The intu difference

intu properties plc
Annual report 2016

intu

Our purpose is to create compelling, joyful experiences that surprise and delight our customers and make them smile.

We are a people business and everything we do is guided by our culture and our values. We're passionate about providing people with their perfect shopping experience so that our retailers flourish.

And it's this that powers our business, creating opportunity for our retailers and value for our investors; benefiting our communities and driving our long-term success.

Contents

Go online **intugroup.co.uk/en/investors/intu-annual-report-2016/**

What's inside

> Our strategy for 2017 remains unchanged in terms of relentless focus on improving our centres and overall business performance."

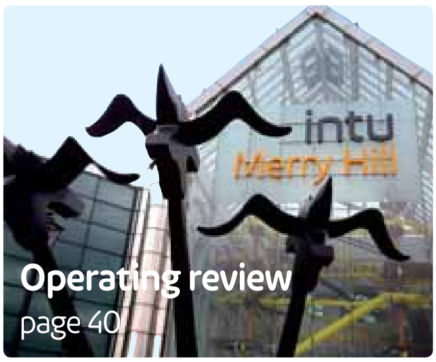
This icon denotes key case studies that demonstrate how we are integrating CR into our business strategy.

Read more in our 2016 CR report
intugroup.co.uk/en/about-us/corporate-responsibility

Culture at intu

Our culture and how we behave is an important part of the intu difference and a big reason behind our success. Throughout the report this symbol denotes information about our culture.

How have we performed in the year?



Read more content in the annual report

Read more content at **intugroup.co.uk**

Highlights of 2016

Presentation of information

Amounts are presented including the Group's share of joint ventures.

Underlying earnings is used by management to assess the underlying performance of the business and is based on an industry standard comparable measure. It excludes valuation movements, exceptional items and related tax.

See financial review on page 46 for more details on the presentation of information and alternative performance measures used

Financial highlights[1]

Our results show growth in net rental income and underlying earnings with net asset value per share stable.

- strong growth in like-for-like net rental income of 3.6 per cent, in line with guidance, with an outstanding first half of the year and the second half matching the strong comparative from 2015
- underlying earnings increased by 7 per cent to £200 million, primarily as a result of the growth in like-for-like net rental income
- like-for-like property values unchanged in the year, absorbing the 1 per cent increase in stamp duty and significantly outperforming the IPD monthly retail index which decreased by 4.7 per cent. Total deficit of £64 million; mostly from developments with the deficit expected to reverse as the projects progress
- profit for the year of £172 million has reduced by £346 million, impacted by property revaluations (2015: £518 million including a property revaluation surplus of £351 million)
- underlying earnings per share increased by 6 per cent to 15.0 pence (2015: 14.2 pence) and dividend up 2 per cent to 14.0 pence
- net asset value per share (diluted, adjusted) of 404 pence unchanged from 2015, delivering a total financial return in the year of 3.4 per cent
- an active year of asset recycling has enabled us to maintain a similar debt to assets ratio, acquiring the remaining 50 per cent of intu Merry Hill for £410 million from the proceeds of the disposals of intu Bromley and our interest in Equity One
- cash and available facilities of £922 million (31 December 2015: £588 million)

Net rental income[2]
£447m
(2015: £428m)

Underlying earnings
£200m
(2015: £187m)

Property revaluation deficit[2]
£(64)m
(2015: £351m surplus)

Profit for the year
£172m
(2015: £518m)

Underlying EPS
15.0p
(2015: 14.2p)

Dividend per share
14.0p
(2015: 13.7p)

NAV per share (diluted, adjusted)
404p
(2015: 404p)

Debt to assets ratio[2]
43.7%
(2015: 43.1%)

Market value of investment properties[2]
£9,985m
(2015: £9,602m)

Net external debt[2]
£4,364m
(2015: £4,139m)

Our strategic objectives

Optimising asset performance

We aim to deliver attractive long-term total property returns from strong, stable income streams

- like-for-like property values unchanged in the year, significantly outperforming the IPD monthly retail index which fell by 4.7 per cent
- increased like-for-like net rental income by 3.6 per cent in the year, reflecting improving rental levels from new lettings and rent reviews
- signed 214 long-term leases (187 in the UK and 27 in Spain) delivering £38 million of annual rent at an average of 4 per cent above previous passing rent and in line with valuers' assumptions
- new lettings offset by the closure of BHS stores leaves occupancy unchanged at 96.0 per cent
- increased footfall by 1.3 per cent, compared to a 2.0 per cent fall in the national ShopperTrak retail average

Delivering UK developments

By extending and enhancing our existing locations we aim to deliver superior returns

- capital expenditure of £93 million in the year including £37 million on the extension of intu Watford and £13 million on completed restaurant developments
- completed the casual dining developments at intu Metrocentre (nine restaurants) and intu Eldon Square (20 restaurants)
- good letting progress on the extension of intu Watford which is on budget and on target to open in late 2018
- intend to commence over £200 million of development projects in 2017 – the Nickelodeon-anchored leisure scheme at intu Lakeside, the enclosure of Barton Square at intu Trafford Centre and the redevelopment of intu Broadmarsh

Making the brand count

We leverage the strength of our brand to create compelling experiences for our customers

- net promoter score, our measure of customer service, consistent at 70 for the year
- intu Experiences, our commercialisation and promotions business, generated income of over £20 million, equivalent to the rental income of our eighth largest centre
- intu.co.uk, our online shopping platform with strong editorial content, has attracted over 480 retailers and delivered 28 million website visits in 2016, an increase of 15 per cent on 2015, with sales for retailers of £6 million
- intensity reduction in carbon emissions of 47 per cent since 2010

Seizing the growth opportunity in Spain

Our strategy is to create a business of scale through acquisitions and development projects

- occupancy remained strong in our two existing centres, with footfall and retailer sales both up by 2 per cent
- signed 27 leases at 20 per cent above the previous passing rent
- strong increases in the market value of both centres with intu Asturias up 14 per cent and Puerto Venecia up 10 per cent
- commenced a €7 million project at intu Asturias to develop a previously under-utilised space
- completed land assembly at intu Costa del Sol and successfully incorporated the proposed shopping resort into the general plan of Torremolinos

1 Please refer to glossary on page 177 for definition of terms.
2 Including Group's share of joint ventures.

Read about the strategic objectives in action on pages 13 to 27

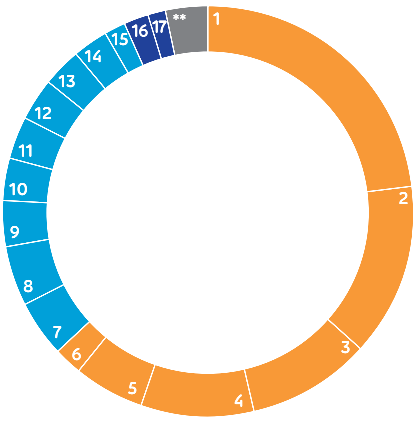
Our top properties

We own and manage some of the best shopping centres, in some of the strongest locations across the UK and in Spain

intu Trafford Centre

intu Trafford Centre is the only UK location other than Oxford Street where you can find Selfridges, John Lewis, Debenhams and Marks & Spencer in one place. As the prime shopping destination in the north west, with a catchment of nearly 10 million, it is no wonder it is the first stop for retailers as they expand outside central London.

Footfall 31m



Asset valuation at 31 December 2016

£10.0bn*

(2015: £9.6bn)

Super-regional centres

65%

1. intu Trafford Centre (£2,312m)
2. intu Lakeside (£1,375m)
3. intu Metrocentre (£945m)
4. intu Merry Hill (£899m)
5. intu Braehead (£546m)
6. Cribbs Causeway (£239m)

In-town centres

31%

7. intu Derby (£450m)
8. Manchester Arndale (£446m)
9. intu Victoria Centre (£361m)
10. St David's, Cardiff (£353m)
11. intu Watford (£336m)
12. intu Eldon Square (£318m)
13. intu Chapelfield (£296m)
14. intu Milton Keynes (£281m)
15. intu Potteries (£169m)

Spanish centres

4%

16. Puerto Venecia, Zaragoza (£213m)
17. intu Asturias (£119m)

	Market value	Size (sq ft 000)
Super-regional centres		
intu Trafford Centre	£2,312m	1,973
intu Lakeside	£1,375m	1,435
intu Metrocentre	£945m	2,108
intu Merry Hill	£899m	1,671
intu Braehead	£546m	1,127
Cribbs Causeway	£239m	1,075
In-town centres		
intu Derby	£450m	1,300
Manchester Arndale	£446m	1,600
intu Victoria Centre	£361m	976
St David's, Cardiff	£353m	1,391
intu Watford	£336m	726
intu Eldon Square	£318m	1,350

Spanish centres	Market value	Size (sq m 000)
Puerto Venecia, Zaragoza	€249m	119
intu Asturias	€139m	75

* Including Group's share of joint ventures.
** Other properties <£100 million (£327m).

1 The amount presented is on the Scottish ITZA basis; the English equivalent is £335.

intu Merry Hill

intu Merry Hill is the super-regional shopping centre for the West Midlands, with a loyal customer base. It draws 22 million visitors each year and is a key location for retailers. JD Sports, New Look and Topshop have all recently upsized, creating flagship stores, with more to follow shortly. Overlay our plans to improve the dining and leisure and you will have the intu Trafford Centre of the Midlands.

38% visit weekly

intu Derby

intu Derby is the retail and leisure heart of this Midlands city. From the boutique Cinema de Lux to the soon-to-open bowling and mini-adventure golf development, it keeps the city thriving late into the evening. 18 restaurants, from fast food to contemporary casual dining, provide great choice to the customers. Add in all the retailers you would want to see and you have the perfect city centre destination.

Gross value added £312m

intu Lakeside

intu Lakeside offers its loyal customer base from Essex and the south east a compelling mix of retail, catering and leisure at the heart of nearly five million sq ft of retail space in the wider Lakeside basin. The centre's key focus is families – which is why Nickelodeon has chosen intu Lakeside for its first mini-theme park in the UK.

Average dwell time 2.5 hours

Ownership	Number of stores	Annual property income	Headline rent ITZA	ABC1 customers	Key tenants
100%	233	£89.3m	£433	66%	Debenhams, Topshop, Selfridges, John Lewis, Next, Apple, Ted Baker, Victoria's Secret, Odeon, Legoland Discovery Centre, H&M, Hamleys, Marks & Spencer, Zara, Sea Life
100%	249	£56.9m	£355	66%	House of Fraser, Debenhams, Marks & Spencer, Topshop, Zara, Primark, Vue, Hamleys, Victoria's Secret
90%	316	£51.6m	£280	52%	House of Fraser, Marks & Spencer, Debenhams, Apple, H&M, Topshop, Zara, Primark, River Island, Odeon
100%	213	£39.1m	£195	48%	Marks & Spencer, Debenhams, Primark, Next, Topshop, Asda, Boots, H&M, Odeon
100%	122	£27.2m	£250[1]	57%	Marks & Spencer, Primark, Apple, Next, H&M, Topshop, Hollister, Superdry, Sainsbury's, David's Bridal
33%	152	£12.2m	£305	77%	John Lewis, Marks & Spencer, Apple, Next, Topshop, Timberland, Jigsaw, Hobbs, Hugo Boss, H&M
100%	200	£29.7m	£110	47%	Marks & Spencer, Debenhams, Sainsbury's, Next, Boots, Topshop, Cinema de Lux, Zara, H&M
48%	252	£22.2m	£275	61%	Harvey Nichols, Apple, Burberry, LK Bennett, Topshop, Next, Ugg, Hugo Boss, Superdry, Zara, Hollister
100%	113	£19.0m	£250	56%	House of Fraser, John Lewis, Next, Topshop, River Island, Boots, Urban Outfitters, Superdry, Office
50%	203	£16.2m	£212	71%	John Lewis, Debenhams, Marks & Spencer, Apple, Hollister, Hugo Boss, H&M, River Island, Hamleys, Primark
93%	137	£18.8m	£220	83%	John Lewis, Marks & Spencer, Apple, Zara, Primark, Next, Lakeland, Phase Eight, Lego, H&M, Topshop, New Look, MAC
60%	140	£15.0m	£308	63%	John Lewis, Fenwick, Debenhams, Waitrose, Apple, Hollister, Topshop, Boots, River Island, Next, Marks & Spencer

Ownership	Number of stores	Annual property income	Key tenants
50%	202	€11.6m	El Corte Inglés, Primark, Ikea, Apple, Decathlon, Cinesa, H&M, Mediamarkt, Zara, Hollister, Toys R Us, Fnac
50%	137	€7.7m	Primark, Zara, H&M, Cinesa, Eroski, Mango, Springfield, Fnac, Mediamarkt, Desigual

Chairman's statement

intu operates in a shopping centre environment where it is becoming more and more obvious that quality counts

"We have stuck to our strategy of creating and managing the best shopping centres and are reaping the benefits, with another year of strong like-for-like net rental income growth and improved operating metrics."

The changes we have made in our business over the last few years have ensured that our centres are of the best quality and are backed by sound finance.

It has been my pleasure to serve as a member of the Board for the last 16 years and as Chairman for the last eight. During my tenure as Chairman we have been through many corporate and operational changes, all the result of skilled and excellent teamwork. The most significant are the doubling in size of the business over this period since the demerger with Capital & Counties and the creation of intu as a customer-focused brand.

The ever-changing face of retail has continued apace and we have evolved alongside this to be at the forefront of innovation as a retail landlord with, for example, the creation of intu Digital. I said, when I first took over the Chair that we are as much impresarios as landlords: we create a whole experience in our centres. But around our centres we also take our corporate responsibility very seriously and, indeed, that is why I chair the Committee that propels that forward.

The last 12 months

Since the global financial crisis of 2008/9 we have stuck to our strategy of creating and managing the best shopping centres and are reaping the benefits, with another year of strong like-for-like net rental income growth and improved operating metrics.

Our brand has been a key part of this success, and awareness of the intu brand continues to grow. Our innovative digital business goes from strength to strength and in centre we have consistently strong customer satisfaction.

Innovation and evolution continue in the development of our centres. We are on site with a major extension at intu Watford and we have signed Nickelodeon at intu Lakeside for what will be their first indoor mini-theme park in the UK.

And, most recently, we have enhanced our standing as the owner of the best shopping centres by taking our ownership of intu Merry Hill to 100 per cent (making it our fourth largest asset), financing the acquisition by disposing of intu Bromley.

Chairman's prize

Since 2010 the annual Chairman's prize competition has showcased the range of community engagement partnerships promoted by intu centres and revealed deep evolving partnerships between our centres and the varied communities they serve. Winning community organisations receive a substantial prize to help them continue their vital work.

2016 winner

Ruby Girl and Ruff Diamondz and intu Potteries

Ruby Girl and Ruff Diamondz is a Stoke-on-Trent charity which works with local young people to improve their self-esteem and help them reach their potential. Staff at intu Potteries helped founder Dawnie Deaville open a one-stop shop in the centre where youngsters can improve their employability and life skills. As well as a variety of programmes including life coaching, literacy and CV-writing, the enterprise centre has a number of workplaces including a shop, coffee bar, hairdresser and bicycle repair shop, to give young people skills they need to get on in life.

Like-for-like net rental income growth in 2016

+3.6%
(2015: +1.8%)

Reduction in carbon emissions intensity since 2010

47%

For more details of our performance may I refer you to our Chief Executive's review on pages 8 and 9 where David Fischel reviews our business in 2016, and to the financial review presented by our Chief Financial Officer Matthew Roberts on pages 46 to 51.

Our role in society

We believe strongly in the role we play in society. As a successful company we take to heart our responsibilities for, and our role in, the communities where our centres are located.

To those communities we look to bring not just financial support and encouragement but community participation, volunteering and sharing, which multiplies the benefits which spring from every initiative. I take a close interest in these initiatives and recognise the work of community groups through the Chairman's prize which was set up in 2010 to promote the partnerships intu makes with local charities. Some of the winners of this prize are highlighted below.

We focus closely on the environmental sustainability of our centres and this year we achieved ISO 50001 for energy management as well as retaining our Carbon Trust Standard for a third year.

Our people

I would like to record my thanks to all our staff, as well as to the Board, for their commitment and dedication to intu's values and vision in the year.

From our apprentices to our senior managers, we employ outstanding people to make sure our shopping centres are the finest in the country. Our people are at the heart of our business, embodying our values and providing the trademark world class service that sets us apart from our competitors.

I will step down as Chairman at this year's AGM and I am pleased to announce John Strachan as my successor. He has been a non-executive director since October 2015 and brings a wealth of experience from the retail property sector in the UK and internationally, including Spain.

Finally, on behalf of the Board I would like to thank Andrew Huntley who will also be stepping down as a director at the 2017 AGM after over seven years: we have benefited enormously from his vast experience in the property world as well as from his uncommon common sense.

Dividends

Your Directors are recommending a final dividend of 9.4 pence per share, bringing the amount paid and payable in respect of 2016 to 14.0 pence, an increase of 0.3 pence from the 2015 dividend. A scrip dividend alternative may be offered.

Looking to the future

With the strength of our brand, the quality of our centres, of our staff and of our management, and with the refinancing work we have undertaken over the past three years we are strongly positioned for the future. We are well placed to weather the uncertainties that lie ahead and emerge confidently to deliver value both to our shareholders and more widely for the other stakeholders in the society in which we participate.

2015 winner
Together Trust and intu Trafford Centre

The intu Trafford Centre team joined forces with local autism charity the Together Trust, to make the centre the first autism-friendly shopping centre in the UK. They produced materials for an event to highlight World Autism Awareness Day in 2015 and 400 intu employees were trained to understand how people with autism experience shopping centres. As part of our brand promise, we want to make our centres welcoming to customers with autism and staff found the training extremely helpful in increasing their awareness.

2014 winner
National Literacy Trust and intu Lakeside

intu Lakeside teamed up with the National Literacy Trust to work with young people, especially those facing educational, medical, social and employment difficulties. The project aimed to support young people and their families with literacy and promote the benefits of literature and reading for everyone. By bringing stories to life with book donations and free family events, the project encouraged more parents to read with their children. The benefits for children and families within the immediate catchment area of the centre were impressive.

Chief Executive's review

intu focuses solely on regional shopping centres both here in the UK and those we are developing and improving in Spain

"Our strategy for 2017 remains unchanged in terms of relentless focus on improving our centres and overall business performance."

Our aim is to continue to advance a high-quality and sustainable business that is resilient and well-placed to create long-term value, in the face of changes in the global and national economy and structural changes in retail.

We have made considerable progress in 2016 on our strategic priorities. The core business is performing well and has strong momentum, with many projects due to start in 2017.

We have delivered 6 per cent growth in underlying earnings per share to 15.0 pence, driven by a 3.6 per cent growth in like-for-like net rental income from increased rental levels, improved occupancy and the positive outcome of our recent redevelopment work.

Net asset value per share (diluted, adjusted) has been stable at 404 pence, with overall like-for-like property values unchanged in the year. At 31 December 2016, we had cash and available facilities of £922 million, giving us considerable financial flexibility.

Increased focus on the best in class

With the disposal of intu Bromley and completion of our exit from the US on favourable terms, we have continued the process of recycling capital into our super prime regional centres, acquiring the remaining 50 per cent of intu Merry Hill and progressing development projects at other key centres.

Owning 100 per cent of intu Merry Hill allows us to advance the many improvement opportunities more rapidly and due to its size the returns should be meaningful. The first steps are already underway through taking back the former Sainsbury's store to facilitate sizeable re-tenanting transactions.

The intu difference

Our strategic priorities are underpinned by what we call the intu difference. This is shorthand for what differentiates us from other retail landlords. It is how we combine our scale, expertise and insight to create compelling experiences for our customers which in turn deliver good results for our retailers and value for our shareholders and other stakeholders.

Prime centres for quality retailers

The strong growth this year in like-for-like net rental income, following the positive outcome in 2015, is a reflection of our overall approach over the last few years – investing in our prime centres and focusing on getting the right tenants in the right place, paying the right rent, and removing poorer quality tenants and undesirable short-term lets.

Retailers understand the intu difference and appreciate how we deliver customers consistently to our high-footfall locations. They recognise these are locations where they really need to have a presence. The pulling power of our centres has been illustrated in 2016 with key fashion retailers upsizing and making an increased long-term investment, with the likes of Next, Primark, Inditex, H&M and New Look all increasing their store sizes and overall presence in our centres.

We are continuously improving the look of our centres for both retailers and customers. Occupancy is high, and as a result income has been growing and valuations have been stable in an uncertain investment market.

Strengthening our fortresses

We are on site with our extension of intu Watford which will transform the centre into a major regional offering and we have opened two new restaurant redevelopments at intu Eldon Square and intu Metrocentre, which give customers reasons to stay for longer. Both these restaurant developments have delivered good financial returns.

Strategic priorities for 2017

Our focus in 2017 will be on the four main goals which we believe will result in strong total returns over the medium term:

- optimising the performance of existing assets
- driving forward our UK development pipeline
- making the brand count
- seizing the growth opportunity in Spain

Read more on pages 32 and 33

Looking forward to 2017, we have three large projects to get underway: the redevelopment of intu Broadmarsh in Nottingham, the leisure extension at intu Lakeside and the enclosure and extension of Barton Square at intu Trafford Centre.

Delivering a multichannel solution

We are seeing substantial benefits from the brand, starting with intu Experiences, which is now generating over £20 million of income a year, equal to our eighth biggest shopping centre. This includes promotions across multiple centres with global brands such as 20th Century Fox, Mercedes Benz and Nespresso.

Our online shopping platform has shown a marked improvement in the year with strong growth in revenue and traffic on intu.co.uk as the number of shoppable retailers has increased. We have continued to develop the website, further enhancing the experience and continually reinforcing the advantage we get from the national intu brand, something not available to our competitors.

All this is evidenced by the growing awareness of the intu brand, recognition of which, on an unprompted basis, has risen strongly in the year to over 20 per cent of UK shoppers surveyed.

Performing strongly in a recovering Spanish economy

Our two existing centres are performing well. At intu Asturias, the new restaurant terrace has been well received and with the centre effectively full we are starting a project to create more units from space not previously lettable. Puerto Venecia in Zaragoza has achieved some good lettings, including Globo and Fnac, which have pushed up occupancy to 97 per cent.

We have entered an exclusivity agreement to acquire the 153,000 sq m Xanadú shopping centre in Madrid. Should this transaction complete, we would then own three of Spain's top-10 centres.

Finally, at intu Costa del Sol we are closing in on the final piece of planning to allow us to start this project and move further forward with our aim of having the best regional centre in five or more of the top-10 shopping regions in Spain in the next five to seven years.

Being a good corporate citizen

Trust in business is vital and good corporate citizenship is engrained in our culture, in how we treat our colleagues, how we operate our centres and how we deal with our customers.

We have a diverse workforce. We have always embraced the principle of a national living wage and we do not operate zero-hours contracts.

We also believe the intu name should be a kitemark for the sort of centre you want in your city and we are very active in the communities in which we operate.

Outlook for 2017

The environment for business is likely to be challenging as the full impact emerges of the UK's EU referendum vote but we are soundly positioned as we concentrate on top-quality assets in prime locations with high occupancy and strong footfall.

Our strategy for 2017 remains unchanged in terms of relentless focus on improving our centres and overall business performance. We intend to deliver continued growth in like-for-like net rental income and we reiterate that we expect this to be in the 0 to 2 per cent range for 2017, subject to no material tenant failures, down in the first half against the strong 2016 comparative and up in the second half year. This includes the impact of some 2 per cent from units being held for redevelopment and from the full year impact of BHS closures.

Our culture

In one way we are quite a simple business, with a focus on creating the best shopping centres. Our culture is driven by a single-minded purpose to make our customers feel better about life through a visit to one of our centres.

When we rebranded as intu in 2013 we agreed on three values that would help our staff make that happen. Every member of staff is trained in these values of bold, creative and genuine to help us act in the way we would like the business to act. That means doing the right thing by all our stakeholders – customers, retailers, investors, suppliers and communities.

With such high standards to maintain we make sure we have outstanding and enthusiastic people working for our business, and our culture is dedicated to unleashing their passion, innovation and creativity.

Read more about our culture on page 56

Our growth story

We have a strong pipeline of organic growth opportunities for the next decade in the UK and Spain. We are on site with a major extension at intu Watford and approaching the required level of tenant demand for several other major projects. Over the next three years we plan to spend £886 million. Beyond 2019 we have the optionality on further projects where we have or are in the process of gaining the required planning approvals

Near term

Over the next three years we will focus on projects with proven tenant demand. We are on site at intu Watford with a major extension which will open in 2018 and expect to start several other near-term projects as we sign the required pre-lets.

intu Watford

This leisure-led extension is on site and on track for opening in 2018. The transformation includes a refurbishment of the existing malls and will be anchored by a nine-screen Cineworld IMAX cinema, 10 restaurants and a Debenhams department store. Pre-lets stand at around two-thirds, by space, and include New Look and H&M.

intu Lakeside

The extension, anchored by a Nickelodeon-themed indoor family entertainment centre, will bring additional leisure and catering brands to intu Lakeside, increasing the catchment and dwell times of the centre. Hollywood Bowl and other leisure attractions along with 11 new restaurants will further enhance this family-oriented extension.

Overview

	Cost to completion (£m)			
	Total	2017	2018	2019
Committed	249	120	119	10
Active asset management pipeline	262	88	90	84
Major extensions and redevelopments	144	38	72	34
Total UK	**655**	**246**	**281**	**128**
Spain*	231	51	86	94
Total	**886**	**297**	**367**	**222**

* intu Costa del Sol assumes 50 per cent joint venture partner.

See operating review on page 43

intu Costa del Sol

With final planning approval expected shortly and strong demand from retailers, we expect to be on site with this shopping resort development in 2017. The resort will have a high proportion of leisure and will be a must-visit destination for both residents and tourists from the whole of the Costa del Sol.

intu Broadmarsh

The second phase of our Nottingham vision is to redevelop the 500,000 sq ft existing centre to provide a complementary offer to that of intu Victoria Centre. The redevelopment will focus on new brands to the city, with a cinema and restaurant-led upper level and convenience-driven lower level.

intu Merry Hill

We have plans to spend £110 million to embed intu Merry Hill's position as a super prime UK shopping centre. Key to this is increasing the leisure and catering available at the centre through an extension as well as remapping the retail anchors. This has already commenced with River Island, JD Sports and Topshop upsizing and more similar moves to follow.

Active asset management

Our active asset management capital expenditure offers attractive returns, with stabilised initial yield on costs of 6 to 10 per cent. Projects vary in scale but all focus on improving the customer experience, whether it is retail, catering or leisure. An example of this is the reconfiguration of Halle Square to introduce a restaurant quarter to Manchester Arndale.

Potential beyond 2019

intu Lakeside

We have planning approval for an additional 440,000 sq ft of retail space which will be a natural development of the centre to meet the increased catchment and footfall from the leisure extension.

intu Victoria Centre

We have planning approval for up to 500,000 sq ft of additional retail and leisure space. This will form the third phase of our vision for Nottingham following the successful refurbishment of intu Victoria Centre and the redevelopment of intu Broadmarsh.

intu Braehead

We received planning approval in 2016 for a 475,000 sq ft retail and leisure extension that will bring further connectivity between the main centre and Soar at intu Braehead and create over 2,500 jobs in the local area.

intu Milton Keynes

Our plan to develop 100,000 sq ft of new floorspace, which would bring more life and entertainment to the Boulevard area of the centre and create nearly 500 jobs, has been called in by the Secretary of State with an inquiry decision expected in early 2017.

Cribbs Causeway

We have received local planning consent for a 380,000 sq ft retail and leisure extension to the centre reflecting growth in the overall catchment area.

Spain

We continue to progress our development options at Valencia, Vigo and Palma to create further shopping resorts similar to Puerto Venecia and intu Costa del Sol.

Long-term community vision

Our future plans aim to enhance local prosperity through job creation in both the construction and operating phase. They include measures to minimise our environmental impact by employing the latest construction and energy management techniques. They will help our centres stay at the heart of their communities.

Investment case

We use our market-leading position and unique insight to implement our strategy and deliver shareholder returns

Market-leading position

- UK's largest owner, developer and manager of prime shopping centres
- only UK nationwide shopping centre brand
- providing in centre and online customer experience
- talented, motivated and empowered employees focused on delivering exceptional customer experience
- robust capital structure with access to a wide range of funding sources

See business model on page 28

Unique insight

- pure play focused shopping centre owner
- dynamic operator at the forefront of an evolving retail environment, understanding the multichannel requirements of retailers
- unique insight into customer trends and demands for the perfect shopping and leisure experience
- connecting retailer requirements with customer demands to deliver compelling shopping experiences

See key market trends on page 16

Strategy

- combining our scale, expertise and insight
- creating compelling experiences for our customers
- helping our retailers flourish

See strategy overview on pages 32 and 33

Shareholder returns

- long-term total property returns from our prime properties, an attractive asset class
- strong, stable income streams from long-term lease structures
- development potential and capital appreciation
- a responsible and sustainable business, that contributes to our communities

Optimising asset performance
page 18

How do we make the difference?

We create compelling experiences that surprise and delight our customers, delivering success for our retailers, enhancing our communities and driving value for our investors

Delivering UK developments
page 20

Making the brand count
page 22

Seizing the growth opportunity in Spain
page 24

Making the difference

1/2
of the UK population visit an intu centre each year

With the whole business **centred around our customer,** we bring together our **scale, experience, insight** and **expertise** to **create compelling experiences,** in centre and online, which **deliver real results** for our retailers, caterers and leisure operators

35m
customers

Our statistics are impressive but it is what we do with them that really makes the difference

Our insight and research programmes help us understand what motivates customers to visit their local intu centre, stay longer and return more often. We then combine the power of our brand with our scale to attract the best retailers, the most sought-after brands and exciting immersive experiences to do just that.

2.5m
marketing database

28m
website visits

400m
customer visits in 2016

"Our purpose is to put a smile on the face of our customers. We want them to be happier after a visit to our centres than when they walked through the door."

David Fischel

We've got the country covered, with 22 million sq ft of retail, leisure and catering space and our unrivalled website

Signature experiences

Our in-house teams are always thinking up new signature experiences that express our brand proposition of world class service, digital connectivity and events with a difference. Joy jars, intugrams, the intu app – just some of the ways we provide moments of surprise and delight.

A culture of success

How we behave is an important part of the intu difference and a big reason behind our success. We encourage and equip all our employees to look at things differently and creatively, to consider carefully and then to act boldly and genuinely.

BOLD

We act confidently and decisively, always knowingly, perhaps at times controversially, but never rashly or without consideration

CREATIVE

We look at the familiar and we see something different; we are insightful and imaginative, but not for their own sake, for we never lose sight of what is important and relevant

GENUINE

We are true to ourselves, act fairly and communicate clearly; we say what we mean and we mean what we say. We recognise our obligations to our stakeholders and the wider society, and commit to put our utmost into everything we do

Understanding our markets

Getting to know you,

getting to know all about you

We know and understand our shoppers and what shopping means to different people – that's all part of what makes us different

As the UK's leading shopping centre owner we are able to quickly understand changes in the nation's shopping behaviours and what people want. This unique insight allows us to work with retailers to deliver what the customer wants.

Tapping into the 400 million customer visits to our centres each year, from an estimated 35 million individuals, and around 28 million website visits, we are able to collect real time information on customer shopping habits.

We collate data through three main routes: our Tell intu programme, customer exit surveys completed by CACI and shopper view, our customer research panel. Thanks to our multichannel expertise we can also feed in data from online activity on intu.co.uk and our marketing emails.

As we develop our ability to join up the information from all these sources and other interaction points, the detailed picture we build up of our customers' shopping behaviours will enable us to react quickly to their changing requirements.

20,000
Tell intu surveys completed annually

10m
wifi connections annually

Seven retail trends for 2017

Upsizing
Top retailers, such as Topshop, Zara, New Look and JD Sports, are increasing their space to create flagship stores in our centres.

Portfolio of brands
As well as upsizing, larger retailers are bringing in new brands. Inditex are adding Stradivarius and Pull&Bear, and New Look Men is becoming a standalone fascia.

New international retailers
In the last few years we have seen Smiggle, Tiger and Kiko enter the UK market and expand rapidly. This year accessories retailer Lovisa from Australia has opened its first stores.

It's all in the detail

We have millions of pieces of data from more than 30 sources that tell us about our customers' shopping habits – from 28 million website visits, 700,000 gift card purchases, 10 million wifi connections a year, car parks, footfall, social media – which, with data from Tell intu, shopper view panel and CACI, contain precious information about what customers want from intu centres.

A data consolidation project is underway to unearth the buried customer insight – which services they value and use, how much time they spend with us and what they do, in centre and online.

We will be able to better segment our customers, enabling more effective marketing and helping retailers to position themselves across our portfolio – all of which will improve our customers' experience.

The UK – a global opportunity

Our latest research into the retail industry, produced jointly with Revo, looked at the views of 130 overseas retailers on the UK as a market for expansion. A key finding was the importance of the physical store to retailer investment plans, with ecommerce an important but complementary channel. Though some barriers were highlighted which we are now engaging with Government on, the broad view of the UK was positive. The report also modelled the potential benefit if all interested businesses entered the UK, from increased rents to job creation.

Read more online: intugroup.co.uk/en/insights/investing-in-the-uk-retail-market-a-global-opportunity/

Market overview

What does the world look like for the country's retailers?

Retail is one of the UK's most dynamic and flexible industries which has shown itself able to adapt quickly to what is a fast-changing environment. 2017 will see retailers facing both structural and economic challenges – the winners will be those with the right stores in the right places, who align their online and instore strategies and who give customers an experience they cannot get elsewhere.

Economic pressures include the impact on retailers' cost bases from the weakness of sterling, business rates revaluations and increases in the national living wage. A potential squeeze on disposable income from higher inflation may be realised and add more pressure. Structurally, retailers are still coming to terms with the opportunities and costs of internet shopping.

On the plus side, going into 2017 consumer confidence has held up since the EU referendum and there is evidence that where customers are offered an enticing mix of retail, catering, leisure and experiences, they come in large numbers, as our raised footfall over the Christmas period shows. Retailers are responding to this trend by focusing on fewer, often larger, stores in the best locations. More retailers are taking an integrated multichannel approach and previously online-only retailers are now looking at physical space to deliver growth.

With our prime portfolio of shopping centres, our focus on compelling customer experiences and our sophisticated online offer we are well positioned to meet the demands of this changing world.

Aspirational
Lifestyle brands are seeing the benefits of shopping centres which offer high ABC1 demographics. Brands such as Jack Wills, Joules and Cath Kidston are all expanding.

Miniaturisation
Traditional large-format retailers, car manufacturers like SEAT for example, are taking smaller stores at intu centres to get access to a higher footfall of their core customers.

Reinvention
Retailers previously expected to disappear from the high street are reinventing their offer with a focus on customer service. Travel agencies, such as Kuoni and Virgin Holidays are expanding in this market.

The rise of the day out
With prime shopping centres now seen by customers as a day out destination, new catering and leisure operators are increasing their presence throughout our portfolio.

Optimising asset performance

Getting the right fit

Our centres are vibrant environments where shoppers want to be and retailers need to be. With the trend towards larger stores for fashion brands and to miniaturisation for big box retailers we manage our assets to provide retailers with the right spaces in the right places to attract customers

For many retailers the trend is toward bigger and better, with leading fashion brands looking to showcase their whole product ranges in large flagship stores in top locations around the country. With many of the top centres in the country, intu can make sure these brands secure the right space in the right location, and get access to tens of millions of their target customers.

Recent examples include the new 32,000 sq ft store that Zara has opened at intu Trafford Centre, making it one of the retailer's top UK stores.

Also at intu Trafford Centre, the new 60,000 sq ft Topshop is now the biggest store in the chain outside Oxford Circus.

And at intu Metrocentre, Next has recently exchanged on an 85,000 sq ft two-level flagship store, in space vacated by BHS.

As they upsize retailers make considerable investment in these new flagships, making them go-to destinations and giving shoppers yet another reason to visit their favourite intu centre. And the space that the retailers used to occupy is in high demand from other brands coming into our centres – at St David's, Cardiff, H&M has moved to a new 46,000 sq ft store which has freed up space for Victoria's Secret and Michael Kors, giving the Welsh centre a considerable boost.

Building on success

With our national scale, high footfall and world class service we offer smaller entrants to the market a one-stop shop for building a successful portfolio of stores. Overseas brands like Tiger, Kiko and Smiggle have used intu to enter the UK market and have been able to rapidly expand to become national names. This year we have seen accessories retailer Lovisa follow the footsteps of fellow Australian company Smiggle into the UK, with two of their first five stores at intu centres.

Growing the family

Retailers that have had great success with intu are now bringing in other brands from their stable. New Look has started to roll out its brother brand New Look Men across our portfolio, with seven of its 19 stores across the country in intu centres.

At intu Trafford Centre, Zara's parent Inditex is using its former 18,000 sq ft Zara space to open its first Stradivarius store outside London, and to bring in two of its other successful brands, Pull&Bear and Zara Home.

Going smaller is getting bigger

In the future we will be buying our cars alongside a new pair of shoes and a trip to the cinema, as the trend for car manufacturers to take space at intu takes off. Having successfully tested the shopping centre market with pop-up stores the likes of BMW, SEAT and Tesla are now taking more permanent space for marketing and selling their cars in centre. And it is not just cars – other big box retailers like DFS and Sharps Bedrooms have also opened small format stores in our centres.

At intu Lakeside, site of SEAT's first shopping centre store, the annual footfall of 25 million includes a high proportion of female and affluent shoppers. Recent research shows that over 70 per cent of all major car purchase decisions are made by females – which fits perfectly with intu Lakeside's key demographics.

By shrinking their footprints and making use of instore technology, these retailers find they are able to take advantage of the high footfall and dwell time our shopping centres offer to engage with potential customers in a completely different way.

Customer feedback shows they enjoy visiting the SEAT store far more than a traditional car showroom. "These new concept retail stores and experience centres make the purchase of these large-ticket items a much more enjoyable experience and give customers more great reasons to visit the centre from further and for longer," says Rebecca Ryman, Regional Director of intu.

68% 

of intu Lakeside's 25 million visitors are women

70% 

of car purchase decisions made by women

From trial to long-term

With control of all retail elements of our centres, from the promotional stands on malls to pop-up shops and permanent stores, we can help brands test and roll out new concepts. Cath Kidston tended to trade from concessions within larger stores and had a low profile in shopping centres until we tempted them with space in the mall at intu Lakeside, intu Metrocentre and intu Braehead. These led them to take a trial pop-up store and they have since opened full stores at intu Trafford Centre, intu Metrocentre, intu Watford and intu Derby.

Have a great day!

We want our centres to provide extraordinary experiences for customers that encourage them to come back more often and stay longer. So the focus of our short and medium-term development pipeline is on developing leisure opportunities and tasty places to eat

Skiing, golf, bowling, ice skating, cinemas, curling, swimming with sharks – we have attracted a vast range of leisure experiences to our centres and as a result have a good understanding and experience of what customers want from leisure.

All the research points to customers increasing how much they spend on leisure goods and services while they shop – our Countdown to Christmas research in 2016 revealed Christmas shoppers expected to spend £110 on leisure and dining experiences while shopping.

With Sea Life and Legoland at intu Trafford Centre, Snow Factor at intu Braehead and the new restaurant extension at intu Eldon Square, we know how important a complementary dining and leisure offer is becoming to customers' shopping centre experience.

We are investing around £300 million in three major leisure-led projects over the next three years: the £180 million extension that will cement intu Watford as a day out and evening destination and the £73 million intu Lakeside leisure development where family-orientated leisure, anchored by Nickelodeon, will pull in visitors from a wider catchment. Our £70 million investment at intu Broadmarsh creates new places to eat, shop and play in the heart of Nottingham.

Our ability to do this is no accident – we have a long-term strategy of acquiring adjacent land that allows us to masterplan our centres and release land for leisure at the optimum time in terms of both operator and consumer demand.

As established partners at the heart of many of the communities where we operate we are able to work with local authorities to create schemes that meet local planning strategies and match the aspirations of our customers.



Nickelodeon move in

First we hosted Spongebob, now we are welcoming the whole family: Dora the Explorer, PAW Patrol and the Ninja Turtles will be joining Squarepants at the Nickelodeon-themed family entertainment centre that is set to open at intu Lakeside – the first ever collaboration with a UK shopping centre.

The partnership with the owners and operators of the Nickelodeon brand, Viacom and Parques Reunidos, will provide a new and compelling experience that is forecast to increase dwell time, visit frequency and catchment at intu Lakeside. The Nickelodeon experience will be integrated into the existing centre and anchor the new leisure development.

It's virtually Christmas!

The latest innovation from intu's digital team is the virtual reality Christmas. In December we piloted an intu-branded virtual reality experience at intu Victoria Centre. Customers took five minutes out of their shopping trip to step into an idyllic snow-covered world to decorate their fantasy Christmas tree – and share their creation on social media with family and friends. "This kind of social and interactive experience could become as commonplace for shoppers as stopping for a coffee with friends," says intu's head of digital, Karen Harris.

Best food forward

Eating out is becoming an ever more essential element of a visit to a shopping centre, influencing the shopping destinations of two-thirds of shoppers.[1]

To cater for customers hungry for a mouth-watering food experience we are creating many more terrific spaces to eat and drink in our centres. And wherever we open new restaurant quarters we see higher footfall and dwell time, and an increased dynamism in the local night-time economy.

This investment is good news for retailers: research at intu Metrocentre showed that people who used the restaurants stayed over an hour longer than those just shopping (166 minutes compared to 92), and spent over 30 per cent more (£168 million compared to £129 million)[2].

1hr
extra time spent

30%
higher spend

2016 saw the grand opening of Grey's Quarter at intu Eldon Square – 20 restaurants in the heart of Newcastle – and next year we will start on plans for 12 new restaurants at Manchester Arndale.

1 CBRE: Food & beverage in a shopping centre 2015.
2 CACI 2015 exit survey.

Making the brand count

So much more to it…

Four years since its introduction the intu brand is making a difference in every area of our business – from customer service to operations to asset management. It means we can offer customers and retailers innovative services and experiences they won't find anywhere else and it delivers tangible benefits to our bottom line

The best of intu, online

intu is still the only UK shopping centre landlord to have a multichannel shopping platform that adds even more to the compelling shopping experience we already provide. Already ranked in the top 10 of affiliate websites, intu.co.uk can now offer customers the choice of nearly 500 retailers, from John Lewis and Marks & Spencer to Topshop and River Island.

And whether success is gauged by visits, the size of the subscriber base or retailer sales, intu.co.uk is a winner: 28 million visits, 2.5 million subscribers and £6 million in retail sales this year.

intu.co.uk in numbers

28m
website visits

2.5m
subscribers

480
affiliate retailers

Putting the intu brand in customers' wallets

In 2009 we introduced giftcards, four million of which have been sold, and the intu giftcard business now has an annual turnover of £26 million. An intu credit card was the natural next step.

The credit card, which launched in September 2016, is another example of a groundbreaking product that is unique to intu, thanks to our national reach and strong brand.

We worked with MBNA, the country's largest partnership credit card provider, to develop a card that rewards intu customers for their loyalty. "We're delighted to be the first credit card provider in the UK to collaborate with a market-leading shopping centre owner," says Michael Donald, MBNA's Commercial and Payments Executive. "MBNA has worked with intu to take a completely fresh approach for customers."

The result is the first of a new breed of reward-based credit cards – bursting with benefits and tailored around the things customers have been telling us are important to them. Rewards include intu giftcards for reaching spending thresholds and distinctive and substantial offers from our retailers. Retailers also share in the benefits, with increased sales and the ability to have a continuous conversation with customers.

The credit card provides a new way for intu to interact with our customers and early demand, above forecasts, shows customers understand and trust the intu brand.

This unique online offering means we are able to talk to retailers about both their online and physical store strategies, and offer them a package that works for all areas of their business – something no other shopping centre landlord can do. It is also opening up new opportunities with pureplays – the largest retailer on intu.co.uk is ASOS.

The evidence shows that the growth of online shopping enhances our customers' shopping experience. The physical store is still a vital ingredient in 90 per cent of customer transactions, and footfall is constant or growing in all our centres. And we know that retailers are happy with rising sales, wherever they come from.

Making us a household name

Our 2016 national Christmas advertising campaign is driving our brand recognition (up 3 per cent year-on-year) and helping our footfall – 3.3 per cent above the national average. 'Your kind of shopping', based on our shopper tribe insight of what customers want from their shopping trips, is our largest campaign yet, and appeared on ITV, Sky, radio, YouTube, video on demand and a range of social media. The impact has been impressive – three million watched the ad online, and there were 700,000 completed views on Facebook. All in all our reach was up 67 per cent on last year, but we spent 27 per cent less thanks to our national scale and better use of digital media.

More than just a shopping trip...

Our shopping centres offer huge opportunities to promote established and new brands using events, advertising and promotional stands to draw in the crowds and help blue chip brands flourish. Rather than go via third party brokers we set up intu Experiences in 2013 to use our brand and scale to attract outstanding activities and retain more of the income, and we have built up a £20 million a year business, equivalent to the rent from our eighth largest shopping centre.

Our centres are now the first choice for UK and international brands looking to take their events round the country – they can sign one deal to get access to some of the highest footfall locations in the UK.

From film tie-ups for family blockbusters and sports and gaming promotions to fast-moving consumer and luxury goods, we regularly work with film companies Warner Bros and 20th Century Fox, global businesses like MasterCard, X-box, Coca Cola and Nespresso, and international car brands BMW, SEAT, Infiniti and Jaguar.

This year we signed global toy brand Playmobil to be our first national Christmas grotto partner. Over 80,000 children and their parents visited one of our grottos, and every child received a high-quality Playmobil toy to take home. That's the essence of the intu difference – a lovely experience for customers, a great business opportunity for brands.

Seizing the growth opportunity in Spain

A sunny outlook

With planning for our trailblazing retail resort at intu Costa del Sol still underway, we are focusing on making our existing Spanish centres at intu Asturias and Puerto Venecia even better

intu Asturias: flying high

People are talking about the rebranding of intu Asturias and the improvements we have made to the centre as part of that rebrand, which are popular with retailers and customers alike. One customer wrote: "Beautiful, I love it now. intu Asturias has everything for everyone." Susana Gonzalez, Director of media store Fnac agrees: "We really like intu Asturias' change of image, especially the new public areas. The centre is lighter and brighter and much more inviting for our customers."

And it shows in the KPIs. Net promoter score has risen 25 per cent since 2015 and the ERV by 19 per cent since purchase. The new restaurant terraces, that opened at the beginning of 2016, are especially popular, with both new and existing restaurants reporting great sales including a 31 per cent rise for German-themed restaurant Krunch.

We have been realising our vision for the centre in line with our brand proposition – projects to bring vacant space into use and give the centre the wow factor, new shops and services and events with a difference. We are transforming the lower mall into a lively shopping and activity area, with a supermarket anchor and creating a new entrance to link the neighbouring IKEA store more closely, effectively making it an additional anchor.

We have improved the mix of retailers, and occupancy is now 99 per cent. Our reward is the valuation, which is now €278 million, a 56 per cent increase on the €162 million purchase price.

> "We really like intu Asturias' change of image, especially the new public areas. The centre is lighter and brighter and much more inviting for our customers."

Susana Gonzalez
Director, Fnac

25%
rise in net promoter score since 2015

56%
increase in property value since purchase

Fun in the sun at Puerto Venecia

Our approach of putting the customer at the centre of everything we do is already having a great effect on Puerto Venecia, even before we rebrand. Footfall has increased from 18 million when we first bought it to over 19 million now, putting Puerto Venecia into the top five shopping centres in Spain.

We have worked on improving the retailer mix and as a result have raised occupancy to 97 per cent, as well as providing compelling experiences that are cementing Puerto Venecia as the go-to destination for a larger catchment area. The success of our strategy is reflected in the 11 per cent rise in net promoter score since 2015 to 82 and a rise in the ERV of 5 per cent. Valuation has increased from €451 million to €498 million, a rise of 10 per cent.

We are now on site building a new road to enhance free-flowing access to the centre, and we are working on a number of initiatives to further develop Puerto Venecia as a renowned retail and leisure resort.

19m
footfall – a 6% rise since purchase

11%
rise in net promoter score since 2015

Looking to the future

Our Spanish strategy is to create a business of scale through acquisition and development. Concentrating on the top-10 key catchments, we aim to establish a market-leading position in the country through ownership and management of prime shopping resorts. As well as our two top-10 Spanish centres we have entered an exclusivity agreement to acquire Xanadú shopping centre in Madrid. We also have four development projects: intu Costa del Sol, Valencia, Vigo and Palma.

intu Costa del Sol: a resort like no other

With its lake and array of leisure attractions including open-air skiing, theme park and aquarium, along with hotel, conference centre and wildly creative retail units, intu Costa del Sol is set to redefine the model of shopping centres in Europe.

We are progressing the necessary planning consents – our plans have been successfully incorporated into the general plan for Torremolinos and are now awaiting ratification by the regional government of Andalucia.

In the meantime we have bought adjacent land, increasing our ownership by 32,000 sq m to enable greater integration into the resort's surroundings, and commissioned further detailed design work on the external place-making to ensure that the internal and external spaces flow together.

There has been strong interest from both Spanish retailers and international operators looking for a presence in a destination with an international catchment. We are confident that intu Costa del Sol will provide compelling leisure and guest experiences together with the highest quality retail offer.

At the heart of communities

Changing the game in Newcastle

As a long-term business we take our role in the communities where we operate seriously, because we know that by working with local people we can create real advantages for the local economy that benefit communities and our business

intu Eldon Square

intu centres are integral to the vitality of local towns and cities – nowhere more so than in Newcastle where intu Eldon Square has been at the heart of the city for 40 years.

The Tyne and Wear region was once a thriving manufacturing centre, and now has a growing financial and business sector. intu is contributing to the ongoing regeneration of the local economy through our considerable investment in intu Eldon Square – over the past 10 years £225 million has been invested to create a dynamic and stylish shopping centre. We have just opened a new £25 million restaurant quarter, which is fully let and revving up the city's night-time economy.

Our two centres in the north east, intu Eldon Square and intu Metrocentre, provide 15,000 jobs either directly or through our retailers and suppliers. We have been taking an active role in upskilling the region with Retail Gold, the employability scheme we have been running for over 10 years. Retail Gold ensures local young people have the skills to take advantage of the retail and catering employment opportunities on offer.

In 2016, the gross value added by intu to the regional economy through salaries, taxes, business rates and investment was £556 million – a figure which has grown by over 50 per cent since we first measured it in 2011 (£360 million).

None of this could happen without great partnerships – with our co-owners the local council and with a wide range of community bodies, such as Tyneside Cinema and local charity the Sunshine Fund whose campaign Go Bananas, that we sponsor, brings the city to life every June.

Our contribution to the north east in 2016

15k
local people employed in the region

£50k
community contributions

£43m
business rates paid by intu and our tenants

3%
reduction in energy used

100%
waste diverted from landfill

£225m
invested over 10 years

£556m
value to local economy

Introducing the Green Lab

We are always looking for new ways to save energy and resources. Green Lab is a cross-functional team including asset management, operations and shopfit, CR and brand, that identifies new environmental initiatives and best practice to pilot and roll out. Current trials include:

Food waste reduction

With more people visiting our centres every Saturday than go to Premier League matches, what we do with food waste is high on our priority list. We have a number of food waste projects including dewatering machines at intu Metrocentre and intu Potteries, which separate water from food waste to reduce the amount of food sent to anaerobic digestion. We are also piloting a BioWhale system, which collects waste for recycling into renewable energy in the form of biogas and organic fertiliser.

Packaging

The other major area of waste we look at is packaging. At intu Uxbridge a new pilot is diverting more general waste to an offsite facility so we can better utilise our onsite resources, and at intu Metrocentre an onsite materials recycling facility for plastics and cardboard has opened that gives intu a higher value rebate and reduces the amount going to general waste, the most expensive type to dispose of.

Alternative energy

Solar panels installed at intu Chapelfield are expected to meet 10 per cent of the centre's annual energy needs. The panels will pay for themselves in nine years, giving us up to 21 years of cost-free and carbon-free energy.

21
years of cost-free and carbon-free energy

Everyone is welcome

As our purpose is to make people smile, putting customers at the heart of intu – then making sure we are accessible to everyone is high on our agenda. We look at both the physical environment and staff training to achieve this. All intu-branded centres will be autism-friendly by 2018. Six intu centres are already dementia-friendly and intu Braehead has been pioneering training to help staff understand the needs of blind or impaired vision visitors. The rest of our centres will be following suit.

Our business model

Our business model has a single purpose – to create shopping centres that are loved by customers and where retailers flourish, which builds a long-term business that delivers value for our shareholders and stakeholders

Our assets and resources

We have unique assets and resources that provide the foundations for our business

Our centres
National coverage of prime retail and leisure destinations visited by more than half the UK's population each year

See top properties on page 4

Our employees
Professional, motivated and empowered teams that are specialists in their fields

See people on page 55

Our brand
Nationwide shopping centre brand focused on enriching the customer experience both in centre and online

See the intu difference on pages 13 to 27

Our relationships
Enduring, creative and collaborative relationships with retailers, customers, employees, partners and communities

See relationships on page 30

Our financial strength
Robust capital structure provides capacity to deliver our objectives from a range of funding sources

See financial review on page 46

What we do

We apply the intu difference – our specialist knowledge, expertise and market insight – to create the most popular shopping centres by:

Delivering compelling shopping experiences
Our insight and management of centres attract customers more often, for longer and from further away by offering the right mix of retail, leisure and catering alongside our distinctive brand proposition

Helping retailers flourish
Our scale, flexibility, high-footfall locations and strong brand give retailers the confidence that they will trade successfully with intu, which drives rental income and capital growth

See how we understand our markets on page 16

The value we add

We deliver sustainable value for our shareholders and stakeholders

Our shareholders
Strong stable income and capital growth

3.4%
total financial return

Our customers
Compelling experiences

70
average net promoter score

Our communities
Significant economic contribution

£4.9bn
Gross value added

Our retailers
Environments that help retailers flourish

+1.3%
growth in footfall

Our people
Motivated and empowered

3%
rise in engagement index since 2013

Our environment
Operational and environmental efficiency

47%
reduction in carbon intensity since 2010

How our strategy helps us create value

We focus on our strategic objectives to create a competitive advantage and deliver long-term value

See the strategy overview for more details on how we achieve this on pages 32 and 33

Underpinned by our culture

Behaving responsibly

See more on corporate responsibility on pages 52 to 54

Being a good employer

See more on our people on pages 55 to 57

Living our values

See more on our culture on page 56

Our business model
Relationships

People are what make us tick. Building and maintaining effective relationships is fundamental to our continued success

Customers

Why they matter

Our customers are at the heart of everything we do. We need to understand their ever-changing needs to ensure that our centres continually evolve to meet their requirements. Get this right and we attract them from further, more often and for longer.

How we have engaged in 2016

- Tell intu customer feedback programme had 20,000 responses this year
- shopper view, a research panel of 1,200 customers, participated in 29 projects
- focus groups to support development of shopper tribes insight
- public consultation for major projects in the development pipeline

See our customer insight on page 16

Retailers

Strong relationships with our retailers, both existing and new, is fundamental. We want to make sure our centres are the places where their stores flourish by providing them with a high footfall of happy shoppers. This enhances the customer experience and ultimately delivers rental income.

- shared customer research with retailers helping them to optimise their position across our portfolio
- attended and hosted a wide range of industry events
- hosted merchants' association meetings at each centre throughout the year
- established a formal customer relationship management programme, allocating key account managers
- carried out new research into the dynamics of international retailers investing in the UK

See our retailer insight on page 17

Investors

We aim to deliver long-term value to our investors through strong, stable income streams and capital appreciation. In turn this ensures we always have the ability to move the business forward. Understanding the requirements and concerns of both existing and potential investors is key to this.

- conducted 380 meetings with investment institutions
- hosted regular investor visits to our centres to show how we are meeting our objectives
- engaged in a wide range of Environmental, Social and Governance indices with high performance year-on-year
- attended investor conferences in the UK and internationally

See relations with shareholders on page 67

For more information on when we engage our stakeholders to meet our strategic objectives see pages 32 and 33

Suppliers

We rely on our suppliers to help our business run smoothly, from day-to-day operations through to the construction of major developments. It is essential we have open and transparent relationships and ensure our suppliers maintain the same high standards we set ourselves.

- invited new suppliers to attend brand immersion sessions
- held pre-construction meetings to communicate intu standards and expectations
- recruited a new supply chain manager and coordinator

Read more in our 2016 CR report

Local and national government

Enduring relationships with local authorities, town centre management and MPs is vital to our success. Our centres are at the heart of many of the towns and cities where we operate and in which we play a vital community role. In some the local authority is our investment partner.

- hosted our annual constituency MPs' parliamentary dinner
- had 31 meetings with MPs in centre or at Westminster
- provided submissions to government consultations on relevant policy areas
- actively participated in eight Business Improvement Districts ('BID's) and town centre partnerships
- worked with local authorities to progress our development pipeline

Read more in our 2016 CR report

Our people

Our employees are critical to the success of the business. In centres, they are the face of intu and delivering our brand promise is central to making both customers and retailers happy. Employee engagement is key to a motivated workforce.

- conducted our annual employee satisfaction survey
- engaged with our employees using 'Toolbox' talks and employee consultation forums
- published a new staff magazine, Chorus, to supplement the intranet
- rolled out our national apprenticeship programme
- evolved our reward and recognition programme Win Your Dream, that recognises outstanding demonstration of the intu brand promise

See our people on page 55

Strategy overview

Our four strategic objectives are the means by which the business model is put into action effectively

1 Optimising asset performance

We are achieving this by

- making our locations the most desirable for shopping and socialising
- astutely managing the assets to take advantage of new trends and occupiers
- building long-term partnerships with local authorities and communities

Progress in 2016

- increased the proportion of catering in our centres with the opening of new restaurant developments at intu Metrocentre and intu Eldon Square
- upsized key retailers, such as Zara and New Look, and introduced new brands to our customers including Lovisa
- delivered growth in like-for-like net rental income

Priorities in 2017

- continue to introduce new retailers to our centres to enhance the tenant mix. This could include online brands looking for a store presence
- ensure we evolve the correct mix of retail, restaurants and leisure to meet changing customer needs
- continue to deliver growth in like-for-like net rental income

KPIs we use to measure our success

- optimising asset performance encompasses our whole business and as such is measured by all KPIs

Managing risk

- property market
- operations
- brand

Key stakeholders we engage

Customers, retailers, suppliers

2 Delivering UK developments

We are achieving this by

- delivering the required planning approvals
- generating the required level of demand to commence a project
- having the required funding to progress the pipeline

Progress in 2016

- began construction of the major extension at intu Watford
- signed Nickelodeon to anchor the leisure extension at intu Lakeside
- commenced the construction of a flagship store for Next at intu Metrocentre, amalgamating 12 units
- achieved planning approval for a retail and leisure extension at intu Braehead

Priorities in 2017

- ensure the extension at intu Watford remains on target
- complete ongoing hotel development at intu Lakeside and commence restaurant development at Manchester Arndale
- begin the redevelopment of intu Broadmarsh, the leisure extension at intu Lakeside and the enclosure and extension of Barton Square at intu Trafford Centre
- resolve planning issues at intu Milton Keynes

KPIs we use to measure our success

- shareholder return
- total financial return
- prime property assets
- GVA

Managing risk

- property market
- financing
- developments and acquisitions
- brand

Key stakeholders we engage

Customers, investors, suppliers, local and national government

For more information on KPIs see pages 34 and 35

For more information on risk see pages 36 to 39

3 Making the brand count

We are achieving this by
— offering a distinctive customer signature experience in all our centres
— having a multichannel offering for retailers and customers
— delivering continued world class service to retailers and shoppers

Progress in 2016
— increased retailers trading on intu.co.uk to over 480, increasing sales generated through the website to £6 million
— secured national brand sponsorship for the Christmas grottos with Playmobil
— ensured high levels of customer service, with consistently strong net promoter scores

Priorities in 2017
— build on the success of our national sponsorships and bring in new brands
— further the reputation of intu.co.uk as a premium content publisher and shopping platform
— deliver new signature experiences across all centres
— increase revenues from in centre and online initiatives

KPIs we use to measure our success
— footfall
— like-for-like net rental income
— shareholder return
— income performance
— GVA

Managing risk
— property market
— operations
— brand

Key stakeholders we engage
Customers, retailers, our people

4 Seizing the growth opportunity in Spain

We are achieving this by
— building a platform of the best centres in Spain through acquisition and development
— delivering the same brand experiences in Spain as in the UK
— moving the development options forward to a point where we can consider exercising them and commencing development

Progress in 2016
— improved operating metrics at both centres
— delivered improved occupancy on the retail park at Puerto Venecia
— achieved local planning approval and completed land assembly for intu Costa del Sol

Priorities in 2017
— gain final regional planning approval and required level of pre-lets to commence the intu Costa del Sol development
— complete development of underutilised space at intu Asturias
— increase the exposure of the intu brand in Spain

KPIs we use to measure our success
— footfall
— like-for-like net rental income
— shareholder return
— total financial return
— income performance
— prime property assets

Managing risk
— property market
— financing
— developments and acquisitions
— brand

Key stakeholders we engage
Customers, retailers, our people, local and national government

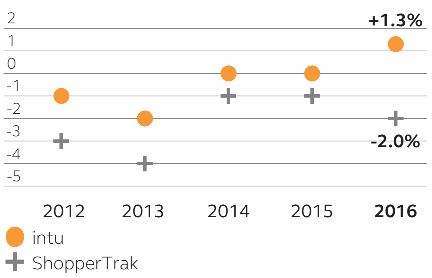
Key performance indicators

Key to strategic objectives

1. Optimising asset performance
2. Delivering UK developments
3. Making the brand count
4. Seizing the growth opportunity in Spain

We measure progress against strategic objectives using the following financial and non-financial performance measures

Footfall (%)



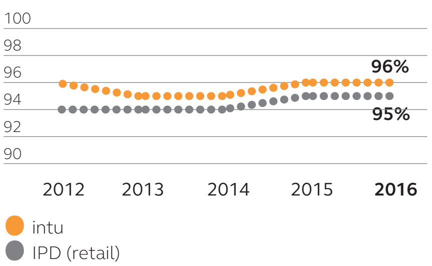
Why is this important?
Footfall is an important measure of a centre's popularity with customers. Retailers use this measure as a key part of their decision-making process on where to locate their stores.

How is this measured?
Footfall numbers across intu's centres are captured using a combination of person or car-counting cameras located at specific entrance and exit points within the centre.

How have we performed?
Footfall increased in the year, driven by our retail, catering and leisure offerings, together with our customer-focused events, and outperformed the ShopperTrak measure of UK national retail footfall.

Strategic objective
1 3 4

Occupancy (%)



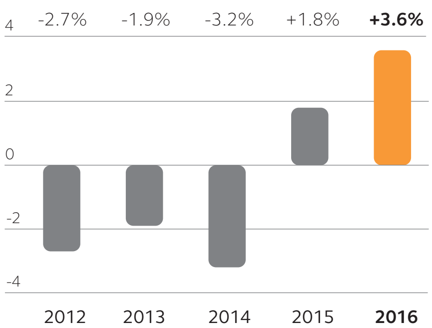
Why is this important?
Attracting and retaining the right mix of retailers and catering and leisure operators will enhance our centres' appeal and trading environment.

How is this measured?
The passing rent of let and under-offer units expressed as a percentage of the passing rent of let and under-offer units plus the ERV of unlet units.

How have we performed?
Occupancy increased slightly during the year to 96 per cent and remains above the IPD (retail) monthly index benchmark figure.

Strategic objective
1

Like-for-like net rental income (%)



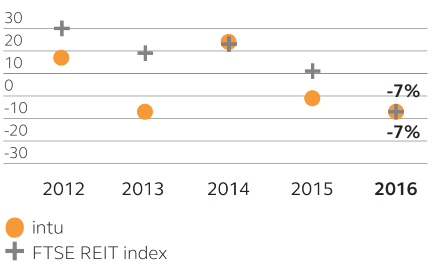
Why is this important?
Measures the organic growth in income generated from our centres in the year.

How is this measured?
Removes from the year-on-year movement in net rental income from the impact of acquisitions, developments and disposals.

How have we performed?
A strong like-for-like net rental income performance in 2016, reflecting better rental values from strong retailer demand, improved occupancy and development units coming back on stream.

Strategic objective
1 3 4

Shareholder return (%)



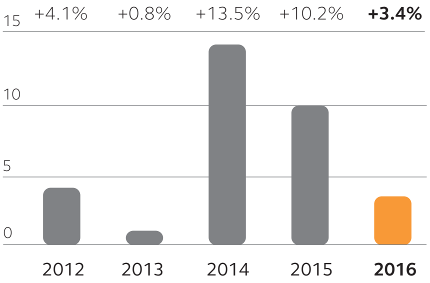
Why is this important?
Combines share price movement and dividends to produce a direct measure of the change in shareholder value in the year.

How is this measured?
Uses the movement in share price during the year plus dividends paid in the year.

How have we performed?
The Group performed in line with the REIT sector which was negatively impacted by the increase in stamp duty and also uncertainties raised by the result of the UK's EU referendum.

Strategic objective
1 2 3 4

Total financial return (%)



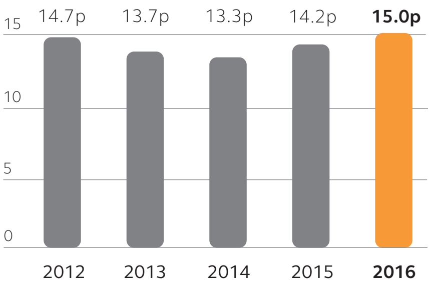
Why is this important?
This is a measure of the movement in the underlying value of assets and liabilities underpinning the value of a share plus the dividend paid to shareholders.

How is this measured?
The movement in adjusted net asset value per share plus dividends paid in the year as a percentage of the opening adjusted net asset value per share.

How have we performed?
With the Group's adjusted net asset value remaining stable, despite an uncertain market, total financial return in the year largely comprises the dividend paid in the year.

Strategic objective
1
2
4

Underlying earnings per share (pence)



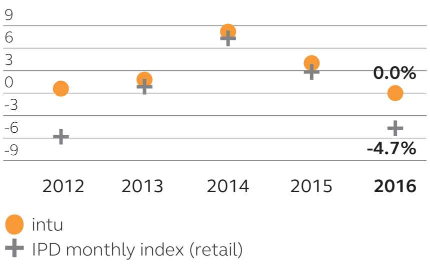
Why is this important?
Underlying earnings per share is based on the underlying income generated in the year which gives an indication of the extent to which dividend payments are supported by underlying operations.

How is this measured?
Underlying earnings exclude property and derivative valuation movements, exceptional items and related tax.

How have we performed?
Underlying earnings per share increased during the year, reflecting the strong like-for-like net rental income movement, together with the positive impact of the acquisition of the remaining 50 per cent of intu Merry Hill.

Strategic objective
1
3
4

Prime property assets (%)



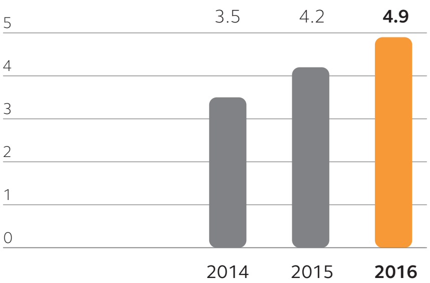
Why is this important?
Measures the capital return on the Group's property assets and compares this with the IPD index, a recognised industry benchmark.

How is this measured?
The valuation gain or loss in the year expressed as a percentage of the book value pre-valuation assessed on a like-for-like basis for the Group's investment property.

How have we performed?
The Group outperformed the IPD benchmark for another year reflecting the overall quality of the Group's assets and the active asset management and development initiatives undertaken.

Strategic objective
1
2
4

GVA of community investment (£bn)



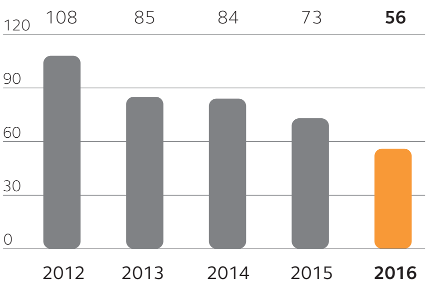
Why is this important?
Shopping centres create wealth and employment for their local communities. Gross value added, or GVA, measures the economic contribution of intu to local communities.

How is this measured?
GVA is calculated on a range of different activities and types of economic output of our UK assets, including: investment expenditure, intu operational jobs, tenant jobs and tax contributions. This data is independently assured.

How have we performed?
GVA has increased by 17 per cent reflecting increases in employment by intu and at intu centres.

Strategic objective
1
2
3

Greenhouse gas emissions intensity (CO_2e kg/m^2)



Why is this important?
Measures our operational efficiency and performance of our existing assets. It also measures performance against our carbon intensity reduction target of 50 per cent by 2020 against the 2010 baseline.

How is this measured?
Greenhouse gas equivalents are calculated to work out the greenhouse gas intensity of the energy we use. These include direct and indirect emissions of our directly-managed UK centres.

How have we performed?
Since 2010 we have reduced emissions by 47 per cent, putting us ahead of our target of a 50 per cent reduction by 2020.

Strategic objective
1

Focus on risk

The effective assessment and management of risk is key to the delivery of the Group's strategy

The effective assessment and management of risk is key to the delivery of the Group's strategy. intu's Board has responsibility for establishing the Group's appetite for risk based on the balance of potential risks and returns in achieving its strategic objectives, and has overall responsibility for identifying and managing risk. Risk management is embedded in our culture, with all employees aware of the role they play.

An independent review of the maturity of the intu risk processes was performed at the end of 2015. intu's risk management was benchmarked as equivalent to or better than that of peers in property and retail. Risk processes were found to be sound and the business was found to be engaged in managing risk. The key recommendations of the review have been implemented during 2016.

Risk appetite

The Group's risk appetite remained broadly unchanged in 2016 and is set in the context of our focus on one sector – prime shopping centres. As experts in this sector we are able to mitigate the risk involved in growing the business by acquisition, development and our active asset management strategy. This focus on our core strengths is balanced by a more cautious approach to risk in other areas.

In financing we set a target Group debt to assets ratio of 40-50 per cent and require interest cover of more than 160 per cent, giving us significant headroom against our loan covenants to ensure that we are in a strong position in the event of any substantial falls in property values. We continue to look to minimise interest rate risk with a policy of hedging at least 75 per cent of the exposure and seek to refinance debt early to reduce risk. This does not, however, prevent us looking at innovative debt structures that provide the Group with diverse funding options.

Risk management framework

Monitoring and reporting responsibility

Implementation and compliance responsibility

Board	— ensure that risk is managed across the business — define the Group's appetite for risk — with the Executive Committee, assess the Group's principal risks
Audit Committee	— monitor and review the effectiveness of the Group's risk management system — monitor and review the Group's overall approach to monitoring areas of risk
Risk and internal audit	— lead the development of risk management — collate outputs of risk management exercises including risk registers for presentation to Audit Committee, Executive Committee and Board — identify emerging risks across the business
Executive Committee	— input into Board's process for setting risk appetite — implement strategy in line with the Group's risk appetite — lead operational management's approach to risk — with the Board, assess the Group's principal risks
Operational management	— create an environment where risk management is embraced and the responsibility of risk management is accepted by all employees — implement and maintain risk management processes — produce and maintain risk registers including identification of risks, mitigating controls and actions required
Employees	— active in the day-to-day management of risk

Risk management process

intu's Board has overall responsibility for risk management. The effectiveness of the risk management system is monitored and reviewed by the Audit Committee and through periodic external review. Our ongoing assessment of risk is underpinned by a formal risk review process conducted for each area and every level of the business including each centre, each department or committee, the executive team and the Board. These reviews identify risks and assess them for impact, likelihood, controllability and stability. An assessment is also made of how quickly the risks would impact and how long they would impact for.

The risk registers created through this process are subject to at least an annual review, facilitated by the risk and internal audit team. Operational management is responsible for managing the risks and for updating the risk registers. The Audit Committee oversees the risk management process, receiving risk updates at least four times a year.

Principal risks and uncertainties

Fully integrated and thorough risk analysis underpins our ability to achieve strategic objectives. The Board has undertaken a robust assessment of the principal risks we face, including those that would impact the business model, future performance, solvency or liquidity.

We have identified principal risks and uncertainties under five key headings: property market; operations; financing; developments and acquisitions; and brand. These are discussed in detail on the following pages. A principal risk is one which has the potential to significantly affect our strategic objectives, financial position or future performance and includes both internal and external factors. We monitor movements in likelihood and severity such that the risks are appropriately mitigated in line with the Group's risk appetite.

The risk profile for 2016 has remained broadly in line with 2015 with no significant new risks identified nor substantial changes in existing risks. The main change from 2015 is the increased uncertainty in the UK economy and real estate markets following the EU referendum vote. Prior to the vote we reviewed the potential impacts in the context of our long-term funding, long-term lease structures and flexibility to adjust uncommitted investment. The period of uncertainty is likely to increase financial market volatility and may affect sentiment in the investment and occupier markets in which we operate, the range of funding sources available to us and broader consumer confidence and expenditure.

Risk profile

1 **Property market** – macro-economic
2 **Property market** – retail environment
3 **Operations** – health and safety
4 **Operations** – cybersecurity
5 **Operations** – terrorism
6 **Financing** – availability of funds
7 **Developments and acquisitions** – developments
8 **Developments and acquisitions** – acquisitions
9 **Brand** – integrity of the brand

Principal risks and uncertainties

Risk and impact	Mitigation	Change	2016 commentary	Strategic objectives affected
Property market				1 2 3 4
1 **Macro-economic** Weakness in the macro-economic environment could undermine rental income levels and property values, reducing return on investment and covenant headroom	— focus on prime assets and upgrading assets — covenant headroom monitored and stress-tested — make representation on key policies, for example business rates	+	Likelihood of macro-economic weakness has increased with the outcome of the UK's EU referendum vote. There is increased uncertainty in relation to many factors that impact the property investment and occupier markets which has increased investor caution — like-for-like property values unchanged in the year — substantial covenant headroom — no significant near-term debt maturities and average unexpired term of 7.1 years — long-term lease structures with average unexpired term of 7.7 years	
2 **Retail environment** Failure to react to changes in the retail environment could undermine intu's ability to attract customers and tenants	— active management of tenant mix — regular monitoring of tenant strength and diversity — upgrading assets to meet demand, for example, increased leisure offering — Tell intu customer feedback programme helps identify changes in customer preferences — work closely with retailers — digital strategy that embraces technology and digital customer engagement. This enables intu to engage in and support multichannel retailing, and to take the opportunities offered by ecommerce	=	Likelihood and severity of potential impact are unchanged in 2016 with intu's strategy continuing to deliver strong footfall numbers and occupancy — significant progress on planning and pre-letting of near-term pipeline with a focus on leisure and catering — digital investment to improve relevance as shopping habits change — occupancy remains strong at 96 per cent — footfall growth which continues to be ahead of benchmark	
Operations				1 3
3 **Health and safety** Accidents or system failure leading to financial and/or reputational loss	— strong business process and procedures, including compliance with OHSAS 18001, supported by regular training and exercises — annual audits of operational standards carried out internally and by external consultants — culture of visitor, staff and contractor safety — crisis management and business continuity plans in place and tested — retailer liaison and briefings — appropriate levels of insurance — staff succession planning and development in place to ensure continued delivery of world class service — health and safety managers or coordinators in all centres	=	Likelihood of potential impact has not changed significantly during 2016, however severity impacted by new enforcement structure — maintenance of OHSAS 18001 certification, demonstrating consistent health and safety management process and procedures across the portfolio — work continuing towards achieving ISO 9001, 14001 and 55001 accreditation	
4 **Cybersecurity** Loss of data and information or failure of key systems resulting in financial and/or reputational loss	— data and cybersecurity strategies — regular testing programme and cyber scenario exercise and benchmarking — appropriate levels of insurance — crisis management and business continuity plans in place and tested — data committee — monitoring of regulatory environment and best practice	=	Likelihood slightly increased with a number of recent high profile hacks, but severity of potential impact has reduced by significant development of tools and controls in 2016 — ongoing Group-wide cybersecurity project with investment in tools, consultancy and staff to mitigate impact of threats from evolving cybersecurity landscape — external benchmarking of cybersecurity landscape	
5 **Terrorism** Terrorist incident at an intu centre or another major shopping centre resulting in loss of consumer confidence with consequent impact on lettings and rental growth	— strong business process and procedures, supported by regular training and exercises, designed to adapt and respond to changes in risk levels — annual audits of operational standards carried out internally and by external agencies — culture of visitor, staff and contractor safety — crisis management and business continuity plans in place and tested — retailer liaison and briefings — appropriate levels of insurance — strong relationships and frequent liaison with police, NaCTSO and other agencies — NaCTSO approved to train staff in counter-terrorism awareness programme	=	Overall likelihood and severity of potential impact unchanged — national threat level remains at Severe — major scenario exercises held at three intu shopping centres with involvement of multiple external agencies — operating procedures in place for the introduction of further security measures if required	

Risk and impact	Mitigation	Change	2016 commentary	Strategic objectives affected
Financing				2, 4
6 Availability of funds Reduced availability of funds could limit liquidity, leading to restriction of investing and operating activities and/or increase in funding cost	— funding strategy regularly reported to the Board with current and projected funding position — effective treasury management aimed at balancing long debt maturity profile and diversification of sources of finance — consideration of financing plans including potential for recycling of capital before commitment to transactions and developments — strong relationships with lenders, shareholders and partners — focus on prime assets	Increased	Macro-economic events during 2016 and the uncertainty caused by them mean the increased risk of reduced availability remains, however, severity of potential impact unchanged from 2015. Regular refinancing activity continuing to evidence the availability of funding — new £500 million loan secured on intu Merry Hill — disposal of intu Bromley for £82 million — new £375 million convertible debt issue — sale of Equity One for £202 million	
Developments and acquisitions				2, 4
7 Developments Developments fail to create shareholder value	— Capital Projects Committee reviews detailed appraisals before and monitors progress during significant projects — fixed price construction contracts for developments agreed with clear apportionment of risk — significant levels of pre-lets exchanged prior to scheme development	Remained the same	Likelihood and severity of potential impact have remained unchanged in 2016 as the Group has progressed work on its development pipeline — signed fixed price contract for the substantial portion of the £180 million extension of intu Watford — completed fully-let restaurant projects at intu Metrocentre and intu Eldon Square — detailed appraisal work and significant pre-lets ahead of starting major development projects	
8 Acquisitions Acquisitions fail to create shareholder value	— research and third party due diligence undertaken for transactions — local partner and advisors in Spain with specialist market knowledge — where appropriate, investment risk reduced through financing and joint venture investments	Remained the same	Likelihood and severity of potential impact have remained unchanged — detailed understanding of intu Merry Hill prior to acquisition of remaining 50 per cent as existing part-owner and asset manager	
Brand				1, 2, 3, 4
9 Integrity of the brand The integrity of the brand is damaged leading to financial and/or reputational loss	— intellectual property protection — strong guidelines for use of brand — strong underlying operational controls and crisis management procedures — ongoing training programme and reward and recognition schemes designed to embed brand values and culture throughout the organisation — traditional and digital media monitoring and analysis — Tell intu and shopper view customer feedback programmes	Remained the same	Likelihood and severity of potential impact unchanged in 2016 as the brand became more established in the UK and Spain — continuing media interest in intu and our opinions — strengthened team following establishment of Madrid office has increased in-house capacity — net promoter score consistent with 2015	

Key to strategic objectives

1 Optimising asset performance
2 Delivering UK developments
3 Making the brand count
4 Seizing the growth opportunity in Spain

Change in level of risk

+ Increased
= Remained the same

Operating review

Our operating review analyses how we have performed in the year and sets out our strategy

UK investment market

The uncertainty from the outcome of the EU referendum vote has intensified investor caution, but has led to a flight to quality. This is illustrated by prime yields remaining stable, whereas the yield on secondary assets is starting to drift outwards, principally due to lack of demand.

Our top-quality prime shopping centres remain attractive to global investors as demonstrated by our disposal of intu Bromley, with many investors generally attracted to the UK's well regulated, liquid and transparent market.

Development of prime retail property remains low, resulting in limited supply for occupiers and potential upward pressure on rental values in destination centres such as ours.

Optimising asset performance

We focus on creating vibrant environments where shoppers want to be and retailers need to be. This increases the value of our centres and provides strong, stable income streams and positive operating metrics. These elements ensure we deliver attractive long-term total property returns.

Valuation

The valuation of our like-for-like investment property portfolio was unchanged, with a small deficit of £4.3 million. This was significantly ahead of the IPD monthly retail index which reported a 4.7 per cent decrease. The outcome represents the seventh consecutive year of outperformance of the IPD index.

Excluding the negative impact of the 1 per cent increase in the year in stamp duty, from 4 per cent to 5 per cent, our like-for-like portfolio would have increased in value by around 1 per cent. This reflects the improvements in the retail and leisure mix along with the tightening supply of vacant units driving increases in expected future rental values. The strong performance is especially pronounced in centres where we have improved the mix of catering, retail and leisure and now have minimal vacancy, such as intu Chapelfield and intu Eldon Square.

In addition to the like-for-like deficit, we had a £60.8 million reduction in the value of redevelopments, predominantly the Charter Place extension to intu Watford. We expect this reduction to reverse as the development progresses, particularly once intu Watford and Charter Place are valued as a single asset rather than separately, as at present. The valuation of intu Watford does not, at this point in the development of Charter Place, reflect any of the anticipated positive impact of the extension on rental values of the existing centre.

The valuation of our portfolio is now spread over three valuers, Cushman & Wakefield, CBRE and Knight Frank, following a tender exercise in 2016. This has resulted in one-third of our assets being valued by a different firm of valuers. Some of the figures in the table below are therefore not fully comparable as there are differences in approach between the firms in how they look at rental value and equivalent yield components of a valuation.

On a like-for-like basis where we had no change in valuer, ERV increased by 1.2 per cent in the year (overall Group unchanged), outperforming the IPD index which indicated a 0.8 per cent increase.

The weighted average nominal equivalent yield at 31 December 2016 was 5.02 per cent, a reduction of 12 basis points in the year, reflecting our ongoing asset management initiatives, reducing vacancy and long average unexpired lease terms. Based on the gross portfolio value, the net initial yield 'topped-up' for the expiry of rent free periods was 4.45 per cent.

Valuation metrics

	Full year 2016	Second half 2016	First half 2016
Group revaluation surplus/(deficit) (like-for-like)	**0.0%**	-0.6%	+0.6%
IPD[1] capital growth	**-4.7%**	-3.5%	-1.1%
Group weighted average nominal equivalent yield	**5.02%**	5.02%	5.01%
Change in Group nominal equivalent yield	**-12bp**	+1bp	-13bp
IPD[1] equivalent yield shift	**+29bp**	+25bp	+4bp
Group 'topped-up' initial yield (EPRA)	**4.45%**	4.45%	4.49%
Group change in like-for-like ERV	**0.0%**	+0.1%	-0.1%
IPD[1] change in rental value index	**+0.8%**	+0.3%	+0.5%

1 IPD monthly index, retail.

UK consumer market

Whilst the majority of economic indicators relating to the UK consumer remain strong, uncertainty has increased because of the unknown impact of the EU referendum vote.

Unemployment remains at record low levels, and with wage growth still rising faster than inflation shoppers have increased levels of disposable income. The Asda benchmark index shows their measure of household income 5 per cent higher than the previous year.

Retail spending, as shown by the British Retail Consortium like-for-like non-food retail sales, continues to show an average growth rate of around 1 per cent for 2016 year-on-year.

Consumer confidence, as measured by GfK, shows consumers remain relatively confident about their personal finance situation, but confidence in the general economic situation for the UK has reduced since the EU referendum vote.

Retailer administrations in 2016 were around 50 per cent of the 10-year average, according to the Centre for Retail Research, but higher than 2015, with BHS being the largest casualty. This was the only significant failure in the intu portfolio and accounted for around 1 per cent of our rent roll.

Rising footfall at intu centres

Our compelling mix of retail, catering and leisure is key to the increased footfall of 2016

Revaluation surplus/(deficit) components

	Market value		Like-for-like	
	31 December 2016 £m	31 December 2015 £m	**Surplus/ (deficit) £m**	**Surplus/ (deficit) %**
intu Lakeside	**1,375.0**	1,334.0	**28.6**	**2**
intu Chapelfield	**296.3**	272.5	**23.6**	**9**
Puerto Venecia, Zaragoza	**212.5**	166.1	**19.3**	**10**
intu Asturias	**118.5**	89.1	**14.3**	**14**
intu Eldon Square	**317.7**	299.7	**10.0**	**3**
intu Potteries	**169.0**	175.1	**(9.3)**	**(5)**
St David's, Cardiff	**353.3**	368.6	**(14.3)**	**(4)**
intu Metrocentre	**945.2**	952.3	**(15.3)**	**(2)**
intu Braehead	**546.2**	585.5	**(40.8)**	**(7)**
Other like-for-like	**5,047.2**	5,041.0	**(20.4)**	**–**
Total like-for-like	**9,380.9**	9,283.9	**(4.3)**	**–**
intu Merry Hill acquisition (50%)	**444.6**	–	**3.3**	**n/a**
Other additions	**6.0**	–	**(0.3)**	**n/a**
intu Bromley disposal	**–**	174.1	**(1.7)**	**n/a**
Redevelopments	**153.2**	144.4	**(60.8)**	**n/a**
Total investment and development property	**9,984.7**	9,602.4	**(63.8)**	

The table above shows the main components of the £63.8 million revaluation deficit:

- intu Lakeside: completion of new leases for those that expired in 2015 adds certainty to the income streams going forward as well as providing evidence for growth in future rental levels
- intu Chapelfield: strong demand linked with limited vacant units and improvements to the tenant mix drive rental values and have further enhanced the centre's prime status in its catchment
- Puerto Venecia: improved occupancy and rental growth in a buoyant Spanish market
- intu Asturias: limited vacant space and strong operating metrics increase rental growth potential
- intu Eldon Square: benefit of improved leisure, with Grey's Quarter opening fully let, along with improved tenant mix and minimal vacancy have a favourable impact on the attractiveness of this centre
- intu Potteries: evidence from the sale of similar assets in early 2016 has led to an adjustment in the yield profile on this centre
- St David's, Cardiff: impact of increased car park business rates and increase in stamp duty
- intu Metrocentre: impact of increase in stamp duty, with no real increase in rental values
- intu Braehead: continuation of the less buoyant occupier and investment market in Scotland has resulted in a reduction in value of this centre
- intu Merry Hill: we acquired the remaining 50 per cent in 2016, which is non like-for-like. The surplus on the centre as a whole benefited from the positive letting activity in the year
- intu Bromley: book value movements from head lease and incentive accounting
- redevelopments: since December 2015, the previously income-producing properties of Charter Place have been demolished and the site is now valued on a risk-adjusted cash flow model leading to a deficit which we expect to reverse as the development progresses

Occupancy is 96.0 per cent, a small increase on December 2015, with the impact of our proactive asset management and improved tenant demand offset by the closure of the BHS stores.

Operating review continued

Like-for-like net rental income growth

+3.6%

Footfall growth

+1.3%

ShopperTrak benchmark -2.0%

LED-ing the way

An £8 million investment in LED lighting is key to achieving our target of 50 per cent reduction in CO_2 intensity between 2010 and 2020. We have installed 100,000 LED lightbulbs across the business since 2011. These paid for themselves within three years as well as saving tenants £2.5 million in annual energy costs and reducing lamp replacement costs. The energy savings have been just as dramatic: 23 million kWh of energy saved in the first three years, cutting CO_2 by around 16,000 tonnes each year – a 47 per cent reduction in the building intensity of our GHG emissions.

Read more in our 2016 CR report

Operating metrics

	2016	2015
Occupancy	**96.0%**	95.8%
– of which, occupied by tenants trading in administration	**0.5%**	0.5%
Like-for-like change in net rental income	**+3.6%**	+1.8%
Leasing activity – number, new rent	**214, £38m**	261, £46m
– new rent relative to previous passing rent	**+4%**	+10%
Footfall	**+1.3%**	+0.3%
Retailer sales (like-for-like centres)	**+0.2%**	+2.1%
Rent to estimated sales (exc. anchors and major space users)	**12.2%**	12.5%

Like-for-like net rental income was up 3.6 per cent against 2015 due to the better rental values from strong retailer demand, development units coming back on stream and improved occupancy partially offset by the closure of the BHS stores in August 2016. The outturn was in line with our guidance with the second half of the year matching the strong comparative for 2015 following an outstanding first half-year performance.

We agreed 214 long-term leases in the year, with retailers continuing to focus on increasing their space in prime, high-footfall retail destinations. This amounted to £38 million annual rent, at an average of 4 per cent above previous passing rent (like-for-like units) and in line with valuers' assumptions. Significant activity in the year includes:

— new international brands continuing to expand in the UK. Australian accessories retailer Lovisa signed two of its first five UK leases at intu centres and Victoria's Secret continued its roll out at St David's, Cardiff
— premium fashion and lifestyle brands expanding with Joules, Jack Wills, Cath Kidston, Calvin Klein, Kuoni and Nespresso all taking space in the year
— established fashion retailers upsizing and rolling out more of their brands. New Look are increasing their space at intu Trafford Centre as well as continuing the roll out of New Look Men with their largest store to date to open at intu Metrocentre. Inditex have opened a new larger Zara store at intu Trafford Centre as well as introducing Stradivarius, Pull&Bear and Zara Home and at intu Merry Hill, River Island and JD Sports have both upsized

225 shops opened or refitted in our UK centres in 2016, around 8 per cent of our 2,700 units. Tenants have invested £96 million in these stores, a significant demonstration of their commitment to our centres.

We settled 297 rent reviews in the year for new rents totalling £60 million, an average uplift of 8 per cent on the previous rents.

Our footfall increased by 1.3 per cent in the year as we delivered a compelling mix of retail, catering and leisure along with using the intu brand to promote well-targeted customer-focused events, such as a virtual reality booth at intu Victoria Centre and a beach at intu Lakeside. This compares with the ShopperTrak measure of UK national retail footfall which fell by 2.0 per cent in the year.

Estimated retailer sales in our centres were up 0.2 per cent in 2016, impacted by the closure of BHS. Excluding this, the increase would be 0.5 per cent and similar to the British Retail Consortium trends. The ratio of rents to estimated sales for standard units reduced slightly in the year to 12.2 per cent.

The difference between annual property income of £467 million and ERV of £543 million represents £31 million from vacant units, reversion from lease expiry and rent reviews of £40 million and the impact of rents subject to a rent free period of £27 million less non-recoverable costs of £22 million. Of the £40 million reversion, £32 million, 7 per cent, is realisable in the next 10 years.

The weighted average unexpired lease term is 7.7 years (31 December 2015: 7.9 years).

Funding

We will fund our near-term pipeline from cash and available facilities and from recycling capital to deliver superior returns. Cash and available facilities at 31 December 2016 were £922 million.

Further recycling potential lies in the introduction of partners into some of our centres. In addition, to fund the future opportunities we expect to raise finance on near-term projects as they complete.

Delivering UK developments

In 2016 we spent £93 million on capital expenditure including £37 million on the extension of intu Watford and £13 million on the completed casual dining developments.

Looking ahead, we are progressing our near-term pipeline in the UK of £655 million which, along with a further £1.2 billion of opportunities over the next 10 years, provides a robust platform for organic growth delivering value-enhancing returns.

Near-term pipeline

Our UK development pipeline over the next three years amounts to £655 million.

We are committed to spending £249 million over the next three years:

- at intu Watford we are on target and on budget with the 400,000 sq ft extension due to be completed in late 2018. This project has £143 million cost to completion. The extension will be anchored by Debenhams and Cineworld and is around two-thirds pre-let, by space, which significantly de-risks the project. As previously stated, the project is expected to deliver a return on cost of 6 to 7 per cent, including 1 to 2 per cent generated through the existing centre
- other active asset management projects total £106 million and include the £56 million enclosure and extension of Barton Square and the £7 million redevelopment of Halle Square at Manchester Arndale to create a casual dining destination in the heart of Manchester

Our pipeline of planned active asset management projects over the next three years amounts to £262 million and we would expect these to generate a stabilised initial yield on cost of 6 to 10 per cent. We have projects at every centre and the flexibility to start these projects when we have the required level of pre-lets. Projects include:

- at intu Merry Hill we have several projects expected to cost around £110 million to deliver our strategy for the centre. These include right-sizing a number of anchors and major space users, which in turn will reduce the number of smaller units, and repositioning the catering and leisure offering
- mall refurbishment and right-sizing of units at intu Metrocentre costing around £26 million

We have progressed the next wave of major extensions and redevelopments and expect to invest an estimated £144 million:

- at intu Lakeside we have signed Nickelodeon to anchor the leisure extension. We continue to progress the other leisure and catering lettings and should be on site in 2017, with the project expected to cost £73 million and deliver a stabilised initial yield on cost of around 6 per cent
- at intu Broadmarsh we are working towards the required level of pre-lets to commence this £100 million project, of which our share will be £71 million

Future opportunities

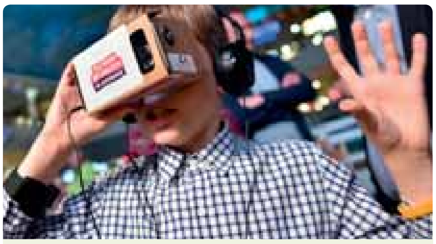
Beyond 2019, we have a £1.2 billion pipeline of opportunities across several centres with major extensions planned at intu Lakeside, intu Victoria Centre, intu Braehead and Cribbs Causeway, and an upgrade and remodelling of intu Milton Keynes. The first three projects have planning approvals and we are in the planning process on the other two. We expect these projects to generate a stabilised initial yield on cost of around 7 per cent and we will bring these projects forward in line with tenant demand.

For more information see our growth story on pages 10 and 11

intu Chapelfield

The Norwich centre's prime status has been enhanced by an improving line-up of retailers

Operating review continued



Understanding autism via VR

In a world first, intu shoppers used virtual reality headsets to experience a shopping centre visit from the perspective of an autistic child. Recreating the sights and sounds of a shopping centre as experienced by someone on the autism spectrum across all 18 centres, this joint project with the National Autistic Society is part of a range of supportive measures, including autism-friendly shopping centre guides and frontline staff training, to be rolled out to all intu centres in the next two years.

Read more in our 2016 CR report

intu.co.uk

The unrivalled content on our shopping website stimulated 28 million visits in 2016

Making the brand count

By combining our scale, expertise and insight to create compelling experiences we are seeing the benefit of the brand grow year-on-year. Our in-house teams ensure we offer the best customer service and experience in a multichannel world.

Customer service

Our focus on putting the customer first is embedded in the business, with our net promoter score, our measure of customer service, consistent at 70.

intu Experiences

We delivered nationwide immersive brand partnerships, mall commercialisation and advertising, which generated income of over £20 million in 2016, our in-house team ensuring all promotional activity meets our quality standards. A greater share of this revenue is now from media and promotional activity rather than traditional mall kiosks, thereby enhancing the customer experience.

With over half of the UK's population visiting an intu centre at some point through the year in person or online, we are increasingly working with global brands on a national basis to provide high-quality promotional events, both physically and digitally across multiple centres. One example of this is Playmobil, who sponsored our Christmas grottos across the portfolio.

We also introduce new concepts to our shopping centres, blurring the lines between short- and long-term lettings, including car showroom pop-ups, such as Mercedes Benz, across the portfolio.

intu Digital

In 2016, we generated improved sales for retailers of £6 million transacted through intu.co.uk, our premium content publisher and shopping platform, demonstrating the rising attraction of our digital offering. The commission on these sales was further augmented by income from retailers using the intu platform for online marketing campaigns.

We recorded 28 million website visits in 2016, an increase of 15 per cent on the previous year. Key to driving customers to the 480 affiliate retailers on the website is the 2.5 million individuals on our active marketing database delivering above industry average open and click-through rates from online marketing campaigns.

Seizing the growth opportunity in Spain

Our Spanish strategy is to create a business of scale through the acquisitions to date and our pipeline of development projects. Concentrating on the top-10 key catchments, we aim to establish a market-leading position in the country through ownership and management of prime shopping resorts. We own and manage two top-10 Spanish centres and have four development sites with the most advanced being intu Costa del Sol.

Operational performance

Our two centres, intu Asturias and Puerto Venecia, Zaragoza, are benefiting from our active asset management approach and the improving Spanish economy, with footfall and retailer sales both increasing by 2 per cent.

Occupancy is 99 per cent at intu Asturias and 97 per cent at Puerto Venecia where we have reduced the vacancy level in the retail park in the year.

We agreed 27 new long-term lettings in the year, amounting to €3 million new annual rent, at an average of 20 per cent above previous passing rent (like-for-like units) and in line with valuers' assumptions. New names to our Spanish centres included Snipes, Joma Sport and Globo.

intu's 50 per cent share of Puerto Venecia was valued at €249 million at 31 December 2016, an increase of €24 million (10 per cent). intu's share of intu Asturias increased by €18 million (14 per cent) in the year to €139 million.

Spanish market

In recent years, the Spanish economy has had significant growth making it one of Europe's fastest growing economies. Forecasts suggest that this is expected to continue into 2017. For the consumer, unemployment is at its lowest level for several years and household spending remains solid. This in turn benefits retail sales which are further enhanced by record levels of tourists.

The investment market remains strong with continuing investor confidence in Spanish real estate supported by an economy that is growing. With the return of bank financing, there is a weight of money in the market looking to invest in quality assets. Due to lack of development in recent years, this is a scarce asset class. All these factors are driving yields lower.

Potential acquisition

We have entered into an exclusivity agreement to acquire the 153,000 sq m Xanadú shopping centre in Madrid. It has footfall of 13 million, 210 stores and Spain's only indoor ski slope. The transaction will initially be funded from a combination of bank financing and existing facilities whilst we look to introduce a joint venture partner at a later date. Should this transaction complete, we would own three of Spain's top-10 centres.

Near-term pipeline

We have committed capital expenditure of €10 million and a pipeline of projects costing a further €29 million. The committed expenditure is primarily focused on intu Asturias where we have commenced the redevelopment of a previously underutilised area, to be anchored by supermarket retailer, masymas, and have plans to further improve the catering.

We are continuing with our plans for the much anticipated shopping resort development, intu Costa del Sol, just outside Málaga. In 2016 we completed the land assembly and successfully incorporated the proposed resort into the general plan of Torremolinos. With our further design enhancements, the reaction from the occupier market has exceeded expectations. We anticipate being on site in 2017, once we have received the required final regional planning approval, with the total cost expected to be around €700 million, including the €78 million already incurred by intu, at a stabilised initial yield of around 7 per cent.

Future opportunities

We continue to develop plans at the three other sites in Valencia, Vigo and Palma, with the next development likely to be intu Valencia, following on from intu Costa del Sol.

Acquisitions and disposals

In line with our strategy, we have recycled £400 million of capital in the year from non-core assets to focus on our prime centres where we have the opportunity to deliver superior returns.

Acquisitions

In June 2016 we completed the acquisition of the remaining 50 per cent of intu Merry Hill from QIC for £410 million. We believe the centre presents a significant opportunity to re-engineer and update the tenant mix. Encouraging large flagship formats and reducing the number of smaller units will make the centre more attractive to retailers and customers, and improve the rental tone. This strategy is similar to that which has been successfully implemented at intu Trafford Centre and intu Lakeside.

Disposals

In January 2016 we disposed of our interest in Equity One for £202 million to complete our exit from the US allowing us to focus on our core shopping centres, realising a gain on disposal of £74 million. The disposal price was $26 per share.

In December 2016 we completed the disposal of our share of intu Bromley valued at £178 million, a small premium to the June 2016 market value and realising initial consideration of £82 million.

Further details of the transactions can be seen in the financial review on page 46

intu Merry Hill

Now that we are full owners we are stepping up planned developments that will make intu Merry Hill the intu Trafford Centre of the Midlands

Financial review

Our results for the year show growth in net rental income and underlyings earnings, with net asset value per share stable for the year

Overview

Underlying earnings increased by 7 per cent from £186.6 million last year to £200.0 million for the year ended 31 December 2016. This reflects our strong growth in like-for-like net rental income and the positive impact from our acquisition of the remaining 50 per cent of intu Merry Hill in June. Underlying earnings per share of 15.0 pence is an increase of 6 per cent on the prior year.

Profit for the year of £171.8 million has reduced by £345.8 million, impacted by property revaluations (2015: £517.6 million including a property revaluation surplus of £350.7 million).

Presentation of information

We account for our interests in joint ventures using the equity method as required by IFRS 11 Joint Arrangements. This means that the income statement and the balance sheet include single lines for the Group's total share of post-tax profit and the net investment in joint ventures respectively.

Management review and monitor the business primarily on a proportionally consolidated basis. This includes the Group's share of joint ventures on an individual line-by-line basis rather than a post-tax profit or net investment basis. The figures and commentary presented are consistent with our management approach as we believe this provides a more meaningful analysis of the Group's performance. The other information section gives reconciliations of the income statement and balance sheet between the two bases.

Alternative performance measures are also used to assess the Group's performance. The significant measures are summarised as follows:

Alternative performance measure used	Rationale
Like-for-like amounts	Like-for-like amounts are presented as they indicate operating performance as distinct from the impact of acquisitions or disposals. In respect of property, the like-for-like measure relates to property which has been owned throughout both periods without significant capital expenditure in either period, so that 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 reporting period end but not throughout the prior period. Further analysis is presented in the other information section and in the operating review.
Net asset value ('NAV') (diluted, adjusted)	NAV (diluted, adjusted) has been included as it is considered to be a key measure of the Group's performance. The key difference from EPRA NAV is interest rate swaps not currently used for economic hedges of debt. These are excluded as, in our view, this provides a more meaningful measure of the Group's performance. A reconciliation of NAV (diluted, adjusted) to EPRA NAV is provided in the other information section and a reconciliation to NAV attributable to owners of intu properties plc is provided in note 17(a) as well as on page 48.
Underlying earnings	Underlying earnings is used to measure the Group's income performance. It excludes property and derivative valuation movements, exceptional items and related tax. We present these figures as they are considered to be a key measure of the Group's performance, an industry standard comparable measure and an indication of the extent to which dividend payments are supported by underlying operations. A reconciliation of underlying earnings to EPRA earnings is provided in the other information section and a reconciliation to profit for the year attributable to owners of intu properties plc is provided in note 16(c) as well as on page 47. The underlying profit statement is also presented in full in the other information section.

NAV per share of 404 pence is unchanged from 2015, which when taking account of the dividends of 13.7 pence paid delivers a total financial return for the year of 3.4 per cent.

Our financing metrics remain strong mainly due to our recent refinancing activity. We have a debt to assets ratio of 43.7 per cent (31 December 2015: 43.1 per cent) which remains below our target maximum level of 50 per cent. Our interest cover ratio of 1.97x has increased in the year (31 December 2015: 1.91x) with satisfactory headroom above our target minimum level of 1.60x.

In the year, we issued and refinanced around £1 billion of debt, extending the maturity profile and reducing the margin where possible. We extended the £351.8 million term loan within the Secured Group Structure ('SGS') in June by one year to March 2021. In September we agreed a one-year extension to the £600 million revolving credit facility ('RCF') which is now in place until 2021 and in November we issued £375 million 2.875 per cent convertible bonds, maturing in 2022. Finally, in Spain we agreed a new €121 million facility for intu Asturias, drawn down in November and replacing the existing facility.

At 31 December 2016 we have cash and available facilities of £922.3 million which have increased in the year due to the convertible bond proceeds received (31 December 2015: £588.4 million).

We have also undergone several major transactions in the year, recycling capital into our super prime portfolio. In January we disposed of our interest in Equity One, a US venture, receiving £201.9 million and in December we disposed of intu Bromley, receiving initial consideration, net of debt repayment, of £81.5 million. In June we increased our focus on prime shopping centres, acquiring the remaining 50 per cent of intu Merry Hill for £409.7 million. As part of this we arranged a £500 million loan, with a 2018 maturity, replacing the £191 million facility that was secured on the 50 per cent originally held.

Income statement

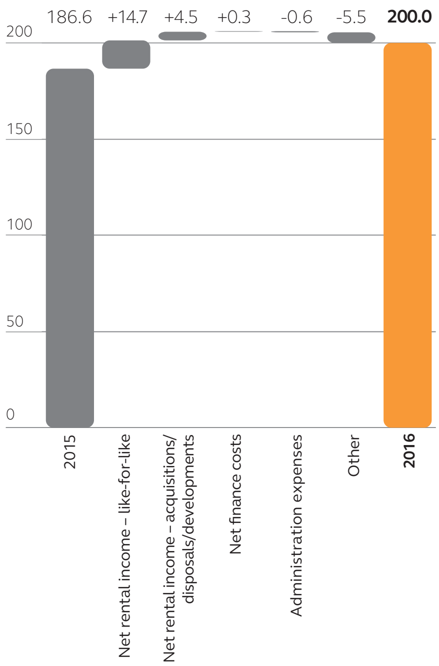
Underlying earnings increased to £200.0 million from £186.6 million at 31 December 2015, the key movements of which are shown in the chart to the right. Underlying earnings per share increased by 6 per cent to 15.0 pence.

Net rental income increased £19.2 million primarily due to like-for-like growth and the acquisition of the remaining 50 per cent of intu Merry Hill in June, partially offset by the impact of the disposal of 50 per cent of Puerto Venecia in September 2015.

Like-for-like net rental income increased by £14.7 million, 3.6 per cent driven by improving rental levels from new lettings and rent reviews, increased occupancy and the benefits of unit reconfigurations (see operating review).

Net other income includes a reduction of £6.7 million in dividend income following the sale of our interest in Equity One in January 2016.

Underlying earnings (£m)



Income statement summary

	2016			2015
	Group £m	Share of joint ventures £m	Group including share of joint ventures £m	Group including share of joint ventures £m
Underlying earnings	**200.0**	n/a	**200.0**	186.6
Adjusted for:				
Revaluation of investment and development property	**(78.0)**	14.2	**(63.8)**	350.7
Gain/(loss) on acquisition of businesses	**34.6**	–	**34.6**	(0.8)
(Loss)/gain on disposal of subsidiaries	**(0.3)**	–	**(0.3)**	2.2
Gain on sale of other investments	**74.1**	–	**74.1**	0.9
Administration expenses – exceptional	**(2.5)**	(0.4)	**(2.9)**	(1.5)
Exceptional finance costs	**(32.0)**	(0.9)	**(32.9)**	(31.4)
Change in fair value of financial instruments	**(16.3)**	(0.6)	**(16.9)**	5.3
Tax on the above	**(16.5)**	–	**(16.5)**	4.4
Share of joint ventures' items	**12.3**	(12.3)	**–**	–
Share of associates' items	**1.1**	–	**1.1**	5.8
Non-controlling interests in respect of the above	**6.2**	–	**6.2**	(3.8)
Profit for the year attributable to owners of intu properties plc	**182.7**	n/a	**182.7**	518.4
Underlying earnings per share (pence)	**15.0p**	n/a	**15.0p**	14.2p

Financial review continued

Net rental income margin

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Gross rental income	**532.6**	514.0
Head rent payable	**(25.4)**	(22.4)
	507.2	491.6
Net service charge expense and void rates	**(26.0)**	(27.0)
Bad debt and lease incentive write-offs	**(2.5)**	(3.9)
Property operating expense	**(31.7)**	(32.9)
Net rental income	**447.0**	427.8
Net rental income margin	**88.1%**	87.0%
EPRA cost ratio (excluding direct vacancy costs)	**15.0%**	16.0%

Net finance costs are relatively unchanged reflecting the acquisition of the remaining 50 per cent of intu Merry Hill, offset by revised terms agreed on the SGS term loan and reduced drawdown on the RCF.

The profit attributable to owners of intu properties plc is £182.7 million, a reduction on the £518.4 million reported for the year ended 31 December 2015. This was primarily due to a deficit on property valuations of £63.8 million (2015: surplus of £350.7 million), as discussed in the operating review, as well as the change in fair value of financial instruments, a charge of £16.9 million (2015: credit of £5.3 million), partially offset by gains of £74.1 million on the sale of Equity One and £34.6 million on the acquisition of the remaining 50 per cent of intu Merry Hill.

Our investments in joint ventures contributed £32.1 million to the profit of the Group (2015: £108.6 million) including £19.8 million to underlying earnings (2015: £24.7 million) and a gain on property valuations of £14.2 million (2015: £85.8 million).

As detailed in the table above, our net rental income margin has improved to 88.1 per cent due to lower void costs, lower bad debts and reduced lease incentive write-offs. Property operating expenses largely comprise car park operating costs and the Group's contribution to shopping centre marketing programmes. Our ratio of total costs to income, as calculated in accordance with EPRA guidelines, remains low at 15.0 per cent (see other information).

Balance sheet

The Group's net assets attributable to shareholders is relatively unchanged from 31 December 2015 at £4,978.8 million, while net assets (diluted, adjusted) have increased by £26.5 million from 31 December 2015 to £5,437.7 million.

NAV per share (diluted, adjusted) at 31 December 2016 is unchanged from the prior year at 404 pence, the key movements are shown in the chart on the following page. This was driven principally by a 15 pence increase due to underlying earnings and a 3 pence increase due to the intu Merry Hill acquisition, offset by a deficit on revaluation of 4 pence and 14 pence from dividends paid in the year.

Investment and development property has increased by £420.8 million primarily due to our acquisition of the remaining 50 per cent of intu Merry Hill of £444.6 million, capital expenditure of £114.8 million, recognition of the leasehold on Charter Place of £55.9 million and a £49.8 million favourable foreign exchange

Balance sheet summary

	2016			2015
	Group balance sheet £m	Share of joint ventures £m	Group including share of joint ventures £m	Group including share of joint ventures £m
Investment and development property	**9,212.1**	732.4	**9,944.5**	9,523.7
Investment in joint ventures	**587.6**	(587.6)	**–**	–
Investment in associates and other investments	**80.7**	–	**80.7**	265.0
Net external debt	**(4,230.1)**	(134.0)	**(4,364.1)**	(4,139.1)
Derivative financial instruments	**(377.7)**	(2.3)	**(380.0)**	(340.5)
Other assets and liabilities	**(226.2)**	(8.5)	**(234.7)**	(254.2)
Net assets	**5,046.4**	–	**5,046.4**	5,054.9
Non-controlling interest	**(67.6)**	–	**(67.6)**	(78.5)
Attributable to shareholders	**4,978.8**	–	**4,978.8**	4,976.4
Fair value of derivative financial instruments (net of tax)	**377.7**	2.3	**380.0**	322.1
Other adjustments	**78.6**	(2.3)	**76.3**	96.5
Effect of dilution	**2.6**	–	**2.6**	16.2
Net assets (diluted, adjusted)	**5,437.7**	–	**5,437.7**	5,411.2
NAV per share (diluted, adjusted) (pence)	**404p**	–	**404p**	404p

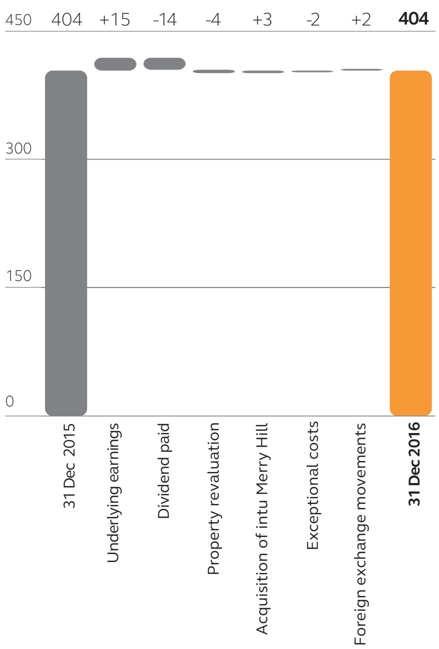
movement, partially offset by the sale of intu Bromley of £179.4 million and a £63.8 million valuation deficit.

Investments in associates and other investments of £80.7 million primarily represent our interests in India, which comprises a 32 per cent interest in Prozone (£45.5 million), a shopping centre developer listed on the Indian stock market, and a direct interest in Empire (£19.7 million), owner and operator of a shopping centre in Aurangabad. See notes 23 and 24 for further details.

Net external debt of £4,364.1 million has increased by £225.0 million primarily from funding our acquisition of the remaining 50 per cent of intu Merry Hill. Cash including the Group's share of joint ventures has reduced by £9.8 million to £291.6 million and gross debt has increased by £215.2 million to £4,655.7 million.

Derivative financial instruments comprise the fair value of the Group's interest rate swaps. The net liability at 31 December 2016 is £380.0 million, an increase of £39.5 million in the year, with the UK 10-year bond yield reducing from 1.951 per cent to 1.235 per cent. Cash payments in the year totalled £41.8 million, £27.1 million of which has been classified as an exceptional finance cost as it relates to payments in respect of unallocated interest rate swaps. The balance of the payments has been included as underlying finance costs as it relates to ongoing interest rate swaps used to hedge debt.

Net asset value per share (pence)



As previously detailed, we have a number of interest rate swaps, entered into some years ago, which are unallocated due to a change in lenders' practice. At 31 December 2016 these interest rate swaps have a market value liability of £253.2 million (31 December 2015: £239.1 million). It is estimated that we will be required to make cash payments on these interest rate swaps of around £28 million in 2017, reducing to below £20 million per annum in 2021.

Our net investment in joint ventures is £587.6 million at 31 December 2016 (31 December 2015: £991.9 million), which includes the Group's share of net assets, on an equity accounted basis, of £355.4 million (31 December 2015: £380.8 million) and loans to joint ventures of £232.2 million (31 December 2015: £611.1 million). The movement in the year primarily reflects the acquisition of the remaining 50 per cent of intu Merry Hill, which from the acquisition date is accounted for as a 100 per cent owned subsidiary rather than as a joint venture.

The non-controlling interest at 31 December 2016 relates primarily to our partner's 40 per cent stake in intu Metrocentre.

We are exposed to foreign exchange movements on our overseas investments and our policy is to ensure that the net exposure to foreign currency is less than 10 per cent of the Group's net assets attributable to shareholders. At 31 December 2016 the exposure was 7 per cent, lower than the 8 per cent at 31 December 2015 due to our disposal of Equity One in January partially offset by the reduced drawdown on the Euro component of the RCF.

Cash flow summary

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m
Group cash flow as reported		
Cash flows from operating activities	**131.4**	160.2
Cash flows from investing activities	**(243.4)**	(175.0)
Cash flows from financing activities	**88.7**	76.2
Foreign currency movements	**1.4**	(0.3)
Net (decrease)/increase in Group cash and cash equivalents	**(21.9)**	61.1

Cash flow

During 2016 cash and cash equivalents decreased by £21.9 million.

Cash flows from operating activities of £131.4 million is £28.8 million lower than 2015, primarily due to negative working capital movements from the timing of payments.

Cash flows from investing activities reflect cash outflows for our acquisition of the remaining 50 per cent of intu Merry Hill and capital expenditure during the year of £120.9 million. This is offset by cash inflows of £201.9 million received for the sale of our interest in Equity One and £80.5 million cash inflow from the sale of intu Bromley.

Cash flows from financing activities include net debt drawdowns of £242.5 million primarily to fund our acquisition of the remaining 50 per cent of intu Merry Hill and also includes the proceeds of the £375 million convertible bonds issued in November. We paid dividends in cash during the year of £152.6 million.

Financial review continued

Financing

Debt structure

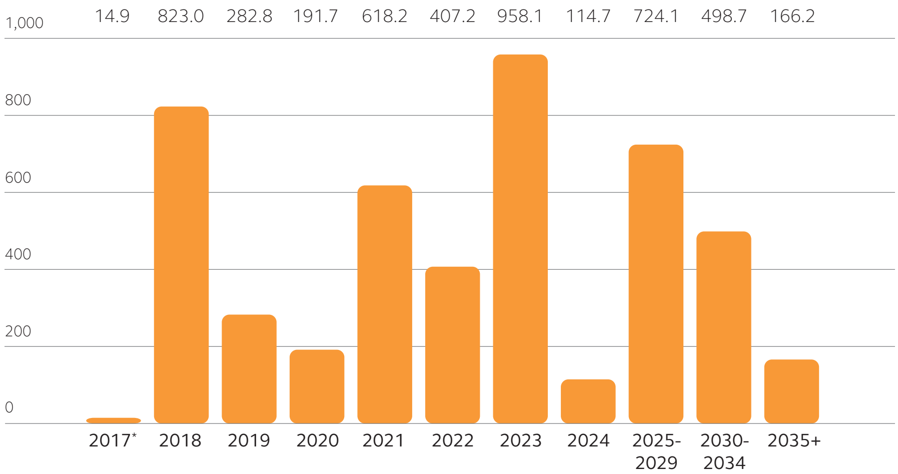
We have carried out significant refinancing activity in recent years which has resulted in diversified sources of funding, including secured bonds plus syndicated bank debt secured on individual or pools of assets, with limited or no recourse from the borrowing entities to other Group companies outside of these arrangements. Our corporate-level debt remains limited to the RCF as well as the £375 million and £300 million convertible bonds.

During 2016 we undertook the following financing activities:

— arranged a £500 million loan secured on intu Merry Hill, with a 2018 maturity, replacing the £191 million facility that was secured on the 50 per cent originally held
— extended our £351.8 million SGS term loan maturity by one year to March 2021
— agreed a one-year extension to the RCF which is now in place until 2021
— issued £375 million 2.875 per cent convertible bonds, maturing in 2022
— agreed a new €121 million facility secured against intu Asturias; intu's share is €60.5 million

intu Asturias
The intu brand has been well received in Spain – boding well for the rebrand of Puerto Venecia

Debt maturity (£m)



* Pro forma for the refinancing of intu Milton Keynes, completed February 2017.

Since the year end, we have refinanced the intu Milton Keynes bank loan, with a new £140 million loan now maturing in 2019.

The chart above illustrates that we have no major refinancing requirement due until the autumn of 2018 when we have two key maturities. We intend to refinance the £500 million intu Merry Hill bridging loan this summer and the £300 million convertible bonds will either be repaid or convert into equity.

Our debt to assets ratio has increased to 43.7 per cent since 31 December 2015 due to the acquisition of the remaining 50 per cent of intu Merry Hill partially offset by the sale of Equity One and the disposal of intu Bromley. The debt to assets ratio remains below our target maximum level of 50 per cent.

Interest cover of 1.97x has increased slightly during the year reflecting the growth in like-for-like net rental income and lower interest rates following recent debt refinancing and remains above our targeted minimum level of 1.60x.

The weighted average debt maturity decreased to 7.1 years, pro forma for the refinancing of intu Milton Keynes, with the benefit from the extension of the SGS term loan being offset by shorter-dated refinancing secured on intu Merry Hill. The weighted average cost of gross debt has decreased to 4.3 per cent (excluding the RCF) reflecting the rates achieved on recent refinancing activity and the cost on any unhedged debt.

We use interest rate swaps to fix interest obligations, reducing any cash flow volatility caused by changes in interest rates. The proportion of debt with

Debt measures

	31 December 2016	31 December 2015
Debt to assets	**43.7%**	43.1%
Interest cover	**1.97x**	1.91x
Weighted average debt maturity	**7.1 years[1]**	7.8 years
Weighted average cost of gross debt	**4.3%**	4.6%
Proportion of gross debt with interest rate protection	**88%**	86%
Cash and available facilities	**£922.3m**	£588.4m

1 Pro forma for the refinancing of intu Milton Keynes, completed February 2017.

interest rate protection has increased slightly in the year to 88 per cent within our policy range of between 75 per cent and 100 per cent.

Covenants
Full details of the debt financial covenants are included in the other information section of this report. We are in compliance with all of our covenants and regularly stress test them for changes in capital values and income. A 25 per cent fall in property values and a 10 per cent reduction in income would only require a £64 million equity cure.

Capital commitments
We have an aggregate commitment to capital projects of £257.0 million at 31 December 2016 (31 December 2015: £65.2 million).

In addition to the committed expenditure, we have an identified uncommitted pipeline of active management projects, major extensions and developments that may become committed over the next three years (see operating review).

Other information

Tax policy position
Like all Real Estate Investment Trusts ('REIT's), tax on property operating profits is paid at shareholder level to the UK Government rather than by the Group. REIT status brings with it the requirement to operate within the rules of the REIT regime (see glossary for further information).

The Group's principle of good governance extends to our responsible approach to tax. We look to minimise the level of tax risk and at all times seek to comply fully with our regulatory and other tax obligations and to act in a way which upholds intu's reputation as a responsible corporate citizen by regularly carrying out risk reviews, seeking pre-clearance from HMRC in complex areas and actively engaging in discussions regarding proposed changes in the taxation system that might affect the Group. It remains important to our stakeholders that our approach to tax is aligned to the long-term values and strategy of the Group. As Chief Financial Officer, I am the Executive Committee member with executive responsibility for tax matters, with close involvement of executive and senior management.

We pay tax directly on overseas earnings, any UK non-property income under the REIT rules, business rates and transaction taxes such as stamp duty land tax. In the year ended 31 December 2016 the total of such payments to tax authorities was £16.3 million, of which £15.7 million was in the UK and £0.6 million in Spain. In addition, we also collect VAT, employment taxes and withholding tax on dividends for HMRC and the Spanish tax authorities. Business rates, principally paid by tenants, in respect of the Group's UK properties amounted to around £292.2 million in 2016 (2015: £297.2 million).

Dividends
The Directors are recommending a final dividend of 9.4 pence per share bringing the amount paid and payable in respect of 2016 to 14.0 pence, an increase of 0.3 pence from 2015. A scrip dividend alternative may be offered. Details of the apportionment between the PID and non-PID elements per share will be confirmed in due course.

At 31 December 2016 the Company has distributable reserves in excess of £1.1 billion, sufficient to cover around six years of dividends at the 2016 level. The Company typically pays dividends which are covered by the current year earnings of the Group and does not anticipate that the Group's level of distributable reserves will create any restrictions on this approach in the foreseeable future.

Matthew Roberts
Chief Financial Officer
23 February 2017

intu Lakeside
The iconic centre in the south east is a popular destination for a family-oriented day out

Corporate responsibility

Our contributions

We provide significant local employment

106k
employed in our centres

We are investing in the future

£1.9bn
UK development pipeline over 10 years

We work with our communities

1,900
people directly reached by community projects

We protect the environment

74%
waste recycled. Reduced carbon footprint by 21%

We contribute to the local and national economy

£292m
business rates paid by intu and our tenants

Our centres directly support a

£1.9bn
wage bill per annum

…all of which results in a total economic contribution in 2016 of

£4.9 billion GVA

Making a meaningful difference is important to us. We work closely with our stakeholders to keep communities thriving, to create strong community partnerships and to care for the environment

Our approach to corporate responsibility

As well as providing places to meet, eat, drink, socialise and be entertained, our centres make a significant contribution to the local community. To optimise our positive impact, we base our approach on three pillars: community and economy, environment and relationships.

We support community and charitable organisations that address community issues including supporting young people into work and promoting local health and wellbeing. We aim to reduce our impact on the environment by managing the resources our centres use carefully. We maintain strong and open relationships with our stakeholders to understand their needs and expectations so that we can respond appropriately.

Deciding what we focus on

We talk to our stakeholders regularly to understand the issues that matter to them – so that the decisions we make are informed by the things that really matter to our customers, retailers, suppliers, investors, staff and national and local government. That understanding helps us to operate sustainably and responsibly.

In 2016, in readiness for the next phase of our CR strategy, we reviewed our materiality process to identify the five core issues that stakeholders want intu to focus on. These are: economic development, employee development, energy management, labour rights and customer safety.

Further details of our materiality process and results can be found in our 2016 CR report

Operational improvements to deliver sustainability

We made a number of operational improvements to optimise the sustainability of our asset performance.

Community managers

Ensuring sufficient community support is essential to good relationships with our communities. We have dedicated community managers at four of our 14 directly-managed centres and plan to appoint a community manager at every centre over the next two years.

See page 54 to find out how our new community manager for intu Eldon Square and intu Metrocentre has increased our impact in the community

Energy and carbon

We have improved the energy management of our centres. We achieved ISO 50001 for energy management which further embeds energy management into our operations and provides greater consistency. We retained the Carbon Trust Standard for energy for the third year running, demonstrating our continued achievements in improving our energy efficiency.

Waste management

We implemented a new waste management strategy. This has given each centre greater flexibility to develop their own waste management plan. We are on course to send zero waste directly to landfill and in 2017 we will explore our options for obtaining certification as a Zero Waste to Landfill company.

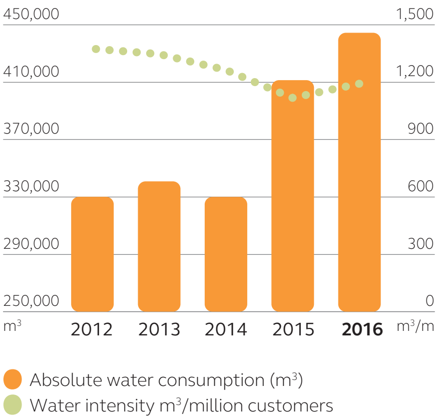
For more details please see our 2016 CR report intugroup.co.uk/en/about-us/corporate-responsibility

Our progress in 2016

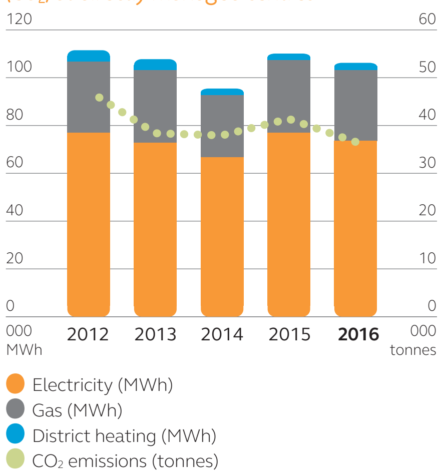
Pillar	Impact	Commitment	2016 performance
Communities and economy	Community	Support relevant community initiatives	£1.5m charitable donations (2015: £1.8m)
		Extend employability programmes to all centres by 2025	New retail employability programme at intu Watford
	Economic contribution	Demonstrate total economic impact	£4.9bn GVA (2015: £4.2bn)
Environment	Energy and carbon	50% intensity reduction in carbon emissions by 2020 against 2010 baseline	21% intensity reduction (47% reduction since 2010)
	Waste management	99% of waste diverted from landfill by 2020 against 2010 baseline	100% diverted (2015: 100%)
		75% of waste generated recycled by 2020 against 2010 baseline	74% recycled (2015: 72%)
	Water management	10% intensity reduction of m^3/million customers by 2020 against 2010 baseline	2% intensity increase (14% reduction since 2010)
Relationships	Customers	Improve customer experience score	70 average net promoter score (2015: 69)
	Our people	Increase employee volunteering	354 volunteers (2015: 101)
		Increase employee awareness of CR	64% staff aware of CR programmes

Impact on the environment in 2016

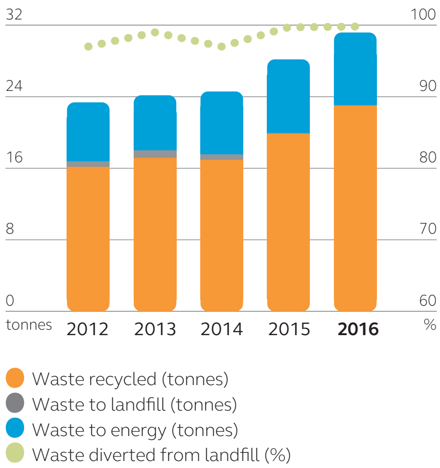
Water use at directly managed centres



Absolute energy use and carbon emissions (CO_2) at directly managed centres



Waste disposal at directly managed centres



Corporate responsibility continued

Our pillars

Communities and economy

Why this is important
Our shopping centres are integral to the communities we serve. We build social cohesion by providing space for people to come together to eat, drink, socialise and be entertained.

What we are doing
We have appointed a new community manager for the north east. This appointment enhances our already strong relationships even further.

With a dedicated resource our support for the community around intu Eldon Square and intu Metrocentre has soared, with an 80 per cent increase in volunteering and employee engagement, a 30 per cent increase in charitable donations and new partnerships forged with charitable organisations in the north east.

"Our community manager, working at both intu Metrocentre and intu Eldon Square, has enabled us to more easily establish projects that run between the two centres and are supported by one point of contact," tells Phil Steele, General Manager at intu Eldon Square.

Environment

Why this is important
Environmental efficiency not only optimises our asset performance, it reduces our exposure to external risks such as reduced availability of resources.

What we are doing
We have installed our first solar farm at intu Chapelfield to see how it might reduce our carbon footprint and improve our operating performance.

The 800 solar panels installed will meet 10 per cent of the centre's annual energy demand, saving £20,000 a year. Minimal maintenance and technology that doesn't degrade with age increases the financial return on the installation, giving it a nine-year payback period.

Our Head of Energy, Alan Richardson, looks forward to further innovation:

"Alternative energy generation presents a great opportunity for intu to continue its ambitious carbon reduction strategy. We look forward to exploring more options for making our energy low carbon."

Relationships

Why this is important
Our relationships provide the valuable link to our stakeholders that allows us to understand their concerns and respond appropriately. They also allow us to reach out and find opportunities for collaboration.

What we are doing
We work with local community and business partners on issues of local importance. At intu Uxbridge we are part of the new Business Improvement District (BID) focusing on improving transport, events, marketing, security and the night-time economy.

intu and the wider community have a mutual interest in these issues and success will create a better town centre for all.

Given the central position of many intu centres, and our long history in these areas, our general managers are key figures at the heart of this kind of civic renewal.

"We are starting to see a community within the town. I now bump into people in the street and learn about what's going on. It helps me keep a finger on the community's pulse," says Laurie Taylor, General Manager at intu Uxbridge.

Indices

We engage with the major socially responsible investment ('SRI') funds. Benchmarking indices such as DJSI Sustainability Index and GRESB allow us to both measure our sustainability performance against our peers and highlight our commitment to corporate responsibility to existing and potential investors. This year we have maintained our position in the indices shown.

FTSE4Good
CDP
SRI INDEX
Member of Dow Jones Sustainability Indices In Collaboration with RobecoSAM
GRESB
LBG Measuring Community Investment

Further details of these indices and our performance can be found in the 2016 CR report

Our people

We employ great people and we nurture their passion and ingenuity so that they can create compelling shopping experiences that put a smile on our customers' faces

Whether apprentices starting out or experienced senior managers, we employ some of the most motivated and enthusiastic people available to make sure our shopping centres are the most popular in the country. Our people are at the heart of our business, living our values and delivering the intu difference that sets us apart.

Our employees are talented individuals and our culture enables them to be bold, creative and genuine in their work to make shopping at intu a joyful experience.

A diverse and successful team

In return for their commitment, we strive to be a great employer, promoting diversity and inclusion, treating our employees fairly and enabling them to grow professionally and personally.

We have 2,578 staff employed: 2,555 in 15 locations across the UK, in 14 centres and our head office at 40 Broadway; and 23 in our recently established Madrid office. Of these, 2,117 are frontline shopping centre staff, directly employed by our facilities management arm, intu Retail Services.

We have strong recruitment processes that ensure we employ the best potential talent so that we can fill roles from within the business. This year we recruited 556 staff externally and 68 from within.

Reflecting our communities

Diversity is important to us – as a people business with over 400 million customer visits a year we want our workforce to both reflect the communities around our centres and understand our customers.

Our 2016 staff survey shows that across the business we have 52 nationalities and the ethnic background of our staff is close to that of the UK (see page 57).

We are in the top 20 per cent of FTSE 100 companies for the number of women at senior and executive management levels – with over 33 per cent of female staff at this level (FTSE Women Leaders, Hampton-Alexander Review 2016).

We are now looking to broaden the diversity of staff at other levels and in all characteristics, which is why we have applied to the National Equality Standard ('NES'). We are in the process of gathering evidence from across the business to support our application and to demonstrate our commitment to equality, diversity and inclusion. We aim to achieve the NES over the next year.

A good job

In line with our intention of being a great employer we are making sure we treat our staff members fairly, and pay them properly for their work.

We are committed to ending the gender pay gap and we will comply fully with the Equality Act (Gender Pay Gap Information) regulations when they come into force. We will make preliminary disclosures in line with the regulations from April 2017.

Highlights of the year

- the success and growth of the apprenticeship scheme
- expansion of our leadership development programme
- the elimination of zero-hours contracts
- Win Your Dream recognition award
- the first edition of our new staff magazine Chorus

Our people continued

Win Your Dream

The first annual winner of our Win Your Dream recognition scheme, launched in 2015, received his prize at a ceremony in March 2016. Aaron Brett from intu Lakeside was nominated for his dedication, team spirit and bold attitude. As just one example, he initiated a full refit to create a modern, comfortable break out area for intu staff. "We spend so much time, money and effort creating a nice experience for customers, the team really appreciated that something had been done for them," said Aaron.

Aaron's dream was a Rolex Cosmograph Daytona: "It's not just a watch to me, it's an investment and something that can be passed on through the family for generations to come."

All our UK staff over the age of 18 who have completed their probation are paid above the National Living Wage, and those on probation receive at least the National Living Wage, even staff not strictly covered by regulation.

We have been working to eliminate all zero-hours contracts, an ambition achieved this year.

Talent development

We have continued with programmes that develop insight and understanding of the strategic direction of the business. Project Daring is taking forward new ideas for the business generated during last year's leadership development project.

Twelve managers started our 'leading self leading others leading change' programme and over 100 operational managers are enrolled on our 'world class manager' training, a web-based course tailored around the needs of intu.

Graduate recruitment continues to be important to our talent development. We are working to create a more structured programme that encourages graduates to enter the industry from a broader range of backgrounds, once again enhancing our commitment to diversity and inclusion.

The six apprentices we recruited at three centres for the 2015-2016 pilot programme have completed their first year, in either technical or non-technical operations in centres. In their second year they will focus on a more specific discipline. We have rolled the scheme out nationally and for 2016-2017 we have recruited an additional 14 apprentices.

Employee engagement

Making sure our staff understand our business and know how they can contribute to intu's success is crucial to our progress. We use a range of channels to communicate with our staff wherever they work in the business, using our intranet, regular staff meetings and briefings. Each location also has its own staff consultative forum.

This year we published the first edition of Chorus, our new quarterly employee magazine by staff for staff, produced by

88% understand intu's vision and values (2015: 90%)

92% agree intu puts customers at the heart of everything we do (2015: 94%)

86% of all staff took part in the survey (2015: 89%)

Our culture

Our purpose is simple – to create joy in our interactions with customers and make them smile, because we know that happy customers make happy retailers.

This is the key to achieving our commercial focus – running the most popular shopping centres in the UK. It is a simple focus that can be understood by everyone in the organisation.

Our culture permeates our business. Our aim is that every single person who works at intu understands our purpose and our business and is focused in the same direction.

So everyone, regardless of role or seniority, goes through the same training programme to understand our purpose, our brand promise and our values. Our values – bold, creative, genuine – encourage us all to behave in the right way and do the right thing: the right thing for our customers, for our retailers, for the environment and for society. Our people understand that if they apply our values in all their work they will be part of continuing to create a successful and responsible shopping centre business.

Our culture drives our business and is inseparable from it.

World class service

Three members of the intu Eldon Square team celebrated 40 years of service in 2016.

Starting shortly after Concorde's maiden voyage and before the very first episode of Star Wars was released, front-of-house manager Vince Mulligan (above left, with general manager Phil Steele), multi-disciplined craftsman Jon Coarse and labourer Brian Shaw have been with the centre from the very beginning.

This magnificent achievement – the first intu staff ever to reach this milestone – was marked with a presentation by Chief Executive David Fischel in June.

Diversity at intu

Age profile

Under 35	36%
35-55	48%
Over 55	16%

UK gender profile

Female
1,048
(2015: 1,032)

Male
1,507
(2015: 1,512)

UK gender profile senior managers

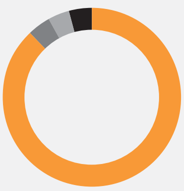
Female
12
(2015: 9)

Male
30
(2015: 20)

52
nationalities
employed at intu

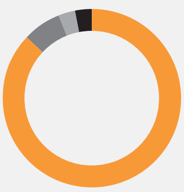
Ethnic background

intu



White British	88%
Asian or Asian British	4%
Black or Black British	4%
Other	4%

UK



White British	87%
Asian or Asian British	7%
Black or Black British	3%
Other	3%

an editorial committee of volunteers from our centres and 40 Broadway.

Our annual UK staff survey continues to reflect widespread employee engagement, with 83 per cent (2015: 84 per cent) of staff proud to work for intu, and 92 per cent (2015: 94 per cent) agreeing intu puts customers at the heart of everything we do. This year 86 per cent of all staff took part in the survey (2015: 89 per cent).

The survey shows a growing internal awareness of our unifying thought with a jump since last year from 54 per cent to 78 per cent. While the overall engagement index dipped slightly from last year, from 769 to 756, it is still at its second highest level since we started the measure in 2011. The survey highlights a number of areas for improvement and we have put in place a detailed process of action planning for the year ahead. Staff forums will discuss local issues of importance.

Our employee engagement programme Win Your Dream celebrates employees across intu who have gone above and beyond to deliver the intu brand promise of making people smile, whether it's customers, tenants, members of the public or other colleagues. It is now in its second year with new categories for innovation and for outstanding commitment to health and safety.

We continue to encourage staff to achieve their personal and professional goals and to take part in our CR, community support and sustainability programmes. More than one in five took advantage of the working days intu makes available for volunteering activity.

Our plans for 2017

As the intu business spectrum expands we will be providing more opportunities for functional specialists to develop a broader understanding of our strategic direction.

We will continue to develop our leadership programmes and extend the capabilities of our talented management, both at 40 Broadway and in operational management at our centres.

We will achieve the NES and renew and enhance our Investors in People status.

We will work with Pathways to Property and other agencies to structure our graduate programme to enable graduates to gain a broader experience across the business and enhance their chances of becoming future leaders in intu.

Human rights

At intu we respect the dignity, liberty and equality of everyone we work with. Our policies and procedures are consistent with the United Nations' universal declaration of human rights, which sets "a common standard of achievement for all peoples and all nations". We are committed to implementing the UN guiding principles on business and human rights. We only work with people who choose to work freely and we respect their rights to equal opportunities and freedom of association.

We work with our suppliers, retailers and associated companies to ensure they meet acceptable standards of human dignity in their own sourcing policies. We will continue to evaluate the pay and conditions of all our employees, to ensure all staff earn above the National Living Wage, and enjoy fair working conditions. Fair treatment of people who work for intu or our suppliers is a key focus of our corporate responsibility approach.

As appropriate our Board CR Committee and CR Management Committee consider the potential human rights risks faced by intu and assess approaches to mitigate those risks.

Modern Slavery Act

This year we worked to implement the requirements of the Modern Slavery Act, including a new policy on Modern Slavery and Human Rights and communications to our suppliers on their requirements. Read our Modern Slavery Act Disclosure on our website.

Read more at intugroup.co.uk

Governance

Compliance with the September 2014 UK Corporate Governance Code (the Code)

The following governance pages explain how the Company applies the main principles of the Code, issued by the Financial Reporting Council ('FRC'), and how it meets other relevant governance requirements including provisions of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. Both documents are publicly available at the website of the FRC (frc.org.uk).

The Board considers that the Company complied in full with the provisions of the Code during the year.

Dear shareholder

Throughout the year we have continued to ensure that our governance structures at Board, Committee, subsidiary and joint venture levels continue to be appropriate and support our business and culture in an ever-changing regulatory environment. In the next few pages we provide details of our Board members, the role of the Board, its performance and oversight. We also provide the information on our governance framework which we consider is appropriate for a UK premium-listed company.

2016 governance highlights

Succession planning

The Nomination and Review Committee determined that no changes were required to the Board's composition during 2016, following discussions about Board composition, succession and talent planning at executive level. However, the Committee has planned for a number of changes in 2017.

Firstly, as I mention in my letter at the start of this report, I will be retiring from the Board following the annual general meeting ('AGM') in May 2017 after nearly nine years as Chairman. In accordance with the process established by the Board, Andrew Huntley, Senior Independent Director ('SID') and the Nomination and Review Committee (without my attendance) have overseen the process and search for a new Chairman, working closely with the Group Company Secretary and independent consultants, Korn Ferry Whitehead Mann. The independent Non-Executive Directors have also contributed to the process, all being entitled to attend Nomination and Review Committee meetings when Board succession matters are being discussed.

I am pleased to announce John Strachan as my successor. He has been a non-executive director since October 2015 and brings a wealth of experience from the retail property sector in the UK and internationally, including Spain.

Andrew Huntley will also be stepping down from the Board at the 2017 AGM.

Effectiveness and evaluation

As your Chairman it is my role to provide leadership to ensure the operation of an effective Board.

The Board consists of 11 Directors, including myself. The Directors bring a wide range of skills and diverse perspectives to the Board's deliberations, as described on the following pages. In relation to gender diversity we have three female Board members (27 per cent), which exceeds the Lord Davies' 2015 target of 25 per cent. As I highlight in my report on behalf of the Nomination and Review Committee on page 74, we consider that broader aspects of diversity, rather than purely gender, are key to stimulating constructive debate.

During 2016 we conducted an externally facilitated Board performance evaluation and the findings provide further opportunity to continue our development, including focus on succession planning and the balance of information to be provided at meetings.

Patrick Burgess
Chairman
23 February 2017

Board in action

In October 2016 the Board travelled to Newcastle to look at both intu Eldon Square and intu Metrocentre. They were particularly interested in the positive impact that recent refurbishment and extensions have had on lettings, rental levels and capital growth with particular focus on the newly opened Grey's Quarter restaurant scheme at intu Eldon Square.

The Board had a comprehensive tour of the centres, conducted by centre management, which demonstrated significant new lettings, strongly trading tenants, significant increases in footfall, customer dwell time and spend. The Board reviewed a range of further opportunities to grow the capital and rental value of the leisure scheme at intu Eldon Square and discussed how intu is engaging with the major stakeholders in the city to further enhance the wider city centre environment and provide a world class shopping experience.

"It was great to engage with the intu Board of Directors, meeting those that I hadn't met before and being able to show them around a centre that we as a team are very proud of. We were able to explain the work that we have been undertaking to grow and develop the centre and talk about how we are engaging with our partners in Newcastle."

Phil Steele
General Manager, intu Eldon Square

Board of Directors

Chairman, Deputy Chairman and Executive Directors

Patrick Burgess OBE, DL
Chairman
Age 72

Appointed to the Board: Appointed as a Non-Executive Director in 2001 and Chairman on 1 August 2008

Career: Patrick Burgess qualified as a solicitor in 1972 and became a partner in Gouldens in 1974, serving as head of the Corporate Department for 14 years and senior partner for six, culminating with the merger of Gouldens with Jones Day in 2003, from which he retired in 2007. He stepped down as a Non-Executive Director of ICBC Standard Bank PLC in October 2015. He has also has been active in a number of charitable and community organisations

Skills and experience: At Jones Day, Patrick specialised in mergers and acquisitions and corporate restructuring. He has considerable experience in compliance, regulatory and stock exchange matters

John Whittaker
Deputy Chairman
Age 74

Appointed to the Board: 28 January 2011

Career: John Whittaker is the Chairman of the Peel Group which he founded in 1971 and developed into a leading UK infrastructure, transport and real estate enterprise

Skills and experience: John is a highly regarded real estate investor, and has overseen the growth of the Peel Group across many sectors such as land, real estate, ports, airports renewable energy and media. John is an experienced property developer and business leader, illustrated by projects such as The Trafford Centre and MediacityUK. His appointment to the Board followed the acquisition by intu of The Trafford Centre from the Peel Group

Other appointments: Chairman of the Peel Group

David Fischel
Chief Executive
Age 58

Appointed to the Board: Appointed Finance Director in 1988, Managing Director in 1992 and Chief Executive in March 2001

Career: David Fischel qualified as a chartered accountant in 1983 at Touche Ross & Co before joining intu in 1985

Skills and experience: During his 30-year career with intu, David has gained significant executive experience in numerous aspects of the shopping centre industry including shopping centre acquisitions and developments

Other appointments: Non-Executive Director of Prozone Intu Properties Limited, resigned as a Non-Executive Director of Equity One, Inc (NYSE: EQY) with effect 19 January 2016

Matthew Roberts
Chief Financial Officer
Age 53

Appointed to the Board: 3 June 2010

Career: Matthew Roberts was previously the Finance Director of Debenhams plc from 1996 to 2003, and Chief Financial Officer of Gala (subsequently Gala Coral Group) from 2004 to 2008

Skills and experience: Matthew was part of the team which acquired The Trafford Centre, Manchester, in the UK's largest ever single property transaction. He led the establishment of intu's Secured Group Structure and further transactions which have raised over £4 billion of leverage. In January 2016 Matthew also assumed responsibility for intu's centre-based operations

Other appointments: Non-Executive Director of Marston's PLC with effect from 1 March 2017

Non-Executive Directors

Adèle Anderson
Chairman of the Audit Committee
Age 51

Appointed to the Board: 22 February 2013

Career: Adèle commenced her career at KPMG where she became a partner and held a number of senior roles including Chief Financial Officer. She was a trustee of Save the Children International until December 2015

Skills and experience: Adèle graduated from Kent University with BSc Hons in Mathematics and Computer Science. She is a qualified ACA. She has gained extensive financial experience throughout her career and has significant Audit Committee experience

Other appointments: Non-Executive Director of easyJet plc; a member of the board of Trustees of Save the Children UK; Non-Executive Director of the Spire Healthcare Group plc; member of the Audit Committee of the Wellcome Trust

Lady Patten
Chairman of the Remuneration Committee
Age 63
Appointed to the Board: 22 September 2011

Career: Louise Patten began her career at Citibank, working mainly in retail financial services until she joined global strategy advisers Bain & Company Inc in 1993 where since 1997 she has been a Senior Adviser

Skills and experience: Louise has extensive board level experience at a number of retail and property companies including as Chairman of Brixton plc and interim Chairman of Somerfield plc, and non-executive roles at Marks & Spencer plc, GUS plc, Hilton Group plc and Harveys Furnishings plc

Other appointments: Non-Executive Director at Abcam plc, Arthur J. Gallagher Holdings (UK) Limited and Arthur J. Gallagher Insurance Brokers Limited

Richard Gordon

Age 58

Appointed to the Board: 7 May 2010

Career: Richard previously served as a Non-Executive Director of Capital Shopping Centres PLC between 1996 and 2006 and was appointed as an alternate Director in respect of Graeme Gordon's directorship of the Group in 2001. He also served on the boards of a number of companies within the Liberty Life group and various companies within the commercial and residential real estate sector

Skills and experience: In addition to representing Gordon Family interests on the Board, Richard also has significant real estate experience having been involved with several commercial and residential real estate companies, mainly in South Africa

Rakhi Goss-Custard

Age 42

Appointed to the Board: 7 October 2015

Career: Rakhi's early career included roles at TomTom, content management provider Article27 and 11 years at Amazon until 2014, where she held a number of key roles including responsibility for the Amazon UK Media category

Skills and experience: Rakhi has an up-to-date perspective on retail and consumer trends, as well as deep insight and knowledge of the digital environment. Rakhi has a BA in Marketing & Communications from the University of Pennsylvania

Other appointments: Non-Executive Director of Rightmove plc, Be Heard Group plc, Kingfisher plc and Schroders plc

Andrew Huntley

Senior Independent Director

Age 78

Appointed to the Board: Appointed as a Non-Executive Director on 8 July 2009 and Senior Independent Director with effect from 1 August 2013

Career: Andrew's career commenced 41 years ago with Richard Ellis where he served as Chairman from 1993 until 2002. He was a Non-Executive Director of Pillar Property plc from 2000 to 2005, and a Non-Executive Director of LondonMetric Property plc from 2010 to 2013

Skills and experience: Andrew is a chartered surveyor and an experienced property adviser

John Strachan

Age 66

Appointed to the Board: 7 October 2015

Career: John was Global Head of Retail Services and Chairman of the Retail Board at Cushman & Wakefield until 2015 and prior to that Head of UK and European Retail at Healey & Baker, with whom he commenced his career in 1972

Skills and experience: John brings a wealth of experience from the retail property sector, an international perspective and extensive knowledge of the Spanish retail property market. He is a fellow of the RICS

Other appointments: Advisory Board member of Truecap Private Equity; member of the European Executive Committee and Advisory Board of the International Council of Shopping Centres

Andrew Strang

Age 64

Appointed to the Board: 8 July 2009

Career: Andrew started his career with Richard Ellis 40 years ago. He served as Managing Director of Threadneedle Property Investments Limited for 17 years until January 2008 and Chairman of Hermes Real Estate Investment Management from 2009 to 2011. He was a Director of the British Property Federation from 1994 to 2013. Andrew served as a director of the Pollen Estate Trustee Company Limited from August 2014 to January 2016. He is a current member of the Norges Bank Investment Real Estate Advisory Board, a member of the Investment and Governance Committees at AEW UK

Skills and experience: Andrew is a chartered surveyor and has substantially focused on property investment throughout his career

Other appointments: Non-Executive Director of Capital & Counties Properties plc

Key to Committees

- Audit Committee
- Remuneration Committee
- Nomination and Review Committee
- Executive Committee
- Corporate Responsibility Committee
- Capital Projects Committee

Executive Committee

Martin Breeden
Development Director

Joined the Group in 2002 and was appointed Group Development Director in January 2016. Martin has direct responsibility for intu's development programme across the UK and intu's Spanish business. Martin has over 25 years' experience in the retail property industry. He is a fellow of the RICS and a member of the advisory panel of Revo.

Hugh Ford
General Counsel and Group Treasurer

Joined the Group as General Counsel in 2003. Appointed General Counsel & Group Treasurer in April 2015. Previously he was General Manager Legal at Virgin Atlantic Airways, and before that a commercial lawyer with British Airways plc. He qualified as a solicitor in 1992 with Freshfields.

Barbara Gibbes
Director of Finance

Joined the Group as Director of Finance in January 2017 from Domino's Pizza Group Plc where she was Group Financial Controller. Previously she held other senior finance roles and was a Director at Deloitte. She qualified as a chartered accountant in 2000.

Susan Marsden
Group Company Secretary

Joined the Group as Company Secretary in 2000. A fellow of the Institute of Chartered Secretaries and Administrators, Susan began her career at the London Stock Exchange, and was Company Secretary of two FTSE real estate sector companies before joining intu.

Gordon McKinnon
Operations Director

Joined the Group as Operations Director, CSC Trafford in January 2011 and became a Regional Centre Director in January 2013, before taking on the role of Operations Director of intu in November 2013. He spent 20 years in various roles with Marks & Spencer before taking up an assignment with Manchester Millennium Limited, the task force rebuilding Manchester city centre following the 1996 IRA bomb. He was appointed Director of Operations at The Trafford Centre in 2004.

Trevor Pereira
Digital and Commercial Director

Joined the Group in 2007 as Commercial Director. He was subsequently appointed Group Digital and Commercial Director, responsible for digital activities, commercialisation, marketing and customer experience. He previously worked for airport group BAA plc for 21 years, latterly as Retail and Commercial Director for Heathrow Airport.

Dushyant Sangar
Corporate Development Director

Joined the Group in 2010 and appointed Corporate Development Director in 2014. He has been closely involved in all of the Group's major acquisitions in the UK and Spain. He previously worked for MGPA, a real estate private equity investment advisory business and for UBS. He is a Non-Executive Director of Prozone Intu Properties Limited.

Julian Wilkinson
Asset Management Director

Joined the Group in 2011 and was appointed Asset Management Director in January 2016. Julian has responsibility for optimising the performance of intu's shopping centres. He has held similar positions at director level over the last 25 years on behalf of both retailers and landlords and is a fellow of the RICS.

Senior management team

Biographies of the senior management team are available on our website at:

intugroup.co.uk/en/about-us/our-people/

The Board

The role of the Board and its committees

The Board

Led by the Chairman, the Board takes primary responsibility for defining the Group's strategic objectives, risk appetite and control environment; monitoring delivery of strategy by the Executive Directors; and shaping the resourcing, culture and values by which the wider business delivers targeted performance.

Corporate Responsibility Committee

Chairman
Patrick Burgess
Members
Adèle Anderson, David Fischel, Alexander Nicoll, Helen Drury, Jennifer Sandars
Key responsibilities
Oversees the management of the Group's CR activities.

See page 52 for more information

Audit Committee

Chairman
Adèle Anderson
Members
Andrew Strang, Rakhi Goss-Custard
Key responsibilities
Monitors the integrity of financial statements, internal controls and risk management process and reviews the effectiveness of the internal and external auditors.

See page 69 for more information

Remuneration Committee

Chairman
Louise Patten
Members
Adèle Anderson, Andrew Huntley
Key responsibilities
Sets remuneration policy for the Executive Directors and the Chairman and recommends and monitors the level and structure of remuneration for senior management.

See page 76 for more information

Nomination and Review Committee

Chairman
Patrick Burgess
Members*
Andrew Huntley, Louise Patten
Key responsibilities
Ensures the Board comprises people with an appropriate balance of skills, knowledge and experience.

* all independent NEDs are invited to attend when discussing Board succession

See page 74 for more information

Capital Projects Committee

Chairman
Patrick Burgess
Members
David Fischel, Matthew Roberts, John Whittaker, Andrew Huntley, John Strachan

Key responsibilities
Reviews new projects and expenditure in detail and makes recommendations to the Board on certain projects, as appropriate. Has no power to approve proposals or authorise expenditure.
The Capital Projects Committee is not a formal Committee of the Board

Executive Committee

Chairman
David Fischel
Members
Matthew Roberts, Martin Breeden, Hugh Ford, Barbara Gibbes, Susan Marsden, Gordon McKinnon, Trevor Pereira, Dushyant Sangar, Julian Wilkinson

Key responsibilities
Considers investment proposals, reviews progress on projects and project expenditure in detail and receives updates on other business matters. Has delegated authority, within limits, to authorise initiatives and expenditure.
The Executive Committee is not a formal Committee of the Board

Key strategic matters discussed in 2016

Optimising asset performance

- review and approval of the Group's strategic plan
- approval of refinancings
- disposal of intu Bromley
- disposal of interest in Equity One
- acquisition of remaining 50 per cent interest in intu Merry Hill

Delivering UK developments

- management and oversight of the Group's capital investment programme
- considered recommendations from Capital Projects Committee
- development pipeline of £1.9 billion

Making the brand count

- supported the development of the Group's digital strategy
- large-scale national marketing events across all centres
- regular Corporate Responsibility Committee meetings

Seizing the growth opportunity in Spain

- the Group's Spanish strategy and discussion of potential acquisitions and development
- monitoring performance of Spanish assets
- development plans for intu Costa del Sol

Other key matters discussed

- continuing focus on risk modelling and analysis, including cybersecurity risk and the impact of the UK's EU referendum vote
- £375 million issue of Guaranteed Convertible Bonds by subsidiary due 2022
- monitoring and progression of corporate objectives for 2016
- succession planning for both the Chairman and Senior Independent Director's scheduled retirement
- continued oversight of strategic and operational delivery

Areas of focus in 2017

- continuation of progressive evolution of the Board, in line with agreed succession planning and to meet the demands of the business
- completion of Nomination and Review Committee oversight of Board succession matters
- monitoring and progression of corporate objectives for 2017
- continuing oversight of strategic and operational delivery
- continuing focus on the impact of the UK's EU referendum vote

The Board continued

Board culture

The Chairman is directly accountable for the culture of the Board, which is defined by:

— highly experienced and knowledgeable directors, with a wide range of skills and diverse perspectives who act confidently and are true to themselves
— a conservative, measured approach to business, allied with a willingness to take considered risks through insightful investment to achieve strategic goals
— the relationships between individual directors and the senior executives, which encourage beneficial debate and open discussion of views

The Board's culture permeates throughout the Group's operations and is enshrined within intu's values, which encourage staff to be creative, bold and genuine at all times. Further information on intu's culture and values can be found on pages 55 to 57.

Our approach to CR

CR underpins the strategic aims of our business, creating a long-term and sustainable business that brings value to all our stakeholders.

Further details of our related activities can be found in the 2016 CR report

Leadership

The Board and its governance framework

The Board is responsible for setting intu's strategic aims and then monitoring management's performance against those aims as well as setting the strategic framework within which those aims can be achieved. The business model described on pages 28 and 29 illustrates the key value creation and operational drivers for intu's strategy and the means by which the Board ultimately delivers long-term growth and sustainable returns for shareholders and debt investors.

Appropriate and effective corporate governance is taken seriously at intu and is intrinsic to all aspects of the Board's activities. Consequently, governance is interwoven into the activities of management, who are accountable to the Board, and all employees who are in turn accountable to management. This is reinforced by the established coherent governance framework which underpins the culture and workings of the Group with clearly defined responsibilities and accountabilities, consisting of:

— Board committees to enable the Board to operate effectively and give full consideration to key matters (as shown in the diagram on page 63)
— delegated authority limits, which apply at all levels of the business and are incorporated into all operational procedures ensuring matters are dealt with at the appropriate level
— internal policies, procedures and controls (including risk management arrangements, delegated authority limits and a related parties protocol) which are regularly reported on, reviewed and updated by the Board and relevant committees
— internal processes which are communicated to all staff and are available at all times on the Group's intranet

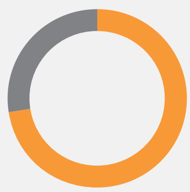
Each aspect is routinely reviewed by the Board and updated to satisfy the needs of the business. The Board has continued to review its governance framework and has adjusted, where necessary, the roles, structure and accountabilities of senior management to reflect the demands of the business. During the year, the governance structure below the Board was reviewed to ensure the correct and accurate flow of information and responsibility. For instance, following the retirement of the Chief Operating Officer at the end of 2015, the delegated authority limits were revised to reflect the increased scale of the Group's operations. The role was divided into three parts to facilitate decision-making. Matthew Roberts, Chief Financial Officer, assumed responsibility for centre-based operations and two new roles, Development Director and Asset Management Director, were created.

Structure of the Board and independence

Board structure

Board independence (excluding Chairman)

Gender split



Roles and responsibilities

Role		Responsibility
Chairman	Patrick Burgess	Leading the Board, setting agendas, achieving clarity of decision-making, ensuring effectiveness in all aspects of the Board's remit, driving the culture of accountability and openness and ensuring effective two-way communication with shareholders and between non-executive directors and senior management
Chief Executive	David Fischel	Delivery of Group strategy, primary accountability for day-to-day operational management, implementation of policies and strategies developed by the Board, modelling and setting the Company's culture, and developing the abilities and skills of the Group's personnel to their maximum potential
Chief Financial Officer	Matthew Roberts	Managing the Group's funding strategy, financing, reporting and investor programme, encompassing leadership of the finance function. From January 2016 also responsible for intu's centre-based operations
Independent Non-Executive Directors*	Adèle Anderson, Rakhi Goss-Custard, Andrew Huntley, Louise Patten, John Strachan, Andrew Strang	Bringing an external and independent view to the Board's discussions, objectively scrutinising the performance of management, providing rigorous and constructive challenge to executive management when appropriate, ensuring financial controls and risk management are robust, determining appropriate levels of remuneration for management. Independent non-executive directors are entitled to attend any committee meeting if they wish, without the responsibility of full membership
Senior Independent Director	Andrew Huntley	Providing advice, additional support and experience to the Chairman as required. Available to act as an intermediary for the other directors if necessary. Leads the appraisal of the Chairman's performance annually in conjunction with the other non-executive directors and is available as an additional point of contact to shareholders
Non-Independent Non-Executive Directors	Richard Gordon, John Whittaker	intu has representatives of two major shareholders appointed as non-executive directors – the Deputy Chairman John Whittaker and Richard Gordon. Direct shareholder Board representation, with appropriate management of conflicts, ensures that key strategic, operational and governance decision-making is more closely aligned with the interests of the direct shareholder groups they represent and other institutional and retail investors generally. In this respect the Group surpasses the expectations of the Stewardship Code. The representative directors also contribute strongly to the Board's culture and personality, adding insight and constructive challenge from their varied commercial backgrounds, their experience and expertise
Alternate Directors	Steven Underwood, Raymond Fine	In accordance with the Company's articles of association, John Whittaker and Richard Gordon have appointed Steven Underwood and Raymond Fine respectively as their alternates. The Board has generally invited the alternates to attend Board meetings

* The Board reviews the independence of its non-executive directors on an annual basis. With the exception of John Whittaker and Richard Gordon, the Board has concluded that all other non-executive directors are independent.

Biographical details of each Director are set out on pages 60 and 61

Length of tenure of Directors

0 – 3 years	2
3 – 6 years	2
6 – 9 years	5
9+ years	2

Board relevant sector experience (percentage of Board)

Property	**81%**
Digital	**9%**
Legal	**9%**
Retail	**81%**
Financial	**27%**
Governance	**18%**

The Board continued

Effectiveness

Balance and composition

The Nomination and Review Committee regularly reviews the composition of the Board to ensure that it operates efficiently and has access to a broad range of knowledge and viewpoints. The Board determined that new candidates for the role of non-executive director should have sector-relevant qualifications and experience – notably in property, retail, finance or digital, to ensure that these key areas are well-represented – while also having regard to wider business knowledge and diverse backgrounds which can be beneficial to the Group.

The appropriate balance of skills, independence, experience and knowledge does not in itself ensure the efficient operation of a board. To this end, the Chairman's style and leadership of the Board are essential to creating an environment where the non-executive directors are able to draw on their own experience to constructively challenge the views of the executive management. The Chairman facilitates this by drawing on the non-executive directors' range of experiences to provide insight and alternative perspectives and has invited all independent non-executive directors to attend any committee, irrespective of whether they are formally a member of such committee.

The balance of the Board is illustrated on page 64.

Time commitment and external activities

Non-executive directors are appointed for a three-year term and their continuing service thereafter is subject to review by the Board and annual re-election by shareholders. Their annual time commitment varies with specified minimum requirements within the terms of their appointment and is assessed as part of each director's annual review. Each Director has demonstrated that he or she has sufficient time to devote to their present role at intu.

Board meetings

Board agendas are shaped to create time for strategic discussion and debate with time allocated to routine matters being closely managed.

Board attendance table 2016

	Board[1]	Audit	Nomination & Review	Remuneration
Patrick Burgess	4/4[2]	4/4[4]	3/3[2]	4/4[4]
John Whittaker	4/4	–	–	–
David Fischel	4/4	3/4[4]	3/3[4]	3/4[4]
Matthew Roberts	4/4	4/4[4]	–	–
Andrew Huntley	4/4	–	3/3	4/4
Adèle Anderson	4/4	4/4[2]	–	4/4
Richard Gordon	4/4	–	–	–
Rakhi Goss-Custard	4/4	4/4	–	–
Louise Patten	4/4	–	3/3	3/3[2]
Neil Sachdev[3]	2/2	2/2	2/2	2/2
John Strachan	4/4	–	–	–
Andrew Strang	4/4	3/4	–	–

1 Scheduled Board meetings only, excludes Board away day, Spanish centres visit and Board update conference calls.
2 Board or Committee chairman.
3 Neil Sachdev stepped down from the Board following the 4 May 2016 annual general meeting.
4 Attends meetings in a non-voting capacity.

At each scheduled Board meeting, the Executive Directors, Asset Management, Development and Commercial Directors each provide updates on their key areas of responsibility. In addition, the chairmen of the Audit, Remuneration and Nomination and Review Committees give updates on the workings of and progress made by those Committees, highlighting any areas requiring escalation to, or consideration by, the full Board. Other matters for discussion are added to the agenda for scheduled Board meetings, or discussed at additionally convened Board meetings, as required.

Conflicts of interest

The Board has adopted a formal procedure under which directors must notify the Chairman of any potential conflicts. The Chairman then decides whether a conflict exists and recommends its authorisation by the Board where appropriate. In certain circumstances, the conflicted director may be required to refuse himself from the Board's discussions on a matter in which he or she is conflicted. Directors must also notify the Chairman when they take on any additional responsibilities or external appointments, and it is their responsibility to ensure that such appointments will not prevent them from meeting the time commitments discussed above.

"The Chairman's style and leadership of the Board are essential to creating an environment where the non-executive directors are able to draw on their own experience to constructively challenge the views of the executive management."

Board oversight of risk management

The effective assessment and management of risk is key to the delivery of the Group's strategy. The setting of the Group's risk appetite by the Board provides the framework within which the Group's risk management process operates.

The Board has overall responsibility for risk management and the Audit Committee monitors and reviews the effectiveness of the risk management process ensuring that the appropriate governance and challenge around risk is embedded throughout the business.

The Group's risk management process is set out in more detail on pages 36 and 37, and the Group's principal risks are discussed on pages 38 and 39. As part of the Governance Framework all recommendations to the Board must include specific consideration of potential risks to ensure this aspect is given due consideration while still permitting the Board to act decisively.

Many of the risks to which the Group is exposed have remained broadly in line with 2015. One of the principal changes in the period was the increased uncertainty in the UK economy and real estate markets following the vote on 23 June 2016 for the UK to leave the European Union. This is discussed in further detail on page 38.

Communication

Directors are kept fully informed of progress on key matters, including operational and financial performance, between formal meetings. This is achieved by way of either scheduled conference calls or less formal update meetings in months where there is no formal Board meeting scheduled. Ad hoc meetings and working visits to centres are also regularly arranged to support the Chairman's policy of open communication. The chairmen of the Audit Committee and Remuneration Committee communicate regularly and directly with relevant staff and external advisers, including but not limited to the Head of Risk and Internal Audit, the Company Secretary and Deloitte, who act as the Remuneration Committee's consultants.

The Chairman and Company Secretary ensure that all Directors are provided with accurate and timely information to facilitate informed discussion at Board meetings.

Relations with shareholders

We place considerable emphasis on maintaining an open and frank dialogue with investors. Our programme of investor relations activities involves members of the Executive Committee (including, on occasion, the Chairman) and the Head of Investor Relations. We seek to develop existing and potential investors' understanding of intu's business strategy, operations, performance and investment case. This provides the Board and Executive Committee with an insight into the differing views of intu's institutional and other significant investors as well as those of retail shareholders.

Key activities in 2016 included:

— results meetings and update calls: an average of 50 institutions attended each announcement
— road show meetings: following results announcements we conducted around 170 meetings in the UK, South Africa, US and Europe
— investor conferences: we attended nine real estate conferences organised by investment banks, meeting 130 institutions
— site visits: toured Puerto Venecia, intu Eldon Square and intu Metrocentre in the year, with 35 investors and 12 sell-side analysts
— interaction with sell-side analysts: engaged with analysts from around 20 institutions to ensure the insight of their research was accurate

380 

investor interactions in 2016

Viability statement

In accordance with provision C.2.2 of The UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than that required in adopting the going concern basis of accounting. Based on the result of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five calendar years. This period is considered appropriate because of the combination of the following factors:

— the Group's strategic plan covers 10 years, with a greater degree of detail and rigour applied to the first five years
— the Group's weighted average unexpired lease term, which at 31 December 2016 was 7.7 years
— the Group's weighted average debt maturity, which at 31 December 2016 was 7.1 years
— the term of the Group's Revolving Credit Facility, which currently extends to 2021

The strategic plan incorporates the Group's strategic objectives and considers the impact of the principal risks. The plan considers net rental income, cash flows, development expenditure, potential corporate transactions and refinancing plans over the 10-year period. It highlights the impact of the relevant principal risks on key metrics such as debt to assets ratios, earnings per share and financial headroom and models the impact of potential corporate transactions and their impact.

Principal risks are set out in detail on pages 38 and 39, and the relevant risks for assessing viability have been identified as:

— macro-economic; specifically impact on rental income levels, property values and current headroom (Risk 1)
— retail environment; specifically impact on occupancy and pipeline (Risk 2)
— terrorism; specifically negative impact on lettings and rental growth (Risk 5)
— availability of funds; specifically impact on liquidity (Risk 6)

We also consider the impact on the Group's financial position of changes in key input assumptions including asset values, income and refinancing. Key assumptions and sensitivities addressed include:

— refinancing of debt; £1.9 billion (around 40 per cent) of the Group's debt is due for repayment in the next five years
— falls in the value of investment property of up to 25 per cent
— falls in income of up to 10 per cent

Audit Committee

Areas of focus in 2016
— cybersecurity
— international operations
— audit tender process
— viability statement

Members in 2016
Chairman
Adèle Anderson
(Independent Non-Executive Director)
Members
Rakhi Goss-Custard
(Independent Non-Executive Director)
Neil Sachdev (until 4 May 2016)
(Independent Non-Executive Director)
Andrew Strang
(Independent Non-Executive Director)

For members' other board appointments, skills and experience see Board of Directors on pages 60 and 61

Areas of focus in 2017
— developments
— international operations
— culture
— completion of audit tender process

Dear shareholder

As the Chairman of the Audit Committee it is my role to present to you the Audit Committee report for 2016.

The Committee has this year continued to focus on risk management, particularly in relation to the evolving digital environment, our developments in the UK and our expanding operations in Spain. The Committee has reviewed the results of the risk review performed by the Board, and also overseen the implementation of key recommendations following the independent review of the intu risk process performed at the end of last year. The Group's approach to risk management is described in detail on pages 36 and 37 and the principal risks are detailed on pages 38 and 39.

Following our annual review of auditor quality and independence (see page 71 for more detail), we have recommended that PricewaterhouseCoopers (PwC) be reappointed for the 2017 audit.

The EU Audit Regulation (537/2014) and Audit Directive (2014/56/EU) became applicable from 17 June 2016 and must be implemented in the UK from that date. These limit the length of tenure an audit firm can serve, and put in place requirements for the audit tender process as detailed below. PwC has been intu's audit firm for more than 20 years and a tender process is in progress such that, allowing for transition, a new audit firm will be in place for the year ending 31 December 2018.

Responsibilities
The Audit Committee's key responsibilities are to monitor and review:

— the integrity of the financial statements, including a review of the significant financial reporting judgements and accounting policies
— the effectiveness of the Group's internal control and risk management
— the effectiveness of the internal audit function, including the work programme undertaken by the function
— the Group's policy on and approach to whistleblowing
— the Group's overall approach to monitoring areas of risk
— the Company's relationship with the external auditor, including its independence

Main activities during the year
The Audit Committee considered the following key matters in 2016:

— valuation of the Group's investment property
— the Group's cybersecurity plans
— accounting treatment of the most significant transactions including the acquisition of the remaining 50 per cent of intu Merry Hill, the issue of convertible bonds and the disposal of intu Bromley
— financial control of the Spanish business
— the 2016 internal audit plan and audit charter
— the viability statement
— items classified as 'exceptional'
— the results of a review of the carrying value of the Group's investment in Prozone
— the Group's counter-terrorism approach
— the Group's supply chain processes
— valuation of the Group's swap portfolio
— the Group's approach to tax risk

Audit Committee continued

Key financial reporting and significant judgements

During the year the Committee discussed the planning, progress and final conclusions of the external audit process. The audit plan was reviewed and approved at the July 2016 Committee meeting. The significant risk areas identified were: investment property valuations; significant transactions during the year; revenue recognition; and management override of controls. International Standards on Auditing (UK and Ireland) identify these latter two risks as significant for all companies.

These issues were discussed by the Committee following finalisation of the audit.

The Committee takes into account the views of the external auditor in understanding and assessing whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and whether disclosures are balanced and fair. The main issues discussed by the Committee in the year are detailed in the table below.

Issue	Action taken
Valuation of investment and development property	For the interim results at 30 June the Audit Committee carried out a review of the investment property valuations. The full Board carried out a review of the 31 December valuations included in this report. Due to the overall importance of the valuations to the Group's results, the relevant Audit Committee meeting included a presentation from Knight Frank as part of the discussions considering the valuation process. The Audit Committee review included discussion with management and the auditor of the key assumptions and results of the valuation process undertaken by the independent third party valuers. This review also included understanding which general factors had influenced the valuers in concluding on appropriate yields to use in the valuations. This involved factors affecting both the investment and occupier markets and recent comparable market transactions. Particular emphasis was given to understanding the factors that had resulted in individual property valuations being either significantly above or below the average movement in the Group's valuations.
Presentation of information	Operating through joint ventures is a core part of intu's strategy. Management both review and monitor the business, including the Group's share of joint ventures, on an individual line basis not on a post-tax profit or net investment basis. The figures and commentary presented in the strategic report have therefore been presented consistently with this management approach. Reconciliations between the management and statutory bases are provided in the other information section on pages 168 to 170. The Committee has reviewed the prominence given to both statutory information and information on a management basis, and concluded that the approach adopted provides the most useful analysis of the results for the year.
Going concern	The Company's 'going concern' review, which is based on an 18-month cash flow projection with particular focus on the next 12 months, was discussed with management. The projections cover the major trading cash flows, being rental income and interest expense, and capital expenditure plans in the context of the latest debt maturity profile. Stress tests of the projections were considered, covering reductions in the value of the Group's properties as well as alternative capital funding scenarios and what impact such changes may have on both the Group's liquidity and its ability to meet the financial covenants on its debt facilities. The discussion also considered what actions were available to the Group to mitigate the impact of such reductions on the cash flow projections. Following discussions with management, the Committee agreed with the conclusions reached and the treatments relating to the above issues adopted in these financial statements.
Viability statement	In accordance with provision C.2.2 of The UK Corporate Governance Code, the Board has assessed the prospects of the Company over a longer period than that required in adopting the going concern basis of accounting. The viability statement is included on page 68 and sets out the conclusion of that assessment. The Audit Committee assessed the viability position and reported its recommendations to the Board.

Fair, balanced and understandable

At the request of the Board, the Committee considered whether the 2016 annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess intu's performance, business model, position and strategy. As part of its considerations the Committee took into account the preparation process detailed below which, together with opinions of key executives and the external auditor, has been designed to assist the Audit Committee in reaching its view:

— at an early stage, a matrix is produced identifying key themes and the sections in which those themes should be reflected
— individual sections of the annual report are drafted by appropriate senior management with regular review meetings to ensure consistency across the whole document
— a verification process is undertaken to ensure that information contained is appropriately supported and factually accurate
— detailed reviews of drafts of the annual report are undertaken by members of the Executive Committee and other senior management
— drafts are discussed with the Group's legal advisors and brokers
— a final draft is reviewed by the Audit Committee and discussed with senior management prior to consideration by the Board

As a result of its considerations the Committee is satisfied that, taken as a whole, the annual report is fair, balanced and understandable and has recommended it as such to the Board.

External auditor

The Audit Committee has assessed the effectiveness of the external auditor, PwC, in line with the approach set out in the Financial Reporting Council's Audit Quality Practice Aid. In carrying out the evaluation the Audit Committee has held discussions without the auditor, asked the auditor to explain the risks to audit quality that they have identified and their firm-wide controls relied upon, enquired about the findings from internal and external inspections of their audit, challenged the auditor's strategy and plan and discussed the outputs of the audit with the auditor. This included direct meetings, review of reporting issued by the external auditor and review of independent reports:

— senior finance staff reviewed the detailed execution of the 2015 audit plan with the engagement team and identified specific improvements for the 2016 plan
— the report of the Financial Reporting Council (FRC)'s May 2016 Audit Quality Inspection review of PwC was reviewed and found to be supportive of the firm's overall systems of quality control
— the Chairman of the Audit Committee and the Chief Financial Officer each met privately with a senior partner of PwC unrelated to the engagement to review the performance of the firm
— the Audit Committee reviewed the audit plan provided by PwC, including the risks identified and its approach to these

The Company has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and in doing so has applied the transitional provisions related to the audit tender process.

The tender process commenced during 2016 and will conclude during the first half of 2017 such that, allowing for transition, a new audit firm will be in place for the year ending 31 December 2018. The Company has compiled a shortlist of potential firms based on selection criteria, confirmation of both independence and wish to tender, as well as meetings with potential lead audit partners. The formal phase of the tender process will commence shortly.

The EU Audit Regulation (537/2014) and Audit Directive (2014/56/EU) ("the regulations") became applicable in the UK from 17 June 2016, and apply to the Group for the period from 1 January 2017. The above plans are in line with the requirements of these.

A resolution to reappoint PwC for the 2017 audit will be proposed at the 2017 annual general meeting. The Committee will continue to review the effectiveness and independence of the external auditor each year.

Non-audit services

During 2016 the Group had a policy to ensure that the provision of any non-audit services by the incumbent external auditor did not impair the external auditor's independence or objectivity.

The Audit Committee had delegated to the Executive Directors the authority to contract for non-audit services with the external auditor up to a specified value, subject to consideration whether proposed arrangements would maintain audit independence, as well as the external auditor satisfying the Company that independence would be maintained.

The Audit Committee had considered the option of putting material non-audit work out to tender. While recognising that the circumstances of a particular transaction may have made it most sensible to use the incumbent external auditor for such work (for example where the nature of the transaction would not allow a new firm sufficient time to assimilate the requisite knowledge of the Group's operations in order to carry out

Audit Committee continued

the non-audit work), the Audit Committee had recommended that non-audit work should be undertaken by someone other than the external auditor wherever practical.

Details of the amounts paid to the external auditor for audit and non-audit services are included in note 9 to the financial statements. The Company engaged PwC to carry out certain non-audit work in 2016 including assurance services in respect of the Group's 2016 interim report. The above safeguards were adhered to when awarding this non-audit work and fees paid to PwC in respect of non-audit work represented 7 per cent of audit fees paid. During 2016 the Group used accounting firms other than PwC for a number of assignments.

On 1 January 2017 the Group implemented the FRC's Ethical Standard for Auditors which imposes restrictions on certain non-audit services. A number of non-audit services are prohibited and others require approval by the Audit Committee. There is an overall fee limit of 70 per cent of the average of audit fees charged in the past three years, and hence the fee limit comes into force for the financial year to 31 December 2020.

Consequently, from 1 January 2017 the Audit Committee now has sole authority to contract for non-audit services with the external auditor subject to observing certain guidelines including:

- the Audit Committee must consider whether the proposed arrangements will maintain audit independence
- the external auditor must satisfy the Company that it is acting independently

The table below summarises the fees paid to the auditor over the last three years.

	2016 £000	2015 £000	2014 £000
Audit fees	**705**	628	566
Non-audit fees	**48**	96	1,074
Total fees paid to auditor	**753**	724	1,640
Ratio of non-audit fees to audit fees	**7%**	15%	190%

The three-year average ratio of non-audit fees to audit fees is 71 per cent. The higher levels of non-audit fees in 2014 principally related to reporting accountant work in respect of raising debt and the 2014 rights issue (the analysis does not remove certain non-audit fees which are now excluded from the calculation of the ratio).

Risk management and internal control

The Board has overall responsibility to oversee the Group's system of internal control and to keep its effectiveness under review, as well as to determine the nature and extent of the risks it is willing to take in achieving its strategic objectives based on the balance of potential risks and reward. The Group's approach to risk management is described in detail on pages 36 and 37 and the principal risks are detailed on pages 38 and 39.

The Audit Committee oversees the Board's annual review of the effectiveness of the risk management and internal control systems. During this review the Board has not identified nor been made aware of any failing or weakness which it has determined to be significant.

The key elements taken into account in this review include:

- the Group's internal audit function's work during the year (see page 73)
- the Group's risk management process
- the Group's controls over its financial reporting process including: the comprehensive system for reporting results to the Board for review and consideration; the review process underlying the production of the consolidated financial statements; and the experience and quality of the team involved in the financial reporting processes
- the status of the independent review

Committee membership

The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties and responsibilities. The Board is satisfied that the Committee has recent and relevant financial experience for the purposes of the UK Corporate Governance Code (the 'Code'). Additionally, in accordance with the 2016 Corporate Governance Code (applying to the Company from its 2017 financial year) the Board has determined that the current composition of the Audit Committee as a whole has competence relevant to the sector in which the Company operates. For full detail of the members' experience and skills please see Directors' biographies on pages 60 and 61.

Internal audit

The Group has a risk and internal audit function which reports to the Audit Committee. The risk and internal audit function reviews internal controls and reports to the Audit Committee on whether such controls are in place and are being operated effectively. The function covers intu properties plc and its subsidiaries and joint ventures.

The risk and internal audit function has a rolling programme of reviews ensuring that all centres, functions and areas of the business are reviewed regularly. The most significant areas covered in 2016 included shopping centre healthchecks, information and communication technology governance, insurance, procurement and supply chain, business information and mergers and acquisitions. Additionally, annual assurance activities were performed, including a review of the assurance map, gifts and hospitality and executive expenses.

The Audit Committee regularly reviews the effectiveness of the risk and internal audit function and in particular ensures that the function remains sufficiently independent of the wider business to ensure it can carry out its work effectively. An independent review of the risk and internal audit function is carried out every five years and was last performed at the end of 2013. An external review of the Group's risk management process was carried out at the end of 2015 as discussed in the focus on risk section on pages 36 and 37. The key recommendations have been implemented during 2016.

Whistleblowing policy

The Audit Committee is responsible for overseeing the Group's whistleblowing policy and procedures, under which employees can raise concerns about possible improprieties (whether financial or otherwise) within the Group on a confidential basis.

The arrangements are monitored by the Committee throughout the year. All whistleblowing incidents are reported to the Committee and fully investigated with procedures reviewed and improved where appropriate.

There were five whistleblowing incidents relating to the intu Group during 2016. These were: an ex-employee alleging various operational shortcomings (investigations revealed a personal grievance, and corrective action was taken); a report that electrical testing was not complying with the correct process (allegation was unsubstantiated); a report that security staff were leaving a centre early (again, unsubstantiated); a report of inappropriate purchasing practices between a supplier and certain staff (investigations led to three employees leaving the business); and a report that a centre was not adhering to correct purchasing policy (investigations led to the centre implementing additional controls).

Audit Committee effectiveness

As part of the Board evaluation process, the Audit Committee reviewed its own effectiveness and this confirmed that the Committee remained effective at meeting its objectives.

Adèle Anderson
Chairman of the Audit Committee
23 February 2017

Nomination and Review Committee

Highlights of 2016
— Chairman succession planning
— Externally facilitated Board evaluation

Members in 2016
Chairman
Patrick Burgess
(Chairman of the Board)
Members
Andrew Huntley
(Independent Non-Executive Director)
Louise Patten
(Independent Non-Executive Director)
Neil Sachdev (until 4 May 2016)
(Independent Non-Executive Director)

Areas of focus 2017
— Continue refreshing of Board composition in line with succession plans
— Ensure smooth succession of the Chairman

Dear shareholder

2016 has been an important and busy year for the Committee.

As Chairman of the Committee it is my responsibility to ensure that we follow a robust process and best governance practice whenever key decisions are taken, in particular relating to new appointments and when considering the composition of the Board.

We continue to have more than 27 per cent female representation on the Board. The Board is supportive of Lord Davies' aspirational target of 33 per cent female Board representation by 2020. Further information regarding our diversity policy is set out below.

Responsibilities and how they were discharged in 2016
The principal role of the Nomination and Review Committee is to evaluate the skills available on the Board and to determine when appointments and retirements are appropriate.

In addition to its key responsibilities set out above, the Committee is also responsible for carrying out the annual performance evaluation of the Board, its Committees and individual Directors, as well as making recommendations on appointments to the Board, including the induction programme for newly appointed directors, and on succession planning. Those Non-Executive Directors who have served on the Board for six years or more have been subject to a particularly rigorous review.

The Committee carried out a formal Board performance evaluation process, the outcome of which is summarised opposite.

The Committee met four times in 2016 with its main focus on the composition of the Board and succession planning, in particular for the chairman and the senior independent director.

Statement on diversity policy
The Nomination and Review Committee, and the Board, have always recognised the importance of boardroom diversity, providing a wide range of perspectives, and the Committee's policy is to seek to ensure that a range of suitable candidates is taken into account when drawing up longlists and shortlists. The priority of the Committee is to ensure that the Group continues to have the most effective Board possible and all appointments to the Board are made on merit against objective criteria.

Board composition
The Committee's discussions regarding the composition of the Board continue to be framed by the Company's previously stated goal of reducing the overall size of the Board. The Committee is satisfied that the balance of skills, knowledge and experience on the Board and its Committees is appropriate.

Succession planning
The Committee (chaired by Andrew Huntley without my attendance when discussing chairman succession), has been co-ordinating the search for a new chairman and senior independent director, in line with relevant Board policies, and with appropriate input from an independent executive search firm Korn Ferry Whitehead Mann.

I am pleased to announce John Strachan as my successor. He has been a non-executive director since October 2015 and brings a wealth of experience from the retail property sector in the UK and internationally, including Spain.

Talent, training and development
Talent development is a key focus of the Committee and a comprehensive talent and leadership programme, including succession planning, has been implemented for senior management across the Group. The Committee receives regular update reports regarding progress and remains confident in the future potential of the Group's most promising executives and staff.

The Chairman, with the assistance of the Nomination and Review Committee, regularly considers the need for directors to update and expand their skills and knowledge. Training is provided for non-executive directors in the form of presentations at Board meetings, attendance at relevant seminars and courses.

The Board also recognises the need for directors to keep up-to-date with relevant legislative and regulatory developments as well as changes to corporate governance best practice and investor expectations. The Company Secretary reports to each Board meeting on these matters, drawing attention to any issues of particular relevance.

Re-election of non-executive directors

All Non-Executive Directors will submit themselves for re-election at the forthcoming annual general meeting in May 2017, with the exception of myself and Andrew Huntley, our Senior Independent Director, as we are both stepping down from the Board at that point.

Patrick Burgess
Chairman
23 February 2017

Induction for new directors

There is a comprehensive induction programme for new directors which is tailored by the Chairman, in consultation with the Chief Executive and Company Secretary, depending on the type of appointment. The programme ordinarily includes meetings with Board members, senior management and external advisers, as well as a high-level review of all current projects, Board strategy and an in-depth review of the Group's assets. Additional elements are added to the programme on discussion between the Chairman and the individual director.

Where required, the Company Secretary provides guidance or facilitates the provision of training on directors' duties under the Companies Act 2006 and on legal, regulatory and governance matters with which the Company, Board and individual directors must comply.

Performance evaluation

Every year, the Board conducts a performance evaluation of the performance of the Board and its Committees. In addition, the Chairman reviews the performance of each Director and the Senior Independent Director oversees the review of the Chairman's performance. The evaluation exercise conducted during 2015 identified three areas requiring attention during 2016. Progress against those areas is shown in the table below:

Areas identified for attention in 2016	Action taken
Board succession planning	As outlined on page 74 the Committee has overseen the process for the succession of the Chairman and the Senior Independent Director
Nomination and Review Committee	Board succession is a standard agenda item
Board Committees	Board Committees' terms of reference were reviewed and all independent non-executive directors have been invited to attend any committee meeting if they so wish, irrespective of their formal membership

2016 performance evaluation

This involved an external independent facilitator, Lintstock, engaging with the Chairman and Company Secretary to set the context for the evaluation and tailor surveys for all directors to the specific circumstances of intu. Lintstock is a specialist corporate governance consultancy and has no commercial dealings with the Group, other than for the provision of corporate governance services to the Board. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

As a result of the analysis, among other things the Board agreed that it should continue to devote attention to succession planning, consider the balance between presentation and discussion at meetings, and continue to spend more time discussing strategic topics.

In 2017, it is envisaged that Lintstock will facilitate an interview-driven review of the Board and its Committees, building upon the trends and themes in the output of the 2016 evaluation.

Directors' remuneration report

Members and meetings in 2016

	Remuneration Committee[1] (4 meetings) A	B
Louise Patten (Chairman) (Independent Non-Executive Director)	4	4
Neil Sachdev (stepped down on 4 May 2016) (Independent Non-Executive Director)	2	2
Adèle Anderson (Independent Non-Executive Director)	4	4
Andrew Huntley (Independent Non-Executive Director)	4	3

A = Maximum number of meetings eligible to attend.
B = Number of meetings actually attended.

[1] The Committee normally invites the Chairman, the Chief Executive, the Company Secretary and the HR Director to attend the scheduled meetings. The Chairman and the HR Director attended all four of the scheduled meetings in 2016. The Chief Executive attended three of the four meetings. No individual is present when his or her remuneration is being determined.

Remuneration governance aligned features

Malus provisions for both the annual bonus and the PSP	✓
Clawback provisions for both the annual bonus and the PSP	✓
Time horizon extending to five years for a portion of the PSP	✓
Full retrospective disclosure of annual bonus financial targets including minimum and maximum target range	✓
Shareholding requirement of 200 per cent of salary	✓

Dear shareholder

I am pleased to present intu's 2016 Directors' remuneration report to you, which has been prepared by the Remuneration Committee and approved by the Board.

Results and context of remuneration

Our core business performed well during 2016, and our strategy of creating and managing the best shopping centres delivered strong like-for-like net rental income growth, improved operating metrics and growth in underlying earnings per share in the year. Our brand awareness continues to grow and our continued innovation and evolution ensure that retailers and customers understand the intu difference. We have made significant progress on our strategic priorities in 2016, including successful delivery of major centre development projects like intu Metrocentre and an active year of asset recycling with the disposal of intu Bromley, allowing us to acquire the remaining 50 per cent of intu Merry Hill. We also maintained a similar debt to assets ratio, continued focus on the Spanish market and strong performance against customer and employee satisfaction metrics.

Remuneration policy

Our Directors' remuneration policy was approved by shareholders at the 2014 annual general meeting, and we were pleased to receive 99.77 per cent support from our shareholders. This year, in line with the regulatory requirements, we are resubmitting our Directors' remuneration policy for shareholder approval.

We have made no significant changes to our policy other than to formally incorporate clawback (introduced in 2016) into the policy. The revised policy is presented at the back of this report.

Earlier in the year we undertook a review of our remuneration arrangements and concluded that the existing framework continued to support our strategy. As a Committee we continue to monitor developments in the remuneration governance environment. We noted the recommendations of the Executive Remuneration Working Group in relation to increased flexibility in approaches to remuneration, a conclusion we supported. The timing of our own review has meant that we did not explore the potential significant structural changes which were considered in these findings, but the Committee will continue to monitor developments and may reassess our position in the future.

Alignment with long-term success

The Committee believes that our remuneration philosophy and incentive policy is aligned with the long-term success of the Company. Our long-term incentive plan has time horizons extending to five years, and 50 per cent of our annual bonus is deferred into shares. Performance pay is linked to:

- out-performance of total shareholder return (TSR) against our peers
- delivering absolute total return for our shareholders
- annual EPS performance
- achievement of our strategic initiatives that will build value for the longer term

In addition, from 2017, the Chief Financial Officer will be required to build up a shareholding in intu shares worth 200 per cent of salary, in line with the requirement that already applies to the Chief Executive.

As part of this year's remuneration review, consideration was given to whether to introduce a further holding period to the Performance Share Plan (PSP). The Committee believes that the current performance period of three, four and five years, combined with clawback provisions of one year following vesting, already provides strong alignment between the Executive Directors and shareholders, although this position will be kept under review.

Key areas of focus and decisions in 2016 and for 2017

In addition to reviewing the Directors' remuneration policy, the Committee also made a number of decisions regarding the application of our policies in 2016 and for 2017. Key decisions included:

- the Chief Executive's and Chief Financial Officer's salaries will be increased by 3.2 per cent to £605,800 and £478,150,

respectively. This increase is below the average increase for other staff in the business
- fees for our new Chairman will be £275,000 per annum
- the annual bonus awarded to the Chief Executive and Chief Financial Officer for the year ended 31 December 2016 was 114.4 per cent and 115.6 per cent of salary representing 95.3 per cent and 96.3 per cent of maximum opportunity respectively, based on EPS performance in the year and the achievement of key strategic objectives
- the second tranche of the 2013 PSP award and first tranche of 2014 PSP award are due to vest at 24.2 and 48.6 per cent, respectively, reflecting intu's strong absolute total return (NAV per share growth plus dividends) over a three and four year period
- no changes have been made to the performance measures for the annual bonus and performance share plan
- PSP awards of 250 per cent of salary were made to each of the Executive Directors. These will only vest subject to the achievement of stretching TSR and absolute total return performance conditions, over three, four and five years
- the shareholding requirement for the Chief Financial Officer has been increased to 200 per cent of salary, bringing it in line with the requirement that already applies to the Chief Executive

Shareholder annual general meeting

Both the Directors' remuneration policy report and the annual remuneration report will be put to shareholder vote at our 2017 AGM and we look forward to receiving your views and support.

Louise Patten
Chairman of the Remuneration Committee
23 February 2017

Compliance statement

This is the Directors' remuneration report of the Company which has been produced pursuant to, and in accordance with, the Listing Rules, section 420 of the Companies Act 2006 and Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended 2013). The Company also complies with the requirements of the UK Corporate Governance Code (the 'Code').

This report contains both auditable and non-auditable information. The information subject to audit is set out in the Directors' remuneration report, in sections marked with §.

Overview of Executive Director remuneration

An overview of the key remuneration elements in place for Executive Directors is set out below. The only change to the operation of our policy is an increase in the shareholding requirement for the Chief Financial Officer.

Key elements	Timing of payout (2017 / 2018 / 2019 / 2020 / 2021)	Summary of policy	Details of policy for 2017
Base salary		— Salaries are reviewed annually and take into account factors such as: market pay levels for the role, increases for the rest of the Group and individual and Company performance	— Salaries for 2017 are: – David Fischel, Chief Executive: £605,800 – Matthew Roberts, Chief Financial Officer: £478,150 — This is below increases to staff across the business
Pension and benefits		— The Company operates an approved defined contribution pension arrangement, where the contribution is 24 per cent of basic salary. The Chief Executive receives an additional six per cent in recognition of the benefit foregone on the closure of the defined benefit scheme — Benefits include a car allowance (up to £18,000), private medical insurance, life assurance and long-term sickness insurance	
Annual bonus		— Maximum opportunity of 120 per cent of salary — A proportion earned is deferred into intu shares, which vest over two and three years subject to continued employment — At least two-thirds of this award is based on Group financial measures or quantitative key performance measures	— For 2017 performance is based two-thirds on EPS and one-third on strategic and operational objectives. This is the same framework which applied for 2016 — 50 per cent of the award will be deferred into shares
Long-term incentives		— The normal maximum grant size is 250 per cent of salary per annum; however this may be increased to 375 per cent in exceptional circumstances. The intention is that this flexibility would only be contemplated in recruitment circumstances	— Awards of 250 per cent of salary — For 2017, the awards will be based: – 50 per cent on TSR relative to the top five UK listed REITs – 50 per cent on absolute total return (NAV per share growth plus dividends) — Targets unchanged from 2016
Shareholding requirement		— Executive Directors must build up a holding with a value equivalent to 200 per cent of salary	

Directors' remuneration report continued

Annual remuneration report

This report sets out how the Directors' remuneration policy of the Company has been applied in the year and how the Committee intends to apply the policy going forward. In accordance with section 439 of the Companies Act 2006, an advisory shareholder resolution to approve this report will be proposed at the 2017 annual general meeting of the Company. Subsections marked with § have been audited in accordance with the relevant statutory requirements.

Key responsibilities

The principal role of the Remuneration Committee is to determine and then agree with the Board the framework and policy for the remuneration of the Chief Executive, the Chief Financial Officer, the Chairman of the Company and such other members of the executive management as it is tasked to consider.

Key principles of remuneration policy

The Company's remuneration policy aims to attract, motivate and retain high-calibre executives by rewarding them appropriately with competitive compensation and benefit packages. The policy seeks to align the interests of Executive Directors with the performance of the Company and the interests of its shareholders.

Our incentive arrangements are designed to reward performance on our key performance indicators. Our aim is to focus management on delivering sustainable long-term performance and support the retention of critical talent.

Total remuneration in 2016 §

The table below sets out the total remuneration received by each Director for the year to 31 December 2016.

	Salary or fees £000		Benefits £000		Annual bonus (cash and deferred shares) £000		Long-term incentive £000		Pension £000		Total remuneration £000	
Director	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Executive												
David Fischel	**582**	560	**19**	20	**671**	646	**349**	227	**174**	168	**1,795**	1,621
Matthew Roberts	**459**	442	**19**	20	**535**	510	**268**	174	**110**	106	**1,391**	1,252
Chairman												
Patrick Burgess	**410**	407	**8**	8	**–**	–	**–**	–	**–**	–	**418**	415
Independent Non-Executive												
Adèle Anderson	**82**	78	**–**	–	**–**	–	**–**	–	**–**	–	**82**	78
Andrew Huntley	**84**	79	**–**	–	**–**	–	**–**	–	**–**	–	**84**	79
Louise Patten	**79**	70	**–**	–	**–**	–	**–**	–	**–**	–	**79**	70
Neil Sachdev (stepped down 4 May 2016)	**32**	91	**–**	–	**–**	–	**–**	–	**–**	–	**32**	91
Andrew Strang	**64**	63	**–**	–	**–**	–	**–**	–	**–**	–	**64**	63
Rakhi Goss-Custard	**64**	15	**–**	–	**–**	–	**–**	–	**–**	–	**64**	15
John Strachan	**64**	14	**–**	–	**–**	–	**–**	–	**–**	–	**64**	14
Other Non-Executive												
Richard Gordon	**59**	58	**–**	–	**–**	–	**–**	–	**–**	–	**59**	58
John Whittaker[1]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**1,979**	1,877	**46**	48	**1,206**	1,156	**617**	401	**284**	274	**4,132**	3,756

1 John Whittaker did not receive any remuneration in 2016 or 2015 in connection with his position as Deputy Chairman and Non-Executive Director of the Company. A management fee of £210,000 was paid to Peel Management Limited for the provision by Peel of management and advisory services, as further described on page 157.

The figures have been calculated as follows:
- Base salary: amount earned for the year.
- Benefits: the taxable value of annual benefits received in the year. The main benefits are life assurance, long-term sickness insurance, private healthcare and company car cash allowance. The value of the company car cash allowance is £18,000.
- Pension: the value of the Company's contribution during the year (30 per cent salary supplement in lieu of contributions for the Chief Executive, 24 per cent SIPP contribution, part taken as a salary supplement in lieu of SIPP contributions, for the Chief Financial Officer).
- Annual bonus (cash and deferred): the value at grant of the annual incentive payable for performance over 2016 and 2015 respectively.
- PSP: awards shown under 2016 comprise awards made in 2013 and 2014, both of which have one third subject to three-, four- and five-year performance periods. The amount shown is the amount due to vest in respect of the first tranche of the 2014 award, with a three-year performance period to 31 December 2016, and the second tranche of the 2013 award, with a four-year performance period to 31 December 2016. Amounts are calculated using a three month average share price of £2.76. Further information regarding the vesting can be found on page 81. PSP awards shown under 2015 comprise the first tranche of awards made in 2013. In line with the regulatory requirements, these amounts have been restated from the figures disclosed last year to reflect the share price on date of vesting in May 2016.

Performance out-turns and incentives

Annual bonus §

The maximum award for both the Chief Executive and Chief Financial Officer in 2016 was 120 per cent of salary, of which 50 per cent is deferred for two and three years. This will remain unchanged for 2017.

Annual bonus payments are based on pre-determined performance measures. Given the commercial sensitivity, the Committee provides restrospective disclosure of targets. Two-thirds is based on adjusted EPS performance in the year, split evenly between performance versus budget and prior year figures. The overall structure ensures that the maximum EPS related bonus is only achievable if management outperform against both the Board's expectations for the year and if there is an increase in EPS on the prior year.

The remaining third is based on achievement of strategic and operational objectives against a scorecard of measures. The Remuneration Committee considers the objectives carefully each year to align with intu's strategic objectives, and the objectives include quantitatively assessed financial and operational measures and milestones. Each objective relates directly to the strategic plan. Under the scorecard approach, the weightings of each objective vary between Executive Directors to reflect their roles and responsibilities. For 2017, the scorecard will include objectives in the following key areas:

— optimising assets
— key capital expenditure projects
— building the intu brand and delivering customer experience
— maximising the growth opportunities internationally
— financial flexibility
— talent development and staff engagement

Annual bonus – 2016 out-turn §

Performance against the targets for the 2016 short-term incentive arrangements is given below. As in previous years, full retrospective disclosure of financial targets is provided.

		Target				
Performance element	Weighting	Threshold	Target	Maximum	2016 performance	Out-turn (% max element)
Adjusted EPS vs. budget	33%	95%	100%	105%	109.5%	100%
Adjusted EPS vs. prior year	33%	100%	102.5%	105%	105.6%	100%

			David Fischel	Matthew Roberts
Scorecard of strategic and operational measures	33%	See details of scorecard achievements	86%	89%
Total			95.3%	96.3%

The strategic objectives in the annual bonus are a key part of the remuneration framework for incentivising and rewarding achievements and milestones which are the foundation for value creation in the future. The Committee follows a rigorous process in the setting and monitoring of scorecard objectives and then exercises judgement in assessing performance in the key areas selected. This includes determination of objectives by reference to the approved Board strategy, quarterly reviews of quantitative and qualitative data, and an end of year full review with supporting evidence, to ensure a robust assessment of performance against the objectives.

Directors' remuneration report continued

For 2016, the scorecard weightings and out-turns were as follows:

Scorecard (Including specific objectives under each area of focus)	Weighting David Fischel	Weighting Matthew Roberts	Summary achievement against objectives
Optimising performance of existing assets	25%	20%	— Substantial delivery of centre specific objectives resulting in considerable progress against proposed plans for major assets including intu Lakeside, intu Merry Hill and intu Metrocentre — Above target and like-for-like growth in net rental income for 2016 UPPER QUARTILE ACHIEVEMENT
Progress on key capital expenditure projects	20%	20%	— Successful completion of the major projects, with new projects opening in intu Metrocentre, intu Bromley and Grey's Quarter at intu Eldon Square — Good progress with existing developments, with projects proceeding to programme UPPER QUARTILE ACHIEVEMENT
Branding and customer relationships	20%	15%	— Strong performance against net promotor score targets across all centres, including overall improvement on previous year by 2 points to 71 (2015: 69) — Continued strengthening of our digital business, with increase in digital subscribers — Successful delivery of intu Experiences, with above target net income — Out-performance against both previous year and target 'Spontaneous Awareness' metric MAXIMUM ACHIEVEMENT
Financial flexibility	10%	20%	— Maintenance of financial flexibility throughout 2016, exceeding the Board's minimum headroom threshold — Successful delivery of financing for acquisitions — Finalised and concluded the exit of intu's Equity One investment UPPER QUARTILE ACHIEVEMENT
International growth opportunity	15%	15%	— Strong performance at both intu Asturias and Puerto Venecia — Planning approval granted for intu Costa del Sol with work anticipated to start in 2017 — Advancement of planning process in respect of a further three Spanish sites UPPER QUARTILE ACHIEVEMENT
Talent development and staff engagement	10%	10%	— Delivery against 'second tier' talent management initiative, with the initial cohort completing the formal programme during the year — Continued operation of our apprenticeship scheme, recruitment of 14 apprentices in 2016 — Successful integration of new management structure following the departure of the Chief Operating Officer — Maintenance of strong employee engagement score ON-TARGET ACHIEVEMENT

The resulting total short-term incentive payouts for David Fischel and Matthew Roberts in respect of 2016 were 114.4 per cent and 115.6 per cent of salary (95.3 per cent and 96.3 per cent of maximum opportunity), respectively.

Deferral into shares

50 per cent of the 2016 short-term incentive for both David Fischel and Matthew Roberts was deferred into shares of the Company.

Executive Directors must remain in employment with the Company for a period of two years (half of award) and three years (half of award) after the date of award before such shares are released.

Long-term incentives §

Awards with performance periods ending in the year – Performance Share Plan (PSP)

The long term incentive plan awards shown in the single figure relate to awards due to vest in May 2017. This includes:

— the first tranche of the 2014 PSP awards. The second and third tranches of this award are due to vest in May 2018 and May 2019 respectively
— the second tranche of the 2013 PSP awards. The final tranche of this award is due to vest in May 2018

The performance condition for both awards were as follows:

— half of awards vest by reference to TSR relative to the top-five UK-listed REITs with 25 per cent minimum vesting for TSR in line with the third-ranked company; vesting of 60 per cent for TSR in line with the second-ranked company; full vesting for TSR in line with the top-ranked company; and straight-line vesting between points, proportionate to TSR achieved. This portion is also subject to a committee-operated discretionary assessment of underlying financial performance
— half of the awards vest by reference to absolute total return (NAV per share growth plus dividends) with 25 per cent minimum vesting for 6 per cent per annum; full vesting for 10 per cent per annum; straight-line vesting in between. Awards will lapse for growth of less than 6 per cent per annum

2014 PSP award (first tranche)

Over the three-year period to 31 December 2016:

— intu's TSR was ranked fifth against the comparator group resulting in 0 per cent vesting for this element of the tranche
— absolute total return was 9.85 per cent per annum resulting in 97.2 per cent vesting for this element of the tranche

Based on the above performance the Remuneration Committee has determined that 48.6 per cent of the first tranche of the 2014 PSP awards will vest in May 2017.

2013 PSP award (second tranche)

Over the four-year period to 31 December 2016:

— intu's TSR was ranked sixth against the comparator group resulting in 0 per cent vesting for this element of the tranche
— absolute total return was 7.25 per cent per annum resulting in 48.5 per cent vesting for this element of the tranche

Based on the above performance the Remuneration Committee has determined that 24.2 per cent of the second tranche of the 2013 PSP awards will vest in May 2017.

Awards granted during the year §

This table summarises awards granted during the year in March 2016:

		Face value of 2016 award*		% vesting	Performance period end		
Individual	Type of interest	£	% of salary	at threshold	3 years	4 years	5 years
David Fischel	PSP** (nil cost options)	1,412,000	250%	25%	31 December 2018	31 December 2019	31 December 2020
Matthew Roberts	PSP** (nil cost options)	1,114,000	250%	25%	31 December 2018	31 December 2019	31 December 2020
David Fischel	Deferred bonus award	323,000	50% of 2015 bonus				
Matthew Roberts	Deferred bonus award	255,000	50% of 2015 bonus				

* Face value calculated using an average share price at date of grant of £2.98 for the PSP and £3.00 for the Deferred bonus award.
** Vesting of awards is based 50 per cent on relative TSR and 50 per cent on Absolute Total Return (NAV growth per share plus dividends) performance, with targets equivalent to the 2017 award.

Directors' remuneration report continued

Awards for 2017

Awards for 2017 will be 250 per cent of salary. Awards under the plan vest one-third after each of three, four and five years. A summary of the applicable targets are as follows:

	Absolute Total Return (NAV growth per share plus dividends) (50% of award)	Total Shareholder Return relative to top-five UK-listed REITs (50% of award)
Minimum vesting (25% of element vesting)	6% per annum	TSR in line with the third-ranked company
Full vesting (100% of element vesting)	10% per annum	TSR in line with the top-ranked company
	Straight line vesting between points	Straight line vesting between points, proportionate to TSR achieved, with 60% vesting for TSR in line with the second-ranked company. Subject to a Committee-operated discretionary assessment of underlying financial performance

Malus and clawback

Shares awarded under the deferred bonus plan and the performance share plan are subject to malus provisions. The Committee may apply malus at its discretion in circumstances including (but not limited to):

— a material misstatement of the Company's audited financial results
— a material failure of risk management by the Company, any Group company or business unit
— a material breach of any applicable health and safety or environmental regulations by the Company, any Group company or business unit
— serious reputational damage to the Company, any Group company or business unit
— serious misconduct of the individual

The annual bonus and the PSP are also subject to clawback provisions. The Committee may at its discretion seek to apply clawback in circumstances of:

— a material misstatement of the Company's audited financial results where the individual is responsible or accountable (and where Executive Directors would always be deemed to have management responsibility)
— serious misconduct of the individual

Clawback provisions may be applied up to two years following the determination of the annual incentive and up to one further year following vesting for awards under the performance share plan. Taking into account the three, four and five year vesting timescales, this means that PSP awards may be reclaimed for up to four, five and six years, respectively, from the date of award.

Other share scheme information

The Company operates an employee share ownership plan ('ESOP') which has in the past used funds provided to purchase shares required under the annual bonus scheme.

The Company operates a share incentive plan ('SIP') for all eligible employees, including Executive Directors, who may receive up to £3,600 worth of shares as part of their annual bonus arrangements. As part of the SIP arrangements, the Company offers eligible employees the opportunity to participate in a 'partnership' share scheme, the terms of which are governed by HM Revenue & Customs regulations.

Season ticket loan

All employees of the Group are entitled to an interest-free travel season ticket loan which is repaid over the year via deductions from salary. Neither David Fischel nor Matthew Roberts received a season ticket or other loan from the Group during 2016.

Chief Executive pay increase in relation to all employees

The table below sets out details of the percentage change in salary, benefits and annual bonus for the Chief Executive and the average of all of intu's staff.

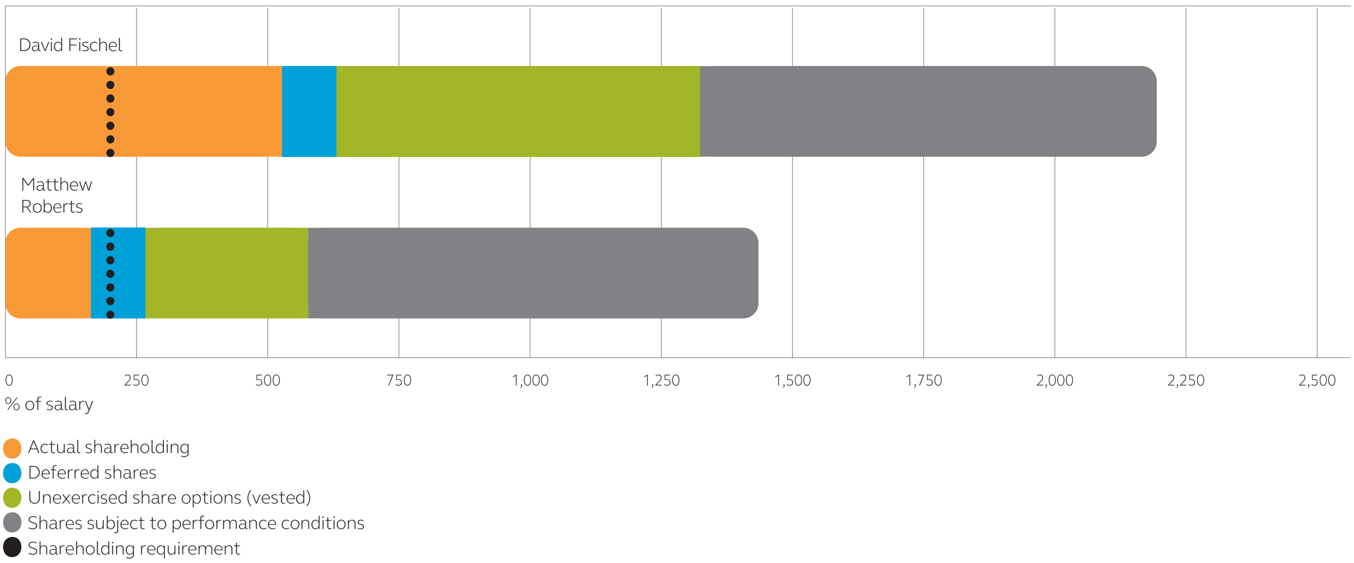
	Percentage change in remuneration from 31 December 2015 to 31 December 2016		
	Percentage change in base salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive	3.9%	(5.0)%	3.9%
All employees	6.0%	8.1%	9.3%

Shareholding and share interests §

Executive Directors must build up over time a holding of intu shares with a value equivalent to 200 per cent of salary. The shareholding requirement for Matthew Roberts has increased from 150 per cent to 200 per cent from 2017. The Remuneration Committee reviews shareholdings against the requirement on an annual basis to ensure they are met within an appropriate timeframe.

The graph below illustrates the shareholdings of the Executive Directors as a percentage of salary. Note that only actual holdings count towards the shareholding requirements. Shares subject to deferral and/or performance conditions have also been shown for reference.

Shareholding of intu ordinary shares as at 31 December 2016 (% of salary)*



* Value of shareholding calculated based on 12 month average share price to 31 December 2016.

As shown above David Fischel has exceeded his shareholding requirements. Matthew Roberts' shareholding requirement has been increased to 200 per cent from the beginning of 2017 and he will be expected to build his shareholding to this level over time.

The table below sets out the Directors' interests in shares as at 31 December 2016

	Number of shares owned (including connected persons)		Unvested awards: Conditional shares not subject to performance conditions		Unvested awards	Vested awards		
	Held in own name	Held in SIP trust for > 5 years	Deferred shares	Held in SIP trust for < 5 years	PSP subject to performance conditions[1]	Unexercised unapproved options[2]	Unexercised approved options	Options exercised in the year
Executive								
David Fischel	1,048,884	13,406	196,077	10,386	1,752,143	1,382,972	12,906	–
Matthew Roberts	259,487	804	154,548	8,839	1,364,444	481,387	11,203	–

1. 2013 PSP awards held as fixed-value zero-cost options and jointly owned shares.
2. Held as jointly owned shares. The outstanding options represent the unexercised element of the jointly owned shares portion of the 2009 unapproved options.
3. Outstanding share awards were adjusted as a result of the 25 April 2014 rights issue.
4. No changes in the interests of Directors have occurred between 31 December 2016 and 23 February 2017.

Directors' remuneration report
continued

Vested

2009 ESOS awards	Awards of market value share options, with an exercise price of 232.41 pence. These awards became exercisable on 28 February 2013 and may be exercised until 28 May 2019.
2010 ESOS awards	Awards of market value share options, with an exercise price of 267.75 pence. These awards became exercisable on 26 May 2013 and may be exercised until 26 May 2020.

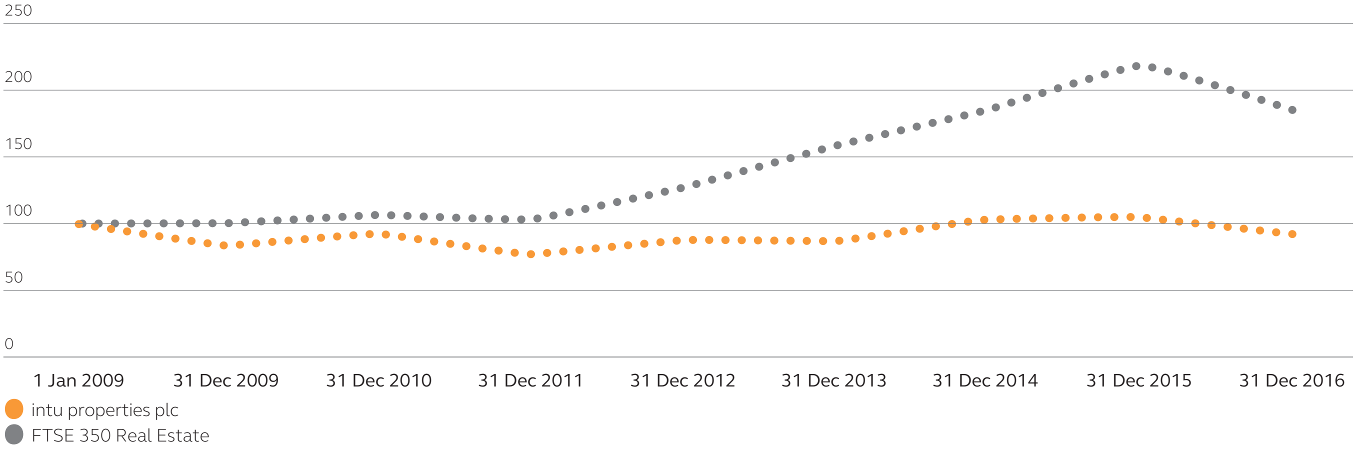
Unvested

2014 PSP award (second and third tranches)	Awards of performance shares, granted on 12 May 2014. Vesting is based on TSR (relative to the top five UK-listed REITs) and Absolute Total Return performance (ranging from 6 per cent p.a. to 10 per cent p.a.), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 12 May 2024.
2015 PSP award	Awards of performance shares, granted on 11 March 2015. Vesting is based on TSR (relative to the top five UK-listed REITs) and Absolute Total Return performance (ranging from 6 per cent p.a. to 10 per cent p.a.), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 11 March 2025.
2016 PSP award	Awards of performance shares, granted on 7 March 2016. Vesting is based on TSR (relative to the top five UK-listed REITs) and Absolute Total Return performance (ranging from 6 per cent p.a. to 10 per cent p.a.), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 7 March 2026.

Eight-year TSR chart

The following graph shows the Total Shareholder Return (TSR) for intu properties plc over the eight-year period ended 31 December 2016, compared with our closest comparator group for this purpose, the FTSE 350 Real Estate. TSR is defined as share price growth plus reinvested dividends.

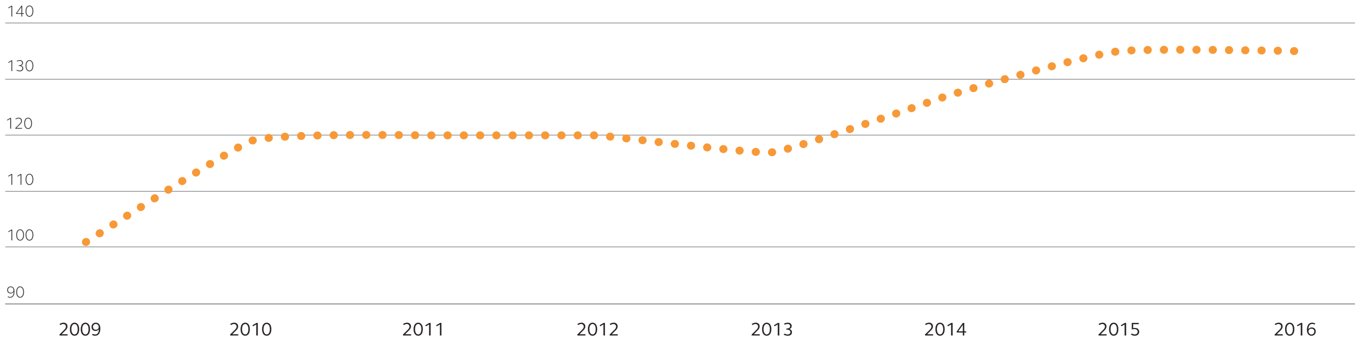
Eight-year Total Shareholder Return (TSR) performance



UK real estate is a cyclical sector. Since 2009, a key driver for growth in value within the UK real estate market has been exposure to central London properties. As a result of the demerger of Capital & Counties from Liberty International (now intu properties plc) in 2010, intu's portfolio does not include properties in central London and intu has therefore not benefited from the uplift experienced by those property companies with exposure to London. However, given the cyclical nature of the property sector, we would not expect this trend to endure over the long-term cycle.

For additional context, the following graph shows the Absolute Total Return (NAV growth plus dividends).

Absolute Total Return (cumulative) (%)



Chief Executive remuneration history

The table below sets out historical details of Chief Executive pay.

	2009	2010	2011	2012	2013	2014	2015	**2016**
CEO single figure of total remuneration	£1,044k	£1,350k	£1,275k	£1,810k	£1,081k	£1,154k	£1,621k	**£1,795k**
Annual bonus payout (% maximum)	50%	100%	83%	70%	55%	65%	95.3%	**95.3%**
Long-term incentive plan vesting in year (% maximum)	0%	0%	0%	100%	0%	0%	37.6%	**36.4%**

Shareholder context

The table below shows the advisory vote on the 2015 Annual remuneration report (including Committee Chairman's statement) at the 2016 AGM and the binding vote on the 2013 Directors' remuneration policy at the 2014 AGM. It is the Committee's policy to consult with major shareholders prior to any major changes, and to maintain an ongoing dialogue on executive remuneration matters.

	For	Against	Abstentions
2015 Annual remuneration report (including Committee Chairman's statement)	98.21%	1.79%	0.8m
2013 Directors' remuneration policy	99.77%	0.23%	10.6m

Additional disclosures

Other directorships

Executive Directors are not generally encouraged to hold external directorships unless the Chairman determines that such appointment is in the Group's interest and does not cause any conflict of interest. Where such appointments are approved and held, it is a matter for the Chairman to agree whether fees paid in respect of the appointment are retained by the individual or paid to the Company.

During 2016, David Fischel held three external directorships. His principal external appointments were with Equity One, Inc. and Prozone Intu Properties Limited. Equity One, Inc. is a US real estate investment trust with which intu operated a US venture controlled by Equity One until 19 January 2016 and at this point David Fischel stepped down as a Non-Executive Director. Prozone Intu Properties Limited is an Indian shopping centre owner and developer in which intu has a 33 per cent interest.

David Fischel also holds an external appointment as a Non-Executive Director of Marlowe Investments (Kent) Limited, a UK private company which relates to his family affairs, does not require any significant time commitment and does not conflict in any way with his role as Chief Executive of intu.

During 2016, David Fischel did not receive a fee in respect of either his appointment as a Non-Executive Director of Prozone Intu Properties Limited or his directorship of Equity One, Inc. Restricted stock in Equity One, Inc. awarded to David Fischel vested during the year with a value on vesting of $137,340. He also received and retained a fee of £5,000 in respect of his non-executive directorship of Marlowe Investments (Kent) Limited.

With effect from 1 March 2017 Matthew Roberts will be appointed as a Non-Executive Director of Marston's PLC and will receive a fee of £50,000, which he will retain with the Board's consent.

Directors' remuneration report
continued

Payments to former Directors §
A life presidency fee of £150,000 per annum (2015: £150,000) was paid to Sir Donald Gordon, the Group's Life President and former Chairman who founded the Company in 1980. The life presidency fee was agreed by the Board at the time of his retirement in June 2005 in recognition of his outstanding contribution to the Group. The payment is payable for the remainder of Sir Donald's life and is secured by deed.

Payments for loss of office §
There were no payments for loss of office made to Directors in the year.

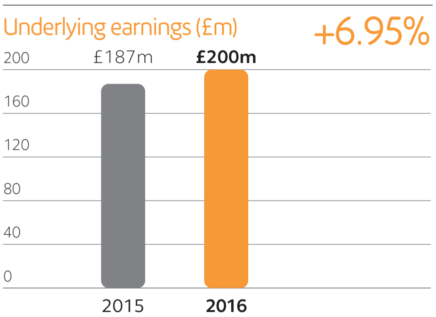
Alternate Directors §
Steven Underwood and Raymond Fine serve as Alternate Directors to John Whittaker and Richard Gordon respectively. Neither Steven Underwood nor Raymond Fine received any fees in 2016 in respect of their appointment as Alternate Directors. Raymond Fine received a fee of £166,496 in respect of consultancy services provided to the Company in connection with South African tax and shareholder issues (particularly in respect of South African dividends tax), liaison with the Gordon Family and other related matters.

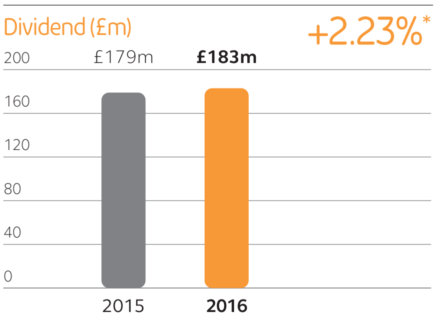
Service contracts
Executive Directors and the Chairman have rolling service contracts which are terminable on 12 months' notice on either side.

All Non-Executive Directors have been appointed under letters of appointment on fixed terms of two or three years, subject to renewal thereafter. Richard Gordon is deemed to have served for more than nine years and is now subject to a one-year term. All are subject to annual re-election by shareholders.

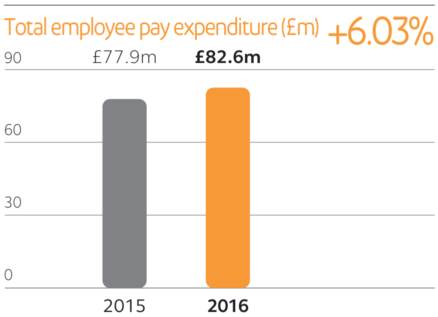
	Notice period
David Fischel	12 months
Matthew Roberts	12 months
Patrick Burgess	12 months
	Contract term expires
Adèle Anderson	2019 AGM
Richard Gordon	2017 AGM
Andrew Huntley	2017 AGM
Rakhi Goss-Custard	2019 AGM
Louise Patten	2017 AGM
John Strachan	2019 AGM
Andrew Strang	2018 AGM
John Whittaker	2017 AGM

Distribution statement
The table below shows the percentage change in underlying earnings, dividends, and total employee compensation spend from the financial year ended 31 December 2015 to the financial year ended 31 December 2016.





* Increase due to issued share capital.
Dividend per share was 13.7p (2015: 13.7p).



The average number of staff employed by the Group during the financial year to 31 December 2016 was 2,550 (2015: 2,446).

Chairman and Non-Executive Director fees for 2017 §

The fees for the new Chairman will be £275,000 per annum.

The basic Non-Executive Director fee is £59,000 per annum. The Senior Independent Director receives an additional fee of £10,000 per annum. Committee chairmen receive £15,000 per annum, and Committee members receive £5,000 per annum. Fees were last increased in April 2015 and will remain unchanged in 2017.

John Whittaker does not receive a fee in respect of his position as Deputy Chairman and Non-Executive Director. The Board has authorised the payment of a management fee of £210,000 per annum to Peel Management Limited for the provision by Peel of a Non-Executive Director and an Alternate Director and other management and advisory services, together with reasonable costs and out-of-pocket expenses.

The management fee was last reviewed and increased with effect from April 2015. It is anticipated that the agreement will be renewed annually thereafter by agreement between the parties. This payment is disclosed in the related party transactions note on page 157.

Remuneration Committee membership in 2016

The principal responsibilities of the Committee, which take full account of the recommendations contained within the Code, include:

- determining the remuneration policy for the Company's Executive Directors and senior executives
- determining individual remuneration packages for the Chairman, Executive Directors and senior executives
- setting appropriately stretching and achievable targets for the Company's incentive schemes in order to motivate executives to deliver high levels of performance in the interests of our shareholders, customers and employees
- overseeing any significant changes to remuneration policy for the wider employee population

The full duties and responsibilities are set out in the terms of reference of the Committee which are available on the Company's website.

The Remuneration Committee currently comprises three independent Non-Executive Directors. Throughout the year the Committee consisted of Neil Sachdev (until 4 May 2016), Louise Patten, Adèle Anderson and Andrew Huntley.

The Chairman, Chief Executive, Company Secretary, HR Director and on occasion Chief Financial Officer are invited to attend Committee meetings to contribute to the Committee in its deliberations. However, no individual is present when his or her remuneration is being determined.

The Remuneration Committee met a total of four times in 2016. A summary of attendance at each scheduled meeting is set out on page 76.

Advisers to the Committee

Deloitte LLP was appointed as the Committee's independent remuneration adviser in October 2013, following a competitive tender process. During the year, Deloitte provided advice on remuneration governance developments, corporate reporting and investor engagement, market data and other remuneration matters that materially assisted the Committee.

Representatives also attended Committee meetings during the year. The fees paid to Deloitte in respect of this work in 2016 totalled £63,150. During the year Deloitte also provided to the Group tax compliance and advisory services, share scheme advice and financial advisory planning services in relation to the Spanish business and UK-based properties.

Deloitte is a founding member of the Remuneration Consultants Group, and adheres to its code of conduct. Deloitte was appointed directly by the Committee and the Committee is satisfied that the advice received was objective and independent.

The Committee also makes use of various published surveys to help determine appropriate remuneration levels.

Directors' remuneration report continued

Directors' remuneration policy

This section sets out the Directors' remuneration policy of the Company. In accordance with section 439A of the Companies Act, a binding shareholder resolution to approve this report will be proposed at the 2017 annual general meeting of the Company. The policy will apply from the 2017 AGM subject to shareholder approval.

Changes to the remuneration policy

The Remuneration Committee reviewed the existing Directors' remuneration policy and concluded that it remained appropriate to support the key objectives of attracting, motivating and retaining high calibre executives and aligned the interests of Executive Directors with the performance of the Company and the interests of its shareholders. Against that background, no substantive changes are proposed in the policy, other than to formally incorporate clawback (introduced in 2016) into the policy.

Policy table

The table below describes the policy in relation to the components of remuneration for Executive Directors and, at the bottom of the table, the policy for the Non-Executive Directors.

Element and link to strategy	Operation	Maximum potential value	Performance metrics
Executive Directors			
Base salary To provide an appropriately competitive level of base pay to attract and retain talent.	Reviewed annually. Salary levels take account of: — size and nature of the responsibilities of each role — market pay levels for the role — increases for the rest of the Group — the executive's experience — changes to the size and complexity of the Group — implications for total remuneration — overall affordability — individual and Company performance The Committee may award an out-of-cycle increase if it considers it appropriate.	Base salary increases may be applied, taking into account the factors considered as part of the annual review. There is no maximum increase or opportunity. For new appointments salaries may be set at a lower level. In such cases, there may be scope for higher than usual salary increases in the first three years as the individual progresses in the role.	None.
Pension To help provide for an appropriate retirement benefit.	The Company operates an approved defined contribution pension arrangement. A cash alternative may be offered in certain circumstances, for example where HMRC statutory limits have been reached.	Company pension contribution (or cash alternative) is up to 24 per cent of base salary. The Chief Executive receives an additional 6 per cent of salary in recognition of the additional value of the benefit foregone on the closure of the defined benefit scheme. This amount was actuarially determined to be cost-neutral to the Company.	None.
Other benefits To provide an appropriately competitive level of benefits.	Benefits include a car allowance, private medical insurance, life assurance and long-term sickness insurance. Other benefits may be provided if the Committee considers it appropriate. In the event that an Executive Director is required by the Group to relocate, benefits may include, but are not limited to, relocation allowance and housing allowance.	Car allowance of up to £18,000 per annum. The cost of insurance benefits may vary from year to year depending on the individual's circumstances. There is no overall maximum benefit value but the Committee aims to ensure that the total value of benefits remains proportionate.	None.

Element and link to strategy	Operation	Maximum potential value	Performance metrics
Executive Directors (continued)			
Short-term incentive To align annual reward with annual performance and to support retention and alignment with shareholders' interests through significant deferral of bonus into shares.	intu operates a short-term incentive arrangement with a maximum individual opportunity. A proportion of any earned bonus is normally deferred in intu shares, vesting over two years and three years, subject to continued employment. The Committee awards dividend equivalents in respect of dividends over the deferral period which may assume reinvestment on a cumulative basis. The Committee has discretion to apply malus to unvested deferred bonus awards in certain circumstances and annual bonus payments may be subject to clawback.	Maximum annual opportunity of 120 per cent of salary.	Executives' performance is measured relative to targets in key financial, operational and strategic objectives in the year. The measures selected and their weightings vary each year according to the strategic priorities, however at least two thirds will be based on Group financial measures or quantitative reported key performance indicators. Entry award level for financial measures is normally between 0 and 25 per cent of maximum.
Long-term incentives To reward good long-term decisions which help grow the value of intu over a three to five-year horizon and support the retention of critical executives.	intu operates a PSP, which was approved by shareholders at the 2013 AGM. Grants are made to eligible employees at the discretion of the Committee. Awards can be made as performance shares, nil-cost options or jointly owned equity, and vest one third, one-third, one third after three, four and five years respectively. The Committee awards dividend equivalents in respect of dividends over the vesting period, which may assume reinvestment on a cumulative basis. The Committee has discretion to apply malus and clawback to awards in certain circumstances.	Normal maximum grant size of 250 per cent of salary per annum. In exceptional circumstances opportunity of up to 375 per cent of salary. The intention is that this flexibility would only be contemplated in recruitment circumstances.	Long-term incentive performance conditions are reviewed on an annual basis, and are chosen to be aligned with the long-term success of the business. The intention is that measures will be one or more of TSR, total return/NAV growth, EPS growth, relative total property return or return on capital. For 2017, awards will be based — 50 per cent on relative TSR — 50 per cent on absolute total return (NAV growth plus dividends) If the Committee considers that the level of vesting based on the extent to which the performance conditions have been satisfied is not a fair reflection of underlying financial performance, the Committee may adjust the level of vesting (upwards or downwards) accordingly. For the current performance measures this applies to the TSR portion only. Entry vesting is 25 per cent of maximum.
All employee share plans To align interests of employees with intu's performance.	Executive Directors may participate in HMRC approved share incentive plans on the same basis as all employees.	Participants can contribute up to the relevant HMRC limit.	None.
Legacy share awards			
Payments can also be made to Executive Directors under the legacy share option plan and equivalent jointly owned equity arrangements, which were the predecessor arrangements to the current PSP and were approved by shareholders in 1999. Under this plan, market value share option grants were made, with vesting based on EPS growth. It is not intended that this plan will be used to grant any future awards to the Executive Directors.			

Directors' remuneration report continued

Element and link to strategy	Operation	Performance metrics
Non-Executive Directors		
Fees To remunerate Non-Executive Directors.	**Independent Non-Executive Directors** The Chairman's fees are determined by the Remuneration Committee. The Non-Executive Directors' fees are determined by the Board. The level of fees takes into account the time commitment, responsibilities, market levels and the skills and experience required. Non-Executive Directors normally receive a basic fee and an additional fee for specific Board responsibilities, including membership and chairmanship of committees. The Chairman is entitled to receive certain benefits in addition to fees. Additional fees may be paid to Non-Executive Directors on a per diem basis to reflect increased time commitment in certain limited circumstances. Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the expenses. Non-Executive Directors do not currently receive any benefits however these may be provided in the future if in the view of the board this was considered appropriate.	None.
	Other Non-Executive Directors In addition to the above, in certain circumstances Non-Executive Directors (other than those deemed to be independent) may receive a fee in relation to consultancy services (including Alternate Directors). Such fees may be provided directly to the Director or, in certain circumstances, paid to a third party company under a consultancy services agreement. Such agreements may provide for the payment of an annual fee and reimbursement of expenses. Such an agreement is currently in place with the Peel Group for the provision of Non-Executive Director services (including Alternative Director services).	None.

The Company also operates a shareholding requirement.

The Performance Share Plan shall be operated in accordance with the rules of the plan as approved by shareholders in 2013 and amended from time to time in accordance with those rules. In accordance with the rules of the PSP, the performance conditions may be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate, in which case the Committee can vary or replace the performance condition provided that the amended performance condition is in its opinion, fair, reasonable and no more or less difficult than the original conditions when set. The plan rules provide for adjustments in certain circumstances. For example, awards may be adjusted in the event of any variation of the Company's share capital, any consolidation of profits or reserves or special dividend.

Malus and clawback apply where stated in the above table. Other elements of remuneration are not subject to recovery provisions. Clawback provisions apply only for incentives made in respect of 2016 and thereafter.

The Committee may increase the proportion of bonus deferred into shares at any time and/or extend the deferral or performance time horizons, or introduce holding periods.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed

(i) before 2014 AGM (the date the Company's first shareholder-approved directors' remuneration policy came into effect);
(ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or
(iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Performance measures and targets

Annual bonus

Annual bonus metrics and targets are selected to provide an appropriate balance between incentivising Executive Directors to meet financial objectives for the year and achieve strategic operational objectives.

Annual bonus metrics and targets are chosen in line with the following principles

— the targets set for financial measures should be incentivising and appropriately stretching
— strategic and operational objectives include quantitatively assessed financial and operational measures, and achievement against milestones, with judgement in assessing both quantitative and qualitative data
— there should be flexibility to change the measures and weightings year-on-year in line with the needs of the business

PSP
Performance conditions and targets are determined by the Committee to reflect the Group's strategy and having regard to market practice within the Company's business sector. Measuring performance one third over years three, four and five provides a balance between the typical executive time horizon and the longer time horizon of shopping centre investments.

For 2017 awards the measures were selected taking into account that

- absolute total return (NAV growth plus dividends) is considered by the Company to be the best internal indicator of value creation
- TSR is a key objective of most of our shareholders

Measures and targets
The measurement of performance against performance targets is at the Committee's discretion, which may include appropriate adjustments to financial or non-financial measures and/or consideration of overall performance in the round. Targets may be adjusted by the Committee to take into account significant capital transactions (or similar events) during the year.

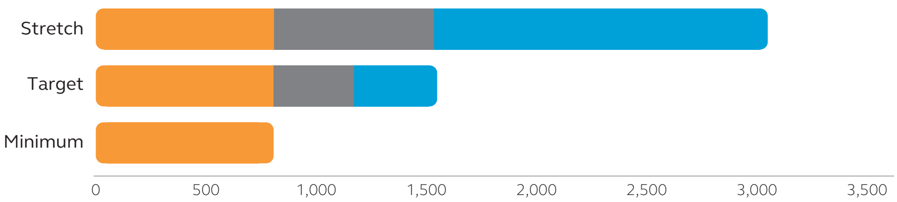
Remuneration arrangements throughout the Group
Differences in the policies for Executive Directors and other employees in the Group generally reflect differences in market practice taking into account role and seniority. The remuneration policies for Executive Directors and the senior executive team are consistent in terms of structure and the performance measures used. An annual bonus plan operates below the senior team for head office, asset management staff and intu centre staff management. The bonus is based on corporate and personal performance. As with the senior team, a portion of bonus is generally deferred into intu shares including SIP shares. Below the senior team, employees may be awarded long-term incentives in the form of options granted under the Company's share option schemes.

Pay for performance: scenario analysis
The charts below show the potential split between the different elements of the Executive Directors' remuneration under three different performance scenarios: 'Minimum', 'Target' and 'Stretch'.

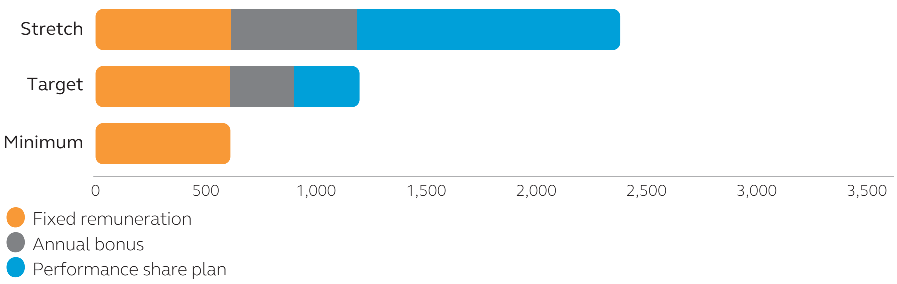
Component		'Minimum'	'Target'	'Stretch'
Fixed remuneration	Base salary	Annual base salary		
	Pension	30 per cent of salary for Chief Executive, 24 per cent of salary for Chief Financial Officer		
	Benefits	Taxable value of annual benefits provided in 2016		
Annual bonus (cash and deferred shares*)		0 per cent of salary	60 per cent of salary (target opportunity)	120 per cent of salary (maximum opportunity)
Performance share plan*		0 per cent vesting	25 per cent vesting	100 per cent vesting

* Excludes share price growth and dividends.

Chief Executive



Chief Financial Officer



Approach to recruitment remuneration
In the event that the Group appointed a new Executive Director, remuneration would be determined in line with the following principles

- the Committee will take into account all relevant factors, including the calibre and experience of the individual and the market from which they are recruited, whilst being mindful of the best interests of the Group and its shareholders and seeking not to pay more than is necessary
- so far as practical the Committee will look to align the remuneration package for any new appointment with the remuneration policy set out in the table above
- salaries may be higher or lower than the previous incumbent but will be set taking into account the review principles set out in the policy table. Where appropriate the salaries may be set at an initially lower level with the intention of increasing salary at a higher than usual rate as the executive gains experience in the role. For interim positions a cash supplement may be paid rather than salary (for example a Non-Executive Director taking on an executive function on a short-term basis)

Directors' remuneration report continued

- to facilitate recruitment the Committee may need to 'buy out' remuneration arrangements forfeited on joining the Company. Any buy-out would take into account the terms of the arrangements forfeited, in particular any performance conditions and the time over which they would vest. The overriding principle would be that the value of any replacement buy-out awards should be no more than the commercial value of awards which have been forfeited. The form of any award would be determined at the time and the Committee may make buy-out awards under LR 9.4.2 of the Listing Rules (for buy-out awards only)
- PSP opportunity will be no more than the plan rules maximum set out in the policy table. The exceptional maximum may be used for the purpose of recruitment
- the maximum variable pay opportunity on recruitment (excluding buy-outs) is in line with the policy table above, comprising a maximum annual bonus of 120 per cent of salary and a maximum initial grant of LTIP not exceeding 375 per cent of salary. The Committee retains the flexibility to determine that for the first year of appointment any annual incentive award will be subject to such terms as it may determine

Where an executive is appointed from within the Company, the normal policy would be to honour any legacy arrangements in line with the original terms and conditions.

Where an executive is appointed following corporate activity/reorganisation (e.g. merger with another company) legacy terms and conditions would also be honoured.

Where the recruitment requires relocation of the individual, the Committee may provide additional costs and benefits.

Details of Directors' service contracts

Executive Directors

Executive Directors have rolling service contracts which are terminable on no more than 12-months' notice on either side. Service contracts for Executive Directors make no provision for termination payments, other than for payment of salary and benefits in lieu of notice.

The Executive Directors' service contracts may contain provisions relating to salary, car allowance, pension arrangements, salary continuance in the event of extended absence due to illness, holiday and sick pay, life insurance, personal accident, medical insurance, dependants' pensions, and the reimbursement of reasonable out-of-pocket expenses incurred by the Executive Directors while on Company business.

Chairman

The terms of the Chairman's appointment broadly reflect the terms of the three-year appointments of the Non-Executive Directors. However, the Chairman's appointment is subject to a 12-month notice period. The Chairman may be entitled to the following benefits: office support (for Company business), a car and driver (for Company business), private medical insurance and personal accident and travel insurance. The Chairman may also receive independent professional advice of a value of up to £2,500 when such expenditures are authorised by the Chief Executive.

Non-Executive Directors

All Non-Executive Directors have been appointed on fixed terms of two or three years, subject to renewal thereafter. Richard Gordon is deemed to have served for more than nine years and is now subject to a one-year term. All are subject to annual re-election by shareholders.

The Non-Executive Directors have letters of appointment which include provisions for early termination in specified circumstances.

Non-Executive Directors receive no benefits from their office other than fees and reimbursement of expenses incurred in performance of their duties, including any tax due on the expenses. They are not eligible to participate in Group pension arrangements.

In the event of a takeover of the Company, and exceptionally on other occasions, Non-Executive Directors would be entitled to an additional payment to reflect any additional time spent on Company affairs, over and above that normally expected in the performance of ordinary duties as a Non-Executive Director. The payment will be calculated by reference to the amount of additional time spent at a rate per diem.

Directors' service contracts are kept available for inspection at the Company's registered office.

Loss of office payment policy

In the event that the employment of an Executive Director is terminated, any compensation payable will be determined by reference to the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. The Committee may structure any compensation payments in such a way as it deems appropriate taking into account the circumstances of departure. In the event of the Company terminating an Executive Director's contract, the level of compensation would be subject to mitigation and phasing of payments if considered appropriate.

The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include amounts in respect of accrued leave, paying any fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his or her cessation of office or employment.

Payment in lieu of notice

The Company may at its discretion make termination payments in lieu of notice based on base salary and benefits only.

Bonus

There is no automatic entitlement to annual bonus. The Committee retains discretion to award bonuses for leavers taking into account the circumstances of departure. Any bonus would normally be subject to performance and time pro-rating.

Deferred bonus

Deferred bonus awards will lapse if the executive ceases to be employed before the normal vesting date except in good leaver circumstances, which include retirement, redundancy, a transfer of the business or company by which the individual is employed, ill-health, death or any other reason at the discretion of the Committee.

Performance share plan

In the event an executive is a good leaver any outstanding PSP awards will be pro-rated for time and will vest based on performance to the end of the performance period unless the Committee determines an alternative level of vesting in its discretion. Good leaver circumstances are reasons of injury, disability, ill-health, redundancy, retirement, the sale of the individual's employing company or businesses out of the Group or for any other reason at the discretion of the Committee. For JSOP awards under the PSP time and pro-rating applies below the threshold only. The Committee may adjust the number of shares vesting below the threshold in order to apply an appropriate overall pro-rating for the award.

In the event of death, early vesting is permitted, based either on the Committee's assessment of performance against the performance condition to date of death, or 50 per cent vesting. The award would also be subject to time pro-rating. However, the Committee has discretion to adjust the level of vesting (both upwards and downwards).

Award under LR 9.4.2

Were a "buyout" award to be made under LR 9.4.2 (or otherwise) then the leaver provisions may be determined at the time of award.

Other circumstances

Under the PSP on a change-of-control or winding up of the Company, PSP awards may vest in accordance with the rules of the plan. Vesting would be subject to pro-rating for time and performance, unless the Committee determines otherwise.

Bonuses may be paid in respect of the year in which the change of control or winding up of the Company occurs, if the Committee considers this appropriate. The Committee may determine the level of bonus taking into account any factors it considers appropriate.

Deferred bonus awards, which have been earned in respect of previous performance periods, will normally vest in full on a change of control or winding up.

Legacy share option plan

All awards granted under the legacy share option plan were made prior to 27 June 2012. Vesting would be in accordance with the plan rules. On voluntary resignation, awards granted less than three years before cessation lapse and other subsisting awards are exercisable within 6 months of cessation (subject to any performance conditions). In other leaving circumstances subsisting options may be exercised within six months of cessation (subject to any performance conditions) or 12 months in the case of death. However, in the above cases the Committee has discretion to decide alternative vesting and may impose other conditions. Both unvested and vested awards will lapse if the Director leaves for reasons involving misconduct, impropriety and inefficiency (as determined by the Committee).

Consideration of conditions elsewhere in the Group

In making remuneration decisions, the Committee also considers the pay and employment conditions elsewhere in the Group.

Prior to the annual pay review, the Committee receives a detailed report from the HR Director setting out changes to broader employee pay. This forms part of the basis for determining Executive Director remuneration. The Company does not consult with employees on Executive Director remuneration, but does consult with employees as part of an annual employee survey, which includes questions regarding the Company's approach to reward and recognition.

Consideration of shareholder views

When determining remuneration, the Committee takes into account the guidelines of investor bodies and shareholder views. The current remuneration policy was developed following extensive consultation with major shareholders during 2013 and their views were taken into account during its formation. The Committee seeks to have an ongoing dialogue with shareholders on executive remuneration matters.

During the three year period of the last policy the Committee engaged with proxy agencies from time to time on the operation of the policy and were pleased with the level of support obtained from shareholders for the annual Directors' remuneration reports over this period. The Committee is provided with regular updates on good practice and shareholder views on executive remuneration matters.

Minor changes

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax, administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

On behalf of the Board

Louise Patten
Chairman of the Remuneration Committee
23 February 2017

Directors' report

The Directors present their annual report and the audited financial statements of the Group and Company for the year ended 31 December 2016. Pages 2 to 95 inclusive of this annual report comprise the Directors' report that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report will be subject to the limitations and restrictions provided by such law.

Use of financial Instruments

The financial review on pages 46 to 51, accounting policies on pages 113 to 117 and note 33 on pages 140 to 146 contain information on the use of financial instruments.

Dividends

The Directors declared an interim ordinary dividend of 4.6 pence (2015: 4.6 pence) per share on 28 July 2016, which was paid on 22 November 2016, and have recommended a final dividend for 2016 of 9.4 pence per share (2015: 9.1 pence).

Share capital and control of the Company

Details of the Company's share capital including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares are set out in note 35 on pages 147 and 148.

No shareholder holds securities carrying special rights with regard to control of the Company. Shares held by the Company's employee share ownership plan rank pari passu with the shares in issue and have no special rights, but voting rights and rights of acceptance of any offer relating to the shares rest with the plan's Trustee and are not exercisable by the employees. There are no restrictions on voting rights or any arrangements by which, with the Company's co-operation, financial rights are held by a person other than the shareholder, or any agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights.

Under a £600 million revolving-facility agreement dated 25 February 2009 (as amended and restated on 19 February 2010, 18 November 2011 and 30 October 2014) between, among others, the Company and HSBC Bank PLC (as 'Agent') on a change of control, if directed by a lender, the Agent may by notice to the Company cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued and owing to that lender under the finance documents, immediately due and payable.

Under the terms and conditions of (i) the £300 million 2.5 per cent Guaranteed Convertible Bonds issued on 4 October 2012 by Intu (Jersey) Limited and (ii) the £375 million 2.875 per cent Guaranteed Convertible Bonds issued on 1 November 2016 by Intu (Jersey) 2 Limited, each of which are guaranteed by the Company, on a change of control of the Company bondholders would have a right for a limited period of 60 days to exercise their exchange rights at an enhanced exchange price (ie lower than the prevailing exchange price). In addition, bondholders would become entitled for a limited period of 60 days to require the relevant issue to redeem their bonds at their principal amount, together with accrued and unpaid interest.

The Company is not party to any other significant agreements that would take effect, alter or terminate following a change of control of the Company.

The Company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company share schemes may cause options and awards outstanding under such schemes to vest on a takeover. The terms of appointment of the non-executive directors currently provide that in the event of change of control, the Directors will be compensated for any additional time commitment in certain limited circumstances, to be calculated on a per diem basis.

Internal control

The statement on corporate governance on pages 58 to 95 includes the Board's assessment following a review of internal controls and consideration of the FRC Guidance on risk management, internal control and related financial and business reporting.

Directors

The Directors of intu who held office during the year were as follows:

Chairman
Patrick Burgess
Deputy Chairman
John Whittaker[1]
Executive
David Fischel
Matthew Roberts
Non-Executive
Adèle Anderson
Richard Gordon[1]
Andrew Huntley
Rakhi Goss-Custard
Louise Patten
Neil Sachdev[2]
John Strachan
Andrew Strang

1 John Whittaker and Richard Gordon have appointed Steven Underwood and Raymond Fine respectively as their alternates under the terms of the Company's Articles of Association.
2 Neil Sachdev stepped down on 4 May 2016.

Pursuant to the Articles of Association of the Company, the Company has indemnified the Directors to the full extent allowed by law. The Company maintains directors' and officers' insurance which is reviewed annually.

Additional information relating to the Directors can be found in note 47 on pages 162 and 163 on Directors' interests, in the governance section on pages 58 to 75, and in the Directors' remuneration report on pages 76 to 93.

The powers of the Directors are determined by UK legislation and the Articles of Association of the Company, together with any specific authorities that may be given to the Directors by shareholders from time to time, such as the power to allot shares and the power to make market purchases of the Company's shares which are described in note 35 on page 148.

Articles of Association

The rules governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by shareholders in accordance with the legislation in force from time to time.

Substantial shareholdings

The table at the foot of the page shows the holdings of major shareholders in accordance with the Disclosure Guidance and Transparency Rules of the FCA at 31 December 2016 and 22 February 2017.

Employees

intu actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of the Group's activities and financial performance by such means as employee briefings and publication to all staff of relevant information and corporate announcements. In 2016, intu conducted one all-employee survey covering a range of topics. More details are provided in the our people section on pages 55 to 57.

The annual bonus plan arrangements help develop employees' interest in the Company's performance; full details of these arrangements are given in the Directors' remuneration report on pages 76 to 93. Note 47 on pages 162 to 163 contains details of conditional awards of shares under the annual bonus scheme and bonus shares currently outstanding.

intu operates a non-discriminatory employment policy and full and fair consideration is given to applications for employment from people with disabilities or other protected characteristics under the Equality Act where they have the appropriate skills and abilities, and to the continued employment of staff who become disabled.

intu encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of disabled employees and those with protected characteristics.

Further information relating to employees is given on pages 55 to 57 and in note 8 on page 120. The Group provides retirement benefits for the majority of its employees. Details of the Group pension arrangements are set out in note 45 on page 162.

The environment

We have an independent corporate responsibility ('CR') strategy and details of our policies and the Group's aims alongside the latest full version of our annual CR report are to be found on the Company's website. An overview of the Group's CR activity (which includes disclosures relating to greenhouse gas emissions) is on pages 52 to 54, and a summary booklet is also available for download from the website or on request from the Company Secretary's office.

The Company recognises the importance of minimising the adverse impact on the environment of its operations and the obligation to carefully manage energy and water consumption and waste recycling.

The Company strives continuously to improve its environmental performance. The environmental management system and associated environmental policy and guide are regularly reviewed to ensure that the Company maintains its commitment to environmental matters.

Additional disclosures

For the purpose of LR 9.8.4CR, the only information required to be disclosed by LR 9.8.4R relates to sub-section (1) thereof (interest capitalised) where the amount is £2.1 million (2015: £2.1 million) (see note 10). All other sub-sections of LR 9.8.4R are not applicable.

Directors' disclosure of information to the auditors

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming annual general meeting.

Annual general meeting

The notice convening the 2017 annual general meeting of the Company will be published separately and will be available on the Company's website and distributed to those shareholders who have elected to receive hard copies of shareholder information.

By order of the Board

Susan Marsden
Company Secretary
23 February 2017

	At 31 December 2016		At 22 February 2017	
Shareholder	Number of shares notified	% interest in share capital	Number of shares notified	% interest in share capital
The Peel Group	351,082,474	25.91	351,082,474	25.91
Coronation Asset Management (Pty) Limited	214,934,247	15.86	214,934,247	15.86
The family interests of Sir Donald Gordon	110,336,261	8.14	110,336,261	8.14
Public Investment Corporation	89,433,457	6.60	89,433,457	6.60
Black Rock, Inc.	78,363,390	5.78	78,363,390	5.78

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

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

(a) select suitable accounting policies and then apply them consistently

(b) make judgements and accounting estimates that are reasonable and prudent

(c) state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements

(d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in the governance section on pages 60 and 61 confirm that, to the best of their knowledge:

(a) the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group

(b) the strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Signed on behalf of the Board on 23 February 2017

David Fischel
Chief Executive

Matthew Roberts
Chief Financial Officer

Financial statements

Independent auditors' report to the members of intu properties plc

Report on the financial statements

Our opinion

In our opinion:

— intu properties plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
— the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

— the Group and Company balance sheets as at 31 December 2016;
— the Group consolidated income statement and consolidated statement of comprehensive income for the year then ended;
— the Group and Company statements of cash flows for the year then ended;
— the Group and Company statements of changes in equity for the year then ended; and
— the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

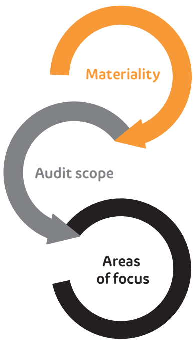
The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

Our audit approach

Context

During the year to 31 December 2016, there have been no significant changes to business operations, investment property market yields, or to accounting standards relevant to the Group. The most significant transactional activity was in relation to the acquisition of the remaining 50% interest in intu Merry Hill and the disposal of interest in intu Bromley. As a result our audit approach is largely consistent with the prior year.

Overview



— Overall Group materiality: £104 million (2015: £101 million) which represents 1% of total assets.
— Specific Group materiality: £10 million (2015: £9 million) which represents 5% of underlying profit before tax and associates (applied to income statement line items that impact underlying earnings and to other finance costs).

— The Group and Company financial statements are produced by the Group's central finance department using a single, consolidated general ledger, and the whole business was subject to the same audit scope.

— Valuation of investment and development property.
— Acquisition of the remaining 50% interest in intu Merry Hill.
— Valuation of interest rate swaps.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of investment and development property Refer to page 69 (Audit Committee report), page 115 (Accounting policies), page 113 (Use of estimates and assumptions) and note 18 to the financial statements. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material change, warrants specific audit focus in this area. The Group's investment and development properties are shopping centres and comprise the majority of the assets in the Group balance sheet, their carrying value amounting to £9.2 billion. Additionally the carrying value of the Group's share of investment and development properties held within joint ventures is £ 0.73 billion. Refer to note 21. The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues for that particular property. Each valuation was carried out by one of the following third party valuers, CB Richard Ellis, Knight Frank, Cushman & Wakefield and Jones Lang LaSalle the 'Valuers'). The Valuers were engaged by the Directors, and performed their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards. The Valuers used by the Group are well-known firms, with considerable experience of the market in which the Group operates. In determining a property's valuation the Valuers take into account property specific current information such as the current tenancy agreements and rental income attached to the asset. They then apply other assumptions such as yield and current market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation. Due to the unique nature of each shopping centre, the assumptions to be applied are determined having regard to the individual property characteristics at a granular, unit by unit level, as well as considering the qualities of the shopping centre as a whole.	*Assessing the Valuer's expertise and objectivity* We assessed the Valuers' qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Group and the Valuers. We found no evidence to suggest that the objectivity of any Valuer in their performance of the valuations was compromised. *Data provided to the Valuers* We carried out procedures, on a sample basis, to test whether property specific information supplied to the Valuers by management reflected the underlying property records held by the Group and which had been tested during our audit. We found them to be consistent. *Assumptions and estimates used by the Valuers* We read the valuation reports for all properties and attended meetings with each of the Valuers. We confirmed that the valuation approach for each was in accordance with RICS and suitable for use in determining the carrying value in the Consolidated balance sheet. Our work focused on the largest properties in the portfolio and those properties where the assumptions used and/or year on year market value movement suggested a possible outlier versus market data for the shopping centre sector. We compared the investment yields used by the Valuers to an estimated range of expected yields, determined via reference to published benchmarks. We also considered the reasonableness of other assumptions that are not so readily comparable to published benchmarks, such as Estimated Rental Value, void rates and rent free periods. Finally, we evaluated year on year movements in market value with reference to published benchmarks. Where assumptions were outside the expected range or otherwise deemed unusual, and/or valuations appeared to experience unexpected movements, we undertook further investigations and, when necessary, held further discussions with the Valuers. It was evident from our interaction with management and the Valuers and our review of the valuation reports that close attention had been paid to each property's individual characteristics at a granular, unit by unit level, as well as considering the overall quality, geographic location and desirability of the asset as a whole. The evaluation of what were the appropriate assumptions to apply to any given property included determining the level of impact that recent significant market transactions could have on each individual property's valuation, given its unique characteristics. We saw evidence that alternative assumptions had been considered and evaluated by management and the Valuers, before determining the final valuation.

Independent auditors' report to the members of intu properties plc continued

Area of focus	How our audit addressed the area of focus
Valuation of investment and development property (continued)	*Other factors that could affect valuations this year* We noted that the Valuers did not include any market uncertainty clauses, although such clauses were included at the half-year in the immediate aftermath of the UK's EU Referendum. We considered this to be reasonable and in line with current market practice among valuers, there being a sufficient level of transaction activity to support valuations. *Overall findings* Our testing, which involved the use of our internal real estate valuation specialists, qualified chartered surveyors with deep market knowledge, indicated that the estimates and assumptions used were appropriate in the context of the Group's investment and development properties portfolio and reflected market transactions during the year and the market circumstances as at year end.
Acquisition of intu Merry Hill Refer to page 69 (Audit Committee report), pages 114-117 (Accounting policies) and note 38 to the financial statements. On 22 June 2016, intu acquired the remaining 50% of intu Merry Hill from their previous joint venture partner, for £410 million. The acquisition was treated as a business combination and a gain on acquisition of £34.6 million was recorded in the income statement. This transaction resulted in derecognition of the Group's investment in joint venture and intu Merry Hill being recognised as a subsidiary.	With respect to the acquisition, we inspected the purchase agreements and assessed the assumptions underlying the acquisition date valuation. We assessed whether the classification as a business combination and treatment of the various aspects of the transaction were in accordance with IFRS 3 Business Combinations. We carried out procedures to assess the fair value of the consideration and of the assets and liabilities being acquired, the most significant being the investment property – for which we reviewed the Valuers report valuing the property on the date of acquisition. See the 'Valuation of investment and development property' Area of Focus for a more detailed explanation of work we perform over property valuations. Additionally we have considered the disclosures in the financial statements in respect of this transaction. *We are satisfied that this transaction has been accounted for and disclosed appropriately in accordance with IFRS 3 in the annual report.*
Valuation of interest rate swaps Refer to page 117 (Accounting policies), pages 46-51 (Financial review) and notes 13, 27 and 33 to the financial statements. The Group has entered into various interest rate swaps ('swaps') which are carried at fair value through profit and loss. Assessing the fair value of the swaps is inherently subjective as the Group uses its judgement to select suitable valuation techniques and make assumptions which are mainly based on market conditions existing at the balance sheet date.	We understood the Group's methodology in respect of determining the fair value as at the balance sheet date and assessed compliance with the requirements of relevant accounting standards. For a sample of swaps outstanding as at year end, we computed an independent estimate of fair value as at the balance sheet date. Additionally we have considered the disclosures in the financial statements in respect of swaps outstanding as at the balance sheet date. *We are satisfied that the fair value of swaps and presentation in the annual report is appropriate and is in line with the requirements of relevant accounting standards.*

How we tailored the audit scope

In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Although the Group has some interests in shopping centre operations outside the UK and the Group is structured as two operating segments, it operates a single reporting process with a centralised accounting function, therefore the whole business was subject to the same audit scope. The Group and Company financial statements are produced using numbers which are maintained on a single, consolidated trial balance, by the Group's finance department. The majority of the underlying accounting records are maintained on the Group's single general ledger.

For Manchester Arndale, Cribbs Causeway, Centaurus Retail Park and St David's, Cardiff rental income and property expense numbers are submitted quarterly by external property managers to the Group's finance department, who then review and enter the numbers onto the Group's general ledger. We perform tests of controls over the review of the quarterly submissions and entry onto the Group's general ledger, and tests of details over the numbers within those submissions.

Quarterly submissions are also submitted to the Group's finance department for intu Asturias and Puerto Venecia, from the intu Spain finance team. We carry out controls testing over these submissions in the same manner as for the UK submissions. The UK audit team instructs the audit team in PwC Spain to perform specified substantive procedures on the submission packs for the Spanish centres. The UK audit team determined the level of audit work required over the Spain submission packs by the audit team in Spain, and held regular discussions throughout the planning and execution phases of the audit. We assessed the findings of the work performed by the audit team in Spain in order to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£104 million (2015: £101 million).
How we determined it	1% of total assets.
Rationale for benchmark applied	In arriving at this judgement we have had regard to the carrying value of the Group's assets, acknowledging that the primary measurement attribute of the Group is the carrying value of investment property. This represents a consistent year-on-year basis for determining materiality.
Specific Group materiality	£10 million (2015: £9 million).
How we determined it	5% of underlying profit before tax and associates.
Rationale for benchmark applied	In arriving at this judgement we have had regard to underlying profit acknowledging that this is a secondary measurement attribute of the Group. This represents a consistent year-on-year basis for determining materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £10 million (2015: £10 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons or relate to line items that impact underlying earnings.

Independent auditors' report to the members of intu properties plc continued

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 113, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

— the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
— the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

— the information given in the Corporate Governance Statement set out on pages 58 to 96 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
— the information given in the Corporate Governance Statement set out on pages 58 to 96 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

— Information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
— the statement given by the Directors on page 96, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
— the section of the Annual Report on page 1, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

— the Directors' confirmation on page 37 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
— the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
— the Directors' explanation on page 68 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Independent auditors' report to the members of intu properties plc continued

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 96, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Ranjan Sriskandan
(Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2017

— The maintenance and integrity of the intu properties plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
— Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue	3	**594.3**	571.6
Net rental income	3	**406.1**	381.8
Net other income	4	**0.6**	6.9
Revaluation of investment and development property	18	**(78.0)**	264.9
Gain/(loss) on acquisition of businesses	5	**34.6**	(0.8)
(Loss)/gain on disposal of subsidiaries	39	**(0.3)**	2.2
Gain on sale of other investments	24	**74.1**	0.9
Administration expenses – ongoing		**(37.8)**	(37.3)
Administration expenses – exceptional	6	**(2.5)**	(1.0)
Operating profit		**396.8**	617.6
Finance costs	10	**(202.9)**	(206.6)
Finance income	11	**14.9**	18.7
Other finance costs	12	**(37.9)**	(37.3)
Change in fair value of financial instruments	13	**(16.3)**	6.0
Net finance costs		**(242.2)**	(219.2)
Profit before tax, joint ventures and associates		**154.6**	398.4
Share of post-tax profit of joint ventures	21	**32.1**	108.6
Share of post-tax profit of associates	23	**1.6**	6.0
Profit before tax		**188.3**	513.0
Current tax	14	**–**	(0.4)
Deferred tax	14	**(16.5)**	5.0
Taxation	14	**(16.5)**	4.6
Profit for the year		**171.8**	517.6
Attributable to:			
Owners of intu properties plc		**182.7**	518.4
Non-controlling interests		**(10.9)**	(0.8)
		171.8	517.6
Basic earnings per share	16	**13.7p**	39.3p
Diluted earnings per share	16	**11.2p**	37.5p

Details of underlying earnings are presented in the underlying profit statement on page 171. Underlying earnings per share are shown in note 16(c).

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit for the year		**171.8**	517.6
Other comprehensive income			
Items that may be reclassified subsequently to the income statement:			
Revaluation of other investments	24	**0.4**	12.8
Exchange differences		**31.6**	7.6
Tax relating to components of other comprehensive income	14	**(0.2)**	(5.0)
Total items that may be reclassified subsequently to the income statement		**31.8**	15.4
Transferred to the income statement:			
On sale of other investments	24	**(77.0)**	(0.6)
Tax on sale of other investments	14	**16.7**	–
Total transferred to the income statement		**(60.3)**	(0.6)
Other comprehensive (loss)/income for the year		**(28.5)**	14.8
Total comprehensive income for the year		**143.3**	532.4

Attributable to:		
Owners of intu properties plc	**154.2**	533.2
Non-controlling interests	**(10.9)**	(0.8)
	143.3	532.4

Balance sheets

as at 31 December 2016

	Notes	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current assets					
Investment and development property	18	**9,212.1**	8,403.9	**–**	–
Plant and equipment	19	**7.6**	5.0	**6.0**	4.2
Investment in group companies	20	**–**	–	**2,820.9**	2,866.6
Investment in joint ventures	21	**587.6**	991.9	**–**	–
Investment in associates	23	**65.2**	54.7	**–**	–
Other investments	24	**15.5**	210.3	**–**	–
Goodwill		**4.0**	4.0	**–**	–
Deferred tax	34	**–**	–	**–**	1.1
Trade and other receivables	25	**99.1**	89.3	**–**	–
		9,991.1	9,759.1	**2,826.9**	2,871.9
Current assets					
Trade and other receivables	25	**123.4**	108.8	**1,095.0**	1,266.9
Derivative financial instruments	27	**–**	3.2	**–**	–
Cash and cash equivalents	26	**254.7**	275.8	**0.9**	0.3
		378.1	387.8	**1,095.9**	1,267.2
Total assets		**10,369.2**	10,146.9	**3,922.8**	4,139.1
Current liabilities					
Trade and other payables	28	**(281.0)**	(275.5)	**(704.7)**	(346.3)
Current tax liabilities		**(0.3)**	(0.4)	**(0.3)**	(0.4)
Borrowings	29	**(142.4)**	(139.3)	**–**	–
Derivative financial instruments	27	**(37.0)**	(12.0)	**–**	–
		(460.7)	(427.2)	**(705.0)**	(346.7)
Non-current liabilities					
Borrowings	29	**(4,520.2)**	(4,332.3)	**(10.0)**	(353.7)
Derivative financial instruments	27	**(340.7)**	(329.7)	**(14.4)**	(26.4)
Other payables		**(1.2)**	(2.8)	**–**	–
		(4,862.1)	(4,664.8)	**(24.4)**	(380.1)
Total liabilities		**(5,322.8)**	(5,092.0)	**(729.4)**	(726.8)
Net assets		**5,046.4**	5,054.9	**3,193.4**	3,412.3
Equity					
Share capital	35	**677.5**	672.3	**677.5**	672.3
Share premium	35	**1,327.4**	1,303.1	**1,327.4**	1,303.1
Treasury shares	36	**(40.8)**	(43.3)	**(40.8)**	(43.3)
Other reserves	37	**344.3**	372.8	**61.4**	61.4
Retained earnings		**2,670.4**	2,671.5	**1,167.9**	1,418.8
Attributable to owners of intu properties plc		**4,978.8**	4,976.4	**3,193.4**	3,412.3
Non-controlling interests		**67.6**	78.5	**–**	–
Total equity		**5,046.4**	5,054.9	**3,193.4**	3,412.3

A loss of £67.1 million is recorded in the financial statements of the Company in respect of the year (2015: profit of £146.4 million). No income statement or statement of comprehensive income is presented for the Company as permitted by Section 408 of the Companies Act 2006.

These consolidated financial statements have been approved for issue by the Board of Directors on 23 February 2017.

David Fischel
Chief Executive

Matthew Roberts
Chief Financial Officer

The notes on pages 113 to 163 form part of these consolidated financial statements.

Statements of changes in equity

for the year ended 31 December 2016

Group	Attributable to owners of intu properties plc							
	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	672.3	1,303.1	(43.3)	372.8	2,671.5	4,976.4	78.5	5,054.9
Profit/(loss) for the year	–	–	–	–	182.7	182.7	(10.9)	171.8
Other comprehensive income:								
Revaluation of other investments (note 24)	–	–	–	0.4	–	0.4	–	0.4
Exchange differences	–	–	–	31.6	–	31.6	–	31.6
Tax relating to components of other comprehensive income (note 14)	–	–	–	16.5	–	16.5	–	16.5
Transferred to income statement on sale of other investments	–	–	–	(77.0)	–	(77.0)	–	(77.0)
Total comprehensive income for the year	**–**	**–**	**–**	**(28.5)**	**182.7**	**154.2**	**(10.9)**	**143.3**
Ordinary shares issued (note 35)	5.2	24.3	–	–	–	29.5	–	29.5
Dividends (note 15)	–	–	–	–	(182.5)	(182.5)	–	(182.5)
Share-based payments (note 8)	–	–	–	–	1.9	1.9	–	1.9
Acquisition of treasury shares	–	–	(0.7)	–	–	(0.7)	–	(0.7)
Disposal of treasury shares	–	–	3.2	–	(3.2)	–	–	–
	5.2	24.3	2.5	–	(183.8)	(151.8)	–	(151.8)
At 31 December 2016	**677.5**	**1,327.4**	**(40.8)**	**344.3**	**2,670.4**	**4,978.8**	**67.6**	**5,046.4**

Statements of changes in equity continued

for the year ended 31 December 2016

Group	Attributable to owners of intu properties plc Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	658.4	1,222.0	(45.1)	358.0	2,330.7	4,524.0	72.8	4,596.8
Profit/(loss) for the year	–	–	–	–	518.4	518.4	(0.8)	517.6
Other comprehensive income:								
Revaluation of other investments (note 24)	–	–	–	12.8	–	12.8	–	12.8
Exchange differences	–	–	–	7.6	–	7.6	–	7.6
Tax relating to components of other comprehensive income (note 14)	–	–	–	(5.0)	–	(5.0)	–	(5.0)
Transferred to income statement on sale of other investments	–	–	–	(0.6)	–	(0.6)	–	(0.6)
Total comprehensive income for the year	–	–	–	14.8	518.4	533.2	(0.8)	532.4
Ordinary shares issued (note 35)	13.9	81.1	–	–	–	95.0	–	95.0
Dividends (note 15)	–	–	–	–	(179.4)	(179.4)	–	(179.4)
Share-based payments (note 8)	–	–	–	–	4.8	4.8	–	4.8
Acquisition of treasury shares	–	–	(1.6)	–	–	(1.6)	–	(1.6)
Disposal of treasury shares	–	–	3.4	–	(3.0)	0.4	–	0.4
Non-controlling interest additions	–	–	–	–	–	–	6.5	6.5
	13.9	81.1	1.8	–	(177.6)	(80.8)	6.5	(74.3)
At 31 December 2015	672.3	1,303.1	(43.3)	372.8	2,671.5	4,976.4	78.5	5,054.9

Company	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total equity £m
	Attributable to owners of intu properties plc					
At 1 January 2016	672.3	1,303.1	(43.3)	61.4	1,418.8	3,412.3
Loss for the year	–	–	–	–	(67.1)	(67.1)
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(67.1)**	**(67.1)**
Ordinary shares issued (note 35)	5.2	24.3	–	–	–	29.5
Dividends (note 15)	–	–	–	–	(182.5)	(182.5)
Share-based payments (note 8)	–	–	–	–	1.9	1.9
Acquisition of treasury shares	–	–	(0.7)	–	–	(0.7)
Disposal of treasury shares	–	–	3.2	–	(3.2)	–
	5.2	24.3	2.5	–	(183.8)	(151.8)
At 31 December 2016	**677.5**	**1,327.4**	**(40.8)**	**61.4**	**1,167.9**	**3,193.4**

Company	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total equity £m
	Attributable to owners of intu properties plc					
At 1 January 2015	658.4	1,222.0	(45.1)	61.4	1,450.0	3,346.7
Profit for the year	–	–	–	–	146.4	146.4
Total comprehensive income for the year	–	–	–	–	146.4	146.4
Ordinary shares issued (note 35)	13.9	81.1	–	–	–	95.0
Dividends (note 15)	–	–	–	–	(179.4)	(179.4)
Share-based payments (note 8)	–	–	–	–	4.8	4.8
Acquisition of treasury shares	–	–	(1.6)	–	–	(1.6)
Disposal of treasury shares	–	–	3.4	–	(3.0)	0.4
	13.9	81.1	1.8	–	(177.6)	(80.8)
At 31 December 2015	672.3	1,303.1	(43.3)	61.4	1,418.8	3,412.3

Statements of cash flows
for the year ended 31 December 2016

	Notes	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash generated from operations	41	**355.9**	366.5	**556.0**	(23.3)
Interest paid		**(233.0)**	(222.5)	**(20.8)**	(17.3)
Interest received		**8.5**	16.6	**–**	2.6
Taxation		**–**	(0.4)	**–**	–
Cash flows from operating activities		**131.4**	160.2	**535.2**	(38.0)
Cash flows from investing activities					
Purchase and development of property, plant and equipment		**(120.9)**	(100.8)	**(3.4)**	(2.3)
Sale of property		**–**	1.8	**–**	–
Acquisition of businesses net of cash acquired	38	**(405.5)**	(203.1)	**–**	–
Sale of other investments		**201.9**	4.7	**–**	–
Additions to other investments		**(14.1)**	–	**–**	–
Additions to investment in associates	23	**–**	(10.0)	**–**	–
Additions to investment in subsidiaries	20	**–**	–	**(24.4)**	–
Disposal of subsidiaries net of cash sold with business	39	**80.5**	81.0	**–**	–
Repayment of capital by joint ventures	21	**–**	25.6	**–**	–
Loan advances to joint ventures	21	**(1.2)**	(0.8)	**–**	–
Loan repayments by joint ventures	21	**12.7**	17.6	**–**	–
Distributions from joint ventures	21	**3.2**	9.0	**–**	–
Cash flows from investing activities		**(243.4)**	(175.0)	**(27.8)**	(2.3)
Cash flows from financing activities					
Issue of ordinary shares		**0.3**	22.0	**0.3**	22.0
Acquisition of treasury shares		**(0.7)**	(1.6)	**(0.7)**	(1.6)
Sale of treasury shares		**–**	0.4	**–**	0.4
Non-controlling interest funding received		**–**	6.5	**–**	–
Cash transferred (to)/from restricted accounts		**(0.8)**	14.9	**–**	–
Borrowings drawn		**962.9**	329.2	**–**	123.7
Borrowings repaid		**(720.4)**	(190.3)	**(353.8)**	–
Equity dividends paid		**(152.6)**	(104.9)	**(152.6)**	(104.9)
Cash flows from financing activities		**88.7**	76.2	**(506.8)**	39.6
Effects of exchange rate changes on cash and cash equivalents		**1.4**	(0.3)	**–**	–
Net (decrease)/increase in cash and cash equivalents		**(21.9)**	61.1	**0.6**	(0.7)
Cash and cash equivalents at 1 January	26	**273.6**	212.5	**0.3**	1.0
Cash and cash equivalents at 31 December	26	**251.7**	273.6	**0.9**	0.3

Notes to the financial statements

1 Accounting convention and basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), interpretations issued by the International Financial Reporting Standards Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Directors have taken advantage of the exemption offered by Section 408 of the Companies Act not to present a separate income statement or statement of comprehensive income for the Company.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of property, available-for-sale investments, and certain other financial assets and liabilities that have been measured at fair value. A summary of the significant accounting policies applied is set out in note 2.

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

A number of standards and amendments to standards have been issued but are not yet effective for the current year. The most significant of these are set out below, all of which are not expected to have a material impact on the financial statements:

- IFRS 9 Financial Instruments (effective from 1 January 2018) – The standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The main area of impact for the Group is considered to relate to impairment provisioning which may affect measurement and presentation of trade receivables. We believe that the current provisioning approach to trade receivables is expected to be materially similar to the revised guidance
- IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018) – The standard is applicable to service charge income and facilities management income, but excludes rent receivable. This is not expected to have a material impact on the financial statements, but may result in changes to presentation and disclosure
- IFRS 16 Leases (effective 1 January 2019) – This standard does not significantly affect the current accounting for rental income earned. The Group holds a number of small operating leases as lessee which are affected by this standard; however, these are not material to the financial statements

Use of estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. In particular, significant judgement is required in the use of estimates and assumptions in the valuation and accounting for investment and development property and derivative financial instruments. Additional detail on these two areas is provided in the relevant accounting policy in note 2 and in notes 18 and 33.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic review on pages 6 to 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 46 to 51. In addition, note 33 includes the Group's risk management objectives, details of its financial instruments and hedging activities, its exposures to liquidity risk and details of its capital structure.

The Group prepares regular forecasts and projections which include sensitivity analysis taking into account a number of downside risks to the forecast including reasonably possible changes in trading performance and asset values and assesses the potential impact of these on the Group's liquidity position and available resources.

In preparing the most recent projections, factors taken into account include £291.6 million of cash (including the Group's share of cash in joint ventures of £36.9 million) and £630.7 million of undrawn facilities at 31 December 2016. The Group's weighted-average debt maturity of over seven years and the relatively long-term and stable nature of the cash flows receivable under tenant leases were also factored into the forecasts.

After reviewing the most recent projections and the sensitivity analysis, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the Group's financial statements.

Notes to the financial statements continued

2 Accounting policies – Group and Company

Basis of consolidation

The consolidated financial information includes the Company and its subsidiaries and their interests in joint arrangements and associates.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

– subsidiaries

A subsidiary is an entity which the Company controls. That is when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The Company's investment in Group companies is carried at cost less accumulated impairment losses.

– joint arrangements

A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing joint control.

A joint operation is a joint arrangement where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group's interest in a joint operation is accounted for by consolidating the Group's share of the assets, liabilities, income and expenses on a line-by-line basis.

A joint venture is a joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's interest in a joint venture is accounted for using the equity method as described below.

– associates

An associate is an entity over which the Company, either directly or indirectly, is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policies of the entity but is not control or joint control of those policies.

The Group's interest in an associate is accounted for using the equity method as described below.

– the equity method

Under the equity method of accounting, interests in joint ventures and associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. Loan balances relating to long-term funding from Group companies to joint ventures and associates are presented on the face of the balance sheet as part of the investment.

– non-controlling interest

A non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Company. Non-controlling interests are presented within equity, separately from the amounts attributable to owners of the Company. Profit or loss and each component of other comprehensive income is attributed to owners of the Company and to non-controlling interests in the appropriate proportions.

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates. The consolidated financial statements are presented in pounds sterling, which is the Group's presentational currency.

The assets and liabilities of foreign entities are translated into pounds sterling at the rate of exchange ruling at the reporting date and their income statement and cash flows are translated at the average rate for the period. Exchange differences arising are recorded in other comprehensive income.

At entity level, transactions in currencies other than an entity's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except where these relate to loans to foreign subsidiary entities considered to be part of the net investment in those entities in which case these amounts are recorded through other comprehensive income.

Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group.

Rental income receivable is recognised on a straight-line basis over the term of the lease. Directly attributable lease incentives are recognised within rental income on the same basis.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews or rents linked to tenant revenues, are recorded as income in the periods in which they are earned. Rent reviews are recognised as income from the date of the rent review, based on management's estimates. Estimates are derived from knowledge of market rents for comparable properties determined on an individual property basis and updated for progress of negotiations.

Service charge income, facilities management income and management fees are recognised on an accruals basis in line with the service being provided.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

2 Accounting policies – Group and Company (continued)

Dividend income

Dividend income is recognised when the right to receive payment has been established.

Share-based payments

The cost of granting share options and other share-based remuneration is recognised through the income statement with reference to the fair value of the equity instrument, assessed at the date of grant. This cost is charged to the income statement over the vesting period of the awards. All awards are accounted for as equity settled with the credit entry being taken directly to equity. For awards with non-market related criteria, the charge is reversed if it is expected that the performance criteria will not be met.

For share options an option pricing model is used applying assumptions around expected yields, forfeiture rates, exercise price and volatility. Where the share awards have non-market related performance criteria the Group has used the Black-Scholes option valuation model to establish the relevant fair values. Where the share awards have a TSR market-related performance criteria the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values.

Investments held in the Company's own shares in connection with employee share plans and other share-based payment arrangements are accounted for as treasury shares (see accounting policy below).

Exceptional items

Exceptional items are those items that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence. Underlying earnings is considered to be a key measure in understanding the Group's financial performance, and excludes exceptional items. Underlying earnings are explained further in the financial review on page 46 and reconciled in note 16(c).

Taxation

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases.

Temporary differences are not provided on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that management believe it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset only when they relate to taxes levied by the same authority and the Group intends to settle them on a net basis.

Tax is included in the income statement except when it relates to items recognised directly in other comprehensive income or equity, in which case the related tax is also recognised directly in other comprehensive income or equity.

Investment and development property

Investment and development property is owned or leased by the Group and held for long-term rental income and capital appreciation.

The Group has elected to use the fair value model. Properties are initially recognised at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value with the exception of certain development land where an assessment of fair value may be made internally. Valuations conform with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards 2014.

The main estimates and judgements underlying the valuations are described in note 18.

Properties held under leases are stated gross of the recognised finance lease liability.

The cost of investment and development property includes capitalised interest and other directly attributable outgoings incurred during development. Interest is capitalised on the basis of the average interest rate on the relevant debt outstanding. Interest ceases to be capitalised on the date of practical completion.

Gains or losses arising from changes in the fair value of investment and development property are recognised in the income statement.

Depreciation is not provided in respect of investment and development property.

Gains or losses arising on the sale of investment and development property are recognised when the significant risks and rewards of ownership have been transferred to the buyer. The gain or loss recognised is the proceeds received less the carrying value of the property and costs directly associated with the sale.

Leases

Leases are classified as a finance or operating lease according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are normally classified as operating leases.

Notes to the financial statements continued

2 Accounting policies – Group and Company (continued)

– Group as lessee

Leases of investment property are accounted for as finance leases and recognised as an asset and an obligation to pay future minimum lease payments. The investment property asset is included in the balance sheet at fair value, gross of the recognised finance lease liability. Contingent rents are recognised as they accrue.

Other finance lease assets are capitalised at the lower of the fair value of the leased asset or the present value of the minimum lease payments and depreciated over the shorter of the lease term and the useful life of the asset.

Lease payments are allocated between the liability and finance charges so as to achieve a constant financing rate.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

– Group as lessor

Investment properties are leased to tenants under operating leases, with rental income being recognised on a straight-line basis over the lease term. For more detail see the revenue recognition accounting policy.

Plant and equipment

Plant and equipment consists of vehicles, fixtures, fittings and other equipment. Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over an asset's estimated useful life up to a maximum of five years.

Other investments

Available-for-sale investments, being investments intended to be held for an indefinite period, are initially and subsequently measured at fair value. For listed investments, fair value is the current bid market value at the reporting date. For unlisted investments where there is no active market, fair value is assessed using an appropriate methodology.

Gains or losses arising from changes in fair value are included in other comprehensive income, except to the extent that losses are considered to represent a permanent impairment, in which case they are recognised in the income statement.

Upon disposal, accumulated fair value adjustments are reclassified from reserves to the income statement.

Goodwill

Goodwill arising on business combinations is carried at cost less accumulated impairment losses. Goodwill is assessed for impairment on an annual basis.

Impairment of assets

The Group's assets are reviewed at each balance sheet date to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

At each balance sheet date the Group reviews whether there is any indication that an impairment loss recognised in previous periods may have decreased. If such an indication exists the asset's recoverable amount is estimated. An impairment loss recognised in prior periods is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount. In this case the asset's carrying amount is increased to its recoverable amount but not exceeding the carrying amount that would have been determined had no impairment loss been recognised. The reversal of an impairment loss is recognised in the income statement. No impairment reversals are permitted to be recognised on goodwill.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost.

The Directors exercise judgement as to the collectability of trade receivables and determine if it is appropriate to impair these assets. Factors such as days past due, credit status of the counterparty and historical evidence of collection are considered.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits with banks, whether restricted or unrestricted, and other short-term liquid investments with original maturities of three months or less.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

Pensions

The costs of defined contribution schemes and contributions to personal plans are charged to the income statement in the year in which they are incurred. The Group has no defined benefit schemes.

Borrowings

Borrowings are recognised initially at their net proceeds on issue and subsequently carried at amortised cost with any transaction costs and premiums or discounts are recognised over the contractual life using the effective interest method. This excludes certain financial instruments such as convertible bonds as detailed in note 31.

In the event of early repayment, all unamortised transaction costs are recognised immediately in the income statement.

2 Accounting policies – Group and Company (continued)

Derivative financial instruments

The Group uses derivative financial instruments to manage exposure to interest rate risk. They are initially recognised on the trade date at fair value and subsequently re-measured at fair value. In assessing fair value the Group uses its judgement to select suitable valuation techniques and make assumptions which are mainly based on market conditions existing at the balance sheet date. The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date. These values are tested for reasonableness based upon broker or counterparty quotes.

Amounts paid under interest rate swaps, both on obligations as they fall due and on early settlement, are recognised in the income statement as finance costs. Fair value movements on revaluation of derivative financial instruments are shown in the income statement through changes in fair value of financial instruments.

The Group does not currently apply hedge accounting to its interest rate swaps.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to owners, this is the date of payment. In the case of final dividends, this is when declared by shareholders at the annual general meeting.

Convertible bonds

Convertible bonds are assessed on issue, as to whether they should be classified as a financial liability, as equity or as a compound financial instrument with both debt and equity components. This assessment is based on the terms of the bond and in accordance with IAS 32. Each bond is assessed separately and the detailed accounting treatment of each is given in note 31.

Treasury shares

Investments held in the Company's own shares are deducted from equity at cost. Where such shares are subsequently sold, any consideration received is recognised directly in equity.

Current/non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or consumption within one year of the reporting date. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Business combinations

Business combinations are accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. The consideration for the acquisition of a subsidiary is the total of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Costs associated with the acquisition are expensed as incurred. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill arising on an acquisition is the excess of the consideration over the fair value of the identifiable assets and liabilities acquired. Where the fair value of the identifiable assets and liabilities acquired exceeds the consideration this difference is recognised in the income statement at the date of the acquisition.

Notes to the financial statements continued

3 Segmental reporting

Operating segments are determined based on the strategic and operational management of the Group. The Group is primarily a shopping centre-focused business and has two reportable operating segments being the United Kingdom and Spain. Although management review and monitor the performance of the business principally on a centre-by-centre basis, the operating segments are consistent with the strategic and operational management of the Group.

As mentioned in the financial review, management review and monitor the business primarily on a proportionately consolidated basis. As such, the segmental analysis has been prepared on a proportionately consolidated basis.

The key driver of underlying earnings which is used to measure performance is net rental income. An analysis of net rental income is given below:

2016	Group including share of joint ventures UK £m	Spain £m	Total £m	Less share of joint ventures £m	Group total £m
Rent receivable	516.7	15.9	**532.6**	(48.1)	**484.5**
Service charge income	107.6	3.5	**111.1**	(9.5)	**101.6**
Facilities management income from joint ventures	5.1	–	**5.1**	3.1	**8.2**
Revenue	629.4	19.4	**648.8**	(54.5)	**594.3**
Rent payable	(25.4)	–	**(25.4)**	1.1	**(24.3)**
Service charge costs	(123.5)	(3.7)	**(127.2)**	10.6	**(116.6)**
Facilities management costs recharged to joint ventures	(5.1)	–	**(5.1)**	(3.1)	**(8.2)**
Other non-recoverable costs	(42.3)	(1.8)	**(44.1)**	5.0	**(39.1)**
Net rental income	**433.1**	**13.9**	**447.0**	**(40.9)**	**406.1**

2015	Group including share of joint ventures UK £m	Spain £m	Total £m	Less share of joint ventures £m	Group total £m
Rent receivable	492.5	21.5	514.0	(53.0)	461.0
Service charge income	103.0	4.5	107.5	(10.6)	96.9
Facilities management income from joint ventures	7.9	–	7.9	5.8	13.7
Revenue	603.4	26.0	629.4	(57.8)	571.6
Rent payable	(22.4)	–	(22.4)	1.1	(21.3)
Service charge costs	(116.7)	(4.8)	(121.5)	11.7	(109.8)
Facilities management costs recharged to joint ventures	(7.9)	–	(7.9)	(5.8)	(13.7)
Other non-recoverable costs	(48.0)	(1.8)	(49.8)	4.8	(45.0)
Net rental income	408.4	19.4	427.8	(46.0)	381.8

There were no significant transactions within net rental income between operating segments.

An analysis of investment and development property, capital expenditure and revaluation (deficit)/surplus is presented below:

	Investment and development property 2016 £m	2015 £m	Capital expenditure 2016 £m	2015 £m	Revaluation (deficit)/surplus 2016 £m	2015 £m
United Kingdom	**9,537.5**	9,222.3	**92.5**	75.6	**(97.4)**	342.2
Spain	**407.0**	301.4	**22.3**	47.9	**33.6**	8.5
Group including share of joint ventures	**9,944.5**	9,523.7	**114.8**	123.5	**(63.8)**	350.7
Less share of joint ventures	**(732.4)**	(1,119.8)	**(1.2)**	(2.5)	**(14.2)**	(85.8)
Group	**9,212.1**	8,403.9	**113.6**	121.0	**(78.0)**	264.9

3 Segmental reporting (continued)

The Group's geographical analysis of non-current assets is set out below. This represents where the Group's assets reside and, where relevant, where revenues are generated. In the case of investments this reflects where the investee is located.

	2016 £m	Re-presented[1] 2015 £m
United Kingdom	**9,648.6**	9,305.3
Spain	**276.7**	188.8
United States	**–**	209.4
India	**65.8**	55.6
	9,991.1	9,759.1

1 The comparative has been re-presented to show investment in Spanish joint ventures of £141.9 million under Spain, previously under United Kingdom.

4 Net other income

	2016 £m	2015 £m
Dividends received from other investments	**–**	6.7
Management fees	**3.3**	3.0
intu Digital	**(2.7)**	(2.8)
Net other income	**0.6**	6.9

5 Gain/(loss) on acquisition of businesses

The gain on acquisition of businesses in the year of £34.6 million relates to the acquisition of the remaining 50 per cent of intu Merry Hill (see note 38). The 2015 loss consisted of a gain on the acquisition of Puerto Venecia, Zaragoza of £0.8 million (see note 38) and an adjustment increasing the contingent consideration relating to the 2012 acquisition of StyleMeTV Limited (renamed IntuDigital Limited) resulting in the recognition of a loss of £1.6 million.

6 Administration expenses – exceptional

Exceptional administration expenses (see note 2 for definition of exceptional items) in the year totalled £2.5 million (2015: £1.0 million). 2016 costs relate to fees on corporate transactions, principally the acquisition of the remaining 50 per cent of intu Merry Hill. 2015 costs related principally to fees on the acquisition of Puerto Venecia, Zaragoza.

7 Operating profit

	2016 £m	2015 £m
Operating profit is arrived at after charging:		
Staff costs (note 8)	**83.2**	77.9
Depreciation (note 19)	**2.2**	2.6
Remuneration paid to the Company's auditors (note 9)	**0.8**	0.7

Notes to the financial statements continued

8 Employees' information

	Group 2016 £m	Group 2015 £m
Wages and salaries	**71.1**	63.9
Social security costs	**6.6**	6.1
Pension costs (note 45)	**3.6**	3.1
Share-based payments (note 44)	**1.9**	4.8
	83.2	77.9

At 31 December 2016 the number of persons employed by the Group was 2,578 (2015: 2,544). The Company had no employees during the year (2015: none). The monthly average number of persons employed by the Group during the year was:

	2016 Number	2015 Number
Head office	**379**	323
Shopping centres	**2,171**	2,123
	2,550	2,446

9 Auditors' remuneration

	2016 £000	2015 £000
Fees payable to the Company's auditors and their associates for:		
The audit of the Company's annual financial statements	**266**	237
Other services to the Group – audit of the Company's subsidiaries	**439**	391
Fees related to the audit of the Company and its subsidiaries	**705**	628
Audit-related assurance services[1]	**48**	71
Total fees for audit and audit-related services	**753**	699
Other assurance services	**–**	25
Total non-audit related services	**–**	25
Total fees	**753**	724

1 Relates to review of the interim report of the Group, and interim reviews of certain subsidiary undertakings.

Fees payable to PricewaterhouseCoopers LLP ('PwC') and its associates for non-audit services to the Company are not required to be disclosed separately as they are included on a consolidated basis. Fees payable by the Group's joint ventures in respect of 2016 were £151,000 (Group's share), of which £89,000 relates to audit and audit-related services and £62,000 relates to other assurance services. The Group also used accounting firms other than PwC for a number of assignments.

10 Finance costs

	2016 £m	2015 £m
On bank loans and overdrafts	**189.2**	195.4
On convertible bonds (note 31)	**9.3**	7.5
On obligations under finance leases	**4.4**	3.7
Finance costs	**202.9**	206.6

Finance costs of £2.1 million were capitalised in the year ended 31 December 2016 (2015: £2.1 million).

11 Finance income

	2016 £m	2015 £m
Interest receivable on loans to joint ventures	13.4	17.1
Other finance income	1.5	1.6
Finance income	**14.9**	**18.7**

12 Other finance costs

	2016 £m	2015 £m
Amortisation of Metrocentre compound financial instrument	5.9	5.9
Payments on unallocated interest rate swaps and other costs[1]	34.7	28.6
Foreign currency movements[1]	(2.7)	2.8
Other finance costs	**37.9**	**37.3**

1 Amounts totalling £32.0 million in the year ended 31 December 2016 (2015: £31.4 million) are treated as exceptional items, as defined in note 2, due to their nature and therefore excluded from underlying earnings (see note 16(c)). These finance costs include termination of interest rate swaps on repayment of debt, payments on unallocated interest rate swaps, foreign currency movements and other fees.

13 Change in fair value of financial instruments

	2016 £m	2015 £m
Loss/(gain) on derivative financial instruments	47.2	(6.8)
(Gain)/loss on convertible bonds designated as at fair value through profit or loss (note 31)	(30.9)	0.8
Change in fair value of financial instruments	**16.3**	**(6.0)**

Included within the change in fair value of derivative financial instruments are gains totalling £41.8 million (2015: £44.1 million) resulting from the payment of obligations under derivative financial instruments during the year. Of these £27.1 million related to unallocated swaps and £0.8 million to the termination of swaps. In 2015 £26.5 million related to unallocated swaps.

14 Taxation

Taxation for the year:

	2016 £m	2015 £m
Overseas taxation	0.1	0.6
UK taxation – adjustment in respect of prior years	(0.1)	(0.2)
Current tax	**–**	**0.4**
Deferred tax:		
On investment and development property	–	(0.8)
On other investments	(2.3)	(0.2)
On derivative financial instruments	16.4	(2.8)
On other temporary differences	2.4	(1.2)
Deferred tax	**16.5**	**(5.0)**
Total tax charge/(credit)	**16.5**	**(4.6)**

Notes to the financial statements continued

14 Taxation (continued)

The tax credit relating to components of other comprehensive income of £16.5 million (2015: charge of £5.0 million) relates entirely to deferred tax in respect of other investments.

The tax charge/(credit) for 2016 and 2015 are lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £m	2015 £m
Profit before tax, joint ventures and associates	**154.6**	398.4
Profit before tax multiplied by the standard rate in the UK of 20% (2015: 20.25%)	**30.9**	80.7
Exempt property rental profits and revaluations	**(20.1)**	(90.3)
	10.8	(9.6)
Additions and disposals of property and investments	**(6.8)**	(0.2)
Prior year corporation tax items	**(0.1)**	(0.2)
Non-deductible and other items	**0.5**	(0.4)
Overseas taxation	**(0.6)**	0.6
Unprovided deferred tax	**12.7**	5.2
Total tax charge/(credit)	**16.5**	(4.6)

Details of deferred tax balances are given in note 34.

15 Dividends

	2016 £m	2015 £m
Ordinary shares:		
Prior year final dividend paid of 9.1 pence per share (2015: 9.1 pence per share)	**121.1**	118.3
Interim dividend paid of 4.6 pence per share (2015: 4.6 pence per share)	**61.4**	61.1
Dividends declared	**182.5**	179.4
Proposed final dividend of 9.4 pence per share	**127.4**	

In 2016, the Company offered shareholders the option to receive ordinary shares instead of cash for the 2016 interim dividend of 4.6 pence under the Scrip Dividend Scheme. As a result of elections made by shareholders 10,268,341 new ordinary shares of 50 pence each were issued on 22 November 2016 in lieu of dividends otherwise payable. This resulted in £29.2 million of cash being retained in the business.

In 2015, the Scrip Dividend Scheme resulted in 21,491,924 new ordinary shares of 50 pence each being issued and £73.0 million of cash being retained in the business.

Details of the shares in issue and dividends waived are given in notes 35 and 36 respectively.

16 Earnings per share

(a) Earnings per share

Basic and diluted earnings per share as calculated in accordance with IAS 33 Earnings Per Share:

	2016			2015		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Profit for the year attributable to owners of intu properties plc	**182.7**			518.4		
Basic earnings per share[1]	**182.7**	**1,333.5**	**13.7p**	518.4	1,318.1	39.3p
Dilutive convertible bonds, share options and share awards	**(21.6)**	**107.9**		8.4	87.3	
Diluted earnings per share	**161.1**	**1,441.4**	**11.2p**	526.8	1,405.4	37.5p

1 The weighted average number of shares used for the calculation of basic earnings per share has been adjusted to remove shares held in the Employee Share Ownership Plan ('ESOP').

(b) Headline earnings per share

Headline earnings per share has been calculated and presented as required by the Johannesburg Stock Exchange listing requirements.

	2016		2015	
	Gross £m	Net[1] £m	Gross £m	Net[1] £m
Basic earnings		**182.7**		518.4
Adjusted for:				
Revaluation of investment and development property (note 18)	**78.0**	**71.8**	(264.9)	(261.9)
Gain on acquisition of businesses	**(34.6)**	**(34.6)**	(0.8)	(0.8)
Loss/(gain) on disposal of subsidiaries (note 39)	**0.3**	**0.3**	(2.2)	(2.2)
Gain on sale of other investments (note 24)	**(74.1)**	**(74.1)**	(0.9)	(0.9)
Share of joint ventures' items	**(14.2)**	**(14.2)**	(85.8)	(85.1)
Share of associates' items	**(1.1)**	**(1.1)**	(0.3)	(0.3)
Headline earnings		**130.8**		167.2
Dilution[2]		**(21.6)**		8.4
Diluted headline earnings		**109.2**		175.6
Weighted average number of shares (million)		**1,333.5**		1,318.1
Dilution[2]		**107.9**		87.3
Diluted weighted average number of shares (million)		**1,441.4**		1,405.4
Headline earnings per share (pence)		**9.8p**		12.7p
Diluted headline earnings per share (pence)		**7.6p**		12.5p

1 Net of tax and non-controlling interests.

2 The dilution impact is required to be included as calculated in note 16(a) even where this is not dilutive for headline earnings per share.

Notes to the financial statements continued

16 Earnings per share (continued)

(c) Underlying earnings per share

Underlying earnings per share is a non-GAAP measure but has been included as it is considered to be a key measure of the Group's performance and an indication of the extent to which dividend payments are supported by underlying earnings (see underlying profit statement on page 171). Underlying earnings is defined as an alternative performance measure in the financial review on page 46. A reconciliation to EPRA earnings is provided within the other information section.

			2016			2015
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share
Basic earnings per share (per note 16(a))	**182.7**	**1,333.5**	**13.7p**	518.4	1,318.1	39.3p
Adjusted for:						
Revaluation of investment and development property (note 18)	**78.0**		**5.9p**	(264.9)		(20.1)p
(Gain)/loss on acquisition of businesses (note 38)	**(34.6)**		**(2.6)p**	0.8		0.1p
Loss/(gain) on disposal of subsidiaries (note 39)	**0.3**		**–**	(2.2)		(0.2)p
Gain on sale of other investments (note 24)	**(74.1)**		**(5.6)p**	(0.9)		(0.1)p
Administration expenses – exceptional (note 6)	**2.5**		**0.2p**	1.0		0.1p
Exceptional finance costs (note 12)	**32.0**		**2.4p**	31.4		2.4p
Change in fair value of financial instruments (note 13)	**16.3**		**1.2p**	(6.0)		(0.4)p
Tax on the above	**16.5**		**1.3p**	(5.1)		(0.4)p
Share of joint ventures' items	**(12.3)**		**(0.9)p**	(83.9)		(6.4)p
Share of associates' items	**(1.1)**		**(0.1)p**	(5.8)		(0.4)p
Non-controlling interests in respect of the above	**(6.2)**		**(0.5)p**	3.8		0.3p
Underlying earnings per share	**200.0**	**1,333.5**	**15.0p**	186.6	1,318.1	14.2p
Dilutive convertible bonds, share options and share awards	**9.3**	**107.9**		7.5	87.3	
Underlying, diluted earnings per share	**209.3**	**1,441.4**	**14.5p**	194.1	1,405.4	13.8p

17 Net asset value per share

(a) NAV per share (diluted, adjusted)

NAV per share (diluted, adjusted) is a non-GAAP measure but has been included as it is considered to be a key measure of the Group's performance. The key difference from EPRA NAV is interest rate swaps not currently used for economic hedges of debt. These are excluded as, in our view, this provides a more meaningful measure of the Group's performance. NAV (diluted, adjusted) is defined as an alternative performance measure in the financial review on page 46. A reconciliation of NAV per share (diluted, adjusted) to EPRA NAV is provided within the other information section.

			2016			2015
	Net assets £m	**Shares million**	**NAV per share pence**	Net assets £m	Shares million	NAV per share pence
NAV per share attributable to owners of intu properties plc[1]	**4,978.8**	**1,343.0**	**371p**	4,976.4	1,331.9	374p
Dilutive convertible bonds, share options and awards	**2.6**	**3.5**		16.2	6.4	
Diluted NAV per share	**4,981.4**	**1,346.5**	**370p**	4,992.6	1,338.3	373p
Adjusted for:						
Fair value of derivative financial instruments (net of tax)	**377.7**		**28p**	322.1		24p
Deferred tax on investment and development property and other investments	**0.1**		**–**	18.9		1p
Share of joint ventures' items	**7.2**		**1p**	6.3		1p
Non-controlling interest recoverable balance not recognised	**71.3**		**5p**	71.3		5p
NAV per share (diluted, adjusted)	**5,437.7**	**1,346.5**	**404p**	5,411.2	1,338.3	404p

1 The number of shares used has been adjusted to remove shares held in the ESOP.

17 Net asset value per share (continued)

(b) NNNAV per share (diluted, adjusted)

NNNAV per share (diluted, adjusted) is a non-GAAP measure but has been included as it is considered to be an industry standard comparable measure and is equal to EPRA NNNAV per share presented in the other information section.

	2016			2015		
	Net assets £m	**Shares million**	**NAV per share pence**	Net assets £m	Shares million	NAV per share pence
NAV per share (diluted, adjusted)	**5,437.7**	**1,346.5**	**404p**	5,411.2	1,338.3	404p
Fair value of derivative financial instruments (net of tax)	**(377.7)**		**(28)p**	(322.1)		(24)p
Excess of fair value of borrowings over carrying value	**(375.0)**		**(28)p**	(194.4)		(14)p
Deferred tax on investment and development property and other investments	**(0.1)**		**–**	(18.9)		(1)p
Share of joint ventures' items	**(9.4)**		**(1)p**	(8.1)		(1)p
Non-controlling interests in respect of the above	**23.4**		**2p**	11.0		1p
NNNAV per share (diluted, adjusted)	**4,698.9**	**1,346.5**	**349p**	4,878.7	1,338.3	365p

18 Investment and development property

	Freehold £m	**Leasehold £m**	**Total £m**
At 1 January 2015	5,662.6	2,357.0	8,019.6
Acquisition of Puerto Venecia, Zaragoza (note 38)	344.2	–	344.2
Additions	84.4	36.6	121.0
Disposals	(1.5)	(0.3)	(1.8)
Disposal of subsidiaries[1]	(331.7)	–	(331.7)
Surplus on revaluation	223.6	41.3	264.9
Foreign exchange movements	(12.3)	–	(12.3)
At 31 December 2015	5,969.3	2,434.6	8,403.9
Acquisition of intu Merry Hill (note 38)	889.3	–	889.3
Additions	47.6	66.0	113.6
Recognition of leasehold on Charter Place	–	55.9	55.9
Disposals	(2.0)	–	(2.0)
Disposal of intu Bromley (note 39)	–	(179.4)	(179.4)
Deficit on revaluation	(21.6)	(56.4)	(78.0)
Foreign exchange movements	8.8	–	8.8
At 31 December 2016	**6,891.4**	**2,320.7**	**9,212.1**

1 Relates to Puerto Venecia, Zaragoza. See note 39.

A reconciliation to market value is given in the table below:

	2016 £m	2015 £m
Balance sheet carrying value of investment and development property	**9,212.1**	8,403.9
Tenant incentives included within trade and other receivables (note 25)	**109.9**	101.0
Head leases included within finance leases in borrowings (note 29)	**(80.2)**	(34.2)
Market value of investment and development property	**9,241.8**	8,470.7

Investment and development property is measured at fair value in the Group's balance sheet and categorised as Level 3 in the fair value hierarchy (see note 33 for definition) as one or more significant inputs to the valuation are partly based on unobservable market data.

Transfers into and transfers out of the fair value hierarchy levels are recognised on the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 for investment properties during the year.

The market value of investment and development property at 31 December 2016 includes £153.2 million (31 December 2015: £144.4 million) in respect of property considered to be developments. These are accounted for as investment property and are valued using the same methodology as other investment property with the exception of certain development land as detailed on page 126.

Notes to the financial statements continued

18 Investment and development property (continued)

The Group has only one class of investment and development property asset. All the Group's significant investment and development property relates to prime shopping centres which are of a similar nature and share characteristics and risks.

Valuation process

It is the Group's policy to engage independent external valuers to determine the market value of its investment and development property at both 30 June and 31 December. The Group provides information to the valuers, including current lease and tenant data along with asset-specific business plans. The valuers use this and other inputs including market transactions for similar properties to produce valuations (see valuation methodology below). These valuations and the assumptions they have made are then discussed and reviewed with the Group's asset management team and Directors.

The Group engages independent valuation experts to undertake the Group's property valuations. A summary of the valuers and the value of property assets they have been engaged to value is given below:

	2016 £m	2015 £m
Cushman & Wakefield	**4,564.4**	7,132.8
CBRE	**2,352.9**	1,275.0
Knight Frank	**2,243.9**	–
Assets not valued externally held at cost	**80.6**	62.9
	9,241.8	8,470.7

In addition to the above, investment properties in the Group's joint ventures were valued by CBRE, Cushman & Wakefield, Knight Frank and Jones Lang LaSalle.

Assets not valued externally held at cost relates to certain development land, the main element being the site in Málaga, Spain. These amounts have been reviewed internally and it has been concluded that the cost is the appropriate carrying value and so no valuation adjustment is needed. As the developments advance these will be valued by independent external valuers.

Valuation fees are a fixed amount agreed between the Group and the valuers in advance of the valuation and are not linked to the valuation output.

Valuation methodology

The fair value of the Group's investment and development property at 31 December 2016 was determined by independent external valuers at that date other than certain development land as detailed above. The valuations are in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards 2014 and were arrived at by reference to market transactions for similar properties and rent profiles. Fair values for investment properties are calculated using the present value income approach. The main assumptions underlying the valuations are in relation to rent profile and yields as discussed below.

The key driver of the property valuations is the terms of the leases in place at the valuation date. These determine the majority of the cash flow profile of the property for a number of years and therefore form the base of the valuation. The valuation assumes adjustments from these rental values in place at the valuation date to current market rent at the time of the next rent review (where a typical lease allows only for upward adjustment) and as leases expire and are replaced by new leases. The current market level of rent is assessed based on evidence provided by the most recent relevant leasing transactions and negotiations. This is based on evidence available at the date of valuation and does not assume future increases in market rent.

The nominal equivalent yield is applied as a discount rate to the rental cash flows which, after taking into account other input assumptions such as vacancies and costs, generates the market value of the property. The nominal equivalent yield applied is assessed by reference to market transactions for similar properties and takes into account, amongst other things, any risks associated with the rent uplift assumptions.

In respect of development valuations, deductions are then made for anticipated costs, including an allowance for developer's profit before arriving at a valuation.

Annual property income as disclosed in the following table reflects current annualised gross income.

The net initial yield is calculated as the current net income over the gross market value of the asset and is used as a sense check and to compare against market transactions for similar properties.

Full definitions of nominal equivalent yield, annual property income and net initial yield are provided in the glossary.

The valuation output, inputs and assumptions, are reviewed to ensure that they are in line with those of market participants.

18 Investment and development property (continued)

A significant change in the nominal equivalent yield in isolation would result in a significant change in the value of investment and development property. A decrease in nominal equivalent yield of 50 basis points would result in an increase in the total market value of £1,062.9 million (31 December 2015: £953.1 million), while a 50 basis point increase would result in a decrease in the total market value of £834.9 million (31 December 2015: £748.0 million).

The tables below provide details of the assumptions used in the valuation and key unobservable inputs:

				2016
	Market value £m	**Net initial yield (EPRA)**	**Nominal equivalent yield**	**Annual property income £m**
intu Trafford Centre	2,312.0	3.9%	4.3%	89.3
intu Lakeside	1,375.0	3.7%	4.5%	56.9
intu Metrocentre	945.2	4.5%	5.3%	51.6
intu Merry Hill	898.5	4.0%	5.0%	39.1
intu Braehead	546.2	4.5%	6.3%	27.2
intu Derby	450.0	5.8%	6.2%	29.7
Manchester Arndale	445.8	4.5%	5.2%	22.2
intu Victoria Centre	360.5	4.6%	5.7%	19.0
intu Watford	336.0	5.0%	5.1%	18.8
intu Eldon Square	317.7	4.3%	5.1%	15.0
intu Chapelfield	296.3	5.2%	5.5%	17.3
intu Milton Keynes	281.0	4.6%	4.9%	13.9
Cribbs Causeway	238.9	4.6%	5.6%	12.2
intu Potteries	169.0	5.7%	7.4%	11.8

				2015
	Market value £m	Net initial yield (EPRA)	Nominal equivalent yield	Annual property income £m
intu Trafford Centre	2,305.0	3.7%	4.3%	87.8
intu Lakeside	1,334.0	4.2%	4.7%	59.2
intu Metrocentre	952.3	4.7%	5.4%	48.2
intu Braehead	585.5	3.9%	6.0%	26.2
intu Derby	447.0	5.9%	6.0%	30.6
Manchester Arndale	445.0	4.6%	5.1%	21.9
intu Victoria Centre	356.0	4.3%	6.0%	18.2
intu Watford	336.0	4.7%	6.3%	17.8
intu Eldon Square	299.7	4.1%	5.9%	14.5
intu Milton Keynes	280.0	4.1%	4.8%	13.3
intu Chapelfield	272.5	5.3%	5.8%	16.2
Cribbs Causeway	245.1	4.4%	5.4%	11.7
intu Potteries	175.1	4.7%	7.5%	9.4
intu Bromley	174.1	5.5%	7.1%	10.7

Notes to the financial statements continued

19 Plant and equipment

Group	2016 Cost £m	2016 Accumulated depreciation £m	2016 Net £m	2015 Cost £m	2015 Accumulated depreciation £m	2015 Net £m
At 1 January	**17.2**	**(12.2)**	**5.0**	15.2	(10.1)	5.1
Additions	**4.8**	**–**	**4.8**	2.5	–	2.5
Disposals	**–**	**–**	**–**	(0.5)	0.5	–
Depreciation charge for the year	**–**	**(2.2)**	**(2.2)**	–	(2.6)	(2.6)
At 31 December	**22.0**	**(14.4)**	**7.6**	17.2	(12.2)	5.0

Company	2016 Cost £m	2016 Accumulated depreciation £m	2016 Net £m	2015 Cost £m	2015 Accumulated depreciation £m	2015 Net £m
At 1 January	**12.7**	**(8.5)**	**4.2**	10.4	(6.5)	3.9
Additions	**3.4**	**–**	**3.4**	2.3	–	2.3
Depreciation charge for the year	**–**	**(1.6)**	**(1.6)**	–	(2.0)	(2.0)
At 31 December	**16.1**	**(10.1)**	**6.0**	12.7	(8.5)	4.2

Plant and equipment consists of vehicles, fixtures, fittings and other office equipment.

20 Investment in group companies

Company	2016 Cost £m	2016 Accumulated impairment £m	2016 Net £m	2015 Cost £m	2015 Accumulated impairment £m	2015 Net £m
At 1 January	**3,313.7**	**(447.1)**	**2,866.6**	3,313.7	(609.0)	2,704.7
Additions	**24.4**	**–**	**24.4**	–	–	–
Impairment (charge)/reversal in the year	**–**	**(70.1)**	**(70.1)**	–	161.9	161.9
At 31 December	**3,338.1**	**(517.2)**	**2,820.9**	3,313.7	(447.1)	2,866.6

The impairment charge in the year and reversal in prior year are principally the result of property valuation movements seen in the relevant subsidiaries. Impairment is assessed by comparing the carrying value against the underlying assets and liabilities of the respective subsidiaries. Details of related undertakings are provided in note 42.

21 Joint ventures

The Group's principal joint ventures own and manage investment and development property.

	intu Merry Hill £m	St David's, Cardiff £m	Puerto Venecia £m	intu Asturias £m	Other £m	2016 Total £m
At 1 January 2016	447.0	368.5	85.9	53.4	37.1	991.9
Group's share of underlying profit	3.3	13.7	0.7	0.8	1.3	19.8
Group's share of other net profit/(loss)	(4.3)	(14.3)	19.4	12.9	(1.4)	12.3
Group's share of profit/(loss)	(1.0)	(0.6)	20.1	13.7	(0.1)	32.1
Distributions	(1.0)	–	–	–	(2.2)	(3.2)
Loan advances	–	–	–	–	1.2	1.2
Loan repayments	–	(12.7)	–	–	–	(12.7)
Disposal of joint venture interest	(445.0)	–	–	–	–	(445.0)
Foreign exchange movements	–	–	13.4	8.9	1.0	23.3
At 31 December 2016	**–**	**355.2**	**119.4**	**76.0**	**37.0**	**587.6**
Represented by:						
Loans to joint ventures	–	98.4	95.3	33.9	4.6	232.2
Group's share of net assets	–	256.8	24.1	42.1	32.4	355.4

	intu Merry Hill £m	St David's, Cardiff £m	Puerto Venecia £m	intu Asturias £m	Other £m	2015 Total £m
At 1 January 2015	433.0	310.9	–	47.3	60.3	851.5
Puerto Venecia, Zaragoza (note 39)	–	–	86.1	–	–	86.1
Group's share of underlying profit	7.5	13.8	0.6	0.6	2.2	24.7
Group's share of other net profit/(loss)	12.2	61.4	(0.8)	8.4	2.7	83.9
Group's share of profit/(loss)	19.7	75.2	(0.2)	9.0	4.9	108.6
Distributions	(5.7)	–	–	–	(3.3)	(9.0)
Repayment of capital	–	–	–	–	(25.6)	(25.6)
Loan advances	–	–	–	–	0.8	0.8
Loan repayments	–	(17.6)	–	–	–	(17.6)
Foreign exchange movements	–	–	–	(2.9)	–	(2.9)
At 31 December 2015	447.0	368.5	85.9	53.4	37.1	991.9
Represented by:						
Loans to joint ventures	386.2	111.0	82.3	29.3	2.3	611.1
Group's share of net assets	60.8	257.5	3.6	24.1	34.8	380.8

At 31 December 2016, the boards of joint ventures had approved £15.7 million (2015: £5.3 million) of future expenditure for the purchase, construction, development and enhancement of investment property. Of this, nil (2015: £2.0 million) is contractually committed. These amounts represent the Group's share.

Notes to the financial statements continued

21 Joint ventures (continued)

Set out below is the summarised information of the Group's joint ventures with financial information presented at 100 per cent. The 2016 summary information and the summarised income statement of intu Merry Hill is presented for the period to 22 June 2016, after which it became a 100 per cent owned subsidiary of the Group.

						2016
	intu Merry Hill £m	St David's, Cardiff £m	Puerto Venecia £m	intu Asturias £m	Other £m	Total £m
Summary information						
Group's interest	50%	50%	50%	50%		
Principal place of business	England	Wales	Spain	Spain		
Summarised income statement						
Revenue	27.0	40.4	24.2	15.0	19.1	125.7
Net rental income	20.2	27.4	17.8	10.1	13.3	88.8
Revaluation of investment and development property	(8.5)	(28.6)	38.6	28.6	1.7	31.8
Administration expenses – underlying	(0.5)	(0.1)	(1.4)	(1.0)	(1.9)	(4.9)
Administration expenses – exceptional	–	–	–	(0.8)	–	(0.8)
Finance costs	(13.1)	–	(14.9)	(9.3)	(4.3)	(41.6)
Change in fair value of financial instruments	–	–	0.2	(0.2)	(3.2)	(3.2)
Taxation – underlying	–	–	(0.1)	–	–	(0.1)
Profit/(loss)	**(1.9)**	**(1.3)**	**40.2**	**27.4**	**5.6**	**70.0**
Group's share of profit/(loss)	**(1.0)**	**(0.6)**	**20.1**	**13.7**	**(0.1)**	**32.1**
Summarised balance sheet						
Investment and development property	–	689.5	424.0	236.6	254.5	1,604.6
Other non-current assets	–	13.5	0.5	4.8	8.6	27.4
Total non-current assets	–	703.0	424.5	241.4	263.1	1,632.0
Cash and cash equivalents	–	9.4	25.2	35.4	5.9	75.9
Other current assets	–	11.5	2.9	1.7	2.4	18.5
Total current assets	–	20.9	28.1	37.1	8.3	94.4
Current financial liabilities	–	(0.2)	(12.1)	(6.0)	(0.5)	(18.8)
Other current liabilities	–	(13.3)	(9.9)	(4.6)	(5.4)	(33.2)
Total current liabilities	–	(13.5)	(22.0)	(10.6)	(5.9)	(52.0)
Partners' loans	–	(196.8)	(190.6)	(67.8)	(4.6)	(459.8)
Non-current financial liabilities	–	–	(191.8)	(101.5)	(131.8)	(425.1)
Other non-current liabilities	–	–	–	(14.4)	–	(14.4)
Total non-current liabilities	–	(196.8)	(382.4)	(183.7)	(136.4)	(899.3)
Net assets	**–**	**513.6**	**48.2**	**84.2**	**129.1**	**775.1**
Group's share of net assets	**–**	**256.8**	**24.1**	**42.1**	**32.4**	**355.4**

21 Joint ventures (continued)

	intu Merry Hill £m	St David's, Cardiff £m	Puerto Venecia £m	intu Asturias £m	Other £m	2015 Total £m
Summary information						
Group's interest	50%	50%	50%	50%		
Principal place of business	England	Wales	Spain	Spain		
Summarised income statement						
Revenue	58.8	41.0	5.4	13.2	19.6	138.0
Net rental income	43.3	27.6	4.5	9.9	13.4	98.7
Net other income	–	0.1	–	–	–	0.1
Revaluation of investment and development property	24.4	122.7	(0.9)	20.0	13.9	180.1
Administration expenses – underlying	(1.2)	–	(0.3)	(0.7)	(2.1)	(4.3)
Administration expenses – exceptional	–	–	(0.2)	(0.7)	–	(0.9)
Finance costs	(27.2)	–	(3.0)	(8.0)	(0.5)	(38.7)
Finance income	0.1	–	–	–	–	0.1
Change in fair value of financial instruments	–	–	(0.5)	(0.9)	–	(1.4)
Taxation – underlying	–	–	–	(0.1)	–	(0.1)
Taxation – exceptional	–	–	–	(1.5)	–	(1.5)
Profit/(loss)	39.4	150.4	(0.4)	18.0	24.7	232.1
Group's share of profit/(loss)	19.7	75.2	(0.2)	9.0	4.9	108.6
Summarised balance sheet						
Investment and development property	895.8	718.1	331.5	177.8	252.2	2,375.4
Other non-current assets	1.1	2.8	0.4	4.0	4.4	12.7
Total non-current assets	896.9	720.9	331.9	181.8	256.6	2,388.1
Cash and cash equivalents	18.6	7.7	13.0	8.5	7.3	55.1
Other current assets	4.9	23.7	2.3	2.6	6.1	39.6
Total current assets	23.5	31.4	15.3	11.1	13.4	94.7
Current financial liabilities	(5.3)	(1.2)	(3.9)	(3.6)	(2.4)	(16.4)
Other current liabilities	(21.1)	(14.1)	(7.4)	(0.3)	(3.7)	(46.6)
Total current liabilities	(26.4)	(15.3)	(11.3)	(3.9)	(6.1)	(63.0)
Partners' loans	(772.4)	(222.0)	(164.6)	(58.6)	(131.1)	(1,348.7)
Non-current financial liabilities	–	–	(164.1)	(70.0)	–	(234.1)
Other non-current liabilities	–	–	–	(12.2)	–	(12.2)
Total non-current liabilities	(772.4)	(222.0)	(328.7)	(140.8)	(131.1)	(1,595.0)
Net assets	121.6	515.0	7.2	48.2	132.8	824.8
Group's share of net assets	60.8	257.5	3.6	24.1	34.8	380.8

Notes to the financial statements continued

22 Joint operations

The Group's interests in Cribbs Causeway and Manchester Arndale are accounted for as joint operations. The Group holds 50 per cent beneficial interests in the relevant freehold or leasehold of these properties. Each joint arrangement is governed by a Trust Deed giving each party rights to income and obligations for expenses in respect of their beneficial interest in the property. The management of the property is established under the Trust Deed as being undertaken by an entity jointly controlled by the beneficial owners of the property. This entity does not have the right to a share of the income or expenditure from the property, other than the receipt of a management fee. Therefore these interests are accounted for as joint operations. The principal place of business of both joint operations is England.

23 Investment in associates

	Group 2016 £m	Group 2015 £m
At 1 January	**54.7**	38.0
Additions	**–**	10.0
Share of profit of associates	**1.6**	6.0
Foreign exchange movements	**8.9**	0.7
At 31 December	**65.2**	54.7

Investment in associates comprises a 32.4 per cent holding in the ordinary shares of Prozone Intu Properties Limited ('Prozone') and a 26.8 per cent holding in the ordinary shares of Empire Mall Private Limited ('Empire'). Both companies are incorporated in India.

During 2015 Empire, a subsidiary of Prozone, initiated a rights issue to raise INR1.6 billion. Prozone did not take up its rights and hence its investment in Empire reduced from 61.5 per cent to 34.7 per cent. The Group took up these unclaimed rights resulting in a £10 million (INR1.0 billion), 26.8 per cent direct holding in Empire.

The rights issue was priced at a discount to the net asset value of Empire resulting in a gain of £8.1 million on acquisition which was recorded through the share of profit of associates. Conversely the carrying value of the investment in Prozone reduced by £2.6 million reflecting that company's failure to take up its rights and this was also reflected through the share of profit of associates.

As required by IAS 28 Investments in Associates and Joint Ventures, the equity method of accounting is applied in accounting for the Group's investments in Prozone and Empire. The results for the year to 30 September have been used as 31 December information is not available in time for these financial statements. Those results are adjusted to be in line with the Group's accounting policies and include the most recent property valuations, determined as at 30 September 2016, by independent professionally qualified external valuers in line with the valuation methodology described in note 18.

The market price per share of Prozone at 31 December 2016 was INR35 (31 December 2015: INR32), valuing the Group's interest at £20.3 million (31 December 2015: £16.1 million) compared to the carrying value of £45.5 million (31 December 2015: £36.4 million). As the share price of Prozone is lower than its carrying value, a review of the carrying value has been undertaken. The net assets of Prozone principally comprise investment property which is held at fair value in intu's financial statements. As with other Group investment property, it is subject to independent valuation to fair value and that valuation reflects the future cash flows expected to be generated from those assets. As such the net asset carrying value recorded in the Group's financial statements is deemed to be a reasonable approximation of the value in use of the business and so no adjustment to that carrying value is considered necessary.

23 Investment in associates (continued)

Set out below is the summarised information of the Group's investments in associates with financial information presented at 100 per cent. The 2015 summarised income statement of Empire is presented for the period from 26 September 2015 when it became an associate of the Group.

	Prozone 2016 £m	**Empire 2016 £m**	**Total 2016 £m**	Prozone 2015 £m	Empire 2015 £m	Total 2015 £m
Summary information						
Group's interest	**32.4%**	**26.8%**		32.4%	26.8%	
Summarised income statement						
Revenue	**7.1**	**3.2**	**10.3**	8.8	1.6	10.4
Revaluation of investment and development property	**8.3**	**(5.7)**	**2.6**	1.2	(0.2)	1.0
Other income statement items	**0.9**	**0.3**	**1.2**	0.8	(0.2)	0.6
Loss on Empire rights issue	**–**	**–**	**–**	(8.1)	–	(8.1)
Profit/(loss) reported by associate	**9.2**	**(5.4)**	**3.8**	(6.1)	(0.4)	(6.5)
Group's share of profit/(loss) reported by associate	**3.0**	**(1.4)**	**1.6**	(2.0)	(0.1)	(2.1)
Group's gain on Empire rights issue	**–**	**–**	**–**	–	8.1	8.1
Group's share of profit/(loss)	**3.0**	**(1.4)**	**1.6**	(2.0)	8.0	6.0
Summarised balance sheet						
Investment and development property	**265.7**	**81.3**	**347.0**	197.9	69.6	267.5
Other non-current assets	**15.8**	**1.0**	**16.8**	11.4	0.2	11.6
Current assets	**8.8**	**2.1**	**10.9**	23.4	8.6	32.0
Current liabilities	**(12.6)**	**(5.5)**	**(18.1)**	(5.4)	(2.8)	(8.2)
Non-current liabilities	**(26.2)**	**(5.3)**	**(31.5)**	(25.0)	(7.5)	(32.5)
Net assets	**251.5**	**73.6**	**325.1**	202.3	68.1	270.4
Non-controlling interests	**(111.1)**	**–**	**(111.1)**	(89.9)	–	(89.9)
Net assets attributable to owners	**140.4**	**73.6**	**214.0**	112.4	68.1	180.5
Group's share of net assets attributable to owners	**45.5**	**19.7**	**65.2**	36.4	18.3	54.7

Notes to the financial statements continued

24 Other investments

	Group 2016 £m	Group 2015 £m
At 1 January	**210.3**	189.7
Additions	**14.1**	–
Disposals	**(209.4)**	(4.5)
Revaluation	**0.4**	12.8
Foreign exchange movements	**0.1**	12.3
At 31 December	**15.5**	210.3

These investments are available-for-sale investments and are analysed by type as follows:

	Group 2016 £m	Group 2015 £m
Listed securities – equity	**15.5**	0.9
Unlisted securities – equity	**–**	209.4
	15.5	210.3

Listed investments are accounted for at fair value using the bid market value at the reporting date.

On 19 January 2016, the Group disposed of its interest of 11.4 million units in a US venture controlled by Equity One, receiving £201.9 million. The transaction resulted in a gain of £74.1 million recognised in the income statement, after transfer from reserves of £77.0 million and settlement costs.

25 Trade and other receivables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current				
Trade receivables	**22.1**	23.5	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1,093.5**	1,262.0
Amounts owed by joint ventures	**9.9**	8.5	**–**	–
Other receivables	**15.4**	17.5	**0.8**	2.3
Net investment in finance lease	**0.5**	–	**–**	–
Prepayments and accrued income	**75.5**	59.3	**0.7**	2.6
Trade and other receivables – current	**123.4**	108.8	**1,095.0**	1,266.9
Non-current				
Other receivables	**–**	0.1	**–**	–
Net investment in finance lease	**1.5**	–	**–**	–
Prepayments and accrued income	**97.6**	89.2	**–**	–
Trade and other receivables – non-current	**99.1**	89.3	**–**	–

Included within prepayments and accrued income for the Group of £173.1 million (2015: £148.5 million) are tenant lease incentives of £109.9 million (2015: £101.0 million), of which £12.3 million are classified as current (2015: £11.8 million) and £97.6 million as non-current (2015: £89.2 million).

Amounts owed by subsidiary undertakings are unsecured and repayable on demand.

26 Cash and cash equivalents

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Unrestricted cash	**251.7**	273.6	**0.9**	0.3
Restricted cash	**3.0**	2.2	**–**	–
Cash and cash equivalents	**254.7**	275.8	**0.9**	0.3

Restricted cash primarily represents cash deposits to fund compulsory purchase orders related to the intu Watford extension.

A number of the Group's borrowing arrangements place certain restrictions on the rent received each quarter. These do not prevent access to or use of this funding within the borrowing entities, however they do place certain restrictions on moving those funds around the wider group, typically requiring debt servicing costs to be paid before restrictions are lifted.

27 Derivative financial instruments

All derivative financial instruments held by the Group relate to interest rate swaps which are classified as held for trading (see note 33).

The derivative financial instruments held by the Company relate to the bondholder options (see note 31) and are classified as held for trading.

28 Trade and other payables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current				
Rents received in advance	**105.2**	99.3	**–**	–
Trade payables	**6.9**	4.6	**–**	–
Amounts owed to joint ventures	**0.1**	0.4	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**684.6**	326.8
Accruals and deferred income	**128.8**	132.0	**11.9**	11.2
Other payables	**10.3**	12.1	**0.1**	0.1
Other taxes and social security	**29.7**	27.1	**8.1**	8.2
Trade and other payables	**281.0**	275.5	**704.7**	346.3

Amounts owed to subsidiary undertakings are unsecured and repayable on demand.

Notes to the financial statements continued

29 Borrowings

Group	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m
						2016
Current						
Bank loans and overdrafts	125.1	125.1	–	–	125.1	125.1
Commercial mortgage backed securities ('CMBS') notes	14.9	14.9	–	14.9	–	18.3
Current borrowings, excluding finance leases	140.0	140.0	–	14.9	125.1	143.4
Finance lease obligations	2.4	2.4	–	2.4	–	2.4
	142.4	**142.4**	**–**	**17.3**	**125.1**	**145.8**
Non-current						
Revolving credit facility 2021	10.0	10.0	–	–	10.0	10.0
CMBS notes 2019	19.8	19.8	–	19.8	–	20.8
CMBS notes 2022	50.5	50.5	–	50.5	–	60.6
CMBS notes 2024	87.8	87.8	–	87.8	–	98.6
CMBS notes 2029	78.7	78.7	–	78.7	–	92.3
CMBS notes 2033	325.4	325.4	–	325.4	–	406.4
CMBS notes 2035	190.6	190.6	–	–	190.6	196.5
Bank loan 2018	494.8	494.8	–	–	494.8	494.8
Bank loan 2020	32.8	32.8	–	–	32.8	32.8
Bank loans 2021	468.9	468.9	–	–	468.9	468.9
3.875% bonds 2023	442.4	442.4	–	442.4	–	486.8
4.125% bonds 2023	477.5	477.5	–	477.5	–	536.1
4.625% bonds 2028	341.7	341.7	–	341.7	–	402.4
4.250% bonds 2030	344.8	344.8	–	344.8	–	389.4
Debenture 2027	228.4	228.4	–	228.4	–	269.3
2.5% convertible bonds 2018 (note 31)	308.1	–	308.1	308.1	–	308.1
2.875% convertible bonds 2022 (note 31)	362.4	–	362.4	362.4	–	362.4
Non-current borrowings, excluding finance leases and Metrocentre compound financial instrument	4,264.6	3,594.1	670.5	3,067.5	1,197.1	4,636.2
Metrocentre compound financial instrument	177.8	–	177.8	177.8	–	177.8
Finance lease obligations	77.8	77.8	–	77.8	–	77.8
	4,520.2	**3,671.9**	**848.3**	**3,323.1**	**1,197.1**	**4,891.8**
Total borrowings	**4,662.6**	**3,814.3**	**848.3**	**3,340.4**	**1,322.2**	**5,037.6**
Cash and cash equivalents (note 26)	(254.7)					
Net debt	**4,407.9**					

Analysis of the Group's net external debt is provided in the other information section.

The Group substantially eliminates its interest rate exposure to floating rate debt through interest rate swaps as described in note 33.

The market value of investment property secured, either directly or indirectly, as collateral against borrowings at 31 December 2016 is £9,763.6 million including £731.9 million of investment property held within joint ventures (2015: £9,473.7 million including £1,118.7 million held within joint ventures). In most circumstances the Group can realise up to 50 per cent without restriction providing the Group continues to manage the asset. Realising an amount in excess of this would trigger a change of control and mandatory repayment of the facility.

The Company had non-current borrowings of £10.0 million at 31 December 2016 consisting of a revolving credit facility expiring in 2021 (2015: £353.7 million). This debt is floating rate, secured and its fair value is equal to book value.

The fair values of fixed rate borrowings and CMBS are assessed based on quoted market prices, and as such are categorised as Level 1 in the fair value hierarchy (see note 33 for definition). The fair values of unlisted floating rate borrowings are equal to their carrying value.

29 Borrowings (continued)

Group	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m
						2015
Current						
Bank loans and overdrafts	122.8	122.8	–	–	122.8	122.8
Commercial mortgage backed securities ('CMBS') notes	14.1	14.1	–	14.1	–	16.4
Current borrowings, excluding finance leases	136.9	136.9	–	14.1	122.8	139.2
Finance lease obligations	2.4	2.4	–	2.4	–	2.4
	139.3	139.3	–	16.5	122.8	141.6
Non-current						
Revolving credit facility 2020	353.7	353.7	–	–	353.7	353.7
CMBS notes 2019	19.6	19.6	–	19.6	–	20.2
CMBS notes 2022	50.9	50.9	–	50.9	–	60.6
CMBS notes 2024	87.5	87.5	–	87.5	–	91.4
CMBS notes 2029	83.7	83.7	–	83.7	–	94.1
CMBS notes 2033	339.0	339.0	–	339.0	–	400.1
CMBS notes 2035	188.4	188.4	–	–	188.4	194.7
Bank loans 2017	346.9	346.9	–	–	346.9	346.9
Bank loans 2020	380.0	380.0	–	–	380.0	380.0
Bank loan 2021	120.6	120.6	–	–	120.6	120.6
3.875% bonds 2023	441.3	441.3	–	441.3	–	461.3
4.125% bonds 2023	476.6	476.6	–	476.6	–	504.0
4.625% bonds 2028	341.2	341.2	–	341.2	–	380.8
4.250% bonds 2030	344.5	344.5	–	344.5	–	358.1
Debenture 2027	228.2	228.2	–	228.2	–	227.7
2.5% convertible bonds 2018 (note 31)	326.4	–	326.4	326.4	–	326.4
Non-current borrowings, excluding finance leases and Metrocentre compound financial instrument	4,128.5	3,802.1	326.4	2,738.9	1,389.6	4,320.6
Metrocentre compound financial instrument	172.0	–	172.0	172.0	–	172.0
Finance lease obligations	31.8	31.8	–	31.8	–	31.8
	4,332.3	3,833.9	498.4	2,942.7	1,389.6	4,524.4
Total borrowings	4,471.6	3,973.2	498.4	2,959.2	1,512.4	4,666.0
Cash and cash equivalents (note 26)	(275.8)					
Net debt	4,195.8					

The maturity profile of debt (excluding finance leases) is as follows:

	Group 2016 £m	Group 2015 £m
Repayable within one year	**140.0**	136.9
Repayable in more than one year but not more than two years	**804.8**	346.6
Repayable in more than two years but not more than five years	**620.6**	1,150.5
Repayable in more than five years	**3,017.0**	2,803.4
	4,582.4	4,437.4

Certain borrowing agreements contain financial and other conditions that, if contravened, could alter the repayment profile. During the year there were no breaches of these conditions (see financial covenants in the other information section).

Notes to the financial statements continued

29 Borrowings (continued)

At 31 December 2016 the Group had committed borrowing facilities of £640.7 million expiring in 2021, £630.7 million of which was undrawn (2015: facilities £640.7 million, undrawn £287.0 million).

Finance lease disclosures:

	Group 2016 £m	Group 2015 £m
Minimum lease payments under finance leases fall due:		
Not later than one year	**2.4**	4.2
Later than one year and not later than five years	**9.5**	17.0
Later than five years	**112.7**	62.5
	124.6	83.7
Future finance charges on finance leases	**(44.4)**	(49.5)
Present value of finance lease liabilities	**80.2**	34.2
Present value of finance lease liabilities:		
Not later than one year	**2.4**	2.4
Later than one year and not later than five years	**9.5**	13.9
Later than five years	**68.3**	17.9
	80.2	34.2

Finance lease liabilities are in respect of head leases on investment and development property. A number of these leases provide for payment of contingent rent, usually a proportion of net rental income, in addition to the rents above.

30 Movement in net debt

				2016
Group	Cash and cash equivalents £m	Current borrowings £m	Non-current borrowings £m	Net debt £m
At 1 January 2016	**275.8**	**(139.3)**	**(4,332.3)**	**(4,195.8)**
Acquisition of businesses	**(102.6)**	**–**	**(302.9)**	**(405.5)**
Disposal of subsidiaries	**80.5**	**0.9**	**103.1**	**184.5**
Sale of other investments	**201.9**	**–**	**–**	**201.9**
Borrowings drawn	**469.2**	**–**	**(469.2)**	**–**
Borrowings repaid	**(529.6)**	**169.1**	**360.5**	**–**
Other net cash movements	**(140.5)**	**–**	**–**	**(140.5)**
Other non-cash movements	**–**	**(173.1)**	**120.6**	**(52.5)**
At 31 December 2016	**254.7**	**(142.4)**	**(4,520.2)**	**(4,407.9)**

30 Movement in net debt (continued)

Group	Cash and cash equivalents £m	Current borrowings £m	Non-current borrowings £m	Net debt £m
				2015
At 1 January 2015	230.0	(21.3)	(4,332.7)	(4,124.0)
Acquisition of businesses	(200.7)	–	(138.2)	(338.9)
Disposal of subsidiaries	78.6	–	161.8	240.4
Borrowings drawn	329.2	–	(329.2)	–
Borrowings repaid	(190.3)	20.3	170.0	–
Issue of ordinary shares	22.0	–	–	22.0
Cash flows with joint ventures	51.4	–	–	51.4
Other net cash movements	(44.4)	–	–	(44.4)
Other non-cash movements	–	(138.3)	136.0	(2.3)
At 31 December 2015	275.8	(139.3)	(4,332.3)	(4,195.8)

31 Convertible bonds

2.875 per cent convertible bonds ('the 2.875 per cent bonds')

On 1 November 2016 Intu (Jersey) 2 Limited (the 'Issuer') issued £375.0 million 2.875 per cent Guaranteed Convertible Bonds due 2022 at par, all of which remain outstanding at 31 December 2016. At 31 December 2016 the exchange price was £3.7506 per ordinary share. intu properties plc has unconditionally and irrevocably guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the 2.875 per cent bonds and the obligations of the Company, as guarantor, constitute direct, unsubordinated and unsecured obligations of the Company.

Subject to certain conditions, the 2.875 per cent bonds are convertible into preference shares of the Issuer which are automatically transferred to the Company in exchange for ordinary shares in the Company or (at the Company's election) any combination of ordinary shares and cash. The 2.875 per cent bonds can be converted at any time from the date which is 180 days prior to the Final Maturity Date of 1 November 2022, to the 20th dealing date prior to the Final Maturity Date.

The initial exchange price was £3.7506 per ordinary share, a conversion rate of approximately 26,662 ordinary shares for every £100,000 nominal of the 2.875 per cent bonds. Under the terms of the 2.875 per cent bonds, the exchange price is adjusted upon certain events including the payment of dividends by the Company over a certain threshold.

The 2.875 per cent bonds may be redeemed at par at the Company's option subject to the Company's ordinary share price having traded at 30 per cent above the conversion price for a specified period, or at any time once 85 per cent by nominal value of the 2.875 per cent bonds originally issued have been converted or cancelled. If not previously converted, redeemed or purchased and cancelled, the 2.875 per cent bonds will be redeemed at par on 1 November 2022.

The 2.875 per cent bonds are designated as at fair value through profit or loss and so are presented on the balance sheet at fair value with all gains and losses taken to the income statement through the change in fair value of financial instruments line. At 31 December 2016, the fair value of the 2.875 per cent bonds was £362.4 million, with the change in fair value reflected in note 13. The 2.875 per cent bonds are listed on the Channel Islands Securities Exchange and the Open Market (Freiverkehr) of the Frankfurt Stock Exchange.

From the date of issue, interest of £1.8 million in respect of these bonds has been recognised within finance costs.

In the Company's balance sheet the bondholder option is held at its fair value of £0.5 million as a derivative financial instrument.

2.5 per cent convertible bonds ('the 2.5 per cent bonds')

On 4 October 2012 Intu (Jersey) Limited (the 'Issuer') issued £300.0 million 2.5 per cent Guaranteed Convertible Bonds due 2018 at par, all of which remain outstanding at 31 December 2016. At 31 December 2016 the exchange price was £3.2872 per ordinary share. intu properties plc has unconditionally and irrevocably guaranteed the due and punctual performance by the Issuer of all of its obligations (including payments) in respect of the 2.5 per cent bonds and the obligations of the Company, as guarantor, constitute direct, unsubordinated and unsecured obligations of the Company.

Notes to the financial statements continued

31 Convertible bonds (continued)

Subject to certain conditions, the 2.5 per cent bonds are convertible into preference shares of the Issuer which are automatically transferred to the Company in exchange for ordinary shares in the Company or (at the Company's election) any combination of ordinary shares and cash. The 2.5 per cent bonds can be converted at any time from 14 November 2012 up to the 20th dealing day before the maturity date.

The initial exchange price was £4.3752 per ordinary share, a conversion rate of approximately 22,856 ordinary shares for every £100,000 nominal of the 2.5 per cent bonds. Under the terms of the 2.5 per cent bonds, the exchange price is adjusted upon certain events including the payment of dividends by the Company.

The 2.5 per cent bonds may be redeemed at par at the Company's option subject to the Company's ordinary share price having traded at 30 per cent above the conversion price for a specified period, or at any time once 85 per cent by nominal value of the 2.5 per cent bonds originally issued have been converted or cancelled. If not previously converted, redeemed or purchased and cancelled, the 2.5 per cent bonds will be redeemed at par on 4 October 2018.

The 2.5 per cent bonds are designated as at fair value through profit or loss and so are presented on the balance sheet at fair value with all gains and losses taken to the income statement through the change in fair value of financial instruments line. At 31 December 2016, the fair value of the 2.5 per cent bonds was £308.1 million (2015: £326.4 million), with the change in fair value reflected in note 13. The 2.5 per cent bonds are listed on the Professional Securities Market of the London Stock Exchange.

During the year interest of £7.5 million (2015: £7.5 million) in respect of these bonds has been recognised within finance costs.

In the Company's balance sheet the bondholder option is held at its fair value of £13.9 million as a derivative financial instrument (2015: £26.4 million).

32 Operating leases

The Group earns rental income by leasing its investment properties to tenants under operating leases.

In the UK the standard shopping centre lease is for a term of 10 to 15 years. Standard lease provisions include service charge payments, recovery of other direct costs and review every five years to market rent. Standard turnover based leases have a turnover percentage agreed with each lessee which is applied to a retail unit's annual sales and any excess between the resulting turnover rent and the minimum rent is receivable by the Group.

The future minimum lease amounts receivable by the Group under non-cancellable operating leases for continuing operations are as follows:

	2016 £m	2015 £m
Not later than one year	**431.5**	408.3
Later than one year and not later than five years	**1,261.7**	1,210.0
Later than five years	**1,330.3**	1,287.7
	3,023.5	2,906.0

The income statement includes £1.2 million (2015: £1.1 million) recognised in respect of expected increased rent resulting from outstanding reviews where the actual rent will only be determined on settlement of the rent review.

The income statement includes £18.0 million (2015: £11.7 million) recognised in respect of contingent rents calculated by reference to tenants' turnover.

33 Financial risk management

The Group is exposed to a variety of financial risks arising from the Group's operations being principally market risk (including interest rate risk and foreign exchange risk), liquidity risk and credit risk.

The majority of the Group's financial risk management is carried out by the Group's treasury department. The policies for managing each of these risks and their impact on the results for the year are summarised below.

Market risk

a) Interest rate risk

Interest rate risk comprises both cash flow and fair value risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market interest rates.

33 Financial risk management (continued)

The Group's interest rate risk arises from borrowings issued at variable rates that expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed interest rates expose the Group to fair value interest rate risk. Bank debt is typically issued at floating rates linked to LIBOR. Bond debt and other capital market debt is generally issued at fixed rates.

It is Group policy, and often a requirement of the Group's lenders, to eliminate substantially all exposure to interest rate fluctuations by using floating to fixed interest rate swaps in order to establish certainty over cash flows. Such swaps have the economic effect of converting borrowings from floating to fixed rates.

As a consequence, the Group is exposed to market price risk in respect of the fair value of its fixed rate interest rate swaps, as discussed in the financial review on pages 46 to 51.

The table below shows the effects of interest rate swaps on the borrowings profile of the Group:

	Fixed 2016 £m	**Floating 2016 £m**	Fixed 2015 £m	Floating 2015 £m
Borrowings[1]	**3,086.5**	**1,380.2**	2,725.1	1,570.4
Derivative impact (nominal value of interest rate swaps)	**829.7**	**(829.7)**	978.0	(978.0)
Net borrowings profile	**3,916.2**	**550.6**	3,703.1	592.4
Interest rate protection		**87.7%**		86.2%

1 Borrowings are stated at nominal value and exclude the Metrocentre compound financial instrument and finance leases. At 31 December 2016 they include the £10.0 million (2015: £353.7 million) drawn under the revolving credit facility which incurs interest at a variable rate. Excluding the revolving credit facility, interest rate protection is 87.9 per cent (2015: 94.0 per cent).

Group policy is to target interest rate protection within the range of 75 per cent to 100 per cent.

The weighted average rate for interest rate swaps currently effective is 2.35 per cent (2015: 2.12 per cent).

Unallocated interest rate swaps (including certain forward starting swaps) are excluded from the above calculation. The nominal value of these swaps is £566.7 million (2015: £746.7 million) of which £125.0 million (2015: £125.0 million) are forward starting. Their fair value of £295.4 million (2015: £239.1 million) is included as a liability in the balance sheet.

The approximate impact of a 50 basis point increase in the level of interest rates would reduce the liability by £78.5 million (2015: £74.1 million) in the fair value of derivatives. The approximate impact of a 50 basis point reduction in the level of interest rates would increase the liability by £78.5 million (2015: £79.8 million) in the fair value of derivatives. In practice, a parallel shift in the yield curve is highly unlikely. However, the above sensitivity analysis is a reasonable illustration of the possible effect from the changes in slope and shifts in the yield curve that may occur. Where the fixed rate derivative financial instruments are matched by floating rate debt, the overall effect on Group cash flow of such a movement would be very small.

b) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a functional currency other than sterling. The Group's policy is to ensure its net exposure to foreign currency is less than 10 per cent of equity attributable to owners of the Group. At 31 December 2016 the Group's exposure amounted to 7.2 per cent of equity attributable to owners of the Group (31 December 2015: 7.9 per cent).

The table summarises the Group's exposure to foreign currency risk:

	2016 €m	2015 €m	**2016 INRm**	2015 INRm	**2016 US$m**	2015 US$m
Net exposure	**341.6**	170.4	**5,526.6**	5,421.4	**0.1**	311.1

The following foreign exchange rates, at 31 December 2016, apply to the Group's foreign exchange risk:

	2016 €m	2015 €m	**2016 INRm**	2015 INRm	**2016 US$m**	2015 US$m
Foreign exchange rate	**1.1715**	1.3568	**83.8636**	97.5080	**1.2357**	1.4739

The approximate impact of a 10 per cent appreciation in foreign exchange rates would be positive movement of £39.8 million (2015: £43.6 million) to equity attributable to owners of the Group. The approximate impact of a 10 per cent depreciation in foreign exchange rates would be a negative movement of £32.5 million (2015: £35.7 million) to equity attributable to owners of the Group.

Notes to the financial statements continued

33 Financial risk management (continued)

Liquidity risk

Liquidity risk is managed to ensure that the Group is able to meet future payment obligations when financial liabilities fall due. Liquidity analysis is conducted to ensure that sufficient headroom is available to meet the Group's operational requirements and committed investments. The Group treasury policy aims to meet this objective through maintaining adequate cash, marketable securities and committed facilities to meet these requirements. Undrawn borrowing facilities are detailed in note 29. The Group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect the Group seeks to borrow for as long as possible at the lowest acceptable cost.

Group policy is to maintain a weighted-average debt maturity of over five years. As at 31 December 2016, the maturity profile of Group debt showed an average maturity of seven years (2015: eight years). The Group regularly reviews the maturity profile of its borrowings and seeks to avoid bunching of maturities through the regular replacement of facilities and by arranging a selection of maturity dates. Refinancing risk may be reduced by doing so prior to the contracted maturity date, effectively switching liquidity risk for market risk.

The tables below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal. Where interest payment obligations are based on a floating rate, the rates used are those implied by the par yield curve for the relevant currency. Where payment obligations are in foreign currencies, the spot exchange rate at the balance sheet date is used.

					2016
Group	**Within 1 year £m**	**1–2 years £m**	**2–5 years £m**	**Over 5 years £m**	**Total £m**
Borrowings (including interest)	**(311.8)**	**(996.9)**	**(1,057.2)**	**(3,541.1)**	**(5,907.0)**
Finance lease obligations	**(2.4)**	**(2.4)**	**(7.2)**	**(112.6)**	**(124.6)**
Other financial liabilities	**(17.4)**	**(1.2)**	**–**	**–**	**(18.6)**
Derivative payments	**(92.8)**	**(43.5)**	**(115.7)**	**(375.9)**	**(627.9)**
Derivative receipts	**18.3**	**5.3**	**22.3**	**128.6**	**174.5**
	(406.1)	**(1,038.7)**	**(1,157.8)**	**(3,901.0)**	**(6,503.6)**

					2015
Group	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Borrowings (including interest)	(285.9)	(561.9)	(1,611.6)	(3,456.9)	(5,916.3)
Finance lease obligations	(4.3)	(4.3)	(12.8)	(63.2)	(84.6)
Other financial liabilities	(17.3)	(2.8)	–	–	(20.1)
Derivative payments	(54.4)	(50.0)	(132.6)	(448.3)	(685.3)
Derivative receipts	14.1	15.4	49.9	217.5	296.9
	(347.8)	(603.6)	(1,707.1)	(3,750.9)	(6,409.4)

					2016
Company	**Within 1 year £m**	**1–2 years £m**	**2–5 years £m**	**Over 5 years £m**	**Total £m**
Borrowings (including interest)	**(0.2)**	**(0.2)**	**(10.6)**	**–**	**(11.0)**
Other financial liabilities	**(0.3)**	**–**	**–**	**–**	**(0.3)**
Amounts owed to subsidiary undertakings	**(684.6)**	**–**	**–**	**–**	**(684.6)**
	(685.1)	**(0.2)**	**(10.6)**	**–**	**(695.9)**

33 Financial risk management (continued)

Company	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	2015 Total £m
Borrowings (including interest)	(0.9)	(24.4)	(396.1)	–	(421.4)
Other financial liabilities	(0.3)	–	–	–	(0.3)
Amounts owed to subsidiary undertakings	(326.8)	–	–	–	(326.8)
	(328.0)	(24.4)	(396.1)	–	(748.5)

Credit risk

Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables but also from the Group's holdings of assets with counterparties such as cash deposits and derivative financial instruments.

Credit risk associated with trade receivables is actively managed; tenants are managed individually by asset managers, who continuously monitor and work with tenants, aiming wherever possible to identify and address risks prior to default.

Prospective tenants are assessed via a review process, including obtaining credit ratings and reviewing financial information, which is conducted internally. As a result deposits or guarantees may be obtained. The amount of deposits held as collateral at 31 December 2016 is £4.5 million (2015: £3.7 million).

It is Group policy to calculate any impairment of receivables specifically on each contract.

The ageing analysis of trade receivables is as follows:

	Group 2016 £m	Group 2015 £m
Up to three months	**20.8**	20.9
Three to six months	**1.3**	2.6
Trade receivables	**22.1**	23.5

At 31 December 2016 trade receivables are shown net of provisions totalling £4.2 million (2015: £3.8 million).

The credit risk relating to cash deposits and derivative financial instruments is actively managed by the Group's treasury department. Relationships are maintained with a number of tier one institutional counterparties, ensuring compliance with Group policy relating to limits on the credit ratings of counterparties (between BBB+ and AAA).

Excessive credit risk concentration is avoided through adhering to authorised limits for all counterparties.

Counterparty	**Credit rating**	**Authorised limit £m**	**Group exposure 31 December 2016 £m**
Counterparty #1	AA-	125.0	118.0
Counterparty #2	A	100.0	65.3
Counterparty #3	A-	100.0	46.7
Counterparty #4	BBB+	75.0	9.8
Counterparty #5	A-	20.0	3.9
Sum of five largest exposures			243.7
Sum of cash deposits and derivative financial instrument assets			254.7
Five largest exposures as a percentage of risk			96%

Notes to the financial statements continued

33 Financial risk management (continued)

Classification of financial assets and liabilities

The tables below set out the Group's accounting classification of each class of financial assets and liabilities and their fair values at 31 December 2016 and 31 December 2015.

The fair values of derivative financial instruments are determined from observable market prices or estimated using appropriate yield curves at 31 December each year by discounting the future contractual cash flows to the net present values. The determination of the fair values of borrowings is defined in note 29.

				2016
	Carrying value £m	Fair value £m	Profit/(loss) to income statement £m	Profit to other comprehensive income £m
Loans to joint ventures	**232.2**	**232.2**	**–**	**–**
Trade and other receivables	**47.4**	**47.4**	**–**	**–**
Cash and cash equivalents	**254.7**	**254.7**	**–**	**–**
Total cash and receivables	**534.3**	**534.3**	**–**	**–**
Other investments	**15.5**	**15.5**	**–**	**0.4**
Total available-for-sale investments	**15.5**	**15.5**	**–**	**0.4**
Derivative financial instrument liabilities	**(377.7)**	**(377.7)**	**(47.2)**	**–**
Total held for trading liabilities	**(377.7)**	**(377.7)**	**(47.2)**	**–**
Trade and other payables	**(18.6)**	**(18.6)**	**–**	**–**
Borrowings	**(4,662.6)**	**(5,037.6)**	**30.9**	**–**
Total loans and payables	**(4,681.2)**	**(5,056.2)**	**30.9**	**–**

				2015
	Carrying value £m	Fair value £m	Profit/(loss) to income statement £m	Profit to other comprehensive income £m
Derivative financial instrument assets	3.2	3.2	(6.2)	–
Total held for trading assets	3.2	3.2	(6.2)	–
Loans to joint ventures	611.1	611.1	–	–
Trade and other receivables	49.6	49.6	–	–
Cash and cash equivalents	275.8	275.8	–	–
Total cash and receivables	936.5	936.5	–	–
Other investments	210.3	210.3	–	12.8
Total available-for-sale investments	210.3	210.3	–	12.8
Derivative financial instrument liabilities	(341.7)	(341.7)	13.0	–
Total held for trading liabilities	(341.7)	(341.7)	13.0	–
Trade and other payables	(20.1)	(20.1)	–	–
Borrowings	(4,471.6)	(4,666.0)	(0.8)	–
Total loans and payables	(4,491.7)	(4,686.1)	(0.8)	–

33 Financial risk management (continued)

The table below presents the Group's financial assets and liabilities recognised at fair value.

				2016
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale investments	**15.5**	**–**	**–**	**15.5**
Total assets	**15.5**	**–**	**–**	**15.5**
Liabilities				
Convertible bonds:				
— Designated as at fair value through profit or loss	**(670.5)**	**–**	**–**	**(670.5)**
Derivative financial instruments:				
— Fair value through profit or loss	**–**	**(377.7)**	**–**	**(377.7)**
Total liabilities	**(670.5)**	**(377.7)**	**–**	**(1,048.2)**

				2015
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivative financial instruments:				
— Fair value through profit or loss	–	3.2	–	3.2
Available-for-sale investments	0.9	209.4	–	210.3
Total assets	0.9	212.6	–	213.5
Liabilities				
Convertible bonds:				
— Designated as at fair value through profit or loss	(326.4)	–	–	(326.4)
Derivative financial instruments:				
— Fair value through profit or loss	–	(341.7)	–	(341.7)
Total liabilities	(326.4)	(341.7)	–	(668.1)

Fair value hierarchy

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

Level 2: Valuation techniques are used, maximising the use of observable market data, either directly from market prices or derived from market prices.

Level 3: Where one or more significant inputs to valuation are unobservable. 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.

Transfers into and transfers out of the fair value hierarchy levels are recognised on the date of the event or change in circumstances that caused the transfer. There were no transfers between Levels 1, 2 and 3 during the year.

Valuation techniques for level 2 hierarchy financial assets and liabilities are presented in the accounting policies.

Notes to the financial statements continued

33 Financial risk management (continued)

Capital structure

The Group seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure. The capital of the Group consists of equity, debt and compound financial instruments. The Group aims to access both debt and equity capital markets with maximum efficiency and flexibility.

The key ratios used to monitor the capital structure of the Group are the debt to assets ratio and interest cover. The Group's stated medium to long-term preference is for the debt to assets ratio to be within the 40–50 per cent range and interest cover to be greater than 1.60x. At 31 December 2016 the debt to assets ratio remains within the preferred range and the interest cover ratio continues to be above the preferred level.

As the Group's debt is sometimes secured on its interests in joint ventures, these ratios are monitored for the Group including share of joint ventures. A reconciliation from the relevant amounts as presented to those including the Group's share of joint ventures is presented in the other information section.

Debt to assets ratio	Group 2016 £m	Group 2015 £m
Market value of investment and development property	**9,984.7**	9,602.4
Net external debt	**(4,364.1)**	(4,139.1)
Debt to assets ratio	**43.7%**	43.1%

Interest cover	Group 2016 £m	Group 2015 £m
Finance costs	**(208.5)**	(208.9)
Finance income	**1.5**	1.6
	(207.0)	(207.3)
Underlying operating profit	**407.7**	395.6
Interest cover	**1.97x**	1.91x

34 Deferred tax

Under IAS 12 Income Taxes, provision is made for the deferred tax assets and liabilities associated with the revaluation of assets and liabilities at the corporate tax rate expected to apply to the Group at the time the temporary differences are expected to reverse. For those UK assets and liabilities benefitting from REIT exemption, the relevant tax rate will be 0 per cent (2015: 0 per cent), for other UK assets and liabilities the relevant rate will be 20 per cent if the temporary difference is expected to be realised before 1 April 2017, 19 per cent if it is expected to be realised on or after 1 April 2017 but before 1 April 2020 and 17 per cent if it is expected to be realised on or after 1 April 2020 (2015: 20 per cent, 19 per cent and 18 per cent respectively). For other assets and liabilities the tax rate will be the relevant expected corporate tax rate in the relevant country.

34 Deferred tax (continued)

Movements in the provision for deferred tax:

Group	Investment and development property £m	Other investments £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
Provided deferred tax provision/(asset):					
At 1 January 2015	–	14.1	(13.6)	(0.5)	–
Acquisition of Puerto Venecia, Zaragoza	6.1	–	–	(6.1)	–
Recognised in the income statement	(0.8)	(0.2)	(2.8)	(1.2)	(5.0)
Recognised in other comprehensive income	–	5.0	–	–	5.0
Foreign exchange movements	(0.2)	–	–	0.2	–
Disposal of subsidiaries	(5.1)	–	–	5.1	–
At 31 December 2015	–	18.9	(16.4)	(2.5)	–
Recognised in the income statement	–	(2.3)	16.4	2.4	16.5
Recognised in other comprehensive income	–	(16.5)	–	–	(16.5)
At 31 December 2016	**–**	**0.1**	**–**	**(0.1)**	**–**

On its sale in 2016, the deferred tax provision in respect of the Group's investment in Equity One (2015: £18.9 million) was reduced to nil. The revaluation of this investment has been recognised in reserves and so the deferred tax movements relating to it have also been recognised in other comprehensive income. With the provision reduced to nil, the deferred tax asset on derivative financial instruments and other temporary differences can no longer be recognised, and £18.9 million has therefore been released to the income statement.

At 31 December 2016, the Group had unrecognised deferred tax assets calculated at a tax rate of 17 per cent (2015: 18 per cent) of £39.7 million (2015: £54.2 million) for surplus UK revenue tax losses carried forward, £45.5 million (2015: £31.3 million) for temporary differences on derivative financial instruments and £0.6 million (2015: £0.6 million) for temporary differences on capital allowances.

In accordance with the requirements of IAS 12 Income Taxes, the deferred tax asset has not been recognised in the Group financial statements due to uncertainty over the level of profits that will be available in the non-REIT elements of the Group in future periods.

The Company recognises no deferred tax asset or liability (2015: an asset of £1.1 million was recognised in respect of carried forward losses).

35 Share capital and share premium

	Share capital £m	Share premium £m
Issued and fully paid:		
At 1 January 2015: 1,316,838,051 ordinary shares of 50 pence each	658.4	1,222.0
Ordinary shares issued	13.9	81.1
At 31 December 2015: 1,344,661,827 ordinary shares of 50 pence each	672.3	1,303.1
Ordinary shares issued	5.2	24.3
At 31 December 2016: 1,355,040,243 ordinary shares of 50 pence each	**677.5**	**1,327.4**

During the year the Company issued a total of 110,075 ordinary shares in connection with the exercise of options by employees and former employees under the intu properties plc approved share option scheme and the intu properties plc unapproved share option scheme. As a result the Company's share capital increased by £0.1 million and share premium by £0.2 million.

On 22 November 2016, the Company issued 10,268,341 new ordinary shares of 50 pence each respectively to shareholders who elected to receive their 2016 interim dividend in shares under the Scrip Dividend Scheme. The value of the Scrip Shares was calculated in accordance with the terms of the Scrip Dividend Scheme, being the average middle market quotations for each day between 4 October and 10 October 2016 inclusive less the gross amount of dividend payable. As a result the Company's share capital increased by £5.1 million and share premium by £24.1 million.

Notes to the financial statements continued

35 Share capital and share premium (continued)

During 2015 the Company issued a total of 75,777 ordinary shares in connection with the exercise of options by employees and former employees under the intu properties plc approved share option scheme and the intu properties plc unapproved share option scheme. As a result the Company's share capital increased by £0.1 million and share premium by £0.2 million.

On 20 May 2015 the Company issued 6,256,075 new ordinary shares of 50 pence each to entities in the Peel Group at £3.4635 per share in connection with the purchase of the two parcels of land in the province of Málaga, Spain. As a result share capital increased by £3.1 million and share premium by £18.6 million (see note 43).

On 28 May 2015 and 24 November 2015, the Company issued 16,071,625 and 5,420,299 new ordinary shares of 50 pence each respectively to shareholders who elected to receive their 2014 final and 2015 interim dividends in shares under the Scrip Dividend Scheme. The value of the Scrip Shares was calculated in accordance with the terms of the Scrip Dividend Scheme, being the average middle market quotations for each day between 24 March to 30 March 2015 inclusive and between 2 October and 8 October 2015 respectively less the gross amount of dividend payable. As a result the Company's share capital increased by £10.7 million and share premium by £62.3 million.

Full details of the rights and obligations attaching to the ordinary shares are contained in the Company's Articles of Association. These rights include an entitlement to receive the Company's report and financial statements, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. Holders of ordinary shares may also receive dividends and may receive a share of the Company's assets on the Company's liquidation. There are no restrictions on the transfer of the ordinary shares.

At 23 February 2017 the Company had an unexpired authority to repurchase shares up to a maximum of 134,466,182 shares with a nominal value of £67.2 million, and the Directors have an unexpired authority to allot up to a maximum of 437,878,478 shares with a nominal value of £218.9 million.

Included within the issued share capital at 31 December 2016 are 12,069,559 ordinary shares (2015: 12,712,516) held by the Trustee of the ESOP which is operated by the Company (see note 36). The nominal value of these shares at 31 December 2016 is £6.0 million (2015: £6.4 million).

36 Employee Share Ownership Plan ('ESOP')

The cost of shares in intu properties plc held by the Trustee of the Employee Share Ownership Plan operated by the Company is accounted for as a deduction from equity.

The purpose of the ESOP is to acquire and hold shares which will be transferred to employees in the future under the Group's employee incentive arrangements as described in note 44 and the Director's remuneration report on pages 76 to 93, including joint ownership of shares in its role as Trustee of the Joint Share Ownership Plan. Dividends of £1.0 million (2015: £1.6 million) in respect of these shares have been waived by agreement.

	2016		2015	
Group and Company	**Shares million**	**£m**	Shares million	£m
At 1 January	**12.7**	**43.3**	13.1	45.1
Acquisitions	**0.3**	**0.7**	0.5	1.6
Disposals	**(0.9)**	**(3.2)**	(0.9)	(3.4)
At 31 December	**12.1**	**40.8**	12.7	43.3

37 Other reserves

Group	Capital redemption £m	Translation reserve £m	Other £m	Total £m
At 1 January 2015	61.4	0.1	296.5	358.0
Revaluation of other investments (note 24)	–	–	12.8	12.8
Exchange differences	–	7.6	–	7.6
Tax relating to components of other comprehensive income (note 14)	–	–	(5.0)	(5.0)
Reclassified to income statement on sale of other investments	–	–	(0.6)	(0.6)
At 31 December 2015	61.4	7.7	303.7	372.8
Revaluation of other investments (note 24)	–	–	0.4	0.4
Exchange differences	–	31.6	–	31.6
Tax relating to components of other comprehensive income (note 14)	–	–	16.5	16.5
Reclassified to income statement on sale of other investments	–	(13.4)	(63.6)	(77.0)
At 31 December 2016	**61.4**	**25.9**	**257.0**	**344.3**

Other reserves in respect of the Company relate to the capital redemption reserve of £61.4 million (2015: £61.4 million).

38 Business combinations

Acquisition during 2016

On 22 June 2016 the Group acquired the remaining 50 per cent of intu Merry Hill for total consideration of £409.7 million. Following this transaction intu Merry Hill has ceased to be accounted for as a joint venture and is now a subsidiary of the Group. The cash flow statement outflow of £405.5 million reflects the £409.7 million less the unrestricted cash acquired of £4.2 million. Acquisition related costs of £1.0 million were incurred and recognised in the income statement in exceptional administration expenses during the year.

The fair value of assets and liabilities acquired, at 100 per cent, are set out in the table below:

	Fair value £m
Assets	
Investment and development property	889.3
Cash and cash equivalents	4.2
Trade and other receivables	3.9
Total assets	**897.4**
Liabilities	
Trade and other payables	(8.1)
Total liabilities	**(8.1)**
Net assets	**889.3**
Fair value of consideration paid	854.7
Gain on acquisition of business	**34.6**

The fair value of the assets and liabilities acquired exceeds the fair value of the consideration and as a result a gain of £34.6 million is recognised in the income statement on acquisition. With a motivated seller, we were able as manager and owner of the other 50 per cent interest to conclude the transaction at a value lower than the independent market value.

The fair value of consideration paid includes the cash consideration for the acquired 50 per cent interest of £409.7 million and the fair value of intu's existing interest of £445.0 million. There are no material differences between the carrying value and fair value of intu's existing joint venture interest at acquisition.

From 22 June 2016, the date on which the acquired entities joined the Group as subsidiaries, they contributed £28.5 million to the revenue of the Group (acquired 50 per cent contribution: £14.2 million) and contributed £13.5 million of profit in the period.

Had the entities been acquired on 1 January 2016, the Group would have reported revenue of £650.0 million and profit of £170.9 million for the year.

Notes to the financial statements continued

38 Business combinations (continued)

Acquisition during 2015

On 19 January 2015 the Group acquired 100 per cent of the share capital of Puerto Venecia Investments SOCIMI S.A. for total cash consideration of €273.5 million (£208.8 million). The cash flow statement outflow of £203.1 million reflects the £208.8 million less the unrestricted cash acquired of £5.7 million. Acquisition related costs of £1.1 million were incurred and recognised in the income statement in exceptional administration expenses during 2014 and 2015.

The company acquired owns Puerto Venecia, a shopping resort in Zaragoza, Spain.

The fair value of assets and liabilities acquired is set out in the table below:

	Fair value £m
Assets	
Investment and development property (€450.8 million)	344.2
Cash and cash equivalents (including restricted cash of £2.4 million)	8.1
Derivative financial instruments	0.1
Trade and other receivables	2.6
Total assets	355.0
Liabilities	
Trade and other payables	(7.2)
Borrowings	(138.2)
Total liabilities	(145.4)
Net assets	209.6
Fair value of consideration paid	208.8
Gain on acquisition of business	0.8

The fair value of the assets and liabilities acquired exceeds the fair value of the consideration and as a result a gain of £0.8 million is recognised in the income statement on acquisition.

During 2015 the acquired business contributed £16.5 million to the revenue of the Group and £2.6 million to the profit of the Group.

Had the acquired business been consolidated from 1 January 2015, the 2015 consolidated income statement would show revenue of £572.3 million. The Group's reported profit would be unchanged.

39 Disposal of subsidiaries

Disposals during 2016

On 15 December 2016 the Group sold 100 per cent of its interest in Intu Bromley Limited, a wholly owned subsidiary, to Alaska Permanent Fund for initial consideration of £81.5 million before expenses of £1.3 million. Intu Bromley Limited holds a 64 per cent interest in intu Bromley. It is anticipated the Group will receive a cash payment of £0.8 million following final agreement of the completion balance sheet. As a result of this transaction the Group has recorded a loss on disposal of £0.3 million in the income statement. The cash flow statement inflow of £80.5 million reflects the net consideration of £81.0 million net of cash in the business of £0.5 million.

The assets and liabilities of the subsidiary disposed of, at 100 per cent, are set out below:

	£m
Assets	
Investment and development property	179.4
Cash and cash equivalents	0.5
Trade and other receivables	12.7
Total assets	**192.6**
Liabilities	
Trade and other payables	(7.3)
Borrowings	(104.0)
Total liabilities	**(111.3)**
Net assets	**81.3**
Fair value of consideration received	81.0
Loss on disposal of subsidiaries	**0.3**

Disposals during 2015

On 30 September 2015, the Group sold 50 per cent of its interest in Intu Zaragoza S.à r.l., a wholly owned subsidiary, to CPPIB for consideration of €122.3 million (£90.1 million). Intu Zaragoza S.à r.l. owns, through its subsidiaries, Puerto Venecia, Zaragoza. Following this transaction Puerto Venecia has ceased to be accounted for as a subsidiary and is now a joint venture. Therefore the assets and liabilities of Puerto Venecia are no longer recorded at 100 per cent in the Group's balance sheet but the remaining 50 per cent interest is included in the investment in joint ventures at an initial value of £86.1 million. As a result of this transaction the Group has recorded a gain on disposal of £2.2 million in the income statement. The cash flow statement records a net inflow of £81.0 million being cash received of £90.1 million net of cash in the business of £9.1 million.

The assets and liabilities of the subsidiaries disposed of, at 100 per cent, are set out below:

	£m
Assets	
Investment and development property (€450.8 million)	331.7
Cash and cash equivalents (including restricted cash of £2.4 million)	11.5
Trade and other receivables	2.5
Total assets	345.7
Liabilities	
Trade and other payables	(6.3)
Derivative financial instruments	(1.8)
Borrowings	(161.8)
Total liabilities	(169.9)
Net assets	175.8
Net assets (at 50 per cent)	87.9
Fair value of consideration received	90.1
Gain on disposal of subsidiaries	2.2

Notes to the financial statements continued

40 Capital commitments

At 31 December 2016 the Board had approved £241.3 million (2015: £59.9 million) of future expenditure for the purchase, construction, development and enhancement of investment property. Of this, £136.6 million (2015: £21.2 million) is contractually committed. The majority of this is expected to be spent during 2017 and 2018.

41 Cash generated from operations

	Notes	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Profit/(loss) before tax, joint ventures and associates		**154.6**	398.4	**(66.1)**	145.7
Adjusted for:					
Revaluation of investment and development property	18	**78.0**	(264.9)	**–**	–
(Gain)/loss on acquisition of businesses	5	**(34.6)**	0.8	**–**	–
Loss/(gain) on disposal of subsidiaries	39	**0.3**	(2.2)	**–**	–
Gain on sale of other investments	24	**(74.1)**	(0.9)	**–**	–
Depreciation	19	**2.2**	2.6	**1.6**	2.0
Share-based payments		**1.9**	4.8	**1.9**	4.8
Lease incentives and letting costs		**(16.7)**	(5.8)	**–**	–
Charge/(reversal) of impairment of investment in group companies	20	**–**	–	**70.1**	(161.9)
Finance costs	10	**202.9**	206.6	**16.6**	9.1
Finance income	11	**(14.9)**	(18.7)	**(14.6)**	(17.0)
Other finance costs	12	**37.9**	37.3	**6.4**	2.7
Change in fair value of financial instruments	13	**16.3**	(6.0)	**(32.9)**	1.1
Changes in working capital:					
Change in trade and other receivables		**(1.0)**	14.4	**187.6**	33.6
Change in trade and other payables		**3.1**	0.1	**385.4**	(43.4)
Cash generated from operations		**355.9**	366.5	**556.0**	(23.3)

42 Subsidiaries, joint ventures and associates

The table below lists all of the Company's subsidiaries, joint ventures and associates. The country of incorporation and registration is England and Wales and the registered office is 40 Broadway, London SW1H 0BT/0BU except as indicated. The Company's interest in each subsidiary is 100 per cent except as indicated. The Company's interest in each joint venture is 50 per cent except as indicated.

Name of entity	Class of capital
Subsidiaries based at 40 Broadway, London, SW1H 0BT / SW1H 0BU	
Barton Square Holdco Limited (holding company)	Ordinary shares
Barton Square Limited (property)	Ordinary shares
Braehead Glasgow Limited (property)	'A' Ordinary shares 'B' Ordinary shares
Braehead Leisure Partnership (property)	n/a
Braehead Park Estates Limited (property)	Ordinary shares
Braehead Park Investments Limited (property)	Ordinary shares
Broadmarsh Retail (Nominee No.1) Limited (dormant)	Ordinary shares
Broadmarsh Retail (Nominee No.2) Limited (dormant)	Ordinary shares
Broadmarsh Retail (Nominee No.3) Limited (dormant)	Ordinary shares
Broadmarsh Retail (Nominee No.4) Limited (dormant)	Ordinary shares
Broadmarsh Retail General Partner Limited (general partner)	'A' Ordinary shares
Broadway Construction & Development Limited (dormant)	Ordinary shares
Broadway Retail Leisure Limited (management of leisure facilities)	Ordinary shares
Cable Plaza Limited (limited partner)	Ordinary shares
Capital Shopping Centres Limited (dormant)[3]	Ordinary shares
Castle & Pedmore Houses Limited (holding company)	Ordinary shares
Chapelfield GP Limited (general partner)	Ordinary shares
Chapelfield LP Limited (limited partner)	Ordinary shares
Chapelfield Nominee Limited (dormant)	Ordinary shares
Chapelfield Property Management Limited (property management)	Ordinary shares
Conduit Insurance Holdings Limited (holding company)[3]	Ordinary shares
Cribbs Mall Nominee (2) Limited (dormant)	Ordinary shares
Crossmane Limited (limited partner)	Ordinary shares
CSC Uxbridge Limited (dormant)	Ordinary shares
Derby Business Management Limited (dormant)	Ordinary shares 'A' shares
Derby Investments General Partner Limited (general partner)	Ordinary shares
Derby Investments Limited Partnership (limited partner)	n/a
Derby Investments Trustee Limited (dormant)	Ordinary shares
Fortheath (No.3) Limited (dormant)	Ordinary shares
Intu (SGS) Finco Limited (finance)	Ordinary shares
Intu (SGS) Holdco Limited (holding company)	Ordinary shares
Intu (SGS) Limited (holding company)	Ordinary shares
Intu (SGS) Topco Limited (holding company)[3]	Ordinary shares
Intu 2027 Limited (dormant)	Ordinary shares
Intu Braehead Leisure Limited (holding company)	Ordinary shares
Intu Braehead Limited (holding company)	Ordinary shares
Intu Braehead Property Management Limited (property management)	Ordinary shares
Intu Broadmarsh Limited (dormant)[3]	Ordinary shares
Intu Cardiff Holdco Limited (holding company)	Ordinary shares
Intu Cardiff Limited (dormant)	Ordinary shares
Intu Centaurus Retail Limited (holding company)	Ordinary shares
Intu Chapelfield Limited (dormant)[3]	Ordinary shares
Intu Chapelfield Residential Limited (property)	Ordinary shares
Intu Debenture plc (finance, holding company)[3]	Ordinary shares
Intu Eldon Square Limited (property)	Ordinary shares
Intu Experiences Limited (mall commercialisation)	Ordinary shares
Intu Finance MH Limited (finance)	Ordinary shares
Intu FM Limited (dormant)	Ordinary shares
Intu Investments Limited (property)	Preference shares
Intu IP Limited (intellectual property)	Ordinary shares
Intu Lakeside Hotel Limited (dormant)	Ordinary shares
Intu Lakeside Limited (property)	Ordinary shares
Intu Lakeside Property Management Limited (property management)	Ordinary shares
Intu London plc (dormant)[3]	Ordinary shares
Intu Management Services Limited (management services)[3]	Ordinary shares
Intu Metrocentre Limited (limited partner)	Ordinary shares
Intu Metrocentre Parent Company Limited (holding company)	Ordinary shares
Intu Metrocentre Property Management Limited (property management)	Ordinary shares
Intu Metrocentre Topco Limited (holding company)[3]	Ordinary shares
Intu MH Acquisitions Limited (limited partner)	Ordinary shares
Intu MH Group Limited (holding company)	Ordinary shares
Intu MH Holdings Limited (holding company)	Ordinary shares
Intu MH Investments Limited (limited partner)	Ordinary shares
Intu MH Leaseholds Limited (holding company)	Ordinary shares
Intu MH Participations Limited (holding company)	Ordinary shares
Intu MH Parking Limited (limited partner)	Ordinary shares
Intu MH Phase 1 Limited (limited partner)	Ordinary shares
Intu MH Properties Limited (holding company)	Ordinary shares
Intu MH Waterfront Limited (limited partner)	Ordinary shares
Intu MHDS Holdco Limited (holding company)[3]	Ordinary shares
Intu Milton Keynes Limited (property)	Ordinary shares
Intu Nottingham Investments Limited (limited partner)	Ordinary shares
Intu Payments Limited (Group payment services)	Ordinary shares
Intu Potteries Limited (limited partner)	Ordinary shares
Intu Properties Investments Limited (limited partner)	Ordinary shares
Intu Property Management Limited (property management)	Ordinary shares
Intu Property Services Limited (dormant)	Ordinary shares
Intu Retail Services Limited (facilities management)[5]	'A' Ordinary shares Ordinary shares
Intu RS Limited (facilities management)[5]	Ordinary shares
Intu Shelfco 1 Limited (dormant)[3]	Ordinary shares
Intu Shelfco 2 Limited (dormant)[3]	Ordinary shares

Notes to the financial statements continued

42 Subsidiaries, joint ventures and associates (continued)

Name of entity	Class of capital
Intu Shopping Centres plc (holding company)[3]	Ordinary shares
Intu Spain Limited (holding company)	Ordinary shares
Intu The Hayes Limited (limited partner)	Ordinary shares
Intu Trafford Centre Group (UK) Limited (holding company)	Ordinary shares
Intu Trafford Centre Limited (development management)	Ordinary shares
Intu Ventures Limited (dormant)	Ordinary shares
Intu Victoria Centre Limited (dormant)[3]	Ordinary shares
Intu Watford Limited (property)	Ordinary shares
Intu Watford Property Management Limited (property management)	Ordinary shares
IntuDigital Holdco Limited (holding company)	'A' Ordinary shares 'B' Ordinary shares
IntuDigital Limited (digital services)	Ordinary shares
Kindmotive Limited (dormant)	Cumulative redeemable preference shares Ordinary shares
Lakeside 1988 Limited (dormant)	'A' Ordinary shares 'B' Redeemable preference shares 'C' Preference shares
Liberty Capital PLC (dormant)[3]	Ordinary shares
Liberty International Construction and Development Limited (dormant)[3]	Ordinary shares
Liberty International Financial Services Limited (holding company)	Ordinary shares
Liberty International Group Treasury Limited (treasury management)	Ordinary shares
Liberty International Holdings Limited (holding company)[1]	Ordinary shares
Manchester Nominee (2) Limited (dormant)	Ordinary shares
Merry Hill Management Services Limited (dormant)	Ordinary shares
Merry Hill Services Limited (dormant)	Ordinary shares
Merry Hill Trading Limited (dormant)	Ordinary shares
Metrocentre (GP) Limited (general partner)	Ordinary shares
Metrocentre (Holdco) Limited (holding company)	Ordinary shares
Metrocentre (Nominee No.1) Limited (dormant)	Ordinary shares
Metrocentre (Nominee No.2) Limited (dormant)	Ordinary shares
Metrocentre (Subco) Limited (holding company)	Ordinary shares
Metrocentre Lancaster LLP (property)[4]	n/a
Metrocentre Lancaster No.1 Limited (holding company)	Ordinary shares
Metrocentre Lancaster No.2 Limited (holding company)	Ordinary shares
MH (No.1) General Partner Limited (general partner)	Ordinary shares
MH (No.1) Limited Partnership (property)	n/a
MH (No.1) Nominee A Limited (dormant)	Ordinary shares
MH (No.1) Nominee B Limited (dormant)	Ordinary shares
MH (No.2) General Partner Limited (general partner)	Ordinary shares
MH (No.2) Limited Partnership (property)	n/a
MH (No.2) Nominee A Limited (dormant)	Ordinary shares

Name of entity	Class of capital
MH (No.2) Nominee B Limited (dormant)	Ordinary shares
MH (No.3) General Partner Limited (general partner)	Ordinary shares
MH (No.3) Limited Partnership (property)	n/a
MH (No.3) Nominee A Limited (dormant)	Ordinary shares
MH (No.3) Nominee B Limited (dormant)	Ordinary shares
MH (No.4) General Partner Limited (general partner)	Ordinary shares
MH (No.4) Limited Partnership (property)	n/a
MH (No.4) Nominee A Limited (dormant)	Ordinary shares
MH (No.4) Nominee B Limited (dormant)	Ordinary shares
MH (No.5) General Partner Limited (general partner)	Ordinary shares
MH (No.5) Limited Partnership (property)	n/a
MH (No.5) Nominee A Limited (dormant)	Ordinary shares
MH (No.5) Nominee B Limited (dormant)	Ordinary shares
MH (No.6) General Partner Limited (general partner)	Ordinary shares
MH (No.6) Limited Partnership (property)	n/a
MH (No.6) Nominee A Limited (dormant)	Ordinary shares
MH (No.6) Nominee B Limited (dormant)	Ordinary shares
MH (No.7) General Partner Limited (general partner)	Ordinary shares
MH (No.7) Limited Partnership (property)	n/a
MH (No.7) Nominee A Limited (dormant)	Ordinary shares
MH (No.7) Nominee B Limited (dormant)	Ordinary shares
MH (No.8) General Partner Limited (general partner)	Ordinary shares
MH (No.8) Limited Partnership (property)	n/a
MH (No.8) Nominee A Limited (dormant)	Ordinary shares
MH (No.8) Nominee B Limited (dormant)	Ordinary shares
Middleford Property Investments Limited (dormant)	Ordinary shares
Potteries (GP) Limited (general partner)	Ordinary shares
Potteries (Nominee No.1) Limited (dormant)	Ordinary shares
Potteries (Nominee No.2) Limited (dormant)	Ordinary shares
Runic Nominees Limited (dormant)	Ordinary shares
Sandal Investments Limited (dormant)	Ordinary shares
Staffordshire Property Management Limited (property)	Ordinary shares
TAI Investments Limited (holding company)[2]	'B' Deferred shares Ordinary shares
TAI Nominees Limited (dormant)	Ordinary shares
The Broadmarsh Retail Limited Partnership (property)	n/a
The Bullfinch Company Limited (dormant)	Ordinary shares
The Chapelfield Partnership (property)	n/a
The Metrocentre Partnership (property)[4]	n/a
The Potteries Shopping Centre Limited Partnership (property)	n/a
The Trafford Centre Holdings Limited (holding company)	Ordinary shares
The Trafford Centre Investments Limited (holding company)	Ordinary shares
The Trafford Centre Limited (property)	'A' Preference shares 'B' Preference shares Ordinary shares
The Victoria Centre Partnership (property)	n/a
The Wilmslow (No.3) Limited Partnership (property)	n/a
TransAtlantic Holdings Limited (holding company)	Ordinary shares

42 Subsidiaries, joint ventures and associates (continued)

Name of entity	Class of capital
Transol Investments Limited (dormant)	Ordinary shares
VCP (GP) Limited (general partner)	Ordinary shares
VCP Nominees No.1 Limited (dormant)	Ordinary shares
VCP Nominees No.2 Limited (dormant)	Ordinary shares
Westgate Oxford Investments Limited (dormant)	Ordinary shares
Wilmslow (No.3) (Nominee A) Limited (dormant)	Ordinary shares
Wilmslow (No.3) (Nominee B) Limited (dormant)	Ordinary shares
Wilmslow (No.3) General Partner Limited (general partner)	'A' Shares 'B' Shares
Whitesun Limited (property)	Ordinary shares
WRP Management Limited (property)	Ordinary shares

Subsidiaries based at
1 Waverly Place, Union Street, St Helier, Jersey, JE1 1SG

Belside Limited (property)	Ordinary shares
Curley Limited (property)	Ordinary shares
Steventon Limited (property)	Ordinary shares

Subsidiaries based at
44 Esplanade, The Esplanade, St Helier, Jersey, JE4 9WG

CSC Capital (Jersey) Limited (dormant)[3]	Ordinary shares
Intu (Jersey) 2 Limited (finance)[3]	Ordinary shares
Intu (Jersey) Limited (finance)[3]	Ordinary shares
Intu Capital (Jersey) Limited (dormant)[3]	Ordinary shares Redeemable preference shares
Intu Derby 2 Limited (holding company)	Ordinary shares
Intu Derby Jersey Unit Trust (limited partner)	Units
Intu Derby Limited (holding company)	Ordinary shares
Intu Merry Hill 2 Limited (holding company)	Ordinary shares
Intu Merry Hill Limited (holding company)	Ordinary shares
Intu MH (No.1) Jersey Unit Trust (limited partner)	Units
Intu MH (No.1) Sub-Trust (limited partner)	Units
Intu MH (No.2) Jersey Unit Trust (limited partner)	Units
Intu MH (No.2) Sub-Trust (limited partner)	Units
Intu MH (No.3) Jersey Unit Trust (limited partner)	Units
Intu MH (No.3) Sub-Trust (limited partner)	Units
Intu MH (No.4) Jersey Unit Trust (limited partner)	Units
Intu MH (No.4) Sub-Trust (limited partner)	Units
Intu MH (No.5) Jersey Unit Trust (limited partner)	Units
Intu MH (No.5) Sub-Trust (limited partner)	Units
Intu MH (No.6) Jersey Unit Trust (limited partner)	Units
Intu MH (No.6) Sub-Trust (limited partner)	Units
Intu MH (No.7) Jersey Unit Trust (limited partner)	Units
Intu MH (No.7) Sub-Trust (limited partner)	Units
Intu MH (No.8) Jersey Unit Trust (limited partner)	Units
Intu Sprucefield 2 Limited (holding company)	Ordinary shares
Intu Sprucefield Limited (holding company)	Ordinary shares
Intu Uxbridge Holdco Limited (holding company)	Ordinary shares
Midlands Shopping Centre Jersey Unit Trust (No.1) (limited partner)	Units

Name of entity	Class of capital
Sprucefield No.1 Nominee Limited (dormant)	Ordinary shares
Sprucefield No.2 General Partner Limited (general partner)	Ordinary shares
Sprucefield No.2 Limited Partnership (property)	n/a
Sprucefield No.2 Nominee Limited (dormant)	Ordinary shares
Sprucefield Unit Trust (limited partner)	Units
W (No.3) GP (Nominee A) Limited (dormant)	Ordinary shares
W (No.3) GP (Nominee B) Limited (dormant)	Ordinary shares

Subsidiaries based at 58 Rue Charles Martel, L-213, Luxembourg

ICS Holding S.à r.l. (holding company)	Ordinary shares
ICS InvestCo S.à r.l. (holding company)	Ordinary shares
ICS JV S.à r.l. (holding company)	Ordinary shares
Intu Management Spain Holding S.à r.l. (holding company)	Ordinary shares

Subsidiaries based at Ayala 66, 28001, Madrid, Spain

Intu Costa del Sol Resort Holdco S.A. (holding company)	Ordinary shares
Intu Costa del Sol Resort S.L. (property)	Ordinary shares
Intu Management Spain S.L. (property management and management services)	Ordinary shares
Rosholt Invest S.L. (property)	Ordinary shares
Wattenberg Invest S.L. (property)	Ordinary shares

Other subsidiaries

Intu Holding S.à r.l. (holding company) (Centre Descartes, 1st Floor, 287-289 Route d'Arlon, L-1150, Luxembourg)	Ordinary shares
Intu Trafford Centre Group Limited (holding company)[3] (Cains Fiduciary, Fort Anne, Douglas, Isle of Man, IM1 1LB)	Ordinary shares
Libint (Proprietary) Limited (local administration services) (Liberty Life Centre, 1 Ameshoff Street, Braamfontein, Johannesburg 2007, South Africa)[3]	Ordinary shares
Libtai Holdings (Jersey) Limited (holding company) (PO Box 761 Ordnance House 31 Pier Road, St Helier, Jersey, JE4 8ZZ)[3]	Ordinary shares
Merry Hill Finance Limited (finance) (6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin, Republic of Ireland)	'A' Ordinary shares 'B' Ordinary shares
Nailsfield Limited (holding company) (IFS Court, Twentyeight, Cybercity, Ebene, Mauritius)[3]	Ordinary shares
The Trafford Centre Finance Limited (finance) (89 Nexus Way, Canama Bay, KY1-9007, Cayman Islands)	Ordinary shares

Joint ventures based at
40 Broadway, London, SW1H 0BT/SW1H 0BU

Centaurus Retail LLP (property)	n/a
Cribbs Causeway JV Limited (property management)	'A' Ordinary shares 'B' Ordinary shares
Manchester JV Limited (property management)	'A' Ordinary shares 'B' Ordinary shares

Notes to the financial statements continued

42 Subsidiaries, joint ventures and associates (continued)

Name of entity	Class of capital
Joint ventures based at 100 Victoria Street, London, SW1E 5JL	
St. David's (Cardiff Residential) Limited (property)	Ordinary shares
St. David's (General Partner) Limited (general partner)	'A' Ordinary shares 'B' Ordinary shares
St. David's (No.1) Limited (dormant)	Ordinary shares
St. David's (No.2) Limited (dormant)	Ordinary shares
St. David's Limited Partnership (property)	n/a
Joint Ventures based at Ayala 66, 28001, Madrid, Spain	
Asturias Propco Numero Dos S.L. (property)	Ordinary shares
Asturias Propco Numero Uno S.L. (property)	Ordinary shares
Asturias Retail and Leisure SOCIMI S.A. (holding company)	Ordinary shares
Intu Eurofund Valencia S.L. (property development)	Ordinary shares
Intu Eurofund Mallorca S.L. (property development)	Ordinary shares
Intu Eurofund Vigo S.L. (property development)	Ordinary shares
Zaragoza Properties SOCIMI S.A. (holding company)	Ordinary shares
Joint Ventures based at 7 Rue Robert Stumper, L-2557, Luxembourg	
Intu Zaragoza Holding S.à r.l. (holding company)	Ordinary shares
Intu Zaragoza S.à r.l. (holding company)	Ordinary shares
Parque Principado S.à r.l. (holding company)	'A' shares 'B' shares

Name of entity	Class of capital
Joint ventures based at Prins Bernhardplein 200, 1097JB Amsterdam, the Netherlands	
Intu Eurofund Investments Mallorca B.V. (holding company)	Ordinary shares
Intu Eurofund Investments Valencia B.V. (holding company)	Ordinary shares
Intu Eurofund Investments Vigo B.V. (holding company)	Ordinary shares
Other joint ventures	
Intu Eurofund Developments S.à r.l. (holding company) (58 Rue Charles Martel, L-2134, Luxembourg)	'A' shares 'B' shares
Metropolitan Retail JV (Jersey) Unit Trust (property)[8] (28 – 30 The Parade, St Helier, Jersey, JE1 1EQ)	'A' units 'B' units
Puerto Venecia Investments SOCIMI S.A. (property) (Gutenberg, 3-13 4F 08224 Terrassa, Barcelona, Spain)	Ordinary shares
St. David's Unit Trust (limited partner) (47 Esplanade, St Helier, Jersey JE1 0BD)	Units
Associates based at 105-106 Provogue House, Off New Link Road, Andheri (West) Mumbai, 400 053 India	
Empire Mall Private Limited (property)[6]	Ordinary shares
Prozone Intu Properties Limited (property)[7]	Ordinary shares

1 40.2 per cent is held by intu properties plc, 31.1 per cent is held by Conduit Insurance Holdings Limited and 28.7 per cent is held by TAI Investments Limited.
2 95.4 per cent is held by Libtai Holdings (Jersey) Limited and 4.6 per cent is held by intu properties plc.
3 Related undertaking held directly by intu properties plc.
4 Group's interest is 60 per cent.
5 Group's interest is 51 per cent.
6 Group's interest is 38 per cent.
7 Group's interest is 32.4 per cent.
8 Group's interest is 20 per cent. This is classified as a joint venture due to an equal voting interest.

42 Subsidiaries, joint ventures and associates (continued)

Intu (SGS) Finance plc and Intu Metrocentre Finance plc are consolidated as subsidiaries in these financial statements but are not listed in the table above as the Group does not own the shares in these companies. These companies are vehicles set up on behalf of the Group for the sole purpose of issuing some of the Group's listed debt. The Group's obligations in respect of this debt via a back-to-back intercompany loan agreement between these companies and other Group companies, and security over investment property via a deed of charge between the security trustees and other Group companies, mean that the Group is deemed to have control of these entities.

By virtue of their 40 per cent interest in The Metrocentre Partnership, GIC Real Estate is entitled to appoint 40 per cent of the directors of Metrocentre (GP) Limited. £67.4 million of the non-controlling interest shown in the balance sheet at 31 December 2016 (2015: £78.4 million) and £11.0 million of the non-controlling interest share of loss for the year shown in the income statement for the year ended 31 December 2016 (2015: share of loss £0.8 million) relates to GIC Real Estate's interest. Set out below is the summarised financial information of The Metrocentre Partnership at 100 per cent, as consolidated:

	2016 £m	2015 £m
Summarised income statement		
Revenue	**66.8**	65.5
Loss for the year	**(27.7)**	(2.1)
Summarised balance sheet		
Investment and development property	**924.4**	934.0
Borrowings	**(922.5)**	(906.9)
Other net liabilities	**(10.5)**	(8.0)
Net (liabilities)/assets	**(8.6)**	19.1

Bilfinger Europa Facilities Management Limited holds a 49 per cent interest in Intu Retail Services Limited. No amount is included within the non-controlling interest shown in the balance sheet at 31 December 2016 (2015: nil) and nil of the non-controlling interest share of loss for the year shown in the income statement for the year ended 31 December 2016 (2015: nil) relates to their interest.

43 Related party transactions

Key management[1] compensation is analysed below:

	2016 £m	2015 £m
Salaries and short-term employee benefits	**4.8**	5.7
Pensions and other post-employment benefits	**0.5**	0.3
Share-based payments	**3.7**	3.8
Compensation for loss of office	**–**	0.2
	9.0	10.0

1 Key management comprises the Directors of intu properties plc and employees who have been designated as persons discharging managerial responsibility.

As John Whittaker, Deputy Chairman and Non-Executive Director of intu properties plc, is the Chairman of the Peel Group ('Peel'), members of Peel are considered to be related parties. Total transactions between the Group and members of Peel are shown below:

	2016 £m	2015 £m
Income	**1.3**	1.1
Expenditure	**(0.9)**	(0.5)

Income predominantly relates to leases of office space and contracts to provide advertising services. Expenditure predominantly relates to costs incurred under a management services agreement, the supply of utilities and the refund of a premium for a land option held by Peel which expired. All contracts are on an arm's length basis at commercial rates.

Notes to the financial statements continued

43 Related party transactions (continued)

During the year, the Group agreed terms on three advertising services agreements related to digital screens with Peel Advertising Limited (a member of Peel) under which Peel will procure advertising on behalf of the Group. The minimum fixed payments in these agreements have been classified as a finance lease (see net investment in finance lease below).

Following shareholder approval in December 2015, the Group agreed terms on a 5-year, £550,000 per annum lease on a 30.96 acre site known as King George V Docks (West) to Clydeport Operations Limited (a member of Peel) with effect from 30 December 2015.

Balances outstanding between the Group and members of Peel at 31 December 2016 and 31 December 2015 are shown below:

	2016 £m	2015 £m
Net investment in finance lease	**2.0**	–
Amounts owed by members of Peel	**0.2**	0.1
Amounts owed to members of Peel	**–**	(0.2)

Under the terms of the Group's acquisition of intu Trafford Centre from Peel in 2011, Peel have provided a guarantee in respect of Section 106 planning obligation liabilities at Barton Square which at 31 December 2016 totalled £11.7 million (2015: £11.7 million).

In 2012, the Group acquired for €2.5 million, alongside a refundable deposit of €7.5 million, a three-year option to purchase two parcels of land in the province of Málaga, Spain from Peel Holdings Limited ('the agreement').

Following shareholder approval at a general meeting on 15 April 2015 the Group exercised the option in May 2015 for consideration of €48.7 million which included the €7.5 million deposit paid in 2012.

Under the terms of the agreement, Peel subscribed to €30.0 million of ordinary shares in the Company. As a result, the Company issued 6,256,075 new ordinary shares of 50 pence each. The shares were issued and paid for in cash at £3.4635 per share being the 30-day average of the volume-weighted average price of the Company's shares.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation in the Group's financial information.

Significant transactions between the Company and its subsidiaries are shown below:

	2016 £m	2015 £m
Interest expense	**(10.9)**	(7.5)
Interest income	**14.6**	17.0
Investment in subsidiaries	**24.4**	–

The Company has provided Intu (Jersey) Limited a guarantee over obligations in relation to the 2.5 per cent convertible bonds and Intu (Jersey) 2 Limited over obligations in relation to the 2.875 per cent convertible bonds (see note 31).

Significant balances outstanding between the Company and its subsidiaries are shown within notes 20, 25 and 28.

44 Share-based payment

The Group operates a number of share-based payment arrangements providing employee benefits and incentives. All schemes are equity settled, and as such the expense recognised in the income statement is based on the fair value of the equity instruments awarded as determined at their grant date. The expense is recognised on a straight-line basis over the vesting period based on Group estimates of the number of shares that are expected to vest.

Share Option Schemes

Options to subscribe for ordinary shares may be awarded under the intu properties plc approved share option scheme and the intu properties plc unapproved share option scheme.

Certain grants are subject to an earnings per share ('EPS') performance condition. Options granted to members of the Executive Committee in 2012 are subject to a sliding scale performance condition based on EPS growth of between 4 to 6 per cent per annum over a three-year period. Options granted to staff who are not members of the Executive Committee 2012 are not subject to a performance condition.

44 Share-based payment (continued)

Except in the case of a 'good' leaver, options may not be exercised within three years of grant and before satisfaction or waiver of any applicable performance condition, and are forfeited if the employee leaves the Group before the options become capable of exercise. The options automatically lapse if not exercised within 10 years of the date of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	**8,072,538**	**295**	6,173,103	275
Awarded during the year	**1,662,500**	**300**	2,233,000	349
Forfeited during the year	**(416,166)**	**317**	(257,788)	293
Lapsed during the year	**(12,911)**	**287**	–	–
Exercised during the year	**(161,749)**	**275**	(75,777)	286
Outstanding at 31 December	**9,144,212**	**295**	8,072,538	295
Exercisable at 31 December	**3,954,783**	**267**	2,578,544	256

The weighted average share price at the date of exercise during the year was 308p (2015: 348p).

The number of options outstanding at 31 December 2016 includes a total of 158,005 (2015: 170,181) which are subject to a capped gain price of £2.8563 per share. If the market price of shares at the date of exercise exceeds the capped price, the maximum gain the holder of such options can realise is the difference between exercise price and the capped price per share.

Share options outstanding at 31 December 2016 had exercise prices between 232p and 349p (2015: between 232p and 349p) and a weighted average remaining contractual life of approximately seven years (2015: seven years). More detail by exercise price range is shown below:

	2016	
Exercise price (pence)	**Number of options**	**Weighted average remaining contractual life**
232 to 292	**5,468,712**	**6**
300 to 349	**3,675,500**	**9**

	2015	
Exercise price (pence)	Number of options	Weighted average remaining contractual life
232 to 292	5,854,538	6
349	2,218,000	9

The fair value of options granted during the year, determined using the Black-Scholes option pricing model, was £0.20 per option (2015: £0.28). The significant inputs to the model for the majority of options granted during the year were as follows:

	2016	2015
Share price and exercise price at grant date	**£3.00**	£3.49
Expected option life in years	**4 years**	4 years
Risk-free rate	**1.0%**	1.4%
Expected volatility	**17%**	17%
Expected dividend yield	**4.6%**	3.9%

Expected dividend yield is based on public pronouncements about future dividend levels. All other measures are based on historical data.

Performance Share Plan

The Company operates a Performance Share Plan ('PSP') for eligible employees at the discretion of the Remuneration Committee. The PSP was approved by shareholders at the 2013 annual general meeting.

Awards may be made in the form of nil cost options, a conditional share award or a joint share ownership award and fixed-value zero-cost option, and eligible employees may be granted any combination of such awards subject to any individual limits.

Notes to the financial statements continued

44 Share-based payment (continued)

Vesting of PSP awards made in 2016, 2015, 2014 and 2013 is based on Total Shareholder Return (TSR) and Absolute Total Return (TR) with performance measured one-third over three years, one-third over four years and one-third over five years. Half of the awards vest by reference to TR (25 per cent vesting for 6 per cent per annum return; full vesting for 10 per cent per annum; straight-line vesting in between). The remaining half of the awards vest by reference to TSR relative to the top-five UK-listed REITs (25 per cent return vesting for TSR in line with the third-rated company; full vesting for TSR in line with the top-rated company; straight-line vesting in between) subject to a Remuneration Committee-operated discretionary assessment of underlying financial performance.

Movements in the number of PSP options outstanding are as follows:

	2016 Number of options	2015 Number of options
Outstanding at 1 January	**4,614,378**	3,548,076
Awarded during the year	**1,542,295**	1,410,003
Forfeited during the year	**(56,188)**	(343,701)
Lapsed during the year	**(424,550)**	–
Exercised during the year	**(256,140)**	–
Outstanding at 31 December	**5,419,795**	4,614,378

The fair value of TSR options granted during the year was determined using the Monte Carlo option pricing model. The fair value of the TR options granted during the year was determined using the Black-Scholes option pricing model. The fair values per option granted in the year were as follows:

	2016		2015	
Performance period	**TSR**	**TR**	TSR	TR
3 years	**£1.44**	**£0.75**	£0.87	£0.87
4 years	**£1.43**	**£0.75**	£0.90	£0.87
5 years	**£1.41**	**£0.75**	£0.93	£0.87

The significant inputs to the valuation model for the TSR options granted during the year were as follows:

	2016			2015		
Performance period	**TSR 3 years**	**TSR 4 years**	**TSR 5 years**	TSR 3 years	TSR 4 years	TSR 5 years
Share price at grant date	**2.99**	**2.99**	**2.99**	3.38	3.38	3.38
Expected option life in years	**2.8 years**	**3.8 years**	**4.8 years**	2.8 years	3.8 years	4.8 years
Risk-free rate	**0.5%**	**0.6%**	**0.8%**	1.0%	1.2%	1.4%
Expected volatility	**20%**	**19%**	**21%**	17%	21%	22%
Average correlation	**74%**	**71%**	**75%**	61%	72%	72%

The fair value of the TR options, before taking account of the performance condition, is equal to the share price at the date of grant of £2.99 (2015: £3.38) as these awards accumulate dividends over the performance period. At the date of grant a 25 per cent vesting has been assumed resulting in a fair value per share of £0.75 (2015: £0.87) as above.

Joint Share Ownership Plan

Eligible employees may be invited to participate in the Joint Share Ownership Plan ('JSOP') which forms part of the intu properties plc unapproved share option scheme and the PSP. Under the JSOP shares are held jointly by the employee and the employee share ownership plan trustee with any increases in the share price and dividends paid on those shares being allocated between the joint owners in accordance with the terms of the scheme.

Conditions for exercise (including satisfaction of the same performance condition), forfeiture and lapsing are as set out above for options or PSP generally.

In 2012, individuals who received awards of unapproved options in 2011 and 2012 were given the option to exchange their awards for jointly-owned shares under the JSOP. In 2013, participants in the PSP were given the option to take their awards in the form of jointly-owned shares under the JSOP and fixed-value zero-cost options. No option was given in 2014, 2015 or 2016.

44 Share-based payment (continued)

Bonus Share Scheme

Under the Company's Bonus Scheme (the 'Bonus Scheme'), deferred shares may be awarded as part of any bonus.

Such awards comprise 'Restricted' shares and 'Additional' shares. Where awarded, Additional shares would be equal to 50 per cent of the Restricted shares and SIP shares (see below) combined. No Additional shares were outstanding at 1 January 2015 and no awards have been made in 2015 or 2016. The vesting of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain employed by the Group for a specified time from the date of the award, typically two to three years in the case of Restricted shares and four years in the case of Additional shares. The fair value of Restricted shares granted with the condition for participants to remain employed by the Group for two years, determined using the Black-Scholes option pricing model, was £2.74 per share (2015: £3.23 per share). The fair value of Restricted shares with the condition for participants to remain employed by the Group for three years, determined using the Black-Scholes options pricing model, was £2.62 per share (2015: £3.10 per share). The significant inputs to the model were as follows:

	2016 3 years	**2016 2 years**	2015 3 years	2015 2 years
Share price at grant date	**£3.00**	**£3.00**	£3.49	£3.49
Expected option life in years	**3 years**	**2 years**	3 years	2 years
Risk-free rate	**0.9%**	**0.8%**	1.3%	1.0%
Expected dividend yield	**4.6%**	**4.6%**	3.9%	3.9%

Movements in shares awarded under the Bonus Share Scheme are as follows:

	2016 Restricted	2015 Restricted
Outstanding at 1 January	**713,823**	1,013,807
Awarded during the year	**616,003**	425,117
Forfeited during the year	**(45,983)**	(13,725)
Vested during the year	**(263,822)**	(711,376)
Outstanding at 31 December	**1,020,021**	713,823

Share incentive plan ('SIP')

The Company operates a SIP for all eligible employees, who may receive up to £3,600 worth of shares as part of their annual bonus arrangements. The SIP arrangements offer worthwhile tax advantages to employees and to the Company.

The SIP Bonus shares can be released three years after the date of the award, provided the individual employee has remained in employment, but the shares must then be held in trust for a further two years in order to qualify for tax advantages. The fair value of shares granted during the year, determined using the Black-Scholes option pricing model, was £3.00 per share (2015: £3.49 per share). As these awards accumulate dividends, the fair value of each share awarded is equal to the share price at the date of grant of £3.00.

As part of the SIP arrangements, the Company also offers eligible employees the opportunity to participate in a 'Partnership' share scheme, under which employees can save up to £150 a month. The Group offers one free Matching share for every two Partnership shares purchased by the employee at the end of a 12-month saving period. Matching shares are forfeited if the employee leaves the Group within three years of the date of award, and qualify for tax advantages if they are held in the SIP for five years. The fair value of Matching shares is determined by the market price at the grant date.

The dividend payable in respect of the shares held in the SIP is used to purchase additional shares, known as Dividend Shares, which are also held in trust and allocated to individuals and are subject to the same conditions of release.

Movements in SIP bonus shares granted are as follows:

	2016	2015
Outstanding at 1 January	**282,767**	260,271
Awarded during the year	**133,443**	120,431
Forfeited during the year	**(22,898)**	(19,919)
Vested during the year[1]	**(80,271)**	(78,016)
Outstanding at 31 December[2]	**313,041**	282,767

1 May still be held in trust.

2 Shares that remain within their three-year holding period.

Notes to the financial statements continued

45 Pensions

The Group operates defined contribution group pension plans for its staff. Additionally the Group makes contributions to self-invested personal pension arrangements ('SIPPs') on behalf of an Executive Director. All contributions are invested in funds administered outside of the Group.

The pension charge for the Group's contributions to these arrangements is the amount paid which totalled £3.6 million for the year ended 31 December 2016 (2015: £3.1 million).

46 Events after the reporting date

The Group has entered into an exclusivity agreement with entities of the Ivanhoe Cambridge Group to acquire the Xanadú shopping centre in Madrid, Spain. At the time of signing these financial statements there is no certainty that this transaction will complete.

47 Directors' interests and emoluments

(a) Shares in the Company

The number of ordinary shares of the Company in which the Directors were beneficially interested were:

	2016	2015
Chairman:		
Patrick Burgess	**37,627**	37,627
Deputy Chairman:		
John Whittaker*	**363,850,297**	336,492,751
Executive:		
David Fischel	**1,048,884**	993,534
Matthew Roberts	**259,487**	213,133
Non-Executive:		
Adèle Anderson	**32,504**	32,504
Richard Gordon	**7,005,211**	7,005,211
Andrew Huntley	**7,714**	7,714
Rakhi Goss-Custard	**7,383**	–
Louise Patten	**12,857**	12,857
John Strachan	**30,000**	–
Andrew Strang	**–**	–

* Total beneficial interest includes shares held by subsidiaries of the Peel Group of which John Whittaker is the Chairman.

Conditional awards of shares have previously been made to executive directors under the Company's annual bonus scheme.

47 Directors' interests and emoluments (continued)

The awards comprise 'Restricted' shares and 'Additional' shares, the latter equal to 50 per cent of the Restricted and share incentive plan shares combined. Executive directors were required to retain the shares, net of shares sold to meet tax and PAYE deductions, which vested ahead of the normal vesting date.

Awards to executive directors under the scheme since January 2013 are as follows:

	Award date	Market price at award (pence)	Original vesting date	Market price at vesting (pence)	Number of shares at 31 December 2015	**Number of shares awarded during 2016**	**Number of shares vested during 2016**	**Number of shares at 31 December 2016**
David Fischel	29/04/2014	292	29/04/2016	–	30,655	**2,575***	**(33,230)**	**–**
	29/04/2014	292	29/04/2017	–	29,627	**–**	**–**	**29,627**
	11/03/2015	349	11/03/2017	–	30,478	**–**	**–**	**30,478**
	11/03/2015	349	11/03/2018	–	29,446	**–**	**–**	**29,446**
	07/03/2016	300	07/03/2018	–	–	**53,863**	**–**	**53,863**
	07/03/2016	300	07/03/2019	–	–	**52,663**	**–**	**52,663**
Matthew Roberts	29/04/2014	292	29/04/2016	–	24,558	**2,062***	**(26,620)**	**–**
	29/04/2014	292	29/04/2017	–	23,530	**–**	**–**	**23,530**
	11/03/2015	349	11/03/2017	–	24,154	**–**	**–**	**24,154**
	11/03/2015	349	11/03/2018	–	23,122	**–**	**–**	**23,122**
	07/03/2016	300	07/03/2018	–	–	**42,471**	**–**	**42,471**
	07/03/2016	300	07/03/2019	–	–	**41,271**	**–**	**41,271**

* Dividend received for their two-year holding period.

Details of Restricted and Additional shares awarded in respect of the year ended 31 December 2016 are given in the Directors' remuneration report on pages 76 to 93.

(b) Share options in the Company

Executive directors interests in share options, the PSP and the SIP are given in the Directors' remuneration report on pages 76 to 93.

(c) Other disclosures

No Director had any dealings in the shares of any Group company between 31 December 2016 and 23 February 2017, being a date less than one month prior to the date of the notice convening the annual general meeting.

Other than as disclosed in these financial statements, no Director of the Company had a material interest in any contract (other than service contracts), transaction or arrangement with any Group company during the year ended 31 December 2016.

(d) Emoluments

The details of individual Directors' remuneration and pension benefits, as set out in the tables contained in the Directors' remuneration report on pages 76 to 93, form part of these financial statements.

Investment and development property (unaudited)

1 Property data

	Market value £m	Revaluation surplus/deficit	Net initial yield (EPRA)	'Topped-up' NIY[E] (EPRA)	Nominal equivalent yield	Occupancy
At 31 December 2016						
Subsidiaries						
intu Trafford Centre	2,312.0	–	3.9%	3.9%	4.3%	98%
intu Lakeside	1,375.0	+2%	3.7%	3.9%	4.5%	91%
intu Metrocentre	945.2	-2%	4.5%	4.8%	5.3%	95%
intu Merry Hill	898.5	+1%[A]	4.0%	4.3%	5.0%	93%
intu Braehead	546.2	-7%	4.5%	4.7%	6.3%	97%
intu Derby	450.0	–	5.8%	6.1%	6.2%	97%
Manchester Arndale	445.8	-2%	4.5%	4.6%	5.2%	97%
intu Victoria Centre	360.5	+1%	4.6%	5.0%	5.7%	95%
intu Watford	336.0	–	5.0%	5.0%	5.1%	100%
intu Eldon Square	317.7	+3%	4.3%	4.9%	5.1%	99%
intu Chapelfield	296.3	+9%	5.2%	5.4%	5.5%	98%
intu Milton Keynes	281.0	–	4.6%	4.6%	4.9%	100%
Cribbs Causeway	238.9	-3%	4.6%	5.2%	5.6%	95%
intu Potteries	169.0	-5%	5.7%	5.9%	7.4%	95%
Other[C]	269.7					
Investment and development property excluding Group's share of joint ventures	**9,241.8**					
Joint ventures						
St David's, Cardiff	353.3	-4%	3.9%	4.3%	4.8%	95%
Puerto Venecia, Zaragoza	212.5	+10%[B]	4.5%	4.8%	5.8%	97%
intu Asturias	118.5	+14%[B]	4.9%	5.0%	5.4%	99%
Other[D]	58.6					
Investment and development property including Group's share of joint ventures	**9,984.7**		**4.27%**	**4.45%**	**5.02%**	**96%**
At 31 December 2015						
including Group's share of joint ventures	9,602.4		4.29%	4.52%	5.14%	96%

Notes
A Revaluation surplus assessed from date of acquisition.
B Calculated in local currency.
C Includes the Group's interests in intu Broadmarsh, Soar at intu Braehead, development land in Spain, Charter Place, Watford and Sprucefield, Northern Ireland.
D Includes the Group's interest in intu Uxbridge.
E Net initial yield adjusted for the expiration of rent free periods and other unexpired lease incentives.

	31 December 2016 £m	31 December 2015 £m
Passing rent	**427.3**	411.7
Annual property income	**467.4**	448.5
ERV	**542.5**	531.2
Weighted average unexpired lease term	**7.7 years**	7.9 years

Please refer to the glossary for definitions of terms.

2 Analysis of capital return in the year

	Market value		Revaluation (deficit)/surplus	
	2016	2015	2016	2016
	£m	£m	£m	%
Like-for-like property	**9,380.9**	9,283.9	**(4.3)**	**–**
Acquisition: intu Merry Hill (50%)	**444.6**	–	**3.3**	**n/a**
Other additions	**6.0**	–	**(0.3)**	**n/a**
Disposal: intu Bromley	**–**	174.1	**(1.7)**	**n/a**
Developments	**153.2**	144.4	**(60.8)**	**n/a**
Total investment and development property	**9,984.7**	9,602.4	**(63.8)**	**n/a**

3 Additional property information

	Ownership	Note	Form of ownership[E]	Gross area million sq ft[F]	Year opened	Acquisition date[G]
At 31 December 2016						
intu Trafford Centre	100%		FH	2.0	1998	2011
intu Lakeside	100%		FH	1.4	1990	–
intu Metrocentre	90%	A	LH	2.1	1986	1995
intu Merry Hill	100%		FH	1.7	1985	2016[I]
intu Braehead	100%		FH	1.1	1999	–
intu Derby	100%		FH/LH	1.3	2007	2014
Manchester Arndale	48%	B	LH	1.6	1976	2005
intu Victoria Centre	100%		FH	1.0	1972	2002[H]
intu Watford	93%		LH	0.7	1992	–
intu Eldon Square	60%		FH/LH	1.4	1976	–
intu Chapelfield	100%		FH	0.5	2005	–
intu Milton Keynes	100%		FH	0.4	2000	2013
Cribbs Causeway	33%	C	FH/LH	1.1	1998	2005
intu Potteries	100%		FH	0.6	1998	–
St David's, Cardiff	50%		FH/LH	1.4	2009	2006
Puerto Venecia, Zaragoza	50%		FH	1.3	2012	2015
intu Asturias	50%		FH	0.8	2001	2013
Other		D		1.5		
Investment and development property including Group's share of joint ventures				**21.9**		
At 31 December 2015				22.4		

Notes

A Interest shown is that of The Metrocentre Partnership in intu Metrocentre (90 per cent) and the Metro Retail Park (100 per cent). The Group has a 60 per cent interest in The Metrocentre Partnership which is consolidated as a subsidiary of the Group.

B The Group's interest is through a joint operation ownership of a 95 per cent interest in Manchester Arndale, and a 90 per cent interest in New Cathedral Street, Manchester.

C The Group's interest is through a joint operation ownership of a 66 per cent interest in The Mall at Cribbs Causeway and a 100 per cent interest in The Retail Park, Cribbs Causeway.

D Includes intu Uxbridge, intu Broadmarsh, Soar at intu Braehead and Sprucefield, Northern Ireland.

E Form of ownership is shown as either freehold ('FH'), leasehold ('LH') or freehold and leasehold ('FH/LH').

F Area shown is not adjusted for the proportion of ownership.

G The acquisition date is presented only where the centre was not built by the Group.

H intu held a 20 per cent stake in intu Victoria Centre prior to 2002 when it acquired the remaining 80 per cent to take its holding to 100 per cent.

I intu held a 50 per cent stake in intu Merry Hill from 2014. In 2016 it acquired the remaining 50 per cent to take its holding to 100 per cent.

Financial covenants (unaudited)

Intu (SGS) Finance plc and Intu (SGS) Finco Limited ('Secured Group Structure')

	Loan £m	Maturity	LTV covenant	LTV actual	Interest cover covenant	Interest cover actual
Term loan	351.8	2021				
3.875 per cent bonds	450.0	2023				
4.625 per cent bonds	350.0	2028				
4.250 per cent bonds	350.0	2030				
	1,501.8		80%	44%	125%	264%

Covenants are tested on the Security Group, the principal assets of which are intu Lakeside, intu Braehead, intu Derby, intu Victoria Centre, intu Watford and intu Chapelfield.

The structure has a tiered operating covenant regime giving the Group a significant degree of flexibility when the covenants are below certain levels. In higher tiers the level of flexibility is reduced. The Group retains operating control below loan to value of 72.5 per cent and interest cover above 1.4x. No financial covenant default occurs unless the loan to value exceeds 80 per cent or the interest cover falls below 1.25x.

The Trafford Centre Finance Limited

There are no financial covenants on the intu Trafford Centre debt of £782.6 million at 31 December 2016. However a debt service cover ratio is assessed quarterly and where this falls below specified levels restrictions come into force. The loan to 31 December 2016 market value ratio is 35 per cent. No restrictions are in place at present.

Intu Metrocentre Finance plc

	Loan £m	Maturity	LTV covenant	LTV actual	Interest cover covenant	Interest cover actual
4.125 per cent bonds	485.0	2023	100%	51%	125%	212%

The structure's covenant regime gives the Group a significant degree of flexibility when the covenants are below certain levels. The Group retains operating control below loan to value of 70 per cent and interest cover above 1.4x. No financial covenant default occurs unless loan to value exceeds 100 per cent or interest cover falls below 1.25x.

Other asset-specific debt

	Loan outstanding at 31 December 2016[1] £m	Maturity	LTV covenant	Loan to 31 December 2016 market value[2]	Interest cover covenant	Interest cover actual[3]
intu Milton Keynes	125.2	2017[5]	65%	45%	150%	205%
intu Merry Hill	500.0	2018	65%	56%	150%	245%
Sprucefield	33.2	2020	65%	50%	150%	355%
intu Uxbridge[4]	26.0	2020	70%	55%	125%	202%
St David's, Cardiff	122.5	2021	65%	35%	150%	321%
Puerto Venecia, Zaragoza[4 (€)]	112.5	2019	65%	48%	150%	304%
intu Asturias[4 (€)]	60.5	2021	65%	44%	150%	542%

1 The loan values are the actual principal balances outstanding at 31 December 2016, which take into account any principal repayments made up to 31 December 2016. The balance sheet value of the loans includes unamortised fees.

2 The loan to 31 December 2016 market value provides an indication of the impact the 31 December 2016 property valuations could have on the LTV covenants. The actual timing and manner of testing LTV covenants varies and is loan specific.

3 Based on latest certified figures, calculated in accordance with loan agreements, which have been submitted between 31 December 2016 and 31 January 2017. The calculations are loan specific and include a variety of historical, forecast and in certain instances a combined historical and forecast basis.

4 Debt shown is consistent with the Group's economic interest.

5 Since the year end, we have refinanced the intu Milton Keynes bank loan, with the loan now maturing in 2019.

Intu Debenture plc

Loan £m	Maturity	Capital cover covenant	Capital cover actual	Interest cover covenant	Interest cover actual
231.4	2027	150%	249%	100%	119%

The debenture is currently secured on a number of the Group's properties including intu Potteries, intu Eldon Square, intu Broadmarsh and Soar at intu Braehead.

Should the capital cover or interest cover test be breached, Intu Debenture plc (the 'Issuer') has three months from the date of delivery of the valuation or the latest certificate to the Trustees to make good any deficiencies. The Issuer may withdraw property secured on the debenture by paying a sum of money or through the substitution of alternative property provided that the capital cover and interest cover tests are satisfied immediately following the substitution.

Financial covenants on corporate facilities

	Net worth covenant	Net worth actual	Interest cover covenant	Interest cover actual	Borrowings/net worth covenant	Borrowings/net worth actual
£600m facility, maturing in 2021*	£1,200m	£2,104m	120%	194%	125%	54%
£375m due in 2022 2.875 per cent convertible bonds**	n/a	n/a	n/a	n/a	175%	9%
£300m due in 2018 2.5 per cent convertible bonds**	n/a	n/a	n/a	n/a	175%	9%

* Tested on the Borrower Group which excludes, at the Group's election, certain subsidiaries with asset-specific finance. The facility is secured on the Group's investments in Manchester Arndale and Cribbs Causeway.

** Tested on the Group excluding, at the Group's election, the borrowings on certain subsidiaries with asset-specific finance.

Interest rate swaps

The table below sets out the nominal amount and average rate of hedging, excluding lenders' margins, in place under current and forward-starting swap contracts.

	Nominal amount £m	Average rate %
In effect on or after:		
1 year	1,673.4	3.02
2 years	1,323.4	3.30
5 years	791.8	4.35
10 years	672.2	5.01
15 years	610.6	4.96
20 years	116.7	5.07

Financial information including share of joint ventures (unaudited)

for the year ended 31 December 2016

The information in this section is presented to show the Group including its share of joint ventures. A reconciliation from the amounts shown in the Group's income statement and balance sheet is provided on the following page.

Underlying earnings

	2016			2015		
	Group underlying profit £m	**Share of joint ventures £m**	**Group including share of joint ventures £m**	Group underlying profit £m	Share of joint ventures £m	Group including share of joint ventures £m
Rent receivable	**484.5**	**48.1**	**532.6**	461.0	53.0	514.0
Service charge income	**101.6**	**9.5**	**111.1**	96.9	10.6	107.5
Facilities management income from joint ventures	**8.2**	**(3.1)**	**5.1**	13.7	(5.8)	7.9
Revenue	**594.3**	**54.5**	**648.8**	571.6	57.8	629.4
Net rental income	**406.1**	**40.9**	**447.0**	381.8	46.0	427.8
Net other income/(expenses)	**0.6**	**(1.3)**	**(0.7)**	6.9	(1.1)	5.8
Administration expenses	**(37.8)**	**(0.8)**	**(38.6)**	(37.3)	(0.7)	(38.0)
Underlying operating profit	**368.9**	**38.8**	**407.7**	351.4	44.2	395.6
Finance costs	**(202.9)**	**(5.6)**	**(208.5)**	(206.6)	(2.3)	(208.9)
Finance income	**14.9**	**(13.4)**	**1.5**	18.7	(17.1)	1.6
Other finance costs	**(5.9)**	**–**	**(5.9)**	(5.9)	–	(5.9)
Underlying net finance costs	**(193.9)**	**(19.0)**	**(212.9)**	(193.8)	(19.4)	(213.2)
Underlying profit before tax, joint ventures and associates	**175.0**	**19.8**	**194.8**	157.6	24.8	182.4
Tax on underlying profit	**–**	**–**	**–**	(0.5)	(0.1)	(0.6)
Share of underlying profit of joint ventures	**19.8**	**(19.8)**	**–**	24.7	(24.7)	–
Share of underlying profit of associates	**0.5**	**–**	**0.5**	0.2	–	0.2
Remove amounts attributable to non-controlling interests	**4.7**	**–**	**4.7**	4.6	–	4.6
Underlying earnings	**200.0**	**–**	**200.0**	186.6	–	186.6

A reconciliation from the Group's profit to underlying earnings is provided in Note 16(c).

Consolidated income statements

	2016			2015		
	Group income statement £m	**Share of joint ventures £m**	**Group including share of joint ventures £m**	Group income statement £m	Share of joint ventures £m	Group including share of joint ventures £m
Revenue	**594.3**	**54.5**	**648.8**	571.6	57.8	629.4
Net rental income	**406.1**	**40.9**	**447.0**	381.8	46.0	427.8
Net other income/(expenses)	**0.6**	**(1.3)**	**(0.7)**	6.9	(1.1)	5.8
Revaluation of investment and development property	**(78.0)**	**14.2**	**(63.8)**	264.9	85.8	350.7
Gain/(loss) on acquisition of businesses	**34.6**	**–**	**34.6**	(0.8)	–	(0.8)
(Loss)/gain on disposal of subsidiaries	**(0.3)**	**–**	**(0.3)**	2.2	–	2.2
Gain on sale of other investments	**74.1**	**–**	**74.1**	0.9	–	0.9
Administration expenses – ongoing	**(37.8)**	**(0.8)**	**(38.6)**	(37.3)	(0.7)	(38.0)
Administration expenses – exceptional	**(2.5)**	**(0.4)**	**(2.9)**	(1.0)	(0.5)	(1.5)
Operating profit	**396.8**	**52.6**	**449.4**	617.6	129.5	747.1
Finance costs	**(202.9)**	**(5.6)**	**(208.5)**	(206.6)	(2.3)	(208.9)
Finance income	**14.9**	**(13.4)**	**1.5**	18.7	(17.1)	1.6
Other finance costs	**(37.9)**	**(0.9)**	**(38.8)**	(37.3)	–	(37.3)
Change in fair value of financial instruments	**(16.3)**	**(0.6)**	**(16.9)**	6.0	(0.7)	5.3
Net finance costs	**(242.2)**	**(20.5)**	**(262.7)**	(219.2)	(20.1)	(239.3)
Profit before tax, joint ventures and associates	**154.6**	**32.1**	**186.7**	398.4	109.4	507.8
Share of post-tax profit of joint ventures	**32.1**	**(32.1)**	**–**	108.6	(108.6)	–
Share of post-tax profit of associates	**1.6**	**–**	**1.6**	6.0	–	6.0
Profit before tax	**188.3**	**–**	**188.3**	513.0	0.8	513.8
Current tax	**–**	**–**	**–**	(0.4)	(0.1)	(0.5)
Deferred tax	**(16.5)**	**–**	**(16.5)**	5.0	(0.7)	4.3
Taxation	**(16.5)**	**–**	**(16.5)**	4.6	(0.8)	3.8
Profit for the year	**171.8**	**–**	**171.8**	517.6	–	517.6

Balance sheets

	2016			2015		
	Group balance sheet £m	**Share of joint ventures £m**	**Group including share of joint ventures £m**	Group balance sheet £m	Share of joint ventures £m	Group including share of joint ventures £m
Assets						
Investment and development property	**9,212.1**	**732.4**	**9,944.5**	8,403.9	1,119.8	9,523.7
Investment in joint ventures	**587.6**	**(587.6)**	**–**	991.9	(991.9)	–
Derivative financial instruments	**–**	**–**	**–**	3.2	–	3.2
Cash and cash equivalents	**254.7**	**36.9**	**291.6**	275.8	25.6	301.4
Other assets	**314.8**	**17.8**	**332.6**	472.1	20.9	493.0
Total assets	**10,369.2**	**199.5**	**10,568.7**	10,146.9	174.4	10,321.3
Liabilities						
Borrowings	**(4,662.6)**	**(170.9)**	**(4,833.5)**	(4,471.6)	(140.9)	(4,612.5)
Derivative financial instruments	**(377.7)**	**(2.3)**	**(380.0)**	(341.7)	(2.0)	(343.7)
Other liabilities	**(282.5)**	**(26.3)**	**(308.8)**	(278.7)	(31.5)	(310.2)
Total liabilities	**(5,322.8)**	**(199.5)**	**(5,522.3)**	(5,092.0)	(174.4)	(5,266.4)
Net assets	**5,046.4**	**–**	**5,046.4**	5,054.9	–	5,054.9

Financial information including share of joint ventures (unaudited) continued

for the year ended 31 December 2016

Net external debt

The table below provides a reconciliation between the components of net debt included on the Group's balance sheet and net external debt including the Group's share of joint ventures' debt and cash.

	2016 £m	2015 £m
Total borrowings	**4,662.6**	4,471.6
Cash and cash equivalents	**(254.7)**	(275.8)
Net debt	**4,407.9**	4,195.8
Metrocentre compound financial instrument	**(177.8)**	(172.0)
Net external debt – before Group's share of joint ventures	**4,230.1**	4,023.8
Add share of borrowings of joint ventures	**170.9**	140.9
Less share of cash of joint ventures	**(36.9)**	(25.6)
Net external debt – including Group's share of joint ventures	**4,364.1**	4,139.1
Analysed as:		
Debt including Group's share of joint ventures	**4,655.7**	4,440.5
Cash including Group's share of joint ventures	**(291.6)**	(301.4)
Net external debt – including Group's share of joint ventures	**4,364.1**	4,139.1

Debt to assets ratio

	2016 £m	2015 £m
Market value of investment and development property	**9,984.7**	9,602.4
Net external debt	**(4,364.1)**	(4,139.1)
Debt to assets ratio	**43.7%**	43.1%

Interest cover

	2016 £m	2015 £m
Finance costs	**(208.5)**	(208.9)
Finance income	**1.5**	1.6
	(207.0)	(207.3)
Underlying operating profit	**407.7**	395.6
Interest cover	**1.97x**	1.91x

Underlying profit statement (unaudited)

for the year ended 31 December 2016

The underlying profit information in the table below shows the Group including its share of joint ventures on a line-by-line basis.

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	**Six months ended 31 December 2016 £m**	Six months ended 31 December 2015 £m	**Six months ended 30 June 2016 £m**	Six months ended 30 June 2015 £m
Net rental income	**447.0**	427.8	**227.6**	220.2	**219.4**	207.6
Net other (expenses)/income	**(0.7)**	5.8	**(0.4)**	3.2	**(0.3)**	2.6
Administration expenses	**(38.6)**	(38.0)	**(20.3)**	(21.7)	**(18.3)**	(16.3)
Underlying operating profit	**407.7**	395.6	**206.9**	201.7	**200.8**	193.9
Finance costs	**(208.5)**	(208.9)	**(107.1)**	(103.8)	**(101.4)**	(105.1)
Finance income	**1.5**	1.6	**0.8**	1.1	**0.7**	0.5
Other finance costs	**(5.9)**	(5.9)	**(3.0)**	(3.0)	**(2.9)**	(2.9)
Underlying net finance costs	**(212.9)**	(213.2)	**(109.3)**	(105.7)	**(103.6)**	(107.5)
Underlying profit before tax and associates	**194.8**	182.4	**97.6**	96.0	**97.2**	86.4
Tax on underlying profit	**–**	(0.6)	**0.1**	(0.3)	**(0.1)**	(0.3)
Share of underlying profit of associates	**0.5**	0.2	**0.2**	0.1	**0.3**	0.1
Remove amounts attributable to non-controlling interests	**4.7**	4.6	**2.6**	2.1	**2.1**	2.5
Underlying earnings	**200.0**	186.6	**100.5**	97.9	**99.5**	88.7
Underlying earnings per share (pence)	**15.0p**	14.2p	**7.5p**	7.4p	**7.5p**	6.8p
Weighted average number of shares (million)	**1,333.5**	1,318.1	**1,334.8**	1,327.6	**1,332.0**	1,308.3

For the reconciliation from basic earnings per share see note 16(c).

EPRA performance measures (unaudited)

1 Summary

The EPRA Best Practice Recommendations identify six key performance measures, including the EPRA cost ratios. The measures are deemed to be of importance for investors in property companies and aim to encourage more consistent and widespread disclosure. The Group is supportive of this initiative but continues to disclose additional measures throughout this report which it believes are more appropriate to the Group's current circumstances.

In 2016, the Group retained its EPRA Gold Award for exceptional compliance with the EPRA Best Practice Recommendations.

The EPRA measures are summarised below and detailed in the tables following:

	Table	2016	2015
EPRA cost ratio (including direct vacancy costs)	2	**18.4%**	19.9%
EPRA cost ratio (excluding direct vacancy costs)	2	**14.8%**	16.0%
EPRA earnings	3	**£192.9m**	£187.7m
— per share	3	**14.5p**	14.3p
EPRA NAV	4(a)	**£5,200.9m**	£5,188.5m
— per share	4(a)	**386p**	387p
EPRA NNNAV	4(b)	**£4,698.9m**	£4,878.7m
— per share	4(b)	**349p**	365p
EPRA net initial yield	5	**4.3%**	4.3%
EPRA 'topped-up' NIY	5	**4.5%**	4.5%
EPRA vacancy rate	6	**1.9%**	2.6%

Details of the Group's performance against the EPRA Best Practice Recommendations on Sustainability Reporting can be found in full in the 2016 corporate responsibility report. In 2016, the Group retained its Gold EPRA Sustainability Best Practice Recommendations award.

2 EPRA cost ratios

	2016 £m	2015 £m
Administration expenses – ongoing	**38.6**	38.0
Net service charge costs	**16.1**	14.0
Other non-recoverable costs	**44.1**	49.8
Remove:		
Service charge costs recovered through rents	**(5.6)**	(4.8)
EPRA costs – including direct vacancy costs	**93.2**	97.0
Direct vacancy costs	**(18.0)**	(18.9)
EPRA costs – excluding direct vacancy costs	**75.2**	78.1
Rent receivable	**532.6**	514.0
Rent payable	**(25.4)**	(22.4)
Gross rental income less ground rent payable	**507.2**	491.6
Remove:		
Service charge costs recovered through rents	**(5.6)**	(4.8)
Gross rental income	**501.6**	486.8
EPRA cost ratio (including direct vacancy costs)	**18.6%**	19.9%
EPRA cost ratio (excluding direct vacancy costs)	**15.0%**	16.0%

3 EPRA earnings

EPRA earnings per share has been presented as recommended by EPRA which seeks to assist comparison between European property companies. However, we believe that our measure of underlying earnings per share, as presented in note 16(c), is more appropriate than the EPRA measure in the context of our business. The key difference relates to the adjustments in respect of exceptional items where EPRA is prescriptive about the adjustments that can be made limiting these to acquisition-related costs and costs incurred on termination of derivative financial instruments. A reconciliation of EPRA earnings per share to the Group's measure of underlying earnings per share is provided below.

			2016			2015
	Earnings £m	**Shares million**	**Pence per share**	Earnings £m	Shares million	Pence per share
Basic earnings per share	**182.7**	**1,333.5**	**13.7p**	518.4	1,318.1	39.3p
Adjusted for:						
Revaluation of investment and development property	**78.0**		**5.9p**	(264.9)		(20.1)p
(Gain)/loss on acquisition of businesses	**(34.6)**		**(2.6)p**	0.8		0.1p
Loss/(gain) on disposal of subsidiaries	**0.3**		**–**	(2.2)		(0.2)p
Gain on sale of other investments	**(74.1)**		**(5.6)p**	(0.9)		(0.1)p
Exceptional administration costs – acquisition and disposal related	**1.1**		**0.1p**	0.4		–
Exceptional finance charges – termination of derivative financial instruments	**26.9**		**2.1p**	26.5		2.1p
Change in fair value of financial instruments	**16.3**		**1.2p**	(6.0)		(0.4)p
Tax on the above	**16.3**		**1.2p**	(3.6)		(0.3)p
Share of joint ventures' items	**(12.7)**		**(0.9)p**	(84.3)		(6.4)p
Share of associates' items	**(1.1)**		**(0.1)p**	(0.3)		–
Non-controlling interests in respect of the above	**(6.2)**		**(0.5)p**	3.8		0.3p
EPRA earnings per share	**192.9**	**1,333.5**	**14.5p**	187.7	1,318.1	14.3p
Reconciliation to the Group's measure of underlying earnings per share						
Adjusted for:						
Other exceptional items	**6.5**		**0.5p**	5.5		0.4p
Other exceptional tax	**0.2**		**–**	(1.5)		(0.1)p
Share of associates' items	**–**		**–**	(5.5)		(0.4)p
Share of joint ventures' items	**0.4**		**–**	0.4		–
Underlying earnings per share	**200.0**	**1,333.5**	**15.0p**	186.6	1,318.1	14.2p

EPRA performance measures (unaudited) continued

4 EPRA NAV

(a) EPRA NAV

EPRA NAV has been presented as recommended by EPRA which seeks to assist comparison between European property companies. However, we believe that our measure of NAV per share (diluted, adjusted), as presented in note 17(a), is more appropriate than the EPRA measure in the context of our business. The key difference is interest rate swaps not currently used for economic hedges of debt which are excluded in the Group's definition of NAV per share (diluted, adjusted). The adjustment in respect of the non-controlling interest recoverable balance not recognised is due to historical accounting practices and is required, in our view, to give a more appropriate value of net assets attributable to equity owners of the Group. A reconciliation of EPRA NAV to the Group's measure of NAV per share (diluted, adjusted) is provided below.

			2016			2015
	Net assets £m	**Shares million**	**NAV per share pence**	Net assets £m	Shares million	NAV per share pence
NAV per share attributable to owners of intu properties plc	**4,978.8**	**1,343.0**	**371p**	4,976.4	1,331.9	374p
Dilutive convertible bonds, share options and awards	**2.6**	**3.5**		16.2	6.4	
Diluted NAV per share	**4,981.4**	**1,346.5**	**370p**	4,992.6	1,338.3	373p
Adjusted for:						
Fair value of derivative financial instruments (excluding swaps not currently used for economic hedges of debt and net of tax)	**140.9**		**10p**	99.4		7p
Deferred tax on investment and development property and other investments	**0.1**		**–**	18.9		1p
Share of joint ventures' items	**7.2**		**1p**	6.3		1p
Non-controlling interest recoverable balance not recognised	**71.3**		**5p**	71.3		5p
EPRA NAV per share	**5,200.9**	**1,346.5**	**386p**	5,188.5	1,338.3	387p
Reconciliation to the Group's measure of underlying earnings per share						
Adjusted for:						
Swaps not currently used for economic hedges of debt (net of tax)	**236.8**		**18p**	222.7		17p
NAV per share (diluted, adjusted)	**5,437.7**	**1,346.5**	**404p**	5,411.2	1,338.3	404p

(b) EPRA NNNAV

The Group's measure of NNNAV per share (diluted, adjusted), as presented in note 17(b), is equal to the EPRA NNNAV measure presented below:

			2016			2015
	Net assets £m	**Shares million**	**NAV per share pence**	Net assets £m	Shares million	NAV per share pence
EPRA NAV per share	**5,200.9**	**1,346.5**	**386p**	5,188.5	1,338.3	387p
Fair value of derivative financial instruments (net of tax)	**(140.9)**		**(10)p**	(99.4)		(7)p
Excess of fair value of borrowings over carrying value	**(375.0)**		**(28)p**	(194.4)		(14)p
Deferred tax on investment and development property and other investments	**(0.1)**		**–**	(18.9)		(1)p
Share of joint ventures' items	**(9.4)**		**(1)p**	(8.1)		(1)p
Non-controlling interests in respect of the above	**23.4**		**2p**	11.0		1p
EPRA NNNAV per share	**4,698.9**	**1,346.5**	**349p**	4,878.7	1,338.3	365p

5 EPRA net initial yield and 'topped-up' NIY

	2016 £m	2015 £m
Investment and development property	**9,985**	9,602
Less developments	**(153)**	(144)
Completed property portfolio	**9,832**	9,458
Allowance for estimated purchasers' costs	**660**	525
Gross up completed property portfolio valuation	**10,492**	9,983
Annualised cash passing rental income	**467**	449
Property outgoings	**(22)**	(20)
Annualised net rents	**445**	429
Notional rent on expiration of rent free periods or other lease incentives	**27**	21
Topped-up net annualised rent	**472**	450
EPRA net initial yield	**4.3%**	4.3%
EPRA 'topped-up' NIY	**4.5%**	4.5%

EPRA net initial yield and 'topped-up' NIY by property is given in the investment and development property section.

6 EPRA vacancy rate

	2016 %	2015 %
intu Trafford Centre	**0.8**	1.7
intu Lakeside	**3.4**	2.7
intu Metrocentre	**2.8**	4.3
intu Merry Hill	**1.7**	3.2
intu Braehead	**2.4**	3.6
intu Derby	**0.5**	1.2
Manchester Arndale	**1.1**	0.7
intu Victoria Centre	**3.3**	2.6
intu Watford	**0.2**	4.6
intu Eldon Square	**0.6**	0.9
intu Chapelfield	**1.5**	–
intu Milton Keynes	**–**	2.8
Cribbs Causeway	**3.3**	4.2
intu Potteries	**3.4**	2.7
intu Bromley	**n/a**	2.4
St David's, Cardiff	**4.2**	3.8
Puerto Venecia, Zaragoza	**3.2**	5.0
intu Asturias	**0.9**	0.4
	1.9	2.6

EPRA vacancy rate is the ERV of vacant space divided by total ERV. This differs from the Group's measure of occupancy which treats units in administration and no longer trading as un-let, units under offer as let, and assesses occupied units using passing rent not ERV.

Financial record
2012-2016

	2012	2013	2014	2015	**2016**
Net rental income	£363m	£370m	£397m	£428m	**£447m**
Underlying earnings	£138m	£140m	£162m	£187m	**£200m**
Underlying earnings per share[1]	14.7p	13.7p	13.3p	14.2p	**15.0p**
Dividend per share[1]	13.7p	13.7p	13.7p	13.7p	**14.0p**
Property revaluation surplus/(deficit)	£41m	£126m	£648m	£351m	**£(64m)**
NAV per share (diluted, adjusted)[1]	357p	346p	379p	404p	**404p**
Market value of investment and development property	£7,073m	£7,624m	£8,963m	£9,602m	**£9,985m**
Net external debt	£3,504m	£3,698m	£3,963m	£4,139m	**£4,364m**
Debt to assets ratio	49.5%	48.5%	44.2%	43.1%	**43.7%**
Interest cover	1.69x	1.71x	1.82x	1.91x	**1.97x**
Change in like-for-like net rental income	(2.7)%	(1.9)%	(3.2)%	1.8%	**3.6%**
Occupancy	96%	95%	95%	96%	**96%**
Growth in footfall (like-for-like)	(1)%	(2)%	+0%	+0%	**+1.3%**

Amounts presented include the Group’s share of joint ventures.

1 Amounts for 2013 and earlier are as adjusted by the 2014 rights issue bonus factor.

Glossary

ABC1 customers
Proportion of customers within UK social groups A, B and C1, defined as members of households whose chief earner's occupation is professional, higher or intermediate management, or supervisory.

Annual property income
The Group's share of passing rent plus the independent external valuers' estimate of annual excess turnover rent and sundry income such as that from car parks and mall commercialisation.

CACI
Provide market research on intu's customers and UK-wide location analysis.

Debt to assets ratio
Net external debt divided by the market value of investment and development property.

Diluted figures
Reported amounts adjusted to include the effects of dilutive potential shares issuable under convertible bonds and employee incentive arrangements.

Earnings per share
Profit for the year attributable to owners of intu properties plc divided by the weighted average number of shares in issue during the period.

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.

ERV (estimated rental value)
The independent external valuers' estimate of the Group's share of the current annual market rent of all lettable space after expiry of concessionary periods net of any non-recoverable charges but before bad debt provisions.

Exceptional items
Items that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence. Underlying earnings is considered to be a key measure in understanding the Group's financial performance, and excludes exceptional items.

Headline rent ITZA
Annual contracted rent per square foot after expiry of concessionary periods in terms of Zone A.

Interest cover
Underlying operating profit divided by the net finance cost excluding the change in fair value of financial instruments, exceptional finance costs and amortisation of the Metrocentre compound financial instrument.

Interest rate swap
A derivative financial instrument enabling parties to exchange interest rate obligations for a predetermined period. These are used by the Group to convert floating rate debt to fixed rates.

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

Like-for-like property
Investment property which has been owned throughout both periods without significant capital expenditure in either period, so that 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 reporting period end but not throughout the prior period.

Long-term lease
A lease with a term certain of at least five years.

LTV (loan to value)
The ratio of attributable debt to the market value of an investment property.

NAV per share (diluted, adjusted)
NAV per share calculated on a diluted basis and adjusted to remove the fair value of derivatives (net of tax), goodwill resulting from the recognition of deferred tax liabilities, and deferred tax on investment and development property and other investments.

Net asset value ('NAV') per share
Net assets attributable to owners of intu properties plc divided by the number of ordinary shares in issue at the year end.

Net external debt
Net debt after removing the Metrocentre compound financial instrument.

Net initial yield (EPRA)
Annualised net rent on investment property (after deduction of revenue costs such as head rent, running void, service charge after shortfalls, empty rates and merchant association contribution) expressed as a percentage of the gross market value before deduction of theoretical acquisition costs, consistent with EPRA's net initial yield, and as provided by the Group's independent external valuers.

Net rental income
The Group's share of net rents receivable as shown in the income statement, having taken due account of non-recoverable costs, bad debt provisions and adjustments to comply with IFRS including those regarding tenant lease incentives.

Glossary continued

NNNAV per share (diluted, adjusted)
NAV per share (diluted, adjusted) adjusted to include the fair values of derivatives, borrowings and deferred taxes.

Nominal equivalent yield
Effective annual yield to a purchaser from an asset at market value before taking account of notional acquisition costs assuming rent is receivable annually in arrears, reflecting ERV but disregarding potential changes in market rents, as determined by the Group's independent external valuers.

Occupancy
The passing rent of let and under-offer units expressed as a percentage of the passing rent of let and under-offer units plus ERV of un-let units, excluding development and recently completed properties. Units let to tenants in administration and still trading are treated as let and those no longer trading are treated as un-let.

Passing rent
The Group's share of 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 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.

PMA
Property Market Analysis LLP, a producer of property market research and forecasting.

Property Income Distribution ('PID')
A dividend, generally subject to UK withholding tax at the basic rate of income tax, that a UK REIT is required to pay to its shareholders from its qualifying rental profits. Certain classes of shareholder may qualify to receive a PID gross, shareholders should refer to intugroup.co.uk for further information. The Group can also pay non-PID dividends which are not subject to UK withholding tax.

Real Estate Investment Trust ('REIT')
REITs are internationally recognised property investment vehicles which have now been introduced in many countries around the world. Each country has its own rules, but the broad intention of REITs is to encourage investment in domestic property by removing tax distortions for investors.

In the UK, REITs must meet certain ongoing rules and regulations, including the requirement to distribute at least 90 per cent of qualifying rental profits to shareholders. Withholding tax of 20 per cent is deducted from these Property Income Distributions (see definition). Profits from a REIT's non-property business remain subject to normal corporation tax. The Group elected for REIT status in the UK with effect from 1 January 2007.

Scrip Dividend Scheme
The Group offers shareholders the opportunity to participate in the Scrip Dividend Scheme. This enables participating shareholders to receive shares instead of cash when a Scrip Alternative is offered for a particular dividend.

Short-term lease
A lease with a term certain of less than five years.

SOCIMI
The Spanish equivalent of a Real Estate Investment Trust.

Tenant (or lease) incentives
Any incentives offered to occupiers to enter into a lease. Typically incentives are in the form of an initial rent free period and/or a cash contribution to fit out the premises. Under IFRS the value of incentives granted to tenants is amortised through the income statement on a straight-line basis over the lease term.

Topped-up NIY (EPRA)
Net initial yield ('NIY') adjusted for the expiration of rent free periods and other unexpired lease incentives.

Total financial return
The change in NAV per share (diluted, adjusted) plus dividends per share paid in the year expressed as a percentage of opening NAV per share (diluted, adjusted).

Total property return
The change in capital value, less any capital expenditure incurred, plus net income in the year expressed as a percentage of the capital employed (opening capital value plus capital expenditure incurred) in the year as calculated by IPD.

Underlying earnings per share ('EPS')
Earnings per share adjusted to exclude valuation movements, exceptional items and related tax.

Underlying figures
Amounts described as underlying exclude valuation movements, exceptional items and related tax.

Vacancy rate (EPRA)
The ERV of vacant space divided by total ERV.

Yield shift
A movement (usually expressed in basis points) in the yield of a property asset.

Dividends

The Directors of intu properties plc have proposed a final dividend per ordinary share (ISIN GB0006834344) of 9.4 pence (2015: 9.1 pence) to bring the total dividend per ordinary share for the year to 14.0 pence (2015: 13.7 pence). A scrip dividend alternative may be offered.

The dividend may be partly paid as a Property Income Distribution ('PID') and partly paid as a non-PID. The PID element will be subject to deduction of a 20 per cent withholding tax unless exemptions apply (please refer to the PID special note below). Any non-PID element will be treated as an ordinary UK company dividend. For South African shareholders, non-PID cash dividends may be subject to deduction of South African Dividends Tax at 20 per cent.

The following are the salient dates for the payment of the proposed final dividend.

Thursday 6 April 2017
Sterling/Rand exchange rate struck

Friday 7 April 2017
Sterling/Rand exchange rate and dividend amount in South African currency announced

Wednesday 19 April 2017
Ordinary shares listed ex-dividend on the Johannesburg Stock Exchange

Thursday 20 April 2017
Ordinary shares listed ex-dividend on the London Stock Exchange

Friday 21 April 2017
Record date for 2016 final dividend in London and Johannesburg

Thursday 25 May 2017
Dividend payment date for shareholders

South African shareholders should note that, in accordance with the requirements of Strate, the last day to trade cum-dividend will be Tuesday 18 April 2017 and that no dematerialisation or rematerialisation of shares will be possible from Wednesday 19 April 2017 to Friday 21 April 2017 inclusive. No transfers between the UK and South African registers may take place from Friday 7 April 2017 to Friday 21 April 2017 inclusive.

PID SPECIAL NOTE:
UK shareholders

For those who are eligible for exemption from the 20 per cent withholding tax and have not previously registered for exemption, an HM Revenue & Customs ('HMRC') Tax Exemption Declaration is available for download from the 'Investors' section of the intu properties plc website (intugroup.co.uk), or on request to our UK registrars, Capita Asset Services. Validly completed forms must be received by Capita Asset Services no later than the dividend Record Date, as advised; otherwise the dividend will be paid after deduction of tax.

South African and other non-UK shareholders

South African shareholders may apply to HMRC after payment of the dividend for a refund of the difference between the 20 per cent withholding tax and the UK/South African double taxation treaty rate of 15 per cent. Other non-UK shareholders may be able to make similar claims for a refund of UK withholding tax deducted. Refund application forms for all non-UK shareholders are available for download from the 'Investors' section of the intu properties plc website (intugroup.co.uk), or on request to our South African registrars, Trifecta, or HMRC. UK withholding tax refunds are not claimable from intu properties plc, the South African Revenue Service ('SARS') or other national authorities, only from the UK's HMRC.

Additional information on PIDs can be found at intugroup.co.uk/investors/shareholders-information/real-estate-investment-trust/.

The above does not constitute advice and shareholders should seek their own professional guidance. intu properties plc does not accept liability for any loss suffered arising from reliance on the above.

Shareholder information

Registered Office
40 Broadway, London SW1H 0BT
Registered in England & Wales no. 3685527

Websites
intugroup.co.uk
intu.co.uk

Registrars
All enquiries concerning shares or shareholdings, including notification of change of address, queries regarding loss of a share certificate and dividend payments should be addressed to:

For shareholders registered in the UK
Capita Asset Services
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
Calls are charged at the standard geographic rate and will vary by provider; lines are open 9.00am to 5.30pm Monday to Friday
Telephone +44 (0) 371 664 0300
Email: ssd@capitaregistrars.com
capitashareportal.com

For shareholders registered in South Africa
Terbium Financial Services
31 Beacon Road, Florida North, 1709
South Africa
Postal address:
PO Box 61272
Marshalltown 2107, South Africa
Telephone +27 (0) 860 222 213
Email: intu@terbium.global

Payment of dividends
Shareholders who wish to have their dividends paid directly into a bank or building society account should complete a mandate form available from the appropriate registrars.

Share price information
The latest information on the intu properties plc share price is available on the website intugroup.co.uk.

Web-based enquiry service for shareholders
Shareholders registered in the UK can go to capitashareportal.com to obtain details of their shareholdings and dividends. The shareholder's surname, Investor Code (found on any correspondence from registrars) and postcode are required to use this service. Shareholders may also use this service to amend or change their address and dividend mandate details.

Shareholders registered in South Africa can go to terbium.global to obtain details of their shareholdings. Shareholders will need to follow a registration process in order to access such information. Unfortunately, due to South African legal requirements, shareholders may not update records, but will be able to view their entire holding of shares globally. Please note that the Terbium company code for intu properties plc is ITUZ.

Share dealing
Existing UK shareholders may trade intu properties plc shares through Capita Share Dealing Services who provide a real-time online, telephone and postal dealing service.

Contact details are:

capitadeal.com
Telephone (within UK) 0871 664 0364 (calls cost 10p per minute plus network extras; lines are open 8.00 am to 4.30 pm Monday to Friday)
(Ireland) Lo-call 1 890 946 375
(outside UK) +44 20 3367 2686

Sharegift
Shareholders with a small number of shares, which may be uneconomic to sell on a commission basis, may wish to consider donating them to the charity Sharegift (registered charity no. 1052686). Further information can be found on Sharegift's website sharegift.org or by calling them on 020 7930 3737.

Strate Charity Shares
South African shareholders for whom the cost of selling their shares would exceed the market value of such shares may wish to consider donating them to charity. An independent non-profit organisation called Strate Charity Shares has been established to administer this process. The South African Revenue Service ('SARS') has advised Strate Charity Shares that the value of any shares donated may be deducted from taxable income, as the scheme is registered under section 18A of the Income Tax Act. For further details, queries and/or donations contact the Strate Share Care toll free help line on 0800 202 363 or +27 11 373 0038 if you are phoning from outside South Africa or email charityshares@terbium.global

Electronic communication
The Company supplies information such as the annual report via its website to shareholders who have consented to such communication. Shareholders will be notified by email or post when new information is available on the website.

Shareholders can at any time revoke a previous instruction in order to receive hard copies of shareholder information.

UK shareholders may register to receive email alerts by logging on to the website of the UK Registrars (capitashareportal.com) and following the instructions given to register an email address. SA shareholders may register to receive email alerts by written instruction to the South African Registrar, Terbium, by email (intu@terbium.global). Once registered, shareholders are sent a 'Notice of Availability' email highlighting that the annual report or other information is available for viewing on the website.

This report contains 'forward-looking statements' regarding the belief or current expectations of intu properties plc, its Directors and other members of its senior management about intu properties plc's businesses, financial performance and results of operations. These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of intu properties plc and are difficult to predict, that may cause actual results, performance or developments to differ materially from any future results, performance or developments expressed or implied by the forward-looking statements.

These forward-looking statements speak only as at the date of this report. Except as required by applicable law, intu properties plc makes no representation or warranty in relation to them and expressly disclaims any obligation to update or revise any forward-looking statements contained herein to reflect any change in intu properties plc's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Any information contained in this report on the price at which shares or other securities in intu properties plc have been bought or sold in the past, or on the yield on such shares or other securities, should not be relied upon as a guide to future performance.

Designed and produced by
CONRAN DESIGN GROUP

MIX
Paper from responsible sources
FSC® C022913

Printed by Pureprint Group on FSC® certified paper. Pureprint Group is an EMAS certified CarbonNeutral® Company and its Environmental Management System is certified to ISO14001.

100% of the inks used are vegetable oil-based. This document is printed on Claro Bulk, a paper containing 100% virgin fibre sourced from well managed, sustainable, FSC certified forests. The pulp used in this product is bleached using an elemental chlorine free (ECF) process.

intu properties plc
40 Broadway, London
SW1H 0BT

intugroup.co.uk