SHAFTESBURY 2022 FULL YEAR RESULTS

Growth in EPRA NTA, income, earnings and dividends

Strong recovery in footfall and spending; sustained occupier demand across all uses; return to pre-pandemic occupancy

Shaftesbury PLC, the Real Estate Investment Trust that owns a 16.4-acre portfolio in the heart of London's West End, today announces its results for the year ended 30 September 2022.

Brian Bickell, Chief Executive, commented:

"The year has seen a rapid rebound in the West End economy as Covid-related disruption receded and patterns of everyday activity returned to pre-pandemic normality. The sustained recovery in footfall and trading since the early months of 2022 has been matched by the strength of occupier demand in our carefully curated and popular locations.

Although London and the West End cannot be immune from the unprecedented range of challenges which are now dominating the national outlook, their long-term prospects remain bright, thanks to their enduring appeal to global, domestic and local visitors, businesses and investors, their dynamic economies and ability to attract talent and creativity from across the world. These features are mirrored in the locations in which we invest and, together with our proven, innovative management strategy and our experienced and enthusiastic team, reinforce our confidence in the long-term potential of our exceptional portfolio.''

Overview

- Rapid rebound in West End economy.
- Sustained recovery in confidence and activity driving growing footfall and spending ahead of 2019 levels; occupiers reporting average monthly sales now 6% ahead of pre-pandemic levels - hospitality and leisure: +6%, retail +6%.
- Strong demand for space across all uses has led to a return to pre-Covid occupancy levels and growth in rental values.
- 59 new hospitality and retail lettings during the year.
- Rent collection: 99%, back to pre-pandemic levels.
- Material improvement in earnings reflecting recovery in operating conditions.
- Cash generated from operating activities up 61.4% to £61.8 million following cessation of Covid-rent support and improvements in rent collections and occupancy.
- Dividends for the year: 9.9p per share, +54.7% year-on-year.
- Net zero carbon commitment: 2030; carbon-neutral in our operations: 2025.
- Prospects for London and the West End remain bright, despite current range of macroeconomic challenges. We remain confident in long-term potential of our exceptional portfolio.
- Proposed merger update:
    - Merger approved by Shaftesbury and Capco shareholders.
    - Currently engaged in customary pre-notification discussions with the CMA, which remain ongoing.
    - Proposed merger is now expected to become effective during the first quarter of 2023, subject to satisfaction or, where applicable, waiver of outstanding conditions.
    - Arrangements to facilitate payment of further dividends by Shaftesbury and Capco for the quarter ended 31 December 2022 announced today.

Materially improved earnings reflecting recovery in operating conditions

Statement of Comprehensive Income		2022	2021	Change
Reported results				
Net property income	£m	**82.8**	64.7	28.0%
Profit/(loss) after tax	£m	**119.1**	(194.9)	+£314.0m
Basic earnings/(loss) per share	Pence	**31.0**	(52.0)	+£83.0p
Dividends for year ended 30.9.22				
Second interim dividend	Pence	**5.1**	4.0*	27.5%
First interim dividend	Pence	**4.8**	2.4	100.0%
Total dividends for the year	Pence	**9.9**	6.4	54.7%
EPRA results[1]				
Earnings	£m	**19.3**	13.3	45.1%
Earnings per share	Pence	**5.0**	3.5	42.9%
Underlying EPRA earnings/(loss)	£m	**38.0**	(7.4)	+£45.4m
Underlying EPRA earnings/(loss) per share	Pence	**9.9**	(2.0)	+11.9p
Cash flow				
Cash generated from operating activities	£m	**61.8**	38.3	61.4%
Balance Sheet				
Reported net assets	£m	**2,459**	2,373	3.6%
EPRA NTA per share[1]	£	**6.41**	6.19	3.6%
Total Accounting Return[1]	%	**5.0%**	(14.6)%	+19.6ppts

* 2021: Final dividend

- Net property income up 28.0% to £82.8m (2021: £64.7m):
  - 38.2% increase in invoiced rent to £113.3m (2021: £82.0m) reflecting improved occupancy and cessation of occupier rental support.
  - Rental income, after adjustments for lease incentives: £110.4m (2021: £105.0m); +5% like-for-like.
  - Significant reduction in charges for impairments and expected credit losses, down £13.7m to £4.0m (2021: £17.7m) as trading conditions improve and rent collection rates return to pre-pandemic levels.
  - Irrecoverable property costs up £1.0m to £23.6m (2021: £22.6m) with increased leasing volumes, maintenance expenditure, additional marketing activity and property management fees.
- Profit after tax: £119.1m (2021: £194.9m loss).
  - Increase primarily due to £99.5m revaluation gain (2021: £196.9m revaluation deficit) and improved net property income, partly offset by one-off costs associated with the proposed merger.
  - EPRA earnings[1]: £19.3m, up 45.1% (2021: £13.3m). EPRA earnings per share[1]: 5.0p (2021: 3.5p).
  - Underlying EPRA earnings per share[1], after adjusting for accounting impact of Covid rent waivers and one-off costs associated with proposed merger: 9.9p (2021: loss per share 2.0p).
- EPRA NTA[1]: £6.41 per share, up 3.6% (2021: £6.19) predominantly due to net revaluation gains.

Increased dividends

- Second interim dividend for year ended 30 September 2022 (referred to as the “Shaftesbury Full Year Dividend” in the proposed merger Scheme Document), paid in place of a final dividend: 5.1p (+27.5% vs 2021 final dividend).
  - To be paid as a PID on 21 December 2022.
  - Ex-dividend date: 8 December 2022
  - Record date: 9 December 2022
  - Dividend covered by underlying EPRA earnings per share.
- Total dividends for year: 9.9p, up 54.7% (2021: 6.4p).

Strong demand across all uses driving growing income and rental values; vacancy now at pre-pandemic levels

- Leasing transactions with a rental value of £40.9m completed during the year (2021: £33.9m):
  - Commercial: £32.4m; +8.5% vs 9.21 ERV.
  - Residential: £8.5m; +11.4% vs previous rents.
  - £4.4m of lettings and renewals completed since 1 October 2022; further lettings in solicitors' hands.
- EPRA vacancy: 4.0% of portfolio ERV (2021: 6.0%), of which 1.6% was under offer.
- Rent collection back to pre-pandemic levels: 99% of invoiced rent now collected for year ended 30 September 2022.

Wholly-owned portfolio valuation: £3.2bn; full year increase[2]: 3.6%, with first half gains[2] (+7.5%) partly reversed in the second half (H2: -3.6%) as valuation yields increased

- Valuation increases[2] across all uses: hospitality and leisure +4.5%; retail +0.9%; offices +3.6%; residential +5.7%.
- Equivalent yield: +18 bps to 4.10% (2021: 3.92%)
  - First half: -6 bps to 3.92% due to improved operational conditions
  - Second half: +24 bps, reflecting impact on investor sentiment of globally-rising finance rates and deterioration in macroeconomic outlook
- Portfolio ERV up 9.0%[2] to £145.8m (2021: £131.7m)
  - increases in both halves across all uses, reflecting letting activity and much-improved occupier market sentiment.
  - now 4.6% below pre-pandemic level at 30.9.2019 (like-for-like).
- Portfolio reversionary potential: £29.9m, 25.8% above annualised current income (2021: £23.9m; 22.2%).

Longmartin joint venture valuation[3]: £167.0m; full year increase[2]: +0.2%

- Equivalent yield 4.28% (2021: 4.03%).
- ERV growth[2] of 6.2%; retail down 1.3%, other uses up over the year.

Portfolio investment: adapting and improving buildings; core acquisitions

- Returned to actively securing vacant space where we see opportunities to accelerate schemes, including those put on hold during the pandemic.
  - Capital expenditure in the year: £35.9m.
  - Redevelopment and refurbishment schemes across 168,000 sq. ft. (8.3% of portfolio ERV) underway at 30 September 2022.
- 72 Broadwick Street:
  - Fourth floor office space and 15 apartments completed and let ahead of expectations.
  - Work on first to third floor offices continues; ERV £3.3m, 2.3% of portfolio ERV.
- Long leasehold interest at 92-104 Berwick Street acquired in May 2022 for £29.2m[4].
- Seven other acquisitions during the year: £26.1m[4].
- Two disposals in the year: Gross proceeds of £11.4m.

Sustainability

- Net zero carbon strategy
  - Targeting net zero carbon by 2030; Carbon neutral in our own operations by 2025.
- Continuing focus on re-use and repurposing buildings, prioritising retention of existing structures rather than demolition and rebuilding.
- Commitment to support local communities, particularly focusing on young people. Community investment evaluated at £1.0m in 2022.

Finance

- Compliance with financial covenants. Headroom[5]:
  - Valuation decrease: c. 49%.
  - Relevant measures of net income decrease: c. 68%.
- Available resources[6] £155.2m.
- LTV[1,7]: 25.2% (2021: 24.9%).
- Weighted average maturity of debt facilities[6]: 7.7 years; earliest maturity[6]: £290m mortgage bonds 2027.

Proposed merger update

- On 16 June 2022, Shaftesbury and Capco announced a recommended all-share merger.
- Merger approved by Shaftesbury and Capco shareholders at respective shareholder meetings on 29 July 2022.
- Merger remains subject to satisfaction or, where applicable, waiver of the remaining conditions set out in Part Three of the Scheme Document, including satisfaction of the CMA condition and the Court sanctioning the Scheme.
- Currently engaged in customary pre-notification discussions with the CMA, which remain ongoing.
- CMA has not yet commenced its Phase 1 review and therefore the merger is now expected to become effective during the first quarter of 2023.
- Arrangements to facilitate the payment of dividends by Shaftesbury and Capco in respect of the quarter to 31 December 2022 agreed, given that the merger effective date is now expected to occur during the first quarter of 2023:
  - Timing of payment of second interim dividend, noted above, brought forward from expected timeframe set out in the proposed merger Scheme Document.
  - Shaftesbury permitted to declare and pay a further interim dividend of up to 2.7p per share; to be paid before the merger becomes effective.
  - Capco permitted to declare and pay a further dividend of up to 0.7p per share; to be combined with the dividend of up to 1.0p per share for the period from 1 July 2022 to 30 September 2022 set out in the Scheme Document; such dividend to be declared before the merger becomes effective.
  - Further details are set out in a Regulatory News Service announcement released today.

1. Alternative performance measure ("APM"). The Group uses a number of measures to assess and explain its performance, some of which are considered to be APMs as they are not defined under IFRS. See page 50.
2. Like-for-like.
3. Our 50% share.
4. Including acquisition costs.
5. Loan to value covenant and interest cover covenant headroom across all secured financing arrangements assuming top up with available unsecured assets and cash deposits where permitted.
6. Pro forma, adjusting to remove undrawn £100m revolving credit facility which matures in February 2023.
7. Based on net debt.

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See Glossary of terms on pages 60 to 64.

The person responsible for arranging the release of this announcement is Desna Martin, Company Secretary.

Presentation

There will be a presentation to analysts at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS at 9.30 am on Tuesday 29 November 2022.

The presentation can also be accessed live via webcast or conference call. The live webcast will be available via: https://brrmedia.news/SHB_FY22; or
https://stream.brrmedia.co.uk/broadcast/634ed5696815e65bb9fdc128; or the Group's website www.shaftesbury.co.uk.

A recording of the webcast will be available via these links later in the day.

Conference call: In order to join via phone at 9:30am, please dial in 5-10 minutes before the start time on:

UK wide: +44 33 0551 0200
UK Toll free: 0808 109 0700
New York: +1 212 999 6659
USA toll free: +1 866 966 5335

Please quote Shaftesbury when prompted by the operator. The presentation document is available on the Group's website.

Bondholders
For bondholders, there will be a credit update conference call at 11.00 am on Friday 9 December 2022. Those wishing to participate in the call should obtain an access code ahead of the call by contacting Stuart Bell on 020 3542 3921 or stuart.bell@idcm.eu.com.

Notes for Editors
Shaftesbury is a Real Estate Investment Trust which invests exclusively in the heart of London's West End. Focused on food, beverage, retail and leisure, our portfolio is clustered mainly in Carnaby, Seven Dials and Chinatown, but also includes substantial ownerships in East and West Covent Garden, Soho and Fitzrovia.

Extending to 16.4 acres, the portfolio comprises over 600 restaurants, cafés, pubs and shops, extending to 1.1 million sq. ft., 0.5 million sq. ft. of offices and 632 apartments. All our properties are close to the main West End Underground stations, and within ten minutes' walk of the two West End transport hubs for the Elizabeth Line, at Tottenham Court Road and Bond Street.

In addition, we have a 50% interest in the Longmartin joint venture, which has a long leasehold interest, extending to 1.9 acres, in St Martin's Courtyard in Covent Garden.

Our purpose
Our purpose is to contribute to the success of London's West End by curating lively and thriving villages where people live, work and visit. Our proven management strategy is to create and foster distinctive, attractive and prosperous locations. We have an experienced and innovative management team focused on delivering our long-term strategic objectives.

Our values
We have five core values that are fundamental to our behaviour, decision making and the delivery both of our purpose and strategic objectives: being human in how we operate, original in how we nurture talent and think, community minded in our approach to the West End, being responsible and long-term in our approach to everything.

Our approach to sustainability
Our sustainability strategy encompasses our long-established approach of reducing the environmental impact of our operations through refurbishment, change of use and reconfiguration, working with, and supporting our local community, and using our knowledge and experience to influence and motivate, to achieve positive outcomes.

Forward-looking statements
This document, the latest Annual Report and Shaftesbury's website may contain certain "forward-looking statements" with respect to Shaftesbury PLC (the Company) and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates" or, in each case, their negative or other variations or comparable terminology.

Forward-looking statements are not guarantees of future performance. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

Any forward-looking statements made by, or on behalf of, Shaftesbury PLC speak only as of the date they are made, and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Except as required by its legal or statutory obligations, Shaftesbury PLC does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this document relating to Shaftesbury PLC or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing contained in this document, the latest Annual Report or Shaftesbury's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

Ends.

Chief Executive's statement

The year has seen a rapid rebound in the West End economy as Covid-related disruption receded and patterns of everyday activity returned to pre-pandemic normality. The sustained recovery in footfall and trading since the early months of 2022 has been matched by the strength of occupier demand in our carefully curated and popular locations.

There are now growing concerns regarding the medium-term outlook for global and domestic economies. However, the pace of recovery over the last year and the inherent resilience of the West End and our portfolio means we are well placed to weather uncertainties and challenges which may be ahead.

Results and dividends

We have seen a recovery in net property income this year, up 28.0% to £82.8 million (2021: £64.7 million). With the withdrawal of rental support for our occupiers from October 2021 and the return to normal levels of occupancy, rents invoiced increased by 38% over the year. After adjustments for lease incentives, rental income was up 5.1% to £110.4 million (2021: £105.0 million). Charges for expected credit losses and impairments were much reduced, down 77.4% to £4.0 million (2021: £17.7 million), reflecting normalised rent recoveries and improved trading conditions. Property costs[1] have increased, reflecting increased activity during the pandemic recovery, and remain at c. 21.5% of rental income.

Administrative expenses, before merger costs, totalling £22.2 million (2021: £21.6 million) and net finance charges of £29.5 million (2021: £30.2 million) were broadly unchanged from 2021. Costs incurred to date in connection with the proposed merger with Capco, amounting to £13.2 million, have been expensed in the Income Statement this year.

Over the year, the valuation of our wholly-owned portfolio rose from £3.0 billion to £3.2 billion, a like-for-like increase of 3.6%. Total portfolio ERV grew to £145.8 million (2021: £131.7 million), a like-for-like increase of 9.0% with growth across all uses.

In the first half, our valuers reported investment yields tightened from 3.92% to 3.86% as operational conditions improved. However, in the latter part of the second half, globally-rising finance rates and a deteriorating macroeconomic outlook adversely affected investment market sentiment, resulting in equivalent yield expansion of 24bps. Taking the year as a whole, our portfolio's equivalent yield moved from 3.92% to 4.10%, and the net revaluation surplus amounted to £99.5 million (2021: deficit £196.9 million).

The profit for the year after the annual revaluation surplus and taxation amounted to £119.1 million, compared with a loss in 2021 of £194.9 million. EPRA earnings[2] were up 45.1% to £19.3 million (2021: £13.3 million), after a £13.2 million charge for merger-related costs (2021: £Nil). Underlying EPRA earnings[2], which adjusts for the cost of waivers granted during the pandemic as if they had been recognised in the Income Statement immediately when granted, and excludes the exceptional charge for merger-related costs, were £38.0 million, compared with a loss last year amounting to £7.4 million.

At 30 September 2022, EPRA NTA[2] stood at £6.41 (2021: £6.19), an increase of 3.6% over the year. Of the 22p net increase, the annual revaluations in the wholly-owned and Longmartin portfolios accounted for 25.9p, and EPRA earnings accounted for 5.0p. Dividend payments during the year totalled 8.8p.

Reflecting the recovery in our underlying EPRA earnings this year, the Board has declared a second interim dividend of 5.1p, bringing dividends for the year to 9.9p. The total distribution for the year will amount to £38.0 million. Declared in place of a final dividend for the year, the second interim dividend will be paid on 21 December 2022.

As set out in a separate announcement released today, we have reached agreement with Capco to pay a further interim dividend of up to 2.7p per share in respect of the quarter to 31 December 2022, to be paid before the proposed merger becomes effective.

See Dividends on page 24.

1. Excluding recoverable service charge costs.
2. Alternative performance measure: see page 50.

Operating environment

This year saw a marked recovery in confidence, footfall and sales across our villages. Whilst the Omicron Covid variant led the Government to reintroduce certain restrictions for seven weeks between December and January, the impact on activity was limited and short-lived, and, from the end of January, we saw a rapid bounce back in activity in our areas.

Footfall continued to improve, typically building through the working week and peaking at weekends. In the first half of the year the footfall recovery was concentrated in domestic visitors, residents and the return of local office workers. Since early summer we have seen growing numbers of international tourists and further improving trading performance, helped by the Platinum Jubilee celebrations. Inevitably, recent public transport disruption has had a short-term impact on daily visitor numbers, but our hospitality and retail occupiers continue to report good trading. Anecdotally, they are optimistic for the important and traditionally busy period leading up to, and through Christmas and New Year, without the Covid-related disruption of the last two years.

The opening of the central section of the Elizabeth Line in May has resulted in a noticeable increase in footfall on streets closest to the much improved and extended Tottenham Court Road station. Passenger numbers have also increased significantly since the opening in October of the line's Bond Street station, with its new access at Hanover Square, a few minutes' walk from Carnaby. In November, the next stage of the line's implementation schedule has provided a direct link from Heathrow airport into the West End, with an average journey time of just 35 minutes. These important new transport hubs, which are close to much of our portfolio, and the improved connectivity and convenience they are already providing, are now set to make an important long-term contribution to the prosperity of the West End.

With the steady return to normal operational conditions, rent collection rates have continued to improve, with 99% collected in respect of the year ended 30 September 2022. Importantly the pace of rent collection is now quicker than in 2019, reflecting the benefit of switching the vast majority of our occupiers from quarterly to monthly billing.

Occupational markets

Our strategy of supporting our occupiers through the very challenging periods of pandemic lockdowns and restrictive trading rules was successful in mitigating vacancy in our hospitality and retail space. As restrictions were gradually lifted in summer last year, the distinctive and popular line up of dining, leisure and retail choices we provide was largely intact, resulting in a sustained recovery in footfall and spending in our locations, enhancing their reputation for resilience and appeal, as well as our credentials as a supportive and responsible landlord. These factors have underpinned the strong demand for both commercial and residential space across our locations and our EPRA vacancy levels have now stabilised at around 4% of total portfolio ERV.

When hospitality or retail space does become available, occupier interest is considerable and we are seeing many new, well-financed concepts, often from existing or experienced operators. Rental values have continued to recover and, for hospitality accommodation, they are now at 95.1% of pre-Covid levels. For retail space, they remain 14.9% below pre-Covid levels (up from -20.8% a year ago), as structural changes in retailer requirements and customer spending patterns, together with a surplus of vacant space in the West End, continue to affect general letting market sentiment.

Office space in our locations is in demand, as employers now recognise the importance of the lively atmosphere in our central West End villages in attracting and retaining staff. Our more flexible leasing packages and fully-furnished options are proving popular with occupiers. Having been largely stable during the period of Covid disruption, our office rents are now 3.0% above 2019 levels on average.

Demand for residential accommodation grew quickly last year as overseas students and workers returned to central London, rapidly absorbing the unusually high level of vacancy which arose at the start of pandemic restrictions in 2020. As a result, we have had very limited vacancy in our 632 rental apartments throughout the year and market rental levels are now 10.5% above 2019 levels. The demand/availability tension in the residential market shows no sign of lessening, but we are mindful of potential rent affordability issues which could impact our occupiers.

Refurbishment activity

In the latter months of 2021, with the West End's post-Covid recovery firmly established and growing occupier demand in our locations, we relaxed our self-imposed 18-month moratorium on new schemes. We have now returned to our long-established strategy of proactively seeking to secure vacant possession of space to improve our buildings, unlocking latent income and capital value potential. Improving the environmental performance of the accommodation we provide in every scheme is a key priority in our sustainability and net zero carbon commitments.

During the year, we have worked on over 12% of our floorspace, incurring capital expenditure of £35.9 million. We have delivered 100,000 sq. ft. of new or refurbished space and, at 30 September 2022, schemes underway extended to 53,000 sq. ft. of hospitality and retail space, 94,000 sq. ft. of offices and 21,000 sq. ft. of residential accommodation.

Our largest scheme, 72 Broadwick Street, completed in May 2022. To date, retail, office and residential space with a rental value of £2.9 million has been let and hospitality space with a rental value of £0.2 million is under offer. Disappointingly, Equinox, the US gym operator, withdrew from its pre-letting of 28,700 sq. ft. of space on the second and third floors of the building, which we are now reconfiguring and fitting out for office use. Whilst this will incur additional expenditure, we anticipate achieving higher rental income. The works are expected to complete in summer 2023. Together with 9,000 sq. ft. of office space on the first floor which will be offered fully fitted, the total ERV of office space to be let is £3.3 million.

We are continuing to identify and progress schemes which we anticipate will start in 2023. Inevitably building cost inflation is likely to continue to impact day one returns on construction schemes across the real estate sector. As long-term owners, we assess our projects on the basis of their long-term income and capital value benefits to us, together with any compound benefits to our adjacent ownerships.

Acquisitions and disposals

In our local market, opportunities to acquire buildings which meet our strict criteria are usually limited. Our focus is on buildings which add to and complement our existing ownership clusters, and which have potential, through a combination of physical improvement and integration with our existing holdings, to deliver long-term growth in income and capital values. With the West End’s rapid post-pandemic recovery and positive prospects, existing owners, typically private rather than institutional, continue to be reluctant to sell their resilient and scarce assets.

Against this backdrop, this year we have completed acquisitions totalling £55.3 million. We were particularly pleased to finally acquire a long leasehold interest in 19,200 sq. ft. of retail and hospitality space in the recently redeveloped lower floors of 92-104 Berwick Street, which has always been key to our long-term strategy for this busy part of Soho. Acquired for £27.5 million (exclusive of purchase costs), we are now investing £2.6 million to put the 14,000 sq. ft. of vacant space into a market-standard condition expected by occupiers prior to commencing marketing. Other acquisitions comprised seven buildings which further consolidated holdings in our ownership clusters.

As part of our regular review of our portfolio to identify buildings we no longer consider to be core to our long-term strategy, in the first half we disposed of two buildings, producing gross proceeds of £11.4 million, 9.6% above their 2021 year end valuation.

Finance

At 30 September 2022, our loan-to-value ratio was 25.2% and available resources amounted to £255.2 million, including a £100 million undrawn revolving credit facility, which matures in February 2023. In light of the proposed merger, it is currently expected that this facility will be retired at maturity, given the other sources of liquidity in the combined group.

In the event that the proposed merger with Capco becomes effective, change of control provisions in our secured mortgage bonds will be triggered, which give bondholders the right to redeem their bonds at par. To provide funding certainty in the event that some or all of the bondholders exercise this change of control right, Capco has arranged a £576 million loan facility with a term of up to three years. Based on current market conditions, any drawdown of this facility will increase financing costs for the combined group, although steps will be taken to mitigate this, capitalising on the increased strength of the combined group balance sheet following completion.

Sustainability

With clear evidence of accelerating climate change across every continent, there is an imperative to address its causes and implications and the over-arching need to decarbonise the world’s economy. In November 2021, we launched a refreshed sustainability policy, which included our targets and roadmap to be carbon neutral in our own operations by 2025, and a net zero carbon business by 2030.

Our business has always focused on the preservation and improvement of existing buildings to minimise the carbon and resource impacts associated with demolition and rebuilding. This approach is inherently sustainable for our portfolio and makes an important contribution to future-proofing the West End’s heritage of protected and period building stock. Over many years, we have focused on enhancing the environmental performance of our properties as a key aspect of improving the space we provide. Currently, 61% of our demises have an EPC grade of C or above.

We are now preparing for the introduction by the Government of higher energy performance standards in the years ahead and are confident we will achieve or exceed the minimum levels of performance to ensure our space continues to be lettable and meets occupiers' expectations. We refurbish approximately 10% of our portfolio each year and an initial high-level assessment of a representative sample of our 600+ buildings has suggested that the additional cost of achieving compliance with the new standards could be in the region of £25 million over the period to 2030. This could increase our average annual capital expenditure by around 10%.

Of growing importance in the years ahead will be the need to work with our occupiers to reduce the carbon impact of their business activities, in both how they fit out and use the premises they lease from us. In the case of our hospitality and retail space, the sustainability credentials of prospective occupiers are already important criteria in our selection process, and we are providing guidelines to address sustainability in occupier fit outs. In 2023, we shall be engaging with our commercial occupiers to gain a better understanding of their sustainability aims and actions so our support can be targeted most effectively.

Community

As a responsible, long-term landowner and business, engagement and collaboration with our wide range of stakeholders has always been integral to our strategy and values. With our experience and forensic knowledge of the West End, accumulated over 36 years, we are able to make an important contribution to addressing the challenges in its complex ecosystem and often competing interests, to help find solutions to safeguard its long-term appeal and prospects.

Our local stakeholders include a wide variety of organisations from local authorities, neighbouring owners and business improvement districts, industry groups, resident groups, grassroots charities and organisations seeking to address social issues in our locality and beyond. Our active engagement, which goes beyond just financial support, helps deliver progress on the aims and ambitions we share with our community partners.

We continue to work with local authorities, neighbours and residents to address public realm issues, including extending pedestrian-priority areas and providing outdoor seating where suitable, lessening traffic congestion and pollution, and sharing our practical experiences of retro-fitting older buildings. These are important aspects of our long-term sustainability strategy and demonstrate how collaboration can leverage our experience to produce better outcomes far beyond our local ownerships and community.

Meanwhile, we continue our support and engagement with local charities and not-for-profit organisations, to address needs in the communities in our locations and beyond, providing funding, free or subsided accommodation, advice and staff volunteering. We have evaluated our community contribution this year at £1.0 million.

People

We have always recognised that the long-term success of our business relies on the knowledge, experience and commitment of our innovative and enthusiastic team and our culture of responsible stewardship, transparency, collaboration and engagement. Beyond our team, we have a wide range of out-sourced professional advisors and service providers, who share our values and make an important contribution to our achievements.

Alongside the growth of our internal resource in recent years, which has brought us new skills and ideas, we have continued to invest in employee personal development, as well as adapting our structures and ways of working to ensure we continue to be a cohesive and effective management team. Importantly, the views and opinions of all our colleagues are widely sought and make an important contribution to our decisions across all aspects of the business. Over many years, we have found this open, collegiate culture fosters constructive challenge, embraces change and respect for new ideas, and importantly brings an inherent resilience in the face of testing situations, such as we faced during the unprecedented period of pandemic disruption.

Recognising that the proposed merger with Capco has inevitably resulted in considerable uncertainty for our people, we have introduced a number of initiatives to support our colleagues through this unsettling period. dividendsIt is a testament to the team's commitment and resilience that, despite uncertainties and considerable additional workloads related to the merger process, the day-to-day running of the business has been largely unaffected, delivering a good operational performance and progress on our sustainability priorities and various internal projects.

I would like to thank my colleagues, and our external partners, for their exceptional contributions to our progress this year.

Outlook

The exceptional features of London and the West End have enabled their economies to largely recover from the disruption caused by the pandemic. The actions we took in 2020 and 2021 to support our occupiers and protect our portfolio have been rewarded with a rapid return to normal operating conditions in our locations over the last 12 months, and a much-improved financial performance.

From the early months of 2022, many countries have been faced with common challenges arising from the after-effects of the pandemic and the consequences of Russia's illegal invasion of Ukraine. Together, they have led to supply chain disruption, labour shortages, rising inflation and higher interest rates, resulting in declining consumer confidence and a deteriorating medium-term global economic outlook. Whilst inflation is expected to start to decline in 2023, in common with all businesses it will continue to impact our operating and capital expenditure costs in the near term.

We have already seen an impact on investment market sentiment, with our valuers reporting an outward yield shift in the second half. The future direction of yields will be heavily influenced by macro factors and the medium-term outlook for UK interest rates. However, the prospect of continuing to deliver a robust operational performance from our portfolio will be important in tempering the impact on investor sentiment of adverse conditions in the wider real estate market. .

Although London and the West End cannot be immune from the unprecedented range of challenges which are now dominating the national outlook, their long-term prospects remain bright, thanks to their enduring appeal to global, domestic and local visitors, businesses and investors, their dynamic economies and ability to attract talent and creativity from across the world. These features are mirrored in the locations in which we invest and, together with our proven, innovative management strategy and our experienced and enthusiastic team, reinforce our confidence in the long-term potential of our exceptional portfolio.

Brian Bickell
28 November 2022

Portfolio report

Sustained recovery in confidence and activity with footfall, spend and occupancy recovering to pre-pandemic levels and rental values returning to growth. The portfolio valuation grew in the year, but first half gains were partly reversed in the second half as valuation yields increased in response to globally-rising finance rates and the deterioration in the macroeconomic outlook.

Operating environment and leasing activity

The exceptional and enduring appeal of the West End and our villages and their inherent resilience have been reflected in the sustained recovery in confidence and activity following the relaxation of Covid restrictions last year. In our locations, monthly footfall continues to track higher than 2021, buoyed by the return of domestic visitors, growing numbers of office workers choosing to spend time in our lively areas over working from home, and a rebound in international visitors.

Despite wider UK trends, consumer spending in the West End remains good. Since spring 2022, our hospitality, retail and leisure occupiers have reported trading revenues, on average, at or above 2019 levels, with monthly sales now 6% ahead of pre-pandemic levels. Demand for space in our carefully curated, popular locations continues to be strong across all uses, reflected in a return to pre-Covid occupancy levels and further growth in rental values.

The central section of the Elizabeth Line opened in May 2022 and a full service is expected by spring 2023. At both Tottenham Court Road and Bond Street stations, passenger traffic has increased significantly since opening in May and October 2022, respectively. Our portfolio, located a short walk from these new interchanges, is well placed to benefit from the material long-term increase in visitors and spending this new service is expected to bring.

With good occupier demand, leasing momentum has continued. During the year, we concluded 243 commercial and 270 residential leasing transactions with a combined rental value of £40.9 million, 20.6% above the volume in 2021, with healthy increases over September 2021 ERVs and previous rents.

Leasing transactions concluded during the year

	2022				**2021**
	H1 £m	**H2 £m**	**£m**		£m
Commercial					
Lettings and lease renewals[1]	13.3	12.2	**25.5**	+6.4% vs 9.21 ERV	20.6
Rent reviews	3.3	3.6	**6.9**	+19.0% vs previous rent; (+16.8% vs 9.21 ERV)	3.4
	16.6	15.8	**32.4**	+8.5% vs 9.21 ERV	24.0
Residential	2.3	6.2	**8.5**	+11.4% vs previous rent	9.9
	18.9	22.0	**40.9**		33.9

1. Includes estimated turnover rent, where applicable.

Occupancy

Over the year, vacancy has reduced across all uses. At 30 September 2022, EPRA vacancy totalled £5.8 million and represented 4.0% of portfolio ERV, down from 6.0% at 30 September 2021 and 4.7% at 31 March 2022. Of the total, 2.4% was available to let and 1.6% was under offer.

Available-to-let space
At 30 September 2022, available-to-let space represented 2.4% of ERV (2021: 2.9%) and extended to 46,000 sq. ft. (2021: 53,000 sq. ft.), with decreases in both retail and offices, offset by a small increase in hospitality and leisure space. Residential vacancy has been negligible throughout the year.

	Hospitality and leisure	Retail[1]	Offices	Residential	Total
ERV (£m)					
2022	**1.0**	**1.6**	**0.9**	**-**	**3.5**
2021	0.6	2.0	1.3	-	3.9
% of portfolio ERV					
2022	**0.7%**	**1.1%**	**0.6%**	**-**	**2.4%**
2021	0.4%	1.5%	1.0%	-	2.9%
Area ('000 sq. ft.)					
2022	**13**	**18**	**15**	**-**	**46**
2021	6	25	22	-	53

1. Includes five shops let on temporary basis with an ERV of £0.4 million (0.3% of portfolio ERV); 2021: £1.0 million; 0.8% of portfolio ERV.

Space under offer
At 30 September 2022, space under offer extended to 36,000 sq. ft. (2021: 57,000 sq. ft.) and represented 1.6% of ERV (2021: 3.1%).

	Hospitality and leisure	Retail	Offices	Residential	Total
ERV (£m)					
2022	**0.7**	**0.4**	**0.9**	**0.3**	**2.3**
2021	1.5	1.8	0.6	0.2	4.1
% of portfolio ERV					
2022	**0.5%**	**0.3%**	**0.6%**	**0.2%**	**1.6%**
2021	1.1%	1.5%	0.4%	0.1%	3.1%
Area ('000 sq. ft.)					
2022	**10**	**7**	**13**	**6**	**36**
2021	24	18	9	6	57

Hospitality and leisure (36% of portfolio ERV)
With the post-pandemic return in footfall and spending, the promising recovery in the leasing market previously reported has continued through 2022, despite growing headwinds including inflation, staffing challenges and increasing finance costs. Our hospitality and leisure operators are reporting trade, on average, 6% ahead of 2019 levels and, anecdotally, businesses are reporting positive levels of advance bookings for the forthcoming Christmas period.

Demand is typically from experienced domestic independent concepts, although interest from international operators has increased over recent months. Demand for smaller, partially- or fully-fitted sites, which remain in short supply, remains strong and presents an opportunity to re-let space quickly should such space become available. Occupiers are attracted by the opportunities for outside seating and the vibrancy of our seven-day-a-week locations.

Lettings and renewals with a rental value of £5.4 million were completed in the year, with rents achieved 9.4% ahead of September 2021 ERV. Rent reviews totalled £5.7 million, 20.2% above previous rents. We are achieving lettings on conventional lease terms.

At 30 September 2022, five restaurants, two cafés and one bar were available to let, extending to 13,000 sq. ft. and with an ERV of £1.0 million. Additionally, six restaurants and cafés, extending to 10,000 sq. ft. (ERV: £0.7 million), were under offer.

Retail (28% of portfolio ERV)
Retail trading continued to grow throughout the year, albeit initially at a slower pace than we saw for hospitality and leisure. However, by April 2022, average sales data showed trade at pre-pandemic levels and is now on average 6% ahead of 2019 levels.

Occupier demand has shown a similar recovery, with interest from independent brands, and both domestic and international retailers. We continue to see growing demand from online brands looking for space in areas that resonate with their target audience. For many retailers, the costs of online trade have increased significantly, and our space provides an affordable opportunity to showcase their product and build their brand through better connection with their customers. We are also seeing increasing levels of interest from “home-grown” brands that manufacture their products in the UK and are relatively more insulated from the global supply chain issues experienced by those who manufacture or source their products overseas. Brands with good sustainability credentials are increasingly important to our customer base and this remains a factor in our careful selection of occupiers.

Having often structured retail leases with turnover-related or stepped base rents during the pandemic and the early stages of recovery, leases have now generally reverted to conventional, pre-pandemic terms, although we continue to see transactions spending longer in solicitors’ hands than they would have in the past.

With economic uncertainties, pressure on operating costs and relatively short lease terms, retailers continue to expect a higher specification of landlord’s basic fit out, and our generally smaller “white-boxed” units meet this need. This fit out is re-useable for future occupiers.

Reflecting growing demand during the year, we completed lettings and renewals with a rental value of £11.7 million, representing almost half our total commercial letting volume. Rents, on average, were 3.8% above September 2021 ERV. Rent reviews with rental value of £0.7 million were concluded, 6.2% ahead of previous rents.

During the year, retail EPRA vacancy reduced from 3.0% of total ERV to 1.4%, a normal, pre-pandemic level. At 30 September 2022, 14 shops, extending to 18,000 sq. ft., were available to let (ERV: £1.6 million), including five let on a temporary basis (ERV: £0.4 million). Seven shops with a combined ERV of £0.4 million were under offer.

Offices (22% of portfolio ERV)
Demand for office space in our villages continues to be strong, particularly for high quality suites, with occupiers attracted to the best space, prioritising collaborative working environments in vibrant areas with good amenities. To meet this demand, we are increasingly fitting out our office suites and creating outdoor terraces so that the quality of the office space holds as much appeal as the location.

Our “Assemble by Shaftesbury” offer for offices over 800 sq. ft., which provides occupiers with lease flexibility, speed of occupation and collaboration space, continues to be popular and benefits us through shorter letting voids, reduced lease incentives and higher rents. The market for fitted-out office space is maturing and occupiers are becoming ever more sophisticated consumers of workspaces. Responding to this, we are developing an “Assemble Premium” proposition to flex our offer, particularly for our larger floorplates, to deliver fitted space at the right price point, to the right specification, for the right occupier, which we plan to trial in our high specification refurbishment schemes being delivered next year.

During the year, we concluded lettings and renewals with a rental value of £8.4 million, 8.2% up on September 2021 ERV. These included the letting of 17,000 sq. ft. at 72 Broadwick Street to a global investment group; an example of the recent trend for financial businesses being drawn to Soho by both the quality of the space and amenities offered. Rent reviews with rental value of £0.5 million were completed, 26.9% ahead of previous rents.

Over the year, office vacancy reduced by 0.2 percentage points to 1.2% of portfolio ERV at 30 September 2022, of which 0.6% was under offer. 20 suites, extending to 15,000 sq. ft. (ERV £0.9 million) were available to let.

Residential (14% of portfolio ERV)
The central London residential letting market has been particularly strong in the year, with interest from a broad range of occupiers, including overseas students. Our proposition of characterful period buildings with modern specification which are located in vibrant well-managed villages is extremely popular. Apartments are often letting within days of coming to market, usually with competitive bidding, and we have rarely had more than two available to let at any time this year.

In anticipation that demand would accelerate in 2022, we intentionally agreed a number of one-year lettings in 2021, shorter than our usual three years. We have, therefore, been able to let or agree renewals this year on nearly half of our apartments in a buoyant market, with £8.5 million of lettings and renewals, 11.4% ahead of previous rents. 26 new or refurbished apartments were let during the year, including 15 new fully-furnished apartments on the top floor of 72 Broadwick Street, all of which let within days of launch at rents ahead of expectations.

At 30 September 2022, we had one available apartment and eight flats were under offer.

Occupancy outlook
Leasing momentum has continued since 1 October 2022 with commercial and residential lettings and renewals with a rental value of £4.4 million concluded and further lettings have been put into solicitors' hands.

At 30 September 2022, refurbishment schemes underway represented 8.3% of portfolio ERV (see below). Most of these schemes will complete in the coming financial year, which will initially increase EPRA vacancy but will provide a useful contribution to income and earnings once let.

Despite the strong post-pandemic recovery experienced this year, the macroeconomic outlook has deteriorated in recent months. Whilst we have not yet seen a significant impact on footfall or trading in our areas, rising inflation could reduce consumer confidence. Together with increasing cost, or reduced availability of finance, this could place additional pressures on occupiers, which could lead to increased vacancy and reduced occupier demand. Our portfolio in popular West End destinations has long demonstrated a high level of resilience and a relative low vacancy rate. We remain confident that the fundamentals of our strategy and our portfolio will continue to be important to potential occupiers:

- the domestic and international appeal of the West End and our popular locations;
- the size and relative affordability of our space;
- our flexible approach to leasing; and
- our proven village management strategies.

Together these will provide us with a degree of protection from national headwinds.

Rent collection
With the operating environment recovering strongly, our pandemic-related rental support ceased at the end of September 2021. Rent collection rates have recovered to levels in line with those before the pandemic, reflecting the much-improved trading environment and the lifting of the Government's moratorium on landlords' ability to recover commercial rent arrears in late March 2022. For the year to 30 September 2022, we have now collected 99% of invoiced rent.

Refurbishment and reconfiguration schemes
A key aspect of our management strategy is to continually improve and, where appropriate, repurpose the space we offer to meet ever-changing occupier requirements and improve its environmental performance. Our initiatives unlock latent value and enhance our portfolio's long-term income prospects.

Our focus during the pandemic was to protect existing income and new schemes were put on hold, other than by exception. With the return of sustained occupier demand and limited vacancy across our portfolio, from early 2022 we resumed our strategy of actively securing vacant possession of space where we see opportunities to accelerate income- and value-enhancing schemes, including those put on hold during the pandemic.

At 30 September 2022, space held for, or under, refurbishment extended to 168,000 sq. ft., and represented 8.3% of total ERV, down from 8.9% last year, with the impact of completion of elements of our 72 Broadwick Street scheme being partly offset by an increase in other schemes during the year. Capital expenditure during the year totalled £35.9 million, including £9.9 million at 72 Broadwick Street, Carnaby.

72 Broadwick Street, Carnaby
At our mixed-use scheme at 72 Broadwick Street, the fourth floor office space and residential accommodation were handed over in the year. Along with the retail unit handed over in 2021, they have been let in the year at a combined rent of £2.9 million.

The first floor office space, extending to 9,000 sq. ft., is being fully fitted out to a high specification that will maximise its appeal to potential occupiers. Marketing of the space is now underway.

In April 2022, Equinox, the US gym operator, informed us that it was no longer able to complete its lease of the second and third floors. Following termination of the agreement for lease, the 28,700 sq. ft. space is now being converted, fitted out and marketed for office use, with completion expected in summer 2023. Whilst this requires further expenditure, we expect increased rental income from the space. At 30 September 2022, the ERV of these three floors was £3.3 million (2.3% of portfolio ERV). The remaining cost to complete this scheme is estimated at £8.2 million.

The scheme has retained most of the building's original structure, in line with our sustainable building re-use strategy. It incorporates a number of sustainability features including low carbon heat pumps, photovoltaic panels and integrated biodiversity including extensive planters, living walls and a green roof.

Space held for or undergoing refurbishment

	Hospitality and leisure	Retail	Offices	Residential	Total	% of portfolio ERV
ERV (£m)						
72 Broadwick Street						
2022	**-**	**-**	**3.3**	**-**	**3.3**	**2.3%**
2021	2.6	-	2.3	0.7	5.6	4.2%
Other schemes						
2022	**2.1**	**1.7**	**4.0**	**1.0**	**8.8**	**6.0%**
2021	0.8	1.1	3.6	0.7	6.2	4.7%
Total						
2022	**2.1**	**1.7**	**7.3**	**1.0**	**12.1**	**8.3%**
2021	3.4	1.1	5.9	1.4	11.8	8.9%
Area ('000 sq. ft.)						
2022	**29**	**24**	**94**	**21**	**168**	
2021	45	17	84	24	170	

Other schemes
At 30 September 2022, other schemes extended to 130,000 sq. ft. with an ERV of £8.8 million (6.0% of portfolio ERV), of which 17,000 sq. ft. (ERV: £1.2 million; 0.8% of portfolio ERV) was under offer.

During the year, we commenced new schemes with an ERV of £6.3 million and completed projects with an ERV of £5.0 million. New projects include two larger grade-A office-led schemes in Carnaby:

Scheme	Description	Estimated cost £m	Cost to date £m	Estimated completion
5-7 Carnaby Street	• Extension and refurbishment of 3rd floor office space, and construction of new 4th and 5th floor offices with terrace at 6th floor • Sustainability features including living wall, terrace greening, improved energy rating • Area: 12,800 sq. ft. • ERV: £1.0m, c. 45.6% higher than pre-scheme ERV	£4.7m	£1.6m	Summer 2023
2-4 Kingly Street	• Combination and reconfiguration of three buildings, including one acquired during the pandemic, to provide four floors of offices with roof terrace, a bar (pre-let) and a new restaurant, both fronting Kingly Street and Kingly Court • Retaining most of the original building structures • Sustainability features including terrace greening, improved energy rating • 3,200 sq. ft. newly configured bar pre let • Area: 14,400 sq. ft. • ERV: £1.2m, c. 35.6% higher than pre-scheme ERV	£8.4m	£2.4m	Winter 2023

Other schemes include 14,000 sq. ft. of retail and hospitality space at 92-104 Berwick Street in Soho. Representing £1.1 million of ERV, this space is being fitted out to a high-quality white-box standard and we expect strong interest from occupiers when it is launched to the market in early 2023.

Remaining schemes underway comprise 21,000 sq. ft. of hospitality space, 13,000 sq. ft. of retail space, 35,000 sq. ft. of office accommodation and 29 apartments.

Longmartin asset management
In the following narrative, all figures (except areas) represent our 50% share.

During the year, lettings and rent reviews with a rental value of £1.3 million were concluded (2021: £1.7 million), including 3 newly refurbished offices with a rental value of £0.4 million.

To date, 99% of invoiced rent for the year has been collected and 1% remains outstanding.

At 30 September 2022, the ERV of Longmartin's vacant space was £0.5 million (2021: £0.7 million). Space with an ERV of £0.6 million was under refurbishment (2021: £0.6 million), which included 12,000 sq. ft. of office accommodation, 8,000 sq. ft. of hospitality space, shops extending to 19,000 sq. ft. and five apartments. Capital expenditure in the year was £2.2 million.

Acquisitions and disposals
In May 2022, we acquired a 200-year ungeared leasehold interest in the lower floors of 92-104 Berwick Street, Soho, for £29.2 million (including purchase costs). The interest comprises c. 15,700 sq. ft. of retail accommodation and c. 3,600 sq. ft. which is suitable for restaurant use. Importantly, this strategic acquisition takes our ownership to over 50% of active frontages on Berwick Street. Of the total space, 5,200 sq. ft. is let to a supermarket, which is open and trading. The remainder is vacant and being fitted out to bring it into a lettable condition for occupiers.

We acquired seven other buildings in Soho, Covent Garden, Chinatown and Fitzrovia for £26.1 million (including acquisition costs). These buildings further consolidate the holdings in our ownership clusters, bringing additional long-term value creation opportunities.

With the rapid recovery in the West End economy, existing owners, typically private rather than institutional, remain reluctant to part with their resilient and scarce buildings, other than if their personal circumstances change.

During the period, we sold two non-core buildings for £11.4 million (gross), 9.6% above book value at 30 September 2021.

Wholly-owned portfolio valuation
At 30 September 2022, the portfolio was valued at £3.2 billion (2021: £3.0 billion). The like-for-like increase over the year was 3.6%, comprising a 7.5% increase in the six months to 31 March 2022, followed by a decrease of 3.6% in the second half.

Encouragingly, rental values have grown across all uses during the year, reflecting the recovery in the trading environment, occupier demand and occupancy, and demonstrating the exceptional qualities, appeal and long-term resilience of our portfolio. ERV growth for the year was 9.0%, comprising 6.4% in the first half and 2.4% in the second half. Portfolio ERV is now 4.6% lower than pre-pandemic levels, recovering c. 63% of the 12.5% decline experienced during the 18 months to 31 March 2021.

This year, the valuers removed the remaining provision for Covid rent waivers, which totalled £10.6 million at 30 September 2021. Also, to reflect the sustained recovery in trading across the portfolio, they reinstated potential income from turnover-related income top-ups, primarily in respect of restaurants, which has added £3.7 million to the year end valuation.

At 30 September 2022, our valuers reported an outward shift in yields for commercial uses of circa 25 bps to reflect the impact on investment market sentiment of globally rising finance rates and the deterioration in the macroeconomic outlook. Over the year, the portfolio's equivalent yield increased 18 bps to 4.10%, comprising a contraction of 6 bps from 3.92% in the six months to 31 March 2022, and expansion of 24 bps in the second half.

After allowing for acquisitions, disposals, capital expenditure and changes in lease incentives and costs included in receivables, the revaluation surplus for the year was £99.5 million.

Valuation analysis at 30 September 2022

	Hospitality and leisure	Retail	Offices	Residential	2022 Total	2021 Total
Valuation (£m)	1,143	852	622	571	**3,188**	3,011
Annualised current income (£m)[1]	46.8	31.8	19.3	18.0	**115.9**	107.8
ERV (£m)	52.2	40.3	32.8	20.5	**145.8**	131.7
Topped up initial yield	4.1%	4.1%	3.2%	N/A	**3.5%**	3.5%
Equivalent yield						
30 September 2021	4.2%	4.2%	4.6%	2.2%	**3.9%**	
31 March 2022	4.1%	4.2%	4.4%	2.3%	**3.9%**	
30 September 2022	4.4%	4.4%	4.6%	2.6%	**4.1%**	
LfL valuation movement[2]						
- 6 months to 31 March 2022	7.8%	7.1%	8.6%	6.4%	**7.5%**	(10.1)%
- 6 months to 30 September 2022	(3.1%)	(5.8%)	(4.6%)	(0.6%)	**(3.6%)**	5.2%
- Year to 30 September 2022	4.5%	0.9%	3.6%	5.7%	**3.6%**	(5.4)%
LfL ERV change[2]						
- 6 months to 31 March 2022	6.4%	5.9%	4.0%	11.1%	**6.4%**	(6.3)%
- 6 months to 30 September 2022	1.7%	1.5%	0.6%	9.4%	**2.4%**	(0.1)%
- Year to 30 September 2022	8.2%	7.5%	4.6%	21.5%	**9.0%**	(6.4)%

1. Including estimated turnover-related income; excluding stepped rents and rent-free periods.
2. Like-for-like, taking into account acquisitions, disposals, capital expenditure and adjusting for reclassifications between categories. Alternative performance measure. See page 50.

Hospitality and leisure

During the year, the valuation of hospitality and leisure space increased on a like-for-like basis by 4.5%, driven by ERV growth of 8.2%, of which 6.4% was in the first half. Valuation yield compression at 31 March 2022 contributed to a first half valuation increase of 7.8%, but this had reversed by 30 September 2022, leading to a like-for-like fall in capital values of 3.1% in the second half. Like-for-like, hospitality and leisure ERV now stands at 4.9% below its pre-pandemic level, recovering from the low point of 12.1% at 30 September 2021.

Retail

The valuation of our retail accommodation grew, on a like-for-like basis, by 0.9% during the year, with the 7.1% growth reported at 31 March 2022 largely reversing in the second half, with yield expansion of 26 basis points, partly offset by ERV growth.

Over the year, ERVs grew on a like-for-like basis by 7.5%, with 5.9% growth in the six months to March 2022 and 1.5% in the second half. Overall retail ERVs remain 14.9% (like-for-like) below 2019 levels, up from -20.8% at 30 September 2021.

Where there are turnover elements in retail leases, the valuers assess a prudent estimate of the cash flow these are likely to deliver.

Offices

Like-for-like office valuations grew 3.6% in the financial year, with growth of 8.6% in the first six months of the year partly offset by a decline of 4.6% in the second half as the 23 basis points of valuation yield compression reported at 31 March 2022 reversed.

ERVs grew 4.0% in the first six months of the year, and a more modest 0.6% in the second half. Among our four uses, office ERVs showed greatest resilience in the pandemic, having only fallen by 3.3%; they now stand at 3.0% above 2019 levels on a like-for-like basis.

Residential

Our like-for-like residential values increased by 6.4% in the six months to 31 March 2022 reflecting an improved residential investment market. However, as concerns over the wider economy came to the fore, there was a modest 0.6% decrease in the second half, resulting in a 5.7% increase overall. The average capital value of our apartments is £1,472 per sq. ft. (2021: £1,405 per sq. ft.).

Due to high occupational demand, central London and West End residential rents have increased significantly, resulting in a 21.5% increase in ERVs spread evenly across the two halves of the year. Residential ERVs are now 10.5% above the 2019 pre-pandemic level, despite having registered a 9.1% decline by September 2021.

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

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

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

Valuation outlook
With a deteriorating macroeconomic outlook and globally rising finance rates, investor appetite – even for the best locations – may be reduced in the short term. There may be less liquidity available and finance costs are expected to remain higher than the levels of the last decade, which is likely to put upward pressure on yields. However, a flight to quality for the very best assets in resilient locations could offer some support for yields.

The value of control over areas cannot be underestimated, bringing the ability to curate and drive growth over the long term which, together with the proven resilience of our areas and the prospects for long-term rental growth, will continue to be important in investor sentiment towards our portfolio.

Economic headwinds have not yet had a significant impact on footfall and trading in our areas. However, a reduction in consumer confidence and spending, together with pressure on occupiers' operating and finance costs could dampen demand, and consequently moderate near-term rental growth. However, benefiting from the West End's domestic and international appeal and its broad, relatively affluent visitor base, our portfolio has long demonstrated a high level of resilience and a relatively low vacancy rate. We remain confident that our popular locations, together with the size and relative affordability of our space, our flexible approach to leasing and proven village management strategies, will continue to be important to potential occupiers, providing us with a degree of protection from national headwinds.

Annualised current income and ERV
Over many years, our long-term village management strategy has delivered sustained growth in both annualised current income and rental values; key drivers of long-term value creation. The pandemic interrupted this pattern as office and residential vacancy rose sharply, and retail and leisure occupiers were subject to long periods of closure or restricted trading. As market conditions started to normalise in the latter months of 2021, we resumed our focus on active asset management with the aim of converting the portfolio's reversionary potential into contracted income and cash flow, whilst establishing new rental tones, the benefit of which is often compounded across nearby holdings.

At 30 September 2022, the portfolio's reversion was £29.9 million, 25.8% ahead of annualised current income, which compares with £23.9 million at September 2021.

The components of this reversion are set out below.

Components of the reversion

	Total £m
Current income	115.9
Contracted	12.1
EPRA vacancy	5.8
Schemes	12.1
Net over-rented	(0.1)
ERV	**145.8**

Longmartin valuation
In the narrative below, all figures represent our 50% share.

At 30 September 2022, Longmartin's long leasehold property was valued at £167.0 million (2021: £164.5 million). After allowing for capital expenditure, the valuation increase was 0.2% with growth in the first six months being offset by a second-half decline. Like-for-like, ERVs increased 6.2%, of which 4.1% was recorded in the first half of the year. At 30 September 2022, the equivalent yield was 4.28%, an increase of 25 basis points over the year (2021: 4.03%).

After allowing for capital expenditure and changes in lease incentives and costs included in receivables, the revaluation deficit was £0.4 million.

	Valuation £m	% of portfolio	LfL ERV growth/ (decline) 2022	Change in equivalent yield (basis points)	LfL valuation growth/ (decline) 2022
Hospitality and leisure	41.9	25%	0.4%	(4)	4.0%
Retail	23.5	14%	(1.3)%	33	(8.7)%
Offices	71.7	43%	5.1%	26	(0.2)%
Residential	29.9	18%	28.7%	N/A	6.3%
	167.0	**100%**	**6.2%**	**25**	**0.2%**

The valuation of hospitality and leisure increased 4.0% during the year with ERVs broadly flat and equivalent yield compressing by 4 basis points overall, reflecting letting progress.

Retail rental values declined a further 1.3% during the year. Together with a 33 basis point increase in equivalent yield, reflecting deterioration in investor sentiment, the retail valuation decreased by 8.7% during the year.

Offices are the largest component of Longmartin's portfolio by use. ERVs grew on a like-for-like basis by 5.1%, of which 4.4% was recorded in the first half of the year. This growth was offset by the impact of equivalent yield expansion of 26 basis points, resulting in a 0.2% decline in valuation over the year.

Residential benefited from an unusually buoyant West End letting market this year, leading to 28.7% growth in rental values. Valuation growth was 6.3%.

Financial report

Net property income improved following the sustained recovery in operating conditions this year. Net assets increased, driven by portfolio valuation growth in the first half, which was tempered by a deterioration in the macroeconomic outlook towards the end of the year leading to a valuation decline over the second half.

Presentation of financial information

As is usual practice in our sector, we produce alternative measures for certain indicators, including earnings, earnings per share and net tangible assets, making adjustments set out by EPRA in its Best Practices Recommendations. These recommendations are designed to make the financial statements of public real estate companies more comparable across Europe, enhancing the transparency and coherence of the sector. Further details on APMs used, and how they reconcile to IFRS, are set out on page 50.

Underlying EPRA earnings

Last year, we introduced an alternative earnings measure, Covid-adjusted EPRA earnings, which adjusted EPRA earnings as if the cost of waivers offered to tenants during the pandemic had been recognised immediately in the Income Statement rather than spread over the remaining lease term. This year, we have revised this APM to also exclude the impact of exceptional costs related to the proposed merger. The APM, now referred to as "Underlying EPRA earnings", provides users of the financial statements with a measure of normalised operating results and allows comparability of typical earnings.

Whilst this APM is not in accordance with IFRS, we consider that it provides useful supplementary information to assess earnings on a normalised basis, as well as under IFRS and is one measure the Board uses in considering dividends.

Summary income statement

	2022 **£m**	2021 £m
Rental income[1]	**110.4**	105.0
Charges for expected credit losses and impairments	**(4.0)**	(17.7)
Property costs[1]	**(23.6)**	(22.6)
Net property income	**82.8**	64.7
Administrative expenses	**(22.2)**	(21.6)
Costs in relation to proposed merger	**(13.2)**	-
Valuation surplus/(deficits) and disposal profits	**100.4**	(196.8)
Operating profit/(loss)	**147.8**	(153.7)
Net finance costs	**(29.5)**	(30.2)
Share of Longmartin post-tax profit/(loss)	**0.8**	(11.0)
Profit/(loss) before tax	**119.1**	(194.9)
Tax	**-**	-
Reported profit/(loss) for the year	**119.1**	(194.9)
Basic earnings/(loss) per share	**31.0p**	(52.0)p
EPRA earnings[2]	**19.3**	13.3
EPRA earnings per share[2]	**5.0p**	3.5p
Underlying EPRA earnings/(loss)[2]	**38.0**	(7.4)
Underlying EPRA earnings/(loss) per share[2]	**9.9p**	(2.0)p

1. Excluding recoverable service charge costs.
2. Alternative performance measure. See page 50.

Profit after tax for the year of £119.1 million compares with a loss after tax last year of £194.9 million. The difference, amounting to £314.0 million, was predominantly due to the investment property revaluation surplus in the wholly-owned portfolio of £99.5 million, compared with a deficit last year of £196.9 million.

The other main movements compared with last year were:

- an increase in net property income of £18.1 million, reflecting the recovery in operating conditions which has led to a return to pre-pandemic occupancy and rent collection levels, together with a significant reduction in expected credit losses and impairment charges. These improvements were partially offset by an increase in non-recoverable property costs due to increased activity across the portfolio following the lifting of pandemic restrictions;

- costs associated with the proposed merger amounting to £13.2 million; and
- a reduction in the net revaluation loss (after allowing for capital expenditure and the movement in lease incentives and deferred letting costs) in the Longmartin joint venture, our share of which was £0.4 million, compared with £11.3 million last year.

Basic earnings per share amounted to 31.0p, compared with a loss per share last year of 52.0p.

EPRA earnings
EPRA earnings is a measure of the level of underlying operating results and an indication of the extent to which dividends are supported by recurring earnings. In our case, EPRA earnings exclude portfolio valuation movements, profits on disposal of investment properties, and deferred tax arising in the Longmartin joint venture.

EPRA earnings increased by 45.1% to £19.3 million (2021: £13.3 million), resulting in EPRA earnings per share of 5.0p, 42.9% higher than last year (2021: 3.5p).

EPRA earnings[1]	**£m**	**£m**
2021		13.3
Movements:		
Rental income	5.4	
Expected credit losses and impairment charges	13.7	
Property costs	(1.0)	
Net property income		18.1
Costs in relation to proposed merger	(13.2)	
Administrative costs	(0.6)	
Net finance costs	0.7	
Longmartin	1.0	
		(12.1)
2022		**19.3**

1. Alternative performance measure. See page 50.

Underlying EPRA earnings
Underlying EPRA earnings were £38.0 million, which compares with a loss last year of £7.4 million. The year-on-year improvement of £45.4 million, reflected:

- an increase of £19.2 million in EPRA earnings before exceptional merger-related costs; and
- the add back of non-cash charges to EPRA earnings of £5.5 million resulting from the amortisation of Covid waivers this year, net of impairment provisions. In the previous year, EPRA earnings benefitted from the recognition of income in respect of these waivers, net of impairment provisions, amounting to £20.7 million.

Underlying EPRA earnings per share amounted to 9.9p, 98.0% above EPRA earnings per share.

Underlying EPRA earnings[1]	**2022 £m**	2021 £m
EPRA earnings	**19.3**	13.3
Costs in relation to proposed merger	**13.2**	-
	32.5	13.3
Covid adjustments	**5.5**	(20.7)
Underlying EPRA earnings/(loss)	**38.0**	(7.4)
Underlying EPRA earnings/(loss) per share	**9.9p**	(2.0)p

1. Alternative performance measure. See page 50.

At 30 September 2022, the balance of accrued income in respect of Covid waivers was £19.6 million, and the associated impairment provisions, amounted to £1.1 million. The balance will continue to amortise through the Income Statement over a number of years, in line with the related unexpired lease terms. Currently, we anticipate that approximately 75% of the balance will be amortised over the coming five years. We make estimates when assessing the level of provisions and these estimates could change in future years which would change the amount charged to the Income Statement. These estimates are set out in note 3 to the financial statements.

This year, costs associated with the proposed merger amounted to £13.2 million. We expect to incur a further £26.1 million for financial and legal advice, transaction costs and professional fees. See note 23 to the financial statements.

Operating profit before investment property disposals and valuation movements
Compared with last year, invoiced rent increased by 38.2% to £113.3 million (2021: £82.0 million), predominantly reflecting the cessation of rental support granted to occupiers and higher occupancy levels. After allowing for lease incentive adjustments, including the impact of income accrued in respect of Covid rent waivers, rental income, excluding service charge income, increased by £5.4 million to £110.4 million (2021: £105.0 million). On a like-for-like basis the increase in rental income over the year was 5.0%.

	2022 £m	2021 £m
Invoiced rent	**113.3**	82.0
Covid-related lease incentives	**(6.1)**	22.4
Other lease incentives	**3.2**	0.6
Rental income	**110.4**	105.0

Rent collections have recovered to levels in line with those before the pandemic. Although we continue to recover some of the arrears from previous years, the prospect of recovering a material amount of remaining balances, which built up during the pandemic, is remote. With conditions improving throughout the year, charges for expected credit losses against tenant receivables decreased by £14.6 million to £1.8 million (2021: £16.4 million). Impairment charges in respect of lease incentive and deferred letting cost balances increased by £0.9 million to £2.2 million (2021: £1.3 million). Whilst operating conditions have strongly recovered, tenant default risk remains elevated, with pandemic-related challenges replaced by macroeconomic headwinds.

Property charges, excluding recoverable service charge costs, increased by £1.0 million to £23.6 million (2021: £22.6 million) and represented 21.4% of rental income (2021: 21.5%). The increase was largely due to:

- increased letting, lease renewal and rent review costs following the high volume of leasing activity during the year;
- additional maintenance activity across our villages, some of which relates to projects which were put on hold during the pandemic;
- increased property management fees; and
- additional marketing costs, with activity reverting to pre-pandemic levels.

With increased occupancy, vacancy-related costs including business rates were reduced.

After irrecoverable costs and charges for expected credit losses and impairments, net property income for the year was £82.8 million, £18.1 million above last year (2021: £64.7 million).

Administrative expenses increased by £0.6 million in the year, to £22.2 million (2021: £21.6 million).

	2022 £m	2021 £m
Total employee costs	**15.7**	14.7
Other administrative expenses	**6.5**	6.9
Administrative expenses	**22.2**	21.6

Total employee costs were £15.7 million, an increase of £1.0 million over the year, which reflected:

- the impacts of the 2021 pay review and an increase in headcount last year, which added to the skills and resource in our team, together increased costs by £0.9 million over the year; and
- an increase in the charge for annual bonuses, including National Insurance, of £1.3 million.

This was largely offset by a £1.2 million year-on-year decrease in charges for equity-settled remuneration, including provisions for National Insurance, driven by the decrease in our share price this year, compared with an additional charge following the share price increase in 2021.

Other administrative costs decreased by £0.4 million to £6.5 million, mainly due to lower professional fees, partly offset by an increase in irrecoverable VAT.

Valuation surplus and disposal profits
Our wholly-owned portfolio's revaluation surplus was £99.5 million (2021: deficit of £196.9 million). This represented a like-for-like valuation increase of 3.6%, comprising a 7.5% increase in the first half of the year and a 3.6% decrease in the second half.

During the year, we sold two buildings and received lease extension premiums from residential long leaseholders. Together, these realised a net profit on disposal of £0.9 million.

Net finance costs
Net finance costs decreased by £0.7 million to £29.5 million (2021: £30.2 million) largely reflecting savings in bank interest and loan issue cost amortisation following the equity raise in November 2020, as well as an increase in interest income to £1.0 million (2021: £0.7 million).

Share of Longmartin post-tax profit
Our share of Longmartin's post-tax profit was £0.8 million, which compares with an £11.0 million share of its post-tax loss last year. Our share of its revaluation deficit was £0.4 million (2021: £11.3 million). Excluding the revaluation and related deferred tax movements, our share of EPRA earnings from Longmartin increased by £1.0 million to £1.4 million (2021: £0.4 million) largely due to reduced charges for expected credit losses.

Tax
As a REIT, the Group's activities are largely exempt from corporation tax and, as a result, there is no tax charge in the year (2021: £nil). We continue to meet the requirements in the REIT regulations.

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

The Board has declared a second interim dividend in respect of the year of 5.1p per share (2021: final dividend 4.0p), to be paid as PID on 21 December 2022. The ex-dividend and record dates are 8 December 2022 and 9 December 2022 respectively. The second interim dividend, referred to as the "Shaftesbury Full Year Dividend" in the proposed merger Scheme Document, is being paid in place of a final dividend for the year. The timing of payment of this dividend has been brought forward from the expected timeframe set out in the Scheme Document.

Together with the interim dividend of 4.8p paid in July 2022, this will bring dividends in respect of the 2022 financial year to 9.9p, in line with underlying EPRA earnings per share.

As set out in a separate announcement, released today, we have reached agreement with Capco to pay a further interim dividend of up to 2.7p per share in respect of the quarter to 31 December 2022, to be paid before the proposed merger becomes effective, currently expected in the first quarter of 2023.

Balance Sheet

	2022 **£m**	2021 £m
Investment properties	**3,144.4**	2,964.1
Investment in joint venture	**86.6**	85.8
Net debt	**(804.6)**	(748.5)
Other net assets	**32.1**	71.3
Net assets	**2,458.5**	2,372.7
EPRA NTA per share[1]	**£6.41**	£6.19
Total Accounting Return[1]	**5.0%**	(14.6)%

1. Alternative performance measure. See page 50.

The increase in net assets of £85.8 million during the year was largely due to profit after tax of £119.1 million, offset by the dividends paid of £33.8 million.

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

Total accounting return measures shareholder value creation, taking into account the movement in EPRA NTA together with dividends paid.

During the year, EPRA NTA per share increased by 3.6% to £6.41 (2021: £6.19) principally due to the revaluations of the wholly-owned portfolio and investment properties held by Longmartin, which added 26p per share. EPRA earnings of 5.0p were offset by dividends paid amounting to 8.8p. Total Accounting Return was 5.0% (2021: -14.6%).

EPRA NTA[1]	**Pence per share**	
2021		619
Revaluation movements		
- Six months ended 31 March 2022	60	
- Six months ended 30 September 2022	(34)	
		26
EPRA earnings		5
Dividends		(9)
2022		**641**

1. Alternative performance measure. See page 50.

Liquidity
At 30 September 2022, available liquidity was £255.2 million (2021: £311.3 million) comprising £155.2 million of cash and our undrawn revolving credit facility of £100 million. Capital commitments to be funded from these resources totalled £33.9 million.

The revolving credit facility matures in February 2023 and, at the date of this report, is no longer available to be drawn. In light of the proposed merger, it is currently expected that this facility will be retired at maturity. The table below shows the liquidity position at 30 September 2022, as reported in the financial statements, and pro forma to remove this undrawn revolving credit facility.

	2022 £m	Pro-forma[1] 2022 £m	2021 £m
Cash	**155.2**	155.2	211.3
Undrawn revolving credit facility	**100.0**	-	100.0
Available resources	**255.2**	155.2	311.3
Commitments	**(33.9)**	(33.9)	(18.8)
Pro-forma available resources	**221.3**	121.3	292.5

1. Pro-forma, adjusting to remove the undrawn £100 million revolving credit facility.

Net debt and cash flows

Movement in net debt	**£m**
2021	748.5
Operating cash inflow	(61.8)
Net interest paid	28.9
Net portfolio investment	69.0
Interest cover covenant waiver deposits	(13.8)
Dividend	33.8
2022	**804.6**

At 30 September 2022, net debt was £804.6 million (2021: £748.5 million). The increase of £56.1 million was largely due to:

- cash inflow from operating activities, before net interest payments, of £61.8 million, £23.5 million higher over the year (2021: £38.3 million). The year-on-year increase reflects the improvement in earnings through the post-pandemic recovery.

- net interest paid of £28.9 million, down £0.5 million over the year (2021: £29.4 million).

- net portfolio investment of £69.0 million (2021: £48.8 million), comprising capital expenditure of £32.9 million, and £47.4 million in respect of acquisitions, net of £11.3 million of disposal proceeds.

- deposits in respect of the interest cover covenant waivers during the pandemic, amounting to £13.8 million, were returned now that the waiver periods have ended and we are compliant with financial covenants.

Financial position

Our loan-to-value ratio increased from 24.9% to 25.2%, largely due to investment in the portfolio in the year. At 30 September 2022, the weighted average maturity of debt facilities was 7.0 years and the blended cost of debt was 3.1% (2021: 3.1%). On a pro-forma basis, adjusting to remove the undrawn revolving credit facility, the weighted average debt maturity increases to 7.7 years and the blended cost of finance decreases to 3.0%, as set out in the table below.

Debt summary[1]

	2022 £m	Pro-forma[2] 2022 £m	2021 £m
Debt[3]	**959.8**	959.8	959.8
Cash	**(155.2)**	(155.2)	(211.3)
Net debt	**804.6**	804.6	748.5
Loan-to-value[4,5]	**25.2%**	25.2%	24.9%
Gearing[4,5,7]	**32.6%**	32.6%	31.4%
Interest cover[4,6]	**1.6x**	1.6x	1.4x
% drawn debt fixed	**100%**	100%	100%
Blended cost of debt[4,8]	**3.1%**	3.0%	3.1%
Marginal cost of undrawn RCF	**3.2%**	-	1.1%
Weighted average maturity of debt (years)	**7.0**	7.7	8.0
Sources of finance (fully drawn basis)			
Bonds	**54%**	60%	54%
Term loans	**36%**	40%	36%
Revolving credit facilities	**10%**	-	10%

1. Data excludes our 50% share of Longmartin's non-recourse debt.
2. Pro-forma, adjusting to remove the undrawn £100m revolving credit facility.
3. Excludes loan issue costs
4. Alternative performance measure. See page 50.
5. Based on net debt.
6. Ratio of operating profit before investment property disposals and valuation movements to net finance costs.
7. Based on EPRA NTA.
8. Including non-utilisation fees on undrawn revolving credit facility.

Debt maturity profile

Year of maturity	**Facility type**	**Total facility £m**
2023	Revolving credit facility[1]	100
2027	Bonds	290
2029	Term loan	135
2030	Term loan	130
2031	Bonds	285
2035	Term loan	120

1. Undrawn at 30 September 2022.

Impact of the proposed merger

The proposed merger remains subject to satisfaction or, where applicable, waiver of the remaining conditions set out in Part Three of the Scheme Document, including satisfaction of the CMA condition and the Court sanctioning the Scheme. The Scheme Document, dated 7 July 2022, is available on the Company's and Capco's website.

We are currently engaged in customary pre-notification discussions with the CMA, which remain ongoing. The CMA has not yet commenced its Phase 1 review and therefore the proposed merger is now expected to become effective during the first quarter of 2023.

It is expected that our £100 million revolving credit facility will be retired as this will no longer be required given the other sources of liquidity in the combined group.

In the event that the proposed merger becomes effective, and as set out in paragraph 15 of part one of the Scheme Document:

- our term loans with Aviva and Canada Life will remain in place; and
- change of control provisions in the terms of our secured mortgage bonds will be triggered, whereby bondholders would be entitled to ‘put’ their bonds at par plus any accrued interest.

Capco has entered into a £576 million loan facility agreement, for a term of up to three years, to provide funding certainty in the event that some or all of the holders of the Shaftesbury Mortgage Bonds exercise their change of control redemption right following completion. Based on current market conditions, any drawdown of this loan facility agreement will result in increased financing costs for the combined group, which it would seek to mitigate by capitalising on the increased strength of its balance sheet following completion.

Debt covenants

We have complied with our interest cover and loan-to-value covenants across all facilities throughout the year. We have assessed covenant compliance as part of our going concern and viability analyses, for both Shaftesbury on a standalone basis and for the combined group following the proposed merger. In our severe-but-plausible downside scenario, we anticipate that we will continue to meet these covenants, either absolutely or through use of cash cure remedies, for the period of the Viability Statement.

Longmartin finance

The figures below represent our 50% share.

The Longmartin joint venture has a £60 million fixed-rate term loan maturing in 2026, which is non-recourse to Shaftesbury.

At 30 September 2022, Longmartin’s net debt was £57.5 million, representing a loan-to-value ratio of 34.4%, down from 34.9% at 30 September 2021, due to a modest property valuation increase in the year. Longmartin was compliant with its loan covenants throughout the year.

Group statement of comprehensive income

For the year ended 30 September 2022

	Notes	2022 £m	2021 £m
Revenue		**123.1**	112.7
Expected credit losses		**(1.8)**	(16.4)
Impairment charges		**(2.2)**	(1.3)
Property charges		**(36.3)**	(30.3)
Net property income	5	**82.8**	64.7
Administrative expenses	6	**(22.2)**	(21.6)
Costs in relation to the proposed merger	23	**(13.2)**	-
Operating profit before investment property disposals and valuation movements		**47.4**	43.1
Profit on disposal of investment properties	7	**0.9**	0.1
Net revaluation surplus/(deficit) on investment properties	10	**99.5**	(196.9)
Operating profit/(loss)		**147.8**	(153.7)
Finance income		**1.0**	0.7
Finance costs	8	**(30.5)**	(30.9)
Share of post-tax profit/(loss) from joint venture	12	**0.8**	(11.0)
Profit/(loss) before tax		**119.1**	(194.9)
Tax charge for the year	9	**-**	-
Profit/(loss) and total comprehensive income/(loss) for the year		**119.1**	(194.9)
Earnings/(loss) per share:			
Basic and diluted	21	**31.0p**	(52.0)p

Group balance sheet

As at 30 September 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Investment properties	10	**3,144.4**	2,964.1
Accrued income	11	**30.5**	34.1
Investment in joint venture	12	**86.6**	85.8
Property, plant and equipment		**0.8**	1.0
Trade and other receivables	13	**15.0**	15.9
		3,277.3	3,100.9
Current assets			
Trade and other receivables	13	**22.7**	44.4
Cash and cash equivalents	14	**155.2**	211.3
Total assets		**3,455.2**	3,356.6
Current liabilities			
Trade and other payables	15	**43.2**	31.6
Non-current liabilities			
Borrowings	16	**953.5**	952.3
Total liabilities		**996.7**	983.9
Net assets		**2,458.5**	2,372.7
Equity			
Share capital	18	**96.1**	96.1
Share premium		**653.8**	653.8
Share-based payments reserve		**1.4**	2.4
Retained earnings		**1,707.2**	1,620.4
Total equity		**2,458.5**	2,372.7

Group cash flow statement

For the year ended 30 September 2022

	Notes	**2022 £m**	2021 £m
Operating activities			
Cash generated from operating activities	20	**61.8**	38.3
Interest received		**0.4**	0.2
Interest paid		**(29.3)**	(29.6)
Net cash from operating activities		**32.9**	8.9
Investing activities			
Investment property acquisitions		**(47.4)**	(19.1)
Investment property disposals	7	**11.3**	5.2
Capital expenditure on investment properties		**(32.9)**	(34.9)
Purchase of property, plant and equipment		**-**	(0.1)
Increase in cash held in restricted accounts		**-**	(5.4)
Decrease in cash held in restricted accounts	14	**13.8**	0.3
Increase in loans to joint venture		**-**	(1.5)
Net cash used in investing activities		**(55.2)**	(55.5)
Financing activities			
Proceeds from share issue	18	**-**	307.0
Share issue costs	18	**-**	(12.6)
Repayment of borrowings	16	**-**	(100.0)
Equity dividends paid	19	**(33.8)**	(9.3)
Net cash (used in)/from financing activities		**(33.8)**	185.1
Net change in cash and cash equivalents		**(56.1)**	138.5
Cash and cash equivalents at the beginning of the year	14	**211.3**	72.8
Cash and cash equivalents at the end of the year	14	**155.2**	211.3

Group statement of changes in equity

For the year ended 30 September 2022

	Notes	Share capital £m	Share premium £m	Share-based payments reserve £m	Retained earnings £m	Total equity £m
At 1 October 2021		**96.1**	**653.8**	**2.4**	**1,620.4**	**2,372.7**
Profit and total comprehensive income for the year		**-**	**-**	**-**	**119.1**	**119.1**
Dividends paid	19	**-**	**-**	**-**	**(33.8)**	**(33.8)**
Share-based payments		**-**	**-**	**0.5**	**-**	**0.5**
Release on exercise of share options		**-**	**-**	**(1.5)**	**1.5**	**-**
At 30 September 2022		**96.1**	**653.8**	**1.4**	**1,707.2**	**2,458.5**
At 1 October 2020		76.9	378.6	1.3	1,823.8	2,280.6
Loss and total comprehensive loss for the year		-	-	-	(194.9)	(194.9)
Dividends paid	19	-	-	-	(9.3)	(9.3)
Share-based payments		-	-	1.9	-	1.9
Release on exercise of share options		-	-	(0.8)	0.8	-
Share issue	18	19.2	275.2	-	-	294.4
At 30 September 2021		96.1	653.8	2.4	1,620.4	2,372.7

Notes to the financial statements

For the year ended 30 September 2022

1. Basis of preparation

The preliminary announcement does not constitute statutory financial statements of the Group.

The results for the year ended 30 September 2022 included in this preliminary announcement are extracted from the audited financial statements for the year ended 30 September 2022, which were approved by the directors on 28 November 2022. The auditor's report on those financial statements was unqualified and did not include a statement under Section 498(2) or 498(3) of the 2006 Companies Act.

The 2022 Annual Report is expected to be available on the Group's website in December 2022. The financial statements for the year ended 30 September 2022 have not yet been delivered to the Registrar of Companies.

The auditor's report on the financial statements for the year ended 30 September 2021 was unqualified and did not include a statement under Section 498(2) or 498(3) of the 2006 Companies Act. The financial statements for the year ended 30 September 2021 have been delivered to the Registrar of Companies.

Consideration of climate change
In preparing the financial statements, the directors considered the impact of climate change, particularly in the context of climate risk and opportunity and risk management. No material impact on the financial reporting judgements and estimates has been identified. In particular, the directors considered the impact of climate change in respect of the following areas:

- going concern and viability of the Group; and
- the valuation of investment properties.

Societal expectations are driving government action that may impose further requirements and cost on companies in the future. Therefore, risks associated with climate change could, over time, impose changes that may potentially impact (amongst other things) levels of capital expenditure. However, currently the financial statements cannot capture such possible future outcomes as these are not yet known.

Whilst there is currently no medium-term impact expected from climate change, the directors are aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in the preparation of the Group's financial statements.

Going concern

The Group's going concern assessment covers the period from the date of authorisation of these consolidated financial statements to 31 December 2023 (the "going concern period").

As set out in note 23, the Board have recommended, and shareholders have approved, a possible all-share merger of the Company with Capco. While subject to satisfaction, or waiver, of various conditions, our current expectation is that the proposed merger will proceed within the going concern period and should it proceed as envisaged, it will result in the Company becoming a wholly-owned subsidiary of Capco, with implications for the Group's financing arrangements. The Board's going concern assessment, therefore, first considers the Group on a standalone basis, and then on the basis that the proposed merger proceeds.

Standalone basis
Key assumptions in forecasts and debt covenant compliance
In preparing the assessment of going concern, the Board has considered forecasts of the Group's available liquidity, committed expenditure, likely ongoing levels of costs, cash flows, income, debt covenants and other performance measures in a severe-but-plausible downside scenario which envisages an economic shock leading to a severe recession. While there are other risks faced by the Group, an economic or other shock of this nature allows us to model the simultaneous confluence of the impact of the Group's principal risks in a single near-term scenario. Relative to our base forecast, this scenario envisages an immediate decline in the Group's rent collection by 12% of contracted rents for a period of 3 months; increases in our total vacancy by approximately 7-8% of ERV throughout the going concern period, a reduction in assumed ERV growth of 6 percentage points over the going concern period and an additional 3 percentage point increase in inflation affecting all expenditure. It is also assumed that there would be an immediate increase in property costs as a result of increased vacancy.

The near-term impact of climate change risks within the going concern period have been considered in the severe-but-plausible downside scenario and are expected to be immaterial.

Under this severe-but-plausible downside scenario, it is the Board's expectation that the Group will remain in compliance with the loan-to-value covenants of its individual financing arrangements. In coming to this conclusion, the Board has factored-in the ability to mitigate the risk of individual loan-to-value covenants coming under pressure through the addition of security from the Group's pool of unsecured assets (including the soon-to-be-released secured assets presently charged to its undrawn revolving credit facility, which will expire in February 2023).

The Group anticipates that, under this severe-but-plausible downside scenario, the interest cover covenants in one of its term loans would be breached within the going concern period. For the affected term loan, the Group can make up income shortfalls using negligible cash deposits or additional assets with sufficient contractual income from its pool of unsecured properties throughout the going concern period and expects to have sufficient liquidity, security and cure rights. The interest cover covenants on its other financing arrangements would be adversely impacted but are nonetheless expected to remain in compliance throughout the going concern period. Other than the undrawn RCF, there are no other debt maturities until 2027.

Reverse stress testing
After topping up security in its financing arrangements, from its pool of unsecured properties as needed, the Group estimates that it could withstand a circa 49% decrease in valuations from 30 September 2022 before reaching the limit of its loan-to-value covenants.

The Group has re-calculated its forecast interest cover covenant headroom, assuming the allocation of uncharged assets to debt facilities that would be necessary to sustain these valuation declines, and estimates that it could withstand a circa 68% decrease in the relevant measures of net income from its 30 September 2022 position, before reaching the limit of the interest cover covenants on its mortgage bonds. A uniform decline in income to that degree, would also cause a breach in the interest cover covenants on the secured term loans. However, these breaches could be cured with cash deposits.

In view of the prime nature of the Group's investment property portfolio and its track record of resilience in economic downturns, the Board considers the possibility of declines in valuation or income at these levels to be remote.

Conclusion
Prior to available mitigations, the severe-but-plausible downside scenario would present the Group with significant challenges over the going concern period. However, the Board's assessment is that, in view of the Group's cash reserves, its expected covenant compliance and cure rights, and the reverse stress testing set out above, but before considering the proposed merger, it has a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period.

Combined basis
Change of control clauses in the Group's mortgage bonds and term loans
The Group's bonds and term loans contain change of control clauses which, if triggered by the proposed merger, would, at the relevant finance provider's discretion require repayment in part or in full. Following completion of the proposed merger, it is currently expected that:

- our secured term loans will remain in place;
- our £100 million revolving credit facility will be retired as this will no longer be required given the other sources of liquidity in the combined group; and
- change of control provisions in the terms of our secured mortgage bonds will be triggered, whereby bondholders would be entitled to 'put' their bonds at par plus any accrued interest.

Capco entered into a £576 million unsecured loan facility agreement to provide funding certainty in the event that some or all of the bondholders exercise their redemption rights following completion of the proposed merger. Based on current market conditions, any drawdown of this loan facility agreement will result in increased financing costs for the combined group, which the combined group would seek to mitigate by capitalising on the increased strength of its balance sheet following completion. The facility extends for two years from 16 June 2022, which may be extended for a further six months at the option of Capco subject to the satisfaction of the extension requirements as outlined in the facility. There is subsequently a further six-month extension option available, which requires lenders' consent. The Board have satisfied themselves that this loan facility agreement remains in place.

Assessing the liquidity and prospects of the combined group
In preparing its assessment of going concern, the Board reviewed a revised and up-to-date forecast of liquidity, cash flow and covenant compliance of the combined group under a severe-but-plausible downside scenario consistent with that outlined above on a standalone basis, considering sustained low levels of rent collection, decreases in ERV growth and increases in vacancy and costs, all occurring in unison.

In assessing the Group's ability to continue as a going concern, the Board has assumed that the holders of the Group's mortgage bonds redeem their holdings on completion of the proposed merger, thus releasing the assets these are secured against to increase the combined group's pool of unsecured assets.

Consistent with the standalone assessment, under this severe downside scenario, the Group estimates that the interest cover covenants on one of its secured term loans would be breached within the going concern period. For the affected term loan, the combined group can make up income shortfalls using negligible cash deposits or additional assets with sufficient contractual income from its pool of unsecured properties throughout the going concern period, and expects to have sufficient liquidity, security and cure-rights.

The interest cover covenants in the combined group's other financing arrangements would be adversely impacted by the severe-but-plausible downside scenario, but are nonetheless expected to be complied with throughout the going concern period.

It is the Group's expectation that the combined group will remain in compliance with the loan-to-value covenants of its debt arrangements even under the severe-but-plausible downside scenario.

In addition to interest cover and loan-to-value covenants, the £576 million loan facility agreement Capco has entered into to cover the potential redemption of the Group's £575 million mortgage bonds is subject to a covenant on the ratio of unencumbered assets to unsecured debt. It is the Group's expectation that the combined group will remain in compliance with the unencumbered assets covenant even under the severe-but-plausible downside scenario.

The Board is satisfied that there is presently no intention to liquidate the Company within the going concern period, post-completion of the proposed merger.

Reverse stress testing
After topping up security in certain of its financing arrangements from its pool of unsecured properties as needed, the Group estimates that the combined group could withstand a circa 43.8% decrease in valuations from 30 September 2022, before reaching the limit of its loan-to-value covenants. At this level, and assuming the allocation of uncharged assets to secured pools necessary to sustain such a decline, the combined group would remain in compliance with the unencumbered assets covenant in the £576 million loan facility agreement.

In the severe-but-plausible downside scenario, the financing arrangements of the combined group with least headroom on their interest cover covenants are the two Shaftesbury secured term loans. However, as noted above, subject to some limitations, breaches in these can be assumed to be cured with cash deposits or by the addition of properties with sufficient contractual income from the combined group's pool of unsecured properties. The £576 million loan facility agreement is projected to have the next lowest headroom in the severe-but-plausible downside scenario. At the point of lowest projected headroom, and assuming no change in projected interest expense, the combined group could sustain a further decline in group net property income of up to 48% before breaching this covenant.

The combined group is expected to have floating rate debt, comprising the £576 million unsecured loan facility agreement and a £300 million revolving credit facility (to the extent drawn) and will, therefore, have exposure to fluctuations in interest rates which the standalone Group does not. However, the potential impact of fluctuation in interest rates is limited as the revolving credit facility is projected to remain undrawn throughout the going concern period in the severe-but-plausible downside. Additionally, the combined group would benefit from partial hedging in the form of interest rate caps to mitigate against the risk of fluctuations in interest rates.

Given the high proportion of fixed costs in the combined group's interest expense under the severe-but-plausible downside scenario, and the hedging in place, the interest cover reverse stress test is relatively insensitive to increases in SONIA. The Board, therefore, considers that the likelihood is remote that increases in SONIA would put material additional pressure on group interest cover covenants during the going concern period.

In view of the prime nature of the combined group's investment property portfolio and resilience in previous economic downturns, the Board considers the possibility of declines in valuation or income at these levels to be remote.

Conclusion
Based on this assessment of the liquidity and prospects of the combined group, the Board has confidence that the proposed merger would not create a material risk to the Group's ability to continue as a going concern.

On this basis, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

2. Changes in accounting policies

The accounting policies and methods of computation used are consistent with those of the previous financial year, with the exception of new standards and amendments to standards, which became effective in the financial year.

New standards adopted during the year
The following standards and amendments to existing standards were relevant to the Group, adopted from 1 October 2021, and did not have a significant impact on the financial statements:

- IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) – Interest rate benchmark reform Phase 2

Standards relevant to the Group but not yet effective
The following amendments to existing standards were relevant to the Group, are not yet effective, and have not been adopted early. They are not expected to have a significant impact on the financial statements:

- Annual Improvements 2018-2020
- IAS 1 (amendments) – Classification of liabilities as current or non-current; Disclosure of Accounting Policies
- IAS 8 (amendments) – Definition of Accounting Estimates
- IAS 12 (amendments)– Deferred taxes related to assets and liabilities arising from a single transaction
- IAS 16 (amendments) – Proceeds before intended use
- IAS 37 (amendments) – Onerous contract; Cost of fulfilling a contract
- IFRS 3 (amendments) – Reference to the Conceptual Framework

3. Significant judgements, assumptions and key estimates

The preparation of the financial statements in accordance with IFRS requires the directors to make judgements and estimates about the carrying amounts of assets and liabilities, in applying the Group's accounting policies. The judgements and estimates are based on historical experience and other relevant factors, including expectations of future events, and are reviewed on a continual basis. Although the estimates are made using the directors' best knowledge of the amount, event or actions, actual results may differ from the original estimates.

The directors did not make any significant judgements in the preparation of these financial statements, which is consistent with the financial statements for the prior year.

The key estimate made in the current year financial statements is the valuation of investment property. This is consistent with the prior year.

Other areas of estimation include the provision for expected credit losses for trade receivables and the impairment of lease incentives and deferred letting costs. In the prior year, these were considered key estimates, however, with conditions improving throughout the year are no longer considered a key area of estimation uncertainty.

Key area of estimation uncertainty
Investment property valuation
The investment property portfolio is valued by independent third party valuers. Cushman & Wakefield value the properties owned by the Group, and Knight Frank LLP value the properties owned by the Longmartin joint venture.

Valuations are inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income. As a result, the valuations the Group places on its property portfolio require estimates to be made, including, but not limited to, market yields, ERVs and void periods. These estimates are based on assumptions made by the valuers. The most significant assumptions are those in respect of market yields and ERVs, which are summarised on page 51 and are in accordance with the RICS Valuation - Global Standards. Given the inherent subjectivity, the valuations are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market. This may mean that the value of the Group's properties differs from their valuation reported in the financial statements, which could have a material effect on the Group's financial position.

Further information on the approach taken by the valuers in valuing the portfolio and a sensitivity analysis on equivalent yields and ERV, which are the most significant assumptions impacting the fair values, is set out in note 10 to the financial statements.

Other area of estimation uncertainty
Provisions for expected credit losses, impairment of lease incentives and deferred letting costs
In preparing the financial statements, estimates are made in assessing expected credit losses in respect of trade receivables, lease incentives and deferred letting costs. These estimates draw on historical information, such as recent payment history as well as forecast information, taking into account expectations about trading levels, footfall and tenants' ability to pay arrears, and, with respect to lease incentives and deferred letting costs, whether it is likely tenants will serve out the remainder of the contractual terms of their leases. In assessing provisions, the Group identifies risk factors associated with each use (hospitality and leisure, retail, office and residential).

The Group assesses the likely recovery of trade receivables for potential provisions, which are estimated using a forward-looking expected credit loss model for each receivable from an occupier in order to recognise a lifetime expected credit loss allowance. Expected credit losses totalling £1.8 million (2021: £16.4 million) were charged to the Income Statement in the year.

The gross trade receivables balance subject to estimation uncertainty is £9.7 million (2021: £20.8 million). An increase of 5% to the provision percentage applied would increase the provision by £0.2 million (2021: £0.9 million). A decrease of 5% to the provision percentage applied would decrease the provision by £0.5 million (2021: £1.1 million).

Accrued income from lease incentives and deferred letting costs are subject to impairment review at each year end. In determining the impairment provision, the Group reviews leases on an individual basis, making a provision based on an expected credit loss model, using information available about the likelihood of a lease terminating earlier than the date of contractual break option or expiry.

The gross accrued income balance from lease incentives which is subject to estimation uncertainty is £42.7 million (2021: £46.5 million). An increase of 5% to the provision percentage applied would increase the provision by £1.4 million (2021: £1.9 million). A decrease of 5% to the provision percentage applied would decrease the provision by £0.4 million (2021: £1.3 million).

See note 5 and note 13 for further information on expected credit losses and impairment charges.

4. Segmental information

IFRS 8 requires operating segments to be reported in a manner consistent with the internal financial reporting reviewed by the chief operating decision maker. The chief operating decision maker of the Group is the Board. The Board is responsible for reviewing the Group's internal reporting in order to assess performance.

The information reviewed by the Board is prepared on a basis consistent with these financial statements. That is, the information is provided at a Group level and includes both the IFRS reported results and EPRA measures (see page 50 for an explanation on the EPRA measures used in these financial statements).

The Group's properties are all located in London's West End, and are all of a similar type. The properties are typically mixed-use buildings with hospitality, leisure and retail on the lower floors and offices and apartments on the upper floors. As the properties share similar economic characteristics, we consider them to be one operating segment. As such, no segmental financial information is presented.

5. Net property income

	2022 £m	2021 £m
Rental income (excluding lease incentives)	**113.3**	82.0
Adjustment for lease incentives	**(2.9)**	23.0
Rental income	**110.4**	105.0
Service charge income	**12.7**	7.7
Revenue	**123.1**	112.7
Expected credit losses	**(1.8)**	(16.4)
Impairment charges	**(2.2)**	(1.3)
	119.1	95.0
Service charge expenses	**(12.7)**	(7.7)
Other property charges	**(23.6)**	(22.6)
Property charges	**(36.3)**	(30.3)
	82.8	64.7

Impairment charges of £2.2 million (2021: £1.3 million) include £1.9 million (2021: £1.7 million) for tenant lease incentive balances and £0.3 million (2021: £0.4 million credit) for deferred letting cost balances.

6. Administrative expenses

	2022 £m	2021 £m
Employee costs	**15.7**	14.7
Depreciation	**0.2**	0.3
Other head office costs	**6.4**	6.7
	22.3	21.7
Less: administrative fees received from the joint venture	**(0.1)**	(0.1)
	22.2	21.6

Employee costs (including the directors)	2022 £m	2021 £m
Wages and salaries	**12.3**	10.5
Social security costs	**1.2**	1.7
Other pension costs	**0.6**	0.5
Equity-settled remuneration	**1.6**	2.0
	15.7	14.7

Included within equity-settled remuneration is a charge of £1.1 million (2021: £1.4 million) for the LTIP and SAYE schemes.

7. Profit on disposal of investment properties

	2022 £m	2021 £m
Net sale proceeds	**11.3**	5.2
Book value	**(10.4)**	(5.1)
	0.9	0.1

8. Finance costs

	2022 £m	2021 £m
Mortgage bond interest	**13.9**	13.9
Bank and other interest	**15.4**	15.7
Issue cost amortisation	**1.2**	1.3
	30.5	30.9

9. Tax charge for the year

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

10. Investment properties

	2022 £m	2021 £m
At the beginning of the year	**2,964.1**	3,115.5
Acquisitions	**55.3**	13.2
Disposals	**(10.4)**	(5.1)
Refurbishment and other capital expenditure	**35.9**	37.4
Net revaluation surplus/(deficit) on investment properties	**99.5**	(196.9)
Book value at 30 September	**3,144.4**	2,964.1
Fair value at 30 September:		
Properties valued by Cushman & Wakefield	**3,188.1**	3,010.5
Lease incentives and costs included in receivables	**(43.7)**	(46.4)
Book value at 30 September	**3,144.4**	2,964.1

The investment properties valuation comprises:

	2022 £m	2021 £m
Freehold properties	**2,957.7**	2,805.7
Leasehold properties	**230.4**	204.8
	3,188.1	3,010.5

Investment properties were valued at 30 September 2022 by professionally qualified external valuers. The Group's wholly-owned portfolio is valued by Cushman & Wakefield, members of the Royal Institution of Chartered Surveyors (RICS).

All properties were valued on the basis of fair value and highest and best use, in accordance with IFRS 13 and the RICS Valuation - Global Standards, which incorporate the International Valuation Standards and the Valuation UK National Supplement (the "RICS Red Book") edition current at the valuation date. When considering a property's highest and best use, the valuer considers its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer considers the use a market participant would have in mind when formulating the price it would bid and reflects the cost and likelihood of achieving that use.

The fair value of the Group's investment properties has primarily been determined using a market approach, which provides an indication of value by comparing the subject asset with similar assets for which price information is available. The external valuer uses information provided by the Group, such as tenancy information and capital expenditure expectations. In deriving fair value, the valuer also makes a series of assumptions, using professional judgement and market observations. These assumptions include, but are not limited to, market yields, ERVs and void periods. The key assumptions are the equivalent yields and estimated future rental income (ERVs), as set out on page 51. Equivalent yields are based on current market prices, depending on, inter alia, the location, condition and use of the properties. ERVs are calculated using a number of factors which include current rental income, market comparatives and local occupancy levels. Whilst there is market evidence for the key inputs, and recent transaction prices for similar properties, there is still a significant element of estimation and judgement. As a result of adjustments made to market observable data, these significant inputs are deemed unobservable.

Since the key inputs to the valuation are unobservable, the Group considers all its investment properties fall within Level 3 of the fair value hierarchy in IFRS 13. The Group's policy is to recognise transfers between hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There have been no transfers during the year (2021: none).

The major inputs to the external valuation are reviewed by the senior management team. In addition, the valuer meets with the external auditor and the Audit Committee.

Fees were agreed at fixed amounts in advance of the valuations being carried out. Non-valuation fees, including letting and other advice provided to the Group, represented 41% of total fees for the valuation of the Group's investment properties. Cushman & Wakefield confirmed that the total fees paid by the Group represented less than 5% of its total revenues in the current year.

Sensitivity analysis
As noted in the significant judgements, assumptions and key estimates section in note 3, the valuation of the Group's property portfolio is inherently subjective. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

The sensitivity analysis below illustrates the impact on the fair value of the Group's properties, from changes in the key assumptions.

	Change in ERV			
	-10% £m	**-5% £m**	**+5% £m**	**+10% £m**
(Decrease)/increase in the fair value	(276.0)	(138.5)	141.9	285.4

	Change in Yield			
	-0.25% £m	**+0.25% £m**	**+0.5% £m**	**+0.75% £m**
Increase/(decrease) in the fair value	229.7	(199.8)	(375.4)	(531.2)

These key unobservable inputs are inter-dependent. All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of a property, and an increase in the ERV would increase the capital value, and vice versa.

At 30 September 2022, the Group had capital commitments of £33.9 million (2021: £18.8 million). This included £30.2 million relating to future capital expenditure for the enhancement of the Group's investment properties (2021: £15.1 million) and £3.7 million for an acquisition, conditional on certain requirements being met (2021: £3.7 million). See pages 15 to 17 for a discussion of the Group's property activity during the year.

11. Accrued income

	2022 £m	2021 £m
Accrued income in respect of lease incentives	**39.5**	43.9
Less: included in trade and other receivables (note 13)	**(9.0)**	(9.8)
	30.5	34.1

At 30 September 2022, the Group held impairment provisions totalling £3.2 million (2021: £2.6 million) against lease incentive balances. See note 3 for further information.

12. Investment in joint venture

	2022 £m	2021 £m
At the beginning of the year	**85.8**	96.8
Share of profit/(losses)	**0.8**	(11.0)
Book value at 30 September	**86.6**	85.8

At 30 September 2022, the joint venture had capital commitments of £0.3 million (2021: £3.6 million) relating to future capital expenditure for the enhancement of its investment properties, of which, the Group's share is 50%.

The summarised Statement of Comprehensive Income and Balance Sheet used for equity accounting purposes are presented below:

	2022 £m	2021 £m
Statement of Comprehensive Income		
Rental income	**13.9**	14.1
Service charge income	**2.1**	1.3
Revenue	**16.0**	15.4
Expected credit losses	**(0.1)**	(2.1)
Impairment charges	**(0.3)**	(0.4)
Other property charges	**(2.8)**	(2.7)
Service charge expenses	**(2.1)**	(1.3)
Net property income	**10.7**	8.9
Administrative expenses	**(0.3)**	(0.3)
Operating profit before investment property valuation movements	**10.4**	8.6
Net revaluation deficit on investment properties	**(0.8)**	(22.6)
Operating profit/(loss)	**9.6**	(14.0)
Finance costs	**(7.0)**	(7.2)
Profit/(loss) before tax	**2.6**	(21.2)
Current tax	**(0.6)**	(0.4)
Deferred tax	**(0.5)**	(0.3)
Profit/(loss) and total comprehensive income/(loss) for the year	**1.5**	(21.9)
Profit/(loss) attributable to the Group	**0.8**	(11.0)

	2022 £m	2021 £m
Balance Sheet		
Non-current assets		
Investment properties at book value	**339.9**	336.4
Accrued income	**3.5**	2.4
Other receivables	**1.3**	1.3
	344.7	340.1
Cash and cash equivalents	**5.0**	5.1
Other current assets	**8.4**	8.5
Total assets	**358.1**	353.7
Current liabilities	**36.4**	34.1
Non-current liabilities		
Secured term loan	**120.0**	120.0
Other non-current liabilities	**28.6**	28.0
Total liabilities	**185.0**	182.1
Net assets	**173.1**	171.6
Net assets attributable to the Group	**86.6**	85.8

13. Trade and other receivables

	2022 £m	2021 £m
Current trade and other receivables		
Trade receivables	**9.7**	20.8
Provision for expected credit losses	**(4.6)**	(14.1)
	5.1	6.7
Accrued income in respect of lease incentives (note 11)	**9.0**	9.8
Amounts due from joint venture	**2.9**	1.7
Other taxation	**-**	0.9
Prepayments	**5.2**	11.3
Other receivables	**0.5**	14.0
Total current trade and other receivables	**22.7**	44.4
Non-current trade and other receivables		
Amounts due from joint venture	**11.3**	12.2
Other receivables (note 14)	**3.7**	3.7
Total non-current trade and other receivables	**15.0**	15.9

Trade receivables represent amounts due from tenants. Within this balance is £2.5 million (2021: £3.9 million) owed for service charges. See note 3 for further information on the provision for expected credit losses.

Cash deposits totalling £14.9 million (2021: £8.3 million) were held against tenants' rent payment obligations. The deposits are held in bank accounts administered by the Group's managing agent and are not included within the Group Balance Sheet.

14. Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank	**155.2**	211.3
Restricted cash (included in other receivables):		
Non-current other receivables	**3.7**	3.7
Current other receivables	**-**	13.8
Total restricted cash	**3.7**	17.5

Restricted cash relates to cash held on deposit as security for certain secured term loans and secured bank facilities, and where there are certain conditions restricting their use.

15. Trade and other payables

	2022 £m	2021 £m
Deferred rental income	**6.2**	3.1
Accruals and deferred service charge income	**2.0**	3.3
	8.2	6.4
Trade payables and accruals in respect of capital expenditure	**10.3**	7.3
Other taxation and social security	**2.6**	1.2
Other payables and accruals	**22.1**	16.7
Total trade and other payables	**43.2**	31.6

All deferred service charge income of the prior year was recognised as income in the current year.

16. Borrowings

	2022			2021		
	Nominal value £m	**Unamortised issue costs £m**	**Book value £m**	Nominal value £m	Unamortised issue costs £m	Book value £m
Mortgage bonds	**575.0**	**(3.4)**	**571.6**	575.0	(3.9)	571.1
Secured bank facility	**-**	**(0.1)**	**(0.1)**	-	(0.4)	(0.4)
Secured term loans	**384.8**	**(2.8)**	**382.0**	384.8	(3.2)	381.6
Total Group borrowings	**959.8**	**(6.3)**	**953.5**	959.8	(7.5)	952.3

In 2021, the Group cancelled its £125.0 million revolving credit facility, which was undrawn. The Group also repaid £100.0 million of drawings against its remaining revolving credit facility. At 30 September 2022, there were no drawings against the Group's secured bank facility (2021: £nil), however, the Group was still able to benefit from it, and as such, unamortised issue costs of £0.1 million (2021: £0.4 million) continue to be carried in the Balance Sheet. The facility, totalling £100.0 million, expires in February 2023. In light of the proposed merger with Capco, it is expected that it will be retired at expiry. See note 23.

Details of the Group's current financial position are discussed on pages 25 to 27.

The Group's borrowings are secured by fixed charges over certain investment properties held by subsidiaries, with a carrying value of £2,566.3 million (2021: £2,444.1 million), and by floating charges over the assets of the Company and/or certain subsidiaries. To the extent there is a fixed charge over a property, consent is needed from the relevant lender for the fixed charge to be removed, for example, in the case of a disposal of that property. There are currently no restrictions on the remittance of income from investment properties.

Net debt reconciliation

		Cash flows			
	1.10.2021 £m	**Inflows £m**	**Outflows £m**	**Non-cash items £m**	**30.9.2022 £m**
Non-current borrowings					
Mortgage bonds	**575.0**	**-**	**-**	**-**	**575.0**
Secured term loans	**384.8**	**-**	**-**	**-**	**384.8**
Loan issue costs	**(7.5)**	**-**	**-**	**1.2**	**(6.3)**
	952.3	**-**	**-**	**1.2**	**953.5**
Loan issue costs[1]	**7.5**	**-**	**-**	**(1.2)**	**6.3**
Cash & cash equivalents (note 14)	**(211.3)**	**(87.3)**	**143.4**	**-**	**(155.2)**
Net debt	**748.5**	**(87.3)**	**143.4**	**-**	**804.6**

1. Loan issue costs are eliminated in the calculation of net debt.

		Cash flows			
	1.10.2020 £m	**Inflows £m**	**Outflows £m**	**Non-cash items £m**	**30.9.2021 £m**
Non-current borrowings					
Mortgage bonds	575.0	-	-	-	575.0
Secured bank facility	100.0	-	(100.0)	-	-
Secured term loans	384.8	-	-	-	384.8
Loan issue costs	(8.8)	-	-	1.3	(7.5)
	1,051.0	-	(100.0)	1.3	952.3
Loan issue costs[1]	8.8	-	-	(1.3)	7.5
Cash & cash equivalents (note 14)	(72.8)	(351.0)	212.5	-	(211.3)
Net debt	**987.0**	**(351.0)**	**112.5**	**-**	**748.5**

1. Loan issue costs are eliminated in the calculation of net debt.

Availability and maturity of borrowings

	2022			2021		
	Committed £m	**Drawn £m**	**Undrawn £m**	Committed £m	Drawn £m	Undrawn £m
Repayable in less than 1 year	**100.0**	**-**	**100.0**	-	-	-
Repayable between 1 and 5 years	**290.0**	**290.0**	**-**	100.0	-	100.0
Repayable between 5 and 10 years	**549.8**	**549.8**	**-**	839.8	839.8	-
Repayable after 10 years	**120.0**	**120.0**	**-**	120.0	120.0	-
	1,059.8	**959.8**	**100.0**	1,059.8	959.8	100.0

Interest rate profile of interest bearing borrowings

	2022		2021	
	Debt £m	**Interest rate**	Debt £m	Interest rate
Secured term loans	**384.8**	**3.85%**	384.8	3.85%
Mortgage bonds 2027	**290.0**	**2.35%**	290.0	2.35%
Mortgage bonds 2031	**285.0**	**2.49%**	285.0	2.49%
Weighted average cost of drawn borrowings		**2.99%**		2.99%

The Group also incurs non-utilisation fees on undrawn facilities. At 30 September 2022, the charge on the undrawn facility of £100.0 million (2021: £100.0 million) for the Group was 0.64% (2021: 0.64%).

The credit margin on the Group's secured bank facility was 1.6% (2021: 1.6%).

17. Financial instruments

The Group's mortgage bonds and secured term loans are held at amortised cost in the Balance Sheet. The fair value of these financial instruments is £791.2 million (2021: £1,005.1 million). The difference between the fair value and the book value is not recognised in the reported results for the year. The fair values have been calculated based on a discounted cash flow model using the relevant reference gilt and appropriate market spread. The valuation technique falls within Level 2 of the fair value hierarchy in IFRS 13. Change of control provisions in our financing arrangements would be triggered if the proposed merger with Capco becomes effective, as set out in note 23.

The fair values of the Group's cash and cash equivalents, and those financial instruments included within trade and other receivables, interest bearing borrowings (excluding the mortgage bonds and the secured term loans), and trade and other payables are not materially different from the values at which they are carried in the financial statements.

18. Share capital

	2022 number million	2021 number million	**2022 £m**	2021 £m
Allotted and fully paid (ordinary 25p shares)				
At the beginning of the year	**384.2**	307.4	**96.1**	76.9
Exercise of share options	**0.2**	-	**-**	-
Share issue	**-**	76.8	**-**	19.2
At 30 September	**384.4**	384.2	**96.1**	96.1

On 18 November 2020, the Company issued 76.8 million shares, representing approximately 25% of its issued share capital, at £4 per share. After issue costs of £12.6 million, the net proceeds were £294.4 million. Issue costs directly attributable to the transaction have been accounted for as a deduction from share premium. Following the share issue, the Company's issued share capital was 384,167,537.

In respect of the equity issue, Capco and Norges Bank were related parties of Shaftesbury PLC for the purposes of the Listing Rules and participated in the equity issue in respect of 16,250,000 and 19,245,032 shares respectively, for a total consideration of approximately £65 million and £77 million respectively. In respect of Capco, this transaction was disclosed via the Regulatory News Service on 22 October 2020, in accordance with LR11.1.10R. In respect of Norges Bank, the issue of shares was a transaction of sufficient size to require shareholder approval under chapter 11 of the Listing Rules as announced via the Regulatory News Service on

22 October 2020. This approval was granted at the Extraordinary General Meeting on 17 November 2020. Shaftesbury PLC received written confirmation from its sponsor that the terms of the transactions were fair and reasonable as far as Shaftesbury PLC's shareholders were concerned.

19. Dividends

	Pence per share			
	PID	Ordinary	**2022 £m**	2021 £m
Final dividend for:				
Year ended 30 September 2021	2.75p	1.25p	**15.4**	-
Interim dividend for:				
Year ended 30 September 2022	4.8p	-	**18.4**	-
Year ended 30 September 2021	2.4p	-	**-**	9.3
Dividends paid in the year			**33.8**	9.3

A second interim dividend of 5.1p per share was declared by the Board on 28 November 2022. It will be paid as a PID on 21 December 2022 to shareholders on the register at 9 December 2022. The dividend, totalling £19.6 million, will be accounted for as an appropriation of revenue reserves in the year ending 30 September 2023. See page 24 for commentary on dividends.

20. Cash flows from operating activities

Operating activities	Notes	**2022 £m**	2021 £m
Profit/(loss) before tax		**119.1**	(194.9)
Adjusted for:			
Lease incentives recognised	5	**4.8**	(21.3)
Share-based payments		**0.5**	1.9
Depreciation	6	**0.2**	0.3
Net revaluation (surplus)/deficit on investment properties	10	**(99.5)**	196.9
Profit on disposal of investment properties	7	**(0.9)**	(0.1)
Net finance costs		**29.5**	30.2
Share of post-tax (profit)/loss from joint venture	12	**(0.8)**	11.0
Cash flows from operations before changes in working capital		**52.9**	24.0
Changes in working capital:			
Change in trade and other receivables		**0.9**	6.4
Change in trade and other payables		**8.0**	7.9
Cash generated from operating activities		**61.8**	38.3

See note 16 for the cash flow movement in net debt.

21. Performance measures

Earnings per share

	2022			2021		
	Profit after tax £m	**Number of shares[1] million**	**Earnings per share pence**	Loss after tax £m	Number of shares[1] million	Loss per share pence
Basic	**119.1**	**384.2**	**31.0**	(194.9)	374.8	(52.0)
Dilutive effect of share options	**-**	**0.4**	**-**	-	-	-
Diluted	**119.1**	**384.6**	**31.0**	(194.9)	374.8	(52.0)

1. Weighted average number of shares.

EPRA earnings per share

Last year, we introduced an alternative earnings measure, Covid-adjusted EPRA earnings, which adjusted EPRA earnings as if the cost of waivers offered to tenants during the pandemic had been recognised immediately in the Income Statement rather than spread over the remaining lease term. This year, we have revised this APM to also exclude the impact of exceptional costs related to the proposed merger. The APM, now referred to as

“Underlying EPRA earnings”, provides users of the financial statements with a measure of normalised operating results and allows comparability of typical earnings.

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

	2022			2021		
	Profit after tax £m	**Number of shares[1] million**	**Earnings per share pence**	Profit after tax £m	Number of shares[1] million	Earnings per share pence
Basic	**119.1**	**384.2**	**31.0**	(194.9)	374.8	(52.0)
EPRA adjustments:						
Net revaluation (surplus)/ deficit on investment properties (note 10)	**(99.5)**		**(25.9)**	196.9		52.5
Profit on disposal of investment properties (note 7)	**(0.9)**		**(0.2)**	(0.1)		-
Adjustments in respect of the joint venture:						
Investment property valuation deficit	**0.4**		**0.1**	11.3		3.0
Deferred tax	**0.2**		**-**	0.1		-
EPRA earnings	**19.3**	**384.2**	**5.0**	13.3	374.8	3.5
Covid-adjustments	**5.5**		**1.5**	(20.7)		(5.5)
	24.8	**384.2**	**6.5**	(7.4)	374.8	(2.0)
Proposed merger costs (note 23)	**13.2**		**3.4**	-	-	-
Underlying EPRA earnings/ (loss)	**38.0**	**384.2**	**9.9**	(7.4)	374.8	(2.0)

1. Weighted average number of shares.

Like-for-like rental growth

	2022 £m	2021 £m
Rental income in current year	**110.4**	105.0
Adjusted for impact of:		
Impact of acquisitions	**(0.7)**	(0.3)
Impact of disposals	**(0.1)**	(0.2)
Like-for-like rental income in current year (A)	**109.6**	104.5
Rental income in previous year	**105.0**	114.4
Adjusted for impact of:		
Impact of acquisitions	**(0.1)**	-
Impact of disposals	**(0.5)**	(0.2)
Like-for-like rental income in previous year (B)	**104.4**	114.2
Like-for like growth/(decline) in rental income ((A-B)/B)	**5.0%**	(8.5)%

EPRA net asset measures

	2022		
	EPRA NRV £m	**EPRA NTA £m**	**EPRA NDV £m**
IFRS net assets	2,458.5	2,458.5	2,458.5
Dilutive effect of share options[1]	0.5	0.5	0.5
Deferred tax[2]	8.9	8.9	-
Difference between fair value and carrying value of debt:			
Secured term loans[3,4]	-	-	57.8
Mortgage bonds[4]	-	-	113.7
Investment property purchasers' costs	225.5	-	-
Total	**2,693.4**	**2,467.9**	**2,630.5**
Number of diluted shares (million)	384.9	384.9	384.9
Diluted net assets per share (£)	**7.00**	**6.41**	**6.83**

	2021		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS net assets	2,372.7	2,372.7	2,372.7
Dilutive effect of share options[1]	0.8	0.8	0.8
Deferred tax[2]	8.6	8.6	-
Difference between fair value and carrying value of debt:			
Secured term loans[3,4]	-	-	(51.5)
Mortgage bonds	-	-	(1.1)
Investment property purchasers' costs	213.3	-	-
Total	**2,595.4**	**2,382.1**	**2,320.9**
Number of diluted shares (million)	385.0	385.0	385.0
Diluted net assets per share (£)	**6.74**	**6.19**	**6.03**

1. Increase in shareholders' equity, which would arise on the exercise of share options.
2. Our 50% share of deferred tax in the joint venture.
3. Includes the wholly-owned Group's secured term loans and our 50% share of secured term loans in the joint venture.
4. See also notes 17 and 23 for information on the fair value of these items and the impact of the proposed merger with Capco.

Total accounting return (TAR)

	2022 pence	2021 pence
Opening EPRA NTA (A)	**619.0**	728.0
Closing EPRA NTA	**641.0**	619.0
Increase/(decrease) in the year	**22.0**	(109.0)
Dividends paid in the year	**8.8**	2.4
TAR (B)	**30.8**	(106.6)
TAR % (B/A)	**5.0%**	(14.6)%

Financing ratios

	2022 £m	2021 £m
Loan-to-value and gearing		
Nominal value of debt	**959.8**	959.8
Cash and cash equivalents	**(155.2)**	(211.3)
Net debt (A)	**804.6**	748.5
Fair value of investment properties (B)	**3,188.1**	3,010.5
Loan-to-value (A/B)	**25.2%**	24.9%
EPRA NTA (C)	**2,467.9**	2,382.1
Gearing (A/C)	**32.6%**	31.4%
Interest cover		
Operating profit before investment property disposals and valuation movements (A)	**47.4**	43.1
Finance costs	**30.5**	30.9
Finance income	**(1.0)**	(0.7)
Net finance costs (B)	**29.5**	30.2
Interest cover (A/B)	**1.6x**	1.4x
Cost of debt		
Blended cost of drawn borrowings	**3.0%**	3.0%
Commitment fees on undrawn secured bank facilities	**0.6%**	0.6%
Blended cost of debt	**3.1%**	3.1%

22. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions during the year between the Company and its joint venture, which have not been eliminated on consolidation are disclosed below. Amounts due from the joint venture are disclosed in note 13.

	2022 £m	2021 £m
Administrative fees receivable	**0.1**	0.1
Loans advanced to the joint venture	**-**	1.5
Interest receivable	**0.6**	0.6

23. Proposed merger

On 16 June 2022, the Boards of Shaftesbury and Capco announced the agreement on the terms of a recommended all-share merger to form Shaftesbury Capital PLC. The Board has received the necessary shareholder support for the proposed merger at the Court Meeting and General Meeting on 29 July 2022. The proposed merger is conditional upon satisfaction or waiver of a number of conditions, including the CMA Condition, as set out in Part Three of the Scheme Document dated 7 July, available on the Company's website.

Contingent liabilities
To date, the Group has incurred £13.2 million of costs in relation to the proposed merger and expects to incur further expenditure for financial and legal advice, transaction costs and professional fees amounting to £26.1 million, of which £24.0 million is contingent on the proposed merger completing.

Financing arrangements
In the event that the proposed merger with Capco becomes effective, and as set out in paragraph 15 of part one of the Scheme of Arrangement document dated 7 July:

- our term loans with Aviva and Canada Life will remain in place;

- it is expected that our £100 million revolving credit facility will be retired as this will no longer be required given the other sources of liquidity in the combined group; and
- change of control provisions in the terms of our secured mortgage bonds will be triggered, whereby bondholders would be entitled to ‘put’ their bonds at par plus any accrued interest.

Capco has entered into a £576 million loan facility agreement to provide funding certainty in the event that some or all of the holders of the Shaftesbury Mortgage Bonds exercise their change of control put right following completion. Based on current market conditions, any drawdown of this loan facility agreement will result in increased financing costs for the combined group, which the combined group would seek to mitigate by capitalising on the increased strength of its balance sheet following completion.

Longmartin joint venture
In the event that the proposed merger with Capco becomes effective, change of control provisions in our joint venture agreement provide that:

- Our joint venture partner has a period of nine months to notify the Company that it requires the Company to offer to sell its shares in the joint venture to the joint venture partner. The price payable for the shares is that agreed between the Company and the joint venture partner, or, if no agreement is reached, then as determined by an independent share valuation expert.

- Upon notification by the joint venture partner (as set out above), the voting rights attached both to the shares owned by the Company and to the Company’s directors who are appointed to the board of the joint venture are suspended until the Company’s shares in the joint venture are transferred to the joint venture partner (or its nominated third party purchaser), or until the joint venture partner waives such suspension.

- If our joint venture partner fails to require the Company to make an offer to sell its shares, within nine months of the change of control or declines the offer to sell, then the offer lapses and the joint venture agreement continues.

Directors' responsibilities in respect of the financial statements

The directors confirm, that, to the best of their knowledge:

- the consolidated financial statements, prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position, performance and cash flows of the Company and Group as a whole;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and

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

The contents of this announcement, including the responsibility statement above, have been extracted from the Annual Report for the year ended 30 September 2022, which will be available on publication at www.shaftesbury.co.uk. Accordingly, this responsibility statement makes reference to the financial statements of the Company and the Group and the relevant narrative appearing in that Annual Report rather than the contents of this announcement.

On behalf of the Board

Brian Bickell
Chief Executive

Chris Ward
Chief Financial Officer

Alternative Performance Measures (APMs)

The Group has applied the European Securities and Markets Authority (ESMA) guidelines on alternative performance measures in these annual results. An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS. APMs provide supplementary information which we consider to be useful to the users of the Preliminary Announcement, but should not be viewed in isolation.

Set out below is a summary of APMs used in these annual results. EPRA performance measures are a set of standard disclosures for the property sector as set out by EPRA in its Best Practices Recommendations (BPR). The recommendations are designed to make the financial statements of public real estate companies more comparable across Europe, enhancing the transparency and coherence of the sector. Except for EPRA measures, APMs may not be comparable with similarly titled measures presented by other companies.

APM	Nearest IFRS measures	Explanation and reconciliation
EPRA earnings and earnings per share	Profit and total comprehensive income for the period and earnings per share	Note 21 and Financial report (pages 21-22)
Underlying EPRA earnings	Profit and total comprehensive income for the period and earnings per share	Note 21 and Financial report (pages 21-22)
Like-for-like growth/decline in rental income	Revenue	Note 21 and Financial report (page 23)
EPRA net tangible assets (NTA) and NTA per share	Net assets	Note 21 and Financial report (pages 24-25)
EPRA net disposal value (NDV) and NDV per share	Net assets	Note 21
EPRA net reinstatement value (NRV) and NRV per share	Net assets	Note 21
Total accounting return	N/A	Note 21 and Financial report (pages 24-25)
Valuation growth/decline	Net surplus/deficit on revaluation of investment properties	Portfolio report (pages 17-20)
Net debt	Borrowings less cash and cash equivalents	Note 21 and Financial report (pages 25-26)
Loan-to-value	N/A	Note 21 and Financial report (page 26)
Gearing	N/A	Note 21 and Financial report (page 26)
Blended cost of debt	N/A	Note 21 and Financial report (page 26)
Interest cover	N/A	Note 21 and Financial report (page 26)

Where this report uses like-for-like comparisons, these are defined within the Glossary.

Portfolio valuation analysis

	Hospitality & leisure	Retail	Offices	Residential	Wholly owned portfolio	Longmartin joint venture[1]
Fair value (£m)	1,143	852	622	571	3,188	167
Annualised current income[5] (£m)	46.8	31.8	19.3	18.0	115.9	6.6
ERV (£m)	52.2	40.3	32.8	20.5	145.8	8.6
% of total fair value	36%	27%	19%	18%	100%	
% of annualised current income	40%	27%	17%	16%	100%	
% of ERV	36%	28%	22%	14%	100%	
Average ERV (£ psf)	76	87	69	53	72	66
WAULT (years)	8	3	2	Note 2		Note 3
Initial yield	3.8%	3.4%	2.7%	2.2%	3.2%	3.2%
Topped up initial yield	4.1%	4.1%	3.2%	N/A	3.5%	3.7%
Equivalent yield	4.4%	4.4%	4.6%	2.6%	4.1%	4.3%
Area (sq. ft. m)	0.7	0.4	0.5	0.4[4]	2.0	0.3
Units	325	297	313	632[4]		121

1. Shaftesbury's 50% share (fair value, annualised current income and ERV).
2. Residential typically let on three-year assured shorthold tenancies with mutual rolling two-month break options after the first six months.
3. Hospitality & leisure: 10 years, retail: 2 years, offices: 7 years.
4. Excluding apartments which are sold off on long leases, covering approximately 224,000 sq. ft.
5. Gross income, including estimated turnover related rents.

Wholly-owned portfolio valuation by village

	Valuation £m	Annualised current income[1] £m	ERV £m	Valuation growth[2] %	Equivalent yield %
Carnaby	1,235	41.9	59.7	6.2%	4.3%
Covent Garden	826	29.3	36.2	1.8%	3.9%
Chinatown	705	29.3	30.7	1.1%	4.0%
Soho	293	10.7	13.4	4.0%	4.1%
Fitzrovia	129	4.7	5.8	4.4%	3.9%
2022	**3,188**	**115.9**	**145.8**	**3.6%**	**4.1%**
2021	3,011	107.8	131.7	(5.4%)	3.9%

1. Including estimated turnover related rents
2. Like-for-like, taking into account acquisitions, disposals, capital expenditure, and a change of use from leisure to office at our 68 Broadwick Street. Alternative performance measure. See page 50.

Debt covenants

Set out below is a summary of the financial covenants in our debt agreements. It does not describe every detail in the agreements.

Interest cover

	Frequency of testing	Summary of measure	Min	Comments
Bonds	Half yearly	Net property income of specifically secured assets, adjusted to exclude certain costs, to gross interest payable under the bonds.	1.15x	Calculation is based on the annualised income accruing at the testing date, or due to accrue within three months. Security top-up (or purchase and cancel sufficient bonds) to 1.25x required if ICR falls below 1.15x.
Term loans	Quarterly	Net property income of specifically secured assets, adjusted to exclude certain costs, to gross interest payable under the loans.	1.4x - 1.5x	3-month backward looking test based on actual receipts. 12-month projected test. Cure rights available.
Revolving credit facility	Quarterly	Consolidated net rental income plus dividends from joint venture to consolidated net interest.	1.5x	Based on Group half year and full year reported information, and management accounts in the interim quarters.

Loan-to-value

	Frequency of testing	Summary of measure	Max	Comments
Bonds	Half yearly	Nominal value of bonds to valuation of specifically secured assets.	66.67%	Security top-up (or purchase and cancel sufficient bonds) to 60.0% required if LTV exceeds 66.67%.
Term loans	Quarterly	Debt to valuation of specifically secured assets.	60% - 70%	Cure rights available. Cash waterfall applies if LTV > 65% (£250m term loan).
Revolving credit facility	Quarterly	Amounts drawn to valuation of specifically secured assets.	66.67%	Cure rights available. Draw stop at 50% during term of ICR waiver.

The revolving credit facility also contains a Group gearing covenant, where the ratio of consolidated borrowings to consolidated tangible net worth cannot exceed 1.75x.

Longmartin term loan

	Frequency of testing	Summary of measure	Max	Comments
Interest cover	Quarterly	Net property income of specifically secured assets, adjusted to exclude certain costs, to gross interest payable under the loan.	1.3x	3-month backward looking test based on actual receipts. 12-month projected test. Cure rights available.
Loan-to-value	Quarterly	Debt to valuation of specifically secured assets.	60%	Cure rights available.

Risk management
Risk tolerance and management is embedded across the business, with the tone and culture set by the Board. The risk landscape has evolved throughout the year with pandemic uncertainties receding, only to be replaced with headwinds from the deterioration in the macroeconomic outlook.

Context
We invest exclusively in the heart of London's West End, concentrating on establishing ownership clusters in iconic, high-footfall locations. This investment strategy has delivered long-term success for the Group. The resilience of our locations has been demonstrated through a sustained recovery in footfall, spending and occupier demand across all uses since Covid restrictions were removed. This strong rebound has driven a return to pre-Covid occupancy levels and rent collection rates. However, the deterioration in the macroeconomic environment over recent months has increased risk levels over the near term.

Important factors in considering risk across the Group include:

- an experienced executive and senior leadership team, with an average tenure of 17 years, and an in-depth knowledge of our business and the West End property market. We are based in one location, close to all our holdings;
- the nature of our portfolio does not expose us to risks inherent in material speculative development schemes;
- our diverse tenant base limits exposure to any single occupier;
- our Balance Sheet is managed on a conservative basis with moderate leverage, long-term finance, a spread of loan maturities, and with the majority of interest costs fixed;
- our culture encourages open dialogue within the whole team and with our wide range of external advisors;
- simple group structure; and
- governance framework which includes clearly defined responsibilities and limits of authority.

The Board's attitude to risk is embedded in the business, with the Strategy and Operations Executive, which includes the executive directors, closely involved in all aspects of the business and significant decisions. The whole Board approves capital, debt and non-routine transactions above a relatively low specified level.

Incentive targets are set to achieve the Group's purpose, long-term strategic objectives and near-term priorities, whilst encouraging decisions to be made on the basis of long-term benefit, rather than short-term gain.

Risk appetite
Inevitably, investing in one location presents an inherent geographic concentration risk and there are certain external factors which we cannot control. However, in executing our management strategy, we seek to minimise exposure to operational, reputational and financial risks, recognising that our appetite to risk varies across different elements of our strategy.

Our appetite for refurbishment risk is medium, reflecting our long-established practice of proactively seeking to secure vacant possession of space to improve our buildings, unlock latent income and capital value potential, and enhance their environmental performance.

Our appetite for tenant risk remains medium to high. A key aspect of our long-term village management strategy is careful occupier selection. We choose innovative and often independent concepts rather than formulaic national chains. We are interested in what they bring to our villages, rather than prioritising their financial covenant. For us, the security is in the land we own, recognising that occupier demand normally exceeds availability of space in the West End.

We adopt a prudent approach to our capital structure, seeking to minimise financing risk. However, with debt forming part of the funding stack, we accept a low-medium level of risk.

A key long-term strategic priority is to attract, retain and develop a talented team. Staff retention is high, averaging 95% over the past three years. However, in common with all businesses, it is not always possible to retain key individuals, and we accept a low level of risk.

Monitoring and managing risk
Effective management of risk is critical to the successful delivery of the Group's strategic priorities. Ultimate responsibility for risk rests with the Board but day-to-day management of risk is integrated in the way the Group conducts business and its culture. Risks are addressed as they arise and, where significant, are discussed by

the Strategy and Operations Executive Committee. Issues that have arisen and how risks have changed are key inputs to the Risk Committee.

Our risk management and control framework is shown in the diagram below. It enables us to effectively identify, evaluate and manage our principal and emerging risks.

We consider risk as follows:

- daily at an operational level by senior management;
- weekly at executive director meetings;
- monthly (or more frequently, as required) at Strategy and Operations Executive meetings; and
- bi-annually (or as needed) by the Risk Committee.

The Board has overall responsibility for risk management and the systems of internal control. The Audit Committee monitors the effectiveness of the risk management process and regularly assesses the adequacy and effectiveness of the internal control systems, reporting on its conclusions to the Board. Such systems are designed to manage, rather than eliminate, the risks faced by the business and can provide only reasonable, not absolute, assurance against material misstatement or loss.

The day-to-day management of the Group's portfolio is outsourced with oversight and decision making remaining with the Group. The Group monitors managing agent performance and has established financial and operational controls to ensure that they maintain an acceptable level of service and provide reliable financial and operational information. The managing agent shares its internal control assessments with the Group.

The Risk Committee meets twice a year, or more frequently as needed, and reports to the Audit Committee and Board.

Principal Risks and Uncertainties

Risk landscape

With our strategy of investing in one location, the risk of an event which prevents or deters people coming to the West End has long been on our risk register.

With the recovery following the lifting of Covid restrictions, we have seen an increase in footfall, from both domestic visitors, international tourists and the returning workforce as the UK enjoyed its first restriction-free summer since 2019. With the strong recovery in spending in our villages, occupier demand across all uses has been good driving a return to pre-pandemic occupancy levels and rent collection rates.

However, the macroeconomic outlook has deteriorated in recent months and could continue to worsen in the near future. Inflationary pressures and supply chain issues are likely to manifest in higher operating and refurbishment costs for us.

Whilst we have not yet seen a significant impact on footfall or trading in our areas, rising inflation and the cost-of-living crisis could reduce consumer confidence and spending. Together with reduced availability, and increased cost, of finance, this could place additional pressures on occupiers, who are already dealing with their own inflationary pressures, staffing and supply chain challenges, and potentially higher leverage following the pandemic. In turn, this could affect their ability to pay rents, potentially increase tenant default and reduce occupier demand, leading to increased vacancy in our villages and reduced rent collection rates. Whilst these challenges persist, our portfolio in popular West End destinations has long demonstrated a high level of resilience and a relative low vacancy rate, and we remain confident that the domestic and international appeal of the West End and our popular locations, together with the size and relative affordability of our space, our flexible approach to leasing and proven village management strategies, will continue to be important to potential occupiers, providing us with a degree of protection from national headwinds.

With our diverse tenant mix, typically we have not experienced mass failures; the default rate over the past two years remained low, reflecting the mitigating actions we took during the pandemic. It was equally low during the Global Financial Crisis, when trading in the West End remained good, reflecting its enduring appeal to a wide audience and a relatively affluent customer base.

The proposed merger with Capco has brought about change and, inevitably, increased uncertainty for our people. In recognition of this, we have elevated our employee attraction and retention risk from medium to high. In turn, we have introduced a series of programmes to assist with integration and help our people manage change through this process.

Other risks associated with the proposed merger
Other risks associated with the with the proposed merger and the resulting combined group were included in Capco's prospectus, particularly in the "Risk Factors" section (Part II). The prospectus is available on both our and Capco's websites (www.shaftesbury.co.uk ; www.capitalandcounties.com).

Material risks relating to the proposed merger include:

- Completion is subject to a number of conditions, including appropriate clearance from the CMA, which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in completion being delayed or the proposed merger not completing.

- The combined group's success will be dependent upon its ability to integrate the two businesses following the proposed merger. Failure to deliver the full benefits and synergies expected from the combined group, and effective operational management and integration, including harmonising business cultures, may impact the success of the proposed merger.

- The terms of certain existing indebtedness, or the need to refinance such indebtedness, is expected to result in an increase in financing costs of the combined group, which are not included in the assessment of the synergies, following completion.

The two businesses are currently engaged in customary pre-notification discussions with the CMA, which remain ongoing. Given this process, the CMA has not yet commenced its Phase 1 review and therefore the proposed merger is now expected to become effective during the first quarter of 2023.

A summary of the impact of the proposed merger on change of control provisions in our financing arrangements and our investment in the Longmartin joint venture are set out in note 23 to the financial statements.

Emerging risks
The Board and Audit Committee review and discuss emerging risks facing the business.

Emerging risks are circumstances or trends which are often rapidly evolving which could significantly impact the Company's financial strength, competitive position or reputation within the next three years or over a longer term. Generally, the impact and probability of occurrence are not yet fully understood and consequently necessary mitigations have not yet fully evolved. A non-exhaustive list of emerging risks is outlined below.

Climate change
We regard climate change to be a principal risk. We recognise that climate change and the transition to a low carbon economy will present significant long-term risks and opportunities for our business. Whilst we consider the direct physical risks to our portfolio (e.g. flooding) to be low, the longer-term implications of climate change are less well known, and so, over a longer time horizon, this is an emerging risk.

Failure to identify and mitigate risks could lead to disruption to our operations, damage to our reputation, and inhibit our ability to attract visitors and occupiers, which ultimately could lead to a reduction in the value of our portfolio. We are continuing to decarbonise our portfolio and will incur additional costs in the low energy refurbishment of buildings.

Other emerging risks
Other emerging risks considered include:

- cyber security and its impact on data and IT infrastructure, including both widespread risks such as state-sponsored cyber attacks and those targeted directly at our systems and data. We provide employees with training on IT security topics and have become accredited with Cyber Essentials Plus. However, the cyber security landscape is fast evolving and we continue to evolve to meet new threats;

- supply chain issues, including the impact of the energy crisis and potential for energy rationing to impact both footfall and trading and potentially the operation of data centres;

- IT infrastructure breakdown. We have continued to invest significantly in IT infrastructure and this investment will continue as we transform our data capabilities across the business.

Principal strategic risks and uncertainties

The Board has carried out a robust assessment of the principal strategic and emerging risks and uncertainties which might prevent the Group achieving its strategic objectives. These risks and uncertainties, their mitigation and the evolution of risk during the year are set out below.

Macroeconomic factors

Potential causes

- Macroeconomic shocks or events.
- Availability of finance and the increasing cost of finance.
- Impact of rising inflation, rising energy costs and the cost-of-living crisis

Consequences

- Lower consumer confidence/spending.
- Reduced visitor numbers.
- Reduced business confidence and investment.
- Supply chain disruption, higher import costs and skills shortages.
- Reduced occupier profitability/increased financial distress/default.
- Reduced occupier demand.
- Higher vacancy.
- Downward pressure on rents.
- Reduced rental income and declining earnings.
- Reduced capital values and NTA (amplified by gearing).
- Risk of loan covenant breaches.

Mitigation

- Focus on locations and uses which historically have proved to be economically resilient.
- Actively promote our areas to drive footfall.
- Curation of our villages to maintain places that are popular.
- Regularly review our capital structure and debt covenants; forecasts include covenant headroom review.
- Gearing maintained at low levels.
- We maintain a pool of uncharged assets to top up security held by lenders, if required.

Commentary

- Pandemic uncertainties receded, only to be replaced with increasing headwinds from the current macroeconomic climate.
- We have not yet seen material impacts of rising inflation, rising energy costs and the cost-of-living crisis on footfall and trading in our villages. However, it is possible these could emerge in the near future, for example after the Christmas period.
- The impacts could manifest in a reduction in rent collections or increased vacancy and lower occupier demand, particularly given concerns over the availability/cost of finance. However, we do not anticipate widespread tenant failure given that our areas have long proved to be resilient and prosperous, and the low failure rate during GFC, and latterly over the last two years by virtue of mitigating actions we took.
- We expect to continue to meet interest cover covenants in our financing facilities. Additionally, our term loans have interest cover cash cure mechanisms.
- Covenants have been reviewed under a severe-but-plausible downside scenario as described in the viability assessment and are expected to be met.

Decline in the UK real estate market

Potential causes

- Changes to political landscape.
- Increasing cost of finance.
- Reduced availability of capital and finance.
- Lower relative attractiveness of property compared with other asset classes.
- Changing overseas investor perception of UK real estate.
- Structural changes in retail and office sectors.

Consequences

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

Mitigation

- Focus on assets, locations and uses where, in normal conditions, there is a structural imbalance between availability of space and demand.
- Establish asset clusters to provide the opportunity to drive long-term growth and returns.
- Regularly review investment market conditions including bi-annual external valuations.
- Reconfigure and repurpose space to respond to, and anticipate, changing occupier demand.
- Gearing maintained at low levels.
- We maintain a pool of uncharged assets to top up security held by lenders, if required.

Commentary

- The value of control over areas, bringing the ability to curate and drive growth over the long term which will be important in the near-term valuation trend.
- Our wholly-owned portfolio valuation increased by 7.5% in the first half of the year. Improved operating and investment conditions during the second half were offset by greater uncertainties in the macroeconomic environment. This led to a decline in the second half of 3.6%.
- Sustained occupier demand recovery has led to a significant decrease in vacancy.
- Covenants have been reviewed under a severe-but-plausible downside scenario as described in the viability assessment and are expected to be met.

Reduction in spending and/or footfall in our areas

Potential causes

- An event that adversely impacts our occupiers' ability to trade, e.g. pandemics, terrorism or the threat of terrorism.
- Macroeconomic conditions e.g. recession, declining disposable income, unemployment, impacts of rising inflation, rising energy costs and the cost of living crisis.
- Decline in the popularity of the West End and particularly our areas leading to decreasing visitor numbers.
- Changes in consumer tastes, habits and spending power.
- Change in working habits and/or people choosing to live outside of London.
- Competing destinations.

Consequences

- Lower sales densities.
- Reduced tenant profitability/increased occupier financial distress/tenant default.
- Reduced occupier demand.
- Higher vacancy.
- Reduced rental income and declining earnings.
- Reduced ERV, capital values and NTA (amplified by gearing).
- Risk of loan covenant breaches.

Mitigation

- Footfall and customer spending are important ingredients for the success of our restaurant, leisure and retail tenants.
- Key aspects of our management strategy are to: ensure our areas maintain a distinct identity; seek out new concepts, brands and ideas to keep our areas vibrant and appealing; and actively promote our areas.
- The Board regularly monitors performance and prospects.
- Maintain building reinstatement and loss of rent insurance.
- Detailed business continuity and crisis communications plans in place.
- Gearing maintained at low levels.
- We maintain a pool of uncharged assets to top up security held by lenders, if required.

Commentary

- Whilst being invested in one area is a risk, our ownership clusters are also a strength and an opportunity, giving us control and allowing us to curate our villages to maintain places that are popular.
- Increase in footfall over the year with the rebound of international and domestic tourism following the easing of Covid restrictions and office workers returning to offices.
- The Elizabeth Line is now open with a full service expected in early 2023. The opening of this line has made our areas more accessible to a wide range of visitors.
- Covenants have been reviewed under a severe-but-plausible downside scenario as described in the viability assessment and are expected to be met.

Significant increase in tenant default/failure

Potential causes

- Decline in turnover (see reduction in spending and/or footfall in our areas).
- Increasing cost base and supply chain disruption (see macroeconomic factors).
- Occupiers with increased leverage due to the pandemic.
- Economic headwinds including recession, declining disposable income, unemployment, inflation, higher energy prices, cost of finance.

Consequences

- Lower sales densities, reduced tenant profitability.
- Reduced income and earnings.
- Increased vacancy and related costs.
- Frictional cost of re-letting.
- Reduced ERV, capital values and NTA (amplified by gearing).
- Risk of loan covenant breaches.

Mitigation

- Rent from any single tenant is not material - the top ten tenants represent less than 10% of our rent roll.
- Flexible leasing strategy.
- Curation of our villages to drive footfall and spending to give occupiers the potential to thrive.
- Regular monitoring of tenant trading by the senior management team.
- Head of Property Insights provides regular data on tenant trading and footfall.
- Majority of occupiers invoiced monthly to help manage their cash flows.
- Tenant deposits held at 30 September 2022: £14.9 million.
- Gearing maintained at low levels.
- We maintain a pool of uncharged assets to top up security held by lenders, if required.

Commentary

- During the pandemic, our support through, amongst other things, rent concessions was critical for our hospitality, retail and leisure occupiers and tenant failure was relatively limited. Footfall and spending have recovered. Rent collection now back to pre-pandemic levels.
- Occupier demand has improved and available space in our villages has now largely been absorbed. Occupancy now back to pre-pandemic levels.
- Occupiers face a number of headwinds including inflation, energy costs and staff shortages, which could reduce profitability or their ability to service their debt.
- We have not yet seen material impacts of rising inflation, rising energy costs and the cost-of-living crisis on footfall and trading in our villages. However, it is possible these could emerge in the near future, for example after the Christmas period.
- The impacts could manifest in a reduction in rent collections or increased vacancy and lower occupier demand, particularly given concerns over the availability/cost of finance. However, we do not anticipate widespread tenant failure given that our areas have long proved to be resilient and prosperous, and the low failure rate over the last two years and during GFC.
- Covenants have been reviewed under a severe-but-plausible downside scenario as described in the viability assessment and are expected to be met.

Failure to attract and retain talented people

Potential causes

- Uncertainty around the proposed merger increases risk of staff deciding to leave and hampers attracting new employees.

Consequences

- Loss of key knowledge and experience.
- Loss of integral business relationships.

Mitigation

- Remuneration policies to reward good performance.
- Career development and progression framework in place.
- Employee surveys with action on feedback.
- Delivery of development programmes and coaching.
- Support programmes provided to staff to assist with proposed merger integration and help our people manage change through the process.

Commentary

- We have historically maintained a high permanent employee retention rate, reflecting our commitment to look after employees and make Shaftesbury a great place to work.

Shareholder Information

Corporate Timetable

Dividend and bond interest	
Second interim dividend for the year ended 30 September 2022:	
- Ex-dividend	8 December 2022
- Record date	9 December 2022
- Payment date	21 December 2022
Bond interest	30 September/31 March

Shareholder enquiries
All enquiries relating to holdings of shares or bonds in Shaftesbury PLC, including notification of change of address, queries regarding dividends and interest payments, or the loss of a certificate, should be addressed to the Company's registrar. Contact details for the registrar are outlined below. Other enquiries should be sent to: investor.relations@shaftesbury.co.uk

Company website
The Company has a corporate website, which maintains a digital version of the most recent Annual Report and financial statements, as well as other information. Other information includes announcements made by the Company and the current share price of the Company. The site can be found at www.shaftesbury.co.uk.

Effect of REIT status on payment of dividends
As a REIT, we do not pay UK corporation tax in respect of rental profits and chargeable gains relating to our property rental business. However, we are required to distribute at least 90% of the qualifying income (broadly calculated using the UK tax rules) as a PID.

Certain categories of shareholder may be able to receive the PID element of their dividends gross, without deduction of withholding tax. Categories which may claim this exemption include: UK companies, charities, local authorities, UK pension schemes and managers of PEPs, ISAs and Child Trust Funds.

Further information and the forms for completion to apply for PIDs to be paid gross are available on our website or from the registrar. Where we pay an ordinary dividend this will be treated in the same way as dividends from non-REIT companies.

Registrar
Equiniti Limited
Aspect House, Spencer Road
Lancing
West Sussex, BN99 6DA

Telephone 0371 384 2294 (International +44 121 415 7047). Lines open 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales). Equiniti can also be contacted by email at: customer@equiniti.com.

Shareholder accounts may be accessed online through www.shareview.co.uk. This gives secure access to account information instructions. There is also a Shareview dealing service which is a simple and convenient way to buy or sell shares in the Company.

Secretary and registered office
Desna Martin, BCom, FCS(Aust), ACIS
22 Ganton Street
Carnaby
London W1F 7FD

Glossary of terms

Alternative Performance Measure (APM)
A financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Annualised current income
Total annualised actual and 'estimated income' reserved by leases at a valuation date. No rent is attributed to leases which were subject to rent-free periods at that date. It does not reflect any ground rents, head rents nor rent charges and estimated irrecoverable outgoings at the valuation date. 'Estimated income' refers to gross ERVs in respect of rent reviews outstanding at the valuation date and, where appropriate, ERV in respect of lease renewals outstanding at the valuation date where the fair value reflects terms for a renewed lease.

Like-for-like growth in annualised current income is the change during a period, adjusted to remove the impact of acquisitions and disposals, expressed as a percentage of annualised current income at the start of the period.

Best Practices Recommendations (BPR)
Standards set out by EPRA to provide comparable reporting between investment property companies.

Business Improvement District (BID)
A defined area in which a levy is charged on all business rate payers in addition to the business rates bill. This levy is used to develop projects which will benefit businesses in the local area.

Blended cost of debt
Weighted average cost of drawn borrowings, plus non-utilisation fees on undrawn borrowings.

Capco
Capital & Counties Properties PLC.

Carbon emissions
In the context of this report this is shorthand for greenhouse gas emissions.

Combined group
The Shaftesbury Group and the Capco Group after the proposed merger has taken effect, expected to be known as Shaftesbury Capital PLC.

Competition and Markets Authority (CMA)
The Competition and Markets Authority of the UK.

Competition and Markets Authority Condition (CMA Condition)
Issuance of a decision by the CMA that it is not the CMA's intention to make a Phase 2 CMA Reference, with such a decision being issued on an unconditional basis or else conditional on the CMA's acceptance of undertakings which are reasonably satisfactory to Shaftesbury and Capco (or the applicable time period having expired without a Phase 2 CMA Reference)

Compound Annual Growth Rate (CAGR)
The year-on-year growth rate of an investment over a specified period of time.

Direct energy consumption
Emissions from sources that are owned or controlled by the reporting company.

DTR
The Financial Conduct Authority's Disclosure and Transparency Rules.

Embodied Carbon
The total greenhouse gas (GHG) emissions generated to build or refurbish an asset. This includes emissions from extraction, manufacture/processing, transportation and assembly.

Energy Performance Certificate (EPC)
An asset rating setting out how energy efficient a building is, rated by its carbon dioxide emission on a scale of A to G, with A being the most energy efficient.

EPRA
European Public Real Estate Association.

EPRA adjustments
Standard adjustments to calculate EPRA measures, in accordance with its BPR.

EPRA earnings
The level of recurring income arising from core operational activities. It excludes all items which are not relevant to the underlying and recurring portfolio performance.

EPRA earnings per share
EPRA earnings divided by the weighted average number of shares in issue during a reporting period.

EPRA Net Disposal Value (NDV)
The value of net tangible assets, assuming an orderly sale of the business' assets, achieving fair values as reported in the Balance Sheet. It includes deductions for liabilities that would crystallise in this scenario, including deferred tax and the difference between the fair value and carrying value of financial liabilities. When presented as a per share figure, it takes into account the potentially dilutive effect of outstanding options granted over ordinary shares.

EPRA Net Reinstatement Value (NRV)
The value of net assets on a long-term basis, assuming no disposals. Assets and liabilities that are not expected to crystallise in normal circumstances, such as deferred taxes on property valuation surpluses, are excluded. It is a reflection of what would be needed to recreate the company. Purchasers' costs which have been deducted in arriving at the fair value of investment properties are added back. When presented as a per share figure, it takes into account the potentially dilutive effect of outstanding options granted over ordinary shares.

EPRA Net Tangible Assets (NTA)
A measure of net assets which recognises that companies buy and sell assets and therefore takes into account deferred tax liabilities on sales, unless there is no intention to sell in the long run. When presented as a per share figure, it takes into account the potentially dilutive effect of outstanding options granted over ordinary shares.

EPRA vacancy
The rental value of vacant property available (excluding property which is held for, or undergoing, refurbishment), expressed as a percentage of ERV of the total portfolio.

Equivalent yield
Equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent, and such items as voids and non-recoverable expenditure but disregarding potential changes in market rents.

ESG
Environment, Social and Governance.

Estimated Rental Value (ERV)
The market rental value of properties, estimated by the Group's Valuers. Like-for-like ERV growth is the change in ERV during a period, adjusted to remove the impact of acquisitions and disposals, expressed as a percentage of ERV at the start of the period.

Fair value
The amount at which an asset or liability could be exchanged between two knowledgeable, willing and unconnected parties in an arm's length transaction at the valuation date.

GHG
Greenhouse gas emissions.

Gearing
Nominal value of Group borrowings expressed as a percentage of EPRA net assets.

IFRS
International Financial Reporting Standards.

Initial yield
The net initial income at the valuation date expressed as a percentage of the gross valuation. Yields reflect net income after deduction of any ground rents, head rents and rent charges and estimated irrecoverable outgoings at the valuation date.

Interest cover ratio (ICR)
Operating profit before investment property disposals and valuation movements, divided by finance costs net of finance income.

Internal Rate of Return (IRR)
The rate of return that if used as a discount rate and applied to the projected cash flows that would result in a net present value of zero.

Key Performance Indicator (KPI)
Activities aligned to business objectives against which the performance of the Group is assessed.

Leasing activity
The rental value secured from lettings, rent reviews and lease renewals during a period.

Like-for-like growth in rental income
The increase in rental income during an accounting period, adjusted to remove the impact of acquisitions, disposals and changes as a result of larger refurbishment schemes, expressed as a percentage of rents receivable in the previous accounting period.

Listed building
A building officially recognised as having special historical or architectural interest and therefore protected from demolition or alteration without prior approval.

Loan-to-value (LTV)
Net debt expressed as a percentage of the fair value of property assets.

Long-Term Incentive Plan (LTIP)
An arrangement under which an employee is awarded options in the Company at nil cost, subject to a period of continued employment and the attainment of performance targets over a three-year vesting period.

Minimum Energy Efficiency Standards (MEES)
Applies to private rented residential and non-domestic property to encourage the improvement of the buildings' energy efficiency.

Net debt
The nominal value of the Group's borrowings less cash and cash equivalents.

Net initial yield
Net initial income at the date of valuation expressed as a percentage of the gross valuation. Yields reflect net income after deduction of any ground rents, head rents, rent charges and estimated irrecoverable outgoings.

Net Zero Carbon
When relevant GHG emissions attributable to operations of the business are minimised and outstanding emissions are balanced by removing an equivalent amount from the atmosphere.

Property Income Distribution (PID)
A PID is a distribution by a REIT to its shareholders paid out of qualifying profits. A REIT is required to distribute at least 90% of its qualifying profits as a PID to its shareholders.

Proposed merger or merger
The proposed acquisition by Capco of Shaftesbury, to be implemented by way of the Scheme or, should Capco so elect with the consent of the Takeover Panel and subject to the terms of a co-operation agreement between the companies, by means of a takeover offer.

Prospectus
Prospectus issued by Capco in respect of the proposed merger dated 7 July 2022, available on both ours and Capco's websites (www.shaftesbury.co.uk; www.capitalandcounties.com).

Real Estate Investment Trust (REIT)
A REIT is a tax designation for an entity or group investing in real estate that reduces or eliminates corporation tax on rental profits and chargeable gains relating to the rental business, providing certain criteria obligations set out in tax legislation are met.

Reversionary potential
The amount by which ERV exceeds annualised current income, measured at a valuation date.

Scheme or scheme of arrangement
The Scheme of Arrangement proposed to be made under Part 26 of the Companies Act 2006 as set out in the Scheme Document (which is available on our website: www.shaftesbury.co.uk), with or subject to any modification, addition or condition which Shaftesbury and Capco agree with and which is approved or imposed by the court.

Scheme Document
The document sent to shareholders in connection with the proposed merger.

Scope 1 emissions
Direct GHG emissions from owned or controlled sources such as gas used for heating.

Scope 2 emissions
Indirect GHG emissions from the generation of purchased energy such as electricity.

Scope 3 emissions
All indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company.

Science-Based Targets
A carbon emissions target that it is in line with the scale of reductions determined to be required to prevent the worst effects of climate change.

Sharesave or SAYE (Save-As-You-Earn)
A savings-related share option scheme. Employees are granted options to acquire shares at the end of a three or five-year vesting period using savings accumulated through salary sacrifice.

Shaftesbury Capital
See combined group.

Sterling Overnight Interbank Average Rate (SONIA)
Overnight risk-free interest rate paid by banks for unsecured Sterling transactions.

TCFD
Task Force for Climate-related Financial Disclosure.

Topped-up net initial yield
Net initial yield at the valuation date as if the contracted rent in respect of leases which are subject to contractual rent free periods is payable from the valuation date and as if any future stepped rental uplifts under leases had occurred.

Total Accounting Return (TAR)
The change in EPRA NTA per ordinary share plus dividends paid per ordinary share during the period of calculation, expressed as a percentage of the EPRA NTA per share at the beginning of the period.

Underlying EPRA earnings/earnings per share
EPRA earnings/earnings per share adjusted to remove the impact of rent waivers (where there were no associated lease modifications, such as lease extensions) granted during the Covid 19 pandemic, and exceptional costs associated with the proposed merger.

Underlying EPRA vacancy
The rental value of available to let vacant property (excluding property which is held for, or undergoing, refurbishment and EPRA vacancy due to exceptional larger refurbishment schemes) expressed as a percentage of ERV of the Group's investment property portfolio. It is measured at the reporting date and, when reported for a reporting period, it is presented as the quarterly average during that period.

Valuation growth/decline
The valuation movement and realised surpluses or deficits arising from the Group's investment property portfolio expressed as a percentage return on the valuation at the beginning of the period adjusted, on a time weighted basis, for acquisitions, disposals and capital expenditure. When measured on a like-for-like basis, the calculation excludes those properties acquired or sold during the period.

WAULT
Weighted average unexpired lease term, assuming tenant break options are exercised.