# PRESS RELEASE

capco

**25 JULY 2018**

**CAPITAL & COUNTIES PROPERTIES PLC ("CAPCO")**

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018**

Ian Hawksworth, Chief Executive of Capco, commented:

*"Capco has had an active start to the year across its two prime central London estates. At Covent Garden we delivered another period of strong performance and an increase in value, with excellent demand across all uses driving 21 per cent overall growth in net rental income. At Earls Court, the consented land is now ready for development and we have realised significant proceeds over the last twelve months from the sale of the Empress State Building and continued sales at Lillie Square.*

*Capco has achieved significant growth since listing, with long-term value creation across the business. Covent Garden has been transformed into a leading global retail and dining destination, attracting a vibrant mix of British, independent and international brands, while at Earls Court, we have created one of central London's most important mixed-use development opportunities. Against this backdrop, the Board is considering the structure of the Group and constructive early steps have been taken in preparing for a possible demerger.*

*Whilst the broader macroeconomic outlook remains uncertain, Capco is backed by a strong balance sheet and remains focused on creating long-term value for shareholders. Our two prime central London estates are well-placed for long-term success."*

**Key financials**

- Equity attributable to owners of the Parent £2.8 billion (Dec 2017: £2.8 billion)
- EPRA NAV maintained at 334 pence per share (Dec 2017: 334 pence per share)
- Total property value of £3.3 billion, a decrease of 0.4 per cent (like-for-like) (Dec 2017: £3.3 billion adjusted for the sale of the Empress State Building)
- Proposed interim dividend of 0.5 pence per share (Jun 2017: 0.5 pence per share)

**Continued income growth at Covent Garden**

- Covent Garden total property value of £2.6 billion, a 1.6 per cent increase (like-for-like) (Dec 2017: £2.5 billion)
- Net rental income up 11.6 per cent (like-for-like) or 21.2 per cent in absolute terms against June 2017
- Positive operational momentum; 26 new leases and renewals 8.9 per cent above December 2017 ERV
- ERV increased by 1.9 per cent (like-for-like) to £107 million (Dec 2017: £105 million)
- Development of Floral Court complete; 75 per cent of lettable space contracted
- Tiffany recently launched new concept store on James Street

**Realising value at Earls Court**

- Earls Court interests valued at £707 million, a decrease of 7.0 per cent (like-for-like) (Dec 2017: £759 million adjusted for the sale of the Empress State Building)
- ECPL land available for development; ongoing interest from potential partners and end users
- Sale of the Empress State Building for £250 million, a £30 million premium to the Dec 2017 valuation
- Lillie Square:
    - Delivery of Phase 1 substantially complete, £123 million cash proceeds received (Capco share)
    - Over 80 per cent of Phase 2 now reserved or exchanged and main construction has commenced

**Strong financial position with significant financial flexibility**

- Group loan to value ratio of 17 per cent (Dec 2017: 21 per cent)
- Group undrawn facilities and cash of £886 million (Dec 2017: £691 million)
- Capital commitments of £82 million (Dec 2017: £61 million)
- Weighted average maturity of 6.5 years (Dec 2017: 6.9 years)
- Weighted average cost of debt of 2.9 per cent (Dec 2017: 2.8 per cent)

**Preparation for possible demerger**

- Constructive early steps taken in preparing for a possible demerger and further announcements will be made in due course

# FINANCIAL HIGHLIGHTS

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Equity attributable to owners of the Parent | **£2,819m** | £2,800m |
| Equity attributable to owners of the Parent per share | **331.5p** | 329.7p |
| **0.5% Total return for six months ended 30 June 2018 (full year 2017: -1.3%)** | | |
| EPRA net asset value | **£2,850m** | £2,839m |
| EPRA net asset value per share | **334.4p** | 333.8p |
| Dividend per share | **0.5p** | 1.5p |
| **0.6% Total property return for six months ended 30 June 2018 (full year 2017: 1.0%)** | | |
| Property market value[1] | **£3,329m** | £3,525m |
| Net rental income from continuing operations[2] | **£33.1m** | £66.2m |
| Profit/(loss) for the period attributable to owners of the Parent | **£23.2m** | (£0.4)m |
| **Underlying earnings per share[3]** | **0.5p** | 1.3p |

1. On a Group share basis. Refer to Property Data on page 52 for the Group's percentage ownership of property.
2. On a Group share basis. Refer to note 2 "Segmental Reporting" on page 28.
3. From continuing and discontinued operations. Refer to Consolidated Underlying Profit Statement on page 54.

## Outlook

Our two prime central London estates have had an active first half, making good operational progress. Capco's strategy remains focused on driving long-term value creation from both estates. Capco has achieved significant growth since listing, driving value creation from Covent Garden and Earls Court. Backed by a strong balance sheet, with an experienced and professional management team, Capco is well-positioned to support the current capital requirements of its two prime estates, both of which have positive long-term growth prospects and distinct investment characteristics.

Against this backdrop, the Board is considering the structure of the Group in order to realise the potential of these two prime central London estates and enhance shareholder value. Constructive early steps have been taken in preparing for a possible demerger.

Under Capco's stewardship, Covent Garden has been transformed into a world-class retail and dining destination, with a vibrant mix of global, independent and British brands. Covent Garden is well-positioned to continue to drive income growth and total returns from the estate. Capco is focused on enhancing the customer environment through creative asset management and making strategic investments to expand its ownership of the estate.

Recent introductions including The Shop at Bluebird, Alkemistry and Petersham Nurseries represent a positive start to the repositioning of Floral Street as a fashion and lifestyle destination. As capital initiatives come to completion, the pedestrian flow of the estate continues to change allowing for further repositioning opportunities. The estate remains well-placed for continued success and ERV progression towards the target of £125 million by December 2020.

At Earls Court, Capco has created one of the most important mixed-use development opportunities in central London through our strategy of planning, land assembly, land enablement works and selective development. The focus remains on creating and realising the value of the investment as recently demonstrated through the sale of the Empress State Building for £250 million, at a £30 million premium to the December valuation and continued sales at Lillie Square.

With the Earls Court Partnership Limited ("ECPL") land now available for development, there is ongoing interest from potential partners and end users. Capco together with its partner Transport for London ("TfL") will seek to optimise the value of the land which has the flexibility to be brought forward on a phased basis through the introduction of third-party capital and selective development across various uses.

Whilst the broader macroeconomic outlook remains uncertain, Capco remains focused on creating long-term value for shareholders from its two prime central London estates which are well-placed for long-term success.

# ENQUIRIES

**Capital & Counties Properties PLC:**

| | | |
|---|---|---|
| Ian Hawksworth | Chief Executive | +44 (0)20 3214 9188 |
| Situl Jobanputra | Chief Financial Officer | +44 (0)20 3214 9183 |
| Sarah Corbett | Head of Investor Relations | +44 (0)20 3214 9165 |

**Media enquiries:**

| | | |
|---|---|---|
| UK: Tulchan | Susanna Voyle | +44 (0)20 7353 4200 |
| SA: Instinctif | Frederic Cornet | +27 (0) 11 447 3030 |

A presentation to analysts and investors will take place today at 09:00am at UBS, 5 Broadgate, London, EC2M 2QS. The presentation will also be available to international analysts and investors through a live audio call and webcast and after the event on the Group's website www.capitalandcounties.com.

A copy of this announcement is available for download from our website at www.capitalandcounties.com and hard copies can be requested via the website or by contacting the Company (feedback@capitalandcounties.com or telephone +44 (0)20 3214 9814).

# OPERATING REVIEW

**Preparation for a possible demerger**

Following the announcement on 24 May 2018, constructive early steps have been taken in preparing for a possible demerger which would result in two separately-listed businesses based around Covent Garden and Earls Court, both of which have positive long-term growth prospects and distinct investment cases.

The Board of Capco recognises the need for both businesses to have appropriate capital structures to pursue their respective strategies and would therefore expect the Earls Court business, if separately listed, to retain a significant portion of the £250 million proceeds received from the sale of the Empress State Building.

Capco will provide a further update to the market in due course. A demerger, if pursued is expected to be formalised by the end of this year.

**Board changes**

On 24 May 2018, Ian Durant announced his intention to step down as Chairman of the Board and on 5 June 2018 Henry Staunton took over as Chairman.

**Overview**

Capco's strategy is focused on driving long-term value creation from its two central London estates. Since listing Capco has achieved significant growth. The progression of its two estates, each with its own distinct investment prospects has been taken into account by the Board as it considers the structure of the Group and prepares for a possible demerger.

Covent Garden is a world-class retail and dining destination with a vibrant mix of global, independent and British retailers and restaurateurs delivering strong income and rental value growth. Capco's distinct approach to creative asset management and strategic investment continues to attract target brands and experiences to meet evolving consumer demand.

Capco has created one of the most important mixed-use development opportunities in central London at Earls Court, located within two London Boroughs, the Royal Borough of Kensington and Chelsea ("RBKC") and the London Borough of Hammersmith & Fulham ("LBHF"). Land with detailed planning consent and the ability to grow as a consequence of unrivalled existing transport links in central London is a scarce commodity. Earls Court is a key strategic scheme for the Capital, providing the opportunity to create much needed new homes, jobs and places for London.

London is an outstanding global city with a diverse economy and remains a very attractive investment destination. The Greater London Authority ("GLA") estimates that the Capital's population will continue to grow, attracting people who wish to live, work, invest in and enjoy the city. Against this backdrop of London's continued prosperity, Capco's two prime central London estates are well-placed for long-term success.

**Valuations**

The total property value of the Group decreased marginally by 0.4 per cent (like-for-like) in the period to 30 June 2018 to £3.3 billion.

The valuation of Covent Garden has risen by 1.6 per cent (like-for-like) to £2.6 billion, driven by ERV growth of 1.9 per cent achieved over the period. The equivalent yield remains broadly unchanged at 3.6 per cent, reflecting the valuer's view of the strength of demand for central London retail investments.

The valuation of Earls Court Properties was £707 million, representing a decrease of 7.0 per cent (like-for-like). The independent valuer has taken a more conservative view on gross development value and the cost of delivery together with a higher developer's margin, resulting in a net decline of 9.0 per cent for ECPL.

| | Market Value 30 June 2018 £m | Market Value 31 December 2017 £m | Valuation Change Like-for-like[1] |
|---|---|---|---|
| **Covent Garden** | **2,622.0** | 2,545.4 | 1.6% |
| **Earls Court Properties** | | | |
| Earls Court Partnership Limited ("ECPL")[2] | **518.9** | 560.7 | (9.0)% |
| Lillie Square[3] | **147.7** | 156.5 | – |
| Empress State | **–** | 220.0 | – |
| Other | **40.0** | 41.9 | (4.9)% |
| **Group share of Earls Court Properties** | **706.6** | 979.1 | (7.0)% |
| **Group share of total property[4]** | **3,328.6** | 3,524.5 | (0.4)% |

1. Valuation change takes account of amortisation of tenant lease incentives, capital expenditure, fixed head leases and unrecognised trading surplus.

2. Represents the Group's 63 per cent interest in ECPL.

3. Represents the Group's 50 per cent share on a Group share basis.

4. A reconciliation of the carrying value of investment, development and trading property to the market value is shown in note 13 'Property Portfolio' within the condensed consolidated financial statements.

The Group has a 63 per cent controlling interest in ECPL, the investment vehicle with TfL which owns the land formerly occupied by the Earls Court Exhibition Centres ("EC1 & EC2"). As a result, it is fully consolidated in the financial statements and TfL's interest is represented as a non-controlling interest. See page 7 for further information.

## COVENT GARDEN

### *A leading global retail and dining destination*

Covent Garden is firmly established as a leading global retail and dining destination in the heart of London's West End. Capco is responsible for the management of 1.2 million square feet of lettable space. Visitors to Covent Garden are seeking differentiated shopping experiences, which is core to Capco's vision for the district, offering a vibrant mix of luxury and contemporary, global and British brands across the estate. The area is now home to a wide variety of brands including Apple, Balthazar, Bucherer, Frenchie, Petersham Nurseries and Tiffany.

The Covent Garden estate continues to deliver positive performance and value growth. During the period to 30 June 2018, 26 leasing transactions including new leases and renewals representing £4.2 million of annualised rental income were transacted at 8.9 per cent above 31 December 2017 ERV. Since 30 June 2018, a further £2.8 million of annualised income has been contracted from 7 leasing transactions. Net rental income was £28.3 million for the first half of the year, up 11.6 per cent (like-for-like) or 21.2 per in absolute terms compared to June 2017.

The value of the estate increased 1.6 per cent like-for-like to £2.6 billion. The ERV for the estate has increased 1.9 per cent like-for-like to £107 million. Occupancy on the estate remains high at 97 per cent and NRI growth continues to outperform ERV growth as the reversionary income potential of the portfolio is captured.

### Retail

Luxury jewellery brand Tiffany & Co. has opened a store on James Street, showcasing a new concept for Tiffany & Co., offering not only its iconic designs, but also an innovative and distinctive retail experience encouraging consumer interaction. The new Tiffany & Co. store will complement Covent Garden's impressive growing luxury retail offer, joining the strong line-up which includes Chanel, Tom Ford, Mulberry and Bucherer.

The ongoing repositioning of Floral Street as a fashion and lifestyle destination continues to progress. The Shop at Bluebird opened in Carriage Hall, housing two dedicated retail floors. The multi brand concept store stocks more than 100 brands such as Victoria Beckham, Marni, Acne Studios and Alexander McQueen. In addition, ladies footwear brand French Sole has opened at 19 Floral Street offering luxurious, fashionable footwear. Luxury jewellery brand Alkemistry is the latest signing to Floral Court and will open in the second half of the year.

Over the period strong demand for the Market Building was recorded; new leasing deals were agreed with Whittards and Atelier Cologne, along with the introduction of new British watch brand Olivia Burton which will open later this year. South Africa's leading spa brand Africology is the latest concept to agree terms, taking space in the Market Building, providing a globally-recognised product range that features in some of the best hotels and spas in the world.

The gifting and luxury accessories category continues to strengthen with the opening of leading travel brand Tumi at the Royal Opera House Arcade.

### Dining

Covent Garden continues to attract innovative food and beverage concepts and is now one of London's best dining destinations, offering something for everyone, from casual to premium, focusing on high quality differentiated concepts for customers.

In May 2018, Petersham Nurseries opened two restaurants in Floral Court, La Goccia, a vibrant all-day restaurant, offering an extensive menu of small sharing plates and The Petersham, a sophisticated, a la carte restaurant. During spring and summer months, tables flow out onto Floral Court, where al fresco dining is offered.

Existing tenant, The Oystermen which opened on Henrietta Street last summer, has agreed terms to upsize, extending into the adjacent unit, reflecting the strong trading prospects on the estate. Adding to the variety on Henrietta Street is latest opening

Cora Pearl, a new restaurant from the team behind Kitty Fisher's in Mayfair. The 60-cover restaurant is set over two floors, with an open kitchen and a cocktail bar downstairs.

Abuelo, an Australian-meets-South-American coffee house and kitchen opened on Southampton Street earlier this year. In addition, there are a number of openings scheduled for the second half of the year; both SushiSamba and Vyta Santa Margherita are fitting out space in the Market Building and are expected to open in the autumn. Z Hotels is set to open on Bedford Street in the coming months, providing compact yet luxurious accommodation for visitors with a new 111 room hotel.

New York's iconic restaurant RedFarm is scheduled to open alongside Balthazar on Russell Street at the end of July, bringing modern Chinese cuisine and dim-sum to Covent Garden. The 96-seat restaurant features modern rustic decor across three floors offering a casual dining experience.

Avobar, London's first permanent avocado bar will open later this year on Henrietta Street while on King Street, Mariage Frères, the iconic French tea house, will open its first stand-alone store outside of Paris comprising over 8,000 square feet. Wahlburgers, the casual dining burger restaurant and bar, will open its first restaurant outside the United States on James Street offering a menu of high-quality homemade burgers and sandwiches, fresh salads and shakes.

**Acquisitions and developments**

Development of Floral Court completed in July. Floral Court, which is Capco's largest development to date at Covent Garden, provides over 85,000 square feet (NIA) of space with eight retail and two restaurant units as well as 45 apartments. The new connecting courtyard between Floral Street and King Street is now open, improving the pedestrian flow on the northern side of the estate. Over 75 per cent of the lettable space has now been contracted securing £3.8 million of ERV.

Capco continues to make strategic investments expanding its ownership of the estate, acquiring three properties for £19 million consideration including purchasers' costs. Most notably, Capco completed assembly of the Wellington block, which is a scarce island site in central London, through the acquisition of the last remaining unit, 23 Wellington Street for £10 million. Repositioning of the Wellington block presents a unique investment opportunity; Capco is reviewing plans, which include proposals for office and retail space to continue Covent Garden's transformation on the southern side of the estate.

**Residential**

Leasing demand for residential accommodation across the estate remains positive with a high rate of renewals recorded above previous passing rent.

The residential component of Floral Court comprises 16 heritage apartments on King Street and Rose Street and 29 new apartments on Floral Street. The entire heritage component has been leased and the new build residential units are being prepared for sale.

**Offices**

Demand for office space continues to be strong, attracting professional services, creative industries and SMEs. A number of office lettings including floors at Regal House and Tower House have been achieved during the period. We continue to see strong interest from occupiers.

## EARLS COURT PROPERTIES

**One of the most important mixed-use development opportunities in central London**

Capco has created one of the most important mixed-use development opportunities in central London at Earls Court through implementation of its strategy. Capco has deployed its expertise to successfully carry out complicated and strategic land assembly, promote the planning framework, achieve a planning consent and undertake highly complex enabling works, including demolition of the former Earls Court Exhibition Centres.

Located within two London Boroughs, the Royal Borough of Kensington and Chelsea ("RBKC") and the London Borough of Hammersmith & Fulham ("LBHF"), with planning consent in place and supported by excellent transport infrastructure, Earls Court has the potential to create a new district. Capco will continue to engage with all stakeholders to evolve and bring forward the masterplan.

Earls Court is a GLA Opportunity Area making it a strategic scheme for the Capital. The GLA's draft London Plan issued in December 2017 ("The Plan"), references the Earls Court Masterplan as 'ready to grow' demonstrating the site's potential. In addition, The Plan estimates that the population of London will increase by 70,000 per annum, reaching 10.5 million in 2041. Against the backdrop of London's growing housing needs, Opportunity Areas such as Earls Court are seen as vital in order to meet London's demands. Capco remains focused on optimising the potential of this strategic opportunity and continues to drive and realise long-term value on its investments at Earls Court.

**Investments at Earls Court**

Earls Court Properties represents Capco's investments within the Earls Court and West Kensington Opportunity Area and principally comprises:

- 63 per cent interest in ECPL: the investment vehicle with TfL which owns 999 year leases over the EC1 & EC2 land together with certain adjacent properties primarily located on or around Lillie Road. Capco is leading the venture in its role as business and development manager. Capco's interests in ECPL were valued at £519 million at 30 June 2018. ECPL land has detailed planning consent for 3.4 million square feet (GEA).

- 50 per cent interest in the Lillie Square joint venture, with "KFI". Capco's 50 per cent interest was valued at £148 million at 30 June 2018.

- In addition, in 2013, Capco exercised its option under the Conditional Land Sale Agreement ("CLSA"), a binding agreement in relation to the West Kensington and Gibbs Green Estates ("The Estates"). To date, Capco has paid £75 million of the £105 million cash consideration payable to LBHF including three of the five annual instalments of £15 million.

**ECPL**

Following the successful completion of the final phase of the demolition of the former Earls Court Exhibition Centres in January 2018, the ECPL land is now available for development. Capco, together with its partner TfL, will seek to optimise the value of the ECPL land which has the flexibility to be brought forward through the introduction of third-party capital and selective development across various uses. With the land now available for development, there is ongoing interest from potential partners and end-users for various parts of the site.

Earls Court has the ability to evolve with the needs of London and benefits from excellent existing transport links, making it attractive for multiple and mixed-uses, including residential of different forms and tenures, offices, leisure and retail, as well as potentially education, cultural and other uses.

**Lillie Square**

The Lillie Square development is a one million square foot (GEA) residential scheme located adjacent to the Earls Court Masterplan. The development will deliver more than 600 private and 200 affordable homes across three phases. Delivery of Phase 1 is substantially complete, and 217 units have been handed over to residents representing £123 million (Capco share) of sales proceeds. Sales of the nine remaining units of Phase 1 continue to progress, the most recent of which, a premium unit, transacted in July at £2,300 per square foot.

In Phase 2, over 80 per cent of the units (153 of the 186), have now been reserved or exchanged, 60 of these transacted in 2018, including the exchange of contracts with an international investor for all 49 apartments and 31 parking spaces at '9 Lillie Square', one of the four blocks within Phase 2. Total consideration for this transaction was approximately £66 million (£33 million Capco share). Pricing was in line with Phase 2 sales to date at a modest premium to comparable units in Phase 1.

Sales proceeds from Phase 1 have been used to pay down the Lillie Square bank facility. With over 80 per cent of Phase 2 reserved or exchanged, the main construction contract was awarded in June 2018. The bank facility will be redrawn to fund construction of Phase 2 with delivery expected from the end of 2019.

**CLSA**

Under the CLSA, the residents of The Estates would have the opportunity to be rehoused by the council within the Earls Court Opportunity Area, some potentially within Block D of the Lillie Square development. Basement works on Block D foundations have completed to facilitate the first phase of replacement housing for The Estates residents.

The Estates are located within LBHF, with the council having expressed interest in pursuing alternative options for The Estates. The CLSA represents a legally binding agreement and Capco will continue to engage with all stakeholders in relation to future plans for the Estates, as part of the wider masterplan.

**Sale of the Empress State Building**

In March 2018, Capco completed the sale of the Empress State Building ("ESB") for total cash consideration of £250 million, compared to a year end valuation of £220 million. ESB has been sold to The Mayor's Office for Policing and Crime ("MOPAC"), the long-term occupier of the building under a lease due to expire in June 2019. ESB is a 451,000 square foot (NIA), 31 storey, office building located in Earls Court. The consented Earls Court Masterplan is a mixed-use development and is based on retention of ESB's current structure. The disposal reflects Capco's disciplined approach to capital management, enabling Capco to realise significant cash proceeds.

# FINANCIAL REVIEW

The Group has strengthened its financial position over the first half of the year, reducing loan to value to 17 per cent and increasing the level of undrawn facilities and cash to £886 million. This has been driven primarily by the sale of the Empress State Building at a premium to valuation. Our capital structure positions the Group to withstand prevailing market conditions, take advantage of opportunities as they arise, and deliver long-term returns to shareholders by driving value creation across our assets.

During the period, the Group has continued to invest into Covent Garden through £19 million of acquisitions and £14 million of development spend, predominantly in relation to Floral Court, which have served to increase the Group's weighting in Covent Garden to 79 per cent. The value of the Covent Garden estate increased by 1.6 per cent (like-for-like) due to the rental growth achieved during the year, with ERV up by 1.9 per cent on a like-for-like basis.

Uncertainties in the broader political and economic environment continue to impact sentiment around London residential property. As a result the market value of Earls Court Properties, which represents the Group's interests at Earls Court, has decreased by 7.0 per cent (like-for-like).

Overall, the Group share of total property value has decreased by 0.4 per cent (like-for-like). EPRA net asset value per share increased by 0.2 per cent during the period, from 333.8 pence at 31 December 2017 to 334.4 pence. This increase together with the 1.0 pence dividend paid to shareholders during the period resulted in a total return of 0.5 per cent.

Underlying earnings from continuing activities increased to £4.3 million due to higher net rental income and reduced administration expenses.

**Basis of preparation**

In line with the requirements of IFRS 11 'Joint Arrangements', the Group is required to present its joint ventures under the equity method in the consolidated financial statements. Under the equity method, the Group's interest in joint ventures is disclosed as a single line item in both the consolidated balance sheet and consolidated income statement rather than proportionally consolidating the Group's share of assets, liabilities, income and expenses on a line-by-line basis.

Alternative Performance Measures ("APMs"), being financial measures which are not specified under IFRS, are used by the Group to monitor the performance of the business. These include a number of the Financial Highlights shown on page 2. A summary of EPRA performance measures and key Group measures included within these interim results are shown on pages 55 and 56. Many of the APMs included are based on the EPRA Best Practice Recommendations reporting framework which aims to improve the transparency, comparability and relevance of published results of public real estate companies in Europe.

Internally, the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures but excludes the non-controlling interest share of our subsidiaries. In order to align with the way the Group is managed, therefore, this financial review presents the financial position, performance and cash flow analysis on a Group share basis.

## FINANCIAL POSITION

At 30 June 2018 the Group's EPRA net asset value was £2.8 billion (31 December 2017: £2.8 billion) representing 334 pence per share (31 December 2017: 334 pence).

## SUMMARY ADJUSTED BALANCE SHEET

| | 30 June 2018 | | | |
|---|---|---|---|---|
| | **IFRS £m** | **Joint ventures[1] £m** | **Non-controlling interest[2] £m** | **Group share £m** |
| Investment, development and trading property | **3,426.1** | **118.4** | **(304.8)** | **3,239.7** |
| Net debt | **(567.0)** | **6.3** | **21.8** | **(538.9)** |
| Other assets and liabilities[3] | **242.2** | **(124.7)** | **1.0** | **118.5** |
| Non-controlling interest | **(282.0)** | **–** | **282.0** | **–** |
| **Net assets attributable to owners of the Parent** | **2,819.3** | **–** | **–** | **2,819.3** |
| Adjustments: | | | | |
| Fair value of derivative financial instruments | | | | **(1.0)** |
| Unrecognised surplus on trading property | | | | **29.3** |
| Deferred tax adjustments | | | | **2.2** |
| **EPRA net asset value** | | | | **2,849.8** |
| **EPRA net asset value per share (pence)[4]** | | | | **334** |

1. Primarily Lillie Square.
2. Non-controlling interest represents TfL's 37 per cent share of ECPL.
3. IFRS includes amounts receivable from joint ventures which eliminate on a Group share basis.
4. Adjusted, diluted number of shares in issue at 30 June 2018 was 852.3 million.

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | IFRS £m | Joint ventures[1] £m | Non-controlling interest[2] £m | Group share £m |
| Investment, development and trading property | 3,645.7 | 124.7 | (329.4) | 3,441.0 |
| Net debt | (748.3) | (6.1) | 20.7 | (733.7) |
| Other assets and liabilities[3] | 208.2 | (118.6) | 2.9 | 92.5 |
| Non-controlling interest | (305.8) | – | 305.8 | – |
| Net assets attributable to owners of the Parent | 2,799.8 | – | – | 2,799.8 |
| Adjustments: | | | | |
| Fair value of derivative financial instruments | | | | 5.5 |
| Unrecognised surplus on trading property | | | | 31.8 |
| Deferred tax adjustments | | | | 1.9 |
| EPRA net asset value | | | | 2,839.0 |
| EPRA net asset value per share (pence)[4] | | | | 334 |

1. Primarily Lillie Square.
2. Non-controlling interest represents TfL's 37 per cent share of ECPL.
3. IFRS includes amounts receivable from joint ventures which eliminate on a Group share basis.
4. Adjusted, diluted number of shares in issue at 31 December 2017 was 850.6 million.

### Investment, development and trading property

The revaluation loss on the Group's property portfolio was £17.1 million for the period, representing a 0.4 per cent decrease in value on a like-for-like basis compared with the IPD Capital Return for the equivalent period of 1.9 per cent. The Group revaluation loss consists of a £36.1 million gain at Covent Garden and a £53.2 million loss at Earls Court.

Total property return for the period was 0.6 per cent. The IPD Total Return index recorded a 4.5 per cent return for the corresponding period.

The revaluation loss of £17.1 million occurred on investment property. On an IFRS basis, which includes ECPL at 100 per cent and does not include Lillie Square on a line by line basis, loss on revaluation and sale of investment and development property was £47.3 million.

Trading property is carried on the consolidated balance sheet at the lower of cost and market value, therefore valuation surpluses on trading property are not recorded. Any unrecognised surplus is however reflected within the EPRA net asset value measure. During the period £2.5 million of the unrealised trading property surplus has been realised. At 30 June 2018, the unrecognised surplus on trading property was £29.3 million (31 December 2017: £31.8 million) which arises solely on the Group's share of trading property at Lillie Square.

### Debt and gearing

During the first half of the year the Group agreed terms for two 12 month extensions to the Lillie Square LP facility at the borrower's option. As a result, assuming that both extensions are exercised, the Group's earliest repayment date on its facilities is now May 2021.

The Group's cash and undrawn committed facilities at 30 June 2018 were £886.1 million (31 December 2017: £690.8 million). A reconciliation between IFRS and Group share is shown below:

| | **30 June 2018** | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **IFRS** | **Joint ventures[1]** | **Non-controlling interest[2]** | **Group share** | IFRS | Joint ventures[1] | Non-controlling interest[2] | Group share |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Cash and cash equivalents | **48.9** | **24.3** | **(2.2)** | **71.0** | 28.6 | 25.7 | (2.0) | 52.3 |
| Undrawn committed facilities | **799.4** | **46.9** | **(31.2)** | **815.1** | 637.9 | 33.1 | (32.5) | 638.5 |
| **Cash and undrawn committed facilities** | **848.3** | **71.2** | **(33.4)** | **886.1** | 666.5 | 58.8 | (34.5) | 690.8 |

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

Net debt decreased by £195 million to £539 million, principally as a result of the disposal of the Empress State Building, partly offset by further investment into our assets and the acquisitions at Covent Garden. As set out in the summary adjusted balance sheet, net debt on an IFRS basis was £567 million.

The gearing measure most widely used in the industry is loan to value ("LTV"). LTV is calculated on the basis of net debt divided by the carrying value of the Group's property portfolio. The Group focuses most on an LTV measure that includes the notional share of joint venture interests but excludes the share of the non-controlling interest. The LTV of 16.6 per cent remains comfortably within the Group's limit of no more than 40 per cent.

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Loan to value | **16.6%** | 21.3% |
| Interest cover | **156%** | 170% |
| Weighted average debt maturity | **6.5 years** | 6.9 years |
| Weighted average cost of debt | **2.9%** | 2.8% |
| Gross debt with interest rate protection | **90%** | 91% |

The Group's policy is to eliminate substantially the medium and long-term risk arising from interest rate volatility. The Group's banking facilities are arranged on a floating rate basis but are generally swapped to fixed rate or capped using derivative contracts. At 30 June 2018 the proportion of gross debt with interest rate protection was 90 per cent (31 December 2017: 91 per cent).

The Group remains compliant with all of its debt covenants, details of which are set out on page 55, and has substantial levels of headroom against its covenants across all of its debt facilities.

At 30 June 2018 the Group had capital commitments of £82.3 million (£61.3 million at 31 December 2017). The increase mainly relates to the signing of the construction contract for Phase 2 of Lillie Square. Capital commitments consist of £6.7 million for Covent Garden and £75.6 million for Earls Court Properties (including the £30.0 million of CLSA instalments and £43.6 million in relation to Lillie Square).

| | **30 June 2018** | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **IFRS** | **Joint ventures[1]** | **Non-controlling interest[2]** | **Group share** | IFRS | Joint ventures[1] | Non-controlling interest[2] | Group share |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Capital commitments | **40.0** | **43.6** | **(1.3)** | **82.3** | 57.3 | 7.0 | (3.0) | 61.3 |

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

**Conditional Land Sale Agreement ("CLSA")**

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

The CLSA investment property remains unrecognised in the condensed consolidated financial statements of the Group as its main underlying asset (the land relating to The Estates) does not currently meet the recognition criteria under IFRS required for investment and development property. Annual payments of £15 million commenced in December 2015 and will run through to December 2019. Where amounts are paid prior to the transfer of property, they will be carried on the Group's balance sheet as prepayments against future land draw down. Of the £75 million paid to date, £15 million relates to the acquisition of two properties, held as investment and development property, and £60 million relates to options over The Estates which is held as a prepayment within other receivables. The remaining future payments totalling £30 million are disclosed as a capital commitment as referred to above.

The prepayment balance will be transferred to investment and development property once the recognition criteria of investment and development property have been met. Once this occurs, in line with the Group's accounting policy, the land will become subject to bi-annual valuation with any changes reflected in the Group's reported net asset measure.

## CASH FLOW

A summary of the Group's cash flow for the year ended 30 June 2018 is presented below:

## SUMMARY CASH FLOW

| | 30 June 2018 | | | |
|---|---|---|---|---|
| | IFRS<br>£m | Joint ventures[1]<br>£m | Non-controlling interest[2]<br>£m | Group share<br>£m |
| **Operating cash flows after interest and tax from continuing activities** | **(4.2)** | **(1.4)** | **(0.3)** | **(5.9)** |
| Purchase and development of property, plant and equipment | **(58.7)** | **(12.3)** | **7.3** | **(63.7)** |
| Transactions with joint venture partners and non-controlling interests | **4.2** | **1.1** | **(6.2)** | **(0.9)** |
| Net sales proceeds from discontinued operation | **(0.3)** | **–** | **–** | **(0.3)** |
| Sale of subsidiaries | **250.4** | **–** | **–** | **250.4** |
| Net sales proceeds from property and investments | **–** | **24.4** | **–** | **24.4** |
| **Net cash flow before financing from continuing activities** | **191.4** | **11.8** | **0.8** | **204.0** |
| Issue of shares | **0.1** | **–** | **–** | **0.1** |
| Financing | **(162.2)** | **(14.3)** | **(1.0)** | **(177.5)** |
| Dividends paid | **(5.0)** | **–** | **–** | **(5.0)** |
| Other | **(4.0)** | **–** | **–** | **(4.0)** |
| **Net cash flow[3]** | **20.3** | **(2.5)** | **(0.2)** | **17.6** |

1. Primarily Lillie Square.

2. Non-controlling interest represents TfL's 37 per cent share of ECPL.

3. Net cash flow is based on unrestricted cash and cash equivalents and therefore does not include the movement in Lillie Square deposits on a Group share basis of £1.1 million.

| | 30 June 2017 | | | |
|---|---|---|---|---|
| | IFRS £m | Joint ventures[1] £m | Non-controlling interest[2] £m | Group share £m |
| Operating cash flows after interest and tax from continuing activities | (3.2) | 2.2 | (0.1) | (1.1) |
| Purchase and development of property, plant and equipment | (76.9) | (17.2) | 7.0 | (87.1) |
| Transactions with joint venture partners and non-controlling interests | (3.6) | 0.7 | 0.2 | (2.7) |
| Net sales proceeds from discontinued operation | 228.6 | – | – | 228.6 |
| Net sales proceeds from property and investments | 7.9 | 33.9 | – | 41.8 |
| Net cash flow before financing from continuing activities | 152.8 | 19.6 | 7.1 | 179.5 |
| Issue of shares | 0.2 | – | – | 0.2 |
| Financing | (160.4) | (18.6) | (5.6) | (184.6) |
| Dividends paid | (3.7) | – | – | (3.7) |
| Transfers with discontinued operation | 5.7 | – | – | 5.7 |
| Net cash flow from continuing activities[3] | (5.4) | 1.0 | 1.5 | (2.9) |

1. Primarily Lillie Square.

2. Non-controlling interest represents TfL's 37 per cent share of ECPL.

3. Net cash flow is based on unrestricted cash and cash equivalents and therefore does not include the movement in Lillie Square deposits on a Group share basis of £4.2 million.

Operating cash outflows of £5.9 million are as a result of changes in net working capital requirements.

During the period, £37.6 million was invested at Covent Garden for the purchase of three properties and subsequent expenditure for the development of property predominantly at Floral Court. At Earls Court, total expenditure of £26.1 million primarily relates to enablement works on ECPL land including the acquisition of the final residential unit at Empress Place and the construction of Lillie Square Phase 2.

The disposal of the Empress State Building through the disposal of subsidiaries resulted in a net inflow of £249.1 million after transaction-related costs. The proceeds were used to reduce the Group's net debt position and will be deployed in Capco's core central London estates.

Net sales proceeds from trading property of £24.4 million (Group share) relates to the disposal of 35 units at Lillie Square.

Net borrowings repaid during the period were £177.5 million.

Dividends paid of £5.0 million reflect the final dividend payment made in respect of the 2017 financial year. This was higher than the previous year due to a lower take up of the scrip dividend alternative, 40 per cent versus 56 per cent for the final dividend in 2016.

Cash and cash equivalents has increased by £18.7 million to £71.0 million, which includes £32.7 million of Lillie Square deposits.

## FINANCIAL PERFORMANCE

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

## SUMMARY INCOME STATEMENT

| | 30 June 2018 | | | |
|---|---|---|---|---|
| | **IFRS £m** | **Joint ventures[1] £m** | **Non-controlling interest[2] £m** | **Group share £m** |
| Net rental income | **33.6** | **(0.1)** | **(0.4)** | **33.1** |
| Loss on revaluation and sale of investment and development property | **(47.3)** | **0.1** | **30.1** | **(17.1)** |
| Administration expenses | **(19.7)** | **0.3** | **0.2** | **(19.2)** |
| Net finance costs | **(9.4)** | **–** | **–** | **(9.4)** |
| Taxation | **(1.8)** | **–** | **–** | **(1.8)** |
| Other | **37.9** | **(0.3)** | **–** | **37.6** |
| Non-controlling interest | **29.9** | **–** | **(29.9)** | **–** |
| **Profit for the year attributable to owners of the Parent from continuing operations** | **23.2** | **–** | **–** | **23.2** |
| Adjustments: | | | | |
| Loss on revaluation and sale of investment and development property | | | | **17.1** |
| Other | | | | **(36.7)** |
| Taxation on non-underlying items | | | | **0.7** |
| **Underlying earnings from continuing operations** | | | | **4.3** |
| **Underlying earnings per share (pence)** | | | | **0.5** |
| **Weighted average number of shares** | | | | **850.4m** |

1. Lillie Square and Innova Investment.
2. Non-controlling interest represents TfL's 37 per cent share of ECPL.

| | Re-presented 30 June 2017 | | | |
|---|---|---|---|---|
| | IFRS £m | Joint ventures[1] £m | Non-controlling interest[2] £m | Group share £m |
| Net rental income | 32.4 | (0.2) | (0.4) | 31.8 |
| Gain on revaluation and sale of investment and development property | 12.2 | 0.2 | 6.2 | 18.6 |
| Administration expenses | (21.4) | (0.2) | 0.2 | (21.4) |
| Net finance costs | (9.6) | (0.5) | – | (10.1) |
| Taxation | (0.1) | – | – | (0.1) |
| Other | 8.8 | 0.7 | 0.3 | 9.8 |
| Non-controlling interest | 6.3 | – | (6.3) | – |
| Profit for the year attributable to owners of the Parent from continuing operations | 28.6 | – | – | 28.6 |
| Adjustments: | | | | |
| Gain on revaluation and sale of investment and development property | | | | (18.6) |
| Other | | | | (8.5) |
| Taxation on non-underlying items | | | | (0.2) |
| Underlying earnings from continuing operations | | | | 1.3 |
| Underlying earnings from discontinued operation | | | | 3.3 |
| Underlying earnings | | | | 4.6 |
| Underlying earnings per share (pence): | | | | |
| From continuing operations | | | | 0.1 |
| From discontinued operation | | | | 0.4 |
| Underlying earnings per share (pence) | | | | 0.5 |
| Weighted average number of shares | | | | 849.2m |

1. Lillie Square and Innova Investment.
2. Non-controlling interest represents TfL's 37 per cent share of ECPL.

**Income**

Net rental income has increased by £1.3 million compared to the first half of 2017 as a result of the positive performance of Covent Garden (up 11.6 per cent like-for-like). The net increase of £1.3 million was driven by £2.6 million of additional income on the like-for-like Covent Garden portfolio as the Group continues to convert reversionary potential into contracted rents. Other movements consist of £2.3 million from acquisitions and properties currently held in development, £0.4 million like-for-like increase at Earls Court Properties, and the effect of disposals.

At Covent Garden gross income has increased by 5.8 per cent from £60.1 million at 31 December 2017 to £63.6 million whilst ERV has increased by 2.4 per cent from £104.8 million to £107.3 million over the period.

**Loss on revaluation of investment and development property**

The loss on revaluation of the Group's investment and development property was £17.1 million. Covent Garden recorded a gain on revaluation of £36.1 million as a result of rental growth. The loss on revaluation at Earls Court of £53.2 million was driven by changes in valuers' assumptions.

**Administration expenses**

Administration expenses have decreased by £2.2 million in comparison with the first half of 2017 due to efficiency initiatives.

**Net finance costs**

Net finance costs have decreased to £9.4 million due to the lower level of average borrowings during the period.

**Taxation**

The total tax charge for the first half of the year, of £1.8 million, is made up of both underlying tax and non-underlying tax.

Tax on underlying profits of the Group was £1.1 million which reflects a rate in line with the current rate of UK corporation tax. The main rate of corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. The corporation tax rate will further reduce to 17 per cent from 1 April 2020.

Contingent tax, being the amount of tax that would become payable on a theoretical disposal of all investment property held by the Group, as at 30 June 2018 is nil (31 December 2017: nil). A disposal of the Group's trading properties at their market value, net of available losses, would result in a corporation tax charge to the Group of £1.7 million (19 per cent of £9.0 million).

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

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

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

**Dividends**

The Board has proposed an interim dividend of 0.5 pence per share to be paid on 21 September 2018 to shareholders on the register at 31 August 2018. Subject to SARB approval, the Board intends to offer a scrip dividend alternative.

# PRINCIPAL RISKS AND UNCERTAINTIES

## Risk Management

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

Risk is a standing agenda item at all management meetings. This gives rise to a more risk aware culture and consistency in decision making across the organisation in line with the corporate strategy and risk appetite. All corporate decision making takes risk into account, in a measured way, while continuing to drive an entrepreneurial culture.

The Executive Directors are responsible for the day-to-day operational and commercial activity across the Group and are therefore responsible for the management of business risk. The Executive Risk Committee, comprising of the Executive Directors, the General Counsel & Director of Corporate Services and the Group Financial Controller, is the executive level management forum for the review and discussion of risks, controls and mitigation measures. The corporate and business division risks are reviewed on a quarterly basis by the Executive Risk Committee so that trends and emerging risks can be identified and reported to the Board.

Senior management from every division and corporate function of the business identify and manage the risks for their division or function and complete and maintain a risk register. The severity of each risk is assessed through a combination of each risk's likelihood of an adverse outcome and its impact. In assessing impact, consideration is given to financial, reputational and regulatory factors, and risk mitigation plans are established. A full risk review is undertaken annually in which the risk registers are aggregated and reviewed by the Executive Risk Committee. The Directors confirm that they have completed a robust assessment of the principal risks faced by the business, assisted by the work performed by the Executive Risk Committee.

The Group's principal risks and uncertainties, which are set out on the following pages, are reflective of where the Board has invested time during the period. These principal risks are not exhaustive. The Group monitors a number of additional risks and adjusts those considered 'principal' as the risk profile of the business changes. See also the risks inherent in the compilation of financial information, as disclosed within note 1 'Principal Accounting Policies' to the consolidated financial statements for the year ended 31 December 2017, 'Critical accounting judgements and key sources of estimation and uncertainty'.

Since the EU Referendum, there has been economic and political uncertainty and this is expected to continue into the foreseeable future. As the date at which the UK is set to depart from the EU approaches, there may be an increased level of volatility in consumer, occupier and broader corporate decision-making. To date, there has been no adverse impact on occupier demand for the Covent Garden estate, which has seen strong rental growth. At Earls Court, valuation of residential-led development land has been impacted by the overall economic and political backdrop.

The political framework for large scale residential development has become more difficult. The Government continues to review housing and planning policy which may result in beneficial or adverse change for landowners.

London, as a highly desirable global city, continues to attract businesses and people and we would expect this leading position to be maintained over time. Uncertainty remains, however, around the exit mechanism and longer-term implications of Brexit, and this will continue to have a direct or indirect impact on a number of the principal risks set out on the following pages.

## CORPORATE

| Risk | Impact on strategy | Mitigation | Change in 2018 |
|---|---|---|---|
| **Economic conditions** | | | |
| Decline in real estate valuations due to macro-economic conditions<br>Relative attractiveness of other asset classes or locations<br>Inability of the Group to adopt the appropriate strategy or to react to changing market conditions or changing consumer behaviour | Reduced return on investment and development property<br>Higher finance costs<br>Reduced profitability | Focus on prime assets<br>Regular assessment of investment market conditions including bi-annual external valuations<br>Regular strategic reviews<br>Strategic focus on creating retail destinations and residential districts with unique attributes | - |
| **Funding** | | | |
| Lack of availability or increased cost of debt or equity funding | Reduced financial and operational flexibility<br>Increased cost of borrowing<br>Delay to development works<br>Constrained growth, lost opportunities | Maintain appropriate liquidity to cover commitments<br>Target longer and staggered debt maturities, and diversified sources of funding<br>Consideration of early refinancing<br>Derivative contracts to provide interest rate protection<br>Development phasing to enable flexibility and reduce financial exposur<br>Covenant headroom monitored and stress tested | - |
| **Political climate** | | | |
| Uncertain political climate or changes to legislation and policies | Inability to deliver business plan | Monitoring proposals and emerging policy and legislation<br>Engagement with key stakeholders and politicians | - |
| **Catastrophic external event** | | | |
| Such as a terrorist attack, health pandemic or cyber crime | Diminishing London's status<br>Heightened by concentration of investments<br>Reduced rental income and/or capital values<br>Business disruption or damage to property<br>Reputational damage | Terrorist insurance<br>On-site security<br>Health and safety policies and procedures<br>Close liaison with police, National Counter Terrorism Security Office (NaCTSO) and local authorities<br>Regular training | - |
| **People** | | | |
| Inability to retain the right people and develop leadership skills within the business | Inability to execute strategy and business plan<br>Constrained growth, lost opportunities | Succession planning, performance evaluations, training and development<br>Long-term and competitive incentive rewards | - |
| **Health, safety and the environment** | | | |
| Accidents causing loss of life or very serious injury to employees, contractors, occupiers and visitors to the Group's properties<br>Activities at the Group's properties causing detrimental impact on the environment | Prosecution for non-compliance with legislation<br>Litigation or fines<br>Reputational damage<br>Distraction of management | Health and safety procedures across the Group<br>Appointment of reputable contractors<br>External consultants undertake annual audits in all locations<br>Adequate insurance held to cover the risks inherent in construction projects | - |

## CORPORATE CONTINUED

| Risk | Impact on strategy | Mitigation | Change in 2018 |
|---|---|---|---|
| **Compliance with law, regulations and contracts** | | | |
| Breach of legislation, regulation or contract<br>Inability to monitor or anticipate legal or regulatory changes | Prosecution for non-compliance with legislation<br>Litigation or fines<br>Reputational damage<br>Distraction of management | Appointment of external advisers to monitor changes in law or regulation<br>Members of staff attend external briefings to remain cognisant of legislative and regulatory changes | - |

## PROPERTY

| Risk | Impact on strategy | Mitigation | Change in 2018 |
|---|---|---|---|
| **Leasing** | | | |
| Inability to achieve target rents or to attract target tenants due to market conditions<br>Competition from other locations/ formats | Decline in tenant demand for the Group's properties<br>Reduced income<br>Reduced return on investment and development property | Quality tenant mix<br>Strategic focus on creating retail destinations with unique attributes | Whilst there has been a deterioration in sentiment around certain segments of the retail market, to date, there has been no adverse impact at Covent Garden |
| **Planning** | | | |
| Unfavourable planning policy or legislation impacting on the ability to secure future planning approvals or consents<br>Secretary of State or Mayoral intervention or judicial review | Impact on future land valuations | Outline planning permission already granted for the Earls Court Masterplan<br>Engagement with local and national authorities<br>Pre-application and consultation with key stakeholders and landowners<br>Engagement with local community bodies | - |
| **Developments** | | | |
| Decline in returns from development and impact on land valuations due to:<br>- Market conditions<br>- Site constraints leading to an increase in overall development costs<br>- Increased construction costs or delays (including as a result of complexity of developing adjacent to and above public transport infrastructure)<br>- Failure to implement strategic agreements (including with adjacent landowners) on acceptable terms | Lower development returns due to lower sales proceeds, higher costs or delay | Focus on prime assets<br>Regular assessment of market conditions and development strategy<br>Business strategy based on long-term returns<br>Professional teams in place to manage costs and deliver programme<br>Earls Court Masterplan designed to allow phased implementation | - |

# DIRECTORS' RESPONSIBILITIES

**Statement of Directors' responsibilities**

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by Disclosure and Transparency Rules (DTR) 4.2.7 and 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Capital & Counties Properties PLC are listed in the Capital & Counties Properties PLC Annual Report for 31 December 2017. A list of current Directors is maintained on the Capital & Counties Properties PLC website: www.capitalandcounties.com.

By order of the Board

**Ian Hawksworth**
Chief Executive
24 July 2018

**Situl Jobanputra**
Chief Financial Officer
24 July 2018

# INDEPENDENT REVIEW REPORT TO CAPITAL & COUNTIES PROPERTIES PLC

### Report on the condensed consolidated financial statements

### Our conclusion

We have reviewed Capital & Counties Properties PLC's condensed consolidated financial statements (the "interim financial statements") in the interim results of Capital & Counties Properties PLC for the six month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 30 June 2018;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Responsibilities for the interim financial statements and the review

### Our responsibilities and those of the Directors

The interim results, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# INDEPENDENT REVIEW REPORT TO CAPITAL & COUNTIES PROPERTIES PLC CONTINUED

**Report on the condensed consolidated financial statements continued**

**What a review of interim financial statements involves**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
24 July 2018

# CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2018

| | Notes | **Six months ended 30 June 2018 £m** | Re-presented Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| **Revenue** | 2 | **42.3** | 43.7 | 87.7 |
| Rental income | | **40.5** | 37.7 | 80.0 |
| Rental expenses | | **(6.9)** | (5.3) | (13.1) |
| **Net rental income** | 2 | **33.6** | 32.4 | 66.9 |
| Profit on sale of trading property | 3 | **–** | 1.0 | 0.9 |
| Other income | | **1.8** | 2.1 | 3.8 |
| (Loss)/gain on revaluation and sale of investment and development property | 4 | **(47.3)** | 12.2 | (90.9) |
| Impairment of other receivables | 5 | **(2.3)** | (3.3) | (1.3) |
| Profit on sale of subsidiaries | 6 | **29.6** | – | – |
| | | **15.4** | 44.4 | (20.6) |
| Administration expenses | | **(19.7)** | (21.4) | (38.8) |
| **Operating (loss)/profit** | | **(4.3)** | 23.0 | (59.4) |
| Finance income | 7 | **0.1** | 0.5 | 0.8 |
| Finance costs | 8 | **(9.5)** | (10.1) | (19.9) |
| Other finance income | 7 | **6.3** | 5.5 | 11.7 |
| Change in fair value of derivative financial instruments | | **2.5** | 3.6 | 4.3 |
| Net finance costs | | **(0.6)** | (0.5) | (3.1) |
| | | **(4.9)** | 22.5 | (62.5) |
| Share of post-tax loss from joint ventures | 14 | **–** | (0.1) | – |
| **(Loss)/profit before tax** | | **(4.9)** | 22.4 | (62.5) |
| Current tax | | **(1.1)** | (1.2) | (1.7) |
| Deferred tax | | **(0.7)** | 1.1 | (5.0) |
| Taxation | 9 | **(1.8)** | (0.1) | (6.7) |
| **(Loss)/profit for the period from continuing operations** | | **(6.7)** | 22.3 | (69.2) |
| **Discontinued operation** | | | | |
| Profit for the period from discontinued operation | 10 | **–** | 6.1 | 6.1 |
| **(Loss)/profit for the period** | | **(6.7)** | 28.4 | (63.1) |
| **Profit/(loss) attributable to:** | | | | |
| Owners of the Parent | | **23.2** | 34.7 | (0.4) |
| Non-controlling interest | 15 | **(29.9)** | (6.3) | (62.7) |
| **Earnings per share attributable to owners of the Parent[1]** | | | | |
| **Basic and diluted earnings/(loss) per share** | 12 | **2.7p** | 4.1p | (0.1)p |
| **Earnings per share from continuing operations attributable to owners of the Parent[1]** | | | | |
| **Basic and diluted earnings/(loss) per share** | 12 | **2.7p** | 3.4p | (0.8)p |
| **Weighted average number of shares** | 12 | **850.4m** | 849.2m | 850.0m |

1. Earnings per share from discontinued operation are shown in note 12 ‘Earnings Per Share and Net Assets Per Share’.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2018

| | Notes | **Six months ended 30 June 2018 £m** | Re-presented Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|---|
| **(Loss)/profit for the period** | | **(6.7)** | 28.4 | (63.1) |
| **Total comprehensive (expense)/income for the period** | | **(6.7)** | 28.4 | (63.1) |
| **Attributable to:** | | | | |
| Owners of the Parent | | **23.2** | 34.7 | (0.4) |
| Non-controlling interest | 15 | **(29.9)** | (6.3) | (62.7) |
| **Arising from:** | | | | |
| Continuing operations | | **(6.7)** | 22.3 | (69.2) |
| Discontinued operation | | **–** | 6.1 | 6.1 |

# CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2018

| | Notes | **As at 30 June 2018 £m** | As at 31 December 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment and development property | 13 | **3,426.1** | 3,645.7 |
| Plant and equipment | | **3.7** | 4.6 |
| Investment in joint ventures | 14 | **16.9** | 16.9 |
| Derivative financial instruments | 20 | **1.0** | – |
| Deferred tax | 21 | **7.6** | 7.8 |
| Trade and other receivables | 16 | **235.1** | 224.5 |
| | | **3,690.4** | 3,899.5 |
| **Current assets** | | | |
| Trading property | 13 | **–** | – |
| Trade and other receivables | 16 | **34.8** | 33.1 |
| Cash and cash equivalents | 17 | **48.9** | 28.6 |
| | | **83.7** | 61.7 |
| **Total assets** | | **3,774.1** | 3,961.2 |
| **Non-current liabilities** | | | |
| Borrowings, including finance leases | 19 | **(615.2)** | (776.2) |
| Derivative financial instruments | 20 | **–** | (5.5) |
| Trade and other payables | | **–** | (0.3) |
| | | **(615.2)** | (782.0) |
| **Current liabilities** | | | |
| Borrowings, including finance leases | 19 | **(0.7)** | (0.7) |
| Other provisions | | **(2.0)** | (2.0) |
| Tax liabilities | | **(2.4)** | (1.8) |
| Trade and other payables | 18 | **(52.5)** | (69.1) |
| | | **(57.6)** | (73.6) |
| **Total liabilities** | | **(672.8)** | (855.6) |
| **Net assets** | | **3,101.3** | 3,105.6 |
| **Equity** | | | |
| Share capital | 22 | **212.6** | 212.2 |
| Other components of equity | | **2,606.7** | 2,587.6 |
| **Equity attributable to owners of the Parent** | | **2,819.3** | 2,799.8 |
| Non-controlling interest | 15 | **282.0** | 305.8 |
| **Total equity** | | **3,101.3** | 3,105.6 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2018

| | | Equity attributable to owners of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | **Share capital £m** | **Share premium £m** | **Merger reserve £m** | **Share-based payment reserve £m** | **Other reserves £m** | **Retained earnings £m** | **Total £m** | **Non-controlling interest £m** | **Total equity £m** |
| **Balance at 1 January 2018** | | **212.2** | **221.1** | **425.8** | **6.3** | **(0.6)** | **1,935.0** | **2,799.8** | **305.8** | **3,105.6** |
| **Profit/(loss) for the period** | | **–** | **–** | **–** | **–** | **–** | **23.2** | **23.2** | **(29.9)** | **(6.7)** |
| **Total comprehensive income/(expense) for the period** | | **–** | **–** | **–** | **–** | **–** | **23.2** | **23.2** | **(29.9)** | **(6.7)** |
| Transactions with owners | | | | | | | | | | |
| Ordinary shares issued | 22 | **0.4** | **3.5** | **–** | **–** | **–** | **(0.5)** | **3.4** | **–** | **3.4** |
| Dividends | 11 | **–** | **–** | **–** | **–** | **–** | **(8.5)** | **(8.5)** | **–** | **(8.5)** |
| Realisation of share-based payment reserve on issue of shares | | **–** | **–** | **–** | **(0.1)** | **–** | **–** | **(0.1)** | **–** | **(0.1)** |
| Fair value of share-based payment | | **–** | **–** | **–** | **1.5** | **–** | **–** | **1.5** | **–** | **1.5** |
| Contribution from non-controlling interest | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **6.1** | **6.1** |
| Total transactions with owners | | **0.4** | **3.5** | **–** | **1.4** | **–** | **(9.0)** | **(3.7)** | **6.1** | **2.4** |
| **Balance at 30 June 2018** | | **212.6** | **224.6** | **425.8** | **7.7** | **(0.6)** | **1,949.2** | **2,819.3** | **282.0** | **3,101.3** |

| | | Equity attributable to owners of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital £m | Share premium £m | Merger reserve £m | Share-based payment reserve £m | Other reserves £m | Retained earnings £m | Total £m | Non-controlling interest £m | Total equity £m |
| Balance at 1 January 2017 | | 211.5 | 215.1 | 425.8 | 6.1 | (0.7) | 1,947.2 | 2,805.0 | 368.2 | 3,173.2 |
| Loss for the period | | – | – | – | – | – | 34.7 | 34.7 | (6.3) | 28.4 |
| Total comprehensive expense for the period | | – | – | – | – | – | 34.7 | 34.7 | (6.3) | 28.4 |
| Transactions with owners | | | | | | | | | | |
| Ordinary shares issued | 22 | 0.6 | – | – | – | – | – | 0.6 | – | 0.6 |
| Dividends | 11 | – | – | – | – | – | (8.5) | (8.5) | – | (8.5) |
| Adjustment for bonus issue | 11 | – | – | – | – | – | 4.8 | 4.8 | – | 4.8 |
| Realisation of share-based payment reserve on issue of shares | | – | – | – | (1.7) | – | 1.3 | (0.4) | – | (0.4) |
| Fair value of share-based payment | | – | – | – | 1.1 | – | – | 1.1 | – | 1.1 |
| Realisation of cash flow hedge | | – | – | – | – | 0.1 | – | 0.1 | – | 0.1 |
| Contribution from non-controlling interest | | – | – | – | – | – | – | – | 0.3 | 0.3 |
| Total transactions with owners | | 0.6 | – | – | (0.6) | 0.1 | (2.4) | (2.3) | 0.3 | (2.0) |
| Balance at 30 June 2017 | | 212.1 | 215.1 | 425.8 | 5.5 | (0.6) | 1,979.5 | 2,837.4 | 362.2 | 3,199.6 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the year ended 31 December 2017

| | | Equity attributable to owners of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital £m | Share premium £m | Merger reserve £m | Share-based payment reserve £m | Other reserves £m | Retained earnings £m | Total £m | Non-controlling interest £m | Total equity £m |
| Balance at 1 January 2017 | | 211.5 | 215.1 | 425.8 | 6.1 | (0.7) | 1,947.2 | 2,805.0 | 368.2 | 3,173.2 |
| Loss for the year | | – | – | – | – | – | (0.4) | (0.4) | (62.7) | (63.1) |
| Total comprehensive expense for the year ended 31 December 2017 | | – | – | – | – | – | (0.4) | (0.4) | (62.7) | (63.1) |
| Transactions with owners | | | | | | | | | | |
| Ordinary shares issued | 22 | 0.7 | 6.0 | – | – | – | (0.5) | 6.2 | – | 6.2 |
| Dividends | 11 | – | – | – | – | – | (12.7) | (12.7) | – | (12.7) |
| Realisation of share-based payment reserve on issue of shares | | – | – | – | (1.8) | – | 1.6 | (0.2) | – | (0.2) |
| Fair value of share-based payment | | – | – | – | 2.0 | – | – | 2.0 | – | 2.0 |
| Realisation of cash flow hedge | | – | – | – | – | 0.1 | – | 0.1 | – | 0.1 |
| Tax relating to share-based payment | 21 | – | – | – | – | – | (0.2) | (0.2) | – | (0.2) |
| Contribution from non-controlling interest | | – | – | – | – | – | – | – | 0.3 | 0.3 |
| Total transactions with owners | | 0.7 | 6.0 | – | 0.2 | 0.1 | (11.8) | (4.8) | 0.3 | (4.5) |
| Balance at 31 December 2017 | | 212.2 | 221.1 | 425.8 | 6.3 | (0.6) | 1,935.0 | 2,799.8 | 305.8 | 3,105.6 |

# CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2018

| | Notes | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|---|
| **Cash flows from continuing operating activities** | | | | |
| Cash generated from operations | 25 | **7.1** | 6.8 | 5.8 |
| Interest paid | | **(10.4)** | (9.7) | (18.4) |
| Interest received | | **0.1** | 0.3 | 0.6 |
| Tax paid | | **(1.0)** | (0.6) | (1.2) |
| Net cash outflow from continuing operating activities | | **(4.2)** | (3.2) | (13.2) |
| Net cash inflow from discontinued operating activities | 10 | **–** | 7.6 | 7.6 |
| **Net cash (outflow)/inflow from operating activities** | | **(4.2)** | 4.4 | (5.6) |
| **Cash flows from investing activities** | | | | |
| Purchase and development of property | | **(58.7)** | (76.9) | (211.2) |
| Sale of property | | **–** | 12.4 | 17.1 |
| Investment in joint venture | | **–** | (1.9) | (1.9) |
| Sale of discontinued operation | | **(0.3)** | 228.6 | 226.0 |
| Sale of subsidiaries[1] | | **250.4** | (4.5) | (4.5) |
| Loan advances (to)/from joint ventures | | **(1.9)** | (1.7) | 15.2 |
| Net cash inflow from continuing investing activities | | **189.5** | 156.0 | 40.7 |
| Net cash outflow from discontinued investing activities | 10 | **–** | (2.4) | (2.4) |
| **Net cash inflow from investing activities** | | **189.5** | 153.6 | 38.3 |
| **Cash flows from financing activities** | | | | |
| Issue of shares | | **0.1** | 0.2 | 0.3 |
| Borrowings drawn | | **22.8** | 170.1 | 558.7 |
| Borrowings repaid | | **(185.0)** | (330.5) | (575.5) |
| Purchase and repayment of derivative financial instruments | | **(4.0)** | – | (4.1) |
| Other finance costs | | **–** | – | (2.0) |
| Cash dividends paid | 11 | **(5.0)** | (3.7) | (6.7) |
| Contribution from non-controlling interest | | **6.1** | 0.3 | 0.3 |
| Transactions with discontinued operation[2] | | **–** | 5.4 | 5.4 |
| Net cash outflow from continuing financing activities | | **(165.0)** | (158.2) | (23.6) |
| Net cash outflow from discontinued financing activities | 10 | **–** | (5.4) | (5.4) |
| **Net cash outflow from financing activities** | | **(165.0)** | (163.6) | (29.0) |
| Net increase/(decrease) in cash and cash equivalents | | **20.3** | (5.6) | 3.7 |
| Unrestricted cash and cash equivalents at 1 January | | **28.6** | 24.9 | 24.9 |
| **Unrestricted cash and cash equivalents at period end** | | **48.9** | 19.3 | 28.6 |

1. Sale of subsidiaries includes £249.1 million relating to the sale of the Empress State Building and £1.3 million (December 2017: £0.5 million) related to deferred consideration on the disposal of The Brewery by EC&O Limited on 9 February 2012. Further information on the sale of the Empress State Building can be found in note 6 'Profit on Sale of Subsidiaries'.

2. Relates to transactions between the Group's treasury function and discontinued operations. The Group operates a central treasury function which manages and monitors the Group's cash balances.

# NOTES TO THE ACCOUNTS (UNAUDITED)

## 1 PRINCIPAL ACCOUNTING POLICIES

**General information**
Capital & Counties Properties PLC (the "Company") was incorporated and registered in England and Wales on 3 February 2010 under the Companies Act as a public company limited by shares, registration number 7145051. The registered office of the Company is 15 Grosvenor Street, London, W1K 4QZ, United Kingdom. The principal activity of the Company is to act as the ultimate parent company of Capital & Counties Properties PLC Group (the "Group"), whose principal activity is the development and management of property.

The Group's assets principally comprise investment and development property at Covent Garden and Earls Court.

**Basis of preparation**
The Group's condensed consolidated financial statements are prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated financial statements should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2017, which have been prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial statements are prepared in British pounds sterling.

The condensed consolidated financial statements for the six months ended 30 June 2018 are reviewed, not audited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 20 February 2018 and delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement made under Section 498 of the Companies Act 2006.

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of property, available-for-sale investments and derivative financial instruments.

There is no material seasonal impact on the Group's financial performance.

These condensed consolidated financial statements were approved by the Board of Directors on 24 July 2018.

The condensed consolidated financial statements have been prepared using the accounting policies, significant judgements, key assumptions and estimates set out on pages 102 to 106 of the Group's Annual Report & Accounts for 2017.

**Re-presentation of prior year comparatives**
Profit on sale of discontinued operation of £2.9 million was disclosed on a separate line item within the Interim Results for the six months ended 30 June 2017. This has been re-presented to be included within profit for the period from discontinued operations which is in line with the 2017 Group's Annual Report & Accounts.

**Critical accounting judgements and key sources of estimation and uncertainty**
The preparation of condensed consolidated financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses from sources not readily apparent. Although these estimates and assumptions are based on management's best knowledge of the amount, historical experiences and other factors, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. This is consistent with the financial statements for the previous year end. Full disclosure of the critical judgements, assumptions and estimates is included in the Group's Annual Report & Accounts for 2017.

During 2018, the following accounting standards and interpretations have been adopted by the Group:
IFRS 2 'Share-based Payment' (amendment)
IFRS 9 'Financial instruments'
IFRS 15 'Revenue from contracts with customers'
IAS 28 'Investments in Associates' (amendment)
IAS 40 'Investment Property' (amendment)
Amendments to IFRS (Annual improvements cycle 2014-2016)

These pronouncements had no significant impact on the condensed consolidated financial statements.

The following standards and interpretations which have not been applied in these financial statements were in issue but not effective, and in some cases have not been adopted for use in the European Union:
IFRS 16 'Leases'
Amendments to IFRS (Annual improvements cycle 2015-2017)

The Group has assessed the impact of these new standards and interpretations and does not anticipate any material impact on the financial statements.

As the Group is predominantly a lessor, IFRS 16 'Leases' will not have a material impact on adoption. Where the Group is currently a lessee, this relates only to immaterial contracts.

## 1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### Going Concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and for this reason the condensed consolidated financial statements have been prepared on a going concern basis.

## 2 SEGMENTAL REPORTING

Management has determined the operating segments based on reports reviewed by the Executive Directors, who are deemed to be the chief operating decision makers. The principal performance measures have been identified as net rental income and net asset value.

For management and reporting purposes the Group is organised into three divisions:

- Covent Garden;
- Earls Court Properties represents the Group's interests in the Earls Court area, comprising properties held in ECPL, Lillie Square and a number of smaller properties in the Earls Court area; and
- Other comprises Innova, the discontinued activity of Venues and The Great Capital Partnership, the Group's residual China investments, other head office companies and investments, including the payment of internal rent.

Management information is reported to the chief operating decision makers on a Group share basis. Outlined below is the Group share by segment:

| Segment | Group share |
|---|---|
| **Covent Garden** | **100%** |
| **Earls Court Properties** | |
| ECPL | **63%** |
| Lillie Square | **50%** |
| Other | **100%** |
| **Other** | |
| Innova | **50%** |
| GCP | **50%** |
| Venues[1] | **0%** |
| Other | **100%** |

1. Venues was 100 per cent owned until 7 April 2017. Subsequent to this the Group share ownership is nil.

Segmental reporting has been presented in line with management information and therefore consolidation adjustments are presented to reconcile segmental performance and position to the IFRS total.

The Group's operating segments derive their revenue primarily from rental income from lessees.

Unallocated expenses consist primarily of costs incurred centrally which are neither directly nor meaningfully attributable to individual segments.

## 2 SEGMENTAL REPORTING CONTINUED

### Reportable segments

| Continuing operations | Six months ended 30 June 2018<br>Covent Garden £m | Earls Court Properties £m | Other £m | Group total £m | Consolidation adjustments £m | IFRS total £m |
|---|---|---|---|---|---|---|
| Rental income | 34.4 | 5.6 | – | 40.0 | 0.5 | 40.5 |
| Proceeds from sale of trading property | – | 25.0 | – | 25.0 | (25.0) | – |
| Other Income | – | – | 0.9 | 0.9 | 0.9 | 1.8 |
| **Revenue** | 34.4 | 30.6 | 0.9 | 65.9 | (23.6) | 42.3 |
| | | | | | | |
| Rent receivable | 32.4 | 5.0 | – | 37.4 | 0.5 | 37.9 |
| Service charge income | 2.0 | 0.6 | – | 2.6 | – | 2.6 |
| Rental income | 34.4 | 5.6 | – | 40.0 | 0.5 | 40.5 |
| Rental expenses[1] | (6.1) | (0.7) | (0.1) | (6.9) | – | (6.9) |
| **Net rental income/(expense)** | 28.3 | 4.9 | (0.1) | 33.1 | 0.5 | 33.6 |
| Profit on sale of trading property | – | 5.0 | – | 5.0 | (5.0) | – |
| Other income | – | – | 0.9 | 0.9 | 0.9 | 1.8 |
| Gain/(loss) on revaluation and sale of investment and development property | 36.1 | (53.3) | 0.1 | (17.1) | (30.2) | (47.3) |
| Profit on sale of subsidiaries | – | 29.6 | – | 29.6 | – | 29.6 |
| Write down of trading property | – | (0.4) | – | (0.4) | 0.4 | – |
| **Impairment of other receivables** | – | – | – | – | (2.3) | (2.3) |
| **Segment result** | 64.4 | (14.2) | 0.9 | 51.1 | (35.7) | 15.4 |
| Unallocated costs: | | | | | | |
| Administration expenses | | | | (19.2) | (0.5) | (19.7) |
| **Operating profit/(loss)** | | | | 31.9 | (36.2) | (4.3) |
| Net finance costs[2] | | | | (6.9) | 6.3 | (0.6) |
| **Profit/(loss) before tax** | | | | 25.0 | (29.9) | (4.9) |
| Taxation | | | | (1.8) | – | (1.8) |
| **Profit/(loss) for the period** | | | | 23.2 | (29.9) | (6.7) |
| **Profit/(loss) attributable to:** | | | | | | |
| Owners of the Parent | | | | 23.2 | – | 23.2 |
| Non-controlling interest | | | | – | (29.9) | (29.9) |
| **Summary balance sheet** | | | | | | |
| Total segment assets[3] | 2,642.5 | 785.8 | 40.3 | 3,468.6 | 262.3 | 3,730.9 |
| Total segment liabilities[3] | (598.6) | (86.3) | (7.6) | (692.5) | 19.7 | (672.8) |
| Segmental net assets | 2,043.9 | 699.5 | 32.7 | 2,776.1 | 282.0 | 3,058.1 |
| Unallocated assets[2] | | | | 43.2 | – | 43.2 |
| **Net assets** | | | | 2,819.3 | 282.0 | 3,101.3 |
| **Other segment items:** | | | | | | |
| Depreciation | (0.2) | (0.6) | (0.1) | (0.9) | (0.1) | (1.0) |
| Capital expenditure | (32.5) | (23.4) | – | (55.9) | 8.2 | (47.7) |

1. Comprises service charge and other non-recoverable costs.
2. The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.
3. Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

## 2 SEGMENTAL REPORTING CONTINUED

### Reportable segments

| | Re-presented Six months ended 30 June 2017 | | | | | |
|---|---|---|---|---|---|---|
| Continuing operations | Covent Garden £m | Earls Court Properties £m | Other £m | Group total £m | Consolidation adjustments £m | IFRS total £m |
| Rental income | 28.6 | 9.0 | (0.3) | 37.3 | 0.4 | 37.7 |
| Proceeds from sale of trading property | 3.9 | 34.7 | – | 38.6 | (34.7) | 3.9 |
| Other Income | – | – | 1.3 | 1.3 | 0.8 | 2.1 |
| **Revenue** | 32.5 | 43.7 | 1.0 | 77.2 | (33.5) | 43.7 |
| | | | | | | |
| Rent receivable | 26.6 | 9.0 | (0.3) | 35.3 | 0.4 | 35.7 |
| Service charge income | 2.0 | – | – | 2.0 | – | 2.0 |
| Rental income | 28.6 | 9.0 | (0.3) | 37.3 | 0.4 | 37.7 |
| Rental expenses[1] | (5.2) | (0.3) | – | (5.5) | 0.2 | (5.3) |
| **Net rental income/(expense)** | 23.4 | 8.7 | (0.3) | 31.8 | 0.6 | 32.4 |
| Profit on sale of trading property | 1.0 | 4.4 | – | 5.4 | (4.4) | 1.0 |
| Other income | – | – | 1.3 | 1.3 | 0.8 | 2.1 |
| Gain/(loss) on revaluation and sale of investment and development property | 34.7 | (16.1) | – | 18.6 | (6.4) | 12.2 |
| Write down of trading property | – | (0.5) | – | (0.5) | 0.5 | – |
| Impairment of other receivables | – | – | – | – | (3.3) | (3.3) |
| **Segment profit/(loss)** | 59.1 | (3.5) | 1.0 | 56.6 | (12.2) | 44.4 |
| Unallocated costs: | | | | | | |
| Administration expenses | | | | (21.4) | – | (21.4) |
| **Operating profit/(loss)** | | | | 35.2 | (12.2) | 23.0 |
| Net finance costs[2] | | | | (6.5) | 6.0 | (0.5) |
| Share of post-tax loss from joint ventures | | | | – | (0.1) | (0.1) |
| **Profit/(loss) before tax** | | | | 28.7 | (6.3) | 22.4 |
| Taxation | | | | (0.1) | – | (0.1) |
| **Profit/(loss) for the period from continuing operations** | | | | 28.6 | (6.3) | 22.3 |
| **Discontinued operation** | | | | | | |
| Profit for the period from discontinued operation | | | | 6.1 | – | 6.1 |
| **Profit/(loss) for the period** | | | | 34.7 | (6.3) | 28.4 |
| **Profit/(loss) attributable to:** | | | | | | |
| Owners of the Parent | | | | 34.7 | – | 34.7 |
| Non-controlling interest | | | | – | (6.3) | (6.3) |
| **Summary balance sheet** | | | | | | |
| Total segment assets[3] | 2,375.2 | 1,187.4 | 42.1 | 3,604.7 | 283.1 | 3,887.8 |
| Total segment liabilities[3] | (630.7) | (138.3) | (14.4) | (783.4) | 79.1 | (704.3) |
| Segmental net assets | 1,744.5 | 1,049.1 | 27.7 | 2,821.3 | 362.2 | 3,183.5 |
| Unallocated assets[2] | | | | 16.1 | – | 16.1 |
| **Net assets** | | | | 2,837.4 | 362.2 | 3,199.6 |
| **Other segment items:** | | | | | | |
| Depreciation | (0.1) | (0.9) | (0.2) | (1.2) | 0.1 | (1.1) |
| Capital expenditure | (50.3) | (31.1) | (0.1) | (81.5) | 8.0 | (73.5) |

1. Comprises service charge and other non-recoverable costs.
2. The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.
3. Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

## 2 SEGMENTAL REPORTING CONTINUED

### Reportable segments

| | Year ended 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|
| Continuing operations | Covent Garden £m | Earls Court Properties £m | Other £m | Group total £m | Consolidation adjustments £m | IFRS total £m |
| Rental income | 61.8 | 18.5 | (0.5) | 79.8 | 0.2 | 80.0 |
| Proceeds from sale of trading property | 3.9 | 95.1 | – | 99.0 | (95.1) | 3.9 |
| Other Income | – | – | 2.3 | 2.3 | 1.5 | 3.8 |
| **Revenue** | 65.7 | 113.6 | 1.8 | 181.1 | (93.4) | 87.7 |
| | | | | | | |
| Rent receivable | 57.7 | 18.2 | (0.5) | 75.4 | 0.5 | 75.9 |
| Service charge income | 4.1 | 0.3 | – | 4.4 | (0.3) | 4.1 |
| Rental income | 61.8 | 18.5 | (0.5) | 79.8 | 0.2 | 80.0 |
| Rental expenses[1] | (12.9) | (0.7) | – | (13.6) | 0.5 | (13.1) |
| **Net rental income/(expense)** | 48.9 | 17.8 | (0.5) | 66.2 | 0.7 | 66.9 |
| Profit on sale of trading property | 0.9 | 13.6 | – | 14.5 | (13.6) | 0.9 |
| Other income | – | – | 2.3 | 2.3 | 1.5 | 3.8 |
| Gain/(loss) on revaluation and sale of investment and development property | 93.4 | (121.4) | – | (28.0) | (62.9) | (90.9) |
| Write down of trading property | – | (0.6) | – | (0.6) | 0.6 | – |
| Impairment of other receivables | – | – | – | – | (1.3) | (1.3) |
| **Segment profit/(loss)** | 143.2 | (90.6) | 1.8 | 54.4 | (75.0) | (20.6) |
| Unallocated costs: | | | | | | |
| Administration expenses | | | | (38.7) | (0.1) | (38.8) |
| **Operating profit/(loss)** | | | | 15.7 | (75.1) | (59.4) |
| Net finance costs[2] | | | | (15.5) | 12.4 | (3.1) |
| **Profit/(loss) before tax** | | | | 0.2 | (62.7) | (62.5) |
| Taxation | | | | (6.7) | – | (6.7) |
| **Loss for the year from continuing operations** | | | | (6.5) | (62.7) | (69.2) |
| **Discontinued operation** | | | | | | |
| Profit for the year from discontinued operation | | | | 6.1 | – | 6.1 |
| **Loss for the year** | | | | (0.4) | (62.7) | (63.1) |
| **Loss attributable to:** | | | | | | |
| Owners of the Parent | | | | (0.4) | – | (0.4) |
| Non-controlling interest | | | | – | (62.7) | (62.7) |
| **Summary balance sheet** | | | | | | |
| Total segment assets[3] | 2,565.4 | 1,056.0 | 40.8 | 3,662.2 | 275.7 | 3,937.9 |
| Total segment liabilities[3] | (773.5) | (103.1) | (9.1) | (885.7) | 30.1 | (855.6) |
| Segmental net assets | 1,791.9 | 952.9 | 31.7 | 2,776.5 | 305.8 | 3,082.3 |
| Unallocated assets[2] | | | | 23.3 | – | 23.3 |
| **Net assets** | | | | 2,799.8 | 305.8 | 3,105.6 |
| **Other segment items:** | | | | | | |
| Depreciation | (0.3) | (1.5) | (0.3) | (2.1) | 0.2 | (1.9) |
| Capital expenditure | (177.3) | (56.2) | (0.1) | (233.6) | 15.2 | (218.4) |

1. Comprises service charge and other non-recoverable costs.
2. The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.
3. Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

## 3 PROFIT ON SALE OF TRADING PROPERTY

| Continuing operations | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Proceeds from the sale of trading property | – | 3.9 | 3.9 |
| Cost of sale of trading property | – | (2.8) | (2.9) |
| Agent, selling and marketing fees | – | (0.1) | (0.1) |
| **Profit on sale of trading property** | – | 1.0 | 0.9 |

## 4 (LOSS)/GAIN ON REVALUATION AND SALE OF INVESTMENT AND DEVELOPMENT PROPERTY

| Continuing operations | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| (Loss)/gain on revaluation of investment and development property | **(47.3)** | 12.2 | (90.8) |
| Loss on sale of investment and development property | – | – | (0.1) |
| **(Loss)/gain on revaluation and sale of investment and development property** | **(47.3)** | 12.2 | (90.9) |

## 5 IMPAIRMENT OF OTHER RECEIVABLES

| Continuing operations | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Impairment of other receivables** | **2.3** | 3.3 | 1.3 |

Following an impairment review of amounts receivable from joint ventures by the Group, a net impairment of £2.3 million has been recognised (30 June 2017: £3.3 million). The Lillie Square joint venture incurs amortisation charges on deep discount bonds that were issued to the Group and Kwok Family Interests ("KFI") which has contributed to the cumulative losses. The Group has recognised £6.3 million (30 June 2017: £5.5 million) finance income on these deep discount bonds during the period.

The impairment of amounts receivable from joint venture is calculated with reference to the Group's share of the cumulative losses in the Lillie Square joint venture. The carrying value of the investment is nil (31 December 2017: nil) in accordance with IAS 28 'Investment in Associates and Joint Ventures' ("IAS 28"). Refer to note 14 'Investment in Joint Ventures'.

An impairment assessment was performed in accordance with IFRS 9 'Financial instruments' comparing the carrying amount of the intercompany debtor and deep discount bonds to the present value of the estimated future cash flows. This has resulted in a write down of £2.3 million, of which £0.6 million has been recognised against the intercompany debtor (30 June 2017: £3.3 million) and £1.7 million against the deep discount bonds (30 June 2017: nil).

## 6 PROFIT ON SALE OF SUBSIDIARIES

On 26 March 2018, the Group completed the sale of the Empress State Building for total cash consideration of £250.0 million. The disposal was effected by way of a sale of the entire issued share capital of Empress Holdings Limited and its subsidiaries ("Empress Holdings Group") which held the freehold interest in the Empress State Building. The disposal was in line with the Group strategy of realising value at Earls Court over time. After transaction related costs, net proceeds received were £249.0 million. Based on the net assets at the date of disposal a profit has been recognised on the sale of £29.6 million.

Net assets at the date of disposal were as follows:

| | **26 March 2018 £m** |
|---|---|
| Investment and development property | **220.0** |
| Other non-current liabilities | **(0.6)** |
| **Net assets** | **219.4** |
| **Net consideration[1]** | **249.0** |
| **Profit on disposal** | **29.6** |

1. Sale of subsidiaries per the consolidated statement of cash flows at 30 June 2018 is £250.4 million. This differs to the net consideration above of £249.0 million by £1.4 million. This is due to accrued transaction costs of £0.1 million and £1.3 million relating to deferred consideration on the disposal of The Brewery by EC&O Limited on 9 February 2012.

## 7 FINANCE INCOME

| Continuing operations | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Finance income: | | | |
| On deposits and other | **0.1** | 0.5 | 0.8 |
| **Finance income** | **0.1** | 0.5 | 0.8 |
| | | | |
| Other finance income: | | | |
| On deep discount bonds[1] | **6.3** | 5.5 | 11.7 |
| **Other finance income** | **6.3** | 5.5 | 11.7 |

1. Excluded from the calculation of underlying earnings as deep discount bonds eliminate on a Group share basis.

## 8 FINANCE COSTS

| Continuing operations | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Finance costs: | | | |
| On bank overdrafts, loans and other | **11.2** | 11.3 | 22.7 |
| On obligations under finance leases | **0.4** | 0.2 | 0.5 |
| Gross finance costs | **11.6** | 11.5 | 23.2 |
| Interest capitalised on property under development | **(2.1)** | (1.4) | (3.3) |
| **Finance costs** | **9.5** | 10.1 | 19.9 |

Interest is capitalised, before tax relief, on the basis of the weighted average cost of debt of 2.9 per cent (30 June 2017: 3.0 per cent) applied to the cost of property under development during the period.

## 9 TAXATION

| Continuing operations | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Current income tax: | | | |
| Current income tax charge excluding non-underlying items | **1.0** | 1.2 | 0.9 |
| Current income tax | **1.0** | 1.2 | 0.9 |
| Deferred income tax: | | | |
| On accelerated capital allowances | **0.5** | 0.4 | 1.0 |
| On other items – non-exceptional | **(0.5)** | – | – |
| On fair value of derivative financial instruments | **0.5** | 0.7 | 1.9 |
| On losses - exceptional | **0.2** | – | – |
| On Group losses | **–** | (1.9) | 1.6 |
| On other temporary differences | **–** | (0.3) | 0.7 |
| Deferred income tax | **0.7** | (1.1) | 5.2 |
| Current income tax charge on non-underlying items | **0.1** | – | 0.8 |
| Adjustments in respect of previous periods – deferred income tax | **–** | – | (0.2) |
| **Total income tax charge reported in the consolidated income statement** | **1.8** | 0.1 | 6.7 |

Finance Act 2015 sets the main rate of UK corporation tax at 20 per cent with effect on 1 April 2015. The enactment of Finance (No. 2) Act 2015 and Finance Act 2016 reduces the main rate of corporation tax to 19 per cent from April 2017 and 17 per cent from April 2020.

## 10 DISCONTINUED OPERATION

On 7 April 2017, the Group completed the sale of Venues, its exhibition business, comprising Olympia London together with certain related property assets for a total gross cash consideration of £296.0 million. The disposal was in line with the Group strategy following the successful transition of shows from the former Earls Court Exhibition Centres to Olympia. After the repayment of debt, working capital adjustments and transaction related costs, net proceeds received were £230.2 million. Based on the net assets at the date of disposal a profit has been recognised on the sale of £2.1 million. As part of the sale, the defined benefit scheme the Group previously held was sold to the purchaser and therefore the Group has no outstanding liability in relation to the scheme.

The net assets at the date of disposal were as follows:

| | 7 April 2017 £m |
|---|---|
| Investment and development property | **292.8** |
| Other non-current assets | **0.8** |
| Pension asset | **1.4** |
| Cash and cash equivalents[1] | **10.8** |
| Other current assets | **8.9** |
| Other current liabilities | **(15.9)** |
| Deferred tax | **(15.7)** |
| Borrowings | **(55.0)** |
| **Net assets** | **228.1** |
| **Net consideration[2]** | **230.2** |
| **Profit on disposal** | **2.1** |

1. Cash and cash equivalents include £6.0 million of restricted cash and cash equivalents.

2. Sale of discontinued operation as per the consolidated statement of cash flows as at 31 December 2017 is £226.0 million. This differs to the net consideration above of £230.2 million by £4.2 million. This is due to accrued transaction costs of £0.6 million less unrestricted cash and cash equivalents disposed of with the transaction of £4.8 million.

The Venues results which have been included in the income statement as discontinued operation were:

| **Summary income statement** | Period ended 7 April 2017 £m |
|---|---|
| Revenue | **10.2** |
| Net rental income | **7.2** |
| Administration expenses | **(2.7)** |
| Operating profit | **4.5** |
| Net finance costs | **(0.5)** |
| Profit on disposal | **2.1** |
| **Profit for the period from discontinued operation** | **6.1** |
| | |
| *Underlying earnings adjustments* | |
| Change in fair value of derivative financial instruments | **0.1** |
| Profit on disposal | **(2.1)** |
| **Underlying earnings from discontinued operation** | **4.1** |

## 10 DISCONTINUED OPERATION CONTINUED

The Venues cash flows which have been included in the statement of cash flow as discontinued operation were:

| Summary statement of cash flows | Note | Period ended 7 April 2017 £m |
|---|---|---|
| Cash flows from operating activities | 25 | **8.0** |
| Interest paid | | **(0.4)** |
| **Net cash inflow from operating activities** | | **7.6** |
| | | |
| Purchase and development of property, plant and equipment | | **(0.1)** |
| Pension funding | | **(2.3)** |
| **Net cash outflow from investing activities** | | **(2.4)** |
| | | |
| Transactions with Group by discontinued operation | | **(5.4)** |
| **Net cash outflow from financing activities** | | **(5.4)** |
| | | |
| **Net decrease in unrestricted cash and cash equivalents from discontinued operation** | | **(0.2)** |
| Unrestricted cash and cash equivalents at 1 January | | **5.0** |
| **Unrestricted cash and cash equivalents at period end** | | **4.8** |

## 11 DIVIDENDS

| | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Ordinary shares** | | | |
| Prior period final dividend of 1.0p per share | **8.5** | 8.5 | 8.5 |
| Interim dividend of 0.5p per share | **–** | – | 4.2 |
| **Dividend expense** | **8.5** | 8.5 | 12.7 |
| Shares issued in lieu of cash[1] | **–** | – | – |
| Bonus issue in lieu of cash dividends[2] | **(3.5)** | (4.8) | (6.0) |
| **Cash dividends paid** | **5.0** | 3.7 | 6.7 |
| Proposed interim dividend of 0.5p per share | **4.3** | 4.2 | – |
| Proposed final dividend of 1.0p per share | **–** | – | 8.5 |

1. Shares issued in lieu of cash relates to those shareholders who elect to receive their dividends in scrip form following the declaration of dividend which occurs at the Company's Annual General Meeting.
2. Adjustments for bonus issue arise from those shareholders who elect to receive their dividends in scrip form prior to the declaration of dividend which occurs at the Company's Annual General Meeting and shareholders who elect to receive their shares on an evergreen basis. These shares are treated as a bonus issue and allotted at nominal value.

## 12 EARNINGS PER SHARE AND NET ASSETS PER SHARE

### a) Weighted average number of ordinary shares

| | **Six months ended 30 June 2018 million** | Six months ended 30 June 2017 million | Year ended 31 December 2017 million |
|---|---|---|---|
| **Weighted average ordinary shares in issue for calculation of basic earnings/(loss) per share[1]** | **850.4** | 849.2 | 850.0 |
| Dilutive effect of contingently issuable share option awards | **0.8** | 0.7 | 0.6 |
| Dilutive effect of contingently issuable deferred share awards | **0.4** | 0.3 | 0.2 |
| Dilutive effect of contingently issuable matching nil cost option awards | **0.1** | 0.1 | 0.1 |
| Dilutive effect of deferred bonus share option awards | **0.6** | 0.6 | 0.6 |
| Weighted average ordinary shares in issue for calculation of diluted earnings/(loss) per share | **852.3** | 850.9 | 851.5 |

1. Weighted average number of shares in issue has been adjusted by 1.3 million (31 December 2017: 2.1 million) for the issue of bonus shares in connection with the scrip dividend scheme.

### b) Basic and diluted earnings/(loss) per share

| | **Six months ended 30 June 2018 £m** | Re-presented Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Continuing and discontinued operations attributable to owners of the Parent** | | | |
| Earnings/(loss) used for calculation of basic and diluted earnings per share | **23.2** | 34.7 | (0.4) |
| Basic earnings/(loss) per share (pence) | **2.7** | 4.1 | (0.1) |
| Diluted earnings/(loss) per share (pence) | **2.7** | 4.1 | (0.1) |
| **Continuing operations attributable to owners of the Parent** | | | |
| Earnings/(loss) used for calculation of basic and diluted earnings per share | **23.2** | 28.6 | (6.5) |
| Basic earnings/(loss) per share (pence) | **2.7** | 3.4 | (0.8) |
| Diluted earnings/(loss) per share (pence) | **2.7** | 3.4 | (0.8) |
| **Discontinued operation attributable to owners of the Parent** | | | |
| Earnings used for calculation of basic and diluted earnings per share | – | 6.1 | 6.1 |
| Basic earnings per share (pence) | – | 0.7 | 0.7 |
| Diluted earnings per share (pence) | – | 0.7 | 0.7 |

## 12 EARNINGS PER SHARE AND NET ASSETS PER SHARE CONTINUED

### c) EPRA and underlying earnings per share

| | **Six months ended 30 June 2018 £m** | Re-presented Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Continuing operations attributable to owners of the Parent** | | | |
| Basic earnings/(loss) | **23.2** | 28.6 | (6.5) |
| *Group adjustments:* | | | |
| Profit on sale of trading property | **–** | (1.0) | (0.9) |
| Loss/(gain) on revaluation and sale of investment and development property | **47.3** | (12.2) | 90.9 |
| Change in fair value of derivative financial instruments | **(2.5)** | (3.7) | (4.3) |
| Deferred tax adjustments | **1.0** | 1.1 | 2.9 |
| Non-controlling interest in respect of the Group adjustments | **(30.1)** | (6.2) | (62.6) |
| *Joint venture adjustments:* | | | |
| Profit on sale of trading property[1] | **(5.0)** | (4.4) | (13.6) |
| Gain on revaluation and sale of investment and development property | **(0.1)** | (0.1) | (0.3) |
| Write down of trading property | **0.4** | 0.5 | 0.6 |
| **EPRA adjusted earnings on continuing operations[2]** | **34.2** | 2.6 | 6.2 |
| Profit on sale of subsidiary | **(29.6)** | – | – |
| Deferred tax adjustments | **(0.3)** | (1.2) | 1.1 |
| Change in fair value of derivative financial instruments from discontinued operation | **–** | (0.1) | – |
| Underlying earnings from continued operations | **4.3** | 1.3 | 7.3 |
| Underlying earnings from discontinued operation | **–** | 3.3 | 4.1 |
| **Underlying earnings[2]** | **4.3** | 4.6 | 11.4 |
| **Underlying earnings per share (pence) from continuing operations** | **0.5** | 0.1 | 0.9 |
| **Underlying earnings per share (pence) from discontinuing operation** | **–** | 0.4 | 0.4 |
| **Underlying earnings per share (pence)** | **0.5** | 0.5 | 1.3 |
| **EPRA earnings per share (pence)** | **4.0** | 0.3 | 0.7 |

1. Profit on sale of trading property relates to Lillie Square sales and includes £0.5 million (30 June 2017: £0.8 million) of marketing and selling fees on a Group share basis. Marketing fees include costs for units that have not yet completed.

2. EPRA earnings and underlying earnings have been reported on a Group share basis.

### d) Headline earnings per share

Headline earnings per share is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants (SAICA), a requirement of the Group's JSE listing. This measure is not a requirement of IFRS.

| | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Continuing and discontinued operations attributable to owners of the Parent** | | | |
| Basic earnings/(loss) | **23.2** | 34.7 | (0.4) |
| *Group adjustments:* | | | |
| Loss/(gain) on revaluation and sale of investment and development property | **47.3** | (12.2) | 90.9 |
| Deferred tax adjustments | **–** | – | 0.8 |
| Non-controlling interest in respect of the Group adjustments | **(30.1)** | (6.2) | (62.6) |
| *Joint venture adjustment:* | | | |
| Gain on revaluation and sale of investment and development property | **(0.1)** | (0.1) | (0.3) |
| **Headline earnings** | **40.3** | 16.2 | 28.4 |
| Headline earnings per share (pence) | **4.7** | 1.9 | 3.3 |
| Diluted headline earnings per share (pence) | **4.7** | 1.9 | 3.3 |

## 12 EARNINGS PER SHARE AND NET ASSETS PER SHARE CONTINUED

### e) Net assets per share

| | **As at 30 June 2018 million** | As at 31 December 2017 million |
|---|---|---|
| **Number of ordinary shares in issue** | **850.4** | 849.1 |
| Adjustments: | | |
| Effect of dilution on exercise of contingently issuable share option awards | **0.8** | 0.6 |
| Effect of dilution of contingently issuable deferred share awards | **0.4** | 0.2 |
| Effect of dilution on exercise of contingently issuable matching nil cost option awards | **0.1** | 0.1 |
| Effect of dilution on exercise of deferred bonus share option awards | **0.6** | 0.6 |
| **Adjusted, diluted number of ordinary shares in issue** | **852.3** | 850.6 |

| | | |
|---|---|---|
| **Net assets attributable to owners of the Parent** | **2,819.3** | 2,799.8 |
| Fair value of derivative financial instruments | **(1.0)** | 5.5 |
| Unrecognised surplus on trading property – Joint venture | **29.3** | 31.8 |
| Deferred tax adjustments | **2.2** | 1.9 |
| **EPRA NAV** | **2,849.8** | 2,839.0 |
| Fair value of derivative financial instruments | **1.0** | (5.5) |
| Excess fair value of debt over carrying value | **9.5** | (9.2) |
| Deferred tax adjustments | **(2.2)** | (1.9) |
| **EPRA NNNAV** | **2,858.1** | 2,822.4 |
| Basic net assets per share (pence) | **331.5** | 329.7 |
| Diluted net assets per share (pence) | **330.8** | 329.2 |
| EPRA NAV per share (pence) | **334.4** | 333.8 |
| EPRA NNNAV per share (pence) | **335.3** | 331.8 |

## 13 PROPERTY PORTFOLIO

### a) Investment and development property

| | Property portfolio | | | | Tenure | |
|---|---|---|---|---|---|---|
| | Covent Garden £m | Earls Court Properties £m | Venues £m | Total £m | Freehold £m | Leasehold £m |
| At 1 January 2017 | 2,229.2 | 1,298.0 | 292.7 | 3,819.9 | 1,875.4 | 1,944.5 |
| Additions from acquisitions | 99.2 | 2.1 | – | 101.3 | 14.5 | 86.8 |
| Additions from subsequent expenditure | 78.1 | 38.9 | 0.1 | 117.1 | 72.9 | 44.2 |
| Sale of discontinued operation | – | – | (292.8) | (292.8) | (292.8) | – |
| Disposals | (6.2) | (2.7) | – | (8.9) | (8.9) | – |
| Gain/(loss) on valuation[1] | 93.4 | (184.3) | – | (90.9) | 59.4 | (150.3) |
| At 31 December 2017 | **2,493.7** | **1,152.0** | **–** | **3,645.7** | **1,720.5** | **1,925.2** |
| Additions from acquisitions | **18.7** | **10.6** | **–** | **29.3** | **23.4** | **5.9** |
| Additions from subsequent expenditure | **13.8** | **4.6** | **–** | **18.4** | **12.5** | **5.9** |
| Disposals | **–** | **(220.0)** | **–** | **(220.0)** | **(220.0)** | **–** |
| Gain/(loss) on valuation[1] | **36.2** | **(83.5)** | **–** | **(47.3)** | **8.1** | **(55.4)** |
| **At 30 June 2018** | **2,562.4** | **863.7** | **–** | **3,426.1** | **1,544.5** | **1,881.6** |

### b) Trading property

| | Property portfolio | | | | Tenure | |
|---|---|---|---|---|---|---|
| | Covent Garden £m | Earls Court Properties £m | Venues £m | Total £m | Freehold £m | Leasehold £m |
| At 1 January 2017 | 2.9 | – | – | 2.9 | 2.9 | – |
| Disposals | (2.9) | – | – | (2.9) | (2.9) | – |
| At 31 December 2017[2] | – | – | – | – | – | – |
| **At 30 June 2018[2]** | – | – | – | – | – | – |

1. Loss on valuation of £47.3 million (31 December 2017: loss £90.9 million) is recognised in the consolidated income statement within (loss)/gain on revaluation and sale of investment and development property. This loss was unrealised and relates to assets held at the end of the period.
2. The value of trading property carried at net realisable value was nil (31 December 2017: nil).

## 13 PROPERTY PORTFOLIO CONTINUED

### c) Market value reconciliation of total property

| | Covent Garden £m | Earls Court Properties £m | Total £m |
|---|---|---|---|
| **Carrying value of investment and development property at 30 June 2018[1]** | **2,562.4** | **863.7** | **3,426.1** |
| Adjustment in respect of fixed head leases | **(6.1)** | **–** | **(6.1)** |
| Adjustment in respect of tenant lease incentives | **65.7** | **–** | **65.7** |
| **Market value of investment and development property at 30 June 2018** | **2,622.0** | **863.7** | **3,485.7** |
| *Joint venture:* | | | |
| Carrying value of joint venture investment, development and trading property at 30 June 2018 | **–** | **118.4** | **118.4** |
| Unrecognised surplus on joint venture trading property[2] | **–** | **29.3** | **29.3** |
| | **2,622.0** | **1,011.4** | **3,633.4** |
| *Non-controlling interest adjustment:* | | | |
| Market value of non-controlling interest in investment, development and trading property at 30 June 2018 | **–** | **(304.8)** | **(304.8)** |
| **Market value of investment, development and trading property on a Group share basis at 30 June 2018** | **2,622.0** | **706.6** | **3,328.6** |

| | Covent Garden £m | Earls Court Properties £m | Total £m |
|---|---|---|---|
| Carrying value of investment, development and trading property at 31 December 2017[1] | 2,493.7 | 1,152.0 | 3,645.7 |
| Adjustment in respect of fixed head leases | (6.1) | – | (6.1) |
| Adjustment in respect of tenant lease incentives | 57.8 | – | 57.8 |
| Market value of investment, development and trading property at 31 December 2017 | 2,545.4 | 1,152.0 | 3,697.4 |
| *Joint venture:* | | | |
| Carrying value of joint venture investment, development and trading property at 31 December 2017 | – | 124.7 | 124.7 |
| Unrecognised surplus on joint venture trading property[2] | – | 31.8 | 31.8 |
| | 2,545.4 | 1,308.5 | 3,853.9 |
| *Non-controlling interest adjustment:* | | | |
| Market value of non-controlling interest in investment, development and trading property at 31 December 2017 | – | (329.4) | (329.4) |
| Market value of investment, development and trading property on a Group share basis at 31 December 2017 | 2,545.4 | 979.1 | 3,524.5 |

1. Included within investment and development property is £2.1 million (31 December 2017: £3.3 million) of interest capitalised during the period on developments in progress.

2. The unrecognised surplus on trading property is shown for information purposes only and is not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value in the condensed consolidated financial statements.

## 13 PROPERTY PORTFOLIO CONTINUED

At 30 June 2018, the Group was contractually committed to £40.0 million (31 December 2017: £57.3 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Refer to note 23 'Capital Commitments' for further information on capital commitments.

The fair value of the Group's investment, development and trading property at 30 June 2018 was determined by independent, appropriately qualified external valuers JLL for Earls Court Properties and CBRE for the remainder of the Group's property portfolio. The valuations conform to the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. Fees paid to valuers are based on fixed price contracts.

Each year the Executive Directors, on behalf of the Board, appoint the external valuers. The valuers are selected based upon their knowledge, independence and reputation for valuing assets such as those held by the Group.

Valuations are performed bi-annually and are performed consistently across all properties in the Group's portfolio. At each reporting date appropriately qualified employees of the Group verify all significant inputs and review computational outputs. Valuers submit and present summary reports to the Group's Audit Committee, with the Executive Directors reporting to the Board on the outcome of each valuation round.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, EBITDA, discount rates, construction costs including any site specific costs (for example Section 106), professional fees, planning fees, developer's profit including contingencies, planning and construction timelines, lease re-gear costs, planning risk and sales prices based on known market transactions for similar properties or properties similar to those contemplated for development.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and the likelihood of achieving and implementing this change in arriving at its valuation.

A number of the Group's properties have been valued on the basis of their development potential which differs from their existing use. In respect of development valuations, the valuer ordinarily considers the gross development value of the completed scheme based upon assumptions of capital values, rental values and yields of the properties which would be created through the implementation of the development. Deductions are then made for anticipated costs, including an allowance for developer's profit before arriving at a valuation.

There are often restrictions on both freehold and leasehold property which could have a material impact on the realisation of these assets. The most significant of these occur when planning permission is required or when a credit facility is in place. These restrictions are factored into the property's valuation by the external valuer. Refer to disclosures surrounding property risks on page 16.

## 14 INVESTMENT IN JOINT VENTURES

Investment in joint ventures is measured using the equity method. All joint ventures are held with other joint venture investors on a 50:50 basis.

At 30 June 2018, joint ventures comprise the Lillie Square joint venture ("LSJV"), Innova Investment ("Innova"), and The Great Capital Partnership ("GCP"). On 29 April 2013, the Group exchanged contracts for the disposal of the final asset, Park Crescent West, in GCP which has since been accounted for as a discontinued operation.

**LSJV**
LSJV was established as a joint venture arrangement with the Kwok Family Interests ("KFI"), in August 2012. The joint venture was established to own, manage and develop land interests at Lillie Square. LSJV comprises Lillie Square LP, Lillie Square GP Limited, acting as general partner to the partnership, and its subsidiaries. All major decisions regarding LSJV are taken by the Board of Lillie Square GP Limited, through which the Group shares strategic control.

## 14 INVESTMENT IN JOINT VENTURES CONTINUED

The summarised income statement and balance sheet of LSJV are presented below.

| LSJV | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Summarised income statement** | | | |
| Revenue | **50.0** | 69.4 | 190.3 |
| Net rental expense | **(0.1)** | (0.3) | – |
| Gain on revaluation of investment and development property | **0.1** | 0.3 | 0.6 |
| Proceeds from the sale of trading property | **49.9** | 69.3 | 190.1 |
| Cost of sale of trading property | **(39.0)** | (58.9) | (156.8) |
| Agent, selling and marketing fees | **(1.0)** | (1.5) | (6.1) |
| Write down of trading property | **(0.7)** | (1.0) | (1.2) |
| Administration expenses | **(1.1)** | (2.3) | (4.4) |
| Finance costs[1] | **(12.7)** | (12.1) | (24.9) |
| **Loss for the period** | **(4.6)** | (6.5) | (2.7) |

1. Finance costs relate to the amortisation of deep discount bonds that were issued by LSJV to the Group and KFI. The bonds are redeemable at their nominal value of £263.4 million on 24 August 2019. The discount applied is unwound over the period to maturity using an effective interest rate. Finance income receivable to the Group of £6.3 million (30 June 2017: £5.5 million) is recognised in the consolidated income statement within other finance income.

| LSJV | **As at 30 June 2018 £m** | As at 31 December 2017 £m |
|---|---|---|
| **Summarised balance sheet** | | |
| Investment and development property | **3.7** | 3.7 |
| Other non-current assets | **4.4** | 4.1 |
| Trading property | **233.0** | 245.7 |
| Cash and cash equivalents[1] | **46.8** | 49.8 |
| Other current assets | **0.9** | 0.7 |
| Borrowings | **(36.0)** | (63.6) |
| Other non-current liabilities[2] | **(231.4)** | (218.9) |
| Amounts payable to joint venture partners[3] | **(72.3)** | (71.9) |
| Other current liabilities | **(48.9)** | (44.8) |
| **Net liabilities** | **(99.8)** | (95.2) |
| | | |
| **Capital commitments** | **87.2** | 14.0 |
| | | |
| Carrying value of investment, development and trading property | **236.7** | 249.4 |
| **Unrecognised surplus on trading property[4]** | **58.6** | 63.6 |
| **Market value of investment, development and trading property[4]** | **295.3** | 313.0 |

1. Includes restricted cash and cash equivalents of £32.7 million (31 December 2017: £30.6 million) relating to amounts received as property deposits that will not be available for use by LSJV until completion of building work. There is a corresponding liability of £32.7 million (31 December 2017: £30.6 million) within other current liabilities.
2. Other non-current liabilities relate to deep discount bonds. Recoverable amounts receivable by the Group of £104.5 million (31 December 2017: £100.0 million) are recognised on the consolidated balance sheet within non-current trade and other receivables.
3. Amounts payable to joint venture partners relate to working capital funding advanced by the Group and KFI.
4. The unrecognised surplus on trading property and the market value of LSJV's property portfolio are shown for information purposes only and are not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value.

## 14 INVESTMENT IN JOINT VENTURES CONTINUED

### Innova

On 29 June 2015, the Group acquired a 50 per cent interest in Innova, a joint venture arrangement with Network Rail Infrastructure Limited ("NRIL"). Total acquisition costs were £14.5 million, £2.0 million of which is contingent on achieving consent to develop specific railway sites with NRIL. The joint venture will explore opportunities for future redevelopments on and around significant railway station sites in London.

Innova comprises Innova Investment Limited Partnership and Innova Investment GP Limited, acting as general partner to the partnership. All major decisions regarding Innova are taken by the Board of Innova Investment GP Limited, through which the Group shares strategic control.

The summarised income statement and balance sheet of Innova are presented below.

| Innova | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| **Summarised income statement** | | | |
| Administration expenses | **–** | (0.2) | – |
| **Loss for the period** | **–** | (0.2) | – |

| Innova | **As at 30 June 2018 £m** | As at 31 December 2017 £m |
|---|---|---|
| **Summarised balance sheet** | | |
| Other receivables | **4.3** | 3.1 |
| Cash and cash equivalents | **1.8** | 1.6 |
| Other current liabilities | **(1.4)** | – |
| **Net assets** | **4.7** | 4.7 |

### Reconciliation of summarised financial information

The table below reconciles the summarised joint venture financial information previously presented to the carrying value of investment in joint ventures as presented on the consolidated balance sheet.

| | **GCP £m** | **LSJV £m** | **Innova £m** | **Total £m** |
|---|---|---|---|---|
| Net assets/(liabilities) of joint ventures at 31 December 2017 | 0.1 | (95.2) | 4.7 | (90.4) |
| Elimination of joint venture partners' interest | – | 47.6 | (2.4) | 45.2 |
| Cumulative losses restricted[1] | – | 47.6 | – | 47.6 |
| Goodwill on acquisition of joint venture[2] | – | – | 14.5 | 14.5 |
| Carrying value at 31 December 2017 | 0.1 | – | 16.8 | 16.9 |
| **Net assets/(liabilities) of joint ventures at 30 June 2018** | **0.1** | **(99.8)** | **4.7** | **(95.0)** |
| Elimination of joint venture partners' interest | **–** | **49.9** | **(2.4)** | **47.5** |
| Cumulative losses restricted[1] | **–** | **49.9** | **–** | **49.9** |
| Goodwill on acquisition of joint venture[2] | **–** | **–** | **14.5** | **14.5** |
| **Carrying value at 30 June 2018** | **0.1** | **–** | **16.8** | **16.9** |

1. Cumulative losses restricted represent the Group's share of losses in LSJV which exceed the Group's investment in the joint venture. As a result the carrying value of the investment in LSJV is nil (31 December 2017: nil) in accordance with the requirements of IAS 28.
2. In accordance with the initial recognition exemption provisions under IAS 12 'Income Taxes', no deferred tax is recognised on goodwill.

## 14 INVESTMENT IN JOINT VENTURES CONTINUED

### Reconciliation of investment in joint ventures

The table below reconciles the opening to closing carrying value of investment in joint ventures presented on the consolidated balance sheet.

| Investment in joint ventures | GCP £m | LSJV £m | Innova £m | Total £m |
|---|---|---|---|---|
| At 1 January 2017 | 0.1 | – | 14.9 | 15.0 |
| Loss for the year[1] | – | (1.3) | – | (1.3) |
| Loss restricted[1] | – | 1.3 | – | 1.3 |
| Issue of equity loan notes | – | – | 1.9 | 1.9 |
| At 31 December 2017 | **0.1** | **–** | **16.8** | **16.9** |
| Loss for the period[1] | **–** | **(2.3)** | **–** | **(2.3)** |
| Loss restricted[1] | **–** | **2.3** | **–** | **2.3** |
| **At 30 June 2018** | **0.1** | **–** | **16.8** | **16.9** |

1. Share of post-tax loss from joint ventures in the consolidated income statement of nil (31 December 2017: nil) comprise loss for the period of £2.3 million (31 December 2017: £1.3 million) and loss restricted totalling £2.3 million (31 December 2017: £1.3 million).

## 15 NON-CONTROLLING INTEREST

TTL Earls Court Properties Limited, a subsidiary of TfL, holds a 37 per cent non-controlling interest in ECPL, a subsidiary of the Group. The principal place of business of ECPL is within the UK.

The accumulated non-controlling interest is presented below.

| | **As at 30 June 2018 £m** | As at 30 June 2017 £m | As at 31 December 2017 £m |
|---|---|---|---|
| At 1 January | **305.8** | 368.2 | 368.2 |
| Loss and total comprehensive expense for the period attributable to non-controlling interest | **(29.9)** | (6.3) | (62.7) |
| Unsecured loan notes issued to non-controlling interest | **6.1** | 0.3 | 0.3 |
| **Non-controlling interest** | **282.0** | 362.2 | 305.8 |

Unsecured, non-interest bearing loan notes have been issued by ECPL to TTL Earls Court Properties Limited. As the transaction price of the loan notes was not an approximation of their fair value, the Group determined the fair value by using data from observable inputs. As a result, the initial fair value of the loan notes was valued at less than £0.1 million (31 December 2017: less than £0.1 million) and therefore £409.0 million (31 December 2017: £402.9 million) has been classified as equity.

Set out below is summarised financial information, before intercompany eliminations, for ECPL.

| Summarised income statement | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Net rental income | **1.2** | 1.0 | 1.8 |
| Administration expenses | **(0.6)** | (1.3) | (2.1) |
| Loss on revaluation of investment and development property | **(81.4)** | (16.8) | (169.2) |
| **Loss for the period after taxation** | **(80.8)** | (17.1) | (169.5) |

## 15 NON-CONTROLLING INTEREST CONTINUED

| Summarised balance statement | As at 30 June 2018 £m | As at 31 December 2017 £m |
|---|---|---|
| Investment and development property | **823.7** | 890.0 |
| Cash at bank and at hand | **5.9** | 5.4 |
| Other current assets | **0.1** | 0.4 |
| Other non-current assets | **0.2** | 0.5 |
| Other current liabilities | **(2.8)** | (8.5) |
| Borrowings | **(65.0)** | (61.4) |
| **Net assets** | **762.1** | 826.4 |

| Summarised cash flows | Six months ended 30 June 2018 £m | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Operating cash inflow/(outflow) after interest and tax | **0.9** | (0.4) | 0.5 |
| Purchase and development of property, plant and equipment | **(19.7)** | (19.4) | (34.0) |
| **Net cash flow before financing** | **(18.8)** | (19.8) | (33.5) |
| Financing[1] | **19.3** | 15.9 | 29.5 |
| **Net cash flow** | **0.5** | (3.9) | (4.0) |

1. Financing comprises £16.5 million (31 December 2017: £0.8 million) of unsecured, non-interest bearing loan notes and £2.8 million (31 December 2017: £28.7 million) of external borrowings.

## 16 TRADE AND OTHER RECEIVABLES

| | As at 30 June 2018 £m | As at 31 December 2017 £m |
|---|---|---|
| **Non-current** | | |
| Other receivables[1] | **70.4** | 71.1 |
| Prepayments and accrued income[2] | **60.2** | 53.4 |
| Amounts receivable from joint ventures[3] | **104.5** | 100.0 |
| **Trade and other receivables** | **235.1** | 224.5 |
| **Current** | | |
| Rent receivable | **3.8** | 3.3 |
| Other receivables | **17.1** | 16.4 |
| Prepayments and accrued income[2] | **13.9** | 13.4 |
| **Trade and other receivables** | **34.8** | 33.1 |

1. Includes £60.0 million (31 December 2017: £60.0 million) payment to LBHF which forms part of the CLSA.
2. Includes tenant lease incentives, comprising surrender premia paid and incentives offered to new tenants, of £65.7 million (31 December 2017: £57.8 million).
3. Non-current amounts receivable from joint ventures relate to deep discount bonds that were issued by LSJV to the Group. The bonds are redeemable at their nominal value of £131.7 million on 24 August 2019. This balance has been impaired by £11.2 million (31 December 2017: £9.5 million).

## 17 CASH AND CASH EQUIVALENTS

| | As at 30 June 2018 £m | As at 31 December 2017 £m |
|---|---|---|
| Cash at hand | **6.1** | 8.0 |
| Cash on short-term deposit | **42.8** | 20.6 |
| **Cash and cash equivalents** | **48.9** | 28.6 |

## 18 TRADE AND OTHER PAYABLES

| | **As at 30 June 2018 £m** | As at 31 December 2017 £m |
|---|---|---|
| Rent received in advance | **16.0** | 18.4 |
| Accruals and deferred income | **16.6** | 32.2 |
| Trade payables | **1.3** | – |
| Other payables | **14.6** | 15.4 |
| Other taxes and social security | **4.0** | 3.1 |
| **Trade and other payables** | **52.5** | 69.1 |

## 19 BORROWINGS, INCLUDING FINANCE LEASES

| | **30 June 2018** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying value £m** | **Secured £m** | **Unsecured £m** | **Fixed rate £m** | **Floating rate £m** | **Fair value £m** | **Nominal value £m** |
| **Current** | | | | | | | |
| Finance lease obligations | **0.7** | **0.7** | **–** | **0.7** | **–** | **0.7** | **0.7** |
| **Borrowings, including finance leases** | **0.7** | **0.7** | **–** | **0.7** | **–** | **0.7** | **0.7** |
| **Non-current** | | | | | | | |
| Bank loans | **62.3** | **65.0** | **(2.7)** | **–** | **62.3** | **65.6** | **65.6** |
| Loan notes | **547.5** | **–** | **547.5** | **547.5** | **–** | **534.7** | **550.0** |
| Borrowings | **609.8** | **65.0** | **544.8** | **547.5** | **62.3** | **600.3** | **615.6** |
| Finance lease obligations | **5.4** | **5.4** | **–** | **5.4** | **–** | **5.4** | **5.4** |
| **Borrowings, including finance leases** | **615.2** | **70.4** | **544.8** | **552.9** | **62.3** | **605.7** | **621.0** |
| **Total borrowings, including finance leases** | **615.9** | **71.1** | **544.8** | **553.6** | **62.3** | **606.4** | **621.7** |
| Cash and cash equivalents | **(48.9)** | | | | | | |
| **Net debt** | **567.0** | | | | | | |

| | 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying value £m | Secured £m | Unsecured £m | Fixed rate £m | Floating rate £m | Fair value £m | Nominal value £m |
| Current | | | | | | | |
| Finance lease obligations | 0.7 | 0.7 | – | 0.7 | – | 0.7 | 0.7 |
| Borrowings, including finance leases | 0.7 | 0.7 | – | 0.7 | – | 0.7 | 0.7 |
| Non-current | | | | | | | |
| Bank loans | 223.4 | 61.4 | 162.0 | – | 223.4 | 227.1 | 227.1 |
| Loan notes | 547.4 | – | 547.4 | 547.4 | – | 552.9 | 550.0 |
| Borrowings | 770.8 | 61.4 | 709.4 | 547.4 | 223.4 | 780.0 | 777.1 |
| Finance lease obligations | 5.4 | 5.4 | – | 5.4 | – | 5.4 | 5.4 |
| Borrowings, including finance leases | 776.2 | 66.8 | 709.4 | 552.8 | 223.4 | 785.4 | 782.5 |
| Total borrowings, including finance leases | 776.9 | 67.5 | 709.4 | 553.5 | 223.4 | 786.1 | 783.2 |
| Cash and cash equivalents | (28.6) | | | | | | |
| Net debt | 748.3 | | | | | | |

## 20 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The tables below set out each class of financial asset, financial liability and their fair values at 30 June 2018 and 31 December 2017.

| | | **30 June 2018** | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Carrying value £m** | **Gain to income statement £m** | **Loss to other comprehensive income £m** | Carrying value £m | (Loss)/gain to income statement £m | Loss to other comprehensive income £m |
| Derivative financial assets | | **1.0** | **–** | **–** | – | (0.1) | – |
| Total held for trading assets | | **1.0** | **–** | **–** | – | (0.1) | – |
| Cash and cash equivalents | 17 | **48.9** | **–** | **–** | 28.6 | – | – |
| Other financial assets | | **200.0** | **–** | **–** | 188.1 | – | – |
| Total cash and other financial assets | | **248.9** | **–** | **–** | 216.7 | – | – |
| Derivative financial liabilities | | **–** | **2.5** | **–** | (5.5) | 4.4 | – |
| Total held for trading liabilities | | **–** | **2.5** | **–** | (5.5) | 4.4 | – |
| Borrowings, including finance leases | 19 | **(615.9)** | **–** | **–** | (776.9) | – | – |
| Other financial liabilities[1] | | **(54.9)** | **–** | **–** | (71.2) | – | – |
| Total borrowings and other financial liabilities | | **(670.8)** | **–** | **–** | (848.1) | – | – |

1. Includes trade and other payables and tax liabilities.

### Fair value estimation

Financial instruments carried at fair value are required to be analysed by level depending on the valuation method adopted under IFRS 13 'Fair Value Measurement'.

The different levels are defined as follows:

Level 1: valuation based on quoted market prices traded in active markets.

Level 2: valuation based on inputs other than quoted prices included within Level 1 that maximise the use of observable data either directly or from market prices or indirectly derived from market prices.

Level 3: where one or more inputs to valuation are not based on observable market data. Valuations at this level are more subjective and therefore more closely managed, including sensitivity analysis of inputs to valuation models. Such testing has not indicated that any material difference would arise due to a change in input variables.

Derivative financial instruments are carried at fair value on the balance sheet and representing Level 2 fair value measurement. The fair values of derivative financial instruments are determined from observable market prices or estimated using appropriate yield curves at each reporting date by discounting the future contractual cash flows to the net present values. There has been no transfer between levels in the period.

## 21 DEFERRED TAX

The decrease in corporation tax rate to 17 per cent referred to in Note 9 'Taxation' has been enacted for the purposes of IAS 12 'Income Taxes' and therefore has been reflected in these condensed consolidated financial statements based on the expected timing of the realisation of deferred tax.

Deferred tax on investment and development property is calculated under IAS 12 provisions on a disposals basis by reference to the properties' original tax base cost. Elements factored into the calculation include indexation relief and the Group's holding structure. The Group's recognised deferred tax liability on investment and development property as calculated under IAS 12 at 30 June 2018 is nil (31 December 2017: nil).

The Group's contingent tax liability on investment properties, calculated on the same tax base cost as above but based on a deemed market value disposal at 30 June 2018 is nil (31 December 2017: nil).

A disposal of the Group's trading property at market value, net of available losses, would result in a corporation tax charge to the Group of £1.7 million (19 per cent of £9.0 million).

| | Accelerated capital allowances £m | Fair value of investment & development property £m | Fair value of derivative financial instruments £m | Other temporary differences £m | Group losses £m | Total £m |
|---|---|---|---|---|---|---|
| Provided deferred tax liabilities/(assets): | | | | | | |
| At 1 January 2017 | 14.6 | – | (3.1) | 0.4 | (9.2) | 2.7 |
| Adjustment in respect of previous years | – | – | – | – | (0.2) | (0.2) |
| Recognised in income | 1.0 | – | 1.9 | 0.7 | 1.6 | 5.2 |
| Recognised directly in equity | – | – | – | 0.2 | – | 0.2 |
| Released on discontinued operation | (12.6) | – | – | (3.1) | – | (15.7) |
| At 31 December 2017 | **3.0** | **–** | **(1.2)** | **(1.8)** | **(7.8)** | **(7.8)** |
| Recognised in income | **0.5** | **–** | **0.5** | **(0.5)** | **0.2** | **0.7** |
| Sale of Empress State Building | **(0.6)** | **–** | **–** | **0.1** | **–** | **(0.5)** |
| **At 30 June 2018** | **2.9** | **–** | **(0.7)** | **(2.2)** | **(7.6)** | **(7.6)** |
| | | | | | | |
| Unprovided deferred tax (assets): | | | | | | |
| At 1 January 2018 | **–** | **(64.7)** | **–** | **–** | **(8.7)** | |
| Movement during the period | **–** | **(13.8)** | **–** | **–** | **(0.8)** | |
| **At 30 June 2018** | **–** | **(78.5)** | **–** | **–** | **(9.5)** | |

In accordance with the requirements of IAS 12 'Income Taxes', the unprovided deferred tax asset has not been recognised in the Group Financial Statements due to uncertainty on the level of profits that will be available in the future periods.

## 22 SHARE CAPITAL AND SHARE PREMIUM

| Issue type | Transaction date | Issue price (pence) | Number of shares | Share capital £m | Share premium £m |
|---|---|---|---|---|---|
| At 1 January 2017 | | | 846,121,707 | 211.5 | 215.1 |
| Scrip dividend – 2016 final | May | 290 | 1,653,429 | 0.4 | 4.8 |
| Scrip dividend – 2017 interim | September | 268 | 443,695 | 0.1 | 1.2 |
| Share-based payment | | | 841,315 | 0.2 | – |
| At 31 December 2017 | | | **849,060,146** | **212.2** | **221.1** |
| Scrip dividend – 2017 final | May | 265 | **1,295,154** | **0.3** | **3.5** |
| Share-based payment | | | **53,280** | **0.1** | – |
| **At 30 June 2018** | | | **850,408,580** | **212.6** | **224.6** |

## 23 CAPITAL COMMITMENTS

At 30 June 2018, the Group was contractually committed to £40.0 million (31 December 2017: £57.3 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Of the £40.0 million committed, £24.4 million is committed 2018 expenditure.

In November 2013, the Group exercised its option under the CLSA which it entered into with LBHF in January 2013 in relation to LBHF's land interest within the Earls Court Masterplan. Under the terms of the CLSA, the Group can draw down land in phases but no land can be transferred unless replacement homes for the residents of the relevant phase have been provided and vacant possession is given. The Group has already paid £75.0 million of the £105.0 million cash consideration payable under the CLSA. The residual £30.0 million will be settled in two annual instalments of £15.0 million with the next payment due on 31 December 2018.

The Group's share of joint venture capital commitments arising on LSJV amounts to £43.6 million (31 December 2017: £7.0 million).

## 24 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of legal claims, guarantees and warranties arising from the ordinary course of business. Contingent liabilities that may result in material liabilities are described below.

Under the terms of the CLSA the Group has certain compensation obligations relating to achieving vacant possession, which are subject to an overall cap of £55.0 million. Should any payments be made in respect of these obligations, they will be deducted from the total consideration payable to LBHF (refer to note 23 'Capital Commitments').

In March 2013, an agreement with Network Rail was signed to acquire a 999 year leasehold interest in the air rights above the West London Line where it runs within the Earls Court and West Kensington Opportunity Area. Within the terms of the agreement, the Group can exercise options during the next 50 years for further 999 year leases over the remainder of the West London Line to allow for development within the Earls Court Masterplan. Network Rail is entitled to further payments of 5.55 per cent of the residual land value which will be payable at the time of development or disposal of each phase of the Earls Court Masterplan. Any further payments to Network Rail will be treated as contingent rent within finance lease obligations.

Within the terms of the agreement of the acquisition of the Northern Access Road land, the vendor's successor in title is entitled to further payments until 2027 if certain conditions are met. Further payments become due following the grant of a planning permission for change of use or on disposal. In the event such planning permission is implemented, the payment is calculated at 50 per cent of the uplift in land value following the grant of the permission. In the event of a disposal, the payment is calculated as 50 per cent of the difference between the sale value against the land value without the relevant permission.

## 25 CASH FLOW INFORMATION

The table below presents the cash generated from continuing operations:

| Continuing operations | Notes | **Six months ended 30 June 2018 £m** | Re-presented Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|---|
| **(Loss)/profit before tax** | | **(4.9)** | 22.4 | (62.5) |
| Adjustments: | | | | |
| Profit on sale of trading property | 3 | **–** | (1.0) | (0.9) |
| Loss/(gain) on revaluation and sale of investment and development property | 4 | **47.3** | (12.2) | 90.9 |
| Profit on sale of subsidiaries | 6 | **(29.6)** | – | – |
| Impairment of other receivables | 5 | **2.3** | 3.3 | 1.3 |
| Depreciation | | **1.0** | 1.1 | 1.9 |
| Amortisation of tenant lease incentives and other direct costs | | **(1.2)** | (0.1) | (2.3) |
| Share-based payment | | **1.5** | 1.1 | 2.0 |
| Finance income | 7 | **(0.1)** | (0.5) | (0.8) |
| Finance costs | 8 | **9.5** | 10.1 | 19.9 |
| Other finance income | 7 | **(6.3)** | (5.5) | (11.7) |
| Change in fair value of derivative financial instruments | | **(2.5)** | (3.6) | (4.3) |
| Change in working capital: | | | | |
| Change in trade and other receivables | | **(6.3)** | (6.2) | (32.5) |
| Change in trade and other payables | | **(3.6)** | (2.1) | 4.8 |
| **Cash generated from continuing operations** | | **7.1** | 6.8 | 5.8 |

The table below presents the cash generated from discontinued operation:

| Discontinued operation | Note | Period ended 7 April 2017 £m |
|---|---|---|
| **Profit before tax** | 10 | **6.1** |
| Adjustments: | | |
| Profit on disposal of discontinued operation | | **(2.1)** |
| Depreciation | | **0.1** |
| Finance costs | | **0.4** |
| Change in fair value of derivative financial instruments | | **0.1** |
| Change in working capital: | | |
| Change in trade and other receivables | | **1.7** |
| Change in trade and other payables | | **1.7** |
| **Cash generated from discontinued operation** | | **8.0** |

## 25 CASH FLOW INFORMATION CONTINUED

The table below provides an analysis of financial liabilities and derivative financial instruments arising from financing activities:

| | Note | Long-term borrowings £m | Short-term borrowings £m | Derivative financial instruments £m | Total liabilities from financing activities £m |
|---|---|---|---|---|---|
| **Balance at 1 January 2018** | | **776.2** | **0.7** | **5.5** | **782.4** |
| Cash flows from financing activities | | | | | |
| Proceeds from loans and borrowings | | **22.8** | **–** | **–** | **22.8** |
| Repayment of borrowings | | **(185.0)** | **–** | **–** | **(185.0)** |
| Purchase and repayment of derivatives | | **–** | **–** | **(4.0)** | **(4.0)** |
| **Total cash flows used in financing activities** | | **(162.2)** | **–** | **(4.0)** | **(166.2)** |
| Non-cash movements from financing activities | | | | | |
| Facility fees capitalised | | **0.5** | **–** | **–** | **0.5** |
| Changes in fair value | 20 | **–** | **–** | **(2.5)** | **(2.5)** |
| Borrowing costs capitalised | | **0.7** | **–** | **–** | **0.7** |
| **Total non-cash flows from financing activities** | | **1.2** | **–** | **(2.5)** | **(1.3)** |
| **Balance at 30 June 2018** | | **615.2** | **0.7** | **(1.0)** | **614.9** |

## 26 RELATED PARTY TRANSACTIONS

### Transactions with Directors

| **Key management compensation**[1] | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| Salaries and short-term employee benefits | **1.3** | 1.3 | 3.3 |
| Share-based payment | **0.9** | 0.7 | 1.3 |
| | **2.2** | 2.0 | 4.6 |

1. Key management comprises the Directors of the Company who have been determined to be the only individuals with authority and responsibility for planning, directing and controlling the activities of the Company.

### Transactions between the Group and its joint ventures

Transactions during the period between the Group and its joint ventures, which are related parties, are disclosed in notes 14 'Investment in Joint Ventures', 16 'Trade and other receivables' and 23 'Capital commitments'. During the period the Group recognised management fee income of £1.8 million (31 December 2017: £3.8 million) that was earned on an arm's length basis.

### Property purchased by Directors of the Company

A related party of the Group, Lillie Square GP Limited, entered into the following related party transactions as defined by IAS 24 'Related Party Disclosures':

- In April 2014 Henry Staunton, Chairman of Capital & Counties Properties PLC (from 5 June 2018), together with his spouse exchanged contracts to acquire an apartment for a purchase price of £1,999,000, and at 31 December 2016 had paid deposits totalling £399,800. Legal completion occurred during 2017 with a net amount of £1,596,850 received, reflecting application of a standard legal fee incentive.
- In April 2014 Ian Durant, Chairman of Capital & Counties Properties PLC (until 5 June 2018), together with his spouse exchanged contracts to acquire an apartment for a purchase price of £725,000, and at 31 December 2016 had paid deposits totalling £145,000. Legal completion occurred during 2017 with a net amount of £579,000 received, reflecting application of a standard legal fee incentive and a specification enhancement.
- In April 2014 Andrew Strang, a Non-executive Director of Capital & Counties Properties PLC exchanged contracts to acquire an apartment for a purchase price of £855,000, and at 31 December 2016 had paid deposits totalling £171,000. Legal completion occurred during 2017 with a net amount of £683,000 received, reflecting application of a standard legal fee incentive and a specification enhancement.
- In April 2014 Situl Jobanputra, Chief Financial Officer of Capital & Counties Properties PLC, together with a family member exchanged contracts to acquire an apartment for a purchase price of £710,000, and at 31 December 2016 had paid deposits totalling £142,000. Legal completion occurred during 2017 with a net amount of £566,250 received, reflecting application of a standard legal fee incentive.

## 26 RELATED PARTY TRANSACTIONS CONTINUED

- In December 2014 Graeme Gordon, a Non-executive Director of Capital & Counties Properties PLC, exchanged contracts to acquire two apartments for £1,925,000 and £2,725,000. During construction plans were altered and the two apartments were combined into one apartment. Discussions are ongoing regarding the contracts.
- In December 2014 Blue Lillie Limited, an entity connected to Graeme Gordon, exchanged contracts to acquire two apartments for £1,975,000 and £2,825,000. During construction plans were altered and the two apartments were combined into one apartment. The terms of the contracts were varied accordingly and assigned to Graeme Gordon. Legal completion occurred in 2018 with a total amount of £4,794,000 received (including deposits totalling £940,000 paid prior to 31 December 2016), reflecting application of standard legal fee incentives.
- Upon legal completion of the above transactions, the Directors are required to pay annual ground rent and insurance premium fees and bi-annual service charge fees. During 2018 £23,790 has been received in relation to these charges. Certain payments in relation to these charges are made in advance and £12,921 has therefore been received for the second half of 2018 as at 30 June 2018.

The above transactions with Directors were conducted at fair and reasonable market price based upon similar comparable transactions at that time. Where applicable, appropriate approval has been provided.

Lillie Square GP Limited acts in the capacity of general partner to Lillie Square LP, a joint venture between the Group and KFI.

# ANALYSIS OF PROPERTY PORTFOLIO (UNAUDITED)

## 1. PROPERTY DATA AS AT 30 JUNE 2018

| | Market Value £m | Ownership |
|---|---|---|
| **Covent Garden** | **2,622.0** | **100%** |
| | | |
| **Earls Court Properties** | | |
| ECPL | **518.9** | **63%** |
| Lillie Square | **147.7** | **50%** |
| Other | **40.0** | **100%** |
| **Earls Court Properties (Group share)** | **706.6** | |
| | | |
| **Group share of total property** | **3,328.6** | |
| *Investment and development property* | **3,182.8** | |
| *Trading property* | **145.8** | |

## 2. ANALYSIS OF CAPITAL RETURN FOR THE PERIOD

| Like-for-like capital | Market Value 30 June 2018 £m | Market Value 31 December 2017 £m | Revaluation gain/ (loss)[1] 30 June 2018 £m | Increase/ (decrease) |
|---|---|---|---|---|
| Covent Garden | **2,606.6** | 2,545.4 | **39.2** | 1.6 % |
| Earls Court Properties | **701.2** | 737.2 | **(53.1)** | (7.0)% |
| **Total like-for-like capital** | **3,307.8** | 3,282.6 | **(13.9)** | (0.4)% |
| *Investment and development property* | **3,162.0** | 3,149.8 | **(13.9)** | (0.4)% |
| *Trading property*[2] | **145.8** | 132.8 | – | 0.0 % |
| **Non like-for-like capital** | | | | |
| Acquisitions | **20.8** | – | **(3.2)** | |
| Disposals | **–** | 241.9 | **–** | |
| **Group share of total property** | **3,328.6** | 3,524.5 | **(17.1)** | (0.5)% |
| *Investment and development property* | **3,182.8** | 3,369.8 | **(17.1)** | (0.5)% |
| *Trading property* | **145.8** | 154.7 | **–** | 0.0 % |
| | | | | |
| **All property** | | | | |
| Covent Garden | **2,622.0** | 2,545.4 | **36.1** | 1.4 % |
| Earls Court Properties | **706.6** | 979.1 | **(53.2)** | (7.0)% |
| **Group share of total property** | **3,328.6** | 3,524.5 | **(17.1)** | (0.5)% |

1. Revaluation gain/(loss) includes amortisation of lease incentives and fixed head leases.
2. Trading property market value and the revaluation surplus/deficit thereon are presented for information purposes only. The revaluation surplus/deficit on trading property represents the unrecognised surplus and write down or write back to market value.

# ANALYSIS OF PROPERTY PORTFOLIO (UNAUDITED) CONTINUED

## 3. ANALYSIS OF NET RENTAL INCOME FOR THE PERIOD

| **Like-for-like net rental income from continuing operations** | **Six months ended 30 June 2018 £m** | **Six months ended 30 June 2017 £m** | **Increase/ (decrease)** |
|---|---|---|---|
| Covent Garden | **25.1** | 22.5 | **11.6 %** |
| Earls Court Properties | **1.1** | 0.7 | **56.0 %** |
| Other | **(0.1)** | (0.3) | |
| **Total like-for-like net rental income** | **26.1** | 22.9 | **13.8 %** |
| *Like-for-like investment and development property* | **26.1** | 22.9 | **13.7 %** |
| *Like-for-like trading property* | – | – | – |
| **Non like-for-like net rental income** | | | |
| Disposals | **3.9** | 8.1 | |
| Developments | **0.9** | 0.3 | |
| Prior year acquisitions (like-for-like capital) | **2.2** | 0.5 | |
| **Group share of total net rental income** | **33.1** | 31.8 | **14.4 %** |
| *Investment and development property income* | **33.2** | 32.0 | **14.2 %** |
| *Trading property income* | **(0.1)** | (0.2) | |
| | | | |
| **All property** | | | |
| Covent Garden | **28.3** | 23.4 | **21.2 %** |
| Earls Court Properties | **4.9** | 8.7 | **(43.8)%** |
| Other | **(0.1)** | (0.3) | |
| **Group share of total net rental income** | **33.1** | 31.8 | **4.0 %** |

## 4. ANALYSIS OF COVENT GARDEN BY USE

**30 June 2018**

| | **Initial yield (EPRA)** | **Nominal equivalent yield** | **Passing rent[1] £m** | **Occupancy rate** | **Weighted average unexpired lease years** | **Market value £m** | **ERV £m** | **Gross area million Sq ft** |
|---|---|---|---|---|---|---|---|---|
| Retail | | | | | | **2,007.3** | **80.9** | **0.7** |
| Office | | | | | | **342.7** | **18.7** | **0.3** |
| Residential | | | | | | **270.0** | **7.6** | **0.2** |
| Other | | | | | | **2.0** | **0.1** | – |
| **Total** | **2.27%** | **3.58%** | **62.1** | **97.0%** | **7.6** | **2,622.0** | **107.3** | **1.2** |

1. Non-leased income of £1.5 million (31 December 2017: £1.3 million) is added to passing rent to arrive at gross income.

# CONSOLIDATED UNDERLYING PROFIT STATEMENT (UNAUDITED)

For the six months ended 30 June 2018

| Group share | **Six months ended 30 June 2018 £m** | Six months ended 30 June 2017 £m | Year ended 31 December 2017 £m |
|---|---|---|---|
| *Continuing operations:* | | | |
| Net rental income | **33.1** | 31.8 | 66.2 |
| Other income | **0.9** | 1.3 | 2.3 |
| Administration expenses | **(19.2)** | (21.4) | (38.7) |
| **Operating profit** | **14.8** | 11.7 | 29.8 |
| Finance costs | **(9.5)** | (10.6) | (20.6) |
| Finance income | **0.1** | 0.5 | 0.8 |
| **Net finance costs** | **(9.4)** | (10.1) | (19.8) |
| **Profit before tax** | **5.4** | 1.6 | 10.0 |
| Taxation | **(1.1)** | (0.3) | (2.7) |
| Underlying earnings from continuing operations | **4.3** | 1.3 | 7.3 |
| Underlying earnings from discontinued operation | – | 3.3 | 4.1 |
| **Underlying earnings** | **4.3** | 4.6 | 11.4 |
| | | | |
| *Underlying earnings per share (pence):* | | | |
| From continuing operations | **0.5** | 0.1 | 0.9 |
| From discontinued operation | – | 0.4 | 0.4 |
| **Underlying earnings per share (pence)** | **0.5** | 0.5 | 1.3 |
| **Weighted average number of shares** | **850.4m** | 849.2m | 850.0m |

# FINANCIAL COVENANTS (UNAUDITED)

For the six months ended 30 June 2018

### Financial covenants on non-recourse debt

| | 30 June 2018 | | | |
|---|---|---|---|---|
| **Group share** | **Maturity** | **Loan(s) outstanding at 30 June 2018[1] £m** | **LTV covenant** | **Interest cover covenant** |
| **Covent Garden[2]** | **2022-2037** | **550.0** | **60%** | **120%** |
| **ECPL** | **2026** | **41.3** | **40%** | **n/a** |
| **Lillie Square[3]** | **2021** | **18.1** | **75%** | **n/a** |
| **Total** | | **609.4** | | |

1. The loan values are the nominal values at 30 June 2018 shown on a Group share basis. The balance sheet value of the loans includes any unamortised fees.

2. Covent Garden comprises £705 million unsecured Revolving Credit Facility ("RCF") maturing in 2022, undrawn at 30 June 2018, and £550 million Private Placement unsecured notes maturing between 2024 and 2037.

3. Subject to exercise of extension options (2019 – 2021) by the borrower.

# ALTERNATIVE PERFORMANCE MEASURES

The Group has applied the European Securities and Markets Authority ("ESMA") guidelines on alternative performance measures ("APMs") in these interim results. An APM is a financial measure of historical or future finance performance, position or cash flow of the Group which is not a measure defined or specified in IFRS.

Set out below is a summary of the APMs used in these interim results.

Many of the APMs included are based on the EPRA Best Practice Recommendations reporting framework, a set of standard disclosures for the property industry, which aims to improve the transparency, comparability and relevance of published results of public real estate companies in Europe.

The Group also uses underlying earnings, property portfolio and financial debt ratios APMs. The Group considers the presentation of underlying earnings to be useful supplementary information as it removes unrealised and certain other items and therefore represents the recurring, underlying performance of the business. The property portfolio presents the Group share of property market value which is the economic value attributable to the owners of the Parent. Financial debt ratios are supplementary ratios which we believe are useful in monitoring the capital structure of the Group. Additionally loan to value and interest cover are covenants within many of the Group's borrowing facilities.

Internally, the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures but excludes the non-controlling interest share of our subsidiaries.

| APM | Nearest IFRS measure | Explanation and reconciliation |
|---|---|---|
| EPRA earnings and earnings per share | Profit for the period and basic earnings per share | Note 12 |
| EPRA NAV and NAV per share | Net assets attributable to shareholders | |
| Underlying earnings and earnings per share | Basic earnings per share | |
| Market value of property portfolio | Investment, development and trading properties | Note 13 |
| Loan to value | N/A | Financial Review, page 9 |
| Interest cover | N/A | |
| Gross debt with interest rate protection | N/A | |
| Weighted average cost of debt | N/A | |

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

# SELECTED PERFORMANCE MEASURES

The following is a summary of EPRA performance measures and key Group measures included within these interim results. The measures are defined in the Glossary.

| APM | Definition of measure | Page | **Six months ended 30 June 2018** | Six months ended 30 June 2017 | Year ended 31 December 2017 |
|---|---|---|---|---|---|
| **Alternative to Income Statement** | | | | | |
| EPRA earnings | Recurring earnings from core operational activity | 36 | **£34.2m** | £2.6m | £6.2m |
| EPRA earnings per share | EPRA earnings per weighted number of ordinary shares | 36 | **4.0p** | 0.3p | 0.7p |
| Underlying earnings | Profit for the period excluding unrealised and one-off items | 36 | **£4.3m** | £4.6m | £11.4m |
| Underlying earnings per share | Underlying earnings per weighted number of ordinary shares | 36 | **0.5p** | 0.5p | 1.3p |

| APM | Definition of measure | Page | **Six months ended 30 June 2018** | Year ended 31 December 2017 |
|---|---|---|---|---|
| **Alternative to Balance Sheet** | | | | |
| Market value of property portfolio | Market value of investment, development and trading properties | 39 | **£3,329m** | £3,525m |
| EPRA NAV | Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model | 37 | **£2,850m** | £2,839m |
| EPRA NAV per share | EPRA NAV per the diluted number of ordinary shares | 37 | **334p** | 334p |
| EPRA triple net assets | EPRA NAV amended to include the fair value of financial instruments and debt | 37 | **£2,858m** | £2,822m |
| EPRA triple net assets per share | Diluted triple net assets per the diluted number of ordinary shares | 37 | **335p** | 332p |
| **Other** | | | | |
| EPRA net initial yield | Annualised rental income less non-recoverable costs as a percentage of market value plus assumed purchaser's costs | N/A | **2.3%** | 2.5% |
| EPRA topped-up initial yield | Net initial yield adjusted for the expiration of rent-free periods | N/A | **2.5%** | 2.8% |
| Occupancy | ERV of occupied space as a percentage of ERV of combined portfolio | 53 | **97.0%** | 97.9% |
| Loan to value | Net debt divided by the carrying value of the property portfolio | 9 | **16.6%** | 21.3% |
| Interest cover | Underlying operating profit divided by net underlying finance costs | 9 | **155.8%** | 169.7% |
| Gross debt with interest rate protection | Proportion of the gross debt with interest rate protection | 9 | **90%** | 91% |
| Weighted average cost of debt | Cost of debt weighted by the drawn balance of external borrowings | 9 | **2.9%** | 2.8% |

# DIVIDENDS

The Directors of Capital & Counties Properties PLC have proposed an interim dividend per ordinary share (ISIN GB00B62G9D36) of 0.5 pence payable on 21 September 2018.

**Dates**

The following are the salient dates for payment of the proposed interim dividend:

| | |
|---|---|
| Sterling/Rand exchange rate struck: | 17 August 2018 |
| Sterling/Rand exchange rate and dividend amount in Rand announced: | 20 August 2018 |
| Ordinary shares listed ex-dividend on the JSE, Johannesburg: | 29 August 2018 |
| Ordinary shares listed ex-dividend on the LSE, London: | 30 August 2018 |
| Record date for interim dividend in UK and South Africa: | 31 August 2018 |
| Election date for scrip dividend alternative (SA) | 31 August 2018 |
| Election date for scrip dividend alternative (UK) | 7 September 2018 |
| **Dividend payment date for shareholders** | **21 September 2018** |

South African shareholders should note that, in accordance with the requirements of Strate, the last day to trade cum-dividend will be 28 August 2018 and that no dematerialisation of shares will be possible from 29 August 2018 to 31 August 2018 inclusive. No transfers between the UK and South Africa registers may take place from 21 August 2018 to 31 August 2018.

Subject to SARB approval, the Board intends to offer an optional scrip dividend alternative in respect of the 2018 interim dividend.

The above dates are proposed and subject to change.

**Important Information for South African Shareholders**

The interim dividend declared by the Company is a foreign payment and the funds are sourced from the UK.

The interim cash dividend declared by the Company will constitute a dividend for Dividends Tax purposes. Dividends Tax will therefore be withheld from the amount of the interim cash dividend which is paid at a rate of 20 per cent, unless a shareholder qualifies for an exemption and the prescribed requirements for effecting the exemption, as set out in the rules of the Scrip Dividend Scheme, are in place.

It is the Company's understanding that the issue and receipt of shares pursuant to the scrip dividend alternative will not have any Dividends Tax nor income tax implications. The new shares which are acquired under the scrip dividend alternative will be treated as having been acquired for nil consideration.

This information is included only as a general guide to taxation for shareholders resident in South Africa based on Capco's understanding of the law and the practice currently in force. Any shareholder who is in any doubt as to their tax position should seek independent professional advice.

# GLOSSARY

**APM**

A financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

**Capco**

Capco represents Capital & Counties Properties PLC (also referred to as "the Company" or "the Parent") and all its subsidiaries and group undertakings, collectively referred to as "the Group".

**CLSA**

Conditional Land Sale Agreement, an agreement with LBHF relating to its land in the Earls Court and West Kensington Opportunity Area.

**Diluted figures**

Reported amounts adjusted to include the dilutive effects of potential shares issuable under employee incentive arrangements.

**Earls Court**

The London district made up of a series of residential neighbourhoods crossing the boundaries of London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea.

**Earls Court Masterplan**

The Earls Court Masterplan, created by Sir Terry Farrell and Partners, is the consented scheme for the transformation of Earls Court and West Kensington Opportunity Area. The London Borough of Hammersmith & Fulham and The Royal Borough of Kensington & Chelsea formally granted outline planning permission for the Earls Court Masterplan on 14 November 2013.

**Earls Court Properties**

The Group's interests in the Earls Court area, comprising properties held in ECPL, Lillie Square (a 50:50 joint venture partnership with the Kwok Family Interests), and a number of smaller properties in the Earls Court area.

**EBITDA**

Earnings before interest, tax, depreciation and amortisation.

**ECPL**

Earls Court Partnership Limited is the investment vehicle with TfL. The Group holds 63 per cent controlling interest and TfL holds 37 per cent. ECPL holds interests in EC1 & EC2 and other adjacent property primarily located on and around Lillie Road.

**EC1 & EC2**

The site formerly the location of the Earls Court 1 and Earls Court 2 Exhibition Centres.

**EPRA**

European Public Real Estate Association, the publisher of Best Practice Recommendations intended to make financial statements of public real estate companies in Europe clearer, more transparent and comparable.

**EPRA earnings**

Profit for the period excluding gains or losses on the revaluation and sale of investment and development property, write down of trading property, changes in fair value of derivative financial instruments and associated close-out costs and the related tax on these items.

**EPRA earnings per share**

EPRA earnings divided by the weighted average number of shares in issue during the period.

**EPRA net asset value (EPRA NAV)**

The net assets as at the end of the period including the excess of the fair value of trading property over its cost and excluding the fair value of financial instruments, deferred tax on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes divided by the diluted number of shares at the period-end.

**EPRA net asset value per share**

EPRA net asset value divided by the diluted number of ordinary shares.

**EPRA net initial yield**

Annualised net rent (after deduction of revenue costs such as head rent, running void, service charge after shortfalls and empty rates) on investment and development property expressed as a percentage of the gross market value before deduction of theoretical acquisition costs.

**EPRA triple net asset value (EPRA NNNAV)**

EPRA NAV adjusted to reflect the fair value of derivative financial instruments, excess fair value of debt over carrying value and deferred tax on derivative financial instruments, revaluations and capital allowances.

**ESB**

Empress State Building.

**Estimated rental value (ERV)**

The external valuers' estimate of the Group's share of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of the property.

**GCP**

The Great Capital Partnership is a 50 per cent Joint Venture between Capital & Counties Limited and Great Portland Estates PLC.

**GEA**

Gross external area.

**GLA**

Greater London Authority.

**Gross income**

The Group's share of passing rent plus sundry non-leased income.

**Headline earnings**

Headline earnings per share is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's JSE listing. This measure is not a requirement of IFRS.

**IFRS**

International Financial Reporting Standards.

**Innova**

Innova Investment Limited Partnership is a 50 per cent Joint Venture between the Group and Network Rail Infrastructure Limited.

**IPD**

Investment Property Databank Ltd, producer of an independent benchmark of property returns.

**JSE**

Johannesburg Stock Exchange.

**Kwok Family Interests (KFI)**

Joint venture partner in the Lillie Square development.

**LBHF**

The London Borough of Hammersmith & Fulham.

**Like-for-like property**

Property which has been owned throughout both periods, without significant capital expenditure in either period, so income can be compared on a like-for-like basis. For the purposes of comparison of capital values, this will also include assets owned at the previous balance sheet date but not necessarily throughout the prior period.

**Loan to value (LTV)**

LTV is calculated on the basis of Group's net debt divided by the carrying value of the Group's property portfolio.

**LSJV**

The Lillie Square joint venture is a 50 per cent Joint Venture between the Group and Kwok Family Interests.

**NAV**

Net Asset Value.

**NAV per share**

Net Asset Value attributable to owners of the Parent per share. The Group considers this presentation to provide useful information as it presents the value attributable to each share.

**Net Debt**

Total borrowings less cash and cash equivalents.

**NIA**

Net Internal Area.

**Net rental income (NRI)**

Gross rental income less ground rents, payable service charge expenses and other non-recoverable charges, having taken due account of bad debt provisions and adjustments to comply with International Financial Reporting Standards regarding tenant lease incentives.

**Nominal equivalent yield**

Effective annual yield to a purchaser on the gross market value, assuming rent is receivable annually in arrears, and that the property becomes fully occupied and that all rents revert to the current market level (ERV) at the next review date or lease expiry.

**NRIL**

Network Rail Infrastructure Limited.

**Occupancy rate**

The ERV of let and under offer units expressed as a percentage of the ERV of let and under offer units plus ERV of un-let units, excluding units under development. This is equivalent to 100 per cent less the EPRA vacancy rate.

**Opportunity Area**

In September 2011 the GLA published the 'Opportunity Area Planning Frameworks Report'. Opportunity Areas are London's major reservoirs of brownfield land with significant capacity to accommodate new housing, commercial and other developments linked to existing or potential improvements to public transport accessibility. Typically, they can accommodate at least 5,000 jobs or 2,500 new homes or a combination of the two, along with other supporting facilities and infrastructure.

**Passing rent**

Contracted annual rents receivable at the balance sheet date. This takes no account of accounting adjustments made in respect of rent-free periods or tenant lease incentives, the reclassification of certain lease payments as finance charges or any irrecoverable costs and expenses, and does not include excess turnover rent, additional rent in respect of unsettled rent reviews or sundry income such as from car parks etc. Contracted annual rents in respect of tenants in administration are excluded.

**RBKC**

Royal Borough of Kensington and Chelsea.

**SAICA**

South African Institute of Chartered Accountants.

**SARB**

South African Reserve Bank.

**Section 106**

Section 106 of the Town and Country Planning Act 1990, pursuant to which the relevant planning authority can impose planning obligations on a developer to secure contributions to services, infrastructure and amenities in order to support and facilitate a proposed development.

**TfL**

Transport for London and any subsidiary of Transport for London including Transport Trading Limited and London Underground Limited.

**Total property return (TPR)**

Capital growth including gains and losses on disposals plus rent received less associated costs, including ground rent.

**Total return (TR)**

The growth in EPRA NAV per share plus dividends per share paid during the year.

**Total shareholder return (TSR)**

The increase in the price of an ordinary share plus dividends paid during the year assuming re-investment in ordinary shares.

**Underlying earnings**

Profit for the year excluding impairment charges, net valuation gains/losses (including profits/losses on disposals), net refinancing charges, costs of termination of derivative financial instruments and non-recurring costs and income. Underlying earnings is reported on a Group share basis.

**Underlying earnings per share (EPS)**

Underlying earnings divided by the weighted average number of shares in issue during the year.

**Weighted average unexpired lease term**

The unexpired lease term to lease expiry weighted by ERV for each lease.

**Zone A**

A means of analysing and comparing the rental value of retail space by dividing it in to zones parallel with the main frontage. The most valuable zone, Zone A, falls within a 6m depth of the shop frontage. Each successive zone is valued at half the rate of the zone in front of it. The blend is referred to as being 'ITZA' ("In Terms of Zone A").