LandSecurities

# Annual results for the year ended 31 March 2017

Thursday 18 May 2017

## Forward-looking statements

These annual results, the Annual Report and Land Securities' website may contain certain "forward-looking statements" with respect to Land Securities Group PLC (the Company) and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal" or "estimates" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the political conditions, economies and markets in which the Group operates (including the outcome of the negotiations to leave the EU); changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements, made in these annual results, the Annual Report or Land Securities' website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing contained in these annual results, the Annual Report or Land Securities' website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

# Annual results for the year ended 31 March 2017

**18 May 2017**

“Land Securities has delivered a healthy performance driven by a clear strategy and decisive action. Revenue profit is up due to new rents from our successful development programme and reduced interest costs outweighing the impact of last year’s disposals. Our levels of financial and operational gearing are at historic lows, placing us in an excellent position during a period of geopolitical and economic uncertainty”, said Land Securities’ Chief Executive, Robert Noel.

“Revenue profit increased by 5.5% to £382m, and adjusted diluted earnings per share by 5.7% to 48.3p, while adjusted diluted NAV per share is down marginally over the year at 1,417p. We’ve continued to proactively manage both sides of our balance sheet; this year, we’ve refinanced over £690m of our bonds and extended the term of our debt with the issue of £700m of new bonds. Our LTV remains virtually unchanged at 22.2%. Since the year end, we have refinanced a further £273m of bond debt.

“In London, we’ve completed the 3.1 million sq ft speculative development programme commenced in 2010 and have our longest ever average unexpired lease term, as planned. We now have just 283,000 sq ft available to let. The majority of this space is in Nova, a spectacular new addition to Victoria, which completed last month and is now 54% let. We have a 1.4 million sq ft pipeline of future development opportunities to exploit when the time is right.

“In Retail, the transformational changes we’ve made over the last few years have led to a particularly strong performance relative to the sector. Westgate Oxford is 80% pre-let or in solicitors’ hands and on track to open in October, delivering an eagerly anticipated retail heart for the city. In Leeds, our leisure extension at White Rose reached practical completion in March and is fully let. Since the year end, we’ve acquired a portfolio of three outlet centres for £333m, establishing our position as the leading owner-manager of outlets in the UK.

“The success of our development programme, combined with the interest savings we have achieved, sees us recommend a final dividend of 11.7p which increases the dividend for the year by 10.1%.

“Our strategy has put us in robust health, with significant capacity and agility to make acquisitions when the time is right. We’re confidently positioned for the future.”

**Results summary**

| | 31 March 2017 | 31 March 2016 | Change |
|---|---|---|---|
| Revenue profit(1)(2) | £382m | £362m | Up 5.5% |
| Valuation (deficit)/surplus(1)(2) | £(147)m | £907m | Down 1.0%(3) |
| Profit before tax | £112m | £1,336m | |
| Basic earnings per share | 14.3p | 169.4p | |
| Adjusted diluted earnings per share(1)(2) | 48.3p | 45.7p | Up 5.7% |
| Dividend per share | 38.55p | 35.0p | Up 10.1% |
| Basic net assets per share | 1,458p | 1,482p | Down 1.6% |
| Adjusted diluted net assets per share(1) | 1,417p | 1,434p | Down 1.2% |
| Group LTV ratio(1)(2) | 22.2% | 22.0% | |

1. An alternative performance measure. The Group uses a number of financial measures to assess and explain its performance, some of which are considered to be alternative performance measures as they are not defined under IFRS. For further details, see table 15 in the Business Analysis section.
2. Including our proportionate share of subsidiaries and joint ventures, as explained in the Financial Review.
3. The % change for the valuation deficit represents the decrease in value of the Combined Portfolio over the year, adjusted for net investment.

## Activity

- £28m of investment lettings
- £13m of development lettings
- Acquisitions, development and refurbishment expenditure(1) of £301m
- Disposals(1) of £413m
- Supported a further 183 people from disadvantaged backgrounds into jobs through our Community Employment Programme
- Reduced carbon intensity (kg$CO_2$/m$^2$) by 18.5% compared to 2013/14 baseline

## Performance

- Ungeared total property return(1) of 3.7% (IPD Quarterly Universe 4.6%)
- Total business return(2) of 1.4%
- Combined Portfolio(2) valued at £14.4bn, with a valuation deficit(2) of 1.0%
- Voids(1) in the like-for-like portfolio: 4.6% (31 March 2016: 2.4%)

## Financials

- Group LTV ratio(2) at 22.2% (31 March 2016: 22.0%), based on adjusted net debt(2) of £3.3bn (31 March 2016: £3.2bn)
- Weighted average maturity of debt at 9.4 years (31 March 2016: 9.6 years)
- Weighted average cost of debt at 4.2% (31 March 2016: 4.9%)
- Cash and available facilities of £1.6bn
- Full year dividend of 38.55p, up 10.1%

## Development

- 1 & 2 New Ludgate, EC4 now fully let
- 20 Eastbourne Terrace, W2 now completed and fully let
- 1 New Street Square, EC4 now completed and fully let
- Nova, Victoria, SW1, now completed and 54% let
- Westgate Oxford on track to open in October, now 80% pre-let or in solicitors' hands
- 21 Moorfields, EC2 demolition complete and ground works starting in the summer

## Recognition

- Winner: Most Inspiring Energy Reduction Project at the Energy Management Awards 2016 (London Portfolio)
- Winner: RICS Best Commercial Building Award 2016 (1 & 2 New Ludgate, EC4)
- Winner: Property Marketing Commercial Development of the Year Award 2016 (The Zig Zag Building, SW1)
- Winner: BREEAM Offices Refurbishment and Fit-Out Awards 2017 (100 Victoria Street, SW1)
- Winner: Revo Opal Best Mall Retail Award 2017 (White Rose, Leeds)
- Winner: Aurora Grand Prix Award 2017 (Buchanan Galleries, Glasgow)

1. For further details, see the Business Analysis section.
2. An alternative performance measure. The Group uses a number of financial measures to assess and explain its performance, some of which are considered to be alternative performance measures as they are not defined under IFRS. For further details, see table 15 in the Business Analysis section.

All measures above are presented on a proportionate basis, as explained in the Financial Review.

# Chief Executive's statement

**Our results**

Ungeared total property return 3.7%
Decrease in adjusted diluted net assets per share 1.2%
Increase in adjusted diluted earnings per share 5.7%
Total business return 1.4%

**Our activity**

- £28m of investment lettings
- £13m of development lettings
- Acquisitions of £15m
- Development and refurbishment expenditure of £286m
- Disposals of £413m

Land Securities is in a great position. We have a portfolio of first class assets combined with historically low levels of operational and financial gearing at a time of geopolitical and economic uncertainty.

We've largely completed and let our speculative development programme. Despite being net sellers in the previous year, revenue profit is up 5.5% to £382m and adjusted diluted earnings per share are up 5.7% to 48.3p. Our adjusted diluted net asset value per share is down marginally to 1,417p. Our Combined Portfolio is valued at £14.4bn and, with adjusted net debt broadly unchanged over the year at £3.3bn, our loan-to-value is 22.2%. We've reduced our cost of debt and have access to the funds needed to buy when opportunities appear.

Despite uncertainty in the outside world, we remain confident of our core strengths inside the Company and we're recommending a final dividend of 11.7p – raising the dividend for the year by 10.1%.

**Market environment**

Put simply, our markets remain in good health but they've paused for breath.

In the London office market, we expected the occupational balance to shift from demand to supply during the course of 2017. The Brexit vote brought that inflexion point forward. In last year's report, I said a vote to leave the EU would create business uncertainty, leading to lower occupational demand, falling rental values and a reduction in construction commitments. This is happening, though less than we expected. Overall, the UK economy continued to perform well during the year.

In the retail market, the effect of the referendum was less clear-cut although, faced with pressure on disposable income, shoppers have started to show more caution. Retailers were a little slower to take up new space during the year but we continued to see opportunities to meet the ever-evolving needs of the most successful brands.

We won't be sure of the long-term effect of Brexit on our markets for some time. Negotiations with the EU can only begin in earnest after the general election. Although the business community remains in uncharted territory, that doesn't mean we should wait for change to happen to us. We're taking this time to prepare the business for the opportunities and challenges we see ahead.

We hope the new government can give businesses as much certainty as possible on areas including tax, regulation, access to skilled labour and public spending such as investment in infrastructure – including desperately needed homes. A clear and ambitious strategy for improving digital connectivity would have a particularly powerful impact.

**First class portfolio**

The foundations of the business are rock solid, underpinned by our resilient portfolio and low leverage.

In London, our modern, well-located assets are well let, with a weighted average unexpired lease term on offices of 10.3 years. Having already scaled back speculative development activity before the year started, the last 12 months saw us put the finishing touches on over 1 million sq ft of space, including high-profile developments at 1 New Street Square, EC4; 20 Eastbourne Terrace, W2; and Nova, Victoria, SW1, which completed shortly after the year end. Of the 3.1 million sq ft programme we started in 2010, we have let or sold all but 283,000 sq ft.

Our retail portfolio is a collection of vibrant destinations that attract dynamic brands and are well-matched to consumer trends. During the year, we built and let a leisure extension at White Rose, Leeds. Our newest destination, Westgate Oxford, is on schedule to open in October and is 80% spoken for. Since the year end, we've acquired a portfolio of three outlet centres, establishing our position as the leading owner-manager of outlets in the UK.

**Strong relationships**

Throughout the year, we pursued our vision of being the best property company in the UK in the eyes of our customers, communities, partners and employees. Ultimately, their experience drives our performance. We're responsible for ensuring that Land Securities can thrive for many years to come. That's why we set ourselves even higher expectations this year on issues we share with our customers and communities, such as local employment and place-making. We've also improved the way we address our climate impacts and risks.

**Great people**

In January, we completed the move into new headquarters at 100 Victoria Street, SW1. This is one of our buildings and it expresses the best of who we are and what we do. We're on one floor of open-plan workspace supported by innovative technology. Thought has gone into everything from the way we collaborate to how we minimise energy and waste. It's the UK's highest rated office fit-out according to sustainability assessment scheme BREEAM.

Evolving market conditions require role changes in our teams as our emphasis shifts from selling and development to management and buying. Our people relish these challenges. We are also enriching our culture, recruiting more from outside our industry so we gain fresh perspectives and new capabilities. During the year, we introduced stretching targets on gender and ethnic diversity and fairness.

**Outlook**

We've achieved our plan to have minimal development exposure and longer lease terms in London offices, a transformed retail portfolio and low gearing at this point. Over the next 12 months, we're unlikely to see rental values grow in London unless we have more certainty on movement of people and the UK's terms of trade with the EU and the rest of the world. In the retail sector, the extent to which higher supply chain costs are passed on to customers remains to be seen. Whatever the outcome, higher costs tend to reduce take up of space.

In the short term, with significantly reduced risk and a portfolio of first class assets, we go forward in excellent shape, ready to make acquisitions when the time is right. Longer term, we remain confident in our market and our ability to deliver sustainable growth. We'll continue to address the trends that shape our business in coming years. For example, the combination of an ageing population and technological progress will have a huge effect on the way we live, work, shop, play, travel and are cared for. In turn, this will affect the way we design, construct and manage buildings, and how we attract the best talent.

The importance of thinking ahead and acting early was brought home to me by our completion of Nova in April. Design on this project started in 2003, when the iPhone was still an idea in Steve Jobs' head. We must continue to anticipate change so that we can keep providing the right space for our customers and communities whatever their future demands – helping businesses and people to thrive.

**Robert Noel**
**Chief Executive**

# Financial review

## Overview

### Table 1: Highlights

| | Year ended 31 March 2017 | Year ended 31 March 2016 |
|---|---|---|
| Revenue profit[(1)] | **£382m** | £362m |
| Valuation (deficit)/surplus[(1)] | **£(147)m** | £907m |
| Profit before tax | **£112m** | £1,336m |
| | | |
| Basic earnings per share | **14.3p** | 169.4p |
| Adjusted diluted earnings per share[(1)] | **48.3p** | 45.7p |
| Dividend per share | **38.55p** | 35.0p |
| | | |
| Combined Portfolio[(1)] | **£14.4bn** | £14.5bn |
| | | |
| Basic net assets per share | **1,458p** | 1,482p |
| Adjusted diluted net assets per share | **1,417p** | 1,434p |
| | | |
| Adjusted net debt[(1)] | **£3.3bn** | £3.2bn |
| Group LTV ratio[(1)] | **22.2%** | 22.0% |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information below.

In my financial review last year, I explained how the quality and resilience of our assets had been enhanced this decade through investment in developments and acquisitions, funded by the sale of weaker assets. Our balance sheet had also been strengthened by rising values leading to lower gearing, with the additional disposals in the second half of last year reinforcing the position. This year, as the property market lost direction following the EU referendum, our high quality assets and low gearing have helped limit the impact of declining values in our core markets.

Over the year, our assets fell in value by 1.0% or £147m (including our proportionate share of subsidiaries and joints ventures) compared with an increase last year of £907m. The decline in asset values is behind both the fall in earnings per share (14.3p compared with 169.4p last year) and the reductions in basic and adjusted diluted net assets per share. In contrast, the Group has delivered strong underlying earnings growth despite the impact of disposals we made last year. Both revenue profit and adjusted diluted earnings per share increased this year; revenue profit was up 5.5% from £362m to £382m and adjusted diluted earnings per share were up 5.7% at 48.3p.

## Presentation of financial information

Our property portfolio is a combination of properties that are wholly owned by the Group, part owned through joint arrangements and those owned by the Group but where a third party holds a non-controlling interest. Internally, management review the results of the Group on a basis that adjusts for these forms of ownership to present a proportionate share. The Combined Portfolio, with assets totalling £14.4bn, is an example of this approach, reflecting the economic interest we have in our properties regardless of our ownership structure. We consider this presentation provides a better explanation to stakeholders of the activities and performance of the Group, as it aggregates the results of all of the Group's property interests which under IFRS are required to be presented across a number of line items in the statutory financial statements.

The same principle is applied to many of the other measures we discuss and, accordingly, a number of our financial measures include the results of our joint ventures and subsidiaries on a proportionate basis. Measures that are described as being presented on a proportionate basis include the Group's share of joint ventures on a line-by-line basis, but exclude the non-owned elements of our subsidiaries. This is in contrast to the Group's statutory financial statements, where the Group's interest in joint ventures is presented as one line on the income statement and balance sheet, and all subsidiaries are consolidated at 100% with any non-owned element being adjusted as a non-controlling interest or redemption liability, as appropriate. Our joint operations are presented on a proportionate basis in all financial measures.

Most of the measures discussed in this financial review are presented on a proportionate basis. Measures presented on a proportionate basis are alternative performance measures as they are not defined under IFRS. For further details see table 15 in the Business Analysis section.

## Income statement

Our income statement has two key components: the income we generate from leasing our investment properties net of associated costs (including finance expense), which we refer to as revenue profit, and items not directly related to the underlying rental business, principally valuation changes, profits or losses on the disposal of properties and exceptional items, which we refer to as capital and other items.

We present two measures of earnings per share; the IFRS measure of earnings per share is based on the total profit for the year attributable to owners of the parent, while adjusted diluted earnings per share is based on tax-adjusted revenue profit, referred to as adjusted earnings.

### Table 2: Income statement

| | **Year ended 31 March 2017 £m** | Year ended 31 March 2016 £m |
|---|---|---|
| Revenue profit (see table 3) | **382** | 362 |
| Capital and other items (see table 6) | **(270)** | 974 |
| **Profit before tax** | **112** | 1,336 |
| Taxation | **1** | 2 |
| **Profit attributable to owners of the parent** | **113** | 1,338 |
| | | |
| Basic earnings per share | **14.3p** | 169.4p |
| Adjusted diluted earnings per share | **48.3p** | 45.7p |

Profit before tax was £112m, £1,224m lower than last year principally due to the valuation deficit this year compared with a valuation surplus last year. The same movement drives a 155.1p reduction in earnings per share from 169.4p last year to 14.3p this year. Adjusted diluted earnings per share increased by 5.7% from 45.7p last year to 48.3p this year as a result of an increase in revenue profit from £362m to £382m.

The reasons behind the movements in each component of our income statement are discussed in more detail below.

### *Revenue profit*

Revenue profit is our measure of underlying pre-tax profit. It excludes all capital items, such as valuation movements and profits and losses on disposals, as well as items of an exceptional nature. Revenue profit is presented on a proportionate basis. We believe revenue profit better represents the results of the Group's operational performance to stakeholders as it focuses on the rental income performance of the business and excludes capital and other items which can vary significantly from year to year. A full definition of revenue profit is given in the glossary. The main components of revenue profit, including the contributions from London and Retail, are presented in the table below.

## Table 3: Revenue profit

| | Year ended 31 March 2017 | | | Year ended 31 March 2016 | | | |
|---|---|---|---|---|---|---|---|
| | Retail Portfolio | London Portfolio | Total | Retail Portfolio | London Portfolio | Total | Change |
| | £m | £m | £m | £m | £m | £m | £m |
| Gross rental income[1] | **335** | **302** | **637** | 355 | 293 | 648 | **(11)** |
| Net service charge expense | **(4)** | **(1)** | **(5)** | (2) | (1) | (3) | **(2)** |
| Net direct property expenditure | **(16)** | **(16)** | **(32)** | (24) | (17) | (41) | **9** |
| **Net rental income** | **315** | **285** | **600** | 329 | 275 | 604 | **(4)** |
| Indirect costs | **(22)** | **(17)** | **(39)** | (25) | (19) | (44) | **5** |
| **Segment profit before finance expense** | **293** | **268** | **561** | 304 | 256 | 560 | **1** |
| Net unallocated expenses | | | **(40)** | | | (34) | **(6)** |
| Net finance expense | | | **(139)** | | | (164) | **25** |
| **Revenue profit** | | | **382** | | | 362 | **20** |

1. Includes finance lease interest, after rents payable.

Revenue profit increased by £20m from £362m last year to £382m for the year ended 31 March 2017. Following asset disposals we made last year, net rental income declined. However, this was more than offset by lower net finance expense as explained further below.

### *Net rental income*

## Table 4: Net rental income[1]

| | Year ended 31 March 2017 |
|---|---|
| | £m |
| **Net rental income for the year ended 31 March 2016** | **604** |
| Net rental income movement in the year: | |
| Like-for-like investment properties | **10** |
| Proposed developments | **-** |
| Development programme | **10** |
| Completed developments | **17** |
| Acquisitions since 1 April 2015 | **2** |
| Sales since 1 April 2015 | **(40)** |
| Non-property related income | **(3)** |
| | **(4)** |
| **Net rental income for the year ended 31 March 2017** | **600** |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Net rental income decreased by £4m this year as rental income growth from our developments and like-for-like portfolio was more than offset by the impact of properties sold since 1 April 2015. Significant disposals included The Printworks, Manchester and The Cornerhouse, Nottingham, both sold this year, and Thomas More Square, E1, Holborn Gate, WC1 and Times Square, EC4 in London and three retail parks in Gateshead, Dundee and Derby, all sold last year. The impact of this year's disposals will continue to be felt in the coming year as they contributed £9m of net rental income to this year's results. Our developments generated £27m of additional rent following completion of 20 Eastbourne Terrace, W2 and 1 New Street Square, EC4, alongside a full year's income at The Zig Zag Building and 62 Buckingham Gate, both SW1 and 1 & 2 New Ludgate, EC4. Like-for-like net rental income growth was £10m due to rent reviews and higher turnover related rents, together with a reduction in bad debts.

Further information on the net rental income performance of the London and Retail portfolios is given in the respective business reviews.

### *Net indirect expenses*

The indirect costs of the London and Retail portfolios and net unallocated expenses should be considered together as collectively they represent the net indirect expenses of the Group including joint ventures. In total, net indirect expenses were £79m compared with £78m last year. The £1m increase is largely the result of higher IT and corporate communication and sustainability costs, largely offset by lower staff costs due to decreased headcount and reduced share based payment costs.

### *Net finance expense (included in revenue profit)*

### Table 5: Net finance expense(1)

| | Year ended 31 March 2017 £m |
|---|---|
| **Net finance expense for the year ended 31 March 2016** | **164** |
| Impact of: | |
| Refinancing | **(21)** |
| Lower average net debt | **(7)** |
| Lower capitalised interest | **6** |
| Other | **(3)** |
| **Net finance expense for the year ended 31 March 2017** | **139** |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Our net finance expense has decreased by £25m to £139m, primarily due to interest savings following the redemption of the £400m A8 bond in March 2016 and other refinancing undertaken this year, together with lower average drawings under our bank facilities. This has been partly offset by lower capitalised interest following completion of developments.

### *Capital and other items*

An explanation of the main capital and other items is given below.

### Table 6: Capital and other items(1)

| | **Year ended 31 March 2017 £m** | Year ended 31 March 2016 £m |
|---|---|---|
| Valuation and profits on disposal | | |
| Valuation (deficit)/surplus | **(147)** | 907 |
| Movement in impairment of trading properties | **12** | 16 |
| Profit on disposal of investment properties | **20** | 79 |
| Profit on disposal of trading properties | **36** | 41 |
| Other profits on disposal | **11** | - |
| Net finance expense | **(34)** | (39) |
| Exceptional items | | |
| Head office relocation | **1** | (6) |
| Redemption of medium term notes | **(170)** | (27) |
| Other | **1** | 3 |
| **Capital and other items** | **(270)** | 974 |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

### *Valuation of investment properties*

Our Combined Portfolio declined in value by 1.0% or £147m compared with an increase last year of £907m. A breakdown of valuation movements by category is shown in table 7.

## Table 7: Valuation analysis

| | Market value 31 March 2017 £m | Valuation movement % | Rental value change[1] % | Net initial yield % | Equivalent yield % | Movement in equivalent yield bps |
|---|---|---|---|---|---|---|
| Shopping centres and shops | 3,663 | (1.3) | 1.6 | 4.3 | 4.8 | 9 |
| Retail parks | 855 | (4.2) | 0.6 | 5.5 | 5.6 | 24 |
| Leisure and hotels | 1,361 | 2.3 | 0.2 | 5.2 | 5.4 | (6) |
| London offices | 4,153 | (4.4) | 2.5 | 4.0 | 4.7 | 18 |
| Central London shops | 1,267 | 6.9 | 4.7 | 2.5 | 4.1 | 7 |
| Other (Retail and London) | 61 | (6.0) | 3.4 | 1.9 | 3.6 | 2 |
| **Total like-for-like portfolio** | **11,360** | (1.4) | 1.9 | **4.2** | **4.8** | 11 |
| Proposed developments | 6 | (33.2) | n/a | - | n/a | n/a |
| Development programme | 1,138 | 1.3 | n/a | 0.1 | 4.2 | n/a |
| Completed developments | 1,841 | (0.4) | 1.9 | 2.0 | 4.2 | 10 |
| Acquisitions | 94 | 0.4 | n/a | 3.7 | 3.8 | n/a |
| **Total Combined Portfolio** | **14,439** | (1.0) | 1.9 | **3.6** | **4.7** | 9 |

1. Rental value change excludes units materially altered during the year and Queen Anne's Gate, SW1.

Over the year to 31 March 2017, we have seen values fall in most categories of our Combined Portfolio, largely due to outward yield movements.

Within the like-for-like portfolio, our shopping centres fell in value by 1.3% as rental value growth was insufficient to offset a 9 basis points increase in yields. The value of our retail parks was down 4.2% as lower investor appetite led to yields increasing by 24 basis points. In contrast, leisure and hotels saw yields reduce by 6 basis points with little change in rental values. In London, our offices saw values decline 4.4% as yields increased. The 2.5% rental value increase in London offices is distorted by the valuer moving from net effective to headline rents on a number of assets. On a consistent basis, net effective rents in London offices were virtually unchanged over the year. The 6.9% valuation uplift in central London shops is largely due to Piccadilly Lights where a replacement screen is being installed.

Outside the like-for-like portfolio, the development programme saw values increase as construction risk reduced at Nova, Victoria, SW1 and Westgate Oxford. Completed developments, which largely comprises our recent London office schemes, proved more resilient than our like-for-like London office assets, falling in value by 0.4%.

### *Movement in impairment of trading properties*

The movement in impairment of trading properties of £12m (2016: £16m) relates to the reversal of previous impairment charges related to residential land at Ebbsfleet, Kent, where the valuer's assessment of net realisable value has increased over the year.

### *Profits on disposals*

Profits on disposals relate to the sale of investment properties, trading properties, joint ventures and other investments. We made a total profit on disposals of £67m, compared with £120m last year. The profit on disposal of investment properties of £20m includes the disposal of The Printworks, Manchester and Ealing Filmworks. The profit on disposal of trading properties of £36m includes a profit on the settlement of our remaining interest in the Kodak land at Harrow, together with the sale of residential units at Nova and Kings Gate, both SW1. Other profits on disposal amounted to £11m.

### *Net finance expense (included in capital and other items)*

This largely comprises the amortisation of the bond exchange de-recognition adjustment (as explained in the notes to the financial statements) and the fair value movement on interest-rate swaps.

### *Exceptional items*

This year we've classified two items totalling £169m as exceptional. They're excluded from revenue profit by virtue of their exceptional nature, but form part of our pre-tax profits.

During the year, we purchased some of our bonds with a nominal value of £690m, paying a premium of £137m. The redemption premium and £30m of the bond exchange de-recognition adjustment associated with the redeemed bonds, £2m of unamortised issue costs and £1m of associated fees (£170m in total) have been charged to the income statement as a finance expense. Further details are given in the financing section below.

At 31 March 2016, we provided for the onerous lease on our head office at 5 Strand, which arose following our commitment to move to 100 Victoria Street, SW1. During the year, we agreed to assign the lease on 5 Strand to a third party at a lower net cost than originally estimated and we've therefore released the balance of the provision of £2m. Partly offsetting this release is £1m of relocation costs incurred during the year.

## Taxation

As a consequence of the Group's REIT status, income and capital gains from the qualifying property rental business are exempt from corporation tax. A property income distribution of at least 90% of this qualifying income must be made, and this distribution is taxed as property income at the shareholder level to give a similar tax position to direct property ownership. Profits on non-qualifying activities, such as residential sales, are subject to corporation tax and can be distributed as ordinary dividends. This year, we were able to offset taxable gains on non-qualifying activities with brought forward losses. In the year, there was a tax credit of £1m (2016: £2m) being a current tax credit of £nil (2016: £1m) and a deferred tax credit of £1m (2016: £1m).

The Group fully complies with tax regulations and HMRC confirmed the Group's low risk rating. In the year, total taxes borne and collected by the Group were £129m (2016: £109m), of which we directly incurred £41m (2016: £32m), including environmental taxes, business rates and stamp duty land tax.

## Balance sheet

### Table 8: Balance sheet

| | **31 March 2017** **£m** | 31 March 2016 £m |
|---|---|---|
| Combined Portfolio | **14,439** | 14,471 |
| Adjusted net debt | **(3,261)** | (3,239) |
| Other net assets | **28** | 133 |
| **Adjusted net assets** | **11,206** | 11,365 |
| Fair value of interest-rate swaps | **(4)** | (34) |
| Bond exchange de-recognition adjustment | **314** | 368 |
| **Net assets** | **11,516** | 11,699 |
| | | |
| Net assets per share | **1,458p** | 1,482p |
| Adjusted diluted net assets per share | **1,417p** | 1,434p |

Our net assets principally comprise the Combined Portfolio less net debt. We calculate an adjusted measure of net assets, which is lower than our net assets reported under IFRS due to an adjustment to increase our net debt to its nominal value. We believe this better reflects the underlying net assets attributable to shareholders as it more accurately reflects the future cash flows associated with our debt instruments.

At 31 March 2017, our net assets per share were 1,458p, a decrease of 24p or 1.6% from 31 March 2016. At 31 March 2017, adjusted diluted net assets per share were 1,417p, a decrease of 17p or 1.2% from 31 March 2016, driven by the reduction in the valuation of the Combined Portfolio.

Table 9 summarises the key components of the £159m decrease in our adjusted net assets over the year.

### Table 9: Movement in adjusted net assets[1]

| | 31 March 2017 £m |
|---|---|
| **Adjusted net assets at the beginning of the year** | **11,365** |
| Revenue profit | **382** |
| Valuation deficit | **(147)** |
| Profits on disposals | **67** |
| Dividends | **(289)** |
| Redemption of medium term notes | **(140)** |
| Other | **(32)** |
| **Adjusted net assets at the end of the year** | **11,206** |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

## Net debt and gearing

### Table 10: Net debt and gearing

| | 31 March 2017 | 31 March 2016 |
|---|---|---|
| Net debt | **£2,905m** | £2,861m |
| Adjusted net debt | **£3,261m** | £3,239m |
| | | |
| Gearing | **25.2%** | 24.5% |
| Adjusted gearing[1] | **29.1%** | 28.5% |
| | | |
| Group LTV[2] | **22.2%** | 22.0% |
| Security Group LTV | **28.3%** | 23.4% |
| Weighted average cost of debt[2] | **4.2%** | 4.9% |

1. Adjusted net debt divided by adjusted net assets
2. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Over the year, our net debt increased by £44m to £2,905m. The main elements behind this increase are set out in our statement of cash flows and note 13 to the consolidated financial statements.

Adjusted net debt was up £22m to £3,261m. For a reconciliation of net debt to adjusted net debt, see note 12 to the financial statements. Table 11 sets out the main movements behind the small increase in our adjusted net debt.

### Table 11: Adjusted net debt[1]

| | 31 March 2017 £m |
|---|---|
| **Adjusted net debt at the beginning of the year** | **3,239** |
| Operating cash inflow | **(379)** |
| Dividends paid | **289** |
| Acquisitions | **26** |
| Development/refurbishment capital expenditure | **288** |
| Disposals | **(410)** |
| Redemption of medium term notes | **140** |
| Refinancing of interest-rate swaps | **33** |
| Other | **35** |
| **Adjusted net debt at the end of the year** | **3,261** |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Net operating cash inflow was £379m, largely offset by dividend payments of £289m. Capital expenditure was £288m (£258m on investment properties and £30m on trading properties), largely relating to our development programme. Net cashflows from the disposal of investment properties were £297m, from the disposal of trading properties £110m and the disposal of investments in joint ventures £3m. The premium payable for the purchase of the medium term notes was £137m.

Most of our gearing measures have increased marginally since 31 March 2016 due to the decrease in the value of our assets and the small increase in our adjusted net debt. The measure most widely used in our industry is loan-to-value (LTV). We focus most on Group LTV, presented on a proportionate basis, which increased marginally from 22.0% at 31 March 2016 to 22.2% at 31 March 2017. The increase in our Security Group LTV from 23.4% to 28.3% relates to the medium term notes we purchased this year. These are held in a different entity to the issuing company and, for the purposes of calculating this measure, cannot be offset.

**Financing**

At 31 March 2017, our committed revolving facilities totalled £1,940m (31 March 2016: £1,865m). The £75m increase in committed facilities is the result of two new debt facilities totalling £560m, offset by the cancellation of two existing facilities. The pricing of our facilities which fall due in more than one year are between LIBOR +75 basis points and LIBOR +80 basis points. Borrowings under our commercial paper programme typically have a maturity of less than three months, carry a weighted average interest rate of approximately LIBOR +29 basis points and are unsecured. Overall, the amounts drawn under the syndicated bank debt and commercial paper programme totalled £441m (31 March 2016: £432m).

During the year, we purchased £690m (nominal value) of our medium term notes (MTNs). On 8 February 2017, we conducted a tender exercise which resulted in us buying back £635m (nominal value) of MTNs in three series. In addition during the year, we bought back £55m (nominal value) of MTNs in a number of ad hoc purchases, following enquiries by bondholders. Further details are set out in the table below and note 13 to the financial statements. In conjunction with the tender offer, we issued a new £400m MTN with an expected maturity of 2024 and a £300m MTN with an expected maturity of 2029.

### Table 12: Purchase of medium term notes

| | Medium term note series | | | | | |
|---|---|---|---|---|---|---|
| | **A3** | **A10** | **A4** | **A5** | **A7** | **Total** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Nominal value purchased | | | | | | |
| - Tender offer | 206 | 265 | 164 | - | - | 635 |
| - Ad hoc purchases | 3 | 7 | 20 | 23 | 2 | 55 |
| | 209 | 272 | 184 | 23 | 2 | 690 |
| Premium paid | | | | | | |
| - Tender offer | 28 | 56 | 40 | - | - | 124 |
| - Ad hoc purchases | 1 | 1 | 4 | 6 | 1 | 13 |
| | 29 | 57 | 44 | 6 | 1 | 137 |
| Fees / unamortised finance fees written off | - | 2 | 1 | - | - | 3 |
| | 29 | 59 | 45 | 6 | 1 | 140 |
| Amortisation of bond exchange de-recognition adjustment | 19 | - | 6 | 5 | - | 30 |
| **Redemption of medium term notes – total cost** | **48** | **59** | **51** | **11** | **1** | **170** |

A premium to par of £137m was paid across all of the MTN purchases, reflecting future coupon savings of £206m. Taking into account the interest cost of the facilities used for the purchases, we estimate the Group’s net interest saving next year will be a further £16m.

The Group’s debt (on a proportionate basis) has a weighted average maturity of 9.4 years, a weighted average cost of 4.2% and 89% is at fixed interest rates. At 31 March 2017, we had £1.6bn of cash and available facilities. This gives the business considerable flexibility to deploy capital quickly should acquisition opportunities arise.

Since the end of the year, we have redeemed the Queen Anne’s Gate bond in its entirety. The nominal value amounted to £273m at 31 March 2017 and the premium paid was £63m. The redemption was funded by our existing short-term facilities and is expected to result in an interest saving of £8m in the year to 31 March 2018. Our pro forma cost of debt at 31 March 2017, taking into account this transaction, is 3.7%.

## Dividend

We’re recommending a final dividend of 11.7p to be paid on 27 July 2017 entirely as a Property Income Distribution to shareholders registered at the close of business on 23 June 2017. Taken together with the three quarterly dividends of 8.95p per share already paid, our full year dividend will be up 10.1% at 38.55p per share (2016: 35.0p) or £305m (2016: £276m). The first quarterly dividend for 2017/18 will be 9.85p per share (2016: 8.95p).

Land Securities has a progressive dividend policy, which aims to deliver sustainable growth in dividends over time, broadly in line with our underlying earnings growth as measured by our adjusted earnings per share. The reason we use underlying earnings is that it excludes capital and other items such as valuation movements and non-recurring income or costs.

We don’t pay out a fixed percentage of adjusted earnings each year, due to the earnings volatility that can come from our investment decisions. For example, when we empty a building in advance of development, we lose rent which isn’t recovered until after the new building has been built and let. Similarly, selling assets in the current low interest rate environment is likely to be earnings dilutive. Our dividend policy aims to smooth out that earnings volatility with a more consistent dividend progression.

The degree to which our adjusted earnings per share exceeds the dividend per share (known as our dividend cover) will vary for the reasons described above. In addition, when setting our dividend, we’re mindful of the earnings risks we have in the business (for example, from unlet speculative developments) and the degree of flexibility we believe we require (for example, if we intend to sell properties despite the negative impact on earnings).

Last year, we raised our dividend by almost 10% as earnings rose due to our successful development programme. This year, we’ve increased the dividend above our underlying earnings growth as we’ve now completed our disposal programme, our speculative development risk is lower than for many years and we’re unlikely to add to that risk in the short term. In addition to our focus on risk and flexibility when setting the dividend, we also consider underlying cash flows, recognising that these are generally lower than underlying earnings due to the lease incentives we give our customers and refurbishment capital expenditure. Taking all these factors together, we anticipate that dividend cover will be in the range of 1.2x to 1.3x. This range is indicative only although it’s unlikely that we would consistently pay a dividend per share in excess of our adjusted earnings per share and, as a minimum, we will satisfy our dividend obligation under the REIT legislation.

At 31 March, the Company had distributable reserves of £3.5bn which compares to the dividend payable in respect of this year of £305m. We don’t anticipate that the level of distributable reserves will limit distributions for the foreseeable future.

**Martin Greenslade**
**Chief Financial Officer**

# London Portfolio

### Highlights

- Valuation deficit of 1.3%
- £13m of investment lettings
- £9m of development lettings

### Actions and outcomes

| Focus for 2016/17 | Progress in 2016/17 |
|---|---|
| • Outperform IPD sector benchmark | • The total return of the London Portfolio was 3.1% underperforming its IPD sector benchmark at 3.4% |
| • Complete the letting of 1 & 2 New Ludgate, EC4; The Zig Zag Building, SW1; and 20 Eastbourne Terrace, W2 | • 1 & 2 New Ludgate fully let; The Zig Zag Building 89% let; and 20 Eastbourne Terrace 90% let |
| • Progress development lettings at Nova, Victoria, SW1 | • Nova, Victoria 47% let |
| • Submit a planning application at Southwark Street, SE1 and secure planning consent for new screens at Piccadilly Lights, W1 | • Planning resolution granted at Southwark Street and planning consent secured for new screens at Piccadilly Lights |
| • Progress to revised time and to budget at our committed developments | • All achieved except Nova, Victoria over budget and delayed |
| • Secure employment for a further 129 candidates via our Community Employment Programme | • Secured employment for 134 candidates |

| Focus for 2017/18 |
|---|
| • Outperforming IPD sector benchmark |
| • Growing like-for-like net rental income |
| • Completing the letting of The Zig Zag Building, 20 Eastbourne Terrace and Nova, Victoria |
| • Completing the construction and letting of Piccadilly Lights |
| • Progressing build to grade to time and budget at 21 Moorfields, EC2 |
| • Growing future development pipeline through acquisitions and 1.4 million sq ft of existing opportunities within portfolio |
| • Securing employment for a further 95 candidates via our Community Employment Programme |
| • Improving energy management in support of 2030 corporate commitments |

## At a glance

- Valuation deficit of 1.3%[(1)]
- Ungeared total property return of 3.1%
- The portfolio underperformed its IPD Quarterly Universe sector benchmark at 3.4%
- £13m of investment lettings and £9m of development lettings
- Like-for-like voids: 7.0%[(2)] (31 March 2016: 2.9%)

This year supply-constrained conditions in the occupational market gave way to weaker demand. However, we've been positioning the business for these conditions, and so are well-placed. Over the past 12 months, we've completed our speculative development programme, focused on letting the remaining space, worked to maximise income and lease length through proactive asset management and readied the business to start buying when conditions are right.

In addition, we've increased our emphasis on anticipating change to ensure our buildings and our service meet our customers' needs, while at the same time enhancing the environment for our communities. This approach will deliver long-term value for us.

As a result of our actions, the portfolio is in great shape. It's occupied by a broad customer base spanning sectors from finance to fashion and we now have our longest ever weighted average unexpired lease term of 10.3 years.

## Buy

We made no material acquisitions this year. We have the firepower needed for when the right opportunities appear, but we will be patient and disciplined.

## Develop

At 20 Eastbourne Terrace, W2, we completed a major refurbishment during the year, creating 93,000 sq ft of contemporary space in an 18-storey tower overlooking Paddington Crossrail station. The building offers 6,000 sq ft floorplates and a stunning communal rooftop garden. All of the space is now let, on an average lease length of more than ten years at record rents.

In the City, we completed 1 New Street Square, EC4. This 275,000 sq ft scheme was pre-let in its entirety to Deloitte on a 20 year lease.

Nova, Victoria, SW1 completed just after the year-end in April – a high point in our long-term regeneration of Victoria. The scheme features two exceptional office buildings, 170 apartments and a fantastic line-up of restaurants, creating London's newest food destination. 49% of the 480,000 sq ft office space and 93% of the retail and food-related space is now let. 148 of the apartments have now been sold, 10 of them during the year.

The complexities of construction – together with competition for labour in a busy sector – delayed final completion and impacted costs. However, the scheme is proving very popular and we're confident we'll let the remaining space in good time. At Nova East, the second phase of Nova, Victoria, we're finalising statutory approvals ready to start on site when the time is right.

We secured planning consent for 798,000 sq ft of space in three London boroughs. In the City at 21 Moorfields, EC2, we've completed demolition and will shortly commence piling and construction of a raft that will sit above the eastern entrance to Liverpool Street Crossrail station, ready for building 522,000 sq ft in two buildings. Completing the raft in July 2018 will mean we can complete construction of the buildings in 24 months, providing an excellent prospect for the pre-letting market.

1. On a proportionate basis.
2. Reduces to 3.3% when Piccadilly Lights, SW1, which remains in like-for-like during the screen replacement, is excluded.

In Westminster at 1 Sherwood Street, W1 behind Piccadilly Lights, we secured planning consent for a 142,000 sq ft mixed use scheme and in Southwark, at Sumner Street, SE1, resolution to grant planning consent for 134,000 sq ft.

We have a further 360,000 sq ft in feasibility at Red Lion Court, SE1.

### Manage

We were very active asset managers this year, moving early to address lease expiries and rent reviews, as well as securing reversions ahead of expectation.

At Dashwood House, EC2, we completed rent reviews on £6m (86%) of the income, increasing the rent by 26%. At One New Change, EC4, we reviewed £19m (65%) of the rent increasing the offices by 3% and the retail by 18%. At Cardinal Place, SW1, we reviewed £11m (48%) of rent increasing the offices by 14% and the retail by 23%, as well as letting 113,000 sq ft of available space. At 140 Aldersgate Street, EC1, we reviewed £1m (44%) of the rent and achieved a 33% uplift, as well as letting 25,000 sq ft of available space.

At Piccadilly Lights, W1, we obtained planning consent to replace the six screens with Europe's most technically advanced digital screen, maintaining the heritage of the site while giving advertisers innovative ways to interact with more than 100 million passers-by each year. Coca-Cola committed to continuing its 60 year residence and will be joined by Samsung and Hyundai. We have three remaining advertising opportunities and are in discussion with other major brands to complete the line-up. We'll be launching the new screen at this major tourist attraction in November.

### Sell

In 2015, to reduce risk, we started a disposal programme of weaker assets after we had completed asset management plans to maximise value. The majority of these sales were executed last year and we successfully completed the programme this year with disposals totalling £46m. Trading property disposals of £135m include sales at Nova, Victoria, SW1 following completion of residential units, further disposals at Kings Gate, SW1 and the disposal of our remaining interest in the Kodak land at Harrow. Sales of other investments totalled £13m.

### Net rental income

**Table 13: Net rental income[1]**

| | **31 March 2017 £m** | 31 March 2016 £m | **Change £m** |
|---|---|---|---|
| Like-for-like investment properties | **203** | 199 | **4** |
| Proposed developments | **-** | - | **-** |
| Development programme | **16** | 5 | **11** |
| Completed developments | **62** | 45 | **17** |
| Acquisitions since 1 April 2015 | **2** | 1 | **1** |
| Sales since 1 April 2015 | **-** | 21 | **(21)** |
| Non-property related income | **2** | 4 | **(2)** |
| **Net rental income** | **285** | 275 | **10** |

1. On a proportionate basis.

Net rental income in the London Portfolio has increased by £10m from £275m to £285m, with additional income from recently completed developments largely offset by lost income from properties sold last year.

Income from our developments contributed an additional £28m this year, principally at 1 New Street Square, EC4, 20 Eastbourne Terrace, W2 and Nova, Victoria, SW1. We also benefited from a full year's income at The Zig Zag Building, SW1, 1 & 2 New Ludgate, EC4 and 62 Buckingham Gate, SW1. The increase in the like-for-like portfolio of £4m reflects new lettings and settled rent reviews, partly offset by reduced income at Piccadilly Lights following the start of refurbishment. Overall, these increases are largely offset by a £21m reduction in net rental income from disposals since 1 April 2015, most notably Thomas More Square, E1, Times Square, EC4 and Haymarket House, SW1.

**Outlook**

In the current uncertain environment, investment demand is likely to be lower for all but the very best assets. In the occupational market, we expect net effective rental values to weaken but demand from dynamic businesses to continue for high quality, resilient space. We’re well prepared for these conditions with a portfolio of assets designed to meet the needs of these customers.

We’re ready to add to our portfolio when the time is right. Our team is tracking around £2bn of opportunities, building up our intelligence network ready for a future investment phase. In addition, we’re preparing 1.4 million sq ft of future development opportunities for when conditions are right to proceed.

# Retail Portfolio

## Highlights

- Valuation deficit of 0.8%
- £15m of investment lettings
- £4m of development lettings

## Actions and outcomes

| Focus for 2016/17 | Progress in 2016/17 |
|---|---|
| • Outperform IPD sector benchmark | • The total return of the Retail Portfolio was 4.7% outperforming its IPD sector benchmark at 1.1% |
| • Progress lettings at Westgate Oxford; Selly Oak, Birmingham; and the White Rose, Leeds leisure extension | • Westgate Oxford 68% pre-let; Selly Oak 73% pre-let; and White Rose leisure extension 100% let |
| • Resolution to grant planning consent at Worcester Woods | • Planning consent at Worcester Woods rejected |
| • Achieve planning consent and progress lettings for Glow space at Bluewater, Kent | • Planning consent for Glow space at Bluewater achieved. Space 69% pre-let |
| • Progress to time and budget at our committed developments | • Westgate Oxford on time and budget |
| • Expand the Community Employment Programme to other retail sites | • Expanded the Community Employment Programme to St David’s, Cardiff; White Rose; and Gunwharf Quays, Portsmouth and secured employment for 49 candidates |

| Focus for 2017/18 |
|---|
| • Outperforming IPD sector benchmark<br>• Growing like-for-like net rental income<br>• Progressing lettings at Westgate Oxford; Selly Oak, Birmingham; and the Plaza reconfiguration at Bluewater<br>• Progressing the Plaza reconfiguration at Bluewater to time and budget<br>• Successfully launching Westgate Oxford after achieving practical completion on time and on budget<br>• Integrating the three newly acquired outlet centres<br>• Further developing the Community Employment Programme beyond its current focus on construction with 75 people being supported into jobs in retail<br>• Improving energy management in support of 2030 corporate commitments |

### At a glance

- Valuation deficit of 0.8%[1]
- Ungeared total property return of 4.7%
- The portfolio outperformed its IPD Quarterly Universe sector benchmark at 1.1%
- £15m of investment lettings and £4m of development lettings
- Like-for-like voids: 2.8% (31 March 2016: 2.0%) and units in administration: 0.4% (31 March 2016: 0.5%)

### Key indicators

- Footfall in our shopping centres was down 1.6% (national benchmark down 2.5%)
- Same centre non-food retail sales, taking into account new lettings and occupier changes, were up 1.7% (national benchmark for same centre physical store non-food retail sales down 1.9%; national benchmark for all retail sales, including online, up 0.3%)
- Same store non-food retail sales were down 1.1% (national benchmark for same store physical store non-food retail sales down 2.2%)
- Retailers' rent to sales ratio in our portfolio was 10.3%, with total occupancy costs (including rent, rates, service charges and insurance) representing 17.6% of sales

We went into the year with a portfolio well matched to the evolving needs and expectations of our customers. Despite uncertainty in the wider market, retail destinations that provide consumers with a great experience held up well.

Retailers' and consumers' use of online retailing continues to influence demand for physical space, and inflation is now putting pressure on consumer spending. However, we've continued to see good demand for the best space in the right locations.

### Buy

Our acquisitions during the year were limited to a small number of properties adjacent to space we own. Since the year end, we've acquired a portfolio of three outlet centres for £333m, which, alongside our existing outlet centres at Gunwharf Quays, Portsmouth, and The Galleria, Hatfield, establishes our position as the leading owner-manager of outlets in the UK.

### Develop

Our Westgate Oxford development with The Crown Estate is on time and on budget for opening in October 2017. We've made good progress on lettings with 80% of the scheme now pre-let or in solicitors' hands. The latest brands to sign up include Uniqlo, Cath Kidston, Levis and Molton Brown. We've also invested to ensure the sustainability of the development, including extending our Community Employment Programme so local disadvantaged people will continue to benefit from job opportunities after the centre opens.

At Selly Oak, Birmingham, 91% of the retail is either pre-let or in solicitors' hands, demonstrating occupier support for this potential retail and student housing scheme.

1. On a proportionate basis.

## Manage

This year we've secured £15m of investment lettings. Our like-for-like portfolio is virtually full, with voids of just 2.8% and a weighted average lease term of 8.2 years. We have strong relationships with vibrant customers, from groundbreaking start-ups to global brands.

Trinity Leeds continues to be the beating heart of the city and we've brought new brands to the centre including Lindt, Côte Brasserie and Indian street food operator Mowgli. We're also creating an upsized unit for New Look and expanding the centre's vibrant leisure offer with two new operators.

At White Rose, Leeds, the demise of BHS enabled us to deliver a 55,000 sq ft Next store, doubling its previous space. We also upsized space for JD Sports, Pandora, Schuh and Holland & Barrett. Construction of our leisure extension is now complete and fully let, with the six new restaurants and IMAX cinema units being fitted out to open later this year.

At Gunwharf Quays, Portsmouth, we introduced Armani and Coach to build on the centre's strong aspirational offer. We also opened one of the first Under Armour 'athleisure' outlet stores in the UK.

At Bluewater, Kent, we delivered a 40,000 sq ft flagship for H&M, who had outgrown their existing unit. We've continued to broaden the wide range of retail brands on offer, with eight new openings including Mint Velvet and Michael Kors, and upgraded stores for LK Bennett and Jigsaw. Online retailer Missguided also committed to Bluewater. We started construction of the Plaza leisure reconfiguration this year and expect to complete by December. The project enables us to bring new leisure operators to Bluewater and the scheme is 80% pre-let or in solicitors' hands, with Showcase taking a lease for a four screen extension. We've also continued to invest in the Learning Shop, which connects retailers and local unemployed people.

Throughout the year, we developed new relationships and ideas to keep the customer experience fresh and exciting. For example, we attracted on trend operators out of central London and into regional locations, including Dirty Bones and Sticks'n'Sushi at Westgate. We brought Mercedes into St David's, Cardiff, and Buchanan Galleries, Glasgow. Cycle brand Ribble's pop-up at St David's was so successful they're looking at more sites. In total, we brought 150 pop-up stores and kiosk operators into our assets this year.

Our retail parks are well matched to customers' needs and remain 100% let. Our leisure parks are 99% let and are all anchored by the dominant cinema for their catchment, providing a broad, family-friendly entertainment and food offer.

## Sell

Disposals totalled £219m during the year. We sold the Ealing Filmworks development site to a residential developer, crystallising an element of the development profit up front, without risk. As we continue our focus on family-orientated leisure assets, we sold our two drinks-led city centre leisure schemes, The Printworks, Manchester, and The Cornerhouse, Nottingham. And since the year end, we've sold our 50% interest in Clapham Shopstop, SW11 to our former joint venture partner.

In February 2016, Accor exercised its right to break the leases on seven of their 29 hotels. All seven hotels have since been sold at a premium to their investment values and the remaining Accor leases, where breaks weren't exercised, now extend to 2031.

## Net rental income

### Table 14: Net rental income[1]

| | 31 March 2017 £m | 31 March 2016 £m | Change £m |
|---|---|---|---|
| Like-for-like investment properties | **295** | 289 | **6** |
| Proposed developments | **-** | - | - |
| Development programme | **-** | 1 | **(1)** |
| Completed developments | **-** | - | **-** |
| Acquisitions since 1 April 2015 | **2** | 1 | **1** |
| Sales since 1 April 2015 | **9** | 28 | **(19)** |
| Non-property related income | **9** | 10 | **(1)** |
| **Net rental income** | **315** | 329 | **(14)** |

1. On a proportionate basis.

Net rental income reduced by £14m from £329m to £315m. This was largely due to disposals since 1 April 2015. These include The Cornerhouse, Nottingham and The Printworks, Manchester both sold in the current year and retail parks in Gateshead, Dundee and Derby, a leisure park in Maidstone and a supermarket in Crawley, all sold in the second half of last year. The increase in our like-for-like portfolio of £6m is due to a combination of new lettings, improved turnover performance and a reduction in bad debt provisions compared to last year.

## Outlook

Current uncertainty and rising costs will continue to affect consumer confidence and retailers' readiness to invest and expand. As a result, we expect letting activity to larger occupiers of retail space and leisure operators to slow in the year ahead. However, we believe that the best physical stores will play a critical role for retailers, not least in enabling them to create memorable brand experiences and to engage with their customers. Internet sales provide competition to physical space, but we're also seeing opportunities to help brands develop their multichannel offer. We'll remain alert to buying opportunities over the next 12 months, but our focus will be on enhancing the space and offer at our most successful destinations, launching Westgate Oxford in October and successfully integrating the three new outlet centres into the portfolio.

# Principal risks and uncertainties

The Company has identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and has assessed how these risks could best be mitigated through a combination of internal controls, risk management and the purchase of insurance cover. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in May 2017.

A description of the principal risks and uncertainties faced by the Group, together with an assessment of their impact is set out below. The Group's approach to the management and mitigation of these risks is included in the 2017 Annual Report.

| Risk description | Impact |
|---|---|
| **Customers**<br>• Structural changes in customer and consumer behaviours | • Shift in office and retailer customer demand with consequent impact on new lettings, renewal of existing leases and rental growth |
| **Market cyclicality**<br>• Market and political uncertainty or change in legislation | • Reduces liquidity and impacts property performance<br>• Fall in values<br>• Limits ability to raise further funding |
| **Disruption**<br>• Failure to react effectively to new disruptors within our sectors, including technological advances | • Asset obsolescence<br>• Loss of competitive advantage |
| **People and skills**<br>• Inability to attract, retain and develop the right people and skills | • Lack the skills necessary to deliver the business objectives |
| **Major health and safety incident**<br>• Accidents causing injury to employees, contractors, occupiers or visitors to our properties | • Injury or loss of life<br>• Criminal/civil proceedings and resultant reputational damage<br>• Delays to building projects and access restrictions to shopping centres |
| **Security threat or attack**<br>• Failure to identify or prevent a major security related threat or attack, or react immediately and effectively | • Injury, loss of life, damage to buildings<br>• Loss of consumer confidence with consequent impact on new lettings, renewal of existing leases and rental growth<br>• Loss of income |

| Risk description | Impact |
|---|---|
| **Cyber threat or attack**<br>• External and internal threat to corporate and building management systems and data | • Negative reputational impact<br>• Adverse operational and financial impact |
| **Sustainability**<br>• Increasing environmental pressure and/or properties that do not comply with legislation, meet customer expectations or are unable to withstand the expected challenges of climate change | • Increased cost base<br>• Inability to attract or retain customers<br>• Premature obsolescence and loss of asset value |
| **Development**<br>• Unable to deliver capex programme to agreed returns and/or occupiers reluctant to commit to take new space in our developments | • Negative valuation movements<br>• Reduction in income |

# Statement of Directors' Responsibilities

The Annual Report 2017 contains the following statements regarding responsibility for the financial statements and business reviews included therein.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state that the Group and Company has complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and performance; and
- prepare the Group's and Company's financial statements on a going concern basis, unless it is inappropriate to do so.

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

**Directors' responsibility statement under the Disclosure and Transparency Rules**

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

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Company financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, performance and cash flows of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties faced by the Group and Company.

**Directors’ statement under the UK Corporate Governance Code**

Each of the Directors confirm that to the best of their knowledge the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s and Company’s position, performance, business model and strategy.

A copy of the financial statements of the Group is placed on the Company’s website. The Directors are responsible for the maintenance and integrity of statutory and audited information on the Company’s website at www.landsecurities.com. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Land Securities Group PLC as at the date of this Annual Report are as set out below:

Dame Alison Carnwath, Chairman*
Robert Noel, Chief Executive
Martin Greenslade, Chief Financial Officer
Edward Bonham Carter, Senior Independent Director*
Kevin O’Byrne*
Chris Bartram*
Simon Palley*
Stacey Rauch*
Cressida Hogg CBE*
Nicholas Cadbury*

*Non-executive Directors

The Statement of Directors’ Responsibilities was approved by the Board of Directors on 17 May 2017 and is signed on its behalf by:

| | |
|---|---|
| **Robert Noel** | **Martin Greenslade** |
| Chief Executive | Chief Financial Officer |

# Financial statements

| Income statement | | Year ended 31 March 2017 | | | Year ended 31 March 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Revenue profit | Capital and other items | Total | Revenue profit | Capital and other items | Total |
| | Notes | £m | £m | £m | £m | £m | £m |
| Revenue | 4 | **721** | **66** | **787** | 744 | 198 | 942 |
| Costs | 5 | **(242)** | **(24)** | **(266)** | (259) | (151) | (410) |
| | | **479** | **42** | **521** | 485 | 47 | 532 |
| Profit on disposal of investment properties | | **-** | **19** | **19** | - | 75 | 75 |
| Loss on disposal of investment in joint venture | | **-** | **(2)** | **(2)** | - | - | - |
| Profit on disposal of other investment | | **-** | **13** | **13** | - | - | - |
| Net (deficit)/surplus on revaluation of investment properties | 9 | **-** | **(186)** | **(186)** | - | 739 | 739 |
| **Operating profit** | | **479** | **(114)** | **365** | 485 | 861 | 1,346 |
| Share of post-tax profit from joint ventures | 11 | **21** | **48** | **69** | 20 | 179 | 199 |
| Finance income | 6 | **37** | **-** | **37** | 35 | - | 35 |
| Finance expense | 6 | **(155)** | **(204)** | **(359)** | (178) | (66) | (244) |
| **Profit before tax** | | **382** | **(270)** | **112** | 362 | 974 | 1,336 |
| Taxation | | **-** | **1** | **1** | - | 2 | 2 |
| **Profit attributable to owners of the parent** | | **382** | **(269)** | **113** | 362 | 976 | 1,338 |
| | | | | | | | |
| Earnings per share attributable to owners of the parent: | | | | | | | |
| Basic earnings per share | 3 | | | **14.3p** | | | 169.4p |
| Diluted earnings per share | 3 | | | **14.3p** | | | 168.8p |

| Statement of comprehensive income | Year ended 31 March 2017 | Year ended 31 March 2016 |
|---|---|---|
| | Total | Total |
| | £m | £m |
| **Profit attributable to owners of the parent** | **113** | 1,338 |
| **Items that will not be subsequently reclassified to the income statement:** | | |
| Net re-measurement (loss)/gain on defined benefit pension scheme | **(12)** | 18 |
| Deferred tax credit/(charge) on re-measurement above | **2** | (3) |
| **Other comprehensive (loss)/income attributable to owners of the parent** | **(10)** | 15 |
| **Total comprehensive income attributable to owners of the parent** | **103** | 1,353 |

## Balance sheets

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 9 | **12,144** | 12,358 |
| Intangible assets | | **36** | 38 |
| Net investment in finance leases | | **165** | 183 |
| Investments in joint ventures | 11 | **1,734** | 1,668 |
| Investments in subsidiary undertakings | | **-** | - |
| Trade and other receivables | | **123** | 86 |
| Other non-current assets | | **51** | 44 |
| **Total non-current assets** | | **14,253** | 14,377 |
| **Current assets** | | | |
| Trading properties | 10 | **122** | 124 |
| Trade and other receivables | | **418** | 445 |
| Monies held in restricted accounts and deposits | 14 | **21** | 19 |
| Cash and cash equivalents | 15 | **30** | 25 |
| **Total current assets** | | **591** | 613 |
| **Total assets** | | **14,844** | 14,990 |
| **Current liabilities** | | | |
| Borrowings | 13 | **(404)** | (19) |
| Trade and other payables | | **(302)** | (289) |
| Other current liabilities | | **(7)** | (19) |
| **Total current liabilities** | | **(713)** | (327) |
| **Non-current liabilities** | | | |
| Borrowings | 13 | **(2,545)** | (2,854) |
| Trade and other payables | | **(25)** | (28) |
| Other non-current liabilities | | **(9)** | (47) |
| Redemption liability | | **(36)** | (35) |
| **Total non-current liabilities** | | **(2,615)** | (2,964) |
| **Total liabilities** | | **(3,328)** | (3,291) |
| **Net assets** | | **11,516** | 11,699 |
| **Equity** | | | |
| **Capital and reserves attributable to owners of the parent** | | | |
| Ordinary shares | | **80** | 80 |
| Share premium | | **791** | 790 |
| Capital redemption reserve | | **31** | 31 |
| Own shares | | **(9)** | (14) |
| Share-based payments | | **8** | 11 |
| Merger reserve | | **-** | - |
| Retained earnings | | **10,615** | 10,801 |
| **Total equity** | | **11,516** | 11,699 |

The financial statements on pages 27 to 49 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

**R M Noel** **M F Greenslade**

Directors

## Statement of changes in equity

| | Ordinary shares £m | Share premium £m | Capital redemption reserve £m | Own shares £m | Share- based payments £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| | Attributable to owners of the parent | | | | | | |
| At 1 April 2015 | 80 | 789 | 31 | (12) | 9 | 9,709 | 10,606 |
| Total comprehensive income for the financial year | - | - | - | - | - | 1,353 | 1,353 |
| Transactions with owners: | | | | | | | |
| Share-based payments | - | 1 | - | 16 | 2 | (6) | 13 |
| Dividends paid to owners of the parent | - | - | - | - | - | (255) | (255) |
| Acquisition of own shares | - | - | - | (18) | - | - | (18) |
| Total transactions with owners of the parent | - | 1 | - | (2) | 2 | (261) | (260) |
| **At 31 March 2016** | **80** | **790** | **31** | **(14)** | **11** | **10,801** | **11,699** |
| Total comprehensive income for the financial year | **-** | **-** | **-** | **-** | **-** | **103** | **103** |
| Transactions with owners: | | | | | | | |
| Share-based payments | **-** | **1** | **-** | **11** | **(3)** | **-** | **9** |
| Dividends paid to owners of the parent | **-** | **-** | **-** | **-** | **-** | **(289)** | **(289)** |
| Acquisition of own shares | **-** | **-** | **-** | **(6)** | **-** | **-** | **(6)** |
| Total transactions with owners of the parent | **-** | **1** | **-** | **5** | **(3)** | **(289)** | **(286)** |
| **At 31 March 2017** | **80** | **791** | **31** | **(9)** | **8** | **10,615** | **11,516** |

## Statement of cash flows for the year ended 31 March 2017

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | 8 | **464** | 451 |
| Interest received | | **15** | 21 |
| Interest paid | | **(152)** | (197) |
| Capital expenditure on trading properties | | **(12)** | (32) |
| Disposal of trading properties | | **69** | 190 |
| Other operating cash flows | | **2** | (1) |
| **Net cash inflow from operating activities** | | **386** | 432 |
| | | | |
| **Cash flows from investing activities** | | | |
| Investment property development expenditure | | **(46)** | (118) |
| Acquisition of investment properties | | **(16)** | (103) |
| Other investment property related expenditure | | **(80)** | (100) |
| Disposal of investment properties | | **245** | 1,221 |
| Disposal of other investment | | **13** | - |
| Cash contributed to joint ventures | 11 | **(67)** | (62) |
| Net loan advances to joint ventures | 11 | **(45)** | (106) |
| Loan repayments by joint ventures | 11 | **54** | 14 |
| Distributions from joint ventures | 11 | **44** | 63 |
| Other investing cash flows | | **(19)** | 40 |
| **Net cash inflow from investing activities** | | **83** | 849 |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from new borrowings (net of finance fees) | | **356** | 249 |
| Repayment of borrowings | 13 | **(391)** | (806) |
| Issue of medium term notes (net of finance fees) | 13 | **698** | - |
| Redemption of medium term notes | 13 | **(690)** | (400) |
| Premium payable on redemption of medium term notes | 13 | **(137)** | (26) |
| Refinancing of derivative financial instruments | | **(4)** | - |
| Dividends paid to owners of the parent | 7 | **(289)** | (262) |
| Other financing cash flows | | **(7)** | (26) |
| **Net cash outflow from financing activities** | | **(464)** | (1,271) |
| | | | |
| Increase in cash and cash equivalents for the year | | **5** | 10 |
| Cash and cash equivalents at the beginning of the year | | **25** | 15 |
| **Cash and cash equivalents at the end of the year** | 15 | **30** | 25 |

# Notes to the financial statements

## 1. Basis of preparation and consolidation

### Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared in Pounds Sterling (rounded to the nearest one million), which is the presentation currency of the Group (Land Securities Group PLC (the Company) and all its subsidiary undertakings), and under the historical cost convention as modified by the revaluation of investment property, available-for-sale investments, derivative financial instruments and pension assets.

During the year, the Group has reviewed the presentation of the financial statements and has made some changes with the intention of simplifying the way in which the Group's results are presented. One of the main changes is from reporting to the nearest hundred thousand pounds, to reporting to the nearest million pounds. Additionally, certain insignificant line items that were previously presented separately in the financial statements have been aggregated. Where line items have been aggregated in the primary statements, explanatory notes providing a breakdown of the aggregated balances are included in the notes to the financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The accounting policies used in these financial statements are consistent with those applied in the last annual financial statements, as amended where relevant to reflect the adoption of new standards, amendments and interpretations which became effective in the year. These amendments have not had an impact on the financial statements.

A number of new standards and amendments to standards have been issued but are not yet effective for the Group. The most significant of these, and their potential impact on the Group's accounting, are set out below:

IFRS 15 Revenue from Contracts with Customers (effective from 1 April 2018) – the standard will be applicable to service charge income, other property related income, trading property sales proceeds and proceeds from the sale of investment properties, but not rental income arising from the Group's leases with tenants. Based on the transactions impacting the current financial year and future known transactions, the Group does not expect the adoption of IFRS 15 to have a material impact on the Group's reported results. However, we will continue to assess new transactions as they arise to the date of adoption.

IFRS 9 Financial Instruments (effective from 1 April 2018) – the standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group is in the process of assessing the impact of IFRS 9, but adoption of the new standard may impact the measurement and presentation of the Group's financial liabilities.

IFRS 16 Leases (effective from 1 April 2019) – the adoption of this standard is not expected to significantly impact the recognition of rental income earned under the Group's leases with tenants. The Group holds a small number of operating leases as a lessee which are affected by this standard, however, these are not material to the financial statements.

On 17 May 2017, the consolidated financial statements of the Group and this preliminary announcement were authorised for issue in accordance with a resolution of the Directors and will be delivered to the Registrar of Companies following the Group's Annual General Meeting. Statutory accounts for the year ended 31 March 2016 have been filed unqualified and do not contain any statement under Section 498(2) or Section 498(3) of the Companies Act 2006. The annual financial information presented in this preliminary announcement for the year ended 31 March 2017 is based on, and consistent with, the financial information in the Group's audited financial statements for the year ended 31 March 2017. The audit report on these financial statements is unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006. This preliminary announcement does not constitute statutory financial statements of the Group within the meaning of Section 235 of the Companies Act 2006. Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

A copy of the Group's Annual Report for the year ended 31 March 2016 can be found at www.landsecurities.com/investors.

### Basis of consolidation

The consolidated financial statements for the year ended 31 March 2017 incorporate the financial statements of the Company and all its subsidiary undertakings. Subsidiary undertakings are those entities controlled by the Company. Control exists where an entity is exposed to variable returns and has the ability to affect those returns through its power over the investee.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included from the effective date of acquisition or to the effective date of disposal. Accounting policies of subsidiaries and joint ventures which differ from Group accounting policies are adjusted on consolidation.

Where instruments in a subsidiary held by third parties are redeemable at the option of the holder, these interests are classified as a financial liability, called the redemption liability. The liability is carried at fair value; the value is reassessed at the balance sheet date and movements are recognised in the income statement.

## 1. Basis of preparation and consolidation continued

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Our property portfolio is a combination of properties that are wholly owned by the Group, part owned through joint arrangements and properties owned by the Group but where a third party holds a non-controlling interest. Internally, management review the results of the Group on a basis that adjusts for these different forms of ownership to present a proportionate share. The Combined Portfolio, with assets totalling £14.4bn, is an example of this approach, reflecting the economic interest we have in our properties regardless of our ownership structure. We consider this presentation provides a better explanation to stakeholders of the activities and performance of the Group, as it aggregates the results of all of the Group's property interests which under IFRS are required to be presented across a number of line items in the statutory financial statements.

The same principle is applied to many of the other measures we discuss and accordingly, a number of our financial measures include the results of our joint ventures and subsidiaries on a proportionate basis. Measures that are described as being presented on a proportionate basis include the Group's share of joint ventures on a line-by-line basis, and are adjusted to exclude the non-owned elements of our subsidiaries. This is in contrast to the Group's statutory financial statements, where the Group's interest in joint ventures is presented as one line on the income statement and balance sheet, and all subsidiaries are consolidated at 100% with any non-owned element being adjusted as a non-controlling interest or redemption liability, as appropriate. Our joint operations are presented on a proportionate basis in all financial measures.

## 2. Segmental information

The Group's operations are organised into two operating segments, being the London Portfolio and the Retail Portfolio. The London Portfolio includes all our London offices and central London shops and the Retail Portfolio includes all our shopping centres and shops (excluding central London shops), hotels and leisure assets and retail park properties. All of the Group's operations are in the UK.

Management has determined the Group's operating segments based on the information reviewed by senior management to make strategic decisions. During the year, the chief operating decision maker was the Executive Committee (ExecCom), which comprised the Executive Directors, the managing directors of the Retail and London portfolios, the Group General Counsel and Company Secretary, the Group HR Director and the Corporate Affairs and Sustainability Director. The information presented to ExecCom includes reports from all functions of the business as well as strategy, financial planning, succession planning, organisational development and Group-wide policies.

The Group's primary measure of underlying profit before tax is revenue profit. However, segment profit is the lowest level to which the profit arising from the on-going operations of the Group is analysed between the two segments. The Group manages its financing structure, with the exception of joint ventures, on a pooled basis and, as such, debt facilities and finance expenses (other than those relating to joint ventures) are not specific to a particular segment. Unallocated income and expenses (Group services) are items incurred centrally which are neither directly attributable nor can be reasonably allocated to individual segments.

All items in the segmental information note are presented on a proportionate basis. A reconciliation from the Group income statement to the information presented in the segmental information note is included in table 25.

| 2. Segmental information continued | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Retail | London | Total | Retail | London | Total |
| **Revenue profit** | £m | £m | £m | £m | £m | £m |
| Rental income | **342** | **296** | **638** | 363 | 287 | 650 |
| Finance lease interest | **1** | **9** | **10** | 1 | 9 | 10 |
| **Gross rental income (before rents payable)** | **343** | **305** | **648** | 364 | 296 | 660 |
| Rents payable[1] | **(8)** | **(3)** | **(11)** | (9) | (3) | (12) |
| **Gross rental income (after rents payable)** | **335** | **302** | **637** | 355 | 293 | 648 |
| Service charge income | **56** | **45** | **101** | 56 | 46 | 102 |
| Service charge expense | **(60)** | **(46)** | **(106)** | (58) | (47) | (105) |
| Net service charge expense | **(4)** | **(1)** | **(5)** | (2) | (1) | (3) |
| Other property related income | **20** | **14** | **34** | 21 | 17 | 38 |
| Direct property expenditure | **(36)** | **(30)** | **(66)** | (45) | (34) | (79) |
| **Net rental income** | **315** | **285** | **600** | 329 | 275 | 604 |
| Indirect property expenditure | **(21)** | **(16)** | **(37)** | (25) | (18) | (43) |
| Depreciation | **(1)** | **(1)** | **(2)** | - | (1) | (1) |
| **Segment profit before finance expense** | **293** | **268** | **561** | 304 | 256 | 560 |
| Joint venture finance expense | **(4)** | **(17)** | **(21)** | (4) | (17) | (21) |
| **Segment profit** | **289** | **251** | **540** | 300 | 239 | 539 |
| Group services – other income | | | **2** | | | 4 |
| – expense | | | **(42)** | | | (38) |
| Finance income | | | **37** | | | 35 |
| Finance expense | | | **(155)** | | | (178) |
| **Revenue profit** | | | **382** | | | 362 |

1. Included within rents payable is finance lease interest payable of **£1m** (2016: £1m) and **£1m** (2016: £nil), for the Retail and London portfolios, respectively.

| Reconciliation of revenue profit to profit before tax | 2017 | 2016 |
|---|---|---|
| | Total | Total |
| | £m | £m |
| **Revenue profit** | **382** | 362 |
| **Capital and other items** | | |
| **Valuation and profits on disposals** | | |
| Profit on disposal of investment properties | **20** | 79 |
| Loss on disposal of investment in joint venture | **(2)** | - |
| Profit on disposal of other investment | **13** | - |
| Net (deficit)/surplus on revaluation of investment properties | **(147)** | 907 |
| Movement in impairment of trading properties | **12** | 16 |
| Profit on disposal of trading properties | **36** | 41 |
| | **(68)** | 1,043 |
| **Net finance expense** | | |
| Fair value movement on interest-rate swaps | **(8)** | (11) |
| Amortisation of bond-exchange de-recognition adjustment | **(24)** | (23) |
| Other | **(2)** | (5) |
| | **(34)** | (39) |
| **Exceptional items** | | |
| Head office relocation | **1** | (6) |
| Premium payable on redemption of medium term notes | **(170)** | (27) |
| | **(169)** | (33) |
| **Other** | **1** | 3 |
| **Profit before tax** | **112** | 1,336 |

## 3. Performance measures

Three of the Group's key financial performance measures are adjusted diluted earnings per share, adjusted diluted net assets per share and total business return. In the tables below we present earnings per share and net assets per share calculated in accordance with IFRS, together with our own adjusted measures and certain measures required by EPRA. We also present the calculation of total business return.

Adjusted earnings, which is a tax adjusted measure of revenue profit, is the basis for the calculation of adjusted earnings per share. We believe adjusted earnings and adjusted earnings per share better represent the results of the Group's operational performance to stakeholders as they focus on the rental income performance of the business and exclude capital and other items which can vary significantly from year to year.

Adjusted net assets excludes the fair value of interest-rate swaps used for hedging purposes and the bond exchange de-recognition adjustment. We believe this better reflects the underlying net assets attributable to shareholders as it more accurately reflects the future cash flows associated with our debt instruments.

Total business return is calculated as the cash dividends paid in the year plus the change in adjusted diluted net assets per share, divided by the opening adjusted diluted net assets per share. We consider this to be a useful measure for shareholders as it gives an indication of the total return on investment over the year.

EPRA measures for both earnings per share and net assets per share have been included to assist comparison between European property companies.

| Earnings per share | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Profit for the financial year | EPRA earnings | Adjusted earnings | Profit for the financial year | EPRA earnings | Adjusted earnings |
| | £m | £m | £m | £m | £m | £m |
| Profit attributable to owners of the parent | **113** | **113** | **113** | 1,338 | 1,338 | 1,338 |
| Taxation | **-** | **(1)** | **(1)** | - | (2) | (2) |
| Valuation and profits on disposal | **-** | **68** | **68** | - | (1,043) | (1,043) |
| Net finance expense[1] | **-** | **10** | **34** | - | 16 | 39 |
| Exceptional items[2] | **-** | **170** | **169** | - | 27 | 33 |
| Other | **-** | **(1)** | **(1)** | - | (3) | (3) |
| **Profit used in per share calculation** | **113** | **359** | **382** | 1,338 | 333 | 362 |

| | IFRS | EPRA | Adjusted | IFRS | EPRA | Adjusted |
|---|---|---|---|---|---|---|
| **Basic earnings per share** | **14.3p** | **45.4p** | **48.4p** | 169.4p | 42.2p | 45.9p |
| **Diluted earnings per share** | **14.3p** | **45.4p** | **48.3p** | 168.8p | 42.0p | 45.7p |

1. The difference in the adjustment for EPRA earnings and adjusted earnings relates to the amortisation of the bond exchange de-recognition adjustment, which is included in EPRA earnings, but excluded from adjusted earnings.
2. The difference in the adjustment for EPRA earnings and adjusted earnings relates to the head office relocation costs, which are included in EPRA earnings, but excluded from adjusted earnings.

| Net assets per share | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Net assets | EPRA net assets[1] | Adjusted net assets | Net assets | EPRA net assets[1] | Adjusted net assets |
| | £m | £m | £m | £m | £m | £m |
| Net assets attributable to owners of the parent | **11,516** | **11,516** | **11,516** | 11,699 | 11,699 | 11,699 |
| Fair value of interest-rate swaps - Group | **-** | **2** | **2** | - | 32 | 32 |
| - Joint ventures | **-** | **2** | **2** | - | 2 | 2 |
| Bond exchange de-recognition adjustment | **-** | **-** | **(314)** | - | - | (368) |
| Deferred tax liability arising on business combination | **-** | **4** | **4** | - | 5 | 5 |
| Goodwill on deferred tax liability | **-** | **(4)** | **(4)** | - | (5) | (5) |
| **Net assets used in per share calculation** | **11,516** | **11,520** | **11,206** | 11,699 | 11,733 | 11,365 |

| | IFRS | EPRA | Adjusted | IFRS | EPRA | Adjusted |
|---|---|---|---|---|---|---|
| **Net assets per share** | **1,458p** | **n/a** | **1,418p** | 1,482p | n/a | 1,439p |
| **Diluted net assets per share** | **1,456p** | **1,456p** | **1,417p** | 1,476p | 1,481p | 1,434p |

1. For EPRA triple net assets, see table 16.

| Number of shares | | 2017 | | 2016 |
|---|---|---|---|---|
| | Weighted average | 31 March | Weighted average | 31 March |
| | million | million | million | million |
| Ordinary shares | **801** | **801** | 801 | 801 |
| Treasury shares | **(10)** | **(10)** | (10) | (10) |
| Own shares | **(1)** | **(1)** | (1) | (1) |
| **Number of shares - basic** | **790** | **790** | 790 | 790 |
| Dilutive effect of share options | **1** | **1** | 3 | 3 |
| **Number of shares - diluted** | **791** | **791** | 793 | 793 |

## 3. Performance measures continued

| Total business return | 2017 pence | 2016 pence |
|---|---|---|
| (Decrease)/increase in adjusted diluted net assets per share | (17) | 141 |
| Dividend paid per share in the year (note 7) | 37 | 32 |
| **Total return (a)** | 20 | 173 |
| Adjusted diluted net assets per share at the beginning of the year (b) | 1,434 | 1,293 |
| **Total business return (a/b)** | 1.4% | 13.4% |

## 4. Revenue

All revenue is classified within the 'Revenue profit' column of the income statement, with the exception of proceeds on the sale of trading properties which is presented in the 'Capital and other items' column. Also included in the 'Capital and other items' column is the non-owned element of the Group's subsidiaries which is excluded from revenue profit.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Revenue profit £m | Capital and other items £m | Total £m | Revenue profit £m | Capital and other items £m | Total £m |
| Rental income (excluding adjustment for lease incentives) | 541 | 2 | 543 | 571 | 3 | 574 |
| Adjustment for lease incentives | 44 | - | 44 | 29 | - | 29 |
| **Rental income** | 585 | 2 | 587 | 600 | 3 | 603 |
| Service charge income | 92 | 2 | 94 | 94 | - | 94 |
| Other property related income | 32 | - | 32 | 36 | - | 36 |
| Trading property sales proceeds | - | 62 | 62 | - | 195 | 195 |
| Finance lease interest | 10 | - | 10 | 10 | - | 10 |
| Other income | 2 | - | 2 | 4 | - | 4 |
| Revenue per the income statement | 721 | 66 | 787 | 744 | 198 | 942 |

The following table reconciles revenue per the income statement to the individual components of revenue presented in note 2.

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Group £m | Joint ventures £m | Adjustment for non-wholly owned subsidiaries[1] £m | Total £m | Group £m | Joint ventures £m | Adjustment for non-wholly owned subsidiaries[1] £m | Total £m |
| Rental income | 587 | 53 | (2) | 638 | 603 | 50 | (3) | 650 |
| Service charge income | 94 | 9 | (2) | 101 | 94 | 8 | - | 102 |
| Other property related income | 32 | 2 | - | 34 | 36 | 2 | - | 38 |
| Trading property sales proceeds | 62 | 72 | - | 134 | 195 | - | - | 195 |
| Finance lease interest | 10 | - | - | 10 | 10 | - | - | 10 |
| Other income | 2 | - | - | 2 | 4 | - | - | 4 |
| Revenue in the segmental information note | 787 | 136 | (4) | 919 | 942 | 60 | (3) | 999 |

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

## 5. Costs

All costs are classified within the 'Revenue profit' column of the income statement, with the exception of the cost of sale of trading properties, amortisation of intangible assets and head office relocation costs which are presented in the 'Capital and other items' column. Also included in the 'Capital and other items' column is the non-owned element of the Group's subsidiaries which is excluded from revenue profit.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Revenue profit £m | Capital and other items £m | Total £m | Revenue profit £m | Capital and other items £m | Total £m |
| Rents payable | 10 | - | 10 | 11 | - | 11 |
| Service charge expense | 95 | 1 | 96 | 96 | - | 96 |
| Direct property expenditure | 58 | - | 58 | 72 | - | 72 |
| Indirect property expenditure | 79 | - | 79 | 80 | - | 80 |
| Cost of trading property disposals | - | 33 | 33 | - | 154 | 154 |
| Movement in impairment of trading properties(1) | - | (12) | (12) | - | (11) | (11) |
| Head office relocation(2) | - | (1) | (1) | - | 6 | 6 |
| Amortisation of intangible assets | - | 2 | 2 | - | 1 | 1 |
| Impairment of goodwill | - | 1 | 1 | - | 1 | 1 |
| Costs per the income statement | 242 | 24 | 266 | 259 | 151 | 410 |

1. The movement in impairment of trading properties in the years ended 31 March 2017 and 2016 relates to the reversal of previous impairment charges related to residential land, where the valuer's assessment of net realisable value increased over the year.
2. The net credit of £1m in respect of the head office relocation comprises the £2m release of an onerous lease provision following the assignment of the lease on the Group's previous head office at lower net cost than originally anticipated, together with relocation costs of £1m. The cost of £6m in the prior year reflects the creation of the provision in respect of the onerous lease and relocation costs committed to at that time.

The following table reconciles costs per the income statement to the individual components of costs presented in note 2.

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Group £m | Joint ventures £m | Adjustment for non-wholly owned subsidiaries(1) £m | Total £m | Group £m | Joint ventures £m | Adjustment for non-wholly owned subsidiaries(1) £m | Total £m |
| Rents payable | 10 | 1 | - | 11 | 11 | 1 | - | 12 |
| Service charge expense | 96 | 11 | (1) | 106 | 96 | 9 | - | 105 |
| Direct property expenditure | 58 | 8 | - | 66 | 72 | 7 | - | 79 |
| Indirect property expenditure | 79 | 2 | - | 81 | 80 | 2 | - | 82 |
| Trading property disposals | 33 | 65 | - | 98 | 154 | - | - | 154 |
| Movement in impairment of trading properties | (12) | - | - | (12) | (11) | (5) | - | (16) |
| Head office relocation | (1) | - | - | (1) | 6 | - | - | 6 |
| Amortisation of intangible asset | 2 | - | - | 2 | 1 | - | - | 1 |
| Impairment of goodwill | 1 | - | - | 1 | 1 | - | - | 1 |
| Costs in the segmental information note | 266 | 87 | (1) | 352 | 410 | 14 | - | 424 |

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

## 6. Net finance expense

| | 2017 Revenue profit £m | 2017 Capital and other items £m | 2017 Total £m | 2016 Revenue profit £m | 2016 Capital and other items £m | 2016 Total £m |
|---|---|---|---|---|---|---|
| **Finance income** | | | | | | |
| Other interest receivable | **2** | **-** | **2** | 1 | - | 1 |
| Interest receivable from joint ventures | **35** | **-** | **35** | 34 | - | 34 |
| | **37** | **-** | **37** | 35 | - | 35 |
| **Finance expense** | | | | | | |
| Bond and debenture debt | **(144)** | **-** | **(144)** | (169) | - | (169) |
| Bank and other short-term borrowings | **(15)** | **-** | **(15)** | (20) | - | (20) |
| Fair value movement on interest-rate swaps | **-** | **(8)** | **(8)** | - | (11) | (11) |
| Amortisation of bond exchange de-recognition adjustment | **-** | **(24)** | **(24)** | - | (23) | (23) |
| Redemption of medium term notes | **-** | **(170)** | **(170)** | - | (27) | (27) |
| Revaluation of redemption liabilities | **-** | **(3)** | **(3)** | - | (5) | (5) |
| Other interest payable | **(1)** | **1** | **-** | - | - | - |
| | **(160)** | **(204)** | **(364)** | (189) | (66) | (255) |
| Interest capitalised in relation to properties under development | **5** | **-** | **5** | 11 | - | 11 |
| | **(155)** | **(204)** | **(359)** | (178) | (66) | (244) |
| **Net finance expense** | **(118)** | **(204)** | **(322)** | (143) | (66) | (209) |
| Joint venture net finance expense | **(21)** | | | (21) | | |
| **Net finance expense included in revenue profit** | **(139)** | | | (164) | | |

During the year, the Group purchased medium term notes (MTNs) with a nominal value of **£690m** (2016: £400m) for a premium of **£137m** (2016: £26m). The redemption premium and **£30m** (2016: £nil) of the bond exchange de-recognition adjustment associated with the purchased bonds have been expensed to the income statement in the year, as an exceptional item, along with **£1m** (2016: £nil) of bank tender fees and the **£2m** (2016: £1m) write-off of unamortised issue costs. Further details are given in note 13.

Finance lease interest payable of **£2m** (2016: £1m) is included within rents payable as detailed in note 2.

## 7. Dividends

| Ordinary dividends paid | Payment date | Pence per share PID | Non-PID | Total | 2017 £m | 2016 £m |
|---|---|---|---|---|---|---|
| For the year ended 31 March 2015: | | | | | | |
| Third interim | 10 April 2015 | 7.9 | - | 7.9 | | 63 |
| Final | 24 July 2015 | 8.15 | - | 8.15 | | 64 |
| For the year ended 31 March 2016: | | | | | | |
| First interim | 9 October 2015 | 8.15 | - | 8.15 | | 64 |
| Second interim | 7 January 2016 | - | 8.15 | 8.15 | | 64 |
| Third interim | **8 April 2016** | **8.15** | **-** | **8.15** | **64** | |
| Final | **28 July 2016** | **10.55** | **-** | **10.55** | **83** | |
| For the year ended 31 March 2017: | | | | | | |
| First interim | **7 October 2016** | **8.95** | **-** | **8.95** | **71** | |
| Second interim | **6 January 2017** | **-** | **8.95** | **8.95** | **71** | |
| **Gross dividends** | | | | | **289** | 255 |
| | | | | | | |
| **Dividends in statement of changes in equity** | | | | | **289** | 255 |
| Timing difference on payment of withholding tax | | | | | **-** | 7 |
| **Dividends in the statement of cash flows** | | | | | **289** | 262 |

A third quarterly interim dividend of **8.95p** per ordinary share, or **£71m** in total (2016: 8.15p or £64m in total), was paid on 7 April 2017 as a Property Income Distribution (PID). The Board has recommended a final dividend for the year ended 31 March 2017 of **11.7p** per ordinary share (2016: 10.55p) to be paid as a PID. This final dividend will result in a further estimated distribution of **£92m** (2016: £83m). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 27 July 2017 to shareholders registered at the close of business on 23 June 2017. The total dividend paid and recommended in respect of the year ended 31 March 2017 is therefore **38.55p** per ordinary share (2016: 35.0p).

A Dividend Reinvestment Plan (DRIP) has been available in respect of all dividends paid during the year.

## 8. Net cash generated from operations

| Reconciliation of operating profit to net cash generated from operations | 2017 £m | 2016 £m |
|---|---|---|
| **Operating profit** | **365** | 1,346 |
| | | |
| **Adjustments for:** | | |
| Net deficit/(surplus) on revaluation of investment properties | **186** | (739) |
| Movement in impairment of trading properties | **(12)** | (11) |
| Profit on disposal of trading properties | **(29)** | (41) |
| Profit on disposal of investment properties | **(19)** | (75) |
| Profit on disposal of other investment | **(13)** | - |
| Loss on disposal of investment in joint venture | **2** | - |
| Share-based payment charge | **5** | 8 |
| Other | **8** | 6 |
| | **493** | 494 |
| **Changes in working capital:** | | |
| Increase in receivables | **(17)** | (33) |
| Decrease in payables and provisions | **(12)** | (10) |
| **Net cash generated from operations** | **464** | 451 |

## 9. Investment properties

| | 2017 £m | 2016 £m |
|---|---|---|
| **Net book value at the beginning of the year** | **12,358** | 12,158 |
| Acquisitions | **14** | 157 |
| Capital expenditure: Investment portfolio | **80** | 91 |
| Developments | **46** | 104 |
| Capitalised interest | **5** | 9 |
| Disposals | **(205)** | (900) |
| Net movement in finance leases | **32** | - |
| Net (deficit)/surplus on revaluation of investment properties | **(186)** | 739 |
| **Net book value at 31 March** | **12,144** | 12,358 |

The market value of the Group's investment properties, as determined by the Group's external valuer, differs from the net book value presented in the balance sheet due to the Group presenting lease incentives, tenant finance leases and head leases separately. The following table reconciles the net book value of the investment properties to the market value.

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Group (excl. joint ventures) £m | Joint ventures(1) £m | Adjustment for proportionate share(2) £m | Combined Portfolio £m | Group (excl. joint ventures) £m | Joint ventures(1) £m | Adjustment for proportionate share(2) £m | Combined Portfolio £m |
| Net book value | **12,144** | **1,763** | **(34)** | **13,873** | 12,358 | 1,630 | (34) | 13,954 |
| Plus: tenant lease incentives | **311** | **57** | **(1)** | **367** | 268 | 43 | - | 311 |
| Less: head leases capitalised | **(31)** | **(8)** | **-** | **(39)** | (14) | - | - | (14) |
| Plus: properties treated as finance leases | **238** | **-** | **-** | **238** | 220 | - | - | 220 |
| **Market value** | **12,662** | **1,812** | **(35)** | **14,439** | 12,832 | 1,673 | (34) | 14,471 |
| | | | | | | | | |
| **Net (deficit)/surplus on revaluation of investment properties** | **(186)** | **40** | **(1)** | **(147)** | 739 | 171 | (3) | 907 |

1. Refer to note 11 for a breakdown of this amount by entity.
2. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

The net book value of leasehold properties where head leases have been capitalised is **£1,169m** (2016: £968m).

Investment properties include capitalised interest of **£206m** (2016: £201m). The average rate of interest capitalisation for the year is **4.7%** (2016: 5.0%). The historical cost of investment properties is **£6,713m** (2016: £6,720m).

## 10. Trading properties

| | Development land and infrastructure £m | Residential £m | Total £m |
|---|---|---|---|
| At 1 April 2015 | 85 | 137 | 222 |
| Capital expenditure | 10 | 17 | 27 |
| Capitalised interest | - | 2 | 2 |
| Disposals | (19) | (119) | (138) |
| Movement in impairment | 12 | (1) | 11 |
| **At 31 March 2016** | **88** | **36** | **124** |
| Capital expenditure | **17** | **2** | **19** |
| Disposals | **(9)** | **(24)** | **(33)** |
| Movement in impairment | **12** | **-** | **12** |
| **At 31 March 2017** | **108** | **14** | **122** |

The cumulative impairment provision at 31 March 2017 in respect of Development land and infrastructure was **£67m** (31 March 2016: £79m); and in respect of Residential was **£1m** (31 March 2016: £1m).

## 11. Joint arrangements

The Group's joint arrangements are described below:

| Joint ventures | Percentage owned & voting rights | Business segment | Year end date[1] | Joint venture partner |
|---|---|---|---|---|
| **Held at 31 March 2017** | | | | |
| 20 Fenchurch Street Limited Partnership | 50% | London | 31 March | Canary Wharf Group plc |
| Nova, Victoria[2] | 50% | London | 31 March | Canada Pension Plan Investment Board |
| Metro Shopping Fund Limited Partnership[3] | 50% | Retail | 31 March | Delancey Real Estate Partners Limited |
| St. David's Limited Partnership | 50% | Retail | 31 December | Intu Properties plc |
| Westgate Oxford Alliance Limited Partnership | 50% | Retail | 31 March | The Crown Estate Commissioners |
| The Oriana Limited Partnership[4] | 50% | London | 31 March | Frogmore Real Estate Partners Limited Partnership |
| Harvest[5][6] | 50% | Retail | 31 March | J Sainsbury plc |
| The Ebbsfleet Limited Partnership[6] | 50% | London | 31 March | Ebbsfleet Property Limited |
| Millshaw Property Co. Limited[6][7] | 50% | Retail | 31 March | Evans Property Group Limited |
| West India Quay Unit Trust[6][8] | 50% | Retail | 31 March | Schroder Exempt Property Unit Trust |

| Joint operation | Ownership interest | Business segment | | Joint operation partners |
|---|---|---|---|---|
| Bluewater, Kent | 30% | Retail | | M&G Real Estate and GIC<br>Lend Lease Retail Partnership<br>Hermes and Aberdeen Asset Management |

The following joint arrangement was sold in the year ended 31 March 2017:

| Joint ventures | | | | |
|---|---|---|---|---|
| Countryside Land Securities (Springhead) Limited | 50% | London | | Countryside Properties PLC |

1. The year end date shown is the accounting reference date of the joint venture. In all cases the Group's accounting is performed using financial information for the Group's own reporting period and reporting date.
2. Nova, Victoria includes the Victoria Circle Limited Partnership, Nova Residential Limited Partnership and Victoria Circle Developer Limited.
3. On 13 April 2017, Metro Shopping Fund Limited Partnership (Metro) completed the sale of one of its assets to DV4 (a fund owned by Delancey Real Estate Asset Management Limited (Delancey)). On the same date Delancey sold their stake in Metro to Invesco Real Estate European Fund. The partnership was subsequently renamed "The Southside Limited Partnership."
4. On 23 September 2016, The Oriana Limited Partnership disposed of its interest in 26-32 Oxford Street, W1.
5. Harvest includes Harvest 2 Limited Partnership, Harvest Development Management Limited, Harvest 2 Selly Oak Limited, Harvest 2 GP Limited and Harvest GP Limited.
6. Included within Other in subsequent tables.
7. At 31 March 2017, the Millshaw Property Co. Limited was in the process of being liquidated.
8. West India Quay Unit Trust is held in the X-Leisure Unit Trust (X-Leisure) in which the Group holds a 95% share.

All of the Group's joint arrangements have their principal place of business in the United Kingdom. All of the Group's joint arrangements own and operate investment property with the exception of The Ebbsfleet Limited Partnership which holds development land as trading properties, and Millshaw Property Co. Limited which disposed of its only property interest in the prior year. The Westgate Oxford Alliance Limited Partnership, Nova, Victoria and The Oriana Limited Partnership are also engaged in the development of investment and trading properties. The activities of all the Group's joint arrangements are therefore strategically important to the business activities of the Group.

All joint ventures are registered in England and Wales with the exception of the Metro Shopping Fund Limited Partnership and West India Quay Unit Trust which are registered in Jersey.

## 11. Joint arrangements continued

| Joint ventures<br>Comprehensive income statement | 20 Fenchurch Street Limited Partnership<br>100%<br>£m | Nova, Victoria<br>100%<br>£m | Metro Shopping Fund Limited Partnership<br>100%<br>£m | St. David's Limited Partnership<br>100%<br>£m | Westgate Oxford Alliance Partnership<br>100%<br>£m | The Oriana Limited Partnership<br>100%<br>£m | Individually material JVs (Group share)<br>50%<br>£m | Other<br>Group share<br>£m | 2017<br>Total<br>Group share<br>£m |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue**[1] | 48 | 147 | 21 | 43 | 3 | - | 131 | 5 | 136 |
| **Gross rental income (after rents payable)** | 39 | 7 | 17 | 35 | 3 | - | 50 | 2 | 52 |
| **Net rental income** | 37 | 2 | 15 | 29 | 2 | - | 43 | 1 | 44 |
| **Segment profit before finance expense** | 36 | 1 | 15 | 27 | 2 | - | 41 | 1 | 42 |
| Finance expense | (22) | (36) | (8) | - | (11) | - | (39) | - | (39) |
| Capitalised interest | - | 25 | - | - | 10 | - | 18 | - | 18 |
| **Net finance expense** | (22) | (11) | (8) | - | (1) | - | (21) | - | (21) |
| **Revenue profit** | 14 | (10) | 7 | 27 | 1 | - | 20 | 1 | 21 |
| **Capital and other items** | | | | | | | | | |
| Net surplus/(deficit) on revaluation of investment properties | 43 | 41 | - | (22) | 19 | (1) | 40 | - | 40 |
| Profit on disposal of investment properties | - | - | 2 | - | - | - | 1 | - | 1 |
| Profit on disposal of trading properties | - | 14 | - | - | - | - | 7 | - | 7 |
| **Profit/(loss) before tax** | 57 | 45 | 9 | 5 | 20 | (1) | 68 | 1 | 69 |
| Taxation | - | - | - | - | - | - | - | - | - |
| **Post-tax profit/(loss)** | 57 | 45 | 9 | 5 | 20 | (1) | 68 | 1 | 69 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income** | 57 | 45 | 9 | 5 | 20 | (1) | 68 | 1 | 69 |
| | 50% | 50% | 50% | 50% | 50% | 50% | - | - | - |
| **Group share of total comprehensive income** | 28 | 23 | 5 | 3 | 10 | (1) | 68 | 1 | 69 |

1. Revenue includes gross rental income (before rents payable), service charge income, other property related income and trading properties disposal proceeds.

## 11. Joint arrangements continued

2016

| Joint ventures<br>Comprehensive income statement | 20 Fenchurch Street Limited Partnership 100% £m | Nova, Victoria 100% £m | Metro Shopping Fund Limited Partnership 100% £m | St. David's Limited Partnership 100% £m | Westgate Oxford Alliance Partnership 100% £m | The Oriana Limited Partnership 100% £m | Individually material JVs (Group share) 50% £m | Other Group share £m | Total Group share £m |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue[1]** | 45 | - | 19 | 45 | 3 | 1 | 57 | 3 | 60 |
| **Gross rental income (after rents payable)** | 36 | - | 15 | 37 | 3 | 1 | 46 | 3 | 49 |
| **Net rental income/(expense)** | 35 | (1) | 15 | 30 | 1 | 1 | 41 | 2 | 43 |
| **Segment profit/(loss) before finance expense** | 33 | (1) | 14 | 29 | 1 | 1 | 39 | 2 | 41 |
| Finance expense | (33) | (29) | (7) | - | (6) | - | (38) | - | (38) |
| Capitalised interest | - | 28 | - | - | 6 | - | 17 | - | 17 |
| **Net finance expense** | (33) | (1) | (7) | - | - | - | (21) | - | (21) |
| **Revenue profit** | - | (2) | 7 | 29 | 1 | 1 | 18 | 2 | 20 |
| **Capital and other items** | | | | | | | | | |
| Net surplus on revaluation of investment properties | 86 | 87 | 56 | 73 | 19 | 19 | 170 | 1 | 171 |
| Movement in impairment of trading properties | - | - | - | - | - | - | - | 5 | 5 |
| Profit on disposal of investment properties | 1 | - | - | - | - | 4 | 3 | 1 | 4 |
| **Profit before tax** | 87 | 85 | 63 | 102 | 20 | 24 | 191 | 9 | 200 |
| Taxation | - | - | (1) | - | - | - | (1) | - | (1) |
| **Post-tax profit** | 87 | 85 | 62 | 102 | 20 | 24 | 190 | 9 | 199 |
| Other comprehensive income | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income** | 87 | 85 | 62 | 102 | 20 | 24 | 190 | 9 | 199 |
| | 50% | 50% | 50% | 50% | 50% | 50% | | | |
| **Group share of total comprehensive income** | 44 | 42 | 31 | 51 | 10 | 12 | 190 | 9 | 199 |

1. Revenue includes gross rental income (before rents payable), service charge income, other property related income, trading properties disposal proceeds and income from long-term development contracts

## 11. Joint arrangements continued

**2017**

| Joint ventures<br>Balance sheet | 20 Fenchurch Street Limited Partnership 100% £m | Nova, Victoria 100% £m | Metro Shopping Fund Limited Partnership 100% £m | St. David's Limited Partnership 100% £m | Westgate Oxford Alliance Partnership 100% £m | The Oriana Limited Partnership 100% £m | Individually material JVs (Group share) 50% £m | Other Group share £m | Total Group share £m |
|---|---|---|---|---|---|---|---|---|---|
| Investment properties[1] | 1,046 | 809 | 376 | 708 | 412 | 93 | 1,722 | 41 | 1,763 |
| **Non-current assets** | 1,046 | 809 | 376 | 708 | 412 | 93 | 1,722 | 41 | 1,763 |
| Cash and cash equivalents | 16 | 43 | 6 | 4 | 10 | 13 | 46 | 3 | 49 |
| Other current assets | 93 | 195 | 7 | 21 | 15 | 28 | 180 | 14 | 194 |
| **Current assets** | 109 | 238 | 13 | 25 | 25 | 41 | 226 | 17 | 243 |
| **Total assets** | 1,155 | 1,047 | 389 | 733 | 437 | 134 | 1,948 | 58 | 2,006 |
| Trade and other payables and provisions | (100) | (173) | (39) | (12) | (32) | (2) | (179) | (5) | (184) |
| **Current liabilities** | (100) | (173) | (39) | (12) | (32) | (2) | (179) | (5) | (184) |
| Non-current liabilities | - | - | (142) | (16) | - | (17) | (88) | - | (88) |
| **Non-current liabilities** | - | - | (142) | (16) | - | (17) | (88) | - | (88) |
| **Total liabilities** | (100) | (173) | (181) | (28) | (32) | (19) | (267) | (5) | (272) |
| **Net assets** | 1,055 | 874 | 208 | 705 | 405 | 115 | 1,681 | 53 | 1,734 |
| **Market value of investment properties[1]** | 1,135 | 815 | 379 | 707 | 411 | 93 | 1,770 | 42 | 1,812 |
| **Net (debt)/cash** | 16 | 43 | (166) | (12) | 10 | 13 | (48) | 2 | (46) |

**2016**

| Joint ventures<br>Balance sheet | 20 Fenchurch Street Limited Partnership 100% £m | Nova, Victoria 100% £m | Metro Shopping Fund Limited Partnership 100% £m | St. David's Limited Partnership 100% £m | Westgate Oxford Alliance Partnership 100% £m | The Oriana Limited Partnership 100% £m | Individually material JVs (Group share 50% £m | Other Group share £m | Total Group share £m |
|---|---|---|---|---|---|---|---|---|---|
| Investment properties[1] | 1,008 | 680 | 378 | 716 | 248 | 159 | 1,594 | 36 | 1,630 |
| **Non-current assets** | 1,008 | 680 | 378 | 716 | 248 | 159 | 1,594 | 36 | 1,630 |
| Cash and cash equivalents | 12 | 12 | 7 | 7 | 9 | 26 | 37 | 6 | 43 |
| Other current assets | 71 | 259 | 6 | 21 | 1 | 34 | 196 | 40 | 236 |
| **Current assets** | 83 | 271 | 13 | 28 | 10 | 60 | 233 | 46 | 279 |
| **Total assets** | 1,091 | 951 | 391 | 744 | 258 | 219 | 1,827 | 82 | 1,909 |
| Trade and other payables and provisions | (109) | (122) | (11) | (13) | (6) | (29) | (145) | (9) | (154) |
| **Current liabilities** | (109) | (122) | (11) | (13) | (6) | (29) | (145) | (9) | (154) |
| Non-current financial liabilities | - | - | (174) | - | - | - | (87) | - | (87) |
| **Non-current liabilities** | - | - | (174) | - | - | - | (87) | - | (87) |
| **Total liabilities** | (109) | (122) | (185) | (13) | (6) | (29) | (232) | (9) | (241) |
| **Net assets** | 982 | 829 | 206 | 731 | 252 | 190 | 1,595 | 73 | 1,668 |
| **Market value of investment properties[1]** | 1,075 | 680 | 381 | 732 | 247 | 159 | 1,637 | 36 | 1,673 |
| **Net (debt)/cash** | 12 | 12 | (167) | 7 | 9 | 26 | (50) | 6 | (44) |

1. The difference between the book value and the market value is the amount recognised in respect of lease incentives, head leases capitalised and properties treated as finance leases, where applicable.

## 11. Joint arrangements continued

| Joint ventures<br>Net investment | 20 Fenchurch Street Limited Partnership 50% £m | Nova, Victoria 50% £m | Metro Shopping Fund Limited Partnership 50% £m | St. David's Limited Partnership 50% £m | Westgate Oxford Alliance Partnership 50% £m | The Oriana Limited Partnership 50% £m | Individually material JVs (Group share) 50% £m | Other Group share £m | Total Group share £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2015 | 446 | 272 | 86 | 329 | 54 | 146 | 1,333 | 101 | 1,434 |
| Total comprehensive income | 44 | 42 | 31 | 51 | 10 | 12 | 190 | 9 | 199 |
| Cash contributed | - | - | - | - | 62 | - | 62 | - | 62 |
| Loan advances | 1 | 100 | 1 | - | - | - | 102 | 4 | 106 |
| Loan repayments | - | - | - | (14) | - | - | (14) | - | (14) |
| Property and other distributions | - | - | - | - | - | (56) | (56) | - | (56) |
| Cash distributions | - | - | (15) | - | - | (7) | (22) | (41) | (63) |
| **At 31 March 2016** | **491** | **414** | **103** | **366** | **126** | **95** | **1,595** | **73** | **1,668** |
| Total comprehensive income | **28** | **23** | **5** | **3** | **10** | **(1)** | **68** | **1** | **69** |
| Cash contributed | **-** | **-** | **-** | **-** | **67** | **-** | **67** | **-** | **67** |
| Loan advances | **8** | **37** | **-** | **-** | **-** | **-** | **45** | **-** | **45** |
| Loan repayments | **-** | **(37)** | **(1)** | **(16)** | **-** | **-** | **(54)** | **-** | **(54)** |
| Other distributions | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(12)** | **(12)** |
| Cash distributions | **-** | **-** | **(3)** | **-** | **-** | **(37)** | **(40)** | **(4)** | **(44)** |
| Disposal of investment | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(5)** | **(5)** |
| **At 31 March 2017** | **527** | **437** | **104** | **353** | **203** | **57** | **1,681** | **53** | **1,734** |

## 12. Capital structure

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Group | Joint ventures | Adjustment for non-wholly owned subsidiaries(1) | Combined | Group | Joint ventures | Adjustment for non-wholly owned subsidiaries(1) | Combined |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Property portfolio** | | | | | | | | |
| Market value of investment properties | 12,662 | 1,812 | (35) | 14,439 | 12,832 | 1,673 | (34) | 14,471 |
| Trading properties | 122 | 126 | - | 248 | 124 | 156 | - | 280 |
| **Total property portfolio (a)** | 12,784 | 1,938 | (35) | 14,687 | 12,956 | 1,829 | (34) | 14,751 |
| **Net debt** | | | | | | | | |
| Borrowings | 2,949 | 93 | - | 3,042 | 2,873 | 85 | - | 2,958 |
| Monies held in restricted accounts and deposits | (21) | - | - | (21) | (19) | - | - | (19) |
| Cash and cash equivalents | (30) | (49) | - | (79) | (25) | (43) | - | (68) |
| Fair value of interest-rate swaps | 2 | 2 | - | 4 | 32 | 2 | - | 34 |
| Fair value of foreign exchange swaps | 5 | - | - | 5 | - | - | - | - |
| **Net debt (b)** | 2,905 | 46 | - | 2,951 | 2,861 | 44 | - | 2,905 |
| Less: Fair value of interest-rate swaps | (2) | (2) | - | (4) | (32) | (2) | - | (34) |
| Reverse bond exchange de-recognition (note 13) | 314 | - | - | 314 | 368 | - | - | 368 |
| **Adjusted net debt (c)** | 3,217 | 44 | - | 3,261 | 3,197 | 42 | - | 3,239 |
| **Adjusted total equity** | | | | | | | | |
| Total equity (d) | 11,516 | - | - | 11,516 | 11,699 | - | - | 11,699 |
| Fair value of interest-rate swaps | 2 | 2 | - | 4 | 32 | 2 | - | 34 |
| Reverse bond exchange de-recognition (note 13) | (314) | - | - | (314) | (368) | - | - | (368) |
| **Adjusted total equity (e)** | 11,204 | 2 | - | 11,206 | 11,363 | 2 | - | 11,365 |
| **Gearing (b/d)** | 25.2% | | | 25.6% | 24.5% | | | 24.8% |
| **Adjusted gearing (c/e)** | 28.7% | | | 29.1% | 28.1% | | | 28.5% |
| **Group LTV (c/a)** | 25.2% | | | 22.2% | 24.7% | | | 22.0% |
| **Security Group LTV** | 28.3% | | | | 23.4% | | | |
| **Weighted average cost of debt** | 4.2% | | | 4.2% | 4.9% | | | 4.9% |

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

## 13. Borrowings

| | Secured/ unsecured | Fixed/ floating | Effective interest rate % | 31 March 2017 Nominal/ notional value £m | 31 March 2017 Fair value £m | 31 March 2017 Book value £m | 31 March 2016 Nominal/ notional value £m | 31 March 2016 Fair value £m | 31 March 2016 Book value £m |
|---|---|---|---|---|---|---|---|---|---|
| **Current borrowings** | | | | | | | | | |
| **Sterling** | | | | | | | | | |
| 5.253% QAG Bond | Secured | Fixed | 5.3 | **18** | **22** | **18** | 17 | 20 | 17 |
| **Commercial paper** | | | | | | | | | |
| Sterling | Unsecured | Floating | LIBOR + margin | **3** | **3** | **3** | 2 | 2 | 2 |
| Euro | Unsecured | Floating | LIBOR + margin | **261** | **261** | **261** | - | - | - |
| Swiss Franc | Unsecured | Floating | LIBOR + margin | **28** | **28** | **28** | - | - | - |
| US Dollar | Unsecured | Floating | LIBOR + margin | **94** | **94** | **94** | - | - | - |
| **Total current borrowings** | | | | **404** | **408** | **404** | 19 | 22 | 19 |
| | | | | | | | | | |
| **Non-current borrowings** | | | | | | | | | |
| **Sterling** | | | | | | | | | |
| A3 5.425% MTN due 2022 | Secured | Fixed | 5.5 | **46** | **53** | **46** | 255 | 291 | 255 |
| A10 4.875% MTN due 2025 | Secured | Fixed | 5.0 | **28** | **34** | **28** | 300 | 351 | 298 |
| A12 1.974% MTN due 2026 | Secured | Fixed | 2.0 | **400** | **411** | **399** | - | - | - |
| A4 5.391% MTN due 2026 | Secured | Fixed | 5.4 | **27** | **33** | **27** | 211 | 254 | 210 |
| A5 5.391% MTN due 2027 | Secured | Fixed | 5.4 | **585** | **749** | **583** | 608 | 749 | 606 |
| A6 5.376% MTN due 2029 | Secured | Fixed | 5.4 | **318** | **420** | **317** | 318 | 398 | 317 |
| A13 2.399% MTN due 2031 | Secured | Fixed | 2.4 | **300** | **314** | **299** | - | - | - |
| A7 5.396% MTN due 2032 | Secured | Fixed | 5.4 | **321** | **441** | **320** | 323 | 410 | 321 |
| A11 5.125% MTN due 2036 | Secured | Fixed | 5.1 | **500** | **689** | **499** | 500 | 624 | 499 |
| Bond exchange de-recognition adjustment | | | | | | **(314)** | | | (368) |
| | | | | **2,525** | **3,144** | **2,204** | 2,515 | 3,077 | 2,138 |
| | | | | | | | | | |
| 5.253% QAG Bond | Secured | Fixed | 5.3 | **255** | **310** | **255** | 272 | 327 | 272 |
| Syndicated bank debt | Secured | Floating | LIBOR + margin | **55** | **55** | **55** | 430 | 430 | 430 |
| Amounts payable under finance leases | Unsecured | Fixed | 5.7 | **31** | **42** | **31** | 14 | 18 | 14 |
| **Total non-current borrowings** | | | | **2,866** | **3,551** | **2,545** | 3,231 | 3,852 | 2,854 |
| | | | | | | | | | |
| **Total borrowings** | | | | **3,270** | **3,959** | **2,949** | 3,250 | 3,874 | 2,873 |

### Reconciliation of the movement in borrowings

| | 2017 £m | 2016 £m |
|---|---|---|
| At the beginning of the year | **2,873** | 3,784 |
| Proceeds from new borrowings | **361** | 249 |
| Repayment of borrowings | **(391)** | (806) |
| Redemption of medium term notes | **(690)** | (400) |
| Issue of medium term notes (net of finance fees) | **698** | - |
| Amortisation of bond exchange de-recognition adjustment | **24** | 23 |
| Bond exchange de-recognition adjustment on redemption of medium term notes | **30** | - |
| Foreign exchange movement on non-GBP borrowings | **23** | 23 |
| Other | **21** | - |
| **At 31 March** | **2,949** | 2,873 |

### Medium term notes (MTNs)

The MTNs are secured on the fixed and floating pool of assets of the Security Group. Debt investors benefit from security over a pool of investment properties, development properties and the Group's investment in Westgate Oxford Alliance Limited Partnership, Nova, Victoria, the St. David's Limited Partnership and 20 Fenchurch Street Limited Partnership, in total valued at **£12.9bn** at 31 March 2017 (31 March 2016: £12.6bn). The secured debt structure has a tiered operating covenant regime which gives the Group substantial flexibility when the loan-to-value and interest cover in the Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded, the operating environment becomes more restrictive with provisions to encourage a reduction in gearing. The interest rate is fixed until the expected maturity, being two years before the legal maturity date for each MTN, whereupon the interest rate for the last two years may either become LIBOR plus an increased margin (relative to that at the time of issue), or subject to a fixed coupon uplift, depending on the terms and conditions of the specific notes.

The effective interest rate is based on the coupon paid and includes the amortisation of issue costs. The MTNs are listed on the Irish Stock Exchange and their fair values are based on their respective market prices.

## 13. Borrowings continued

On 8 February 2017, the Group purchased £635m of MTNs for a premium of £124m. The Group purchased £206m of its A3 MTN due in 2022, £265m of its A10 MTN due in 2025 and £164m of its A4 MTN due in 2026. On the same date, the Group issued a £400m 1.974% MTN due in 2026 and a £300m 2.399% MTN due in 2031. Costs associated with the issues of the new MTNs of £2m have been capitalised within non-current borrowings.

Earlier in the year, the Group also purchased a further £55m of MTNs for a premium of £13m. The Group purchased £3m of its A3 MTN due in 2022, £7m of its A10 MTN due in 2025, £20m of its A4 MTN due in 2026, £23m of its A5 MTN due in 2027 and £2m of its A7 MTN due in 2032. The table below summarises the aggregate purchases, together with the premiums paid.

### MTN purchases

| | | **31 March 2017** | | 31 March 2016 | |
|---|---|---|---|---|---|
| | | **Purchases £m** | **Premium £m** | Purchases £m | Premium £m |
| A8 | 4.875% MTN due 2019 | **-** | **-** | 400 | 26 |
| A3 | 5.425% MTN due 2022 | **209** | **29** | - | - |
| A10 | 4.875% MTN due 2025 | **272** | **57** | - | - |
| A4 | 5.391% MTN due 2026 | **184** | **44** | - | - |
| A5 | 5.391% MTN due 2027 | **23** | **6** | - | - |
| A7 | 5.396% MTN due 2032 | **2** | **1** | - | - |
| | | **690** | **137** | 400 | 26 |

### Syndicated and bilateral bank debt

| | Maturity as at 31 March 2017 | Authorised | | Drawn | | Undrawn | |
|---|---|---|---|---|---|---|---|
| | | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Syndicated debt | 2021-22 | **1,815** | 1,380 | **55** | 430 | **1,760** | 950 |
| Bilateral debt | 2021 | **125** | 485 | **-** | - | **125** | 485 |
| | | **1,940** | 1,865 | **55** | 430 | **1,885** | 1,435 |

At 31 March 2017, our committed revolving facilities totalled **£1,940m** (31 March 2016: £1,865m). The £75m increase in committed facilities is the result of a £435m syndicated debt facility being arranged on 14 June 2016, and a £125m bilateral debt facility being arranged on 31 January 2017, offset by the cancellation of £350m of bilateral facilities on 14 June 2016 and the cancellation of a £135m bilateral facility on 24 November 2016.

All syndicated and bilateral facilities are committed and secured on the assets of the Security Group. In the year ended 31 March 2017, the amounts drawn under the Group's bilateral facilities and syndicated bank debt decreased by £375m.

The terms of the Security Group funding arrangements require undrawn facilities to be reserved where syndicated and bilateral facilities mature within one year, or where commercial paper has been issued. Accordingly, the Group's available undrawn facilities at 31 March 2017 were **£1,499m** (31 March 2016: £1,433m), compared with undrawn facilities of **£1,885m** (31 March 2016: £1,435m).

### Queen Anne's Gate Bond

On 29 July 2009, the Group issued a £360m bond secured on the rental cash flows from the commercial lease with the UK Government over Queen Anne's Gate (QAG). The QAG Bond is a fully amortising bond with a final maturity in February 2027 and a fixed interest rate of 5.253% per annum. At 31 March 2017, the bond had an amortised book value of **£273m** (31 March 2016: £289m). Since 31 March 2017, the Group has redeemed the QAG bond in its entirety, for a premium to nominal value of £63m.

### Fair values

The fair values of any floating rate financial liabilities are assumed to be equal to their nominal value, but adjusted for the effect of exit fees payable on redemption. The fair values of the MTNs and the QAG Bond fall within Level 1, the syndicated, bilateral facilities, commercial paper, interest-rate swaps and foreign exchange swaps fall within Level 2, and the amounts payable under finance leases fall within Level 3, as defined by IFRS 13. The fair value of the amounts payable under finance leases is determined using a discount rate of **4.2%** (31 March 2016: 4.9%).

### Bond exchange de-recognition

On 3 November 2004, a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new MTNs with higher nominal values. The new MTNs did not meet the IAS 39 conditions to be considered substantially different from the debt that they replaced. Consequently, the book value of the new debt is reduced to the book value of the original debt by the 'bond exchange de-recognition' adjustment which is then amortised to zero over the life of the new MTNs. The amortisation is included in finance expense in the income statement.

## 14. Monies held in restricted accounts and deposits

| | 2017 £m | 2016 £m |
|---|---|---|
| Cash at bank and in hand | **12** | 11 |
| Short-term deposits | **9** | 8 |
| | **21** | 19 |

The credit quality of monies held in restricted accounts and deposits can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed.

| | 2017 £m | 2016 £m |
|---|---|---|
| Counterparties with external credit ratings | | |
| A | **13** | 11 |
| BBB+ | **8** | 8 |
| | **21** | 19 |

## 15. Cash and cash equivalents

| | 2017 £m | 2016 £m |
|---|---|---|
| Cash at bank and in hand | **21** | 24 |
| Short-term deposits | **9** | 1 |
| | **30** | 25 |

### Short-term deposits

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed.

| | 2017 £m | 2016 £m |
|---|---|---|
| Counterparties with external credit ratings | | |
| A | **29** | 24 |
| BBB+ | **1** | 1 |
| | **30** | 25 |

## 16. Events after the reporting period

On 13 April 2017, the Group's joint arrangement, The Metro Shopping Fund Limited Partnership, completed the sale of ShopStop, Clapham Junction to DV4 (a fund owned by Delancey Real Estate Asset Management Limited (Delancey)). On the same date Delancey sold its stake in Metro to Invesco Real Estate European Fund. The partnership was subsequently renamed The Southside Limited Partnership and the £85m third-party debt in the fund was repaid in full.

Since 31 March 2017, the Group has redeemed the £273m Queen Anne's Gate bond in its entirety at a premium of £63m. The redemption was financed through existing Group facilities.

On 15 May 2017, the Group acquired three retail outlet centres from Britel Fund Trustees Limited (as trustee of the BT Pension Scheme). The three assets, Freeport, Braintree, Clarks Village, Street and Junction 32, Castleford, were acquired for a total consideration of £333m.

# Business analysis

## Table 15: Alternative performance measures

The Group has applied the European Securities and Markets Authority (ESMA) ‘Guidelines on Alternative Performance Measures’ in these annual results. In the context of these results, an alternative performance measure (APM) is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

The table below summarises the APMs included in these annual results, where the definitions and reconciliations of these measures can be found, as well where further discussion is included. The definitions of all APMs are included in the Glossary and further discussion of these measures can be found in the financial review.

| | Nearest IFRS measure | Reconciliation |
|---|---|---|
| Revenue profit | Profit before tax | Note 2 |
| Adjusted earnings | Profit attributable to owners of the parent | Note 3 |
| Adjusted earnings per share | Basic earnings per share | Note 3 |
| Adjusted diluted earnings per share | Diluted earnings per share | Note 3 |
| Adjusted net assets | Net assets attributable to owners of the parent | Note 3 |
| Adjusted net assets per share | Net assets attributable to owners of the parent | Note 3 |
| Adjusted diluted net assets per share | Net assets attributable to owners of the parent | Note 3 |
| Total business return | n/a | Note 3 |
| Combined Portfolio | Investment properties | Note 9 |
| Valuation surplus/deficit | Net surplus/deficit on revaluation of investment properties | Note 9 |
| Adjusted net debt | Borrowings | Note 12 |
| Group LTV | n/a | Note 12 |

## Table 16: EPRA performance measures

| | | | 31 March 2017 | |
|---|---|---|---|---|
| | Definition for EPRA measure | Notes | Land Securities measure | EPRA measure |
| Adjusted earnings | Recurring earnings from core operational activity(1) | 3 | **£382m** | **£359m** |
| Adjusted earnings per share | Adjusted earnings per weighted number of ordinary shares(1) | 3 | **48.4p** | **45.4p** |
| Adjusted diluted earnings per share | Adjusted diluted earnings per weighted number of ordinary shares(1) | 3 | **48.3p** | **45.4p** |
| Adjusted net assets | Net assets adjusted to exclude fair value movements on interest-rate swaps(2) | 3 | **£11,206m** | **£11,520m** |
| Adjusted diluted net assets per share | Adjusted diluted net assets per share(2) | 3 | **1,417p** | **1,456p** |
| Triple net assets | Adjusted net assets amended to include the fair value of financial instruments and debt | | **n/a** | **£10,502m** |
| Diluted triple net assets per share | Diluted triple net assets per share | | **n/a** | **1,328p** |
| Net initial yield (NIY) | Annualised rental income less non-recoverable costs as a % of market value plus assumed purchasers' costs(3) | | **3.6%** | **4.2%** |
| Topped-up NIY | NIY adjusted for rent free periods(3) | | **4.2%** | **4.4%** |
| Voids/vacancy rate | ERV of vacant space as a % of ERV of Combined Portfolio excluding the development programme(4) | | **4.6%** | **4.0%** |
| Cost ratio | Total costs as a percentage of gross rental income (including direct vacancy costs)(5) | | **17.9%** | **18.1%** |
| | Total costs as a percentage of gross rental income (excluding direct vacancy costs)(5) | | **n/a** | **16.2%** |

1. EPRA adjusted earnings and EPRA adjusted earnings per share include the amortisation of bond exchange de-recognition of £24m and the net head office relocation credit of £1m.
2. EPRA adjusted net assets and adjusted diluted net assets per share include the bond exchange de-recognition adjustment of £314m.
3. Our NIY and Topped-up NIY relate to the Combined Portfolio, excluding properties in the development programme that have not yet reached practical completion, and are calculated by our external valuer. EPRA NIY and EPRA Topped-up NIY calculations are consistent with ours, but excludes all developments.
4. Our measure reflects voids in our like-for-like portfolio only. The EPRA measure reflects voids in the Combined Portfolio excluding only the development programme.
5. The EPRA cost ratio is calculated based on gross rental income after rents payable, whereas our measure is based on gross rental income before rents payable. We do not calculate a cost ratio excluding direct vacancy costs as we do not consider this to be helpful.

## Table 17: Top 12 occupiers at 31 March 2017

| | % of Group rent(1) |
|---|---|
| Deloitte | 5.2 |
| Accor | 5.1 |
| Central Government | 5.1 |
| Mizuho Bank | 1.7 |
| Boots | 1.5 |
| Sainsbury's | 1.3 |
| Taylor Wessing | 1.2 |
| H&M | 1.2 |
| K&L Gates | 1.2 |
| M&S | 1.1 |
| Cineworld | 1.1 |
| Telecity Group | 1.1 |
| | **26.8** |

1. On a proportionate basis.

## Table 18: Development pipeline and trading property development schemes at 31 March 2017

### Development pipeline

| Property | Description of use | Ownership interest % | Size sq ft | Letting status % | Market value £m | Net income/ ERV £m | Actual/ estimated completion date | Total development costs to date £m | Forecast total development cost £m |
|---|---|---|---|---|---|---|---|---|---|
| **Developments after practical completion** | | | | | | | | | |
| The Zig Zag Building, SW1[1] | Office | 100 | 192,700 | 89 | 382 | 17 | Nov 2015 | 182 | 182 |
| | Retail | | 38,700 | 89 | | | | | |
| 20 Eastbourne Terrace, W2 | Office | 100 | 92,800 | 90 | 130 | 6 | May 2016 | 67 | 67 |
| **Developments approved or in progress** | | | | | | | | | |
| Nova, Victoria, SW1 | Office | 50 | 481,400 | 42 | 396 | 21 | Apr 2017 | 259 | 259 |
| | Retail | | 79,200 | 93 | | | | | |
| Oriana, W1 – Phase II | Retail | 50 | 30,700 | 100 | 47 | 2 | Jul 2017 | 19 | 20 |
| Westgate Oxford | Retail | 50 | 793,000 | 68 | 183 | 14 | Oct 2017 | 148 | 211 |
| **Proposed developments** | | | | | | | | | |
| Selly Oak, Birmingham | Retail | 50 | 200,000 | n/a | n/a | n/a | 2019 | n/a | n/a |
| | Residential | | 89,000 | n/a | n/a | n/a | 2019 | n/a | n/a |
| **Developments let and transferred or sold** | | | | | | | | | |
| 1 New Street Square, EC4 | Office | 100 | 274,800 | 100 | n/a[3] | 16 | Oct 2016 | 168 | 168 |
| 1 & 2 New Ludgate, EC4 | Office | 100 | 355,300 | 100 | n/a[3] | 24 | Apr 2015 | 248 | 248 |
| | Retail | | 26,700 | 100 | | | | | |
| Oriana, W1 – Phase II[2] | Retail | 50 | 41,800 | 100 | n/a[3] | n/a | n/a | n/a | n/a |

1. Includes retail within Kings Gate, SW1.
2. This represents the disposal of 28-32 Oxford Street, W1.
3. Once properties are transferred from the development pipeline, we do not report on their individual value.

Where the property is not 100% owned, floor areas and letting status shown above represent the full scheme whereas all other figures represent our proportionate share. Letting % is measured by ERV and shows letting status at 31 March 2017. Trading property development schemes are excluded from the development pipeline.

Total development cost

Refer to glossary for definition. Of the properties in the development pipeline at 31 March 2017, the only properties on which interest was capitalised on the land cost were Westgate Oxford and Nova, Victoria, SW1.

Net income/ERV

Net income/ERV represents headline annual rent on let units plus ERV at 31 March 2017 on unlet units, both after rents payable.

### Trading property development schemes

| Property | Description of use | Ownership interest % | Size sq ft | Number of units | Sales exchanged by unit % | Actual/ estimated completion date | Total development costs to date £m | Forecast total development cost £m |
|---|---|---|---|---|---|---|---|---|
| Kings Gate, SW1 | Residential | 100 | 108,600 | 100 | 95 | Oct 2015 | 163 | 163 |
| Nova, Victoria, SW1 | Residential | 50 | 166,800 | 170 | 87 | Apr 2017 | 146 | 146 |
| Oriana, W1 – Phase II | Residential | 50 | 20,200 | 18 | 22 | Jul 2017 | 14 | 15 |
| Westgate Oxford | Residential | 50 | 36,700 | 59 | - | Jul 2017 | 7 | 10 |

## Table 19: Combined Portfolio value by location at 31 March 2017

| | Shopping centres and shops | Retail parks | Offices | Hotels, leisure, residential & other | Total |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Central, inner and outer London | 14.6 | 0.2 | 46.7 | 3.4 | 64.9 |
| South East and East | 10.4 | 3.5 | - | 0.9 | 14.8 |
| Midlands | - | 0.6 | - | 0.4 | 1.0 |
| Wales and South West | 2.5 | 0.5 | - | 4.5 | 7.5 |
| North, North West, Yorkshire and Humberside | 7.1 | 0.9 | 0.1 | 0.5 | 8.6 |
| Scotland and Northern Ireland | 2.7 | 0.3 | - | 0.2 | 3.2 |
| **Total** | **37.3** | **6.0** | **46.8** | **9.9** | **100.0** |

% figures calculated by reference to the Combined Portfolio value of £14.4bn.

## Table 20: Combined Portfolio performance relative to IPD Total property returns – year ended 31 March 2017

| | Land Securities | IPD [1] |
|---|---|---|
| | % | % |
| Retail – Shopping centres | 3.6 | 1.1 |
| – Retail parks | 1.3 | 1.3 [2] |
| Central London shops | 9.8 | 8.6 |
| Central London offices | 2.0 | 2.6 |
| **Total** | **3.7 [3]** | **4.6** |

1. IPD Quarterly Universe
2. IPD Retail Warehouses Quarterly Universe
3. Includes leisure, hotel portfolio and other

## Table 21: Cost analysis

| | £m |
|---|---|
| Gross rental income (before rents payable) | 648 |
| Gross rental income (after rents payable) | 637 |
| Net service charge expense | (5) |
| Net direct property expenditure | (32) |
| **Net rental income** | **600** |
| Indirect costs | (39) |
| **Segment profit before finance expense** | **561** |
| Net unallocated expenses | (40) |
| Net finance expense - Group | (118) |
| Net finance expense - joint ventures | (21) |
| **Revenue profit** | **382** |

| | |
|---|---|
| **Direct property costs** | **£37m** |
| **Indirect expenses** | **£79m** |
| **Total** | **£116m** |
| **Total cost ratio[1]** | **17.9%** |

| | Year ended 31 March 2017 Total £m | Year ended 31 March 2017 Cost ratio %[1] | Year ended 31 March 2016 Total £m | Year ended 31 March 2016 Cost ratio %[1] |
|---|---|---|---|---|
| Managed operations | **8** | **1.2** | 8 | 1.2 |
| Tenant default | **2** | **0.3** | 9 | 1.4 |
| Void related costs | **13** | **2.0** | 15 | 2.3 |
| Other direct property costs | **12** | **1.9** | 12 | 1.8 |
| Development expenditure | **16** | **2.5** | 20 | 3.0 |
| Asset management, administration and compliance | **65** | **10.0** | 59 | 9.0 |
| **Total (incl. direct vacancy costs)** | **116** | **17.9** | 123 | 18.7 |
| Head office relocation | (1) | | 6 | |
| **EPRA costs (incl. direct vacancy costs)** | **115** | **18.1** | 129 | 19.9 |
| Less: Direct vacancy costs | (12) | | (15) | |
| **EPRA (excl. direct vacancy costs)** | **103** | **16.2** | 114 | 17.5 |

1. Percentages represent costs divided by gross rental income including finance leases, before rents payable. This is with the exception of EPRA measures which represent costs divided by gross rental income including finance leases, after rents payable.

## Table 22: Combined Portfolio analysis
## Like-for-like segmental analysis

| | Market value(1) | | Valuation movement(2) | | Rental income(3) | | Annualised rental income(4) | Annualised net rent(5) | | Net estimated rental value(6) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2017 | 31 March 2016 | Surplus/ (deficit) | Surplus/ (deficit) | 31 March 2017 | 31March 2016 | 31 March 2017 | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| | £m | £m | £m | % | £m | £m | £m | £m | £m | £m | £m |
| **Retail Portfolio** | | | | | | | | | | | |
| Shopping centres and shops | **3,663** | 3,677 | **(47)** | **(1.3%)** | **194** | 195 | **184** | **179** | 180 | **195** | 190 |
| Retail parks | **855** | 886 | **(37)** | **(4.2%)** | **52** | 52 | **52** | **51** | 50 | **51** | 51 |
| Leisure and hotels | **1,361** | 1,323 | **30** | **2.3%** | **82** | 84 | **81** | **79** | 78 | **82** | 81 |
| Other | **20** | 20 | **-** | **(2.0%)** | **2** | 2 | **1** | **2** | 2 | **2** | 2 |
| **Total Retail Portfolio** | **5,899** | 5,906 | **(54)** | **(0.9%)** | **330** | 333 | **318** | **311** | 310 | **330** | 324 |
| **London Portfolio** | | | | | | | | | | | |
| West End | **2,020** | 2,084 | **(87)** | **(4.3%)** | **89** | 88 | **91** | **89** | 84 | **98** | 96 |
| City | **797** | 797 | **(25)** | **(3.1%)** | **29** | 28 | **29** | **32** | 32 | **40** | 37 |
| Mid-town | **1,013** | 1,053 | **(50)** | **(5.1%)** | **40** | 39 | **40** | **43** | 42 | **49** | 49 |
| Inner London | **323** | 320 | **(13)** | **(7.8%)** | **14** | 13 | **14** | **15** | 9 | **17** | 17 |
| **Total London offices** | **4,153** | 4,254 | **(175)** | **(4.4%)** | **172** | 168 | **174** | **179** | 167 | **204** | 199 |
| Central London shops | **1,267** | 1,181 | **82** | **6.9%** | **45** | 44 | **34** | **34** | 45 | **58** | 55 |
| Other | **41** | 45 | **(4)** | **(7.8%)** | **2** | 2 | **1** | **1** | 1 | **1** | 1 |
| **Total London Portfolio** | **5,461** | 5,480 | **(97)** | **(1.8%)** | **219** | 214 | **209** | **214** | 213 | **263** | 255 |
| **Like-for-like portfolio** (10) | **11,360** | 11,386 | **(151)** | **(1.4%)** | **549** | 547 | **527** | **525** | 523 | **593** | 579 |
| Proposed developments (3) | **6** | 4 | **(3)** | **(33.2%)** | **-** | - | **-** | **-** | - | **-** | - |
| Development programme (11) | **1,138** | 1,013 | **14** | **1.3%** | **21** | 8 | **25** | **1** | - | **60** | 63 |
| Completed developments (3) | **1,841** | 1,771 | **(7)** | **(0.4%)** | **63** | 47 | **70** | **40** | 16 | **86** | 85 |
| Acquisitions (12) | **94** | 90 | **-** | **0.4%** | **4** | 2 | **4** | **4** | 4 | **4** | 3 |
| Sales (13) | **-** | 207 | **-** | **-** | **11** | 56 | **-** | **-** | 13 | **-** | 12 |
| **Combined Portfolio** | **14,439** | 14,471 | **(147)** | **(1.0%)** | **648** | 660 | **626** | **570** | 556 | **743** | 742 |
| Properties treated as finance leases | | | | | **(10)** | (10) | | | | | |
| **Combined Portfolio** | **14,439** | 14,471 | **(147)** | **(1.0%)** | **638** | 650 | | | | | |

## Total portfolio analysis

| | Market value(1) | | Valuation movement(2) | | Rental income(3) | | Annualised rental income(4) | Annualised net rent(5) | | Net estimated rental value(6) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2017 | 31 March 2016 | Surplus/ (deficit) | Surplus/ (deficit) | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| | £m | £m | £m | % | £m | £m | £m | £m | £m | £m | £m |
| **Retail Portfolio** | | | | | | | | | | | |
| Shopping centres and shops | **3,860** | 3,790 | **(37)** | **(0.9%)** | **195** | 196 | **185** | **179** | 180 | **210** | 205 |
| Retail parks | **861** | 890 | **(40)** | **(4.5%)** | **52** | 68 | **52** | **51** | 50 | **51** | 51 |
| Leisure and hotels | **1,384** | 1,542 | **30** | **2.2%** | **94** | 98 | **82** | **80** | 91 | **83** | 93 |
| Other | **20** | 20 | **-** | **(1.9%)** | **2** | 2 | **1** | **2** | 2 | **2** | 2 |
| **Total Retail Portfolio** | **6,125** | 6,242 | **(47)** | **(0.8%)** | **343** | 364 | **320** | **312** | 323 | **346** | 351 |
| **London Portfolio** | | | | | | | | | | | |
| West End | **3,247** | 3,262 | **(103)** | **(3.2%)** | **123** | 109 | **127** | **107** | 97 | **156** | 156 |
| City | **1,853** | 1,814 | **(14)** | **(0.8%)** | **66** | 65 | **67** | **53** | 36 | **88** | 83 |
| Mid-town | **1,336** | 1,325 | **(48)** | **(3.7%)** | **48** | 41 | **55** | **42** | 41 | **67** | 67 |
| Inner London | **323** | 320 | **(13)** | **(7.8%)** | **14** | 28 | **14** | **15** | 9 | **17** | 17 |
| **Total London offices** | **6,759** | 6,721 | **(178)** | **(2.8%)** | **251** | 243 | **263** | **217** | 183 | **328** | 323 |
| Central London shops | **1,514** | 1,462 | **82** | **5.7%** | **52** | 51 | **42** | **40** | 49 | **68** | 67 |
| Other | **41** | 46 | **(4)** | **(7.9%)** | **2** | 2 | **1** | **1** | 1 | **1** | 1 |
| **Total London Portfolio** | **8,314** | 8,229 | **(100)** | **(1.3%)** | **305** | 296 | **306** | **258** | 233 | **397** | 391 |
| **Combined Portfolio** | **14,439** | 14,471 | **(147)** | **(1.0%)** | **648** | 660 | **626** | **570** | 556 | **743** | 742 |
| Properties treated as finance leases | | | | | **(10)** | (10) | | | | | |
| **Combined Portfolio** | **14,439** | 14,471 | **(147)** | **(1.0%)** | **638** | 650 | | | | | |
| | | | | | | | | | | | |
| **Represented by:** | | | | | | | | | | | |
| Investment portfolio | **12,628** | 12,800 | **(187)** | **(1.5%)** | **585** | 600 | **571** | **523** | 527 | **650** | 650 |
| Share of joint ventures | **1,811** | 1,671 | **40** | **2.3%** | **53** | 50 | **55** | **47** | 29 | **93** | 92 |
| **Combined Portfolio** | **14,439** | 14,471 | **(147)** | **(1.0%)** | **638** | 650 | **626** | **570** | 556 | **743** | 742 |

# Table 22: Combined Portfolio analysis continued

## Like-for-like segmental analysis

| | Gross estimated rental value(7) | | Net initial yield(8) | | Equivalent yield(9) | | Voids (by ERV)(3) | |
|---|---|---|---|---|---|---|---|---|
| | **31 March 2017** | 31 March 2016 | **31 March 2017** | 31 March 2016 | **31 March 2017** | 31 March 2016 | **31 March 2017** | 31 March 2016 |
| | **£m** | £m | **%** | % | **%** | % | **%** | % |
| **Retail Portfolio** | | | | | | | | |
| Shopping centres and shops | **203** | 197 | **4.3%** | 4.4% | **4.8%** | 4.7% | **3.9%** | 2.9% |
| Retail parks | **52** | 52 | **5.5%** | 5.1% | **5.6%** | 5.4% | **-** | - |
| Leisure and hotels | **82** | 81 | **5.2%** | 5.3% | **5.4%** | 5.5% | **0.7%** | 0.5% |
| Other | **2** | 2 | **3.8%** | 6.3% | **8.3%** | 8.2% | **33.3%** | 21.7% |
| **Total Retail Portfolio** | **339** | 332 | **4.7%** | 4.7% | **5.0%** | 5.0% | **2.8%** | 2.0% |
| **London Portfolio** | | | | | | | | |
| West End | **98** | 96 | **4.0%** | 3.8% | **4.6%** | 4.5% | **7.6%** | 4.7% |
| City | **41** | 38 | **3.8%** | 3.7% | **4.8%** | 4.5% | **-** | - |
| Mid-town | **50** | 51 | **4.0%** | 3.8% | **4.5%** | 4.4% | **-** | 0.4% |
| Inner London | **17** | 17 | **4.2%** | 2.6% | **5.0%** | 4.9% | **-** | - |
| **Total London offices** | **206** | 202 | **4.0%** | 3.7% | **4.7%** | 4.5% | **3.6%** | 2.3% |
| Central London shops | **58** | 56 | **2.5%** | 3.5% | **4.1%** | 4.0% | **18.6%** | 4.9% |
| Other | **1** | 1 | **0.9%** | 1.0% | **1.3%** | 1.5% | **33.3%** | 16.7% |
| **Total London Portfolio** | **265** | 259 | **3.6%** | 3.6% | **4.5%** | 4.4% | **7.0%** | 2.9% |
| **Like-for-like portfolio** (10) | **604** | 591 | **4.2%** | 4.2% | **4.8%** | 4.7% | **4.6%** | 2.4% |
| Proposed developments (3) | **-** | - | **-** | - | **n/a** | n/a | **n/a** | n/a |
| Development programme (11) | **61** | 64 | **0.1%** | - | **4.2%** | 4.0% | **n/a** | n/a |
| Completed developments (3) | **87** | 85 | **2.0%** | 0.8% | **4.2%** | 4.1% | **n/a** | n/a |
| Acquisitions (12) | **4** | 3 | **3.7%** | 3.6% | **3.8%** | n/a | **n/a** | n/a |
| Sales (13) | **-** | 12 | **-** | 5.5% | **n/a** | n/a | **n/a** | n/a |
| **Combined Portfolio** | **756** | 755 | **3.6%** | 3.5% | **4.7%** | n/a | **n/a** | n/a |

## Total portfolio analysis

| | Gross estimated rental value(7) | | Net initial yield(8) | |
|---|---|---|---|---|
| | **31 March 2017** | 31 March 2016 | **31 March 2017** | 31 March 2016 |
| | **£m** | £m | **%** | % |
| **Retail Portfolio** | | | | |
| Shopping centres and shops | **219** | 213 | **4.1%** | 4.2% |
| Retail parks | **52** | 52 | **5.4%** | 5.1% |
| Leisure and hotels | **83** | 93 | **5.2%** | 5.3% |
| Other | **2** | 2 | **3.8%** | 6.3% |
| **Total Retail Portfolio** | **356** | 360 | **4.5%** | 4.6% |
| **London Portfolio** | | | | |
| West End | **156** | 156 | **3.0%** | 2.8% |
| City | **89** | 84 | **2.7%** | 1.7% |
| Mid-town | **68** | 69 | **3.0%** | 3.0% |
| Inner London | **17** | 17 | **4.2%** | 2.6% |
| **Total London offices** | **330** | 326 | **3.0%** | 2.5% |
| Central London shops | **69** | 68 | **2.4%** | 3.1% |
| Other | **1** | 1 | **0.9%** | 1.1% |
| **Total London Portfolio** | **400** | 395 | **2.9%** | 2.6% |
| **Combined Portfolio** | **756** | 755 | **3.6%** | 3.5% |
| | | | | |
| **Represented by:** | | | | |
| Investment portfolio | **661** | 661 | **3.7%** | 3.7% |
| Share of joint ventures | **95** | 94 | **2.4%** | 1.7% |
| **Combined Portfolio** | **756** | 755 | **3.6%** | 3.5% |

## Notes:

1. The market value figures are determined by the Group's external valuer.
2. The valuation movement is stated after adjusting for the effect of SIC15 under IFRS.
3. Refer to glossary for definition.
4. Annualised rental income is annual 'rental income' (as defined in the glossary) at the balance sheet date, except that car park and commercialisation income are included on a net basis (after deduction for operational outgoings). Annualised rental income includes temporary lettings.
5. Annualised net rent is annual cash rent, after the deduction of ground rents, as at the balance sheet date. It is calculated with the same methodology as annualised rental income but is stated net of ground rent and before SIC15 adjustments.
6. Net estimated rental value is gross estimated rental value, as defined in the glossary, after deducting expected ground rents.
7. Gross estimated rental value (ERV) - refer to glossary for definition. The figure for proposed developments relates to the existing buildings and not the schemes proposed.
8. Net initial yield - refer to glossary for definition. This calculation includes all properties including those sites with no income.
9. Equivalent yield – refer to glossary for definition. Proposed developments are excluded from the calculation of equivalent yield on the Combined Portfolio.
10. The like-for-like portfolio – refer to glossary for definition. Capital expenditure on refurbishments, acquisitions of head leases and similar capital expenditure has been allocated to the like-for-like portfolio in preparing this table.
11. The development programme - refer to glossary for definition. Net initial yield figures are only calculated for properties in the development programme that have reached practical completion.
12. Includes all properties acquired since 1 April 2015.
13. Includes all properties sold since 1 April 2015.

## Table 23: Lease lengths

| | Weighted average unexpired lease term at 31 March 2017 | |
|---|---|---|
| | Like-for-like portfolio<br>Mean(1)<br>Years | Like-for-like portfolio, completed developments and acquisitions<br>Mean(1)<br>Years |
| **Retail Portfolio** | | |
| Shopping centres and shops | 6.5 | 6.5 |
| Retail parks | 7.6 | 7.6 |
| Leisure and hotels | 12.4 | 12.5 |
| Other | 1.9 | 1.9 |
| **Total Retail Portfolio** | **8.2** | **8.2** |
| | | |
| **London Portfolio** | | |
| West End | 8.0 | 8.0 |
| City | 6.1 | 10.9 |
| Mid-town | 9.5 | 12.2 |
| Inner London | 15.8 | 15.8 |
| **Total London offices** | **8.6** | **10.3** |
| Central London shops | 6.8 | 7.2 |
| Other | 6.7 | 6.7 |
| **Total London Portfolio** | **8.3** | **9.9** |
| | | |
| **Combined Portfolio** | **8.2** | **9.1** |

1. Mean is the rent weighted average of the unexpired lease term across all leases (excluding short-term leases). Term is defined as the earlier of tenant break or expiry.

## Table 24: Development pipeline financial summary

| | Cumulative movements on the development programme to 31 March 2017 | | | | | | Total scheme details(1) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Market value at start of scheme** | Capital expenditure incurred to date | Capitalised interest to date | Valuation surplus/(deficit) to date(2) | Disposals, SIC15 rent and other adjustments | **Market value at 31 March 2017** | Estimated total capital expenditure(3) | Estimated total capitalised interest | Estimated total development cost(4) | Net Income/ ERV(5) | **Valuation (deficit)/surplus for the year ended 31 March 2017(2)** |
| | **£m** | £m | £m | £m | £m | **£m** | £m | £m | £m | £m | **£m** |
| **Developments let and transferred or sold** | | | | | | | | | | | |
| Shopping centres and shops | **-** | - | - | - | - | **-** | - | - | - | - | **-** |
| Retail parks | **-** | - | - | - | - | **-** | - | - | - | - | **-** |
| London Portfolio | **137** | 283 | 16 | 405 | 4 | **845** | 277 | 15 | 416 | 40 | **(9)** |
| | **137** | 283 | 16 | 405 | 4 | **845** | 277 | 15 | 416 | 40 | **(9)** |
| **Developments after practical completion, approved or in progress** | | | | | | | | | | | |
| Shopping centres and shops | **30** | 115 | 8 | 32 | (2) | **183** | 171 | 10 | 211 | 14 | **10** |
| Retail parks | **-** | - | - | - | - | **-** | - | - | - | - | **-** |
| London Portfolio | **212** | 385 | 44 | 401 | (87) | **955** | 272 | 44 | 528 | 46 | **4** |
| | **242** | 500 | 52 | 433 | (89) | **1,138** | 443 | 54 | 739 | 60 | **14** |
| | Movement on proposed developments for the year ended 31 March 2017 | | | | | | | | | | |
| **Proposed developments** | | | | | | | | | | | |
| Shopping centres and shops | **-** | - | - | - | - | **-** | - | - | - | - | **-** |
| Retail parks | **4** | 2 | - | (3) | 3 | **6** | 44 | 1 | 51 | 3 | **(3)** |
| London Portfolio | **-** | - | - | - | - | **-** | - | - | - | - | **-** |
| | **4** | 2 | - | (3) | 3 | **6** | 44 | 1 | 51 | 3 | **(3)** |

1. Total scheme details exclude properties sold in the year.
2. Includes profit realised on the disposal of investment properties and any surplus or deficit on investment properties transferred to trading.
3. For proposed development properties the estimated total capital expenditure represents the outstanding costs required to complete the scheme as at 31 March 2017.
4. Includes the property at its market value at the start of the financial year in which the property was added to the development programme together with estimated capitalised interest. For proposed development properties, the market value of the property at 31 March 2017 is included in the estimated total cost. Estimated costs for proposed schemes could still be subject to material change prior to final approval.
5. Net headline annual rent on let units plus net ERV at 31 March 2017 on unlet units.

## Table 25: Reconciliation of segmental information note to statutory reporting

The table below reconciles the Group's income statement to the segmental information note (note 2 to the financial statements). The Group's income statement is prepared using the equity accounting method for joint ventures and includes 100% of the results of the Group's non-wholly owned subsidiaries. In contrast, the segmental information note is prepared on a proportionately consolidated basis and excludes the non-wholly owned share of the Group's subsidiaries. This is consistent with the financial information reviewed by management.

| | Year ended 31 March 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Group income statement £m | Joint ventures[1] £m | Proportionate share of earnings[2] £m | Total £m | Revenue profit £m | Capital and other items £m |
| Rental income | 587 | 53 | (2) | 638 | 638 | - |
| Finance lease interest | 10 | - | - | 10 | 10 | - |
| **Gross rental income (before rents payable)** | **597** | **53** | (2) | **648** | **648** | **-** |
| Rents payable | (10) | (1) | - | (11) | (11) | - |
| **Gross rental income (after rents payable)** | **587** | **52** | **(2)** | **637** | **637** | **-** |
| Service charge income | 94 | 9 | (2) | 101 | 101 | - |
| Service charge expense | (96) | (11) | 1 | (106) | (106) | - |
| Net service charge expense | (2) | (2) | (1) | (5) | (5) | - |
| Other property related income | 32 | 2 | - | 34 | 34 | - |
| Direct property expenditure | (58) | (8) | - | (66) | (66) | - |
| **Net rental income** | **559** | **44** | **(3)** | **600** | **600** | **-** |
| Indirect property expenditure | (79) | (2) | - | (81) | (81) | - |
| Other income | 2 | - | - | 2 | 2 | - |
| | **482** | **42** | **(3)** | **521** | **521** | **-** |
| Profit on disposal of investment properties | 19 | 1 | - | 20 | - | 20 |
| Loss on disposal of investment in joint venture | (2) | - | - | (2) | - | (2) |
| Profit on disposal of other investment | 13 | - | - | 13 | - | 13 |
| Net (deficit)/surplus on revaluation of investment properties | (186) | 40 | (1) | (147) | - | (147) |
| Movement in impairment of trading properties | 12 | - | - | 12 | - | 12 |
| Profit on disposal of trading properties | 29 | 7 | - | 36 | - | 36 |
| Head office relocation | 1 | - | - | 1 | - | 1 |
| Other | (3) | - | 4 | 1 | - | 1 |
| **Operating profit** | **365** | **90** | - | **455** | **521** | **(66)** |
| Finance income | 37 | - | - | 37 | 37 | - |
| Finance expense | (359) | (21) | - | (380) | (176) | (204) |
| Share of post-tax profit from joint ventures | 69 | (69) | - | - | - | - |
| **Profit before tax** | **112** | **-** | **-** | **112** | **382** | **(270)** |
| Taxation | 1 | - | - | 1 | - | 1 |
| **Profit attributable to owners of the parent** | **113** | **-** | **-** | **113** | **382** | **(269)** |

1. Reallocation of the share of post-tax profit from joint ventures reported in the Group income statement to the individual line items reported in the segmental information note.
2. Removal of the non-wholly owned share of results of the Group's subsidiaries. The non-wholly owned subsidiaries are consolidated at 100% in the Group's income statement, but only the Group's share is included in revenue profit reported in the segmental information note.

| | Year ended 31 March 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Group income statement £m | Joint ventures[(1)] £m | Proportionate share of earnings[(2)] £m | Total £m | Revenue profit £m | Capital and other items £m |
| Rental income | 603 | 50 | (3) | 650 | 650 | - |
| Finance lease interest | 10 | - | - | 10 | 10 | - |
| **Gross rental income (before rents payable)** | **613** | **50** | **(3)** | **660** | **660** | **-** |
| Rents payable | (11) | (1) | - | (12) | (12) | - |
| **Gross rental income (after rents payable)** | **602** | **49** | **(3)** | **648** | **648** | **-** |
| Service charge income | 94 | 8 | - | 102 | 102 | - |
| Service charge expense | (96) | (9) | - | (105) | (105) | - |
| Net service charge expense | (2) | (1) | - | (3) | (3) | - |
| Other property related income | 36 | 2 | - | 38 | 38 | - |
| Direct property expenditure | (72) | (7) | - | (79) | (79) | - |
| **Net rental income** | **564** | **43** | **(3)** | **604** | **604** | **-** |
| Indirect property expenditure | (80) | (2) | - | (82) | (82) | - |
| Other income | 4 | - | - | 4 | 4 | - |
| | **488** | **41** | **(3)** | **526** | **526** | **-** |
| Profit on disposal of investment properties | 75 | 4 | - | 79 | - | 79 |
| Net surplus on revaluation of investment properties | 739 | 171 | (3) | 907 | - | 907 |
| Movement in impairment of trading properties | 11 | 5 | - | 16 | - | 16 |
| Profit on disposal of trading properties | 41 | - | - | 41 | - | 41 |
| Head office relocation | (6) | - | - | (6) | - | (6) |
| Other | (2) | (1) | 6 | 3 | - | 3 |
| **Operating profit** | **1,346** | **220** | **-** | **1,566** | **526** | **1,040** |
| Finance income | 35 | - | - | 35 | 35 | - |
| Finance expense | (244) | (21) | - | (265) | (199) | (66) |
| Share of profit from joint ventures | 199 | (199) | - | - | - | - |
| **Profit before tax** | **1,336** | **-** | **-** | **1,336** | **362** | **974** |
| Taxation | 2 | - | - | 2 | - | 2 |
| **Profit attributable to owners of the parent** | **1,338** | **-** | **-** | **1,338** | **362** | **976** |

1. Reallocation of the share of post-tax profit from joint ventures reported in the Group income statement to the individual line items reported in the segmental information note.
2. Removal of the non-wholly owned share of results of the Group's subsidiaries. The non-wholly owned subsidiaries are consolidated at 100% in the Group's income statement, but only the Group's share is included in revenue profit reported in the segmental information note.

## Table 26: Acquisitions, disposals and capital expenditure

| | Year ended 31 March 2017 | | | | Year ended 31 March 2016 |
|---|---|---|---|---|---|
| | Group (excl. joint ventures) £m | Joint ventures £m | Adjustment for proportionate share £m | Combined Portfolio £m | Combined Portfolio £m |
| **Investment properties** | | | | | |
| **Net book value at the beginning of the year** | **12,358** | **1,630** | **(34)** | **13,954** | **13,529** |
| Acquisitions | 14 | 1 | - | **15** | 123 |
| Capital expenditure | 126 | 114 | - | **240** | 312 |
| Capitalised interest | 5 | 13 | - | **18** | 23 |
| Disposals | (205) | (39) | - | **(244)** | (940) |
| Net movement in finance leases | 32 | 9 | 1 | **42** | - |
| Transfer to trading properties | - | (5) | - | **(5)** | - |
| Net (deficit)/surplus on revaluation of investment properties | (186) | 40 | (1) | **(147)** | 907 |
| **Net book value at the end of the year** | **12,144** | **1,763** | **(34)** | **13,873** | **13,954** |
| **Profit on disposal of investment properties** | **19** | **1** | **-** | **20** | **79** |
| **Trading properties** | | | | | |
| **Net book value at the beginning of the year** | **124** | **157** | **-** | **281** | **337** |
| Capital expenditure | 19 | 27 | - | **46** | 61 |
| Capitalised interest | - | 5 | - | **5** | 6 |
| Disposals | (33) | (68) | - | **(101)** | (140) |
| Transfer from investment properties | - | 5 | - | **5** | - |
| Movement in impairment | 12 | - | - | **12** | 16 |
| **Net book value at the end of the year** | **122** | **126** | **-** | **248** | **280** |
| **Profit on disposal of trading properties** | **29** | **7** | **-** | **36** | **41** |
| **Investment in joint ventures** | | | | | |
| **Loss on disposal of investment in joint venture** | **(2)** | **-** | **-** | **(2)** | **-** |
| **Other investments** | | | | | |
| **Profit on disposal of other investment** | **13** | **-** | **-** | **13** | **-** |

| **Acquisitions, development and refurbishment expenditure** | **£m** | **£m** |
|---|---|---|
| Acquisitions of investment property | **15** | 123 |
| Capital expenditure – investment property | **81** | 160 |
| Development capital expenditure – investment properties | **159** | 152 |
| Capital expenditure – trading properties | **19** | 51 |
| Development capital expenditure – trading property | **27** | 10 |
| **Acquisitions, development and refurbishment expenditure** | **301** | **496** |

| **Disposals** | **£m** | **£m** |
|---|---|---|
| Net book value – investment property disposals | **244** | 940 |
| Net book value – trading property disposals | **101** | 140 |
| Profit on disposal – investment property | **20** | 79 |
| Profit on disposal – trading property | **36** | 41 |
| Loss on disposal – investment in joint venture | **(2)** | - |
| Profit on disposal – other investment | **13** | - |
| Disposal of asset held for sale | **-** | 283 |
| Other | **1** | 10 |
| **Total disposal proceeds** | **413** | **1,493** |

# Investor information

**1. Company website: www.landsecurities.com**

The Group's half-yearly and annual reports to shareholders, and results announcements and presentations, are available to view and download from the Company's website. The website also provides details of the Company's current share price, the latest news about the Group, its properties and operations, and details of future events and how to obtain further information.

**2. Registrar: Equiniti Group PLC**

Enquiries concerning shareholdings, dividends and changes in personal details should be referred to the Company's registrar, Equiniti Group PLC (Equiniti), in the first instance. They can be contacted using the details below:

**Telephone:**
0371 384 2128 (from the UK)

+44 121 415 7049 (from outside the UK)

Lines are open from 08:30 to 17:30, Monday to Friday, excluding UK public holidays

**Correspondence address:**
Equiniti Group PLC
Aspect House
Spenser Road
Lancing
West Sussex
BN99 6DA

Information on how to manage your shareholding can be found at https://help.shareview.co.uk. If you are not able to find the answer to your question within the general Help information page, a personal enquiry can be sent directly through Equiniti's secure e-form on their website. Please note that you will be asked to provide your name, address, shareholder reference number and a valid e-mail address. Alternatively, shareholders can view and manage their shareholding through the Land Securities share portal which is hosted by Equiniti – simply visit https://portfolio.shareview.co.uk and follow the registration instructions.

**3. Shareholder enquiries**

If you have an enquiry about the Company's business or about something affecting you as a shareholder (other than queries which are dealt with by the Registrar), please email Investor Relations (see details in 8. below).

**4. Share dealing services: www.shareview.co.uk**

The Company's shares can be traded through most banks, building societies and stockbrokers. They can also be traded through Equiniti. To use their service, shareholders should contact Equiniti: 0345 603 7037 from the UK. Lines are open Monday to Friday 08:30 to17:30, excluding UK public holidays.

**5. 2016/17 final dividend**

The Board has recommended a final dividend for the year ended 31 March 2017 of 11.7p per ordinary share to be paid as a Property Income Distribution (PID). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 27 July 2017 to shareholders registered at the close of business on 23 June 2017. The total dividend paid and payable in respect of the year ended 31 March 2017 is 38.55p (2016: 35.0p). The first quarterly dividend for the year ended 31 March 2018 will be 9.85p. It will be paid entirely as a PID on 6 October 2017, to shareholders on the register at the close of business on 8 September 2017.

**6. Dividend related services**

Dividend payments to UK shareholders – Dividend Mandates
We recommend that dividends are paid directly into a nominated bank or building society account through the Bankers Automated Clearing System (BACS). This service provides cleared funds on the dividend payment date, is more secure than sending a cheque by post and avoids the inconvenience of paying each dividend by cheque. This arrangement is only available in respect of dividends paid in sterling.

Dividend payments to overseas shareholders – International Payment Service
For international shareholders who would prefer to receive payment of their dividends in local currency and directly into their local bank account, an Overseas Payment Service (OPS) is available. This can be more convenient and effective than otherwise receiving dividend payments by sterling cheque or into a UK bank account.

The OPS service is available from Equiniti who, in partnership with Citibank, may be able to convert sterling dividends into your local currency at competitive rates and either arrange for those funds to be sent to you by currency draft or credited to your bank account directly.

Dividend Reinvestment Plan (DRIP)
A DRIP is available from Equiniti. This facility provides an opportunity by which shareholders can conveniently and easily increase their holding in the Company by using their cash dividends to buy more shares. Participation in the DRIP will mean that your dividend payments will be

reinvested in the Company's shares and these will be purchased on your behalf in the market on, or as soon as practical after, the dividend payment date.

You may only participate in the DRIP if you are resident in the European Economic Area, Channel Islands or Isle of Man.

For further information (including terms and conditions) and to register for any of these dividend-related services, simply visit www.shareview.co.uk.

### 7. Financial reporting calendar

| | **2017** |
|---|---|
| Annual Report and AGM Notice mailed to shareholders | 12 June |
| Annual General Meeting | 13 July |
| Half-yearly results announcement | 14 November |
| | **2018** |
| Financial year end | 31 March |
| Preliminary results announcement | 15 May* |

* Provisional date only

### 8. Investor relations enquiries

For investor relations enquiries, please contact Edward Thacker, Head of Investor Relations at Land Securities, by telephone on +44 (0)20 7413 9000 or by email at investor.relations@landsecurities.com.

# Glossary

**Adjusted earnings per share (Adjusted EPS)**
Earnings per share based on revenue profit after related tax.

**Adjusted net assets per share**
Net assets per share adjusted to remove the effect of the de-recognition of the 2004 bond exchange and cumulative fair value movements on interest-rate swaps and similar instruments.

**Adjusted net debt**
Net debt excluding cumulative fair value movements on interest-rate swaps, the adjustment arising from the de-recognition of the bond exchange and amounts payable under finance leases. It generally includes the net debt of subsidiaries and joint ventures on a proportionate basis.

**Book value**
The amount at which assets and liabilities are reported in the financial statements.

**BREEAM**
Building Research Establishment's Environmental Assessment Method.

**Combined Portfolio**
The Combined Portfolio comprises the investment properties of the Group's subsidiaries, on a proportionately consolidated basis when not wholly owned, together with our share of investment properties held in our joint ventures.

**Completed developments**
Completed developments consist of those properties previously included in the development programme, which have been transferred from the development programme since 1 April 2015.

**Development pipeline**
The development programme together with proposed developments.

**Development programme**
The development programme consists of committed developments (Board approved projects with the building contract let), authorised developments (Board approved), projects under construction and developments which have reached practical completion within the last two years but are not yet 95% let.

**Diluted figures**
Reported results adjusted to include the effects of potentially dilutive shares issuable under employee share schemes.

**Dividend Reinvestment Plan (DRIP)**
The DRIP provides shareholders with the opportunity to use cash dividends received to purchase additional ordinary shares in the Company immediately after the relevant dividend payment date. Full details appear on the Company's website.

**Earnings per share**
Profit after taxation attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year.

**EPRA**
European Public Real Estate Association.

**EPRA net initial yield**
EPRA net initial yield is defined within EPRA's Best Practice Recommendations as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market value of the property. It is consistent with the net initial yield calculated by the Group's external valuer.

**Equivalent yield**
Calculated by the Group's external valuer, equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and such items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.

**ERV - Gross estimated rental value**
The estimated market rental value of lettable space as determined biannually by the Group's external valuer. For investment properties in the development programme, which have not yet reached practical completion, the ERV represents management's view of market rents.

**Fair value movement**
An accounting adjustment to change the book value of an asset or liability to its market value (see also mark-to-market adjustment).

**Finance lease**
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

**Gearing**
Total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus cumulative fair value movements on financial derivatives as a percentage of total equity. For adjusted gearing, see note 12.

**Gross market value**
Market value plus assumed usual purchaser's costs at the reporting date.

**Head lease**
A lease under which the Group holds an investment property.

**Interest Cover Ratio (ICR)**
A calculation of a company's ability to meet its interest payments on outstanding debt. It is calculated using revenue profit before interest, divided by net interest (excluding the mark-to-market movement on interest-rate swaps, foreign exchange swaps, bond exchange de-recognition, capitalised interest and interest on the pension scheme assets and liabilities). The calculation excludes joint ventures.

**IPD**
Refers to the MSCI IPD Direct Property indexes which measure property level investment returns in the UK.

**Interest-rate swap**
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating-rate debt or investments to fixed rates.

**Investment portfolio**
The investment portfolio comprises the investment properties of the Group's subsidiaries, on a proportionately consolidated basis where not wholly owned.

**Joint venture**
An arrangement in which the Group holds an interest and which is jointly controlled by the Group and one or more partners under a contractual arrangement. Decisions on the activities of the joint venture that significantly affect the joint venture's' returns, including decisions on financial and operating policies and the performance and financial position of the operation, require the unanimous consent of the partners sharing control.

**Lease incentives**
Any incentive offered to occupiers to enter into a lease. Typically, the incentive will be an initial rent-free period, or a cash contribution to fit-out or similar costs. For accounting purposes the value of the incentive is spread over the non-cancellable life of the lease.

**LIBOR**
The London Interbank Offered Rate, the interest rate charged by one bank to another for lending money, often used as a reference rate in bank facilities.

**Like-for-like portfolio**
The like-for-like portfolio includes all properties which have been in the portfolio since 1 April 2015, but excluding those which are acquired, sold or included in the development pipeline at any time since that date.

**Loan-to-value (LTV)**
Group LTV is the ratio of adjusted net debt, including subsidiaries and joint ventures, to the sum of the market value of investment properties and the book value of trading properties of the Group, its subsidiaries and joint ventures, all on a proportionate basis, expressed as a percentage. For the Security Group, LTV is the ratio of net debt lent to the Security Group divided by the value of secured assets.

**Market value**
Market value is determined by the Group's external valuer, in accordance with the RICS Valuation Standards, as an opinion of the estimated amount 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.

**Mark-to-market adjustment**
An accounting adjustment to change the book value of an asset or liability to its market value (see also fair value movement).

**Net assets per share**
Equity attributable to owners of the parent divided by the number of ordinary shares in issue at the year end. Net assets per share is also commonly known as net asset value per share (NAV per share).

**Net initial yield**
Net initial yield is a calculation by the Group's external valuer of the yield that would be received by a purchaser, based on the Estimated Net Rental Income expressed as a percentage of the acquisition cost, being the market value plus assumed usual purchasers' costs at the reporting date. The calculation is in line with EPRA guidance. Estimated Net Rental Income is determined by the valuer and is based on the passing cash rent less ground rent at the balance sheet date, estimated non-recoverable outgoings and void costs including service charges, insurance costs and void rates.

**Net rental income**
Net rental income is the net operational income arising from properties, on an accruals basis, including rental income, finance lease interest, rents payable, service charge income and expense, other property related income, direct property expenditure and bad debts. Net rental income is presented on a proportionate basis.

**Over-rented**
Space where the passing rent is above the ERV.

**Passing cash rent**
The estimated annual rent receivable as at the reporting date which includes estimates of turnover rent and estimates of rent to be agreed in respect of outstanding rent review or lease renewal negotiations. Passing cash rent may be more or less than the ERV (see over-rented, reversionary and ERV). Passing cash rent excludes annual rent receivable from units in administration save to the extent that rents are expected to be received. Void units and units that are in a rent-free period at the reporting date are deemed to have no passing cash rent. Although temporary lets of less than 12 months are treated as void, income from temporary lets is included in passing cash rents.

**Planning permission**
There are two common types of planning permission: full planning permission and outline planning permission. A full planning permission results in a decision on the detailed proposals on how the site can be developed. The grant of a full planning permission will, subject to satisfaction of any conditions, mean no further engagement with the local planning authority will be required to build the consented development. An outline planning permission approves general principles of how a site can be developed. Outline planning permission is granted subject to conditions known as 'reserved matters'. Consent must be sought and achieved for discharge of all reserved matters within a specified time-limit, normally three years from the date outline planning permission was granted, before building can begin. In both the case of full and outline planning permission, the local planning authority will 'resolve to grant permission'. At this stage, the planning permission is granted subject to agreement of legal documents, in particular the s106 agreement. On execution of the s106 agreement, the planning permission will be issued. Work can begin on satisfaction of any 'pre-commencement' planning conditions.

**Pre-let**
A lease signed with an occupier prior to completion of a development.

**Pre-development properties**
Pre-development properties are those properties within the like-for-like portfolio which are being managed to align vacant possession within a three year horizon with a view to redevelopment.

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

**Proposed developments**
Proposed developments are properties which have not yet received final Board approval or are still subject to main planning conditions being satisfied, but which are more likely to proceed than not.

**Qualifying activities/ Qualifying assets**
The ownership (activity) of property (assets) which is held to earn rental income and qualifies for tax-exempt treatment (income and capital gains) under UK REIT legislation.

**Real Estate Investment Trust (REIT)**
A REIT must be a publicly quoted company with at least three-quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90% of those profits to shareholders. Corporation tax is payable on non-qualifying activities in the normal way.

**Rental value change**
Increase or decrease in the current rental value, as determined by the Group's external valuer, over the reporting period on a like-for-like basis.

**Rental income**
Rental income is as reported in the income statement, on an accruals basis, and adjusted for the spreading of lease incentives over the term certain of the lease in accordance with SIC 15. It is stated gross, prior to the deduction of ground rents and without deduction for operational outgoings on car park and commercialisation activities.

**Return on average capital employed**
Group profit before net finance expense, plus joint venture profit before net finance expense, divided by the average capital employed (defined as shareholders' funds plus adjusted net debt).

**Return on average equity**
Group profit before tax plus joint venture tax divided by the average equity shareholders' funds.

**Revenue profit**
Profit before tax, excluding profits on the sale of non-current assets and trading properties, profits on long-term development contracts, valuation movements, fair value movements on interest-rate swaps and similar instruments used for hedging purposes, the adjustment to finance expense resulting from the amortisation of the bond exchange de-recognition adjustment, debt restructuring charges, and any other items of an exceptional nature.

**Reversionary or under-rented**
Space where the passing rent is below the ERV.

**Reversionary yield**
The anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.

**Scrip dividend**
A scrip dividend is when shareholders are offered the opportunity to receive dividends in the form of shares instead of cash.

**Security Group**
Security Group is the principal funding vehicle for the Group and properties held in the Security Group are mortgaged for the benefit of lenders. It has the flexibility to raise a variety of different forms of finance.

**Temporary lettings**
Lettings for a period of one year or less. These are included within voids.

**Topped-up net initial yield**
Topped-up net initial yield is a calculation by the Group's external valuer. It is calculated by making an adjustment to net initial yield in respect of the annualised cash rent foregone through unexpired rent-free periods and other lease incentives. The calculation is consistent with EPRA guidance.

**Total business return**
Dividend paid per share in the year plus the change in adjusted diluted net assets per share, divided by adjusted diluted net assets per share at the beginning of the year.

**Total cost ratio**
Total cost ratio represents all costs included within revenue profit, other than rents payable and financing costs, expressed as a percentage of gross rental income before rents payable.

**Total development cost (TDC)**
Total development cost refers to the book value of the site at the commencement of the project, the estimated capital expenditure required to develop the scheme from the start of the financial year in which the property is added to our development programme, together with capitalised interest, being the Group's borrowing costs associated with direct expenditure on the property under development. Interest is also capitalised on the purchase cost of land or property where it is acquired specifically for redevelopment. The TDC for trading property development schemes excludes any estimated tax on disposal.

**Total property return**
Valuation movement, profit/loss on property sales and net rental income in respect of investment properties expressed as a percentage of opening book value, together with the time weighted value for capital expenditure incurred during the current period, on the combined property portfolio.

**Total Shareholder Return (TSR)**
The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

**Trading properties**
Properties held for trading purposes and shown as current assets in the balance sheet.

**Turnover rent**
Rental income which is related to an occupier's turnover.

**Valuation surplus/deficit**
The valuation surplus/deficit represents the increase or decrease in the market value of the Combined Portfolio, adjusted for net investment. The market value of the Combined Portfolio is determined by the Group's external valuer.

**Voids**
Voids are expressed as a percentage of ERV and represent all unlet space, including voids where refurbishment work is being carried out and voids in respect of pre-development properties. Temporary lettings for a period of one year or less are also treated as voids.

**Weighted average cost of capital (WACC)**
Weighted average cost of debt and notional cost of equity, used as a benchmark to assess investment returns.

**Weighted average unexpired lease term**
The weighted average of the unexpired term of all leases other than short-term lettings such as car parks and advertising hoardings, temporary lettings of less than one year, residential leases and long ground leases.

**Yield shift**
A movement (negative or positive) in the equivalent yield of a property asset.

**Zone A**
A means of analysing and comparing the rental value of retail space by dividing it into zones parallel with the main frontage. The most valuable zone, Zone A, is at the front of the unit. Each successive zone is valued at half the rate of the zone in front of it.