Press Release

23 May 2018

Annual Results – strong operational performance

The Directors of Great Portland Estates plc announce the results for the Group for the year to 31 March 2018.

Highlights for the year:

Valuation growth of 2.9% – driven by strong development performance
- Portfolio valuation up 2.9%[1] in year (developments: up 7.0%[1]) and up 1.9%[1] in H2
- Yield contraction of 10 bp and rental values up 0.3%[1] (H1: +0.7%[1], H2: -0.4%; -0.6% offices, +3.0% retail)
- 12 month capital return of 2.5% v 4.7% for IPD Central London (10 year annualised capital return: 6.1% v 5.1%)
- Rental value growth guidance for new financial year: range of +1.0% to –2.5%

Good financial performance – increased EPRA NAV, earnings and dividends
- EPRA[2] NAV per share of 845 pence, up 5.8% in year and 3.9% in H2; total accounting return of 7.1%
- Net assets of £2,366.9 million (March 2017: £2,738.4 million), post return of £416 million to shareholders
- EPRA[2] earnings of £66.5 million, up 12.1%. EPRA[2] EPS of 20.4 pence, up 17.9%. Cash EPS of 17.0 pence, up 68.3%
- After revaluation surplus, reported IFRS profit before tax of £76.7 million (March 2017: loss of £140.2 million)
- Total dividends per share of 11.3 pence (2017: 10.1 pence), up 11.9%, with final dividend of 7.3 pence, up 14.1%

Excellent leasing, ahead of ERV and capturing reversion – 53% rent roll growth potential
- 68 new lettings (469,700 sq ft) securing annual income of £31.1 million, market lettings 2.6% ahead of March 17 ERV
  - Record investment lettings of £19.2 million, 3.4% ahead of March 2017 ERV
  - Two major pre-lets to Turner Broadcasting and KKR securing £11.4 million (both on 15 year terms)
- 34 rent reviews settled securing £18.3 million; 29.6% above previous passing rent, 3.2% ahead of ERV
- Successfully trialled flex space offering across 12,000 sq ft, securing rent at 35% premium to net effective rental value. Appraising further c.100,000 sq ft across existing portfolio
- Vacancy rate of 4.9%, average office rent only £54.60 sq ft, reversionary potential of 12.1% (£13.0 million)
- Rent roll of £107.3 million (up 7.0%[1]), with total potential future growth of 53% to £164.1 million[5]

Three new development commitments – extensive flexible pipeline of opportunities (48% of portfolio)
- Three schemes completed (350,700 sq ft, profit on cost of 6.5%) since March 2017; 90% let or sold, with 139 of 142 Rathbone private residential units now handed over to buyers
- Commenced three new schemes (412,000 sq ft), including Hanover Square, W1; expected average profit on cost of 15.9%, capex to come of £239.6 million, all in close proximity to Crossrail stations
- Flexible development pipeline; 13 uncommitted schemes (1.3 million sq ft), 3.7 years average lease length, income producing off low average office rents (£53.20 sq ft)

Crystallising development surpluses – sales of £329.0 million, 5.4% ahead of book value
- 240 Blackfriars Road, SE1 sold from GRP JV for £266.0 million (GPE share: £133.0 million), GPE whole life surplus of £68.2 million (97% on capital employed)
- 30 Broadwick Street, W1 sold for £185.9 million, GPE whole life surplus of £76.9[4] million (71% on capital employed)
- Since year end, Great Portland Street buildings sold for £49.6 million, net initial yield 3.9%
- Purchase of freehold of Cityside and Challenger House, E1 for £49.6 million, or £320 per sq ft

Exceptional financial position and maintaining balance sheet discipline – £416 million returned to shareholders
- £416 million returned to shareholders via £110 million special dividend and £306 million B share scheme
- Pro forma[3] LTV of 11.6%, weighted average interest rate lower at only 2.3%, debt maturity extended to 5.9 years, debt 100% fixed/hedged. Pro forma[3] cash & undrawn facilities of £666 million

[1] On a like for like basis, including share of Joint Ventures
[2] In accordance with EPRA guidance
[3] See our Financial Results
[4] Pre tax
[5] Including letting of voids, our committed developments plus reversion captured

EPRA and adjusted metrics: we prepare our financial statements using IFRS, however we also use a number of adjusted measures in assessing and managing the performance of the business. These include measures defined by EPRA, which are designed to enhance transparency and comparability across the European real estate sector, see note 9 to the financial statements. For a definition of pro forma debt metrics see Appendix 4.

Toby Courtauld, Chief Executive, said:

"We are pleased to report good results for the year, driven by the successful execution of our clear strategy: we have let more space across our high quality investment portfolio than ever before and delivered significant pre-lettings at our developments, beating rental value estimates; we have taken advantage of heightened demand for prime assets, crystallising profits through selective selling, often at new benchmark prices; we have maintained balance sheet discipline, returning surplus equity totalling £416 million to shareholders, whilst preserving gearing at only 12%; we have committed to three new development schemes, all near Crossrail and already 11% pre-let; and we have delivered healthy earnings per share and NAV per share growth of 17.9% and 5.8% respectively. As a result, we have raised the final dividend by 14.1%.

Whilst we expect, and are planning for, continued economic uncertainty, we look to our future with confidence: although we can expect a softening in market rents and some secondary asset yields, occupier demand remains healthy across our retail and office portfolio. With London's investment markets remaining competitive, we have no need to buy, preferring the relative returns on offer from investing in our portfolio. It is full of opportunity, including 1.7 million sq ft of development potential, 0.4 million sq ft of which is now on site. In addition, our low average rents provide us with plenty of reversion to capture and our talented team is ready to capitalise on our many opportunities for organic growth as we continue to broaden our offering to meet evolving occupier needs. Either way, after five years of net sales, we have the financial strength to exploit any market weakness where we unearth it."

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

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/latest-results

Statement from the Chief Executive

We are pleased to report that another excellent operational performance, including multiple leasing successes and profitable capital recycling, has delivered good financial results. EPRA NAV per share rose by 5.8% in the year, whilst EPRA EPS grew by 17.9% and ordinary dividends per share increased 11.9% to 11.3 pence. We had net assets of £2,367 million at 31 March 2018 and delivered diluted IFRS EPS of 18.2 pence. With the investment market remaining strong for prime properties, we have continued to crystallise development surpluses and returned further capital to shareholders, whilst still maintaining our financial strength.

Market conditions have been broadly stable

Central London's property markets have lacked clear direction over the year and have tracked broadly sideways with the weight of international capital, healthy occupier demand and tight supply of new high quality office space supporting the prime investment and occupational markets. Across our portfolio, we delivered 2.9% like-for-like property valuation growth, including a strong performance from our developments which were up 7.0%.

Looking ahead, given the ongoing political and macro-economic uncertainty, we expect London's commercial markets in the near term to remain generally supportive for our activities, although we expect a softening in market rents and secondary yields. Moreover, we continue to be positive on the long-term outlook for London; as one of only a handful of truly global cities, it has an enduring appeal for both businesses and investors. Plus, the opening of Crossrail later this year will add to its attractiveness, providing a further significant boost to London's public transport infrastructure.

Strong leasing performance ahead of ERV and capturing reversion

We have had another outstanding leasing year securing £31.1 million of annual rent, 2.6% above our valuer's ERV. Our 68 new lettings came from a diverse range of occupiers which included two major pre-lettings (both on 15 year terms), together capturing £11.4 million of rent. We have successfully trialled our new flex space offering generating a 35% premium to net effective ERVs on an initial 12,000 sq ft, and we are appraising a further circa 100,000 sq ft across the portfolio.

Our team also crystallised significant rental reversion across the investment portfolio, with 34 rent reviews settled securing £18.3 million at an average increase of 29.6% above the previous rent and beating ERV by 3.2%. With our low average office rent of £54.60 per sq ft, reversionary potential of 12.1% and £24.1 million of rent available at our committed development schemes, we can look forward to further rental growth.

Successful development completions and three new commitments, combined with an extensive pipeline of opportunity

We successfully delivered three schemes totalling 350,800 sq ft since April 2017, which were 89.5% pre-let or pre-sold on completion, including 160 Old Street, EC1. More recently, we have commenced three new developments, all near to Crossrail stations, which will provide 412,000 sq ft of Grade A predominantly office and retail space, including 221,300 sq ft at our Hanover Square scheme which is already 26% pre-let. We have made good progress in preparing our substantial pipeline of future development opportunities, which extends to 1.3 million sq ft across 13 schemes.

Crystallising development surpluses and disciplined capital allocation

We were a net seller for the fifth year running with sales of £329 million at a 5.4% premium to March 2017 book values, including two prime, long-let completed development schemes at 240 Blackfriars Road, SE1 and 30 Broadwick Street, W1 which together crystallised a whole life surplus of £145 million, or 81% on capital employed. With our disciplined capital allocation and limited availability of attractively priced acquisition opportunities, we made only one purchase in the year for £49.6 million and recently returned a further £306 million to shareholders via a B share scheme, following the £110 million special dividend paid earlier in the year. If current investment market conditions persist, we expect to likely remain a net seller in the year ahead.

Exceptional financial strength and talented team

Our financial position remains as strong as ever with our pro forma loan to value ratio only 11.6% and cash and committed undrawn liquidity of £666 million, whilst our recent refinancing successes reduced our weighted average interest rate to a record low level of 2.3%. Moreover, with strength in depth, our talented team is in great shape and we were pleased to make twelve internal promotions during the year. We were also delighted that GPE was again ranked first in the property sector, and fifth overall, in Management Today's 'Britain's Most Admired Companies', recognising the dedication and efforts of all our people.

Outlook

Whilst we expect, and are planning for, continued economic uncertainty, we look to our future with confidence: although we can expect a softening in market rents and some secondary asset yields, occupier demand remains healthy across our retail and office portfolio. With London's investment markets remaining competitive, we have no need to buy, preferring the relative returns on offer from investing in our portfolio. It is full of opportunity, including 1.7 million sq ft of development potential, 0.4 million sq ft of which is now on site. In addition, our low average rents provide us with plenty of reversion to capture and our talented team is ready to capitalise on our many opportunities for organic growth as we continue to broaden our offering to meet evolving occupier needs. Either way, after five years of net sales, we have the financial strength to exploit any market weakness where we unearth it.

Our market

Our market is accompanied by graphics (see Appendix 1)

London's commercial real estate markets have lacked clear direction and tracked broadly sideways during the year as a result of the ongoing political and macro-economic uncertainty following the EU referendum. Looking forward, we expect the outlook to remain opaque until the political situation stabilises and further clarity is provided on the UK's future trading relationships with the rest of the world. However, whatever the outcome, we expect London to remain a truly global city, continuing to attract businesses, capital and talent from around the world.

Low growth outlook
Against a backdrop of improving global economic growth, the UK's GDP grew by a modest 1.8% in 2017. Despite record levels of employment, the depreciation of the pound lifted inflation which has squeezed household real incomes and negatively impacted retail sales. Whilst the consumer is under pressure, business activity has remained more resilient with most Purchasing Manager Indices at 50 or above, indicating the expectation of future growth. Given this modest economic performance, our lead indicators are broadly unchanged year on year, with both prime property yields and headline rents broadly stable.

Looking forward, economic forecasters expect this slow growth to continue as uncertainty about the shape of the UK's future outside of the EU weighs on consumer confidence and business investment. Oxford Economics forecast annual GDP growth to be 1.7% per annum over the next three years, whilst GDP growth in the first quarter of 2018 of 0.1%, the weakest performance since 2012, reflects this lower long-term trend. The most recent Deloitte survey of UK CFOs also reported that both business optimism and risk appetite remain below the long-term average.

To date, the impact of the UK's decision to leave the EU has been less severe than originally anticipated, with property values remaining at near cyclical highs. However, the terms of the UK's exit from the EU remain unsettled and we have yet to embark on agreeing our future trading arrangements with the rest of the world. Moreover, these uncertainties may also contribute to potential changes in the UK political landscape which could adversely impact the prospects for businesses across London. As a result, barring a major shock or change to both the macro-economic and geo-political backdrop, our expectation is that London's commercial property markets will trend broadly flat in the near term, with the benefits of London's continued safe-haven status and investors' appetite for yield being offset by some softening in market rents, rising interest rates and the appreciation of Sterling against the dollar over the last year.

However, looking further ahead, we are confident that London, with its track record of successfully adapting to changing market conditions, will remain attractive to a diverse range of businesses and investors as Europe's business capital.

London has supportive long-term demographics
With the largest economy of any city in Europe and generating around 23% of UK GDP, London has one of the deepest concentrations of trading activities, global businesses, capital, talent and institutions and remains number one in JLL's Order of Established World Cities 2018. Against a backdrop of lower UK economic growth, London is expected to continue to outperform with Oxford Economics forecasting annual GDP growth of 2.3% over the next five years.

London's population reached a record high of 8.8 million in 2016 and is forecast to continue to grow to more than ten million by 2030. CBRE/Oxford Economics predict that as London continues to grow this will increase inner London office-based employment by 140,500 new jobs (up from 129,000 a year ago) over the next five years, driven by the professional services and creative industries. London's deep pool of talented labour and collection of world-class universities and business schools continue to attract businesses from around the world. Three quarters of Fortune 500 companies have their European head offices in London.

London is also set to benefit from further infrastructure improvement with the opening of Crossrail in December 2018. This will expand London's rail capacity by 10%, bringing an additional 1.5 million people within 45 minutes of central London and further increasing its potential workforce.

Despite London's positive longer-term prospects, the uncertainty surrounding the outcome of our exit from the EU is likely to have a negative near-term impact on the London economy and its property market. Furthermore, macro-economic and political risks persist including the unwinding of quantitative easing and the resultant outlook for global interest rates and a variety of other geo-political risks, such as the rise of protectionism. As a result, we continue to monitor closely prevailing market conditions and the fortunes of our diverse occupier base.

Healthy occupational demand
Occupiers have increasingly been looking beyond near-term uncertainties to ensure they can secure the best space for their businesses and people. As a result, our occupational markets have remained healthy. For the year ended 31 March 2018, central London take-up was 13.6 million sq ft, 15.0% ahead of the preceding 12 months and 10.0% ahead of the ten year annual average of 12.4 million sq ft. During 2017, there were 17 lettings in excess of 100,000 sq ft, the highest annual total since 2001, as large global businesses continued to commit to London. Take-up was once again from a diverse range of industries with professional and business services (31%), creative industries (22%) and banking and finance (19%) the dominant sectors.

As with many other cities across the world, central London has witnessed significant growth in the provision of flexible office space in recent years. Serviced office providers now account for around 20% of annual take-up, often providing much needed space to small and medium sized occupiers and contributing to London's growth, although their total share of the office London market still remains low at around 3%. Whilst our own leasing track record demonstrates that for many businesses securing high quality, well-located space for longer-term occupation is vital, we recognise occupiers are increasingly seeking an element of flexibility for some parts of their business. As a result, we are reviewing opportunities across our portfolio to implement a new flexible offering, providing fitted out flex space with simplified lease documentation and terms from one month. Early interest is encouraging and we have achieved our first letting of such space at Elm Yard, WC1.

Overall, good buildings in great locations let well and the demand for new high quality space has been maintained. However, as occupiers have upgraded to higher quality buildings, they have released second hand space back to the market. As a result, the availability of second hand space at 31 March 2018 was 9.8 million sq ft, the highest level since 2009, putting upward pressure on the central London office vacancy rate which remained at 4.7% over the year.

Grade A supply remains tight

Development completions across central London remain limited, with completions for the year to 31 March 2018 of 5.1 million sq ft, down from 5.8 million sq ft in the preceding 12 months. However, in the core of the West End, the focus of our own development activities, development completions totalled only 1.0 million sq ft over the year.

Looking ahead, 19.1 million sq ft of new office space is expected to be delivered in central London over the five years to December 2022, of which 2.0 million sq ft is in the West End core, equating to only 0.7% per annum of existing stock. The low level of speculative development has continued as a more challenging planning regime, including the proposed London Plan, combined with continued macro-economic uncertainty have weighed on developers enthusiasm to push ahead with more marginal schemes.

This lack of supply has motivated occupiers to secure new space in advance of buildings completing. As a result, pre-lets represented 26% of all take-up in the year to 31 March 2018 and 35% of future development completions are already pre-leased. This has helped support headline rental values across our key markets, although tenant incentives (including rent-frees) have increased marginally over the year.

West End occupational markets

Over the year to 31 March 2018, West End office take-up was 4.8 million sq ft, 26.3% higher than the preceding year. Given this increase in activity, availability reduced to 4.1 million sq ft (down from 4.6 million sq ft in the prior year) and vacancy rates also remain low with Grade A space vacancy estimated by CBRE to be only 2.6%. CBRE has reported that prime office rental values in the West End softened marginally to £105 per sq ft, down from £110 per sq ft this time last year, given the continued uncertain backdrop. In addition, rent free periods on average increased marginally by one to two months over the last year to around 22-24 months on a ten year term. Looking ahead, CBRE expects rents to fall in the run up to the Brexit deadline with West End prime office rents forecast to reduce by around 3.8% over the next two years.

The West End prime retail market (35.6% of our West End portfolio by value) has continued to outperform offices. Despite some signs of distress in the wider UK retail market, demand for space on London's core retail streets has continued, supported by their wide appeal and record numbers of tourists visiting London. Notwithstanding the rise of online retailing, physical stores can complement an online presence and during the year a number of previously online only brands opened their first bricks and mortar stores in London. As a result, vacancy is limited and prime rental values are largely unchanged year on year.

City, Midtown and Southwark occupational markets

Over the year to 31 March 2018, City office take-up was 5.9 million sq ft, up 25.7% on the preceding year, with availability rising to 6.2 million sq ft (up 4.3%) but in line with the ten year average. Although higher than in the West End, vacancy rates remain low with Grade A vacancy estimated by CBRE to be only 4.1%. CBRE has also reported that prime City rental values reduced by 2.1% to £68.50 per sq ft.

Midtown and Southwark office take-up was 2.5 million sq ft, up 1.3% on the preceding year, while availability at 31 March 2018 was 2.1 million sq ft, slightly lower than the ten year average. CBRE reported prime office rents in Southwark increased by 4% to £65.00 per sq ft with Midtown office rents increasing to £80.00 per sq ft from £76.50 per sq ft a year earlier.

GPE occupational market positioning

Whilst occupational demand is healthy and supply remains limited, the outlook remains challenging as occupiers navigate the continued uncertain outlook in a lower growth environment. Moreover, while headline market rents were broadly stable over the year, the increase in typical rent free periods implies a marginal decline in net effective rents. Against this backdrop, we are well positioned: our leasing record remains strong, our committed development programme is focused on high quality, well-located schemes that are in high demand, our average rents are low with further reversionary potential across the Group of 12.1% and 88% of our portfolio is within walking distance of a Crossrail station. However, we estimate that for the next twelve months rental value growth across our portfolio will be between -2.5% and +1.0%.

Investment markets strong for prime assets
Following a volatile 2016, the volume of central London office transactions returned to strength in 2017, totalling £16.4 billion, the fourth highest annual total on record. Strong demand for prime, well-let and well-located assets continued with some notable high value tower sales in the City. Unusually, activity reduced towards the end of 2017, with the final quarter the slowest since 2011, and this slow down has carried into 2018 with only £2.5 billion of transactions in the first quarter of the year.

Overseas investors continue to dominate, accounting for 83% of transactions over the 12 months to 31 December 2017, with Asian investors particularly active at 44% of the total. Prime London real estate continues to demonstrate relative value to other global cities, offering higher headline office yields than are available in, amongst others, Paris, Hong Kong and Tokyo, with London maintaining its reputation as a safe investment haven for international investors. Given continued high levels of demand, prime yields have remained stable in both the West End and the City at 3.75% and 4.00% respectively.

To date, the gap between prime and secondary yields has remained at near record lows, with lower quality, short-let buildings, often in need of redevelopment, not being adequately discounted by prospective vendors for the additional level of associated risk. Transaction volumes for these secondary assets have remained limited, as vendors' often aspirational prices have not been met and, as a result, properties have been withdrawn from sale. We are monitoring this market activity very closely, given these are the type of assets we typically like to buy. However, to date, we are only seeing limited evidence of re-pricing.

Retail investment volumes reduced in 2017 to £1.5 billion, down from £2.2 billion in 2016, driven by a reduced number of large transactions. Unlike the office market, domestic buyers were more active accounting for 47% of all activity in the year. Notwithstanding reduced levels of activity, prime yields remained stable during the year at 2.25% on Bond Street and 2.50% on Oxford Street.

The central London residential market continues to be under pressure as increased stamp duty rates and concerns regarding affordability continue to weigh on demand. Today, our residential exposure is greatly reduced, totalling only 2% of the portfolio by value as we have completed the sales of our pre-sold units at Rathbone Square, W1. Since completion of the scheme in November 2017, we have completed on 139 units (138 during the financial year) out of total sales to date of 140 units collecting £198.7 million in outstanding proceeds.

Weight of money continues to support yields
The excess of equity capital to invest over commercial property available for sale across central London has remained high (estimated at £37.0 billion versus £6.0 billion respectively). Interestingly, we have recently seen some shift in the Asian buyer mix with a small decline in demand from China and Hong Kong offset by increased institutional appetite from Korea and Singapore, along with signs of growing Japanese interest.

London real estate continues to offer relative value in a global environment where yield is scarce. Therefore, in the near term, we expect prime yields to remain stable. However, we expect to witness some modest expansion in the medium term, given the uncertain macro-economic backdrop and the challenging rental outlook. For some secondary properties, we expect to see additional further upward pressure on yields as buyers look to discount prices to reflect the greater risks these assets possess.

GPE investment market positioning
We have been a net seller for the past five years, taking advantage of strong investment markets to crystallise surpluses where our business plans were complete. Looking forward, given this investment market strength, we are unlikely to be a net buyer until vendors become more realistic on pricing, particularly for secondary properties with a higher risk profile. We are constantly reviewing acquisition opportunities, and over the past three months we have reviewed £1.2 billion of potential acquisitions.

Whilst the number of assets available to buy remains high, very few represent good value, with none of the assets under review within 10% of our view of fair value. We will remain disciplined. As a result, in the near term, acquisitions are likely to be limited and we expect to be a net seller in the year ahead.

Our lead indicators are unchanged
Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace. Over the last 12 months, we have seen our property capital value indicators remain stable. Investment activity in the central London commercial property market is robust and the real yield spread over gilt yields remains supportive resulting in stable prime investment yields. In the medium term, we expect modest increases in yields and we expect this trend to be greater for secondary properties. On the occupational side, business confidence remains low, forecast rates of economic growth are modest and the uncertainty surrounding the UK exit from the EU has yet to clear. As a result, we expect headline rental values across our portfolio to be broadly stable over the next twelve months.

Valuation

Our valuation is accompanied by graphics (see Appendix 2)

Portfolio value up 2.9% in year
Given supportive occupational and investment markets during the period, central London property values demonstrated small valuation gains. The valuation of our portfolio, including our share of joint ventures, increased by £71.8 million, or 2.9%, on a like-for-like basis, to £2,790.0 million at 31 March 2018.

The key drivers behind the Group's valuation movement for the year were:

- development gains – the valuation of our committed development properties increased by 7.0% on a like-for-like basis to £350.9 million during the year. The largest valuation movements in the year were driven by our pre-letting activities at 160 Old Street, EC1 and Hanover Square, W1 which helped to de-risk the developments and improve development returns;
- intensive asset management – during another strong year, 102 new leases, rent reviews and renewals were completed, with new lettings 2.6% ahead of ERV, securing £39.8 million (our share) of annual income, supporting the valuation over the year;
- stable rental values – in the past 12 months, rental values had a limited impact on asset values, rising marginally (+0.3%) on a like-for-like basis; and
- lower investment yields – our portfolio equivalent yield reduced by 10 basis points (2017: 15 basis point increase) during the year, driven by our development completions and pre-lettings. At 31 March 2018, the portfolio equivalent yield was 4.5%.

Including rent from pre-lets and leases currently in rent-free periods, the adjusted initial yield of the investment portfolio at 31 March 2018 was 4.0%, 50 basis points higher than at the start of the financial year.

Our North of Oxford Street portfolio produced the strongest performance over the year, increasing in value by 3.5% on a like-for-like basis, in part driven by retail capital value growth of 4.8%. Our Rest of West End assets saw a 2.4% increase in values and the City, Midtown and Southwark properties increased by 0.4%. Our joint venture properties increased in value by 5.4% over the year, driven by the greater proportion of development returns, while the wholly-owned portfolio rose by 2.4% on a like-for-like basis.

The Group delivered a total property return (TPR) for the year of 5.5%, compared to the central London IPD benchmark of 8.2% and a capital return of 2.5% versus 4.7% for IPD. This relative under-performance resulted from our higher than benchmark exposure to investment properties with shorter lease lengths, where valuations were less resilient given the potential leasing risk. These properties form our development pipeline and active portfolio management opportunities where income is necessarily shorter to enable us to unlock the future longer-term value upside.

Our Business

Our Business is accompanied by graphics (see Appendix 3)

Investment management

Overview

Investor demand for long-let, well-located, prime assets remained strong during the year. We continued to capitalise on this strength to sell assets and crystallise further significant surpluses. As a result, we were again a net seller with sales of £329.0 million and acquisitions of £49.6 million during the year.

Net seller for the fifth year running with £329.0 million of sales

In last year's annual report, we outlined our expectation that our sale and acquisition activity would be more balanced for the current year as vendors became more realistic on pricing. However, with the investment market remaining robust during the year, we took the opportunity to sell further assets securing strong pricing. In total, sales generated £329.0 million in gross proceeds at a 5.4% premium to the 31 March 2017 book values.

In December 2017, our joint venture with BP (GRP) sold 240 Blackfriars Road, SE1 to clients of Wolfe Asset Management Limited, a wholly-owned subsidiary of the Al Gurg Family. 240 Blackfriars Road is a fully let, 20 storey landmark building constructed in 2014 and provides a total of 235,900 sq ft of Grade A offices, retail and residential accommodation. The headline price of £266.5 million, equating to £266.0 million (our share: £133.0 million) after deductions for tenant incentives, was 8.3% ahead of the 31 March 2017 book value, reflecting a headline net initial yield of 3.94% and a capital value of £1,176 per sq ft.

Also in December 2017, we sold 30 Broadwick Street, W1 to an Asian client of Savills Investment Management. 30 Broadwick Street is an eight-storey building, completed in late 2016, and provides a total of 94,300 sq ft of Grade A office, retail and restaurant accommodation. The building is fully let, on office rents ranging from £86.50 to £110 per sq ft. The headline price of £190.0 million, equating to £185.9 million after deductions for tenant incentives, was 3.2% ahead of the 31 March 2017 book value, reflecting a headline net initial yield of 4.0% and a capital value of £1,971 per sq ft.

During the year, we also continued to take advantage of supportive market conditions with a number of smaller asset sales. In June 2017, we sold 48 Broadwick Street, W1, a small residential building in Soho for £4.3 million, equating to £1,478 per sq ft and, in September 2017, we sold 42/44 Mortimer Street, W1 for £4.8 million, reflecting a net initial yield to the buyer of 3.85%.

We also disposed of the final residual buildings in the Great Wigmore Partnership, our joint venture with Aberdeen Asset Management, for a combined price of £2.0 million (our share: £1.0 million), bringing a successful conclusion to the Partnership's activities.

In April 2018, we sold the freehold of the recently redeveloped 78/92 Great Portland Street and 15/19 Riding House Street, W1 to M&G Real Estate. The headline price of £49.6 million, equating to £48.3 million after deductions for tenant incentives, reflected a net initial yield of 3.9% on a topped up basis and a capital value of £1,362 per sq ft.

One acquisition in the year, adding to our development opportunity

Given the strength in the investment market, attractive market opportunities to buy were limited, with only one purchase during the year. In June 2017, we acquired the freehold of land and buildings including Cityside House and Challenger House, 40/42 Adler Street and 2/8 Whitechapel Road, E1 from Hermes Investment Management for £49.6 million, or £320 per sq ft on the consented space. The 1.1 acre site sits between Aldgate East underground station to the west and Whitechapel station to the east and consists of:

- Challenger House – a freehold interest in a five-storey hotel, leased to Qbic Hotels for a further 21 years at a rent of £1.4 million p.a., with CPI linked five yearly reviews, capped and collared at 2% - 4% p.a.. The hotel trades from 171 bedrooms with a public restaurant;
- Cityside House – a freehold interest in a five-storey, 54,300 sq ft office building. The property was unoccupied at purchase with planning consent for an additional three floors; and
- Development sites – freehold land to the rear of Cityside House, part of which has a planning consent for 19,000 sq ft of development, comprising hotel and residential uses.

Since purchase, the redevelopment of Cityside House, E1 has commenced to deliver a well-designed, cost effective and prominent office building in the heart of Whitechapel, supported by a long-term income stream from Qbic Hotels, and further development sites. In addition, Whitechapel is set to benefit from significant further regeneration, including its new Crossrail station opening in late 2018.

In the period, we also enhanced our ownership at City Tower, 40 Basinghall Street, EC2 by extending our leasehold interest to 125 years.

Together with sales of £329.0 million, the total investment transactions were £378.6 million with a net divestment of £279.4 million during the year.

Outlook for sales and acquisitions
Looking forward, with 16% of our portfolio represented by long-dated properties for which investor demand is currently strong, we expect further sales over the next year. Moreover, when considering acquisition opportunities, our usual discipline remains intact. We have the financial firepower to exploit any market weakness should it arise, although we have no need to buy. Any new purchase needs to outperform the buildings we already own and, given 48% of the portfolio is in our development programme, the hurdle is high. As a result, barring any major change in market conditions, we will likely be a net seller over the next 12 months.

Development management

Overview
Since 31 March 2017, we have successfully completed three developments which are now 89.5% let or sold. We have recently commenced three new schemes and have also been busy progressing the next wave of exciting developments which together now cover 48% of the existing portfolio.

Well placed development portfolio
Our ability to deliver strong development returns requires a deep pipeline of opportunities, which, when conditions allow, will become the development schemes of tomorrow. Today, the portfolio is exceptionally well placed with 48% of the portfolio in the development programme.

Currently we have three committed schemes on site, set to deliver 412,000 sq ft of high-quality space, all near Crossrail stations, which are expected to generate a profit on cost of 15.9%. Capital expenditure to come at these schemes totals £239.6 million and, at 31 March 2018, the committed development properties were valued at £371.9 million (our share). Beyond this, the team is busy preparing the further 13 schemes with prospective deliveries into the early 2020s and beyond.

Three schemes completed since 31 March 2017
In November, we completed 55 Wells Street, W1, our 37,300 sq ft development in Fitzrovia, and letting interest in the building has been strong. Following the 4,500 sq ft pre-let of the restaurant unit to Ottolenghi, we have let a further 23,700 sq ft of offices in two transactions to Williams Lea Limited (third to sixth floors) and Synova Capital (first floor). Together, they will pay a total rent of £2.1 million, at an average of 8.0% ahead of the 31 March 2017 ERV. Four of the five floors were let on ten year leases (no breaks), the remainder was on a ten year lease with a break at year five. This leaves just 5,100 sq ft of offices remaining on the second floor. The building delivered a profit on cost of 18.8% and is now 84.8% let with good interest in the one remaining floor.

Also in November, we achieved practical completion of the 142 private residential units at Rathbone Square, W1 and have now handed over all but one of the 140 pre-sold apartments to the buyers and collected the remaining proceeds of £198.7 million. There are currently two remaining apartments available for sale for a value of approximately £12.5 million.

At 160 Old Street, EC1, owned in our Great Ropemaker Partnership, we completed the 161,700 sq ft of office, retail and restaurant space in late April 2018. Letting activity in this high-quality building has been strong. In December 2017, we pre-let 98,100 sq ft of the office space to Turner Broadcasting System Europe Limited ('Turner'). Turner will occupy the lower ground to third floor of the building on four separate fifteen year leases (no breaks). Turner will pay an annual rent in line with the 30 September 2017 ERV and a market consistent incentive package. In addition, Turner has recently exercised its option to lease the whole fourth floor (18,400 sq ft). Together with the letting of two retail units, we have secured £6.1 million of rent with the building now 71.2% let and we have positive leasing interest in the remaining office space and the two remaining retail units.

Together these three completed schemes are 89.5% let or sold and generated a profit on cost of 6.5%.

Three new commitments; all near Crossrail
Since the acquisition of Cityside House, E1 in June 2017, we have further improved the design of the building to enhance the quality of the space we can deliver. This included relocating the office entrance, moving and rotating the building's core and improving the building services. To date, we have stripped out the building and commenced demolition. In March 2018, we committed to the development which will transform the existing building into 74,700 sq ft of Grade A office and retail space. We are targeting average office rents across the building of around £51.40 per sq ft, with delivery expected in Q4 2019 following the opening of the nearby Whitechapel Crossrail station.

At Oxford House, 76 Oxford Street, W1, after receiving resolution to grant planning permission for a new build scheme and finalising the remaining neighbourly matters, we committed to the redevelopment of the building in March 2018. The new build scheme will deliver around 116,000 sq ft of new office and retail space, a 30% increase (27,000 sq ft) on the refurbished building. We are targeting a BREEAM Excellent rating with generous wellbeing features designed in from the outset. With vacant possession now achieved, demolition of the existing building is expected to commence imminently with construction of the new building expected to start in March 2019 and completion is targeted for Q3 2021.

At Hanover Square, W1, we have planning permission for a 221,300 sq ft mixed-use development comprising 167,200 sq ft of offices, 41,900 sq ft of retail and restaurant space and 12,200 sq ft of residential apartments. The site sits on top of the western entrance of the Bond Street Crossrail station and we have been taking back control of elements of the site as Crossrail have completed their works. Today, this process is nearly complete with only the element above the station outstanding where we expect to repurchase the land from Crossrail over the summer under the terms of existing agreements.

Given the limited supply of well located Grade A offices in this prime location, early leasing interest has been strong. In March 2018, we pre-let the top four office floors of the over station building to KKR, a leading global investment firm. KKR will occupy the fifth to eighth floors (57,200 sq ft) paying £6.6 million in annual rent on a 15-year lease (no breaks) with an option to hand back half of the fifth floor (8,300 sq ft) expiring on 1 March 2019. We will launch the marketing campaign for the remaining offices and retail space this year with early interest already good.

Given this leasing momentum, we have recently committed to the development and have started on site. Subject to the repurchase of the land from Crossrail, we have an expected completion of Q3 2020. The development is owned in the GHS Partnership, our 50:50 joint venture with the Hong Kong Monetary Authority.

Our three committed development properties require £239.6 million of capital expenditure to complete. In total the three schemes are 11.2% pre-let and are expected to deliver a profit on cost of 15.9%, a yield on cost of 4.7% and an ungeared IRR of 10.0%.

Exceptional development pipeline; development programme now 48% of portfolio
Beyond our three committed schemes, we have a substantial and flexible medium-term pipeline of 13 uncommitted schemes (1.3 million sq ft). These schemes include a number of exciting projects, including New City Court, SE1, in the London Bridge Quarter, where we hope to materially increase the size of the existing 97,700 sq ft building, and Mount Royal, W1, located at the western end of Oxford Street, where we have appointed Make Architects to draw up early plans to redevelop this two-acre site into a retail-led development scheme.

The value of good design cannot be underestimated. Sustainability requirements are becoming increasingly complex and there is a growing recognition that a green building is a healthier building. Our occupiers are becoming ever more demanding, looking for innovative buildings, incorporating the latest technological advances with generous health and wellbeing features. Our Design Review Panel, chaired by our Director of Workplace and Innovation, challenges our professional teams to ensure that we provide high quality, flexible space, incorporating appropriate technology whilst meeting the highest standards of sustainable design. This will help ensure that we address ever evolving workplace needs and future proof our developments.

In total, our potential development programme totals 1.4 million sq ft today, with the potential to increase this to more than 1.7 million sq ft post development. These schemes cover 48% of GPE's existing portfolio and will provide the bedrock of our development activities into the 2020s.

Portfolio management

Overview
In another active year, we agreed 68 new lettings, securing £31.1 million of rent, outperforming 31 March 2017 ERVs by 2.6%. With a further £5.7 million of reversion captured through rent reviews, these combined to drive rental growth and produce another successful leasing year.

Leasing momentum has continued delivering another strong year of performance
Given the uncertain macro-economic backdrop, our rental values were broadly stable (+0.3%) during the year and occupier demand for good quality space remained healthy. As a result, we maintained our high level of leasing activity, including successful leasing in our development portfolio. We have also continued to capture significant reversion across the portfolio and, coupled with the leasing activity, this has helped drive like-for-like Group rent roll up by 7.0%.

The key highlights of a busy year included:

- 68 new leases and renewals completed during the year (2017: 52 leases) generating annual rent of £31.1 million (our share: £22.6 million; 2017: £19.1 million), market lettings 2.6% ahead of ERV. Pre-lets and lettings at our newly completed developments accounted for 58% of total lettings during the year;
- 34 rent reviews securing £18.3 million of rent (our share: £17.2 million; 2017: £8.6 million) were settled at an increase of 29.6% over the previous rent and capturing significant reversion;
- £5.7 million of reversion captured in the year to 31 March 2018 (2017: £5.5 million);
- total space covered by new lettings, reviews and renewals was 768,300 sq ft (2017: 480,000 sq ft); and
- an increase of 7.0% in rent roll on a like-for-like basis, although absolute rent roll was marginally down 2.1% to £107.3 million over the year as property sales more than outweighed reversion capture.

Our average office rent remains low at £54.60 per sq ft and our investment portfolio vacancy rate reduced to 4.9% at 31 March 2018 (2017: 6.8%) due to the successful letting of recent development and refurbishment completions.

Since 31 March 2018, we have completed eight further lettings delivering new rent of £2.1 million (our share: £1.3 million). We also have an additional 16 lettings currently under offer accounting for £3.0 million p.a. of rent (our share: £2.7 million), together 2.6% ahead of 31 March 2018 ERV. The transactions include the successful trial of our new flex space offering, generating a 35% premium to net effective ERVs on an initial 12,000 sq ft, and we are appraising a further circa 100,000 sq ft across the portfolio for this offering.

Capturing reversion through rent review
One of our strategic priorities for the year was to capture the significant reversionary potential (the difference between the passing rent and market rental value) within our investment portfolio. Of the reversion that could be captured this financial year, a large proportion was available through rent review. As a result, it was essential that we settled these reviews at, or ahead of, the market rental value. We had another busy year, settling 34 rent reviews, a record for this cycle, 29.6% ahead of the previous passing rent and at a 3.2% premium to ERV.

Significant transactions included:

- at 24/25 Britton Street, EC1, we settled a rent review with Kurt Geiger, capturing significant reversion, increasing the annual rent by £1.0 million to £2.5 million, an increase of 64% on the previous rent and 2.4% above ERV;
- at New City Court, SE1, we settled a rent review with Sinclair Knight Merz (Europe) Limited on the 3rd and 4th floors, increasing the combined annual rent by £0.5 million to £1.6 million, an increase of 59% on the previous passing rent and 8.6% above ERV at the review date; and
- at 160 Great Portland Street, W1, we completed a rent review with Double Negative capturing reversion of £0.6 million, an increase of 12.2% on the previous rent, in-line with ERV.

High levels of occupier satisfaction
During the year, we commissioned our first independent occupier satisfaction survey to better understand how our occupiers view the services we provide. Encouragingly, 88% of respondents described their level of satisfaction with our service as good or excellent. Looking forward, we anticipate that occupiers will demand greater levels of service provision. As a result, over the coming year, we will be further strengthening our Occupier Services team with a particular focus on the provision of building amenities, wellbeing and the use of technology to improve the occupier experience.

Reversion reduced; remainder near dated
Our successful reversion capture over the past 12 months has reduced the available portfolio reversion from 21.2% to 12.1% (£13.0 million) at 31 March 2018. Looking ahead, £10.3 million of this reversion is available over the next 12 months, of which £4.3 million is at buildings where we are taking vacant possession ahead of development. Capturing the remaining near-term reversion of £6.0 million remains a strategic priority.

Together, the combination of settling rent reviews and letting new space increased our rent roll (including share of joint ventures) by 7.0% on a like-for-like basis to £107.3 million.

Rent collection
Our quarterly cash collection performance throughout the year has remained very strong. We secured 99.9% of rent within seven working days following the March 2018 quarter date (March 2017: 99.4%). The average collection rate across the four quarters of the year was 99.9% (2017: 99.6%), including a record 100.0% collection rate for the September 2017 quarter. Occupiers on monthly payment terms represent around 4% of our rent roll (2017: 3%).

Financial management

Overview
Our balance sheet is in extremely good shape. With a pro forma loan to value ratio of just 11.6% and £666 million of cash and committed undrawn bank facilities, we are well positioned to fund our committed capex programme, upcoming debt maturities and potential new opportunities.

Reducing Group interest rates and increasing flexibility
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 reducing our cost of debt and enhancing flexibility. In February 2018, following a successful tender offer, we prepaid £121.0 million of our legacy £142.9 million 5.63% secured debenture due to mature in January 2029, for a cash cost of £159.9 million (including transcation costs). This prepayment was initially funded by proceeds from sales during the year and will be supplemented in June 2018 when we draw down £100 million of new unsecured US private placement notes with 10, 12 and 15 year maturities (weighted average of 12.1 years) and a weighted average fixed rate coupon of 2.80%, a transaction which was agreed in March 2018.

This debt restructuring gives rise to an interest saving of £3.3 million p.a. and significantly lowers our weighted average interest rate. Our debt book is also now significantly more flexible as the pro forma percentage of total debt provided on an unsecured basis has increased to 89% (March 2017: 76%).

At 31 March 2018, our loan to value ratio was 2.4%, weighted average interest rate was 2.1% and weighted average drawn debt maturity was 3.9 years. Pro forma for the USPP drawdown, £306 million capital return paid in April 2018 and the receipt of further sales proceeds since 1 April 2018, these metrics are 11.6%, 2.3% and 5.9 years respectively.

Significant liquidity and diverse debt book
At 31 March 2018, we had £814 million of cash and undrawn committed debt facilities (£666 million on a pro forma basis), giving us very significant financial flexibility going forward. We have no near-term additional debt funding requirements and expect to redeem our £150 million convertible bond, which matures in September 2018, from existing financial resources.

At 31 March 2018, 90% of our total drawn debt and 44% of our total debt was from non-bank sources (March 2017: 75% and 48% respectively), with 100% of our debt book being fixed rate or hedged (March 2017: 82%).

Due in part to the treatment of capitalised interest under our Group covenants and our very low levels of debt, our interest cover ratio for the year was not measurable. However, given our low weighted average interest rate and increased earnings (with EPRA earnings per share rising 17.9% to 20.4 pence for the year), even without the benefit of capitalised interest, interest cover would be extremely healthy at 14.8 times.

Balance sheet discipline and £416 million returned to shareholders
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. Additionally, 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).

The most recent examples of this discipline in action were our £306 million capital return via a B share scheme and £110 million special dividend, paid to shareholders in April 2018 and May 2017 respectively.

Our financial results

Our financial results is accompanied by graphics (see Appendix 4)

We calculate adjusted net assets and earnings per share in accordance with the Best Practice Recommendations issued by the European Public Real Estate Association (EPRA). The recommendations are designed to make the financial statements of public real estate companies clearer and more comparable across Europe enhancing the transparency and coherence of the sector. We consider these standard metrics to be the most appropriate method of reporting the value and performance of the business and a reconciliation to the IFRS numbers is included in note 9 to the accounts.

EPRA NAV growth driven by valuation growth and returns to shareholders
At 31 March 2018, the Group's net assets were £2,366.9 million, down from £2,738.4 million at 31 March 2017 predominantly due to the £416.0 million returned to shareholders. EPRA net assets per share (NAV) at 31 March 2018 was 845 pence per share, an increase of 5.8% over the year, largely due to the increase in value of the property portfolio, attractive earnings growth and the returns to shareholders which were accompanied by share consolidations.

The main drivers of the 46 pence per share increase in EPRA NAV from 31 March 2017 were:

- the increase of 20 pence per share arising from the revaluation of the property portfolio;
- EPRA earnings for the year of 20 pence per share enhanced NAV;
- ordinary dividends paid of 10 pence per share reduced NAV;
- the £13.5 million premium paid on the prepayment of US private placement notes reduced NAV by 4 pence per share;
- the £38.1 million premium paid on the prepayment of our debenture stock reduced NAV by 11 pence per share;
- the special dividend and associated share consolidation increased NAV by 8 pence per share;
- the capital return via a B Share scheme and associated share consolidation increased NAV by 22 pence per share; and
- other movements (including tax) increased NAV by 1 pence per share.

EPRA NNNAV was 842 pence at 31 March 2018 compared to 782 pence at 31 March 2017 (up 7.7%). The difference between NAV and NNNAV has greatly reduced during the year given our refinancing activities, including redemption of the majority of our high coupon debenture and cancellation of the foreign currency derivatives associated with private placement notes redeemed in the year.

Attractive EPRA earnings per share growth

EPRA earnings were £66.5million, 12.1% higher than last year predominantly due to strong rental income growth as a result of our leasing activities, which was partially offset by increased administration and property costs.

Rental income from wholly-owned properties and joint venture fees for the year were £92.0 million and £5.2 million respectively, generating a combined income of £97.2 million, up £12.9 million or 15.3% on last year. This increase predominantly resulted from £7.1 million of like-for-like growth through capturing reversion on lease renewals and rent reviews and £3.6 million of development lettings. Adjusting for acquisitions, disposals and transfers to and from the development programme, like-for-like rental income (including joint ventures) increased 7.5% on the prior year.

EPRA earnings from joint ventures were £6.5 million, up £4.0 million from £2.5 million last year, largely due to significant business rate refunds received at our joint venture development properties.

Property expenses increased by £4.0 million to £11.3 million predominantly due to higher service charge costs, greater transactional activity in our joint ventures and expenses associated with our development and leasing activities. Administration costs were £24.1 million, an increase of £4.0 million on last year, primarily as a result of costs associated with our returns of capital to shareholders, lower capitalised employee costs, an increase in headcount and higher provisions for performance related pay including payments under share incentive plans.

Gross interest paid on our debt facilities was £10.4 million lower than the prior year. The reduction in interest paid was predominantly due to our refinancing activities, with the redemption of £287.4 million of US private placement notes (both in the current and prior year) and £121.0 million of debenture stock more than offsetting the interest on our new issue in May 2017 of £175.0 million seven-year US private placement notes with a fixed rate coupon of only 2.15%. Capitalised interest reduced to £5.9 million, a reduction of £12.4 million as our on-site development exposure during the year was significantly lower than in the previous year given the completions of Rathbone Square, 73/89 Oxford Street and 55 Wells Street, along with 30 Broadwick Street in 2016, all W1. As a result, the Group had an underlying net finance expense (including interest receivable) of £1.4 million (2017: £0.2 million).

Due to the delivery of 73/89 Oxford Street, W1 later than planned, the Group incurred additional costs on completing the scheme. As a result, development management losses were £0.4 million (2017: £nil).

The revaluation gain of the Group's investment properties, along with a small accounting loss on disposals, led to the Group's reported IFRS profit after tax of £70.3 million (2017: loss of £139.4 million). Basic IFRS EPS for the year was 21.5 pence, compared to a loss of 40.8 pence for 2017. Diluted IFRS EPS for the year was a profit of 18.2 pence compared to a loss of 40.8 pence for 2017. Diluted EPRA EPS was 20.4 pence (2017: 17.3 pence), an increase of 17.9% and cash EPS was 17.0 pence (2017: 10.1 pence).

Results of joint ventures

The Group's net investment in joint ventures was £423.7 million, a decrease from £480.8 million at 31 March 2017, largely due to property disposals more than offsetting the increase in value of the property portfolio and higher partner loan contributions to fund development expenditure. Our share of joint venture net rental income was £17.4 million, consistent with last year, as income lost from the sale of 240 Blackfriars Road, SE1, which was fully let, was offset by portfolio management transactions. Our share of non-recourse net debt in the joint ventures was marginally lower at £72.7 million at 31 March 2018 (2017: £74.0 million) predominantly due to higher cash balances.

Strong financial position

The Group had a net cash position of £5.2 million at 31 March 2018, compared to net debt of £502.8 million at 31 March 2017 as proceeds from property disposals, including the residential sales receipts from Rathbone Square, W1, more than offset the Group's acquisitions and capital expenditure against a backdrop of broadly stable working capital. As a result, Group gearing fell to 0% at 31 March 2018 from 18.4% at 31 March 2017.

Including non-recourse debt in joint ventures, total net debt was £67.5 million (2017: £576.8 million), equivalent to a low loan-to-property value of 2.4% (2017: 18.3%). At 31 March 2018, all of our net debt was in joint ventures, compared to 12.8% a year earlier. At 31 March 2018, the Group, including its joint ventures, had cash and undrawn committed credit facilities of £814 million.

Pro forma for major transactions since 1 April 2018 including property sales and the payment of the capital return of £306 million, the Group's loan-to-property value would be 11.6% and gearing would be 11.8%.

The Group's weighted average cost of debt for the year, including fees and joint venture debt, was 3.2%, a decrease of 80 basis points compared to the prior year. The weighted average interest rate (excluding fees) at the year end decreased to a record low 2.1% given our recent refinancing successes (2017: 3.0%).

At 31 March 2018, 100% of the Group's total debt (including non-recourse joint ventures) was at fixed or hedged rates (2017: 82%). The Group, including its joint ventures, is operating with substantial headroom over its debt covenants.

Robust occupier base
None of our occupiers went into administration around the March 2018 quarter day (March 2017: none) and we had only two occupier delinquencies in the year (2017: none) representing 0.1% of rent roll. However, we are vigilant and continue to monitor the financial position of our occupiers on a regular basis, particularly in light of the more challenging retail and leisure market backdrop. To help mitigate occupier delinquency risk, we held rent deposits and bank guarantees totalling £32.0 million at 31 March 2018.

Taxation
The tax charge in the income statement for the year is £6.4 million (2017: £0.8 million credit) and the effective tax rate on EPRA earnings is 0% (2017: 0%). The majority of the Group's income is tax free as a result of its REIT status. The tax charge for the year results from property sales which fall outside our REIT ring-fence. The Group complied with all relevant REIT tests for the year to 31 March 2018.

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. HMRC regards the Group as 'low risk' and maintaining this status is a key objective of the Group.

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 in respect of which a major redevelopment has completed within the preceding three years (including the sale of 30 Broadwick Street, W1) or profits arising from trading properties (including the sale of the residential units at Rathbone Square, W1).

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 £5.8 million in respect of stamp taxes, section 106 contributions, community infrastructure levies, empty rates in respect of vacant space, head office rates, employer's national insurance and irrecoverable VAT.

Dividend growth
The Group operates a low and progressive ordinary dividend policy. The Board has declared a final dividend of 7.3 pence per share (2017: 6.4 pence) which will be paid in July 2018. 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 4.0 pence, the total dividend for the year is 11.3 pence per share (2017: 10.1 pence), a 11.9% increase in the 12 months.

In addition to our £110 million special dividend paid to shareholders in May 2017, following the two significant property sales of 30 Broadwick Street, W1 and 240 Blackfriars Road, SE1, we announced in March 2018 a £306 million, or 93.65 pence per share, return to shareholders, representing the combined net receipts from the two sales. The return was implemented through the issue of a new class of B share accompanied by a share consolidation of the Company's ordinary share capital to maintain the Group's share price and per share financial metrics.

Group income statement

For the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Total revenue	2	**386.5**	121.9
Net rental income	3	**92.0**	80.2
Joint venture management fee income	12	**5.2**	4.1
Rental and joint venture fee income		**97.2**	84.3
Property expenses	4	**(11.3)**	(7.3)
Net rental and related income		**85.9**	77.0
Administration expenses	5	**(24.1)**	(20.1)
Development management revenue	14	**14.2**	25.2
Development management costs	14	**(14.6)**	(25.2)
Development management losses		**(0.4)**	–
Trading property revenue	11	**262.3**	–
Trading property cost of sales	11	**(250.7)**	(0.3)
Profit/(loss) on sale of trading property		**11.6**	(0.3)
Operating profit before surplus on property and results of joint ventures		**73.0**	56.6
Surplus/(deficit) from investment property	10	**35.5**	(136.9)
Share of results of joint ventures	12	**41.2**	(57.2)
Operating profit/(loss)		**149.7**	(137.5)
Finance income	6	**9.8**	9.0
Finance costs	7	**(11.2)**	(9.2)
Premium paid on cancellation of private placement notes	16	**(36.6)**	(51.5)
Premium paid on cancellation of debenture stock	16	**(38.1)**	–
Fair value movement on convertible bond		**8.5**	10.1
Fair value movement on derivatives		**(5.4)**	38.9
Profit/(loss) before tax		**76.7**	(140.2)
Tax	8	**(6.4)**	0.8
Profit/(loss) for the year		**70.3**	(139.4)

Basic earnings/(loss) per share	9	**21.5p**	(40.8)p
Diluted earnings/(loss) per share	9	**18.2p**	(40.8)p
Basic EPRA earnings per share	9	**20.4p**	17.3p
Diluted EPRA earnings per share	9	**20.4p**	17.3p

All results are derived from continuing operations in the United Kingdom and are attributable to ordinary equity holders.

Group statement of comprehensive income

For the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Profit/(loss) for the year		**70.3**	(139.4)
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain/(deficit) on defined benefit scheme	24	**6.1**	(3.6)
Deferred tax on actuarial gain on defined benefit scheme		**(0.1)**	–
Total comprehensive income and expense for the year		**76.3**	(143.0)

Group balance sheet

At 31 March 2018

	Notes	**2018 £m**	2017 £m
Non-current assets			
Investment property	10	**2,305.2**	2,351.9
Investment in joint ventures	12	**423.7**	480.8
Plant and equipment	13	**4.6**	5.1
Pension asset	24	**0.5**	–
Deferred tax	8	**–**	2.0
		2,734.0	2,839.8
Current assets			
Trading property	11	**19.5**	246.7
Trade and other receivables	14	**15.1**	351.8
Corporation tax	8	**–**	1.0
Cash and cash equivalents		**351.4**	25.5
		386.0	625.0
Total assets		**3,120.0**	3,464.8
Current liabilities			
Trade and other payables	15	**(363.3)**	(147.0)
Interest-bearing loans and borrowings	16	**(150.9)**	–
Corporation tax	8	**(0.1)**	–
		(514.3)	(147.0)
Non-current liabilities			
Interest-bearing loans and borrowings	16	**(196.2)**	(537.7)
Obligations under finance leases	18	**(40.8)**	(35.9)
Deferred tax	8	**(1.8)**	–
Pension liability	24	**–**	(5.8)
		(238.8)	(579.4)
Total liabilities		**(753.1)**	(726.4)
Net assets		**2,366.9**	2,738.4
Equity			
Share capital	19	**43.0**	43.0
Share premium account		**46.0**	352.0
Capital redemption reserve		**322.4**	16.4
Retained earnings		**1,957.9**	2,330.8
Investment in own shares	20	**(2.4)**	(3.8)
Total equity		**2,366.9**	2,738.4
Net assets per share	9	**840p**	796p
EPRA NAV	9	**845p**	799p

Approved by the Board on 23 May 2018 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 2018

	Notes	2018 £m	(Restated) 2017 £m
Operating activities			
Operating profit/(loss)		**149.7**	(137.5)
Adjustments for non-cash items	21	**(78.9)**	192.4
Deposits received on forward sale of residential units		**–**	8.8
Decrease/(increase) in trading property		**232.2**	(75.0)
Increase/(decrease) in receivables		**11.5**	(12.7)
Decrease in payables		**(54.9)**	(5.4)
Cash generated/(absorbed) from operations		**259.6**	(29.4)
Interest paid		**(18.4)**	(29.0)
Tax (paid)/received		**(1.6)**	0.1
Cash flows from operating activities		**239.6**	(58.3)
Investing activities			
Distributions from joint ventures		**21.1**	56.2
Funds to joint ventures		**(30.7)**	(33.6)
Funds from joint ventues		**130.3**	–
Purchase and development of property		**(128.7)**	(187.3)
Purchase of plant and equipment		**(0.4)**	(4.9)
Sale of properties		**487.1**	346.5
Investment in joint ventures		**(12.9)**	(6.7)
Cash flows from investing activities		**465.8**	170.2
Financing activities			
Revolving credit facility (repaid)/drawn	16	**(109.0)**	109.0
Redemption of private placement notes	16	**(127.7)**	(159.7)
Premium paid on redemption of private placement notes	16	**(36.3)**	(51.5)
Issue of private placement notes	16	**174.1**	–
Termination of cross currency swaps	16	**23.1**	34.7
Redemption of debenture loan stock	16	**(121.1)**	–
Premium paid on redemption of debenture stock	16	**(38.9)**	–
Equity dividends paid	22	**(143.7)**	(31.6)
Cash flows from financing activities		**(379.5)**	(99.1)
Net increase in cash and cash equivalents		**325.9**	12.8
Cash and cash equivalents at 1 April		**25.5**	12.7
Cash and cash equivalents at 31 March		**351.4**	25.5

Comparative re-presented: for further information see note 26.

Group statement of changes in equity

For the year ended 31 March 2018

	Notes	**Share capital £m**	**Share premium account £m**	**Capital redemption reserve £m**	**Retained earnings £m**	**Investment in own shares £m**	**Total equity £m**
Total equity at 1 April 2017		**43.0**	**352.0**	**16.4**	**2,330.8**	**(3.8)**	**2,738.4**
Profit for the year		**–**	**–**	**–**	**70.3**	**–**	**70.3**
Actuarial gain on defined benefit scheme		**–**	**–**	**–**	**6.1**	**–**	**6.1**
Deferred tax on actuarial gain on defined benefit scheme		**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Total comprehensive income for the year		**–**	**–**	**–**	**76.3**	**–**	**76.3**
Employee Long-Term Incentive Plan and Share Matching Plan charge	20	**–**	**–**	**–**	**–**	**2.0**	**2.0**
Dividends to shareholders	22	**–**	**–**	**–**	**(143.8)**	**–**	**(143.8)**
Issue of B shares	19	**–**	**(306.0)**	**–**	**–**	**–**	**(306.0)**
Redemption of B shares	19	**–**	**–**	**306.0**	**(306.0)**	**–**	**–**
Transfer to retained earnings	20	**–**	**–**	**–**	**0.6**	**(0.6)**	**–**
Total equity at 31 March 2018		**43.0**	**46.0**	**322.4**	**1,957.9**	**(2.4)**	**2,366.9**

Group statement of changes in equity

For the year ended 31 March 2017

	Notes	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Investment in own shares £m	Total equity £m
Total equity at 1 April 2016		43.0	352.0	16.4	2,509.9	(9.1)	2,912.2
Loss for the year		–	–	–	(139.4)	–	(139.4)
Actuarial deficit on defined benefit scheme		–	–	–	(3.6)	–	(3.6)
Total comprehensive expense for the year		–	–	–	(143.0)	–	(143.0)
Employee Long-Term Incentive Plan and Share Matching Plan charge	20	–	–	–	–	1.0	1.0
Dividends to shareholders	22	–	–	–	(31.8)	–	(31.8)
Transfer to retained earnings	20	–	–	–	(4.3)	4.3	–
Total equity at 31 March 2017		43.0	352.0	16.4	2,330.8	(3.8)	2,738.4

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 financial statements for the year ended 31 March 2018. Whilst the financial information included in this announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Company's financial statements for the years ended 31 March 2018 or 2017, but is derived from those financial statements.

Financial statements for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting. The auditor's reports on both the 2018 and 2017 financial statements were unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under s498(2) or (3) of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments which are held at fair value. The financial statements are prepared on the going concern basis.

Significant judgements and sources of estimation uncertainty

In the process of preparing the financial statements, the directors are required to make certain judgements, assumptions and estimates. Not all of the Group's accounting policies require the directors to make difficult, subjective or complex judgements or estimates. Any estimates and judgements made are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results may differ from those estimates.

The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial statements.

Significant judgements: recognition of sales and purchases of property

The Group recognises sales and purchases of property when the risks and rewards of ownership transfer to the new owner usually on the date of completion. Whilst in most instances this assessment is straightforward, arrangements such as forward sales, significant levels of deferred consideration or transactions with other complex arrangements require the directors to exercise judgement in recognising the transaction. In the current year, no transactions required significant judgement.

Key source of estimation uncertainty: property portfolio valuation

The valuation to assess the fair value of the Group's investment properties is prepared by its external valuer. The valuation is based upon a number of assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. For the current year and prior year the directors adopted the valuation without adjustment, further information is provided in the accounting policy for investment property and note 10.

New accounting standards

During the year ended 31 March 2018, the following accounting standards and guidance were adopted by the Group:

- Amendments to IFRS (Annual improvements 2014–2016 cycle)
- Amendments to IAS 7
- Amendments to IAS 12

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 were in issue but not yet effective (and in some cases had not yet been adopted by the EU) and have not been applied in these financial statements:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases
- IFRIC 22 Foreign currency transactions and advance consideration
- Amendments to IAS 40 Investment property; relating to transfers of investment property
- Annual improvements (2015–2017 cycle)

- Amendments to IFRS 1 and IFRS 28 (annual improvements 2014-2016 cycle)
- Amendments to IFRS 2
- Amendments to IAS 19
- Amendments to References to the Conceptual Framework in IFRS Standards

None of these are expected to have a significant effect on the financial statements of the Group. Certain Standards which may have an impact are discussed below.

- IFRS 9 Financial instruments

IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39 (Financial Instruments: recognition and measurement) with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The Group has completed its impact assessment of the standard and concluded that it would have an immaterial impact on earnings and net asset value. The introduction of the new expected credit losses model, that replaces the incurred loss impairment model, will not have a material impact on the provisioning for the Group's trade receivables. The standard introduces expanded disclosure requirements and changes to presentation, these will change the nature and extent of the disclosures made by the Group.

- IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a single, principles-based revenue recognition model to be applied to all contracts with customers. Revenue is recognised when a customer obtains control of a good or service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. Expanded disclosure requirements are also introduced. The standard is applicable to service charge income, development management revenue, trading property revenue and joint venture fee income, but excludes all lease income. The Group has completed its impact assessment of the standard for all current revenue streams from which there are no changes to existing accounting treatments. The disclosure requirements will change the extent of the Group's revenue disclosures and the Group will continue to assess new transactions as they arise.

- IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and requires all operating leases in excess of one year, where the Group is the lessee, to be included on the Group's balance sheet, and recognise a right-of-use asset and a related lease liability representing the obligation to make lease payments. The right-of-use asset will be assessed for impairment annually (incorporating any onerous lease assessments) and amortised on a straight-line basis, with the lease liability being amortised using the effective interest method. The accounting for lessors will not significantly change. The Group has completed its impact assessment of the standard and concluded that as the Group is primarily a lessor, holds a limited number of operating leases and the standard does not impact the recognition of rental income, the impact on the financial statements will be immaterial.

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 2018. Subsidiary undertakings are those entities controlled by the Group. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee.

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 occupiers and in their judgement have determined that all such leases are operating leases.

Lease incentives
Lease incentives, including rent-free periods and payments to occupiers, 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 recognised over the vesting period and reversed if it is likely that any non-market-based performance or service criteria will not be met.

Segmental analysis
The directors are required to present the Group's financial information by business segment or geographical area. This requires a review of the Group's organisational structure and internal reporting system to identify reportable segments and an assessment of where the Group's assets or customers are located.

All of the Group's revenue is generated from investment properties located in central London. The properties are managed as a single portfolio by a portfolio 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 the external valuer, are set out in note 10.

Investment property
Both leasehold and freehold 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 have been prepared in accordance with the RICS Valuation – Professional Standards Global January 2014 including the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) ("the Red Book") and have been primarily derived using comparable recent market transactions on arm's length terms.

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.

The Group recognises sales and purchases of property when the risks and rewards of ownership transfer, usually on the date of completion of a contract for sale. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for subsequent capital expenditure.

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. Revenue is recognised on completion of disposal. 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. Plant and equipment is held at cost less accumulated depreciation. Depreciation is provided on plant and equipment, at rates calculated to write off the cost, less residual value 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. There have been no new joint ventures during the year and no changes to any of the agreements in place.

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 other comprehensive income; 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. Derivatives are initially recognised at fair value at the date a derivative contract is entered into.

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.

Obligations under finance 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.

Development management agreements
Should the Group sell a development property prior to completion, it will often have 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

	2018 £m	2017 £m
Gross rental income	**87.7**	77.7
Spreading of tenant lease incentives	**5.1**	3.1
Service charge income	**12.0**	11.8
Joint venture fee income	**5.2**	4.1
Trading property revenue	**262.3**	–
Development management revenue	**14.2**	25.2
	386.5	121.9

3 Net rental income

	2018 £m	2017 £m
Gross rental income	**87.7**	77.7
Spreading of tenant lease incentives	**5.1**	3.1
Ground rents	**(0.8)**	(0.6)
	92.0	80.2

4 Property expenses

	2018 £m	2017 £m
Service charge income	**(12.0)**	(11.8)
Service charge expenses	**15.0**	13.9
Other property expenses	**8.3**	5.2
	11.3	7.3

5 Administration expenses

	2018 £m	2017 £m
Employee costs	**17.8**	13.9
Operating leases	**1.0**	1.0
Depreciation	**0.9**	0.9
Other head office costs	**4.4**	4.3
	24.1	20.1

Included within employee costs is an accounting charge for the LTIP and SMP schemes of £2.0 million (2017: £1.0 million). Employee costs, including those of directors, comprise the following:

	2018 £m	2017 £m
Wages and salaries	**15.9**	13.8
Social security costs	**2.0**	1.5
Other pension costs	**1.9**	1.6
	19.8	16.9
Less: recovered through service charges	**(1.0)**	(1.0)
Less: capitalised into development projects	**(1.0)**	(2.0)
	17.8	13.9

Key management compensation

The Directors and the Executive Committee are considered to be key management for the purposes of IAS 24 'Related Party Transactions' with their aggregate compensation set out below:

	2018 £m	2017 £m
Wages and salaries	**3.6**	3.7
Share-based payments	**1.1**	0.5
Social security costs	**0.6**	0.3
Other pension costs	**0.3**	0.3
	5.6	4.8

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:

	2018 Number	2017 Number
Head office and property management	**111**	102

Auditor's remuneration

	2018 £000's	2017 £000's
Audit of the Company's annual accounts	**121**	106
Audit of subsidiaries	**101**	98
	222	204
Audit-related assurance services, including the interim review	**68**	62
Total audit and audit-related services	**290**	266
Services related to taxation (advisory)	**–**	21
	290	287

6 Finance income

	2018 £m	2017 £m
Interest on balances with joint ventures	**9.6**	9.0
Interest on cash deposits	**0.2**	–
	9.8	9.0

7 Finance costs

	2018 £m	2017 £m
Interest on revolving credit facilities	**2.8**	3.3
Interest on private placement notes	**3.9**	12.9
Interest on debenture stock	**7.1**	8.0
Interest on convertible bond	**1.5**	1.5
Interest on obligations under finance leases	**1.8**	1.8
Gross finance costs	**17.1**	27.5
Less: capitalised interest at an average rate of 3.2% (2017: 4.1%)	**(5.9)**	(18.3)
	11.2	9.2

8 Tax

	2018 £m	2017 £m
Current tax		
UK corporation tax	**2.7**	–
Tax over provided in previous years	–	(0.1)
Total current tax	**2.7**	(0.1)
Deferred tax	**3.7**	(0.7)
Tax charge/(credit) for the year	**6.4**	(0.8)

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

	2018 £m	2017 £m
Profit/(loss) before tax	**76.7**	(140.2)
Tax charge/(credit) on profit/(loss) at standard rate of 19% (2017: 20%)	**14.6**	(28.0)
REIT tax-exempt rental profits and gains	**(12.5)**	(4.0)
Changes in fair value of properties not subject to tax	**(12.9)**	32.8
Changes in fair value of financial instruments not subject to tax	**3.8**	(2.9)
Prior periods' corporation tax	**–**	(0.1)
Gains on sales of investment properties subject to tax	**13.0**	–
Other	**0.4**	1.4
Tax charge/(credit) for the year	**6.4**	(0.8)

On 1 April 2017, the corporation tax rate reduced from 20% to 19%. During the year, £0.1 million (2017: £nil) of deferred tax was debited directly to equity. The Group's net deferred tax liability at 31 March 2018 was £1.8 million (2017: £2.0 million asset). This consists of a deferred tax liability of £2.8 million (2017: £2.8 million) and a deferred tax asset of £1.0 million (2017: £4.8 million).

Movement in deferred tax

	At 1 April 2017 £m	**Recognised in the income statement £m**	**Recognised in equity £m**	**At 31 March 2018 £m**
Deferred tax liability in respect of £150 million 1.00% convertible bonds 2018	(2.8)	**–**	**–**	**(2.8)**
Deferred tax asset in respect of revenue losses	4.0	**(3.8)**	**–**	**0.2**
Deferred tax asset in respect of other temporary differences	0.8	**0.1**	**(0.1)**	**0.8**
Net deferred tax asset/(liability)	2.0	**(3.7)**	**(0.1)**	**(1.8)**

A deferred tax asset of £1.5 million (2017: £3.4 million), mainly relating to revenue losses and contingent share awards 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 in respect of which a major development has completed within the preceding three years (including the sale of 30 Broadwick Street, W1) 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). The recommendations are designed to make the financial statements of public real estate companies clearer and more comparable across Europe, enhancing the transparency and coherence of the sector. The directors consider these standard metrics to be the most appropriate method of reporting the value and performance of the business.

Weighted average number of ordinary shares

	2018 Number of shares	2017 Number of shares
Issued ordinary share capital at 1 April	**343,926,149**	343,926,149
Share consolidations	**(16,371,005)**	–
Investment in own shares	**(1,446,557)**	(1,933,616)
Weighted average number of ordinary shares – Basic	**326,108,587**	341,992,533

Basic and diluted earnings/(loss) per share

	Profit after tax 2018 £m	**Number of shares 2018 million**	**Profit per share 2018 pence**	Loss after tax 2017 £m	Number of shares 2017 million	Loss per share 2017 pence
Basic	**70.3**	**326.1**	**21.5**	(139.4)	342.0	(40.8)
Dilutive effect of convertible bond	**(7.0)**	**20.6**	**(3.3)**	–	–	–
Dilutive effect of LTIP shares	**–**	**0.1**	**–**	–	–	–
Diluted	**63.3**	**346.8**	**18.2**	(139.4)	342.0	(40.8)

Basic and diluted EPRA earnings/(loss) per share

	Profit after tax 2018 £m	**Number of shares 2018 million**	**Earnings per share 2018 pence**	(Loss)/profit after tax 2017 £m	Number of shares 2017 million	(Loss)/earnings per share 2017 pence
Basic	**70.3**	**326.1**	**21.5**	(139.4)	342.0	(40.8)
(Surplus)/deficit from investment property net of tax (note 10)	**(25.9)**	**–**	**(7.9)**	136.9	–	40.1
(Surplus)/deficit from joint venture investment property (note 12)	**(33.7)**	**–**	**(10.3)**	59.6	–	17.4
Movement in fair value of derivatives	**5.4**	**–**	**1.7**	(38.9)	–	(11.4)
Movement in fair value of convertible bond	**(8.5)**	**–**	**(2.6)**	(10.1)	–	(3.0)
Movement in fair value of derivatives in joint ventures (note 12)	**(1.0)**	**–**	**(0.3)**	0.1	–	–
(Profit)/loss on sale of trading property net of tax	**(10.4)**	**–**	**(3.2)**	0.3	–	0.1
Premium paid on cancellation of private placement notes net of tax (note 16)	**34.5**	**–**	**10.6**	51.5	–	15.1
Premium paid on cancellation of debenture stock net of tax (note 16)	**32.1**	**–**	**9.8**	–	–	–
Deferred tax (note 8)	**3.7**	**–**	**1.1**	(0.7)	–	(0.2)
Basic EPRA earnings	**66.5**	**326.1**	**20.4**	59.3	342.0	17.3
Dilutive effect of LTIP shares	**–**	**0.1**	**–**	–	0.3	–
Dilutive effect of convertible bond	**–**	**–**	**–**	–	–	–
Diluted EPRA earnings	**66.5**	**326.2**	**20.4**	59.3	342.3	17.3

EPRA net assets per share

	Net assets 2018 £m	**Number of shares 2018 million**	**Net assets per share 2018 pence**	Net assets 2017 £m	Number of shares 2017 million	Net assets per share 2017 pence
Basic net assets	**2,366.9**	**281.7**	**840**	2,738.4	343.9	796
Investment in own shares	–	**(1.2)**	**4**	–	(1.8)	4
Dilutive effect of convertible bond	–	–	–	–	–	–
Dilutive effect of LTIP shares	–	**0.2**	–	–	0.3	(1)
Diluted net assets	**2,366.9**	**280.7**	**844**	2,738.4	342.4	799
Surplus on revaluation of trading property (note 11)	**1.3**	–	–	17.3	–	5
Fair value of convertible bond (note 17)	**0.9**	–	–	9.4	–	3
Fair value of derivatives (note 17)	–	–	–	(28.5)	–	(8)
Fair value of derivatives in joint ventures (note 12)	**0.3**	–	–	1.3	–	–
Deferred tax (note 8)	**1.8**	–	**1**	(2.0)	–	–
EPRA NAV	**2,371.2**	**280.7**	**845**	2,735.9	342.4	799
Fair value of financial liabilities (note 17)	**(2.8)**	–	**(1)**	(71.0)	–	(21)
Fair value of financial liabilities in joint ventures	**(1.3)**	–	**(1)**	(2.1)	–	–
Fair value of convertible bond (note 17)	**(0.9)**	–	–	(9.4)	–	(3)
Fair value of derivatives (note 17)	–	–	–	28.5	–	8
Fair value of derivatives in joint ventures (note 12)	**(0.3)**	–	–	(1.3)	–	–
Tax arising on sale of trading properties	**(0.3)**	–	–	(3.3)	–	(1)
Deferred tax (note 8)	**(1.8)**	–	**(1)**	2.0	–	–
EPRA NNNAV	**2,363.8**	**280.7**	**842**	2,679.3	342.4	782

The Group has £150.0 million of convertible bonds in issue with a conversion price of £7.21 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 prior year, the convertible bond had no dilutive impact on IFRS EPS. 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)

	2018 £m	2017 £m
Administration expenses	**24.1**	20.1
Property expenses	**11.3**	7.3
Joint venture management fee income	**(5.2)**	(4.1)
Joint venture property and administration (cost recovery)/costs	**0.1**	4.1
EPRA costs (including direct vacancy costs) (A)	**30.3**	27.4
Direct vacancy costs	**(3.7)**	(3.2)
Joint venture direct vacancy costs	**1.0**	(1.8)
EPRA costs (excluding direct vacancy costs) (B)	**27.6**	22.4
Net rental income	**92.0**	80.2
Joint venture net rental income	**17.4**	17.4
Gross rental income (C)	**109.4**	97.6
Portfolio at fair value including joint ventures (D)	**2,790.0**	3,145.5
Cost ratio (including direct vacancy costs) (A/C)	**27.7%**	28.1%
Cost ratio (excluding direct vacancy costs) (B/C)	**25.2%**	23.0%
Cost ratio (by portfolio value) (A/D)	**1.1%**	0.9%

EPRA capital expenditure is included in note 10.

Net debt and loan-to-property value

	2018 £m	2017 £m
£142.9 million 5⅝% debenture stock 2029	**22.0**	143.9
£450.0 million revolving credit facility	**–**	107.0
Private placement notes	**174.2**	127.4
£150.0 million 1.00% convertible bonds 2018 (at nominal value)	**150.0**	150.0
Less: cash balances	**(351.4)**	(25.5)
Net (cash)/debt excluding joint ventures	**(5.2)**	502.8
Joint venture bank loans (at share)	**84.7**	84.6
Less: joint venture cash balances (at share)	**(12.0)**	(10.6)
Net debt including joint ventures (A)	**67.5**	576.8
Group properties at market value	**2,285.2**	2,580.0
Joint venture properties at market value	**504.8**	565.5
Net debt including joint ventures (B)	**2,790.0**	3,145.5
Loan-to-property value (A/B)	**2.4%**	18.3%

Total accounting return

	2018 Pence per share	2017 Pence per share
Opening EPRA NAV (A)	**799.0**	847.0
Closing EPRA NAV	**845.0**	799.0
Increase/(decrease) in EPRA NAV	**46.0**	(48.0)
Ordinary dividend paid in the year	**10.4**	9.3
Total return (B)	**56.4**	(38.7)
Total accounting return (B/A)	**7.1%**	(4.6)%

Cash earnings per share

	Profit after tax 2018 £m	**Number of shares 2018 million**	**Earnings per share 2018 pence**	Profit after tax 2017 £m	Number of shares 2017 million	Earnings per share 2017 pence
Diluted EPRA earnings	**66.5**	**326.2**	**20.4**	59.3	342.3	17.3
Capitalised interest	**(5.9)**	**–**	**(1.8)**	(18.3)	–	(5.3)
Capitalised interest in joint ventures	**(1.8)**	**–**	**(0.6)**	(1.2)	–	(0.4)
Spreading of tenant lease incentives	**(5.1)**	**–**	**(1.6)**	(3.1)	–	(0.9)
Spreading of tenant lease incentives in joint ventures	**(0.1)**	**–**	**–**	(3.0)	–	(0.9)
Employee Long-Term Incentive Plan and Share Matching Plan charge	**2.0**	**–**	**0.6**	1.0	–	0.3
Cash earnings per share	**55.6**	**326.2**	**17.0**	34.7	342.3	10.1

10 Investment property

Investment property

	Freehold £m	Leasehold £m	Total £m
Book value at 1 April 2016	1,133.5	1,046.9	2,180.4
Acquisitions	–	32.5	32.5
Costs capitalised	6.0	14.9	20.9
Disposals	(31.1)	–	(31.1)
Transfer from investment property under development	176.1	–	176.1
Net valuation deficit on investment property	(61.6)	(53.2)	(114.8)
Book value at 31 March 2017	1,222.9	1,041.1	2,264.0
Acquisitions	**29.9**	**–**	**29.9**
Costs capitalised	**16.3**	**19.1**	**35.4**
Disposals	**(195.5)**	–	**(195.5)**
Transfer from investment property under development	**102.9**	–	**102.9**
Transfer to investment property under development	**(140.2)**	–	**(140.2)**
Net valuation surplus on investment property	**23.3**	**22.9**	**46.2**
Book value at 31 March 2018	**1,059.6**	**1,083.1**	**2,142.7**

Investment property under development

	Freehold £m	Leasehold £m	Total £m
Book value at 1 April 2016	536.6	215.1	751.7
Costs capitalised	107.1	48.1	155.2
Interest capitalised	9.1	0.9	10.0
Transfer to investment property	(176.1)	–	(176.1)
Disposals	(392.2)	(264.1)	(656.3)
Net revaluation surplus on investment property under development	3.4	–	3.4
Book value at 31 March 2017	87.9	–	87.9
Acquisitions	**25.6**	–	**25.6**
Costs capitalised	**14.2**	–	**14.2**
Interest capitalised	**0.8**	–	**0.8**
Transfer to investment property	**(102.9)**	–	**(102.9)**
Transfer from investment property	**140.2**	–	**140.2**
Net valuation deficit on investment property under development	**(3.3)**	–	**(3.3)**
Book value at 31 March 2018	**162.5**	–	**162.5**
Total investment property	**1,222.1**	**1,083.1**	**2,305.2**

The book value of investment property includes £40.8 million (2017: £35.9 million) in respect of the present value of future ground rents, the market value of the portfolio (excluding these amounts) is £2,264.4 million. The market value of the Group's total property portfolio, including trading properties, was £2,285.2 million (2017: £2,580.0 million). The total portfolio value including joint venture properties of £504.8 million (see note 12) was £2,790.0 million. At 31 March 2018, property with a carrying value of £388.4 million (2017: £380.9 million) was secured under the first mortgage debenture stock (see note 16). At 31 March 2018, £47.2 million of investment property was held for sale (2017: £nil).

Surplus/(deficit) from investment property

	2018 £m	2017 £m
Net valuation surplus/(deficit) on investment property	**42.9**	(111.4)
Loss on sale of investment properties	**(7.4)**	(25.5)
	35.5	(136.9)

The Group's investment properties, including those held in joint ventures (note 12), were valued on the basis of Fair Value by CBRE Limited (CBRE), external valuers, as at 31 March 2018. The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) ("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**	**48 - 85**	**4.3**	**3.9 – 6.1**
	Retail	**77**	**34 - 165**	**4.1**	**3.6 – 5.8**
Rest of West End	Office	**74**	**44 - 91**	**4.6**	**3.7 – 5.7**
	Retail	**115**	**15 - 295**	**4.0**	**2.8 – 5.7**
City, Midtown & Southwark	Office	**54**	**45 - 60**	**5.1**	**4.6 – 5.7**
	Retail	**79**	**28 - 122**	**4.6**	**4.6 – 4.7**

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 a decrease in rental values will reduce the valuation of the property. 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 a reduction will increase its valuation. A decrease in the capitalisation yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £135.6 million, whilst a 25 basis point increase would reduce the fair value by £121.3 million. 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. Additionally, investment property under development is sensitive to income, cost and developer's profit assumptions included in the valuations.

At 31 March 2018, the Group had capital commitments of £131.6 million (2017: £27.1 million).

EPRA capital expenditure

	2018 £m	2017 £m
Group		
Acquisitions	**55.5**	32.5
Developments (including trading properties)	**28.3**	221.2
Investment property	**35.4**	20.9
Interest capitalised (including trading properties)	**5.9**	18.3
Joint ventures (at share)		
Developments	**33.7**	11.9
Investment property	**2.2**	16.9
Interest capitalised	**1.8**	1.2
	162.8	322.9

11 Trading property

	2018 £m	2017 £m
At 1 April	246.7	172.4
Costs capitalised	**14.1**	66.0
Interest capitalised	**5.1**	8.3
Disposals	**(246.4)**	–
At 31 March	**19.5**	246.7

The Group has developed 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. During the year, the Group commenced completing the sales of the apartments and at 31 March 2018 four of the 142 apartments were still to be sold. The fair value of the trading property was £20.8 million (2017: £264.0 million), representing a level 3 valuation as defined by IFRS 13 (see note 10), and cumulative valuation uplift of £1.3 million (2017: £17.3 million).

12 Investment in joint ventures
The Group has the following investments in joint ventures:

	Equity £m	**Balances with partners £m**	**2018 Total £m**	2017 Total £m
At 1 April	250.6	230.2	480.8	543.4
Movement on joint venture balances	**–**	**(90.1)**	**(90.1)**	42.6
Additions	**12.9**	**–**	**12.9**	8.2
Share of profit of joint ventures	**7.5**	**–**	**7.5**	2.4
Share of revaluation surplus/(deficit) of joint ventures	**24.8**	**–**	**24.8**	(55.6)
Share of profit/(loss) on disposal of joint venture properties	**8.9**	**–**	**8.9**	(4.0)
Share of results of joint ventures	**41.2**	**–**	**41.2**	(57.2)
Distributions	**(21.1)**	**–**	**(21.1)**	(56.2)
At 31 March	**283.6**	**140.1**	**423.7**	480.8

All of the Group's joint ventures operate solely in the United Kingdom and comprise the following:

	Country of registration	**2018 ownership**	2017 ownership
The GHS Limited Partnership	Jersey	**50%**	50%
The Great Capital Partnership (inactive)	United Kingdom	**50%**	50%
The Great Ropemaker Partnership	United Kingdom	**50%**	50%
The Great Victoria Partnerships	United Kingdom	**50%**	50%
The Great Wigmore Partnership (inactive)	United Kingdom	**50%**	50%

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 Ropemaker Partnership £m	The Great Victoria Partnerships £m	Other £m	2018 Total £m	2018 At share £m	2017 At share £m
Balance sheets							
Investment property	**276.1**	**512.3**	**231.5**	**–**	**1,019.9**	**510.0**	570.7
Current assets	**2.3**	**0.3**	**0.1**	**–**	**2.7**	**1.3**	0.9
Cash	**7.0**	**12.0**	**4.7**	**0.2**	**23.9**	**12.0**	10.6
Balances (from)/to partners	**(108.5)**	**(182.7)**	**10.9**	**–**	**(280.3)**	**(140.1)**	(230.2)
Bank loans	**–**	**(89.6)**	**(79.7)**	**–**	**(169.3)**	**(84.7)**	(84.6)
Derivatives	**–**	**(0.6)**	**–**	**–**	**(0.6)**	**(0.3)**	(1.3)
Current liabilities	**(4.1)**	**(10.4)**	**(4.3)**	**(0.1)**	**(18.9)**	**(9.4)**	(10.3)
Finance leases	**–**	**(10.3)**	**–**	**–**	**(10.3)**	**(5.2)**	(5.2)
Net assets	**172.8**	**231.0**	**163.2**	**0.1**	**567.1**	**283.6**	250.6
Income statements							
Net rental income	**–**	**22.9**	**11.8**	**–**	**34.7**	**17.4**	17.4
Property and administration costs	**0.2**	**0.2**	**(0.6)**	**(0.1)**	**(0.3)**	**(0.1)**	(4.1)
Net finance costs	**(4.8)**	**(13.6)**	**(3.1)**	**–**	**(21.5)**	**(10.8)**	(10.8)
Movement in fair value of derivatives	**–**	**2.0**	**–**	**–**	**2.0**	**1.0**	(0.1)
Profit/(loss) from joint ventures	**(4.6)**	**11.5**	**8.1**	**(0.1)**	**14.9**	**7.5**	2.4
Revaluation of investment property	**18.1**	**29.1**	**3.1**	**–**	**50.3**	**24.8**	(55.6)
Profit/(loss) on sale of investment property	**–**	**17.6**	**–**	**0.1**	**17.7**	**8.9**	(4.0)
Share of results of joint ventures	**13.5**	**58.2**	**11.2**	**–**	**82.9**	**41.2**	(57.2)

The non-recourse debt facilities of the joint ventures at 31 March 2018 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			

The Great Ropemaker Partnership has 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. Together with the swaps the loan has an all-in hedged coupon of 2.67% for its duration. At 31 March 2018, the Great Victoria Partnership loan had a fair value of £82.3 million (2017: £84.2 million). All interest-bearing loans are in Sterling. At 31 March 2018, the joint ventures had £nil undrawn facilities (2017: £nil).

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

	2018 £m	2017 £m
Movement on joint venture balances during the year	**90.1**	(42.6)
Balances receivable at the year end from joint ventures	**(140.1)**	(230.2)
Distributions	**21.1**	56.2
Management fee income	**5.2**	4.1

The joint venture balances are repayable on demand and 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 (2017: £5.2 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 £504.8 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.

At 31 March 2018, the Group had £nil contingent liabilities arising in its joint ventures (2017: £nil). At 31 March 2018, the Group had capital commitments in respect of its joint ventures of £112.9 million (2017: £48.1 million).

13 Plant and equipment

	Leasehold improvements £m	Fixtures and fittings/other £m	Total £m
Cost			
At 1 April 2016	1.1	1.7	2.8
Costs capitalised in respect of head office refurbishment	4.1	0.8	4.9
Disposals	–	(1.5)	(1.5)
At 31 March 2017	5.2	1.0	6.2
Costs capitalised	**0.3**	**0.1**	**0.4**
At 31 March 2018	**5.5**	**1.1**	**6.6**
Depreciation			
At 1 April 2017	0.7	0.4	1.1
Charge for the year	**0.6**	**0.3**	**0.9**
At 31 March 2018	**1.3**	**0.7**	**2.0**
Carrying amount at 31 March 2017	4.5	0.6	5.1
Carrying amount at 31 March 2018	**4.2**	**0.4**	**4.6**

14 Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**3.8**	4.0
Allowance for doubtful debts	**(0.4)**	(0.1)
	3.4	3.9
Prepayments and accrued income	**1.3**	0.7
Work in progress on development management contracts	**1.5**	14.7
Other trade receivables	**6.9**	3.2
Deferred consideration on property sales	**2.0**	300.8
Derivatives	**–**	28.5
	15.1	351.8

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 occupier's lease. Trade receivables are provided for based on estimated irrecoverable amounts determined by past default experience and knowledge of the individual occupiers' circumstance. Debtors past due but not impaired were £2.0 million (2017: £2.8 million) of which £2.0 million (2017: £2.0 million) is over 30 days.

Work in progress on development management contracts is an amount due to the Group in relation to development properties 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 £27.4 million (2017: £12.9 million). At 31 March 2018, the aggregate cumulative cost incurred was £29.3 million (2017: £67.7 million) and the cumulative profits less losses recognised was a loss of £0.4 million (2017: £5.7 million profit). There are no material project retentions.

Deferred consideration on property sales relates to the amounts outstanding on the disposal of Rathbone Square, W1.

	2018 £m	2017 £m
Movements in allowance of doubtful debts		
Balance at the beginning of the year	**(0.1)**	(0.2)
Amounts provided for during the year	**(0.3)**	(0.2)
Amounts written-off as uncollectable	–	0.3
	(0.4)	(0.1)

15 Trade and other payables

	2018 £m	2017 £m
Rents received in advance	**22.8**	22.8
Deposits received on forward sale of residential units	**2.4**	66.0
Obligation to redeem B shares	**306.0**	–
Non-trade payables and accrued expenses	**32.1**	58.2
	363.3	147.0

On 27 March 2018, the Company’s shareholders approved a return of capital of £306.0 million through the issue of new B shares, with the intention of redeeming the shares in April 2018 in order to return 93.65 pence per ordinary share to shareholders. As a result, the obligation to redeem the B shares was a liability at 31 March 2018.

16 Interest-bearing loans and borrowings

	2018 £m	2017 £m
Current liabilities at fair value		
Unsecured		
£150.0 million 1.00% convertible bonds 2018	**150.9**	–
Current interest bearing loans and borrowings	**150.9**	–
Non-current liabilities at amortised cost		
Secured		
£142.9 million 5⅝% debenture stock 2029	**22.0**	143.9
Unsecured		
£450.0 million revolving credit facility	**–**	107.0
£175.0 million 2.15% private placement notes 2024	**174.2**	–
$160.0 million 4.20% private placement notes 2019	**–**	101.9
$40.0 million 4.82% private placement notes 2022	**–**	25.5
Non-current liabilities at fair value		
Unsecured		
£150.0 million 1.00% convertible bonds 2018	**–**	159.4
Non-current interest bearing loans and borrowings	**196.2**	537.7
Interest bearing loans and borrowings	**347.1**	537.7

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 2021.

In May 2017, the Group repaid its 2019 and 2022 private placement notes for a total redemption premium of £13.5 million, representing a £36.6 million redemption premium net of £23.1 million receipt on cancellation of the associated cross currency swaps. The premium includes unamortised costs and currency movements since issue, of which £31.7 million of currency movements relate to previous periods. No prior period adjustment has been made for this amount as the Directors consider the impact to be immaterial.

In May 2017, the Group issued a £175 million of new seven-year US private placement notes. The Sterling denominated unsecured debt has a fixed rate coupon of 2.15% (representing a margin of 125 basis points over the relevant Gilt).

In March 2018, the Group closed the issue of £100 million of new ten, twelve and fifteen-year US private placement notes. The Sterling denominated unsecured debt has a fixed rate coupon of 2.80% (representing a margin of 106 basis points over the relevant Gilt). These will be drawn down in June 2018.

In February 2018, the Group concluded a tender offer for the £142.9 million 5⅝% debenture stock 2019. Approximately 85% of the stock was purchased at a cash cost of £159.9 million (including transaction costs), resulting in a redemption premium of £38.1 million.

At 31 March 2018, the Group had £451 million (2017: £342.0 million) of undrawn credit facilities.

17 Financial instruments

Categories of financial instrument	**Carrying amount 2018 £m**	**Amounts recognised in income statement 2018 £m**	**Gain/(loss) to equity 2018 £m**	Carrying amount 2017 £m	Amounts recognised in income statement 2017 £m	Gain/(loss) to equity 2017 £m
Convertible bond	**(150.9)**	**7.0**	–	–	–	–
Current liabilities at fair value	**(150.9)**	**7.0**	–	–	–	–
Convertible bond	–	–	–	(159.4)	8.6	–
Non-current liabilities at fair value	–	–	–	(159.4)	8.6	–
Interest rate floor	–	**(0.5)**	–	0.5	0.7	–
Cross currency swaps	–	**(4.9)**	–	28.0	40.2	–
Non-current assets held at fair value	–	**(5.4)**	–	28.5	40.9	–
Trade receivables	**15.1**	**(0.3)**	–	324.3	(0.1)	–
Cash and cash equivalents	**351.4**	**0.2**	–	25.5	–	–
Loans and receivables	**366.5**	**(0.1)**	–	349.8	(0.1)	–
Trade and other payables	**(9.4)**	–	–	(69.1)	–	–
Obligation to redeem B shares	**(306.0)**	–	–	–	–	–
Interest-bearing loans and borrowings	**(196.2)**	**(7.9)**	–	(378.3)	(7.9)	–
Obligations under finance leases	**(40.8)**	**(1.8)**	–	(35.9)	(1.8)	–
Liabilities at amortised cost	**(552.4)**	**(9.7)**	–	(483.3)	(9.7)	–
Total financial instruments	**(336.8)**	**(8.2)**	–	(264.4)	39.7	–

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 reviewing the financial information of prospective occupiers and only dealing with those that are creditworthy 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 occupier 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 14 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 aims to maintain a loan-to-property value of between 10% - 40% (see note 9).

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 has historically been fully hedged through foreign currency derivatives to create a synthetic sterling exposure.

Liquidity risk

The Group operates a framework for the management of its 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 facility. The availability of this facility 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 2018 actuals
Group		
Net debt/net equity	**<1.25x**	**n/a**
Inner borrowing (unencumbered asset value/unsecured borrowings)	**>1.66x**	**n/a**
Interest cover	**>1.35x**	**n/a**

Due to the Group being in a net cash position at the balance sheet date, and there was no interest charge (as measured under our debt covenants) in the year, none of the Group's debt covenants were measurable. 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 2018	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	**22.0**	**35.2**	**1.2**	**1.2**	**3.7**	**29.1**
£450.0 million revolving credit facility	**–**	**4.4**	**1.7**	**1.7**	**1.0**	**–**
Private placement notes	**174.2**	**198.2**	**3.8**	**3.8**	**11.3**	**179.3**
£150.0 million 1.00% convertible bonds 2018	**150.9**	**150.6**	**150.6**	**–**	**–**	**–**
	347.1	**388.4**	**157.3**	**6.7**	**16.0**	**208.4**

At 31 March 2017	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	143.9	237.9	8.0	8.0	24.1	197.8
£450.0 million revolving credit facility	107.0	113.1	1.6	1.6	109.9	–
Private placement notes	127.4	142.6	5.2	5.3	106.4	25.7
£150.0 million 1.00% convertible bonds 2018	159.4	152.1	1.5	150.6	–	–
Derivative financial instruments						
Cross currency swaps (note 14)	(28.0)	0.7	0.3	0.2	0.2	–
Interest rate floor (note 14)	(0.5)	(1.0)	(1.0)	–	–	–
	509.2	645.4	15.6	165.7	240.6	223.5

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 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 fixed rate debt, 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**	
	2018 %	2017 %	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Interest rate floor						
Less than one year	–	1.80	–	159.7	–	(0.5)
	–	1.80	–	159.7	–	(0.5)

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**	
	2018 rate	2017 rate	**2018 US$m**	2017 US$m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Cross currency swaps								
Between two and five years	–	1.566	–	160.0	–	102.2	–	(23.3)
In excess of five years	–	1.566	–	40.0	–	25.5	–	(4.7)
	–	1.566	–	200.0	–	127.7	–	(28.0)

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 based on historical trends. For the floating rate liabilities the analysis is prepared assuming the amount of the liability at 31 March 2018 was outstanding for the whole year:

	Impact on profit		Impact on equity	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Increase of 100 basis points	**1.1**	2.9	**1.1**	2.9
Increase of 50 basis points	**0.6**	1.5	**0.6**	1.5
Decrease of 25 basis points	**(0.3)**	(0.7)	**(0.3)**	(0.7)
Decrease of 50 basis points	**(0.6)**	n/a	**(0.6)**	n/a

Foreign exchange sensitivity
The sensitivity analysis for the prior year as set out below was 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 based on historical trends:

	Impact on profit		Impact on equity	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Increase of 20% in the exchange spot rate	**–**	(28.9)	**–**	(28.9)
Increase of 10% in the exchange spot rate	**–**	(15.8)	**–**	(15.8)
Decrease of 10% in the exchange spot rate	**–**	19.3	**–**	19.3
Decrease of 20% in the exchange spot rate	**–**	43.4	**–**	43.4

Fair value of interest-bearing loans and borrowings

	Book value 2018 £m	**Fair value 2018 £m**	Book value 2017 £m	Fair value 2017 £m
Level 1				
£150.0 million 1.00% convertible bonds 2018	**150.9**	**150.9**	159.4	159.4
Level 2				
Cross currency swaps	**–**	**–**	(28.0)	(28.0)
Interest rate floor	**–**	**–**	(0.5)	(0.5)
Other items not carried at fair value				
£142.9 million 5⅝% debenture stock 2029	**22.0**	**27.0**	143.9	177.9
Private placement notes	**174.2**	**172.0**	127.4	164.4
£450.0 million revolving credit facility	**–**	**–**	107.0	107.0
	347.1	**349.9**	509.2	580.2

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. In the prior year, the fair value of the Group's outstanding interest rate floor was 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. In the prior year, the fair value of the Group's cross currency swaps was 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 private placement notes were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins.

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 Obligations under finance leases

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

	Minimum lease payments 2018 £m	**Interest 2018 £m**	**Present value of minimum lease payments 2018 £m**	Minimum lease payments 2017 £m	Interest 2017 £m	Present value of minimum lease payments 2017 £m
Less than one year	**1.9**	**(1.9)**	**–**	1.8	(1.8)	–
Between two and five years	**9.5**	**(9.4)**	**0.1**	7.1	(7.0)	0.1
More than five years	**196.9**	**(156.2)**	**40.7**	178.6	(142.8)	35.8
	208.3	**(167.5)**	**40.8**	187.5	(151.6)	35.9

The Group's finance lease obligations increased to £40.8 million at 31 March 2018 due to the re-gear of the head-lease at City Tower, EC1.

19 Share capital

	2018 Number	**2018 £m**	2017 Number	2017 £m
Allotted, called up and fully paid ordinary shares of 15 $^5/_{19}$ pence				
At 1 April	**343,926,149**	**43.0**	343,926,149	43.0
Issue of shares	**22**	**–**	–	–
19 for 20 share consolidation	**(17,196,308)**	**–**	–	–
25 for 29 share consolidation	**(45,066,188)**	**–**	–	–
At 31 March	**281,663,675**	**43.0**	343,926,149	43.0

On 18 May 2017, in conjunction with a special dividend (see note 22), the Company carried out a 19 for 20 share consolidation of the Company's ordinary share capital. On 27 March 2018, the Company's shareholders approved a return of capital of £306 million through the issue of new B shares, reducing the share premium account. On 13 April 2018, the Company redeemed the shares in order to return 93.65 pence per ordinary share to shareholders. The return of capital via a B share scheme, was carried out in conjunction with a 25 for 29 share consolidation of the Company's ordinary share capital. During the year, the Company issued 22 ordinary shares at par. After the issue and consolidations the Company had 281,663,675 ordinary shares with a nominal value of 15$^5/_{19}$ pence each.

20 Investment in own shares

	2018 £m	2017 £m
At 1 April	**3.8**	9.1
Employee Long-Term Incentive Plan and Share Matching Plan charge	**(2.0)**	(1.0)
Transfer to retained earnings	**0.6**	(4.3)
At 31 March	**2.4**	3.8

The investment in the Company's own shares is held at cost and comprises 1,178,137 shares (2017: 1,804,412 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, 347,572 shares (2017: 765,065 shares) were awarded to directors and senior employees in respect of the 2014 LTIP and SMP award and 22 additional shares were acquired by the Trust (2017: no shares). The fair value of shares awarded and outstanding at 31 March 2018 was £2.4 million (2017: £2.1 million).

21 Notes to the Group statement of cash flows
Reconciliation of financing liabilities

	1 April 2017 £m	**Inflows/ (outflows) £m**	**New obligations £m**	**Fair value changes £m**	**Other £m**	**31 March 2018 £m**
Long-term borrowings	537.7	**(258.9)**	**75.2**	**–**	**(157.8)**	**196.2**
Short-term borrowings	–	**–**	**–**	**(8.5)**	**159.4**	**150.9**
Obligations under finance leases	35.9	**–**	**4.9**	**–**	**–**	**40.8**
Obligation to redeem B shares	–	**–**	**306.0**	**–**	**–**	**306.0**
Derivatives	(28.5)	**23.1**	**–**	**5.4**	**–**	**–**
	545.1	**(235.8)**	**386.1**	**(3.1)**	**1.6**	**693.9**

Adjustment for non-cash items

	2018 £m	2017 £m
(Surplus)/deficit from investment property	**(35.5)**	136.9
Employee Long-Term Incentive Plan and Share Matching Plan charge	**2.0**	1.0
Spreading of tenant lease incentives	**(5.1)**	(3.1)
Share of results of joint ventures	**(41.2)**	57.2
Depreciation	**0.9**	0.9
Other	**–**	(0.5)
Adjustments for non-cash items	**(78.9)**	192.4

22 Dividends

	2018 £m	2017 £m
Ordinary dividends paid		
Interim dividend for the year ended 31 March 2018 of 4.0 pence per share	**13.0**	–
Special dividend for the year ended 31 March 2018 of 32.15 pence per share	**110.0**	–
Final dividend for the year ended 31 March 2017 of 6.4 pence per share	**20.8**	–
Interim dividend for the year ended 31 March 2017 of 3.7 pence per share	**–**	12.7
Final dividend for the year ended 31 March 2016 of 5.6 pence per share	**–**	19.1
	143.8	31.8

A final dividend of 7.3 pence per share was approved by the Board on 23 May 2018 and will be paid on 9 July 2018 to shareholders on the register on 1 June 2018. The dividend is not recognised as a liability at 31 March 2018. The 2017 final dividend, 2018 interim dividend and the 2018 special 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:

	2018 £m	2017 £m
The Group as a lessor		
Less than one year	**81.7**	76.7
Between two and five years	**223.7**	224.3
More than five years	**166.8**	169.2
	472.2	470.2

The Group leases its investment properties under operating leases. The weighted average length of lease at 31 March 2018 was 5.1 years (2017: 5.2 years). All investment properties, except those under development, generated rental income and no contingent rents were recognised in the year (2017: £nil).

	2018 £m	2017 £m
The Group as a lessee		
Less than one year	**1.0**	1.0
Between two and five years	**4.1**	4.1
More than five years	**2.0**	3.0
	7.1	8.1

24 Employee benefits

The Group operates a UK-funded approved defined contribution plan. The Group's contribution for the year was £0.8 million (2017: £0.6 million). The Group also contributes to a defined benefit final salary pension plan ('the Plan'), the assets of which are held and managed 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 2017 by a qualified independent actuary using the projected unit method. The Plan was valued using the following key actuarial assumptions:

	2018 %	2017 %
Discount rate	**2.70**	2.60
Expected rate of salary increases	**4.10**	4.20
RPI inflation	**3.10**	3.20
Rate of future pension increases	**5.00**	5.00

Life expectancy assumptions at age 65:

	2018 Years	2017 Years
Retiring today age 65	**24**	24
Retiring in 25 years (age 40 today)	**27**	27

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

	2018 £m	2017 £m
Present value of unfunded obligations	**(34.5)**	(39.9)
Fair value of the Plan assets	**35.0**	34.1
Pension surplus/(liability)	**0.5**	(5.8)

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

	2018 £m	2017 £m
Current service cost	**(0.5)**	(0.3)
Net interest cost	**(0.1)**	(0.1)
	(0.6)	(0.4)

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

	2018 £m	2017 £m
Defined benefit obligation at 1 April	**39.9**	31.3
Service cost	**0.5**	0.3
Interest cost	**1.0**	1.1
Effect of changes in financial assumptions	**(1.5)**	7.8
Effect of changes in demographic assumptions	**(1.4)**	–
Effect of experience adjustments	**(3.2)**	–
Benefits paid	**(0.8)**	(0.6)
Present value of defined benefit obligation at 31 March	**34.5**	39.9

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

	2018 £m	2017 £m
Fair value of the Plan assets at 1 April	**34.1**	28.6
Interest income	**0.9**	1.0
Actuarial gain/(loss)	**0.1**	4.2
Employer contributions	**0.7**	0.9
Benefits paid	**(0.8)**	(0.6)
Fair value of the Plan assets at 31 March	**35.0**	34.1
Net pension surplus/(liability)	**0.5**	(5.8)

Virtually all equity and debt instruments have quoted prices in active markets. The fair value of the Plan assets at the balance sheet date is analysed as follows:

	2018 £m	2017 £m
Cash	**0.5**	0.1
Equities	**13.7**	14.1
Bonds	**20.8**	19.9
	35.0	34.1

The amount recognised immediately in the Group statement of comprehensive income was a gain of £6.1 million (2017: loss of £3.6 million). Other than market and demographic risks, which are common to all retirement benefit schemes, there are no specific risks in the relevant benefit schemes which the Group considers to be significant or unusual. Detail on two of the more specific risks is detailed below:

Changes in bond yields
Falling bond yields tend to increase the funding and accounting liabilities. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.

Life expectancy
The majority of the obligations are to provide a pension for the life of the member on retirement, so increases in life expectancy will result in an increase in the liabilities. The inflation-linked nature of the majority of benefit payments increases the sensitivity of the liabilities to changes in life expectancy.

The effect on the defined benefit obligation of changing the key assumptions, calculated using approximate methods based on historical trends, is set out below:

	2018 £m	2017 £m
Discount rate -0.25%	**36.3**	42.0
Discount rate +0.25%	**32.9**	37.9
RPI inflation -0.25%	**33.7**	38.9
RPI inflation +0.25%	**35.3**	40.9
Post-retirement mortality assumption -1 year	**36.0**	41.5

The Group expects to contribute £0.8 million to the Plan in the year ending 31 March 2019. The expected total benefit payments for the year ending 31 March 2019 is £0.6 million, with £4.5 million expected to be paid over the next five years. A revised funding plan has been agreed committing the Group to cash contributions of £347,000 p.a over 5 years as well as a contribution rate of 46.8% p.a. of members’ pensionable salaries to eliminate any funding shortfalls and the ongoing benefit accrual.

25 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 $15\frac{5}{19}$ 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.

26. Prior year adjustment

Following a review of the Group's Annual Report and Accounts for the year ended 31 March 2017 by the Financial Reporting Council, the cash flow statement for the year ended 31 March 2017 has been re-presented to classify funds to joint ventures of £33.6 million as investing rather than financing activities. There is no impact on the income statement or net assets as a result of this re-presentation.

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 2018. 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 23 May 2018 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.

Cash EPS
EPRA EPS adjusted for non-cash items: tenant incentives, capitalised interest and charges for share-based payments.

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

Development profit on cost
The value of the development at completion, less the value of the land at the point of development commencement and costs to construct (including finance charges, letting fees, void costs and marketing expenses).

Development profit on cost %
The development profit on cost divided by the land value at the point of development commencement together with the costs to construct.

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

EPRA metrics
Standard calculation methods for adjusted EPS and NAV and other operating metrics 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 Group's valuers at each balance sheet date.

Fair value – Investment property
The amount as estimated by the Group'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
The element of the portfolio that has 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.

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 potential
The percentage by which ERV exceeds rent roll on let space.

Total Accounting Return (TAR)
Growth of EPRA NAV plus dividends paid.

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, deferred tax and tax arising on sale of trading properties 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.

Ungeared IRR
The ungeared internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows (both positive and negative) from a project or investment equal zero, without the benefit of financing. The internal rate of return is used to evaluate the attractiveness of a project or investment.

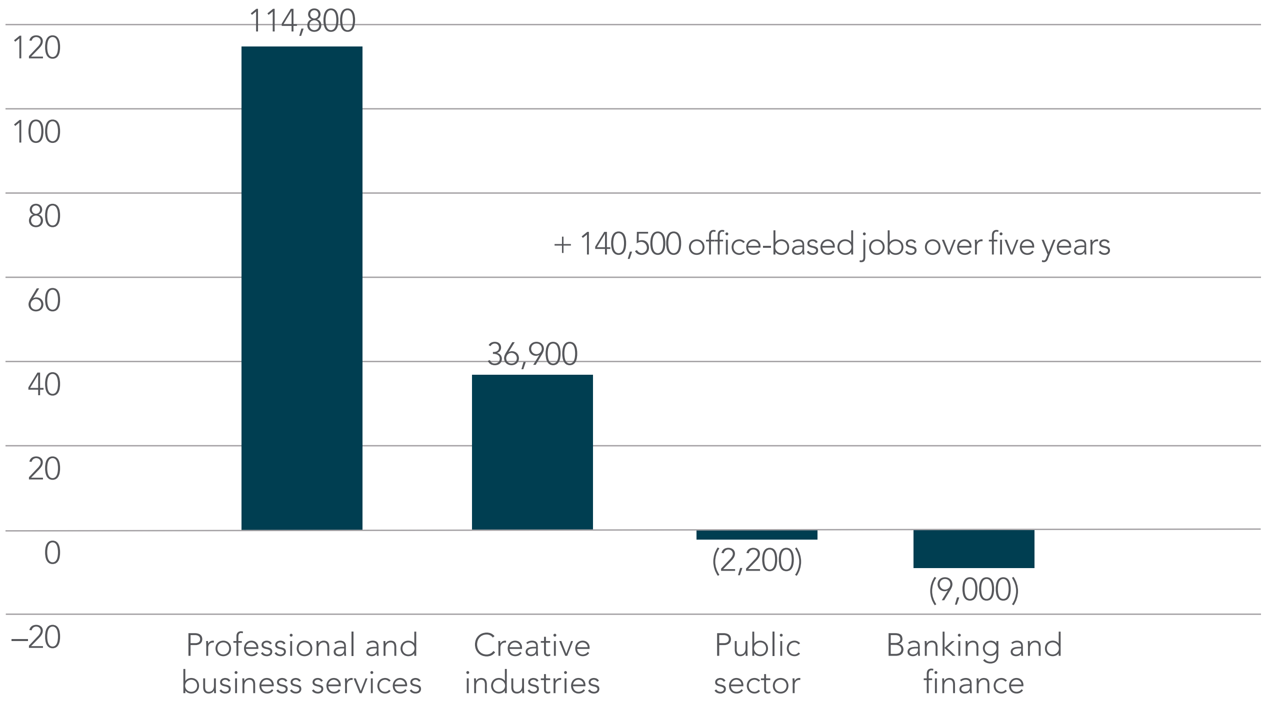
Vacancy rate
The element of a property which is unoccupied but available for letting, expressed as the ERV of the vacant space divided by the ERV of the total portfolio.

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

Whole life surplus
The value of the development at completion, less the value of the land at the point of acquisition and costs to construct (including finance charges, letting fees, void costs and marketing expenses) plus any income earned over the period.

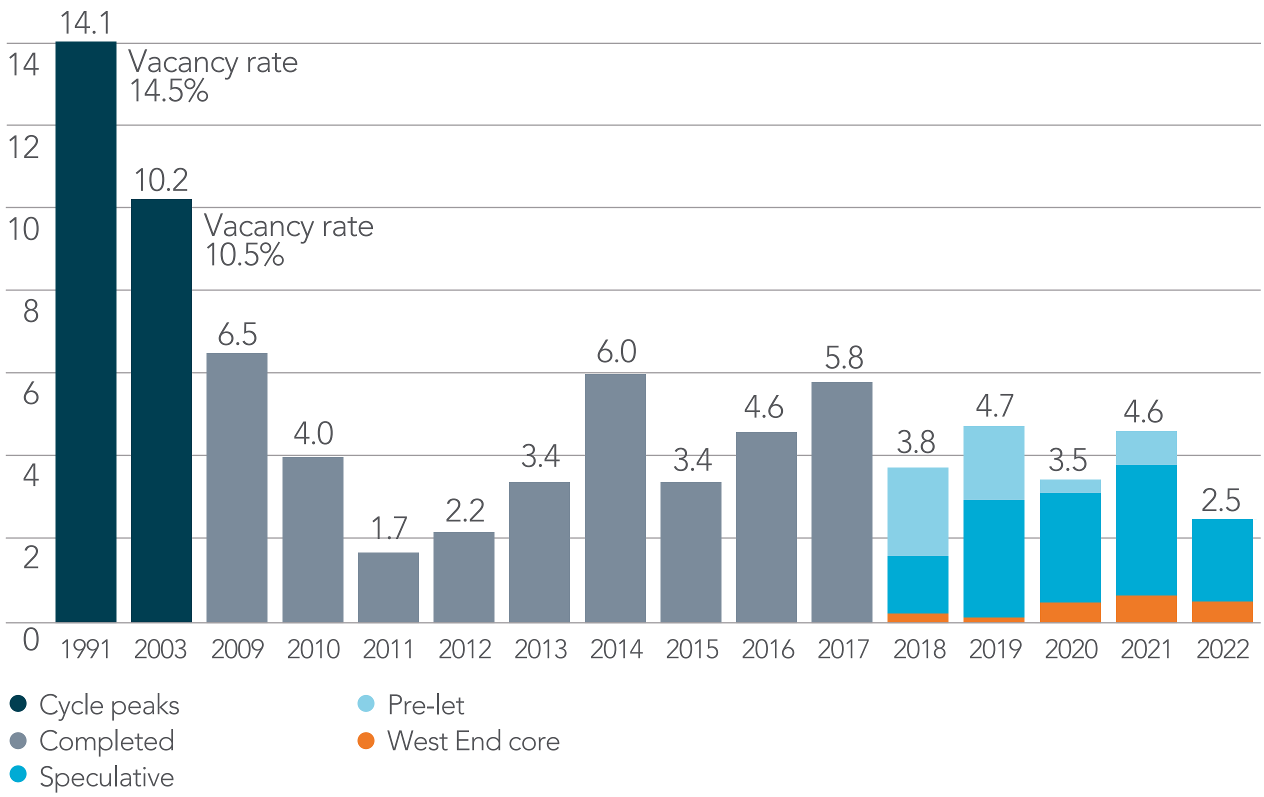
Appendix 1

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



Source: CBRE/Oxford Economics

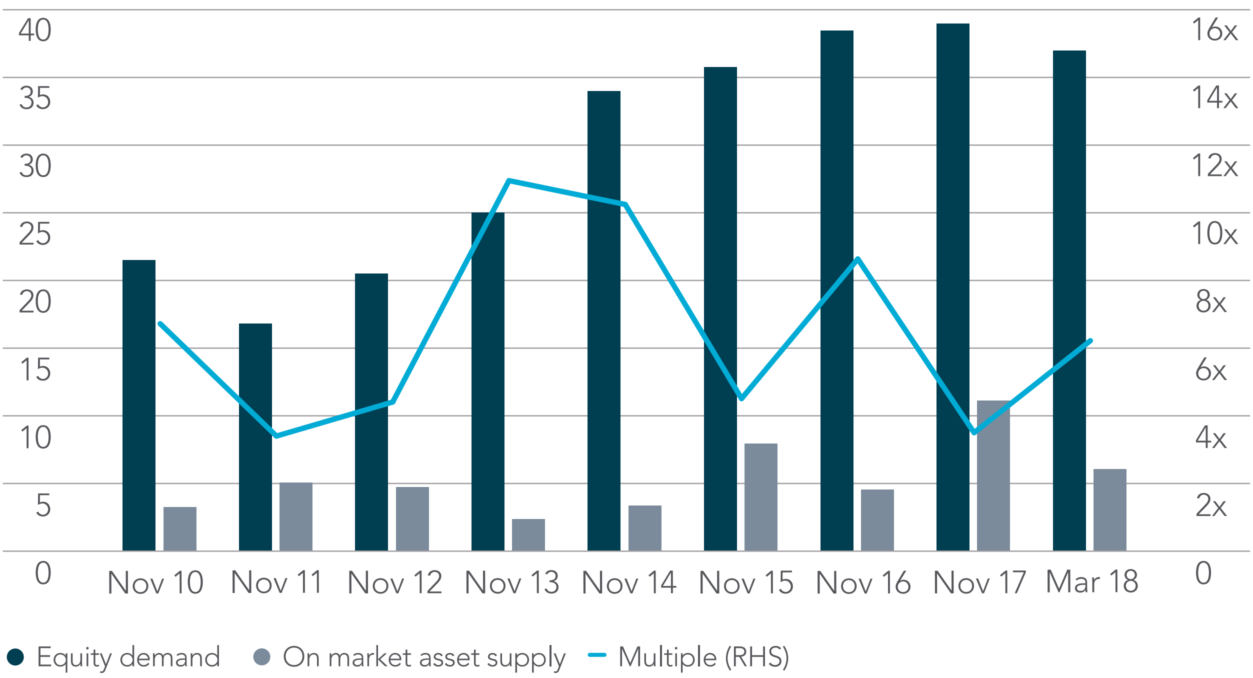
Central London office potential completions million sq ft



Source: CBRE/GPE

Appendix 1

London equity demand and asset supply £bn



Source: CBRE/GPE

Value of deals under review by GPE £bn

Source: Company data

Appendix 1

Selected lead indicators

Drivers of rents	2017 Outlook	**2018 Outlook**
GDP/GVA growth	●	●
Business investment	●	●
Confidence	●	●
Employment growth	●	●
Active demand/take-up	●	●
Vacancy rates	●	●
Development completions	●	●
Drivers of yields		
Rental growth	●	●
Weight of money	●	●
Gilts	●	●
BBB Bonds	●	●
Exchange rates	●	●
Political risk	●	●

Appendix 2

Portfolio performance

		Wholly owned £m	Joint ventures[1] £m	Total £m	Proportion of portfolio %	Valuation movement %
North of Oxford Street	Office	805.1	–	805.1	28.9	4.0
	Retail	168.4	115.7	284.1	10.2	2.7
	Residential	51.1	–	51.1	1.8	0.7
Rest of West End	Office	250.8	–	250.8	9.0	–
	Retail	237.6	37.4	275.0	9.8	4.8
	Residential	5.5	–	5.5	0.2	(0.7)
Total West End		1,518.5	153.1	1,671.6	59.9	3.2
City, Midtown and Southwark	Office	543.3	142.3	685.6	24.6	0.1
	Retail	29.1	–	29.1	1.0	2.7
	Residential	2.9	–	2.9	0.1	136.6
Total City, Midtown and Southwark		575.3	142.3	717.6	25.7	0.4
Investment property portfolio		**2,093.8**	**295.4**	**2,389.2**	**85.6**	**2.3**
Development property		141.5	209.4	350.9	12.6	7.0
Total properties held throughout the year		**2,235.3**	**504.8**	**2,740.1**	**98.2**	**2.9**
Acquisitions		49.9	–	49.9	1.8	(10.1)
Total property portfolio		**2,285.2**	**504.8**	**2,790.0**	**100.0**	**2.6**

1. 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	1,140.4	141.5	1,281.9	861.7	369.1	51.1	1,281.9	977
Rest of West End	531.3	138.0	669.3	331.3	326.0	12.0	669.3	574
Total West End	**1,671.7**	**279.5**	**1,951.2**	**1,193.0**	**695.1**	**63.1**	**1,951.2**	**1,551**
City, Midtown and Southwark	746.4	92.4	838.8	802.9	32.2	3.7	838.8	1,335
Total	**2,418.1**	**371.9**	**2,790.0**	**1,995.9**	**727.3**	**66.8**	**2,790.0**	**2,886**

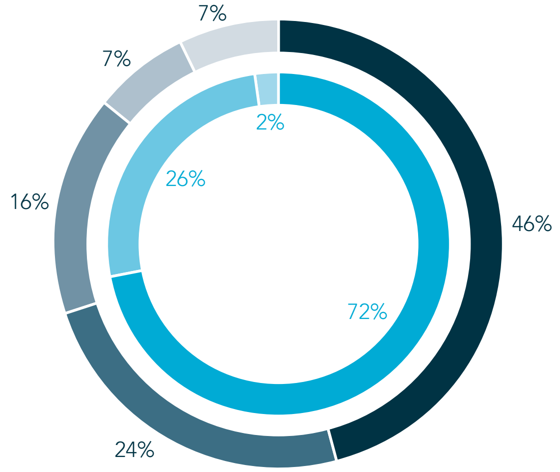
By use:	Office	1,770.4	225.5	1,995,9
	Retail	588.3	139.0	727.3
	Residential	59.4	7.4	66.8
Total		**2,418.1**	**371.9**	**2,790.0**
Net internal area sq ft 000's		2,474	412	2,886

Appendix 2

Our portfolio – 100% central London

Locations
- North of Oxford Street £1,281.9m
- Rest of West End £669.3m
- City £433.9m
- Southwark £209.4m
- Midtown £195.5m

Business mix
- Office £1,995.9m
- Retail £727.3m
- Residential £66.8m



£2,790 million portfolio valuation

2.9 million sq ft

11% in committed development

37% in development pipeline

55 properties, 40 sites

346 occupiers

£54.60 average office rent per sq ft

£107.3 million rent roll

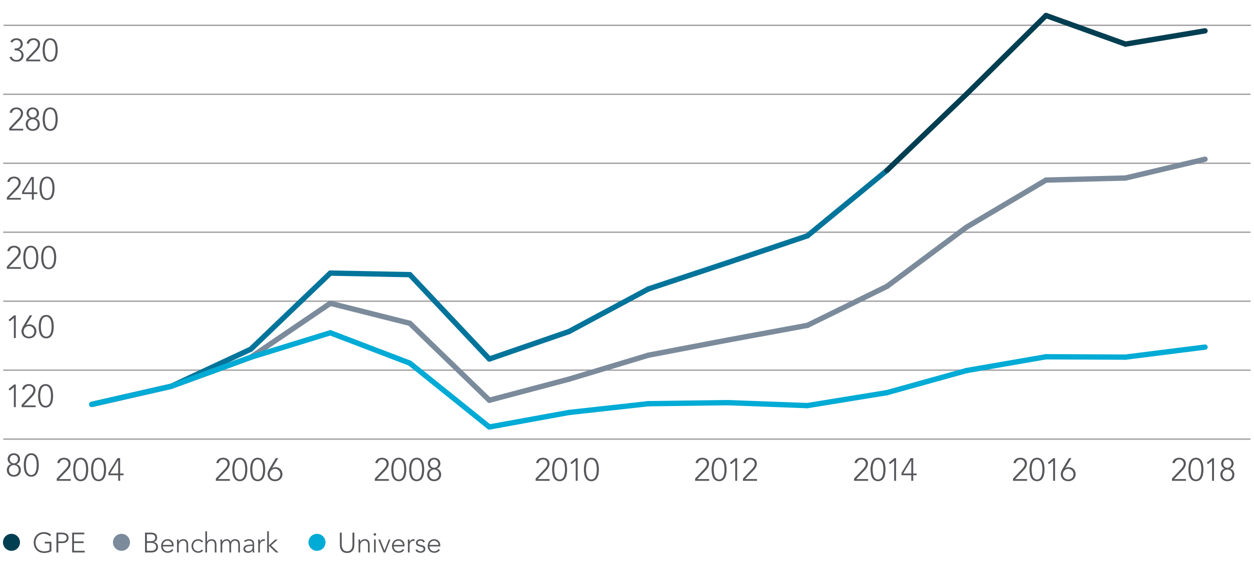
0.3% rental value uplift in year

12.1% reversionary potential

4.9% vacancy rate

88% <800 metres from a Crossrail station

Long-term outperformance
Relative returns vs IPD
Relative capital growth % pa[1]



1. 2004 – first pure comparability to IPD central London.

Appendix 3

Purchases for the year ended 31 March 2018

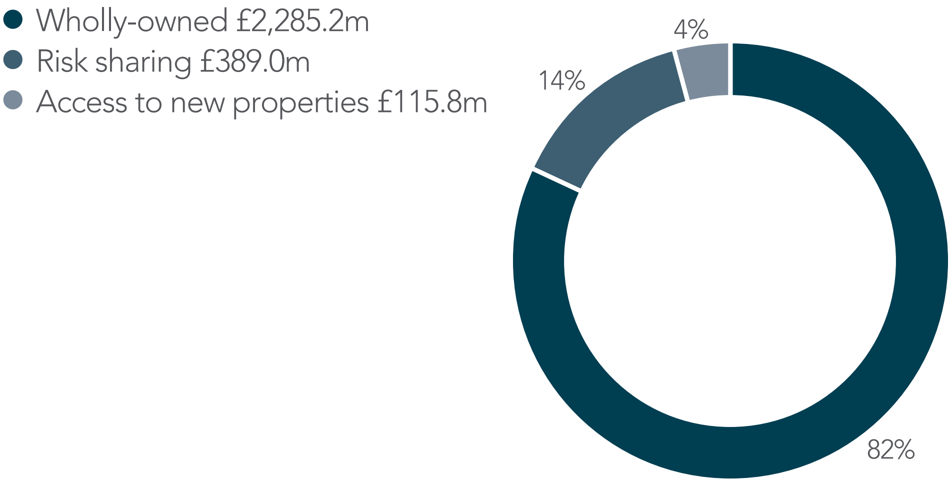
	Price paid £m	NIY	Area sq ft	Cost per sq ft £
Cityside House and Challenger House, E1	49.6	2.6%	113,300	320
Total	**49.6**	**2.6%**	**113,300**	**320**

Sales for the year ended 31 March 2018

	Gross price[1] £m	Premium to book value	Price per sq ft £
30 Broadwick Street, W1	185.9	3.2%	1,971
240 Blackfriars Road, SE1	133.0	8.3%	1,176
48 Broadwick Street, W1	4.3	3.6%	1,478
42/44 Mortimer Street, W1	4.8	6.7%	1,500
Wigmore Street buildings, W1	1.0	19.4%	1,500
Total	**329.0**	**5.4%**	**1,412**

1. Joint ventures at share and after deductions for tenant incentives.

Wholly-owned and joint venture property values at 31 March 2018



Joint venture partners

	Net assets at 31 March 2018
GRP – BP Pension fund	£206.8m
GHS – Hong Kong Monetary Authority	£140.7m
GVP – Liverpool Victoria	£76.1m
Other	£0.1m
Total	**£423.7m**
As % of Group net assets	**17.9%**

Appendix 3

Our total development pipeline[1]

City Place House, EC2*

Proposed size	176,600 sq ft
Earliest start	2019
Opportunity area	Crossrail

50 Finsbury Square, EC2

Proposed size	126,400 sq ft
Earliest start	2020
Opportunity area	Crossrail

New City Court, SE1*

Proposed size	373,900 sq ft
Earliest start	2021-2022
Opportunity area	London Bridge

35 Portman Square, W1

Proposed size	73,000 sq ft
Earliest start	2021-2022
Opportunity area	Core West End

52/54 Broadwick Street, W1

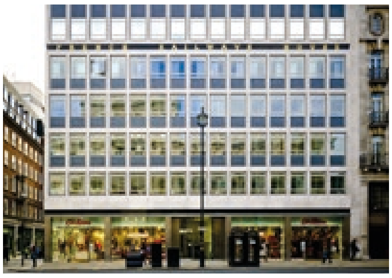
Proposed size	47,000 sq ft
Earliest start	2022-2023
Opportunity area	Crossrail

Jermyn Street Estate, SW1

Proposed size	133,100 sq ft
Earliest start	2021-2022
Opportunity area	Core West End

31/34 Alfred Place, WC1

Proposed size	37,200 sq ft
Earliest start	2023-2025
Opportunity area	Crossrail



French Railways House and 50 Jermyn Street, SW1

Proposed size	75,000 sq ft
Earliest start	2021-2022
Opportunity area	Core West End

Mount Royal, W1

Proposed size	92,100 sq ft
Earliest start	2022-2023
Opportunity area	Prime retail

Kingsland/Carrington House, W1

Proposed size	51,400 sq ft
Earliest start	2022-2023
Opportunity area	Prime retail

Minerva House, SE1

Proposed size	120,000 sq ft
Earliest start	2021-2022
Opportunity area	London Bridge

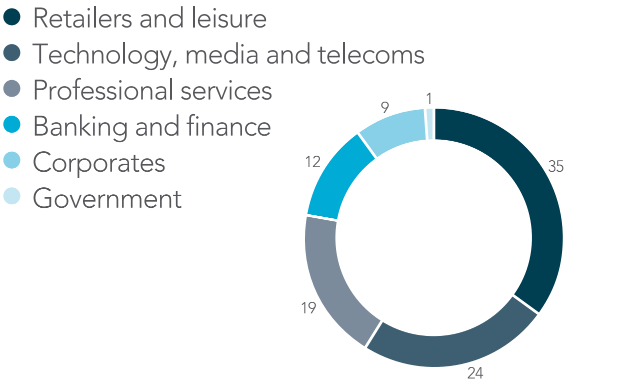
95/96 New Bond Street, W1

Proposed size	9,600 sq ft
Earliest start	2023-2024
Opportunity area	Prime retail

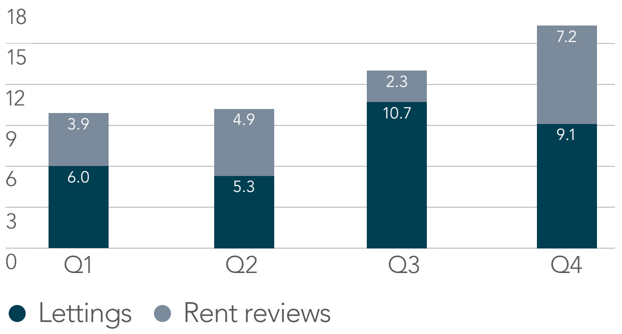
1. One further scheme: Courtyard sites at Whitechapel, E1. Proposed areas are existing areas where insufficient design information exists.
* Computer Generated Image of proposed building.

Appendix 3

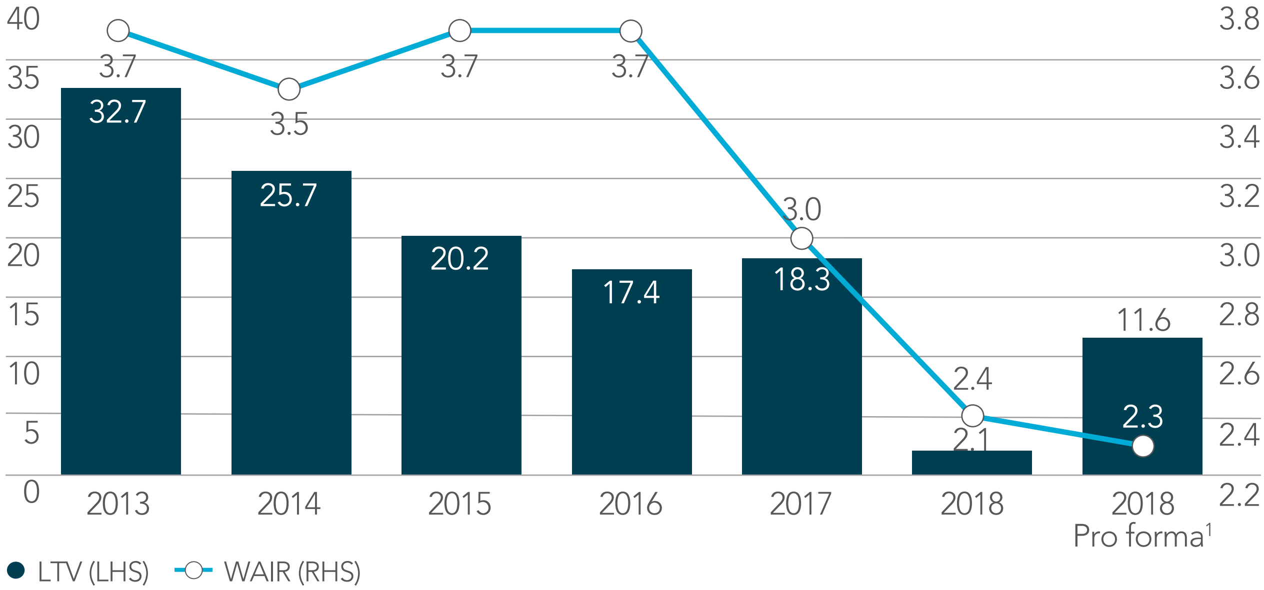
GPE occupier mix %



Lettings and rent reviews by quarter 2017/18 £m

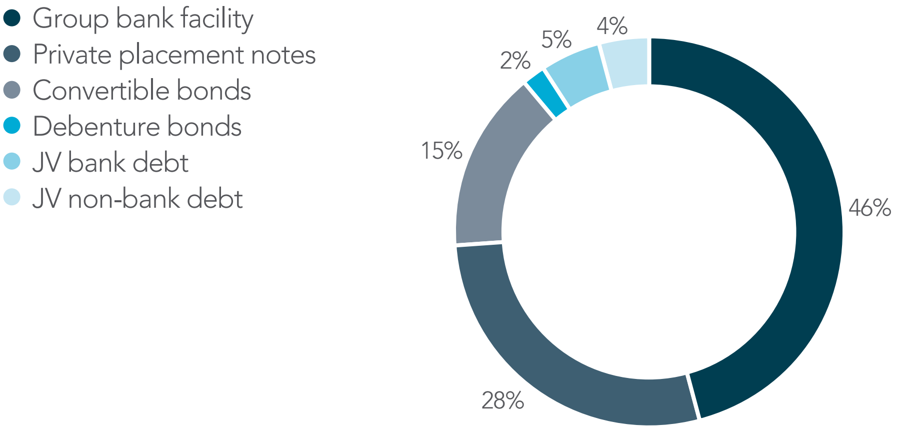


LTV and cost of debt %



1. Pro forma for £306 million capital return, sales completed since 31 March 2018 and draw down of £100 million USPP notes.

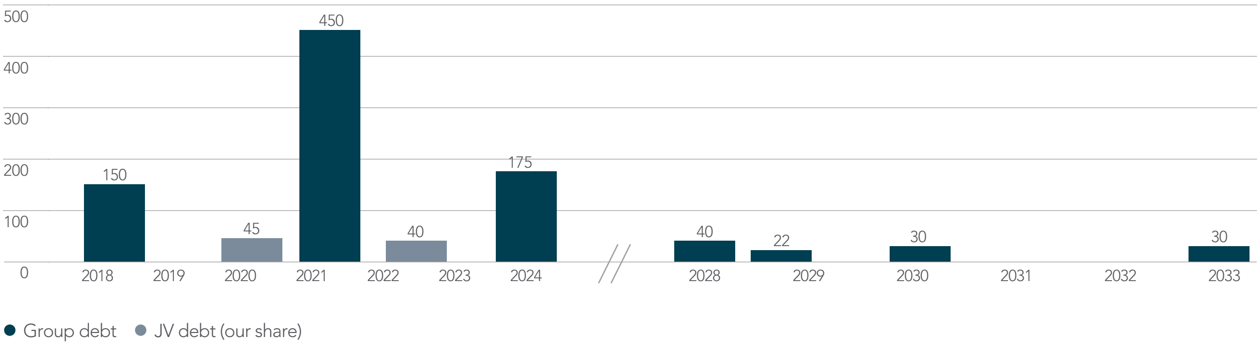
Sources of debt funding[1]



1. Based on pro forma committed facilities.

Appendix 3

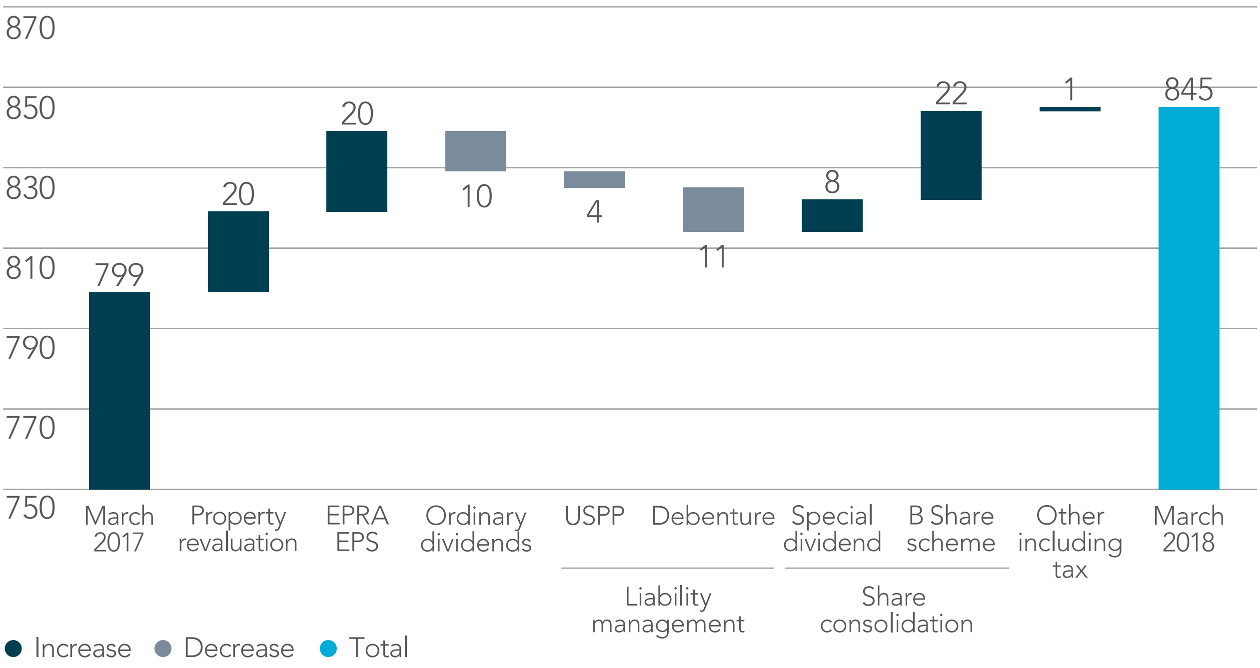
Debt maturity profile[1] £m



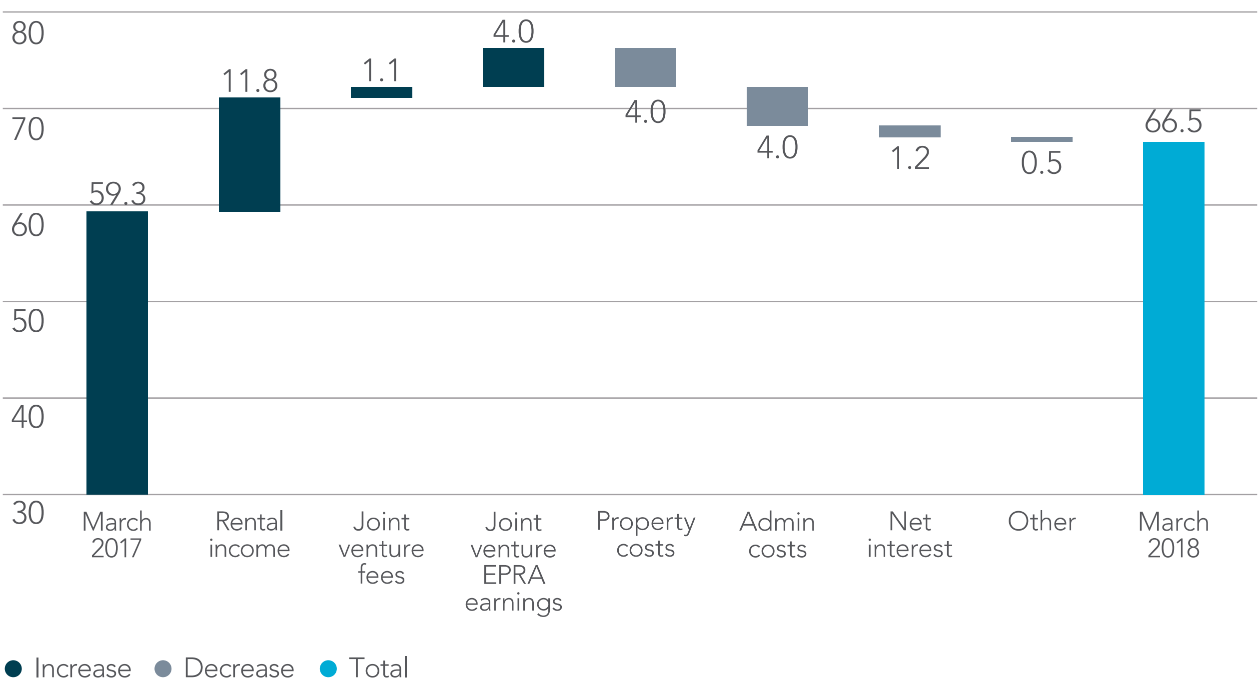
1. Based on pro forma committed facilities.

Appendix 4

EPRA NAV pence



EPRA earnings £m



Appendix 4

Debt analysis

	Pro forma[1]	**March 2018**	March 2017
Net debt excluding JVs (£m)	**243.0**	**(5.2)**	502.8
Net gearing	**11.8%**	**0%**	18.4%
Total net debt including 50% JV non-recourse debt (£m)	**315.7**	**67.5**	576.8
Loan to property value	**11.6%**	**2.4%**	18.3%
Total net gearing	**15.4%**	**2.9%**	21.1%
Interest cover	**n/a**	**n/a**	n/a
Weighted average interest rate	**2.3%**	**2.1%**	3.0%
Weighted average cost of debt	**n/a**	**3.2%**	4.0%
% of debt fixed/hedged	**100%**	**100%**	82%
Cash and undrawn facilities (£m)	**666**	**814**	378

1. Pro forma for £306 million capital return, sales completed since 31 March 2018 and draw down of £100 million USPP notes.

EPRA performance measures

Measure	Definition of Measure	**March 2018**	March 2017
EPRA earnings*	Recurring earnings from core operational activities	**£66.5m**	£59.3m
EPRA EPS*	EPRA earnings divided by the weighted average number of shares	**20.4p**	17.3p
Diluted EPRA EPS*	EPRA earnings divided by the diluted weighted average number of shares	**20.4p**	17.3p
EPRA costs (by portfolio value)*	EPRA costs (including direct vacancy costs) divided by market value of the portfolio	**1.1%**	0.9%
EPRA net assets*	Net assets adjusted to include the valuation surplus from trading properties and exclude the fair value of financial instruments and deferred tax	**£2,371.2m**	£2,735.9m
EPRA NAV*	EPRA net assets divided by the number of shares at the balance sheet date on a diluted basis	**845p**	799p
EPRA triple net assets*	EPRA net assets amended to include the fair value of financial instruments, debt, deferred tax and tax on sale of trading properties	**£2,363.8m**	£2,679.3m
EPRA NNNAV*	EPRA triple net assets divided by the number of shares at the balance sheet date on a diluted basis	**842p**	782p
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	**3.6%**	3.0%
EPRA "topped up" NIY	EPRA NIY adjusted to include rental income in rent-free periods (or other unexpired lease incentives)	**3.8%**	3.3%
EPRA vacancy rate	ERV of non-development vacant space as a percentage of ERV of the whole portfolio	**8.6%**	8.0%

* Audited; reconciliation to IFRS numbers included in note 9 to the financial statements.

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	32.9	1.9	34.8	–	–	–	34.8
		Retail	9.4	2.0	11.4	6.4	0.1	6.5	17.9
	Rest of West End	Office	11.4	0.6	12.0	–	–	–	12.0
		Retail	8.8	2.3	11.1	2.1	0.2	2.3	13.4
	Total West End		**62.5**	**6.8**	**69.3**	**8.5**	**0.3**	**8.8**	**78.1**
	City, Midtown and Southwark	Office	27.4	4.9	32.3	6.2	1.0	7.2	39.5
		Retail	2.7	–	2.7	–	–	–	2.7
	Total City, Midtown and Southwark		**30.1**	**4.9**	**35.0**	**6.2**	**1.0**	**7.2**	**42.2**
Total let portfolio			**92.6**	**11.7**	**104.3**	**14.7**	**1.3**	**16.0**	**120.3**
Voids					7.4			0.6	8.0
Premises under refurbishment					18.7			17.1	35.8
Total portfolio					**130.4**			**33.7**	**164.1**

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	47.3	6.6	5.3	–	–	–
		Retail	50.0	5.3	1.6	31.3	5.0	–
	Rest of West End	Office	4.7	3.2	15.5	–	–	–
		Retail	40.2	5.1	–	100.0	9.0	–
	Total West End		**38.9**	**5.5**	**5.8**	**48.6**	**6.0**	**–**
	City, Midtown and Southwark	Office	20.3	3.2	5.4	48.4	5.0	4.6
		Retail	70.0	13.5	1.2	–	–	–
	Total City, Midtown and Southwark		**24.9**	**4.2**	**5.5**	**48.4**	**5.0**	**4.5**
Total portfolio			**34.3**	**5.1**	**5.7**	**48.5**	**5.6**	**1.6**

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	64.3	71.0	–	–	3.4	4.3	–	–
		Retail	56.5	77.3	137.6	141.1	3.2	4.1	5.1	4.1
	Rest of West End	Office	71.0	74.1	–	107.4	3.6	4.6	–	–
		Retail	90.5	114.7	74.8	122.3	3.7	4.0	3.9	3.7
	Total West End		**66.8**	**72.2**	**113.6**	**116.2**	**3.4**	**4.3**	**4.8**	**4.0**
	City, Midtown and Southwark	Office	46.0	53.8	39.4	48.8	4.5	5.1	3.4	5.0
		Retail	81.2	80.3	–	47.5	3.8	4.6	–	–
	Total City, Midtown and Southwark		**47.9**	**53.9**	**39.4**	**48.8**	**4.5**	**5.1**	**3.4**	**5.0**
Total portfolio			**59.2**	**64.6**	**63.3**	**76.5**	**3.7**	**4.5**	**4.1**	**4.5**

Appendix 5

Top ten occupiers

	Occupier	Use	Rent roll (our share) £m	% of rent roll (our share)
1	Bloomberg L.P.	Office	5.7	5.3
2	Double Negative Limited	Office	5.4	5.0
3	New Look	Office	3.8	3.5
4	Richemont UK Limited	Office	2.6	2.4
5	Kurt Geiger Limited	Office	2.5	2.3
6	Winckworth Sherwood LLP	Office	2.5	2.3
7	Carlton Communications Limited	Office	2.3	2.2
8	Superdry	Retail	2.1	2.0
9	Williams Lea Limited	Office	1.7	1.6
10	ITN Limited	Office	1.6	1.5
	Total		**30.2**	**28.1**

Appendix 6

Market risk

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
Central London real estate market under-performs other UK property sectors.	Reduced relative performance.	The execution of the Group's strategy covering the key areas of investment, development and portfolio management is adjusted and updated throughout the year, informed by regular research into the economy, investment and occupational markets. The Group's strategic priorities and transactions are considered in light of regular review of dashboard lead indicators and operational parameters. The Group aims to maintain low financial leverage throughout the property cycle.	→	→	The central London real estate market underperformed the wider UK market for the second consecutive year, demonstrated by IPD's universe TPR exceeding IPD's central London by 110 basis points on an absolute basis during the year ended 31 March 2018. This relative under-performance over the last 12 months was driven in part by stronger growth in office rents outside central London and particularly strong growth in both capital values and rents for UK industrial and logistics properties (which are very rare in central London). The relatively muted outlook for central London office and retail rents, combined with seven years of central London property out-performance from 2008 to 2015, means the likelihood of this risk after mitigation has been maintained.
Weakening macro-economic environment for property investment.	Property valuations may decline, with increased property, yields and reduced tenant demand for space.	Regular economic updates are received and scenario planning is undertaken for different economic cycles, including various potential UK exit arrangements from the EU. The Group aims to maintain low financial leverage throughout the property cycle.	→	→	The UK macro-economic growth and interest rate outlook has remained mixed over the last 12 months, in part driven by ongoing geo-political uncertainty following the EU referendum result and progress to date in exit negotiations. When combined with limited UK stock market growth, despite increased price volatility, the likelihood of this risk has been maintained.
Heightened political uncertainty and potential negative economic impact of ongoing negotiations to exit from the EU.	Reluctance by investors and occupiers to make investment decisions whilst outcomes remain uncertain and/or reduced attractiveness of London as a global commercial centre.	The Group's strategic priorities and transactions are considered in light of these uncertainties. The Group's financial forecasts and business plans continue to be prepared under a variety of market scenarios, including to reflect different potential exit arrangements from the EU, with the frequency of updates increased following the referendum result. Lobbying of property industry matters is undertaken by active participation of the Executive Committee members through relevant industry bodies. The Group aims to maintain low financial leverage throughout the property cycle. The Group has a diverse occupier base with around 12% in the financial services sector, including only c.1% in the investment banking, securities trading and insurance sectors (which are perceived to be most at risk in London to any adverse impact of the UK's exit from the EU).	↗	→	Although investor and occupier demand for London commercial property has remained broadly resilient over the last year, the negotiations to leave the EU may result in arrangements that are damaging to the UK economy and/or central London. The negotiations together with the transition is expected to take several years, creating uncertainty which may impact investment, capital, financial and occupier markets. In the long term, exit from the EU could reduce levels of investor and occupier demand as a result of reduced trade and relocation of corporations and financial institutions away from the UK. These risks would likely be further increased by any additional impediments for London's businesses to access talented employees from the EU and beyond. In addition, the uncertainty may also contribute to a potential change in the political landscape at both a local and UK level, which could adversely impact the prospects of both private sector business and the property sector. As a result, the likelihood of this risk has marginally increased. However, the likelihood after mitigation has been maintained given our continued net sales activity and financial strength, with a current pro forma loan to value of only 11.6%, taking into account our most recent £306 million return of capital to shareholders.

Appendix 6

Investment management

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
Incorrect reading of the property market 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. Regular review of property cycle by reference to dashboard of lead indicators. Detailed due diligence is undertaken on all acquisitions prior to purchase to ensure appropriate returns. Business plans are produced on an individual asset basis to ensure the appropriate rotation of those buildings with limited relative potential performance. Regular review of the prospective performance of individual assets and their business plans including with joint venture partners where relevant.	→	→	The Group has continued to profitably recycle capital and take advantage of strong investor demand for long-let, well-located properties with sales totalling £329.0 million in the year. With limited availability of attractively priced acquisitions opportunities and the depth of opportunity in our existing portfolio, we made only one acquisition in the year for £49.6 million. With our strategic focus and capital discipline, there has been no change to the likelihood of this risk after mitigation.
Inappropriate asset concentration, building mix, occupiers covenant quality and exposure, lot size and joint venture exposure.	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. The Group has a diverse occupier base with its ten largest occupiers representing only 28.1% of rent roll. Occupiers covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with occupiers is maintained to identify if occupiers are suffering financial difficulties and their proposed actions.	→	→	The Group continues to monitor its portfolio mix and asset concentration risk. Following our sale of Rathbone Square, W1 in the year ended 31 March 2017, our largest asset is now only 10.2% of the total portfolio and 18.1% of the portfolio was held in joint ventures at 31 March 2018. As a result, there has been no change to the likelihood of this risk after mitigation.

Appendix 6

Portfolio management

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
Poor management of voids, rental mis-pricing, low occupier retention, sub-optimal rent reviews, occupier failures and dissatisfaction, and inappropriate refurbishments.	Failure to maximise income from investment properties.	The Group's in-house portfolio management and leasing teams proactively manage occupiers 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. Occupiers covenants are analysed and security sought as appropriate as part of the lease approval process. Regular contact with occupiers is maintained to identify if occupiers are suffering financial difficulties and their proposed actions. Independent occupier satisfaction survey undertaken and new Head of Occupier Services role created to strengthen our service delivery.	→	→	The Group continues to actively manage the portfolio to maximise occupancy and drive rental growth. With a healthy occupier retention rate of 40% over the year, the Group maintained a relatively low void rate which was 4.9% at 31 March 2018, down from 6.8% at 31 March 2017 despite our recent development and refurbishment completions. During the year, we secured £31.1 million of new rental income, with 58% of total lettings represented by pre-lets or lettings at recently completed developments. The rent reviews competed over the year were settled at average increase of 29.6% above the previous passing rent. Occupier delinquencies during the year represented only 0.1% of total rent roll and at 31 March 2018 we held rent deposits and bank guarantees totalling £31.7 million (including for some of our larger retail occupiers). 88% of our occupiers who participated in our inaugural occupier satisfaction survey described our service as good or excellent. As a result of these performances and our current initiatives, there has been no change to the likelihood of this risk after mitigation.
Failure to react to evolving workplace needs including occupiers seeking increased flexibility and enhanced building design, combined with impact of technological advances on ways of working.	Buildings and lease structures cease to appeal to occupiers and investors, reducing income and valuations.	Creation of Director of Workplace and Innovation role who is responsible for keeping the Board up to date on market developments and incorporating innovation in the GPE portfolio. Reviews undertaken of further opportunities for flex space offering across the portfolio.	↗	↗	We identified this is an emerging risk last year and a new risk for this year given the pace of evolution in workplace needs and technology.

Appendix 6

Development management

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
An inappropriate level of development undertaken as a percentage of the portfolio.	Under performance 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. Developments only committed to when pre-lets obtained and/or market demand and supply considered to be sufficiently supportive.	→	↗	The Group's committed development exposure has not materially changed over the year, falling from 12% of the total portfolio 12 months ago to 11% today. However, 88.8% of this committed exposure is on a speculative basis, up from 34.8% a year ago. As a result, the impact of this risk has marginally increased, although the likelihood after mitigation is unchanged given the quality of the space that we are delivering, all in close proximity to Crossrail stations and with a significant proportion being retail units in prime central London shopping locations.
Poor execution of development programme through: – incorrect reading of the property cycle; – inappropriate location; – failure to gain viable planning consents; – failure to reach agreement with adjoining owners on acceptable terms; – level of speculative development; – incorrect cost and programme estimation; – construction cost inflation; – contractor availability and insolvency risk; – insufficient human resources; – a building being inappropriate to occupier demand; – quality and benchmarks of the completed buildings; – construction and procurement delays; – ineffective marketing to prospective occupiers; and – poor development management.	Poor development returns.	See Market risk on page above. 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. Early engagement and strong relationships with planning authorities. Early engagement with adjoining owners. Benchmarking of costs with comparative schemes. In-house Project Management team utilise appropriate procurement methods to optimise the balance of price certainty and risk. 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. Due diligence is undertaken of the financial stability of demolition, main contractors and material sub-contractors prior to awarding of contracts. Working with agents, potential occupiers' and purchasers' to identify their needs and aspirations including technological advances during the planning application and design stages. Design Review Panel reviews building design and specification to ensure appropriate for likely occupier needs. In-house Leasing/Marketing team liaise with external advisers on a regular basis and marketing timetables designed in accordance with leasing/marketing objectives. 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. Proactive liaison with existing occupiers before and during the development process. Selection of contractors and suppliers based on track record of delivery and creditworthiness. In-house Project Management team closely monitor construction and manage contractors to ensure adequate resourcing to meet programme. Regular review of the prospective performance of individual assets and their business plans with joint venture partners. Post-completion reviews undertaken on all developments to identify best practice and areas for improvement.	→	↗	Although the Group successfully completed three developments since 31 March 2017, the Group's committed development exposure has not materially changed over the year given the recent commitment to three new schemes. These schemes have a combined GDV £756.8 million of which 11.2% is already de-risked through pre-lettings with capex to come of £239.6 million, up from £44.5 million a year ago. As a result, the impact of this risk has marginally increased, although with occupier demand remaining healthy for prime, new build space in central London and the supply of such space remaining tight, the likelihood after mitigation is unchanged.

Appendix 6

Financial risks

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
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. Funding maturities are managed across the short, medium and long term. The Group's funding measures are diversified across a range of bank and bond markets. Strict counterparty limits are operated on deposits.	→	→	The Group has continued to be active in managing it debt facilities, ensuring an attractive maturity ladder and maintaining diverse funding sources, predominantly borrowing on an unsecured basis. During the year, the Group redeemed £121.0 million of high coupon, secured debenture bonds and raised £100 million of new unsecured private placement notes. When combined with the Group's £450 million committed revolving credit facility which is currently undrawn, the Group's weighted average debt maturity has increased to 5.7 years (pro forma for draw down in June 2018 of the new private placement notes). Cash and undrawn credit facilities increased from £378 million at 31 March 2017 to £666 million today (31 March 2018 position pro forma for subsequent transactions). With our liquidity and debt position remaining exceptionally strong, the likelihood of this risk has not changed.
Increased interest rates and/or a fall in capital values.	Adverse market movements negatively impact on debt covenants.	Consistent policy of conservative financial leverage. Regular review of current and forecast debt levels and financing ratios under various market scenarios. 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. Formal policy to manage interest rate exposure by having a high proportion of debt with fixed or capped interest rates through derivatives. Significant headroom over all financial covenants at 31 March 2018.	→	→	Whilst broader economic and political uncertainties have kept global interest rates at relatively low levels, the Bank of England base rate increased for the first time in 10 years in November 2017, although the increase was to a modest 0.5% and some way behind increases implemented in the US. Moreover, there remains an expectation of further modest increases in UK interest rates. However, 100% of the Group's debt is currently at fixed or hedged interest rates, and the Group's weighted average interest rate fell over the year to 2.3% given our refinancing activities. As a result, the risk likelihood after mitigation is unchanged, particularly given that we estimate property values could fall be around 78% from their 31 March 2018 pro forma levels before Group debt covenants could be endangered, even before factoring in mitigating management actions.
Inappropriate capital structure.	Sub-optimal NAV per share growth.	Regular review of current and forecast capital requirements, gearing levels and other financing ratios. Maintain balance sheet discipline, with surplus equity capital returned to shareholders in appropriate circumstances.	→	→	The Group's existing capital structure remains well placed to take advantage of opportunities as they arise and to deliver our current development commitments. As a result, the risk likelihood after mitigation is unchanged.

Appendix 6

People

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
Incorrect level and mix/retention of people, to execute our business plan and maintain our collegiate inclusive culture, 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. The Group has a remuneration system that is strongly linked to performance and a formal six-monthly appraisal system to provide regular assessment of individual performance. Benchmarking of remuneration packages of all employees is undertaken annually. Annual personal development planning and ongoing training support for all employees together with focused initiatives to nurture potential successors, including introduction of mentoring programme. Health and wellbeing programme being developed following roll out of mental health training programme. Focus on people engagement with regular two-way communication and responsive employee-focused activities e.g. flexible working. High profile, attractive development pipeline and high quality assets to manage.	→	→	The motivation of our people and maintaining our strong collaborative culture remains fundamental to the delivery of our strategic priorities. Staff retention remains high at 87% and 89% of our employees would recommend GPE as a great place to work. Moreover, our continued focus on growing the breadth and depth of our talent, providing focused development support where needed combined with the restructuring of some of our teams and twelve internal promotions during the year, means the risk likelihood after mitigation is unchanged over the year.

Appendix 6

Regulatory

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
Increased costs of compliance and/or risk of non compliance with growing regulatory obligations including tax, planning, environmental, fire safety and other legislation.	Increased cost base and potential negative impact on property values given reduced investor and occupier interest in buildings and/or reputational damage.	Senior Group representatives spend considerable time, using experienced advisers as appropriate, to ensure compliance with current and potential future regulations. Through meetings with local politicians, planning officers and experienced advisors we monitor any changing planning policy/sentiment that may impact our portfolio. Lobbying of property industry matters is undertaken by active participation of the Executive Directors and other Executive Committee members through relevant industry bodies. Sustainability Committee meets at least quarterly to consider strategy in respect of environmental legislation and address key areas of carbon, energy, waste and biodiversity. Environmental management system in place. Energy reduction plan for every key property. We maintain a low-risk tax status and have regular meetings with HMRC.	↗	↗	In addition to the significant regulatory and tax uncertainty associated with the UK's exit from the EU, the introduction of capital gains tax for overseas investors on UK commercial property from 2019 may impact the weight of investment appetite. Following the recent local elections, we are closely monitoring whether changes in the political landscape, particularly within Westminster City Council, impacts any existing planning policy and/or procedures. Only 3% of portfolio (by area) is EPC F or G rated. Where units are vacant they are being refurbished to improve the rating or where they are currently let plans are in place to improve the rating when they become vacant. We are monitoring the consultation process for the London Plan and have included a number of its themes in our sustainability strategy. It is likely that the inquiry into the Grenfell Tower fire will result in changes to the regulatory regime. We are monitoring the process closely. Taken together, the risk likelihood after mitigation has marginally increased over the year.
Health and Safety incidents. Loss of life or injury to members of the public, occupiers, contractors or employees.	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 fire, health and safety areas including employee, contractor, members of the public and occupier safety. On all construction projects, the Group operates a pre-qualification process to ensure selection of competent consultants and contractors which includes a Health and Safety assessment. 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. Regular site and health and safety checks undertaken by our Development and Project Management teams, Executive Committee members and external third parties.	↗	↗	With increased levels of both development and refurbishment activity, including in our occupied buildings, the likelihood of this risk after mitigation has marginally increased. The Group had five reportable accidents during the year.

Appendix 6

Business interruption risk

Risk	Impact	How we monitor and manage risk	Likelihood change from last year	Impact change from last year	Commentary
An external event such as a power shortage, extreme weather, environmental incident, civil unrest or terrorist 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. Physical security measures are in place at properties and security threats are regularly assessed through links with security agencies. The Group's insurance policies include cover for catastrophic events including fire, storm, riots and terrorism.	→	→	The likelihood of this risk is unchanged given the Home Office/ MI5 continue to assess the UK threat from international terrorism as severe.
Cyber threat or attack.	Business disruption to Group's portfolio and operations and/or reputational damage from data loss.	The Group's Business Continuity Plan is regularly reviewed and recovery of data at off-site recovery centre was tested during the year. Regular testing of IT security is undertaken including penetration testing of key systems. The Group's data is regularly backed up and replicated. Staff awareness training on cyber risk is undertaken regularly. Cyber risk insurance secured during the year.	↗	↗	We have identified this as a new risk this year given the increased incidence of attempted cyber attacks on UK businesses.