revaluation this year was a loss of £235m (2015: gain of £454m), which is accounted for within '(Loss)/Gain on revaluation and sale of investment and development property' and is a significant component of the result for the year. The Group's property portfolios, which comprise investment property (including retail, food and beverage, commercial, residential and exhibition space) as well as development property located in central London are not uniform in nature. Therefore, there are a number of different assumptions made by the Group's third party valuers, Jones Lang LaSalle and CB Richard Ellis (the "Valuers"), in determining fair value: – Investment properties – The valuation of investment properties (predominantly Covent Garden) is inherently subjective, due principally to the individual nature of each property, which greatly influences the future rental it is expected to generate. The assumptions on which the property values are based are influenced by tenure and tenancy details for each property, prevailing market yields and the estimated rental value of each property. – Development properties – The valuation of development property (predominantly Earls Court) is also inherently subjective. Development properties are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using either a sales comparison or income capitalisation method less estimated costs to completion and market based profit margin providing a return on development risk). Macro-economic factors and uncertain market conditions have had an adverse impact on the valuation of development property. The fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus on this area. The Valuers were engaged by the Directors, in accordance with the RICS Valuation – Professional Standards ("RICS").	*Experience of Valuers and relevance of their work* We read the Valuers' reports from CB Richard Ellis and Jones Lang LaSalle. We confirmed that the approaches used were consistent with the RICS guidelines and the requirements of IFRSs as adopted by the European Union. We assessed the Valuers' competence and capabilities and read their terms of engagement with the Group, determining that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. *Data provided to the Valuers* For investment and development properties, we sample tested data provided to the Valuers by management and found that it was consistent with the information we audited. This data included tenancy schedules, capital expenditure details, cost schedules and square footage details which we agreed back to appropriate supporting documentation. For development properties, we agreed that the planned schemes being valued were consistent with the actual planned developments and, where appropriate, had achieved planning consents. *Assumptions and estimates used by the Valuers* We met with the Valuers independently of management and gained an understanding of the valuation methods and assumptions used. We compared the movement in capital values over the period with market sector benchmarks to help identify significant changes in assumptions. The nature of assumptions used varied across the portfolio, depending on the nature of each property but they included estimated capital values, investment yields, estimated rental values, construction costs and developers' margins. In each of these areas, and on a sample basis, we compared the estimates and assumptions used by the Valuers against our own expectations, using evidence of comparable market transactions. Where we identified estimates and assumptions that were outside the typical ranges used, we discussed these with the Valuers to understand the rationale and then assessed, based on all the available evidence and our experience in this sector, whether the use of the estimate or assumption was justified. Our testing which involved the use of our internal real estate valuation specialists, qualified chartered surveyors with deep market knowledge, indicated that the estimates and assumptions used were appropriate in the context of the Group's property portfolio and reflected the circumstances of the market in the year.
Taxation *Refer to pages 64 to 66 (Audit Committee Report), pages 103 to 107 (Principal Accounting Policies) and pages 103 to 139 (notes to the financial statements).* Tax is a specific risk for the Group due to the degree of judgement involved in some of the ongoing activities of the Group and the wider Group restructuring. This gives rise to material tax considerations on the calculation, recognition, and classification of current and deferred tax balances from both a tax compliance and accounting perspective. Judgements are made by management to arrive at the current and deferred tax position. These judgements include the impact of the transfer of investment properties and the Group holding structure.	We assessed the principal assumptions and judgements made in arriving at the current and deferred tax position by using our experience of similar matters in the industry. We used our tax specialists to evaluate tax provisions and potential exposures as at 31 December 2016, challenging the Group's assumptions and judgements through our knowledge of the tax circumstances and by reading relevant correspondence between the Group and Her Majesty's Revenue & Customs and the Group's external tax advisors. We did not identify any matters that the Directors have not adequately reflected in their calculation of the necessary current and deferred tax provisions.

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along four business lines, Covent Garden, Earls Court Properties (including the Lillie Square development joint venture), Venues and Other.

The Group engagement team audited all business lines except Venues (a significant component), where the audit procedures were performed by a component PwC engagement team. The Group team issued the Venues audit team with detailed instructions that explained the work that the Venues audit team needed to perform and highlighted, in particular, the areas of focus insofar as they were relevant to the Venues business line. Throughout the audit, the Group team communicated with the Venues team, and attended relevant meetings and reviewed the component team's electronic audit working papers, to ensure that we obtained sufficient appropriate audit evidence to form a basis for our opinion on the Group financial statements as a whole.

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 on the financial statements as a whole.

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

Overall Group materiality	£41 million (2015: £42 million).
How we determined it	1% 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. Given this, consistent with the prior year, we set an overall Group materiality level based on total assets.

In addition to overall Group materiality, a specific materiality was also applied to certain areas of the income statement. In 2016, we refined our approach to specific materiality to align with the metrics in the income statement that we believe are of particular interest to the members and determined those metrics to be Net rental income, Loss on revaluation and sale of investment and development property and Net finance costs. In order to reflect their specific characteristics, we applied materiality levels of 10% of the respective amounts of these line items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2 million (2015: £2 million) on balance sheet items as well as misstatements below that amount based on a proportionate value of the relevant materiality figures for income statement line items and other matters that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' Statement, set out on page 90, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinions

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Parent Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on pages 58 to 63 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 58 to 63 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group, the Parent Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– the statement given by the Directors on page 91, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report on page 65, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
– the Directors' confirmation on page 14 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the Directors' explanation on page 17 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 91, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 February 2017

(a) The maintenance and integrity of the Capital & Counties Properties PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue	2	**127.4**	114.9
Rental income		**104.0**	99.7
Rental expenses		**(22.0)**	(24.4)
Net rental income	2	**82.0**	75.3
Profit on sale of trading property	3	**5.6**	3.5
Other income		**4.6**	4.0
(Loss)/gain on revaluation and sale of investment and development property	4	**(235.0)**	453.9
Profit/(loss) on sale of available-for-sale investments		**0.4**	(0.2)
Impairment of other receivables	5	**(14.8)**	(12.2)
Other costs	6	**(5.0)**	(0.2)
		(162.2)	524.1
Administration expenses		**(50.6)**	(52.1)
Operating (loss)/profit		**(212.8)**	472.0
Finance income	9	**0.3**	0.7
Finance costs	10	**(19.6)**	(20.8)
Other finance income	9	**10.5**	9.3
Other finance costs	10	**(5.3)**	–
Change in fair value of derivative financial instruments	25	**(13.1)**	(0.6)
Net finance costs		**(27.2)**	(11.4)
		(240.0)	460.6
Share of post-tax loss from joint ventures	16	**(0.3)**	(0.7)
(Loss)/profit before tax		**(240.3)**	459.9
Current tax		**(1.0)**	2.2
Deferred tax		**17.8**	(4.9)
Taxation	11	**16.8**	(2.7)
(Loss)/profit for the year		**(223.5)**	457.2
(Loss)/profit attributable to:			
Owners of the Parent		**(118.6)**	431.1
Non-controlling interest	17	**(104.9)**	26.1
Earnings per share attributable to owners of the Parent			
Basic (loss)/earnings per share	13	**(14.0)p**	51.3p
Diluted (loss)/earnings per share	13	**(14.0)p**	50.9p
Weighted average number of shares	13	**844.4m**	841.1m

All results derive from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
(Loss)/profit for the year		**(223.5)**	457.2
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to the income statement			
Realise revaluation reserves on available-for-sale investments		**(0.2)**	–
Loss on cash flow hedge		**(1.2)**	–
Tax relating to items that may be reclassified subsequently	26	**0.3**	–
Items that will not be reclassified subsequently to the income statement			
Actuarial (loss)/gain on defined benefit pension scheme	33	**(1.6)**	0.8
Tax relating to items that will not be reclassified	26	**0.3**	(0.2)
Total other comprehensive (expense)/income for the year		**(2.4)**	0.6
Total comprehensive (expense)/income for the year		**(225.9)**	457.8
Attributable to:			
Owners of the Parent		**(121.0)**	431.7
Non-controlling interest	17	**(104.9)**	26.1

All results derive from continuing operations.

Balance sheets

As at 31 December 2016

	Notes	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Non-current assets					
Investment and development property	14	**3,819.9**	3,855.3	**–**	–
Plant and equipment		**7.1**	6.9	**–**	–
Investment in Group companies	15	**–**	–	**516.4**	516.4
Investment in joint ventures	16	**15.0**	14.8	**–**	–
Available-for-sale investments		**–**	0.2	**–**	–
Derivative financial instruments	18	**0.2**	0.8	**–**	–
Pension asset	33	**–**	0.7	**–**	–
Trade and other receivables	19	**194.8**	158.9	**–**	–
		4,037.0	4,037.6	**516.4**	516.4
Current assets					
Trading property	14	**2.9**	15.5	**–**	–
Trade and other receivables	19	**47.8**	32.3	**1,516.6**	707.4
Cash and cash equivalents	20	**30.9**	66.9	**–**	–
		81.6	114.7	**1,516.6**	707.4
Total assets		**4,118.6**	4,152.3	**2,033.0**	1,223.8
Non-current liabilities					
Borrowings, including finance leases	22	**(827.8)**	(607.6)	**–**	–
Derivative financial instruments	18	**(13.9)**	(3.2)	**–**	–
Pension liability	33	**(0.9)**	–	**–**	–
Deferred tax	26	**(2.7)**	(19.5)	**–**	–
		(845.3)	(630.3)	**–**	–
Current liabilities					
Borrowings, including finance leases	22	**(18.5)**	(18.5)	**–**	–
Other provisions		**(2.0)**	(2.0)	**–**	–
Tax liabilities		**(1.3)**	(2.8)	**–**	–
Trade and other payables	21	**(78.3)**	(95.9)	**(0.6)**	(0.6)
		(100.1)	(119.2)	**(0.6)**	(0.6)
Total liabilities		**(945.4)**	(749.5)	**(0.6)**	(0.6)
Net assets		**3,173.2**	3,402.8	**2,032.4**	1,223.2
Equity					
Share capital	27	**211.5**	210.5	**211.5**	210.5
Other components of equity		**2,593.5**	2,723.5	**1,820.9**	1,012.7
Equity attributable to owners of the Parent		**2,805.0**	2,934.0	**2,032.4**	1,223.2
Non-controlling interest	17	**368.2**	468.8	**–**	–
Total equity		**3,173.2**	3,402.8	**2,032.4**	1,223.2

The profit for the year attributable to shareholders of the Company is £815.6 million (2015: £10.1 million).

These consolidated financial statements have been approved for issue by the Board of Directors on 21 February 2017 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 2016

Group	Notes	Share capital £m	Share premium £m	Merger reserve[1] £m	Share-based payment reserve £m	Other reserves[2] £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
		Equity attributable to owners of the Parent								
Balance at 1 January 2015		209.1	206.9	425.8	11.4	0.4	1,652.7	2,506.3	–	2,506.3
Profit for the year		–	–	–	–	–	431.1	431.1	26.1	457.2
Other comprehensive income/(expense)										
Actuarial gain on defined benefit pension scheme	33	–	–	–	–	–	0.8	0.8	–	0.8
Tax relating to items that will not be reclassified	26	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Total comprehensive income for the year ended 31 December 2015		–	–	–	–	–	431.7	431.7	26.1	457.8
Transactions with owners										
Ordinary shares issued	27	1.4	4.2	–	–	–	–	5.6	–	5.6
Dividend expense	12	–	–	–	–	–	(12.6)	(12.6)	–	(12.6)
Adjustment for bonus issue	12	–	–	–	–	–	0.6	0.6	–	0.6
Realisation of share-based payment reserve on issue of shares		–	–	–	(5.7)	–	5.0	(0.7)	–	(0.7)
Fair value of share-based payment	32	–	–	–	4.6	–	–	4.6	–	4.6
Tax relating to share-based payment	26	–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Contribution from non-controlling interest		–	–	–	–	–	–	–	442.7	442.7
Total transactions with owners		1.4	4.2	–	(1.1)	–	(8.5)	(4.0)	442.7	438.7
Balance at 31 December 2015		**210.5**	**211.1**	**425.8**	**10.3**	**0.4**	**2,075.9**	**2,934.0**	**468.8**	**3,402.8**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(118.6)**	**(118.6)**	**(104.9)**	**(223.5)**
Other comprehensive (expense)/income										
Realise revaluation reserves on Available-for-sale investments		**–**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**	**–**	**(0.2)**
Loss on cash flow hedge		**–**	**–**	**–**	**–**	**(1.2)**	**–**	**(1.2)**	**–**	**(1.2)**
Tax relating to items that may be reclassified subsequently	26	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**	**–**	**0.3**
Actuarial loss on defined benefit pension scheme	33	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**–**	**(1.6)**
Tax relating to items that will not be reclassified	26	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Total comprehensive expense for the year ended 31 December 2016		**–**	**–**	**–**	**–**	**(1.1)**	**(119.9)**	**(121.0)**	**(104.9)**	**(225.9)**
Transactions with owners										
Ordinary shares issued	27	**1.0**	**4.0**	**–**	**–**	**–**	**–**	**5.0**	**–**	**5.0**
Dividend expense	12	**–**	**–**	**–**	**–**	**–**	**(12.7)**	**(12.7)**	**–**	**(12.7)**
Adjustment for bonus issue	12	**–**	**–**	**–**	**–**	**–**	**0.9**	**0.9**	**–**	**0.9**
Realisation of share-based payment reserve on issue of shares		**–**	**–**	**–**	**(5.3)**	**–**	**4.6**	**(0.7)**	**–**	**(0.7)**
Fair value of share-based payment	32	**–**	**–**	**–**	**1.1**	**–**	**–**	**1.1**	**–**	**1.1**
Tax relating to share-based payment	26	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**–**	**(1.6)**
Contribution from non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4.3**	**4.3**
Total transactions with owners		**1.0**	**4.0**	**–**	**(4.2)**	**–**	**(8.8)**	**(8.0)**	**4.3**	**(3.7)**
Balance at 31 December 2016		**211.5**	**215.1**	**425.8**	**6.1**	**(0.7)**	**1,947.2**	**2,805.0**	**368.2**	**3,173.2**

1 Represents non-qualifying consideration received by the Group following the share placing in May 2014 and previous share placements. The amounts taken to the merger reserve do not currently meet the criteria for qualifying consideration as they form part of linked transactions.

2 Other reserves comprises of revaluation reserve of £nil (2015: £0.1 million) and cash flow hedge reserve of –£0.7 million (2015: £0.3 million).

Statement of changes in equity

For the year ended 31 December 2016

Company	Notes	Share capital £m	Share premium £m	Merger reserve[1] £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015		209.1	206.9	425.8	11.4	362.4	1,215.6
Profit for the year		–	–	–	–	10.1	10.1
Total comprehensive income for the year ended 31 December 2015		–	–	–	–	10.1	10.1
Transactions with owners							
Ordinary shares issued	27	1.4	4.2	–	–	–	5.6
Dividend expense	12	–	–	–	–	(12.6)	(12.6)
Adjustment for bonus issue	12	–	–	–	–	0.6	0.6
Realisation of share-based payment reserve on issue of shares		–	–	–	(5.7)	5.0	(0.7)
Fair value of share-based payment	32	–	–	–	4.6	–	4.6
Total transactions with owners		1.4	4.2	–	(1.1)	(7.0)	(2.5)
Balance at 31 December 2015		**210.5**	**211.1**	**425.8**	**10.3**	**365.5**	**1,223.2**
Profit for the year		**–**	**–**	**–**	**–**	**815.6**	**815.6**
Total comprehensive income for the year ended 31 December 2016		**–**	**–**	**–**	**–**	**815.6**	**815.6**
Transactions with owners							
Ordinary shares issued	27	**1.0**	**4.0**	**–**	**–**	**–**	**5.0**
Dividend expense	12	**–**	**–**	**–**	**–**	**(12.7)**	**(12.7)**
Adjustment for bonus issue	12	**–**	**–**	**–**	**–**	**0.9**	**0.9**
Realisation of share-based payment reserve on issue of shares		**–**	**–**	**–**	**(5.3)**	**4.6**	**(0.7)**
Fair value of share-based payment	32	**–**	**–**	**–**	**1.1**	**–**	**1.1**
Total transactions with owners		**1.0**	**4.0**	**–**	**(4.2)**	**(7.2)**	**(6.4)**
Balance at 31 December 2016		**211.5**	**215.1**	**425.8**	**6.1**	**1,173.9**	**2,032.4**

1 Represents non-qualifying consideration received by the Group following the share placing in May 2014 and previous share placements. The amounts taken to the merger reserve do not currently meet the criteria for qualifying consideration as they form part of linked transactions.

Statements of cash flows

For the year ended 31 December 2016

	Notes	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Cash flows from operating activities					
Cash generated from operations	30	**(7.7)**	13.1	**7.4**	7.6
Interest paid		**(19.6)**	(19.6)	**–**	–
Interest received		**0.2**	0.7	**–**	–
Tax (paid)/received		**(2.4)**	3.5	**–**	–
Net cash (outflow)/inflow from operating activities		**(29.5)**	(2.3)	**7.4**	7.6
Cash flows from investing activities					
Purchase and development of property		**(216.1)**	(250.2)	**–**	–
Sale of property		**18.5**	11.2	**–**	–
Acquisition of interest in joint venture		**–**	(13.5)	**–**	–
Investment in joint venture		**(0.5)**	–	**–**	–
Proceeds from available-for-sale investments		**0.4**	–	**–**	–
Sale of loan notes		**–**	6.0	**–**	–
Sale of subsidiaries[1]		**0.5**	0.5	**–**	–
Loan advances to joint ventures		**(11.8)**	(3.2)	**–**	–
Deferred consideration on purchase of subsidiary		**–**	(7.1)	**–**	–
Net cash outflow from investing activities		**(209.0)**	(256.3)	**–**	–
Cash flows from financing activities					
Issue of shares		**0.1**	0.1	**0.1**	0.1
Borrowings drawn	22	**832.0**	225.0	**–**	–
Borrowings repaid	22	**(612.0)**	(51.0)	**–**	–
Purchase of derivative financial instruments		**(1.9)**	–	**–**	–
Other finance costs		**(8.2)**	(0.4)	**–**	–
Cash dividends paid	12	**(7.5)**	(7.7)	**(7.5)**	(7.7)
Contribution from non-controlling interest		**–**	64.7	**–**	–
Net cash inflow/(outflow) from financing activities		**202.5**	230.7	**(7.4)**	(7.6)
Net decrease in unrestricted cash and cash equivalents		**(36.0)**	(27.9)	**–**	–
Unrestricted cash and cash equivalents at 1 January		**60.9**	88.8	**–**	–
Unrestricted cash and cash equivalents at 31 December	20	**24.9**	60.9	**–**	–

1 Cash inflows from sale of subsidiaries relate to deferred consideration on the disposal of The Brewery by EC&O Limited on 9 February 2012.

All cash flows derive from continuing operations.

1 PRINCIPAL ACCOUNTING POLICIES

General information

Capital & Counties Properties PLC (the "Company") was incorporated and registered in England and Wales on 3 February 2010 under the Companies Act as a public company limited by shares, registration number 7145051. The registered office of the Company is 15 Grosvenor Street, London, W1K 4QZ, United Kingdom. The principal activity of the Company is to act as the ultimate parent company of Capital & Counties Properties PLC Group (the "Group"), whose principal activity is the development and management of property.

The Group's assets principally comprise investment and development property at Covent Garden, Earls Court and the exhibition halls at Olympia.

Basis of preparation

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, IFRS Interpretations Committee ("IFRSIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of property, available-for-sale investments and derivative financial instruments.

The Directors have taken advantage of the exemption offered by section 408 of the Companies Act 2006 not to present a separate income statement or statement of comprehensive income for the Company.

During 2016, the following accounting standards and interpretations have been adopted by the Group:

IFRS 10 'Consolidated Financial Statements' (amendment)
IFRS 11 'Joint Arrangements' (amendment)
IAS 1 'Presentation of Financial Statements' (amendment)
IAS 16 'Property, Plant and Equipment' (amendment)
IAS 27 'Separate Financial Statements' (amendment)
IAS 28 'Investments in Associates and Joint Ventures' (amendment)
IAS 38 'Intangible Assets' (amendment)
Amendments to IFRS (Annual improvements cycle 2012-2014)

These pronouncements had no significant impact on the consolidated financial statements and resulted in no changes to presentation and disclosure.

At the date of approval of the consolidated financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not effective, and in some cases have not been adopted for use in the European Union are:

IFRS 2 'Share-based Payment' (amendment)
IFRS 4 'Insurance Contracts' (amendment)
IFRS 9 'Financial Instruments'
IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' (amendment)
IFRS 15 'Revenue from Contracts with Customers'
IFRS 16 'Leases'
IAS 7 'Statement of Cash Flows' (amendment)
IAS 12 'Income Taxes' (amendment)

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

In relation to IFRS 15 'Revenue from Contracts with Customers', the Group's material revenue stream relates to property rental income. On the adoption of the standard this revenue stream will not be materially impacted due to property rental income continuing to be within the scope of IAS 17 'Leases' and therefore is out of scope. As the Group is predominately a lessor, IFRS 16 'Leases', will not have a material impact on adoption. Where the Group is currently a lessee, this relates to immaterial contracts.

A summary of the Group's principal accounting policies, which have been applied consistently across the Group is set out below.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and for this reason the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

These consolidated financial statements include the consolidation of the following limited partnerships: Capital & Counties CGP, Capco CGP 2012 LP, CG Investments 2016 LP, EC Properties LP, Solum Group Holdings LP and The Empress State Limited Partnership. The members of these qualifying partnerships have taken advantage of exemptions available in Statutory Instrument 2008/569 and therefore will not produce consolidated accounts at the partnership level.

The consolidated financial statements are prepared in British pounds sterling, which is also determined to be the functional currency of the Parent.

Subsidiaries

Subsidiaries are fully consolidated from the date on which the Group has control; it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over an entity. Subsidiaries cease to be consolidated from the date this control is lost.

Non-controlling interests are recognised on the basis of their proportionate share in the recognised amounts of a subsidiary's identifiable net assets. On the balance sheet non-controlling interests are presented separately from the equity of the owners of the Parent. Profit or loss and total comprehensive income for the period attributable to non-controlling interests are presented separately in the income statement and the statement of comprehensive income.

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of consolidated financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses from sources not readily apparent. Although these estimates and assumptions are based on management's best knowledge of the amount, historical experiences and other factors, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

Significant area of estimation and uncertainty is:

Property valuation: The most significant area of estimation and uncertainty in the consolidated financial statements is in respect of the valuation of the property portfolio and investments, where external valuations are obtained. The valuation of the Group's property portfolio is inherently subjective due to the assumptions as outlined within note 14 'Property Portfolio'. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate and could therefore have a material effect on the Group's financial performance and position.

The key areas of accounting judgement are:

Property classification: Judgement is required in the classification of property between investment, development, trading and owner occupied. Management considers each property separately and reviews factors including the long term intention for the property, in determining if trading, and the level of ancillary income, in determining if owner occupied, to ensure the appropriate classification.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key sources of estimation and uncertainty continued

Revenue recognition: In making its judgement over revenue recognition for property transactions, management considered the detailed criteria for the recognition of revenue set out in IAS 18 'Revenue' and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the assets being disposed. Management also consider the appropriate accounting treatment of tenant lease incentives.

Other less significant judgements and sources of estimation and uncertainty relate to provisions, share-based payment, contingent liabilities and pensions.

Operating segments

Management has determined the operating segments with reference to reports on divisional financial performance and position that are regularly reviewed by the Chief Executive, who is deemed to be the chief operating decision maker.

Revenue recognition

Rent receivable consists of gross income calculated on an accruals basis, together with services where the Group acts as principal in the ordinary course of business, excluding sales of property. Rental income is spread evenly over the period from lease commencement to lease expiry.

Tenant lease incentive payments, including surrender premiums paid which can be directly linked to enhanced rental income, are amortised on a straight-line basis over the lease term. Upon receipt of a surrender premium for the early termination of a lease, the profit and non-recoverable outgoings relating to the lease concerned are immediately reflected in net rental income.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews, are recorded as income in the periods in which they are earned.

Rent reviews are recognised as income, based on management estimates, when it is reasonable to assume they will be received. Estimates are derived from knowledge of market rents for comparable properties determined on an individual property basis and updated for progress of negotiations.

Where revenue is obtained by the sale of property, it is recognised when the significant risks and rewards have been transferred to the buyer. This will normally take place on exchange of contracts unless there are conditions that suggest insufficient probability of future economic benefits flowing to the Group. For conditional exchanges, sales are recognised when these conditions are satisfied. Revenue arising from the sale of property under construction is generally recognised when both contracts have been exchanged and the building work is physically complete.

Other income includes management fees charged to joint ventures for services associated with the management of properties and other general expenses as defined by management agreements.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

Dividend income is recognised when the Company's right to receive payment has been established.

Non-underlying items

Non-underlying items are those items that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Items deemed as non-underlying are impairment charges, net valuation gain/losses (including profits/losses on disposal), net refinancing charges, costs of termination of derivative financial instruments and non-recurring costs and income.

Foreign currencies

Transactions in currencies other than the Company's functional currency are recorded at the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except for differences arising on the retranslation of available-for-sale investments which are recognised in other comprehensive income.

Income taxes

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates that have been enacted or substantially enacted by the balance sheet date.

In accordance with IAS 12 'Income Taxes', deferred tax is provided for using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of those assets and liabilities. However, temporary differences are not recognised to the extent that they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss; or are associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that management believes it is probable that future taxable profit will be available against which the deferred tax assets can be recovered. Deferred tax assets and liabilities are only offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable group or different taxable entities where there is an intention to settle balances on a net basis.

Tax is included in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity respectively.

For tax purposes, an investment property accounted for at fair value will normally be recovered through sale rather than use.

Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of the business that has been disposed of or meets the criteria for classification as held for sale. Discontinued operations are presented separately from continuing operations in both the income statement and statement of cash flows.

Share-based payment

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the income statement with reference to the fair value of the instrument at the date of grant.

The income statement is charged over the vesting period of the options with a corresponding increase in equity. An option pricing model is used applying assumptions around expected yields, forfeiture rates, exercise price and volatility.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Share-based payment continued

Upon eventual exercise, a reserves transfer occurs with no further charge reflected in the income statement.

Own shares held in connection with employee share plans and other share-based payment arrangements are treated as treasury shares and deducted from equity.

Investment and development property

Investment and development property are owned or leased by the Group and held for long-term rental income and capital appreciation.

The Group has chosen to use the fair value model. Property and any related obligations are initially recognised when the significant risks and rewards attached to the property have transferred to the Group. Payments made in respect of the future acquisition of investment and development property, as is the case for the CLSA, are initially recognised as prepayments until the recognition criteria outlined above have been met. Investment and development property are 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 after allowing for future transaction costs.

The fair value of property is arrived at by adjusting the market value as above for directly attributable tenant lease incentives and fixed head leases.

Property held under leases is stated gross of the recognised finance lease liability.

The valuation is based upon assumptions as outlined within the property portfolio note. These assumptions conform with the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. The cost of development properties includes capitalised interest and other directly attributable outgoings, with the exception of properties and land where no development is imminent in which case no interest is included. Interest is capitalised (before tax relief) on the basis of the weighted average cost of debt outstanding until the date of practical completion.

When the Group redevelops a property for continued future use, that property is classified as investment and development property during the redevelopment period and continues to be measured at fair value.

Gains or losses arising from changes in the fair value of investment and development property are recognised in the income statement in the period in which they arise. Depreciation is not provided in respect of investment property including plant and equipment integral to such investment property. Investment and development properties cease to be recognised as investment and development property when they have been disposed of or when they cease to be held for the purpose of generating rental income or for capital appreciation.

Disposals are recognised on completion. Gains or losses arising are recognised in the income statement. The gain on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

A property ceases to be recognised as investment and development property and is transferred at its fair value to trading property when in the Directors' judgement, development commences with the intention of sale. Criteria considered in this assessment include the Board's stated intention, contractual commitments and physical, legal and financial viability.

When the use of a property changes from trading property to investment and development property, the property is transferred at fair value with any resulting gain recognised in the income statement.

Trading property

Trading property comprises those properties that in the Directors' view are not held for long-term rental income or capital appreciation and are expected to be disposed of within one year of the balance sheet date or to be developed with the intention to sell.

Such property is constructed, acquired, or if transferred from investment and development property, transferred at fair value which is deemed to represent cost. Subsequently trading property is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling costs. This approximates market value as determined by professionally qualified external valuers at the balance sheet date.

The amount of any write down of trading property to market value is recognised as an expense in the period the write down occurs. Should a valuation uplift occur in a subsequent period, the amount of any reversal shall be recognised as a reduction in the previous write down in the period in which the uplift occurs. This may not exceed the property's cost.

The sale of trading property is recognised as income when the significant risks and rewards have been transferred to the buyer. Total costs incurred in respect of trading property are recognised simultaneously as an expense.

Leases

Leases are classified according to the substance of the transaction.

A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are normally classified as operating leases.

Group as a lessee:

In accordance with IAS 40 'Investment Property', property held under finance and operating leases may be accounted for as investment property. Finance leases are recognised as both an asset and an obligation to pay future minimum lease payments. The investment property asset is included in the balance sheet at the lower of fair value and the present value of minimum lease payments, gross of the recognised finance lease liability. Lease payments are allocated between the liability and finance charges so as to achieve a constant financing rate.

Other finance leased assets are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments and depreciated over the shorter of the lease term and the useful life of the asset.

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the lease term.

Plant and equipment

Plant and equipment consist of fixtures, fittings and other office equipment. Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset plus any attributable cost in bringing the asset to its working condition for its intended use. Depreciation is charged to the income statement on a straight-line basis over an asset's estimated useful life to a maximum of five years.

Investment in Group companies

Investment in Group companies, which eliminate on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. Impairment losses are determined with reference to the investment's fair value less estimated selling costs. Fair value is derived from the subsidiary's, and their subsidiaries', net assets at the balance sheet date. On disposal, the difference between the net disposal proceeds and its carrying amount is included in the income statement.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Investment in joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Investments in joint ventures are accounted for using the equity method. On initial recognition the investment is recognised at cost, and the carrying amount is subsequently increased or decreased to recognise the Group's share of the profit or loss of the joint venture after the date of acquisition. Goodwill, if any, on acquisition is included in the carrying amount of the investment.

The Group's investment in joint ventures is presented separately on the balance sheet and the Group's share of the joint venture's post-tax profit or loss for the period is also presented separately in the income statement.

Where there is an indication that the Group's investment in joint ventures may be impaired the Group evaluates the recoverable amount of its investment, being the higher of the joint venture's fair value less costs to sell and value in use. If the recoverable amount is lower than the carrying value an impairment loss is recognised in the income statement.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has legal or constructive obligations to make payments on behalf of the joint venture.

Available-for-sale investments

Available-for-sale investments, being investments intended to be held for an indefinite period, are initially recognised and subsequently measured at fair value.

Gains or losses arising from changes in the fair value of available-for-sale investments are included in other comprehensive income, except to the extent that losses are determined to be attributable to impairment, in which case they are recognised in the income statement and may not be reversed in subsequent periods.

Disposals are recorded upon distribution, at which time accumulated fair value adjustments are recycled from reserves to the income statement.

Derivative financial instruments

The Group uses non-trading derivative financial instruments to manage exposure to interest rate risk. They are initially recognised on the trade date at fair value and subsequently remeasured at fair value based on market price. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Instruments that have not been designated as qualifying for hedge accounting are classified as held for trading. Changes in fair value of these instruments are recognised directly in the income statement.

The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). For hedging instruments, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. The Directors exercise judgement as to the collectability of the Group's trade and other receivables and determine when it is appropriate to impair these assets.

Impairment of financial assets

An annual review is conducted for financial assets to determine whether there is any evidence of a loss event as described by IAS 39 'Financial Instruments: Recognition and Measurement'. Factors such as days past due, credit status of the counterparty, historical evidence of collection and probability of deriving future economic benefit are considered to assess whether there is objective evidence of impairment. The amount of any potential loss is calculated by estimating future cash flows or by using fair value where this is available through observable market prices. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the impairment reversal is recognised in the income statement on a basis consistent with the original charge.

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value. Cash and cash equivalents comprise cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade and other payables

Trade payables are obligations for goods or services acquired in the ordinary course of business. Trade and other payables are recognised at fair value and subsequently measured at amortised cost until settled.

Deposits

Property deposits and on account receipts are held within trade and other payables.

Dividend distribution

Dividend distributions to shareholders are recognised as a liability once approved by shareholders.

Provisions

Provisions are recognised when the Group has a current obligation arising from a past event and it is probable that the Group will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Borrowings

Borrowings are ordinarily recognised initially at their net proceeds as an approximation of fair value.

If the transaction price is not an approximation of fair value at initial recognition, the Group determines the fair value as evidenced by a quoted price in an active market for an identical instrument or based on a valuation technique that uses data from observable markets. Where equity holders of the Group are party to the transaction the difference between the net proceeds and fair value is recognised within equity.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Borrowings continued

Borrowings are subsequently carried at amortised cost. Any transaction costs, premiums or discounts are capitalised and recognised over the contractual life of the loan using the effective interest rate method; or on a straight line basis where it is impractical to do so.

In the event of early repayment, transaction costs, premiums or discounts paid or unamortised costs are recognised immediately in the income statement.

Pensions

The costs of the defined contribution scheme and the Group's personal pension plans are charged against profits in the year in which they fall due.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions of the defined benefit scheme are recognised immediately as a charge in other comprehensive income for the period in which they arise with a corresponding increase in the pension surplus or deficit.

These re-measurements are not reclassified to the income statement in subsequent periods. Past service costs, current service costs, curtailment or settlement gains or losses and net interest income or expense are recognised immediately in the income statement. Net interest is calculated by applying the discount rate to the opening plan assets and scheme obligation.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method and applying assumptions which are agreed between the Group and its actuaries.

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.

Where the Group's own shares are re-purchased, the consideration paid is classified as treasury shares and deducted from equity. Where such shares are subsequently sold or re-issued, any consideration received is included in equity.

2 SEGMENTAL REPORTING

Management has determined the operating segments based on reports reviewed by the Chief Executive, who is deemed to be the chief operating decision maker. The principal performance measures have been identified as net rental income and net asset value.

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

- Covent Garden;
- Earls Court Properties represents the Group's interests in the Earls Court area, comprising properties held in ECPL, Lillie Square, the Empress State Building and a number of smaller properties in the Earls Court area;
- Venues comprises the Olympia London property assets and Maclise Road; and
- Other comprises Solum, the discontinued activity of The Great Capital Partnership, the Group's residual China investments, other head office companies and investments, including the payment of internal rent.

Management information, previously reported on a proportionally consolidated basis until 2015, is now reported to the chief operating decision maker on a Group share basis. Consequentially the comparative period has been re-presented in line with reporting requirements. Outlined below is the Group share by segment:

Segment	Group Share
Covent Garden	**100%**
Earls Court Properties	
ECPL	**63%**
Lillie Square	**50%**
Empress State	**100%**
Other	**100%**
Venues	**100%**
Other	
Solum	**50%**
GCP	**50%**
Other	**100%**

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, with the exception of Venues which derives revenue from licence fees from the letting of space.

Unallocated expenses consist primarily of costs incurred centrally which are neither directly nor meaningfully attributable to individual segments.

2 SEGMENTAL REPORTING CONTINUED

Reportable segments

	2016						
	Covent Garden £m	Earls Court Properties £m	Venues £m	Other £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Revenue[1]	**71.4**	**20.4**	**33.3**	**2.3**	**127.4**	**–**	**127.4**
Rent receivable	49.4	17.7	33.3	(0.4)	100.0	0.8	100.8
Service charge income	3.2	–	–	–	3.2	–	3.2
Rental income	52.6	17.7	33.3	(0.4)	103.2	0.8	104.0
Rental expenses[2]	(11.1)	(0.9)	(9.7)	–	(21.7)	(0.3)	(22.0)
Net rental income/(expense)	**41.5**	**16.8**	**23.6**	**(0.4)**	**81.5**	**0.5**	**82.0**
Profit/(loss) on sale of trading property	5.6	(1.2)	–	–	4.4	1.2	5.6
Other income	–	–	–	2.7	2.7	1.9	4.6
Gain/(loss) on revaluation and sale of investment and development property	126.1	(247.2)	(3.8)	0.1	(124.8)	(110.2)	(235.0)
Write down of trading property	–	(0.4)	–	–	(0.4)	0.4	–
Profit on sale of available-for-sale investments	–	–	–	0.4	0.4	–	0.4
Impairment of other receivables	–	–	–	–	–	(14.8)	(14.8)
Other costs	–	(5.0)	–	–	(5.0)	–	(5.0)
Segment result	**173.2**	**(237.0)**	**19.8**	**2.8**	**(41.2)**	**(121.0)**	**(162.2)**
Unallocated costs							
Administration expenses					(50.5)	(0.1)	(50.6)
Operating loss					**(91.7)**	**(121.1)**	**(212.8)**
Net finance costs[3]					(37.8)	10.6	(27.2)
Share of post-tax loss from joint ventures					–	(0.3)	(0.3)
Loss before tax					**(129.5)**	**(110.8)**	**(240.3)**
Taxation					10.9	5.9	16.8
Loss for the year					**(118.6)**	**(104.9)**	**(223.5)**
Loss attributable to:							
Owners of the Parent					(118.6)	–	(118.6)
Non-controlling interest					–	(104.9)	(104.9)
Summary balance sheet							
Total segment assets[4]	2,294.0	1,213.2	313.0	35.3	3,855.5	252.6	4,108.1
Total segment liabilities[4]	(724.8)	(240.3)	(83.1)	(12.8)	(1,061.0)	115.6	(945.4)
Segmental net assets	1,569.2	972.9	229.9	22.5	2,794.5	368.2	3,162.7
Unallocated assets[3]					10.5	–	10.5
Net assets					**2,805.0**	**368.2**	**3,173.2**
Other segment items:							
Depreciation	(0.2)	(1.3)	(0.4)	(0.3)	(2.2)	0.4	(1.8)
Capital expenditure	(153.9)	(80.2)	(1.5)	–	(235.6)	31.1	(204.5)

1 Total revenue of £127.4 million comprises rental income of £104.0 million, proceeds from sale of trading property of £18.8 million and other income of £4.6 million.

2 Comprises service charge and other non-recoverable costs.

3 The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.

4 Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

2 SEGMENTAL REPORTING CONTINUED

Reportable segments

	Re-presented 2015						
	Covent Garden £m	Earls Court Properties £m	Venues £m	Other £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Revenue[1]	61.3	18.2	31.3	2.1	112.9	2.0	114.9
Rent receivable	46.4	18.1	31.3	(0.4)	95.4	0.6	96.0
Service charge income	3.7	–	–	–	3.7	–	3.7
Rental income	50.1	18.1	31.3	(0.4)	99.1	0.6	99.7
Rental expenses[2]	(11.3)	(0.8)	(12.0)	(0.1)	(24.2)	(0.2)	(24.4)
Net rental income/(expense)	38.8	17.3	19.3	(0.5)	74.9	0.4	75.3
Profit/(loss) on sale of trading property	3.5	(1.5)	–	–	2.0	1.5	3.5
Other income	–	0.1	–	2.5	2.6	1.4	4.0
Gain/(loss) on revaluation and sale of investment and development property	262.9	100.9	58.4	(0.4)	421.8	32.1	453.9
Write back of trading property	–	0.2	–	–	0.2	(0.2)	–
Loss on sale of available-for-sale investments	–	–	–	(0.2)	(0.2)	–	(0.2)
Impairment of other receivables	–	–	–	–	–	(12.2)	(12.2)
Other costs	–	–	–	(0.2)	(0.2)	–	(0.2)
Segment result	305.2	117.0	77.7	1.2	501.1	23.0	524.1
Unallocated costs							
Administration expenses					(52.5)	0.4	(52.1)
Operating profit					448.6	23.4	472.0
Net finance costs[3]					(20.6)	9.2	(11.4)
Share of post-tax loss from joint ventures					–	(0.7)	(0.7)
Profit before tax					428.0	31.9	459.9
Taxation					3.1	(5.8)	(2.7)
Profit for the year					431.1	26.1	457.2
Profit attributable to:							
Owners of the Parent					431.1	–	431.1
Non-controlling interest					–	26.1	26.1
Summary balance sheet							
Total segment assets[4]	2,010.4	1,360.6	314.7	39.2	3,724.9	395.8	4,120.7
Total segment liabilities[4]	(569.6)	(193.7)	(36.6)	(22.6)	(822.5)	73.0	(749.5)
Segmental net assets	1,440.8	1,166.9	278.1	16.6	2,902.4	468.8	3,371.2
Unallocated assets[3]					31.6	–	31.6
Net assets					2,934.0	468.8	3,402.8
Other segment items:							
Depreciation	(0.2)	–	(0.2)	(0.1)	(0.5)	–	(0.5)
Capital expenditure	(110.8)	(360.1)	(4.0)	(0.3)	(475.2)	(142.7)	(617.9)

1 Total revenue of £114.9 million comprises rental income of £99.7 million, proceeds from sale of trading property of £11.2 million and other income of £4.0 million.

2 Comprises service charge and other non-recoverable costs.

3 The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.

4 Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

3 PROFIT ON SALE OF TRADING PROPERTY

	2016 £m	2015 £m
Proceeds from the sale of trading property	**18.8**	11.2
Cost of sale of trading property	**(12.9)**	(7.5)
Agent, selling and marketing fees	**(0.3)**	(0.2)
Profit on sale of trading property	**5.6**	3.5

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

	2016 £m	2015 £m
(Loss)/gain on revaluation of investment and development property	**(235.2)**	453.9
Gain on sale of investment and development property	**0.2**	–
(Loss)/gain on revaluation and sale of investment and development property	**(235.0)**	453.9

5 IMPAIRMENT OF OTHER RECEIVABLES

	2016 £m	2015 £m
Impairment of other receivables	**14.8**	12.2

Following an impairment review of amounts receivable from joint ventures by the Group, an impairment of £14.8 million has been recognised (2015: £12.2 million). The impairment was calculated with reference to the Group's share of the cumulative losses in the Lillie Square joint venture.

The carrying value of the investment is £nil (2015: £nil) in accordance with IAS 28 'Investment in Associates and Joint Ventures' ("IAS 28"). Refer to note 16 'Investment in Joint Ventures'.

6 OTHER COSTS

On 30 August 2012, the Group completed a joint venture arrangement with the Kwok Family Interests. The venture, to develop land interests at Lillie Square, resulted in the loss of control of the former subsidiary Lillie Square GP Limited and the disposal of a 50 per cent limited partnership interest in Lillie Square LP. During 2016 additional costs associated with the transaction have been incurred resulting in a loss of £5.0 million (2015: £nil). Other costs for 2015 relate to loss on sale of loan notes of £0.2 million.

7 EMPLOYEE INFORMATION

(a) Employee costs

	2016 £m	2015 £m
Wages and salaries	**27.1**	28.2
Social security costs[1]	**0.8**	6.0
Other pension costs	**1.4**	1.4
Share-based payment	**1.1**	4.6
Total employee costs	**30.4**	40.2

1 Included in social security costs is – £2.5 million of national insurance on share options (2015: £2.6 million). The credit for 2016 is due to changes in vesting and forfeiture assumptions.

(b) Employee numbers

Total number of people (including Executive Directors) employed	2016	2015
Venues	**153**	160
Capco head office (including Earls Court Properties) & Covent Garden	**143**	143
Total headcount at 31 December	**296**	303

Average monthly number of people (including Executive Directors) employed	2016	2015
Venues	**155**	170
Capco head office (including Earls Court Properties) & Covent Garden	**143**	131
Total average headcount	**298**	301

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Directors' remuneration report on pages 70 to 88 form part of these consolidated financial statements.

8 AUDITORS' REMUNERATION

	2016 £m	2015 £m
Remuneration to the principal auditor in respect of audit fees:		
Parent Company and Group consolidated financial statements	**0.2**	0.2
Statutory audit of subsidiaries	**0.3**	0.3
Fees related to the audit of the Company and its subsidiaries	**0.5**	0.5
Audit related assurance services	**–**	–
Total fees for audit and audit related services	**0.5**	0.5

The Group's auditors, PricewaterhouseCoopers LLP are engaged on assignments additional to their statutory duties where their expertise and experience of the Group are important. Should fees on an assignment be expected to exceed the lower of £50,000 or 15 per cent of the annual auditor's fee, they are pre-approved by the Chairman of the Audit Committee. Services costing up to £50,000 are pre-approved by the Audit Committee under its policy, subject to consideration and approval by an Executive Director. 2016 non-audit fees represented 3.0 per cent of the total fee.

9 FINANCE INCOME

	2016 £m	2015 £m
Finance income:		
On loan notes	**–**	0.2
On deposits and other	**0.3**	0.5
Finance income	**0.3**	0.7
Other finance income:		
On deep discount bonds	**10.5**	9.3
Other finance income[1]	**10.5**	9.3

1 Excluded from the calculation of underlying earnings as deep discount bonds eliminate on a Group share basis.

10 FINANCE COSTS

	2016 £m	2015 £m
Finance costs:		
On bank overdrafts, loans and other	**20.5**	21.0
On obligations under finance leases	**0.5**	0.5
Gross finance costs	**21.0**	21.5
Interest capitalised on property under development	**(1.4)**	(0.7)
Finance costs	**19.6**	20.8
Other finance costs:		
Costs of termination of bank loans and other	**5.3**	–
Other finance costs[1]	**5.3**	–

1 Non-recurring finance costs and therefore excluded from the calculation of underlying earnings.

Interest is capitalised, before tax relief, on the basis of the weighted average cost of debt of 2.7 per cent (2015: 3.3 per cent) applied to the cost of property under development during the year.

11 TAXATION

	2016 £m	2015 £m
Current income tax:		
Current income tax charge excluding non-underlying items	**1.4**	1.6
Current income tax on profits	**1.4**	1.6
Deferred income tax:		
On accelerated capital allowances	**0.8**	0.1
On fair value of investment and development property	**(15.6)**	3.8
On fair value of derivative financial instruments	**(2.4)**	(0.1)
On Group losses	**(5.6)**	0.5
On other temporary differences	**4.8**	(0.8)
Deferred income tax on profits	**(18.0)**	3.5
Adjustments in respect of previous years – current income tax	**(0.4)**	(3.8)
Adjustments in respect of previous years – deferred income tax	**0.2**	1.4
Total income tax (credit)/charge reported in the consolidated income statement	**(16.8)**	2.7

Factors affecting the tax charge for the year

The tax assessed for the year is £16.8 million which reflects a rate lower than the standard rate of corporation tax in the United Kingdom ("UK"). The differences are explained below:

	2016 £m	2015 £m
(Loss)/profit before tax	**(240.3)**	459.9
(Loss)/profit on ordinary activities multiplied by the standard rate in the UK of 20.0% (2015: 20.25%)	**(48.1)**	93.1
Unrecognised deferred income tax on revaluation losses/(gains)	**32.4**	(74.3)
Adjustments in respect of previous years	**(0.3)**	(2.4)
Expenses disallowed	**1.5**	1.7
Other temporary differences	**(1.4)**	(12.9)
Reduction in deferred income tax following change in corporation tax rate	**(0.9)**	(2.5)
Total income tax (credit)/charge reported in the consolidated income statement	**(16.8)**	2.7

Tax arising on items recognised in other comprehensive income is also reflected within other comprehensive income. This includes deferred tax on an element of the pension movement in addition to movement on the cash flow hedge. Tax arising on items recognised directly in equity is reflected in equity. This includes deferred tax on an element of the share-based payment.

Finance Act 2015 sets the main rate of UK corporation tax at 20 per cent with effect on 1 April 2015. The enactment of Finance (No. 2) Act 2015 and Finance Act 2016 reduces the main rate of corporation tax to 19 per cent from April 2017 and 17 per cent from April 2020.

12 DIVIDENDS

Group and Company	2016 £m	2015 £m
Ordinary shares		
Prior year final dividend of 1.0p per share (2015: 1.0p)	**8.4**	8.4
Interim dividend of 0.5p per share (2015: 0.5p)	**4.3**	4.2
Dividend expense	**12.7**	12.6
Shares issued in lieu of cash[1]	**(4.3)**	(4.3)
Adjustment for bonus issue[2]	**(0.9)**	(0.6)
Cash dividends paid	**7.5**	7.7
Proposed final dividend of 1.0p per share (2015: 1.0p)	**8.5**	8.4

1 Shares issued in lieu of cash relates to those shareholders who elect to receive their dividends in scrip form following the declaration of dividend which occurs at the Company's Annual General Meeting.

2 Adjustments for bonus issue arise from those shareholders who elect to receive their dividends in scrip form on an evergreen basis. These shares are treated as a bonus issue and allotted at nominal value.

13 EARNINGS PER SHARE AND NET ASSETS PER SHARE

(a) Earnings per share

	2016			2015		
	(Loss)/ earnings £m	**Shares[1] million**	**(Loss)/ earnings per share (pence)**	Earnings £m	Shares[1] million	Earnings per share (pence)
Basic (loss)/earnings	**(118.6)**	**844.4**	**(14.0)**	431.1	841.1	51.3
Dilutive effect of contingently issuable share option awards[2]	**–**	**0.7**		–	2.1	
Dilutive effect of contingently issuable deferred share awards[2]	**–**	**–**		–	0.8	
Dilutive effect of contingently issuable matching nil cost options awards[2]	**–**	**0.1**		–	1.3	
Dilutive effect of deferred bonus share option awards[2]	**–**	**0.7**		–	1.3	
Diluted (loss)/earnings	**(118.6)**	**845.9**	**(14.0)**	431.1	846.6	50.9
Basic (loss)/earnings	**(118.6)**			431.1		
Group adjustments:						
Profit on sale of trading property	**(5.6)**			(3.5)		
Loss/(gain) on revaluation and sale of investment and development property	**235.0**			(453.9)		
Loss on sale of loan notes	**–**			0.2		
Other finance costs	**5.3**			–		
Change in fair value of derivative financial instruments	**13.1**			0.6		
Deferred tax adjustments	**(17.2)**			3.8		
Non-controlling interest in respect of the adjustments	**(104.6)**			26.4		
Joint venture adjustments:						
Loss on sale of trading property[3]	**1.2**			1.6		
Loss/(gain) on revaluation of investment and development property	**0.1**			(0.1)		
Write down/(back) of trading property	**0.4**			(0.2)		
EPRA earnings[4]	**9.1**	**844.4**	**1.1**	6.0	841.1	0.7
(Profit)/loss on sale of available-for-sale investments	**(0.4)**			0.2		
Other costs	**5.0**			–		
Deferred tax adjustments	**(1.9)**			1.7		
Joint venture adjustment:						
Other income	**–**			(0.1)		
Underlying earnings[4]	**11.8**	**844.4**	**1.4**	7.8	841.1	0.9

1 Weighted average number of shares in issue has been adjusted by 0.3 million (2015: 0.1 million) for the issue of bonus shares in connection with the scrip dividend scheme.

2 Further information on these potential ordinary shares can be found in note 32 'Share-Based Payments'.

3 Loss on sale of trading property relates to Lillie Square sales and includes £1.4 million (2015: £1.6 million) of marketing and selling fees on a Group share basis. Marketing fees include costs for units that have not yet completed.

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

13 EARNINGS PER SHARE AND NET ASSETS PER SHARE CONTINUED

Headline earnings per share is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's Johannesburg Stock Exchange ("JSE") listing. This measure is not a requirement of IFRS.

(a) Earnings per share continued

	2016			2015		
	(Loss)/ earnings £m	**Shares[1] million**	**(Loss)/ earnings per share (pence)**	Earnings £m	Shares[1] million	Earnings per share (pence)
Basic (loss)/earnings	**(118.6)**	**844.4**	**(14.0)**	431.1	841.1	51.3
Group adjustments:						
Loss/(gain) on revaluation and sale of investment and development property	**235.0**			(453.9)		
(Profit)/loss on sale of available-for-sale investments	**(0.4)**			0.2		
Loss on sale of loan notes	**–**			0.2		
Deferred tax adjustments	**(15.6)**			3.8		
Non-controlling interest in respect of the Group adjustments	**(104.6)**			26.4		
Joint venture adjustment:						
Loss/(gain) on revaluation of investment and development property	**0.1**			(0.1)		
Headline (loss)/earnings	**(4.1)**	**844.4**	**(0.5)**	7.7	841.1	0.9
Dilutive effect of contingently issuable share option awards[2]	**–**	**0.7**		–	2.1	
Dilutive effect of contingently issuable deferred share awards[2]	**–**	**–**		–	0.8	
Dilutive effect of contingently issuable matching nil cost options awards[2]	**–**	**0.1**		–	1.3	
Dilutive effect of deferred bonus share option awards[2]	**–**	**0.7**		–	1.3	
Diluted headline (loss)/earnings	**(4.1)**	**845.9**	**(0.5)**	7.7	846.6	0.9

1 Weighted average number of shares in issue has been adjusted by 0.3 million (2015: 0.1 million) for the issue of bonus shares in connection with the scrip dividend scheme.

2 Further information on these potential ordinary shares can be found in note 32 'Share-Based Payments'.

(b) Net assets per share

	2016			2015		
	Net assets £m	**Shares million**	**NAV per share (pence)**	Net assets £m	Shares million	NAV per share (pence)
Net assets attributable to owners of the Parent	**2,805.0**	**846.1**	**331.5**	2,934.0	842.0	348.5
Effect of dilution on exercise of contingently issuable share option awards[1]	**–**	**0.7**		–	2.3	
Effect of dilution on vesting of contingently issuable deferred share awards[1]	**–**	**–**		–	0.8	
Effect of dilution on exercise of contingently issuable matching nil cost option awards[1]	**–**	**0.1**		–	1.3	
Effect of dilution on exercise of deferred bonus share option awards[1]	**–**	**0.7**		–	1.3	
Diluted NAV	**2,805.0**	**847.6**	**330.9**	2,934.0	847.7	346.1
Group adjustments:						
Fair value of derivative financial instruments	**13.7**			2.4		
Unrecognised surplus on trading property – Group	**1.5**			8.3		
Unrecognised surplus on trading property – Joint venture	**46.6**			91.6		
Deferred tax adjustments	**11.5**			28.9		
Non-controlling interests in respect of the adjustments	**–**			(5.8)		
EPRA NAV	**2,878.3**	**847.6**	**339.6**	3,059.4	847.7	360.9
Fair value of derivative financial instruments	**(13.7)**			(2.4)		
Excess fair value of debt over carrying value	**(12.4)**			(12.1)		
Deferred tax adjustments	**(11.5)**			(28.9)		
EPRA NNNAV	**2,840.7**	**847.6**	**335.1**	3,016.0	847.7	355.8

1 Further information on these potential ordinary shares can be found in note 32 'Share-Based Payments'.

14 PROPERTY PORTFOLIO

(a) Investment and development property

	Property portfolio					Tenure	
	Covent Garden £m	Earls Court Properties £m	Venues £m	Other £m	Total £m	Freehold £m	Leasehold £m
At 1 January 2015	1,576.7	970.6	232.6	4.5	2,784.4	1,469.4	1,315.0
Reclassification	–	–	–	–	–	(32.0)	32.0
Additions from acquisitions	50.0	449.2	–	–	499.2	85.6	413.6
Additions from subsequent expenditure	59.9	53.6	4.0	0.3	117.8	48.5	69.3
Gain/(loss) on valuation[1]	262.9	133.0	58.4	(0.4)	453.9	225.4	228.5
At 31 December 2015	**1,949.5**	**1,606.4**	**295.0**	**4.4**	**3,855.3**	**1,796.9**	**2,058.4**
Additions from acquisitions	**85.2**	**4.6**	**–**	**–**	**89.8**	**75.6**	**14.2**
Additions from subsequent expenditure	**68.4**	**44.5**	**1.5**	**–**	**114.4**	**53.0**	**61.4**
Disposals	**–**	**–**	**–**	**(4.4)**	**(4.4)**	**(4.4)**	**–**
Gain/(loss) on valuation[1]	**126.1**	**(357.5)**	**(3.8)**	**–**	**(235.2)**	**(45.7)**	**(189.5)**
At 31 December 2016	**2,229.2**	**1,298.0**	**292.7**	**–**	**3,819.9**	**1,875.4**	**1,944.5**

(b) Trading property

	Property portfolio					Tenure	
	Covent Garden £m	Earls Court Properties £m	Venues £m	Other £m	Total £m	Freehold £m	Leasehold £m
At 1 January 2015	22.1	–	–	–	22.1	22.1	–
Additions from subsequent expenditure	0.9	–	–	–	0.9	0.9	–
Disposals	(7.5)	–	–	–	(7.5)	(7.5)	–
At 31 December 2015[2]	**15.5**	**–**	**–**	**–**	**15.5**	**15.5**	**–**
Additions from subsequent expenditure	**0.3**	**–**	**–**	**–**	**0.3**	**0.3**	**–**
Disposals	**(12.9)**	**–**	**–**	**–**	**(12.9)**	**(12.9)**	**–**
At 31 December 2016[2]	**2.9**	**–**	**–**	**–**	**2.9**	**2.9**	**–**

1 Loss on valuation of £235.2 million (2015: gain £453.9 million) is recognised in the consolidated income statement within (loss)/gain on revaluation and sale of investment and development property. This loss is unrealised and relates to assets held at the end of the year.

2 The value of trading property carried at net realisable value was £nil (2015: £nil).

14 PROPERTY PORTFOLIO CONTINUED

(c) Market value reconciliation of total property

	Covent Garden £m	Earls Court Properties £m	Venues £m	Other £m	Total £m
Carrying value of investment and development property at 31 December 2016	**2,229.2**	**1,298.0**	**292.7**	**–**	**3,819.9**
Carrying value of trading property at 31 December 2016	**2.9**	**–**	**–**	**–**	**2.9**
Carrying value of investment, development and trading property at 31 December 2016[1]	**2,232.1**	**1,298.0**	**292.7**	**–**	**3,822.8**
Adjustment in respect of fixed head leases	**(4.1)**	**–**	**–**	**–**	**(4.1)**
Adjustment in respect of tenant lease incentives	**45.3**	**–**	**–**	**–**	**45.3**
Unrecognised surplus on trading property[2]	**1.5**	**–**	**–**	**–**	**1.5**
Market value of investment, development and trading property at 31 December 2016	**2,274.8**	**1,298.0**	**292.7**	**–**	**3,865.5**
Joint ventures:					
Carrying value of joint venture investment, development and trading property at 31 December 2016	**–**	**176.0**	**–**	**–**	**176.0**
Unrecognised surplus on joint venture trading property[2]	**–**	**46.6**	**–**	**–**	**46.6**
	2,274.8	**1,520.6**	**292.7**	**–**	**4,088.1**
Non-controlling interest adjustment:					
Market value of non-controlling interest in investment, development and trading property at 31 December 2016	**–**	**(378.5)**	**–**	**–**	**(378.5)**
Market value of investment, development and trading property on a Group share basis at 31 December 2016	**2,274.8**	**1,142.1**	**292.7**	**–**	**3,709.6**

	Covent Garden £m	Earls Court Properties £m	Venues £m	Other £m	Total £m
Carrying value of investment and development property at 31 December 2015	1,949.5	1,606.4	295.0	4.4	3,855.3
Carrying value of trading property at 31 December 2015	15.5	–	–	–	15.5
Carrying value of investment, development and trading property at 31 December 2015[1]	1,965.0	1,606.4	295.0	4.4	3,870.8
Adjustment in respect of fixed head leases	(4.1)	–	–	–	(4.1)
Adjustment in respect of tenant lease incentives	36.0	–	–	–	36.0
Unrecognised surplus on trading property[2]	8.3	–	–	–	8.3
Market value of investment, development and trading property at 31 December 2015	2,005.2	1,606.4	295.0	4.4	3,911.0
Joint ventures:					
Carrying value of joint venture investment, development and trading property at 31 December 2015	–	130.8	–	–	130.8
Unrecognised surplus on joint venture trading property[2]	–	91.6	–	–	91.6
	2,005.2	1,828.8	295.0	4.4	4,133.4
Non-controlling interest adjustment:					
Market value of non-controlling interest in investment, development and trading property at 31 December 2015	–	(471.6)	–	–	(471.6)
Market value of investment, development and trading property on a Group share basis at 31 December 2015	2,005.2	1,357.2	295.0	4.4	3,661.8

1 Included within investment and development property is £1.4 million (2015: £0.7 million) of interest capitalised during the year on developments in progress.

2 The unrecognised surplus on trading property is shown for informational purposes only and is not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value in the consolidated financial statements.

14 PROPERTY PORTFOLIO CONTINUED

At 31 December 2016, the Group was contractually committed to £149.2 million (2015: £162.5 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Refer to note 28 'Capital Commitments' for further information on capital commitments.

The fair value of the Group's investment, development and trading property at 31 December 2016 was determined by independent, appropriately qualified external valuers, Jones Lang LaSalle for Earls Court Properties (excluding the Empress State Building) and Venues; and CB Richard Ellis for the remainder of the Group's property portfolio. The valuations conform to the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. Fees paid to valuers are based on fixed price contracts.

Each year the Executive Directors, on behalf of the Board, appoint the external valuers. The valuers are selected based upon their knowledge, independence and reputation for valuing assets such as those held by the Group.

Valuations are performed bi-annually and are performed consistently across all properties in the Group's portfolio. At each reporting date appropriately qualified employees of the Group verify all significant inputs and review computational outputs. Valuers submit and present summary reports to the Group's Audit Committee, with the Executive Directors reporting to the Board on the outcome of each valuation round.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, EBITDA, discount rates, construction costs including any site specific costs (for example Section 106), professional fees, planning fees, developer's profit including contingencies, planning and construction timelines, lease re-gear costs, planning risk and sales prices based on known market transactions for similar properties or properties similar to those contemplated for development.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and the likelihood of achieving and implementing this change in arriving at its valuation.

A number of the Group's properties have been valued on the basis of their development potential which differs from their existing use. In respect of development valuations, the valuer ordinarily considers the gross development value of the completed scheme based upon assumptions of capital values, rental values and yields of the properties which would be created through the implementation of the development. Deductions are then made for anticipated costs, including an allowance for developer's profit before arriving at a valuation.

Most notably, within Earls Court Properties, the Empress State Building has been valued on the basis of its development potential as a residential led scheme. The property is currently used as an office space, generating an income stream for the Group, while the process to achieve the change in use is being implemented. Within the Covent Garden segment, where appropriate, a number of properties have also been valued on the basis of their development potential, principally for the conversion to residential use or for improving the configuration of retail units.

There are often restrictions on both freehold and leasehold property which could have a material impact on the realisation of these assets. The most significant of these occur when planning permission is required or when a credit facility is in place. These restrictions are factored into the property's valuation by the external valuer. Refer to disclosures surrounding property risks on page 17.

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 exempted 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. Such testing has not indicated that any material difference would arise due to a change in input variables.

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 property held by the Group are classified as Level 3.

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 2016 £m	Market value 2015 £m	Valuation technique	Key unobservable inputs	Range (weighted average) 2016	Range (weighted average) 2015
Covent Garden	**2,091.9**	1,717.8	Income capitalisation	Estimated Rental Value per sq ft per annum ("p.a.")	**£13 – £333 (£84)**	£10 – £291 (£82)
				Equivalent Yield	**1.8% – 6.0% (3.6%)**	2.3% – 6.0% (3.8%)
	178.5	263.6	Residual development method	Construction costs including site specific costs per sq ft	**£319 – £585 (£538)**	£175 – £584 (£443)
Earls Court Properties	**20.5**	18.7	Income capitalisation	Estimated Rental Value per sq ft p.a.	**£21 – £44 (£32)**	£21 – £47 (£32)
				Equivalent Yield	**2.8 – 6.9% (5.5%)**	2.8% – 7.0% (5.1%)
	4.5	4.4	Discounted cash flow approach	Pre-tax discount rate	**10.0%**	10.0%
	1,273.0	1,583.3	Residual development method	Construction costs including site specific costs per sq ft	**£204 – £573 (£526)**	£170 – £579 (£528)
Venues	**249.1**	249.1	Discounted cash flow approach	Pre-tax discount rate	**10.0%**	11.0%
	43.6	45.9	Residual development method	Construction costs including site specific costs per sq ft	**£251 – £317 (£291)**	£203 – £240 (£226)
Other	**–**	4.4	Income capitalisation	Estimated Rental Value per sq ft p.a.	**–**	£10
				Equivalent Yield	**–**	5.5%
At 31 December	**3,861.1**	3,887.2				

For properties valued under the income capitalisation method, if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £111.8 million (2015: £103.2 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £108.7 million (2015: £100.8 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £159.8 million (2015: £149.3 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £182.9 million (2015: £172.8 million). These inputs are interdependent, partially determined by market conditions. The impact on the valuation could be mitigated by the interrelationship between the two inputs. An increase in estimated rental value occurring in conjunction with an increase in equivalent yield could result in no net impact to the valuation.

An increase in the estimated construction costs included in a residual development valuation of 10 per cent would result in a decrease in the asset valuation of £238.1 million (2015: £235.9 million). A decrease in the estimated construction costs included in a residual development valuation of 10 per cent would result in an increase in the asset valuation of £239.4 million (2015: £239.4 million).

An increase in the discount rate included in a discount cash flow valuation of 10 per cent would result in a decrease in the asset valuation of £22.4 million (2015: £28.7 million). A decrease in the discount rate included in a discount cash flow valuation of 10 per cent would result in an increase in the asset valuation of £38.4 million (2015: £35.7 million).

15 INVESTMENT IN GROUP COMPANIES

Company	2016 £m	2015 £m
At 1 January	**516.4**	676.4
Disposals	**–**	(160.0)
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 (2015: £nil).

During 2014, the Company acquired preference shares in a subsidiary following the share placing. Following the redemption in 2015, the Company disposed of the preference shares held in that subsidiary.

16 INVESTMENT IN JOINT VENTURES

Investment in joint ventures is measured using the equity method. All joint ventures are held with other joint venture investors on a 50:50 basis.

At 31 December 2016, joint ventures comprise the Lillie Square joint venture ("LSJV"), Solum Developments ("Solum") and The Great Capital Partnership ("GCP") which is accounted for as a discontinued operation.

LSJV

LSJV was established as a joint venture arrangement with the Kwok Family Interests ("KFI"), in August 2012. The joint venture was established to own, manage and develop land interests at Lillie Square. LSJV comprises Lillie Square LP, Lillie Square GP Limited, acting as general partner to the partnership, and its subsidiaries. All major decisions regarding LSJV are taken by the Board of Lillie Square GP Limited, through which the Group shares strategic control.

The summarised income statement and balance sheet of LSJV are presented below.

LSJV	2016 £m	2015 £m
Summarised income statement		
Revenue	**5.5**	0.6
Net rental income	**(0.2)**	0.5
(Loss)/gain on revaluation of investment and development property	**(0.1)**	0.2
Proceeds from the sale of trading property	**5.4**	–
Cost of sale of trading property	**(5.1)**	–
Agent, selling and marketing fees	**(2.7)**	(3.1)
Write (down)/back of trading property	**(0.8)**	0.5
Administration expenses	**(4.8)**	(3.8)
Finance costs[1]	**(21.2)**	(18.7)
Other costs	**(0.1)**	–
Loss for the year	**(29.6)**	(24.4)

1 Finance costs includes £20.9 million (2015: £18.7 million) relating to the amortisation of deep discount bonds that were issued by LSJV to the Group and KFI. The bonds are redeemable at their nominal value of £263.4 million on 24 August 2019. The discount applied is unwound over the period to maturity using the effective interest rate. Finance income receivable to the Group of £10.5 million (2015: £9.3 million) is recognised in the consolidated income statement within other finance income.

LSJV	2016 £m	2015 £m
Summarised balance sheet		
Investment and development property	**3.1**	3.2
Other non-current assets	**2.1**	3.0
Trading property	**349.0**	258.5
Cash and cash equivalents[1]	**74.2**	67.2
Other current assets	**5.8**	0.2
Borrowings	**(155.1)**	(87.7)
Other non-current liabilities[2]	**(195.4)**	(174.5)
Amounts payable to joint venture partners[3]	**(102.1)**	(75.2)
Other current liabilities[1]	**(74.2)**	(57.7)
Net liabilities	**(92.6)**	(63.0)
Capital commitments	**36.4**	97.2
Carrying value of investment, development and trading property	**352.1**	261.7
Unrecognised surplus on trading property[4]	**93.2**	183.2
Market value of investment, development and trading property[4]	**445.3**	444.9

1 Includes restricted cash and cash equivalents of £59.7 million (2015: £52.3 million) relating to amounts received as property deposits that will not be available for use by LSJV until completion of building work. There is a corresponding liability of £59.7 million (2015: £52.3 million) within other current liabilities.

2 Other non-current liabilities relate to deep discount bonds. Amounts receivable by the Group of £97.7 million (2015: £87.2 million) are recognised on the consolidated balance sheet within non-current trade and other receivables.

3 Amounts payable to joint venture partners relate to working capital funding advanced by the Group and KFI. Recoverable amounts receivable of £7.0 million (2015: £10.0 million) by the Group are recognised on the consolidated balance sheet within current trade and other receivables.

4 The unrecognised surplus on trading property and the market value of LSJV's property portfolio are shown for informational purposes only and are not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value.

16 INVESTMENT IN JOINT VENTURES CONTINUED

Solum

On 29 June 2015, the Group acquired a 50 per cent interest in Solum, a joint venture arrangement with Network Rail Infrastructure Limited ("NRIL"). Total acquisition costs were £14.5 million, £2.0 million of which is contingent on achieving consent to develop specific railway sites with NRIL. The joint venture will explore opportunities for future redevelopments on and around significant railway station sites in London.

Solum comprises Solum Developments Limited Partnership and Solum Developments (GP) Limited, acting as general partner to the partnership. All major decisions regarding Solum are taken by the Board of Solum Developments (GP) Limited, through which the Group shares strategic control.

The summarised income statement and balance sheet of Solum are presented below.

Solum	2016 £m	2015 £m
Summarised income statement		
Administration expenses	**(0.6)**	(1.4)
Loss for the year	**(0.6)**	(1.4)

Solum	2016 £m	2015 £m
Summarised balance sheet		
Trade and other receivables	**0.8**	–
Cash and cash equivalents	**0.5**	1.6
Other current liabilities	**(0.5)**	(1.1)
Net assets	**0.8**	0.5

Reconciliation of summarised financial information:

The table below reconciles the summarised joint venture financial information previously presented to the carrying value of investment in joint ventures as presented on the consolidated balance sheet.

	GCP £m	LSJV £m	Solum £m	Total £m
Net assets/(liabilities) of joint ventures at 31 December 2015	0.1	(63.0)	0.5	(62.4)
Elimination of joint venture partners' interest	–	31.5	(0.3)	31.2
Cumulative losses restricted[1]	–	31.5	–	31.5
Goodwill on acquisition of joint venture[2]	–	–	14.5	14.5
Carrying value at 31 December 2015	0.1	–	14.7	14.8
Net assets/(liabilities) of joint ventures at 31 December 2016	**0.1**	**(92.6)**	**0.8**	**(91.7)**
Elimination of joint venture partners' interest	**–**	**46.3**	**(0.4)**	**45.9**
Cumulative losses restricted[1]	**–**	**46.3**	**–**	**46.3**
Goodwill on acquisition of joint venture[2]	**–**	**–**	**14.5**	**14.5**
Carrying value at 31 December 2016	**0.1**	**–**	**14.9**	**15.0**

1 Cumulative losses restricted represent the Group's share of losses in LSJV which exceed its investment in the joint venture. As a result the carrying value of the investment in LSJV is £nil (2015: £nil) in accordance with the requirements of IAS 28.

2 In accordance with the initial recognition exemption provisions under IAS 12 'Income Taxes', no deferred tax is recognised on goodwill.

Reconciliation of investment in joint ventures:

The table below reconciles the opening to closing carrying value of investment in joint ventures as presented on the consolidated balance sheet.

Investment in joint ventures	GCP £m	LSJV £m	Solum £m	Total £m
At 1 January 2015	0.1	–	–	0.1
Loss for the year[1]	–	(12.2)	(0.7)	(12.9)
Loss restricted[1]	–	12.2	–	12.2
Issue of equity loan notes	–	–	0.9	0.9
Goodwill on acquisition of joint venture	–	–	14.5	14.5
At 31 December 2015	**0.1**	**–**	**14.7**	**14.8**
Loss for the year[1]	**–**	**(14.8)**	**(0.3)**	**(15.1)**
Loss restricted[1]	**–**	**14.8**	**–**	**14.8**
Issue of equity loan notes	**–**	**–**	**0.5**	**0.5**
At 31 December 2016	**0.1**	**–**	**14.9**	**15.0**

1 Share of post-tax loss from joint ventures in the consolidated income statement of £0.3 million (2015: loss £0.7 million) comprises loss for the year of £15.1 million (2015: £12.9 million) and loss restricted totalling £14.8 million (2015: £12.2 million).

17 NON-CONTROLLING INTEREST

TTL Earls Court Properties Limited, a subsidiary of TfL, holds a 37% non-controlling interest in ECPL, a subsidiary of the Group. The principal place of business of ECPL is within the UK.

The accumulated non-controlling interest is presented below.

	2016 £m	2015 £m
At 1 January	**468.8**	–
Profit and total comprehensive income for the year attributable to non-controlling interest	**(104.9)**	26.1
Capital contribution from non-controlling interest	**–**	44.4
Unsecured loan notes issued to non-controlling interest	**4.3**	398.3
At 31 December	**368.2**	468.8

During the year, unsecured, non-interest bearing loan notes were issued by ECPL to TTL Earls Court Properties Limited. As the transaction price of the loan notes was not an approximation of their fair value, the Group determined the fair value by using data from observable inputs. As a result, the initial fair value of the loan notes was valued at less than £0.1 million (2015: less than £0.1 million) and therefore £402.6 million (2015: £398.3 million) has been classified as equity.

Set out below is summarised financial information, before intercompany eliminations, for ECPL.

ECPL	2016 £m	2015 £m
Summarised income statement		
Net rental income	**1.2**	1.2
Administrative expenses	**(2.5)**	(2.4)
Other income	**–**	0.4
(Loss)/gain on revaluation of investment and development property	**(298.2)**	86.9
Taxation	**15.9**	(15.6)
(Loss)/profit on ordinary activities after taxation	**(283.6)**	70.5

ECPL	2016 £m	2015 £m
Summarised balance statement		
Investment and development property	**1,022.8**	1,274.7
Cash at bank and at hand	**9.4**	27.8
Other current assets	**1.3**	2.4
Other non-current assets	**0.8**	0.9
Other current liabilities	**(7.6)**	(23.2)
Borrowings	**(31.5)**	–
Other non-current liabilities	**–**	(15.6)
Net assets	**995.2**	1,267.0

ECPL	2016 £m	2015 £m
Summarised cash flows		
Operating cash flows after interest and tax	**(4.8)**	(0.6)
Purchase and development of property, plant and equipment	**(45.6)**	(1,187.4)
Net cash flow before financing	**(50.4)**	(1,188.0)
Issue of shares	**–**	120.0
Financing[1]	**32.0**	1,076.5
Net cash flow	**(18.4)**	8.5

1 Financing comprises £nil (2015: £1,076.5 million) of unsecured, non-interest bearing loan notes and £32.0 million (2015: £nil) of external borrowings.

18 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative assets held for trading	Group 2016 £m	Group 2015 £m
Non-current		
Interest rate caps	**0.2**	0.2
Interest rate collars	**–**	0.6
Derivative financial instruments	**0.2**	0.8

Derivative liabilities held for trading	Group 2016 £m	Group 2015 £m
Non-current		
Interest rate caps	**(0.1)**	–
Interest rate collars	**(10.1)**	(0.1)
Interest rate swaps	**(3.7)**	(3.1)
Derivative financial instruments	**(13.9)**	(3.2)

19 TRADE AND OTHER RECEIVABLES

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current				
Other receivables[1]	**55.3**	38.5	**–**	–
Prepayments and accrued income[2]	**41.8**	33.2	**–**	–
Amounts receivable from joint ventures[3]	**97.7**	87.2	**–**	–
Trade and other receivables	**194.8**	158.9	**–**	–
Current				
Amounts owed by subsidiaries	**–**	–	**1,516.6**	707.3
Rent receivable	**7.9**	6.6	**–**	–
Other receivables	**14.6**	3.4	**–**	–
Prepayments and accrued income[2]	**18.3**	12.3	**–**	0.1
Amounts receivable from joint ventures[4]	**7.0**	10.0	**–**	–
Trade and other receivables	**47.8**	32.3	**1,516.6**	707.4

1 Includes £45.0 million (2015: £30.0 million) payment to LBHF which forms part of the CLSA.

2 Includes tenant lease incentives of £45.3 million (2015: £36.0 million).

3 Non-current amounts receivable from joint ventures relate to deep discount bonds that were issued by LSJV to the Group. The bonds are redeemable at their nominal value of £131.7 million on 24 August 2019.

4 Current amounts receivable from joint ventures comprise working capital funding advanced by the Group to LSJV and Solum. The balance has been impaired by £46.3 million (2015: £31.5 million).

20 CASH AND CASH EQUIVALENTS

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash at hand	**8.1**	11.6	**–**	–
Cash on short-term deposit	**16.8**	49.3	**–**	–
Unrestricted cash and cash equivalents	**24.9**	60.9	**–**	–
Restricted cash and cash equivalents[1]	**6.0**	6.0	**–**	–
Cash and cash equivalents	**30.9**	66.9	**–**	–

1 Restricted cash and cash equivalents relate to amounts placed on deposit in accounts which are subject to withdrawal conditions.

21 TRADE AND OTHER PAYABLES

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Rent received in advance	**23.9**	21.3	**–**	–
Accruals and deferred income	**35.3**	58.5	**0.6**	0.6
Trade payables	**1.0**	2.7	**–**	–
Other payables	**15.6**	6.9	**–**	–
Other taxes and social security	**2.5**	2.1	**–**	–
Amounts payable to non-controlling interest	**–**	4.4	**–**	–
Trade and other payables	**78.3**	95.9	**0.6**	0.6

22 BORROWINGS, INCLUDING FINANCE LEASES

Group	**Carrying value £m**	**Secured £m**	**Unsecured £m**	**Fixed rate £m**	**Floating rate £m**	**Fair value £m**	**Nominal value £m**
	2016						
Current							
Bank loans and overdrafts	**12.0**	**12.0**	**–**	**–**	**12.0**	**12.0**	**12.0**
Loan notes	**6.0**	**6.0**	**–**	**–**	**6.0**	**6.0**	**6.0**
Borrowings	**18.0**	**18.0**	**–**	**–**	**18.0**	**18.0**	**18.0**
Finance lease obligations	**0.5**	**0.5**	**–**	**0.5**	**–**	**0.5**	**0.5**
Borrowings, including finance leases	**18.5**	**18.5**	**–**	**0.5**	**18.0**	**18.5**	**18.5**
Non-current							
Bank loans	**500.8**	**153.6**	**347.2**	**–**	**500.8**	**505.9**	**505.9**
Loan notes	**323.4**	**–**	**323.4**	**323.4**	**–**	**330.7**	**325.0**
Borrowings	**824.2**	**153.6**	**670.6**	**323.4**	**500.8**	**836.6**	**830.9**
Finance lease obligations	**3.6**	**3.6**	**–**	**3.6**	**–**	**3.6**	**3.6**
Borrowings, including finance leases	**827.8**	**157.2**	**670.6**	**327.0**	**500.8**	**840.2**	**834.5**
Total borrowings, including finance leases	**846.3**	**175.7**	**670.6**	**327.5**	**518.8**	**858.7**	**853.0**
Cash and cash equivalents	**(30.9)**						
Net debt	**815.4**						

Group	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m	Nominal value £m
	2015						
Current							
Bank loans and overdrafts	12.0	12.0	–	–	12.0	12.0	12.0
Loan notes	6.0	6.0	–	–	6.0	6.0	6.0
Borrowings	18.0	18.0	–	–	18.0	18.0	18.0
Finance lease obligations	0.5	0.5	–	0.5	–	0.5	0.5
Borrowings, including finance leases	18.5	18.5	–	0.5	18.0	18.5	18.5
Non-current							
Bank loans	454.6	84.8	369.8	–	454.6	460.5	460.5
Loan notes	149.4	–	149.4	149.4	–	155.6	150.0
Borrowings	604.0	84.8	519.2	149.4	454.6	616.1	610.5
Finance lease obligations	3.6	3.6	–	3.6	–	3.6	3.6
Borrowings, including finance leases	607.6	88.4	519.2	153.0	454.6	619.7	614.1
Total borrowings, including finance leases	626.1	106.9	519.2	153.5	472.6	638.2	632.6
Cash and cash equivalents	(66.9)						
Net debt	559.2						

In January 2016, the Group replaced the £665 million Covent Garden debt facility with a £705 million five year Covent Garden debt facility which increased available facilities by £40 million. £640 million of the facility matures in 2021 with the remaining £65 million maturing in 2020 with an option to extend to 2021. Both portions have an additional option to extend to 2022. The Group has incurred a charge of approximately £2.7 million relating to fees on the new facility and has written off £5.2 million relating to unamortised fees on the existing facility.

On 24 March 2016, The Group entered into a £150 million 10 year secured credit agreement signed by ECPL to fund infrastructure-related costs on land interests at Earls Court. The Group has capitalised charges of £1.0 million relating to fees on the new facility.

On 14 November 2016, the Group issued a US Private Placement of £125 million 10 year and a £50 million 12 year senior unsecured notes. The Group incurred and capitalised charges of £0.8 million as a result of the placement.

On 19 December 2016, the Group entered into a £100 million four year facility agreement secured over the Olympia Exhibition Centre. The Group incurred and capitalised charges of £1.1 million relating to fees on the new facility.

The market value of investment and development property secured as collateral against borrowings at 31 December 2016 was £1,545.6 million (2015: £286.0 million).

Cash and undrawn committed facilities attributable to the Group at 31 December 2016 were £563.6 million (2015: £366.9 million).

The fair values of the Group's borrowings have been estimated using the market value for floating rate borrowings, which approximates nominal value, and discounted cash flow approach for fixed rate borrowings, representing Level 2 fair value measurements as defined by IFRS 13. The different valuation levels are defined in note 14 'Property Portfolio'.

22 BORROWINGS, INCLUDING FINANCE LEASES CONTINUED

	2016			
Analysis of movement in net debt	**Current borrowings £m**	**Non-current borrowings £m**	**Cash and cash equivalents £m**	**Net debt £m**
Balance at 1 January	**18.5**	**607.6**	**(66.9)**	**559.2**
Borrowings drawn	**–**	**832.0**	**(832.0)**	**–**
Borrowings repaid	**(12.0)**	**(600.0)**	**612.0**	**–**
Other net cash movements	**–**	**(5.4)**	**256.0**	**250.6**
Other non-cash movements	**12.0**	**(6.4)**	**–**	**5.6**
Balance at 31 December	**18.5**	**827.8**	**(30.9)**	**815.4**

	2015			
Analysis of movement in net debt	Current borrowings £m	Non-current borrowings £m	Cash and cash equivalents £m	Net debt £m
Balance at 1 January	17.5	432.2	(94.8)	354.9
Borrowings drawn	–	225.0	(225.0)	–
Borrowings repaid	(11.0)	(40.0)	51.0	–
Other net cash movements	–	(0.4)	201.9	201.5
Other non-cash movements	12.0	(9.2)	–	2.8
Balance at 31 December	18.5	607.6	(66.9)	559.2

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

	Group 2016 £m	Group 2015 £m
Wholly repayable within one year	**18.0**	18.0
Wholly repayable in more than one year but not more than two years	**73.5**	12.0
Wholly repayable in more than two years but not more than five years	**400.1**	448.5
Wholly repayable in more than five years	**357.3**	150.0
	848.9	628.5

Certain borrowing agreements contain financial and other covenants that, if contravened, could alter the repayment profile.

23 FINANCE LEASE OBLIGATIONS

(a) Minimum lease payments under finance leases obligations

	Group 2016 £m	Group 2015 £m
Not later than one year	**0.5**	0.5
Later than one year and not later than five years	**2.1**	2.1
Later than five years	**13.0**	13.0
	15.6	15.6
Future finance charges on finance leases	**(11.5)**	(11.5)
Present value of finance lease obligations	**4.1**	4.1

(b) Present value of minimum finance lease obligations

Not later than one year	**0.5**	0.5
Later than one year and not later than five years	**1.7**	1.7
Later than five years	**1.9**	1.9
	4.1	4.1

Finance lease liabilities are in respect of leasehold interests in investment and development property. Certain leases provide for payment of contingent rent, usually a proportion of net rental income, in addition to the minimum lease payments above. No contingent rent has been paid in the year (2015: £nil).

A 999 year leasehold interest is held for the air rights above the West London Line as detailed in note 29 'Contingent Liabilities'. Any further payments payable at the time of development or disposal of each phase of the Earls Court Masterplan will be accounted for as contingent rent when incurred.

Finance lease liabilities are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default.

24 OPERATING LEASES

The Group earns rental income by leasing its investment property to tenants under operating leases.

In the United Kingdom standard commercial leases vary considerably between markets and locations but typically are for a term of five to fifteen years at market rent with provisions to review every five years.

The future minimum lease amounts receivable under non-cancellable operating leases are as follows:

	Group 2016 £m	Group 2015 £m
Not later than one year	**62.4**	65.1
Later than one year and not later than five years	**167.2**	187.6
Later than five years	**167.1**	195.0
	396.7	447.7

The consolidated income statement includes £0.2 million (2015: £0.2 million) recognised in respect of expected increased rent resulting from outstanding reviews where the actual rent will only be determined on settlement of the rent review.

The future minimum lease amounts payable under non-cancellable operating leases are as follows:

	Group 2016 £m	Group 2015 £m
Not later than one year	**0.9**	0.9
Later than one year and not later than five years	**3.7**	3.7
Later than five years	**3.0**	3.9
	7.6	8.5

25 FINANCIAL RISK MANAGEMENT

The Group's financial risk management strategy seeks to set financial limits for treasury activity to ensure they are in line with the risk appetite of the Group. The Group is exposed to a variety of risks arising from the Group's operations: market risk (principally interest rate risk), liquidity risk and credit risk.

The following tables set out each class of financial assets and financial liabilities as at 31 December 2016 and 31 December 2015.

Categories of financial instruments

		2016			2015		
Group	Notes	**Carrying value £m**	**Loss to income statement £m**	**Loss to other comprehensive income £m**	Carrying value £m	(Loss)/gain to income statement £m	Gain to other comprehensive income £m
Derivative financial assets	18	**0.2**	**(2.4)**	**–**	0.8	(1.3)	–
Total held for trading assets		**0.2**	**(2.4)**	**–**	0.8	(1.3)	–
Cash and cash equivalents	20	**30.9**	**–**	**–**	66.9	–	–
Other financial assets	19	**242.6**	**–**	**–**	191.2	(0.2)	–
Total cash and other financial assets		**273.5**	**–**	**–**	258.1	(0.2)	–
Available-for-sale investments		**–**	**–**	**(0.2)**	0.2	(0.2)	–
Total available-for-sale investments		**–**	**–**	**(0.2)**	0.2	(0.2)	–
Derivative financial liabilities	18	**(13.9)**	**(10.7)**	**–**	(3.2)	0.7	–
Total held for trading liabilities		**(13.9)**	**(10.7)**	**–**	(3.2)	0.7	–
Borrowings, including finance leases	22	**(846.3)**	**–**	**–**	(626.1)	–	–
Other financial liabilities[1]		**(79.6)**	**–**	**–**	(98.7)	–	–
Total borrowings and other financial liabilities		**(925.9)**	**–**	**–**	(724.8)	–	–

1 Includes trade and other payables and tax liabilities.

The majority of the Group's financial risk management is carried out by Group Treasury under policies approved by the Board of Directors. The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below.

Market risk

Interest rate risk

Interest rate risk comprises both cash flow and fair value risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market interest rates.

The Group's interest rate risk arises from borrowings issued at variable rates that expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed interest rates expose the Group to fair value interest rate risk.

It is Group policy, and often a requirement of our lenders, to eliminate substantially all short and medium-term exposure to interest rate fluctuations in order to establish certainty over medium-term cash flows by using fixed interest rate derivatives. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate caps protect the Group by capping the maximum interest rate payable at the caps ceiling. Interest rate collars protect the Group by capping the maximum interest rate payable at the collar's ceiling but sacrifices the profitability of interest rate falls below a certain floor.

25 FINANCIAL RISK MANAGEMENT CONTINUED

The table below shows the effects of derivative contracts that are linked to the drawn external borrowings profile of the Group and joint ventures. The table is calculated on a Group share basis in line with the reporting of this information internally to management.

	Fixed/Capped 2016 £m	**Floating 2016 £m**	Fixed/Capped 2015 £m	Floating 2015 £m
Nominal value of Group borrowings excluding finance leases[1]	**325.0**	**517.9**	150.0	472.5
Nominal value of joint venture borrowings excluding finance leases	**–**	**77.6**	–	43.8
Nominal value of non-controlling interest borrowings excluding finance leases	**–**	**(12.0)**	–	–
	325.0	**583.5**	150.0	516.3
Derivative impact (nominal value of derivative contracts)	**455.9**	**(455.9)**	453.0	(453.0)
Borrowings profile net of derivative impact	**780.9**	**127.6**	603.0	63.3
Interest rate protection		**86%**		91%

1 Excludes current loan notes of £6.0 million to which the Group has no interest rate exposure under the terms of the borrowing.

Group policy is to ensure that interest rate protection on Group external debt is greater than 25 per cent.

The weighted average rate of interest rate swaps currently effective at 31 December 2016 was 2.2 per cent (2015: 2.2 per cent).

In 2016, the Group entered into a forward starting interest rate swap to hedge the variability in specified hedged interest cash flows arising on £60 million of outstanding debt from 2016 to 2026. The loss recognised in other comprehensive income in the year was £1.2 million. This loss will be reclassified from other comprehensive income to the consolidated income statement over the term of the designated debt. The fair value of the designated hedging instrument at 31 December 2016 is £nil. The hedge was 100 per cent effective; therefore no charge for an ineffective portion has been taken to the consolidated income statement.

The sensitivity analysis below illustrates the impact of a 50 basis point ("bps") shift, upwards and downwards, in the level of interest rates on the movement in fair value of derivative financial instruments.

	Increase in interest rates by 50 bp 2016 £m	**Decrease in interest rates by 50 bp 2016 £m**	Increase in interest rates by 50 bp 2015 £m	Decrease in interest rates by 50 bp 2015 £m
Effect on profit before tax:				
Increase /(decrease)	**10.4**	**(10.4)**	5.1	(5.1)

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. The fixed rate derivative financial instruments are matched by floating rate debt, therefore such a movement would have a very limited effect on Group cash flow overall.

Liquidity risk

Liquidity risk is managed to ensure that the Group is able to meet future payment obligations when financial liabilities fall due.

The Group's policy is to seek to minimise its exposure to liquidity risk by managing its exposure to interest rate risk and to refinancing risk. The Group seeks to borrow for as long as possible at the lowest cost.

Liquidity analysis is intended to provide sufficient headroom to meet the Group's operational requirements and investment commitments.

The Group's policy also includes maintaining adequate cash, as well as maintaining adequate committed and undrawn facilities.

A key factor in ensuring existing facilities remain available to the Group is the borrowing entity's ability to meet the relevant facility's financial covenants. The Group has a process to monitor regularly both current and projected compliance with the financial covenants.

The Group regularly reviews the maturity profile of its financial liabilities and will seek to avoid concentrations of maturities through the regular replacement of facilities and by staggering maturity dates. Refinancing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk. This is subject to credit facilities being available at the time of the desired refinancing. This was the strategy employed in the refinancing of existing borrowings in 2016.

The tables below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal. Where interest payment obligations are based on a floating rate, the rates used are those implied by the par yield curve.

25 FINANCIAL RISK MANAGEMENT CONTINUED

	2016										
	Carrying Value	1 yr		Between 1-2 yrs		Between 2-5 yrs		Over 5 yrs		Total	
Group	£m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m
Asset-specific secured borrowings	165.6	3.5	12.0	3.0	73.5	4.2	50.0	4.5	32.3	15.2	167.8
Other secured borrowings	6.0	–	6.0	–	–	–	–	–	–	–	6.0
Unsecured borrowings	670.6	16.6	–	17.0	–	44.9	350.0	44.5	325.0	123.0	675.0
Finance lease obligations	4.1	–	0.5	0.1	0.5	0.3	1.2	11.1	1.9	11.5	4.1
Other payables	16.6	–	16.6	–	–	–	–	–	–	–	16.6
Interest rate derivatives payable	13.9	3.7	–	4.0	–	1.8	–	–	–	9.5	–
Interest rate derivatives receivable	(0.2)	(0.4)	–	(0.5)	–	(0.1)	–	–	–	(1.0)	–
	876.6	23.4	35.1	23.6	74.0	51.1	401.2	60.1	359.2	158.2	869.5

	2015										
	Carrying Value	1 yr		Between 1-2 yrs		Between 2-5 yrs		Over 5 yrs		Total	
Group	£m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m
Asset-specific secured borrowings	96.8	2.8	12.0	2.8	12.0	2.1	73.5	–	–	7.7	97.5
Other secured borrowings	6.0	–	6.0	–	–	–	–	–	–	–	6.0
Unsecured borrowings	519.2	14.0	–	16.0	–	30.2	375.0	27.5	150.0	87.7	525.0
Finance lease obligations	4.1	–	0.5	0.1	0.5	0.3	1.2	11.1	1.9	11.5	4.1
Other payables	14.0	–	14.0	–	–	–	–	–	–	–	14.0
Interest rate derivatives payable	3.2	2.2	–	2.2	–	2.5	–	–	–	6.9	–
Interest rate derivatives receivable	(0.8)	(0.7)	–	(1.2)	–	(1.9)	–	–	–	(3.8)	–
	642.5	18.3	32.5	19.9	12.5	33.2	449.7	38.6	151.9	110.0	646.6

Contractual maturities reflect the expected maturities of financial instruments.

Credit risk

The Group's principal financial assets are trade and other receivables, amounts receivable from joint ventures, loan notes and cash and cash equivalents. Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables relating to tenants but also from the Group's undrawn commitments and holdings of assets such as cash deposits and loans with financial counterparties. The carrying value of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking into account the value of any deposits or guarantees obtained.

Trade and other receivables:

Credit risk associated with trade receivables is actively managed; tenants are managed individually by asset managers, who continuously monitor and work with tenants, anticipating and wherever possible identifying and addressing risks prior to default. Trade receivables are less than 1 per cent of total assets at 31 December 2016 (2015: less than 1 per cent) and no one tenant accounts for more than 10 per cent of rental income.

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 2016 was £7.8 million (2015: £7.3 million).

Due to the nature of tenants being managed individually by asset managers, it is Group policy to calculate any impairment specifically on each contract.

In relation to the Group's revenue from licencing fees, receivables greater than 90 days are provided for in full. Additionally, specific provisions are made for trade receivables less than 90 days where active credit control highlights recoverability concerns. The amounts of trade receivables presented in the balance sheet are net of allowances for doubtful receivables.

The ageing analysis of these trade receivables, past due but not impaired, is as follows:

	Group 2016 £m	Group 2015 £m
Up to 90 days	7.3	6.6
Over 90 days	0.6	–
Trade receivables	7.9	6.6

In 2016 there was an impairment write down on trade receivables of £0.6 million (2015: £0.1 million).

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the extensive range of tenants from varying business sectors and the credit review process as noted above.

Amounts receivable from joint ventures:

Included within receivables is £7.0 million (2015: £10.0 million) of amounts advanced to LSJV. The carrying value of the investment in LSJV is £nil (2015: £nil) as the Group's share of losses exceeds the cost of its investment. Total funding advanced to LSJV, excluding the deep discount bonds, of £53.2 million (2015: £41.5 million) has been impaired by the cumulative losses attributable to the joint venture by £46.3 million (2015: £31.5 million).

25 FINANCIAL RISK MANAGEMENT CONTINUED

LSJV is in a net liability position due to carrying trading property at the lower of cost and market value. However based on a market valuation undertaken by the Group's valuers Jones Lang LaSalle, there is an unrecognised surplus of £46.6 million (Group share) as at 31 December 2016. 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 impair amounts advanced to LSJV until the unrecognised surplus on trading property is realised through sale.

Cash, deposits and derivative financial instruments:

The credit risk relating to cash, deposits and derivative financial instruments is actively managed by Group Treasury. Relationships are maintained with a number of Tier 1 institutional counterparties, ensuring compliance with Group cash investment policy relating to limits on the credit ratings of counterparties. The maximum exposure to cash, deposits and derivative financial instruments as at 31 December 2016 amounted to £31.1 million (2015: £67.7 million).

Capital structure

The Group seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure. The Group uses a mix of equity, debt and other financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility.

The key ratios used to monitor the capital structure of the Group are the debt to assets ratio and the interest cover ratio. The Group aims not to exceed an underlying debt to asset 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 pages 40 to 46.

Debt to assets ratio	Group 2016 £m	Re-presented[1] Group 2015 £m
Investment and development property	**3,443.0**	3,385.2
Trading property	**177.3**	144.8
	3,620.3	3,530.0
Net external debt	**(847.3)**	(578.9)
	23.4%	16.4%

1 Comparative year has been re-presented from proportionate consolidation to Group share basis.

The maximum debt to assets ratio for the year was 23.4 per cent and occurred on 31 December 2016.

Interest cover	Group 2016 £m	Re-presented[1] Group 2015 £m
Finance costs	**(19.8)**	(20.8)
Finance income	**0.3**	0.7
	(19.5)	(20.1)
Underlying operating profit	**33.7**	24.9
	172.8%	124.1%

1 Comparative year has been re-presented from proportionate consolidation to Group share basis.

The minimum interest coverage ratio for the year was 124.1 per cent and occurred on 1 January 2016.

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 tables below present the Group's financial assets and liabilities recognised at fair value at 31 December 2016 and 31 December 2015. There were no transfers between levels during the year.

	2016				2015			
Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets								
Held for trading	**–**	**0.2**	**–**	**0.2**	–	0.8	–	0.8
Investments								
Available-for-sale investments	**–**	**–**	**–**	**–**	–	–	0.2	0.2
Total assets	**–**	**0.2**	**–**	**0.2**	–	0.8	0.2	1.0
Derivative financial liabilities								
Held for trading	**–**	**(13.9)**	**–**	**(13.9)**	–	(3.2)	–	(3.2)
Total liabilities	**–**	**(13.9)**	**–**	**(13.9)**	–	(3.2)	–	(3.2)

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.

25 FINANCIAL RISK MANAGEMENT CONTINUED

All of the Group's Level 3 financial instruments are unlisted equity investments. The valuation of the available-for-sale investment is based on expected cash distributions to be received from China Harvest Fund 1 with reference to the market value of the underlying assets held. During the year the final proceeds were received by the Group. The China Harvest Fund 1 is expected to be liquidated in 2017.

The fair values of the Group's cash and cash equivalents, other financial assets and other financial liabilities are not materially different from those at which they are carried in the financial statements.

The table below presents a reconciliation of Level 3 fair value measurements for the year.

Available-for-sale investments	Group 2016 £m	Group 2015 £m
At 1 January	**0.2**	0.4
Total gain/(loss):		
– In Income	**–**	(0.2)
– In comprehensive income	**(0.2)**	–
At 31 December	**–**	0.2

26 DEFERRED TAX

The decrease in corporation tax rate referred to in note 11 'Taxation' has been enacted for the purposes of IAS 12 'Income Taxes' ("IAS 12") and therefore has been reflected in these consolidated financial statements based on the expected timing of the realisation of deferred tax.

Deferred tax on investment and development property is calculated under IAS 12 provisions on a disposals basis by reference to the properties' original tax base cost. Elements factored into the calculation include indexation relief and the Group's holding structure. The Group's recognised deferred tax liability on investment and development property as calculated under IAS 12 is £nil at 31 December 2016 (2015: £15.6 million). The Group's contingent tax liability on investment properties, calculated on the same tax base cost as above but based on a deemed market value disposal at year end, is £nil (2015: £17.6 million).

A disposal of the Group's trading properties including Lillie Square at their market value as per note 14 'Property Portfolio' would result in a corporation tax charge to the Group of £9.6 million (20.0 per cent of £48.1 million).

Group	Accelerated capital allowances £m	Fair value of investment & development property £m	Fair value of derivative financial instruments £m	Other temporary differences £m	Group losses £m	Total £m
Provided deferred tax liabilities/(assets):						
At 1 January 2015	13.6	11.8	(0.3)	(6.6)	(5.6)	12.9
Adjustments in respect of previous years	–	–	–	–	1.4	1.4
Recognised in income	0.8	5.6	(0.1)	(0.9)	0.5	5.9
Recognised in other comprehensive income	–	–	–	0.2	–	0.2
Recognised directly in equity	–	–	–	1.5	–	1.5
Reduction due to rate change	(0.7)	(1.8)	–	0.1	–	(2.4)
At 31 December 2015	**13.7**	**15.6**	**(0.4)**	**(5.7)**	**(3.7)**	**19.5**
Adjustments in respect of previous years	**0.1**	**–**	**–**	**–**	**0.1**	**0.2**
Recognised in income	**0.8**	**(14.7)**	**(2.4)**	**4.8**	**(5.6)**	**(17.1)**
Recognised in other comprehensive income	**–**	**–**	**(0.3)**	**(0.3)**	**–**	**(0.6)**
Recognised directly in equity	**–**	**–**	**–**	**1.6**	**–**	**1.6**
Adjustment in respect of rate change	**–**	**(0.9)**	**–**	**–**	**–**	**(0.9)**
At 31 December 2016	**14.6**	**–**	**(3.1)**	**0.4**	**(9.2)**	**2.7**
Unprovided deferred tax assets:						
At 1 January 2016	**–**	**–**	**–**	**–**	**(7.8)**	
Movement during the year	**–**	**(35.9)**	**–**	**–**	**(6.1)**	
At 31 December 2016	**–**	**(35.9)**	**–**	**–**	**(13.9)**	

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.

Strategic report

Governance

Financial statements

27 SHARE CAPITAL AND SHARE PREMIUM

Group and Company

Issue type	Transaction date	Issue price (pence)	Number of shares	Share capital £m	Share premium £m
At 1 January 2015			836,236,407	209.1	206.9
Scrip dividend – 2014 final	June	416	1,028,609	0.3	4.0
Scrip dividend – 2015 interim	September	467	122,277	–	–
Share-based payment[1]			4,601,652	1.1	0.2
At 31 December 2015			**841,988,945**	**210.5**	**211.1**
Scrip dividend – 2015 final	June	338	**1,275,480**	**0.3**	**4.0**
Scrip dividend – 2016 interim	September	293	**303,831**	**0.1**	**–**
Share-based payment[2]			**2,553,451**	**0.6**	**–**
At 31 December 2016			**846,121,707**	**211.5**	**215.1**

1 In 2015 a total of 4,601,652 new shares were issued to satisfy employee share scheme awards.

2 In 2016 a total of 2,553,451 new shares were issued to satisfy employee share scheme awards.

At 21 February 2017, the Company had an unexpired authority to repurchase shares up to a maximum of 84,198,894 shares with a nominal value of £21.0 million, and the Directors had an unexpired authority to allot up to a maximum of 559,185,325 shares with a nominal value of £139.8 million of which 280,382,318 with a nominal value of £70.0 million can only be allotted pursuant to a fully pre-emptive rights issue.

28 CAPITAL COMMITMENTS

At 31 December 2016, the Group was contractually committed to £149.2 million (2015: £162.5 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Of the £149.2 million committed, £114.7 million is committed 2017 expenditure.

In November 2013, the Group exercised its option under the CLSA which it entered into with LBHF in January 2013 in relation to LBHF's land interest within the Earls Court Masterplan. Under the terms of the CLSA, the Group can draw down land in phases but no land can be transferred unless replacement homes for the residents of the relevant phase have been provided and vacant possession is given. The Group has already paid £60.0 million of the £105.0 million cash consideration payable under the CLSA. The residual £45.0 million will be settled in three annual instalments of £15.0 million with the next payment due on 31 December 2017.

The Group's share of joint venture capital commitments arising on LSJV amounts to £18.2 million (2015: £48.6 million).

29 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of legal claims, guarantees and warranties arising from the ordinary course of business. Contingent liabilities that may result in material liabilities are described below.

Under the terms of the CLSA the Group has certain compensation obligations relating to achieving vacant possession, which are subject to an overall cap of £55.0 million. Should any payments be made in respect of these obligations, they will be deducted from the total consideration payable to LBHF (refer to note 28 'Capital Commitments').

In March 2013, an agreement with Network Rail was signed to acquire a 999 year leasehold interest in the air rights above the West London Line where it runs within the Earls Court and West Kensington Opportunity Area. Within the terms of the agreement, the Group can exercise options during the next 50 years for further 999 year leases over the remainder of the West London Line to allow for development within the Earls Court Masterplan. Network Rail is entitled to further payments of 5.55 per cent of the residual land value which will be payable at the time of development or disposal of each phase of the Earls Court Masterplan. Any further payments to Network Rail will be treated as contingent rent as per note 23 'Finance Lease Obligations'.

Within the terms of the agreement of the acquisition of the Northern Access Road land, the vendor's successor in title is entitled to further payments until 2027 if certain conditions are met. Further payments become due following the grant of a planning permission for change of use or on disposal. In the event such planning permission is implemented, the payment is calculated at 50 per cent of the uplift in land value following the grant of the permission. In the event of a disposal, the payment is calculated as 50 per cent of the difference between the sale value against the land value without the relevant permission.

30 CASH GENERATED FROM OPERATIONS

	Notes	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
(Loss)/profit before tax		**(240.3)**	459.9	**815.6**	10.1
Adjustments:					
Profit on sale of trading property	3	**(5.6)**	(3.5)	**–**	–
Loss/(gain) on revaluation and sale of investment and development property	4	**235.0**	(453.9)	**–**	–
Profit on sale of available-for-sale investments		**(0.4)**	–	**–**	–
Impairment of other receivables	5	**14.8**	12.2	**–**	–
Other costs	6	**5.0**	0.2	**–**	–
Depreciation		**1.8**	0.5	**–**	–
Amortisation of tenant lease incentives and other direct costs		**2.0**	–	**–**	–
Share-based payment[1]		**1.1**	5.1	**–**	–
Finance income	9	**(0.3)**	(0.7)	**–**	–
Finance costs	10	**19.6**	20.8	**–**	–
Other finance income	9	**(10.5)**	(9.3)	**(9.6)**	(8.1)
Other finance costs	10	**5.3**	–	**–**	–
Change in fair value of derivative financial instruments	25	**13.1**	0.6	**–**	–
Change in working capital:					
Change in trade and other receivables		**(40.9)**	(40.5)	**(798.6)**	5.6
Change in trade and other payables		**(7.4)**	21.7	**–**	–
Cash generated from operations		**(7.7)**	13.1	**7.4**	7.6

1 Includes £1.1 million (2015: £4.6 million) relating to the IFRS 2 'Share-based payment' charge. Refer to note 32 'Share-Based Payments' for further details.

31 RELATED PARTY TRANSACTIONS

1. Transactions between the Parent Company and its subsidiaries

Transactions between the Parent Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Significant transactions between the Parent Company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	2016 £m	2015 £m
Investing activities			
Capital & Counties Properties (Jersey) 2 Limited	Redemption of preference shares	**–**	163.6
Funding activities			
Capco Group Treasury Limited	Interest on intercompany loan	**9.6**	8.1
Capvestco Limited	Intercompany dividend receivable	**807.0**	–
Capital & Counties Properties (Jersey) 2 Limited	Intercompany dividend receivable	**–**	3.6

Significant balances outstanding at 31 December between the Parent Company and its subsidiaries are shown below:

	Amounts owed by subsidiaries	
Subsidiary	2016 £m	2015 £m
Capco Group Treasury Limited	**1,516.6**	707.2

The amount due from Capco Group Treasury Limited is unsecured, interest bearing at the Bank of England base rate plus one per cent and repayable on demand.

2. Transactions with Directors

Key management compensation[1]	2016 £m	2015 £m
Salaries and short-term employee benefits	**2.8**	3.5
Share-based payment	**0.5**	3.2
	3.3	6.7

1 Key management comprises the Directors of the Company who have been determined to be the only individuals with authority and responsibility for planning, directing and controlling the activities of the Company.

Share dealings

No Director had any dealings in the shares of any Group company between 31 December 2016 and 21 February 2017, being a date less than one month prior to the date of the notice convening the Annual General Meeting.

Other than as disclosed in these accounts, no Director of the Company had a material interest in any contract (other than service contracts), transaction or arrangement with any Group company during the year ended 31 December 2016.

31 RELATED PARTY TRANSACTIONS CONTINUED

3. Transactions between the Group and its joint ventures

Transactions during the year between the Group and its joint ventures, which are related parties, are disclosed in notes 16 'Investment in Joint Ventures', 19 'Trade and other receivables' and 28 'Capital commitments'. During the year the Group recognised management fee income of £4.6 million (2015: £4.0 million) that was earned on an arm's length basis.

Property purchased by Directors of the Company

A related party of the Group, Lillie Square GP Limited, entered into the following related party transactions as defined by IAS 24 'Related Party Disclosures':

– In April 2014 Ian Durant, Chairman of Capital & Counties Properties PLC, together with his spouse exchanged contracts to acquire an apartment for a purchase price of £725,000. At 31 December 2014 an initial deposit of £72,500 had been received. In April 2015 a further £72,500 was received with the balance of £580,000 due upon legal completion.

– In April 2014 Andrew Strang, a Non-executive Director of Capital & Counties Properties PLC exchanged contracts to acquire an apartment for a purchase price of £855,000. At 31 December 2014 an initial deposit of £85,500 had been received. In April 2015 a further £85,500 was received with the balance of £684,000 due upon legal completion.

– In April 2014 Henry Staunton, a Non-executive Director of Capital & Counties Properties PLC, together with his spouse exchanged contracts to acquire an apartment for a purchase price of £1,999,000. At 31 December 2014 an initial deposit of £199,900 had been received. In April 2015 a further £199,900 was received with the balance of £1,599,200 due upon legal completion.

– In April 2014 Situl Jobanputra, Chief Financial Officer of Capital & Counties Properties PLC, together with a family member exchanged contracts to acquire an apartment for a purchase price of £710,000. At 31 December 2014 an initial deposit of £71,000 had been received. In April 2015 a further £71,000 was received with the balance of £568,000 due upon legal completion.

– In December 2014 Graeme Gordon, a Non-executive Director of Capital & Counties Properties PLC, exchanged contracts to acquire two apartments for £1,925,000 and £2,725,000. At 31 December 2014, initial deposits of £192,500 and £272,500 had been received. In December 2015 a further £192,500 and £272,500 had been received, with the balance due upon legal completion.

– In December 2014 Blue Lillie Limited, an entity connected to Graeme Gordon, exchanged contracts to acquire two apartments for £1,975,000 and £2,825,000. At 31 December 2014, initial deposits of £197,500 and £282,500 had been received. In December 2015 a further £197,500 and £282,500 had been received with the balance due on legal completion.

The above transactions with Directors were conducted at fair and reasonable market price based upon similar comparable transactions at that time. Where applicable, appropriate approval has been provided.

Lillie Square GP Limited acts in the capacity of general partner to Lillie Square LP, a joint venture between the Group and KFI.

32 SHARE-BASED PAYMENTS

The Group operates a number of share-based payment schemes relating to employee benefits and incentives. Approval of a new remuneration policy and Performance Share Plan will be sought at the 2017 AGM. All disclosures in this note refer to the previous long-term incentive arrangement. All schemes are equity settled with the increase in equity measured by reference to the fair value of the Group's equity instruments at the grant date of the share awards. The corresponding expense is recognised on a straight-line basis over the vesting period based on Group estimates of the number of shares that are expected to vest. The total expense recognised in the consolidated income statement in respect of share-based payments for 2016 was £1.1 million (2015: £4.6 million).

Reconciliations of movements in share incentive schemes are given in the tables on pages 133 to 134.

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 Group Performance Share Plan ("PSP").

Exercise at the vesting date is subject to appropriately challenging performance conditions determined by the Remuneration Committee ("the Committee") at the time of grant.

All awards are subject to performance conditions relating to:

– the Group's Total Return ("TR") over three consecutive financial years ("the TR Performance Period") relative to the median of the TRs over the equivalent period of the Group, Intu Properties plc, Land Securities Group PLC, British Land Company plc, Hammerson plc, Segro plc, Derwent London plc, Great Portland Estates plc and Shaftesbury plc ("the Comparator Group"); and

– the Company's Total Shareholder Return ("TSR") over a period of three years ("the TSR Performance Period") relative to the median of the TSRs over the same period of the Comparator Group.

One half of each award will be subject to the TR performance condition and the other half to the TSR performance condition.

TR is the growth in the adjusted, diluted net asset value per ordinary share plus dividends per ordinary share paid during the TR Performance Period. In calculating TR for a company which is not a Real Estate Investment Trust ("REIT"), any provision for contingent capital gains tax will be added back.

TSR is the increase in the price of an ordinary share plus the value of any dividends paid during the TSR Performance Period re-invested in ordinary shares.

Full details of the performance criteria and vesting outcomes are set out on pages 72, 73, 81 and 82.

In order for any awards to vest, the Committee must satisfy itself that TR and TSR performance figures are a genuine reflection of underlying financial performance and may exercise discretion when determining the proportion of an award that will vest.

32 SHARE-BASED PAYMENTS CONTINUED

During any performance period, the Committee may, at its discretion, remove from the Comparator Group a company which has ceased to be quoted or to exist or the relevance of which as a comparator has, in the opinion of the Committee, significantly diminished. The Committee may also, at its discretion, add to the Comparator Group (whether to replace a removed member or otherwise) if it believes that such addition will enhance the relevance of the Comparator Group.

The options have a vesting period of three years and a maximum contractual life of 10 years. In general, options are forfeited if the employee leaves the Group before the options vest.

In 2011 a schedule to the PSP was approved by Her Majesty's Revenue and Customs ("HMRC") as a Company Share Option Plan ("CSOP") scheme; therefore the Company may make a proportion of awards as approved options.

Share options outstanding at 31 December 2016 were exercisable between nil pence and 388.0 pence and have a weighted average remaining contractual life of eight years and are exercisable between 2017 and 2026.

(a) Market value option awards

	2016		2015	
	Number of market value options	**Weighted average exercise price (pence)**	Number of market value options	Weighted average exercise price (pence)
Outstanding at 1 January	**1,374,748**	**272.0**	2,380,640	122.1
Awarded during the year	**258,265**	**315.0**	776,447	402.9
Forfeited during the year	**(120,647)**	**388.0**	(102,202)	402.9
Exercised during the year[1]	**(124,062)**	**182.0**	(1,680,137)	112.1
Outstanding at 31 December	**1,388,304**	**278.0**	1,374,748	272.1
Exercisable at 31 December	**573,901**		689,907	

1 The weighted average share price at the date of exercise was 331.2 pence (2015: 399.8 pence).

(b) Nil cost option awards

	Number of nil cost options	
	2016	2015
Outstanding at 1 January	**2,933,042**	3,514,073
Awarded during the year	**735,488**	546,495
Forfeited during the year	**(969,694)**	(62,417)
Exercised during the year	**(710,455)**	(1,065,109)
Outstanding at 31 December	**1,988,381**	2,933,042
Exercisable at 31 December	**654,324**	842,144

(c) Deferred share awards

	Number of deferred share awards	
	2016	2015
Outstanding at 1 January	**2,502,051**	2,160,859
Awarded during the year	**1,192,245**	987,378
Forfeited during the year	**(464,958)**	(224,523)
Vested during the year	**(338,066)**	(421,663)
Outstanding at 31 December	**2,891,272**	2,502,051

Deferred share awards made under the PSP vest on the third anniversary of the date of award, subject to continued employment and satisfaction of performance conditions.

The total expense recognised in the consolidated income statement in respect of shares and share options awarded under the PSP was £0.6 million (2015: £2.7 million).

2. Matching share plan

Under the Group Matching Share Plan ("MSP"), deferred shares may be awarded as part of any bonus. These awards may also be made as nil cost options.

The release of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain employed by the Group for a specified time, typically three years, from the date of the award. Awards of nil cost options were made in both the current and comparative periods. The fair value of share awards is determined by the market price of the shares at the grant date.

32 SHARE-BASED PAYMENTS CONTINUED

(a) Deferred share awards – nil cost options

	Number of nil cost options	
	2016	2015
Outstanding at 1 January	**1,276,890**	1,557,936
Awarded during the year	**314,740**	244,210
Forfeited during the year	**(229,964)**	–
Exercised during the year	**(668,424)**	(525,256)
Outstanding at 31 December	**693,242**	1,276,890
Exercisable at 31 December	**102,998**	452,280

Under the MSP, awards, which may be awarded as nil cost options, may also be made in respect of certain shares purchased by Directors or in respect of awards of the deferred shares or nil cost options described above made under the Company's annual bonus scheme. The matching share award comprises the same number of shares as are purchased or deferred. In exceptional circumstances the matching awards may comprise or be increased to 200 per cent of the number of shares purchased or deferred.

Vesting of matching shares and matching nil cost options is subject to appropriately challenging performance conditions. Vesting of matching shares will occur on the later of the third anniversary of grant and the date on which the performance outcome is finally determined. The matching nil cost options have a vesting period of three years and a maximum contractual life of ten years. Full details of the performance criteria and vesting outcomes are set out on pages 72, 73, 81 and 82.

Matching nil cost options and share awards generally lapse if the Director leaves the Company or sells any of the related purchased or deferred shares.

The total expense recognised in the consolidated income statement in respect of shares and share options awarded under the MSP was £0.5 million (2015: £1.9 million).

(b) Deferred share awards and co-investment – matched nil cost options

	Number of matched nil cost options	
	2016	2015
Outstanding at 1 January	**2,592,305**	3,578,984
Awarded during the year	**976,926**	396,998
Forfeited during the year	**(1,063,519)**	(31,209)
Exercised during the year	**(774,562)**	(1,352,468)
Outstanding at 31 December	**1,731,150**	2,592,305
Exercisable at 31 December	**240,511**	621,319

3. Fair value of share-based payment

As stated above, one half of each award granted is subject to the TR performance condition and the other half to the TSR performance condition. The fair value of share awards is calculated using the Black-Scholes option pricing model for the half that is subject to the TR performance condition and using the stochastic pricing model for the half that is subject to the TSR performance condition. Inputs to the models for share awards during the year are as follows:

Year of share award	**2016**	2015	2014	2013
Closing share price at grant date	**283 – 332p**	404p	320 – 350p	271p
Exercise price	**0 – 315p**	403p	–	0 – 268p
Expected option life	**3 – 6.5 years**	3 years	3 years	3 years
Risk-free rate	**0.3 – 1.2%**	0.5 to 1.2%	1.1 – 1.2%	0.24%
Expected volatility	**21.5 – 28.9%**	19.0 to 22.0%	20.6 – 22.2%	21.7%
Expected dividend yield[1]	**0.5%**	0.4%	0.4 – 0.5%	0.5%
Average share price	**323p**	421p	344p	308p
Value per option	**30 – 96p**	36 – 167p	82 – 126p	23 – 134p

1 Expected dividend yield is based on public pronouncements about future dividend levels; all other measures are based on historical data.

33 PENSIONS

1. Current pension arrangements

The Venues business has a hybrid pension scheme comprising a money purchase section that was closed on 28 February 2014 and a final salary section which closed to new members in 2006, and closed to future benefit accrual on 31 December 2011. The final salary section is a funded defined benefit scheme ("the Scheme") which is contracted out of State Second Pension. On closure of the money purchase section of the Venues' pension scheme, a defined contribution group personal pension plan was offered to eligible Venues employees.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustee of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The Scheme is managed by a board of Trustees (the "Trustee") appointed in part by the Company and part from elections by members of the Scheme. The Trustee has responsibility for obtaining valuations of the Scheme, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to professional advisers where appropriate.

The Group's current policy is largely to provide future retirement benefits through defined contribution arrangements.

The Scheme exposes the Group to a number of risks:

– Investment risk – the Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide positive real returns over the long-term, the short-term volatility can cause additional funding to be required if deficit emerges.

– Interest rate risk – the Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.

– Inflation risk – a significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.

– Mortality risk – in the event that members live longer than assumed a deficit will emerge in the Scheme.

– Member options – Certain benefit options may be exercised by members without requiring the consent of the Trustee or the Company, for example exchanging pension for cash at retirement.

2. Pension costs

(i) Defined benefit scheme

Amounts are recognised in the consolidated income statement in respect of the Scheme:

Amounts recognised in respect of the Scheme	Included in consolidated income statement within:	2016 £m	2015 £m
Interest cost on pension obligation	Administration expenses	**0.7**	0.7
Interest income on the Scheme assets	Administration expenses	**(0.7)**	(0.7)
Net interest expense		**–**	–

Amounts recognised in the consolidated statement of comprehensive income	2016 £m	2015 £m
Actuarial loss/(gain) on defined benefit scheme	**1.6**	(0.8)
Cumulative actuarial loss on defined benefit scheme	**6.6**	5.0

Whilst the actuarial gains or losses in respect of the Scheme are recognised in the consolidated statement of comprehensive income, the net interest income or expense on the Scheme's opening plan assets and scheme obligation is included in the Group's administration expenses. For the year ended 31 December 2016 this amounts to a charge of £nil to the consolidated income statement (2015: charge £nil).

Amounts recognised in the consolidated balance sheet	2016 £m	2015 £m
Fair value of Scheme assets	**23.9**	21.0
Present value of Scheme liabilities	**(24.8)**	(20.3)
Net pension (liability)/asset	**(0.9)**	0.7

Movements in the fair value of the Scheme's assets	2016 £m	2015 £m
At 1 January	**21.0**	21.1
Interest income on Scheme assets	**0.7**	0.7
Actuarial gains/(loss)	**2.4**	(0.4)
	24.1	21.4
Benefits paid	**(0.2)**	(0.4)
Scheme assets at 31 December	**23.9**	21.0

33 PENSIONS CONTINUED

The weighted average asset allocations at the year end were as follows:

Asset category:	2016 %	2015 %
Equities	**74**	78
Index-linked gilts	**11**	9
Corporate bonds	**12**	13
Cash	**3**	–
Total	**100**	100

The actual return on the Scheme's assets for the year was as follows:

	2016 £m	2015 £m
Actual return on Scheme assets in the year	**3.1**	0.3

Equities are developed based on the selection of an appropriate risk premium above the risk free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the Scheme's holdings of these instruments. The assets do not include any investment in shares of the Group.

Movements in the fair value of the Scheme's obligation	2016 £m	2015 £m
At 1 January	**(20.3)**	(21.3)
Interest cost on pension obligation	**(0.7)**	(0.7)
Experience loss on defined benefit obligation	**0.8**	–
Gain from changes to demographic assumptions	**1.1**	–
(Loss)/gain from changes to financial assumptions	**(5.9)**	1.3
	(25.0)	(20.7)
Benefits paid	**0.2**	0.4
Scheme liabilities at 31 December	**(24.8)**	(20.3)

The significant actuarial assumptions were as follows:

	2016 % (per annum)	2015 % (per annum)
Discount rate	**2.8**	3.7
Rate of inflation (based on the Retail Prices Index)	**3.5**	3.0
Increases to pensions in payment (Limited Prices Index 5%)	**3.5**	3.0
Increases to deferred pensions before payment	**2.7**	2.2
Post retirement mortality assumption (2016: S2 PXA CMI; 2015: S1 PXA CMI)	**1.3**	1.5

The discount rate is determined on the yield available on a high quality long dated corporate bond of appropriate term and currency. As a result, a discount rate of 2.8 per cent has been applied as at 31 December 2016 (2015: 3.7 per cent). This is lower than the rate used in the prior year, reflecting the significant drop in the yields on bonds of the appropriate term over this period.

Mortality assumptions are based on standard tables provided by the Institute of Actuaries using insurance company data updated from time to time to reflect current trends. The standard table used by the Scheme in the current period is S2 PXA CMI (1.25%) (2015: S1 PXA CMI (1.50%), and Year of Birth. The table below makes allowance for future improvements in longevity based on the year of birth of each member.

		2016	2015
The mortality assumptions used in this valuation were:			
Life expectancy at age 65 (current age 45):	Male	**89.0**	90.1
	Female	**91.2**	92.6
Life expectancy at age 65 (current age 65):	Male	**87.2**	87.8
	Female	**89.3**	90.2

The following table shows a quantitative sensitivity analysis of the significant assumptions used in determining the defined benefit obligation as at 31 December 2016:

	2016 Assumptions %	Adjustments to 2016 assumptions %	Financial impact of adjustments on the year-end obligation £m
Discount rate	**2.8**	**(0.1)**	**0.5**
Rate of inflation	**3.5**	**0.1**	**0.4**
Post retirement mortality assumption	**1.3**	**(0.3)**	**(0.4)**

33 PENSIONS CONTINUED

The following table shows the history of experience gains and losses:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Present value of Scheme's liabilities	**(24.8)**	(20.3)	(21.3)	(18.2)	(17.1)
Fair value of Scheme's assets	**23.9**	21.0	21.1	19.0	16.7
Net pension (liability)/asset	**(0.9)**	0.7	(0.2)	0.8	(0.4)
Experience adjustment on Scheme liabilities	**0.8**	–	–	0.4	(0.3)
Changes in assumptions used to value Scheme liabilities	**(4.8)**	1.3	(2.6)	(1.1)	(2.2)
Experience adjustment on Scheme assets	**2.4**	(0.4)	0.8	1.8	0.8

The Group has no significant exposure to any other post-retirement benefit obligations.

The estimated contribution expected to be paid to the Scheme during 2017 is £nil (2016: £nil).

(ii) Defined contribution arrangements

The pension charge in respect of other schemes is the actual contributions paid. These amounted to £1.4 million (2015: £1.4million).

34 RELATED UNDERTAKINGS

The Company's subsidiaries and other related undertakings at 31 December 2016 are listed below. All Group entities are included in the consolidated financial statements.

Unless otherwise stated, the Company holds 100 per cent of the voting rights and beneficial interests in the shares of the following subsidiaries and joint ventures. The share capital of each of the Companies, where applicable, comprises of ordinary shares unless otherwise stated.

Registered Address: 15 Grosvenor Street, London, W1K 4QZ

Related undertakings	
20 The Piazza Limited	EC Properties Nominee Limited
20 The Piazza Management Limited	EC&O Limited
22 Southampton Street Limited	Empress State GP Limited
22 Southampton Street Management Limited	The Empress State Limited Partnership
34 Henrietta Street Limited	Empress State Nominee No 1 Limited
34 Henrietta Street Management Company Limited	Empress State Nominee No 2 Limited
C&C Management Services Limited[1]	Euro Co-Ventures Limited (50%)
C&C Properties UK Limited[1]	Exhibition Venues Limited
Capco CG 2012 Limited	Falcon House Management Limited (32%)[2]
Capco CGP 2012 LP	Lillie Square Clubhouse Limited (50%)
Capco CG 2012 Nominee Limited	Lillie Square Developments Limited (50%)
Capco Covent Garden Limited[1]	Lillie Square GP Limited (50%)
Capco Covent Garden Residential Limited	Lillie Square LP (50%)
Capco Group Treasury Limited[1]	Lillie Square Management Limited (50%)
Capco London Limited	Lillie Square Nominee Limited (50%)
Capital & Counties Asset Management Limited[1]	Mallenhill Limited (63%)
Capital & Counties CG Limited	Olympia Car Park Limited
Capital & Counties CGP	Olympia Exhibitions Group Limited
Capital & Counties CG Nominee Limited	Olympia Exhibitions Holdings Limited
Capital & Counties Limited[1,3]	Olympia Group Limited
CG Investments 2016 GP Limited	Olympia Holdings Limited
CG Investments 2016 LP	Olympia Licensing Limited
CG Investments 2016 Nominee Limited	Olympia Limited
Covent Garden (43 Management) Limited	Olympia Management Services Limited
Covent Garden (49 Wellington Street) Limited	Solum Developments (GP) Limited (50%)
Covent Garden Group Holdings Limited	Solum Developments Limited Partnership (50%)
Earls Court & Olympia Group Pension Trustees Limited	Solum Group Holdings GP Limited
Earls Court Limited	Solum Group Holdings LP
Earls Court Partnership Limited (63%)	Solum Group Holdings Nominee Limited
EC Properties GP Limited	Solum Management Limited
EC Properties LP	St James Capital Seagrave Road Limited
EC Properties Management Limited	The Earls Court & Olympia Charitable Trust[2]

1 Direct undertakings of the Parent.
2 Company limited by guarantee.
3 Non-voting deferred shares.

Registered Address: 55 Baker Street, London, W1U 7EU

Related undertakings	
A & P Bolding Limited (in liquidation) (50%)	Changeopen Residents Management Limited (in liquidation)
Capco CG 2010 Limited (in liquidation)	Martineau Properties Limited (in liquidation)
Capco CG 2010 Nominee Limited (in liquidation)	Sanderling Enterprises Limited (in liquidation)[1]
Capco Empress State LP Limited (in liquidation)	

1 Deferred shares.

34 RELATED UNDERTAKINGS CONTINUED

Registered Address: 1 Waverley Place, Union Street, St Helier, Jersey, JE1 1SG

Related undertakings	
C&C Properties (Jersey) Limited	CG Investments 2016 Group Limited
Capital & Counties CG (No. 1) Limited	Covent Garden Limited
Capital & Counties CG (No. 2) Limited	Covent Garden LP Limited
Capvestco 2 Limited[1]	EC Group Holdings Limited
Capvestco 3 Limited[1]	EC Holdings Limited
Capvestco 3 Holdings Limited	EC Properties LP Limited
Capvestco China Limited	Empress Holdings Limited
Capvestco Earls Court Limited	Empress State (Jersey) Limited
Capvestco Limited[1]	Lillie Square LP Limited
CG Investments 2016 (No. 1) Limited	Solum Group Holdings LP Limited
CG Investments 2016 (No. 2) Limited	Solum Holdings Limited

1 Direct undertakings of the Parent.

Registered Address: 33 Cavendish Square, London, W1G 0PW

Related undertakings	
Great Capital Partnership (G.P.) Limited (50%)	The Great Capital Partnership (50%)
Great Capital Property Limited (50%)	

Registered Address: 25 The Avenue, Chiswick, London, England, W4 1HA

Related undertaking
1 and 3 Eardley Crescent Limited (9%)

Analysis of property portfolio (unaudited)

1. PROPERTY DATA AS AT 31 DECEMBER 2016

	Market Value £m	Ownership
Covent Garden	**2,274.8**	**100%**
Earls Court Properties		
ECPL	**644.4**	**63%**
Lillie Square	**222.6**	**50%**
Empress State	**230.0**	**100%**
Other	**45.1**	**100%**
Earls Court Properties (Group share)	**1,142.1**	
Venues	**292.7**	**100%**
Group share of total property	**3,709.6**	
Investment and development property	***3,484.1***	
Trading property	***225.5***	

2. ANALYSIS OF CAPITAL RETURN FOR THE YEAR

Like-for-like capital	**Market Value 31 December 2016 £m**	Market Value 31 December 2015 £m	**Revaluation surplus/ (deficit)[1] 31 December 2016 £m**	**Increase/ (decrease)**
Covent Garden	**2,193.0**	1,985.8	**129.4**	**6.4%**
Earls Court Properties	**1,142.1**	1,355.4	**(292.6)**	**(20.4)%**
Venues	**292.7**	295.0	**(3.8)**	**(1.3)%**
Total like-for-like capital	**3,627.8**	3,636.2	**(167.0)**	**(4.4)%**
Investment and development property	***3,402.3***	*3,412.6*	***(121.5)***	***(3.5)%***
Trading property	***225.5***	*223.6*	***(45.5)[2]***	***(16.8)%***
Non like-for-like capital				
Acquisitions	**81.8**	–	**(3.4)**	
Disposals	**–**	25.6	**–**	
Total property	**3,709.6**	3,661.8	**(170.4)**	**(4.4)%**
Investment and development property	***3,484.1***	*3,417.1*	***(124.9)***	***(3.5)%***
Trading property	***225.5***	*244.7*	***(45.5)[2]***	***(16.8)%***
All property				
Covent Garden	**2,274.8**	2,005.2	**126.1**	**6.0%**
Earls Court Properties	**1,142.1**	1,357.2	**(292.7)**	**(20.4)%**
Venues	**292.7**	295.0	**(3.8)**	**(1.3)%**
Other	**–**	4.4	**–**	**–**
Total property	**3,709.6**	3,661.8	**(170.4)**	**(4.4)%**

1 Revaluation surplus/(deficit) includes amortisation of lease incentives and fixed head leases.

2 Represents unrecognised surplus and write down or write back to market value of trading property. Presented for information purposes only.

3. ANALYSIS OF NET RENTAL INCOME FOR THE YEAR

Like-for-like net rental income	2016 £m	2015 £m	Increase/ (decrease)
Covent Garden	**40.7**	38.6	**5.3%**
Earls Court Properties	**16.8**	17.2	**(2.1)%**
Venues	**23.6**	19.3	**22.4%**
Other	**(0.5)**	(0.4)	**–**
Total like-for-like net rental income	**80.6**	74.7	**7.8%**
Like-for-like investment and development property	***80.6***	*74.7*	***7.8%***
Like-for-like trading property	**–**	–	**–**
Non like-for-like net rental income			
Acquisitions	**0.9**	–	
Developments	**(0.3)**	0.2	
Disposals	**–**	(0.1)	
Prior year acquisitions (like-for-like capital)	**0.3**	0.1	
Total net rental income	**81.5**	74.9	**8.7%**
Investment and development property	***81.6***	*74.9*	***9.0%***
Trading property	***(0.1)***	–	

All property			
Covent Garden	**41.5**	38.8	**6.9%**
Earls Court Properties[1]	**16.8**	17.3	**(2.8)%**
Venues	**23.6**	19.3	**22.4%**
Other	**(0.4)**	(0.5)	**–**
Total net rental income	**81.5**	74.9	**8.7%**

1 ERV of the Empress State Building is £16.4 million.

4. ANALYSIS OF COVENT GARDEN BY USE

31 December 2016

	Initial yield (EPRA)	Nominal equivalent yield	Passing rent £m	Occupancy rate	Weighted average unexpired lease years	Market value £m	ERV £m	Net area million Sq ft
Retail						**1,636.1**	**65.5**	**0.6**
Office						**292.9**	**16.0**	**0.2**
Residential						**135.4**	**3.6**	**0.2**
Other[1]						**210.4**	**10.9**	**0.1**
Total	**2.10%**	**3.54%**	**51.2**	**96.5%**	**6.5**	**2,274.8**	**96.0**	**1.1**

1 Consists of property where the highest and best use valuation differs from the current use.

Consolidated underlying profit statement (unaudited)
For the year ended 31 December 2016

Group share	2016 £m	Re-presented[1] 2015 £m
Net rental income	**81.5**	74.9
Other income	**2.7**	2.5
Administration expenses	**(50.5)**	(52.5)
Operating profit	**33.7**	24.9
Finance costs	**(19.8)**	(20.8)
Finance income	**0.3**	0.7
Net finance costs	**(19.5)**	(20.1)
Profit before tax	**14.2**	4.8
Taxation	**(2.4)**	3.0
Underlying earnings	**11.8**	7.8
Underlying earnings per share (pence)	**1.4**	0.9
Weighted average number of shares	**844.4m**	841.1m

1 Comparative period has been re-presented from proportionate consolidation to Group share basis.

Financial covenants (unaudited)
For the year ended 31 December 2016

FINANCIAL COVENANTS ON NON-RECOURSE DEBT

		31 December 2016		
Group share	**Maturity**	**Loan(s) outstanding at 31 December 2016[1] £m**	**LTV covenant**	**Interest cover covenant**
Covent Garden[2]	**2020 – 2028**	**675.0**	**60%**	**120%**
ECPL	**2026**	**20.3**	**40%**	**n/a**
Lillie Square[3]	**2017 – 2018**	**77.6**	**75%**	**n/a**
Empress State	**2018**	**85.5**	**60%**	**300%**
Venues	**2020**	**50.0**	**50%**	**250%**
Total		**908.4**		

1 The loan values are the nominal values at 31 December 2016 shown on a Group share basis. The balance sheet value of the loans includes any unamortised fees.

2 Covent Garden comprises five loans with maturities in 2020, 2021, 2024, 2026 and 2028.

3 Lillie Square comprises two loans with maturities in 2017 and 2018.

Historical record

CONTINUING AND DISCONTINUED OPERATIONS

Consolidated income statement	2016 £m	Re-presented[1] 2015 £m	Re-presented[1] 2014 £m	Re-presented[1] 2013 £m	Re-presented[1] 2012 £m
Net rental income	**81.5**	74.9	70.1	63.8	65.3
Profit/(loss) on sale of trading property	**4.4**	2.0	(1.9)	10.4	6.1
Other income	**2.7**	2.6	1.5	0.2	–
(Loss)/gain on revaluation and sale of investment and development property	**(124.8)**	421.8	454.4	313.4	213.9
Non-recurring (costs)/income	**(5.0)**	(0.2)	1.7	0.7	10.4
Administration expenses	**(50.5)**	(52.5)	(43.2)	(33.8)	(26.1)
Operating profit	**(91.7)**	448.6	482.6	354.7	269.6
Net finance costs	**(37.8)**	(20.6)	(32.4)	(4.7)	(24.1)
Profit before tax	**(129.5)**	428.0	450.2	350.0	245.5
Taxation	**10.9**	3.1	(1.6)	(12.6)	(5.5)
Profit for the year attributable to Parent	**(118.6)**	431.1	448.6	337.4	240.0

Consolidated balance sheet					
Investment and development property	**3,443.0**	3,385.2	2,785.9	2,051.1	1,586.2
Other non-current assets	**120.0**	96.0	55.8	50.9	44.5
Cash and cash equivalents	**64.8**	91.0	111.9	45.0	184.5
Other current assets	**231.1**	173.7	144.9	135.5	110.3
Total assets	**3,858.9**	3,745.9	3,098.5	2,282.5	1,925.5
Non-current borrowings, including finance leases	**(881.1)**	(651.4)	(439.1)	(357.7)	(269.6)
Other non-current liabilities	**(17.5)**	(16.8)	(17.2)	(27.5)	(29.7)
Current borrowings, including finance leases	**(31.1)**	(18.5)	(17.5)	(16.5)	(78.4)
Other current liabilities	**(124.2)**	(125.2)	(118.4)	(68.7)	(70.0)
Total liabilities	**(1,053.9)**	(811.9)	(592.2)	(470.4)	(447.7)
Net assets	**2,805.0**	2,934.0	2,506.3	1,812.1	1,477.8

Per share information	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**(14.0)**	51.3	55.6	44.7	34.1
Underlying earnings per share	**1.4**	0.9	1.6	1.0	1.8
Basic net assets per share	**331.5**	348.5	299.7	239.1	196.3
EPRA NAV	**339.6**	360.9	310.7	248.5	203.1
Dividend per share	**1.5**	1.5	1.5	1.5	1.5

1 Comparative periods have been re-presented from proportionate consolidation to Group share basis.

Prepared on a Group share basis.

Board and advisers

Chairman
Ian Durant

Executive Directors
Ian Hawksworth, Chief Executive
Situl Jobanputra, Chief Financial Officer
Gary Yardley, Managing Director & Chief Investment Officer

Non-executive Directors
Graeme Gordon
Gerry Murphy
Demetra Pinsent
Henry Staunton, Senior Independent Director
Anthony Steains
Andrew Strang

Company Secretary
Ruth Pavey

Registered Office
15 Grosvenor Street
London
W1K 4QZ
Telephone: 020 3214 9150
Fax: 020 3214 9151

Registered Number
7145051

Websites
www.capitalandcounties.com
www.coventgarden.london
www.myearlscourt.com
www.olympia.london

Independent auditors
PricewaterhouseCoopers LLP

Solicitors
Linklaters LLP
Webber Wentzel (South Africa)

Brokers and Financial Advisers
Bank of America Merrill Lynch
N M Rothschild & Sons Limited
UBS Limited

SA Sponsor
Merrill Lynch South Africa (Pty) Limited

Dividends

The Directors of Capital & Counties Properties PLC have proposed a final dividend per ordinary share (ISIN GB00B62G9D36) of 1.0 pence payable on 31 May 2017.

Dates
The following are the salient dates for payment of the proposed final dividend:

Sterling/Rand exchange rate struck	6 April 2017
Sterling/Rand exchange rate and dividend amount in Rand announced	7 April 2017
Ordinary shares listed ex-dividend on the JSE, Johannesburg	19 April 2017
Ordinary shares listed ex-dividend on the London Stock Exchange	20 April 2017
Record date for final dividend in UK and South Africa	21 April 2017
Annual General Meeting	5 May 2017
Dividend payment date for shareholders	**31 May 2017**

South African shareholders should note that, in accordance with the requirements of Strate, the last day to trade cum-dividend will be 18 April 2017 and that no dematerialisation of shares will be possible from 19 April 2017 to 21 April 2017 inclusive. No transfers between the UK and South Africa registers may take place from 7 April 2017 to 21 April 2017 inclusive.

Subject to SARB approval, the Board intends to offer an optional scrip dividend alternative in respect of the 2016 final dividend.

The above dates are proposed and subject to change.

Important Information for South African Shareholders:
The final cash dividend declared by the Company will constitute a dividend for Dividends Tax purposes. Dividends Tax will therefore be withheld from the amount of the final cash dividend which is paid at a rate of 15 per cent, unless a shareholder qualifies for an exemption and the prescribed requirements for effecting the exemption, as set out in the rules of the Scrip Dividend Scheme, are in place.

It is the Company's understanding that the issue and receipt of shares pursuant to the scrip dividend alternative will not have any Dividends Tax nor income tax implications. The new shares which are acquired under the scrip dividend alternative will be treated as having been acquired for nil consideration.

This information is included only as a general guide to taxation for shareholders resident in South Africa based on Capco's understanding of the law and the practice currently in force. Any shareholder who is in any doubt as to their tax position should seek independent professional advice.

Glossary

BPS
Basis point is a unit equal to one hundredth of a percentage point.

Capco
Capco represents Capital & Counties Properties PLC (also referred to as "the Company" or "the Parent") and all its subsidiaries and group undertakings, collectively referred to as "the Group".

CLSA
Conditional Land Sale Agreement, an agreement with LBHF relating to its land in the Earls Court and West Kensington Opportunity Area.

CSOP
Company Share Option Plan.

Diluted figures
Reported amounts adjusted to include the dilutive effects of potential shares issuable under employee incentive arrangements.

Earls Court
The London district made up of a series of residential neighbourhoods crossing the boundaries of London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea.

Earls Court Masterplan
The Earls Court Masterplan, created by Sir Terry Farrell and Partners is the consented scheme for the transformation of Earls Court and West Kensington Opportunity Area. The London Borough of Hammersmith & Fulham and The Royal Borough of Kensington & Chelsea formally granted outline planning permission for the Earls Court Masterplan on 14 November 2013.

Earls Court Properties
The Group's interests in the Earls Court area, comprising properties held in ECPL, Lillie Square (a 50:50 joint venture partnership with the Kwok Family Interests), the Empress State Building and a number of smaller properties in the Earls Court area.

ECPL
Earls Court Partnership Limited is the investment vehicle with TfL. The Group holds 63 per cent controlling interest and TfL holds 37 per cent. ECPL holds interests in EC1 & EC2 and other adjacent property primarily located on and around Lillie Road.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EC1 & EC2
The site formerly the location of the Earls Court 1 and Earls Court 2 Exhibition Centres.

EPRA
European Public Real Estate Association, the publisher of Best Practice Recommendations intended to make financial statements of public real estate companies in Europe clearer, more transparent and comparable.

EPRA earnings[1]
Profit for the year excluding gains or losses on the revaluation and sale of investment and development property, 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[1]
EPRA earnings divided by the weighted average number of shares in issue during the year.

EPRA net asset value (NAV)[1]
The net assets as at the end of the year including the excess of the fair value of trading property over its cost and excluding the fair value of financial instruments, deferred tax on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes divided by the diluted number of shares at the year end.

EPRA net asset value per share[1]
EPRA net asset value divided by the diluted number of ordinary shares.

EPRA net initial yield[1]
Annualised net rent (after deduction of revenue costs such as head rent, running void, service charge after shortfalls and empty rates) on investment and development property expressed as a percentage of the gross market value before deduction of theoretical acquisition costs.

EPRA topped-up initial yield[1]
Net initial yield adjusted for the expiration of rent-free periods.

EPRA triple net asset value (NNNAV)[1]
EPRA NAV adjusted to reflect the fair value of derivative financial instruments, excess fair value of debt over carrying value and deferred tax on derivative financial instruments, revaluations and capital allowances.

EPRA triple net asset value per share[1]
EPRA triple net asset value divided by the diluted number of ordinary shares.

EPRA Vacancy[1]
The ERV of un-let units expressed as a percentage of the ERV of let and under offer units plus ERV of un-let units, excluding units under development.

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.

Floral Court
Development at Covent Garden formally known as Kings Court.

GCP
The Great Capital Partnership is a 50 per cent Joint Venture between Capital & Counties Limited and Great Portland Estates PLC.

GEA
Gross external area.

GLA
Greater London Authority.

GRESB
Global Real Estate Sustainability Benchmark.

Gross income
The Group's share of passing rent plus sundry non-leased income.

FTSE 350 Real Estate Index
London Stock Exchange index derived from real estate companies in the FTSE 100 and FTSE 250 indices.

Headline earnings[1]
Headline earnings per share is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's JSE listing. This measure is not a requirement of IFRS.

HCA
Home and Communities Agency.

HMRC
Her Majesty's Revenue and Customs.

IPD
Investment Property Databank Limited, producer of an independent benchmark of property returns.

JSE
Johannesburg Stock Exchange.

1 Relates to an alternative performance measure as defined by the FRC

Kwok Family Interests (KFI)
Joint venture partner in the Lillie Square development.

LBHF
The London Borough of Hammersmith & Fulham.

Like-for-like property[1]
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.

LSJV
The Lillie Square joint venture is a 50% Joint Venture between the Group and Kwok Family Interests.

Loan to value (LTV)[1]
LTV is calculated on the basis of the Group's net debt divided by the value of the Group's property portfolio.

NAV
Net Asset Value.

Net Debt
Total borrowings less cash and cash equivalents.

NIA
Net Internal Area.

Net rental income (NRI)
Gross rental income less ground rents, payable service charge expenses and other non-recoverable charges, having taken due account of bad debt provisions and adjustments to comply with International Financial Reporting Standards regarding tenant lease incentives.

Nominal equivalent yield
Effective annual yield to a purchaser on the gross market value, assuming rent is receivable annually in arrears, and that the property becomes fully occupied and that all rents revert to the current market level (ERV) at the next review date or lease expiry.

NRIL
Network Rail Infrastructure Limited.

Occupancy rate[1]
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% less the EPRA vacancy rate.

Opportunity Area
In September 2011 the GLA published the 'Opportunity Area Planning Frameworks Report'. Opportunity Areas are London's major reservoirs of brownfield land with significant capacity to accommodate new housing, commercial and other developments linked to existing or potential improvements to public transport accessibility. Typically, they can accommodate at least 5,000 jobs or 2,500 new homes or a combination of the two, along with other supporting facilities and infrastructure.

Passing rent
Contracted annual rents receivable at the balance sheet date. This takes no account of accounting adjustments made in respect of rent-free periods or tenant lease incentives, the reclassification of certain lease payments as finance charges or any irrecoverable costs and expenses, and does not include excess turnover rent, additional rent in respect of unsettled rent reviews or sundry income such as from car parks etc. Contracted annual rents in respect of tenants in administration are excluded.

P.A.
Per annum.

REIT
Real Estate Investment Trust.

RICS
Royal Institution of Chartered Surveyors.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

SARB
South African Reserve Bank.

SAICA
South African Institute of Chartered Accountants.

Section 106
Section 106 of the Town and Country Planning Act 1990, pursuant to which the relevant planning authority can impose planning obligations on a developer to secure contributions to services, infrastructure and amenities in order to support and facilitate a proposed development.

SDLT
Stamp Duty Land Tax.

Solum
Solum Development Limited Partnership is a 50% Joint Venture between the Group and Network Rail Infrastructure Limited.

Tenant lease incentives
Any incentives offered to tenants to enter into a lease. Typically incentives are in the form of an initial rent-free period and/or a cash contribution to fit-out the premises. Under International Financial Reporting Standards the value of incentives granted to tenants is amortised through the income statement on a straight-line basis over the lease term.

TfL
Transport for London and any subsidiary of Transport for London including Transport Trading Limited and London Underground Limited.

Total property return (TPR)[1]
Capital growth including gains and losses on disposals plus rent received less associated costs, including ground rent.

Total return (TR)[1]
The growth in EPRA NAV per share plus dividends per share paid during the year.

Total shareholder return (TSR)[1]
The increase in the price of an ordinary share plus dividends paid during the year assuming re-investment in ordinary shares.

Underlying earnings[1]
Profit for the year excluding impairment charges, net valuation gains/losses (including profits/losses on disposals), net refinancing charges, costs of termination of derivative financial instruments and non-recurring costs and income. Underlying earnings is reported on a Group share basis.

Underlying earnings per share (EPS)[1]
Underlying earnings divided by the weighted average number of shares in issue during the year.

Weighted average unexpired lease term
The unexpired lease term to lease expiry weighted by ERV for each lease.

WCC
Westminster City Council.

Zone A
A means of analysing and comparing the rental value of retail space by dividing it in to zones parallel with the main frontage. The most valuable zone, Zone A, falls within a 6m depth of the shop frontage. Each successive zone is valued at half the rate of the zone in front of it. The blend is referred to as being 'ITZA' ("In Terms of Zone A").

1 Relates to an alternative performance measure as defined by the FRC

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:

Capita Asset Services
The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Telephone: 0871 664 0300 (calls cost 12p per minute plus your phone company's access charge; calls outside the United Kingdom will be charged at the applicable international rate; lines are open 9.00 am – 5.30 pm Monday – Friday, excluding public holidays in England and Wales)
Telephone outside UK: +44 371 664 0300
Email: shareholderenquiries@capita.co.uk
www.capitaassetservices.com

For shareholders registered in South Africa:

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, South Africa,
Postal address: PO Box 61051, Marshalltown 2107, South Africa
Telephone: +27 (0) 11 370 5000 or 086 1100 933
www.computershare.com

Payment of dividends

If you are a shareholder and wish to have your dividends paid directly into a bank or building society, please complete a mandate form which is available from the appropriate registrar.

Share price information

The latest information on the Capital & Counties Properties PLC share price is available on the Company's website www.capitalandcounties.com.

The shares are traded on the LSE with LSE code CAPC, ISIN GBOOB62G9D36. The shares are traded on the JSE under the abbreviated name CAPCO and JSE code CCO.

Web-based enquiry service for shareholders

Shareholders registered in the UK can register at www.capitashareportal.com to access a range of online services including:

- Online proxy voting
- Electing to receive shareholder communications electronically
- Viewing your holding balance, indicative share price and valuation
- Viewing transactions on your holding including any dividend payments you have received
- Updating your address details or registering a mandate to have your dividends paid directly to your bank account
- Accessing a wide range of shareholder information, including downloadable forms

To register to use this service, you will need your investor code (IVC), which can be found on your share certificate(s).

Share dealing services

The Company's shares can be traded through most banks, building societies and stockbrokers. Additionally, UK shareholders may trade their shares using the online and telephone dealing service that Capita Asset Services provide. To use this service, shareholders should contact Capita: within the UK 0371 664 0445 (calls are charged at the standard geographic rate and will vary by provider; lines are open 8.00 am – 4.30 pm Monday to Friday); from Ireland: lo-call 1 890 946 375; or from outside UK: +44(0) 371 664 0445 (calls outside the United Kingdom are charged at the applicable international rate) or you can log on to www.capitadeal.com.

Electronic communication

Capco has adopted electronic communications. This means that shareholders will receive documents from the Company electronically unless they elect to receive hard copies.

The Group's annual results and interim results will be published on the Company's website www.capitalandcounties.com. If you are a shareholder who receives hard copies of documents and you wish to elect to receive electronic communications, please contact the appropriate Registrar.

Shareholders may revoke an election to receive electronic communications at any time.

ShareGift

ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomical to sell on a commission basis. Further information can be found on its website www.sharegift.org or by calling them on 020 7930 3737.

Strate Charity Shares (SCS)

SCS is a charity share donation scheme for shareholders who may wish to dispose of small holdings of shares that are too costly to sell via a stock broker on a commission basis. Further information can be found at www.strate.co.za, by emailing charityshares@computershare.co.za or by calling 0800 202 363 or +27(0) 11 870 8207 if you are phoning from outside South Africa.

Investment scams

Shareholders are advised to be wary of any unsolicited calls, mail or email that offer free advice, the opportunity to buy shares at a discount or to provide free company reports. Such approaches are often investment scams. Information on how to protect yourself from investment scams can be found at www.fca.org.uk/scams or by calling the FCA's consumer helpline on 0800 111 6768.

Discontinuation of trading updates

To reflect Capco's strategy of driving value creation over the longer term, the Board has taken the decision to cease publication of formal Trading Updates in May and November. The Group remains committed to full and transparent disclosure and will continue with full-year and interim announcements.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C001785

Printed by Park Communications on FSC® certified paper.

Park is an EMAS certified company and its Environmental Management System is certified to ISO14001. 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. This document is printed on Heaven 42, this paper contains 100% virgin fibre sourced from well-managed, responsible, FSC® certified forests. The pulp is bleached using both elemental chlorine free (ECF) and totally chlorine free (TCF) processes.

Design and production by Black Sun Plc www.blacksunplc.com

Capital & Counties Properties PLC
15 Grosvenor Street, London W1K 4QZ
Telephone +44 (0)20 3214 9150
feedback@capitalandcounties.com
www.capitalandcounties.com