Notes forming part of the Group financial statements

1 Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of properties, financial instruments and pension assets. The financial statements are prepared on a going concern basis as explained in the Directors' report on page 90.

In the process of applying the Group's accounting policies, the directors are required to make judgements, estimates and assumptions that may affect the financial statements. The directors believe that the judgements made in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated. Critical accounting judgements include the adoption of the external portfolio valuation, the adoption of a single reporting segment and the level of control the Group has in respect of its joint ventures. The accounting policies for these areas of judgement are set out below.

During 2011, the following accounting standards and guidance were adopted by the Group, the pronouncements either had no impact on the financial statements or resulted in changes to presentation and disclosure only:

– Amendments to IAS 32 Classification of Rights Issues;

– Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions;

– IFRS 3 (revised) Business Combinations; and

– Amendments to IAS 27 Consolidated and Separate Financial Statements.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

– Amendments to IAS 12 Deferred Tax of Underlying Assets;

– Amendments to IFRS 7 Disclosures – Transfers of Financial Assets;

– IFRS 9 Financial Instruments;

– IAS 24 (revised) Related Party Disclosures;

– Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement; and

– IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 March 2011. Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group directs the financial and operating policies of an entity to benefit from its activities.

Rent receivable
This comprises rental income and premiums on lease surrenders on investment properties for the year, exclusive of service charges receivable.

Tenant leases
The directors have considered the potential transfer of risks and rewards of ownership in accordance with IAS 17 Leases for all properties leased to tenants and in their judgement have determined that all such leases are operating leases.

Lease incentives
Lease incentives including rent-free periods and payments to tenants, are allocated to the income statement on a straight-line basis over the lease term or on another systematic basis, if applicable. The value of resulting accrued rental income is included within the respective property.

Other property expenses
Irrecoverable running costs directly attributable to specific properties within the Group's portfolio are charged to the income statement as other property expenses. Costs incurred in the improvement of the portfolio which, in the opinion of the directors, are not of a capital nature are written off to the income statement as incurred.

Administration expenses
Costs not directly attributable to individual properties are treated as administration expenses.

Share-based payment

The cost of granting share-based payments to employees and directors is recognised within administration expenses in the income statement. The Group has used the Stochastic model to value the grants which is dependent upon factors including the share price, expected volatility and vesting period and the resulting fair value is amortised through the income statement over the vesting period.

The charge is reversed if it is likely that any non-market based criteria will not be met.

Investment property

Investment properties are professionally valued each year, on a market value basis, and any surpluses or deficits arising are taken to the income statement. Disposals of properties are recognised where contracts have been unconditionally exchanged during the accounting period and the significant risks and rewards of ownership of the property have been transferred to the purchaser.

Investment property under development

Investment properties under development are professionally valued each year on a market value basis and any surpluses or deficits arising are taken to the income statement. All directly attributable costs of bringing a property to a condition suitable for letting, including costs incurred prior to gaining planning permission, are capitalised into the cost of the property. Once development is concluded, the property is transferred to investment property.

Depreciation

No depreciation is provided in respect of freehold investment properties and leasehold investment properties. Depreciation is provided on plant and equipment, at rates calculated to write off the cost, less estimated residual value, based on prices prevailing at the balance sheet date of each asset evenly over its expected useful life, as follows:

Fixtures and fittings – over three to five years.
Leasehold improvements – over the term of the lease.

Joint ventures

Joint ventures are accounted for under the equity method where the Group has joint control of the entity. The Group balance sheet contains the Group's share of the net assets of its joint ventures. Balances with partners owed to or from the Group by joint ventures are included within investments. The Group's share of joint venture profits and losses are included in the Group income statement in a single line. All of the Group's joint ventures adopt the accounting policies of the Group for inclusion in the Group financial statements.

Deferred tax

Deferred tax is provided in full on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

Pension benefits

The Group contributes to a defined benefit pension plan which is funded with assets held separately from those of the Group. The full value of the net assets or liabilities of the pension fund is brought on to the balance sheet at each balance sheet date. Actuarial gains and losses are taken to reserves; all other movements are taken to the income statement.

Capitalisation of interest

Interest associated with direct expenditure on investment properties under development is capitalised. Direct expenditure includes the purchase cost of a site if it has been purchased with the specific intention to redevelop, but does not include the original book cost of a site previously held as an investment property. Interest is capitalised from the start of the development work until the date of practical completion. The rate used is the Group's pre-tax weighted average cost of borrowings or, if appropriate, the rate on specific associated borrowings.

Financial instruments:

i Derivatives The Group uses derivative financial instruments to hedge its exposure to foreign currency fluctuations and interest rate risks. The Group's derivatives are measured at fair value in the balance sheet. To the extent that a derivative is a designated hedge and provides an effective cash flow hedge against the Group's underlying exposure the movements in the fair value of the hedge are taken to equity. To the extent that the derivative is a designated hedge or does not effectively hedge the underlying exposure the movement in the fair value of the hedge is taken to the income statement.

ii Borrowings The Group's borrowings in the form of its debentures and bank loans are recognised initially at fair value, after taking account of any discount or premium on issue and attributable transaction costs. Subsequently borrowings are held at amortised cost, with any discounts, premiums and attributable costs charged to the income statement using the effective interest rate method.

iii Cash and cash equivalents Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to insignificant risk of changes in value.

iv Trade receivables and payables Trade receivables and payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Notes forming part of the Group financial statements

1 Accounting policies (continued)

Head leases

The present value of future ground rents is added to the carrying value of a leasehold investment property and to long-term liabilities. On payment of a ground rent virtually all of the cost is charged to the income statement, principally as interest payable, and the balance reduces the liability; an equal reduction to the asset's valuation is charged to the income statement.

Segmental analysis

All of the Group's revenue is generated from investment properties located in central London. The properties are managed as a single portfolio by an asset management team whose responsibilities are not segregated by location or type, but are managed on an asset by asset basis. The majority of the Group's assets are mixed use, therefore the office and retail space is managed together. Within the investment property portfolio the Group has a number of properties under development. The directors view the Group's development activities as an integral part of the life cycle of each of its assets rather than a separate business or division. The nature of developing property means that whilst a property is under development it generates no revenue and has no operating results. Once a development has completed it returns to the investment property portfolio. The directors have considered the nature of the business, how the business is managed and how they review performance and, in their judgement, the Group has only one reportable segment. The components of the valuation, as provided by CBRE, are set out on page 30 of this report.

Development management agreements

Where the outcome of a development management agreement can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract at the balance sheet date. Management exercise judgement when estimating the percentage complete. This is normally measured as the proportion that contract costs incurred for work performed bear to the estimated total contract costs. Variations in work, claims and incentive payments are included to the extent that they have been agreed with the client.

Where the outcome of a development management agreement cannot be estimated reliably, contract revenue is recognised to the extent of costs incurred that it is probable will be recoverable. Costs are recognised as expenses in the period in which they are incurred. When it is probable that total costs will exceed total revenue, the expected loss is recognised as an expense immediately.

2 Total revenue

	2011 £m	2010 £m
Gross rental income	**42.7**	42.9
Amortisation of capitalised lease incentives	**(0.4)**	2.9
Surrender premium net of associated capitalised lease incentives	**21.5**	–
Service charge income	**5.7**	6.0
Joint venture fee income	**4.1**	3.0
Development management income	**–**	0.1
	73.6	54.9

3 Net rental income

	2011 £m	2010 £m
Gross rental income	**42.7**	42.9
Amortisation of capitalised lease incentives	**(0.4)**	2.9
Ground rents payable	**(0.1)**	(0.1)
Rental income before surrender premium	**42.2**	45.7
Surrender premium net of associated capitalised lease incentives	**21.5**	–
	63.7	45.7

4 Property expenses

	2011 £m	2010 £m
Service charge income	**(5.7)**	(6.0)
Service charge expenses	**6.9**	7.2
Other property expenses	**2.8**	2.8
	4.0	4.0

5 Administration expenses

	2011 £m	2010 £m
Employee costs	**14.5**	10.3
Other	**2.8**	2.3
	17.3	12.6

Included within employee costs is an accounting charge for the LTIP and SMP schemes of £1.9 million (2010: £1.5 million).

Employee costs, including those of directors, comprise the following:

	2011 £m	2010 £m
Wages and salaries	**12.1**	8.7
Social security costs	**1.9**	1.3
Other pension costs	**1.0**	0.8
	15.0	10.8
Less: recovered through service charge	**(0.5)**	(0.5)
	14.5	10.3

The emoluments and pension benefits of the directors are set out in detail within the Directors' remuneration report on pages 102 to 112.

Employee information

The average number of employees of the Group, including directors, was:

	2011 Number	2010 Number
Head office and property management	**77**	69

Auditor's remuneration

	2011 £m	2010 £m
Audit of Company and subsidiary accounts	**0.2**	0.2
Amounts for regulatory filings (Rights Issue)	**–**	0.3
	0.2	0.5

During the year the Group's auditor provided other services in addition to the audit fee of £10,000 (2010: £305,000 including fees in relation to the rights issue).

6 Finance income

	2011 £m	2010 £m
Interest on balances with joint venture partners	**2.2**	0.4
	2.2	0.4

7 Finance costs

	2011 £m	2010 £m
Interest on bank overdrafts and bank loans	**4.4**	3.8
Interest on debentures	**8.0**	8.1
Interest on obligations under finance leases	**0.4**	0.3
Gross finance costs	**12.8**	12.2
Less: capitalised interest at an average rate of 3.2% (2010: 4.3%)	**(0.1)**	(0.2)
	12.7	12.0
Fair value movement on derivatives in ineffective hedging relationships	**1.1**	1.2
	13.8	13.2

In the year to 31 March 2010, the Group terminated its interest rate swaps and collars to take advantage of the lower interest rate environment. On the termination of these derivatives, fair value movements previously charged to reserves are required to be recycled through the income statement where the facilities to which they relate are not expected to be utilised. During the year, the Group recycled £3.1 million of losses from the hedging reserve to the income statement. The remaining hedging reserve of £1.5 million relates to facilities which are expected to be utilised and will be amortised to the income statement over the outstanding term of the derivatives had they not been terminated.

8 Tax

	2011 £m	2010 £m
Current tax		
UK corporation tax	**1.1**	–
Tax over provided in previous years	**(0.2)**	–
Total current tax	**0.9**	–
Deferred tax	**–**	0.2
Tax charge for the year	**0.9**	0.2

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

	2011 £m	2010 £m
Profit before tax	**261.0**	156.6
Tax charge on profit at standard rate of 28% (2010: 28%)	**73.1**	43.8
REIT tax-exempt rental profits and gains	**(21.7)**	(0.3)
Non-taxable revaluation surplus	**(53.3)**	(44.6)
REIT conversion charge in respect of corporate acquisition	**1.1**	–
Previous years' corporation tax	**(0.2)**	–
Other	**1.9**	1.3
Tax charge for the year	**0.9**	0.2

During the year £nil (2010: £0.2 million) of deferred tax was credited directly to equity in respect of the Group's pension fund. The Group's net deferred tax at 31 March 2011 was £nil (2010: £nil). A deferred tax asset of £8.4 million, mainly relating to tax losses carried forward at 31 March 2011 and deferred tax arising in respect of the fair value of derivatives, was not recognised because it is uncertain whether future taxable profits will arise against which these losses can be offset.

The Group converted to a REIT on 1 January 2007 and as such is largely exempt from corporation tax in respect of its rental profits and chargeable gains relating to its property rental business. The Group is otherwise subject to corporation tax.

8 Tax (continued)

The Group estimates that as the majority of its future profits will not be subject to corporation tax, it will have a very low tax charge over the coming years. In order to ensure that the Group is able to both retain its status as a REIT and to avoid financial charges being imposed, a number of tests (including a minimum distribution test) must be met by both Great Portland Estates plc and by the Group as a whole on an ongoing basis. These conditions are detailed in the Corporation Tax Act 2010.

9 Earnings and net assets per share

Adjusted earnings and net assets per share are calculated in accordance with the new Best Practice Recommendations issued by the European Public Real Estate Association (EPRA) in October 2010.

Weighted average number of ordinary shares

	2011 Number of shares	2010 Number of shares
Issued ordinary share capital at 1 April	312,676,149	181,023,034
Rights Issue	–	101,715,557
Investment in own shares	(2,381,988)	(851,512)
Weighted average number of ordinary shares	310,294,161	281,887,079

Basic, diluted and EPRA earnings per share

	Profit/(loss) before tax 2011 £m	Tax 2011 £m	Profit/(loss) after tax 2011 £m	Earnings/(loss) per share 2011 pence	Profit/(loss) after tax 2010 £m	Earnings/(loss) per share 2010 pence
Basic and diluted	261.0	(0.9)	260.1	83.8	156.4	55.5
Surplus from investment property (see note 10)	(131.3)	–	(131.3)	(42.3)	(89.8)	(31.8)
Surplus from joint venture investment property (see note 12)	(83.1)	–	(83.1)	(26.8)	(51.3)	(18.2)
Movement in fair value of derivatives (see note 7)	1.1	–	1.1	0.4	1.2	0.4
Movement in fair value of derivatives in joint ventures (see note 12)	(0.4)	–	(0.4)	(0.1)	–	–
Charge on 2010 cancellation of derivatives (see note 7)	3.1	–	3.1	1.0	11.6	4.1
EPRA earnings	50.4	(0.9)	49.5	16.0	28.1	10.0

Net assets per share

	Net assets 2011 £m	Number of shares 2011 million	Net assets per share 2011 pence	Net assets 2010 £m	Number of shares 2010 million	Net assets per share 2010 pence
Basic and diluted	1,112.7	310.2	359	876.7	311.7	280
Fair value of financial liabilities (see note 16)	11.0	–	3	32.9	–	11
Diluted triple net assets	1,123.7	310.2	362	909.6	311.7	291
Fair value of financial liabilities	(11.0)	–	(3)	(32.9)	–	(11)
Fair value of derivatives (see note 16)	(2.7)	–	(1)	(1.1)	–	–
Fair value of derivatives in joint ventures (see note 12)	5.8	–	2	8.2	–	3
EPRA net assets	1,115.8	310.2	360	883.8	311.7	283

Notes forming part of the Group financial statements

10 Investment property

Investment property

	Freehold £m	Leasehold £m	Total £m
Book value at 1 April 2009	548.4	166.0	714.4
Costs capitalised	6.7	1.0	7.7
Acquisitions	48.1	–	48.1
Disposals	(144.9)	(49.6)	(194.5)
Purchase of freehold interest	6.1	(6.1)	–
Transfer from development property	11.0	–	11.0
Transfer from investment property under development	66.0	–	66.0
Net valuation surplus on investment property	77.5	27.5	105.0
Book value at 31 March 2010	618.9	138.8	757.7
Acquisitions	**13.2**	**242.7**	**255.9**
Costs capitalised	**0.9**	**1.3**	**2.2**
Disposals	**(18.2)**	**(95.8)**	**(114.0)**
Transfer of freehold interest	**(18.5)**	**27.2**	**8.7**
Transfer from investment property under development	**17.5**	**–**	**17.5**
Transfer to investment property under development	**(70.0)**	**(26.3)**	**(96.3)**
Net valuation surplus on investment property	**81.5**	**33.0**	**114.5**
Book value at 31 March 2011	**625.3**	**320.9**	**946.2**

Investment property under development

	Freehold £m	Leasehold £m	Total £m
Book value at 1 April 2009	66.0	–	66.0
Costs capitalised	1.8	–	1.8
Interest capitalised	0.2	–	0.2
Transfer from development property – IAS 40 (revised)	11.8	–	11.8
Transfer to investment property	(66.0)	–	(66.0)
Net valuation surplus on investment property under development	3.4	–	3.4
Book value at 31 March 2010	17.2	–	17.2
Acquisitions	**12.6**	**–**	**12.6**
Costs capitalised	**1.0**	**0.7**	**1.7**
Interest capitalised	**0.1**	**–**	**0.1**
Transfer from investment property	**70.0**	**26.3**	**96.3**
Transfer to investment property	**(17.5)**	**–**	**(17.5)**
Net valuation surplus on investment property under development	**(14.7)**	**7.6**	**(7.1)**
Book value at 31 March 2011	**68.7**	**34.6**	**103.3**
Total investment property	**694.0**	**355.5**	**1,049.5**

The book value of investment property includes £28.5 million (2010: £2.0 million) in respect of the present value of future ground rents, the market value of the portfolio (excluding these amounts) is £1,021.0 million.

The cumulative interest capitalised in development property was £0.1 million (2010: £nil).

10 Investment property (continued)

Surplus from investment property

	2011 £m	2010 £m
Net valuation surplus on investment property	**107.4**	108.4
Profit/(loss) on sale of investment properties	**23.9**	(18.6)
	131.3	89.8

The Group's investment properties including those held in joint venture (note 12) were valued on the basis of Market Value by CB Richard Ellis, external valuers, as at 31 March 2011 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors ("the Standards") and has been primarily derived using comparable recent market transactions on arm's-length terms.

At 31 March 2011 the Group had capital commitments of £25.1 million (2010: £nil).

At 31 March 2011 properties with a carrying value of £319.5 million (2010: £293.6 million) were secured under first mortgage debenture stock (see note 15).

11 Development property, plant and equipment

	Leasehold improvements £m	Fixtures and fittings £m	Development property £m	Total £m
Cost or valuation				
At 1 April 2009	2.0	0.9	22.8	25.7
Transfer to investment property on development completion	–	–	(11.0)	(11.0)
Transfer to investment property – IAS 40 (revised)	–	–	(11.8)	(11.8)
At 31 March 2010	2.0	0.9	–	2.9
Costs capitalised	**–**	**0.4**	**–**	**0.4**
At 31 March 2011	**2.0**	**1.3**	**–**	**3.3**
Depreciation				
At 1 April 2010	**0.9**	**0.8**	**–**	**1.7**
Charge for the year	**0.2**	**0.2**	**–**	**0.4**
At 31 March 2011	**1.1**	**1.0**	**–**	**2.1**
Carrying amount at 31 March 2010	1.1	0.1	–	1.2
Carrying amount at 31 March 2011	**0.9**	**0.3**	**–**	**1.2**

12 Investment in joint ventures

The Group has the following investments in joint ventures:

	Equity £m	Balances with partners £m	Total £m
At 1 April 2010	355.8	(23.4)	332.4
Movement on joint ventures balances	–	31.5	31.5
Acquisitions	14.8	–	14.8
Share of profit of joint ventures	14.8	–	14.8
Share of revaluation surplus of joint ventures	75.3	7.8	83.1
Share of results of joint ventures	90.1	7.8	97.9
Fair value movement on derivatives taken to equity	2.0	–	2.0
Distributions	(28.8)	–	(28.8)
At 31 March 2011	433.9	15.9	449.8

In July 2010 the Great Star Partnership was formed with an affiliate of Starwood Capital Group Global L.P. In a series of transactions it acquired City Tower, 40 Basinghall Street, EC2 and City Place House, 55 Basinghall Street, EC2.

The investments in joint ventures comprise the following:

	Country	2011 ownership	2010 ownership
The 100 Bishopsgate Partnership	United Kingdom	50%	50%
GPE Marcol House Limited*	United Kingdom	100%	100%
The Great Capital Partnership	United Kingdom	50%	50%
The Great Ropemaker Partnership	United Kingdom	50%	50%
The Great Star Partnership	United Kingdom	50%	–
The Great Victoria Partnerships	United Kingdom	50%	50%
The Great Wigmore Partnership	United Kingdom	50%	50%

* GPE Marcol House Limited is a joint venture with Eurohypo. Eurohypo has a profit share arrangement dependent on the success of the two development schemes held by GPE Marcol House Limited. Eurphypo is able to exert influence over the development strategy for the buildings and because these are the only assets held by the entity this influence extends over the whole of the entity's operations. As a result of this arrangement GPE and Eurohypo are considered to have joint control over the business of the entity although GPE has a 100% equity interest. Therefore, in accordance with IAS 31 GPE Marcol House Limited has been treated as a joint venture.

12 Investment in joint ventures (continued)

The Group's share in the assets and liabilities, revenues and expenses for the joint ventures are set out below:

	The 100 Bishopsgate Partnership £m	GPE Marcol House Ltd £m	The Great Capital Partnership £m	The Great Ropemaker Partnership £m	The Great Star Partnership £m	The Great Victoria Partnerships £m	The Great Wigmore Partnership £m	2011 Total £m	2010 Total £m
Balance sheets									
Investment property	65.3	84.7	276.0	32.8	80.9	85.7	39.7	665.1	483.2
Current assets	3.2	1.2	7.5	0.9	4.6	1.9	0.7	20.0	17.3
Balances to/(from) Partners	(11.3)	(52.1)	88.6	(18.3)	(15.1)	(5.5)	(2.2)	(15.9)	23.4
Bank loans	–	–	(112.2)	–	(39.1)	(28.3)	–	(179.6)	(140.3)
Derivatives	–	–	(5.9)	–	0.1	–	–	(5.8)	(8.2)
Current liabilities	(1.7)	(4.1)	(6.7)	(0.5)	(2.7)	(2.0)	(0.6)	(18.3)	(11.2)
Finance leases	(7.4)	–	(8.0)	(5.2)	(11.0)	–	–	(31.6)	(8.4)
Net assets	48.1	29.7	239.3	9.7	17.7	51.8	37.6	433.9	355.8
Income statements									
Net rental income	3.7	0.4	14.4	1.3	5.7	3.4	0.7	29.6	19.8
Property and administration costs	(0.6)	(0.1)	(1.6)	(0.3)	(0.5)	(0.3)	(0.3)	(3.7)	(2.8)
Net finance costs	(0.1)	(0.1)	(6.1)	(1.4)	(2.2)	(1.6)	–	(11.5)	(8.8)
Tax (REIT conversion charge)	–	–	–	–	–	–	–	–	(0.5)
Movement in fair value of derivatives	–	–	0.3	–	0.1	–	–	0.4	–
Share of profit from joint ventures	3.0	0.2	7.0	(0.4)	3.1	1.5	0.4	14.8	7.7
Revaluation of investment property	2.2	19.5	28.1	4.2	(0.2)	9.4	12.1	75.3	47.4
Profit on sale of investment property	–	–	–	–	–	–	–	–	1.1
Share of results of joint ventures	5.2	19.7	35.1	3.8	2.9	10.9	12.5	90.1	56.2

The joint ventures have bank loans with a total nominal value of £360.9 million. The Great Capital Partnership has a £225 million facility which is secured, attracts a floating rate of between 0.75% and 1.15% above LIBOR and expires in 2013. The Great Victoria Partnership has a £56.8 million facility which is secured, attracts a fixed rate of 5.495% and expires in 2012. The Great Star Partnership has an £79.1 million secured credit facility, which attracts a floating rate of 1.90% above LIBOR and expires in 2015. All interest bearing loans are in sterling. At 31 March 2011 the joint ventures had £nil undrawn facilities (2010: £nil).

The Great Capital Partnership has four interest rate swaps and an interest rate collar with notional principal amounts of £143.9 million and £25.0 million respectively. The interest rate swaps and collar expire coterminously with the bank loan in 2013. The weighted average contracted fixed interest rate for the interest rate swaps was 5.27%, and the collar has a floor of 4.845% and a cap of 6.5%. The Great Star Partnership has an interest rate swap with a fixed interest rate of 2.715% and a notional principal amount of £39.8 million and an interest rate cap at 4.0% with a notional principal amount of £39.8 million. The interest rate swap and cap expire coterminously with the bank loan in 2015.

Notes forming part of the Group financial statements

12 Investment in joint ventures (continued)

Transactions during the year between the Group and its joint ventures are disclosed below:

	2011 £m	2010 £m
Movement on joint venture balances during the year	31.5	88.9
Balances (receivable)/outstanding at the year end from joint ventures	(15.9)	23.4
Distributions	28.8	40.7
Fee income	4.1	3.0

The balances outstanding at the period end to and from Partners do not bear interest, apart from the account with the Great Ropemaker Partnership on which interest is payable at 6%, the Great Star Partnership on which interest is payable at 7% and the 100 Bishopsgate Partnership on which interest is payable at LIBOR +2%. The investment properties include £31.6 million (2010: £8.4 million) in respect of the present value of future ground rents, net of these amounts the market value of our share of the total joint venture properties is £633.5 million. The Group earns fee income from its joint ventures for the provision of management services. All of the above transactions are made on terms equivalent to those that prevail in arm's-length transactions.

At 31 March 2011, the Group had no contingent liabilities arising in its joint ventures (2010: £nil). At 31 March 2011 the Group had capital commitments in respect of its joint ventures of £56.7 million (2010: £nil).

13 Trade and other receivables

	2011 £m	2010 £m
Trade receivables	6.9	3.6
Allowance for doubtful debts	(0.3)	(0.4)
	6.6	3.2
Prepayments and accrued income	0.8	15.4
Other trade receivables	11.6	13.1
Derivatives	2.7	1.1
	21.7	32.8

Trade receivables consist of rent and service charge monies, which are due on the quarter day with no credit period. Interest is charged on trade receivables in accordance with the terms of the tenant's lease. Trade receivables are provided for based on estimated irrecoverable amounts determined by past default experience and knowledge of the individual tenant's circumstance. At 31 March 2011, debtors past due but not impaired were £4.9 million.

	2011 £m	2010 £m
Movements in allowance of doubtful debts		
Balance at the beginning of the year	(0.4)	(0.1)
Amounts provided for during the year	(0.5)	(0.3)
Amounts written off as uncollectable	0.6	–
	(0.3)	(0.4)

14 Trade and other payables

	2011 £m	2010 £m
Trade payables	**11.6**	10.3
Non-trade payables and accrued expenses	**19.9**	20.3
	31.5	30.6

15 Interest-bearing loans and borrowings

	2011 £m	2010 £m
Non-current liabilities at amortised cost		
Secured		
£142.9 million 5⅝% debenture stock 2029	**144.2**	144.3
Unsecured		
Bank loans	**207.9**	134.0
	352.1	278.3

The Group has two floating rate revolving credit facilities of £350.0 million and £200.0 million. The £350.0 million facility is unsecured, attracts a floating rate based on a ratchet of between 155–230 basis points above LIBOR based on gearing and expires in 2015. The £200.0 million facility is unsecured, attracts a floating rate of 50 basis points above LIBOR and expires in July 2012. All interest-bearing loans and borrowings are in sterling. At 31 March 2011 the Group had £340 million (2010: £417 million) of undrawn committed credit facilities.

Post balance sheet event

GPE has agreed to issue a mix of sterling and US dollar bonds through private placement. The bonds were priced on 31 March 2011 with the respective coupons set as follows:

– £30 million, seven-year bond at 5.09%;

– $130 million, seven-year bond at 4.81%; and

– $78 million, ten-year bond at 5.37%.

The related legal documentation was signed on 27 April 2011 and the funds will be drawn on 30 June 2011.

As the Group operates solely in the United Kingdom, and all of its operating profits and net assets are sterling denominated, it entered into a cross currency swap in order to ensure the US dollar liability stream generated by the bond was fully hedged into sterling for the life of the transaction. Through entering into the cross currency swap the Group has created a synthetic sterling fixed rate liability exposure for seven and ten years totalling £159.7 million.

16 Financial instruments

Categories of financial instrument	Carrying amount 2011 £m	Income/ (expense) 2011 £m	Gain/(loss) to equity 2011 £m	Carrying amount 2010 £m	Income/ (expense) 2010 £m	Gain/(loss) to equity 2010 £m
Interest rate swaps, caps and collars	–	(3.1)	3.1	–	(11.6)	11.8
Non-current liabilities at fair value	–	(3.1)	3.1	–	(11.6)	11.8
Interest rate swaptions	–	(1.1)	(1.1)	1.1	–	–
Interest rate floor	2.7	–	–	–	–	–
Non-current assets held at fair value	2.7	(1.1)	(1.1)	1.1	–	–
Trade receivables	19.0	–	–	31.7	–	–
Cash and cash equivalents	3.0	–	–	45.7	–	–
Loans and receivables	22.0	–	–	77.4	–	–
Trade and other payables	(31.5)	–	–	(30.6)	–	–
Interest-bearing loans and borrowings	(352.1)	(12.4)	–	(278.3)	(11.9)	–
Finance leases	(28.5)	(0.4)	–	(2.0)	(0.3)	–
Liabilities at amortised cost	(349.1)	(12.8)	–	(310.9)	(12.2)	–
Total financial instruments	(324.4)	(17.0)	2.0	(232.4)	(23.8)	11.8

Financial risk management objectives

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a policy of only dealing with creditworthy tenants and obtaining sufficient rental cash deposits or third party guarantees as a means of mitigating financial loss from defaults.

The concentration of credit risk is limited due to the large and diverse tenant base. Accordingly the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of rent deposits obtained. Details of the Group's receivables are summarised in note 13 of the financial statements.

The Group's cash deposits are placed with a diversified range of banks and strict counterparty limits ensure the Group's exposure to bank failure is minimised.

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns and as such it aims to maintain an appropriate mix of debt and equity financing. The current capital structure of the Group consists of a mix of equity and debt. Equity comprises issued share capital, reserves and retained earnings as disclosed in the Group statement of changes in equity. Debt comprises long-term debenture stock and drawings against committed revolving credit facilities from banks.

The Group operates solely in the United Kingdom, and its operating profits and net assets are sterling denominated, as a result the Group's policy is to have no unhedged assets or liabilities denominated in foreign currencies. The currency risk on overseas transactions is fully hedged through foreign currency derivatives to create a synthetic sterling exposure.

16 Financial instruments (continued)

Liquidity risk

The Group operates a framework for the management of the Group's short-, medium- and long-term funding requirements. Cash flow and funding needs are regularly monitored to ensure sufficient undrawn facilities are in place. The Group's funding sources are diversified across a range of bank and bond markets and strict counterparty limits are operated on deposits.

The Group meets its day-to-day working capital requirements through the utilisation of its revolving credit facilities. The availability of these facilities depends on the Group complying with a number of key financial covenants; these covenants and the Group's compliance with these covenants are set out in the table below:

Key covenants	Covenant		March 2011 Actuals
Group			
Net debt/net equity	≤1.25x		0.32x
Inner borrowing (unencumbered asset value/unsecured borrowings)	≥1.66x		3.46x
Interest cover	≥1.35x		4.03x

The Group has undrawn credit facilities of £340 million and has substantial headroom above all of its key covenants. As a result the directors consider the Group to have adequate liquidity to be able to fund the ongoing operations of the business.

The following tables detail the Group's remaining contractual maturity on its financial instruments and have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay and conditions existing at the balance sheet date.

At 31 March 2011	Carrying amount £m	Contractual cash flows £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities						
£142.9 million 5⅝% debenture stock 2029	144.2	286.2	8.0	8.0	24.1	246.1
Bank loans	207.9	217.8	5.0	201.1	11.7	–
Derivative financial instruments						
Interest rate swap	–	0.2	0.1	0.1	–	–
Interest rate floor	(2.7)	(6.7)	(1.1)	(2.2)	(3.4)	–
	349.4	497.5	12.0	207.0	32.4	246.1

At 31 March 2010	Carrying amount £m	Contractual cash flows £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities						
£142.9 million 5⅝% debenture stock 2029	144.3	294.3	8.0	8.0	24.2	254.1
Bank loans	134.0	137.3	1.4	1.4	134.5	–
Derivative financial instruments						
Interest rate swaptions	(1.1)	–	–	–	–	–
	277.2	431.6	9.4	9.4	158.7	254.1

16 Financial instruments (continued)

Market risk

Interest rate risk arises from the Group's use of interest-bearing financial instruments. It is the risk that future cash flows from a financial instrument will fluctuate due to changes in interest rates. It is the Group's policy either to eliminate interest rate risk over the cash flows on its long-term debt finance through the use of fixed rate debentures or to mitigate the risk through the use of floating to fixed interest rate swaps, caps, collars and swaptions. It is the Group's policy to maintain the proportion of floating interest rate exposure to between 20%–40% of forecast total interest rate cost.

Interest rate swaps

Interest rate swaps enable the Group to exchange its floating rate interest payments on its bank debt for fixed rate payments on a notional value. Such contracts allow the Group to mitigate the risk of changing interest rates on the cash flow exposures on its variable rate bank loans by locking in a fixed rate on a proportion of its debt.

Interest rate caps

Interest rate caps protect the Group from rises in short-term interest rates by making a payment to the Group when the underlying interest rate exceeds a specified rate (the "cap rate") on a notional value. If the underlying rate exceeds the cap rate, the payment is based upon the difference between the two rates, ensuring the Group only pays the maximum of the cap rate.

Interest rate floors

Under the terms of an interest rate floor, one party (the seller) makes a payment to the other party (the buyer) if an underlying interest rate is below a specified rate.

The Group has agreed to issue debt with a fixed interest rate in June 2011. The Group has bought an interest rate floor, which, when combined with this fixed rate debt, gives rise to the same economic effect as purchasing an interest rate cap in respect of floating rate debt.

Interest rate swaptions

An interest rate swaption provides the Group with an option to enter into an interest rate swap on a specified future exercise date at a set price. On the exercise date the Group can either enter into the interest rate swap or let the option lapse. Such contracts act as an insurance policy against future interest rate rises.

Cross currency swaps

Cross currency swaps enable the Group to exchange receipts or payments denominated in currencies other than sterling for receipts or payments denominated in sterling. Such contracts allow the Group to eliminate foreign exchange risk arising from fluctuating exchange rates between sterling and other currencies.

The following table details the notional principal amounts and remaining terms of interest rate derivatives outstanding at 31 March:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2011 %	2010 %	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Cash flow hedges						
Interest rate swaptions						
In excess of five years	**–**	4.00%	**–**	100.0	**–**	1.1
Interest rate swaps						
Between two and five years	**1.87%**	–	**11.0**	–	**–**	–
Interest rate floor						
Between two and five years	**2.53%**	–	**159.7**	–	**2.7**	–
	2.49%	–	**170.7**	100.0	**2.7**	1.1

16 Financial instruments (continued)

The following table details the notional principal amounts and remaining terms of exchange rate derivatives outstanding at 31 March:

	Average exchange rate		Foreign currency		Notional principal amount		Fair value	
	2011 rate	2010 rate	**2011 US$m**	2010 US$m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Cash flow hedges								
Cross currency swap								
In excess of five years	**1.604**	–	**208.0**	–	**129.7**	–	**–**	–
	1.604	–	**208.0**	–	**129.7**	–	**–**	–

As at 31 March 2011 the aggregate amount of unrealised losses in respect of cash flow hedges was £1.5 million (2010: £4.6 million).

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both non-derivative and derivative financial instruments at the balance sheet date and represents management's assessment of possible changes in interest rates. For the floating liabilities the analysis is prepared assuming the amount of the liability at 31 March 2011 was outstanding for the whole year.

	Impact on profit		Impact on equity	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Increase of 50 basis points	**(5.7)**	2.6	**(4.3)**	4.7
Increase of 100 basis points	**(3.1)**	1.0	**(2.4)**	2.0
Decrease of 50 basis points	**2.6**	(0.3)	**2.2**	(0.8)
Decrease of 100 basis points	**5.6**	(0.2)	**4.9**	(1.3)

Foreign exchange sensitivity

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for derivative financial instruments at the balance sheet date and represents management's assessment of possible changes in foreign exchange rates.

	Impact on profit		Impact on equity	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Increase of 20%	**(2.4)**	–	**(2.4)**	–
Increase of 10%	**(1.3)**	–	**(1.3)**	–
Decrease of 10%	**1.6**	–	**1.6**	–
Decrease of 20%	**3.6**	–	**3.6**	–

Fair value of interest-bearing loans and borrowings

	Book value 2011 £m	**Fair value 2011 £m**	Book value 2010 £m	Fair value 2010 £m
Non-current liabilities at amortised cost	**352.1**	**341.1**	278.3	245.4
Non-current assets held at fair value (derivatives)	**(2.7)**	**(2.7)**	(1.1)	(1.1)
	349.4	**338.4**	277.2	244.3

The fair values of the Group's listed long-term borrowings have been estimated on the basis of quoted market prices, representing Level 1 fair value measurements as defined by IFRS 7 Financial Instruments: Disclosures. The fair values of the Group's outstanding interest rate swaps and interest rate floors have been estimated by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 7. The fair value of the Group's currency swaps have been estimated on the basis of the prevailing rates at the year end, representing Level 2 fair value measurements as defined by IFRS 7.

The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements.

17 Finance leases

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

	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m	Minimum lease payments 2010 £m	Interest 2010 £m	Principal 2010 £m
Less than one year	**1.3**	**(1.3)**	**–**	0.2	(0.2)	–
Between two and five years	**5.3**	**(5.3)**	**–**	0.7	(0.7)	–
More than five years	**221.9**	**(193.4)**	**28.5**	21.2	(19.2)	2.0
	228.5	**(200.0)**	**28.5**	22.1	(20.1)	2.0

18 Share capital

	2011 Number	2011 £m	2010 Number	2010 £m
Allotted, called up and fully paid				
At 1 April	**312,676,149**	**39.1**	181,023,034	22.6
Issue of ordinary shares – Rights Issue	**–**	**–**	131,653,115	16.5
At 31 March	**312,676,149**	**39.1**	312,676,149	39.1

19 Investment in own shares

	2011 £m	2010 £m
At 1 April	**0.3**	0.2
Employee Long-Term Incentive Plan and Share Matching Plan charge	**(1.9)**	(1.5)
Purchase of shares	**5.7**	3.5
Transfer to retained earnings	**(0.1)**	(1.9)
At 31 March	**4.0**	0.3

The investment in the Company's own shares is held at cost and comprises 2,482,630 shares (2010: 1,022,179 shares) held by the Great Portland Estates plc LTIP Employee Share Trust which will vest for certain senior employees of the Group if performance conditions are met.

During the year 324,748 shares (2010: 499,231 shares) were awarded to directors and senior employees in respect of the 2007 LTIP award. The fair value of shares awarded and outstanding at 31 March 2011 was £7.4 million (2010: £11.3 million).

20 Adjustment for non-cash movements in the cash flow statement

	2011 £m	2010 £m
Surplus from investment property	**(131.3)**	(89.8)
Employee Long-Term Incentive Plan and Share Matching Plan charge	**1.9**	1.5
Amortisation of capitalised lease incentives	**3.3**	(2.9)
Share of results from joint ventures	**(97.9)**	(59.0)
Other non-cash items	**0.3**	(0.1)
Adjustments for non-cash items	**(223.7)**	(150.3)

21 Dividends

	2011 £m	2010 £m
Ordinary dividends paid		
Interim dividend for the year ended 31 March 2011 of 3.1 pence per share	**9.6**	–
Second interim dividend for the year ended 31 March 2010 of 5.0 pence per share	**15.6**	–
Interim dividend for the year ended 31 March 2010 of 3.0 pence per share	**–**	9.3
Final dividend for the year ended 31 March 2009 of 8.0 pence per share	**–**	14.5
	25.2	23.8

A final dividend of 5.1 pence per share was approved by the Board on 24 May 2011 and will be paid on 12 July 2011 to shareholders on the register on 3 June 2011. The dividend is not recognised as a liability at 31 March 2011. The 2010 final dividend and the 2011 interim dividend were paid in the year and are included within the Group statement of changes in equity.

22 Operating leases

Future aggregate minimum rentals receivable under non-cancellable operating leases are:

	2011 £m	2010 £m
The Group as a lessor		
Less than one year	**37.9**	36.9
Between two and five years	**104.8**	107.0
More than five years	**85.5**	91.4
	228.2	235.3

The Group leases its investment properties under operating leases. The weighted average length of lease at 31 March 2011 was 5.0 years (2010: 5.8 years). All investment properties except those under development generated rental income and no contingent rents were recognised in the year (2010: £nil).

23 Employee benefits

The Group contributes to a defined benefit pension plan (the "Plan"), the assets of which are held by trustees separately from the assets of the Group. The Plan has been closed to new entrants since April 2002. The most recent actuarial valuation of the Plan was conducted at 1 April 2009 by a qualified independent actuary using the projected unit method. The Plan was valued using the following main assumptions:

	2011 %	2010 %
Discount rate	**5.50**	5.75
Expected return on Plan assets	**5.45**	5.47
Expected rate of salary increases	**4.50**	4.75
Future pension increases	**3.50**	3.75

To develop the expected long-term rate of return on the Plan assets, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the long-term rate of return on Plan assets for the portfolio. This resulted in the selection of an assumption of 5.45% p.a.

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

	2011 £m	2010 £m
Present value of unfunded obligations	**(18.7)**	(17.5)
Fair value of the Plan assets	**18.4**	17.3
Pension liability	**(0.3)**	(0.2)

Notes forming part of the Group financial statements

23 Employee benefits (continued)

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

	2011 £m	2010 £m
Current service cost	**(0.2)**	(0.2)
Interest on obligation	**(1.0)**	(0.9)
Expected return on the Plan assets	**0.9**	0.8
	(0.3)	(0.3)
Actuarial deficit recognised immediately in the Group statement of changes in equity	**(0.2)**	(1.0)
Cumulative actuarial gains recognised in the Group statement of changes in equity	**1.2**	1.4

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

	2011 £m	2010 £m
Defined benefit obligation at 1 April	**17.5**	13.4
Service cost	**0.2**	0.2
Interest cost	**1.0**	0.9
Actuarial gain	**0.5**	3.6
Benefits paid	**(0.5)**	(0.6)
Defined benefit obligation at 31 March	**18.7**	17.5

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

	2011 £m	2010 £m
Fair value of the Plan assets at 1 April	**17.3**	14.1
Expected return on the Plan assets	**0.9**	0.8
Actuarial gain	**0.3**	2.6
Contributions	**0.4**	0.4
Benefits paid	**(0.5)**	(0.6)
Fair value of the Plan assets at 31 March	**18.4**	17.3
Net liability	**(0.3)**	(0.2)

The fair value of the Plan assets at the balance sheet date is analysed as follows:

	2011 £m	2010 £m
Equities	**7.4**	6.9
Bonds	**11.0**	10.4
	18.4	17.3

The actual return on Plan assets was a surplus of £1.2 million (2010: surplus of £3.4 million).

23 Employee benefits (continued)

Life expectancy assumptions on retirement:

	2011 Years	2010 Years
Male aged 65	**23**	23
Female aged 65	**23**	26
Male aged 40	**25**	24
Female aged 45	**25**	28

The history of the Plan assets for the current and prior years is as follows:

	2011	2010	2009	2008	2007
Difference between expected and actual return on the scheme assets:					
Amount £m	**0.3**	2.6	(3.0)	(0.8)	(0.2)
Percentage of scheme assets	**1%**	15%	(21%)	(5%)	(1%)
Experience gains and losses on scheme liabilities:					
Amount £m	**–**	–	1.7	–	–
Percentage of scheme assets	**–**	–	13%	–	–
Total gains and losses:					
Amount £m	**–**	(1.0)	(1.8)	1.9	–
Percentage of scheme assets	**–**	(6%)	(13%)	13%	–

The Group expects to contribute £0.2 million to the Plan in the year ended 31 March 2012.