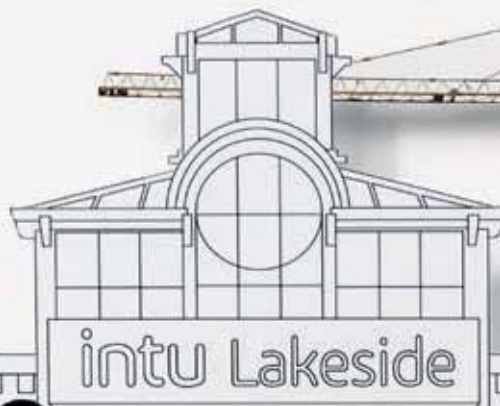


# The intu difference



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 are 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.

## What's inside

Our difference  
page 15



Our growth story  
page 12

1  
Growing like-for-like net rental income

Our 2018 strategy  
see page 10

2  
Optimising our flagship destinations

**Overview**

Highlights of 2017 2  
Our top properties 4

**Strategic report**

Chairman's statement 6  
Chief Executive's review 8  
Our 2018 strategy 10  
Our growth story 12  
Investment case 14

**The intu difference**

Making the difference 16  
Understanding our markets 18  
Making customers smile 20  
Helping retailers flourish 22  
Our flagship destinations 24  
The sky's the limit at intu Lakeside 26  
At the heart of communities 28

Our business model 30  
Relationships 32  
Strategy overview 34  
Key performance indicators 36  
Focus on risk 38  
Principal risks and uncertainties 40  
Operating review 42  
Financial review 48  
Our people 54  
Corporate responsibility 57

**Governance**

Chairman's introduction 60  
Board of Directors 62  
Executive Committee 64  
The Board 65  
Viability statement 70  
Audit Committee 71  
Nomination and Review Committee 76  
Directors' remuneration report 78  
Directors' report 94  
Statement of Directors' responsibilities 96

**Financial statements**

Independent auditors' report 98  
Consolidated income statement 105  
Consolidated statement of comprehensive income 106  
Balance sheets 107  
Statements of changes in equity 108  
Statements of cash flows 111  
Notes to the financial statements 112

**Other information**

Investment and development property 160  
Financial covenants 163  
Financial information including share of joint ventures 165  
Underlying profit statement 169  
EPRA performance measures 170  
Financial record 174  
Glossary 175  
Dividends 177  
Shareholder information 178



Go online [intugroup.co.uk/en/investors/intu-annual-report-2017/](http://intugroup.co.uk/en/investors/intu-annual-report-2017/)

**Operating review**

page 42

**Our people**

page 54

**Corporate responsibility**

page 57

“The underlying strengths of the intu business were much in evidence in 2017 as shown by our robust overall performance.”

**Read the Chief Executive's review**  
page 8

**How are we addressing the risks to our business?**

page 38

**Glossary**

page 175

**Read about our commitment to governance**

page 60

Read more content in the annual report

Read more content at [intugroup.co.uk](http://intugroup.co.uk)

# Highlights of 2017



## Financial highlights<sup>1</sup>

Net rental income<sup>2,3</sup>

**£460m**

(2016: £447m)

Underlying earnings

**£201m**

(2016: £200m)

Our results show good operational and financial performance in the year

- increase in net rental income of £13 million includes strong like-for-like recovery in the second half of the year with growth of 2.4 per cent, delivering full year like-for-like growth of 0.5 per cent
- growth in the second half of the year taking full year underlying earnings to £201 million, ahead of 2016
- increase in Spanish valuations, partially offset by a small fall in UK values, delivers a property revaluation surplus of £47 million
- increased profit for the year by £31 million to £203 million primarily from the property revaluation surplus (movement of £111 million against the deficit in 2016), partially offset by one-off £74 million gain on disposal in 2016
- underlying earnings per share in line with 2016 at 15.0 pence with full year dividend unchanged at 14.0 pence
- net asset value per share (diluted, adjusted) of 411 pence, an increase of 7 pence, delivering a total financial return for the year of 5.2 per cent
- substantial cash and available facilities of £833 million on a pro forma basis (31 December 2016: £922 million), reflecting the £148 million disposal of 50 per cent of intu Chapelfield, Norwich

Property revaluation surplus<sup>2,3</sup>

**£47m**

(2016: £64m deficit)

IFRS profit for the year

**£203m**

(2016: £172m)

Underlying EPS

**15.0p**

(2016: 15.0p)

Dividend per share

**14.0p**

(2016: 14.0p)

NAV per share (diluted, adjusted)

**411p**

(2016: 404p)

Debt to assets ratio<sup>2,3,6</sup>

**45.2%**

(2016: 43.7%)

Market value of investment properties<sup>2,3,4,5</sup>

**£10,529m**

(2016: £9,985m)

IFRS net assets attributable to owners of intu properties plc

**£5,075m**

(2016: £4,979m)

1 Please refer to glossary on page 175 for definition of terms.

2 Including Group's share of joint ventures.

3 See other information section for reconciliations between presented figures and International Financial Reporting Standards (IFRS) figures.

4 Including intu Chapelfield which is classified as an asset held for sale.

5 Market value of investment properties is based on third party valuations as at 31 December 2017. The scheme document to be issued in connection with the proposed transaction with Hammerson will contain valuation reports in accordance with Rule 29 of the Code.

6 Pro forma for the £148 million disposal of 50 per cent of intu Chapelfield which completed on 31 January 2018.

### 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 48 for more details on the presentation of information and alternative performance measures used



## Our strategic objectives

### Optimising asset performance

Delivering attractive long-term total property returns from strong, stable income streams

- increase in like-for-like net rental income of 0.5 per cent, a third successive year of growth. Former BHS stores substantially relet with excellent lettings to quality retailers such as Next, Primark and Uniqlo
- signed 217 long-term leases (2016: 214) – 179 in the UK and 38 in Spain – delivering £38 million of annual rent at an average of 7 per cent above the previous passing rent (2016: 4 per cent) and in line with valuers' assumptions
- rent reviews settled in the year on average 9 per cent above previous passing rent (2016: 8 per cent)
- occupancy stable at 96.1 per cent (December 2016: 96.0 per cent)
- footfall increased by 0.1 per cent outperforming the national ShopperTrak retail average which fell by 2.8 per cent

### Delivering UK developments

Extending and enhancing our existing locations to deliver superior returns

- capital expenditure of £184 million in the year including £63 million on the extension of intu Watford and £58 million on the acquisition of income generating properties which will form part of future capital projects
- the £180 million intu Watford extension is on target and on budget to open in October 2018 with pre-lets well advanced
- commenced the £72 million Nickelodeon-anchored leisure scheme at intu Lakeside; completed the leisure line-up by signing Hollywood Bowl, Puttshack and Flip Out
- near-term committed and pipeline capital expenditure for the next three years of £562 million, with intention to start intu Trafford Centre (Barton Square – £72 million) and intu Broadmarsh, Nottingham (£81 million) projects in 2018

### Making the brand count

Using our respected brand to create compelling experiences for our customers

- unprompted awareness of the intu brand increased to 26 per cent (2016: 22 per cent), with prompted awareness increasing to 71 per cent (2016: 63 per cent)
- net promoter score, our measure of customer service, consistent at around 70 throughout the year
- intu Experiences, our dedicated promotions business, generated income of £22 million, equivalent to the rental income of our seventh largest centre
- intu.co.uk, our premium content publisher and shopping platform, delivered sales for retailers of £9 million, a 50 per cent increase on 2016
- achieved our 2020 target of a 50 per cent intensity reduction in carbon emissions three years ahead of plan

### Seizing the growth opportunity in Spain

Creating a business of scale through acquisitions and development projects

- acquired Madrid Xanadú, one of Spain's top-10 shopping centres, for a headline price of €530 million, and introduced TH Real Estate as a 50 per cent joint venture partner
- signed 38 long-term leases delivering £2 million of annual rent at an average of 25 per cent above previous passing rent
- occupancy stable at 97 per cent and footfall up 1 per cent, which includes the disruption from the intu Asturias mall redevelopment in the year which has now successfully completed
- revaluation surplus of £98 million in Spain from intu Costa del Sol land (£74 million) and existing centres (£24 million) with intu Asturias up 11 per cent and Puerto Venecia up 4 per cent, driven by growth in rental values
- at intu Costa del Sol, our proposed 230,000 sq m shopping resort development, approval of the General Plan of Torremolinos was a major step forward. The remaining consents are expected in the coming months

# 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 northwest, with a catchment of nearly 10 million, it is no wonder it is often the first stop for retailers as they expand outside central London.



Footfall  
**30m**

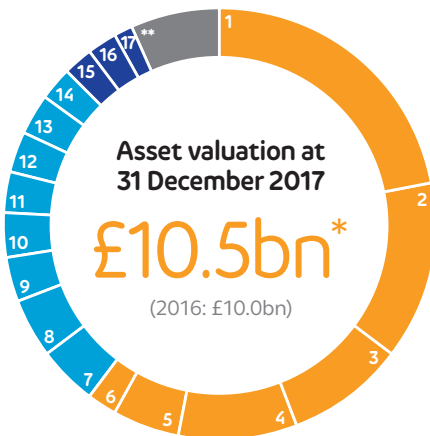


## intu Lakeside

intu Lakeside offers its loyal customer base from Essex and the southeast a compelling mix of retail, catering and leisure at the heart of nearly 5 million sq ft of retail space in the wider Lakeside basin. The centre is popular with families – which is why Nickelodeon has chosen intu Lakeside for its first theme park in a UK shopping centre.



Average dwell time  
**2.5 hours**



### Super-regional centres

**65%**

1. intu Trafford Centre (£2,324m)
2. intu Lakeside (£1,417m)
3. intu Merry Hill (£931m)
4. intu Metrocentre (£929m)
5. intu Braehead (£533m)
6. Cribbs Causeway (£240m)

### Major city centres

**29%**

7. intu Derby (£458m)
8. Manchester Arndale (£456m)
9. intu Victoria Centre (£356m)
10. St David's, Cardiff (£346m)
11. intu Watford (£336m)
12. intu Eldon Square (£323m)
13. intu Chapelfield (£307m)
14. intu Milton Keynes (£285m)

### Spanish centres

**6%**

15. Madrid Xanadú (£235m)
16. Puerto Venecia, Zaragoza (£231m)
17. intu Asturias (£141m)

	Market value	Size (sq ft 000)
<b>Super-regional centres</b>		
<b>intu Trafford Centre</b>	£2,324m	2,018
<b>intu Lakeside</b>	£1,417m	1,435
<b>intu Merry Hill</b>	£931m	1,671
<b>intu Metrocentre</b>	£929m	2,086
<b>intu Braehead</b>	£533m	1,123
<b>Cribbs Causeway</b>	£240m	1,075
<b>Major city centres</b>		
<b>intu Derby</b>	£458m	1,300
<b>Manchester Arndale</b>	£456m	1,790
<b>intu Victoria Centre</b>	£356m	976
<b>St David's, Cardiff</b>	£346m	1,391
<b>intu Watford</b>	£336m	728
<b>intu Eldon Square</b>	£323m	1,385
<b>Spanish centres</b>		
<b>Madrid Xanadú</b>	€265m	120
<b>Puerto Venecia, Zaragoza</b>	€260m	120
<b>intu Asturias</b>	€159m	74

\* Including Group's share of joint ventures and assets held for sale.

\*\* Other UK properties < £200m (£683m).

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

2 Excludes owner-occupied space.

intu Merry Hill

intu Merry Hill is the super-regional shopping centre for the West Midlands, with a loyal customer base. It draws 18 million visits each year and is a key location for retailers. JD Sports, River Island and Topshop have recently upsized, creating flagship stores, with Next following. Delivering our plans to improve the dining and leisure offer will create the intu Trafford Centre of the region.

Visit weekly  
41%

Madrid Xanadú

Madrid Xanadú is home to Spain's only indoor ski slope which, along with all the retailers you would wish for and a 15-screen cinema, is the retail and leisure destination for southwest Madrid. In 2018 the centre will be rebranded intu and the compelling leisure mix will be further enhanced by an aquarium and Nickelodeon theme park. All this will increase its draw to the wider Madrid area.

Stores  
208 OPEN

Ownership	Number of stores	Annual property income	Headline rent ITZA	ABC1 customers	Key tenants
100%	227	£93.7m	£450	67%	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%	250	£53.2m	£360	69%	House of Fraser, Debenhams, Marks & Spencer, Topshop, Zara, Primark, Vue, Victoria's Secret, H&M, Next
100%	217	£42.4m	£200	48%	Marks & Spencer, Debenhams, Primark, Next, Topshop, Asda, Boots, H&M, Odeon
90%	307	£48.1m	£280	55%	House of Fraser, Marks & Spencer, Debenhams, Apple, H&M, Topshop, Zara, Primark, River Island, Odeon
100%	123	£28.1m	£250 <sup>1</sup>	64%	Marks & Spencer, Primark, Apple, Next, H&M, Topshop, Hollister, Superdry, Sainsbury's
33%	153	£12.9m	£305	80%	John Lewis, Marks & Spencer, Apple, Next, Topshop, Timberland, Hobbs, Hugo Boss, H&M, Tesla
100%	212	£28.9m	£110	46%	Marks & Spencer, Debenhams, Sainsbury's, Next, Boots, Topshop, Cinema de Lux, Zara, H&M
48%	254	£21.3m	£285	57%	Harvey Nichols, Apple, Burberry, Topshop, Next, Ugg, Hugo Boss, Superdry, Zara, Hollister, Victoria's Secret, Paul Smith
100%	115	£19.5m	£250	57%	John Lewis, House of Fraser, Next, Topshop, River Island, Boots, Urban Outfitters, Superdry
50%	203	£17.0m	£212	71%	John Lewis, Debenhams, Marks & Spencer, Apple, Hugo Boss, H&M, River Island, Hamleys, Primark, Victoria's Secret
93%	140	£15.8m	£220	81%	John Lewis, Marks & Spencer, Apple, Zara, Primark, Next, Lakeland, Lego, H&M, Topshop, New Look
60%	142	£16.1m	£308	60%	John Lewis, Fenwick, Debenhams, Waitrose, Apple, Hollister, Topshop, Boots, River Island, Next
Ownership	Number of stores	Annual property income	Key tenants		
50%	208	€12.7m	El Corte Inglés, Zara, Primark, Apple, H&M, Mango, SnowZone, Cinesa, Bricor, Decathlon		
50%	206	€12.2m	El Corte Inglés, Primark, Ikea, Apple, Decathlon, Cinesa, H&M, Mediamarkt, Zara, Hollister, Toys R Us		
50%	144	€8.1m	Primark, Zara, H&M, Cinesa, Eroski, Mango, Springfield, Fnac, Mediamarkt, Desigual		

# Chairman's statement

Our motivated and experienced staff ensure our centres remain vibrant and enticing to both customers and retailers in a fast-changing environment



“Our vibrant centres are continuously changing to meet new customer and retailer needs, all directed by our experienced and ambitious management team whose drive is shaping the shopping centre industry.”

John Strachan  
Chairman

As I come towards the end of my first year in the role of Chairman, I have been phenomenally impressed by the business and the people who are the driving force behind its success.

Spending more time in our centres and meeting staff, as I have done first as a non-executive director and this year as Chairman, has confirmed these impressions. Our vibrant centres are the best in their regions and are continuously changing to meet new customer and retailer needs created by today's multichannel retail world. This constant evolution is directed by our experienced and ambitious management team whose drive is shaping the shopping centre industry.

## The last 12 months

The last 12 months have been an interesting time in our industry – capital markets have been concerned by perceived headwinds in retail, from Brexit in the UK to structural issues in the US, as well as the impact of online. Yet throughout this period we have outperformed against our operational benchmarks.

Our success has come from ensuring our centres are the places where people want to be. Our purpose is to make customers smile, leading to strong footfall, increased dwell time and higher spend, and this, in turn, helps our retailers flourish – resulting in high occupancy and near record levels of lettings and tenant investment.

Like-for-like net rental income growth in 2017

**+0.5%**

(2016: +3.6%)

In Spain, we enhanced our platform with the acquisition of Madrid Xanadú and advanced our plans for the world-class intu Costa del Sol shopping resort. In the UK, we continue to see encouraging levels of pre-lets on our exciting pipeline of development projects.

The disposal of 50 per cent of intu Chapelfield at a price in line with the December 2016 valuation underwrites our property values as well as recycling capital into our development pipeline.

Innovation is engrained in our business, and using our experience and expertise in the shopping centre industry, we continue to define the future of the shopping mall. intu Accelerate is just one example of this, testing out a range of pioneering ideas for both customers and retailers. Online, our premium content publisher and shopping platform, intu.co.uk, continues to see strong growth with sales through the website increasing by 50 per cent.

## Corporate responsibility

I have always believed that behaving responsibly is fundamental to the best and most sustainable businesses. It is especially vital for a retail property business such as ours where our centres play a pivotal role at the heart of their communities. As a long-term investor in the UK and Spain, we focus on people and placemaking, and ensure our initiatives, measured through key performance indicators, align with the communities we serve.

Reduction in carbon emissions intensity since 2010

**58%**





### Creating a pan-European portfolio

In December we agreed a recommended all-share offer for the company by Hammerson. The boards of Hammerson and intu believe that there is a compelling strategic rationale for the acquisition, which will bring together high-quality retail property portfolios and combined expertise to create a leading European retail REIT with a strong income profile and superior growth prospects.

Both boards believe that, following the acquisition, the enlarged group will be better placed to enhance its position in its geographic markets and across its retail formats, with a more efficient and adaptable platform allowing it to respond to fast-changing consumer preferences and retail trends.

The transaction is subject to certain approvals and is not expected to complete until late 2018.

I am pleased to report that the measure of our community investment, gross value added, remains stable on a like-for-like basis at £4.6 billion this year, and we have reached our 2020 target for a 50 per cent reduction in greenhouse gas emissions three years early.

As a long-term business and a major employer in many of the regions where we operate, we have an important role in the future and the wellbeing of our communities. We take our responsibilities seriously, whether that is ensuring we reduce our environmental impact or helping local people by working with a charity to provide prom dresses for students. Recognising the importance of locally created and relevant projects, my Chairman's prize for 2017 has gone to The Bus Shelter MK, a project to provide short-term accommodation for homeless people in Milton Keynes in a converted double-decker bus.



### The Bus Shelter MK

This unique partnership with intu Milton Keynes raised money to convert a bus to provide short-term accommodation for homeless people in Milton Keynes

### Our people

I would like to convey my warmest thanks to my colleagues on the Board and to all our staff for their commitment and creativity. As I said in my introduction, I am remarkably proud of our people, from apprentices to senior managers, who day in and day out deliver the intu difference that sets us apart from the competition.

### Dividend

Your Directors are recommending a final dividend of 9.4 pence per share, bringing the total amount paid and payable in respect of 2017 to 14.0 pence, unchanged from the 2016 dividend. A scrip dividend alternative may be offered.

### Looking to 2018

As David discusses in his Chief Executive's review, we are refocusing our strategic objectives. They are to deliver growth in like-for-like net rental income, building further on the previous three years of growth, all underpinned by operational excellence. Our development programme, focused on flagship destinations and financed through astute capital recycling and allocation, will add further organic growth.

# Chief Executive's review

intu focuses solely on regional shopping centres in the UK and Spain



“The underlying strengths of the intu business were much in evidence in 2017 as shown by our robust overall performance.”

David Fischel  
Chief Executive

## Our performance in 2017

The underlying strengths of the intu business were much in evidence in 2017 as we have recorded a robust overall performance, confounding the external gloom and negativity in pre-Brexit UK about retail and retail property, and showing the success of our asset management initiatives and strategic positioning.

Our underlying earnings per share were steady at 15.0 pence; we grew like-for-like net rental income by 0.5 per cent, within our original guidance 12 months ago; and net asset value per share, helped by a tremendous performance from the Spanish business, increased from 404 pence to 411 pence.

We delivered on each of our four core objectives for 2017:

- asset performance was resilient in the UK and buoyant in Spain, with the clear message from key performance indicators, such as lettings, occupancy, footfall and dwell time, that intu is in fine shape
- the investment programme in the UK moved on at pace with expenditure in the year of £184 million. The pipeline for the next three years amounts to £562 million, with plenty of opportunity beyond that date. In addition to the £180 million intu Watford extension, opening in 2018, significant projects are underway at major centres, such as intu Lakeside, intu Trafford Centre and intu Merry Hill
- the awareness and importance of the intu brand has continued to grow. Five years on from launch, we can clearly see the advantages of a strong brand for a shopping centre business such as ours. Among these advantages we would include superior customer service, refreshing changes to the centres' physical and digital environments and new and innovative sources of revenue

- we continued to seize the growth opportunity in Spain. We acquired Madrid Xanadú in the year, a centre full of growth opportunities and an ideal fit for our shopping resort model in Spain, with a Nickelodeon theme park attraction and aquarium under construction, to add to the existing indoor ski slope

## Outlook and 2018 strategic objectives

The environment for the business is likely to remain challenging as the UK continues through the Brexit negotiations. Our shopping centres have not been immune to the UK's relatively sluggish economic performance. Decision-making about investing in the UK has inevitably been impacted in the pre-Brexit period and domestic consumers have been adapting to fluctuations in their discretionary spending capacity.

The 2017 results are, however, a considerable endorsement of the underlying strength of the intu business and our strategic objectives for 2018 build on those we have pursued in the last few years. They are:

- growing like-for-like net rental income
- optimising our flagship destinations
- delivering operational excellence
- making smart use of capital

Front of mind for investors is the changing mix of online and in-store sales and how that might affect demand for physical space, hence our particular focus on the basic measure of growing like-for-like net rental income. At intu, we are still seeing key retailers taking more space, and investing for the long term in our centres, as they recognise the footfall we deliver and our ability to create more reasons for customers to visit and stay longer.




### Utilising technology

The retail industry has been embracing new technology like never before, as retailers increasingly see tech as a catalyst for creating new business opportunities, rather than a threat. Retailers are finding ingenious ways to shape their technological infrastructures, define their online presence and drive engagement with customers.

At intu, we adapted and changed our business model in 2013 to offer a seamless multichannel proposition. This year we began working with seven tech start-ups as part of intu Accelerate, our incubator programme, which has been trialling a range of new ideas in our shopping centres, from robotic customer services assistants to an online personal shopper service.

And while few new shopping centres are being built in the UK, we aim to be on site at intu Costa del Sol in Spain next year to build a groundbreaking shopping resort that takes everything we have been putting into practice over the last few years in the UK to a whole new level.

 [Read more about our innovation on page 23](#)

Our energies are also concentrated on ensuring all our centres evolve with consumer and retailer needs, so that they deliver sustainable growth. Keeping our centres at the forefront of people's minds requires continual focus on bringing in new attractions, be it a key retailer or restaurant or a compelling leisure attraction. In addition to delivering our target return hurdles, our projects innovate what we offer our customers and keep us at the leading edge of the shopping centre industry.

Nowhere will this be more obvious than at our ground-up scheme in Spain, intu Costa del Sol, where we have the opportunity to create a world-class centre, delivering our signature shopping resort product and showcasing our expertise.

Operational excellence is a clear differentiator in both the UK and Spain. Our knowledge and insight are important, as is our culture and living our values – bold, creative and genuine – which underpin everything that we do. Our culture is embodied by our brand which has become recognised throughout the shopping centre industry, with intu a byword for fantastic customer service, motivated and enthusiastic staff, expert mall operations and good corporate citizenship.

Our skill in this area is recognised by the partners we have brought into the business in the last few years, including CPPIB, LaSalle Investment Management and TH Real Estate. The ability to partner on assets allows us to astutely recycle and allocate capital to deliver superior returns. With over £800 million of cash and committed facilities, our financial position is very sound.



### Our culture

In one way, we are a simple business, with a focus on creating the best shopping centre experience. 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.

This is an important part of the intu difference and a cause of our success. We encourage all our employees to look at things differently and creatively, to consider carefully and then act boldly and genuinely.

Total financial return

**+5.2%**

UK near-term development pipeline

**£562m**

# Our 2018 strategy

Our results highlight the underlying strength of the intu business based on the strategic objectives we have pursued over the last few years. For 2018, we are enhancing our strategy to build on this strong base

Over the last three years, we have focused on four strategic objectives and consistently delivered against these with 2017 being another strong year of results. These objectives have seen us optimising our assets and growing like-for-like net rental income, delivering award-winning developments, building a business in Spain and maximising our operations through our brand.

In Spain, we now own three top-10 centres and are on target to begin the construction of intu Costa del Sol. Our challenge is no longer to build a business in Spain – we are now an established national player. Our brand is five years old and is a recognised market leader with a distinctive approach and clear purpose.

Knowing this, and with an eye on the potential challenges facing us in a changing market, we are tilting the emphasis of our objectives to increase our focus on the growth and continuing excellence of our flagship destinations in the UK and Spain. We set out our objectives in more detail below.

## 1 Growing like-for-like net rental income



Like-for-like net rental income growth is our key income measure. Given our relatively low cost base and fixed finance costs, growing our net rental income drives earnings and ultimately dividend and total property return.

### Priorities in 2018

- grow like-for-like net rental income, currently expected to be in the range of 1.5 to 2.5 per cent
- deliver new lettings ahead of previous rent and increasing rents through the rent review cycle
- reduce vacancy rate year-on-year

## 2 Optimising our flagship destinations



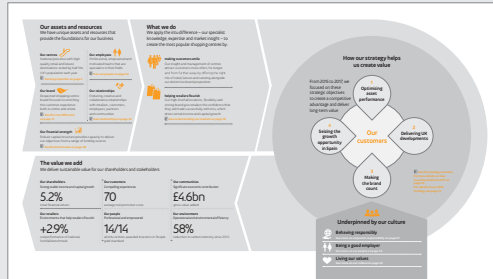
By delivering a compelling mix of retail, catering and leisure, each of our flagship destinations generally draws footfall of 20 million or more and the average customer stays for over two hours. We use our insight, expertise and innovation to ensure that they are the destinations of choice for our customers.

### Priorities in 2018

- ensure the leisure extension at intu Lakeside remains on target
- complete the aquarium and Nickelodeon leisure attractions at Madrid Xanadú
- commence the redevelopment and repositioning of Barton Square, further improving the tenant mix at intu Trafford Centre
- complete the final planning consents at intu Costa del Sol

## Our strategic focus going forward

Our overall business model remains unchanged. Our assets and resources and what we do remain the same but the strategy that delivers sustainable value for our shareholders and stakeholders has been adjusted to better represent today's opportunities and challenges.



See our business model on page 30



### 3 Delivering operational excellence



Making customers smile and helping retailers flourish is what we do, and operational excellence is how we measure our success. From a customer's point of view, this is measured by our brand metrics, including net promoter score and brand recognition. For our retailers, it relates to how many customers we attract and how long they stay in our centres. For our wider communities, it is about being a good corporate citizen.

#### Priorities in 2018

- ensure we continue to outperform footfall benchmark
- enhance brand recognition and consistency of net promoter score
- build on digital platform and continue to grow sales through the website
- communicate, and start working towards, our 2030 corporate responsibility strategy

### 4 Making smart use of capital



As the leading owner, developer and manager of shopping centres in the UK and Spain, we and our assets are well respected throughout the industry. This means we can access capital and attract partners to increase focus and achieve superior returns at our flagship locations.

#### Priorities in 2018

- ensure facilities available for the development pipeline – maintaining loan to value in the 40 to 50 per cent range
- continue the recycling of capital to deliver higher returns from developments
- deliver financing for the intu Costa del Sol development

# 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 extensions at intu Watford and intu Lakeside and approaching the required level of tenant demand to start several other major projects

## Near term



Over the next three years we will focus on projects with proven tenant demand. With significant levels of pre-letting, we are on site at intu Watford and intu Lakeside and expect to start several other near-term projects shortly.

### intu Watford

This leisure-led extension is on site and on track for opening in October 2018. The transformation will be anchored by a nine-screen Cineworld IMAX cinema, 10 restaurants and a Debenhams department store and includes a refurbishment of the existing malls. Pre-lets stand at around two-thirds, by space, with new lettings including Hollywood Bowl and Superdry.

### intu Lakeside

The extension, anchored by a Nickelodeon theme park, will bring additional leisure and catering brands to intu Lakeside, increasing the catchment and dwell times of the centre. Hollywood Bowl, Flip Out and Puttshack complete the leisure attractions, which along with 11 new restaurants will further enhance this family-oriented extension.

## Overview

	Cost to completion (£m)			
	Total	2018	2019	2020
intu Watford	80	77	3	-
intu Lakeside	57	52	5	-
intu Trafford Centre	72	25	47	-
Active asset management	55	50	5	-
<b>Total committed</b>	<b>264</b>	<b>204</b>	<b>60</b>	<b>-</b>
intu Broadmarsh, Nottingham	81	11	40	30
intu Merry Hill (leisure)	70	-	-	70
intu Milton Keynes (phase 1)	15	-	-	15
Active asset management	132	45	45	42
<b>Total pipeline</b>	<b>298</b>	<b>56</b>	<b>85</b>	<b>157</b>
<b>Total UK</b>	<b>562</b>	<b>260</b>	<b>145</b>	<b>157</b>
<b>Spain</b>	<b>397</b>	<b>23</b>	<b>157</b>	<b>217</b>
<b>Total</b>	<b>959</b>	<b>283</b>	<b>302</b>	<b>374</b>



**intu Trafford Centre (Barton Square)**

The expansion and transformation of Barton Square at intu Trafford Centre will be anchored by Primark and provide a fashion offer for the first time at Barton Square. Enclosing the courtyard will enable trading from two levels and add an additional 110,000 sq ft of retail space.



**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. The Light cinema and Hollywood Bowl will anchor the leisure element of the redevelopment.



**intu Costa del Sol**

With final planning consents expected shortly and strong demand from retailers, we expect to be on site with this shopping resort development in the next 12 months. intu Costa del Sol will have a high proportion of leisure and will be a must-visit destination for both residents and tourists from the whole of the region.

**Active asset management**

Our active asset management capital expenditure projects offer attractive returns, with stabilised initial yield on costs of 6 to 10 per cent. These projects vary in scale but all focus on improving the customer experience, whether it is retail, catering or leisure. Committed examples include the new Next flagship stores at intu Metrocentre and intu Merry Hill, as well as a new restaurant quarter at Manchester Arndale. In the pipeline we have plans at intu Merry Hill to increase the catering and leisure, embedding its position as one of the UK's best shopping centres.



intu Merry Hill

**Potential beyond 2020**

Beyond 2020, we continue to work on securing the required planning approvals and tenant demand to start £2.5 billion of projects in the UK and Spain which we would expect to deliver stabilised initial yields of around 7 per cent. We have the required planning for extensions to intu Lakeside, intu Victoria Centre, intu Braehead and intu Milton Keynes and are at earlier stages of the approval process for the extension at Cribbs Causeway. These plans aim to enhance local prosperity through job creation in both the construction and operating phase.



intu Milton Keynes

# Investment case

We use our experience, expertise and unique insight to implement our strategy and deliver shareholder returns

## Experience and expertise



- owner, developer and manager of some of the best shopping centres in the UK and Spain
- a much-admired and respected 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 30](#)

## Unique insight




- pureplay-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 18](#)

## Strategy



- combining our expertise and insight
- creating compelling experiences for our customers
- helping our retailers flourish
- operating a responsible and sustainable business, that contributes to our communities

 [See our 2018 strategy on pages 10 and 11 and our 2017 strategy overview on pages 34 and 35](#)

## Shareholder returns



- long-term total property returns from our high-quality centres, an attractive asset class
- strong, stable income streams from long-term lease structures
- development potential and capital appreciation



# How we make the difference...

Understanding our markets page 18

Building on our success at intu Lakeside page 26

Making customers smile page 20

Helping our retailers flourish page 22



# Making the difference

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

“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. We know that happy customers mean happy retailers.”

David Fischel, Chief Executive

## intu in numbers

400m   
customer visits in 2017

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

3   
of Spain's top-10 centres


1m   
social media followers

73   
RepTrack reputation score

70   
consistently high net promoter score

26%   
spontaneous brand  
awareness

£4.6bn   
total economic contribution  
in 2017

58%   
reduction in carbon emission  
intensity since 2010

100%   
waste diverted from landfill

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, stay longer and return more often. We then combine our expertise with our brand to attract the best retailers, the most sought-after brands and exciting immersive experiences to do just that.





We have 20 million sq ft of retail, leisure and catering space in the UK





## A culture of innovation



We are on course to being Spain's top operator of super-regional shopping centres



-  intu centres
-  development sites

Driven by our values of **bold, creative** and **genuine** we encourage effective experimentation both by individuals and through group initiatives such as intu Accelerate and Green Lab.

Employee innovation is captured through our Ideas Funnel and success is recognised and rewarded through Win Your Dream.



# Understanding our markets

As a leading shopping centre operator in the UK, we understand the trends that affect our industry and the impact they will have on customers and retailers

## Anticipating customers' changing needs

Our customers want to be able to shop when they like through different channels. However, the store is king, and the place shoppers spend the vast majority of their money. They like the ability to see, touch and try on the full range from all key retailers in one location, or as part of a day out, to confirm online research and pick up products bought online.

## Economic uncertainty

For customers there is pressure on disposable income from inflation outpacing wage growth, for retailers there are challenges from inflation on the cost base and dealing with the structural shift to online. Brexit brings further uncertainty and retailers need to ensure they get their required returns from new stores.

## Innovation

In the same way that retailers innovate for today's market, innovation in shopping centres delivers better ways of doing things, reducing costs and building a more sustainable business. Examples of how intu is meeting the innovation challenge can be found throughout this document.

## The power of data

The ability to gather and understand data, then act quickly on the conclusions drawn, is critical in today's world where disruptors look for gaps in the market. Owning our digital infrastructure, and hence owning the data, means we can maximise the power of our data to the benefit of our customers and retailers.

## Good corporate citizen

Behaving responsibly and thinking long term about the environment and local communities around our centres are important in our future planning.



## Retail trends

### Market overview

Retail is a dynamic industry, and retailers the world over are used to dealing with an ever-changing environment. Right now they are facing economic and structural challenges which are speeding up the rate of change of their online and in-store strategies.

The store, and its value, is still integral to these strategies. Retailers are continuing to invest in flagship stores in locations that offer a compelling mix of retail, catering, leisure and experience and deliver high footfall. That is why we continue to be a key landlord for our retailers.

### New retail anchors

The retailers that attract customers to a centre are changing. Super retailers, such as Primark and Next, are increasing their store size, while the likes of Inditex and H&M are taking additional stores for their portfolios of brands. Customers are drawn to these retailers because they offer their full ranges in our flagship destinations.





### Informed by data

We have many touchpoints with our customers. Our experience and expertise allow us to critically analyse and interpret what they tell us so we can deliver days out that make them smile.

Our data covers the whole customer journey, from customers' website and digital behaviour before they go to our centres, through to what they thought of their experience while they were there.








Our comprehensive data consolidation project is bringing this information together to enhance our understanding of our customers. We take a responsible approach to our data and are using the opportunity afforded by this project to ensure all our data meets General Data Protection Regulations requirements.

We are piloting new ways to employ both our own data and that of third parties more effectively. For example, we are testing the use of anonymised information of wifi usage through our digital infrastructure, in order to understand customer flow patterns during busy times, so we can deploy teams more swiftly.

By segmenting our customer data according to demographics, shopping habits and location we can tailor the mix of retail, leisure and great offers, and ensure our facilities meet their expectations, so everyone has a compelling experience every time they come.



#### Annual sources of data include:

-  **26m**  
website visits
-  **873,000**  
social media interactions
-  **20,000**  
Tell intu feedback questionnaires
-  **9m**  
in centre wifi connections
-  **2.7m**  
email subscribers
-  **720,000**  
gift cards
-  **2,000**  
customer Shopper View panel

### International

Despite the challenging headwinds facing retailers, the UK is still an attractive market for international retailers who focus their expansion plans on high footfall, experience-based locations. Demand is truly global, with Victoria's Secret from the US, Australian accessories brand Lovisa and Polish cosmetics store Inglot all expanding.



### Brands

As direct access to new customers becomes harder, brands are considering different routes, with shopping centres an attractive option as they offer high levels of footfall and long dwell times. Global brands such as Nespresso, Mercedes and Tesla are following this route and we are having conversations with fast-moving consumer goods companies.



### Leisure

From trampolining and minigolf to skiing and aquariums, brands such as Puttshack, Flip Out and Gravity are increasingly taking space in our flagship centres, to reach the leisure-hungry customer. Leisure and experience play a key role in what people decide to do with their free time and they want to enjoy such attractions at a place convenient to them.



# Making customers smile

Bringing joy to our customers and making them smile helps retailers flourish and creates new business opportunities for us, driving returns for our shareholders



## The customer at the heart of everything we do

Creating the intu brand in 2013 was a bold move, putting the customer at the heart of everything we do for all our staff. Our commitment to this strategy over the last five years has paid off with the success of the brand evident throughout the business. Our reputation, awareness and consideration scores are now the highest in the industry.

The brand works equally well in Spain. Since we launched the brand at intu Asturias there has been a 135 per cent rise in net promoter score (NPS). We will be rebranding both Puerto Venecia and Madrid Xanadú in 2018 to repeat that success.

## Using experiences to drive brand choice

Research helps us understand what makes our customers smile, and we use what we discover to create unique experiences to do just that. Three big campaigns in 2017, described below, delighted millions of customers while generating international PR that built brand awareness both in the UK and around the world. This publicity helps us become the top choice when customers think about where they want to spend their shopping and leisure time.

Discovering money turns out to be one of the most joyful surprises. Cue our spring release of hundreds of origami birds worth £10 each around our centres.



Our customers love ice cream – so during the school summer holidays, we created and unveiled the world's smallest ice cream van, giving out free ice cream to shoppers, to their great delight.



Using science we researched what made the happiest Christmas song – and then had one written which was performed at our centres to help get our customers into the Christmas mood.

## Brand awareness



71%  
prompted

26%  
spontaneous

37%  
consideration



## Events with a difference

Events with a difference are a key element of our brand promise – they provide compelling experiences for customers and attract people from further who stay longer.

As well as collaborating with some of the biggest names in entertainment, from Sony Pictures to Playmobil and Nickelodeon, we run a biennial touring exhibition.

We kicked off in 2014 hosting the world-renowned Elephant Parade for its first ever national touring event. In 2016 it was the Big Birdhouse Tour with the RSPB and the 2018 tour will embrace biodiversity.

Our strategy is not just about big set pieces – every centre has an events programme designed around its retailers and audiences to celebrate local, national and international events.



**Events with a Spanish twist:**  
Dancers at Puerto Venecia's summer 'Baila'

# innovation

## Joy jar goes digital

We have loved lighting up children's faces with an unexpected treat from our joy jar. So now we are taking our random acts of kindness concept online, with the digital joy jar pilot at intu Lakeside. Aimed at the grown-ups this time, we use social media monitoring tool Local Measure in a geofenced area to spot people who are sharing their celebrations online. If they opted in, we can reply to their message with a positive response, offering them an intu treat.

The pilot has created such surprise and delight that we are rolling the scheme out across all our centres in 2018.

## Nickelodeon All Stars

One of our star turns in 2017 was the Easter campaign with the Nickelodeon All Stars. The intu tour by the PAW Patrol crew gave us a national profile through the Nickelodeon channel and brought fantastic activities for 25,000 children – making intu the first choice for families during the school holiday period.



# Helping retailers flourish

## Unique model helps retailers flourish

Our leasing-experiential-digital (LED) model ensures that retailers working in partnership with intu can reach their true potential across all intu channels.

**Leasing** – an integral part of successful retailing remains the store. In taking space with us retailers know that they are in safe hands – our centres are continuously improving and developing, always destinations where customers want to be.

**Experiential** – our tailor-made promotional services model is designed to help retailers and brands reach their true potential. In centre, this can include pop-up space on the mall, promotional events and digital media advertising, all with the aim of delivering improved recognition and ultimately increased sales.

**Digital** – with a transactional website that has an annual digital audience of 26 million, we can help retailers meet their multichannel aspirations. From volume sales through our online shop and dedicated emails to our engaged ‘shopper’ community, along with brand awareness through strong editorial content across our online and social media, we actively support our retailers’ growth.

Not only have we redefined the customer experience, we are redefining the tenant experience too. Through our LED model, we offer a multichannel approach that truly supports their retail strategies.



### Jo Malone

The perfumier tried a pop-up store at intu Lakeside in the run-up to Christmas 2017. With gold package LED support, they enjoyed such good results they have signed a 10-year lease.



### Three

The mobile operator’s sponsorship of our student nights gave them access to 120,000 students across 11 intu centres – and a 149 per cent rise in SIM-only sales.



### Gourmet Burger Kitchen

Working with Gourmet Burger Kitchen we developed a multichannel campaign to increase awareness and drive sales. The campaign reached 350,000 people and received 17,000 clickthroughs, driving over 5,000 customers into their restaurants.



## Digital success

Back in 2013 we introduced our new affiliate website, intu.co.uk, enabling retailers to promote their products to our digital audience. It is now one of the country's leading affiliate websites, used by over 500 retailers and generating £9 million in sales from 5.7 million visits. Its latest functionality uses AI-powered visual search to enable shoppers to pick an item and then instantly be shown similar products from across all our retailers.



Shop Insider, our digital magazine, creates content around topical shopping behaviours and rising social trends, that helps the reader eat, shop and save. In 2017 Shop Insider had 1.4 million readers and our inhouse editorial team were commissioned to produce content on behalf of 37 retailers and brands, including John Lewis, MAC, Debenhams and Marks & Spencer. Retailers can also get access to our one million social media followers through bespoke paid-for social content.

Just as retailers are choosing our shopping centres to promote their brands, they are now realising the benefits of using digital content to build their brands. And it has given us an edge with pureplays too – digital brands such as Boohoo and ASOS are some of intu.co.uk's most prolific clients.

1.8m

Shop insider page views



£9m

retailer sales



5m

clicks to retailers' websites



## New collaborations

As we build our presence in Spain, we and our tenants are benefiting from opportunities across both the UK and Spain. We have seen enhanced collaboration for UK-based retailers in our Spanish centres with the likes of Five Guys and Quiz taking some of their first spaces in Spain at intu centres and many discussions starting for intu Costa del Sol. For Spanish companies looking to grow in the UK, we have enhanced our relationships. Grupo Parques Reunidos, the Spanish entertainment operator, is launching its first venture in the UK, with a Nickelodeon theme park at intu Lakeside. It is also constructing one at Madrid Xanadú.

## innovation



## Improving our business every day

At intu, if we can find a way of doing things better we will, and when it comes to supporting our tenants, we harness our thirst for innovation to drive cost efficiencies and make their lives easier. Insurance charges have been trimmed by up to 20 per cent, thanks to our proactive approach to reducing risk. We continue to cut waste costs while assuring our tenants that their waste is being treated to the highest environmental standards. Our energy procurement strategy buys ahead, providing greater cost certainty to our tenants.

This is business as usual at intu, as is our constant search for new ways to run our business, supporting exciting start-up businesses that offer significant technological and process innovation in property and retail. Our work with Invida to design and implement an entirely new cloud-based software platform to support lifecycle management will revolutionise the facilities management industry. We are also supporting start-up enModus, whose groundbreaking communications technology, Wattwave, can transform any industrial, commercial or retail property into a smart building, simply by connecting all devices to the cloud via the existing power line.

### intu Accelerate

Through intu Accelerate we worked with some of the smartest minds to answer some of the questions facing the retail and leisure industry today. We chose seven start-ups who ran live trials across our business to test and demonstrate the potential of their ideas to shape the future of retail. Four of the best were:

**botsandus** – intelligent and friendly robot assistants (right) to guide customers around and help retailers promote their stores

**GolnStore** – live videos to promote retailers' products to online customers

**Infraspeak** – efficient building management using predictive sensors, user-friendly apps and powerful software

**WoraPay** – a multiretailer app allowing customers to order ahead to beat the queues



# Our flagship destinations

As retail evolves, the demand for space in flagship destinations increases. These locations offer a compelling mix of retail, catering and leisure for customers and deliver consistently high footfall for retailers

## What are our flagship destinations?

Our flagship destinations are the shopping centres where retailers aspire to be, both now and in the future. They offer them consistently high footfall combined with a long dwell time and we know the longer people stay, the more they spend. This is why they have their biggest and best stores in these locations and have the confidence to invest in these stores for the long term.

For the shopper, they offer a mix of retail, catering and leisure – a day-out destination where they can shop, eat and be entertained. Customers are willing to spend time travelling to these destinations and once there they know they will have easy access to all the best stores offering the retailers' full ranges plus a wide variety of leisure to keep everyone happy for the day.

Their locations out-of-town, with at least 10,000 free car parking spaces, provide an appealing variety of leisure – whether it is an aquarium, an indoor ski slope, zip wires, trampoline parks or theme parks such as Legoland Discovery Centre or Nickelodeon, or the already successful cinemas and bowling – there is something for everyone.

And it is a constant evolution. We have a masterplan for every centre and the expertise and insight to ensure these flagship centres remain at the forefront of both retailers' and customers' minds for years to come. Trends change and new disruptors emerge, but we are always working to improve our offering so we remain at the cutting edge of shopping and leisure.



## Leading the way with leisure The first...



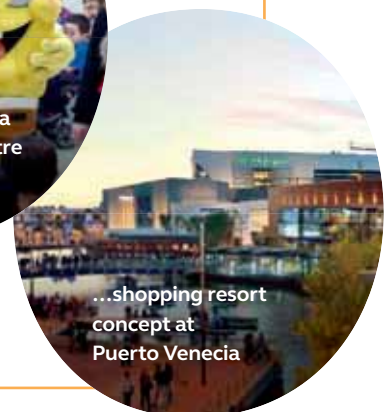
...aquarium in a UK shopping centre at intu Trafford Centre



...indoor ski slope in a Spanish mall at Madrid Xanadú



...Nickelodeon in a UK shopping centre at intu Lakeside



...shopping resort concept at Puerto Venecia



### Spanish shopping resorts

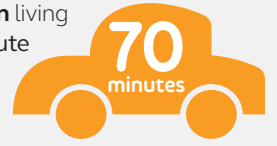
In Spain, our flagship destinations are shopping resorts. As we compete for people's free time, we want to provide something for every member of the family, offering variety and surprise. Puerto Venecia was the first in its class and epitomises the shopping resort concept. Madrid Xanadú will join the club with the opening of the aquarium and Nickelodeon theme park and our development of intu Costa del Sol will take the design to the next level.



### The numbers

Our UK flagship destinations:

have nearly **half the UK's population** living within a **70-minute** drive time



transact around **2 per cent** of the UK's **in-store non-food sales**

have footfall of over **20 million each**, with an average dwell time of **over two hours**



and loyal customers who visit on average **30 times** a year



### innovation

#### intu Costa del Sol

In 2018, we expect to have the final planning consents and required pre-lets to start the development of intu Costa del Sol, near Málaga. Even now, pre-construction, it is being talked about as a world-class centre.

The site is ideally located to draw residents and holidaymakers from the whole Costa del Sol region. The design ticks all the boxes of a flagship destination, and more. This shopping resort will deliver our signature product and showcase our expertise, taking the best of our existing centres plus adding the extra qualities that will define leading centres over the coming years.

# The sky's the limit

There is always something new to see at intu Lakeside from the latest retailers to the best leisure attractions around thanks to a masterplan that, combined with our expertise, keeps the centre at the cutting edge of customers' expectations

intu Lakeside was state of the art when we built it in 1990, one of the first out-of-town shopping centres in the UK, and it remains one of the top retail destinations in the country with 20 million visits a year and over 250 shops and restaurants, delivering retail sales of over £0.5 billion a year and dwell time which has risen to nearly 2.5 hours.

It's no wonder it stays so popular – as a company we take a long-term approach, always looking 10, 20 years into the future to make sure our centres remain ahead of our customers' and tenants' expectations. Over the years we have made astute land acquisition decisions that now give us many options for expanding the range of attractions to drive dwell time and frequency.

Above all, our talented people know how to make the shopping experience special. We have a knowledgeable local team, supported by experienced national experts, who use their understanding of the shopping centre environment in general, and our customers in particular, to create an iconic destination, lauded by celebrities and locals alike – thousands of social media mentions each month show just how much intu Lakeside means to its shoppers.

What keeps pulling them in is the great retail mix, with the top brands fighting for space to do business with some of the country's most loyal shoppers.

We keep intu Lakeside at the top of its game – great quality design, attention to detail and a constant eye on where we can improve the customer's experience means a relentless roll-call of new

projects that bring in more retailers, customers and rental income. We created the Boardwalk in 2007 to allow lakeside eating, which opened fully let. Recently we enhanced it by creating a year-round external dining environment. In 2014 we redeveloped the food court to create a dynamic dining experience that appealed to aspirational brands and customers.

Our most recent completed project is the hotel which opened in 2017. Sited overlooking the lake, the Thurrock Lakeside Travelodge is one of the best performing hotels in the Travelodge portfolio.

Our £72 million leisure extension, now on site, will make intu Lakeside one of the biggest leisure attractions in the southeast, with the first Nickelodeon theme park in a shopping centre in the UK and a host of other leisure names including Hollywood Bowl, Flip Out trampolining, Puttshack minigolf and leading food brands already signed up. We expect the 175,000 sq ft extension to open fully let in spring 2019.

Our 100 per cent ownership means we have lots of options to continue to drive value to the southeast's pre-eminent retail and leisure destination. We already have planning permission for 400,000 sq ft of retail space and are looking at developing our leisure offer further to attract the younger demographic that is moving into the Thames Gateway area – Europe's largest regeneration project which will bring many more jobs and homes to the area over the next few years. Zipwires and hot air balloons are in the planning stages. Up, up and away intu Lakeside!



## intu Lakeside highlights

Annual sales

£568m

Total sq ft of retail, leisure and catering space

1.4m

Annual footfall

20m

Economic contribution

£379m

# Building on our success



**intu Lakeside never stands still. Like all our flagship destinations, we find many new ways to refresh and reinvigorate customers' shopping experience**



**1990:** opening of first out-of-town shopping centre in the southeast

**Mid-90s:** intu Lakeside fully reaches its extensive catchment and becomes an iconic destination



**2007:** development of Boardwalk opens up the lake to diners

**2014:** new food court creates aspirational new dining experience



**2017:** Travelodge hotel opens on the shore of the lake

## But we are not finished there...

**As the importance of leisure to our customers grows we are bringing lots of top new attractions**



**2019:** the new leisure extension heralds the arrival of the Nickelodeon theme park, Puttshack minigolf, Flip Out trampolining and great restaurants

**Blue sky thinking:** new leisure ideas will keep future generations enthralled



## A 21st-century tenant mix

The evolving tenant mix at intu Lakeside tells the story of the changing face of shopping centres. Over the last five years we have seen a 10 per cent increase in the number of leisure and catering outlets as a proportion of stores, as we meet customers' growing expectations for experiences. We can see the benefits of satisfying this demand through increase in dwell times by eight per cent (and we know that the longer customers stay the more they spend). The space devoted to leisure and catering will double when the leisure extension opens in 2019.



## GoInStore goes live

GoInStore, one of our intu Accelerate start-ups, predicts live video is going to be the next big thing in omnichannel retail. We offered them intu Lakeside's charming and knowledgeable personal stylist Carlene Noel to create content for a pilot series of real-time videos that would showcase the centre's retailers and attract customers via our Shop Insider channel. Over five days she worked with many of our stores at intu Lakeside such as Toni & Guy, Debenhams and MAC, to introduce customers to new ranges and brands. The results were impressive – 30 per cent of viewers started shopping through our website, 12.5 per cent booked a stylist and the average viewing time was nearly six times the usual dwell on our site. "Live video proved to be a great way to enhance the shopping experience," says Carlene.

# Making merry

We are putting our stamp on intu Merry Hill – creating a thriving shopping and leisure destination and working with local people to put the centre at the heart of the local community



We have owned our newest flagship destination, intu Merry Hill, for just three years. In that time we have refreshed the mall, attracted new brands, enabled £15 million of retailer investment and upgraded Next to the 75,000 sq ft site recently vacated by Sainsbury's.

Over the next few years we are going to spend £100 million enhancing the shopping centre's leisure and retail mix. This investment will contribute even more to the £369 million gross value we currently add to the local community, through employment, business rates, capital investment and charitable donations.

As a business we believe in doing what we can to improve local social issues, and we prioritise good community engagement because it benefits local people, staff and ultimately is good for our shopping centre by bringing in new customers. Over the last year we have:

- employed a community manager to strengthen local relationships
- launched the Re-Beat Campaign to raise over £8,500 to place 10 accessible defibrillators in Dudley and train over 1,000 people within the community in their use
- taken part in intu's national campaign to make our centres autism-friendly and provided assisted shopping guides
- worked with local charity the Beacon Centre to train over 60 intu staff in blind awareness and offered assisted shopping sessions to make intu Merry Hill accessible to more people
- helped local young people develop the skills they need to find work, run a Jobs Fair with Dudley South MP Mike Wood, taken part in Retail Matters Week and supported Young Enterprise
- raised £8,000 through all our Christmas activity for local cancer charity, the White House, and volunteered 60 hours of staff time
- employed local charity, Go Green, to sort cans collected through the Every Can Counts recycling campaign



intu Merry Hill highlights



18m  
annual footfall



£484m  
annual turnover



33%  
rise in zone A rents  
since 2014



8,248  
local people employed



£105k  
community  
contributions



1,987  
donated hours



£22m  
business rates paid by  
intu and our tenants



£369m  
value to local economy



The intu Merry Hill Green Gym® is the fifth in the portfolio but the first to be sited on intu land, on the UNESCO-endorsed Saltwells nature reserve. It aims to encourage people to improve both their health and the environment, and has attracted 70 volunteers since it began in 2016.



70  
volunteers

innovation



One Planet Living

Last year we created the Green Lab to incubate and roll out sustainable initiatives across the business. We have worked with Bioregional to explore ways of applying their One Planet Living framework within the redevelopment of intu Broadmarsh. These include introducing nature into the design, offering healthy food and sustainable travel options during construction and redesigning unused external space to increase the health and wellbeing potential at the development.



Welcoming the community in Spain

Our Spanish centres each have a permanent space dedicated solely for the use of local charities, the 'Espacio Solidario'. In 2017 our Spanish centres collaborated with 52 charitable projects covering everything from environmental issues to cancer information. The Caritas charity used the Puerto Venecia space over the year to collect clothes for recycling, collecting 40 tonnes of clothes and raising €77,466.

The total value of our charitable support in Spain, from all sources, came to €310,000 for the year.

# Our business model

Our business model is focused on creating shopping centres that are loved by customers and where retailers flourish. This 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 presence with high quality retail and leisure destinations visited by half the UK's population each year

 [See top properties on page 4](#)

### Our employees

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

 [See our people on page 54](#)

### Our brand

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

 [See the intu difference on page 15](#)

### Our relationships

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

 [See relationships on page 32](#)

### Our financial strength

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

 [See financial review on page 48](#)

## What we do

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



### making customers smile

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

 [See helping retailers flourish on page 22](#)

## The value we add

We deliver sustainable value for our shareholders and stakeholders

### Our shareholders

Strong stable income and capital growth

**5.2%**

total financial return

### Our retailers

Environments that help retailers flourish

**+2.9%**

outperformance of national footfall benchmark

### Our customers

Compelling experiences

**70**

average net promoter score

### Our people

Professional and empowered

**14/14**

all intu centres awarded Investors in People gold standard

### Our communities

Significant economic contribution

**£4.6bn**

gross value added

### Our environment

Operational and environmental efficiency

**58%**

reduction in carbon intensity since 2010



### How our strategy helps us create value

From 2015 to 2017, we focused on these strategic objectives to create a competitive advantage and deliver long-term value


**1**  
Optimising asset performance

**2**  
Delivering UK developments

**Our customers**

**4**  
Seizing the growth opportunity in Spain

**3**  
Making the brand count

 For more details on how we achieved this in 2017 see the strategy overview on page 34. For details of our 2018 strategy see page 10



### Underpinned by our culture



**Behaving responsibly**

See more on corporate responsibility on page 57



**Being a good employer**

See more on our people on page 54



**Living our values**

See more on our culture on page 54

# Relationships

People are what make us tick. Our relationships and reputation with our stakeholders are important to the overall sustainable success of our business



We maintain close relationships with our stakeholders, checking in with them regularly to find out what we are doing well, what we can do better, and where their needs have changed. Every two years our materiality process takes a formal sounding of the issues around our business that are most relevant to them.

In 2017 we introduced a reputation management framework into the business to enable us to measure how we are perceived by our stakeholders robustly and to ensure that our strategy reflects their needs and perceptions.

We have a large number of stakeholders but we initially focused on five primary groups: customers, tenants, employees, local and national government and investors. Working with Reputation Institute we identified areas of most concern or interest to each of these five groups and then used existing data sets to see how intu was perceived.

Combined with the 2017 RepTrak UK survey this resulted in a reputation score across a number of core competencies. We also benchmarked ourselves against not only our property peers but also relevant leisure and retail brands in the FTSE 100 and 250.

As a result of this initial work, in 2018 we are undertaking bespoke qualitative research with our tenants and will be

introducing a net promoter score system similar to Tell intu, to measure key points along the relationship chain with tenants, such as leases or shopfitting.

## Working with our stakeholders Customers

Our customers are at the heart of everything we do, so we listen to them carefully to keep our centres continually evolving and meeting their requirements. Our net promoter score, which we assess from Tell intu and is consistently high at 70, shows where we are succeeding and where we could make improvements.

This year we continued our research into the customer journey which aims to enhance customer experience in our centres. Our brand tracker measures awareness, advocacy and consideration of our brand by customers – spontaneous awareness was 26 per cent at the end of 2017. We heard from 20,000 shoppers through our Tell intu customer feedback programme and our Shopper View research panel of 2,000 customers participated in 22 projects.

## Retailers

Good relationships with our retailers are essential to understanding their retail requirements and helping them flourish.

We build our relationships through open communication across the business. As well as day-to-day contact we hold

regular client reviews with customer relationship managers.

We attend a wide range of industry conferences and we host regular Merchants Association meetings with tenants during the year to discuss local plans and issues.

## Investors

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

This year we conducted 390 meetings with investment institutions, including away days to see our centres in action in the UK and Spain. We hosted regular investor visits to our centres to show how we are meeting our objectives and attended investor conferences in the UK and internationally. We took analysts and investors to Madrid Xanadú, to show them the quality of our Spanish portfolio and to reveal our latest plans for intu Costa del Sol.

We also engaged in environmental, social and governance indices which show high performance year-on-year.



### Suppliers

We rely on our suppliers to help our business run smoothly, from day-to-day operations through to the construction of major developments. We have open, transparent and long-term relationships with suppliers to ensure they maintain the same high standards we set ourselves. For example, our relationship with Trinity Fire & Security goes back five years. Not only does it give us peace of mind that our crucial fire alarm systems function correctly, but knowing our centres so well enables them to proactively initiate ideas that keep us innovative.

### Local and national government

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

Each year we host an annual parliamentary dinner for MPs in whose constituencies our centres lie, to discuss issues of local importance.

We are working closely with the Minister of State for Disabled People, Health and Work to champion accessibility in retail and our CR Manager is co-chairing a retail accessibility forum with the Minister.

Centre managers are empowered to engage with their local MPs and councillors and to actively participate in local Business Improvement Districts and town centre partnerships. For example, intu Chapelfield's general manager is the vice-president of the Chamber of Commerce, putting us at the heart of local business and community activity. We also work with local authorities to progress our development pipeline.

### Our people

Our employees are the experts behind 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. Our commitment to employee engagement is the key to our motivated workforce and was central to achieving Investors in People gold award for all 14 of our centres.

This year we engaged with our employees using many channels such as our intranet, staff presentations, briefings and employee consultation forums. Our Win Your Dream reward and recognition programme entered its third year.

### Local communities

intu centres are at the heart of the communities where they are located. Good community engagement benefits our customers and local people, and ultimately is good for our business.

This year intu staff volunteered 28,000 hours to help local community groups. We held over 1,300 community activities in our centres. We engaged with nearly 900 charities and reached over 3,600 people through our various community employment and other schemes. In total, we donated £1.9 million in community support through time, space and money.



### The value of long-term relationships

Good long-term relationships are essential to our development programme, ensuring projects run smoothly with planners, suppliers and residents. Over the last 10 years we have worked closely with Watford Borough Council to bring the intu Watford extension to fruition and create a scheme that enhances Watford town centre and will benefit residents for years to come. We have worked with our construction partner Laing O'Rourke previously, and they are well-versed in what we expect of them in their role as an intu supplier.

# Strategy overview

Our four strategic objectives were the means by which we put our business model into action effectively in 2017

## 1 Optimising asset performance



### We achieved 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 2017

- delivered growth in like-for-like net rental income
- improved rental levels on new leases and rent reviews
- upsized key retailers such as Next, Primark and River Island as well as introducing exciting new names to our centres, including Paul Smith and Inglot

### KPIs we use to measure our success

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

### Key stakeholders we engage

Customers, retailers, suppliers

### Link to our 2018 objectives

- growing like-for-like net rental income
- delivering operational excellence
- optimising our flagship destinations

## 2 Delivering UK developments



### We achieved this by

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

### Progress in 2017

- on target and on budget with the major extension at intu Watford
- commenced the Nickelodeon-anchored leisure extension at intu Lakeside
- signed Primark to anchor the transformational redevelopment of Barton Square at intu Trafford Centre
- achieved planning approval for the retail and leisure extension at intu Milton Keynes

### KPIs we use to measure our success

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

### Key stakeholders we engage

Customers, investors, suppliers, local and national government

### Link to our 2018 objectives

- optimising our flagship destinations
- making smart use of capital

### Managing risk

- property market
- operations
- brand

### Managing risk

- property market
- financing
- developments and acquisitions
- brand



**For more information on:**  
 our 2018 priorities, see pages 10 and 11  
 KPIs, see pages 36 and 37  
 risk, see pages 38 to 39

### 3 Making the brand count



#### We achieved 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
- ensuring we are a good corporate citizen

#### Progress in 2017

- increased sales generated through the website to £9 million
- achieved our 2020 target of a 50 per cent intensity reduction in carbon emissions three years early
- ensured high levels of customer service, with consistently strong net promoter scores

### 4 Seizing the growth opportunity in Spain



#### We achieved 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 2017

- acquired Madrid Xanadú, a top-10 shopping centre in Spain
- achieved key planning approval at intu Costa del Sol and advanced remaining consents
- improved tenant mix, at increased rental levels, at all centres

#### KPIs we use to measure our success

- footfall
- like-for-like net rental income
- shareholder return
- income performance
- GVA

#### Key stakeholders we engage

Customers, retailers, suppliers

#### Managing risk

- property market
- operations
- brand

#### KPIs we use to measure our success

- footfall
- like-for-like net rental income
- shareholder return
- total financial return
- income performance
- prime property assets

#### Key stakeholders we engage

Customers, retailers, our people, local and national government

#### Managing risk

- property market
- financing
- developments and acquisitions
- brand

#### Link to our 2018 objectives

- delivering operational excellence

#### Link to our 2018 objectives

- growing like-for-like net rental income
- delivering operational excellence
- optimising our flagship destinations

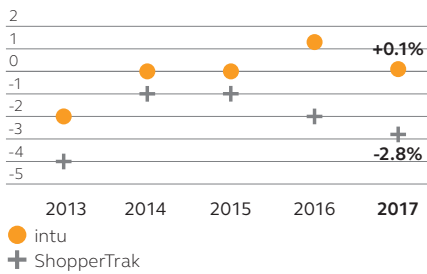
# Key performance indicators

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

**Key to strategic objectives**

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

## 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.

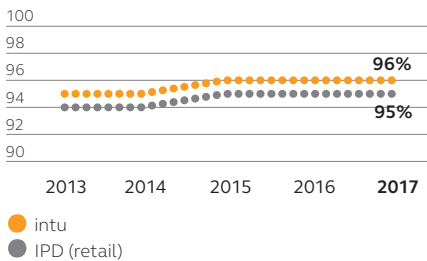
**How have we performed?**

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 retail, 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.

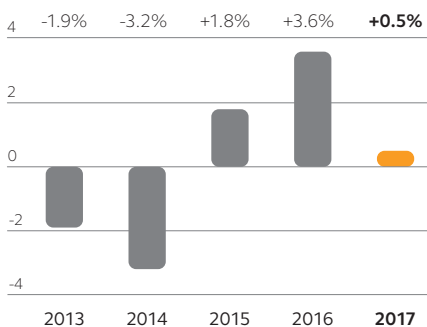
**How have we performed?**

Occupancy remained stable during the year at 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?**

Year-on-year movement in net rental income with the impact of acquisitions, developments and disposals removed.

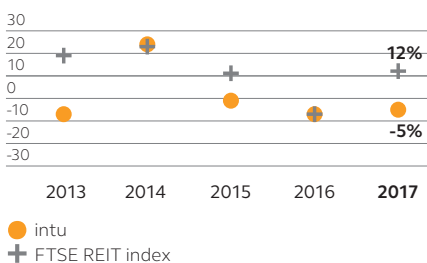
**How have we performed?**

Like-for-like net rental income grew in 2017, reflecting better rental values from strong retailer demand and rent reviews. The growth includes the negative impact of 1.4 per cent from the former BHS stores which are now substantially relet.

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.

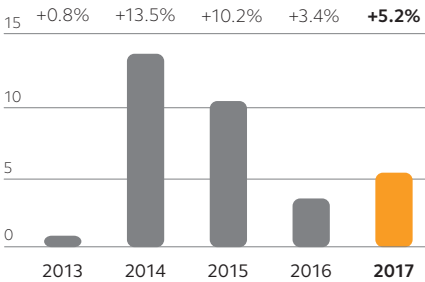
**How have we performed?**

The Group showed a negative shareholder return in 2017 compared to an overall rise in the REIT sector mainly driven by negative sentiment to retail in the year.

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.

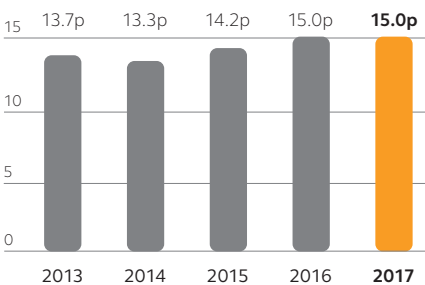
**How have we performed?**

Total financial return improved in the year, primarily driven by a revaluation surplus, against a deficit in 2016. Dividends remained unchanged.

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.

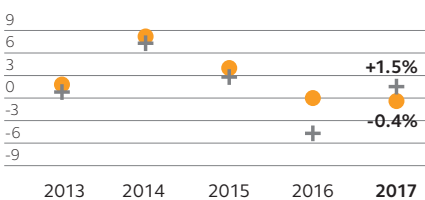
**How have we performed?**

Underlying earnings per share remained stable, reflecting the like-for-like net rental income movement, together with the positive impact of the acquisition of Madrid Xanadú, offset by higher finance costs and administrative expenses.

Strategic objective

- 1
- 3
- 4

**Prime property assets (%)**



● intu  
+ IPD monthly index (retail)

**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.

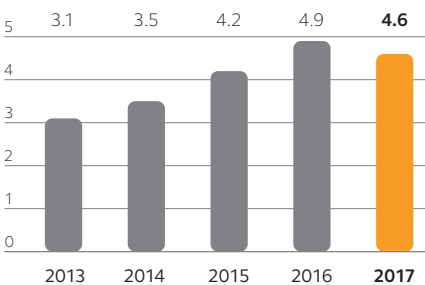
**How have we performed?**

Following seven years of outperforming the IPD benchmark, this year reflected the correction of the overly severe reduction in the IPD benchmark in 2016 following the EU referendum vote.

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 (GVA) measures the economic contribution of intu to local communities in the UK.

**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.

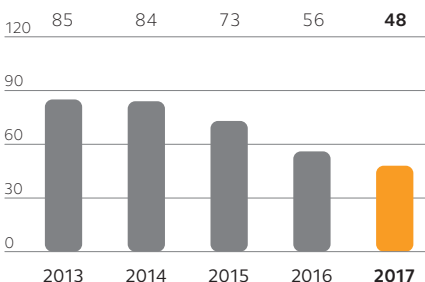
**How have we performed?**

GVA has decreased by £0.3 billion predominantly as a result of the disposal of intu Bromley. On a like-for-like centre basis, GVA remained broadly stable.

Strategic objective

- 1
- 2
- 3

**Greenhouse gas emissions intensity (CO<sub>2</sub>e kg/m<sup>2</sup>)**



**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 the direct and indirect emissions of our directly managed UK centres.

**How have we performed?**

Since 2010 we have reduced emissions by 58 per cent, meeting our target of a 50 per cent reduction by 2020, three years early.

Strategic objective

- 1

# Focus on risk

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.

## Risk appetite

An assessment of the Group's risk appetite in 2017 showed that this remained broadly unchanged and is set in the context of our focus on one sector – quality shopping centres. As experts in this sector we are able to mitigate the risk involved in growing the business by acquisition, development, our active asset management strategy and brand focus.

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. The Group also relies on insurances to mitigate against other financial risks.

## 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. All recommendations made within the 2015 external review have been implemented. 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, internal committee and the executive team. These reviews provide an opportunity to identify risks and assess them for impact and likelihood. The assessment also includes how quickly the risks would impact our business and for how long.

The risk registers created through this process are subject to at least an annual review, facilitated by the risk and assurance department. Operational management is responsible for managing the risks and for updating the risk registers.

The Audit Committee oversees the risk management process, with the Director

## Risk management framework





of Risk and Assurance reporting directly to the Audit Committee Chairman, ensuring independence and objectivity. There are four risk updates per year.

**Principal risks and uncertainties**

Fully integrated and thorough risk analysis underpins the ability to achieve our strategic objectives. The Board and Executive Committee have undertaken a robust assessment of the principal risks we face, including those that would impact the business model, future performance, solvency and liquidity. This assessment is not limited to purely financial metrics but spans the whole business model, including environmental, social and employee matters, respect for human rights and anti-corruption and anti-bribery matters.

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 managed in line with the Group’s risk appetite.

The risk profile for 2017 has remained broadly in line with 2016 with no significant new principal risks identified nor substantial changes in existing principal risks. Where

the likelihood for certain risks has increased additional risk mitigation strategies have been put in place. We have also assessed the impact of the proposed transaction with Hammerson on our principal risks.

The main impact from the UK’s decision to exit the EU on the risks that the Group faces is the potential negative impact on the macro-economic environment as a result of the continuing uncertainty around transitional and post-Brexit arrangements. Specifically, the risks we face are affected by any changes in sentiment in the investment and occupier markets in which we operate, in our ability to execute our recycling and investment plans and in broader consumer confidence and expenditure.



**Active insurance management**

We have been using the brand to improve our Group-wide purchasing of insurance, bringing together external insurance partners (brokers, insurers, solicitors and loss adjusters) each year to present a business update and show how we manage new risks and reduce the overall risk profile. This gives our insurance family a greater insight into our processes, behaviour and culture. They are able to identify the scope of cover that intu actually requires, and the risk that intu are able to transfer.

The benefits go beyond financial savings to improved coverage terms and funding to allow intu to trial risk reduction initiatives and roll out new programmes. Recent funded trials include a virtual assistant to provide safety messaging to customers; more security cameras and yellow comb plates for escalators to improve safety. By implementing risk-reducing controls, we show that a safe and secure environment can lead to lower claims, reduce premium rates and provide increased risk management funding.

**Risk profile**



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

# Principal risks and uncertainties

Risk and impact	Mitigation	Change	2017 commentary	Strategic objectives affected
<b>Property market</b>				
1 2 3 4				
<b>1 Macro-economic</b> Weakness in the macro-economic environment could undermine rental income levels and property values, reducing return on investment and covenant headroom	<ul style="list-style-type: none"> <li>— focus on high-quality shopping centres together with their upgrading</li> <li>— covenant headroom monitored and stress-tested</li> <li>— make representation on key policies, for example business rates</li> <li>— company-wide marketing events across centres to attract footfall</li> <li>— use our respected brand to attract and retain aspirational retailers</li> <li>— continued geographic diversification by increasing Spanish presence</li> </ul>	—	Likelihood of macro-economic weakness continues to be a risk with political uncertainty in the UK and Brexit arrangements not yet detailed, which has increased investor caution with lower transaction volumes in the year <ul style="list-style-type: none"> <li>— like-for-like property values broadly holding up, but under pressure at the lower end of the market</li> <li>— substantial covenant headroom</li> <li>— no significant near-term debt maturities and average unexpired term of 6.6 years</li> <li>— long-term lease structures with average unexpired term of 7.5 years</li> <li>— €517m acquisition of Madrid Xanadú and subsequent 50 per cent sale to joint venture partner at the same price</li> <li>— sale of 50 per cent interest in intu Chapelfield at £148m, ahead of the December 2016 valuation</li> </ul>	1
<b>2 Retail environment</b> Failure to react to changes in the retail environment could undermine intu's ability to attract customers and tenants	<ul style="list-style-type: none"> <li>— active management of tenant mix including letting of former BHS units</li> <li>— regular monitoring of tenant strength and diversity</li> <li>— upgrading assets to meet market demand</li> <li>— Tell intu customer feedback programme helps identify changes in customer preferences</li> <li>— work closely with retailers</li> <li>— 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</li> </ul>	—	Likelihood and severity of potential impact was monitored closely in 2017 with intu's strategy continuing to deliver solid footfall numbers and occupancy <ul style="list-style-type: none"> <li>— significant progress on planning and pre-letting of near-term pipeline with a focus on leisure</li> <li>— continuing digital investment to improve relevance as shopping habits change</li> <li>— occupancy remains strong at 96 per cent</li> <li>— footfall growth continues to beat the benchmark</li> <li>— on site with the £72m intu Lakeside leisure extension</li> </ul>	2
<b>Operations</b>				
1 3				
<b>3 Health and safety</b> Accidents or system failure leading to financial and/or reputational loss	<ul style="list-style-type: none"> <li>— strong business process and procedures, including compliance with OHSAS 18001, supported by regular training and exercises</li> <li>— annual audits of operational standards carried out internally and by external consultants</li> <li>— culture of visitor, staff and contractor safety</li> <li>— crisis management and business continuity plans in place and tested</li> <li>— retailer liaison and briefings</li> <li>— appropriate levels of insurance</li> <li>— staff succession planning and development in place to ensure continued delivery of world class service</li> <li>— health and safety managers or coordinators in all centres</li> </ul>	—	Likelihood of potential impact has not changed significantly during 2017, however severity impacted by new enforcement structure <ul style="list-style-type: none"> <li>— retained OHSAS 18001, demonstrating consistent health and safety management process and procedures across the portfolio</li> <li>— work continuing towards achieving additional accreditations with focus on ISO 14001</li> <li>— gold award from RoSPA</li> <li>— full review undertaken of each centre's fire strategy and building specifications post-Grenfell has provided appropriate assurance across the portfolio</li> </ul>	3
<b>4 Cybersecurity</b> Loss of data and information or failure of key systems resulting in financial and/or reputational loss	<ul style="list-style-type: none"> <li>— data and cybersecurity strategies</li> <li>— regular testing programme and cyber scenario exercise and benchmarking</li> <li>— appropriate levels of insurance</li> <li>— crisis management and business continuity plans in place and tested</li> <li>— Data Committee and Data Protection Officer in place</li> <li>— monitoring of regulatory environment and best practice</li> <li>— cybersecurity assessment performed by external consultancy and full action plan in place (programme of works)</li> <li>— managing of supply chain and service providers who hold intu data</li> </ul>	+	Likelihood has increased with greater reliance on operational and third party systems and data, and with the number of recent high-profile hacks. Severity of potential impact has reduced by significant development of tools and controls. Hacking attempts have not resulted in data loss or major operational impacts <ul style="list-style-type: none"> <li>— ongoing Group-wide cybersecurity project with investment in tools, consultancy and staff to mitigate impact of threats from evolving cybersecurity landscape</li> <li>— implementing updated GDPR policies and procedures</li> </ul>	
<b>5 Terrorism</b> 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	<ul style="list-style-type: none"> <li>— strong business processes and procedures, supported by regular training and exercises, designed to adapt and respond to changes in risk levels</li> <li>— extraordinary pre-planned operational responses to changes in national threat level</li> <li>— annual audits of operational standards carried out internally and by external agencies</li> <li>— culture of visitor, staff and contractor safety</li> <li>— crisis management and business continuity plans in place and tested with involvement of multiple external agencies</li> <li>— retailer liaison and briefings</li> <li>— appropriate levels of insurance</li> <li>— strong relationships and frequent liaison with police, NaCTSO and other agencies</li> <li>— NaCTSO approved to train staff in counter-terrorism awareness programme</li> <li>— internal head of security appointed</li> </ul>	—	Overall likelihood and severity of potential impact unchanged. In May 2017 we enacted our operational plan for the period of increased threat level. The threat level was subsequently reduced to the prior threat level <ul style="list-style-type: none"> <li>— there have been five terrorist-related incidents in the UK in 2017</li> <li>— national threat level remains at Severe</li> <li>— major multi-agency security exercises held at all five super-regional intu shopping centres</li> <li>— operating procedures in place for the introduction of further security measures if required</li> </ul>	

Risk and impact	Mitigation	Change	2017 commentary	Strategic objectives affected
<b>Financing</b> <span style="float: right;">2 4</span>				
<b>6 Availability of funds</b> Reduced availability of funds could limit liquidity, leading to restriction of investing and operating activities and/or increase in funding cost	<ul style="list-style-type: none"> <li>— funding strategy regularly reported to the Board with current and projected funding position</li> <li>— effective treasury management aimed at balancing the length of the debt maturity profile and diversification of sources of finance</li> <li>— consideration of financing plans including potential for recycling of capital before commitment to transactions and developments</li> <li>— strong relationships with lenders, shareholders and partners</li> <li>— focus on high-quality shopping centres</li> </ul>	=	Macro-economic events during 2017, and the uncertainty caused by them, mean the increased risk of reduced availability remains. However, severity of potential impact unchanged from 2016. Regular refinancing activity continuing to evidence the availability of funding <ul style="list-style-type: none"> <li>— new €263m loan to finance acquisition of Madrid Xanadú</li> <li>— introduction of joint venture partner into Madrid Xanadú</li> <li>— £140m refinancing of intu Milton Keynes</li> <li>— £488m refinancing of intu Merry Hill</li> <li>— £250m additional financing on intu Trafford Centre</li> </ul>	
<b>Developments and acquisitions</b> <span style="float: right;">2 4</span>				
<b>7 Developments</b> Developments fail to create shareholder value	<ul style="list-style-type: none"> <li>— Capital Projects Committee reviews detailed appraisals before and monitors progress during significant projects</li> <li>— fixed price construction contracts for developments agreed with clear apportionment of risk</li> <li>— significant levels of pre-lets exchanged prior to scheme development</li> </ul>	=	Likelihood and severity of potential impact have remained unchanged in 2017 as the Group has progressed work on its development pipeline <ul style="list-style-type: none"> <li>— at intu Watford works are on schedule to hit all key milestones</li> <li>— onsite with intu Lakeside leisure development</li> <li>— detailed appraisal work and significant pre-lets ahead of starting major development projects</li> <li>— key anchor letting to Primark secured prior to proposed start on site in 2018 at Barton Square for intu Trafford Centre transformation</li> </ul>	
<b>8 Acquisitions</b> Acquisitions fail to create shareholder value	<ul style="list-style-type: none"> <li>— research and third party due diligence undertaken for transactions</li> <li>— local partner, advisors and experienced staff in Spain with specialist market knowledge</li> <li>— where appropriate, investment risk reduced through financing and joint venture investments</li> </ul>	=	Likelihood and severity of potential impact have remained unchanged in 2017 <ul style="list-style-type: none"> <li>— substantial due diligence process undertaken before acquisition of Madrid Xanadú</li> </ul>	
<b>Brand</b> <span style="float: right;">1 2 3 4</span>				
<b>9 Integrity of the brand</b> The integrity of the brand is damaged leading to financial and/or reputational loss	<ul style="list-style-type: none"> <li>— intellectual property protection</li> <li>— strong guidelines for use of brand</li> <li>— strong underlying operational controls and crisis management procedures</li> <li>— ongoing training programme and reward and recognition schemes designed to embed brand values and culture throughout the organisation</li> <li>— traditional and digital media monitoring and analysis</li> <li>— Tell intu and Shopper View customer feedback programmes</li> </ul>	=	Likelihood and severity of potential impact unchanged in 2017 <ul style="list-style-type: none"> <li>— continuing media interest in intu and our commentary and opinions on the business and wider landscape</li> <li>— ongoing development of brand in Spain</li> <li>— net promoter score consistently high at around 70 in 2017</li> </ul>	

**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 against our strategy

## UK investment market

Prime shopping centres continue to attract interest from both international and domestic investors. While activity was limited in 2017, good levels of demand remain for quality assets in the UK's liquid and transparent market for large shopping centres.

A flight to quality has ensured prime yields on assets with simple ownership structures remain stable as investors look at the quality and longevity of income streams coupled with rental growth potential in a market where new supply, by way of development, remains low. Against this, the depth of investor demand for secondary assets has diminished.

## Optimising asset performance

We focus on creating vibrant environments where customers and retailers want 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.

The table below shows the main components of the £47.3 million revaluation surplus:

- UK super-regional centres and major city centres: stable values recognising the continuing attraction of this asset class which remains key to retailers' requirements. The small overall deficits relate to investment on the existing intu Watford centre and tenant repositioning at intu Merry Hill not yet reflected in rental values

- Spanish centres: strong rental growth and continued strong demand for top-quality Spanish centres has driven valuations up at both intu Asturias and Puerto Venecia
- Spanish developments: with most of the planning requirements in place at intu Costa del Sol, the first independent valuation of the site, which was previously carried at cost, delivered a £74 million surplus over cost
- other: represents valuation movements on assets valued below £200 million each

The weighted average nominal equivalent yield at 31 December 2017 remained stable at 5.03 per cent, an increase of one basis point in the year.

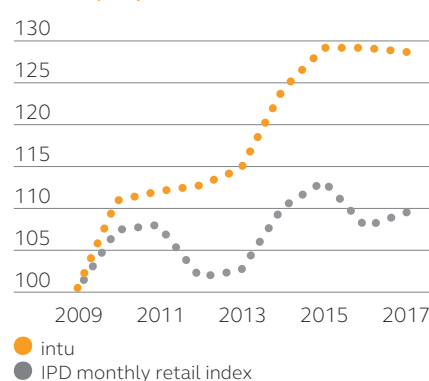
On a like-for-like basis, ERV increased by 1.0 per cent in the year, compared with the IPD index which indicated a 0.4 per cent increase.

The overall quality of our portfolio is illustrated by our long-term outperformance of the IPD capital growth monthly retail index, as shown in the chart below.

## Valuation

	Market value		Like-for-like	
	31 December 2017 £m	31 December 2016 £m	Surplus/ (deficit) £m	Surplus/ (deficit) %
UK super-regional centres	6,373.7	6,315.8	(17.7)	(0.3)
UK major city centres	2,559.3	2,544.3	(15.0)	(0.6)
Spanish centres	371.6	331.0	22.4	6.4
	<b>9,304.6</b>	<b>9,191.1</b>	<b>(10.3)</b>	<b>(0.1)</b>
Acquisition: Madrid Xanadú	235.2	–	1.7	0.7
Spanish developments	212.8	76.7	74.5	53.8
Other	470.1	419.2	(28.2)	(5.1)
intu Chapelfield (asset held for sale at 31 December 2017)	10,222.7	9,687.0	37.7	0.4
	<b>306.5</b>	<b>297.7</b>	<b>9.6</b>	<b>3.3</b>
<b>Total</b>	<b>10,529.2</b>	<b>9,984.7</b>	<b>47.3</b>	<b>0.5</b>

## Total Property Return



**UK consumer market**

Uncertainty regarding the final terms of the UK's exit from the EU is creating a mixed picture on the state of the UK consumer. Unemployment continues at record low levels which should in turn drive growth in personal income. However, the increase in inflation from the weakening of sterling after the EU referendum vote is causing prices to rise faster than wages at the moment which impacts consumers' disposable income. The Asda benchmark index of household disposable income has remained level since December 2016.

Looking further ahead, the Bank of England's forecasts suggest that wage growth will overtake inflation as we go into 2018.

Consumer confidence, as measured by GfK, has reduced slightly in 2017, reflecting the negative sentiment on the expectations for the economy, although consumers' view on their personal finance situation over the next 12 months is stable.

These mixed messages have not had a material effect on total non-food retail spending, which remained unchanged in 2017 against the previous year (British Retail Consortium total non-food retail index), although, with the continued growth in online, in-store sales were down by around 2 per cent in the year.



International brands such as Victoria's Secret and Tesla are attracted to intu's high footfall centres

**Group like-for-like net rental income**

	2017	2016
Rent reviews, improved letting and turnover income	<b>+2.2%</b>	+2.3%
Capital investment	<b>+0.4%</b>	+0.8%
Vacancy impact	<b>-0.4%</b>	+1.7%
Units closed for redevelopment and/or repositioning	<b>-1.4%</b>	-0.6%
Other letting activity (eg bad debt; surrender premiums)	<b>-0.3%</b>	-0.6%
<b>Increase in like-for-like net rental income</b>	<b>+0.5%</b>	+3.6%

Rent from lettings and rent reviews delivered 2.2 per cent rental growth. Against previous passing rent, lettings were on average up 7 per cent and rent reviews up 9 per cent.

This growth was partially offset by the 1.4 per cent impact of units closed for redevelopment and/or repositioning, mainly from the former BHS stores which are now substantially relet with excellent

lettings to quality retailers such as Next, Primark and Uniqlo. These were not income producing in 2017, but will come back on stream in 2018.

As previously stated, we expect to deliver medium term like-for-like net rental income growth of 2 to 3 per cent per annum, over the next three to five years, and in 2018 we expect this to be in the range of 1.5 to 2.5 per cent, subject to no material tenant failures.

**UK operating metrics**

	2017	2016
Occupancy	<b>96.1%</b>	96.0%
– of which, occupied by tenants trading in administration	<b>0.6%</b>	0.5%
Leasing activity – number, new rent	<b>179, £35m</b>	187, £35m
– new rent relative to previous passing rent	<b>+6%</b>	+4%
Footfall	<b>+0.1%</b>	+1.3%
Retailer sales (like-for-like centres)	<b>-2.1%</b>	+0.2%
Rent to estimated sales (exc. anchors and major space users)	<b>12.1%</b>	12.2%

Occupancy is 96.1 per cent, in line with 31 December 2016 and 30 June 2017. This is equivalent to 97.0 per cent on the industry standard EPRA calculation (December 2016: 97.0 per cent).

We agreed 179 long-term leases in the year, amounting to £35 million annual rent, at an average of 6 per cent above previous passing rent (like-for-like units) and in line with valuers' assumptions. Retailers continue to focus on increasing their space in prime, high footfall retail destinations. Significant activity in the year includes:

- new retail anchors, in the shape of key fashion brands, upsizing to optimise their offering and configuration. This includes Primark, Next and River Island upsizing at intu Merry Hill, as well as Inditex and H&M expanding their brand portfolios with Stradivarius at St David's and Monki at Manchester Arndale

- international brands' ongoing recognition of the attraction of intu's destination shopping centres. Victoria's Secret, the US lingerie brand, and Lovisa, an Australian accessories store, have both added three stores. Colette, the Australian handbag retailer, has opened its second UK store at Manchester Arndale and Inglot, a Polish cosmetics brand, opened its first store outside London at intu Eldon Square
- brands recognising the benefit of stores as part of their customer acquisition, with Paul Smith opening their first store in Manchester at Manchester Arndale and Tesla continuing their roll-out of stores at intu Milton Keynes
- leisure operators continuing to grow in flagship destinations with Puttshack, Flip Out and Hollywood Bowl joining Nickelodeon at the intu Lakeside leisure extension and Gravity at the refurbished Soar at intu Braehead

## Operating review continued

Like-for-like net rental income growth

# +0.5%

Footfall growth

# +0.1%

ShopperTrak benchmark -2.8%

259 shops opened or refitted in our UK centres in 2017 (2016: 225 stores), around 9 per cent of our 2,800 units. Tenants have invested around £89 million in these stores, a significant demonstration of their commitment to our centres.

We settled 218 rent reviews in the year for new rents totalling £47 million, an average uplift of 9 per cent on the previous rents.

Footfall improved by 0.1 per cent in the year, significantly outperforming the ShopperTrak measure of UK national retail footfall which was down by 2.8 per cent, highlighting the attraction of our compelling destinations against the wider market.

Estimated retailer sales in our centres were down 2.1 per cent predominantly driven by some clothing retailers who had a challenging year in 2017. In-store sales figures take no account of the benefit of the store to retailers' online sales and are further impacted by returns of online sales. The ratio of rents to estimated sales for standard units remained stable in the year at 12.1 per cent.

Catering and leisure units now comprise over 500 of our overall 2,800 leases and have increased steadily in recent years in a growing market. Reflecting changing customer preferences, over the last five years, this market has increased to around 13 per cent of total rental income. Over the same period, we have seen a reduction in rental income from fashion outlets to around 25 per cent.

The difference between annual property income (see glossary) of £462 million and ERV of £544 million represents £37 million from vacant and development units and reversion of £45 million, 8 per cent, from rent reviews and lease expiry. Of the 8 per cent reversion, 1 per cent is only realisable on expiry of leases with over 10 years remaining (eg anchor

units), leaving 7 per cent realisable from other lease expiries and rent reviews.

The weighted average unexpired lease term is 7.5 years (31 December 2016: 7.7 years) illustrating the longevity of our income streams.

### Delivering UK developments

In 2017, we invested £184 million in the UK. This included £63 million on the intu Watford extension, £58 million on the acquisition of additional properties (all currently income-generating) which will be integral to future development projects, £12 million on the leisure extension at intu Lakeside and £51 million on other active asset management projects, including the new Travelodge hotel at intu Lakeside and the Next flagship store at intu Metrocentre.

### Near-term pipeline

Looking ahead, we are progressing our near-term pipeline of £562 million over the next three years, reinforcing our existing assets and delivering value-enhancing returns. Our development team continues to progress these projects on budget and on time, with major developments on site at intu Watford and intu Lakeside and soon to start at intu Trafford Centre (Barton Square) and intu Broadmarsh, Nottingham.

We are committed to investing £264 million, most of which is on key ongoing projects:

- at intu Watford we remain on target with our £180 million extension expected to open in October 2018. The development has topped out, with the feature roof now installed and anchor tenants due to start fitting out in the next few months. The 380,000 sq ft project, anchored by Debenhams and Cineworld, is two-thirds let by space with Superdry and Hollywood Bowl exchanged in the year. The

## 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 2017 were £833 million on a pro forma basis including the £148 million disposal of 50 per cent of intu Chapelfield. Further recycling potential lies in the introduction of partners into some of our centres, although this would have a short-term negative earnings impact until the proceeds are reinvested.

In addition, we expect to raise finance on near-term projects, such as the intu Watford extension, as they complete, to fund future opportunities.

cost to completion of this project is £80 million, and 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 from the existing centre

- at intu Lakeside we have commenced construction of the £72 million leisure extension, with £57 million of cost remaining to completion. This 175,000 sq ft project is expected to deliver a return on cost of 6.5 per cent and has the four leisure attractions Nickelodeon, Flip Out, Puttshack and Hollywood Bowl exchanged
- at intu Trafford Centre, we have signed Primark to anchor the expansion and transformation of Barton Square. The £72 million project will enclose the courtyard, enhance interiors, allow trading from two levels and provide a fashion offer for the first time at Barton Square. We are progressing the procurement of the construction works and expect the project, delivering a return of 6 to 7 per cent, to be completed by mid-2019
- active asset management projects total £55 million and include the Halle Place restaurant redevelopment at Manchester Arndale, the creation of flagship stores for Next at intu Metrocentre and intu Merry Hill and the redevelopment of former BHS units for Uniqlo and Primark at Manchester Arndale and intu Merry Hill respectively. These projects are expected to deliver a range of returns between 6 and 10 per cent dependent on the nature of the individual project

Our pipeline of planned projects amounts to £298 million, with a focus on extension and redevelopments:

- at intu Broadmarsh we have a planned redevelopment which is expected to cost £81 million and deliver a stabilised initial yield of around 7 per cent. We have signed The Light cinema and Hollywood Bowl to anchor the scheme and we would expect to have the required level of pre-lets and completed detailed design to enable us to commit to this by the second half of 2018
- at intu Merry Hill we are planning to increase the catering and leisure to bring it in line with other super-regional centres. In total, we expect to invest

around £100 million, of which £70 million will be spent in the period to 2020, delivering a return at a similar level to that of the leisure extension at intu Lakeside

- at intu Milton Keynes we expect to invest £15 million commencing phase one of the redevelopment of under-utilised space
- other active asset management projects are smaller in nature, across all centres and at various stages of feasibility. We have the flexibility to start these projects when we have the required level of pre-lets and expect them to deliver similar returns to those that we have committed to

## Future opportunities

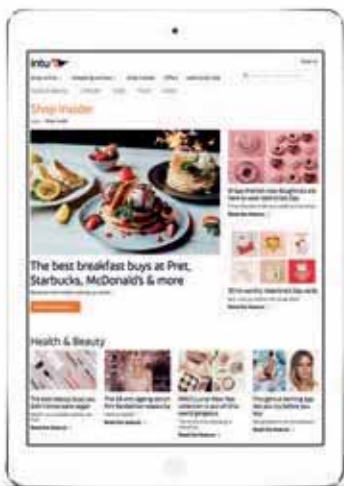
Beyond 2020, we continue to work on securing the required planning approvals and tenant demand to start £1.4 billion of further projects which we would expect to deliver stabilised initial yields of around 7 per cent. We have planning approvals for extensions to intu Braehead, intu Lakeside, intu Victoria Centre and intu Milton Keynes and are at earlier stages of the planning process for the extension of Cribbs Causeway.

## Making the brand count

The intu brand has positioned us well, as the role of the shopping centre operator has changed, to ensure our centres remain relevant for both customers and retailers. The unprompted awareness of the intu brand increased to 26 per cent, a threefold increase since 2015 when we started monitoring, highlighting its increasing recognition and value. Additionally, our prompted awareness has increased to 71 per cent in 2017, from 63 per cent in 2016.

The combination of our national presence, attractive digital offering and in-house experiences team offers retailers and brands promotional opportunities, which in turn gives us a multidisciplinary opportunity to help retailers flourish within our centres.

The importance of identifying new ideas and services emerging in the UK retail market cannot be underestimated. In 2017 we launched intu Accelerate, an incubator for these technologies and services, identifying start-ups to pilot



Our affiliate website drives £9 million of retailer sales

## Operating review continued



### Our cutting-edge network

Our converged Cisco network across our centres gives us a co-ordinated, managed and increasingly secure technical platform that benefits customers, tenants and staff.

This robust, high-bandwidth backbone enables us to implement an array of new technologies quickly and securely, more cheaply and with a lower carbon footprint.

For instance, as well as free customer wifi, we have been able to install large screens at flagship centres, with programming from our central production studio. Having the network in place also enables us to experiment with new ideas.

The network facilitates predictive maintenance and standardisation of key building management and security systems, which in turn allow economies of scale and interoperability between centres.

new concepts in centre and online, including what is believed to be Europe's first customer services robot in a shopping centre.

### Customer service

Putting the customer first is embedded in our culture. Our net promoter score, a measure of customer service, ran consistently high throughout the year averaging 70 and demonstrating our in-centre operational excellence.

### intu Experiences

Curation of the customer experience is a key element of our role in managing shopping centres. Our in-house team, intu Experiences, which generated income of £22 million, is crucial in delivering immersive brand partnerships, mall commercialisation and advertising which is complementary to the asset strategy of each centre and meets our quality standards.

An example of this end-to-end control is the large format digital screen we have introduced to each of our out-of-town centres, providing new income streams from global brands. We own all these screens and, in many instances, produce the content in-house – an area of growth for us.

Similarly, choosing the brands we work with promotionally is important in delivering the right messages. Through the Easter holidays we furthered our collaboration with Nick Jr., Nickelodeon's pre-school television channel, adding augmented reality functionality to our in-centre app to deliver a new family experience to our customers.

### intu Digital

Our attractive digital offering through our premium content publisher and shopping platform, intu.co.uk, continued to grow strongly and delivered online sales for retailers of £9 million in the year, an increase of 50 per cent against 2016.

We continue to develop the site, with image recognition to assist product search added in 2017. Shop Insider, the premium content section of the site, saw traffic up nearly 200 per cent in the year to 1.5 million visits, leading to a 50 per cent increase in visits to the shopping pages. This highlights the power of quality content to drive both physical and digital sales, as shoppers continue to be ever more considered in their purchases, researching heavily online before planned visits.

Key to this growth is our online marketing expertise with over two million individuals on our active marketing database and a social media audience of over one million.

### Seizing the growth opportunity in Spain

Our Spanish strategy has been to create a business of scale through acquisitions and our pipeline of development projects, concentrating on the top-10 key catchments, where we now own and manage three of Spain's top-10 shopping centres, with the acquisition of Madrid Xanadú in 2017 (see Acquisitions and disposals). In addition, we have three development sites with the most advanced project being intu Costa del Sol, near Málaga.

### Operational performance

The occupancy of our Spanish centres is 97 per cent. We agreed 38 long-term lettings in the year, amounting to over £2 million annual rent, at an average of 25 per cent above previous passing rent (like-for-like units). New names to our centres included Quiz, Levis, Pandora, Alcott and Xiaomi.

Footfall increased by 1.0 per cent in the year and this includes the disruption in the first half of 2017 from the redevelopment work at intu Asturias where we developed a previously underutilised area to



## Spanish market

The Spanish economy is still one of Europe's fastest growing economies and this should continue in 2018 with its GDP growth expected to be one of the highest of the major European economies. For the consumer, unemployment is at its lowest level for several years and consumer confidence at its highest. This in turn benefits retail sales which are further enhanced by record levels of tourists which have increased by 20 per cent over the last two years.

The investment market remains strong with continuing investor confidence in Spanish real estate supported by an economy that is growing. With banks willing to lend against Spanish assets, the weight of money in the market looking to invest in quality assets has continued to strengthen the market. Partly due to the lack of development in recent years, prime regional shopping centres are scarce which is reflected in good demand.



Continued evolution of Intu Asturias with the remodelled food court and new lower level

introduce a supermarket and new retail units. This opened in July with a strong uplift in footfall.

We have increased the value of the centres owned throughout the year with growth in rental values being the main driver. Our share of Puerto Venecia, Zaragoza was valued at £231 million, an increase of 4 per cent, and our share of Intu Asturias increased by 11 per cent, to £141 million.

In 2018, we plan to roll out the Intu brand to Puerto Venecia and Madrid Xanadú.

### Near-term pipeline

Our Spanish development pipeline through to the end of 2020 amounts to £397 million.

We have active asset management projects of £57 million through to the end of 2020 across all three centres with a focus on enhancing the resort content of each centre.

Our world-class project at Intu Costa del Sol will create a shopping resort of around 230,000 sq m. In 2017, the approval of the General Plan of Torremolinos was a major step forward, with the remaining consents expected in the coming months. We have very strong interest from tenants and would anticipate being on site in the next 12 months.

The land, with planning mostly approved, was independently valued at the end of 2017, delivering a surplus of £74 million.

The total cost to completion of the development is expected to be around £600 million (£340 million through to 2020), excluding the land, and deliver a stabilised initial yield of around 7 per cent. We expect to fund the project through bank and other finance, and introduce a partner at a later stage.

### Future opportunities

We continue to develop plans at the two other sites in Valencia and Vigo, having decided not to progress with our development option in Palma. At this point, Intu Valencia, where we have renewed support from the regional government, is the most likely to follow Intu Costa del Sol.

## Acquisitions and disposals

In line with our strategy, we continue to recycle capital to focus on our flagship destinations where we have the opportunity to deliver superior returns.

### Acquisitions

In March 2017, we acquired Madrid Xanadú, one of Spain's top-10 shopping centres, for an agreed headline price of €530 million. The centre has many of the key retailers, including El Corte Inglés, all the Inditex fascias, Primark and Apple, along with a strong leisure offering of Spain's only indoor ski slope, cinema, bowling and soon-to-open aquarium and Nickelodeon theme park. Footfall is 13 million, with a potential catchment of four million people living within a 30-minute drive time. Over the medium term, we see good reversionary potential, with further growth opportunities from key asset management initiatives which will enhance the centre's status as a truly regional retail and leisure resort, drawing visitors from a wider catchment.

In July 2017, we formed a joint venture with TH Real Estate for them to take ownership of 50 per cent of Madrid Xanadú based on the original acquisition price.

### Disposals

In November 2017, we announced the formation of a joint venture with LaSalle Investment Management for them to take ownership of 50 per cent of Intu Chapelfield, Norwich for a net consideration of £148 million, in line with the December 2016 valuation. The transaction completed in January 2018.

# Financial review

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



## Overview

We have recorded underlying earnings of £201.0 million for the year ended 31 December 2017, slightly higher than the £200.0 million recorded in 2016. This reflects 0.5 per cent growth in like-for-like net rental income as well as the impact of 2017 and 2016 acquisitions and disposals. Underlying earnings per share of 15.0 pence is unchanged from 2016.

Profit for the year attributable to owners of intu properties plc of £216.7 million has increased by £34.0 million, driven by a surplus on property revaluations of £47.3 million (2016: deficit of £63.8 million), as well as the change in fair value of financial instruments, a surplus of £23.0 million (2016: charge of £16.9 million), partially offset by 2016 gains of £74.1 million on

the sale of our interest in Equity One and £34.6 million on the acquisition of the remaining 50 per cent of intu Merry Hill.

NAV per share of 411 pence has increased 7 pence from 2016, which when taking account of the dividend paid in the period of 14.0 pence delivers a total financial return for the year of 5.2 per cent. NAV per share includes a timing impact within retained earnings of 4 pence in relation to our Spanish development partner Eurofund's expected future interest in the share capital of the intu Costa del Sol development company. The positive impact on retained earnings is expected to reverse, once these arrangements are concluded, with the Eurofund interest to be included in non-controlling interests during 2018. In this event NAV per share would be 407 pence.

## 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 performance as well as determine the strategy of the business primarily on a proportionately 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 provides 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) is presented as it is considered to be a key measure of the Group's performance. The key difference from EPRA NAV, an industry standard comparable measure, is the exclusion of interest rate swaps not currently used for economic hedges of debt as, in our view, this better allows management to review and monitor the Group's performance. A reconciliation of NAV (diluted, adjusted) to NAV attributable to owners of intu properties plc is provided in note 13(a) as well as on page 51 and to EPRA NAV within the other information section.
Underlying earnings	Underlying earnings is presented as it is considered to be a key measure of the Group's recurring income performance and an indication of the extent to which dividend payments are supported by underlying operations (see underlying profit statement in the other information section). It excludes property and derivative valuation movements, exceptional items and related tax. The key difference from EPRA earnings, an industry standard comparable measure, relates to adjustments in respect of exceptional items where EPRA is prescriptive about the adjustments that can be made. A reconciliation of underlying earnings to profit for the year attributable to owners of intu properties plc is provided in note 12(c) as well as on page 49 and to EPRA earnings within the other information section.

In March we continued to increase our presence in Spain and strengthen our quality portfolio, acquiring 100 per cent of Madrid Xanadú for €517.3 million (£453.9 million). As part of this we arranged a €263 million loan facility, with a 2022 maturity. In July we disposed of 50 per cent of Madrid Xanadú to TH Real Estate based on the original acquisition price, retaining a 50 per cent interest. Further, in November we announced the formation of a joint venture with LaSalle Investment Management (acting on behalf of Greater Manchester Pension Fund and West Yorkshire Pension Fund) for them to take ownership of 50 per cent of intu Chapelfield for initial net proceeds of £148.0 million. This transaction has now completed following the receipt of EU merger approval in January 2018. As a result, in accordance with IFRS, the net assets of intu Chapelfield have been classified as held for sale at 31 December 2017 in the balance sheet.

Our financing metrics remain strong mainly due to our continued refinancing activity. During the year we refinanced over £1.1 billion of debt, including the refinancing of intu Milton Keynes and intu Merry Hill, securing financing on Madrid Xanadú and additional financing on intu Trafford Centre. Our interest cover ratio of 1.94x is broadly unchanged in the year (31 December 2016: 1.97x) with satisfactory headroom above our target minimum level of 1.60x.

At 31 December 2017, pro forma for the 50 per cent part disposal of intu Chapelfield for initial net proceeds of £148.0 million, our debt to assets ratio has increased to 45.2 per cent (31 December 2016: 43.7 per cent), remaining below our target maximum level of 50 per cent. Also on a pro forma basis, we had cash and available facilities of £833.1 million (31 December 2016: £922.3 million) which have decreased in the year due to the acquisition and part disposal of Madrid Xanadú as well as buying back and cancelling £139.6 million of the £300 million 2.5 per cent convertible bonds, maturing Autumn 2018, partially offset by the net proceeds from the part disposal of intu Chapelfield.

## Income statement

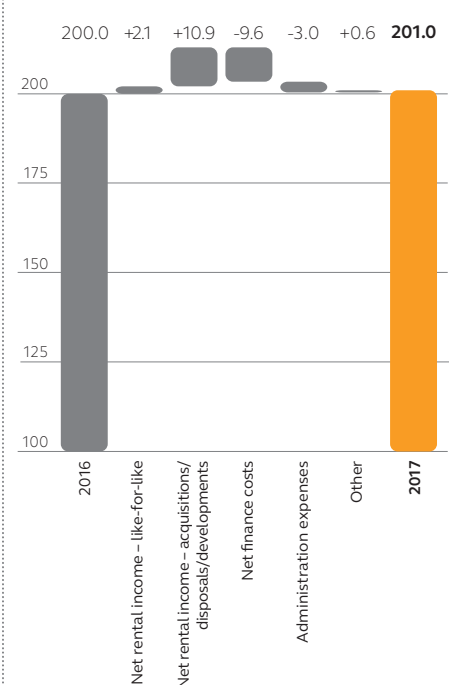
Underlying earnings increased to £201.0 million from £200.0 million at 31 December 2016. The key movements are shown in the chart to the right. Underlying earnings per share is consistent with prior year at 15.0 pence.

Net rental income increased £13.0 million in 2017 to £460.0 million due to the acquisition of Madrid Xanadú in March 2017, the acquisition of the remaining 50 per cent of intu Merry Hill in June 2016 and 0.5 per cent growth in like-for-like net rental income, partially offset by the impact of the disposal of intu Bromley in December 2016.

Like-for-like net rental income increased by £2.1 million, 0.5 per cent, driven by rental growth from new lettings and rent reviews, partially offset by the impact of the redevelopment and reletting of the former BHS units which were fully income producing in the first half of 2016 (see operating review).

Administration expenses increased by £3.0 million in 2017 to £41.6 million, primarily due to increased headcount in Spain partially offset by a cost reduction programme in the second half of the year from which we will benefit in 2018.

Underlying earnings (£m)



## Income statement summary

	2017	2016
	Group £m	Group including share of joint ventures £m
<b>Underlying earnings</b>	<b>201.0</b>	<b>201.0</b>
Adjusted for:		
Revaluation of investment and development property	30.8	47.3
Gain on acquisition of businesses	-	-
Loss on disposal of subsidiaries	(1.8)	(1.8)
(Loss)/gain on sale of other investments	-	(0.3)
Administration expenses - exceptional	(5.9)	(6.6)
Exceptional finance costs	(33.0)	(33.0)
Change in fair value of financial instruments	22.0	23.0
Tax on the above	(24.0)	(22.7)
Share of joint ventures' items	17.2	-
Share of associates' items	0.4	0.4
Non-controlling interests in respect of the above	10.0	9.4
<b>Profit for the year attributable to owners of intu properties plc</b>	<b>216.7</b>	<b>216.7</b>
<b>Underlying earnings per share (pence)</b>	<b>15.0p</b>	<b>15.0p</b>

## Financial review continued

### Net rental income margin

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Gross rental income	546.2	532.6
Head rent payable	(20.5)	(25.4)
	525.7	507.2
Net service charge expense and void rates	(29.1)	(26.0)
Bad debt and lease incentive write-offs	(3.2)	(2.5)
Property operating expense	(33.4)	(31.7)
Net rental income	460.0	447.0
Net rental income margin	87.5%	88.1%
EPRA cost ratio (excluding direct vacancy costs)	15.1%	15.0%

Net finance costs have increased by £9.6 million in 2017 to £222.5 million primarily due to the increase in net external debt for the acquisition of Madrid Xanadú and capital expenditure in the year.

As discussed in the overview, profit attributable to owners of intu properties plc is £216.7 million, an increase from the £182.7 million reported for the year ended 31 December 2016.

Our investment in joint ventures contributed £35.5 million to the profit of the Group (2016: £32.1 million) including £18.3 million to underlying earnings (2016: £19.8 million) and a gain on property valuations of £15.9 million (2016: £14.2 million).

As detailed in the table above, our net rental income margin has reduced to 87.5 per cent primarily due to higher void costs from the former BHS units. 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 15.1 per cent (see other information section).

### Balance sheet

The Group's net assets attributable to shareholders have increased by £96.2 million to £5,075.0 million at 31 December 2017, while net assets (diluted, adjusted) have increased by £85.0 million to £5,522.7 million at 31 December 2017.

NAV per share (diluted, adjusted) at 31 December 2017 has increased 7 pence from the prior year to 411 pence, the key movements are shown in the chart to the right. This was driven principally by the revaluation surplus in the year of 4 pence and the timing impact within retained earnings of 4 pence in relation to our Spanish development partner Eurofund's expected future interest in the share capital of the intu Costa del Sol development company. The positive impact on retained earnings is expected to reverse, once these arrangements are concluded, with the Eurofund interest to be included in non-controlling interests during 2018. In this event NAV per share would be 407 pence.

Investment and development property has increased by £248.0 million primarily due to capital expenditure of £246.7 million, the impact of the acquisition and subsequent 50 per cent disposal of Madrid Xanadú of £225.3 million and a surplus on revaluation of £47.3 million, partially offset by the £302.0 million transfer of intu Chapelfield to assets held for sale.

Our net investment in joint ventures is £735.5 million at 31 December 2017 (31 December 2016: £587.6 million), which includes the Group's share of net assets,

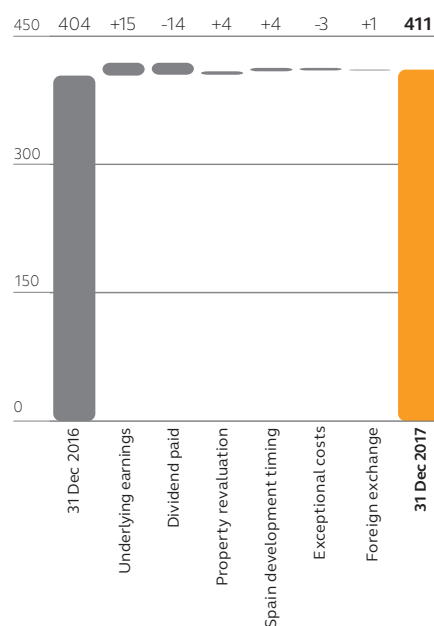
on an equity accounted basis, of £452.6 million (31 December 2016: £355.4 million) and loans to joint ventures of £282.9 million (31 December 2016: £232.2 million). The movement in the year primarily reflects the addition of Madrid Xanadú from 31 July, when 50 per cent was sold to TH Real Estate, which is accounted for as a joint venture rather than as a 100 per cent owned subsidiary.

Investments in associates of £64.8 million represent our interests in India, which comprise a 32 per cent interest in Prozone (£45.1 million), a shopping centre developer listed on the Indian stock market, and a direct interest in Empire (£19.7 million). Prozone and Empire own and operate shopping centres in Coimbatore and Aurangabad, with Coimbatore recently opened in 2017.

Net external debt of £4,835.5 million has increased by £471.4 million primarily from funding our acquisition of Madrid Xanadú as well as capital expenditure in the year. Cash including the Group's share of joint ventures has reduced slightly by £13.4 million to £278.2 million and gross debt has increased by £458.0 million to £5,113.7 million.

Derivative financial instruments comprise the fair value of the Group's interest rate swaps. The net liability at 31 December

### Net asset value per share (pence)



## Balance sheet summary

	2017			2016
	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	9,179.4	1,013.1	10,192.5	9,944.5
Investment in joint ventures	735.5	(735.5)	-	-
Assets and associated liabilities classified as held for sale	302.9	-	302.9	-
Investment in associates and other investments	81.6	-	81.6	80.7
Net external debt	(4,585.6)	(249.9)	(4,835.5)	(4,364.1)
Derivative financial instruments	(347.5)	(2.3)	(349.8)	(380.0)
Other assets and liabilities	(237.1)	(22.2)	(259.3)	(234.7)
<b>Net assets</b>	<b>5,129.2</b>	<b>3.2</b>	<b>5,132.4</b>	5,046.4
Non-controlling interest	(54.2)	(3.2)	(57.4)	(67.6)
<b>Attributable to shareholders</b>	<b>5,075.0</b>	<b>n/a</b>	<b>5,075.0</b>	4,978.8
Fair value of derivative financial instruments	347.5	2.3	349.8	380.0
Other adjustments	100.2	(2.3)	97.9	76.3
Effect of dilution	-	-	-	2.6
<b>Net assets (diluted, adjusted)</b>	<b>5,522.7</b>	<b>n/a</b>	<b>5,522.7</b>	5,437.7
<b>NAV per share (diluted, adjusted) (pence)</b>	<b>411p</b>	<b>n/a</b>	<b>411p</b>	404p

2017 is £349.8 million, a decrease of £30.2 million from 2016, primarily due to cash payments in the year and the increases in sterling swap rates, with the five-year and 10-year rates increasing by 17bps and 4bps respectively. Cash payments in the year totalled £47.1 million, £26.1 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.



## intu Chapelfield

A joint-venture partner was introduced in line with the December 2016 valuation

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 2017 these interest rate swaps have a market value liability of £235.4 million (31 December 2016: £253.2 million). It is estimated that we will be required to make cash payments on these interest rate swaps of around £28.5 million in 2018, reducing to around £19 million per annum in 2021.

Assets and associated liabilities classified as held for sale of £302.9 million relate to intu Chapelfield.

The non-controlling interest at 31 December 2017 relates primarily to our partner's 40 per cent stake in intu Metrocentre.

We are exposed to foreign exchange movements on our overseas investments. At 31 December 2017 the exposure is 10.6 per cent of net assets attributable to shareholders. Once the Eurofund expected future interest in the share capital of the intu Costa del Sol development company concludes, we expect this to reduce to 9.7 per cent, below the Group's policy of a maximum of 10 per cent.

## Cash flow

During 2017 cash and cash equivalents decreased by £26.6 million.

Cash flows from operating activities of £140.9 million is £9.5 million higher than 2016, primarily due to the acquisitions in the year.

Cash flows from investing activities reflect the net cash outflow for our acquisition and then subsequent 50 per cent part disposal of Madrid Xanadú as well as cash outflow related to capital expenditure during the year.

Cash flows from financing activities include net debt drawdowns of £539.2 million primarily to fund our acquisition of Madrid Xanadú as well as development spend. We paid cash dividends during the year of £188.0 million.

## Cash flow summary

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
<b>Group cash flow as reported</b>		
Cash flows from operating activities	140.9	131.4
Cash flows from investing activities	(518.1)	(243.4)
Cash flows from financing activities	350.2	88.7
Foreign currency movements	0.4	1.4
<b>Net decrease in Group cash and cash equivalents</b>	<b>(26.6)</b>	<b>(21.9)</b>

## 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 Revolving Credit Facility (RCF) as well as the £375 million 2.875 per cent convertible bonds 2022 and £160.4 million outstanding in respect of the 2.5 per cent convertible bonds 2018.

During 2017 we undertook the following financing activities:

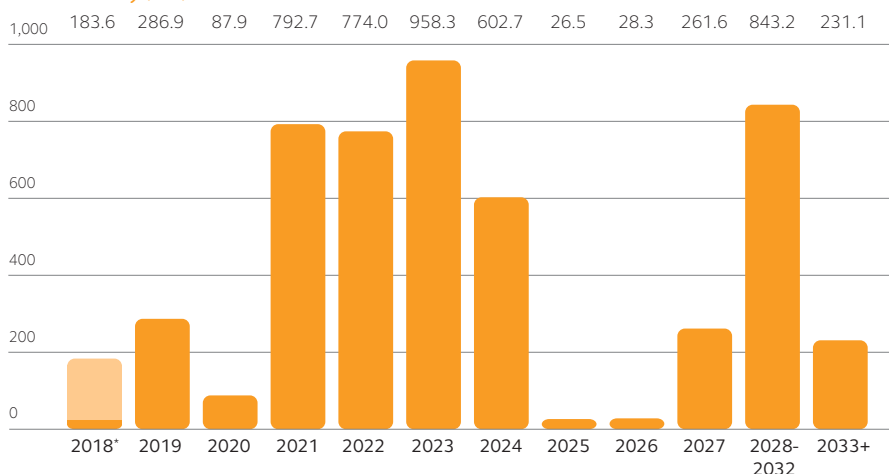
- agreed a new £140 million facility secured against intu Milton Keynes, replacing the previous £125 million loan, maturing in 2019
- agreed a €263 million (£231 million) facility in connection with the acquisition of Madrid Xanadú, maturing in 2022; intu's share is €131.5 million
- agreed a new £488 million facility secured on intu Merry Hill, replacing the previous £500 million short-term facility put in place in 2016 on acquisition of the remaining 50 per cent, maturing in 2024



#### intu Merry Hill

We refinanced intu Merry Hill in the year, with a new £488 million debt facility.

#### Debt maturity (£m)



\* 2018 includes £160 million convertible bond which at current level is now expected to be paid in cash.

- agreed a £250 million loan secured on intu Trafford Centre, maturing in 2022
- purchased and subsequently cancelled £139.6 million of the £300 million 2.5 per cent convertible bonds 2018. £160.4 million of these convertible bonds remain outstanding at 31 December 2017

Since the year end, we have agreed a new £74 million facility secured on our interest in intu Chapelfield, maturing in 2023.

The chart above illustrates that we have no major refinancing requirement due until 2021.

On a pro forma basis, our debt to assets ratio has increased to 45.2 per cent since 31 December 2016 due to the acquisition

and part disposal of Madrid Xanadú and remains below our target maximum level of 50 per cent. Our weighted average debt maturity has decreased to 6.6 years and the weighted average cost of debt has decreased slightly to 4.2 per cent (excluding the RCF).

Interest cover of 1.94x is broadly unchanged in the year and remains above our targeted minimum level of 1.60x.

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 interest rate protection on a pro forma basis has increased in the year to 95 per cent within our policy range of between 75 per cent and 100 per cent.

#### Debt measures

	31 December 2017	31 December 2016
Debt to assets	45.2% <sup>1</sup>	43.7%
Interest cover	1.94x	1.97x
Weighted average debt maturity	6.6 years	7.1 years <sup>2</sup>
Weighted average cost of gross debt	4.2%	4.3%
Proportion of gross debt with interest rate protection	95%	88%
Cash and available facilities	£833.1m <sup>1</sup>	£922.3m

- 1 Pro forma for the £148 million disposal of 50 per cent part of intu Chapelfield.
- 2 Pro forma for the refinancing of intu Milton Keynes, completed February 2017.

## 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 £6 million equity cure.

## Capital commitments

We have an aggregate commitment to capital projects of £267.6 million at 31 December 2017 (31 December 2016: £257.0 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

The Group has tax exempt status in the UK (REIT) and for certain investments in Spain (SOCIMI) which provide exemption from corporation tax on rental income and gains arising on property sales, with tax instead being paid at shareholder level. See glossary for further information on REITs and SOCIMIs.

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.

We have published 'intu's Approach to Tax' in respect of the year ending 31 December 2017 on the Group's website [intugroup.co.uk](http://intugroup.co.uk) which provides further information about the Group's tax strategy.

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 2017 the total of such payments to tax authorities was £28.5 million (2016: £20.6 million), of which £26.0 million (2016: £20.0 million) was in the UK and £2.5 million (2016: £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 £280.6 million in 2017 (2016: £292.2 million).

### Dividends

The Directors are recommending a final dividend of 9.4 pence per share bringing the amount paid and payable in respect of 2017 to 14.0 pence, unchanged from 2016. 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 2017, the Company has distributable reserves of £977 million, sufficient to cover around five years of dividends at the 2017 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

22 February 2018

### Madrid Xanadú

In March we increased intu's presence in Spain with the acquisition of a centre in the capital



# Our people

We are proud of our employees' commitment to our vision and purpose – creating compelling and joyful experiences for customers and helping retailers flourish



## Highlights of the year

- all our centres achieve the Investors in People gold award
- our first apprentices take up permanent roles in intu
- pensions auto-enrolment successfully implemented for intu Retail Services
- our consolidated staff data system, iTrent, extended to intu Retail Services

## Our culture

Our purpose is simple – to create compelling, joyful experiences that surprise and delight our customers and make them smile. This is the key to achieving our commercial focus – running the most popular shopping centres in the UK and Spain. It is an intentionally simple focus that can be understood and delivered by everyone in the organisation.

Our culture permeates our business. Everyone, regardless of role or seniority, goes through the same brand immersion to understand our purpose and our values. Our values – bold, creative, genuine – encourage us all to behave in the right way and do the right thing: for our customers, our retailers, the environment and society. Our people understand if they apply our values in their work they will help create a successful and responsible business. Our culture drives our business.

From our apprentices to our senior asset managers our employees are vital to fulfilling our purpose. Our people 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 for our 35 million visitors and thousands of retailers. In return, we aim to be a great employer, promoting diversity and inclusion, treating our employees fairly and enabling them to grow professionally and personally.

## A united and successful team

We employ 2,589 staff: 2,467 employed in 17 locations across the UK, in 16 centres and our head office in London, 39 in our Madrid office and now 83 at Madrid Xanadú. Of the UK staff, 2,036 are directly employed by our in-house facilities company, intu Retail Services. This year we have extended the unified employee database and payroll system, iTrent, to bring all our intu Retail Services and intu Management Services employees together under a single system for the first time.

We have strong recruitment processes to recruit the best people, and a system that gives employees career progression so we can fill roles internally. This year 54 staff were recruited from within and 375 externally. Many of these were to new roles as we adapt to changing markets.

We are the first shopping centre landlord to be able to boast the gold Investors in People award across our UK portfolio. The award recognises our commitment to our people and their role in our business.

## Diverse and inclusive

Diversity is important to us – as a people business with over 400 million customer visits a year our workforce should both reflect and understand our customers and the communities around our centres. We have at least 27 different nationalities and the ethnic background of our staff is close to that of the country as a whole.

We maintained our position in the top 20 per cent of FTSE 250 and 350 companies for the number of women at board, senior and executive management levels – with over 30 per cent of female staff at this level (FTSE Women Leaders, Hampton-Alexander Review 2017). We continued to work with the Mentoring Foundation, to enhance the opportunities for women to reach executive roles.

In order to attract a diverse range of candidates, we are part of an industry initiative, Pathways to Property, to provide work experience for school students from less traditional backgrounds

We are signed up to the National Equality Standard (NES). Having completed the initial assessment process we have a plan in place to meet the standard by 2019.



## Gender pay gap



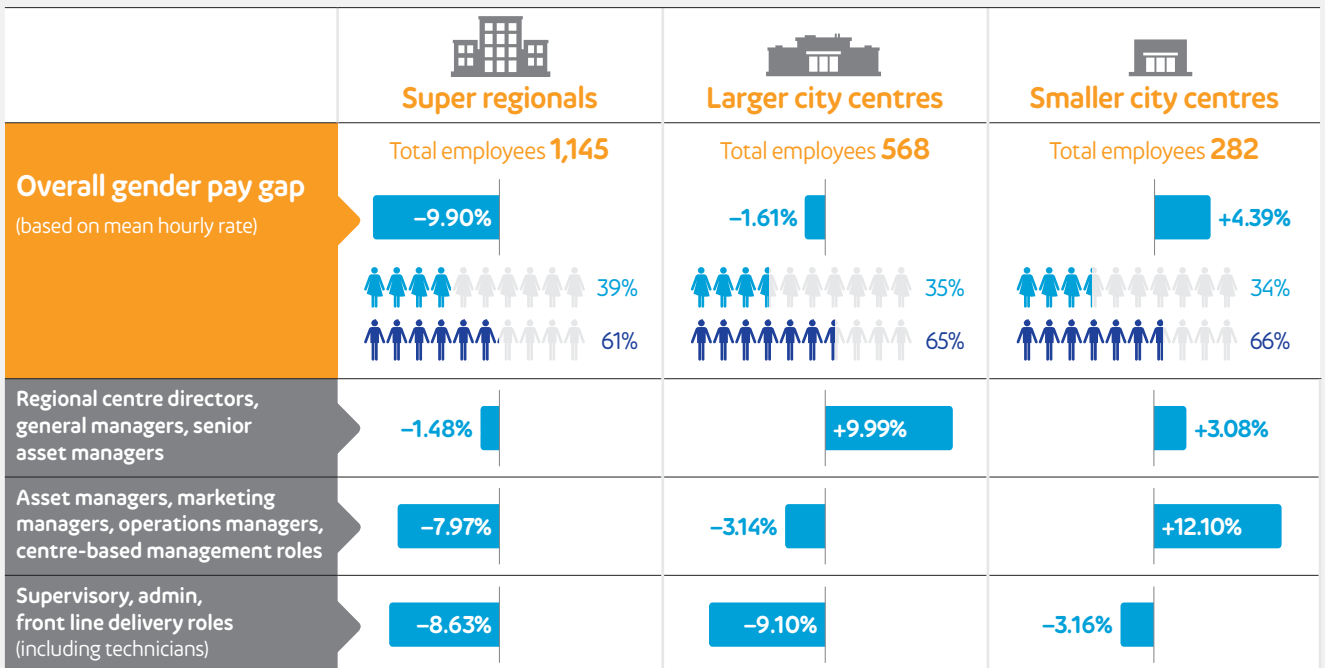
We welcome the new gender pay gap legislation and increased pay transparency that will result. The gender pay gap compares the average pay for men and women in our business. If there are more men than women in senior positions, as is currently the case at intu, this results in the overall average of the pay of men being higher than that of women.

The gender pay gap is different to equal pay, which takes into account the nature of a role and its seniority. We regularly review the pay across the organisation with the aim of ensuring that the pay of men and women is the same for equivalent roles and seniority.

Our median pay and bonus gaps are significantly smaller than the national picture with a slightly higher proportion of women than men receiving bonuses. Our higher mean bonus gap is largely due to the current significantly higher proportion of men in the most senior positions.

	<b>Pay gap</b> Difference between the average pay of men and women	<b>Bonus gap</b> Difference between the average bonus paid to men and women	Proportion of women receiving a bonus	Proportion of men receiving a bonus
<b>Median</b>	<b>2.6%</b>	<b>0.0%</b>	<b>84.7%</b>	<b>84.5%</b>
<b>Mean</b>	<b>7.8%</b>	<b>51.5%</b>		

The chart below shows the gender pay gap for different groups of employees within the business. In a number of areas we have a negative gender pay gap, which means that the average pay of women is higher than that of men.



Female employees Male employees

[Read more at intugroup.co.uk](http://Read more at intugroup.co.uk)

### A good job

Part of being a great employer is treating our staff members fairly and paying them properly. All our staff over 18 who have completed their probation are paid above the National Living Wage, even staff not strictly covered by regulation. We ended all zero-hour contracts in 2016.

We are committed to ending the gender pay gap and we comply fully with the

Equality Act Gender Pay Gap Information regulations as they come into force. See infographic above.

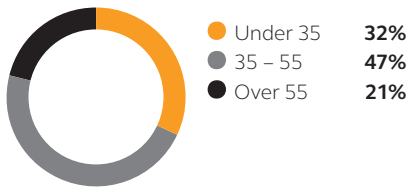
### Talent development

Our learning and development team run a programme of internal and external training for the whole business. Customer Journey training helps centre teams enhance the customer experience of intu. Steps to Success training, for security,

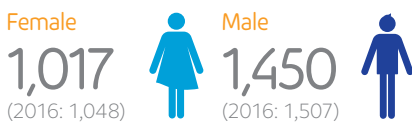
customer and environmental services teams, ensures the services they provide are consistent and legally compliant. These programmes keep us at the forefront of being a master operator and enable us to deliver our world class service.

## Our people continued

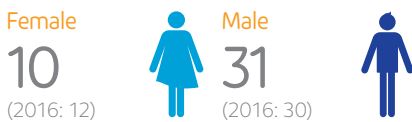
### Age profile



### UK gender profile



### UK gender profile senior managers



We have expanded our webinar-based training for management development and continued our Leadership Development programme to develop individuals. This year eight candidates completed a 12-month development journey to cultivate their leadership skills.

intu was the first major property company to have a national apprenticeship scheme, now in its third year. The pilot group have completed their training and all six gained permanent jobs within the business. The second cohort of 14 has moved into their second year and nine new recruits will begin their training in 2018.

### Rewarding excellence

Since 2016 we have been piloting performance management schemes that connect more closely to our business strategy, linking performance, strategy and reward. We are now rolling these out across the business and have recruited a rewards manager to benchmark staff, harmonise terms and conditions and develop more tailored incentive and recognition schemes.

Our employee reward and recognition programme Win Your Dream celebrates employees across intu who have gone

above and beyond. In 2017, its third year, around a thousand employees were rewarded for making people smile. This year's winner was Joseph Mifsud, an Orient Support Assistant at intu Trafford Centre.

### Employee engagement

Ensuring our staff understand our business and know how they can contribute to intu's success continues to be crucial to our progress. It has been integral to our success so far and was part of our promise to our staff when we rebranded to intu. We use a range of channels to communicate with staff: our intranet Mint, employee magazine Chorus, insight, strategy presentation, twice-yearly results presentations and staff briefings. Each location has its own staff forum.

Since November 2012 we have run an annual employee survey with consistently high employee engagement scores (in the region of 750). The 2017 staff survey has been postponed until spring 2018 to allow us to consider the information the survey has supplied, combined with information from all our other sources, such as Investors in People, NES, customer surveys, Tell intu and other insight, to put really meaningful actions in place.

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

### Our plans for 2018

- build on the intu culture in the UK and Spain through stronger performance management and staff engagement
- focus on equality, diversity and inclusion, including further progress to reduce the gender pay gap
- enhance the talent pipeline through graduate, management and leadership development schemes
- greater alignment of intu Retail Services terms and conditions and processes
- mitigate the risk of employee uncertainty leading to short-term skill gaps during the proposed corporate transaction



### The graduates

Senior development managers Oliver Hunt and Simon Crouch started as graduates at intu. "From the beginning we were given real projects and were rewarded for our hard work and commitment," says Simon. "My early work covered activities from planning to procurement, from purchasing an interest to selling a centre," says Oliver.

They are now managing multimillion pound development projects and mentoring the next generation of graduates. "Retail has always been a dynamic sector," says Simon. "Working at intu gives us a real opportunity to help shape the future of shopping."


### Human rights

At intu we respect the dignity, liberty and equality of everyone we work with. 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.

### 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 responsibilities.

 [Read more at intugroup.co.uk](http://intugroup.co.uk)

# Corporate responsibility

Making a meaningful difference is important to us. We work with our stakeholders to create shared benefit through economic value generation, community investment and sustainable use of resources



## Accessible intu

This year we held the first mass Autism Quiet Hours with the National Autistic Society. On 2 October, we dimmed our lights, turned down the music and welcomed autistic customers to enjoy our centres in a quieter environment. We were delighted that every retailer also got involved. Each centre is now creating their own regular quiet hours for their customers.

We are delivering additional support for the wide range of disabilities our customers may live with. We launched a personal shopping service for blind customers at intu Braehead and intu Merry Hill. intu staff volunteers accompany customers with visual impairments around our centres to assist them in their shopping. Not only that, many of our customers and staff volunteers have struck up friendships, making the visit not just about getting those special purchases but also a social visit too.

 [Read more in our 2017 CR report](#)

Our culture of behaving responsibly underpins our approach to CR. We work with our stakeholders to address social and environmental issues that deliver value beyond immediate financial return.

We focus on delivering positive change in our communities and on operating with minimum impact on the environment. Good relationships and partnerships are integral to everything we do.

## Operational review

We have had a successful year in both our work with communities and our efforts to reduce our environmental impact, having met many of our 2020 environmental targets three years early.

We have surpassed our ambitious target of a 50 per cent reduction in carbon intensity by 2020 based on our 2010 levels. Using a mix of technology and behaviour change interventions we are proud this year to have reached a total carbon reduction of 58 per cent from 2010 emissions. This has saved 144,000 tonnes of carbon and reduced our energy costs by £25 million.

We also maintained our 'zero waste to landfill' status for the second year, meaning we diverted 28,000 tonnes of waste from landfill and saved £2.4 million in associated landfill costs. However, due

to market factors, including China's ban on the importing of waste for recycling, our recycling rate has fallen by 11 per cent to 63 per cent. Recycling rates will continue to fall until new markets are found as there is insufficient provision in the UK to handle the quantity we produce.

Last year we set up the Green Lab, our sustainability innovation group, to drive forward a range of sustainability initiatives across the business. Following the introduction of renewable energy generation and food waste trials last year, this year we have focused on working with sustainability consultants, Bioregional, to test new innovations that can be rolled out across the business. We are trialling some of these ideas on the upcoming intu Broadmarsh redevelopment. Next year we plan to explore further innovations in our operations.

Our strong and open relationships with our stakeholders means we have delivered real and lasting change in our communities. This year our wide-ranging community investment – which focuses on skills and employment, health and wellbeing, and social inclusion – benefited 3,645 people. Feedback showed 71 per cent of responders reported experiencing a positive change in their quality of life.

Jobs in our centres continue to form a significant proportion of the UK's retail sector employment – we are responsible for about 3 per cent of all jobs in the sector. The majority of these are locally employed, meaning the wealth we create is captured locally.

This year we are reporting on our sustainability performance in Spain in our CR report and plan to include our Spanish assets in our future commitments.

 [Read more on our performance in the UK and Spain in our 2017 CR report](#)

# Corporate responsibility continued

## Making a meaningful difference: our contributions in 2017

Economic value we generate £4.6 billion GVA

**We are investing in the future**

**£1.9bn**

UK development pipeline over 10 years



**We contribute to the local and national economy**

**£281m**

business rates paid by intu and our tenants



**Our centres directly support a**

**£1.8bn**

wage bill per annum






### Community

**Our commitments**

- support relevant community initiatives
- extend employability programmes to all centres by 2025

#### Donations



**£1.9m** donated

Value of time	£703,885
In-kind	£512,884
Cash	£523,750
Facilitated	£178,853

#### Positive change



Number of beneficiaries measured: 2,278

- Change in behaviour
- Change in skills
- Change in quality of life

### Employee engagement

Employee engagement in our responsibility programmes contributes to the development, engagement and wellbeing of our staff


**28,000hrs**  
given to the community by intu staff

### Environment

**Our 2020 targets**

- 50% reduction in carbon emissions
- 99% of waste diverted from landfill by 2020
- 75% of waste generated recycled

**58%**

reduction in carbon emissions TCO<sub>2e</sub> since 2010



**100%**

waste diverted from landfill (2016: 100%)

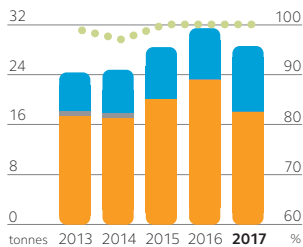


**80**

number of EV charging points

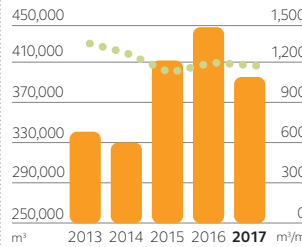


#### Waste disposal at directly managed centres



Year	Waste recycled (tonnes)	Waste to landfill (tonnes)	Waste to energy (tonnes)
2013	16	16	0
2014	16	16	0
2015	16	16	0
2016	16	16	0
2017	16	16	0

#### Water use at directly managed centres



Year	Absolute water consumption (m3)	Water intensity (m3/million customers)
2013	330,000	100
2014	330,000	100
2015	330,000	100
2016	330,000	100
2017	330,000	100

## Strategic review

As we near the end of our current set of 2020 targets, we are now finalising our 2030 strategy. We are using the opportunity to think about how we take forward our sustainability and make sure it integrates with our strategic objectives.

As part of this analysis, and following the review of our material issues last year, we have considered how long-term future trends, consumer trends and the key UN Sustainable Development Goals (SDGs) will affect our business and scope the big issues into needs to focus on to deliver long-term value.



### Green Gyms – celebrating a 10-year relationship

Green Gyms® are conservation projects with a difference. There is strong emphasis on health and fitness, meaning volunteers improve both their health and the environment.

This year we celebrated a decade of partnership with The Conservation Volunteers (TCV). Together, we have worked with local authorities and communities to set up 10 Green Gyms near our centres.

Over our 10-year partnership we have delivered real social and environmental change. We have welcomed over 1,000 volunteers from the community, in addition to the intu staff who have given over 80,000 hours (3,000 days) to establish and maintain them – making everyone happier (attendees report a 21 per cent increase in happiness). We have also seen marked increases in biodiversity; kingfishers have been observed returning to the intu Merry Hill Green Gym.

This all leads to a £4 social return on every £1 invested in Green Gyms.



[Read more in our 2017 CR report](#)

We have identified the SDGs where we can make the biggest difference: decent work and economic growth, sustainable cities and communities and partnerships for goals.

We know we can make the biggest difference by creating economic inclusion in our communities through our employment and skills programmes, futureproofing our assets using One Planet Principles and using our relationships to mobilise and encourage participation from all stakeholders in our communities.

We recognise we are not immune to what is happening in the wider world and understanding how the world is likely to change over the next 10–30 years means we can prepare ourselves to take advantage of further growth opportunities and mitigate risks to our business.

We will combine our knowledge of what works with our understanding of sustainable future needs to create a 2030 strategy that builds on the successes we have delivered through our 2020 strategy.

### Materiality

Through our materiality process, stakeholders identified the core issues they consider most important for intu in coming years.



[Read more about our materiality process online](#)

### External benchmarking

Providing clear and accurate performance data for benchmarking against our peers is critical for providing investors with information on our long-term risk assessment and management, operational performance and added value. It also provides us with valuable information to help us respond to emerging trends and review our own practices.

Our performance in the Dow Jones Sustainability Index, for example, demonstrates we are leading in social integration and regeneration, being in the 93rd percentile; and our performance in the GRESB shows that we are leaders in our environmental and social disclosures.



### Meeting our carbon targets ahead of time

We have achieved our 2020 carbon targets three years ahead of schedule, through a groundbreaking programme to install LED lightbulbs throughout our centres.

In 2012 we set ourselves the target of reducing our carbon footprint by 50 per cent, from our 2010 footprint. Lighting accounts for up to 50 per cent of energy use in retail spaces so this was identified as the most significant aspect to tackle. We installed over 60,000 energy-efficient bulbs in several phases, achieving savings in one phase before moving onto the next.

We also introduced a new energy management system (ISO 50001) and appointed energy champions at each centre.

We will now set ambitious new energy-saving targets and have begun to trial onsite renewables at intu Chapelfield which we plan to roll out to other centres.

# 60,000+

LED lightbulbs installed at our centres

# 144,000 TCO<sub>2</sub>e

tonnes of carbon saved

# £25m

saved on our energy bills

# Governance



## 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 and its performance and oversight. We also provide the information on our governance framework which we consider is appropriate for a UK premium-listed company.

### 2017 governance highlights

#### Succession planning

It has been an exceptionally active year for the Nomination and Review Committee with significant changes to the Board's composition. Patrick Burgess retired from the Board following the annual general meeting (AGM) in May 2017 after nearly nine years as Chairman. Andrew Huntley, Non-Executive Director and Senior Independent Director (SID), also retired from the Board in May 2017. In accordance with the process established by the Board, Andrew Huntley chaired a Nomination and Review sub-committee to oversee the search for a new Chairman. The sub-committee comprised Andrew Huntley, Adèle Anderson and Steven Underwood. Korn Ferry Whitehead Mann was engaged to assist with the search. The independent non-executive directors also contributed to the process, all being entitled to attend Nomination and Review Committee meetings when Board succession matters were being discussed.

### Effectiveness and evaluation

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

The Board consists of nine directors, including myself. The directors bring a wide range of skills and perspectives to the Board's deliberations, as described on the following pages. In relation to gender diversity we have three female Board members (33 per cent), which meets the Lord Davies' 2020 target of 33 per cent. As highlighted in the Nomination and Review Committee's report on page 76, the Board considers that broader aspects of diversity, rather than purely gender, are key to stimulating constructive debate.

During 2017 we conducted an externally facilitated Board performance evaluation and the findings provided a further opportunity to continue to enhance the Board's contributions through improved communication and best practice.

### John Strachan Chairman

22 February 2018

#### Compliance with the April 2016 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 on the FRC website ([frc.org.uk](http://frc.org.uk)).

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



## Board in action

Centre teams around the country played host to a series of visits from the Chairman and Chief Executive as part of the Chairman's induction.

As part of the visits, which each lasted half a day, John Strachan and David Fischel were given a centre tour by the general manager. They then spent time meeting staff from all areas of the centre team over a cup of tea and a bite to eat with centres bringing a local twist such as eccles cakes at intu Trafford Centre.

They met and spoke to hundreds of staff from housekeeping teams to security, customer services to business support and technical services to car park hosts and gardeners. Topics were varied as staff quizzed John and David on company plans and policies, corporate responsibility, and their views on the economy and Brexit as well as more personal questions such as which sports teams they supported and their all-time favourite films. But it wasn't all one way – John and David found it invaluable to learn more about the finer details of people's jobs, discuss any staff concerns and importantly to hear a host of new ideas that the staff had about keeping intu at the forefront of the retail and leisure market.

“It was fantastic to meet John and David and talk with them about the future of the centre.”

Kyra Massey  
Customer Service Team Leader, intu Merry Hill

# Board of Directors

## Chairman, Deputy Chairman and Executive Directors



### John Strachan

Chairman

Age 67 ●●●●

**Appointed to the Board:** 7 October 2015 and as Chairman on 3 May 2017

**Career:** John was Global Head of Retail Services and Chairman of the Retail Board at Cushman & Wakefield until 2015. John's career commenced at Healey & Baker 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 known for his creative and entrepreneurial approach to developing new business opportunities. He is a fellow of the Royal Institution of Chartered Surveyors (RICS)

**Other appointments:** Advisory Board member of True Private Equity; Vice-Chairman European Board of the International Council of Shopping Centres



### John Whittaker

Deputy Chairman

Age 75 ●

**Appointed to the Board:** 28 January 2011

**Career:** John 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, MediacityUK and Liverpool2. 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 59 ●●●●

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

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

**Skills and experience:** During his 32-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



### Matthew Roberts

Chief Financial Officer

Age 54 ●●●

**Appointed to the Board:** 3 June 2010

**Career:** Matthew qualified as a chartered accountant in 1989 and 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 £5 billion of leverage. In January 2016 Matthew also assumed responsibility for intu's centre-based operations

**Other appointments:** Non-Executive Director and Audit Committee Chairman of Marston's PLC

## Non-Executive Directors



### Adèle Anderson

Chairman of the Audit Committee

Senior Independent Director

Age 52 ●●●●●

**Appointed to the Board:** 22 February 2013, Audit Committee Chairman from 1 August 2013 and Senior Independent Director on 3 May 2017

**Career:** Adèle commenced her career at KPMG where she became a partner and held senior roles including Chief Financial Officer. She is currently Audit Committee Chairman at easyJet plc and Spire Healthcare Group plc and an Audit Committee member at the Wellcome Trust

**Skills and experience:** Adèle graduated from Kent University and is a qualified ACA. She has gained extensive financial and significant Audit Committee experience throughout her career

**Other appointments:** Audit Committee Chairman at easyJet plc and Spire Healthcare Group plc and Audit Committee member at the Wellcome Trust



### Richard Gordon

Age 59

**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 43 ●●●

**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



**Lady Patten**

**Chairman of the Remuneration Committee**

Age 64 ●●

**Appointed to the Board:** 22 September 2011

**Career:** Louise 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 Advisor

**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, Harveys Furnishings plc and Control Risks Group

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



**Andrew Strang**

Age 65 ●●●

**Appointed to the Board:** 8 July 2009

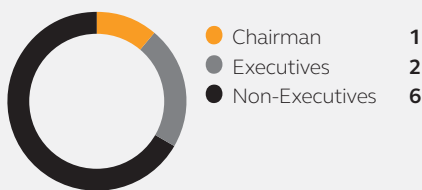
**Career:** Andrew started his career with Richard Ellis 40 years ago. He served as Managing Director of Threadneedle Property Investments Limited for 17 years until January 2008 and Chairman of Hermes Real Estate Investment Management from 2009 to 2011. He was a Director of the British Property Federation 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 Real Estate Management Advisory Board and 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

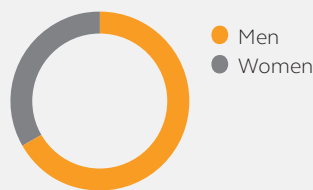
**Other appointments:** Non-Executive Director of Capital & Counties Properties plc

**Structure of the Board and independence**

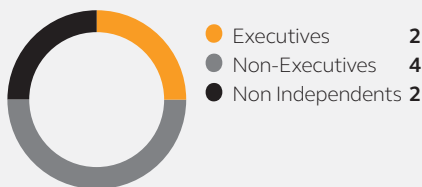
**Board structure**



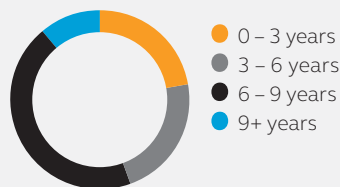
**Gender split**



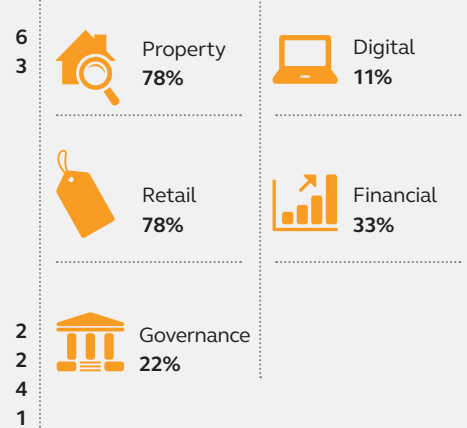
**Board independence (excluding Chairman)**



**Length of tenure of Directors**



**Board relevant sector experience (percentage of Board)**



**Key to Committees**

- Audit Committee
- Executive Committee
- Remuneration Committee
- Corporate Responsibility Committee
- Nomination and Review 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 and 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 in January 2011 and was appointed Operations Director in November 2013. He spent 20 years in various roles with Marks & Spencer before taking up an assignment with Manchester Millennium Limited, the taskforce 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:

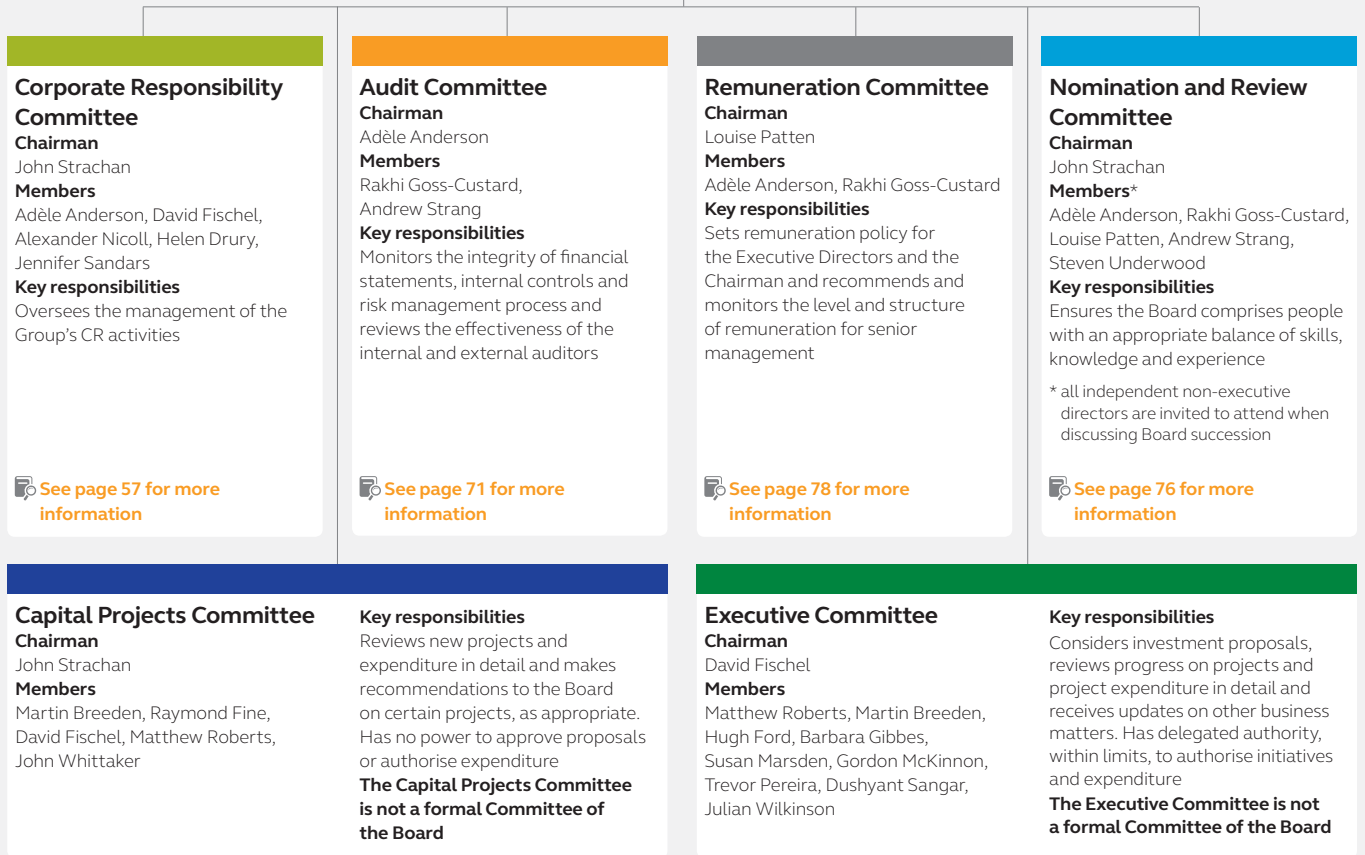
[intugroup.co.uk/en/about-us/our-people/](http://intugroup.co.uk/en/about-us/our-people/)

# The Board

## The role of the Board and its committees



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.



### Key strategic matters discussed in 2017

#### Optimising asset performance

- review and approval of the Group's strategic plan
- approval of refinancings and restructure of Secured Group Structure
- acquisition of Madrid Xanadú shopping centre and subsequent joint venture creation with TH Real Estate
- creation of 50/50 joint venture for intu Chapelfield

#### 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
- company-wide 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 monitoring of risk modelling and analysis, including cybersecurity risk and the impact of the UK's EU referendum vote
- repurchase of £139.6 million in aggregate principal amount of £300 million 2.5 per cent convertible bonds due 2018 issued by subsidiary
- succession-planning for the Board
- continued oversight of strategic and operational delivery
- recommended all-share offer by Hammerson

### Areas of focus in 2018

- continuing monitoring of risk modelling and analysis
- monitoring and progression of corporate objectives for 2018
- continuing oversight of strategic and operational delivery, including the Hammerson transaction

## 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 bold, creative and genuine.

 Further information on intu's culture and values can be found on page 54

### 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. The Board fully supports the Group's approach to CR with the Chairman of the Board chairing the Board CR Committee. The Board CR Committee's members also include the Chief Executive and the Chairman of the Audit Committee.

 Further details of our CR activities can be found in the 2017 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 30 and 31 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 65)
- 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 Group's anti-bribery and corruption training and controls were reviewed and enhanced, including the launch of a dedicated e-learning compliance platform and a new online gifts and hospitality tool. Furthermore, in response to the introduction of the Criminal Finances Act 2017, the Group undertook a risk assessment of whether it has reasonable procedures in place to prevent the criminal facilitation of tax evasion with further training and monitoring being planned for implementation during 2018.

## Roles and responsibilities

Role		Responsibilities
<b>Chairman</b>	John Strachan	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
<b>Chief Executive</b>	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
<b>Chief Financial Officer</b>	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
<b>Independent Non-Executive Directors*</b>	Adèle Anderson Rakhi Goss-Custard Louise Patten 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
<b>Senior Independent Director</b>	Adèle Anderson	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
<b>Non-Independent Non-Executive Directors</b>	Richard Gordon John Whittaker	<p>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</p> <p>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</p>
<b>Alternate Directors</b>	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 non-executive directors are independent.

 Biographical details of each director are set out on pages 62 and 63

## 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 63.

#### 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. All directors are submitted for 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

#### 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 2017<sup>1</sup>

	Board	Audit	Nomination & Review	Remuneration
John Strachan	4/4 <sup>3</sup>	2/2 <sup>5</sup>	1/2 <sup>3</sup>	3/3 <sup>5</sup>
Patrick Burgess <sup>4</sup>	2/2 <sup>3</sup>	–	–	1/1
John Whittaker	4/4	–	– <sup>2</sup>	–
David Fischel	4/4	4/4 <sup>3</sup>	2/2 <sup>5</sup>	4/4 <sup>5</sup>
Matthew Roberts	4/4	4/4	–	–
Andrew Huntley <sup>4</sup>	2/2	–	–	1/1
Adèle Anderson	4/4	4/4 <sup>3</sup>	2/2	4/4
Richard Gordon	4/4	–	–	–
Rakhi Goss-Custard	4/4	4/4	2/2	2/2
Louise Patten	4/4	–	2/2	4/4 <sup>3</sup>
Andrew Strang	4/4	4/4	2/2	–

- 1 Scheduled meetings only, excludes Board away day, Spanish centre visit, Board and Committee update conference calls and ad hoc meetings.
- 2 Steven Underwood, Alternate Director to John Whittaker, was appointed to the Nomination and Review Committee on 3 May 2017.
- 3 Board or Committee chairman.
- 4 Patrick Burgess and Andrew Huntley stepped down from the Board following the 3 May 2017 annual general meeting.
- 5 Attends meetings in a non-voting capacity.

At each scheduled Board meeting, the Executive Directors 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.

review. Each director has demonstrated that he or she has sufficient time to devote to their present role at intu.

#### Conflicts of interest

The Board has adopted a formal procedure under which directors must notify the Chairman of the Board 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 recuse themselves 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.

## 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 38 and 39, and the Group's principal risks are discussed on pages 40 and 41. 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 2016 with the exception of cybersecurity, which saw an increase in likelihood but the severity of its potential impact has reduced. No significant new risks were identified.

 **Principal risks and uncertainties are discussed in further detail on pages 40 and 41**

“Appropriate and effective corporate governance is taken seriously at intu and is intrinsic to all aspects of the Board's activities.”

## 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 advisors, including but not limited to the Director of Risk and Assurance, the Company Secretary and Deloitte LLP, who act as the Remuneration Committee's consultants.

The Chairman of the Board 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 2017 included:

- results meetings and update calls: an average of 50 institutions attended each announcement
- road show meetings: following results announcements we conducted around 200 meetings in the UK, South Africa, US and Europe
- investor conferences: we attended nine real estate conferences organised by investment banks, meeting 110 institutions
- site visits: toured Madrid Xanadú and intu Lakeside with 30 investors and 15 sell-side analysts
- interaction with sell-side analysts: engaged with analysts from around 20 institutions to ensure the insight of their research was accurate

390

investor interactions in 2017



# 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 2017 was 7.5 years
- the Group's weighted average debt maturity, which at 31 December 2017 was 6.6 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 including the recycling of capital 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 ratio, underlying earnings per share and financial headroom and also models the impact of potential corporate transactions.

Principal risks are set out in detail on pages 40 and 41, and the relevant risks for assessing viability have been identified as:

- macro-economic; specifically impact on rental income levels, property values and covenant 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)

The Directors also consider the impact on the Group's financial position of changes in key input assumptions including asset values, income and refinancing after mitigation strategies including property sales not included in the plan. Key assumptions and sensitivities addressed include:

- ability to recycle capital as planned
- refinancing of debt; £2.1 billion (around 42 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 2017

- developments
- international operations
- culture
- completion of audit tender process

## Members in 2017

### Chairman

**Adèle Anderson**

(Independent Non-Executive Director)


### Members

**Rakhi Goss-Custard**

(Independent Non-Executive Director)

**Andrew Strang**

(Independent Non-Executive Director)

 For members' other Board appointments, skills and experience see Board of Directors on pages 62 and 63

## Areas of focus in 2018

- financial information and risk management in relation to potential business combination
- developments
- property valuations
- procurement
- cybersecurity
- culture

## Dear shareholder

As the Chairman of the Audit Committee it is my role to present to you the Audit Committee report for 2017.

The Audit Committee has this year continued to focus on risk management, specifically in relation to our developments in the UK and our expanding operations in Spain, as well as continued to receive twice-yearly reviews of cyber risks. The Audit Committee also conducted a review of the Group's culture and concluded the audit tender process.

The Group's approach to risk management is described in detail on pages 38 and 39 and the principal risks are detailed on pages 40 and 41.

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.

PricewaterhouseCoopers (PwC) has been intu's audit firm for more than 20 years and a tender process was commenced in 2016 and concluded in 2017. Since the conclusion of this process the proposed combination with Hammerson has been announced, and consequently it has been decided to defer the appointment of a new auditor until the outcome of this approach is clear. Under the applicable transitional rules PwC is able to act as intu's auditor until 2020.

Following our annual review of auditor quality and independence (see page 73 for more detail), we have recommended that PwC be reappointed for the 2018 audit.

## 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 2017:

- valuation of the Group's investment and development property, including the first external valuation of the land at intu Costa del Sol
- the Group's culture
- the Group's cybersecurity plans
- accounting treatment of the most significant transactions including the acquisition and subsequent disposal of a 50 per cent interest in Madrid Xanadú, the 50 per cent disposal of intu Chapelfield, completed 31 January 2018, and the future equity interest of Eurofund in the intu Costa del Sol development
- the 2017 internal audit plan and audit charter
- the viability statement
- compliance with the Criminal Finances Act, including the Group's approach to prevention of the facilitation of tax evasion

## Audit Committee continued

### Key financial reporting and significant judgements

During the year the Audit Committee discussed the planning, progress and final conclusions of the external audit process. The audit plan was reviewed and approved at the July 2017 Audit Committee meeting. The significant risk areas identified were: investment and development property valuations; significant transactions during the year; revenue recognition; and management override of controls. International Standards on Auditing (UK) identify these latter two risks as significant for all companies.

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

The Audit 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 Audit Committee in the year are detailed in the table below.

Issue	Action taken
<b>Valuation of investment and development property</b>	<p>For the interim results at 30 June 2017 the Audit Committee carried out a review of the investment property valuations. The full Board carried out a review of the 31 December 2017 valuations included in this report.</p> <p>Due to the overall importance of the valuations to the Group's results, the relevant Audit Committee meeting included a presentation from and discussion with Knight Frank as part of the valuation process and the relevant Board meeting included a presentation from Cushman &amp; Wakefield.</p> <p>The Audit Committee review included discussion with management and the external auditor of the key assumptions and results of the valuation process undertaken by the independent third party valuers.</p> <p>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.</p> <p>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. The Audit Committee specifically considered the appropriateness of the special assumption that the development land at intu Costa del Sol is valued as if all planning consents are in place at the balance sheet date, and the sensitivity of this valuation to projected income and cost assumptions.</p>
<b>Presentation of information</b>	<p>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 165 to 168.</p> <p>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.</p>
<b>Going concern</b>	<p>The Company's 'going concern' review, which is based on 18-month cash flow projections 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.</p> <p>Stress tests of the projections were considered, covering reductions in the value of the Group's properties, a fall in income as well as the inability to execute the capital recycling transactions, 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 and analysis also considered what actions were available to the Group to mitigate the impact of such reductions on the cash flow projections.</p>
<b>Viability statement</b>	<p>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 70 and sets out the conclusion of that assessment.</p> <p>The same stress tests as outlined in the Going concern section above were conducted on the projections underpinning the viability assessment.</p> <p>The Audit Committee assessed the viability position and reported its recommendations to the Board.</p>

### Fair, balanced and understandable

At the request of the Board, the Audit Committee considered whether the 2017 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 Audit 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 Audit 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 2016 audit plan with the engagement team and incorporated any findings into the 2017 plan
- the Chair 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 concluded during the first half of 2017 with Deloitte being selected for appointment for the year ending 31 December 2018. The tender process

was conducted in line with the requirements of EU Audit Regulation (537/2014) and Audit Directive (2014/56/EU) ('the regulations') which became applicable to the Group on 1 January 2017. Since the conclusion of this process intu has become the offeree in a takeover approach, and consequently it has been decided to defer the appointment of a new auditor until the outcome of this approach is clear. Under the applicable transitional rules PwC is able to act as intu's auditor until 2020.

A resolution to reappoint PwC for the 2018 audit will be proposed at the 2018 annual general meeting. The Audit Committee will continue to review the effectiveness and independence of the external auditor each year.

### Non-audit services

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.

The Audit Committee 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. The three-year average ratio of non-audit fees to audit fees is 8 per cent.

	2017 £000	2016 £000	2015 £000
Audit fees	789	705	628
Non-audit fees	49	48	96
Total fees paid to auditor	838	753	724
Ratio of non-audit fees to audit fees	6%	7%	15%

## Audit Committee continued

### **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 38 and 39 and the principal risks are detailed on pages 40 and 41.

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 right)
- 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

In the context of the Group's approach to risk management the Audit Committee commissioned a report on company culture. This consisted of consideration of key trends from the employee survey conducted in the second half of 2016, and a Group-wide review of culture, including workshops and questionnaires with staff across all levels at head office and at the centres. The results from this review helped the Audit Committee contextualise risks and risk management practices. The actions arising have been put on hold until after the completion of the potential business combination with Hammerson.

### **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 2017 included shopping centre health checks, business continuity, insurance, procurement and supply chain and culture. Additionally, annual assurance activities were performed, including a review of the assurance map and executive expenses.

### Committee membership

The Audit 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 Audit Committee has recent and relevant financial experience for the purposes of the UK Corporate Governance Code. Additionally, in accordance with the 2016 Corporate Governance Code 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 62 and 63.

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 38 and 39. The key recommendations have all been implemented.

### 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.

During the year the Audit Committee reviewed and strengthened the policy and procedures and a whistleblowing committee was established with set terms of reference, with key representatives from HR, Operations and Finance, which reports regularly to the Audit Committee. All whistleblowing incidents are reported to this whistleblowing committee which fully investigates each event and agrees any remedial action such as procedures being reviewed and improved where appropriate.

There were 10 whistleblowing incidents relating to the intu Group during 2017. These included:

- reported breach of health and safety procedures, following investigation of which one individual was dismissed and the other subject to disciplinary action
- reported security concerns within one centre, following which a thorough review took place and remedial action was taken
- two connected claims of professional misconduct, which resulted in disciplinary action
- one claim of professional misconduct which is still being investigated
- concern over the roadworthiness of a centre vehicle, which was proved to be without foundation
- two grievances which were deemed not to be whistleblowing incidents
- two further disclosures which, upon investigation, could not be substantiated

### 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

22 February 2018

# Nomination and Review Committee



## Highlights of 2017

- Chairman succession-planning
- Externally facilitated Board evaluation

## Members in 2017

### Chairman

**Patrick Burgess (until 3 May 2017)**

(Chairman of the Board)

**John Strachan (from 3 May 2017)**

(Chairman of the Board)

### Members

**Andrew Huntley (until 3 May 2017)**

(Independent Non-Executive Director)

**Adèle Anderson (from 3 May 2017)**

(Independent Non-Executive Director)

**Rakhi Goss-Custard (from 3 May 2017)**

(Independent Non-Executive Director)

**Andrew Strang (from 3 May 2017)**

(Independent Non-Executive Director)

**Louise Patten**

(Independent Non-Executive Director)

**Steven Underwood (from 3 May 2017)**

(Alternate Director for John Whittaker)

## Areas of focus in 2018

- continue refreshing of Board composition in line with succession plans
- continuation of process to ensure smooth succession of the Chairman

## Dear shareholder

2017 continued to be an important and busy year for the Nomination and Review Committee.

Having taken over the role of the Chairman in early May, I am committed to maintaining the high standards of the Nomination and Review Committee and ensuring that we continue to 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.

## Responsibilities and how they were discharged in 2017

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, by way of a questionnaire. The outcome of the review is summarised opposite.

The Committee met twice in 2017 with its main focus on the composition of the Board and succession-planning, in particular in relation to the succession of the Chairman, and in relation to the role of 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. A description of intu's company-wide approach to diversity can be found on pages 54 to 56.

## 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. Accordingly, two non-executive directors, Patrick Burgess and Andrew Huntley, retired from the Board and were not replaced. The Committee is satisfied that the balance of skills, knowledge and experience on the Board and its committees continues to be appropriate.

The Board is supportive of Lord Davies' aspirational target of 33 per cent female Board representation by 2020 and is pleased to confirm that the Board's female representation now stands at 33 per cent. Further information regarding our diversity policy is set out above.

## Succession-planning

A sub-committee was established, chaired by Andrew Huntley, to carry out the search for a new Chairman to succeed Patrick Burgess who retired from the Board in May 2017. Appropriate input was provided by independent executive search firm Korn Ferry Whitehead Mann. Korn Ferry Whitehead Mann had no other connection with the Company other than providing input into the Board's succession-planning. I was pleased to

accept the appointment as Chairman of the Board with effect from 3 May 2017. Andrew Huntley also retired from the Board on 3 May 2017. The Committee was pleased to appoint Adèle Anderson as Senior Independent Director, succeeding Andrew Huntley.

### 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.

As Chairman, with the assistance of the Nomination and Review Committee, I regularly consider 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 directors

All directors will submit themselves for re-election at the forthcoming annual general meeting in May 2018.

**John Strachan**  
Chairman

22 February 2018

### 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 areas identified for attention during 2017 were as shown in the table below:

Areas identified for attention	Action taken
<b>Board succession-planning</b>	As outlined on page 60 the Committee oversaw the process for the succession of the Chairman and the Senior Independent Director
<b>Nomination and Review Committee</b>	Board succession remains a standard agenda item
<b>Board Committees</b>	Board Committees' terms of reference are reviewed annually and all independent non-executive directors continue to have a standing invitation to attend any committee meeting if they so wish, irrespective of their formal membership

### 2017 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.

### 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 advisors, 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 as needed following discussion between the Chairman and the individual director.

Where required, the Company Secretary provides guidance and 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.

# Directors' remuneration report



## Members and meetings in 2017

	Remuneration Committee (6 meetings)	
	A	B
Louise Patten (Chairman) (Independent Non-Executive Director)	6	6
Adèle Anderson (Independent Non-Executive Director)	6	6
Rakhi Goss-Custard (appointed 3 May 2017) (Independent Non-Executive Director)	5	4
Andrew Huntley (retired 3 May 2017) (Independent Non-Executive Director)	1	1

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

The Committee normally invites the Chairman of the Board, the Chief Executive, the Company Secretary and the HR director to attend the scheduled meetings. The Chairman of the Board, the Chief Executive, the Company Secretary and HR director attended the four scheduled meetings held in 2017. A further two unscheduled meetings were also held. No individual was present when his or her remuneration was being determined.

## Remuneration governance aligned features

Malus provisions for both the annual bonus and PSP	✓
Clawback provisions for both the annual bonus and PSP	✓
Performance period extending to five years for a proportion of 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 2017 Directors' remuneration report to you, which has been prepared by the Remuneration Committee and approved by the Board.

### Results and context of remuneration

This has been another year of good results, against a backdrop of headwinds to the retail property market, including the impact of Brexit and the internet. Operationally, we out-performed against our benchmarks and made strong progress against our strategic objectives. In particular in 2017 we increased like-for-like net rental income and achieved good growth across our Spanish assets.

### Remuneration policy

Our Directors' remuneration policy was approved by shareholders at the 2017 annual general meeting, and we were delighted to receive 99.5 per cent support from our shareholders.

A summary of the remuneration policy is presented at the end of this report.

### 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 (NAV per share growth plus dividends) for our shareholders
- annual EPS performance
- achievement of our strategic initiatives that will build value for the longer term

Both Executive Directors are required to build up a shareholding in intu shares worth 200 per cent of salary.

## Key areas of focus and decisions in 2017 and for 2018

The Remuneration Committee made a number of decisions regarding the application of our policy in 2017 and for 2018. Key decisions included the following:

- the Chief Executive's and Chief Financial Officer's salaries will be increased by two per cent to £617,916 and £487,713, respectively. This increase is lower than the average increase for other staff in the business
- fees for our Chairman will remain unchanged at £275,000 per annum
- the annual bonus awarded to the Executive Directors for the year ended 31 December 2017 was 72 per cent of salary representing 60 per cent of maximum opportunity, based on EPS performance in the year and the achievement of key strategic objectives
- the final tranche of the 2013 PSP award, the second tranche of the 2014 PSP award and the first tranche of 2015 PSP award are due to vest at 19, 36 and 13 per cent, respectively, reflecting intu's absolute total return (NAV per share growth plus dividends) performance over a three, four and five year period
- for 2018, no changes have been made to the performance measurement framework 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 and would be subject to performance and time pro-rating on the successful acquisition of intu by Hammerson

In light of the recommended all-share offer by Hammerson to acquire intu, the Remuneration Committee also considered the remuneration implications arising from the acquisition, including the



treatment of outstanding awards granted under the intu share plans to Executive Directors. Details of the impact on Executive Director remuneration are set out on page 85. The agreed approach includes performance and time pro-rating for PSP awards.

**Our employees**

The Committee oversees any significant changes to the remuneration policy for all intu employees. intu also operates a number of share plans so that all of our employees may have the opportunity to share in intu's success:

- For a number of years now we have operated an HMRC share incentive plan (SIP), under which employees may participate in a 'partnership' share plan

- In 2016, we introduced the intu Retail Services Sharesave Plan, which is another HMRC plan, and provides employees with the opportunity to purchase shares at a discount following an initial savings period.

We continue to consider ways in which all intu employees are aligned with the success of the company.

**Shareholder annual general meeting**

The annual remuneration report will be put to an advisory shareholder vote at our 2018 AGM and we look forward to receiving your views and support.

**Louise Patten**  
**Chairman of the Remuneration Committee**  
 22 February 2018

**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.

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 in 2018 is set out below.

Key elements	Timing of payout					Summary of policy for 2018
	2018	2019	2020	2021	2022	
Salary						<ul style="list-style-type: none"> <li>— Salaries for 2018 are:                             <ul style="list-style-type: none"> <li>– David Fischel, Chief Executive: £617,916</li> <li>– Matthew Roberts, Chief Financial Officer: £487,713</li> </ul> </li> <li>— Executive Director increases were below average increases to staff across the business</li> </ul>
Pension and benefits						
Annual bonus						<ul style="list-style-type: none"> <li>— Maximum opportunity of 120 per cent of salary</li> <li>— 50 per cent of the award earned will be deferred into intu shares, which vest over two and three years subject to continued employment</li> <li>— For 2018, performance is based two-thirds on EPS and one-third on strategic and operational objectives. This is the same framework which applied for 2017</li> </ul>
Long-term incentives						<ul style="list-style-type: none"> <li>— Normal maximum grant size of 250 per cent of salary in 2018</li> <li>— Three, four and five year performance periods</li> <li>— For 2018, the awards will be based 50 per cent on TSR relative to the top five UK listed REITs, and 50 per cent based on absolute total return (NAV per share growth plus dividends). Targets unchanged from 2017</li> </ul>
Shareholding requirement						<ul style="list-style-type: none"> <li>— Executive Directors must build up a holding with a value equivalent to 200 per cent of salary</li> </ul>

## 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 Remuneration 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 2018 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 Board 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 2017 §

The table below sets out the total remuneration received by each Director for the year to 31 December 2017.

Director	Salary or fees £000		Benefits £000		Annual bonus (cash and deferred shares) £000		Long-term incentive £000		Pension £000		Total remuneration £000	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Executive</b>												
David Fischel	601	582	23	21	436	671	253	366	180	174	1,493	1,814
Matthew Roberts	474	459	22	19	344	535	196	282	114	110	1,150	1,405
<b>Chairman</b>												
Patrick Burgess (retired 3 May 2017)	141	410	3	8	-	-	-	-	-	-	144	418
John Strachan (appointed Chairman 3 May 2017)	203	64	1	-	-	-	-	-	-	-	204	64
<b>Independent Non-Executive</b>												
Adèle Anderson	92	82	-	-	-	-	-	-	-	-	92	82
Andrew Huntley (retired 3 May 2017)	29	84	-	-	-	-	-	-	-	-	29	84
Louise Patten	79	79	-	-	-	-	-	-	-	-	79	79
Andrew Strang	67	64	-	-	-	-	-	-	-	-	67	64
Rakhi Goss-Custard	71	64	-	-	-	-	-	-	-	-	71	64
<b>Other Non-Executive</b>												
Richard Gordon	59	59	-	-	-	-	-	-	-	-	59	59
John Whittaker <sup>1</sup>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,816</b>	<b>1,947</b>	<b>49</b>	<b>48</b>	<b>780</b>	<b>1,206</b>	<b>449</b>	<b>648</b>	<b>294</b>	<b>284</b>	<b>3,388</b>	<b>4,133</b>

1. John Whittaker did not receive any remuneration in 2017 or 2016 in connection with his position as Deputy Chairman and Non-Executive Director of the Company. A management fee of £213,310 was paid to Peel Management Limited for the provision by Peel of management and advisory services, as further described on page 155.

The figures in the table 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, company car cash allowance and occasional use of company flat and for 2017, compensation for a change in life assurance benefit. The value of the company car cash allowance is £18,000. The 2016 figure for David Fischel has been restated by an amount of £2,000 to reflect a change in HMRC's valuation of certain benefits.
- Pension: the value of the Company's contribution during the year (30 per cent salary supplement in lieu of contributions for the Chief Executive and 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 2017 and 2016 respectively.
- Performance share plan: awards shown under 2017 comprise awards made in 2013, 2014 and 2015, 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 2015 award, with a three-year performance period to 31 December 2017; the second tranche of the 2014 award, with a four-year performance period to 31 December 2017; and the final tranche of the 2013 award, with a five-year performance period to 2017. Amounts are calculated using a three-month average share price of £2.219. Further information regarding the vesting can be found on page 83. Performance share plan awards shown under 2016 comprise the first tranche of awards made in 2014, and the second 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 actual vesting and share price on the date of vesting in May 2017. For 2016, the amounts also include the value of dividends accrued during the performance period on the awards vesting, which amounted to £33,470.

## Performance out-turns and incentives

### Annual bonus §

The maximum award for both the Chief Executive and Chief Financial Officer in 2017 was 120 per cent of salary, of which 50 per cent is deferred for two and three years. This will remain unchanged for 2018.

Annual bonus payments are based on pre-determined performance measures. Given the commercial sensitivity, the Remuneration Committee provides retrospective 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. For 2018, the strategic objectives will include objectives in the following key areas:

- performance of assets, including net rental income
- digital and the customer experience
- implementation of strategic priorities, including the Hammerson transaction

In the event that the recommended all-share offer by Hammerson to acquire intu completes in the year as expected, the bonus framework would apply on a part-year basis.

### Annual bonus – 2017 out-turn §

Performance against the targets for the 2017 short-term incentive arrangements is given below. As in previous years, full retrospective disclosure of financial targets is provided.

Performance element	Weighting	Target			2017 performance	Out-turn (% max element)
		Threshold	Target	Maximum		
Adjusted EPS vs. budget	33%	13.5p	14.2p	14.9p	15p	100%
Adjusted EPS vs. prior year	33%	100%	102.5%	105%	100%	0%
Scorecard of strategic and operational measures	33%	See details of scorecard performance			David Fischel	Matthew Roberts
					80%	80%
<b>Total</b>					<b>60%</b>	<b>60%</b>

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 2017, the Remuneration Committee determined that the strategic objective setting be simplified and included three headline objectives, reflecting the Board's strategic priorities. For 2017, the scorecard weightings and out-turns were as follows:

Scorecard		Summary achievement against objectives	
Headline objectives	Weighting	Specific objectives under each area of focus	
Optimising performance of existing assets	33.3%	Growing net rental income	<ul style="list-style-type: none"> <li>— Increased like-for-like net rental income for 2017, in line with investor guidance</li> <li>— Increased gross life-for-like rental income (1%)</li> </ul>
		Optimisation of existing assets	<ul style="list-style-type: none"> <li>— Completion of new lettings successfully offsetting the closure of BHS stores</li> </ul>
<b>On-target achievement</b>			
Ensuring intu is alert to the changing retail and digital market place	33.3%	Customer experience and branding	<ul style="list-style-type: none"> <li>— Pro-active response to the changing retail market place with expansion of leasing strategy to include pop-ups, non-traditional tenants, big box retailers and additional brands</li> <li>— Development of centres to meet changing customer demand, including leisure extensions at intu Watford and intu Lakeside, early ICT input for incorporation of key operational technology backbone, and resort approach for intu Costa del Sol</li> <li>— Net promoter score maintained at levels consistent with prior years</li> <li>— Strengthening of brand awareness, in both unprompted and prompted metrics</li> <li>— Growth of intu Experiences, with delivery of above target net income</li> <li>— Sustainability metrics – early achievement of 2020 target for reduction in greenhouse gas emissions</li> </ul>
		Digital	<ul style="list-style-type: none"> <li>— Continued growth of digital business, with strong sales performance in our online shopping platform</li> <li>— Development of social media profile and restructuring of Facebook utilisation</li> <li>— Introduction of intu Accelerate, trialling a range of new innovative technology led solutions</li> <li>— Progress against GDPR objectives in advance of 2018 implementation</li> </ul>
<b>Upper quartile achievement</b>			
Strategic options and corporate delivery	33.3%	Strategic options	<ul style="list-style-type: none"> <li>— Review and identification of strategic options for intu</li> </ul>
		Strategic options implementation	<ul style="list-style-type: none"> <li>— Progression of all-share offer by Hammerson to acquire intu including: <ul style="list-style-type: none"> <li>— Leadership through the transition period</li> <li>— Actions prioritising shareholder value focus through discussions</li> </ul> </li> </ul>
		Corporate delivery	<ul style="list-style-type: none"> <li>— Progression of pipeline, with all current projects on time and budget</li> <li>— Successful acquisition of Madrid Xanadú</li> <li>— Advancement of planning and pre-lets for intu Costa del Sol, with the development of this flagship intu centre expected to commence in 2018</li> <li>— Maintenance of strong financial flexibility throughout the year</li> <li>— Disposal of 50 per cent of intu Chapelfield in line with December 2016 valuation, recycling capital into the development pipeline</li> <li>— Delivery in Q3 2017 of measures to achieve significant reductions to our costs</li> <li>— Evolution of our reward and recognition programme Win Your Dream, recognising outstanding demonstration of the intu brand promise</li> <li>— Increased staff engagement via 'Toolbox' talks, employee consultation forums and publications</li> </ul>
<b>Maximum achievement</b>			

The resulting total short-term incentive payout for the Executive Directors in respect of 2017 was 72 per cent of salary (60 per cent of maximum opportunity).

### Deferral into shares

50 per cent of the 2017 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.

### Deferred bonus awards granted in the year §

The table below summarises the deferred bonus awards granted during the year. These awards were made in March 2017 in respect of the 2016 bonus.

Individual	Type of interest	Face value of 2017 award*
		£
David Fischel	Deferred bonus award	336,000
Matthew Roberts		268,000

\* Face value calculated using a five day average share price prior to date of grant of £2.85.

### Long-term incentives §

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

The LTIP awards shown in the single figure relate to awards due to vest in 2018. These relate to the first, second and final tranche of the 2015, 2014 and 2013 PSP awards, respectively. The following table summarises vesting under these awards.

Award	Tranche	Performance period	TSR ranking	Vesting of TSR portion (% of max)	Absolute Total Return (per annum)	Vesting of Absolute Total Return portion (% of max)	Total vesting (% of max)
2015 PSP award	First tranche	Three years to 31 December 2017	6th	Nil	6.1%	26.5%	13.2%
2014 PSP award	Second tranche	Four years to 31 December 2017	6th	Nil	8.5%	72.7%	36.4%
2013 PSP award	Final tranche	Five years to 31 December 2017	6th	Nil	6.7%	38.4%	19.2%

The performance condition for the above 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 growth per share 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 lapse for growth of less than 6 per cent per annum

### PSP Awards granted during the year §

The table below summarises PSP awards granted during the year, in March 2017:

Individual	Type of interest	Face value of 2017 award*		% vesting at threshold	Performance period end		
		£	% of salary		3 years	4 years	5 years
David Fischel	PSP** (nil cost options)	1,467,000	250%	25%	31 December 2019	31 December 2020	31 December 2021
					31 December 2019	31 December 2020	31 December 2021
Matthew Roberts		1,158,000	250%	25%	31 December 2019	31 December 2020	31 December 2021

\* Face value calculated using a five day average share price prior to date of grant of £2.85.

\*\* 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 2018 award.

## Directors' remuneration report continued

### Awards for 2018

Awards for 2018 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 cent per annum	TSR in line with the third-ranked company
Full vesting (100% of element vesting)	10 per cent 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

During the year, consideration was given to whether to introduce a further holding period under the performance share plan. 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.

### 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 performance share plan 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 performance share plan 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 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 (HMRC) regulations.

In 2016, intu implemented a HMRC approved Sharesave Plan (the intu Retail Services Sharesave Plan), offering a potential savings contract of up to £500 a month for a period of three to five years. Participants are granted an option to acquire ordinary shares in intu using the proceeds of their saving contract. The exercise price is set at the time of invitation to apply for the plan, with a discount of 10% of the market value.

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.

### Impact of recommended all-share offer by Hammerson to acquire intu on Executive Director remuneration

On 6 December 2017, the recommended all-share offer by Hammerson to acquire intu was announced. In line with the remuneration policy, awards granted under the Performance Share Plan will be subject to both pro-rating and an assessment of performance. Deferred shares relating to prior bonuses will vest in full. A significant portion of the performance share awards are not expected to vest.

David Fischel and Matthew Roberts will be treated as having been served notice of termination on the effective date of the transaction. For a two month period they will be on garden leave but available as required to effect an orderly handover. Following this they will receive a payment of salary and benefits in lieu of the balance of their notice period, in accordance with the remuneration policy and their contractual terms.

### 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 2017.

### 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 Chief Executive and the average for all of intu's staff.

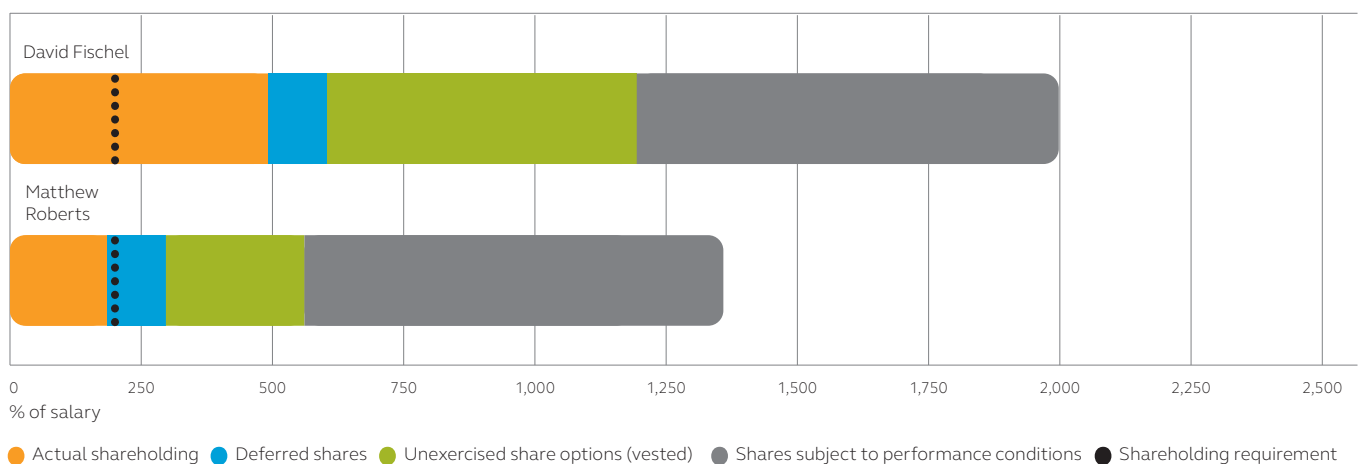
	Percentage change in remuneration from 31 December 2016 to 31 December 2017		
	Percentage change in base salary	Percentage change in benefits	Percentage change in annual bonus
Chief Executive	3%	10%	(35%)
All employees	5%	33%	(3%)

### 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 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 2017 (% of salary)\*



\* Value of shareholding calculated based on 12 month average share price to 31 December 2017.

As shown above David Fischel fulfils his shareholding requirement. Matthew Roberts has yet to meet his requirement, which was increased to 200 per cent of salary last year.

## Directors' remuneration report continued

The table below sets out the Executive Directors' interests in shares as at 31 December 2017.

	Number of shares owned (including connected persons)		Unvested awards				Vested awards		
			Conditional shares not subject to performance conditions		PSP subject to performance conditions <sup>1</sup>	Options subject to performance conditions	Unexercised unapproved options <sup>2</sup>	Unexercised approved options	Options exercised in the year
	Held in own name	Held in SIP trust for > 5 years	Deferred shares	Held in SIP trust for < 5 years					
<b>Executive</b>									
David Fischel	1,155,030	10,465	252,519	10,573	1,901,189	–	1,382,972	12,906	–
Matthew Roberts	341,992	2,823	199,565	9,623	1,489,431	–	481,387	11,203	–

1. 2013 performance share plan 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 and 2010 unapproved options.

3. No changes in the interests of Directors have occurred between 31 December 2017 and 22 February 2018.

### 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

2013 PSP  
(third tranche) Awards of performance shares, granted on 21 May 2013. Vesting is based on TSR (relative to the top five UK-listed REITs) and Absolute Total Return performance (ranging from 6 per cent per annum to 10 per cent per annum), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 21 May 2023.

2014 PSP award  
(second and third  
tranche) 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 per annum to 10 per cent per annum), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 12 May 2024.

2015 PSP 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 per annum to 10 per cent per annum), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 11 March 2025.

2016 PSP 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 per annum to 10 per cent per annum), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 7 March 2026.

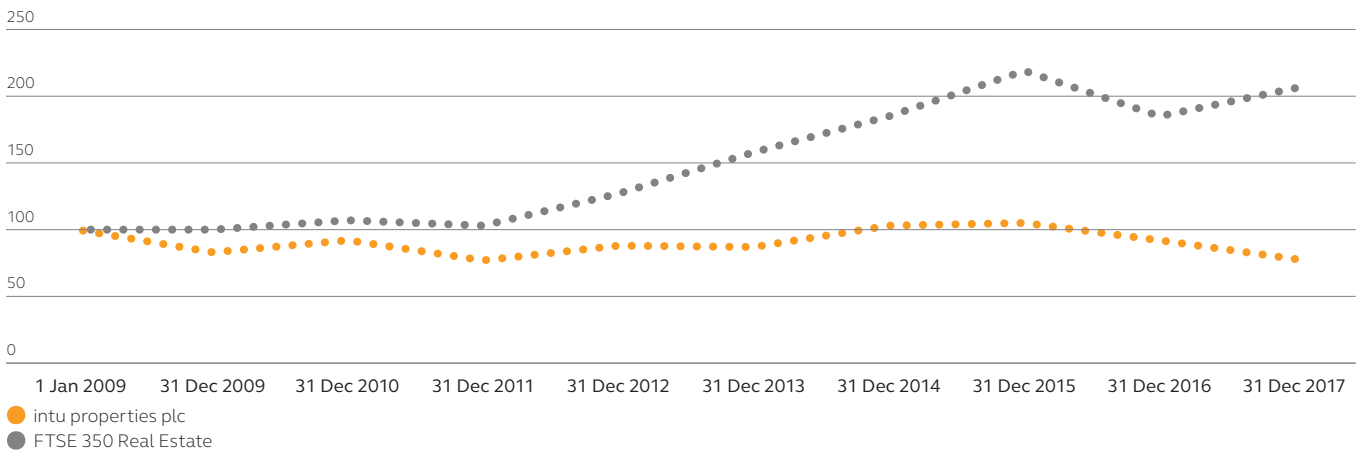
2017 PSP Awards of performance shares, granted on 10 March 2017. Vesting is based on TSR (relative to the top five UK-listed REITs) and Absolute Total Return performance (ranging from 6 per cent per annum to 10 per cent per annum), in three equal tranches over three, four and five years. Any awards that vest may be exercised until 10 March 2027.



### Nine-year TSR chart

The following graph shows the TSR for intu properties plc over the nine-year period ended 31 December 2017, compared with our closest comparator group for this purpose, the FTSE 350 Real Estate. TSR is defined as share price growth plus reinvested dividends.

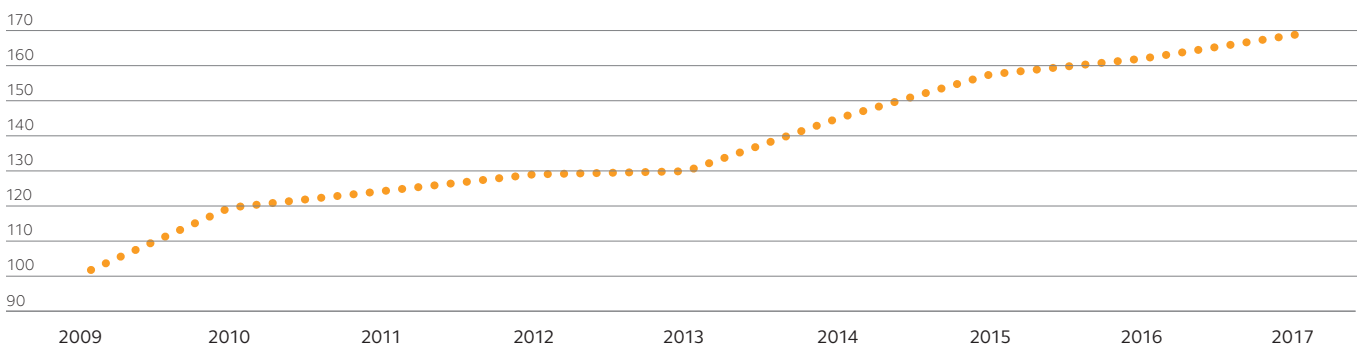
#### Nine-year Total Shareholder Return (TSR) performance



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.

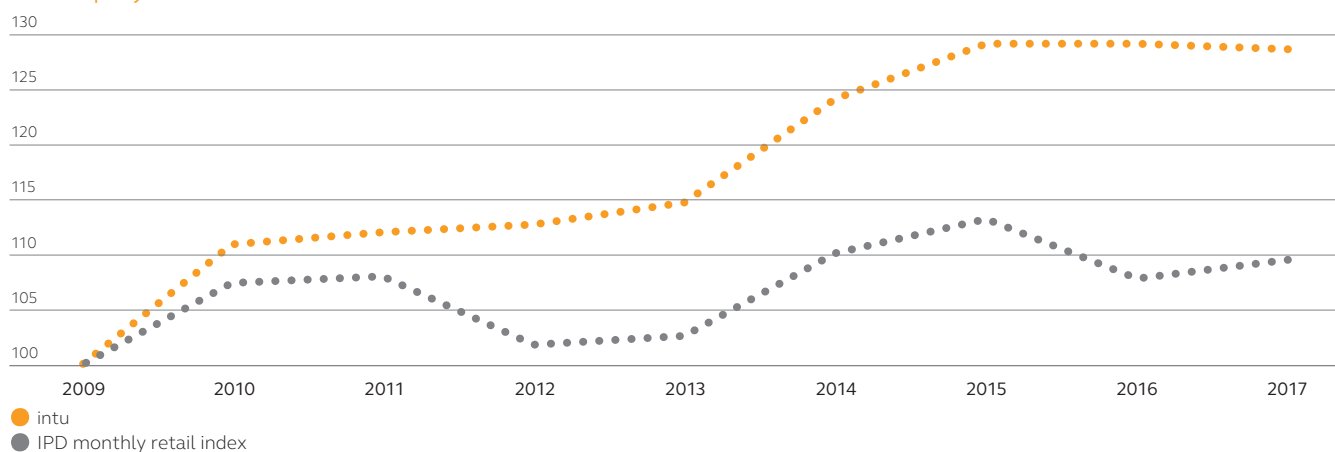
For additional context, the following two charts have been provided to show intu's absolute total return (NAV growth plus dividends) and total property return (capital value growth adjusted for capex and net income expressed as a percentage of capital employed) over the same period. intu's total property return is shown relative to the IPD monthly retail index. These two charts have been provided as growth in these metrics supports the delivery of long-term returns to our shareholders.

#### Absolute Total Return



## Directors' remuneration report continued

### Total Property Return



### Chief Executive remuneration history

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
CEO single figure of total remuneration	£1,044k	£1,350k	£1,275k	£1,810k	£1,081k	£1,154k	£1,653k	£1,814k	<b>£1,493k</b>
Annual bonus payout (% maximum)	50%	100%	83%	70%	55%	65%	95.3%	95.3%	<b>60.0%</b>
Long-term incentive plan vesting in year (% maximum)	0%	0%	0%	100%	0%	0%	37.6%	36.4%	<b>23.0%</b>

### Shareholder context

The table below shows the advisory vote on the 2016 Annual remuneration report (including the Committee Chairman's statement) and the binding vote on the Directors' remuneration policy at the 2017 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
2016 Annual Remuneration Report (2017 AGM)	99.6%	0.4%	1.1m
Directors' Remuneration Policy (2017 AGM)	99.5%	0.5%	0.8m

### Additional disclosures

#### Other directorships

Executive Directors are not generally encouraged to hold external directorships unless the Chairman of the Board 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 2017, David Fischel's principal external appointment was with Prozone Intu Properties Limited. 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 2017, David Fischel did not receive a fee in respect of his appointment as a Non-Executive Director of Prozone Intu Properties Limited. He received and retained a fee of £5,000 in respect of his non-executive directorship of Marlowe Investments (Kent) Limited.

During 2017, Matthew Roberts was appointed as a Non-Executive Director of Marston's PLC. He received and retained a fee of £50,000 per annum in respect of this role. With effect from 23 January 2018, he was appointed Chairman of the Audit Committee of Marston's PLC for which he will receive an additional fee of £7,000 per annum.

#### Payments to former Directors §

A life presidency fee of £150,000 per annum (2016: £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.

#### Departure of Chairman §

Patrick Burgess retired as Chairman on 3 May 2017. He received fees and benefits in respect of the services performed as Chairman up to and including 3 May 2017. No additional payments were made.

#### Payments for loss of office §

There were no payments for loss of office made to any Director 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 2017 in respect of their services as Alternate Directors. Raymond Fine received a fee of £173,189 in respect of consultancy services provided to the Company in connection with South African tax and shareholder issues, liaison with the Gordon Family and other related matters. Raymond Fine also had use of a company flat, the benefit of which, following a recent HMRC review, is estimated at £39,000 in respect of 2017.

#### Service contracts

Executive Directors and the Chairman have rolling service contracts which are terminable on 12 months' notice on either side.

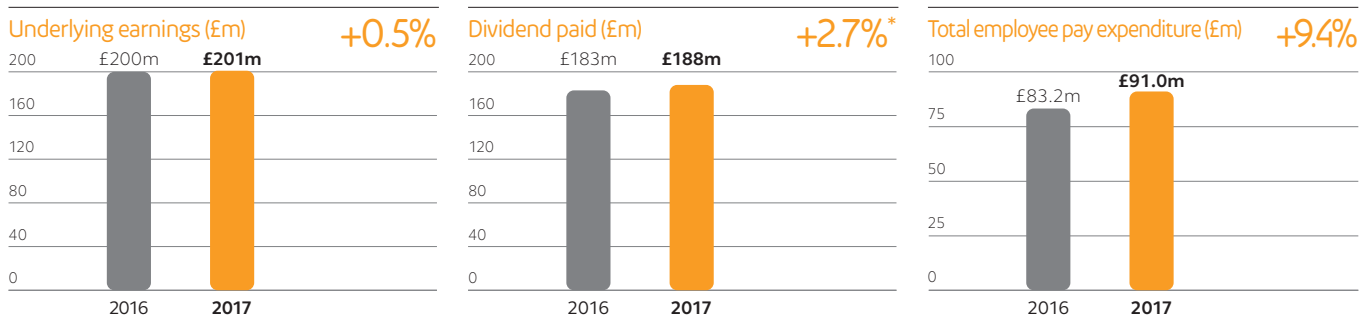
All non-executive directors have been appointed under letters of appointment on fixed terms of two or three years, subject to renewal thereafter. Richard Gordon is deemed to have served for more than nine years and is now subject to a one-year term. All are subject to annual re-election by shareholders.

	Notice period
David Fischel	12 months
Matthew Roberts	12 months
John Strachan (appointed Chairman 3 May 2017)	12 months
Patrick Burgess (retired 3 May 2017)	–
	Contract term expires
Adèle Anderson	2019 AGM
Richard Gordon	2018 AGM
Andrew Huntley (retired 3 May 2017)	–
Rakhi Goss-Custard	2019 AGM
Louise Patten	2020 AGM
Andrew Strang	2018 AGM
John Whittaker	2020 AGM

## Directors' remuneration report continued

### 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 2016 to the financial year ended 31 December 2017.



\* Increase due to dividend per share of 14.0p (2016: 13.7p).

The average number of staff employed by the Group during the financial year to 31 December 2017 was 2,603 (2016: 2,550).

### Chairman and Non-Executive Director fees for 2018 §

The Chairman receives a fee of £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 2018. Additional fees may be paid to Non-Executive Directors on a per diem basis to reflect increased time commitment in certain limited circumstances, which will apply for time spent on the Hammerson transaction.

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 £215,000 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. This payment is disclosed in the related party transactions note on page 155.

### Remuneration Committee membership in 2017

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 of the Board, 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 of the Committee are set out in its terms of reference which are available on the Company's website, [intu.co.uk](http://intu.co.uk).

The Remuneration Committee currently comprises three independent Non-Executive Directors. Throughout the year the Committee consisted of Louise Patten and Adèle Anderson. Andrew Huntley retired on 3 May 2017 and Rakhi Goss-Custard was appointed to the Committee on 3 May 2017.

The Chairman of the Board, 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 6 times in 2017. A summary of attendance is set out on page 78.

### 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 from Deloitte also attended Committee meetings during the year. The fees paid to Deloitte in respect of this work in 2017 totalled £83,950. 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 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.

On behalf of the Board  
**Louise Patten**  
**Chairman of the Remuneration Committee**  
 22 February 2018

### Policy table extract from the Directors' remuneration policy approved by shareholders on 3 May 2017

A full copy of our Directors' remuneration policy, binding for three years from May 2017, is included in the 2016 annual report (starting on page 88), which can be found on the Company's website, at [intugroup.co.uk/en/investors/intu-annual-report-2016/](http://intugroup.co.uk/en/investors/intu-annual-report-2016/). The Directors' remuneration policy was approved by 99.5 per cent of shareholders at the 2017 annual general meeting.

Element and link to strategy	Operation	Maximum potential value	Performance metrics
<b>Executive Directors</b>			
<b>Base salary</b> To provide an appropriately competitive level of base pay to attract and retain talent.	Reviewed annually. Salary levels take account of: <ul style="list-style-type: none"> <li>— Size and nature of the responsibilities of each role</li> <li>— Market pay levels for the role</li> <li>— Increases for the rest of the Group</li> <li>— The executive's experience</li> <li>— Changes to the size and complexity of the Group</li> <li>— Implications for total remuneration</li> <li>— Overall affordability</li> <li>— Individual and Company performance</li> </ul> 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.
<b>Pension</b> 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.
<b>Other benefits</b> 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.

## Directors' remuneration report continued

Element and link to strategy	Operation	Maximum potential value	Performance metrics
<b>Executive Directors (continued)</b>			
<p><b>Short-term incentive</b> To align annual reward with annual performance and to support retention and alignment with shareholders' interests through significant deferral of bonus into shares.</p>	<p>intu operates a short-term incentive arrangement with a maximum individual opportunity.</p> <p>A proportion of any earned bonus is normally deferred in intu shares, vesting over two years and three years, subject to continued employment.</p> <p>The Committee awards dividend equivalents in respect of dividends over the deferral period which may assume reinvestment on a cumulative basis.</p> <p>The Committee has discretion to apply malus to unvested deferred bonus awards in certain circumstances and annual bonus payments may be subject to clawback.</p>	<p>Maximum annual opportunity of 120 per cent of salary.</p>	<p>Executives' performance is measured relative to targets in key financial, operational and strategic objectives in the year.</p> <p>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.</p> <p>Entry award level for financial measures is normally between 0 and 25 per cent of maximum.</p>
<p><b>Long-term incentives</b> 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.</p>	<p>intu operates a PSP, which was approved by shareholders at the 2013 AGM.</p> <p>Grants are made to eligible employees at the discretion of the Committee.</p> <p>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.</p> <p>The Committee awards dividend equivalents in respect of dividends over the vesting period, which may assume reinvestment on a cumulative basis.</p> <p>The Committee has discretion to apply malus and clawback to awards in certain circumstances.</p>	<p>Normal maximum grant size of 250 per cent of salary per annum.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>For 2017, awards will be based</p> <ul style="list-style-type: none"> <li>— 50 per cent on relative TSR</li> <li>— 50 per cent on total return (NAV growth plus dividends)</li> </ul> <p>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.</p> <p>Entry vesting is 25 per cent of maximum.</p>
<p><b>All employee share plans</b> To align interests of employees with intu's performance.</p>	<p>Executive Directors may participate in HMRC approved share incentive plans on the same basis as all employees.</p>	<p>Participants can contribute up to the relevant HMRC limit.</p>	<p>None.</p>
<b>Legacy share awards</b>			
<p>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.</p>			

Element and link to strategy	Operation	Performance metrics
<b>Non-Executive Directors</b>		
<b>Fees</b> To remunerate Non-Executive Directors.	<b>Independent Non-Executive Directors</b> 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.
	<b>Other Non-Executive Directors</b> 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.

# Directors' report

The Directors present their annual report and the audited financial statements of the Group and Company for the year ended 31 December 2017. 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 48 to 53, accounting policies on pages 112 to 116 and note 28 on pages 137 to 143 contain information on the use of financial instruments.

## Dividends

The Directors declared an interim ordinary dividend of 4.6 pence (2016: 4.6 pence) per share on 27 July 2017, which was paid on 21 November 2017, and have recommended a final dividend for 2017 of 9.4 pence per share (2016: 9.4 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 30 on pages 144 and 145.

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) £160.4 million of 2.5 per cent Guaranteed Convertible Bonds issued on 4 October 2012 by Intu (Jersey) Limited and (ii) £375 million of 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.

Under a £351.75 million term facility agreement dated 19 March 2013 (as amended and restated on 19 June 2015) between, among others, Intu (SGS) Finco Limited ('SGS Finco') and HSBC Bank plc (as 'Facility Agent'), on a change of control of the Company, if directed by a lender, the Facility Agent may by notice to SGS Finco declare all outstanding loans of that lender, together with accrued interest and all other amounts accrued and owing to that lender under the finance documents, immediately due and payable.

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 specific 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. Further details can be found in the Directors' remuneration report on page 85. The terms of appointment of the non-executive directors currently provide that in the event of change of control, these directors will be compensated for any additional time commitment in certain limited circumstances, to be calculated on a *pro diem* basis.

## Internal control

The statement on corporate governance on pages 60 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	Non-Executive
Patrick Burgess <sup>1</sup>	Adèle Anderson
John Strachan <sup>2</sup>	Richard Gordon <sup>3</sup>
Deputy Chairman	Andrew Huntley <sup>1</sup>
John Whittaker <sup>3</sup>	Rakhi Goss-Custard
Executive	Louise Patten
David Fischel	Andrew Strang
Matthew Roberts	

- 1 Patrick Burgess and Andrew Huntley stepped down on 3 May 2017.
- 2 John Strachan was appointed Chairman on 3 May 2017.
- 3 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.

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 43 on pages 158 and 159 on Directors' interests, in the governance section on pages 60 to 77, and in the Directors' remuneration report on pages 78 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 30 on page 145.

### 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 2017 and 20 February 2018.

### 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. Details of the intu all-employee survey are provided in the Our people section on pages 54 to 56.

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

78 to 93. Note 40 on pages 156 to 158 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 54 to 56 and in note 7 on page 118. The Group provides retirement benefits for the majority of its employees. Details of the Group pension arrangements are set out in note 41 on page 158.

### 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 57 to 59, 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 £4.9 million (2016: £2.1 million) (see note 9). 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 2018 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  
22 February 2018

Shareholder	At 31 December 2017		At 20 February 2018	
	Number of shares notified	% interest in share capital	Number of shares notified	% interest in share capital
The Peel Group	368,635,097	27.21	368,635,097	27.21
Coronation Asset Management (Pty) Limited	276,688,604	20.42	278,891,219	20.58
The family interests of Sir Donald Gordon	110,336,261	8.20	110,336,261	8.20
Public Investment Corporation	82,471,068	6.09	82,471,068	6.09
Black Rock, Inc.	69,702,816	5.14	68,566,906	5.06

# 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 62 and 63 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  
22 February 2018

**David Fischel**  
Chief Executive

**Matthew Roberts**  
Chief Financial Officer

# Financial statements

Independent auditors' report	98
Consolidated income statement	105
Consolidated statement of comprehensive income	106
Balance sheets	107
Statements of changes in equity	108
Statements of cash flows	111
Notes to the financial statements	112



# Independent auditors' report to the members of intu properties plc

## Report on the audit of the financial statements

### 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 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company balance sheets as at 31 December 2017; the Group consolidated income statement and consolidated statement of comprehensive income, the Group and Company statements of cash flows, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

### Our audit approach

#### Context

During the year to 31 December 2017, there have been no significant changes to business operations, investment property market yields, or to accounting standards relevant to the Group. On 6 December 2017, Hammerson plc made an all-share offer to acquire the entire share capital of the Company. The most significant transactional activity was in relation to the acquisition and subsequent disposal of a 50% interest in Madrid Xanadú and the agreement to dispose of a 50% interest in intu Chapelfield. Our audit approach is largely consistent with the prior year.

#### Overview



- Overall Group materiality: £107.9m (2016: £103.6m), based on 1% of Total Assets.
- Overall Company materiality: £38.8m (2016: £39.2m), based on 1% of Total Assets.

- 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.
- intu Costa del Sol development property.
- Acquisition of Madrid Xanadú and subsequent 50% disposal.
- intu Chapelfield – Held for sale (50% disposal).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006 and the UK tax legislation as applicable to a REIT. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of Investment and Development Property</b></p> <p>Refer to page 71 (Audit committee report), pages 114 to 115 (Accounting policies), page 112 (significant use of estimates and assumptions) and note 14 to the financial statements.</p> <p>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.</p> <p>The Group's Investment and Development Properties are shopping centres and development projects and comprise the majority of the assets in the Group balance sheet, their carrying value amounting to £9.18 billion.</p> <p>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. Moreover, in 2017 there were relatively few relevant UK shopping centre transactions against which to compare yield assessments.</p> <p>The valuations were carried out by third party valuers, CBRE, Knight Frank, Cushman &amp; 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 – Global Standards 2017.</p> <p>The Valuers used by the Group are well-known firms, with considerable experience of the market in which the Group operates.</p> <p><b>Investment Property</b> – 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</p>	<p><b>Assessing the Valuers' expertise and objectivity</b></p> <p>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.</p> <p><b>Data provided to the Valuers – Investment Property</b></p> <p>We carried out procedures, on a sample basis, to test whether property specific current information supplied to the Valuers by management reflected the underlying property records held by the Group and which have been tested during our audit.</p> <p><b>Assumptions and estimates used by the Valuers – Investment Property</b></p> <p>We read the valuation reports for all properties and attended meetings with each of the Valuers. Our testing also involved the use of our internal real estate valuation experts who are qualified chartered surveyors.</p> <p>We confirmed that the valuation approach for each property was in accordance with RICS and suitable for use in determining the carrying value in the Group balance sheet.</p> <p>Our work focused on the largest properties in the portfolio and those properties where the assumptions used and/or year-on-year capital 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. Whilst there was little directly</p>

## Independent auditors' report to the members of intu properties plc continued

Key audit matter	How our audit addressed the key audit matter
<p>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.</p> <p><b>Development Property</b> – Development properties are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion including a market based profit margin providing a return on development risk).</p>	<p>comparable transactional based evidence, the disposals of 50% interests in intu Chapelfield and Madrid Xanadú, which transacted at amounts close to prior valuations, provided support for the investment yields being used.</p> <p>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 capital value with reference to published benchmarks. Where assumptions were outside the expected range or were otherwise deemed unusual, and/or there were unexpected movements, we undertook further investigations and, when necessary, held further discussions with the Valuers.</p> <p>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.</p> <p><b>Development Property</b></p> <p>In 2017, the principal development property was intu Costa del Sol. In relation to this property the Group used external expert reports to assist them in arriving at estimated rental cashflows (used for income capitalisation) and construction costs assumptions for the development appraisal. We carried out procedures, on a sample basis, to test whether this property specific information supplied to the Valuers by the Group was reasonable and in line with the external expert reports. We also considered the reasonableness of market assumptions such as investment yields and market based profit margin, involving our internal real estate valuation experts.</p> <p><b>Overall findings</b></p> <p>Our procedures indicated that the estimates and assumptions used were appropriate in the context of the Group's investment and development property portfolio and reflected recent market transactions and the market circumstances as at year end.</p>
<p><b>intu Costa del Sol development</b></p> <p>Refer to page 71 (Audit committee report), pages 114 to 115 (Accounting policies), page 112 (significant use of estimates and assumptions) and note 14 to the financial statements.</p> <p>Land at Costa del Sol ('the project'), which was previously held at cost as a close approximation of fair value, has been valued at 31 December 2017 on a development appraisal basis using an assumption of obtaining final planning permissions for the project.</p> <p>Further, upon achievement of planning permission, intu's development partner, Eurofund, is due an allocation of equity as a consideration for services provided in relation to this development project. This has now been recognised as an equity settled share-based payment crediting equity of the Group. On settlement of the transaction, the credit to equity is expected to be transferred to non-controlling interests.</p>	<p>In respect of the assumption in relation to the receipt of the final planning permission, we reviewed the approved general planning permission as well as legal advice obtained by the Group, which sets out the status of planning permissions. Based on this legal advice, discussions held with management and the Valuers, we concur that planning status is now sufficiently advanced for a development appraisal valuation methodology to be appropriate.</p> <p>In respect of the equity allocation, we reviewed supporting evidence setting out arrangements with Eurofund. As it will be settled in equity of a subsidiary of the Group it is deemed appropriate that the transaction is treated as an equity settled share-based transaction under IFRS 2, 'Share-based payments'. Given the Group currently owns 100% of the equity of the subsidiary, it is appropriate to not recognise non-controlling interests in the current financial year.</p>
<p><b>Acquisition of Madrid Xanadú and subsequent 50% disposal</b></p> <p>Refer to page 71 (Audit committee report), pages 113 and 116 (Accounting policies), page 112 (significant areas of judgement) and notes 16, 33 and 34 to the financial statements.</p> <p>On 10 March 2017, intu acquired the Madrid Xanadú shopping centre from Ivanhoe Cambridge Inc. The acquisition was accounted for as a business combination.</p>	<p>With respect to the acquisition, we inspected the purchase agreements and 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'.</p> <p>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 involving our internal real estate valuation experts.</p>

Key audit matter	How our audit addressed the key audit matter
<p>On 26 May 2017, intu exchanged contracts with TH Real Estate, on behalf of its European Cities Fund, to form a 50/50 joint venture in relation to Madrid Xanadú. On 31 July 2017, following receipt of the regulatory approvals, the transaction completed.</p>	<p>With respect to the disposal, we read the sale and purchase agreement and other documents related to the sale to determine whether it was appropriate to account for Madrid Xanadú as a joint venture. No issues arose from these procedures – the shareholders' agreement grants each party an equal number of board members all with equal voting rights and, because all decisions about the relevant activities of the business require the consent of both parties, Madrid Xanadú was deemed to be subject to joint control. We also considered the financial statement disclosures in respect of the initial acquisition and the subsequent part disposal and concluded that they are in accordance with applicable accounting standards (IFRS 3 'Business combinations' and IFRS 12 'Disclosure of interests in other entities').</p>
<p><b>intu Chapelfield – Held for sale (50% disposal)</b></p> <p>Refer to page 71 (Audit committee report), page 116 (Accounting policies), page 112 (significant areas of judgement) and note 35 to the financial statements.</p> <p>In November 2017, intu announced the disposal of a 50% interest in intu Chapelfield creating a joint venture with LaSalle Investment Management (on behalf of Greater Manchester Pension Fund and West Yorkshire Pension Fund – 'the purchaser').</p> <p>As at 31 December 2017, contracts had been exchanged, but the completion of the transaction was subject to EU merger clearance. The assets and liabilities relating to intu Chapelfield have therefore been classified as 'Held for sale'.</p>	<p>We have inspected the agreement entered into with the purchaser and note the completion was subject to the necessary EU merger clearance which has subsequently been received on 11 January 2018. The classification of 100% of the disposal group as 'Held for sale' in the 31 December 2017 Group Balance Sheet is consistent with the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.</p>

We determined that there were no key audit matters applicable to the Company to communicate in our report.

### How we tailored the audit scope

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 structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed 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.

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, Puerto Venecia and Madrid Xanadú, by the intu Spain finance team. We carry out controls testing over these submissions in the same manner as for the UK submissions as above. We instructed the PwC Spain audit team to perform specified substantive procedures on the submission packs prepared by intu Spain, and held regular discussions with PwC Spain throughout the planning and execution phases of the audit. We assessed the findings of the work performed by them 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 in aggregate on the financial statements as a whole.

## Independent auditors' report to the members of intu properties plc continued

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements		Company financial statements
	Overall materiality	Specific materiality	Overall materiality
<b>Materiality level</b>	£107.9m (2016: £103.6m).	£9.8m (2016: £9.7m).	£38.8m (2016: £39.2m).
<b>How we determined it</b>	1% of Total Assets.	5% of Underlying Earnings Before Tax and Associates.	1% of Total Assets.
<b>Rationale for benchmark applied</b>	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.	We have applied this lower materiality to line items that make up underlying earnings before tax and associates, plus other finance costs, on the basis that they merit more detailed audit work than the overall materiality level would require, given heightened focus from users of the accounts. We have used underlying earnings before tax and associates as a more consistent benchmark, which is not impacted by valuation movements.	In arriving at this judgement we have had regard to the carrying value of the Company's assets, acknowledging that the primary measurement attribute of the Company is the carrying value of its investment in subsidiaries. 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 £10.8 million (Group audit) (2016: £10.3 million) and £3.8m (Company audit) (2016: £3.9m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).



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### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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### Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 60 to 96) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 60 to 96) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

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### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on pages 38 and 39 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 70 of the Annual Report 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 to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

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### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 96, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the 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 obtained in the course of performing our audit.
  - The section of the Annual Report on pages 71 to 75 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
  - The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
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### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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### Responsibilities for the financial statements and the audit

# Independent auditors' report to the members of intu properties plc continued

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

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.

## Other required reporting

### Companies Act 2006 exception reporting

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
- certain disclosures of Directors' remuneration specified by law are not made; 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.

### Appointment

On its formation, we were appointed as auditors of Liberty International plc (the Company's predecessor) for the year ended 31 December 1999 and subsequent financial periods. Our predecessor firm were auditors of the pre-existing Group, prior to group restructurings and renamings, for the period ended 31 December 1980 and subsequent financial periods. Considering this, the period of total uninterrupted engagement with the Group is at least 37 years, covering the period ended 31 December 1980 to the year ended 31 December 2017.

### Ranjan Sriskandan

(Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
22 February 2018

# Consolidated income statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
<b>Revenue</b>	3	<b>616.0</b>	594.3
<b>Net rental income</b>	3	<b>423.4</b>	406.1
Net other income		<b>3.0</b>	0.6
Revaluation of investment and development property	14	<b>30.8</b>	(78.0)
Gain on acquisition of businesses	33	-	34.6
Loss on disposal of subsidiaries	4	<b>(1.8)</b>	(0.3)
Gain on sale of other investments	19	-	74.1
Administration expenses – ongoing		<b>(40.9)</b>	(37.8)
Administration expenses – exceptional	5	<b>(5.9)</b>	(2.5)
<b>Operating profit</b>	6	<b>408.6</b>	396.8
Finance costs	9	<b>(213.9)</b>	(202.9)
Finance income	9	<b>12.6</b>	14.9
Other finance costs	9	<b>(38.9)</b>	(37.9)
Change in fair value of financial instruments	9	<b>22.0</b>	(16.3)
Net finance costs	9	<b>(218.2)</b>	(242.2)
<b>Profit before tax, joint ventures and associates</b>		<b>190.4</b>	154.6
Share of post-tax profit of joint ventures	16	<b>35.5</b>	32.1
Share of post-tax profit of associates	18	<b>1.3</b>	1.6
<b>Profit before tax</b>		<b>227.2</b>	188.3
Current tax	10	<b>0.1</b>	-
Deferred tax	10	<b>(24.0)</b>	(16.5)
Taxation	10	<b>(23.9)</b>	(16.5)
<b>Profit for the year</b>		<b>203.3</b>	171.8
Attributable to:			
Owners of intu properties plc		<b>216.7</b>	182.7
Non-controlling interests		<b>(13.4)</b>	(10.9)
		<b>203.3</b>	171.8
Basic earnings per share	12	<b>16.1p</b>	13.7p
Diluted earnings per share	12	<b>15.0p</b>	11.2p

Details of underlying earnings are presented in the underlying profit statement on page 169. Underlying earnings per share are shown in note 12(c).

# Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
<b>Profit for the year</b>		<b>203.3</b>	171.8
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to the income statement:			
Revaluation of other investments	19	<b>(0.2)</b>	0.4
Exchange differences		<b>16.9</b>	31.6
Tax relating to components of other comprehensive income	10	<b>0.1</b>	(0.2)
Total items that may be reclassified subsequently to the income statement		<b>16.8</b>	31.8
Transferred to the income statement:			
On sale of other investments	19	-	(77.0)
Tax on sale of other investments	10	-	16.7
Total transferred to the income statement		-	(60.3)
<b>Other comprehensive income/(loss) for the year</b>		<b>16.8</b>	(28.5)
<b>Total comprehensive income for the year</b>		<b>220.1</b>	143.3
Attributable to:			
Owners of intu properties plc		<b>233.5</b>	154.2
Non-controlling interests		<b>(13.4)</b>	(10.9)
		<b>220.1</b>	143.3

# Balance sheets

at 31 December 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Non-current assets</b>					
Investment and development property	14	9,179.4	9,212.1	-	-
Plant and equipment		12.2	7.6	10.4	6.0
Investment in Group companies	15	-	-	2,892.3	2,820.9
Investment in joint ventures	16	735.5	587.6	-	-
Investment in associates	18	64.8	65.2	-	-
Other investments	19	16.8	15.5	-	-
Goodwill		4.0	4.0	-	-
Derivative financial instruments	22	0.3	-	-	-
Trade and other receivables	20	102.5	99.1	-	-
		<b>10,115.5</b>	9,991.1	<b>2,902.7</b>	2,826.9
<b>Current assets</b>					
Assets classified as held for sale	35	309.1	-	-	-
Trade and other receivables	20	141.9	123.4	980.2	1,095.0
Cash and cash equivalents	21	228.0	254.7	0.8	0.9
		<b>679.0</b>	378.1	<b>981.0</b>	1,095.9
<b>Total assets</b>		<b>10,794.5</b>	10,369.2	<b>3,883.7</b>	3,922.8
<b>Current liabilities</b>					
Liabilities associated with assets classified as held for sale	35	(6.2)	-	-	-
Trade and other payables	23	(288.5)	(281.0)	(573.7)	(704.7)
Current tax liabilities		(0.1)	(0.3)	-	(0.3)
Borrowings	24	(186.7)	(142.4)	-	-
Derivative financial instruments	22	(8.0)	(37.0)	(4.9)	-
		<b>(489.5)</b>	(460.7)	<b>(578.6)</b>	(705.0)
<b>Non-current liabilities</b>					
Borrowings	24	(4,811.1)	(4,520.2)	(233.8)	(10.0)
Derivative financial instruments	22	(339.8)	(340.7)	(28.3)	(14.4)
Deferred tax liabilities	29	(23.7)	-	-	-
Other payables		(1.2)	(1.2)	-	-
		<b>(5,175.8)</b>	(4,862.1)	<b>(262.1)</b>	(24.4)
<b>Total liabilities</b>		<b>(5,665.3)</b>	(5,322.8)	<b>(840.7)</b>	(729.4)
<b>Net assets</b>		<b>5,129.2</b>	5,046.4	<b>3,043.0</b>	3,193.4
<b>Equity</b>					
Share capital	30	677.5	677.5	677.5	677.5
Share premium	30	1,327.4	1,327.4	1,327.4	1,327.4
Treasury shares	31	(39.1)	(40.8)	(39.1)	(40.8)
Other reserves	32	361.1	344.3	61.4	61.4
Retained earnings		2,748.1	2,670.4	1,015.8	1,167.9
<b>Attributable to owners of intu properties plc</b>		<b>5,075.0</b>	4,978.8	<b>3,043.0</b>	3,193.4
Non-controlling interests		54.2	67.6	-	-
<b>Total equity</b>		<b>5,129.2</b>	5,046.4	<b>3,043.0</b>	3,193.4

A profit of £36.3 million is recorded in the financial statements of the Company in respect of the year (2016: loss of £67.1 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 22 February 2018.

**David Fischel**  
Chief Executive

**Matthew Roberts**  
Chief Financial Officer

The notes on pages 112 to 159 form part of these consolidated financial statements.

## Statements of changes in equity

for the year ended 31 December 2017

Group	Attributable to owners of intu properties plc						Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 January 2017	677.5	1,327.4	(40.8)	344.3	2,670.4	4,978.8	67.6	5,046.4
Profit/(loss) for the year	-	-	-	-	216.7	216.7	(13.4)	203.3
Other comprehensive income:								
Revaluation of other investments (note 19)	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Exchange differences	-	-	-	16.9	-	16.9	-	16.9
Tax relating to components of other comprehensive income (note 10)	-	-	-	0.1	-	0.1	-	0.1
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16.8</b>	<b>216.7</b>	<b>233.5</b>	<b>(13.4)</b>	<b>220.1</b>
Dividends (note 11)	-	-	-	-	(187.9)	(187.9)	-	(187.9)
Share-based payments (note 40)	-	-	-	-	2.3	2.3	-	2.3
Other share related transaction (note 40)	-	-	-	-	49.4	49.4	-	49.4
Acquisition of treasury shares	-	-	(1.3)	-	-	(1.3)	-	(1.3)
Disposal of treasury shares	-	-	3.0	-	(2.8)	0.2	-	0.2
	-	-	1.7	-	(139.0)	(137.3)	-	(137.3)
<b>At 31 December 2017</b>	<b>677.5</b>	<b>1,327.4</b>	<b>(39.1)</b>	<b>361.1</b>	<b>2,748.1</b>	<b>5,075.0</b>	<b>54.2</b>	<b>5,129.2</b>

Group	Attributable to owners of intu properties plc							Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total £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 19)	-	-	-	0.4	-	0.4	-	0.4	
Exchange differences	-	-	-	31.6	-	31.6	-	31.6	
Tax relating to components of other comprehensive income (note 10)	-	-	-	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 30)	5.2	24.3	-	-	-	29.5	-	29.5	
Dividends (note 11)	-	-	-	-	(182.5)	(182.5)	-	(182.5)	
Share-based payments (note 40)	-	-	-	-	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 2017

Company	Attributable to owners of intu properties plc					
	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2017	677.5	1,327.4	(40.8)	61.4	1,167.9	3,193.4
Profit for the year	-	-	-	-	36.3	36.3
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36.3</b>	<b>36.3</b>
Dividends (note 11)	-	-	-	-	(187.9)	(187.9)
Share-based payments (note 40)	-	-	-	-	2.3	2.3
Acquisition of treasury shares	-	-	(1.3)	-	-	(1.3)
Disposal of treasury shares	-	-	3.0	-	(2.8)	0.2
	-	-	1.7	-	(188.4)	(186.7)
<b>At 31 December 2017</b>	<b>677.5</b>	<b>1,327.4</b>	<b>(39.1)</b>	<b>61.4</b>	<b>1,015.8</b>	<b>3,043.0</b>

Company	Attributable to owners of intu properties plc					
	Share capital £m	Share premium £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Total equity £m
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 30)	5.2	24.3	-	-	-	29.5
Dividends (note 11)	-	-	-	-	(182.5)	(182.5)
Share-based payments (note 40)	-	-	-	-	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



# Statements of cash flows

for the year ended 31 December 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Cash generated from operations</b>	37	<b>365.6</b>	355.9	<b>2.2</b>	556.0
Interest paid		<b>(232.4)</b>	(233.0)	<b>(22.8)</b>	(20.8)
Interest received		<b>7.6</b>	8.5	-	-
Taxation		<b>0.1</b>	-	-	-
<b>Cash flows from operating activities</b>		<b>140.9</b>	131.4	<b>(20.6)</b>	535.2
<b>Cash flows from investing activities</b>					
Purchase and development of property, plant and equipment		<b>(189.5)</b>	(120.9)	<b>(6.9)</b>	(3.4)
Sale of property		<b>3.7</b>	-	-	-
Acquisition of businesses net of cash acquired	33	<b>(446.7)</b>	(405.5)	-	-
Cash transferred to assets classified as held for sale	35	<b>(0.5)</b>	-	-	-
Sale of other investments	19	-	201.9	-	-
Additions to other investments	19	<b>(1.5)</b>	(14.1)	-	-
Additions to investment in subsidiaries	15	-	-	<b>(4.4)</b>	(24.4)
Disposal of subsidiaries net of cash sold	34	<b>104.1</b>	80.5	-	-
Investment of capital in joint ventures	16	<b>(0.7)</b>	-	-	-
Loan advances to joint ventures	16	<b>(3.0)</b>	(1.2)	-	-
Loan repayments by joint ventures	16	<b>14.8</b>	12.7	-	-
Distributions from joint ventures	16	<b>1.2</b>	3.2	-	-
<b>Cash flows from investing activities</b>		<b>(518.1)</b>	(243.4)	<b>(11.3)</b>	(27.8)
<b>Cash flows from financing activities</b>					
Issue of ordinary shares		-	0.3	-	0.3
Acquisition of treasury shares		<b>(1.3)</b>	(0.7)	<b>(1.3)</b>	(0.7)
Sale of treasury shares		<b>0.2</b>	-	<b>0.2</b>	-
Cash transferred from/(to) restricted accounts		<b>0.1</b>	(0.8)	-	-
Borrowings drawn		<b>1,199.2</b>	962.9	<b>220.9</b>	-
Borrowings repaid		<b>(660.0)</b>	(720.4)	-	(353.8)
Equity dividends paid		<b>(188.0)</b>	(152.6)	<b>(188.0)</b>	(152.6)
<b>Cash flows from financing activities</b>		<b>350.2</b>	88.7	<b>31.8</b>	(506.8)
Effects of exchange rate changes on cash and cash equivalents		<b>0.4</b>	1.4	-	-
<b>Net decrease in cash and cash equivalents</b>		<b>(26.6)</b>	(21.9)	<b>(0.1)</b>	0.6
Cash and cash equivalents at 1 January	21	<b>251.7</b>	273.6	<b>0.9</b>	0.3
<b>Cash and cash equivalents at 31 December</b>	21	<b>225.1</b>	251.7	<b>0.8</b>	0.9

# 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 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 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 resulted in changes to financial statement disclosures.

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:

- 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 Group has completed its impact assessment of the standard in which the main areas of impact have been identified as impairment provisioning in respect of trade receivables and other financial assets as well as the accounting treatment on the derecognition of other investments. The impairment provisioning approach has been refined in accordance with the new accounting standard to reflect the expected collection of trade receivables; however, no material quantitative differences have been identified from the impairment provisioning in accordance with the previous accounting standard. In respect of other investments, the Group will make an irrevocable election to recognise movements in other investments through other comprehensive income, consistent with current accounting treatment. Under IFRS 9 on sale of other investments, any cumulative gains or losses are not reclassified to the income statement, but are transferred from other comprehensive income to retained earnings. No other changes to existing accounting treatments are required
- 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 lease rental income arising from contracts with the Group's tenants. The Group has completed its impact assessment of the standard and assessed all significant revenue streams from which there were no changes to existing accounting treatments. The Group will continue to assess new transactions as they arise or as immaterial revenue streams become material

- 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

### – significant estimates and judgements

The preparation of financial statements in conformity with the Group's accounting policies requires management to make judgements and use estimates 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 judgements and estimates are based on management's best knowledge of the amount, event or action, the actual result ultimately may differ from those judgements and estimates.

### – significant use of estimates and assumptions

Valuation of investment and development property – See investment and development property accounting policy in note 2 as well as note 14 for details on estimates and assumptions used in the valuation process and sensitivities.

Valuation of derivative financial instruments – See derivative financial instruments accounting policy in note 2 as well as note 28 for details on sensitivities of estimates and assumptions used.

### – significant areas of judgement

Accounting for acquisitions – Management uses significant judgement to determine whether an acquisition of property should be accounted for as an asset acquisition or a business combination. See business combinations accounting policy in note 2 as well as further detail on judgements made in note 33.

Assessing control over joint arrangements – Management uses significant judgement to assess control of joint arrangements (eg part disposals of subsidiaries). See basis of consolidation in note 2 as well as further detail on judgements made in note 34.

Non-current assets and disposal groups held for sale – Management uses significant judgement to determine whether an asset in the process of being disposed of (including part disposals) should be classified as an asset held for sale. See assets held for sale accounting policy in note 2 as well as further detail on judgements made in note 35.

### 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 report on pages 6 to 59. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 48 to 53. In addition, note 28 includes the Group's risk management objectives, details of its financial instruments and hedging activities, its exposure to liquidity risk and details of its capital structure.

## 1 Accounting convention and basis of preparation (continued)

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 £278.2 million of cash (including the Group's share of cash in joint ventures of £50.2 million) and £406.9 million of undrawn facilities at 31 December 2017. The Group's weighted-average debt maturity of 6.6 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.

## 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. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. 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 if they relate to hedging of net investments in a foreign operation or for loans to foreign subsidiary entities considered to be part of the net investment in those entities, in which case these amounts are recorded in other comprehensive income.

## Notes to the financial statements continued

### 2 Accounting policies – Group and Company (continued)

#### 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.

Contingent rents, being those lease payments that are dependent on unknown future events, the most significant being incremental rents linked to tenant revenues or increases arising on rent reviews, are recorded as income in the periods in which they are earned. In respect of rents linked to tenant revenues, where information is not available, management uses estimates based on knowledge of the tenant and past data. 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.

Directly attributable lease incentives are recognised within rental income on the same basis as the underlying lease income.

Service charge income, facilities management income and management fees are recognised on an accruals basis in line with the service being provided.

#### 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 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. For more detail see treasury shares accounting policy.

#### Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate.

#### 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 48 and reconciled in note 12(c).

#### Taxation

Current tax is the expected tax payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates applicable at the balance sheet date.

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for tax purposes.

Temporary differences are not provided on: goodwill not deductible for tax purposes, 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.

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. External valuations are received for significant development land once required planning permissions are obtained. Valuations conform with the Royal Institution of Chartered Surveyors (RICS) Valuation – Global Standards 2017.

The main estimates and assumptions underlying the valuations are described in note 14.

## 2 Accounting policies – Group and Company (continued)

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.

#### – 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.

### Goodwill

Goodwill arising on business combinations is carried at cost less accumulated impairment losses. Goodwill is assessed for impairment on an annual basis.

### 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 other comprehensive income to the income statement.

### 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.

## Notes to the financial statements continued

### 2 Accounting policies – Group and Company (continued)

#### 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, premiums or discounts recognised over the contractual life using the effective interest method. This excludes certain financial instruments such as convertible bonds as detailed in note 26.

In the event of early repayment, all unamortised transaction costs are recognised immediately in the income statement.

#### 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 Financial Instruments Presentation. Each bond is assessed separately and the detailed accounting treatment of each is given in note 26.

#### 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.

#### 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, associated with assets held for sale and 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.

#### Non-current assets and disposal groups held for sale

Non-current assets and corresponding disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale which is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Assets and liabilities are separately grouped and presented on single lines in the balance sheet.

### 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 UK and Spain. Although certain areas of business performance are reviewed and monitored on a centre-by-centre basis, the operating segments are consistent with the strategic and operational management of the Group by the Executive Committee (the chief operating decision makers 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 provided below:

	2017				
	Group including share of joint ventures			Less share of joint ventures £m	Group total £m
	UK £m	Spain £m	Total £m		
Rent receivable	513.5	32.7	546.2	(42.8)	503.4
Service charge income	109.7	8.1	117.8	(8.7)	109.1
Facilities management income from joint ventures	2.8	–	2.8	0.7	3.5
<b>Revenue</b>	<b>626.0</b>	<b>40.8</b>	<b>666.8</b>	<b>(50.8)</b>	<b>616.0</b>
Rent payable	(20.5)	–	(20.5)	1.0	(19.5)
Service charge costs	(128.1)	(8.8)	(136.9)	9.6	(127.3)
Facilities management costs recharged to joint ventures	(2.8)	–	(2.8)	(0.7)	(3.5)
Other non-recoverable costs	(43.4)	(3.2)	(46.6)	4.3	(42.3)
<b>Net rental income</b>	<b>431.2</b>	<b>28.8</b>	<b>460.0</b>	<b>(36.6)</b>	<b>423.4</b>
<b>Profit for the year</b>	<b>140.4</b>	<b>63.5</b>	<b>203.9</b>	<b>(0.6)<sup>1</sup></b>	<b>203.3</b>

1 The adjustment to profit for the year relates to the profit attributable to non-controlling interests within the Group's investment in joint ventures.

	2016				
	Group including share of joint ventures			Less share of joint ventures £m	Group total £m
	UK £m	Spain £m	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
Profit for the year	150.7	21.1	171.8	–	171.8

There were no significant transactions within net rental income between operating segments.

The Group's geographical analysis of non-current assets is presented 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.

	2017 £m	2016 £m
UK	9,484.1	9,648.6
Spain	565.5	276.7
India	65.9	65.8
	<b>10,115.5</b>	<b>9,991.1</b>

## Notes to the financial statements continued

### 3 Segmental reporting (continued)

An analysis of investment and development property, capital expenditure and revaluation surplus/(deficit) is presented below:

	Investment and development property		Capital expenditure		Revaluation surplus/(deficit)	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
UK	<b>9,373.8</b>	9,537.5	<b>184.1</b>	92.5	<b>(51.2)</b>	(97.4)
Spain	<b>818.7</b>	407.0	<b>62.6</b>	22.3	<b>98.5</b>	33.6
Group including share of joint ventures	<b>10,192.5</b>	9,944.5	<b>246.7</b>	114.8	<b>47.3</b>	(63.8)
Less share of joint ventures	<b>(1,013.1)</b>	(732.4)	<b>(7.3)</b>	(1.2)	<b>(16.5)</b>	(14.2)
Group	<b>9,179.4</b>	9,212.1	<b>239.4</b>	113.6	<b>30.8</b>	(78.0)

### 4 Loss on disposal of subsidiaries

The loss on disposal of subsidiaries of £1.8 million includes a loss in respect of the final net asset value adjustment of intu Bromley of £0.8 million as well as a loss in respect of the disposal of Madrid Xanadú to a joint venture of £1.0 million (see note 34). The 2016 loss of £0.3 million related to the disposal of intu Bromley (see note 34).

### 5 Administration expenses – exceptional

Exceptional administration expenses (see note 2 for definition of exceptional items) in the year totalled £5.9 million (2016: £2.5 million) and relate principally to corporate transactions, being the acquisition of Madrid Xanadú as well as costs associated with the recommended all-share offer made by Hammerson plc in 2017. The 2016 costs related to the acquisition of the remaining 50 per cent of intu Merry Hill. These costs have been classified as exceptional based on their incidence.

### 6 Operating profit

	2017 £m	2016 £m
Operating profit is arrived at after charging:		
Staff costs (note 7)	<b>91.0</b>	83.2
Depreciation	<b>2.9</b>	2.2
Remuneration paid to the Company's auditors (note 8)	<b>0.8</b>	0.8

### 7 Employees' information

	Group 2017 £m	Group 2016 £m
Wages and salaries	<b>76.5</b>	71.1
Social security costs	<b>7.8</b>	6.6
Pension costs (note 41)	<b>4.4</b>	3.6
Share-based payments (note 40)	<b>2.3</b>	1.9
	<b>91.0</b>	83.2

At 31 December 2017 the number of persons employed by the Group was 2,589 (2016: 2,578). The Company had no employees during the year (2016: none). The monthly average number of persons employed by the Group during the year is provided below:

	2017 Number	2016 Number
Head office	<b>432</b>	379
Shopping centres	<b>2,171</b>	2,171
	<b>2,603</b>	2,550



## 8 Auditors' remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditors and their associates for:		
The audit of the Company's annual financial statements	351	266
Other services to the Group – audit of the Company's subsidiaries	438	439
Fees related to the audit of the Company and its subsidiaries	789	705
Audit-related assurance services <sup>1</sup>	49	48
Total fees for audit and audit-related services	838	753
Total fees	838	753

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 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 2017 were £114,000 (Group's share), all of which relates to audit and audit-related services (2016: £151,000, of which £89,000 related to audit and audit-related services and £62,000 related to other assurance services). The Group also used accounting firms other than PwC for a number of assignments.

## 9 Net finance costs

	2017 £m	2016 £m
On bank loans and overdrafts	192.0	189.2
On convertible bonds (note 26)	17.5	9.3
On obligations under finance leases	4.4	4.4
<b>Finance costs<sup>1</sup></b>	<b>213.9</b>	<b>202.9</b>
<b>Finance income</b>	<b>(12.6)</b>	<b>(14.9)</b>
Amortisation of Metrocentre compound financial instrument	5.9	5.9
Payments on unallocated interest rate swaps and other costs <sup>2</sup>	34.6	34.7
Foreign currency movements <sup>2</sup>	(1.6)	(2.7)
<b>Other finance costs</b>	<b>38.9</b>	<b>37.9</b>
(Gain)/loss on derivative financial instruments	(28.3)	47.2
Loss/(gain) on convertible bonds designated as at fair value through profit or loss (note 26)	6.3	(30.9)
<b>Change in fair value of financial instruments<sup>3</sup></b>	<b>(22.0)</b>	<b>16.3</b>
<b>Net finance costs</b>	<b>218.2</b>	<b>242.2</b>

1 Finance costs of £4.9 million were capitalised in the year ended 31 December 2017 (2016: £2.1 million).

2 Amounts totalling £33.0 million in the year ended 31 December 2017 (2016: £32.0 million) are treated as exceptional items, as defined in note 2, due to their nature and are therefore excluded from underlying earnings (see note 12(c)). These finance costs include payments on unallocated interest rate swaps, foreign currency movements and other fees.

3 Included within the change in fair value of derivative financial instruments are gains totalling £47.1 million (2016: £41.8 million) resulting from the payment of obligations under derivative financial instruments during the year. Of these £26.1 million related to unallocated swaps (2016: £27.1 million).

## Notes to the financial statements continued

### 10 Taxation

Taxation for the year:

	2017 £m	2016 £m
Overseas taxation	0.2	0.1
Overseas taxation – adjustment in respect of prior years	(0.1)	–
UK taxation – adjustment in respect of prior years	(0.2)	(0.1)
<b>Current tax</b>	<b>(0.1)</b>	<b>–</b>
Deferred tax:		
On investment and development property	24.8	–
On other investments	–	(2.3)
On derivative financial instruments	–	16.4
On other temporary differences	(0.8)	2.4
<b>Deferred tax</b>	<b>24.0</b>	<b>16.5</b>
<b>Total tax charge</b>	<b>23.9</b>	<b>16.5</b>

Tax relating to components of other comprehensive income of £0.1 million (2016: £16.5 million) relates entirely to deferred tax in respect of other investments.

The tax charge for 2017 and 2016 is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Profit before tax, joint ventures and associates	190.4	154.6
Profit before tax multiplied by the standard rate in the UK of 19.25% (2016: 20%)	36.7	30.9
Exempt property rental profits and revaluations	(32.8)	(20.1)
	3.9	10.8
Additions and disposals of property and investments	6.2	(6.8)
Prior year corporation tax items	(0.3)	(0.1)
Non-deductible and other items	2.8	0.5
Overseas taxation	4.3	(0.6)
Unprovided deferred tax	7.0	12.7
<b>Total tax charge</b>	<b>23.9</b>	<b>16.5</b>

Details of deferred tax balances are given in note 29.

### 11 Dividends

	2017 £m	2016 £m
Ordinary shares:		
Prior year final dividend paid of 9.4 pence per share (2016: 9.1 pence per share)	126.2	121.1
Interim dividend paid of 4.6 pence per share (2016: 4.6 pence per share)	61.7	61.4
<b>Dividends paid</b>	<b>187.9</b>	<b>182.5</b>
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.

Details of the shares in issue and dividends waived are given in notes 30 and 31 respectively.

As a REIT, dividends are declared and paid in accordance with REIT legislation. See glossary for further information as well as the financial review on page 53 for information on distributable reserves.

## 12 Earnings per share

### (a) Earnings per share

Basic and diluted earnings per share as calculated in accordance with IAS 33 Earnings Per Share.

	2017			2016		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
<b>Profit for the year attributable to owners of intu properties plc</b>	<b>216.7</b>			182.7		
<b>Basic earnings per share<sup>1</sup></b>	<b>216.7</b>	<b>1,343.2</b>	<b>16.1p</b>	182.7	1,333.5	13.7p
Dilutive convertible bonds, share options and share awards	<b>(1.9)</b>	<b>84.4</b>		(21.6)	107.9	
<b>Diluted earnings per share</b>	<b>214.8</b>	<b>1,427.6</b>	<b>15.0p</b>	161.1	1,441.4	11.2p

1 The weighted average number of shares used 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.

	2017		2016	
	Gross £m	Net <sup>1</sup> £m	Gross £m	Net <sup>1</sup> £m
Basic earnings		<b>216.7</b>		182.7
Adjusted for:				
Revaluation of investment and development property (note 14)	<b>(30.8)</b>	<b>(16.1)</b>	78.0	71.8
Gain on acquisition of businesses (note 33)	-	-	(34.6)	(34.6)
Loss on disposal of subsidiaries (note 4)	<b>1.8</b>	<b>1.8</b>	0.3	0.3
Gain on sale of other investments (note 19)	-	-	(74.1)	(74.1)
Share of joint ventures' items	<b>(15.9)</b>	<b>(17.2)</b>	(14.2)	(14.2)
Share of associates' items	<b>(1.1)</b>	<b>(1.1)</b>	(1.1)	(1.1)
Headline earnings		<b>184.1</b>		130.8
Dilution <sup>2</sup>		<b>(1.9)</b>		(21.6)
Diluted headline earnings		<b>182.2</b>		109.2
Weighted average number of shares (million)		<b>1,343.2</b>		1,333.5
Dilution <sup>2</sup>		<b>84.4</b>		107.9
Diluted weighted average number of shares (million)		<b>1,427.6</b>		1,441.4
Headline earnings per share (pence)		<b>13.7p</b>		9.8p
Diluted headline earnings per share (pence)		<b>12.8p</b>		7.6p

1 Net of tax and non-controlling interests.

2 The dilution impact is required to be included as calculated in note 12(a) even where this is not dilutive for headline earnings per share.

## Notes to the financial statements continued

### 12 Earnings per share (continued)

#### (c) Underlying earnings per share

Underlying earnings per share is a non-GAAP measure but has been presented as it is considered to be a key measure of the Group's recurring performance and an indication of the extent to which dividend payments are supported by underlying operations (see underlying profit statement on page 169). It excludes property and derivative movements, exceptional items and related tax. The key difference from EPRA earnings, an industry standard comparable measure, relates to adjustments in respect of exceptional items where EPRA is prescriptive about the adjustments that can be made. Underlying earnings is defined as an alternative performance measure in the financial review on page 48. A reconciliation to EPRA earnings per share is provided within the other information section.

	2017			2016		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic earnings per share (per note 12(a))	216.7	1,343.2	16.1p	182.7	1,333.5	13.7p
Adjusted for:						
Revaluation of investment and development property (note 14)	(30.8)		(2.3)p	78.0		5.9p
Gain on acquisition of businesses (note 33)	–		–	(34.6)		(2.6)p
Loss on disposal of subsidiaries (note 4)	1.8		0.1p	0.3		–
Gain on sale of other investments (note 19)	–		–	(74.1)		(5.6)p
Administration expenses – exceptional (note 5)	5.9		0.4p	2.5		0.2p
Exceptional finance costs (note 9)	33.0		2.5p	32.0		2.4p
Change in fair value of financial instruments (note 9)	(22.0)		(1.6)p	16.3		1.2p
Tax on the above	24.0		1.8p	16.5		1.3p
Share of joint ventures' items	(17.2)		(1.3)p	(12.3)		(0.9)p
Share of associates' items	(0.4)		–	(1.1)		(0.1)p
Non-controlling interests in respect of the above	(10.0)		(0.7)p	(6.2)		(0.5)p
<b>Underlying earnings per share</b>	<b>201.0</b>	<b>1,343.2</b>	<b>15.0p</b>	<b>200.0</b>	<b>1,333.5</b>	<b>15.0p</b>
Dilutive convertible bonds, share options and share awards	6.7	84.4		9.3	107.9	
<b>Underlying, diluted earnings per share</b>	<b>207.7</b>	<b>1,427.6</b>	<b>14.5p</b>	<b>209.3</b>	<b>1,441.4</b>	<b>14.5p</b>

### 13 Net asset value per share

#### (a) NAV per share (diluted, adjusted)

NAV per share (diluted, adjusted) is a non-GAAP measure but has been presented as it is considered to be a key measure of the Group's performance. The key difference from EPRA NAV per share, an industry standard comparable measure, is the exclusion of interest rate swaps not currently used for economic hedges of debt as, in our view, this better allows management to review and monitor the Group's performance. NAV (diluted, adjusted) is defined as an alternative performance measure in the financial review on page 48. A reconciliation to EPRA NAV per share is provided within the other information section.

	2017			2016		
	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 <sup>1</sup>	5,075.0	1,343.4	378p	4,978.8	1,343.0	371p
Dilutive convertible bonds, share options and awards	–	1.8		2.6	3.5	
Diluted NAV per share	5,075.0	1,345.2	377p	4,981.4	1,346.5	370p
Adjusted for:						
Fair value of derivative financial instruments	347.5		26p	377.7		28p
Deferred tax on investment and development property and other investments	23.7		2p	0.1		–
Share of joint ventures' items	5.2		1p	7.2		1p
Non-controlling interest recoverable balance not recognised	71.3		5p	71.3		5p
<b>NAV per share (diluted, adjusted)</b>	<b>5,522.7</b>	<b>1,345.2</b>	<b>411p</b>	<b>5,437.7</b>	<b>1,346.5</b>	<b>404p</b>

<sup>1</sup> The number of shares used has been adjusted to remove shares held in the ESOP.

**13 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.

	2017			2016		
	Net assets £m	Shares million	NAV per share pence	Net assets £m	Shares million	NAV per share pence
NAV per share (diluted, adjusted)	<b>5,522.7</b>	<b>1,345.2</b>	<b>411p</b>	5,437.7	1,346.5	404p
Fair value of derivative financial instruments	<b>(347.5)</b>		<b>(26)p</b>	(377.7)		(28)p
Excess of fair value of borrowings over carrying value	<b>(430.8)</b>		<b>(32)p</b>	(375.0)		(28)p
Deferred tax on investment and development property and other investments	<b>(23.7)</b>		<b>(2)p</b>	(0.1)		–
Share of joint ventures' items	<b>(47.8)</b>		<b>(4)p</b>	(9.4)		(1)p
Non-controlling interests in respect of the above	<b>22.9</b>		<b>2p</b>	23.4		2p
<b>NNNAV per share (diluted, adjusted)</b>	<b>4,695.8</b>	<b>1,345.2</b>	<b>349p</b>	4,698.9	1,346.5	349p

**14 Investment and development property**

	Investment property £m	Development property £m	Total £m
At 1 January 2016	8,259.7	144.2	8,403.9
Acquisition of intu Merry Hill (note 33)	889.3	–	889.3
Additions	52.6	61.0	113.6
Recognition of leasehold on Charter Place	–	55.9	55.9
Disposals	(2.0)	–	(2.0)
Disposal of intu Bromley (note 34)	(179.4)	–	(179.4)
Deficit on revaluation	(17.2)	(60.8)	(78.0)
Foreign exchange movements	–	8.8	8.8
At 31 December 2016	9,003.0	209.1	9,212.1
Acquisition of Madrid Xanadú (note 33)	461.4	–	461.4
Additions	109.6	129.8	239.4
Disposals	(3.1)	(0.3)	(3.4)
Disposal of Madrid Xanadú to joint venture (note 34)	(472.3)	–	(472.3)
Transfer of intu Chapelfield to assets held for sale (note 35)	(302.0)	–	(302.0)
(Deficit)/surplus on revaluation	(59.0)	89.8	30.8
Foreign exchange movements	9.4	4.0	13.4
<b>At 31 December 2017</b>	<b>8,747.0</b>	<b>432.4</b>	<b>9,179.4</b>

A reconciliation to market value is given in the table below:

	2017 £m	2016 £m
Balance sheet carrying value of investment and development property	<b>9,179.4</b>	9,212.1
Tenant incentives included within trade and other receivables (note 20)	<b>109.2</b>	109.9
Head leases included within finance leases in borrowings (note 24)	<b>(80.2)</b>	(80.2)
<b>Market value of investment and development property</b>	<b>9,208.4</b>	9,241.8

The market value of investment and development property at 31 December 2017 includes £8,831.9 million (31 December 2016: £9,088.6 million) in respect of investment property and £376.5 million (31 December 2016: £153.2 million) in respect of development property.

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 28 for definition) as one or more significant inputs to the valuation are partly based on unobservable market data.

## Notes to the financial statements continued

### 14 Investment and development property (continued)

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 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 presented below:

	2017 £m	2016 £m
Cushman & Wakefield	4,609.6	4,564.4
CBRE	2,420.8	2,352.9
Knight Frank	1,964.0	2,243.9
Jones Lang LaSalle	197.7	-
Assets not valued externally held at cost	16.3	80.6
	<b>9,208.4</b>	<b>9,241.8</b>

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 relate to certain development land. 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.

In respect of the intu Costa del Sol development site near Málaga, Spain, as the General Plan of Torremolinos was approved in the year, with the remaining consents expected in the coming months, the Group obtained an independent external valuation at 31 December 2017 as cost is no longer an appropriate approximation of fair value. The valuation is based on the assumption that planning approval is in place at the valuation date.

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 2017 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 – Global Standards 2017 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.

## 14 Investment and development property (continued)

In respect of development valuations, deductions are then made for anticipated costs, including an allowance for developer's profit and any other assumptions 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.

A significant change in the nominal equivalent yield of investment property 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 £1,055.5 million (31 December 2016: £1,062.9 million), while a 50 basis point increase would result in a decrease in the total market value of £806.5 million (31 December 2016: £834.9 million). Additionally, development property is sensitive to income, cost and developer's profit assumptions included in the valuations.

The tables below provide details of the assumptions used in the valuation of the core portfolio and key unobservable inputs:

	2017				2016			
	Market value £m	Net initial yield (EPRA)	Nominal equivalent yield	Annual property income £m	Market value £m	Net initial yield (EPRA)	Nominal equivalent yield	Annual property income £m
intu Trafford Centre	2,324.0	3.7%	4.3%	93.7	2,312.0	3.9%	4.3%	89.3
intu Lakeside	1,416.5	3.3%	4.5%	53.2	1,375.0	3.7%	4.5%	56.9
intu Merry Hill	931.1	3.8%	5.0%	42.4	898.5	4.0%	5.0%	39.1
intu Metrocentre	929.0	4.7%	5.3%	48.1	945.2	4.5%	5.3%	51.6
intu Braehead	533.1	5.1%	6.1%	28.1	546.2	4.5%	6.3%	27.2
intu Derby	458.0	6.0%	6.2%	28.9	450.0	5.8%	6.2%	29.7
Manchester Arndale	456.4	4.1%	5.1%	21.3	445.8	4.5%	5.2%	22.2
intu Victoria Centre	355.5	4.7%	5.7%	19.5	360.5	4.6%	5.7%	19.0
intu Watford	336.0	4.0%	5.1%	15.8	336.0	5.0%	5.1%	18.8
intu Eldon Square	322.7	4.9%	5.0%	16.1	317.7	4.3%	5.1%	15.0
intu Milton Keynes	285.0	4.4%	4.9%	13.7	281.0	4.6%	4.9%	13.9
Cribbs Causeway	240.0	4.9%	5.2%	12.9	238.9	4.6%	5.6%	12.2

## 15 Investment in Group companies

Company	2017			2016		
	Cost £m	Accumulated impairment £m	Net £m	Cost £m	Accumulated impairment £m	Net £m
At 1 January	3,338.1	(517.2)	2,820.9	3,313.7	(447.1)	2,866.6
Additions	4.4	–	4.4	24.4	–	24.4
Impairment reversal/(charge) in the year	–	67.0	67.0	–	(70.1)	(70.1)
<b>At 31 December</b>	<b>3,342.5</b>	<b>(450.2)</b>	<b>2,892.3</b>	<b>3,338.1</b>	<b>(517.2)</b>	<b>2,820.9</b>

The impairment reversal in the year and charge in prior year are principally the result of property valuation movements seen in the relevant subsidiaries. The valuation of investment and development property is a significant estimate as referenced in note 1.

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 38.

## Notes to the financial statements continued

### 16 Investment in joint ventures

The Group's principal joint ventures own and manage investment and development property.

	2017					
	St David's, Cardiff £m	Puerto Venecia £m	Madrid Xanadú £m	intu Asturias £m	Other £m	Total £m
At 1 January 2017	355.2	119.4	–	76.0	37.0	587.6
Acquisition of joint venture interest (note 34)	–	–	117.1	–	–	117.1
Group's share of underlying profit	13.4	0.6	1.4	2.0	0.9	18.3
Group's share of other net profit/(loss)	(6.8)	8.9	0.4	14.7	–	17.2
Group's share of profit	6.6	9.5	1.8	16.7	0.9	35.5
Investment of capital	–	–	0.7	–	–	0.7
Distributions	–	–	–	–	(1.2)	(1.2)
Loan advances	–	–	–	–	3.0	3.0
Loan repayments	(14.8)	–	–	–	–	(14.8)
Foreign exchange movements	–	5.0	(0.2)	2.9	(0.1)	7.6
<b>At 31 December 2017</b>	<b>347.0</b>	<b>133.9</b>	<b>119.4</b>	<b>95.6</b>	<b>39.6</b>	<b>735.5</b>
Represented by:						
Loans to joint ventures	83.6	99.1	57.7	35.0	7.5	282.9
Group's share of net assets	263.4	34.8	61.7	60.6	32.1	452.6

	2016					
	intu Merry Hill £m	St David's, Cardiff £m	Puerto Venecia £m	intu Asturias £m	Other £m	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

At 31 December 2017, the boards of joint ventures had approved £13.8 million (2016: £15.7 million) of future expenditure for the purchase, construction, development and enhancement of investment property. Of this, £12.7 million (2016: nil) is contractually committed. These amounts represent the Group's share.



## 16 Investment in 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 2017 summary information and the summarised income statement of Madrid Xanadú is presented for the period from 31 July 2017, the date which it ceased being a 100 per cent owned subsidiary of the Group.

						2017
	St David's, Cardiff £m	Puerto Venecia £m	Madrid Xanadú £m	intu Asturias £m	Other £m	Total £m
<b>Summary information</b>						
Group's interest	50%	50%	50%	50%		
Principal place of business	Wales	Spain	Spain	Spain		
<b>Summarised income statement</b>						
Revenue	39.6	25.1	13.0	17.0	18.8	113.5
Net rental income	26.7	19.2	8.6	12.5	12.9	79.9
Revaluation of investment and development property	(13.6)	18.1	2.0	26.6	–	33.1
Loss on sale of other investments	–	(0.4)	–	(0.3)	–	(0.7)
Administration expenses – underlying	–	(1.9)	(1.1)	(1.0)	(2.3)	(6.3)
Administration expenses – exceptional	–	–	(1.0)	–	–	(1.0)
Finance costs	–	(15.9)	(4.4)	(7.5)	(5.0)	(32.8)
Change in fair value of financial instruments	–	0.6	0.4	0.6	0.7	2.3
Taxation	–	(0.1)	(0.9)	3.2	–	2.2
<b>Profit</b>	<b>13.1</b>	<b>19.6</b>	<b>3.6</b>	<b>34.1</b>	<b>6.3</b>	<b>76.7</b>
Attributable to non-controlling interests	–	(0.6)	–	(0.7)	–	(1.3)
<b>Profit attributable to owners</b>	<b>13.1</b>	<b>19.0</b>	<b>3.6</b>	<b>33.4</b>	<b>6.3</b>	<b>75.4</b>
<b>Group's share of profit</b>	<b>6.6</b>	<b>9.5</b>	<b>1.8</b>	<b>16.7</b>	<b>0.9</b>	<b>35.5</b>
<b>Summarised balance sheet</b>						
Investment and development property	692.0	460.4	470.5	281.0	265.3	2,169.2
Other non-current assets	14.0	0.8	81.2	5.3	3.7	105.0
Total non-current assets	706.0	461.2	551.7	286.3	269.0	2,274.2
Cash and cash equivalents	8.9	38.2	18.9	31.2	6.0	103.2
Other current assets	7.7	2.5	–	1.5	9.4	21.1
Total current assets	16.6	40.7	18.9	32.7	15.4	124.3
Current financial liabilities	–	(17.0)	(6.1)	(6.2)	(0.5)	(29.8)
Other current liabilities	(12.6)	(13.9)	(15.2)	(1.9)	(5.8)	(49.4)
Total current liabilities	(12.6)	(30.9)	(21.3)	(8.1)	(6.3)	(79.2)
Partners' loans	(167.2)	(198.3)	(115.4)	(70.0)	(15.0)	(565.9)
Non-current financial liabilities	–	(199.6)	(230.9)	(105.2)	(131.6)	(667.3)
Other non-current liabilities	(16.1)	–	(79.7)	(11.4)	–	(107.2)
Total non-current liabilities	(183.3)	(397.9)	(426.0)	(186.6)	(146.6)	(1,340.4)
<b>Net assets</b>	<b>526.7</b>	<b>73.1</b>	<b>123.3</b>	<b>124.3</b>	<b>131.5</b>	<b>978.9</b>
Non-controlling interests	–	(3.4)	–	(3.1)	–	(6.5)
<b>Net assets attributable to owners</b>	<b>526.7</b>	<b>69.7</b>	<b>123.3</b>	<b>121.2</b>	<b>131.5</b>	<b>972.4</b>
<b>Group's share of net assets</b>	<b>263.4</b>	<b>34.8</b>	<b>61.7</b>	<b>60.6</b>	<b>32.1</b>	<b>452.6</b>

## Notes to the financial statements continued

### 16 Investment in joint ventures (continued)

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

## 17 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.

## 18 Investment in associates

	2017 £m	2016 £m
At 1 January	65.2	54.7
Share of profit of associates	1.3	1.6
Foreign exchange movements	(1.7)	8.9
<b>At 31 December</b>	<b>64.8</b>	<b>65.2</b>

Investment in associates comprises a 32.4 per cent holding in the ordinary shares of Prozone Intu Properties Limited ('Prozone'), a listed Indian shopping centre developer, and a 26.8 per cent holding in the ordinary shares of Empire Mall Private Limited ('Empire'). Both companies are incorporated in India.

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 at 30 September 2017, by independent professionally qualified external valuers in line with the valuation methodology described in note 14.

The market price per share of Prozone at 31 December 2017 was INR72 (31 December 2016: INR35), valuing the Group's interest at £41.1 million (31 December 2016: £20.3 million) compared to the carrying value of £45.1 million (31 December 2016: £45.5 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 within the investment in associates line. 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.

## Notes to the financial statements continued

### 18 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.

	Prozone 2017 £m	Empire 2017 £m	Total 2017 £m	Prozone 2016 £m	Empire 2016 £m	Total 2016 £m
<b>Summary information</b>						
Group's interest	32.4%	26.8%		32.4%	26.8%	
<b>Summarised income statement</b>						
Revenue	9.1	4.8	13.9	7.1	3.2	10.3
Revaluation of investment and development property	5.5	(1.0)	4.5	19.7	(5.6)	14.1
Other income statement items	(10.8)	(1.8)	(12.6)	(5.9)	(2.4)	(8.3)
Profit/(loss) reported by associate	3.8	2.0	5.8	20.9	(4.8)	16.1
Attributable to non-controlling interests	(1.5)	-	(1.5)	(11.9)	-	(11.9)
Profit/(loss) attributable to owners	2.3	2.0	4.3	9.0	(4.8)	4.2
Group's share of profit/(loss)	0.8	0.5	1.3	2.9	(1.3)	1.6
<b>Summarised balance sheet</b>						
Investment and development property	270.3	79.3	349.6	265.7	81.3	347.0
Other non-current assets	24.2	2.9	27.1	15.8	1.0	16.8
Current assets	7.6	4.0	11.6	8.8	2.1	10.9
Current liabilities	(10.7)	(1.2)	(11.9)	(12.6)	(5.5)	(18.1)
Non-current liabilities	(35.8)	(11.5)	(47.3)	(26.2)	(5.3)	(31.5)
Net assets	255.6	73.5	329.1	251.5	73.6	325.1
Non-controlling interests	(116.4)	-	(116.4)	(111.1)	-	(111.1)
Net assets attributable to owners	139.2	73.5	212.7	140.4	73.6	214.0
Group's share of net assets attributable to owners	45.1	19.7	64.8	45.5	19.7	65.2

## 19 Other investments

	2017 £m	2016 £m
At 1 January	15.5	210.3
Additions	1.5	14.1
Disposals	–	(209.4)
Revaluation	(0.2)	0.4
Foreign exchange movements	–	0.1
<b>At 31 December</b>	<b>16.8</b>	<b>15.5</b>

These investments are available-for-sale investments and are analysed by type as follows:

	2017 £m	2016 £m
Listed securities – equity	15.3	15.5
Unlisted securities – equity	1.5	–
	<b>16.8</b>	<b>15.5</b>

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 other comprehensive income of £77.0 million and settlement costs.

## 20 Trade and other receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Current</b>				
Trade receivables	26.4	22.1	1.8	–
Amounts owed by subsidiary undertakings	–	–	972.9	1,093.5
Amounts owed by joint ventures	13.6	9.9	–	–
Other receivables	17.2	15.4	3.9	0.8
Net investment in finance leases	0.4	0.5	–	–
Prepayments and accrued income	84.3	75.5	1.6	0.7
<b>Trade and other receivables – current</b>	<b>141.9</b>	<b>123.4</b>	<b>980.2</b>	<b>1,095.0</b>
<b>Non-current</b>				
Amounts owed by associates	4.7	–	–	–
Net investment in finance leases	1.2	1.5	–	–
Prepayments and accrued income	96.6	97.6	–	–
<b>Trade and other receivables – non-current</b>	<b>102.5</b>	<b>99.1</b>	<b>–</b>	<b>–</b>

Included within prepayments and accrued income for the Group of £180.9 million (2016: £173.1 million) are tenant lease incentives of £109.2 million (2016: £109.9 million), of which £12.6 million are classified as current (2016: £12.3 million) and £96.6 million as non-current (2016: £97.6 million).

Amounts owed by subsidiary undertakings are unsecured and repayable on demand.

## Notes to the financial statements continued

### 21 Cash and cash equivalents

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Unrestricted cash	225.1	251.7	0.8	0.9
Restricted cash	2.9	3.0	–	–
<b>Cash and cash equivalents</b>	<b>228.0</b>	254.7	<b>0.8</b>	0.9

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.

### 22 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 28).

The derivative financial instruments held by the Company relate to the bondholder options (see note 26) and are classified as held for trading.

### 23 Trade and other payables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Current</b>				
Rents received in advance	102.1	105.2	–	–
Trade payables	6.1	6.9	0.5	–
Amounts owed to joint ventures	0.3	0.1	–	–
Amounts owed to subsidiary undertakings	–	–	553.1	684.6
Accruals and deferred income	137.9	128.8	11.5	11.9
Other payables	10.9	10.3	0.3	0.1
Other taxes and social security	31.2	29.7	8.3	8.1
<b>Trade and other payables</b>	<b>288.5</b>	281.0	<b>573.7</b>	704.7

Amounts owed to subsidiary undertakings are unsecured and repayable on demand.

## 24 Borrowings

Group	2017					
	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m
<b>Current</b>						
Commercial mortgage backed securities (CMBS) notes	23.3	23.3	–	23.3	–	28.1
2.5% convertible bonds 2018 (note 26)	161.0	–	161.0	161.0	–	161.0
Current borrowings, excluding finance leases	184.3	23.3	161.0	184.3	–	189.1
Finance lease obligations	2.4	2.4	–	2.4	–	2.4
	<b>186.7</b>	<b>25.7</b>	<b>161.0</b>	<b>186.7</b>	<b>–</b>	<b>191.5</b>
<b>Non-current</b>						
Revolving credit facility 2021 (including £88.8 million drawn in euros)	233.8	233.8	–	–	233.8	233.8
CMBS notes 2019	19.9	19.9	–	19.9	–	20.4
CMBS notes 2022	43.0	43.0	–	43.0	–	49.5
CMBS notes 2024	88.0	88.0	–	88.0	–	98.6
CMBS notes 2029	73.2	73.2	–	73.2	–	85.9
CMBS notes 2033	311.2	311.2	–	311.2	–	393.1
CMBS notes 2035	192.8	192.8	–	–	192.8	212.1
Bank loan 2019	139.7	139.7	–	–	139.7	139.7
Bank loan 2020	32.9	32.9	–	–	32.9	32.9
Bank loans 2021	470.2	470.2	–	–	470.2	470.2
Bank loan 2022	246.8	246.8	–	246.8	–	277.3
Bank loan 2024	482.7	482.7	–	–	482.7	482.7
3.875% bonds 2023	443.5	443.5	–	443.5	–	486.2
4.125% bonds 2023	478.5	478.5	–	478.5	–	535.7
4.625% bonds 2028	342.3	342.3	–	342.3	–	410.0
4.250% bonds 2030	345.0	345.0	–	345.0	–	402.3
Debenture 2027	228.8	228.8	–	228.8	–	267.9
2.875% convertible bonds 2022 (note 26)	377.3	–	377.3	377.3	–	377.3
Non-current borrowings, excluding finance leases and Metrocentre compound financial instrument	4,549.6	4,172.3	377.3	2,997.5	1,552.1	4,975.6
Metrocentre compound financial instrument	183.7	–	183.7	183.7	–	183.7
Finance lease obligations	77.8	77.8	–	77.8	–	77.8
	<b>4,811.1</b>	<b>4,250.1</b>	<b>561.0</b>	<b>3,259.0</b>	<b>1,552.1</b>	<b>5,237.1</b>
<b>Total borrowings</b>	<b>4,997.8</b>	<b>4,275.8</b>	<b>722.0</b>	<b>3,445.7</b>	<b>1,552.1</b>	<b>5,428.6</b>
Cash and cash equivalents (note 21)	(228.0)					
<b>Net debt</b>	<b>4,769.8</b>					

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 28.

The market value of investment property secured, either directly or indirectly, as collateral against borrowings at 31 December 2017 is £9,802.2 million including £1,001.0 million of investment property held within joint ventures (2016: £9,763.6 million including £731.9 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 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 28 for definition). The fair values of unlisted floating rate borrowings are equal to their carrying values.

## Notes to the financial statements continued

### 24 Borrowings (continued)

Group	2016					
	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m
Current						
Bank loans and overdrafts	125.1	125.1	–	–	125.1	125.1
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 (including nil drawn in euros)	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 26)	308.1	–	308.1	308.1	–	308.1
2.875% convertible bonds 2022 (note 26)	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 21)	(254.7)					
Net debt	4,407.9					

The maturity profile of debt (excluding finance leases) is as follows:

	Group 2017 £m	Group 2016 £m
Repayable within one year	184.3	140.0
Repayable in more than one year but not more than two years	175.5	804.8
Repayable in more than two years but not more than five years	1,445.9	620.6
Repayable in more than five years	3,111.9	3,017.0
	4,917.6	4,582.4

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).



## 24 Borrowings (continued)

At 31 December 2017 the Group had committed borrowing facilities of £640.7 million, expiring in 2021, £406.9 million of which was undrawn (2016: facilities £640.7 million, undrawn £630.7 million).

The Company had non-current borrowings of £233.8 million at 31 December 2017 consisting of a revolving credit facility expiring in 2021 (2016: £10.0 million). This debt is floating rate, secured and its fair value is equal to book value.

Finance lease disclosures:

	Group 2017 £m	Group 2016 £m
<b>Minimum lease payments under finance leases fall due:</b>		
Not later than one year	2.4	2.4
Later than one year and not later than five years	9.5	9.5
Later than five years	115.1	112.7
	<b>127.0</b>	124.6
Future finance charges on finance leases	<b>(46.8)</b>	(44.4)
<b>Present value of finance lease liabilities</b>	<b>80.2</b>	80.2
<b>Present value of finance lease liabilities:</b>		
Not later than one year	2.4	2.4
Later than one year and not later than five years	9.5	9.5
Later than five years	68.3	68.3
	<b>80.2</b>	80.2

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.

## 25 Movement in net debt

	2017			Net debt £m
	Cash and cash equivalents £m	Liabilities from financing activities		
Group		Current borrowings £m	Non- current borrowings £m	
At 1 January	254.7	(142.4)	(4,520.2)	(4,407.9)
Acquisition of businesses	(216.0)	-	(230.7)	(446.7)
Disposal of subsidiaries	104.1	-	231.4	335.5
Borrowings drawn	968.5	-	(968.5)	-
Borrowings repaid	(660.0)	-	660.0	-
Other net cash movements	(223.3)	-	-	(223.3)
Other non-cash movements	-	(44.3)	16.9	(27.4)
<b>At 31 December</b>	<b>228.0</b>	<b>(186.7)</b>	<b>(4,811.1)</b>	<b>(4,769.8)</b>

## Notes to the financial statements continued

### 25 Movement in net debt (continued)

Group	2016			Net debt £m
	Cash and cash equivalents £m	Liabilities from financing activities		
		Current borrowings £m	Non-current borrowings £m	
At 1 January	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	254.7	(142.4)	(4,520.2)	(4,407.9)

### 26 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 2017. At 31 December 2017 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 2017, the fair value of the 2.875 per cent bonds was £377.3 million (2016: £362.4 million), with the change in fair value reflected in note 9. The 2.875 per cent bonds are listed on the Channel Islands Securities Exchange and the Open Market (Freiverkehr) of the Frankfurt Stock Exchange.

During the year interest of £10.8 million (2016: £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 £28.3 million as a derivative financial instrument (2016: £0.5 million).

#### 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, £160.4 million of which remains outstanding at 31 December 2017. At 31 December 2017 the exchange price was £3.1164 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.

During the year the Group purchased and subsequently cancelled £139.6 million of 2.5 per cent bonds.

## 26 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 Final Maturity Date of 4 October 2018.

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 2017, the fair value of the 2.5 per cent bonds was £161.0 million (2016: £308.1 million), with the change in fair value reflected in note 9. The 2.5 per cent bonds are listed on the Professional Securities Market of the London Stock Exchange.

During the year interest of £6.7 million (2016: £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 £4.9 million as a derivative financial instrument (2016: £13.9 million).

## 27 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:

	2017 £m	2016 £m
Not later than one year	431.2	431.5
Later than one year and not later than five years	1,179.4	1,261.7
Later than five years	1,141.0	1,330.3
	<b>2,751.6</b>	<b>3,023.5</b>

The income statement includes £19.0 million (2016: £18.0 million) recognised in respect of contingent rents calculated by reference to tenants' turnover.

## 28 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.

## Notes to the financial statements continued

### 28 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 48 to 53.

The table below shows the effects of interest rate swaps on the borrowings profile of the Group:

	Fixed 2017 £m	Floating 2017 £m	Fixed 2016 £m	Floating 2016 £m
Borrowings <sup>1</sup>	2,998.2	1,607.0	3,086.5	1,380.2
Derivative impact (nominal value of interest rate swaps)	1,371.6	(1,371.6)	829.7	(829.7)
Net borrowings profile	4,369.8	235.4	3,916.2	550.5
Interest rate protection		94.9%		87.7%

<sup>1</sup> Borrowings are stated at nominal value and exclude the Metrocentre compound financial instrument and finance leases. At 31 December 2017 they include the £233.8 million (2016: £10.0 million) drawn under the revolving credit facility (RCF) which incurs interest at a variable rate. Excluding the revolving credit facility, interest rate protection is 100 per cent (2016: 87.9 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 1.71 per cent (2016: 2.35 per cent).

Unallocated interest rate swaps are excluded from the above calculation. The nominal value of these swaps is £566.7 million (2016: £566.7 million). Their fair value of £235.4 million (2016: £253.2 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 £87.6 million (2016: £78.5 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 £87.6 million (2016: £78.5 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 pounds sterling. At 31 December 2017 the exposure is 10.6 per cent of net assets attributable to shareholders of the Group (31 December 2016: 7.2 per cent). Once the Eurofund future interest in the share capital of the intu Costa del Sol development company concludes, we expect this to reduce to 9.7 per cent, below the Group's policy of a maximum of 10 per cent.

The table summarises the Group's exposure to foreign currency risk:

	2017 €m	2016 €m	2017 INRm	2016 INRm	2017 US\$m	2016 US\$m
Net exposure	524.2	341.6	6,067.3	5,526.6	0.1	0.1

The following foreign exchange rates, at 31 December 2017, apply to the Group's foreign exchange risk:

	2017 €m	2016 €m	2017 INRm	2016 INRm	2017 US\$m	2016 US\$m
Foreign exchange rate	1.1266	1.1715	86.0441	83.8636	1.3513	1.2357

The approximate impact of a 10 per cent appreciation in foreign exchange rates would be positive movement of £59.6 million (2016: £39.8 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 £48.8 million (2016: £32.5 million) to equity attributable to owners of the Group.

## 28 Financial risk management (continued)

As part of the strategy to comply with the Group's policy, the Group is able to borrow part of its RCF in euros, up to €100 million. The RCF borrowings denominated in euros have been designated as a hedging instrument (net investment hedge) against the Group's net investment in Spain with the hedged risk being the changes in the euro/pounds sterling spot rate that will result in changes in the value of the Group's net investments in Spain. At 31 December 2017, €100 million (2016: nil) was drawn in euros.

### 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 by maintaining adequate cash, marketable securities and committed facilities. Undrawn borrowing facilities are detailed in note 24. 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. At 31 December 2017, the maturity profile of Group debt showed an average maturity of seven years (2016: seven 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.

Group	2017				Total £m
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	
Borrowings (including interest)	(367.9)	(367.8)	(1,959.6)	(3,512.4)	(6,207.7)
Finance lease obligations	(2.4)	(2.4)	(7.1)	(115.1)	(127.0)
Other financial liabilities	(17.1)	(1.2)	-	-	(18.3)
Derivative payments	(51.6)	(51.7)	(130.6)	(403.9)	(637.8)
Derivative receipts	9.4	12.5	43.1	132.3	197.3
	(429.6)	(410.6)	(2,054.2)	(3,899.1)	(6,793.5)

Group	2016				Total £m
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £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)

Company	2017				Total £m
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	
Borrowings (including interest)	(4.7)	(4.7)	(242.3)	-	(251.7)
Other financial liabilities	(0.8)	-	-	-	(0.8)
Amounts owed to subsidiary undertakings	(553.1)	-	-	-	(553.1)
	(558.6)	(4.7)	(242.3)	-	(805.6)

## Notes to the financial statements continued

### 28 Financial risk management (continued)

Company					2016
	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)

#### 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 2017 is £4.1 million (2016: £4.5 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 2017 £m	Group 2016 £m
Up to three months	23.1	20.8
Three to six months	3.3	1.3
Trade receivables	26.4	22.1

At 31 December 2017 trade receivables are shown net of provisions totalling £4.5 million (2016: £4.2 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 2017 £m
Counterparty #1	AA	125.0	106.2
Counterparty #2	A+	100.0	45.7
Counterparty #3	A+	100.0	31.2
Counterparty #4	AAA	150.0	18.1
Counterparty #5	AA-	75.0	15.4
Sum of five largest exposures			216.6
Sum of cash deposits and derivative financial instrument assets			228.3
Five largest exposures as a percentage of risk			95%

## 28 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 2017 and 31 December 2016.

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 24.

	2017			
	Carrying value £m	Fair value £m	Profit/(loss) to income statement £m	Loss to other comprehensive income £m
Loans to joint ventures	282.9	282.9	–	–
Trade and other receivables	61.9	61.9	–	–
Cash and cash equivalents	228.0	228.0	–	–
Total cash and receivables	572.8	572.8	–	–
Other investments	16.8	16.8	–	(0.2)
Total available-for-sale investments	16.8	16.8	–	(0.2)
Derivative financial instruments	(347.5)	(347.5)	28.3	–
Total held for trading	(347.5)	(347.5)	28.3	–
Trade and other payables	(18.3)	(18.3)	–	–
Borrowings	(4,997.8)	(5,428.6)	(6.3)	–
Total loans and payables	(5,016.1)	(5,446.9)	(6.3)	–

	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	–

## Notes to the financial statements continued

### 28 Financial risk management (continued)

The table below presents the Group's financial assets and liabilities recognised at fair value.

	2017			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Assets</b>				
Derivative financial instruments:				
— Fair value through profit or loss	-	0.3	-	0.3
Available-for-sale investments	15.3	-	1.5	16.8
<b>Total assets</b>	<b>15.3</b>	<b>0.3</b>	<b>1.5</b>	<b>17.1</b>
<b>Liabilities</b>				
Convertible bonds:				
— Designated as at fair value through profit or loss	(538.3)	-	-	(538.3)
Derivative financial instruments:				
— Fair value through profit or loss	-	(347.8)	-	(347.8)
<b>Total liabilities</b>	<b>(538.3)</b>	<b>(347.8)</b>	<b>-</b>	<b>(886.1)</b>
<hr/>				
	2016			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Assets</b>				
Available-for-sale investments	15.5	-	-	15.5
<b>Total assets</b>	<b>15.5</b>	<b>-</b>	<b>-</b>	<b>15.5</b>
<b>Liabilities</b>				
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)
<b>Total liabilities</b>	<b>(670.5)</b>	<b>(377.7)</b>	<b>-</b>	<b>(1,048.2)</b>

#### 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.



## 28 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 2017 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 included in the other information section.

	Group 2017 £m	Group 2016 £m
<b>Debt to assets ratio</b>		
Market value of investment and development property	10,222.7	9,984.7
Add market value of investment and development property classified as held for sale	306.5	–
	<b>10,529.2</b>	9,984.7
Net external debt	<b>(4,835.5)</b>	(4,364.1)
<b>Debt to assets ratio</b>	<b>45.9%</b>	43.7%
	Group 2017 £m	Group 2016 £m
<b>Interest cover</b>		
Finance costs	<b>(219.9)</b>	(208.5)
Finance income	<b>3.3</b>	1.5
	<b>(216.6)</b>	(207.0)
Underlying operating profit	<b>419.3</b>	407.7
<b>Interest cover</b>	<b>1.94x</b>	1.97x

### 29 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 (2016: 0 per cent), and for other UK assets and liabilities the relevant rate will be 19 per cent if the temporary difference is expected to be realised before 1 April 2020 and 17 per cent if it is expected to be realised on or after 1 April 2020 (2016: 20 per cent before 1 April 2017, 19 per cent before 1 April 2020 and 17 per cent thereafter). For Spanish assets and liabilities the relevant tax rate will be 25 per cent (2016: 25 per cent).

## Notes to the financial statements continued

### 29 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 2016	–	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)	–
Acquisition of Madrid Xanadú (note 33)	84.5	–	–	(6.8)	77.7
Recognised in the income statement	24.8	–	–	(0.8)	24.0
Recognised in other comprehensive income	–	(0.1)	–	–	(0.1)
Foreign exchange movements	1.8	–	–	(0.1)	1.7
Disposal of subsidiaries (note 34)	(86.5)	–	–	6.9	(79.6)
<b>At 31 December 2017</b>	<b>24.6</b>	<b>–</b>	<b>–</b>	<b>(0.9)</b>	<b>23.7</b>

The net deferred tax provision of £23.7 million arises in respect of the revaluation of development property at intu Costa del Sol, partially offset by tax losses in the same company.

At 31 December 2017, the Group had unrecognised deferred tax assets calculated at a tax rate of 17 per cent (2016: 17 per cent) of £43.1 million (2016: £39.7 million) for surplus UK revenue tax losses carried forward, £45.6 million (2016: £45.5 million) for temporary differences on derivative financial instruments, £0.5 million (2016: £0.6 million) for temporary differences on capital allowances and £5.8 million (2016: £3.4 million) for capital losses.

On its sale in 2016, the deferred tax provision in respect of the Group's investment in Equity One was reduced to nil. The revaluation of this investment was recognised in reserves and so the deferred tax movements related to it were also recognised in other comprehensive income. With the provision reduced to nil, the deferred tax asset on derivative financial instruments and other temporary differences could no longer be recognised, and £18.9 million was therefore released to the income statement.

In accordance with the requirements of IAS 12 Income Taxes, the deferred tax asset has not been recognised on the Group's balance sheet 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 (2016: nil).

### 30 Share capital and share premium

	Share capital £m	Share premium £m
Issued and fully paid:		
At 1 January 2016: 1,344,661,827 ordinary shares of 50 pence each	672.3	1,303.1
Ordinary shares issued	5.2	24.3
<b>At 31 December 2017 and 31 December 2016: 1,355,040,243 ordinary shares of 50 pence each</b>	<b>677.5</b>	<b>1,327.4</b>

During 2016 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.

### 30 Share capital and share premium (continued)

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 22 February 2018 the Company had an unexpired authority to repurchase shares up to a maximum of 135,504,024 shares with a nominal value of £67.8 million, and the Directors have an unexpired authority to allot up to a maximum of 451,680,081 shares with a nominal value of £225.8 million.

Included within the issued share capital at 31 December 2017 are 11,633,680 ordinary shares (2016: 12,069,559) held by the Trustee of the ESOP which is operated by the Company (see note 31). The nominal value of these shares at 31 December 2017 is £5.8 million (2016: £6.0 million).

### 31 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 40 and the Directors' remuneration report on pages 78 to 93, including joint ownership of shares in its role as Trustee of the Joint Share Ownership Plan. Dividends of £1.7 million (2016: £1.0 million) in respect of these shares have been waived by agreement.

Group and Company	2017		2016	
	Shares million	£m	Shares million	£m
At 1 January	12.1	40.8	12.7	43.3
Acquisitions	0.4	1.3	0.3	0.7
Disposals	(0.9)	(3.0)	(0.9)	(3.2)
<b>At 31 December</b>	<b>11.6</b>	<b>39.1</b>	12.1	40.8

### 32 Other reserves

Group	Capital redemption reserve £m	Translation reserve £m	Other £m	Total £m
At 1 January 2016	61.4	7.7	303.7	372.8
Revaluation of other investments (note 19)	-	-	0.4	0.4
Exchange differences	-	31.6	-	31.6
Tax relating to components of other comprehensive income (note 10)	-	-	16.5	16.5
Transferred 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
Revaluation of other investments (note 19)	-	-	(0.2)	(0.2)
Exchange differences	-	16.9	-	16.9
Tax relating to components of other comprehensive income (note 10)	-	-	0.1	0.1
<b>At 31 December 2017</b>	<b>61.4</b>	<b>42.8</b>	<b>256.9</b>	<b>361.1</b>

Other reserves in respect of the Company relate to the capital redemption reserve of £61.4 million (2016: £61.4 million).

## Notes to the financial statements continued

### 33 Business combinations

Accounting for acquisitions is a significant judgement as referenced in note 1. The Group individually assesses each acquisition to determine if it should be accounted for as a business combination in accordance with IFRS 3 Business Combinations. In respect of the below acquisitions, the Group has concluded the assets and liabilities acquired constitute a business. They include the shopping centre asset itself along with the employees and processes that operate the centre on a day-to-day basis. These inputs and processes in turn drive the operation of the centre and the related output for its beneficial owner. As a result, this acquisition is to be accounted for as a business combination in accordance with IFRS 3.

#### Acquisition during 2017

On 10 March 2017 the Group acquired 100 per cent interests in three entities, which together own and manage Madrid Xanadú shopping centre, for total cash consideration of €517.3 million (£453.9 million). The cash flow statement outflow of £446.7 million reflects the £453.9 million less the unrestricted cash acquired of £7.2 million. Acquisition related costs of £1.3 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
<b>Assets</b>	
Investment and development property	461.4
Cash and cash equivalents (including restricted cash of £3.1 million)	10.3
Trade and other receivables	0.1
<b>Total assets</b>	<b>471.8</b>
<b>Liabilities</b>	
Trade and other payables	(21.3)
Deferred tax	(77.7)
<b>Total liabilities</b>	<b>(99.0)</b>
<b>Net assets</b>	<b>372.8</b>
Fair value of consideration paid	453.9
<b>Goodwill on acquisition of business</b>	<b>81.1</b>

The fair value of the consideration is greater than the fair value of the assets and liabilities acquired, resulting in goodwill of £81.1 million being recognised on acquisition. The goodwill balance is primarily attributable to the recognition of a deferred tax balance which is required to be recorded in accordance with IAS 12 Income Taxes but has not been taken into account as part of the purchase price as it is not expected to be realised.

From the date of acquisition to the end of the year, the acquired subsidiaries and subsequent joint venture interest (see note 34) contributed £13.2 million of revenue and £3.1 million of profit to the Group.

Had the entities been acquired on 1 January 2017, the Group would have reported revenue of £622.9 million and profit of £206.0 million for the year.

### 33 Business combinations (continued)

#### 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
<b>Total assets</b>	<b>897.4</b>
Liabilities	
Trade and other payables	(8.1)
<b>Total liabilities</b>	<b>(8.1)</b>
<b>Net assets</b>	<b>889.3</b>
Fair value of consideration paid	854.7
Gain on acquisition of business	34.6

The fair value of the assets and liabilities acquired exceeded the fair value of the consideration and as a result a gain of £34.6 million was 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 included 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 were 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

### 34 Disposal of subsidiaries

#### Disposals during 2017

On 31 July 2017 the Group sold 50 per cent of its interest in Xanadú Retail and Leisure S.L.U., a wholly owned subsidiary, to TH Real Estate for total consideration of €131.7 million (£117.9 million) before expenses of £1.0 million. Xanadú Retail and Leisure S.L.U. owns, through its wholly owned subsidiaries, Madrid Xanadú. Following this transaction Madrid Xanadú has ceased to be accounted for as a subsidiary and is now a joint venture. Therefore the assets and liabilities of Madrid Xanadú are no longer recorded at 100 per cent in the Group's balance sheet but the remaining 50 per cent interest is included in investment in joint ventures at an initial value of £117.1 million. As a result of this transaction the Group has recorded a loss on disposal of £1.0 million in the income statement. The cash flow statement inflow of £104.1 million represents the net consideration received of £116.9 million net of unrestricted cash in the business of £12.8 million.

Assessing control over joint arrangements is a significant judgement as referenced in note 1. Based on the terms set out in the partnership agreement, the Group has classified its retained 50 per cent interest as a joint venture as key decisions require the consent of both partners.

The assets and liabilities of the subsidiaries disposed of, at 100 per cent, are set out below:

	£m
<b>Assets</b>	
Investment and development property	472.3
Goodwill	81.1
Cash and cash equivalents (including restricted cash of £3.2 million)	16.0
Trade and other receivables	7.3
<b>Total assets</b>	<b>576.7</b>
<b>Liabilities</b>	
Trade and other payables	(28.4)
Deferred tax	(79.6)
Derivative financial instruments	(1.6)
Borrowings	(231.4)
<b>Total liabilities</b>	<b>(341.0)</b>
<b>Net assets</b>	<b>235.7</b>
<b>Net assets (at 50 per cent)</b>	<b>117.9</b>
Fair value of consideration received	116.9
<b>Loss on disposal of subsidiaries</b>	<b>1.0</b>

### 34 Disposal of subsidiaries (continued)

#### 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 was anticipated the Group would receive a cash payment of £0.8 million following final agreement of the completion balance sheet. As a result of this transaction the Group 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
<b>Total assets</b>	<b>192.6</b>
Liabilities	
Trade and other payables	(7.3)
Borrowings	(104.0)
<b>Total liabilities</b>	<b>(111.3)</b>
<b>Net assets</b>	<b>81.3</b>
Fair value of consideration received	81.0
Loss on disposal of subsidiaries	0.3

### 35 Assets classified as held for sale

In November the Group announced the formation of a joint venture with LaSalle Investment Management (acting on behalf of Greater Manchester Pension Fund and West Yorkshire Pension Fund) for them to take ownership of 50 per cent of Intu Chapelfield for initial net proceeds of £148.0 million. This transaction completed on 31 January 2018 following the receipt of EU merger approval. As a result, at 31 December 2017 in accordance with IFRS the Group has classified 100 per cent of Intu Chapelfield (which is part of the UK operating segment) and all its related assets and liabilities as held for sale. Assessing non-current assets and disposal groups held for sale is a significant judgement as referenced in note 1.

The assets and liabilities below are presented at their carrying amount. There are no material differences between their carrying amount and fair value less costs to sell.

	£m
<b>Assets of disposal groups classified as held for sale</b>	
Investment and development property	302.0
Cash and cash equivalents	0.5
Trade and other receivables	6.6
<b>Total</b>	<b>309.1</b>
<b>Liabilities of disposal groups classified as held for sale</b>	
Trade and other payables	(6.2)
<b>Total</b>	<b>(6.2)</b>

## Notes to the financial statements continued

### 36 Capital commitments

At 31 December 2017 the Board had approved £253.8 million (2016: £241.3 million) of future expenditure for the purchase, construction, development and enhancement of investment property. Of this, £145.9 million (2016: £136.6 million) is contractually committed. The majority of this is expected to be spent during 2018 and 2019.

### 37 Cash generated from operations

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Profit/(loss) before tax, joint ventures and associates</b>		<b>190.4</b>	154.6	<b>36.0</b>	(66.1)
Adjusted for:					
Revaluation of investment and development property	14	<b>(30.8)</b>	78.0	-	-
Gain on acquisition of businesses	33	-	(34.6)	-	-
Loss on disposal of subsidiaries	4	<b>1.8</b>	0.3	-	-
Gain on sale of other investments	19	-	(74.1)	-	-
Depreciation		<b>2.9</b>	2.2	<b>2.5</b>	1.6
Share-based payments	40	<b>2.3</b>	1.9	<b>2.3</b>	1.9
Lease incentives and letting costs		<b>(4.1)</b>	(16.7)	-	-
(Reversal)/charge of impairment of investment in Group companies	15	-	-	<b>(67.0)</b>	70.1
Reversal of impairment of amounts owed by subsidiary undertakings		-	-	<b>(24.4)</b>	-
Net finance costs/(income)	9	<b>218.2</b>	242.2	<b>36.4</b>	(24.5)
Changes in working capital:					
Change in trade and other receivables		<b>(0.6)</b>	(1.0)	<b>151.4</b>	187.6
Change in trade and other payables		<b>(14.5)</b>	3.1	<b>(135.0)</b>	385.4
<b>Cash generated from operations</b>		<b>365.6</b>	355.9	<b>2.2</b>	556.0



### 38 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 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	Name of entity	Class of capital
<b>Subsidiaries based at 40 Broadway, London, SW1H 0BT</b>			
Barton Square Holdco Limited (holding company)	Ordinary shares	Intu Cardiff Holdco Limited (dormant)	Ordinary shares
Barton Square Limited (property)	Ordinary shares	Intu Cardiff Limited (dormant)	Ordinary shares
Braehad Glasgow Limited (property)	'A' Ordinary shares 'B' Ordinary shares	Intu Centaurus Retail Limited (holding company)	Ordinary shares
Braehad Leisure Partnership (property)	n/a	Intu Chapelfield Limited (dormant)	Ordinary shares
Braehad Park Estates Limited (property)	Ordinary shares	Intu Chapelfield Residential Limited (property)	Ordinary shares
Braehad Park Investments Limited (property)	Ordinary shares	Intu Debenture plc (finance, holding company) <sup>3</sup>	Ordinary shares
Broadmarsh Retail (Nominee No.1) Limited (dormant)	Ordinary shares	Intu Eldon Square Limited (property)	Ordinary shares
Broadmarsh Retail (Nominee No.2) Limited (dormant)	Ordinary shares	Intu Energy Limited (holding company)	Ordinary shares
Broadmarsh Retail (Nominee No.3) Limited (dormant)	Ordinary shares	Intu Experiences Limited (mall commercialisation)	Ordinary shares
Broadmarsh Retail (Nominee No.4) Limited (dormant)	Ordinary shares	Intu Finance MH Limited (finance)	Ordinary shares
Broadmarsh Retail General Partner Limited (general partner)	'A' Ordinary shares 'B' Ordinary shares	Intu FM Limited (dormant)	Ordinary shares
Broadway Construction & Development Limited (dormant)	Ordinary shares	Intu India (Direct) Limited (investment holdings)	Ordinary shares
Broadway Retail Leisure Limited (management of leisure facilities)	Ordinary shares	Intu India (Portfolio) Limited (investments holdings)	Ordinary shares
Cable Plaza Limited (limited partner)	Ordinary shares	Intu Investments Limited (property)	Preference shares Ordinary shares
Capital Shopping Centres Limited (dormant) <sup>3</sup>	Ordinary shares	Intu IP Limited (intellectual property)	Ordinary shares
Castle & Pedmore Houses Limited (holding company)	Ordinary shares	Intu Lakeside Hotel Limited (dormant)	Ordinary shares
Chapelfield GP Limited (general partner)	Ordinary shares	Intu Lakeside Limited (property)	Ordinary shares
Chapelfield LP Limited (limited partner)	Ordinary shares	Intu Lakeside Property Management Limited (property management)	Ordinary shares
Chapelfield Nominee Limited (dormant)	Ordinary shares	Intu Management Services Limited (management services) <sup>3</sup>	Ordinary shares
Chapelfield Property Management Limited (property management)	Ordinary shares	Intu Metrocentre Limited (limited partner)	Ordinary shares
Conduit Insurance Holdings Limited (holding company) <sup>3</sup>	Ordinary shares	Intu Metrocentre Parent Company Limited (dormant)	Ordinary shares
Cribbs Mall Nominee (2) Limited (dormant)	Ordinary shares	Intu Metrocentre Property Management Limited (property management)	Ordinary shares
Crossmane Limited (limited partner)	Ordinary shares	Intu Metrocentre Topco Limited (holding company) <sup>3</sup>	Ordinary shares
CSC Uxbridge Limited (dormant)	Ordinary shares	Intu MH Acquisitions Limited (limited partner)	Ordinary shares
Derby Business Management Limited (business manager)	Ordinary shares 'A' shares	Intu MH Group Limited (holding company)	Ordinary shares
Derby Investments General Partner Limited (general partner)	Ordinary shares	Intu MH Holdings Limited (holding company)	Ordinary shares
Derby Investments Limited Partnership (limited partner)	n/a	Intu MH Investments Limited (limited partner)	Ordinary shares
Derby Investments Trustee Limited (dormant)	Ordinary shares	Intu MH Leaseholds Limited (holding company)	Ordinary shares
Forthearth (No.3) Limited (dormant)	Ordinary shares	Intu MH Parking Limited (limited partner)	Ordinary shares
Intu (SGS) Finco Limited (finance)	Ordinary shares	Intu MH Participations Limited (holding company)	Ordinary shares
Intu (SGS) Holdco Limited (holding company)	Ordinary shares	Intu MH Phase 1 Limited (limited partner)	Ordinary shares
Intu (SGS) Limited (holding company)	Ordinary shares	Intu MH Properties Limited (holding company)	Ordinary shares
Intu (SGS) Topco Limited (holding company) <sup>3</sup>	Ordinary shares	Intu MH Waterfront Limited (limited partner)	Ordinary shares
Intu 2027 Limited (dormant)	Ordinary shares	Intu MHDS Holdco Limited (holding company) <sup>3</sup>	Ordinary shares
Intu Braehad Leisure Limited (holding company)	Ordinary shares	Intu Milton Keynes Limited (property)	Ordinary shares
Intu Braehad Limited (holding company)	Ordinary shares	Intu Nottingham Investments Limited (limited partner)	Ordinary shares
Intu Braehad Property Management Limited (property management)	Ordinary shares	Intu Payments Limited (Group payment services)	Ordinary shares
Intu Broadmarsh Limited (dormant) <sup>3</sup>	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)	Ordinary shares
		Intu RS Limited (facilities management)	Ordinary shares

## Notes to the financial statements continued

### 38 Subsidiaries, joint ventures and associates (continued)

Name of entity	Class of capital	Name of entity	Class of capital
Intu Shelfco 1 Limited (dormant)	Ordinary shares	MH (No.2) Limited Partnership (property)	n/a
Intu Shelfco 3 plc (dormant)	Ordinary shares	MH (No.2) Nominee A Limited (dormant)	Ordinary shares
Intu Shopping Centres plc (holding company) <sup>3</sup>	Ordinary shares	MH (No.2) Nominee B Limited (dormant)	Ordinary shares
Intu Spain Limited (holding company)	Ordinary shares	MH (No.3) General Partner Limited (general partner)	Ordinary shares
Intu The Hayes Limited (limited partner)	Ordinary shares	MH (No.3) Limited Partnership (property)	n/a
Intu Trafford Centre Group (UK) Limited (holding company)	Ordinary shares	MH (No.3) Nominee A Limited (dormant)	Ordinary shares
Intu Trafford Centre Limited (development management)	Ordinary shares	MH (No.3) Nominee B Limited (dormant)	Ordinary shares
Intu Ventures Limited (dormant)	Ordinary shares	MH (No.4) General Partner Limited (general partner)	Ordinary shares
Intu Victoria Centre Limited (dormant) <sup>3</sup>	Ordinary shares	MH (No.4) Limited Partnership (property)	n/a
Intu Watford Limited (property)	Ordinary shares	MH (No.4) Nominee A Limited (dormant)	Ordinary shares
Intu Watford Property Management Limited (property management)	Ordinary shares	MH (No.4) Nominee B Limited (dormant)	Ordinary shares
IntuDigital Holdco Limited (holding company)	'A' Ordinary shares	MH (No.5) General Partner Limited (general partner)	Ordinary shares
	'B' 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
IntuDigital Limited (digital services)	Ordinary shares	MH (No.6) General Partner Limited (general partner)	Ordinary shares
Kindmotive Limited (dormant)	Cumulative redeemable preference shares	MH (No.6) Limited Partnership (property)	n/a
	Ordinary shares	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
Lakeside 1988 Limited (dormant)	'A' Ordinary shares	MH (No.7) Limited Partnership (property)	n/a
	'B' Redeemable preference shares	MH (No.7) Nominee A Limited (dormant)	Ordinary shares
	'C' Preference 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
Liberty Capital PLC (dormant) <sup>3</sup>	Ordinary shares	MH (No.8) Nominee B Limited (dormant)	Ordinary shares
Liberty International Construction and Development Limited (dormant) <sup>3</sup>	Ordinary shares	Middleford Property Investments Limited (dormant)	Ordinary shares
Liberty International Financial Services Limited (financial services)	Ordinary shares	Potteries (GP) Limited (general partner)	Ordinary shares
Liberty International Group Treasury Limited (treasury management)	Ordinary shares	Potteries (Nominee No.1) Limited (dormant)	Ordinary shares
Liberty International Holdings Limited (holding company) <sup>1</sup>	Ordinary shares	Potteries (Nominee No.2) Limited (dormant)	Ordinary shares
Manchester Nominee (2) Limited (dormant)	Ordinary shares	Runic Nominees Limited (dormant)	Ordinary shares
Merry Hill Management Services Limited (dormant)	Ordinary shares	Sandal Investments Limited (dormant)	Ordinary shares
Merry Hill Services Limited (dormant)	Ordinary shares	Staffordshire Property Management Limited (property)	Ordinary shares
Merry Hill Trading Limited (trading)	Ordinary shares	TAI Investments Limited (holding company) <sup>2</sup>	'B' Deferred shares
Metrocentre (GP) Limited (general partner)	Ordinary shares		Ordinary shares
Metrocentre (Holdco) Limited (dormant)	Ordinary shares	TAI Nominees Limited (dormant)	Ordinary shares
Metrocentre (Nominee No.1) Limited (dormant)	Ordinary shares	The Broadmarsh Retail Limited Partnership (property)	n/a
Metrocentre (Nominee No.2) Limited (dormant)	Ordinary shares	The Bullfinch Company Limited (dormant)	Ordinary shares
Metrocentre (Subco) Limited (dormant)	Ordinary shares	The Chapelfield Partnership (property)	n/a
Metrocentre Lancaster LLP (property) <sup>4</sup>	n/a	The Metrocentre Partnership (property) <sup>4</sup>	n/a
Metrocentre Lancaster No.1 Limited (holding company)	Ordinary shares	The Potteries Shopping Centre Limited Partnership (property)	n/a
Metrocentre Lancaster No.2 Limited (holding company)	Ordinary shares	The Trafford Centre Holdings Limited (holding company)	Ordinary shares
MH (No.1) General Partner Limited (general partner)	Ordinary shares	The Trafford Centre Investments Limited (holding company)	Ordinary shares
MH (No.1) Limited Partnership (property)	n/a	The Trafford Centre Limited (property)	'A' Preference shares
MH (No.1) Nominee A Limited (dormant)	Ordinary shares		'B' Preference shares
MH (No.1) Nominee B Limited (dormant)	Ordinary shares		Ordinary shares
MH (No.2) General Partner Limited (general partner)	Ordinary shares	The Victoria Centre Partnership (property)	n/a

**38 Subsidiaries, joint ventures and associates (continued)**

Name of entity	Class of capital	Name of entity	Class of capital
The Wilmslow (No.3) Limited Partnership (property)	n/a	Midlands Shopping Centre Jersey Unit Trust (No.1) (limited partner)	Units
TransAtlantic Holdings Limited (dormant)	Ordinary shares	Sprucefield No.1 Nominee Limited (dormant)	Ordinary shares
Transol Investments Limited (dormant)	Ordinary shares	Sprucefield No.2 General Partner Limited (general partner)	Ordinary shares
VCP (GP) Limited (general partner)	Ordinary shares	Sprucefield No.2 Limited Partnership (property)	n/a
VCP Nominees No.1 Limited (dormant)	Ordinary shares	Sprucefield No.2 Nominee Limited (dormant)	Ordinary shares
VCP Nominees No.2 Limited (dormant)	Ordinary shares	Sprucefield Unit Trust (limited partner)	Units
Westgate Oxford Investments Limited (dormant)	Ordinary shares	W (No.3) GP (Nominee A) Limited (dormant)	Ordinary shares
Whitesun Limited (property)	Ordinary shares	W (No.3) GP (Nominee B) Limited (dormant)	Ordinary shares
Wilmslow (No.3) (Nominee A) Limited (dormant)	Ordinary shares		
Wilmslow (No.3) (Nominee B) Limited (dormant)	Ordinary shares	<b>Subsidiaries based at 58 Rue Charles Martel, L-213, Luxembourg</b>	
Wilmslow (No.3) General Partner Limited (general partner)	'A' Ordinary shares	ICS Holding S.à r.l. (holding company)	Ordinary shares
	'B' Ordinary shares	ICS InvestCo S.à r.l. (holding company)	Ordinary shares
	Ordinary shares	ICS JV S.à r.l. (holding company)	Ordinary shares
WRP Management Limited (property)	Ordinary shares	Intu Eurofund Developments S.à r.l. (holding company)	Ordinary shares
		Intu Management Spain Holding S.à r.l. (holding company)	Ordinary shares
<b>Subsidiaries based at 1 Waverly Place, Union Street, St Helier, Jersey, JE1 1SG</b>		<b>Subsidiaries based at 7 Rue Robert Stumper, L-2557, Luxembourg</b>	
Belside Limited (property)	Ordinary shares	Intu Holding S.à r.l. (holding company)	Ordinary shares
Curley Limited (property)	Ordinary shares	Intu Xanadú Holding S.à r.l. (holding company)	Ordinary shares
Steventon Limited (property)	Ordinary shares		
<b>Subsidiaries based at 22 Grenville Street, St Helier, Jersey, JR4 8PX</b>		<b>Subsidiaries based at Ayala 66, 28001, Madrid, Spain</b>	
CSC Capital (Jersey) Limited (dormant) <sup>3</sup>	Ordinary shares	Intu Costa del Sol Resort Holdco S.A. (holding company)	Ordinary shares
Intu (Jersey) 2 Limited (finance) <sup>3</sup>	Ordinary shares	Intu Costa del Sol Resort S.L. (property)	Ordinary shares
Intu (Jersey) Limited (finance) <sup>3</sup>	Ordinary shares	Intu Management Spain S.L. (property management and management services)	Ordinary shares
Intu Capital (Jersey) Limited (dormant) <sup>3</sup>	Ordinary shares Redeemable preference shares	Madrid Xanadú Management S.A. (management)	Ordinary shares
		Rosholt Invest S.L. (property)	Ordinary shares
Intu Derby 2 Limited (holding company)	Ordinary shares	<b>Other subsidiaries</b>	
Intu Derby Jersey Unit Trust (limited partner)	Units	Intu Trafford Centre Group Limited (holding company) <sup>3</sup> (Cains Fiduciary, Fort Anne, Douglas, Isle of Man, IM1 1LB)	Ordinary shares
Intu Derby Limited (holding company)	Ordinary shares	Libint (Proprietary) Limited (local administration services) (Liberty Life Centre, 1 Ameshoff Street, Braamfontein, Johannesburg 2007, South Africa) <sup>3</sup>	Ordinary shares
Intu Merry Hill 2 Limited (holding company)	Ordinary shares	Libtai Holdings (Jersey) Limited (holding company) (PO Box 761 Ordnance House 31 Pier Road, St Helier, Jersey, JE4 8ZZ) <sup>3</sup>	Ordinary shares
Intu Merry Hill Limited (holding company)	Ordinary shares	Merry Hill Finance Designated Activity Company (finance) (6th Floor, Pinnacle 2, Eastpoint Business Park, Dublin, Republic of Ireland) (in liquidation)	Ordinary shares
Intu MH (No.1) Jersey Unit Trust (limited partner)	Units	Ocio y Nieve S.L. (Paseo de Eduardo Dato 18, 28010, Madrid, Spain)	Ordinary shares
Intu MH (No.1) Sub-Trust (limited partner)	Units	Nailsfield Limited (holding company) (IFS Court, Twentyeight, Cybercity, Ebene, Mauritius) <sup>3</sup>	Ordinary shares
Intu MH (No.2) Jersey Unit Trust (limited partner)	Units	The Trafford Centre Finance Limited (finance) (89 Nexus Way, Canama Bay, KY1-9007, Cayman Islands)	Ordinary shares
Intu MH (No.2) Sub-Trust (limited partner)	Units	Wattenberg Invest S.L. (property) (Calle Principal, Vergara 131, 28002, Madrid, Spain)	Ordinary shares
Intu MH (No.3) Jersey Unit Trust (limited partner)	Units		
Intu MH (No.3) Sub-Trust (limited partner)	Units	<b>Joint ventures based at 40 Broadway, London, SW1H 0BT</b>	
Intu MH (No.4) Jersey Unit Trust (limited partner)	Units	Centaurus Retail LLP (property)	n/a
Intu MH (No.4) Sub-Trust (limited partner)	Units	Cribbs Causeway JV Limited (property management)	'A' Ordinary shares 'B' Ordinary shares
Intu MH (No.5) Jersey Unit Trust (limited partner)	Units		
Intu MH (No.5) Sub-Trust (limited partner)	Units	Manchester JV Limited (property management)	'A' Ordinary shares 'B' Ordinary shares
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		

## Notes to the financial statements continued

### 38 Subsidiaries, joint ventures and associates (continued)

Name of entity	Class of capital	Name of entity	Class of capital
<b>Joint ventures based at 100 Victoria Street, London, SW1E 5JL</b>		<b>Joint ventures based at Atrium building, 8th Floor, Strawinskylaan 3127, 1077, ZX, Amsterdam, Netherlands</b>	
St. David's (Cardiff Residential) Limited (property)	Ordinary shares	Intu Eurofund Investments Mallorca B.V. (holding company)	Ordinary shares
St. David's (General Partner) Limited (general partner)	'A' Ordinary shares	Intu Eurofund Investments Valencia B.V. (holding company)	Ordinary shares
	'B' Ordinary shares	Intu Eurofund Investments Vigo B.V. (holding company)	Ordinary shares
St. David's (No.1) Limited (dormant)	Ordinary shares	<b>Other joint ventures</b>	
St. David's (No.2) Limited (dormant)	Ordinary shares	Intu Eurofund Developments S.à r.l. (holding company) (58 Rue Charles Martel, L-2134, Luxembourg)	'A' shares 'B' shares
St. David's Limited Partnership (property)	n/a	Metropolitan Retail JV (Jersey) Unit Trust (property) <sup>7</sup> (28 – 30 The Parade, St Helier, Jersey, JE1 1EQ)	'A' units 'B' units
<b>Joint ventures based at Ayala 66, 28001, Madrid, Spain</b>		Puerto Venecia Investments SOCIMI S.A. (property) (Paseo de Eduardo Dato 18, 28010, Madrid, Spain)	Ordinary shares
Intu Eurofund Mallorca S.L. (property development)	Ordinary shares	Snowzone S.L. (Paseo de Eduardo Dato 18, 28010, Madrid, Spain) (leisure)	Ordinary shares
Intu Eurofund Valencia S.L. (property development)	Ordinary shares	St. David's Unit Trust (limited partner) (47 Esplanade, St. Helier, Jersey JE1 0BD)	Units
Intu Eurofund Vigo S.L. (property development)	Ordinary shares	<b>Associates based at 105-106 Provogue House, Off New Link Road, Andheri (West) Mumbai, 400 053 India</b>	
Madrid Xanadú 2003 S.L. (property)	Ordinary shares	Empire Mall Private Limited (property) <sup>5</sup>	Ordinary shares
Xanadú Retail and Leisure S.L. (holding company)	Ordinary shares	Prozone Intu Properties Limited (property) <sup>6</sup>	Ordinary shares
<b>Joint ventures based at Paseo de Eduardo Dato 18, Planta Semisotano, 28010 Madrid</b>			
Asturias Propco Numero Uno S.L. (property)	Ordinary shares		
Asturias Retail and Leisure SOCIMI S.A. (holding company)	Ordinary shares		
Zaragoza Properties SOCIMI S.A. (holding company)	Ordinary shares		
<b>Joint ventures based at 7 Rue Robert Stumper, L-2557, Luxembourg</b>			
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		

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 26.8 per cent.

6 Group's interest is 32.4 per cent.

7 Group's interest is 20 per cent. This is classified as a joint venture due to an equal voting interest.

### 38 Subsidiaries, joint ventures and associates (continued)

#### Other entities

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.

#### Non-controlling interests

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. £53.9 million of the non-controlling interest shown in the balance sheet at 31 December 2017 (2016: £67.4 million) and £13.5 million of the non-controlling interest share of loss shown in the income statement for the year ended 31 December 2017 (2016: share of loss £11.0 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:

	2017 £m	2016 £m
<b>Summarised income statement</b>		
Revenue	68.5	66.8
Loss for the year	(33.7)	(27.7)
<b>Summarised balance sheet</b>		
Investment and development property	908.3	924.4
Borrowings	(938.1)	(922.5)
Other net liabilities	(12.5)	(10.5)
Net liabilities	(42.3)	(8.6)

During the year the Group acquired the 49 per cent non-controlling interest in Intu Retail Services Limited from Bilfinger Europa Facilities Management Limited for consideration of £1. Prior to the transaction, no amount was included within the non-controlling interest shown in the balance sheet (2016: nil) and nil of the non-controlling interest share of loss shown in the income statement for the year ended 31 December 2017 (2016: nil) related to their interest.

### 39 Related party transactions

Key management<sup>1</sup> compensation is analysed below:

	2017 £m	2016 £m
Salaries and short-term employee benefits	5.4	4.8
Pensions and other post-employment benefits	0.7	0.5
Share-based payments	2.0	3.7
	8.1	9.0

<sup>1</sup> Key management comprises the Directors of Intu Properties plc and the Executive Committee who have been designated as persons discharging managerial responsibility (PDMR).

During the year the Group's joint ventures in Puerto Venecia, Zaragoza and Intu Asturias sold shares in subsidiaries, previously wholly owned by the respective joint ventures, listed on the Spanish MaB to PDMR's of the Group. The total value of the shares sold at fair value on the date of sale is €1.0 million and €0.9 million, representing 3 per cent and 2 per cent of outstanding share capital respectively. The sale of shares in these entities was required to comply with Spanish MaB free float listing requirements. The Group provided an interest-free loan to PDMR's to enable them to purchase the shares. The loans are treated as a taxable benefit which accordingly is included in the above table.

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:

	2017 £m	2016 £m
Income	1.3	1.3
Expenditure	(0.6)	(0.9)

## Notes to the financial statements continued

### 39 Related party transactions (continued)

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, travel costs and the supply of utilities. All contracts are on an arm's length basis at commercial rates.

Balances outstanding between the Group and members of Peel at 31 December 2017 and 31 December 2016 are shown below:

	2017 £m	2016 £m
Net investment in finance lease	1.6	2.0
Amounts owed by members of Peel	1.0	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 2017 totalled £12.4 million (2016: £11.7 million).

During 2016, 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 above).

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:

	2017 £m	2016 £m
Interest expense	(24.4)	(10.9)
Interest income	12.2	14.6
Additions to investment in subsidiaries	4.4	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 26).

Significant balances outstanding between the Company and its subsidiaries are shown within notes 15, 20 and 23.

### 40 Share-based payments

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.

In 2017 the total share-based payment charge was £2.3 million (2016: £1.9 million). Details of share options outstanding under each of the Group's schemes is set out below:

	Note	Outstanding 1 January 2017	Granted during the year	Exercised during the year	Expired/forfeited during the year	Outstanding 31 December 2017	Exercisable 31 December 2017
Share Option Scheme <sup>1</sup>	A	9,144,212	2,040,000	–	(168,405)	11,015,807	5,446,712
Performance Share Plan <sup>1</sup>	B	5,419,795	1,743,849	(228,778) <sup>2</sup>	(886,932)	6,047,934	n/a
Bonus Share Scheme	C	1,020,021	729,600	(404,982) <sup>2</sup>	(1,541)	1,343,098	n/a
Share incentive plan <sup>3</sup>	D	313,041	178,661	(107,243) <sup>2</sup>	(23,926)	360,533	n/a
Save as you earn scheme	E	174,849	72,181	–	(39,512)	207,518	–

<sup>1</sup> Includes share interests held jointly under the Joint Share Ownership Plan. See F below for further details.

<sup>2</sup> Shares ordinarily exercised immediately on vested date.

<sup>3</sup> Relates to non-vested SIP bonus shares granted.

In respect of the Share Option Scheme, the weighted average exercise prices of the outstanding options and outstanding options exercisable at 31 December 2017 are 293 pence and 274 pence respectively (2016: 295 pence and 267 pence respectively). No options were exercised during the year.

In respect of the save as you earn scheme, the weighted average exercise prices of the outstanding options and outstanding options exercisable at 31 December 2017 are 260 pence and nil respectively (2016: 278 pence and nil respectively).

#### 40 Share-based payments (continued)

During the year the Group incurred a £49.4 million share related charge in relation to its Spanish development partner Eurofund's future interests in the share capital of the intu Costa del Sol development company. The positive impact of this share related charge on equity attributable to owners of intu properties plc, a credit to retained earnings of £49.4 million, is expected to reverse once these arrangements are concluded, with the Eurofund interest to be included in non-controlling interests which will result in a reduction of net assets.

##### A Share Option Scheme

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.

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.

##### B Performance Share Plan (PSP)

The Company operates a PSP for eligible employees at the discretion of the Remuneration Committee.

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.

Vesting of PSP awards 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.

##### C Bonus Share Scheme (Bonus Scheme)

Under the Company's 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 2016 and no awards have been made in 2016 or 2017. 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.

##### D 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.

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.

##### E Save as you earn scheme (SAYE)

The Company operates a SAYE for all eligible employees under which UK employees can enter into contracts to save currently up to a maximum of £500 per month with a bank or building society for a period of three or five years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is usually the average mid-market closing share price over the three consecutive dealing days preceding the invitation date, discounted by up to 20 per cent. Options may be exercised typically within six months following the end of the savings period.

## Notes to the financial statements continued

### 40 Share-based payment (continued)

#### F Joint Share Ownership Plan (JSOP)

Eligible employees were invited to participate in the 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.

### 41 Pensions

The Group operates defined contribution group pension plans for its staff. 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 £4.4 million for the year ended 31 December 2017 (2016: £3.6 million).

### 42 Events after the reporting date

In November 2017 the Group announced the formation of a joint venture with LaSalle Investment Management (acting on behalf of Greater Manchester Pension Fund and West Yorkshire Pension Fund) for them to take ownership of 50 per cent of intu Chapelfield for initial net proceeds of £148.0 million. This transaction completed on 31 January 2018 following the receipt of EU merger approval.

### 43 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:

	2017	2016
<b>Chairman:</b>		
John Strachan	30,000	30,000
Patrick Burgess <sup>1</sup>	n/a	37,627
<b>Deputy Chairman:</b>		
John Whittaker <sup>2</sup>	368,635,097	363,850,297
<b>Executive:</b>		
David Fischel	1,155,030	1,048,884
Matthew Roberts	341,992	259,487
<b>Non-Executive:</b>		
Adèle Anderson	32,504	32,504
Richard Gordon	7,005,211	7,005,211
Rakhi Goss-Custard	7,383	7,383
Andrew Huntley <sup>1</sup>	n/a	7,714
Louise Patten	12,857	12,857
Andrew Strang	-	-

<sup>1</sup> Patrick Burgess and Andrew Huntley each stepped down from the Board following the 3 May 2017 annual general meeting.

<sup>2</sup> 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.

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.



### 43 Directors' interests and emoluments (continued)

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 2016	Number of shares awarded during 2017	Number of shares vested during 2017	Number of shares at 31 December 2017
David Fischel	29/04/2014	292	29/04/2017	–	29,627	4,135*	(33,762)	–
	11/03/2015	349	11/03/2017	–	30,478	2,643*	(33,121)	–
	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
	07/03/2017	285	07/03/2019	–	–	58,905	–	58,905
	07/03/2017	285	07/03/2020	–	–	57,642	–	57,642
Matthew Roberts	29/04/2014	292	29/04/2017	–	23,530	3,284*	(26,814)	–
	11/03/2015	349	11/03/2017	–	24,154	2,094*	(26,248)	–
	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
	07/03/2017	285	07/03/2019	–	–	46,982	–	46,982
	07/03/2017	285	07/03/2020	–	–	45,719	–	45,719

\* Dividend received for their two and three year holding period.

Details of Restricted and Additional shares awarded in respect of the year ended 31 December 2017 are given in the Directors' remuneration report on pages 78 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 78 to 93.

#### (c) Other disclosures

No Director had any dealings in the shares of any Group company between 31 December 2017 and 22 February 2018, 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 2017.

#### (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 78 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 (EPRA)	Nominal equivalent yield	Occupancy
<b>At 31 December 2017</b>						
<b>Subsidiaries</b>						
intu Trafford Centre	2,324.0	–	3.7%	3.7%	4.3%	98%
intu Lakeside	1,416.5	+2%	3.3%	3.6%	4.5%	92%
intu Merry Hill	931.1	-1%	3.8%	4.0%	5.0%	95%
intu Metrocentre	929.0	-3%	4.7%	5.2%	5.3%	94%
intu Braehead	533.1	-2%	5.1%	5.2%	6.1%	96%
intu Derby	458.0	+1%	6.0%	5.8%	6.2%	97%
Manchester Arndale	456.4	–	4.1%	4.3%	5.1%	97%
intu Victoria Centre	355.5	-1%	4.7%	4.9%	5.7%	98%
intu Watford	336.0	-3%	4.0%	4.1%	5.1%	95%
intu Eldon Square	322.7	+1%	4.9%	4.9%	5.0%	99%
intu Milton Keynes	285.0	+1%	4.4%	4.6%	4.9%	100%
Cribbs Causeway	240.0	–	4.9%	4.7%	5.2%	98%
Other <sup>C</sup>	621.1					
<b>Investment and development property excluding Group's share of joint ventures</b>	<b>9,208.4</b>					
<b>Joint ventures</b>						
St David's, Cardiff	345.8	-2%	4.2%	4.5%	4.8%	94%
Madrid Xanadú	235.2	+1% <sup>A/B</sup>	4.2%	4.5%	5.4%	98%
Puerto Venecia, Zaragoza	230.8	+4% <sup>B</sup>	4.5%	4.7%	5.7%	98%
intu Asturias	140.8	+11% <sup>B</sup>	4.6%	4.7%	5.2%	96%
Other <sup>D</sup>	61.7					
<b>Investment and development property including Group's share of joint ventures</b>	<b>10,222.7</b>		<b>4.20%<sup>E</sup></b>	<b>4.36%<sup>E</sup></b>	<b>5.03%<sup>E</sup></b>	<b>96%</b>
At 31 December 2016 including Group's share of joint ventures	9,984.7		4.27%	4.45%	5.02%	96%

### Notes

A Revaluation surplus assessed from date of acquisition.

B Calculated in local currency.

C Includes the Group's interests in intu Potteries, 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 Weighted average yields exclude developments.

	31 December 2017 £m	31 December 2016 £m
Passing rent	426.9	427.3
Annual property income	462.2	467.4
ERV	544.4	542.5
Weighted average unexpired lease term	7.5 years	7.7 years

Please refer to the glossary for definitions of terms.

## 2 Analysis of capital return in the year – including Group's share of joint ventures

	Market value		Revaluation surplus/(deficit)	
	2017 £m	2016 £m	2017 £m	2017 %
Like-for-like property	9,446.8	9,360.1	(37.8)	(0.4)
Acquisition and part disposal: Madrid Xanadú	235.2	–	1.7	0.7
Classified as held for sale: intu Chapelfield	–	297.7	9.6	3.3
Spain developments	212.8	76.7	74.5	53.8
Other	327.9	250.2	(0.7)	(0.2)
<b>Total investment and development property</b>	<b>10,222.7</b>	<b>9,984.7</b>	<b>47.3</b>	<b>0.5</b>

## 3 Additional property information

	Ownership	Note	Form of ownership <sup>E</sup>	Gross area million sq ft <sup>F</sup>	Year opened	Acquisition date <sup>G</sup>
<b>At 31 December 2017</b>						
intu Trafford Centre	100%		FH	2.0	1998	2011
intu Lakeside	100%		FH	1.4	1990	–
intu Merry Hill	100%		FH	1.7	1985	2016 <sup>I</sup>
intu Metrocentre	90%	A	LH	2.1	1986	1995
intu Braehead	100%		FH	1.1	1999	–
intu Derby	100%		FH/LH	1.3	2007	2014
Manchester Arndale	48%	B	LH	1.8	1976	2005
intu Victoria Centre	100%		FH	1.0	1972	2002 <sup>H</sup>
intu Watford	93%		LH	0.7	1992	–
intu Eldon Square	60%		FH/LH	1.4	1976	–
intu Milton Keynes	100%		FH	0.4	2000	2013
Cribbs Causeway	33%	C	FH/LH	1.1	1998	2005
St David's, Cardiff	50%		FH/LH	1.4	2009	2006
Madrid Xanadú	50%		FH	1.3	2003	2017
Puerto Venecia, Zaragoza	50%		FH	1.3	2012	2015
intu Asturias	50%		FH	0.8	2001	2013
Other		D		2.1		
<b>Investment and development property including Group's share of joint ventures</b>				<b>22.9</b>		
At 31 December 2016 including Group's share of joint ventures				21.9		

### 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 Potteries, 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.

## Investment and development property (unaudited) continued

### 4 Analysis of net rental income in the year – including Group's share of joint ventures

	Year ended		£m	Movement %
	31 December 2017 £m	31 December 2016 £m		
Like-for-like property	436.9	434.8	2.1	0.5
Acquisition: Madrid Xanadú	13.0	–	13.0	n/a
Acquisition: intu Merry Hill (50%)	10.1	–	10.1	n/a
Disposal: intu Bromley	–	12.5	(12.5)	n/a
Developments	–	(0.3)	0.3	n/a
<b>Net rental income</b>	<b>460.0</b>	<b>447.0</b>	<b>13.0</b>	<b>2.9</b>

## 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%	48%	125%	247%

Covenants are tested on the Security Group, the principal assets of which are intu Lakeside, intu Braehead, intu Watford, intu Victoria Centre and intu Derby. During the year, intu Chapelfield was withdrawn from the Secured Group Structure.

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 at loan to value below 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 £767.5 million at 31 December 2017. 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 2017 market value ratio is 32 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%	52%	125%	224%

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 2017 <sup>1</sup> £m	Maturity	LTV covenant	Loan to 31 December 2017 market value <sup>2</sup>	Interest cover covenant	Interest cover actual <sup>3</sup>
intu Milton Keynes	140.5	2019	65%	49%	150%	363%
Sprucefield	33.2	2020	65%	50%	150%	253%
intu Uxbridge <sup>4</sup>	26.0	2020	70%	54%	125%	241%
St David's, Cardiff	122.5	2021	65%	35%	150%	321%
intu Trafford Centre	250.0	2022	65%	45%	103% <sup>5</sup>	137% <sup>5</sup>
intu Merry Hill	487.8	2024	75%	52%	150%	259%
Puerto Venecia, Zaragoza <sup>4(€)</sup>	112.5	2019	65%	43%	150%	308%
intu Asturias <sup>4(€)</sup>	60.5	2021	65%	41%	150%	581%
Madrid Xanadu <sup>4(€)</sup>	131.5	2022	65%	50%	150%	398%

1 The loan values are the actual principal balances outstanding at 31 December 2017, which take into account any principal repayments made up to 31 December 2017. The balance sheet value of the loans includes unamortised fees.

2 The loan to 31 December 2017 market value provides an indication of the impact the 31 December 2017 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 2017 and 31 January 2018. 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 Covenant is a debt service cover ratio (includes interest and scheduled debt repayments).

## Financial covenants (unaudited) continued

### Intu Debenture plc

	Loan £m	Maturity	Capital cover covenant	Capital cover actual	Interest cover covenant	Interest cover actual
	231.4	2027	150%	244%	100%	117%

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 <sup>*</sup>	£1,200m	£2,533m	120%	210%	125%	66%
£375m due in 2022 2.875 per cent convertible bonds (note 26) <sup>**</sup>	n/a	n/a	n/a	n/a	175%	12%
£160m due in 2018 2.5 per cent convertible bonds (note 26) <sup>**</sup>	n/a	n/a	n/a	n/a	175%	12%

\* 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	2,258.7	2.41
2 years	1,918.5	2.76
5 years	1,671.1	3.36
10 years	670.1	5.02
15 years	457.8	4.73

## Financial information including share of joint ventures (unaudited)

for the year ended 31 December 2017

The information in this section is presented to show the Group including 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

	2017			2016		
	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	503.4	42.8	546.2	484.5	48.1	532.6
Service charge income	109.1	8.7	117.8	101.6	9.5	111.1
Facilities management income from joint ventures	3.5	(0.7)	2.8	8.2	(3.1)	5.1
<b>Revenue</b>	<b>616.0</b>	<b>50.8</b>	<b>666.8</b>	594.3	54.5	648.8
<b>Net rental income</b>	<b>423.4</b>	<b>36.6</b>	<b>460.0</b>	406.1	40.9	447.0
Net other income/(expenses)	3.0	(2.1)	0.9	0.6	(1.3)	(0.7)
Administration expenses	(40.9)	(0.7)	(41.6)	(37.8)	(0.8)	(38.6)
<b>Underlying operating profit</b>	<b>385.5</b>	<b>33.8</b>	<b>419.3</b>	368.9	38.8	407.7
Finance costs	(213.9)	(6.0)	(219.9)	(202.9)	(5.6)	(208.5)
Finance income	12.6	(9.3)	3.3	14.9	(13.4)	1.5
Other finance costs	(5.9)	-	(5.9)	(5.9)	-	(5.9)
Underlying net finance costs	(207.2)	(15.3)	(222.5)	(193.9)	(19.0)	(212.9)
<b>Underlying profit before tax, joint ventures and associates</b>	<b>178.3</b>	<b>18.5</b>	<b>196.8</b>	175.0	19.8	194.8
Tax on underlying profit	0.1	(0.2)	(0.1)	-	-	-
Share of underlying profit of joint ventures	18.3	(18.3)	-	19.8	(19.8)	-
Share of underlying profit of associates	0.9	-	0.9	0.5	-	0.5
Remove amounts attributable to non-controlling interests	3.4	-	3.4	4.7	-	4.7
<b>Underlying earnings</b>	<b>201.0</b>	<b>-</b>	<b>201.0</b>	200.0	-	200.0

A reconciliation from the Group's profit to underlying earnings is provided in note 12(c).

# Financial information including share of joint ventures (unaudited) continued

for the year ended 31 December 2017

## Consolidated income statements

	2017			2016		
	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
<b>Revenue</b>	<b>616.0</b>	<b>50.8</b>	<b>666.8</b>	594.3	54.5	648.8
<b>Net rental income</b>	<b>423.4</b>	<b>36.6</b>	<b>460.0</b>	406.1	40.9	447.0
Net other income/(expenses)	3.0	(2.1)	0.9	0.6	(1.3)	(0.7)
Revaluation of investment and development property	30.8	16.5	47.3	(78.0)	14.2	(63.8)
Gain on acquisition of businesses	-	-	-	34.6	-	34.6
Loss on disposal of subsidiaries	(1.8)	-	(1.8)	(0.3)	-	(0.3)
(Loss)/gain on sale of other investments	-	(0.3)	(0.3)	74.1	-	74.1
Administration expenses – ongoing	(40.9)	(0.7)	(41.6)	(37.8)	(0.8)	(38.6)
Administration expenses – exceptional	(5.9)	(0.7)	(6.6)	(2.5)	(0.4)	(2.9)
<b>Operating profit</b>	<b>408.6</b>	<b>49.3</b>	<b>457.9</b>	396.8	52.6	449.4
Finance costs	(213.9)	(6.0)	(219.9)	(202.9)	(5.6)	(208.5)
Finance income	12.6	(9.3)	3.3	14.9	(13.4)	1.5
Other finance costs	(38.9)	-	(38.9)	(37.9)	(0.9)	(38.8)
Change in fair value of financial instruments	22.0	1.0	23.0	(16.3)	(0.6)	(16.9)
Net finance costs	(218.2)	(14.3)	(232.5)	(242.2)	(20.5)	(262.7)
<b>Profit before tax, joint ventures and associates</b>	<b>190.4</b>	<b>35.0</b>	<b>225.4</b>	154.6	32.1	186.7
Share of post-tax profit of joint ventures	35.5	(35.5)	-	32.1	(32.1)	-
Share of post-tax profit of associates	1.3	-	1.3	1.6	-	1.6
<b>Profit before tax</b>	<b>227.2</b>	<b>(0.5)</b>	<b>226.7</b>	188.3	-	188.3
Current tax	0.1	(0.2)	(0.1)	-	-	-
Deferred tax	(24.0)	1.3	(22.7)	(16.5)	-	(16.5)
Taxation	(23.9)	1.1	(22.8)	(16.5)	-	(16.5)
<b>Profit for the year</b>	<b>203.3</b>	<b>0.6</b>	<b>203.9</b>	171.8	-	171.8
Non-controlling interests	13.4	(0.6)	12.8	10.9	-	10.9
<b>Profit for the year attributable to owners of intu properties plc</b>	<b>216.7</b>	<b>-</b>	<b>216.7</b>	182.7	-	182.7



## Consolidated balance sheets

	2017			2016		
	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
<b>Assets</b>						
Investment and development property	9,179.4	1,013.1	10,192.5	9,212.1	732.4	9,944.5
Investment in joint ventures	735.5	(735.5)	–	587.6	(587.6)	–
Derivative financial instruments	0.3	0.2	0.5	–	–	–
Assets classified as held for sale	309.1	–	309.1	–	–	–
Cash and cash equivalents	228.0	50.2	278.2	254.7	36.9	291.6
Other assets	342.2	54.3	396.5	314.8	17.8	332.6
<b>Total assets</b>	<b>10,794.5</b>	<b>382.3</b>	<b>11,176.8</b>	<b>10,369.2</b>	<b>199.5</b>	<b>10,568.7</b>
<b>Liabilities</b>						
Borrowings	(4,997.8)	(300.1)	(5,297.9)	(4,662.6)	(170.9)	(4,833.5)
Derivative financial instruments	(347.8)	(2.5)	(350.3)	(377.7)	(2.3)	(380.0)
Liabilities associated with assets classified as held for sale	(6.2)	–	(6.2)	–	–	–
Other liabilities	(313.5)	(76.5)	(390.0)	(282.5)	(26.3)	(308.8)
<b>Total liabilities</b>	<b>(5,665.3)</b>	<b>(379.1)</b>	<b>(6,044.4)</b>	<b>(5,322.8)</b>	<b>(199.5)</b>	<b>(5,522.3)</b>
<b>Net assets</b>	<b>5,129.2</b>	<b>3.2</b>	<b>5,132.4</b>	<b>5,046.4</b>	<b>–</b>	<b>5,046.4</b>
Non-controlling interests	(54.2)	(3.2)	(57.4)	(67.6)	–	(67.6)
<b>Net assets attributable to owners of intu properties plc</b>	<b>5,075.0</b>	<b>–</b>	<b>5,075.0</b>	<b>4,978.8</b>	<b>–</b>	<b>4,978.8</b>

## Financial information including share of joint ventures (unaudited) continued

for the year ended 31 December 2017

### Investment and development property

	2017 £m	2016 £m
Balance sheet carrying value of investment and development property	10,192.5	9,944.5
Tenant incentives included within trade and other receivables	118.5	120.4
Head leases included within finance leases in borrowings	(88.3)	(80.2)
<b>Market value of investment and development property</b>	<b>10,222.7</b>	<b>9,984.7</b>

### 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.

	2017 £m	2016 £m
Total borrowings	4,997.8	4,662.6
Cash and cash equivalents	(228.0)	(254.7)
<b>Net debt</b>	<b>4,769.8</b>	<b>4,407.9</b>
Less Metrocentre compound financial instrument	(183.7)	(177.8)
Less cash and cash equivalents within assets classified as held for sale	(0.5)	-
<b>Net external debt – before Group's share of joint ventures</b>	<b>4,585.6</b>	<b>4,230.1</b>
Add share of borrowings of joint ventures	300.1	170.9
Less share of cash of joint ventures	(50.2)	(36.9)
<b>Net external debt – including Group's share of joint ventures</b>	<b>4,835.5</b>	<b>4,364.1</b>
<b>Analysed as:</b>		
Debt including Group's share of joint ventures	5,113.7	4,655.7
Cash including Group's share of joint ventures	(278.2)	(291.6)
<b>Net external debt – including Group's share of joint ventures</b>	<b>4,835.5</b>	<b>4,364.1</b>

### Debt to assets ratio

	2017 £m	2016 £m
Market value of investment and development property	10,222.7	9,984.7
Add market value of investment and development property classified as assets held for sale	306.5	-
	10,529.2	9,984.7
Net external debt	(4,835.5)	(4,364.1)
<b>Debt to assets ratio</b>	<b>45.9%</b>	<b>43.7%</b>

### Interest cover

	2017 £m	2016 £m
Finance costs	(219.9)	(208.5)
Finance income	3.3	1.5
	(216.6)	(207.0)
Underlying operating profit	419.3	407.7
<b>Interest cover</b>	<b>1.94x</b>	<b>1.97x</b>

## Underlying profit statement (unaudited)

for the year ended 31 December 2017

The underlying profit information in the table below shows the Group including share of joint ventures on a line-by-line basis.

	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m	Six months ended 31 December 2017 £m	Six months ended 31 December 2016 £m	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
<b>Net rental income</b>	<b>460.0</b>	447.0	<b>233.8</b>	227.6	<b>226.2</b>	219.4
Net other income/(expenses)	<b>0.9</b>	(0.7)	<b>0.8</b>	(0.4)	<b>0.1</b>	(0.3)
Administration expenses	<b>(41.6)</b>	(38.6)	<b>(21.0)</b>	(20.3)	<b>(20.6)</b>	(18.3)
<b>Underlying operating profit</b>	<b>419.3</b>	407.7	<b>213.6</b>	206.9	<b>205.7</b>	200.8
Finance costs	<b>(219.9)</b>	(208.5)	<b>(112.4)</b>	(107.1)	<b>(107.5)</b>	(101.4)
Finance income	<b>3.3</b>	1.5	<b>2.2</b>	0.8	<b>1.1</b>	0.7
Other finance costs	<b>(5.9)</b>	(5.9)	<b>(3.0)</b>	(3.0)	<b>(2.9)</b>	(2.9)
Underlying net finance costs	<b>(222.5)</b>	(212.9)	<b>(113.2)</b>	(109.3)	<b>(109.3)</b>	(103.6)
<b>Underlying profit before tax and associates</b>	<b>196.8</b>	194.8	<b>100.4</b>	97.6	<b>96.4</b>	97.2
Tax on underlying profit	<b>(0.1)</b>	-	<b>0.1</b>	0.1	<b>(0.2)</b>	(0.1)
Share of underlying profit of associates	<b>0.9</b>	0.5	<b>0.5</b>	0.2	<b>0.4</b>	0.3
Remove amounts attributable to non-controlling interests	<b>3.4</b>	4.7	<b>1.5</b>	2.6	<b>1.9</b>	2.1
<b>Underlying earnings</b>	<b>201.0</b>	200.0	<b>102.5</b>	100.5	<b>98.5</b>	99.5
<b>Underlying earnings per share (pence)</b>	<b>15.0p</b>	15.0p	<b>7.6p</b>	7.5p	<b>7.3p</b>	7.5p
<b>Weighted average number of shares (million)</b>	<b>1,343.2</b>	1,333.5	<b>1,343.4</b>	1,334.8	<b>1,343.1</b>	1,332.0

For the reconciliation from basic earnings per share see note 12(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 European 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 2017, 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	2017	2016
EPRA cost ratio (including direct vacancy costs)	2	<b>19.4%</b>	18.6%
EPRA cost ratio (excluding direct vacancy costs)	2	<b>15.1%</b>	15.0%
EPRA earnings	3	<b>£192.3m</b>	£192.9m
— per share	3	<b>14.3p</b>	14.5p
EPRA NAV	4(a)	<b>£5,287.3m</b>	£5,200.9m
— per share	4(a)	<b>393p</b>	386p
EPRA NNNNAV	4(b)	<b>£4,695.8m</b>	£4,698.9m
— per share	4(b)	<b>349p</b>	349p
EPRA net initial yield	5	<b>4.2%</b>	4.3%
EPRA 'topped-up' NIY	5	<b>4.4%</b>	4.5%
EPRA vacancy rate	6	<b>3.0%</b>	3.0%

Details of the Group's performance against the EPRA Best Practice Recommendations on Sustainability Reporting can be found in full in the 2017 corporate responsibility report. In 2017, the Group retained its Gold EPRA Sustainability Best Practice Recommendations award.

### 2 EPRA cost ratios

	2017 £m	2016 £m
Administration expenses – ongoing	<b>41.6</b>	38.6
Net service charge costs	<b>19.1</b>	16.1
Other non-recoverable costs	<b>46.6</b>	44.1
Remove:		
Service charge costs recovered through rents	<b>(6.5)</b>	(5.6)
EPRA costs – including direct vacancy costs	<b>100.8</b>	93.2
Direct vacancy costs	<b>(22.6)</b>	(18.0)
EPRA costs – excluding direct vacancy costs	<b>78.2</b>	75.2
Rent receivable	<b>546.2</b>	532.6
Rent payable	<b>(20.5)</b>	(25.4)
Gross rental income less ground rent payable	<b>525.7</b>	507.2
Remove:		
Service charge costs recovered through rents	<b>(6.5)</b>	(5.6)
Gross rental income	<b>519.2</b>	501.6
<b>EPRA cost ratio (including direct vacancy costs)</b>	<b>19.4%</b>	18.6%
<b>EPRA cost ratio (excluding direct vacancy costs)</b>	<b>15.1%</b>	15.0%

### 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 12(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:

	2017			2016		
	Earnings £m	Shares million	Pence per share	Earnings £m	Shares million	Pence per share
Basic earnings per share	216.7	1,343.2	16.1p	182.7	1,333.5	13.7p
Adjusted for:						
Revaluation of investment and development property	(30.8)		(2.3)p	78.0		5.9p
Gain on acquisition of businesses	–		–	(34.6)		(2.6)p
Loss on disposal of subsidiaries	1.8		0.1p	0.3		–
Gain on sale of other investments	–		–	(74.1)		(5.6)p
Exceptional administration costs – acquisition and disposal related	4.9		0.4p	1.1		0.1p
Exceptional finance charges – termination of derivative financial instruments	26.1		1.9p	26.9		2.1p
Change in fair value of financial instruments	(22.0)		(1.6)p	16.3		1.2p
Tax on the above	23.9		1.8p	16.3		1.2p
Share of joint ventures' items	(17.2)		(1.3)p	(12.7)		(0.9)p
Share of associates' items	(1.1)		(0.1)p	(1.1)		(0.1)p
Non-controlling interests in respect of the above	(10.0)		(0.7)p	(6.2)		(0.5)p
<b>EPRA earnings per share</b>	<b>192.3</b>	<b>1,343.2</b>	<b>14.3p</b>	<b>192.9</b>	<b>1,333.5</b>	<b>14.5p</b>
<i>Reconciliation to the Group's measure of underlying earnings per share</i>						
Adjusted for:						
Other exceptional items	7.9		0.6p	6.5		0.5p
Other exceptional tax	0.1		–	0.2		–
Share of associates' items	0.7		0.1p	–		–
Share of joint ventures' items	–		–	0.4		–
<b>Underlying earnings per share</b>	<b>201.0</b>	<b>1,343.2</b>	<b>15.0p</b>	<b>200.0</b>	<b>1,333.5</b>	<b>15.0p</b>

## 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 13(a), is more appropriate than the EPRA measure in the context of our business. The key difference relates to 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:

	2017			2016		
	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	5,075.0	1,343.4	378p	4,978.8	1,343.0	371p
Dilutive convertible bonds, share options and awards	–	1.8		2.6	3.5	
Diluted NAV per share	5,075.0	1,345.2	377p	4,981.4	1,346.5	370p
Adjusted for:						
Fair value of derivative financial instruments (excluding swaps not currently used for economic hedges of debt)	112.1		8p	140.9		10p
Deferred tax on investment and development property and other investments	23.7		2p	0.1		–
Share of joint ventures' items	5.2		1p	7.2		1p
Non-controlling interest recoverable balance not recognised	71.3		5p	71.3		5p
<b>EPRA NAV per share</b>	<b>5,287.3</b>	<b>1,345.2</b>	<b>393p</b>	<b>5,200.9</b>	<b>1,346.5</b>	<b>386p</b>
<i>Reconciliation to the Group's measure of underlying earnings per share</i>						
Adjusted for:						
Swaps not currently used for economic hedges of debt	235.4		18p	236.8		18p
<b>NAV per share (diluted, adjusted)</b>	<b>5,522.7</b>	<b>1,345.2</b>	<b>411p</b>	<b>5,437.7</b>	<b>1,346.5</b>	<b>404p</b>

#### (b) EPRA NNNAV

The Group's measure of NNNAV per share (diluted, adjusted), as presented in note 13(b), is equal to the EPRA NNNAV measure presented below:

	2017			2016		
	Net assets £m	Shares million	NAV per share pence	Net assets £m	Shares million	NAV per share pence
EPRA NAV per share	5,287.3	1,345.2	393p	5,200.9	1,346.5	386p
Fair value of derivative financial instruments	(112.1)		(8)p	(140.9)		(10)p
Excess of fair value of borrowings over carrying value	(430.8)		(32)p	(375.0)		(28)p
Deferred tax on investment and development property and other investments	(23.7)		(2)p	(0.1)		–
Share of joint ventures' items	(47.8)		(4)p	(9.4)		(1)p
Non-controlling interests in respect of the above	22.9		2p	23.4		2p
<b>EPRA NNNAV per share</b>	<b>4,695.8</b>	<b>1,345.2</b>	<b>349p</b>	<b>4,698.9</b>	<b>1,346.5</b>	<b>349p</b>

## 5 EPRA net initial yield and 'topped-up' NIY

	2017 £m	2016 £m
Investment and development property	10,223	9,985
Less developments	(379)	(153)
Completed property portfolio	9,844	9,832
Allowance for estimated purchasers' costs	673	660
Gross up completed property portfolio valuation	10,517	10,492
Annualised cash passing rental income	462	467
Property outgoing	(25)	(22)
Annualised net rents	437	445
Notional rent on expiration of rent free periods or other lease incentives	23	27
Topped-up net annualised rent	460	472
<b>EPRA net initial yield</b>	<b>4.2%</b>	<b>4.3%</b>
<b>EPRA 'topped-up' NIY</b>	<b>4.4%</b>	<b>4.5%</b>

EPRA net initial yield and 'topped-up' NIY by property is given in the investment and development property section.

## 6 EPRA vacancy rate

	2017 %	2016 %
intu Trafford Centre	1.6	1.7
intu Lakeside	5.8	7.2
intu Merry Hill	1.8	3.1
intu Metrocentre	5.5	4.1
intu Braehead	2.5	2.4
intu Derby	2.1	2.7
Manchester Arndale	1.8	1.8
intu Victoria Centre	1.5	3.7
intu Watford	2.8	0.2
intu Eldon Square	1.2	1.1
intu Milton Keynes	0.4	-
Cribbs Causeway	1.7	4.3
St David's, Cardiff	6.0	4.2
Madrid Xanadú	4.5	n/a
Puerto Venecia, Zaragoza	1.9	3.2
intu Asturias	3.6	0.9
	<b>3.0</b>	<b>3.0</b>

EPRA vacancy rate is the ERV of vacant space divided by total ERV. This differs from the Group's measure of occupancy which measures the occupied units using passing rent not ERV.

## Financial record

2013-2017

	2013	2014	2015	2016	2017
Net rental income	£370m	£397m	£428m	£447m	<b>£460m</b>
Underlying earnings	£140m	£162m	£187m	£200m	<b>£201m</b>
Underlying earnings per share <sup>1</sup>	13.7p	13.3p	14.2p	15.0p	<b>15.0p</b>
Dividend per share <sup>1</sup>	13.7p	13.7p	13.7p	14.0p	<b>14.0p</b>
Property revaluation surplus/(deficit)	£126m	£648m	£351m	£(64m)	<b>£47m</b>
NAV per share (diluted, adjusted) <sup>1</sup>	346p	379p	404p	404p	<b>411p</b>
Market value of investment and development property	£7,624m	£8,963m	£9,602m	£9,985m	<b>£10,223</b>
Net external debt	£3,698m	£3,963m	£4,139m	£4,364m	<b>£4,836m</b>
Debt to assets ratio	48.5%	44.2%	43.1%	43.7%	<b>45.9%</b>
Interest cover	1.71x	1.82x	1.91x	1.97x	<b>1.94x</b>
Change in like-for-like net rental income	(1.9)%	(3.2)%	1.8%	3.6%	<b>0.5%</b>
Occupancy	95%	95%	96%	96%	<b>96%</b>
Growth in footfall (like-for-like)	(2)%	+0%	+0%	+1.3%	<b>+0%</b>

Amounts presented include the Group's share of joint ventures.

<sup>1</sup> Amounts for 2013 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 including investment and development property classified as held for sale.

## 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 costs 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 and including net debt within liabilities associated with assets classified as held for sale.

## 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](http://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. 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 may offer 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 (2016: 9.4 pence) to bring the total dividend per ordinary share for the year to 14.0 pence (2016: 14.0 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.

### Monday 9 April 2018

Sterling/Rand exchange rate struck

### Tuesday 10 April 2018

Sterling/Rand exchange rate and dividend amount in South African currency announced

### Wednesday 18 April 2018

Ordinary shares listed ex-dividend on the Johannesburg Stock Exchange

### Thursday 19 April 2018

Ordinary shares listed ex-dividend on the London Stock Exchange

### Friday 20 April 2018

Record date for 2017 final dividend in London and Johannesburg

### Thursday 17 May 2018

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 17 April 2018 and that no dematerialisation or rematerialisation of shares will be possible from Wednesday 18 April 2018 to Friday 20 April 2018 inclusive. No transfers between the UK and South African registers may take place from Tuesday 10 April 2018 to Friday 20 April 2018 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](http://intugroup.co.uk)), or on request to our UK registrars, Link Asset Services. Validly completed forms must be received by Link 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](http://intugroup.co.uk)), or on request to our South African registrars, Terbium, 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/en/investors/shareholder-information/real-estate-investment-trust/](http://intugroup.co.uk/en/investors/shareholder-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  
LEI: 213800JSNTERD5CJZO95

### 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

##### Link Asset Services

PXS, 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: enquiries@linkgroup.co.uk  
signalshares.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](http://intugroup.co.uk).

### Web-based enquiry service for shareholders

Shareholders registered in the UK can go to [capitashareportal.com](http://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](http://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 Link Share Dealing Services who provide a real-time online, telephone and postal dealing service.

Contact details are:

[linksharedeal.com](http://linksharedeal.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](http://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](mailto: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 ([signalshares.com](http://signalshares.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](mailto: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.

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