# Press Release

**25 May 2016**

GREAT PORTLAND ESTATES

## Annual Results – successful strategy delivers more organic growth

The Directors of Great Portland Estates plc announce the results for the Group for the year to 31 March 2016. Highlights for the year:

**Strong capital value growth driven by rental growth and development profits - outperforming London market**
- Portfolio valuation up 14.7%[1] in year (developments: 26.2%[1]) and 3.9%[1] in H2
- Rental value growth of 9.9%[1] (10.6% offices, 7.7% retail); 2.6%[1] in H2
- 12 month capital return of 16.3% v 13.3% for IPD Central London Index, with Total Property Return of 18.9% v 16.7% for IPD Central London; 5 year capital return of 95.0% v 78.9% for IPD Central London

**Excellent financial performance - increased NAV, earnings and dividend**
- EPRA[2] NAV per share of 847 pence (pre-SDLT increase: 857 pence), up 19.5% in year and 4.8% in H2
- Net assets of £2,912.2 million (March 2015: £2,390.9 million)
- EPRA[2] profit before tax of £47.8 million, up 6.0% on 2015. EPRA[2] EPS of 13.5 pence, up 6.3%
- After revaluation surplus, reported profit before tax of £555.1 million (March 2015: £507.4 million)
- Total dividend per share of 9.2 pence (2015: 9.0 pence), up 2.2%

**Largest ever development programme delivering surpluses - extensive and flexible pipeline of opportunity**
- Eight committed schemes (851,200 sq ft), 61% pre-let or pre-sold, expected profit on cost of 27.1%, 71% at east end of Oxford Street, all schemes due to complete by end of 2017
- Good progress across two near-term schemes (311,800 sq ft), with planning application submitted at Oxford House, W1 and demolition commenced of the New Bond Street buildings at Hanover Square, W1
- Total capex to come at committed and near-term development schemes of £428 million, 52% in next 12 months
- Major development opportunity from 14 additional uncommitted pipeline schemes (1.4 million sq ft)
- Total development programme of 2.6 million sq ft covering 59% of the existing portfolio, 81% in West End
- Six current refurbishment projects (173,650 sq ft); further 318,000 sq ft with potential starts in next 24 months

**Record leasing and asset management activity – strong start to new financial year**
- 52 new lettings (447,100 sq ft) securing annual income of £31.8 million, including one of largest ever West End office lettings of £17.8 million to Facebook at Rathbone Square; market lettings 10.4% ahead of March 2015 ERV
- 20 rent reviews settled securing £9.5 million; 57% above previous passing rent
- Vacancy rate at 3.1%, average office rent only £45.30 sq ft, reversionary potential of 33.1% (March 2015: 28.4%)
- Since year end, lettings of £2.6 million at 4.2% premium to March 2016 ERV; further £8.0 million under offer, 1.2% above ERV

**Profitable capital recycling and selective off-market acquisition activity – net sales of £255.4 million**
- Disposals of £469.7 million at an average capital value of £1,943 per sq ft and net initial yield of 3.5%; 10.0% premium to March 2015 book value, crystallising surpluses where business plans complete
- Acquisitions of £214.3 million at an average capital value of £704 per sq ft and net initial yield of 5.1%; all off-market, adding to longer-term development pipeline
- Since year end, sale of Mortimer House, W1 for £27.0 million; purchase of freehold at 73/89 Oxford Street, W1 and 95/96 New Bond Street, W1 for £71.0 million - see separate announcement

**Financial position and senior management team – stronger than ever**
- Loan-to-value of 17.4%, low weighted average interest rate of 3.7%, drawn debt 100% fixed or capped
- Cash and undrawn committed facilities of £472 million, low marginal cost of debt of 1.6%
- Executive Committee strengthened with 2 promotions and 2 new hires

[1] On a like for like basis, including Joint Ventures

[2] In accordance with EPRA guidance

Toby Courtauld, Chief Executive, said:

*"We are delighted to report another year of strong results driven by some record-breaking leasing and outstanding development returns, building on our track record of long-term outperformance against all of our industry benchmarks.*

*Global economic and political uncertainties, including the upcoming EU referendum, are affecting broader business confidence and investor appetite. It is too early to tell what the impact on the London property market will be although an extended political stalemate as the consequences of the referendum result are worked out would be unhelpful.*

*Despite this more uncertain back drop, London's commercial property market fundamentals remain supportive: London's economy is growing, its workforce expanding and demand for quality office space remains robust. With new supply limited and vacancy rates at or near record lows, we expect to secure further pre-lettings and generate attractive rental value growth across our portfolio of around 5% over the next year. In the investment market, as rental growth is captured, we can expect some mild expansion of yields, particularly for some secondary assets where pricing has run ahead of the growth on offer.*

*Whichever way this summer's political drama unfolds, we are well positioned to take advantage of opportunities as they arise: We have a clear strategic focus; our opportunity-rich portfolio is let off low rents to a diverse tenant base with significant reversionary potential; our development pipeline has never been longer; our balance sheet has never been stronger; plus we have a first class team to help us continue delivering long-term, market-leading returns for shareholders."*

**Contacts:**


**Great Portland Estates plc** **44 (0) 20 7647 3000**
Toby Courtauld, Chief Executive
Nick Sanderson, Finance Director

**Finsbury Group** **44 (0) 20 7251 3801**
James Murgatroyd
Gordon Simpson


The results presentation will be broadcast live at 9.00am today on:

www.gpe.co.uk/investors/reports-and-presentations/presentations

A conference call facility will be available to listen to the presentation at 9.00am today on the following numbers:

UK: 0808 109 0700 (freephone)
International: +44 (0) 20 3003 2666

Interviews with Toby Courtauld, Chief Executive and Nick Sanderson, Finance Director are available at www.gpe.co.uk/investors/reports-and-presentations/presentations and www.cantos.com

**Disclaimer**

This announcement contains certain forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by or on behalf of Great Portland Estates plc (GPE) 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. GPE does not undertake to update forward-looking statements to reflect any changes in GPE's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this announcement relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.

## Statement from the Chief Executive

We are pleased to report another excellent set of results driven by market-beating portfolio returns, particularly in our development business, and some outstanding leasing activity including securing one of the largest ever West End lettings.

The property portfolio delivered underlying capital growth of 14.7% in the year with a total property return of 18.9%, well ahead of IPD central London at 16.7%. As a result, EPRA NAV per share increased by 19.5% over the year, with dividends of 9.2 pence per share up 2.2% on 2015.

**Exploiting favourable market conditions in the execution phase**
Central London's property markets remained supportive with economic growth driving employment and business expansion across the Capital. With record low vacancy levels and constrained supply of new space, healthy tenant demand enabled us to again deliver strong annual rental growth of around 10%. In the investment market, the weight of money has maintained transaction volumes and competition for assets at robust levels, pushing yields marginally lower during the first half of the year, although, as we warned at the interims in November, investors have approached pricing with more caution in recent months.

Looking ahead, we expect rental growth and development returns to remain the principal drivers of our valuation growth as we capture our substantial reversion, deliver the remaining development projects planned for this cycle and recycle capital through profitable disposals.

**Successfully delivering our largest ever development programme and unlocking potential over the long-term**
So far this cycle we have successfully delivered eleven projects (995,400 sq ft), generating a profit on cost of 56% on development investment of £479 million, more than 50% ahead of last cycle's expenditure. Today, our expanded committed programme comprises eight schemes (851,200 sq ft), principally focused on the regeneration of the east end of Oxford Street, and all due to complete in the next 24 months with an expected profit on cost of 27.1% on development investment of £1.1 billion. Combined with two near-term schemes (311,800 sq ft), our expected development capex to come stands at £428.4 million. Looking further ahead, excellent progress has been made in preparing our expanded pipeline of development opportunities, which extends to 1.4 million sq ft across 14 schemes, up by two schemes over the past year. Our development programme now totals 2.6 million sq ft and covers 59% of our existing portfolio.

**Record leasing activity – managing operational risk and capturing rental reversion**
Our team has secured new lettings and lease renewals of £31.8 million in annual rent, including £20.4 million of pre-lettings, across 447,000 sq ft, with market lettings on average 10.4% above our valuer's ERV. As a result, our committed developments are already 61% pre-let or pre-sold, with our largest ever development scheme, Rathbone Square, W1, now over 90% de-risked following our record £17.8 million pre-let to Facebook in September. Since the year-end, our letting success has continued with £2.6 million secured and we can look forward to further rental income growth given our significant reversionary potential of 33% off low average office rents of £45.30 per sq ft.

**Disciplined and profitable capital recycling into robust investment market**
For the third consecutive year, we were a net seller, crystallising surpluses and recycling capital into our development programme and new pipeline acquisitions. Our £469.7 million of sales were of long-let, low-yielding, high capital value properties (£1,943 per sq ft on average), including 33 Margaret Street, W1 and 95 Wigmore Street, W1, while our £214.3 million of acquisitions were short-let, higher yielding, lower capital value properties (£704 per sq ft) in attractive locations with longer-term development angles.

**Financial strength and talented team to deliver organic growth**
Our financial position is stronger than ever, with a record low loan to value ratio of 17.4% and £472 million of cash and committed undrawn liquidity giving us plentiful financial firepower. Moreover, we have supplemented our experienced team with the recent appointment of Steven Mew as Portfolio Director and Robin Matthews as Investment Director, replacing Ben Chambers who leaves with our best wishes. Both will join our Executive Committee which we expanded last summer with the promotion of Andrew White to Development Director and Marc Wilder to Leasing Director.

**Well-positioned against more uncertain market outlook**
Global economic and political uncertainties, including the upcoming EU referendum, are affecting broader business confidence and investor appetite. It is too early to tell what the impact on the London property market will be although an extended political stalemate as the consequences of the referendum result are worked out would be unhelpful.

Despite this more uncertain back drop, London's commercial property market fundamentals remain supportive: London's economy is growing, its workforce expanding and demand for quality office space remains robust. With new supply limited and vacancy rates at or near record lows, we expect to secure further pre-lettings and generate attractive rental value growth across our portfolio of around 5% over the next year. In the investment market, as rental growth is captured, we can expect some mild expansion of yields, particularly for some secondary assets where pricing has run ahead of the growth on offer.

Whichever way this summer's political drama unfolds, we are well positioned to take advantage of opportunities as they arise: We have a clear strategic focus; our opportunity-rich portfolio is let off low rents to a diverse tenant base with significant reversionary potential; our development pipeline has never been longer; our balance sheet has never been

stronger; plus we have a first class team to help us continue delivering long-term, market-leading returns for shareholders.

**Toby Courtauld**
Chief Executive

# Our market

**Our market is accompanied by graphics (see Appendix 1)**

**London – a thriving global city**
With the largest economy of any city in Europe and generating around 22% of UK GDP, London is one of the world's leading commercial, creative and financial centres. While the rate of UK economic growth appears to be moderating, with consensus forecasts of 2.0% GDP growth for 2016 and similar levels of growth expected thereafter, London is expected to continue to outperform with Oxford Economics forecasting annual growth of 3.0% over the next five years, making it one of Europe's fastest growing cities.

London's population is forecast to grow to more than ten million by 2030 and CBRE/Oxford Economics forecast inner London office-based employment growth of 1.7% p.a. over the next five years. In addition, a recent Deloitte report ("Global cities, global talent") highlights that London is accelerating away as the world's foremost business hub, having created 235,000 new high-skilled jobs since 2013 with London businesses now employing 1.7 million workers in high-skilled roles compared to 1.2 million in New York (its nearest rival). With London's deep pool of talented labour and collection of world-class universities and business schools, more than a third of Fortune 500 companies now have their global headquarters in London.

Notwithstanding these positive prospects, uncertainties around the political and economic outlook persist given continued stock market volatility, ongoing concerns on Chinese and other emerging market economies' weakness and the outlook for global interest rates. Closer to home, the upcoming UK referendum on EU membership already appears to be weighing on broader business confidence with a recent survey of UK CFOs indicating that the referendum is their dominant business concern, partly explaining why their risk appetite has more than halved over the last 12 months. Although it is too early to tell what the impact of an exit would be on the London economy and its property market, we will maintain close scrutiny of prevailing market conditions and the fortunes of our diverse tenant base.

In addition, we will be watching closely for policy changes following the recent election of the new London mayor and in particular his position on measures to support economic growth including investing in transport infrastructure and housing.

**Occupational markets still favouring landlords**
On the demand side, the levels of economic activity in London remain supportive of employment growth, business expansion and, in turn, healthy tenant demand for new space. For the year ended 31 March 2016, central London take-up was 14.7 million sq ft, marginally below the preceding 12 months but well ahead of the ten year annual average of 12.9 million sq ft. This take-up was again from a broad range of industries, including TMT businesses (22%), banking and finance (25%) and professional and business services (22%). Our own leasing successes in recent years have been focused in particular on the TMT and professional services sectors.

Looking ahead, CBRE/Oxford Economics expect 165,000 new office-based jobs to be created in London over the next five years, predominantly from the professional, business services and creative sectors.

The central London availability rate remains low at 5.5%, which is encouraging more occupiers to seek to secure new space earlier and ahead of lease events. This is supporting both rental growth and pre-letting across our markets, as demonstrated by our record office letting to Facebook at Rathbone Square, W1 in September.

However, against a backdrop of rising rental levels, it is expected that business rates will increase in 2017 which will likely raise occupational costs in central London and may affect future rental growth as these costs are absorbed by tenants. The new rates will be set based on rental levels at April 2015, which for many of our properties will be higher than the April 2008 rental levels against which current rates are set, although some transitional relief is anticipated. Importantly, our low average rents will provide some protection to our tenants from rates rises.

**New office supply remains tight**
On the supply side, whilst development completions across central London had been rising, this was from an exceptionally low base and in a market with vacancy rates at historic lows. Across the central London office market as a whole, development completions in the year to 31 March 2016 fell to 3.6 million sq ft, down from 5.1 million sq ft in the preceding 12 months. Moreover, in the core of the West End, the focus of our development activities, completions totalled only 1.0 million sq ft in the year. This supply shortage has meant that pre-lets represented around 21% of central London office take-up in the year to 31 March 2016.

Looking ahead, the speculative development pipeline has increased as developers respond to stronger occupier demand levels and the prospect of rental growth, although planning delays, limited development debt financing availability and economic uncertainty may lead to some of the pipeline being delayed or postponed.

In addition, some schemes may not proceed given that the major cost consultants continue to forecast annual cost inflation of 3%–7% for commercial schemes. However, across our business, we have already secured almost 100% of construction costs on our committed schemes and we expect to be able to largely mitigate cost increases on our near-term schemes through rental growth, our deep relationships with contractors, effective supply chain management and our pipeline of opportunities.

**West End occupational markets**

Over the year to 31 March 2016, West End office take-up was 4.3 million sq ft, broadly in line with the preceding year, while availability has increased to 4.3 million sq ft. Despite the upcoming EU referendum, take-up in the quarter to 31 March 2016 was healthy at 0.9 million sq ft, although we expect that activity may be slower in the current quarter ahead of the vote, notwithstanding our own strong leasing start to the financial year. Vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 2.3%.

CBRE has reported that prime office rental values in the West End continued to grow over the year and are now £120 and £90 per sq ft respectively for Mayfair & St. James's and for North of Oxford Street. Looking ahead, rents are forecast by CBRE to show attractive growth over the next few years with North of Oxford Street prime office rents expected to grow by 12.1% over the next two years.

The West End prime retail market (where 31.8% of our West End portfolio by value is located) has continued to witness strong rental growth. Over the last year, strong demand for prime retail space has maintained a near zero vacancy, with significant leasing activity supporting prime rental values. Our most recent retail pre-letting to Benetton at the east end of Oxford Street has again demonstrated our ability to re-rate rental levels upwards on the back of our development activities.

**City, Midtown and Southwark occupational markets**

Over the year to 31 March 2016, City office take-up was 5.9 million sq ft, down 12% on the preceding year, with availability low at 4.8 million sq ft. Although higher than in the West End, vacancy rates remain low with Grade A space vacancy estimated by CBRE to be only 3.0%. CBRE has also reported that City prime rental values marginally increased during the year to £68.50 per sq ft today.

Midtown and Southwark office take-up was 3.0 million sq ft, down 7.4% on the preceding year, while availability remains low at 2.3 million sq ft. This has supported rental growth of 17.6% and 13.6% respectively for the year, with CBRE reporting prime office rents of £80.00 and £62.50 per sq ft respectively at 31 March 2016.

**Further rental growth expected over the next 12 months**

With continued good occupational demand and restricted supply favouring the landlord, barring a major deterioration in the economic situation or extended period of uncertainty following the EU referendum, we estimate that for the next 12 months rental value growth across our office and retail portfolio will be attractive at around 5%, particularly in the context of a very low inflation environment. Additionally, with our office portfolio let off low average rents of only £45.30 per sq ft, there is further reversionary potential across the Group of 33.1%.

**Active investment market, although expected slowdown in the first half of 2016**

Central London office investment activity has remained robust with CBRE reporting £16.2 billion of deals in 2015, including £5.6 billion in the West End. Overall volumes were around £2 billion down on 2014 due to reduced activity in the second half of 2015 given concerns about the slowdown in global economic growth, particularly in emerging markets. In the first quarter of 2016, deals across central London totalled £3.5 billion, lower than in previous quarters and consistent with a slowdown across the wider UK property market. Furthermore, some investors may await the result of the upcoming EU referendum before making investment decisions, particularly given recent and potential future gyrations in the Sterling exchange rate. However, according to Savills, activity in the West End in the first quarter was at record levels exceeding £2 billion, although it is expected to slow until the referendum outcome is known.

Overseas investors continue to be the largest buyer constituency, accounting for 58% of transactions over the 12 months to December 2015, with London maintaining its reputation as a safe investment haven for international investors seeking to diversify away from their domestic markets whilst also offering the prospects of attractive real rental growth.

We reported in May 2015 that we estimated £40 billion of equity capital was seeking to invest in commercial property across central London compared to only £2.0 billion of stock on the market available to buy. This strong competition for limited stock drove investment yields for office properties to record lows with prime yields in the West End and City of 3.5% and 4.0% respectively at 30 September 2015, according to CBRE. Since this time, prime yields have held firm in spite of increased stock coming to the market in the final quarter of 2015 whilst investors are approaching pricing with more caution, particularly for more secondary assets.

Investment transaction volumes in prime London retail hit record levels in 2015, exceeding £3 billion for the first time, with 42% of all deals on Oxford Street. As a result, prime yields remained firm during the year at 2.25% on Bond Street and 2.50% on Oxford Street.

While the central London residential market continues to be impacted by new stamp duty rates, over-supply concerns and cooling measures implemented in some Asian international markets, our experience at Rathbone Square, W1 demonstrated that appropriately priced, well specified, modern apartments in attractive locations in our core West End

market continued to be in demand. We have now exchanged contracts to sell 139 of the 142 private units, with nine contracts exchanged during the year.

**Weight of money and low interest rates providing support for yields**
While the excess of equity capital to invest over commercial property available to buy across central London has reduced, it remains high (estimated at £33.8 billion versus £4.9 billion respectively). Moreover, as expectations of interest rate increases in the UK continue to be pushed back, the real yield spread remains above the long-term average.

Notwithstanding these factors, if current supportive market conditions persist and our expected annual rental value growth across our portfolio of around 5% over the next year is delivered, we expect to witness some modest expansion of prime yields as this rental growth is consumed. For some secondary properties, stronger upward pressure could result where pricing has run ahead of the growth on offer or in the event of an extended period of uncertainty following the EU referendum.

**Rental growth to be the principal driver of capital value growth**
As the chart in Appendix 1 shows, yield compression tends to drive capital value growth early in the cycle, although its contribution has been more sustained this cycle given elevated liquidity levels due to quantitative easing and unprecedentedly loose monetary policy. However, rental growth has been the principal driver of capital growth across the central London commercial real estate market for the last two years and we expect this to continue this year.

**Our lead indicators remain supportive**
Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace.

Despite some weakening of our property capital value indicators over the period given capital market volatility, investment activity in the central London commercial property market continues to be strong, with the real yield spread increasing given lower gilt yields and supportive conditions in the real estate debt markets. Moreover, although forecast rates of economic growth and business confidence levels have moderated, our rental value indicators remain supportive with growing employment levels in London and a record low vacancy rate in the central London office market. Accordingly, absent a deterioration in the economic situation, we expect that rental values will continue to rise for sensibly priced, well specified space in attractively located central London properties and have positioned our portfolio to take advantage of these prospective conditions.

## Valuation

**Valuation is accompanied by graphics (see Appendix 2)**

The valuation of the Group's properties rose to £3,703.9 million during the year, delivering valuation growth of 14.7% on a like-for-like basis. Our development properties delivered valuation growth of 26.2%.

At 31 March 2016, the wholly-owned portfolio was valued at £3,076.2 million and the Group had four active joint ventures which owned properties valued at £627.7 million (our share) by CBRE. The combined valuation of the portfolio of £3,703.9 million was up 14.7% on a like-for-like basis or £429.2 million since 31 March 2015.

**Rental value growth driving valuations**
The key drivers behind the Group's valuation movement for the year were:

- rental value growth – solid tenant demand outweighed the tight supply of high quality, well-located buildings in our key markets. These positive market dynamics, combined with our active management of the portfolio, increased our rental values by 9.9% during the year, comprising a 10.6% and 7.7% increase for office and retail rental values respectively. At 31 March 2016, the portfolio was 33.1% reversionary;
- development properties – the valuation of current development properties increased by 26.2% to £962.8 million during the year. In particular, Rathbone Square, W1 benefited by our pre-letting of all the office space to Facebook, helping increase its value by 22.6% over the year;
- intensive asset management – during another record year, 72 new leases, rent reviews and renewals were completed, securing £37.7 million (our share) of annual income which supported valuation growth over the year;
- lower investment yields – continued demand for commercial property helped to reduce investment yields across central London during the year. A number of key transactions, including our sale of 95 Wigmore Street, W1 helped reduce the West End benchmark yield, thus reducing our portfolio equivalent yield by 20 basis points (2015: 27 basis point reduction) during the year. At 31 March 2016, the portfolio equivalent yield was 4.4%; and
- stamp duty – the 1% increase in stamp duty on commercial properties in excess of £250,000 reduced values by 1% in the March 2016 valuation, as values are stated net of transaction costs.

Including rent from pre-lets and leases currently in rent-free periods, the adjusted initial yield of the investment portfolio at 31 March 2016 was 3.2%, 20 basis points lower than at the start of the financial year.

Our Rest of West End portfolio produced a strong performance over the year, increasing in value by 10.1% on a like-for-like basis, in part driven by retail capital value growth of 9.1%. Our North of Oxford Street assets saw an 11.1% uplift in values and the City, Midtown and Southwark properties grew by 10.2%. Our joint venture properties rose in value by 9.1% over the year while the wholly-owned portfolio rose by 16.0% on a like-for-like basis.

The Group delivered a total property return (TPR) for the year of 18.9%, compared to the central London IPD benchmark of 16.7% and a capital return of 16.3% versus 13.3% for IPD. This out-performance resulted from our development, pre-letting and recycling successes.

# Our business

**Our business is accompanied by graphics (Appendix 3)**

# Investment management

**Overview**
During the year, we continued to capitalise on the strength of the investment market to sell assets where business plans were complete to capture the value we have created. As a result, we were again a net seller, with sales of £469.7 million and acquisitions of £214.3 million during the year.

**We have continued to crystallise surpluses with £469.7 million of sales**
Over the year to 31 March 2016, London's investment market strength continued and competition for good quality stock remained robust. Against this backdrop, we were again net sellers with our investment management activities focusing on crystallising asset values where business plans are complete and future opportunities for growth limited. During the year, we completed sales generating £469.7 million in gross proceeds and at a blended net initial yield of 3.5% and premium of 10.0% to 31 March 2015 book values.

In April 2015, the Great Wigmore Partnership (GWP), our 50:50 joint venture with Aberdeen Asset Management, sold 95 Wigmore Street, W1, its 98,800 sq ft newly constructed and fully-let office and retail property. The purchaser acquired the property for £222.4 million, reflecting a net initial yield of 3.4% and a capital value of £2,209 per sq ft. The sale price was 16.2% ahead of the March 2015 book value and crystallised a profit on cost since commitment to the development in 2011 of 105%.

In January 2016, we sold 60 Great Portland Street, W1 for £103.2 million, 3.0% ahead of the March 2015 valuation. The price reflected a net initial yield of 3.9% and a capital value of £1,300 per sq ft overall or £1,480 per sq ft on the office element. 60 Great Portland Street was comprehensively refurbished and extended by GPE in 2007 to provide 65,400 sq ft of offices over ground to fifth floor and 11,100 sq ft of ground and basement retail space. The offices are let to The Engine Group until 2028 and the retail space to Evans Cycles until 2024. The sale also included 48/50 Mortimer Street and 1/3 Little Titchfield Street comprising two ground and basement retail units extending to 2,100 sq ft and a total of 17 apartments which are sold off on long-term occupational leases.

Also in January 2016, we sold 33 Margaret Street, W1 to Deka Immobilien Investment GmbH (Deka) for £216.3 million, reflecting £2,085 per sq ft and a net initial yield of 3.3%. 33 Margaret Street is part freehold/part leasehold and comprises 103,700 sq ft of predominately office space, developed by GPE in December 2012. The offices were fully let to Savills plc at practical completion for a term of 20 years at an annual rent of £7.0 million. Including two retail units fronting Regent Street, the total net rent is £7.55 million and the sale price reflected a 12.7% premium to the March 2015 valuation. The sale crystallised an annualised ungeared IRR of 23.5% and a profit on cost of 137%.

The residential sales programme at Rathbone Square, W1 continues to progress positively with the sale of a further nine units totalling £39.0 million during the year at an average of £2,437 per sq ft. To date we have sold 139 of the 142 private units and have collected deposits of £57.2 million in advance of completion in June 2017.

**£214.3 million of off-market acquisitions**
Rather than compete for assets in a highly competitive investment market, we bought three assets off-market totalling £214.3 million at an average net initial yield of 5.1% and cost of £704 per sq ft.

In April 2015, we purchased Starwood Capital's 50% interest in The Great Star Partnership (GSP) for £61.4 million. On completion, GPE redeemed 100% of the £73.1 million in outstanding debt secured against the joint venture's properties. The transaction equated to a property price of £190.6 million and gave GPE full ownership of the leasehold interests in City Tower, 40 Basinghall Street, EC2 and the adjacent City Place House, 55 Basinghall Street, EC2. The properties together occupy a 1.3 acre core City site, presenting us with an attractive mix of asset management and development opportunities. The acquisition price reflected £608 per sq ft and a yield of 5.3% on the contracted rent roll, or 4.8% after deducting void costs on the vacant space.

Simultaneously with the sale of 33 Margaret Street, W1 (see above) in January 2016, GPE acquired 50 Finsbury Square, EC2 from Deka for £119.0 million, reflecting £941 per sq ft or £819 per sq ft for the office element and a net initial yield of 5.3% after costs. 50 Finsbury Square is freehold and comprises 126,500 sq ft of predominately office space, developed in 2000. The offices are fully let to Bloomberg until June 2020 at £5.7 million p.a. reflecting an average rent of £48.24 per sq ft. Including four retail units fronting Finsbury Pavement, the total annual rent is £6.6 million. The building will benefit significantly from GPE's repositioning once Bloomberg vacate, as expected. In addition, the exciting transformation of this area resulting from Crossrail (with the Moorgate Crossrail station only 200 metres away) and the continued growth in tenant demand from the creative/TMT sector will provide a further catalyst for growth.

**Expected net sellers for the forthcoming year**
Since the year end, we have sold Mortimer House, 37/41 Mortimer Street, W1 for £27.0 million and purchased the freehold of 73/89 Oxford Street, W1 (where we were the long leasehold tenant) and 95/96 New Bond Street, W1 for £71.0 million. However, given current pricing in the London investment market, we expect to be net sellers over the forthcoming year, continuing to crystallise the value we have created through executing our business plans.

## Development management

**Overview**
Our largest ever development programme is delivering significant surpluses, with our eight committed schemes already 61.1% pre-let or pre-sold and forecast to deliver a profit on cost of 27.1%. Our future opportunity has never been deeper, with two schemes with potential starts in the next 18 months and a further 14 schemes which we are already preparing for the next cycle.

**High levels of activity executing business plans**
Since 2009, we have completed eleven schemes, including one this year, delivering 995,400 sq ft of high quality space with an average profit on cost of 56%. We currently have eight committed schemes (851,200 sq ft of space), all but one in the West End. Taken together, these schemes have an expected profit on cost of 27.1%, a yield on cost of 5.7% and an ungeared IRR of 18.0%. To date, 61.1% of the space has already been pre-let or pre-sold, helping to manage our development risk.

Capital expenditure to come at our committed schemes totals £269.9 million, which could rise to £428.4 million (our share) if the two near-term uncommitted schemes were to commence. At 31 March 2016, the committed development properties were valued at £962.8 million and the near-term development properties at £281.3 million (our share).

**Eight committed schemes on-site; progressing well**
Construction of our largest ever development, the 418,700 sq ft mixed-use Rathbone Square, W1 scheme, is progressing well. The building topped out in February 2016 and cladding of the building's exterior is underway along with the fit out of the residential element. In September 2015, in our largest ever letting, we pre-let the entire office building (known as One Rathbone Square) to Facebook on a 15 year lease (no breaks). Having now secured planning consent for the change of use of 13,700 sq ft of space from retail to office use, Facebook will pay rent of £17.8 million p.a. on 242,800 sq ft of office space, equating to an average of £82.90 per sq ft for the upper six office floors (182,300 sq ft) or an overall average rent of £73.35 per sq ft when including the basement and ground floors. This is 7.5% ahead of the ERV of the equivalent office space at 31 March 2015. Facebook will receive 30 months rent free from completion of the offices to a shell and core condition. We will launch the marketing campaign for the 24,200 sq ft of retail and restaurant units in May 2016 and expect good interest in the space. During the year, we also continued with our residential sales programme, selling a further nine apartments and today only three of the 142 private units are available for sale.

At 148 Old Street, EC1, we have commenced demolition to transform the existing 97,800 sq ft building into around 161,900 sq ft of high quality office and retail space. With a construction contract secured, we are targeting completion in late 2017 and our pre-letting campaign has commenced.

At 30 Broadwick Street, W1, structural works of our 91,800 sq ft new-build office and retail scheme are complete and the project is on schedule to complete in September 2016. The pre-letting campaign for the scheme commenced in January 2016 and we already have one floor under offer. We are encouraged by the healthy interest shown in the remainder of the building.

At 73/89 Oxford Street, W1, which will deliver 90,700 sq ft of new-build retail and office space directly opposite the Dean Street entrance to the Tottenham Court Road Crossrail station, we have now demolished the building and the main

contract works have begun. Following the pre-let of all the retail space (47,100 sq ft), 63% of the scheme's ERV has been secured. The marketing campaign for the 43,600 sq ft of offices commenced in April 2015, and we currently have three of the four office floors under offer.

At Tasman House, 59/63 Wells Street, W1, the demolition of the existing 1950's building is complete and the main construction contract has commenced. The new building will deliver 37,300 sq ft of new office and retail space into an area that is benefiting from significant local investment including our activities at Rathbone Square.

We are currently on-site at three schemes on Great Portland Street, W1, where we are delivering 50,800 sq ft of mixed-use space, including the off-site residential requirements for Hanover Square, 30 Broadwick Street and Tasman House, all W1. The schemes are progressing well, with completions from June 2016, and we will shortly be embarking on the pre-letting campaign for the office element.

**Two schemes in the near-term programme**
Our near-term development programme comprises two schemes (311,800 sq ft), both with potential starts over the next 18 months.

At Oxford House, 76 Oxford Street, W1, we have submitted a planning application for an 88,200 sq ft major mixed-use refurbishment. Our plans include incorporating a significant increase in the retail space to take advantage of the strong demand for good retail units at the eastern end of Oxford Street. As part of the letting at One Rathbone Square, Facebook has a right of first offer to pre-let all the anticipated 55,700 sq ft of office space, subject to GPE obtaining planning consent for a comprehensive refurbishment of the building.

At Hanover Square, W1, we continue to make positive progress with Crossrail, who are currently building the eastern exit for the Bond Street Crossrail station underneath part of the site. In December 2015, we secured early access to the site and we commenced the demolition of the New Bond Street buildings in January 2016. This will allow us to accelerate the construction programme for the wider scheme ahead of delivery of the station structure by Crossrail in 2018. The development is owned in our 50:50 joint venture with the Hong Kong Monetary Authority.

**Substantial long-term development opportunity**
Beyond our committed and near-term schemes, we have an extensive further pipeline of 14 uncommitted schemes (1.4 million sq ft), which we are preparing for the next cycle. These schemes include a number of exciting projects, including New City Court, SE1 where we hope to materially increase the size of the existing 97,800 sq ft building which sits within the regenerating London Bridge Quarter and the recently purchased 50 Finsbury Square, EC2 where we are already looking at a number of business plans to improve and increase the existing 126,500 sq ft floor area.

The future development opportunity for the next cycle has never been deeper. Together, these schemes total some 1.1 million sq ft, with the potential to increase this to more than 1.4 million sq ft post development and, in total, our potential development programme totals 2.6 million sq ft and covers 59% of GPE's existing portfolio.

## Asset management

**Overview**
We have delivered another record leasing year; we agreed 52 new lettings, securing £31.8 million of annual rent including one of the largest ever office lettings signed in London's West End, with market lettings 10.4% ahead of the valuer's March 2015 ERV.

**Rental growth continued; another record leasing year**
Robust tenant demand continued to outstrip the supply of good quality well located buildings in our core markets. These positive market dynamics, combined with our active portfolio management and high levels of leasing, helped increase rental values by 9.9% during the year. The key leasing highlights included:

- 52 new leases and renewals agreed (2015: 76 leases) generating annual rent of £31.8 million (our share: £31.1 million; 2015: £21.5 million, our share £17.4 million), market lettings 10.4% ahead of ERV;
- 20 rent reviews securing £9.5 million of rent (our share: £6.6 million; 2015: £7.2 million) were settled at an increase of 57.4% over the previous rent;
- total space covered by new lettings, reviews and renewals was 562,800 sq ft (2015: 510,100 sq ft); and
- a low investment portfolio vacancy rate of 3.1% at 31 March 2016 (2015: 2.0%).

At 31 March 2016, the average rent across our office portfolio was £45.30 per sq ft and our total annualised rent roll (including share of joint ventures) was £96.8 million, flat over the 12 month period despite our net sales activity.

Since 31 March 2016, we have completed six lettings delivering £2.6 million (our share: £2.2 million). We have a further 13 lettings currently under offer accounting for £8.0 million p.a. of rent (our share: £7.2 million), 1.2% ahead of March 2016 ERV.

**Extensive leasing activity including significant pre-lets**
Our letting activity was again dominated by leasing in our development portfolio, as detailed in the Development management section. Of the total rent secured in new lettings during the year, £23.7 million (or 74.5%), was achieved in our committed or recently completed developments. In addition to our £17.8 million pre-let to Facebook at One Rathbone Square, W1, we pre-let a further £2.6 million to Benetton at 73/89 Oxford Street, W1, reflecting a record Zone A rent of £707 per sq ft for this part of Oxford Street.

At 240 Blackfriars Road, SE1, the Great Ropemaker Partnership (a 50:50 joint venture between GPE and BP Pension Fund) leased the remaining two office floors securing rent of £61.00 per sq ft on level 7 to hurleypalmerflatt and £63.00 per sq ft to Demandware on level 8. These two lettings will generate annual rent of £1.5 million across 23,900 sq ft and conclude the 222,200 sq ft office leasing campaign, resulting in an average void across the building of just over three months.

Further successes include the letting of all the office space (27,400 sq ft) at 31/32 Alfred Place, W1 for £1.6 million and three further floors (19,000 sq ft) at City Tower, EC2 for £1.2 million with the letting for the 16th floor equating to £72.50 per sq ft, a new record for the building.

During the financial year, we also continued to drive rental growth by capturing some of the significant reversionary upside across our investment portfolio. Notable lettings included the second floor at 27/35 Mortimer Street, W1 let to Digital UK at £69.50 per sq ft, capturing a reversion of 82% and four lettings at Woolyard, SE1 which captured a reversion of 87%. We have also captured reversion through 20 rent reviews, with the most significant at 101/113 Regent Street, W1 to Superdry, where we achieved an increase in annual passing rent of £1.8 million to £4.3 million.

**Tenant retention remains high, keeping our vacancy rate low**
In the financial year, 89 leases covering around 371,000 sq ft of space with a rental value of £12.3 million were subject to lease expiry or tenant break. After removing 56.0% of the space where we are refurbishing or need vacant possession to enable development, tenants were retained for 28.1% of this space by area and by the end of March 2016, we had leased or put under offer a further 12.9%, leaving only 3.0% to transact. Together, our strong letting and tenant retention performance has helped keep our vacancy rate low at 3.1% at 31 March 2016.

**Rent collection remains strong**
The quarterly cash collection performance has been very strong throughout the year. We secured 99.9% of rent within seven working days following the March 2016 quarter date, with an average collection rate of 99.7% across the four quarter ends in the year (2015: 99.2%). Tenants on monthly payment terms represent around 4.0% of our rent roll (2015: 4.0%).

**Focus for the forthcoming year is capturing the reversion**
One of our strategic priorities for the year to 31 March 2016 was to drive rental growth through leasing, and our performance (as set out above) has been strong. As conditions in our rental markets have improved with the economic recovery, the rental values of our investment properties have grown ahead of the passing rents, and today this reversion stands at 33.1%. Moreover, we have the opportunity to capture 65.1% of this reversion over the next 24 months.

For the forthcoming year, our focus will be to capture this reversion, by settling rent reviews at, or ahead of, the market rental value and in some cases creating vacancy to allow us to refurbish, improve and relet the space into these supportive market conditions.

# Financial management

**Overview**

Our balance sheet has never been stronger with our loan to value of 17.4% and £472 million of cash and committed undrawn liquidity providing a robust platform to fund further organic growth.

**Extending maturities and locking in attractive rates**

The Group's sources of debt funding are diverse, both secured and unsecured, and include the public, private and bank markets. Our financing activities this year focused on enhancing our debt maturity profile, taking advantage of issuer-friendly debt markets and maintaining our good diversity of funding sources. In October 2015, we obtained bank consent to extend the maturity date of our flexible, low cost £450 million revolving credit facility by 12 months to October 2020. In December 2015, we refinanced the Great Ropemaker Partnership with the issue of a new £90 million secured bank loan, reducing our all-in coupon from 4.52% to 2.67% and extending the maturity by more than two years. We also took the opportunity during the year to update and improve our Treasury Policy.

At 31 March 2016, we had £472 million of cash and undrawn committed debt facilities. Looking forward, although we will continue to monitor opportunities to further improve our financing position, we have no immediate additional debt funding requirements due to the existing strength of our balance sheet (including an earliest debt maturity date of June 2018) and the potential for further capital recycling in the near-term.

**Flexible and diverse sources of debt finance – predominantly unsecured**

At 31 March 2016, 93% of our total drawn debt (and 56% of our total debt) was from non-bank sources with 66% (and 80% of total debt) borrowed on an unsecured basis. Our weighted average drawn debt maturity was 5.5 years (2015: 6.0 years) at 31 March 2016.

As detailed in Our financial results section later, our debt metrics remain strong and appropriate given our significant development programme. With our low weighted average interest rate only 3.7% (on drawn debt), and both capitalised interest and earnings increasing (with EPRA earnings per share rising 6.3% to 13.5 pence for the year), interest cover has improved to 12.5 times.

**Balance sheet discipline and efficiency to be maintained**

When considering the appropriate level of financial leverage in the business, we apply the same capital discipline that we use when making asset level decisions. Typically, we aim for a loan to value ratio of between 10%–40% through the cycle and today we are at the lower end of the range given our portfolio activities and market cycle position. We have a track record of accretively raising and returning equity capital to shareholders at the appropriate time and in the appropriate circumstances. Our key considerations when making such capital decisions include:

- the market outlook;
- opportunities for growth (both capital expenditure and acquisitions);
- opportunities for profitable recycling activity; and
- current and prospective debt ratios (including LTV and interest cover).

At 31 March 2016, net gearing was 19.5% and our loan to value ratio was 17.4%. Pro forma for post year-end transactions and the total potential capital expenditure to come of around £428.4 million at our committed and near-term development schemes, our loan to value ratio would rise to only approximately 26.7% before considering development surpluses to come and potential receipts from recycling. Given these activities and the current market outlook, our balance sheet strength is appropriate and means that we are well positioned to take advantage of any additional opportunities that may arise.

# Our financial results

**Our financial results are accompanied by graphics (see Appendix 4)**

**Strong net asset value growth**
EPRA net assets per share (NAV) at 31 March 2016 was 847 pence per share, an increase of 19.5% over the year, largely due to the rise in value of the property portfolio. At 31 March 2016, the Group's net assets were £2,912.2 million, up from £2,390.9 million at 31 March 2015.

The main drivers of the 138 pence per share increase in NAV from 31 March 2015 were:

- the rise of 130 pence per share arising from the revaluation of the property portfolio. Of this amount, development properties boosted NAV by 57 pence;
- profit on property disposals, in particular the sales of 33 Margaret Street, W1 and 95 Wigmore Street, W1, added 12 pence per share to NAV;
- EPRA earnings for the year of 14 pence per share enhanced NAV;
- dividends of 9 pence per share reduced NAV;
- the potential dilution arising from the convertible bond reduced NAV by 8 pence per share; and
- other movements decreased NAV by 1 pence per share.

Triple net assets per share (NNNAV) was 831 pence at 31 March 2016 compared to 684 pence at 31 March 2015 (up 21.5%). At the year end, the difference between NAV and NNNAV was due to the negative mark to market of the Group's 2029 debenture and private placement notes combined with the potential tax due on the Group's sale of the residential element of Rathbone Square, W1 more than offsetting the positive valuation of the Group's derivatives.

**Stable earnings per share**
EPRA profit before tax was £47.8 million, 6.0% higher than last year largely due to additional rental income as a result of property acquisitions.

Rental income from wholly-owned properties and joint venture fees for the year were £75.5 million and £4.1 million respectively, generating a combined income of £79.6 million, up £9.4 million or 13.4% on last year. This increase predominantly resulted from new rental income on property acquisitions, including City Place House and City Tower, EC1 more than outweighing income lost on property sales. Joint venture fees were down £0.1 million due to lower levels of activity in the joint ventures. Adjusting for acquisitions, disposals and transfers to and from the development programme, like-for-like rental income (including joint ventures) increased 3.6% on the prior year.

Profit on development management contracts of £4.0 million (2015: £1.7 million) related to the construction contract at 12/14 New Fetter Lane, EC4, which we forward sold during the prior year. The project finished in November 2015 and we have handed over the completed building to the purchaser.

EPRA profits from joint ventures were £3.8 million, down £1.7 million from £5.5 million last year, reflecting lower levels of joint venture activity after the sale of 95 Wigmore Street, W1 and the Group's purchase of GSP.

Property expenses were £0.5 million higher at £8.2 million reflecting additional marketing activities as a result of leasing our largest ever development programme and administration costs were £24.4 million, an increase of £4.3 million on last year, largely as a result of higher provisions for performance related pay including payments under share incentive plans.

Underlying net finance costs increased to £7.0 million (2015: £4.5 million). Gross interest paid on our debt facilities was marginally lower due to reduced Group net debt during the period. However, the combination of lower interest receivable on joint venture balances, as a result of property sales, and higher interest on obligations under finance leases due to the acquisition of the GSP assets, increased overall net finance costs over the year. During the year, we capitalised £13.3 million (2015: £11.4 million) of interest as we progressed our development schemes including Rathbone Square, W1, 30 Broadwick Street, W1, 73/89 Oxford Street, W1 and Tasman House, W1.

Revaluation gains and underlying profits enabled the Group to report an accounting profit after tax of £556.2 million (2015: £508.2 million). Basic EPS for the year was 162.6 pence, compared to 148.3 pence for 2015. Diluted EPS for the year was 161.9 pence compared to 147.4 pence for 2015. Diluted EPRA earnings per share was 13.5 pence (2015: 12.7 pence), an increase of 6.3%.

**Results of joint ventures**
The Group's net investment in joint ventures was £543.4 million, a decrease from £636.7 million at 31 March 2015, largely due to the sale of 95 Wigmore Street, W1 and the Group's purchase of GSP more than offsetting valuation surpluses. Our share of joint venture net rental income was £17.0 million, a decrease of 31.5% on last year due to property sales. Our share of non-recourse net debt in the joint ventures was lower at £76.1 million at 31 March 2016 (2015: £97.6 million) predominantly due to the Group repayment of the GSP bank debt on purchase.

**Strong financial resources**
Group consolidated net debt was £568.0 million at 31 March 2016, down from £601.2 million at 31 March 2015 as proceeds from property disposals more than offset the Group's acquisitions and capital expenditure against a backdrop of broadly stable working capital. Group gearing fell to 19.5% at 31 March 2016 from 25.2% at 31 March 2015 reflecting both the reduced level of net debt and the increased portfolio value.

Including non-recourse debt in joint ventures, total net debt was £644.1 million (2015: £698.8 million) equivalent to a record low loan to property value of 17.4% (2015: 21.8%). The proportion of the Group's total net debt represented by our share of net debt in joint ventures was 11.8% at 31 March 2016, compared to 14.0% a year earlier.

At 31 March 2016, the Group, including its joint ventures, had cash and undrawn committed credit facilities of £472 million. The Group's weighted average cost of debt for the year, including fees and joint venture debt, was 3.9%, a decrease of 20 basis points compared to the prior year. The weighted average interest rate (excluding fees) at the year end was stable at 3.7% (2015: 3.7%).

At 31 March 2016, 100% of the Group's total debt (including non-recourse joint ventures) was at fixed or hedged rates (2015: 96%). Interest cover for the year was 12.5x (2015: 10.7x). The Group, including its joint ventures, is operating with substantial headroom over its debt covenants. The financial covenants on our unsecured private placement notes are identical to those on our £450 million unsecured revolving credit facility which matures in October 2020.

**Robust tenant base**
None of our tenants went into administration around the March 2016 quarter day (March 2015: none). Tenant delinquencies in the year were low at 0.3% of total rent roll (2015: 0.7%) and rent deposits have predominantly mitigated their financial impact. We are vigilant and continue to monitor the financial position of our tenants on a regular basis.

**Taxation**
The current tax credit in the income statement for the year is £0.6 million (2015: £nil) as a result of the tax-free nature of much of the Group's income and other allowances being available to set against non-REIT profits. The deferred tax credit in the income statement for the year is £0.5 million (2015: £0.8 million) and relates to non-REIT Group activities. The underlying effective tax rate was 0% (2015: 0%). The Group complied with all relevant REIT tests for the year to 31 March 2016.

All entities within the Group are UK tax resident; as our business is located wholly in the UK, we consider this to be appropriate. The Group maintains an open working relationship with HMRC and seeks pre-clearance in respect of complex transactions as part of its low-risk tax strategy.

As a REIT, we are exempt from UK corporation tax in respect of our property rental business, provided we meet a number of conditions including distributing at least 90% of the rental income profits of this business (known as Property Income Distributions (PIDs)) on an annual basis. These PIDs are then typically treated as taxable income in the hands of shareholders. The Group's REIT exemption does not extend to either profits arising from the sale of investment properties which have undergone a major redevelopment within the preceding three years or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

During the year, GWP sold 95 Wigmore Street, W1. As the disposal occurred within three years of the completion of the development of the property, the Group's share of the gain arising is taxable. The Group anticipates that the gain will be sheltered by losses and therefore has not accrued a tax charge in respect of this disposal. The REIT legislation enables the Group to reclaim the REIT conversion charge it paid in 2007 in respect of the property, giving rise to a prior year tax credit of £0.6 million.

Despite being a REIT, we are subject to a number of other taxes and certain sector specific charges in the same way as non-REIT companies. During the year, we incurred £11.9 million in respect of stamp duty, empty rates in respect of vacant space, s106 contributions and community infrastructure levies.

**Dividend**
The Board has declared a final dividend of 5.6 pence per share (2015: 5.5 pence) which will be paid in July 2016. All of this final dividend will be a REIT PID in respect of the Group's tax exempt property rental business. Together with the interim dividend of 3.6 pence, the total dividend for the year is 9.2 pence per share (2015: 9.0 pence).

## Group income statement

**For the year ended 31 March 2016**

| | Notes | **2016 £m** | 2015 £m |
|---|---|---|---|
| **Total revenue** | 2 | **128.8** | 88.8 |
| Net rental income | 3 | **75.5** | 66.0 |
| Joint venture fee income | 12 | **4.1** | 4.2 |
| Rental and joint venture fee income | | **79.6** | 70.2 |
| Property expenses | 4 | **(8.2)** | (7.7) |
| **Net rental and related income** | | **71.4** | 62.5 |
| Administration expenses | 5 | **(24.4)** | (20.1) |
| Development management revenue | | **37.6** | 10.6 |
| Development management costs | | **(33.6)** | (8.9) |
| | | **4.0** | 1.7 |
| Trading property – cost of sales | | **(0.6)** | (4.8) |
| **Operating profit before surplus on property and results of joint ventures** | | **50.4** | 39.3 |
| Surplus from investment property | 10 | **422.2** | 380.6 |
| Share of results of joint ventures | 12 | **66.8** | 84.7 |
| **Operating profit** | | **539.4** | 504.6 |
| Finance income | 6 | **7.8** | 11.8 |
| Finance costs | 7 | **(14.8)** | (17.7) |
| Fair value movement on convertible bond | | **13.5** | (21.7) |
| Fair value movement on derivatives | | **9.2** | 30.4 |
| **Profit before tax** | | **555.1** | 507.4 |
| Tax | 8 | **1.1** | 0.8 |
| **Profit for the year** | | **556.2** | 508.2 |

| | | | |
|---|---|---|---|
| **Basic earnings per share** | 9 | **162.6p** | 148.3p |
| **Diluted earnings per share** | 9 | **161.9p** | 147.4p |
| **Diluted EPRA earnings per share** | 9 | **13.5p** | 12.7p |

All results are derived from continuing operations in the United Kingdom.

## Group statement of comprehensive income

**For the year ended 31 March 2016**

| | Notes | **2016 £m** | 2015 £m |
|---|---|---|---|
| Profit for the year | | **556.2** | 508.2 |
| **Items that will not be reclassified subsequently to profit and loss** | | | |
| Actuarial gain/(deficit) on defined benefit scheme | 25 | **0.1** | (3.1) |
| **Total comprehensive income and expense for the year** | | **556.3** | 505.1 |

# Group balance sheet

**At 31 March 2016**

| | Notes | **2016 £m** | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 10 | **2,932.1** | 2,348.2 |
| Investment in joint ventures | 12 | **543.4** | 636.7 |
| Plant and equipment | 13 | **1.1** | 0.2 |
| | | **3,476.6** | 2,985.1 |
| **Current assets** | | | |
| Trading property | 11 | **172.4** | 115.9 |
| Trade and other receivables | 14 | **37.0** | 28.1 |
| Corporation tax | 8 | **0.6** | – |
| Deferred tax | 8 | **1.3** | 0.8 |
| Cash and cash equivalents | | **12.7** | 4.3 |
| | | **224.0** | 149.1 |
| **Total assets** | | **3,700.6** | 3,134.2 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **(135.0)** | (73.1) |
| | | **(135.0)** | (73.1) |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 16 | **(600.2)** | (638.5) |
| Obligations under finance leases | 18 | **(50.5)** | (28.5) |
| Pension liability | 25 | **(2.7)** | (3.2) |
| | | **(653.4)** | (670.2) |
| **Total liabilities** | | **(788.4)** | (743.3) |
| **Net assets** | | **2,912.2** | 2,390.9 |
| | | | |
| **Equity** | | | |
| Share capital | 19 | **43.0** | 43.0 |
| Share premium account | | **352.0** | 352.0 |
| Capital redemption reserve | | **16.4** | 16.4 |
| Retained earnings | | **2,509.9** | 1,991.2 |
| Investment in own shares | 20 | **(9.1)** | (11.7) |
| **Total equity** | | **2,912.2** | 2,390.9 |
| | | | |
| **Net assets per share** | 9 | **847p** | 695p |
| **EPRA net assets per share** | 9 | **847p** | 709p |

Approved by the Board on 25 May 2016 and signed on its behalf by

**Toby Courtauld**
Chief Executive

**Nick Sanderson**
Finance Director

# Group statement of cash flows

**For the year ended 31 March 2016**

| | Notes | **2016 £m** | 2015 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | **539.4** | 504.6 |
| Adjustments for non-cash items | 21 | **(491.8)** | (471.2) |
| Deposits received on forward sale of residential units | | **34.9** | 22.3 |
| Development of trading property | | **(45.2)** | (18.1) |
| Decrease/(increase) in receivables | | **6.8** | (2.9) |
| (Decrease)/increase in payables | | **(1.5)** | 1.8 |
| Cash generated from operations | | **42.6** | 36.5 |
| Interest paid | | **(27.4)** | (28.4) |
| **Cash flows from operating activities** | | **15.2** | 8.1 |
| **Investing activities** | | | |
| Distributions from joint ventures | | **110.3** | 8.2 |
| Purchase and development of property | | **(365.8)** | (93.9) |
| Purchase of fixed assets | | **(1.1)** | (0.2) |
| Sale of properties | | **321.0** | 102.7 |
| Investment in joint ventures | | **(4.4)** | (1.0) |
| Exercise of put option on 100 Bishopsgate Partnership | | **–** | 15.8 |
| Sale of joint ventures | | **–** | 15.8 |
| **Cash flows from investing activities** | | **60.0** | 47.4 |
| **Financing activities** | | | |
| Borrowings (repaid)/drawn | | **(28.0)** | 15.0 |
| Purchase of derivatives | | **–** | (2.2) |
| Funds to joint ventures | | **(0.1)** | (22.6) |
| Purchase of own shares | | **(8.1)** | (19.1) |
| Equity dividends paid | | **(30.6)** | (30.1) |
| **Cash flows from financing activities** | | **(66.8)** | (59.0) |
| Net increase/(decrease) in cash and cash equivalents | | **8.4** | (3.5) |
| Cash and cash equivalents at 1 April | | **4.3** | 7.8 |
| **Cash and cash equivalents at balance sheet date** | | **12.7** | 4.3 |

# Group statement of changes in equity

**For the year ended 31 March 2016**

| | Notes | **Share capital £m** | **Share premium £m** | **Capital redemption reserve £m** | **Retained earnings £m** | **Investment in own shares £m** | **Total equity £m** |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2015 | | **43.0** | **352.0** | **16.4** | **1,991.2** | **(11.7)** | **2,390.9** |
| Profit for the year | | **–** | **–** | **–** | **556.2** | **–** | **556.2** |
| Actuarial gain on defined benefit scheme | **25** | **–** | **–** | **–** | **0.1** | **–** | **0.1** |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **20** | **–** | **–** | **–** | **–** | **4.2** | **4.2** |
| Purchase of own shares | **20** | **–** | **–** | **–** | **–** | **(8.1)** | **(8.1)** |
| Dividends to shareholders | **22** | **–** | **–** | **–** | **(31.1)** | **–** | **(31.1)** |
| Transfer to retained earnings | | **–** | **–** | **–** | **(6.5)** | **6.5** | **–** |
| **Total equity at 31 March 2016** | | **43.0** | **352.0** | **16.4** | **2,509.9** | **(9.1)** | **2,912.2** |

# Group statement of changes in equity

**For the year ended 31 March 2015**

| | Notes | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Investment in own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Total equity at 1 April 2014 | | 43.0 | 352.0 | 16.4 | 1,519.5 | 1.0 | 1,931.9 |
| Profit for the year | | – | – | – | 508.2 | – | 508.2 |
| Actuarial deficit on defined benefit scheme | 25 | – | – | – | (3.1) | – | (3.1) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | 20 | – | – | – | – | 3.5 | 3.5 |
| Purchase of own shares | 20 | – | – | – | – | (19.1) | (19.1) |
| Dividends to shareholders | 22 | – | – | – | (30.5) | – | (30.5) |
| Transfer to retained earnings | | – | – | – | (2.9) | 2.9 | – |
| **Total equity at 31 March 2015** | | 43.0 | 352.0 | 16.4 | 1,991.2 | (11.7) | 2,390.9 |

# Notes forming part of the Group financial statements

**1 Accounting policies**

**Basis of preparation**

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 31 March 2016. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standard (IFRS), as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information set out above does not constitute the Company' statutory accounts for the years ended 31 March 2016 or 2015 but is derived from those accounts. Those accounts give a true and fair value of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation taken as a whole. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's annual meeting. The auditor's reports on both the 2016 and 2015 accounts were unqualified; did not, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) of the Companies Act 2006 or preceding legislation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of properties, other investment, financial instruments and pension liability.

**Key accounting judgements**

In the process of applying the Group's accounting policies, the directors are required to make judgements, estimates and assumptions that may affect the financial statements. The directors believe that the judgements made in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated. Critical accounting judgements include the adoption of the external portfolio valuation without adjustment, the recognition of purchases and disposal of assets and the adoption of a single reporting segment. The accounting policies for these areas of judgement are set out in the accounting policies below.

**New accounting standards**

During the year ended 31 March 2016, the following accounting standards and guidance were adopted by the Group:

- Amendments to IAS19 Employee Benefits – Contributions from employees or third parties that are linked to service
- Amendments to IFRS (Annual Improvements cycle 2010-2012)
- Amendments to IFRS (Annual Improvements cycle 2011-2013)

The adoption of the Standards and Interpretations has not significantly impacted these financial statements.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS (Annual Improvements cycle 2012-2014)
- Amendments to IFRS 10 Consolidated Financial Statements
- Amendments to IFRS 11 Joint Arrangements
- Amendments to IAS 1 and IAS 7 Disclosure Initiatives
- Amendments to IAS 27 Separate Financial Statements
- Amendments to IAS 28 Investments in Associates and Joint Ventures
- Amendments to IAS 12 Income Taxes
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

The directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group.

**Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 March 2016. Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group directs the financial and operating policies of an entity to benefit from its activities.

**Rental income**

This comprises rental income and premiums on lease surrenders on investment properties for the year, exclusive of service charges receivable.

**Tenant leases**
The directors have considered the potential transfer of risks and rewards of ownership in accordance with IAS 17 – Leases for all properties leased to tenants and in their judgement have determined that all such leases are operating leases.

**Lease incentives**
Lease incentives, including rent-free periods and payments to tenants, are allocated to the income statement on a straight-line basis over the lease term or on another systematic basis, if applicable. The value of resulting accrued rental income is included within the respective property.

**Other property expenses**
Irrecoverable running costs directly attributable to specific properties within the Group's portfolio are charged to the income statement as other property expenses. Costs incurred in the improvement of the portfolio which, in the opinion of the directors, are not of a capital nature are written-off to the income statement as incurred.

**Administration expenses**
Costs not directly attributable to individual properties are treated as administration expenses.

**Share-based payment**
The cost of granting share-based payments to employees and directors is recognised within administration expenses in the income statement. The Group has used the Stochastic model to value the grants, which is dependent upon factors including the share price, expected volatility and vesting period, and the resulting fair value is amortised through the income statement over the vesting period. The charge is reversed if it is likely that any non-market-based criteria will not be met.

**Investment property**
Investment properties and investment properties under development are professionally valued on a fair value basis by qualified external valuers and the directors must ensure that they are satisfied that the valuation of the Group's properties is appropriate for inclusion in the accounts without adjustment.

The valuations of investment properties and investment properties under development have been prepared in accordance with the Global RICS Valuation – Professional Standards (January 2014).

For investment property, this approach involves applying market-derived capitalisation yields to current and market-derived future income streams with appropriate adjustments for income voids arising from vacancies or rent-free periods. These capitalisation yields and future income streams are derived from comparable property and leasing transactions and are considered to be the key inputs in the valuation. Other factors that are taken into account in the valuations include the tenure of the property, tenancy details, planning, building and environmental factors that might affect the property.

In the case of investment property under development, the approach applied is the 'residual method' of valuation, which is the investment method of valuation as described above with a deduction for the costs necessary to complete the development, together with an allowance for the remaining risk.

Sales and purchases of investment properties are recognised when the risks and rewards of ownership transfer.

**Trading property**
Trading property is being developed for sale or being held for sale after development is complete, and is carried at the lower of cost and net realisable value. Cost includes direct expenditure and capitalised interest. Cost of sales, including costs associated with off-plan residential sales, are expensed to the income statement as incurred.

**Depreciation**
No depreciation is provided in respect of freehold investment properties and leasehold investment properties. Depreciation is provided on plant and equipment, at rates calculated to write off the cost, less estimated residual value, based on prices prevailing at the balance sheet date of each asset evenly over its expected useful life, as follows:

Fixtures and fittings – over three to five years.

Leasehold improvements – over the term of the lease.

**Joint ventures**
Joint ventures are accounted for under the equity method where, in the directors' judgement, the Group has joint control of the entity. The Group's level of control in its joint ventures is driven both by the individual agreements which set out how control is shared by the partners and how that control is exercised in practice. The Group balance sheet contains the Group's share of the net assets of its joint ventures. Balances with partners owed to or from the Group by joint ventures are included within investments. The Group's share of joint venture profits and losses are included in the Group income statement in a single line. All of the Group's joint ventures adopt the accounting policies of the Group for inclusion in the Group financial statements.

**Income tax**
Current tax is the amount payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full on temporary differences between the tax base of an asset or liability and its carrying

amount in the balance sheet. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax assets can be utilised. No provision is made for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Tax is included in the income statement except when it relates to items recognised directly in other comprehensive income or equity, in which case the related tax is also recognised directly in other comprehensive income or equity.

**Pension benefits**
The Group contributes to a defined benefit pension plan which is funded with assets held separately from those of the Group. The full value of the net assets or liabilities of the pension fund is brought on to the balance sheet at each balance sheet date. Actuarial gains and losses are taken to reserves; all other movements are taken to the income statement.

**Capitalisation of interest**
Interest associated with direct expenditure on investment and trading properties under development is capitalised. Direct expenditure includes the purchase cost of a site if it has been purchased with the specific intention to redevelop, but does not include the original book cost of a site where no intention existed. Interest is capitalised from the start of the development work until the date of practical completion. The rate used is the Group's weighted average cost of borrowings or, if appropriate, the rate on specific associated borrowings.

**Financial instruments**
**i Derivatives** The Group uses derivative financial instruments to hedge its exposure to foreign currency fluctuations and interest rate risks. The Group's derivatives are measured at fair value in the balance sheet. To the extent that a derivative is a designated hedge and provides an effective cash flow hedge against the Group's underlying exposure, the movements in the fair value of the hedge are taken to equity. To the extent that the derivative is not a designated hedge or does not effectively hedge the underlying exposure, the movement in the fair value of the hedge is taken to the income statement.

**ii Borrowings** The Group's borrowings in the form of its debentures, private placement notes and bank loans are recognised initially at fair value, after taking account of any discount or premium on issue and attributable transaction costs. Subsequently, borrowings are held at amortised cost, with any discounts, premiums and attributable costs charged to the income statement using the effective interest rate method.

**iii Convertible bond** The Group's convertible bond can be settled in shares, cash or a combination of both at the Group's discretion. The bonds have been designated at fair value through profit and loss upon initial recognition, with any gains or losses arising subsequently due to re-measurement being recognised in the income statement.

**iv Cash and cash equivalents** Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to insignificant risk of changes in value.

**v Trade receivables and payables** Trade receivables and payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

**Head leases**
The present value of future ground rents is added to the carrying value of a leasehold investment property and to long-term liabilities. On payment of a ground rent, virtually all of the cost is charged to the income statement, principally as interest payable, and the balance reduces the liability; an equal reduction to the asset's valuation is charged to the income statement.

**Segmental analysis**
All of the Group's revenue is generated from investment properties located in central London. The properties are managed as a single portfolio by an asset management team whose responsibilities are not segregated by location or type, but are managed on an asset-by-asset basis. The majority of the Group's assets are mixed-use, therefore the office, retail and any residential space is managed together. Within the property portfolio, the Group has a number of properties under development. The directors view the Group's development activities as an integral part of the life cycle of each of its assets rather than a separate business or division. The nature of developing property means that whilst a property is under development it generates no revenue and has no operating results. Once a development has completed, it returns to the investment property portfolio, or if it is a trading property, it is sold. The directors have considered the nature of the business, how the business is managed and how they review performance and, in their judgement, the Group has only one reportable segment. The components of the valuation, as provided by CBRE, are set out in note 10.

**Development management agreements**
The Group sold a development property prior to its completion and has a development management agreement with the buyer to construct the remainder of the building on their behalf. Where the outcome of this development management agreement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract at the balance sheet date. This is normally measured as the proportion that contract costs incurred for work performed bear to the estimated total contract costs. Variations in work, claims and incentive payments are included to the extent that they have been agreed with the counterparty.

Where the outcome of the development management agreement cannot be estimated reliably, contract revenue is recognised to the extent of costs incurred where it is probable they will be recoverable. Costs are recognised as expenses in the period in which they are incurred. When it is probable that total costs will exceed total revenue, the expected loss is recognised as an expense immediately.

## 2 Total revenue

| | **2016 £m** | 2015 £m |
|---|---|---|
| Gross rental income | **72.8** | 58.6 |
| Spreading of tenant lease incentives | **3.0** | 7.6 |
| Service charge income | **11.3** | 7.8 |
| Joint venture fee income | **4.1** | 4.2 |
| Development management revenue | **37.6** | 10.6 |
| | **128.8** | 88.8 |

## 3 Net rental income

| | **2016 £m** | 2015 £m |
|---|---|---|
| Gross rental income | **72.8** | 58.6 |
| Spreading of tenant lease incentives | **3.0** | 7.6 |
| Ground rents | **(0.3)** | (0.2) |
| | **75.5** | 66.0 |

## 4 Property expenses

| | **2016 £m** | 2015 £m |
|---|---|---|
| Service charge income | **(11.3)** | (7.8) |
| Service charge expenses | **12.3** | 9.7 |
| Other property expenses | **7.2** | 5.8 |
| | **8.2** | 7.7 |

## 5 Administration expenses

| | **2016 £m** | 2015 £m |
|---|---|---|
| Employee costs | **20.1** | 16.5 |
| Other head office costs | **4.3** | 3.6 |
| | **24.4** | 20.1 |

Included within employee costs is an accounting charge for the LTIP and SMP schemes of £4.2 million (2015: £3.5 million).

Employee costs, including those of directors, comprise the following:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Wages and salaries | **19.2** | 15.1 |
| Social security costs | **2.5** | 2.9 |
| Other pension costs | **1.5** | 1.4 |
| | **23.2** | 19.4 |
| Less: recovered through service charges | **(1.0)** | (1.0) |
| Less: capitalised into development projects | **(2.1)** | (1.9) |
| | **20.1** | 16.5 |

The Executive Directors are considered to be key management for the purposes of IAS 24 ‘Related Party Transactions’. The Group’s key management, its pension plan and joint ventures are the Group’s only related parties.

**Employee information**

The average number of employees of the Group, including directors, was:

| | **2016 Number** | 2015 Number |
|---|---|---|
| Head office and property management | **96** | 96 |

**Auditor's remuneration**

| | **2016 £000's** | 2015 £000's |
|---|---|---|
| Audit of the Company's annual accounts | **114** | 99 |
| Audit of subsidiaries | **96** | 83 |
| | **210** | 182 |
| Audit-related assurance services, including the interim review | **61** | 61 |
| Total audit and audit-related services | **271** | 243 |
| Services related to taxation (advisory) | **11** | 9 |
| Other non-audit services | **–** | 118 |
| | **282** | 370 |

**6 Finance income**

| | **2016 £m** | 2015 £m |
|---|---|---|
| Interest on balances with joint venture partners | 7.8 | 11.8 |

**7 Finance costs**

| | **2016 £m** | 2015 £m |
|---|---|---|
| Interest on revolving credit facilities | **3.4** | 4.3 |
| Interest on private placement notes | **12.9** | 12.5 |
| Interest on debenture stock | **8.0** | 8.0 |
| Interest on convertible bond | **1.5** | 1.5 |
| Interest on obligations under finance leases | **2.3** | 1.4 |
| Break costs on refinanced revolving credit facilities | **–** | 1.4 |
| Gross finance costs | **28.1** | 29.1 |
| Less: capitalised interest at an average rate of 3.9% (2015: 4.1%) | **(13.3)** | (11.4) |
| | **14.8** | 17.7 |

**8 Tax**

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | **–** | – |
| Tax over provided in previous years | **(0.6)** | – |
| Total current tax | **(0.6)** | – |
| **Deferred tax** | **(0.5)** | (0.8) |
| Tax credit for the year | **(1.1)** | (0.8) |

The difference between the standard rate of tax and the effective rate of tax arises from the items set out below:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Profit before tax | **555.1** | 507.4 |
| Tax charge on profit at standard rate of 20% (2015: 21%) | **111.0** | 106.6 |
| REIT tax-exempt rental profits and gains | **(18.4)** | (13.1) |
| Non-taxable revaluation surplus | **(89.3)** | (93.7) |
| Prior periods' corporation tax | **(0.6)** | – |
| Other | **(3.8)** | (0.6) |
| Tax credit for the year | **(1.1)** | (0.8) |

During the year, £nil (2015: £nil) of deferred tax was credited directly to equity. The Group's net deferred tax at 31 March 2016 was £1.3 million (2015: £0.8 million), based on a 20% tax rate. This consists of a deferred tax liability of £nil (2015: £8.5 million) and a deferred tax asset of £1.3 million (2015: £9.3 million).

**Movement in deferred tax**

| | At 1 April 2015 £m | **Recognised in the income statement £m** | **At 31 March 2016 £m** |
|---|---|---|---|
| Revaluation surpluses | (8.5) | **8.5** | **–** |
| Revenue losses recognised in respect of revaluation surpluses | 8.5 | **(8.5)** | **–** |
| Revenue losses recognised in respect of trading property – cost of sales | 0.8 | **0.5** | **1.3** |
| Net deferred tax asset | 0.8 | **0.5** | **1.3** |

In accordance with IAS 12 – Income Taxes, deferred tax liabilities have been recognised in respect of revaluation surpluses relating to properties which do not benefit from the Group's REIT status.

A deferred tax asset of £3.8 million (2015: £5.5 million), mainly relating to contingent share awards, the pension liability and the convertible bond was not recognised because it is uncertain whether future taxable profits will arise against which this asset can be utilised.

As a REIT, the Group is largely exempt from corporation tax in respect of its rental profits and chargeable gains relating to its property rental business. The Group is otherwise subject to corporation tax. In particular, the Group's REIT exemption does not extend to either profits arising from the sale of investment properties which have undergone a major redevelopment within the preceding three years or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

In order to ensure that the Group is able to both retain its status as a REIT and to avoid financial charges being imposed, a number of tests (including a minimum distribution test) must be met by both Great Portland Estates plc and by the Group as a whole on an ongoing basis. These conditions are detailed in the Corporation Tax Act 2010.

## 9 Performance measures and EPRA metrics

Adjusted earnings and net assets per share are calculated in accordance with the Best Practice Recommendations issued by the European Public Real Estate Association (EPRA).

**Weighted average number of ordinary shares**

| | **2016 Number of shares** | 2015 Number of shares |
|---|---|---|
| Issued ordinary share capital at 1 April | **343,926,149** | 343,926,149 |
| Investment in own shares | **(1,811,076)** | (1,178,160) |
| Weighted average number of ordinary shares – Basic | **342,115,073** | 342,747,989 |

**Basic and diluted earnings per share**

| | **Profit after tax 2016 £m** | **Number of shares 2016 million** | **Earnings per share 2016 pence** | Profit after tax 2015 £m | Number of shares 2015 million | Earnings per share 2015 pence |
|---|---|---|---|---|---|---|
| Basic | **556.2** | **342.1** | **162.6** | 508.2 | 342.7 | 148.3 |
| Dilutive effect of LTIP shares | **–** | **1.4** | **(0.7)** | – | 2.0 | (0.9) |
| Diluted | **556.2** | **343.5** | **161.9** | 508.2 | 344.7 | 147.4 |

**Basic and diluted EPRA earnings per share**

| | **Profit after tax 2016 £m** | **Number of shares 2016 million** | **Earnings per share 2016 pence** | Profit after tax 2015 £m | Number of shares 2015 million | Earnings per share 2015 pence |
|---|---|---|---|---|---|---|
| Basic | **556.2** | **342.1** | **162.6** | 508.2 | 342.7 | 148.3 |
| Surplus from investment property (note 10) | **(422.2)** | **–** | **(123.4)** | (380.6) | – | (111.0) |
| Surplus from joint venture investment property (note 12) | **(64.6)** | **–** | **(18.9)** | (80.1) | – | (23.4) |
| Movement in fair value of derivatives | **(9.2)** | **–** | **(2.7)** | (30.4) | – | (8.9) |
| Movement in fair value of convertible bond | **(13.5)** | **–** | **(4.0)** | 21.7 | – | 6.3 |
| Movement in fair value of derivatives in joint ventures (note 12) | **1.0** | **–** | **0.3** | 0.9 | – | 0.3 |
| Trading property – cost of sales | **0.6** | **–** | **0.2** | 4.8 | – | 1.4 |
| Break costs on refinanced revolving credit facilities (note 7) | **–** | **–** | **–** | 1.4 | – | 0.4 |
| Deferred tax (note 8) | **(0.5)** | **–** | **(0.1)** | (0.8) | – | (0.2) |
| Basic EPRA earnings | **47.8** | **342.1** | **14.0** | 45.1 | 342.7 | 13.2 |
| Dilutive effect of LTIP shares | **–** | **1.4** | **(0.1)** | – | 2.0 | (0.1) |
| Dilutive effect of convertible bond | **1.5** | **21.0** | **(0.4)** | 1.5 | 21.0 | (0.4) |
| Diluted EPRA earnings | **49.3** | **364.5** | **13.5** | 46.6 | 365.7 | 12.7 |

**EPRA net assets per share**

| | **Net assets 2016 £m** | **Number of shares 2016 million** | **Net assets per share 2016 pence** | Net assets 2015 £m | Number of shares 2015 million | Net assets per share 2015 pence |
|---|---|---|---|---|---|---|
| Basic net assets | **2,912.2** | **343.9** | **847** | 2,390.9 | 343.9 | 695 |
| Investment in own shares | **–** | **(2.6)** | **6** | – | (2.9) | 6 |
| Dilutive effect of convertible bond | **150.0** | **21.0** | **(8)** | – | – | – |
| Dilutive effect of LTIP shares | **–** | **1.4** | **(3)** | – | 2.0 | (4) |
| Diluted net assets | **3,062.2** | **363.7** | **842** | 2,390.9 | 343.0 | 697 |
| Surplus on revaluation of trading property (note 11) | **22.2** | **–** | **6** | 21.5 | – | 6 |
| Fair value of convertible bond (note 17) | **19.5** | **–** | **6** | 33.0 | – | 10 |
| Fair value of derivatives (note 17) | **(24.3)** | **–** | **(7)** | (15.1) | – | (4) |
| Fair value of derivatives in joint ventures (note 12) | **1.2** | **–** | **–** | 1.5 | – | – |
| Deferred tax (note 8) | **(1.3)** | **–** | **–** | (0.8) | – | – |
| EPRA net assets (NAV) | **3,079.5** | **363.7** | **847** | 2,431.0 | 343.0 | 709 |
| Fair value of financial liabilities (note 17) | **(75.5)** | **–** | **(21)** | (62.0) | – | (18) |
| Fair value of financial liabilities in joint ventures (note 12) | **(1.6)** | **–** | **–** | (0.5) | – | – |
| Fair value of convertible bond (note 17) | **–** | **–** | **–** | (33.0) | – | (10) |
| Fair value of derivatives (note 17) | **24.3** | **–** | **6** | 15.1 | – | 4 |
| Fair value of derivatives in joint ventures (note 12) | **(1.2)** | **–** | **–** | (1.5) | – | – |
| Tax arising on sale of trading properties | **(4.2)** | **–** | **(1)** | (4.1) | – | (1) |
| Deferred tax (note 8) | **1.3** | **–** | **–** | 0.8 | – | – |
| EPRA triple net assets (NNNAV) | **3,022.6** | **363.7** | **831** | 2,345.8 | 343.0 | 684 |

The Group has £150.0 million of convertible bonds in issue with an initial conversion price of £7.15 per share. The dilutive effect of the contingently issuable shares within the convertible bond is required to be recognised in accordance with IAS 33 – Earnings per Share. For the current and prior year the convertible bond had no dilutive impact. In accordance with the EPRA Best Practice Recommendations, we have presented EPRA earnings per share on a basic and diluted basis.

**EPRA cost ratio (including share of joint ventures)**

| | 2016 £m | 2015 £m |
|---|---|---|
| Administration expenses | **24.4** | 20.1 |
| Property expenses | **8.2** | 7.7 |
| Joint venture management fees | **(4.1)** | (4.2) |
| Joint venture property and administration costs | **2.2** | 2.5 |
| EPRA costs (including direct vacancy costs) (A) | **30.7** | 26.1 |
| Direct vacancy costs | **(2.3)** | (3.2) |
| Joint venture direct vacancy costs | **(1.1)** | (0.8) |
| EPRA costs (excluding direct vacancy costs) (B) | **27.3** | 22.1 |
| | | |
| Net rental income | **75.5** | 66.0 |
| Joint venture net rental income | **17.0** | 24.8 |
| Gross rental income (C) | **92.5** | 90.8 |
| | | |
| Portfolio at fair value including joint ventures (D) | **3,703.9** | 3,206.2 |
| | | |
| Cost ratio (including direct vacancy costs) (A/C) | **33.2%** | 28.7% |
| Cost ratio (excluding direct vacancy costs) (B/C) | **29.5%** | 24.3% |
| Cost ratio (by portfolio value) (A/D) | **0.8%** | 0.8% |

**10 Investment property**
**Investment property**

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| Book value at 1 April 2014 | 950.1 | 767.4 | 1,717.5 |
| Acquisitions | – | 25.4 | 25.4 |
| Costs capitalised | 5.7 | 8.3 | 14.0 |
| Disposals | (8.0) | – | (8.0) |
| Transfer to investment property under development | (74.9) | (84.4) | (159.3) |
| Transfer from investment property under development | – | 92.4 | 92.4 |
| Net valuation surplus on investment property | 154.4 | 99.6 | 254.0 |
| Book value at 31 March 2015 | 1,027.3 | 908.7 | 1,936.0 |
| Acquisitions | **124.9** | **213.7** | **338.6** |
| Costs capitalised | **4.0** | **22.4** | **26.4** |
| Disposals | **(102.8)** | **(192.1)** | **(294.9)** |
| Transfer to investment property under development | **(30.4)** | **–** | **(30.4)** |
| Transfer from investment property under development | **7.5** | **–** | **7.5** |
| Net valuation surplus on investment property | **103.0** | **94.2** | **197.2** |
| Book value at 31 March 2016 | **1,133.5** | **1,046.9** | **2,180.4** |

**Investment property under development**

| | Freehold £m | Leasehold £m | Total £m |
|---|---|---|---|
| Book value at 1 April 2014 | 114.2 | 141.0 | 255.2 |
| Costs capitalised | 28.4 | 22.7 | 51.1 |
| Interest capitalised | 5.4 | 2.3 | 7.7 |
| Disposals | – | (80.6) | (80.6) |
| Transfer from investment property | 74.9 | 84.4 | 159.3 |
| Transfer to investment property | – | (92.4) | (92.4) |
| Net revaluation surplus on investment property under development | 53.6 | 58.3 | 111.9 |
| Book value at 31 March 2015 | 276.5 | 135.7 | 412.2 |
| Costs capitalised | **96.2** | **12.9** | **109.1** |
| Interest capitalised | **7.9** | **0.8** | **8.7** |
| Transfer from investment property | **30.4** | **–** | **30.4** |
| Transfer to investment property | **(7.5)** | **–** | **(7.5)** |
| Net revaluation surplus on investment property under development | **133.1** | **65.7** | **198.8** |
| Book value at 31 March 2016 | **536.6** | **215.1** | **751.7** |

| | | | |
|---|---|---|---|
| **Total investment property** | **1,670.1** | **1,262.0** | **2,932.1** |

The book value of investment property includes £50.5 million (2015: £28.5 million) in respect of the present value of future ground rents, the market value of the portfolio (excluding these amounts) is £2,881.6 million. The market value of the Group's total property portfolio, including trading properties, was £3,076.2 million (2015: £2,457.1 million).

At 31 March 2016, property with a carrying value of £403.4 million (2015: £356.6 million) was secured under the first mortgage debenture stock (see note 16) and £25.8 million of property was held for sale.

The cumulative interest capitalised in investment property was £26.1 million (2015: £17.4 million).

**Surplus from investment property**

| | 2016 £m | 2015 £m |
|---|---|---|
| Net valuation surplus on investment property | **396.0** | 365.9 |
| Profit on sale of investment properties | **26.2** | 14.7 |
| | **422.2** | 380.6 |

The Group's investment properties, including those held in joint venture (note 12), were valued on the basis of Fair Value by CBRE Limited (CBRE), external valuers, as at 31 March 2016 in accordance with the Global RICS Valuation – Professional Standards January 2014 and the RICS UK valuation standards and guidance notes December 2014 (the Red Book) and have been primarily derived using comparable recent market transactions on arm's length terms.

The total fees, including the fee for this assignment, earned by CBRE (or other companies forming part of the same group of companies within the UK) from the Group are less than 5.0% of total UK revenues.

The principal signatories of the CBRE valuation reports have continuously been the signatories of valuations for the same addressee and valuation purpose as this report since 2012. CBRE has continuously been carrying out valuation instructions for the Group for in excess of 20 years. CBRE has carried out valuation, agency and professional services on behalf of the Group for in excess of 20 years.

Real estate valuations are complex and derived using comparable market transactions which are not publicly available and involve an element of judgement. Therefore, in line with EPRA guidance, we have classified the valuation of the property portfolio as Level 3 as defined by IFRS 13. There were no transfers between levels during the year. Inputs to the valuation, including capitalisation yields (typically the true equivalent yield) and rental values, are defined as 'unobservable' as defined by IFRS 13.

**Key inputs to the valuation**

| | | ERV | | True equivalent yield | |
|---|---|---|---|---|---|
| | | Average £ per sq ft | Range £ per sq ft | Average % | Range % |
| North of Oxford Street | Office | **71** | **44 – 82** | **4.3** | **3.9 – 5.9** |
| | Retail | **64** | **34 – 181** | **3.8** | **3.6 – 5.5** |
| Rest of West End | Office | **83** | **64 – 96** | **4.5** | **3.6 – 5.6** |
| | Retail | **114** | **15 – 257** | **4.2** | **3.4 – 4.3** |
| City, Midtown & Southwark | Office | **55** | **42 – 62** | **5.0** | **4.7 – 5.6** |
| | Retail | **71** | **32 – 116** | **5.1** | **4.7 – 5.1** |
| | | Capital value | | | |
| | | Average £ per sq ft | Range £ per sq ft | | |
| Residential | | **1,886** | **684 - 2,914** | **n/a** | **n/a** |

Everything else being equal, there is a positive relationship between rental values and the property valuation, such that an increase in rental values will increase the valuation of a property and vice versa. However, the relationship between capitalisation yields and the property valuation is negative; therefore an increase in capitalisation yields will reduce the valuation of a property and vice versa. There are interrelationships between these inputs as they are determined by market conditions, and the valuation movement in any one period depends on the balance between them. If these inputs move in opposite directions (i.e. rental values increase and yields decrease) valuation movements can be amplified, whereas if they move in the same direction they may offset, reducing the overall net valuation movement.

At 31 March 2016, the Group had capital commitments of £241.5 million (2015: £324.6 million).

**EPRA capital expenditure**

| | 2016 £m | 2015 £m |
|---|---|---|
| **Group** | | |
| Acquisitions | **338.6** | 25.4 |
| Developments (including trading properties) | **161.0** | 70.0 |
| Investment property | **26.4** | 14.0 |
| Interest capitalised (including trading properties) | **13.3** | 11.4 |
| **Joint ventures (at share)** | | |
| Acquisitions (excluding those from the GPE Group) | **–** | 13.9 |
| Developments | **5.0** | – |
| Investment property | **13.3** | 10.0 |
| Interest capitalised | **0.7** | – |
| | **558.3** | 144.7 |

## 11 Trading property

| | Total £m |
|---|---|
| At 1 April 2015 | 115.9 |
| Costs capitalised | **51.9** |
| Interest capitalised | **4.6** |
| At 31 March 2016 | **172.4** |

The Group is developing a large mixed-use scheme at Rathbone Square, W1. Part of the approved scheme consists of residential units which the Group holds for sale. As a result, the residential element of the scheme is classified as trading property. The fair value of the trading property was £194.6 million (2015: £137.4 million), representing a cumulative valuation uplift of £22.2 million (2015: £21.5 million).

## 12 Investment in joint ventures

The Group has the following investments in joint ventures:

| | Equity £m | Balances with partners £m | 2016 Total £m | 2015 Total £m |
|---|---|---|---|---|
| At 1 April | 428.3 | 208.4 | 636.7 | 524.8 |
| Movement on joint venture balances | – | **44.6** | **44.6** | 34.4 |
| Additions | **4.4** | – | **4.4** | 1.0 |
| Share of profit of joint ventures | **2.8** | – | **2.8** | 4.6 |
| Share of revaluation surplus of joint ventures | **50.0** | – | **50.0** | 80.2 |
| Share of profit on disposal of joint venture properties | **14.0** | – | **14.0** | (0.1) |
| Share of results of joint ventures | **66.8** | – | **66.8** | 84.7 |
| Transfer to subsidiaries – Great Star Partnership | **(33.4)** | **(65.4)** | **(98.8)** | – |
| Distributions | **(110.3)** | – | **(110.3)** | (8.2) |
| At 31 March | **355.8** | **187.6** | **543.4** | 636.7 |

The investments in joint ventures comprise the following:

| | Country of incorporation | 2016 ownership | 2015 ownership |
|---|---|---|---|
| The GHS Limited Partnership | Jersey | **50%** | 50% |
| The Great Capital Partnership | United Kingdom | **50%** | 50% |
| The Great Ropemaker Partnership | United Kingdom | **50%** | 50% |
| The Great Star Partnership | United Kingdom | – | 50% |
| The Great Victoria Partnerships | United Kingdom | **50%** | 50% |
| The Great Wigmore Partnership | United Kingdom | **50%** | 50% |

All of the Group's joint ventures operate solely in the United Kingdom.

The Group's share in the assets and liabilities, revenues and expenses for the joint ventures is set out below:

| | The GHS Limited Partnership £m | The Great Capital Partnership £m | The Great Ropemaker Partnership £m | The Great Star Partnership £m | The Great Victoria Partnerships £m | The Great Wigmore Partnership £m | 2016 Total £m | 2016 At share £m | 2015 At share £m |
|---|---|---|---|---|---|---|---|---|---|
| **Balance sheets** | | | | | | | | | |
| Investment property | **268.6** | – | **668.3** | – | **293.9** | **35.0** | **1,265.8** | **632.9** | 765.3 |
| Current assets | – | – | **0.9** | – | **0.3** | **0.1** | **1.3** | **0.7** | 0.8 |
| Cash | **3.1** | **0.1** | **8.4** | – | **4.3** | **0.9** | **16.8** | **8.4** | 15.1 |
| Balances (from)/to Partners | **(75.9)** | – | **(310.2)** | – | **10.9** | – | **(375.2)** | **(187.6)** | (208.4) |
| Bank loans | – | – | **(89.4)** | – | **(79.5)** | – | **(168.9)** | **(84.5)** | (112.7) |
| Derivatives | – | – | **(2.4)** | – | – | – | **(2.4)** | **(1.2)** | (1.5) |
| Current liabilities | **(0.3)** | – | **(9.9)** | – | **(5.2)** | **(0.1)** | **(15.5)** | **(7.7)** | (14.1) |
| Finance leases | – | – | **(10.3)** | – | – | – | **(10.3)** | **(5.2)** | (16.2) |
| Net assets | **195.5** | **0.1** | **255.4** | – | **224.7** | **35.9** | **711.6** | **355.8** | 428.3 |
| **Income statements** | | | | | | | | | |
| Net rental income | **0.6** | – | **19.9** | **0.9** | **11.4** | **1.2** | **34.0** | **17.0** | 24.8 |
| Property and administration costs | **(0.8)** | – | **(2.9)** | – | **(0.4)** | **(0.3)** | **(4.4)** | **(2.2)** | (2.5) |
| Net finance costs | **(3.7)** | – | **(14.4)** | **(0.6)** | **(3.1)** | **(0.1)** | **(21.9)** | **(11.0)** | (16.8) |
| Movement in fair value of derivatives | – | – | **(2.0)** | – | – | – | **(2.0)** | **(1.0)** | (0.9) |
| Share of profit from joint ventures | **(3.9)** | – | **0.6** | **0.3** | **7.9** | **0.8** | **5.7** | **2.8** | 4.6 |
| Revaluation of investment property | **27.3** | – | **44.6** | **3.9** | **23.5** | **1.7** | **101.0** | **50.0** | 80.2 |
| Profit on sale of investment property | – | – | – | – | – | **28.0** | **28.0** | **14.0** | (0.1) |
| Share of results of joint ventures | **23.4** | – | **45.2** | **4.2** | **31.4** | **30.5** | **134.7** | **66.8** | 84.7 |

In April 2015, the Group acquired Starwood Capital Group's 50% interest in The Great Star Partnership, together with some intermediate holding companies, for £61.4 million.

Therefore, on GPE obtaining control, all subsequent results have been consolidated into the Group's results. The amounts recognised on acquisition in respect of the identifiable assets and liabilities are set out below:

| | 2016 £m |
|---|---|
| **Balance Sheet** | |
| Investment property | **97.7** |
| Cash | **2.8** |
| Balances from Partners | **(65.4)** |
| Net current liabilities | **(1.7)** |
| Net assets | **33.4** |

The non-recourse debt facilities of the joint ventures at 31 March 2016 are set out below:

| Joint venture debt facilities | Nominal value (100%) £m | Maturity | Fixed/floating | Interest rate |
|---|---|---|---|---|
| The Great Ropemaker Partnership | 90.0 | December 2020 | Floating | LIBOR +1.25% |
| The Great Victoria Partnership | 80.0 | July 2022 | Fixed | 3.74% |
| Total | 170.0 | | | |

In December 2015, The Great Ropemaker Partnership arranged a new £90 million, five year non-recourse bank loan to refinance an existing £73 million bank loan. It also entered into two interest rate swaps with a fixed rate of 1.42%, which expire coterminously with the bank loan in 2020, with a notional principal amount of £90.0 million. The new loan has an all-in hedged coupon of 2.67% for the duration of the loan. At 31 March 2016, The Great Victoria Partnership loan had a fair value of £83.2 million (2015: £80.9 million). All interest-bearing loans are in sterling. At 31 March 2016, the joint ventures had £nil undrawn facilities (2015: £nil).

Transactions during the year between the Group and its joint ventures, which are related parties, are disclosed below:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Movement on joint venture balances during the year | **(20.8)** | 34.4 |
| Balances receivable at the year end from joint ventures | **(187.6)** | (208.4) |
| Distributions | **110.3** | 8.2 |
| Fee income | **4.1** | 4.2 |
| Property sales from the Group to joint ventures | **–** | – |

The joint venture balances bear interest as follows: The GHS Limited Partnership at 5.3% on balances at inception and 4.0% on any subsequent balances, The Great Ropemaker Partnership at 4.0%, and The Great Wigmore Partnership at 4.0%.

The investment properties include £5.2 million (2015: £16.2 million) in respect of the present value of future ground rents, net of these amounts the market value of our share of the total joint venture properties is £627.7 million. The Group earns fee income from its joint ventures for the provision of management services. All of the above transactions are made on terms equivalent to those that prevail in arm's length transactions.

In April 2015, The Great Wigmore Partnership, the 50:50 joint venture between the Group and Aberdeen Asset Management, sold its largest asset, 95 Wigmore Street, W1 and 35 St James Street, W1 for a price of £222.4 million (our share £111.2 million). At 31 March 2016, the Group had £nil contingent liabilities arising in its joint ventures (2015: £nil). At 31 March 2016, the Group had capital commitments in respect of its joint ventures of £117.9 million (2015: £43.7 million).

## 13 Plant and equipment

| | Leasehold improvements £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 April 2014 | 2.0 | 1.5 | 3.5 |
| Costs capitalised | 0.1 | 0.1 | 0.2 |
| At 31 March 2015 | 2.1 | 1.6 | 3.7 |
| Costs capitalised | **1.0** | **0.1** | **1.1** |
| Disposals | **(2.0)** | **–** | **(2.0)** |
| At 31 March 2016 | **1.1** | **1.7** | **2.8** |
| **Depreciation** | | | |
| At 1 April 2015 | 1.9 | 1.6 | 3.5 |
| Charge for the year | **0.2** | **–** | **0.2** |
| Disposals | **(2.0)** | **–** | **(2.0)** |
| At 31 March 2016 | **0.1** | **1.6** | **1.7** |
| Carrying amount at 31 March 2015 | 0.2 | – | 0.2 |
| Carrying amount at 31 March 2016 | **1.0** | **0.1** | **1.1** |

## 14 Trade and other receivables

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade receivables | **3.9** | 2.4 |
| Allowance for doubtful debts | **(0.2)** | (0.1) |
| | **3.7** | 2.3 |
| Prepayments and accrued income | **1.2** | 0.8 |
| Work in progress on development management contracts | **2.4** | 6.0 |
| Other trade receivables | **5.4** | 3.9 |
| Derivatives | **24.3** | 15.1 |
| | **37.0** | 28.1 |

Work in progress on development management contracts is an amount due to the Group in relation to a development property sold prior to its completion where the Group has a contract with the buyer to construct the remainder of the building on their behalf. During the year, the Group received payments on account of £41.2 million (2015: £4.6 million). At 31 March 2016, the aggregate cumulative cost incurred was £42.5 million (2015: £8.9 million) and the cumulative profits less losses recognised were £5.7 million (2015: £1.7 million). There are no material project retentions.

At 31 March 2016, the derivatives were due in excess of one year (see note 17). Trade receivables consist of rent and service charge monies, which are due on the quarter day with no credit period. Interest is charged on trade receivables in accordance with the terms of the tenant's lease. Trade receivables are provided for based on estimated irrecoverable amounts determined by past default experience and knowledge of the individual tenant's circumstance. Debtors past due but not impaired were £3.0 million (2015: £0.9 million) of which £1.8 million is over 30 days.

| | 2016 £m | 2015 £m |
|---|---|---|
| **Movements in allowance of doubtful debts** | | |
| Balance at the beginning of the year | **(0.1)** | (0.3) |
| Amounts provided for during the year | **(0.1)** | – |
| Amounts written-off as uncollectable | **–** | 0.2 |
| | **(0.2)** | (0.1) |

## 15 Trade and other payables

| | 2016 £m | 2015 £m |
|---|---|---|
| Rents received in advance | **21.1** | 16.7 |
| Deposits received on forward sale of residential units (see note 11) | **57.2** | 22.3 |
| Non-trade payables and accrued expenses | **56.7** | 34.1 |
| | **135.0** | 73.1 |

Non-trade payables and accrued expenses includes capital accruals such as amounts in respect of overage arrangements.

## 16 Interest-bearing loans and borrowings

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Non-current liabilities at amortised cost** | | |
| **Secured** | | |
| £142.9 million 5⅝% debenture stock 2029 | **144.0** | 144.0 |
| **Unsecured** | | |
| Revolving credit facilities – bank loans | **–** | 25.0 |
| £30.0 million 5.09% private placement notes 2018 | **29.9** | 29.9 |
| $130.0 million 4.81% private placement notes 2018 | **80.9** | 80.9 |
| $78.0 million 5.37% private placement notes 2021 | **48.5** | 48.5 |
| $160.0 million 4.20% private placement notes 2019 | **101.9** | 101.8 |
| $40.0 million 4.82% private placement notes 2022 | **25.5** | 25.4 |
| **Non-current liabilities at fair value** | | |
| **Unsecured** | | |
| £150.0 million 1.00% convertible bonds 2018 | **169.5** | 183.0 |
| | **600.2** | 638.5 |

The Group's £450.0 million revolving credit facility is unsecured, attracts a floating rate based on a ratchet of between 105–165 basis points above LIBOR, based on gearing, and expires in 2020 which may be extended by a further year on our request, and on each bank's approval for its participation. At 31 March 2016, the Group had £451.0 million (2015: £423.0 million) of undrawn committed credit facilities.

## 17 Financial instruments

| **Categories of financial instrument** | **Carrying amount 2016 £m** | **Income/ (expense) 2016 £m** | **Gain/(loss) to equity 2016 £m** | Carrying amount 2015 £m | Income/ (expense) 2015 £m | Gain/(loss) to equity 2015 £m |
|---|---|---|---|---|---|---|
| Convertible bond | **(169.5)** | **12.0** | **–** | (183.0) | (1.5) | – |
| Non-current liabilities at fair value | **(169.5)** | **12.0** | **–** | (183.0) | (1.5) | – |
| Interest rate floor | **2.0** | **0.9** | **–** | 3.3 | 3.3 | – |
| Cross currency swaps | **22.3** | **10.1** | **–** | 11.8 | 29.6 | – |
| Non-current assets held at fair value | **24.3** | **11.0** | **–** | 15.1 | 32.9 | – |
| Trade receivables | **12.1** | **(0.1)** | **–** | 12.2 | – | – |
| Cash and cash equivalents | **12.7** | **–** | **–** | 4.3 | – | – |
| Loans and receivables | **24.8** | **(0.1)** | **–** | 16.5 | – | – |
| Trade and other payables | **(62.9)** | **–** | **–** | (42.9) | – | – |
| Interest-bearing loans and borrowings | **(430.7)** | **(12.8)** | **–** | (455.5) | (39.0) | – |
| Finance leases | **(50.5)** | **(2.3)** | **–** | (28.5) | (1.4) | – |
| Liabilities at amortised cost | **(544.1)** | **(15.1)** | **–** | (526.9) | (40.4) | – |
| Total financial instruments | **(664.5)** | **7.8** | **–** | (678.3) | (9.0) | – |

## Financial risk management objectives

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has a policy of only dealing with creditworthy tenants and obtaining sufficient rental cash deposits or third party guarantees as a means of mitigating financial loss from defaults.

The concentration of credit risk is limited due to the large and diverse tenant base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of rent deposits obtained. Details of the Group's receivables are summarised in note 15 of the financial statements.

The Group's cash deposits are placed with a diversified range of banks and strict counterparty limits ensure the Group's exposure to bank failure is minimised.

### Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns and as such it aims to maintain an appropriate mix of debt and equity financing. The current capital structure of the Group consists of a mix of equity and debt. Equity comprises issued share capital, reserves and retained earnings as disclosed in the Group statement of changes in equity. Debt comprises long-term debenture stock, private placement notes, convertible bonds and drawings against committed revolving credit facilities from banks.

The Group operates solely in the United Kingdom, and its operating profits and net assets are sterling denominated. As a result, the Group's policy is to have no unhedged assets or liabilities denominated in foreign currencies. The currency risk on overseas transactions is fully hedged through foreign currency derivatives to create a synthetic sterling exposure.

### Liquidity risk

The Group operates a framework for the management of the Group's short-, medium- and long-term funding requirements. Cash flow and funding needs are regularly monitored to ensure sufficient undrawn facilities are in place. The Group's funding sources are diversified across a range of bank and bond markets and strict counterparty limits are operated on deposits.

The Group meets its day-to-day working capital requirements through the utilisation of its revolving credit facilities. The availability of these facilities depends on the Group complying with a number of key financial covenants; these covenants and the Group's compliance with them are set out in the table below:

| Key covenants | Covenant | March 2016 actuals |
|---|---|---|
| **Group** | | |
| Net debt/net equity | **<1.25x** | **0.19x** |
| Inner borrowing (unencumbered asset value/unsecured borrowings) | **>1.66x** | **5.07x** |
| Interest cover | **>1.35x** | **12.47x** |

The Group has undrawn credit facilities of £451.0 million and has substantial headroom above all of its key covenants. As a result, the directors consider the Group to have adequate liquidity to be able to fund the ongoing operations of the business.

The following tables detail the Group's remaining contractual maturity on its financial instruments and have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay and conditions existing at the balance sheet date:

| **At 31 March 2016** | **Carrying amount £m** | **Contractual cash flows £m** | **Less than one year £m** | **One to two years £m** | **Two to five years £m** | **More than five years £m** |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| £142.9 million 5⅝% debenture stock 2029 | **144.0** | **245.9** | **8.0** | **8.0** | **24.1** | **205.8** |
| Revolving credit facilities – bank loans | – | – | – | – | – | – |
| Private placement notes | **286.7** | **332.8** | **13.0** | **13.1** | **230.5** | **76.2** |
| £150.0 million 1.00% convertible bonds 2018 | **169.5** | **153.6** | **1.5** | **1.5** | **150.6** | – |
| **Derivative financial instruments** | | | | | | |
| Cross currency swaps (note 14) | **(22.3)** | **1.7** | **0.5** | **0.5** | **0.6** | **0.1** |
| Interest rate floor (note 14) | **(2.0)** | **(2.1)** | **(1.3)** | **(0.8)** | – | – |
| | **575.9** | **731.9** | **21.7** | **22.3** | **405.8** | **282.1** |

| At 31 March 2015 | Carrying amount £m | Contractual cash flows £m | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| £142.9 million 5⅝% debenture stock 2029 | 144.0 | 254.0 | 8.0 | 8.0 | 24.1 | 213.9 |
| Revolving credit facilities – bank loans | 25.0 | 29.7 | 0.5 | 0.5 | 28.7 | – |
| Private placement notes | 286.5 | 345.9 | 13.0 | 13.1 | 239.9 | 79.9 |
| £150.0 million 1.00% convertible bonds 2018 | 183.0 | 155.1 | 1.5 | 1.5 | 152.1 | – |
| **Derivative financial instruments** | | | | | | |
| Cross currency swaps (note 14) | (11.8) | 2.1 | 0.5 | 0.5 | 0.9 | 0.2 |
| Interest rate floor (note 14) | (3.3) | (4.0) | (1.3) | (1.8) | (0.9) | – |
| | 623.4 | 782.8 | 22.2 | 21.8 | 444.8 | 294.0 |

## Market risk

Interest rate risk arises from the Group's use of interest-bearing financial instruments. It is the risk that future cash flows arising from a financial instrument will fluctuate due to changes in interest rates. It is the Group's policy to reduce interest rate risk in respect of the cash flows arising from its debt finance either through the use of fixed rate debt or through the use of interest rate derivatives such as swaps, caps and floors. It is the Group's usual policy to maintain the proportion of floating interest rate exposure to between 20%–40% of forecast total debt. However, this target is flexible, and may not be adhered to at all times depending on, for example, the Group's view of future interest rate movements.

### Interest rate swaps

Interest rate swaps enable the Group to exchange its floating rate interest payments on its bank debt for fixed rate payments on a notional value. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flow exposures on its variable rate bank loans by locking in a fixed rate on a proportion of its debt.

### Interest rate floors

Under the terms of an interest rate floor, one party (the 'seller') makes a payment to the other party (the 'buyer') if an underlying interest rate is below a specified rate. The Group has bought an interest rate floor, which, when combined with its fixed rate private placement notes raised in 2011, gives rise to the same economic effect as purchasing an interest rate cap in respect of floating rate debt.

**Cross currency swaps**
Cross currency swaps enable the Group to exchange receipts or payments denominated in currencies other than sterling for receipts or payments denominated in sterling. Such contracts allow the Group to eliminate foreign exchange risk arising from fluctuating exchange rates between sterling and other currencies.

The following table details the notional principal amounts and remaining terms of interest rate derivatives outstanding at 31 March:

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value (asset)/liability | |
|---|---|---|---|---|---|---|
| | **2016 %** | 2015 % | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| **Cash flow hedges** | | | | | | |
| **Interest rate floor** | | | | | | |
| Between one and two years | **1.80** | – | **159.7** | – | **(2.0)** | – |
| Between two and five years | – | 1.80 | – | 159.7 | – | (3.3) |
| | **1.80** | 1.80 | **159.7** | 159.7 | **(2.0)** | (3.3) |

The following table details the notional principal amounts and remaining terms of exchange rate derivatives outstanding at 31 March:

| | Average exchange rate | | Foreign currency | | Notional principal amount | | Fair value (asset)/liability | |
|---|---|---|---|---|---|---|---|---|
| | **2016 rate** | 2015 rate | **2016 US$m** | 2015 US$m | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| **Cash flow hedges** | | | | | | | | |
| **Cross currency swaps** | | | | | | | | |
| Between two and five years | **1.583** | 1.583 | **290.0** | 290.0 | **183.2** | 183.2 | **(16.4)** | (9.4) |
| In excess of five years | **1.591** | 1.591 | **118.0** | 118.0 | **74.2** | 74.2 | **(5.9)** | (2.4) |
| | **1.585** | 1.585 | **408.0** | 408.0 | **257.4** | 257.4 | **(22.3)** | (11.8) |

As at 31 March 2016, the aggregate amount of unrealised losses in respect of cash flow hedges was £nil (2015: £nil).

**Interest rate sensitivity**
The sensitivity analysis below has been determined based on the exposure to interest rates for both non-derivative and derivative financial instruments at the balance sheet date and represents management's assessment of possible changes in interest rates. For the floating rate liabilities the analysis is prepared assuming the amount of the liability at 31 March 2016 was outstanding for the whole year:

| | Impact on profit | | Impact on equity | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Increase of 100 basis points | **10.0** | 7.5 | **10.0** | 7.5 |
| Increase of 50 basis points | **5.0** | 3.8 | **5.0** | 3.8 |
| Decrease of 25 basis points | **(2.5)** | (2.0) | **(2.5)** | (2.0) |
| Decrease of 50 basis points | **(5.0)** | (4.0) | **(5.0)** | (4.0) |

**Foreign exchange sensitivity**
The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for derivative financial instruments at the balance sheet date and represents management's assessment of changes to the fair value of the Group's cross currency swaps as a result of possible changes in foreign exchange rates:

| | Impact on profit | | Impact on equity | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Increase of 20% in the exchange spot rate | **(53.6)** | (52.8) | **(53.6)** | (52.8) |
| Increase of 10% in the exchange spot rate | **(29.2)** | (28.8) | **(29.2)** | (28.8) |
| Decrease of 10% in the exchange spot rate | **35.7** | 35.2 | **35.7** | 35.2 |
| Decrease of 20% in the exchange spot rate | **80.4** | 79.3 | **80.4** | 79.3 |

**Fair value of interest-bearing loans and borrowings**

| | **Book value 2016 £m** | **Fair value 2016 £m** | Book value 2015 £m | Fair value 2015 £m |
|---|---|---|---|---|
| **Level 1** | | | | |
| £150.0 million 1.00% convertible bonds 2018 | **169.5** | **169.5** | 183.0 | 183.0 |
| **Level 2** | | | | |
| Cross currency swaps | **(22.3)** | **(22.3)** | (11.8) | (11.8) |
| Interest rate floor | **(2.0)** | **(2.0)** | (3.3) | (3.3) |
| **Other items not carried at fair value** | | | | |
| £142.9 million 5⅝% debenture stock 2029 | **144.0** | **172.3** | 144.0 | 179.1 |
| Private placement notes | **286.7** | **333.9** | 286.5 | 313.4 |
| Revolving credit facilities – bank loans | **–** | **–** | 25.0 | 25.0 |
| | **575.9** | **651.4** | 623.4 | 685.4 |

The fair value of the Group's listed convertible bonds has been estimated on the basis of quoted market prices, representing Level 1 fair value measurements as defined by IFRS 13 Fair Value Measurement. The fair value of the Group's outstanding interest rate floor has been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 13. The fair value of the Group's cross currency swaps has been estimated on the basis of the prevailing rates at the year end, representing Level 2 fair value measurements as defined by IFRS 13. None of the Group's financial derivatives are designated as financial hedges.

The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements.

## 18 Finance leases

Finance lease obligations in respect of the Group's leasehold properties are payable as follows:

| | **Minimum lease payments 2016 £m** | **Interest 2016 £m** | **Principal 2016 £m** | Minimum lease payments 2015 £m | Interest 2015 £m | Principal 2015 £m |
|---|---|---|---|---|---|---|
| Less than one year | **2.4** | **(2.4)** | **–** | 1.4 | (1.4) | – |
| Between two and five years | **9.6** | **(9.5)** | **0.1** | 5.8 | (5.8) | – |
| More than five years | **329.1** | **(278.7)** | **50.4** | 238.5 | (210.0) | 28.5 |
| | **341.1** | **(290.6)** | **50.5** | 245.7 | (217.2) | 28.5 |

The Group's finance lease obligations increased to £50.5 million at 31 March 2016 on the purchase of the two assets previously held by The Great Star Partnership both of which were leasehold properties.

## 19 Share capital

| | **2016 Number** | **2016 £m** | 2015 Number | 2015 £m |
|---|---|---|---|---|
| **Allotted, called up and fully paid ordinary shares of 12.5 pence** | | | | |
| At 1 April and 31 March | **343,926,149** | **43.0** | 343,926,149 | 43.0 |

At 31 March 2016, the Company's authorised share capital was 600,000,000 shares.

## 20 Investment in own shares

| | 2016 £m | 2015 £m |
|---|---|---|
| At 1 April | **11.7** | (1.0) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **(4.2)** | (3.5) |
| Purchase of shares | **8.1** | 19.1 |
| Transfer to retained earnings | **(6.5)** | (2.9) |
| At 31 March | **9.1** | 11.7 |

The investment in the Company's own shares is held at cost and comprises 2,569,477 shares (2015: 2,854,551 shares) held by the Great Portland Estates plc LTIP Employee Share Trust which will vest for certain senior employees of the Group if performance conditions are met. During the year, 1,435,074 shares (2015: 1,385,643 shares) were awarded to directors and senior employees in respect of the 2011 LTIP and SMP award and a further 1,150,000 shares (2015: 2,576,964 shares) were acquired by the Trust at an average cost of £7.03 per share (2015: £7.43 per share). The fair value of shares awarded and outstanding at 31 March 2016 was £13.2 million (2015: £5.2 million).

## 21 Adjustment for non-cash movements in the cash flow statement

| | 2016 £m | 2015 £m |
|---|---|---|
| Surplus from investment property | **(422.2)** | (380.6) |
| Employee Long-Term Incentive Plan and Share Matching Plan charge | **4.2** | 3.5 |
| Spreading of tenant lease incentives | **(3.0)** | (7.6) |
| Profit on development management contracts | **(4.0)** | (1.7) |
| Share of results of joint ventures | **(66.8)** | (84.7) |
| Other non-cash items | **–** | (0.1) |
| Adjustments for non-cash items | **(491.8)** | (471.2) |

## 22 Dividends

| | 2016 £m | 2015 £m |
|---|---|---|
| **Ordinary dividends paid** | | |
| Interim dividend for the year ended 31 March 2016 of 3.6 pence per share | **12.3** | – |
| Final dividend for the year ended 31 March 2015 of 5.5 pence per share | **18.8** | – |
| Interim dividend for the year ended 31 March 2015 of 3.5 pence per share | **–** | 12.0 |
| Final dividend for the year ended 31 March 2014 of 5.4 pence per share | **–** | 18.5 |
| | **31.1** | 30.5 |

A final dividend of 5.6 pence per share was approved by the Board on 25 May 2016 and will be paid on 11 July 2016 to shareholders on the register on 3 June 2016. The dividend is not recognised as a liability at 31 March 2016. The 2015 final dividend and the 2016 interim dividend were paid in the year and are included within the Group statement of changes in equity.

## 23 Operating leases

Future aggregate minimum rentals receivable under non-cancellable operating leases are:

| | 2016 £m | 2015 £m |
|---|---|---|
| **The Group as a lessor** | | |
| Less than one year | **70.2** | 61.7 |
| Between two and five years | **189.8** | 175.9 |
| More than five years | **149.9** | 240.7 |
| | **409.9** | 478.3 |

The Group leases its investment properties under operating leases. The weighted average length of lease at 31 March 2016 was 5.0 years (2015: 6.9 years). All investment properties, except those under development, generated rental income and no contingent rents were recognised in the year (2015: £nil).

## 24 Reserves

The following describes the nature and purpose of each reserve within equity:

**Share capital**
The nominal value of the Company's issued share capital, comprising 12.5 pence ordinary shares.

**Share premium**
Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.

**Capital redemption reserve**
Amount equivalent to the nominal value of the Company's own shares acquired as a result of share buy-back programmes.

**Retained earnings**
Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends.

**Investment in own shares**
Amount paid to acquire the Company's own shares for its Employee Long-Term Incentive Plan and Share Matching Plan less accounting charges.

## 25 Employee benefits

The Group contributes to a defined benefit final salary pension plan ('the Plan'), the assets of which are held by trustees separately from the assets of the Group. The Plan has been closed to new entrants since April 2002. The most recent actuarial valuation of the Plan was conducted at 1 April 2015 by a qualified independent actuary using the projected unit method. The Plan was valued using the following main assumptions:

| | **2016 %** | 2015 % |
|---|---|---|
| Discount rate | **3.60** | 3.40 |
| Expected rate of salary increases | **4.00** | 4.00 |
| RPI inflation | **3.00** | 3.00 |
| Future pension increases | **5.00** | 5.00 |

The amount recognised in the balance sheet in respect of the Plan is as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Present value of unfunded obligations | **(31.3)** | (31.7) |
| Fair value of the Plan assets | **28.6** | 28.5 |
| Pension liability | **(2.7)** | (3.2) |

Amounts recognised as administration expenses in the income statement are as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Current service cost | **(0.4)** | (0.3) |
| Net interest cost | **(0.1)** | – |
| | **(0.5)** | (0.3) |
| | | |
| Actuarial gain/(deficit) recognised immediately in the Group statement of changes in equity | **0.1** | (3.1) |
| Cumulative actuarial deficit recognised in the Group statement of changes in equity | **(2.3)** | (2.4) |

Changes in the present value of the pension obligation are as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Defined benefit obligation at 1 April | **31.7** | 24.4 |
| Service cost | **0.4** | 0.3 |
| Interest cost | **1.1** | 1.1 |
| Effect of changes in financial assumptions | **(1.3)** | 6.2 |
| Effect of experience adjustments | **–** | 0.3 |
| Benefits paid | **(0.6)** | (0.6) |
| Present value of defined benefit obligation at 31 March | **31.3** | 31.7 |

Changes to the fair value of the Plan assets are as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Fair value of the Plan assets at 1 April | **28.5** | 23.7 |
| Interest income | **1.0** | 1.1 |
| Actuarial (loss)/gain | **(1.2)** | 3.4 |
| Contributions | **0.9** | 0.9 |
| Benefits paid | **(0.6)** | (0.6) |
| Fair value of the Plan assets at 31 March | **28.6** | 28.5 |
| Net liability | **(2.7)** | (3.2) |

The fair value of the Plan assets at the balance sheet date is analysed as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Equities | **11.2** | 11.4 |
| Bonds | **17.4** | 17.1 |
| | **28.6** | 28.5 |

Life expectancy assumptions at age 65:

| | 2016 Years | 2015 Years |
|---|---|---|
| Retiring today age 65 | **24** | 24 |
| Retiring in 25 years (age 40 today) | **27** | 26 |

The Group expects to contribute £0.9 million to the Plan in the year ended 31 March 2017.

## Responsibility statement

The statement of Directors' responsibilities below has been prepared in connection with the Company's full Annual Report for the year ended 31 March 2016. Certain parts of the Annual Report have not been included in the announcement as set out in note 1 of the financial information. We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 25 May 2016 and signed on its behalf by

| **Toby Courtauld** | **Nick Sanderson** |
| --- | --- |
| Chief Executive | Finance Director |

# Glossary

**Building Research Establishment Environmental Assessment Methodology (BREEAM)**
Building Research Establishment method of assessing, rating and certifying the sustainability of buildings.

**Core West End**
Areas of London with W1 and SW1 postcodes.

**Earnings Per Share (EPS)**
Profit after tax divided by the weighted average number of ordinary shares in issue.

**EPRA adjustments**
Standard calculation methods for adjusted EPS and NAV as set out by the European Public Real Estate Association (EPRA) in their Best Practice and Policy Recommendations.

**Estimated Rental Value (ERV)**
The market rental value of lettable space as estimated by the Company's valuers at each balance sheet date.

**Fair value – Investment property**
The amount as estimated by the Company's valuers for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In line with market practice, values are stated net of purchasers' costs.

**IPD**
The Investment Property Databank Limited (IPD) is a company that produces an independent benchmark of property returns.

**IPD central London**
An index, compiled by IPD, of the central and inner London properties in their March annual valued universes.

**Like-for-like portfolio**
Properties that have been held for the whole of the period of account.

**Loan To Value (LTV)**
Total bank loans, private placement notes, convertible bonds at nominal value and debenture stock, net of cash (including our share of joint ventures balances), expressed as a percentage of the market value of the property portfolio (including our share of joint ventures).

**Net assets per share or Net Asset Value (NAV)**
Equity shareholders' funds divided by the number of ordinary shares at the balance sheet date.

**Net gearing**
Total Group borrowings (including the convertible bonds at nominal value) less short-term deposits and cash as a percentage of equity shareholders' funds, calculated in accordance with our bank covenants.

**Net initial yield**
Annual net rents on investment properties as a percentage of the investment property valuation having added notional purchaser's costs.

**Non-PIDs**
Dividends from profits of the Group's taxable residual business.

**PMI**
Purchasing Managers Index.

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

**Property Income Distributions (PIDs)**
Dividends from profits of the Group's tax-exempt property rental business.

**REIT**
UK Real Estate Investment Trust.

**Rent roll**
The annual contracted rental income.

**Reversionary or under-rented**
The percentage by which ERV exceeds rents passing, together with the estimated rental value of vacant space.

**Reversionary yield**
The anticipated yield, which the initial yield will rise to once the rent reaches the ERV.

**Total Property Return (TPR)**
Capital growth in the portfolio plus net rental income derived from holding these properties plus profit on sale of disposals expressed as a percentage return on the period's opening value.

**Total Shareholder Return (TSR)**
The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the period expressed as a percentage of the share price at the beginning of the period.

**Triple net asset value (NNNAV)**
NAV adjusted to include the fair value of the Group's financial liabilities on a diluted basis.

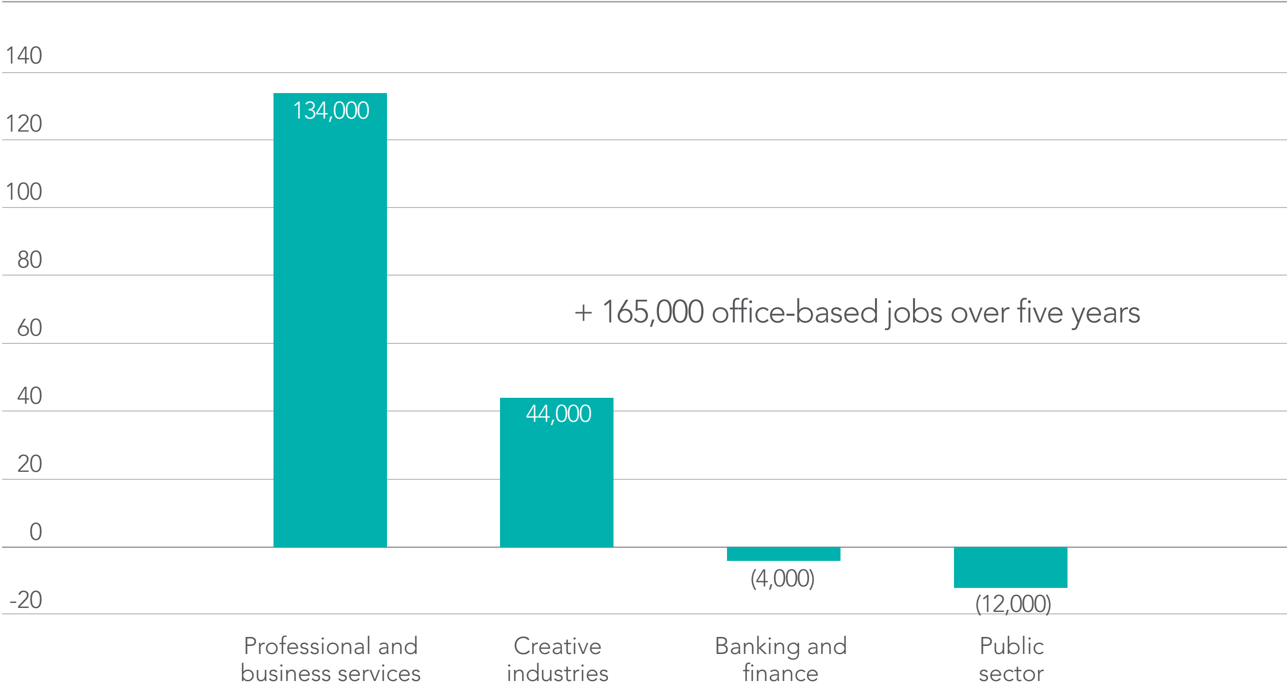
**True equivalent yield**
The constant capitalisation rate which, if applied to all cash flows from an investment property, including current rent, reversions to current market rent and such items as voids and expenditures, equates to the market value having taken into account notional purchaser's costs. Assumes rent is received quarterly in advance.

**Vacancy rate**
The element of a property which is unoccupied but available for letting, expressed as the ERV of the vacant space divided by the ERV of the total portfolio.

**Weighted Average Unexpired Lease Term (WAULT)**
The Weighted Average Unexpired Lease Term expressed in years.

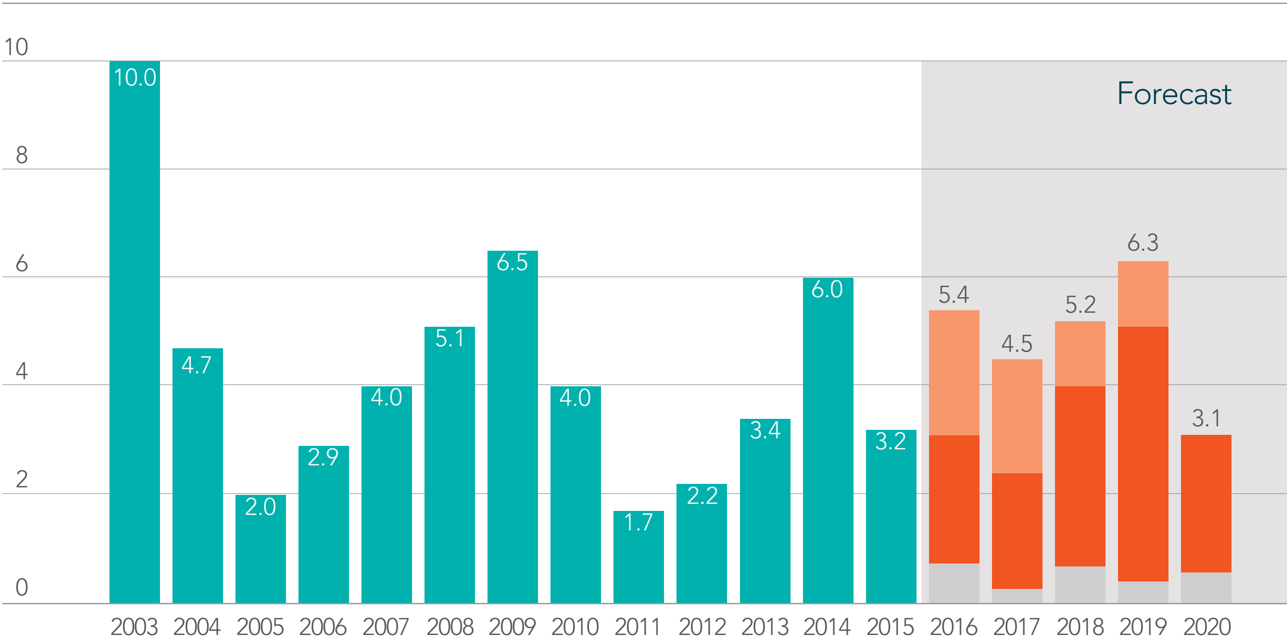
# Appendix 1

## Forecast office-based employment growth in London (next five years) thousands of people




Source: CBRE/Oxford Economics

## Central London office potential completions million sq ft

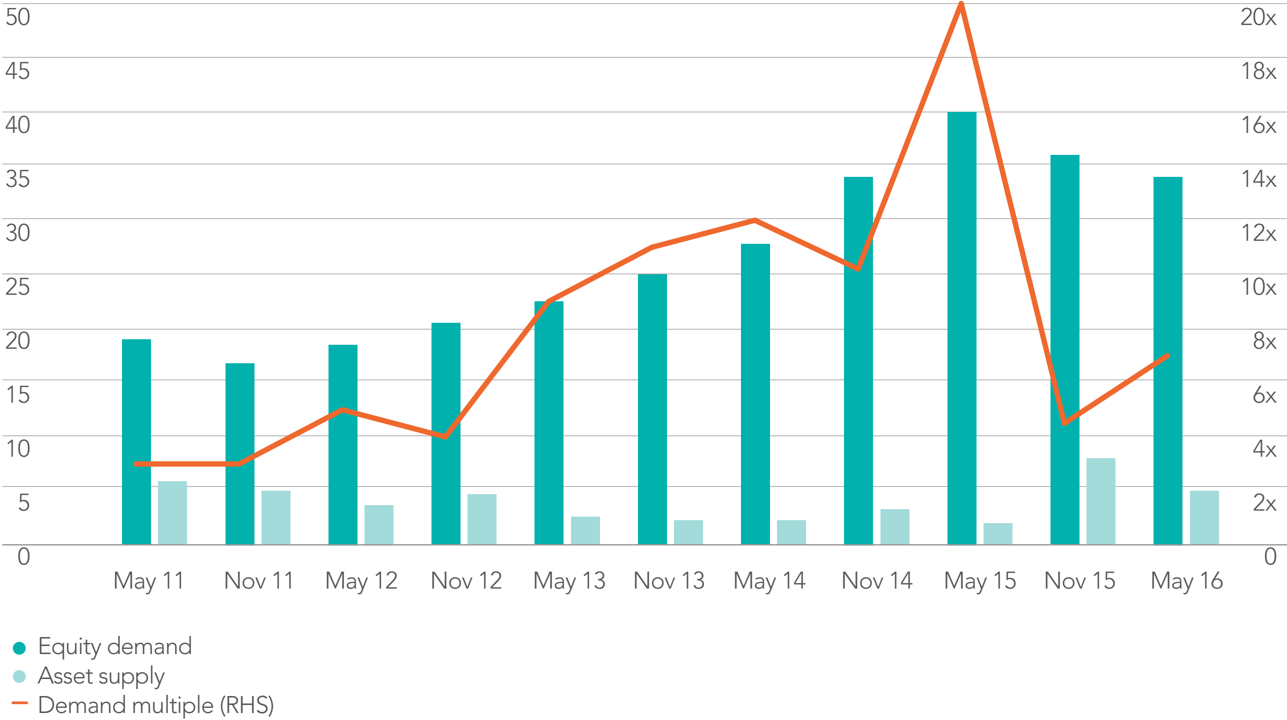



- Completed
- West End core speculative
- Speculative
- Pre-let

Source: CBRE/GPE

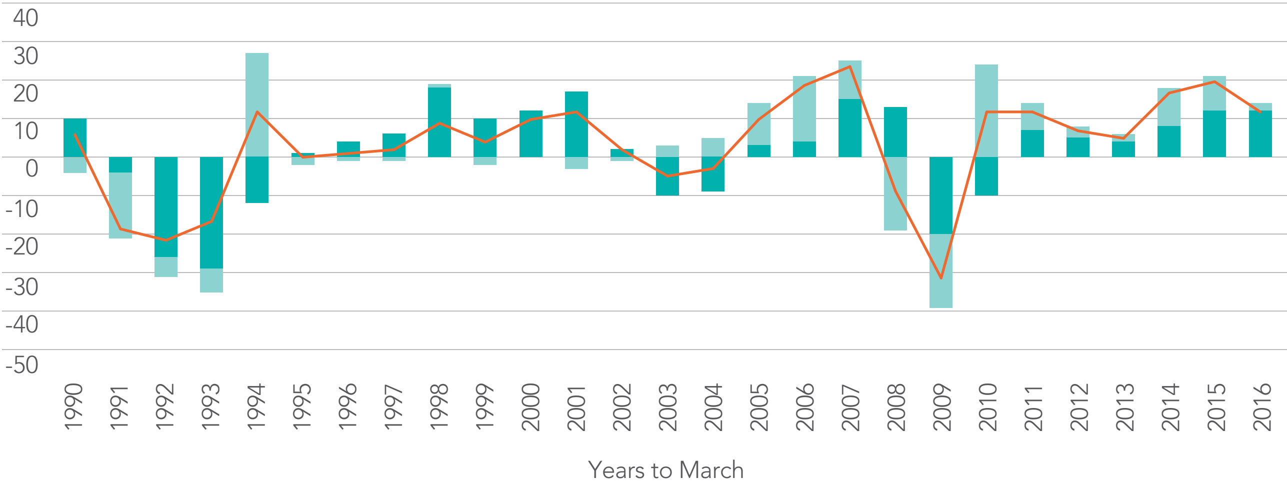
# Appendix 1

## London equity demand and asset supply £bn




Equity demand
Asset supply
Demand multiple (RHS)
Source: CBRE/GPE

## Capital growth attribution – IPD West End and Midtown %




Rental value growth
Yield impact
Capital growth
Source: IPD UK monthly property index

# Appendix 1

| Selected lead indicators | Change over 12 months to March 2016 |
|---|---|
| **Property capital values** | |
| Equity prices | ↓ |
| Bond prices | ↘ |
| Real yield spread (West End property)[1] | ↑ |
| Volume of net new property lending (including from non-bank sources) | ↗ |
| Transaction volumes in central London direct real estate investment markets | ↘ |
| Weight of money seeking to invest in central London commercial property | ↘ |
| **Rental values** | |
| Forecast UK GDP rate of growth | ↘ |
| Forecast London GVA rate of growth | ↘ |
| Business confidence levels in the central London economy | ↘ |
| UK output from the financial and business services sector | ↗ |
| Employment levels in London's finance, creative and professional services sectors | ↑ |
| Vacancy rate (central London offices)[2] | ↓ |
| Central London office market balance[3] | ↑ |

1. West End property yields over ten year gilt yields adjusted for inflation.
2. The reduction in the vacancy rate over the 12 months is supportive to rental values.
3. Amount of space available to let given current rates of take-up expressed in terms of months, with a reduction being supportive to rental values.

# Appendix 2

## Portfolio performance

| | | Wholly-owned £m | Joint ventures* £m | Total £m | Proportion of portfolio % | Valuation movement % |
|---|---|---|---|---|---|---|
| North of Oxford Street | Office | 808.0 | – | 808.0 | 21.8 | 10.7 |
| | Retail | 257.3 | 127.3 | 384.6 | 10.4 | 11.2 |
| | Residential | 6.8 | 11.0 | 17.8 | 0.5 | 14.1 |
| Rest of West End | Office | 263.9 | 118.2 | 382.1 | 10.3 | 9.6 |
| | Retail | 183.6 | 76.3 | 259.9 | 7.0 | 9.1 |
| | Residential | 14.3 | 3.0 | 17.3 | 0.5 | 40.9 |
| Total West End | | 1,533.9 | 335.8 | 1,869.7 | 50.5 | 10.7 |
| City, Midtown and Southwark | Office | 257.5 | 258.8 | 516.3 | 13.9 | 10.3 |
| | Retail | 5.9 | 2.0 | 7.9 | 0.2 | 3.1 |
| | Residential | 1.7 | – | 1.7 | 0.1 | 6.5 |
| Total City, Midtown and Southwark | | 265.1 | 260.8 | 525.9 | 14.2 | 10.2 |
| **Investment property portfolio** | | **1,799.0** | **596.6** | **2,395.6** | **64.7** | **10.6** |
| Development property | | 931.7 | 31.1 | 962.8 | 26.0 | 26.2 |
| **Total properties held throughout the year** | | **2,730.7** | **627.7** | **3,358.4** | **90.7** | **14.7** |
| Acquisitions | | 345.5 | – | 345.5 | 9.3 | 7.0 |
| **Total property portfolio** | | **3,076.2** | **627.7** | **3,703.9** | **100.0** | **13.9** |

* GPE share.

## Portfolio characteristics

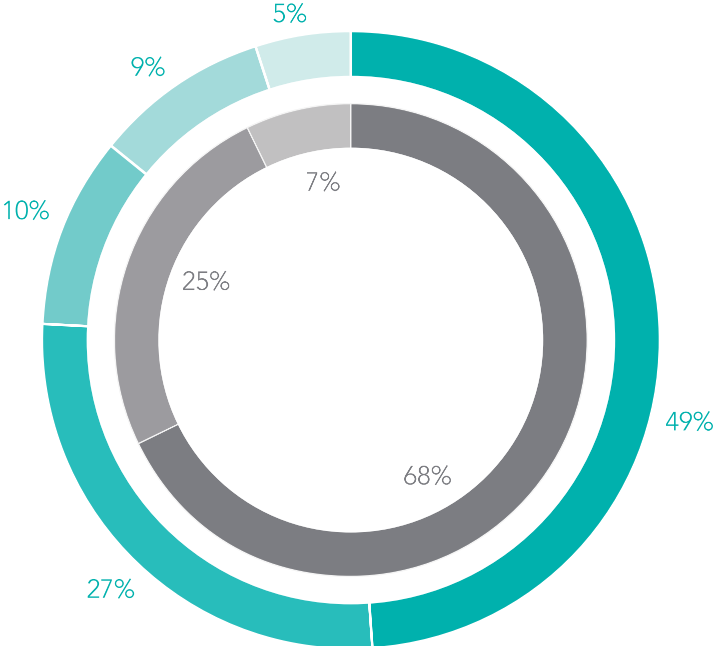
| | | Investment properties £m | Development properties £m | Total property portfolio £m | Office £m | Retail £m | Residential £m | Total £m | Net internal area sq ft 000's |
|---|---|---|---|---|---|---|---|---|---|
| North of Oxford Street | | 1,210.4 | 581.2 | 1,791.6 | 1,094.5 | 468.2 | 228.9 | 1,791.6 | 1,432 |
| Rest of West End | | 659.3 | 350.5 | 1,009.8 | 570.7 | 421.8 | 17.3 | 1,009.8 | 652 |
| **Total West End** | | **1,869.7** | **931.7** | **2,801.4** | **1,665.2** | **890.0** | **246.2** | **2,801.4** | **2,084** |
| City, Midtown and Southwark | | 871.4 | 31.1 | 902.5 | 874.5 | 26.3 | 1.7 | 902.5 | 1,472 |
| **Total** | | **2,741.1** | **962.8** | **3,703.9** | **2,539.7** | **916.3** | **247.9** | **3,703.9** | **3,556** |
| By use: | Office | 2,033.4 | 506.3 | 2,539.7 | | | | | |
| | Retail | 670.9 | 245.4 | 916.3 | | | | | |
| | Residential | 36.8 | 211.1 | 247.9 | | | | | |
| **Total** | | **2,741.1** | **962.8** | **3,703.9** | | | | | |
| Net internal area sq ft 000's | | 2,705 | 851 | 3,556 | | | | | |

# Appendix 2

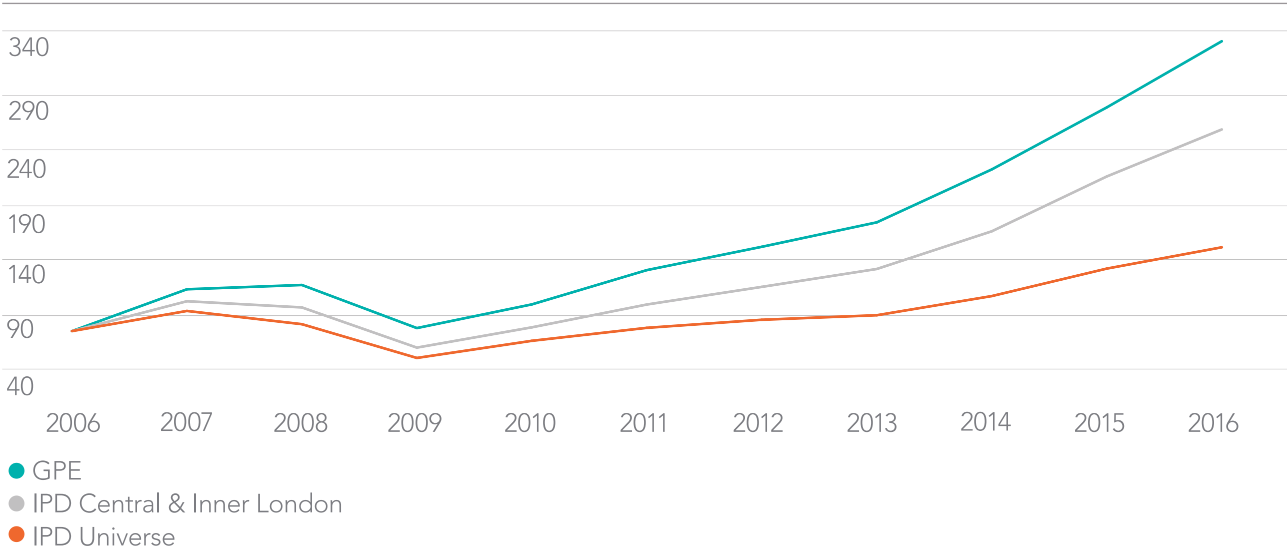
## Our portfolio – 100% central London

**Locations**
- North of Oxford Street £1,791.6m
- Rest of West End £1,009.8m
- City £376.6m
- Southwark £341.5m
- Midtown £184.4m

**Business mix**
- Office £2,539.7m
- Retail £916.3m
- Residential £247.9m




## Capital return (indexed)
## Cumulative relative performance to IPD benchmarks
Years to 31 March



# Appendix 3

## Purchases for the year ended 31 March 2016

| | Price paid[1] £m | NIY | Area sq ft | Cost per sq ft £ |
|---|---|---|---|---|
| City Tower, EC2 | 43.3 | 4.7% | 134,300 | 645 |
| City Place House, EC2 | 52.0 | 4.8% | 176,500 | 580 |
| 50 Finsbury Square, EC2 | 119.0 | 5.3% | 126,500 | 941 |
| **Total** | **214.3** | **5.1%** | **437,300** | **704** |

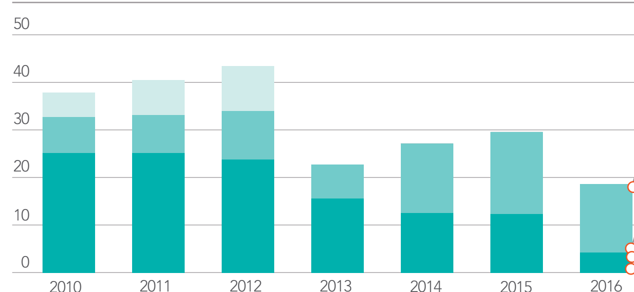
1. Joint ventures at share.

## Sales for the year ended 31 March 2016

| | Gross price[1] £m | Premium to book value | NIY | Price per sq ft £ |
|---|---|---|---|---|
| 95 Wigmore Street, W1 | 111.2 | 16.2% | 3.4% | 2,209 |
| 60 Great Portland Street, W1 | 103.2 | 3.0% | 3.9% | 1,308 |
| 33 Margaret Street, W1 | 216.3 | 12.7% | 3.3% | 2,085 |
| Rathbone Residential, W1 | 39.0 | – | n/a | 2,437 |
| **Total** | **469.7** | **10.0%** | **3.5%** | **1,943** |

1. Joint ventures at share.

## GPE's net investment in joint ventures %




## Joint venture – partner

| | **31 March 2016** |
|---|---|
| GRP – BP Pension Fund | £282.8m |
| GHS – Hong Kong Monetary Authority | £135.7m |
| GVP – Liverpool Victoria | £106.9m |
| GWP – Aberdeen AM | £17.9m |
| GCP – Capital & Counties | £0.1m |
| **Total** | **£543.4m** |
| **As % of Group net assets** | **18.7%** |

# Appendix 3

## Our total development pipeline

| | Anticipated finish | New build area sq ft | Cost to complete £m | ERV[1] £m | Office ERV[1] avg £psf | Income/GDV secured £m | % let[2]/ sold | Profit on cost[3] |
|---|---|---|---|---|---|---|---|---|
| **Committed** | | | | | | | | |
| Rathbone Square, W1 | | | | | | | | |
| – Commercial | Mar-17 | 267,000 | 155.1 | 19.6 | 73.35 | 17.9 | 91.5% | 24.8% |
| – Residential | Jun-17 | 151,700 | | – | – | 262.1 | 93.1% | |
| 148 Old Street, EC1 | Dec-17 | 161,900 | 28.4 | 4.2 | 52.50 | – | – | 16.6% |
| 30 Broadwick Street, W1 | Sept-16 | 91,800 | 16.3 | 8.0 | 87.70 | – | – | 41.9% |
| 73/89 Oxford Street, W1 | May-17 | 90,700 | 35.0 | 9.9 | 85.55 | 6.2 | 62.9% | 31.5% |
| Tasman House, W1 | Oct-17 | 37,300 | 20.6 | 2.8 | 84.95 | – | – | 19.9% |
| 78/82 Great Portland Street, W1 | Sept-16 | 18,900 | 5.3 | 0.3 | – | – | – | 28.0% |
| 84/86 Great Portland Street, W1 | Dec-16 | 23,100 | 8.3 | 1.0 | 57.00 | – | – | 12.0% |
| 90/92 Great Portland Street, W1 | Jun-16 | 8,800 | 0.9 | 0.1 | – | – | – | 9.4% |
| **Committed total** | | **851,200** | **269.9** | **45.9** | | | **61.1%** | **27.1%** |

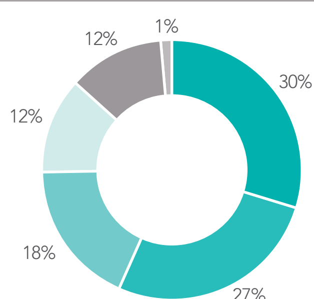
| | New build area sq ft | Existing area sq ft | Earliest start | Planning status |
|---|---|---|---|---|
| **Near-term** | | | | |
| Oxford House, 76 Oxford Street, W1 | 88,200 | 79,400 | 2017 | Application |
| Hanover Square, W1 | 223,600 | 58,500 | 2017 | Consented |
| **Near-term total** | **311,800** | **137,900** | | |

| | Target area sq ft | Existing area sq ft | Earliest start | Opportunity area |
|---|---|---|---|---|
| **Pipeline** | | | | |
| 40/48 Broadway, SW1 | 82,100 | 73,200 | 2018 | Other |
| City Place House, EC2 | 176,500 | 176,500 | 2018 | Crossrail |
| 50 Finsbury Square, EC2 | 126,500 | 126,500 | 2020 | Crossrail |
| New City Court, SE1 | 303,700 | 97,800 | 2021 | London Bridge |
| 35 Portman Square, W1 | 73,000 | 73,000 | 2021 | Core West End |
| Elm House, WC1 | 85,000 | 48,800 | 2021 | Crossrail |
| 52/54 Broadwick Street, W1 | 47,000 | 25,900 | 2021 | Core West End |
| Jermyn Street Estate, SW1 | 132,600 | 132,600 | 2022 | Core West End |
| 31/34 Alfred Place, WC1 | 43,700 | 43,700 | 2022 | Crossrail |
| French Railways House and 50 Jermyn Street, SW1 | 75,000 | 54,500 | 2022 | Core West End |
| Mount Royal, W1 | 92,100 | 92,100 | 2022 | West End Retail |
| Kingsland/Carrington House, W1 | 51,400 | 39,800 | 2022 | West End Retail |
| Minerva House, SE1 | 120,000 | 105,200 | 2022 | London Bridge |
| 95/96 New Bond Street, W1 | 10,000 | 10,000 | 2023 | West End Retail |
| **Pipeline total** | **1,418,600** | **1,099,600** | | |
| **Total programme; 24 projects** | **2,581,600** | | | **59% of GPE's existing portfolio** |

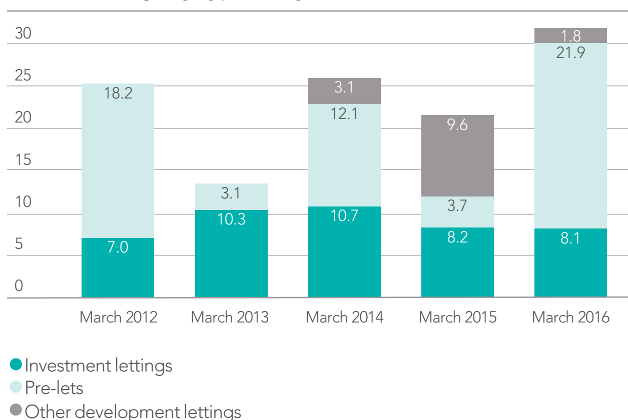
1. Agreed pre-let rent or CBRE ERV at March 2016.
2. Based on ERV of property.
3. Based on CBRE estimate of completed value.

## GPE tenant mix %

- Retailers and leisure
- Technology, media and telecoms
- Professional services
- Banking and finance
- Corporates
- Government

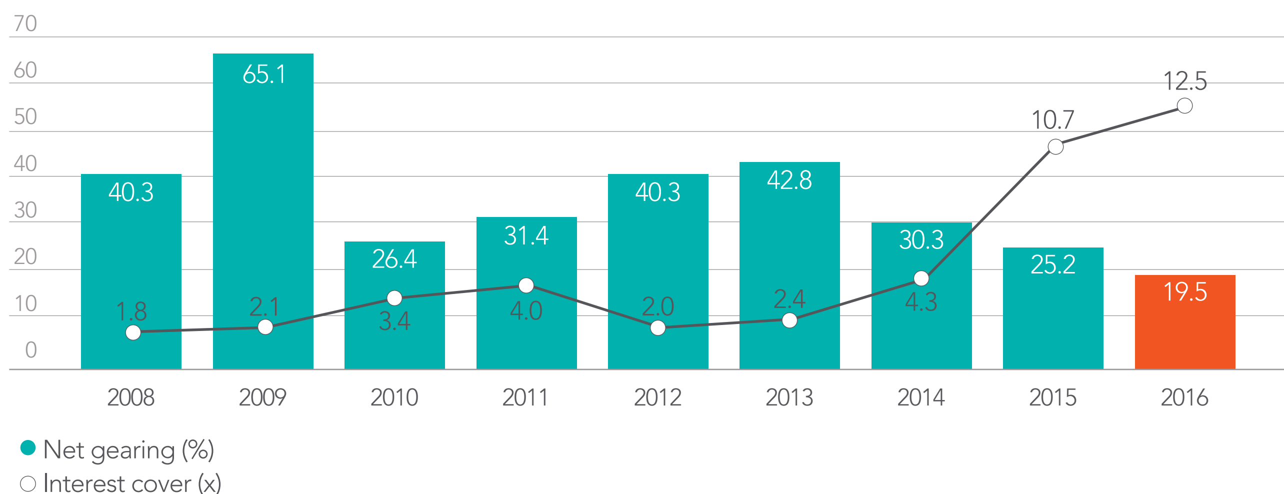



## Annual lettings by type and year £m

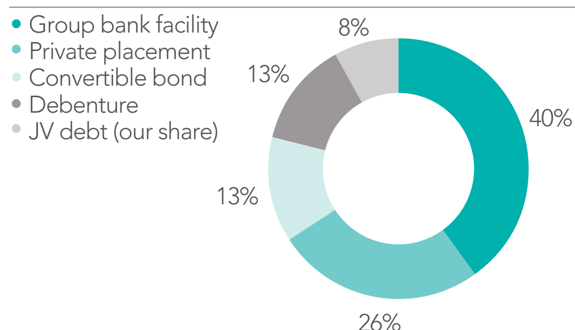


# Appendix 3

## Net gearing and interest cover

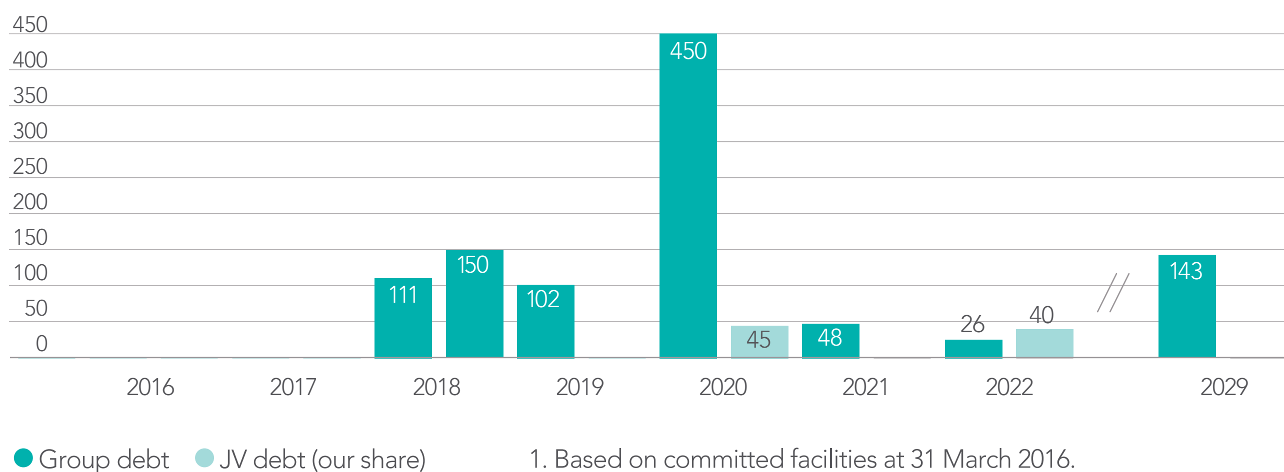



## Sources of debt funding[1]




1. Based on committed facilities at 31 March 2016.

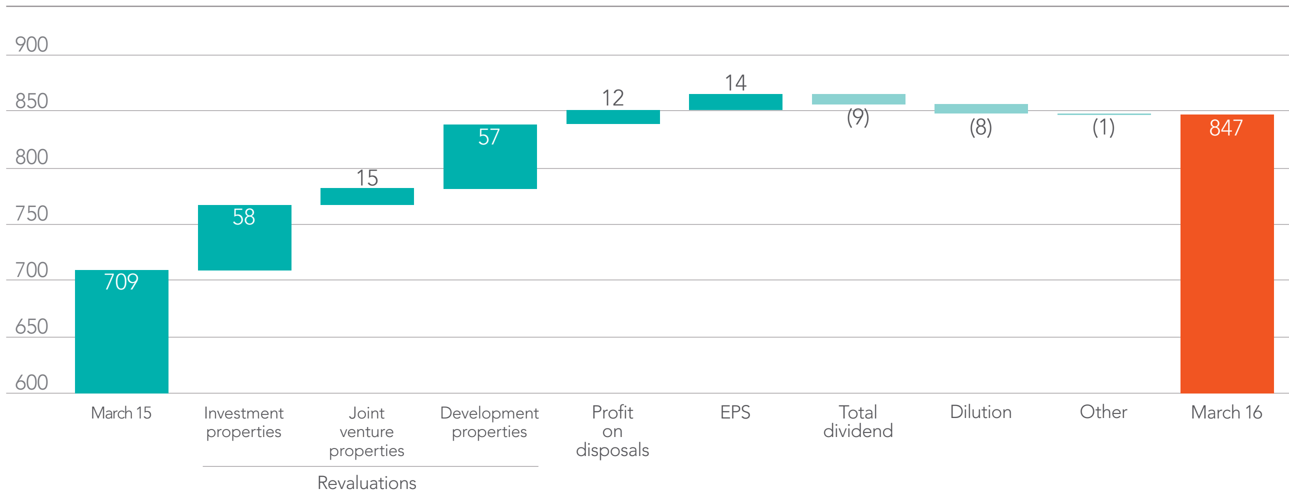
## Debt maturity profile[1] £m



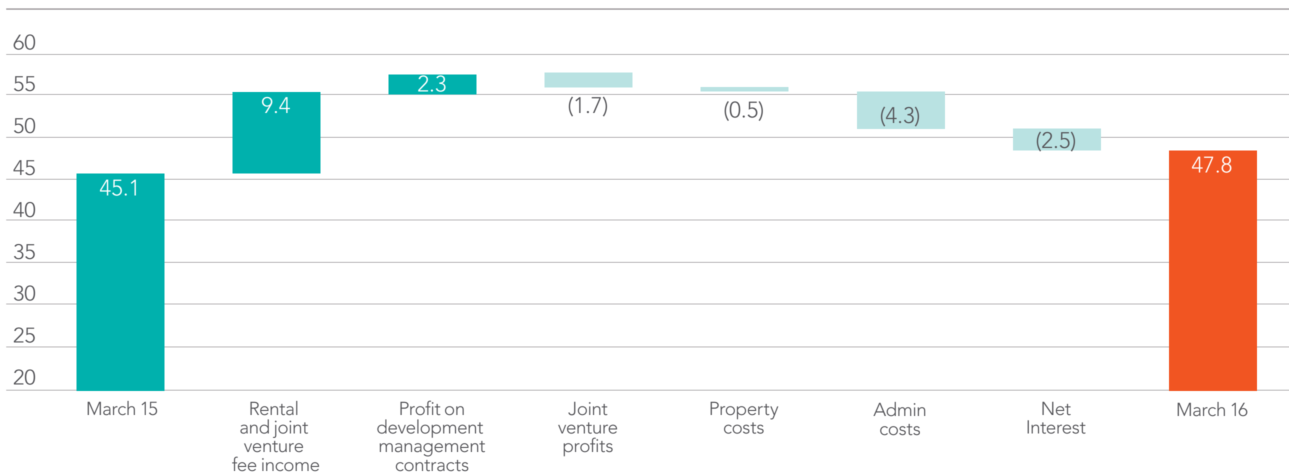

1. Based on committed facilities at 31 March 2016.

# Appendix 4

## **EPRA net assets per share** pence




## **EPRA profit before tax** £m



# Appendix 4

## Debt analysis

| | March 2016 | March 2015 |
|---|---|---|
| Net debt excluding JVs (£m) | **568.0** | 601.2 |
| Net gearing | **19.5%** | 25.2% |
| Total net debt including 50% JV non-recourse debt (£m) | **644.1** | 698.8 |
| Loan-to-property value | **17.4%** | 21.8% |
| Total net gearing | **22.1%** | 29.2% |
| Interest cover | **12.5x** | 10.7x |
| Weighted average interest rate | **3.7%** | 3.7% |
| Weighted average cost of debt | **3.9%** | 4.1% |
| % of debt fixed/hedged | **100%** | 96% |
| Cash and undrawn facilities (£m) | **472** | 442 |

## EPRA performance measures

| Measure | Definition of Measure | March 2016 | March 2015 |
|---|---|---|---|
| EPRA earnings | Recurring earnings from core operational activities | **£47.8m** | £45.1m |
| EPRA earnings per share | EPRA earnings divided by the weighted average number of shares | **14.0p** | 13.2p |
| Diluted EPRA earnings per share | EPRA earnings divided by the diluted weighted average number of shares | **13.5p** | 12.7p |
| EPRA costs (by portfolio value) | EPRA costs (including direct vacancy costs) divided by market value of the portfolio | **0.8%** | 0.8% |
| EPRA net assets | Net assets adjusted to exclude the fair value of financial instruments | **£3,079.5m** | £2,431.0m |
| EPRA net assets per share | EPRA net assets divided by the number of shares at the balance sheet date on a diluted basis | **847p** | 709p |
| EPRA triple net assets | EPRA net assets amended to include the fair value of financial instruments and debt | **£3,022.6m** | £2,345.8m |
| EPRA triple net assets per share | EPRA triple net assets divided by the number of shares at the balance sheet date on a diluted basis | **831p** | 684p |
| EPRA NIY | Annualised rental income based on cash rents passing at the balance sheet date less non-recoverable property operating expenses, divided by the market value of the property increased by estimated purchasers' costs | **2.8%** | 2.6% |
| EPRA "topped up" NIY | EPRA NIY adjusted to include rental income in rent-free periods (or other unexpired lease incentives) | **3.1%** | 3.2% |
| EPRA vacancy | ERV of non-development vacant space as a percentage of ERV of the whole portfolio | **7.0%** | 5.1% |

# Appendix 5

## Rental income

| | | | Wholly-owned | | | Share of joint ventures | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Rent roll £m | Reversionary potential £m | Rental values £m | Rent roll £m | Reversionary potential £m | Rental values £m | Total rental values £m |
| London | North of Oxford Street | Office | 27.5 | 8.8 | 36.3 | – | – | – | 36.3 |
| | | Retail | 8.7 | 2.5 | 11.2 | 5.7 | 1.0 | 6.7 | 17.9 |
| | Rest of West End | Office | 9.0 | 2.9 | 11.9 | 0.7 | 1.1 | 1.8 | 13.7 |
| | | Retail | 6.8 | 2.4 | 9.2 | 2.1 | 0.1 | 2.2 | 11.4 |
| | **Total West End** | | **52.0** | **16.6** | **68.6** | **8.5** | **2.2** | **10.7** | **79.3** |
| | City, Midtown and Southwark | Office | 25.4 | 10.6 | 36.0 | 9.5 | 2.4 | 11.9 | 47.9 |
| | | Retail | 1.3 | 0.3 | 1.6 | 0.1 | 0.1 | 0.2 | 1.8 |
| | **Total City, Midtown and Southwark** | | **26.7** | **10.9** | **37.6** | **9.6** | **2.5** | **12.1** | **49.7** |
| **Total let portfolio** | | | **78.7** | **27.5** | **106.2** | **18.1** | **4.7** | **22.8** | **129.0** |
| Voids | | | | | 5.1 | | | 0.6 | 5.7 |
| Premises under refurbishment | | | | | 48.4 | | | 6.8 | 55.2 |
| **Total let portfolio** | | | | | **159.7** | | | **30.2** | **189.9** |

## Rent roll security, lease lengths and voids

| | | | Wholly-owned | | | Joint ventures | | |
|---|---|---|---|---|---|---|---|---|
| | | | Rent roll secure for five years % | Weighted average lease length Years | Voids % | Rent roll secure for five years % | Weighted average lease length Years | Voids % |
| London | North of Oxford Street | Office | 37.6 | 6.2 | 0.9 | – | – | – |
| | | Retail | 52.5 | 5.3 | 3.3 | 70.7 | 6.0 | 0.4 |
| | Rest of West End | Office | 23.7 | 3.1 | 4.0 | 38.6 | 3.8 | 0.5 |
| | | Retail | 71.0 | 5.5 | 1.7 | 100.0 | 11.0 | – |
| | **Total West End** | | **41.9** | **5.4** | **2.1** | **75.6** | **7.1** | **0.6** |
| | City, Midtown and Southwark | Office | 23.7 | 3.9 | 6.5 | 83.0 | 8.2 | 3.0 |
| | | Retail | 41.2 | 8.9 | – | 100.0 | 12.2 | 30.8 |
| | **Total City, Midtown and Southwark** | | **24.5** | **4.2** | **6.5** | **83.1** | **8.3** | **3.1** |
| **Total let portfolio** | | | **36.0** | **5.0** | **3.2** | **79.6** | **7.7** | **2.1** |

## Rental values and yields

| | | | Wholly-owned | | Joint ventures | | Wholly-owned | | Joint ventures | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Average rent £psf | Average ERV £psf | Average rent £psf | Average ERV £psf | Initial yield % | True equivalent yield % | Initial yield % | True equivalent yield % |
| London | North of Oxford Street | Office | 54 | 71 | – | – | 3.0 | 4.3 | – | – |
| | | Retail | 55 | 64 | 113 | 132 | 2.8 | 3.8 | 4.4 | 3.9 |
| | Rest of West End | Office | 59 | 83 | 19 | 41 | 2.8 | 4.5 | 0.5 | 3.7 |
| | | Retail | 78 | 115 | 74 | 73 | 3.0 | 4.2 | 1.9 | 3.6 |
| | **Total West End** | | **57** | **67** | **74** | **76** | **2.9** | **4.2** | **2.3** | **3.7** |
| | City, Midtown and Southwark | Office | 39 | 55 | 39 | 51 | 3.7 | 5.0 | 1.7 | 4.7 |
| | | Retail | 62 | 71 | 43 | 43 | 4.5 | 4.7 | 3.1 | 4.6 |
| | **Total City, Midtown and Southwark** | | **40** | **55** | **39** | **50** | **3.7** | **5.0** | **1.7** | **4.7** |
| **Total let portfolio** | | | **50** | **64** | **50** | **58** | **3.2** | **4.4** | **2.0** | **4.2** |

# Appendix 5

## Top ten tenants

| | Tenant | Rent roll (our share) £m | % of rent roll (our share) |
|---|---|---|---|
| 1 | Bloomberg L.P. | 5.7 | 5.9 |
| 2 | Double Negative Limited | 4.8 | 5.0 |
| 3 | New Look | 3.8 | 3.9 |
| 4 | Cleary Gottlieb Steen & Hamilton LLP | 2.8 | 2.8 |
| 5 | Richemont UK Limited | 2.6 | 2.7 |
| 6 | UBM Plc | 2.5 | 2.5 |
| 7 | C-Retail Ltd | 2.1 | 2.2 |
| 8 | Winckworth Sherwood LLP | 1.9 | 2.0 |
| 9 | Guy's and St Thomas's NHS Foundation Trust | 1.8 | 1.8 |
| 10 | Fallon London Limited | 1.6 | 1.7 |
| | **Total** | **29.6** | **30.5** |

# Appendix 6

## Market risk

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Central London real estate market underperforms other UK property sectors. | Reduced performance. | The execution of the Group's strategy covering the key areas of investment, development and asset management is adjusted and updated throughout the year, informed by regular research into the economy, the investment and occupational markets.<br>The Group's strategic priorities and transactions are considered in light of regular review of dashboard lead indicators and operational parameters.<br>The Group aims to maintain low financial leverage throughout the property cycle. | → | ↗ | The central London real estate market continued to outperform the wider UK market during the year ended 31 March 2016, demonstrated by IPD's central London TPR exceeding IPD's universe by 5.4 percentage points on an absolute basis. Following an extended period of outperformance by central London real estate, the likelihood of this risk has marginally increased. |
| Economic recovery falters. | Worse than expected performance of the business. | Regular economic updates are received and scenario planning is undertaken for different economic cycles, including potential UK exit from the EU.<br>The Group aims to maintain low financial leverage throughout the property cycle. | → | → | Over the past 12 months, the positive growth outlook for the London economy has been maintained. However, uncertainties around the economic outlook persist given continued stock market volatility, ongoing concerns on China and other emerging market economies' weakness and the outlook for global interest rates. |
| Heightened political uncertainty including upcoming UK referendum on EU relationship. | Reluctance by investors and occupiers to make investment decisions whilst outcomes remain uncertain. | The Group's strategic priorities and transactions are considered in light of these uncertainties.<br>Lobbying property industry matters is undertaken by active participation of the Executive Directors through relevant industry bodies. | ↑ | ↑ | The upcoming UK referendum on EU membership appears to be weighing on broader business confidence and investment appetite. While it is too early to tell what the impact will be on the London property market, in the event of a UK vote to leave the EU, property valuations, capital markets and occupier demand could be impacted during the subsequent transition period while the terms of exit and future relationships are negotiated. |

# Appendix 6

## Investment management

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Incorrect reading of the property cycle through poor investment decisions and/or mis-timed recycling of capital. | Not sufficiently capitalising on market investment conditions. | The Group has dedicated resources whose remit is to constantly research each of the sub-markets within central London seeking the right balance of investment and development opportunities suitable for current and anticipated market conditions.<br>Regular review of property cycle by reference to dashboard of lead indicators.<br>Detailed due diligence is undertaken on all acquisitions prior to purchase to ensure appropriate returns.<br>Business plans are produced on an individual asset basis to ensure the appropriate rotation of those buildings with limited relative potential performance.<br>Regular review of the prospective performance of individual assets and their business plans with joint venture partners. | → | → | The Group has continued to invest and recycle capital against a backdrop of strong capital value growth in central London and a surfeit of buyers to sellers in the investment market.<br>Lack of available stock mitigated by depth of opportunity in current portfolio.<br>During the year, three acquisitions totalling £214.3 million were made together with four disposals of £469.7 million at premium to book value of 10.0%. |
| Inappropriate asset concentration, building mix, tenant covenant quality and exposure, and lot size. | Reduced liquidity and relative property performance. | Regular review of portfolio mix and asset concentration. Adjustment of the portfolio as appropriate through undertaking acquisitions and/or development projects in joint venture or forward funding.<br>The Group has a diverse tenant base with its ten largest tenants representing only 30.5% of rent roll.<br>Tenants' covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with tenants is maintained to identify if tenants are suffering financial difficulties and their proposed actions. | → | → | The Group continues to monitor its portfolio mix and asset concentration risk.<br>Our largest asset is only 14.0% of the total portfolio and 16.9% of the portfolio was held in joint ventures at 31 March 2016. |

## Asset management

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Poor management of voids, rental mis-pricing, low tenant retention, sub-optimal rent reviews, tenant failures and inappropriate refurbishments. | Failure to maximise income from investment properties. | The Group's in-house asset management and leasing teams proactively manage tenants to ensure changing needs are met with a focus on retaining income in light of vacant possession requirements for refurbishments and developments and liaise regularly with external advisers to ensure correct pricing of lease transactions.<br>Tenants' covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with tenants is maintained to identify if tenants are suffering financial difficulties and their proposed actions. Although tenants all-in occupational costs are expected to increase in 2017 given an anticipated increase in business rates, our low average office rents of only £45.30 per sq ft are expected to provide some protection to our tenants. | → | → | The Group continues to monitor a low void rate which was 3.1% at 31 March 2016. Tenant delinquencies were 0.3% of the rent roll for the year to 31 March 2016.<br>The Group continues to actively manage the portfolio to maximise occupancy and drive rental growth.<br>During the year, we secured £31.8 million of new rental income including £23.7 million of development lettings. |

# Appendix 6

## Development management

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Poor execution of development programme through:<br>– incorrect reading of the property cycle;<br>– inappropriate location;<br>– failure to gain viable planning consents;<br>– failure to reach agreement with adjoining owners on acceptable terms;<br>– level of speculative development;<br>– incorrect cost estimation;<br>– construction cost inflation;<br>– contractor availability and insolvency risk;<br>– insufficient human resources;<br>– a building being inappropriate to tenant demand;<br>– weak demand for residential apartments;<br>– quality and benchmarks of the completed buildings;<br>– construction and procurement delays;<br>– ineffective marketing to prospective tenants; and<br>– poor development management. | Poor development returns. | See Market risk.<br>Prior to committing to a development the Group conducts a detailed Financial and Operational appraisal process which evaluates the expected returns from a development in light of likely risks. During the course of a development, the actual costs and estimated returns are regularly monitored to signpost prompt decisions on project management, leasing and ownership.<br>Early engagement and strong relationships with planning authorities.<br>Early engagement with adjoining owners.<br>Benchmarking of costs with comparative schemes.<br>In-house Project Management team utilise appropriate procurement methods to optimise the balance of price certainty and risk with construction costs now fixed on over 98% of committed schemes' capital expenditure.<br>Internal and external resourcing requirements regularly reviewed by the Executive Committee, Development Director and Head of Projects. Third party resource expertise used to support in-house teams, where appropriate.<br>Due diligence is undertaken of the financial stability of demolition, main contractors and material sub-contractors prior to awarding of contracts.<br>Working with agents, potential occupiers' and purchasers' needs and aspirations are identified during the planning application and design stages.<br>In-house Leasing/Marketing team liaise with external advisers on a regular basis and marketing timetables designed in accordance with leasing/marketing objectives.<br>All our major developments are subject to BREEAM ratings with a target to achieve a rating of 'Very Good' on major refurbishments and 'Excellent' on new build properties.<br>Pro-active liaison with existing tenants before and during the development process.<br>Selection of contractors and suppliers based on track record of delivery and credit worthiness.<br>In-house Project Management team closely monitor construction and manage contractors to ensure adequate resourcing to meet programme.<br>Regular review of the prospective performance of individual assets and their business plans with joint venture partners.<br>Post-completion reviews undertaken on all developments to identify best practice and areas for improvement. | ↑ | ↑ | The Group has increased its development commitments with eight schemes currently on-site with a gross development value (GDV) of £1,430.3 million (compared to six schemes with a GDV of £1,096.2 million a year ago). However, the Group has continued to de-risk its development programme and, as a result, the risk likelihood after mitigation is unchanged over the year.<br>Key initiatives during the year included:<br>– the pre-letting of the entire office space at Rathbone Square, W1 to Facebook on a 15 year lease for £17.8 million p.a.;<br>– the pre-letting of all the retail space at 73/89 Oxford Street, W1;<br>– the continued sales programme of the residential element of Rathbone Square, W1 with £39.0 million of sales during the year and today only three private units remain to be sold; and<br>– placing construction contracts on three further schemes since 31 March 2015, meaning that we now have cost certainty on over 98% of our committed capex. |

# Appendix 6

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| **Development management** | | | | | |
| An inappropriate level of development undertaken as a percentage of the portfolio. | Underperformance against KPIs. | Regular review of the level of development undertaken as a percentage of portfolio, including the impact on the Group's income profile and financial gearing, amongst other metrics.<br>Developments only committed to when pre-lets obtained and/or market supply considered to be sufficiently constrained. | → | → | With forecast supply of central London office space expected to remain low in the near to medium term, the Group has expanded its development exposure to capitalise on the expected resulting rental growth given improving tenant demand. Our increased development activity has increased the potential impact of this risk.<br>However, 61.1% of income or gross development value of the committed developments has already been secured and, given the level of current development commitments, the Group has further reduced its already conservative financial leverage. At 31 March 2016 LTV was 17.4%. |
| **Financial risks** | | | | | |
| Limited availability of further capital. | Growth of business is constrained or unable to execute business plans. | Cash flow and funding needs are regularly monitored to ensure sufficient undrawn facilities are in place.<br>Funding maturities are managed across the short, medium and long-term.<br>The Group's funding measures are diversified across a range of bank and bond markets.<br>Strict counterparty limits are operated on deposits. | → | → | The Group has continued to extend the maturity ladder of its debt financing and maintain diverse funding sources.<br>During the year, the Group extended the maturity of its £450 million revolving credit facility to October 2020 and refinanced the secured bank debt in the Great Ropemaker Partnership, taking the maturity to December 2020.<br>Cash and undrawn credit facilities were £472 million at 31 March 2016. |
| Increased interest rates and/or a fall in capital values. | Adverse market movements negatively impact on debt covenants. | Consistent policy of conservative financial leverage.<br>Regular review of current and forecast debt levels and financing ratios.<br>Our annual Business Plan which is regularly updated includes stress tests considering the impact of a significant deterioration in the markets in which we operate.<br>Formal policy to manage interest rate exposure by having a high proportion of debt with fixed or capped interest rates through derivatives.<br>Significant headroom over all financial covenants at 31 March 2016.<br>We estimate that, absent any mitigating management actions, values could fall by around 67% from their 31 March 2016 levels before Group debt covenants could be endangered. | → | ↗ | Following continued strong rental growth and further compression of already record low yields during the year, we expect the pace of rental growth to moderate and some modest expansion of yields over the coming year. Whilst broader economic and political uncertainties have kept global interest rates at very low levels, there remains an expectation of modest increase in UK interest rates in the medium term. However, this risk likelihood after mitigation is unchanged given our significant headroom against debt covenants and 100% of the Group's debt being at fixed or hedged interest rates. |

# Appendix 6

## Financial risks

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Inappropriate capital structure. | Sub-optimal NAV per share growth. | Regular review of current and forecast capital requirements and gearing levels and financing ratios. | → | → | The Group's existing capital structure is well placed to take advantage of opportunities as they arise and to deliver our development programme. |

## People

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Incorrect level and mix/retention of people to execute our business plan, combined with inability to attract, develop, motivate and retain talent. | Strategic priorities not achieved. | Regular review is undertaken of the Group's resource requirements and succession planning.<br>The Company has a remuneration system that is strongly linked to performance and a formal six-monthly appraisal system to provide regular assessment of individual performance and identification of training and development needs.<br>Benchmarking of remuneration packages of all employees is undertaken annually.<br>High profile, attractive development programme and high quality assets to manage. | → | → | With the Group in the execution phase of the cycle and increased levels of development activity, the motivation of our people remains fundamental to the delivery of our strategic priorities.<br>However, staff retention is high at 88% against a backdrop of an increasingly competitive employment market and the risk likelihood after mitigation has marginally reduced over the year given our recruitment activities with four net new hires, various internal promotions (including expansion of our Executive Committee) and other Human Resources initiatives. |

## Regulatory

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Adverse regulatory risk, particularly following the recent appointment of the new London Mayor, including tax, planning, environmental legislation and EU directives increases cost base. | Reduces flexibility and may influence potential investor and occupier interest in buildings. | Senior Group representatives spend considerable time, using experienced advisers as appropriate, to ensure compliance with current and potential future regulations.<br>Lobbying property industry matters is undertaken by active participation of the Executive Directors through relevant industry bodies.<br>Environmental Policy Committee meets at least quarterly to consider strategy in respect of environmental legislation. | ↗ | ↗ | The likelihood of this risk marginally increased during the year given increased uncertainty around our future relationship with the EU, increases to SDLT rates on property and the recent election of a new London mayor which may lead to policy changes, including investment in public transport infrastructure.<br>In 2015, Minimum Energy Efficiency Standards came into force which will impact the ability to let less energy efficient buildings from 2018. A watch list of all buildings' EPC ratings and proposed actions is, therefore, maintained.<br>Uncertainty remains as to the taxation and regulatory environment, with the real estate sector sometimes perceived by regulators to be part of the financial services sector rather than as an operating business. As a result, the industry could be adversely affected by regulation designed to stabilise financial markets, such as the proposed OECD BEPS project. |

# Appendix 6

## Regulatory

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| Health and Safety incidents.<br>Loss of life or injury to employees, contractors, members of the public or tenants. | Resultant reputational damage. | The Group has dedicated Health and Safety personnel to oversee the Group's management systems which include regular risk assessments and annual audits to proactively address key Health and Safety areas including employee, contractor, members of the public and tenant safety.<br>On developments, the Group operates a pre-qualification process to ensure selection of competent consultants and contractors which includes a Health and Safety assessment.<br>Contractors' responses to accidents and near misses are actively monitored and followed-up by our Project Managers and Head of Sustainability, with reporting to the Executive Committee and Board as appropriate. | → | ↗ | With heightened levels of development activity, the likelihood of this risk marginally increased over the year. The Group had no reportable accidents and no reportable incidents during the year. |

## Business interruption risk

| Risk | Impact | Mitigation | Impact change from last year | Likelihood change from last year | Commentary |
|---|---|---|---|---|---|
| An external event such as a power shortage, extreme weather, environmental incident, civil unrest or terrorist or cyber attack that significantly affects the Group's operations, particularly given our portfolio concentration in central London. | Significant damage, disruption and/or reputational damage to the Group's portfolio and operations. | The Group has a Business Continuity Plan with predetermined processes and escalation for the Crisis Management Team. Asset emergency plans exist for individual properties.<br>Physical security measures are in place at properties and security threats are regularly assessed through links with security agencies.<br>Regular testing of IT security is undertaken.<br>The Group's insurance policies include cover for catastrophic events including fire, storm, riots and terrorism. | → | ↗ | The UK Government maintained the UK's external terrorism threat at severe during the year, and while the likelihood of a major incident remains low, the risk has marginally increased following recent incidents in other major European cities. |