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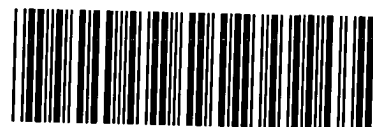
# **London & Continental Railways Limited**

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## **Group Report and Accounts 31 March 2017**

**Company registration number 2966054**

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# Contents

Directors & Secretary .....	1
Chairman's Statement .....	2
Strategic Report .....	4
Corporate Governance .....	8
Directors' Report.....	13
Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements .....	18
Independent Auditor's report.....	19
To the member of London & Continental Railways Limited.....	19
Consolidated Statement of Comprehensive Income .....	21
Statement of Financial Position – Group.....	22
Statement of Changes in Equity – Group.....	23
Statement of Cash Flows – Group .....	24
Statement of Financial Position – Company .....	25
Statement of Changes in Equity – Company .....	26
Statement of Cash Flows – Company.....	27
Accounting Policies.....	28
Notes to the Financial Statements.....	36

## **Directors & Secretary**

### **Directors**

L I Baldry

(Non-executive Chairman)

D Joy

(Chief Executive)

M F Russell

N J Wilden

P Hawthorne

T Garnham

### **Secretary**

P Hawthorne

### **Registered Office**

4<sup>th</sup> Floor, One Kemble Street

London

WC2B 4AN

## **Chairman's Statement**

For over 20 years, London & Continental Railways Ltd (LCR) has been managing, developing and disposing of property assets within a railway context, and in particular assets associated with major infrastructure projects. As guardians of public land, we have a role to play in the Government's drive for homes, jobs and economic growth.

Our positioning on the cusp of the public-private sectors and our embedded commercial and development experience enables us to work effectively with both private sector developers and public bodies to deliver best value for the Government.

We are driving forward more world class regeneration projects, for example at International Quarter London in Stratford and Mayfield in Manchester, which can deliver over 1,600 homes between them as well as creating new destinations where people want to live, work and visit.

Through the HS2 Growth Partnership we are building on the invaluable development experience gained at King's Cross, Stratford and Manchester to help local authorities and partners to unlock sites up and down the HS2 route to create homes, jobs and economic growth. We are also working with local authorities to kick-start development at a number of other station locations.

2016/17 proved to be a successful year for LCR during which the Group has continued to generate value from its assets and investments.

At Stratford City, LCR has continued to advance its 50/50 joint venture with Lend Lease in order to progress development of the final 22 acres of the original Stratford City Masterplan. Branded as International Quarter London (IQL), the project will deliver around 4 million square feet of commercial development which includes over 300 new homes located primarily between the Westfield shopping centre and the Queen Elizabeth Olympic Park. The construction of the residential component of the development, known as Glasshouse Gardens, has progressed well during the year with the first tower completed in November 2016 and the first residents now in occupation. The second tower was completed in May 2017. Following the forward sale of the two office blocks for the Financial Conduct Authority (FCA) and Transport for London (TfL) last year, construction work has progressed well. TfL is expected to move 3,000 employees into its new building in Autumn 2017 with the FCA moving in, with 3,800 employees, during 2018.

With LCR having previously formed the Mayfield Partnership with Manchester City Council and Transport for Greater Manchester, U+I have now been selected as the development partner to regenerate the Mayfield Quarter. The Partnership formed the joint-venture with U+I in December 2016. The Mayfield Quarter is planned to be a mixed use development including 75,000 sq. m. of office space, 1,330 homes, a 350-bedroom hotel, retail and leisure facilities, and a new city park.

## Chairman's Statement (continued)

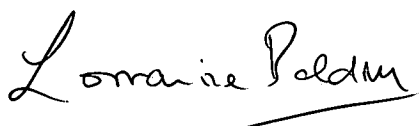
LCR has continued to manage the DfT's interests at Waterloo International Terminal, North Pole Depot, and Temple Mills Bus Depot. In December 2015, DfT leased the majority of Waterloo International Terminal to Network Rail in order to facilitate the delivery of railway operational works. As a consequence Network Rail has taken over the day to day management responsibility of Waterloo International. LCR has been working with the DfT and Network Rail to regenerate the Terminal. Planning consent was achieved in November 2016 to create a 135,000 sq. ft. retail scheme within the Terminal. LCR has also refurbished 8 arches underneath the Terminal with the first tenants expected in Autumn 2017.

Further progress was also made during the year to conclude outstanding obligations of LCR, especially in closing out legacy property issues from former subsidiary HS1 Limited (HS1).

At the start of the 15/16 year, LCR was asked to form and lead the HS2 Growth Partnership, an alliance of public sector bodies tasked with providing delivery support to local authorities in respect of the implementation of their HS2 growth strategies. The focus of LCR and the HS2 Growth Partnership has continued to be in respect of station-led regeneration and development on the HS2 line of route.

During the course of the 15/16 year HM Treasury asked DfT to undertake a commercial review of LCR. The Review concluded that LCR's skill set and experience was considered rare within government and that LCR has an excellent record of working with both the public and private sectors. LCR's shareholder the Secretary of State for Transport, through the Department for Transport (DfT), remains keen to apply the skills within LCR to add value to the DfT's, and wider government, property interests, and consequently LCR's Framework Agreement with DfT has been amended to reflect this aspiration and was approved in October 2016. During the 16/17 year, LCR has taken on the role of Independent Land Adviser for DfT in respect of HS2 Limited's land acquisition programme.

In conclusion, I would like to thank all the staff and Directors of LCR for their support in what has been another busy and successful year for the Group.



Lorraine Baldry  
Chairman

20th July 2017

## **Strategic Report**

### **Summary of Trading**

The LCR Group remains a debt-free business with significant property development interests in the Stratford City regeneration schemes, and in development schemes that are at an earlier stage of maturity. Group profit is derived primarily from LCR's share of the results in its investment property, joint ventures and from the trading performance of the commercial office properties.

The Group recorded a profit of £25.1 million in the year reflecting in particular the following key elements:

- A share of the profits of the Stratford Partnership for the year of £8.8m;
- Increase in the valuation of investment properties of £19.4m;
- The trading performance of the commercial office properties.

This is partially offset by £14.8m increase in provisions during the year.

### **Property development**

#### *Development Strategy*

LCR's core development strategy is to deliver homes, jobs and economic growth. The aim is to achieve this in partnership with both the public and the private sector. Over the last year the company was involved in delivering 1,607 new homes and 690,000 sq. ft. of commercial floor space delivering 8,137 jobs.

LCR's general approach in respect of those sites which offer significant development potential is to:

- Make constructive representations upon, and to influence positively, the statutory planning policy framework so as to enhance the value of LCR's land holdings;
- Pool LCR's land with that of adjacent land owners in order to create a critical mass for regeneration and development;
- Use LCR's land holding as equity in order to form joint venture arrangements with partners who have the skills and resources required to progress regeneration and development; and
- Actively market and dispose of property interests at the appropriate time to achieve optimum value.

Through the above approach, and through active participation in joint venture arrangements over the medium to long term, LCR seeks to benefit from the uplift in land values and to share in the developers' profits which flow from successful place-making and development.

## **STRATEGIC REPORT (continued)**

### *Stratford*

During the year the Group has continued to hold its 50% interest in the Stratford City joint venture (Stratford City Business District Limited) with Lend Lease. This is one of the UK's largest mixed-use schemes on a 22 acre site with outline planning consent already in place for 4 million sq. ft. of flexible commercial office space, 333 new homes, and 275,000 sq. ft. of hotel space with associated retail, childcare facilities and community uses, all within a unique parkland setting.

The development of 333 residential units, known as Glasshouse Gardens, achieved a major milestone with the completion of the first tower and its first residents moving in during November 2016. The second tower was completed in May 2017.

Construction of the first two commercial plots is progressing well, with TfL due to take occupation of 265,000 sq ft in the Autumn of 2017, and FCA occupying 425,000 sq ft in 2018.

Lend Lease and LCR are in discussions with a range of potential occupiers about the remaining office space and it is expected that the whole development will be complete by 2025.

The Group's share of the results of SCBDL amounted to a profit of £8.8m in the year (2016: £33.8m). In the 15/16 year LCR received a dividend of £20 million in March 2016 and had the £29.5m shareholder loans repaid. No dividend was received in the 16/17 year.

### *Manchester Mayfield*

LCR formed the Mayfield Partnership with Manchester City Council and Transport for Greater Manchester in order to deliver the regeneration of the Mayfield quarter. The Partnership's vision is for Mayfield to become a distinctive new urban quarter that will define a key gateway for central Manchester. A Strategic Regeneration Framework (SRF) was produced and endorsed by Manchester City Council in January 2014.

In December 2016, the Mayfield Partnership selected U+I as a development partner to regenerate the area. The Partnership has entered into a joint-venture with U+I. LCR's land interests in the Mayfield area were drawn down by the joint-venture in May 2017.

The plans envisage a 24 acre mixed use development that is expected to deliver 800,000 sq. ft. of grade A office space, together with up to 1,330 homes, a 350-bedroom hotel, retail and leisure facilities and a new six acre city park centered along a remediated River Medlock. It will reshape and extend the city towards Manchester Piccadilly railway station building on the benefits of the Northern Hub and HS2 initiatives, and explore how a combination of public and private sector investment might be used to best advantage.

Activation of the Mayfield site commenced in June 2017 with the provision of interim uses.

## **STRATEGIC REPORT (continued)**

### *Administrative Office Estate*

The Administrative Office Estate comprises office buildings in Birmingham, Croydon and Manchester, together with a business park in Derby. The estate in total equates to circa 1,000,000 sq. ft., and has generated £17.5m of income (including service charges but excluding sales) in the 2016/17 year, and £7.7m of operating profit.

The properties are managed through managing agents and are let to a mix of around fifty central government, public sector, railway and private sector tenants. The general strategy is to maximise occupancy through the provision of appropriately specified value for money accommodation for current and prospective tenants. A rolling programme of investment expenditure is required to refresh the accommodation periodically.

Refurbishment works have continued during the year at RTC Derby which will support the engineering sector in the City. Derby City Council has provided £2.2m of funding through the Government's Regional Growth Fund with LCR having spent a further £5m.

### *High Speed 2 Regeneration*

In March 2015, LCR was asked to form and then lead the HS2 Growth Partnership, an alliance of public sector bodies (HS2 Ltd, Homes and Communities Agency (HCA), Department for International Trade (DIT), and Government departments (DfT, DCLG)), in order to support local authorities with the development and implementation of their HS2 growth strategies. The HS2 Growth Partnership has entered into a number of collaboration agreements with local authorities. LCR's focus has been primarily in respect of station-led regeneration and development on the HS2 line of route, and supporting HS2 Ltd with regard to the commercialisation of the HS2 stations.

During the year, LCR has taken on the role of Independent Land Adviser for DfT in respect of HS2 Limited's land acquisition programme.



## STRATEGIC REPORT (continued)

### *Assets Managed on behalf of the DfT*

On the abolition of BRBR Waterloo International Terminal, North Pole Depot and Temple Mills - Bus Depot were transferred to the Department for Transport (DfT). LCR continues to undertake the management of these properties on behalf of the DfT.

LCR is working with the DfT and Network Rail to bring Waterloo International back into full use. Planning consent was received in November 2016 to create a 135,000 sq. ft. of space for an ambitious mix of independent, high street, and food stores spread across 3 floors. The development will create 700 new jobs, as well as hundreds more during the construction period. The return to operational use of Waterloo International is part of the Wessex Capacity Improvement Programme at Waterloo which is being delivered by Network Rail and will provide the biggest increase in capacity for decades at the UK's busiest station. Amongst other benefits, the project will enable domestic services to run from the former Eurostar platforms 20-24.

LCR received planning permission in November 2015 to transform a number of the railway arches underneath the terminal. The scheme includes 8 arches, totalling 23,350 sq. ft. which will be occupied primarily by creative and independent restaurant, bar, and café operators. The construction work is expected to be completed in Summer 2017 with the first tenants opening for business in Autumn 2017.

### **Financing and future obligations**


At the year end, LCR had cash resources of £197.8 million and had no debt. LCR's cash resources are expected to fund LCR's activities until the timely realisation of value in its investments and cover LCR's retained liabilities in respect of its legacy matters.

### **Safety**

Safety continues to be of paramount importance for all LCR Group companies. A culture that recognises and practises safety is very important for employees, suppliers, customers, partners and the overall success of the business. The Group is focussed on ensuring the continuing safety and security of its staff, assets, properties and development sites.

### **The Future**

LCR is establishing a stable long term supply of regeneration projects which will be primarily funded in partnership with the private sector. These projects will deliver homes, jobs and investment based on the locational benefits created by infrastructure provision.

  
David Joy  
Chief Executive

14th July 2017

## Corporate Governance

The Directors set out in this report how the principles of good governance are applied within LCR. The Company is a private limited company and during the year the Secretary of State for Transport was the sole shareholder in the Company.

Whilst LCR are not required to comply with the UK Corporate Governance Code ('the code'), LCR has taken account of the code to develop its governance procedures.

LCR operates under a Financial Framework Agreement with the Department for Transport, which was last renewed in October 2016, and whose provisions include:

- Governance of LCR by the DfT;
- LCR's Board and general principles;
- LCR's Budget, Business Plan and Reports;
- Principles governing the LCR/DfT relationship.

## The Workings of the Board and its Committees

The Board met seven times in the year. The Board ensures the Group has adequate funding in place by monitoring (through regular reporting from the Executive Directors) the sources and levels of funding available to the Group. Board members receive monthly management accounts of the Group and a written report on funding at each Board meeting. During the year the Board comprised the Non-Executive Chairman (Lorraine Baldry), Chief Executive (David Joy), Finance Director (Peter Hawthorne), the Senior Independent Non-Executive Director (Mark Russell) and two other Non-Executive Directors (Tim Garnham and Nicky Wilden). Tim Garnham was chairman of the Remuneration Committee and Nicky Wilden chaired the Audit & Risk Committee.

The dates of the LCR Board Meetings and the attendances at them are set out below:

<b>Name</b>	<b>17/5/16</b>	<b>20/7/16</b>	<b>21/9/16</b>	<b>17/11/16</b>	<b>19/1/17</b>	<b>1/3/17</b>	<b>28/3/17</b>
L I Baldry	✓	✓	✓	✓	✓	✓	✓
T Garnham	✓	✓	✓	✓	✓	✓	✓
D Joy	✓	✓	✓	✓	✓	✓	✓
P Hawthorne	✓	✓	✓	✓	✓	✓	✓
M F Russell	✓	✓	✓	✓	✓	✓	✓
N J Wilden	✓	✓	✓	✓	✓	✓	✓

The Non-Executive Directors meet without the Executives present from time to time. At all times during the year, the number of Non-Executive Directors on the Board exceeded the number of Executive Directors.

The Non-Executive Directors have a wide range of backgrounds and experience, and are of sufficient calibre and character to bring independent judgment to bear on issues of strategy, performance, resources and standards of conduct, with particular experience relating to property transactions. The Directors consider that Lorraine Baldry, Tim Garnham, Mark Russell, and Nicky Wilden are all independent.

Appropriate insurance cover is in place in respect of legal action against the Group's Directors.

## Corporate Governance

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that the Board procedures and applicable rules and regulations are followed. The appointment and removal of the Company Secretary is a matter for the Board as a whole. The Directors are able to take independent professional advice at the expense of the Company if they consider it necessary.

The Non-Executive Directors have responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. All Directors receive appropriate and timely information in order to enable them to fulfil their duties; briefing papers are distributed to all Board members by the Company Secretary in advance of meetings.

## Audit and Risk Committee

The Audit & Risk Committee comprises all the Non-Executive Directors of the Company and during the year all members of the Committee were considered by the Directors to be independent.

The dates of the Audit & Risk Committee meetings and the attendances at them are set out below:

<b>Name</b>	<b>17/5/16</b>	<b>20/7/16</b>	<b>21/9/16</b>	<b>17/11/16</b>	<b>19/1/17</b>	<b>28/3/17</b>
L I Baldry	✓	✓	✓	✓	✓	✓
T Garnham	✓	✓	✓	✓	✓	✓
M F Russell	✓	✓	✓	✓	✓	✓
N J Wilden	✓	✓	✓	✓	✓	✓

At least one member of the Committee has recent and relevant financial experience. The Committee's formal terms of reference were adopted by the Board in 2008 and re-confirmed by the DfT in 2011. The Committee met six times in the year. The Committee monitors the integrity of the financial statements of the Company, reviews the internal financial controls and the internal control and risk management systems. It provides a forum for reporting by the Company's external auditor.

The Committee meets and/or discusses matters with the external auditor at least once a year without the Executive Directors present. The Audit & Risk Committee is chaired by Nicky Wilden. The Committee considers that it is not necessary for an organisation of LCR's size to maintain an internal audit function in-house. The Committee instead looks to commission independent audits of areas of Audit Committee focus.

## Audit and Risk Committee Activities

During the 2015/16 year, the key issues considered by the Committee were document management, financial controls of property agents, and IT security and control of passwords. These issues have been reviewed by Ernst & Young during the 2016/17 year. The audits identified one medium control observation, and nine low priority control observations. The medium priority observation has been addressed and actions are in hand in respect of the low priority observations.

## Corporate Governance (continued)

The key issues considered by the Committee during the 2016/17 year are Company Secretarial activities and Procurement. It has requested that these issues be reviewed during the 2017/18 year.

During the 2012/13 year the Committee undertook a tendering exercise to select its external auditor, which resulted in the Board approving the re-appointment of KPMG for a further term of four years. The Committee has reviewed the annual audit plan and the interim audit procedure report. The Committee has reviewed the risk identification process and audit delivery against the audit plan. It should also be noted that the Finance Director attends Audit and Risk Committee meetings to ensure that auditor performance is communicated effectively. Based on this, the Committee can report that the external audit process is working effectively.

From time to time the Company asks the external auditor, KPMG, to provide non-audit professional services. Before doing so, the Company considers the nature of such non-audit services and the appropriateness of receiving them from KPMG. No non-audit services were provided within the current year. In addition, the Audit & Risk Committee receives each year a letter of confirmation from KPMG confirming that, in its professional judgement, it remains independent within the meaning of its regulatory and professional requirements and that its objectivity is not impaired.

The Committee can therefore confirm that it has discharged its responsibilities appropriately.

## Nomination Committee

The Nomination Committee is responsible for all aspects of the appointment of directors of the Company and comprises all non-executive directors. The duties of the Committee and the details as regards the nomination process are set out in the Committee's Terms of Reference. The Committee met twice during the reporting year.

The dates of the Nomination Committee meetings and the attendances at them are set out below:

<b>Name</b>	<b>19/1/17</b>	<b>28/3/17</b>
L I Baldry	✓	✓
T Garnham	✓	✓
M F Russell	✓	✓
N J Wilden	✓	✓

## Remuneration Committee

The Remuneration Committee comprises all non-executive directors and is chaired by Tim Garnham. Formal terms of reference of the Committee were last adopted by the Board in 2008 and re-confirmed by the DfT in 2011. The Committee met four times in the year. The Board has delegated to the Committee responsibility for setting the remuneration of all Executive Directors including pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for

## Corporate Governance (continued)

senior management. The Board as a whole considers the remuneration of the Non-Executive Directors.

The dates of the Remuneration Committee meetings and the attendances at them are set out below:

<b>Name</b>	<b>17/5/16</b>	<b>20/7/16</b>	<b>19/1/17</b>	<b>28/3/17</b>
L I Baldry	✓	✓	✓	✓
T Garnham	✓	✓	✓	✓
M F Russell	✓	✓	✓	✓
N J Wilden	✓	✓	✓	✓

The remuneration of the Executive Directors is designed to align their interests with the objectives of the Company including its corporate objectives, and to incentivise them to perform at the highest level. The levels of remuneration for the Non-Executive Directors reflect each individual's time commitment and responsibilities of the role, including the chairmanship of committees of the Board.

Share options are not available to the Directors.

The Company has not adopted a formal policy on the duration of Executive Directors' service contracts, which in practice have no fixed termination date, but which provide for periods of notice of termination on either side. Non-Executive Directors typically serve for a three year period, which in line with the Code can be extended twice.

## Risk

The Company seeks to continuously improve its risk management and operates an agreed Risk Management Framework. This sets out the Company's approach to the management of corporate risk, the roles and responsibilities of risk management and the process by which risks are assessed and, if appropriate, escalated.

The Executive Committee, which meets monthly, supports the Chief Executive in day-to-day identification of risks and in the management of risks in accordance with the framework. The Executive Committee reports to the Audit & Risk Committee and the Board with regards to the management of the high level corporate risks.

The Audit & Risk Committee reviews the effectiveness of the risk framework to ensure that the aims, objectives and key targets of the Group are achieved in the most economic and effective manner.

The Audit & Risk Committee carries out an annual assessment of the robustness of risk management processes. The most recent review was carried out at the January 2017 meeting. Risk management processes were found to be robust.

The Board through the Audit & Risk committee and Executive Directors is responsible for ensuring that high standards of corporate governance are observed at all times and that an appropriate and active risk management framework remains in place. The Board agrees and periodically reviews the management of the corporate level risks, and provides

## **Corporate Governance (continued)**

leadership on risk management engendering a "no surprises" culture regarding risk within the organisation.

### **Internal Control**

The Accounting Officer for LCR is David Joy, the Chief Executive, who shares with the Board of LCR the responsibility for maintaining a sound system of internal control that supports the achievement of the Company's objectives, and acts to safeguard the public funds and the Company's assets for which he is responsible, in accordance with the responsibilities under the Government document 'Managing Public Money'.

The Audit & Risk Committee is responsible for assessing the Company's system of internal control, for reviewing its effectiveness, and for making recommendations on internal control issues to the Board. The internal control systems are designed to provide reasonable, though not absolute, assurance against the risks faced by the business including material misstatement, loss and fraud.

The Board retains responsibility for financial risk identification and compliance matters and receives regular reports in all of these areas including treasury and investment matters. Formal control is exercised through a management structure which includes clear lines of accountability and documented financial delegations of authority from the Board. These are subject to periodic review.

The Company's overall management process integrates the role of the Board, its Committees and the LCR Executive Committee which meets monthly to consider all key business issues including safety. The Company prepares an annual budget, performance against which is actively monitored by the Board.

The system of internal financial controls in LCR is monitored by the Finance Director and the Chief Executive who are accountable to the Audit & Risk Committee. In addition, the external auditor reports to the Audit & Risk Committee matters regarding internal financial controls which arise as a result of its audit work. No material weaknesses in the system of internal financial control have been identified by these reviews.

The Company is required to undertake a regular review of its internal control systems. The most recent review was undertaken at the Audit & Risk Committee meeting in January 2017. The Directors reviewed the effectiveness of the Company's system of internal control and found systems to be strong with no significant failures requiring reporting.

### **Going Concern**

The Company is required to assess its financial viability over a period significantly longer than 12 months. The Board carries out this task by undertaking an annual review of the LCR business plan with the latest review having been undertaken at the Board meeting in November 2016. Following the review, the Board is satisfied that these accounts be prepared on a going concern basis.

## Directors' Report

The Directors present their report, together with the accounts of the Group for the year ended 31 March 2017.

### Principal activities

The London & Continental Railways Group had the following main activities which were carried out through the Company, its subsidiaries and associates:

- to manage the Group's interests in the redevelopment of the substantial sites at Stratford and Manchester Mayfield through joint venture arrangements;
- to extract optimum value from the Group's property assets;
- through the HS2 Growth Partnership, to provide delivery support to the HS2 station places; and
- to settle remaining ex-HS1 property interests and obligations;

### Basis of preparation

The financial statements are prepared under International Financial Reporting Standards as adopted by the EU.

The Directors consider that the report and accounts, taken as a whole, are fair, balanced, and understandable.

### Going Concern

The Board has undertaken a review of the LCR business plan at the Board meeting in November 2016. Following the review, the Board is satisfied that these accounts be prepared on a going concern basis. The Directors also consider the going concern basis to be appropriate because the Group and Company has adequate cash reserves to settle its obligations, and has the support of its shareholder to invest in the pursuit of its business objectives. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Results and dividends

LCR's Group income statement is set out on page 21 and shows a profit before tax for the year of £23.2million (2016: £212.2m).

During the year, a dividend of £25m was paid to the DfT with a further dividend of £124.5m declared in the year relating to the sale of the stake in King's Cross (2016 restated : £241.3m dividend paid to the DfT following the sale of the stake in King's Cross).

Please note that the prior year accounts were restated with £124.5m of the dividend paid to parent being removed from the 15/16 year and being recognised in the 16/17 year. For full details, please refer to Note 1.18.

## **Directors' Report (continued)**

### **Review of business and future developments**

The statement on pages 4 to 7 sets out the review of business and future developments.

LCR is owned by the Secretary of State for Transport, and continues to operate in line with a Financial Framework Agreement which was last updated with DfT in October 2016.

LCR expects to continue to derive investment growth and income from its property development and investment interests.

### **Government classification**

LCR has been a wholly-owned entity of the Secretary of State for Transport since 2009 when the Company's shares were acquired by the Secretary of State and the Group's Government-guaranteed debt was taken into the public sector.

### **Financial instruments**

The main financial instruments the Group holds at 31 March 2017 are:

- cash deposits, and short term investments held with fund managers; and
- trade debtors, trade creditors, and other instruments incidental to the Group's operations.

The Group holds cash in order to fund both its legacy obligations and its ongoing property-related activities. Funds not immediately required for the Group's operations are invested at fixed and floating interest rates, either through managed funds or Company-managed deposits, all denominated in sterling. The types of financial instrument used for investment purposes must be approved in advance by the Board prior to obtaining the consent of the Secretary of State. The Board also sets down limits, both in terms of capital invested and market price risk, for this activity. During the year, the only investment instruments held were listed debt securities and bank deposits.

The risks arising from the Group's financial arrangements are low, but there remains a degree of interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### **Interest rate risk**

The Company was debt free throughout the year with surplus funds invested at market rates. LCR's associate, SCBDL, raised debt in order to finance the construction of Glasshouse Gardens a portion of which is hedged against interest rate risk.



## **Directors' Report (continued)**

### **Liquidity risk**

The Group's objective is to ensure that sufficient funding is available for the exploitation of its property portfolio and for remaining legacy liabilities.

The funds which are currently not being used have been invested in managed funds with a range of maturities to match commitments.

### **Currency risk**

At 31 March 2017 the Group has minimal exposure to currency risk.

### **Credit risk**

The Group's surplus cash is deposited with highly-rated listed debt securities and bank deposits. This is not considered to present a material credit risk.

### **Directors and their interests**

The Directors who served during the year, and to the date of the approval of this report and accounts, were as follows:

#### **Executive Directors**

D Joy	(Chief Executive)
P Hawthorne	(Finance Director)

#### **Non-Executive Directors**

LI Baldry	(Non-executive Chairman)
T Garnham	
MF Russell	(Senior Independent Non-executive)
NJ Wilden	

No Director has had, at any time, any interest in the shares of any Group company.

### **Charitable and political donations**

No charitable or political donations were made during the year (2016: £nil).

### **Employee practice**

The Group is a non-discriminatory employer operating an equal opportunities policy, committed to the employment and promotion of all staff on the basis of merit, without regard to race, colour, sex, marital status or disability. Where appropriate, training is adjusted to cater for an individual's disability and the disabled share the same conditions of services as other staff in relation to career development and promotion.

The Group is committed to effective employee communication which is achieved by meetings and regular briefing sessions. By these means employees are systematically

## **Directors' Report (continued)**

provided with information on matters concerning them, achieving a common awareness of factors affecting the Group's performance.

### **Health and safety**

The Group's policies and procedures relating to health and safety at work recognise the requirements of current legislation and are kept under constant review to ensure a safe working environment for all associated staff. The Group has a commitment to improve continually its performance in the areas of health and safety. LCR has a Safety Committee that reports into the Executive Committee. All health and safety matters are reported at each Board meeting.

### **Environment and sustainability**

Through the LCR Sustainability Policy, the Group recognises the importance of its environmental responsibilities and has processes in place to manage its environmental effects and those of its contractors. It is committed to do this diligently. The Group is currently carrying out a comprehensive review of its practices across the full range of its operations in order to look for ways to further improve performance, adopt best practice wherever possible and drive continual improvement, in accordance with the Policy. New targets will be set, including targets for reducing energy consumption and maximising recycling.

Seven years ago saw the commencement of the Government's Carbon Reduction Commitment (CRC) scheme. LCR is registered for CRC and is participating in the scheme. Environmental Permits are held for the Marley and Factory Farm closed landfill sites, which continue to be managed in accordance with the permit requirements. The Group has a commitment to improve continually its performance in matters of the environment.

### **Equality**

LCR is an equal opportunities employer and our range of employment policies and guidelines reflects legal and employment requirements in the UK and safeguards the interests of employees, potential employees, and other workers. We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement regardless of race, nationality, gender, age, marital status, sexual orientation, disability, religious or political beliefs.

### **Slavery**

Modern slavery is a crime and violation of fundamental human rights. LCR has a zero-tolerance approach.

### **Security of Assets**

LCR is committed to the safeguarding of both physical assets and information assets. All staff have been provided with guidance on security of physical assets through the LCR corporate manual and health and safety policies and procedures. LCR's IT policies and procedures provide guidance on the protection of information assets.

## **Directors' Report (continued)**

### **Disclosure of information to the auditor**

Each of the Directors at the date of the approval of the financial statement confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Auditor**

The current contract with KPMG LLP expires on completion of the external audit of this annual report and accounts. Consideration is being given by the Board to the future provision of the external audit service.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'P Hawthorne', with a long, sweeping horizontal line extending to the right.

P Hawthorne  
Company Secretary  
Registered Office: One Kemble Street, London WC2B 4AN

14th July 2017

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## **Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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## **Independent Auditor's report**

### **To the member of London & Continental Railways Limited**

We have audited the financial statements of London & Continental Railways Limited for the year ended 31 March 2017 set out on pages 21 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

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**Independent Auditor's report**  
**To the member of London & Continental Railways Limited**  
**(continued)**

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and Director's Report:

- we have not identified material misstatement in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Richard Kelly (Senior Statutory Auditor)**  
**For and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square, London, E14 5GL

21 July 2017

## **Consolidated Statement of Comprehensive Income**

For the year ended 31 March 2017

	<i>Note</i>	<b>Year ended 31 March 2017 £'000</b>	<b>Year ended 31 March 2016 £'000</b>
<b>Revenue</b>	2	23,414	31,273
Cost of sales		-	(4,298)
<b>Gross profit</b>		23,414	26,975
Administrative expenses		(18,674)	(20,882)
Surplus on revaluation of investment property and inventories	9	19,365	20,371
Profit on disposal of investment property		4,000	3,366
Profit on disposal of investment in associate	11a	-	100,877
Profit on disposal of property assets held for sale	11c	334	1,953
Exceptional operating charge: increase in provisions, obligations, and accruals	3, 17	(14,797)	(3,528)
<b>Operating profit</b>		13,642	129,132
Net financial income	6	689	435
Share of gains of associates	11a	-	48,903
Share of gain / (loss) of joint venture	11c	8,822	33,755
<b>Profit before tax</b>		23,153	212,225
Taxation	7	1,827	(3,243)
<b>Profit for the year</b>		24,980	208,982
<b>Other comprehensive income:</b>			
Share of other comprehensive income from associates			
Items that may subsequently be reclassified to profit or loss			
- Share of associates (cash flow hedge)	11a	-	(971)
- Share of joint venture (interest rate hedge)	11c	121	(142)
<b>Total comprehensive income</b>		25,101	207,869
<b>Profitable attributable to Equity holder of the parent</b>		25,101	207,869

All items of Group income are derived from continuing operations.

The notes on pages 28 to 57 are an integral part of these consolidated financial statements.

LONDON & CONTINENTAL RAILWAYS LIMITED  
COMPANY REGISTRATION NO: 2966054

## Statement of Financial Position – Group

As at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 (Restated- see note 1.18) £'000
<b>Non-current assets</b>			
Property, plant and equipment	8	89	157
Investment property	9	160,358	134,439
Investment in joint venture	11c	34,459	25,182
Other receivables	13	3,487	-
		<u>198,393</u>	<u>159,778</u>
<b>Current assets</b>			
Inventories	12	9	9
Trade and other receivables	13	23,586	132,006
Cash and cash equivalents	14	197,817	234,622
		<u>221,412</u>	<u>366,637</u>
<b>Total assets</b>		<u>419,805</u>	<u>526,415</u>
<b>Current liabilities</b>			
Trade and other payables	15	(24,197)	(21,582)
<b>Non-current liabilities</b>			
Deferred tax liability	7	(5,532)	(5,931)
Provision for liabilities and charges	17	(37,900)	(22,300)
		<u>(43,432)</u>	<u>(28,231)</u>
<b>Total liabilities</b>		<u>(67,629)</u>	<u>(49,813)</u>
<b>Net assets</b>		<u>352,176</u>	<u>476,602</u>
<b>Equity attributable to equity holder of the parent</b>			
Share capital	19	958	958
Share premium	20	47,667	47,667
Capital redemption reserve	21	21,448	21,448
Retained earnings	22	222,930	347,477
Capital Contribution	22	59,194	59,194
Hedge reserve	23	(21)	(142)
<b>Total equity</b>		<u>352,176</u>	<u>476,602</u>

These financial statements were approved by the board of directors on 14th July 2017 and were signed on its behalf by:

P Hawthorne  
Finance Director  
Company Registered Number: 2966054

The notes on pages 28 to 57 are an integral part of these consolidated financial statements.



LONDON & CONTINENTAL RAILWAYS LIMITED  
**COMPANY REGISTRATION NO: 2966054**

## Statement of Changes in Equity – Group

For the year ended 31 March 2017

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Hedge Reserve £'000	Retained Earnings & capital contributions £'000	Total Equity £'000
<b>Balance at 1 April 2015</b>	958	47,667	21,448	(351)	440,319	510,041
<b>Comprehensive income:</b>						
Profit for the year	-	-	-	-	208,982	208,982
Other comprehensive income from associates:						
Movement in fair value of cash flow hedges	-	-	-	(1,113)	-	(1,113)
Hedge adj. re King's Cross	-	-	-	1,322	(1,322)	-
Dividend to parent	-	-	-	-	(365,835)	(365,835)
<b>Total comprehensive net income for the year</b>	-	-	-	209	(158,175)	(157,966)
<b>Balance at 31 March 2016</b>	958	47,667	21,448	(142)	282,144	352,075
Prior year adjustment (See note 1.18)	-	-	-	-	124,527	124,527
<b>Balance at 31 March 2016 including restatement</b>	<b>958</b>	<b>47,667</b>	<b>21,448</b>	<b>(142)</b>	<b>406,671</b>	<b>476,602</b>
Profit for the year					24,980	24,980
Other comprehensive income from associates:						
Movement in fair value of cash flow & interest rate hedges				121		121
Deferred tax on cash flow hedge						
Hedge adj. re: King's Cross						
Dividend to parent					(124,527)	(124,527)
Dividend to parent					(25,000)	(25,000)
<b>Total comprehensive net income for the year</b>	-	-	-	121	(124,547)	(124,426)
<b>Balance at 31 March 2017</b>	958	47,667	21,448	(21)	282,124	352,176

The notes on pages 28 to 57 are an integral part of these consolidated financial statements.

## Statement of Cash Flows – Group

For the year ended 31 March 2017

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Cash flows from operating activities</b>		
Profit for the year	24,980	208,982
Adjustments for:		
Depreciation and amortisation	136	158
Change in value of investment property	(19,365)	(20,371)
Financial income	(689)	(435)
Share of profit of equity-accounted investments	(8,822)	(82,658)
Release of accruals and provisions	(376)	-
Movement in onerous lease provision	15,173	3,528
Gain on sale of investment property	(9,208)	(12,388)
Gain on sale of assets held for resale	(334)	(1,953)
Gain on sale of investment in associate	-	(100,877)
Taxation	(1,827)	3,243
	(332)	(2,771)
Increase in underlying trade and other receivables	(16,107)	(2,997)
Increase in underlying trade and other payables	5,033	2,932
Interest received	1,116	1,514
Tax paid	(614)	(1,193)
<b>Net cash from operating activities</b>	<b>(10,904)</b>	<b>(2,515)</b>
<b>Cash flows from investing activities</b>		
Acquisition of investment property	(20,609)	(4,838)
Sale of investment property and inventory	19,708	82,165
Sale of investment in associate (net proceeds)	-	365,835
Dividend paid to parent	(25,000)	(365,835)
Dividend received from joint venture	-	20,000
Loan repaid from joint venture	-	1,750
<b>Net cash from investing activities</b>	<b>(25,901)</b>	<b>99,077</b>
Increase in cash and cash equivalents	(36,805)	96,562
Cash and cash equivalents at 1 April	234,622	138,060
<b>Cash and cash equivalents at 31 March</b>	<b>197,817</b>	<b>234,622</b>

The notes on pages 28 to 57 are an integral part of these consolidated financial statements.

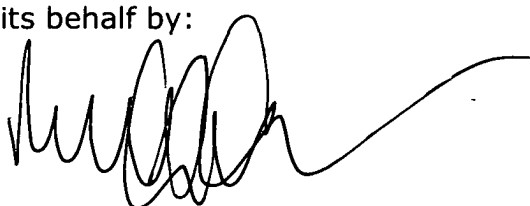
## Statement of Financial Position – Company

As at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 (restated – see note 1.18) £'000
<b>Non-current assets</b>			
Property, plant and equipment	8	89	157
Investment property	10	72,042	48,689
Investments in subsidiaries	11d	30,084	30,084
Receivable from related parties	13	37,613	43,355
Deferred tax asset	7	3,188	1,126
Other receivables	13	3,487	-
		<u>146,503</u>	<u>123,411</u>
<b>Current assets</b>			
Inventories	12	9	9
Trade and other receivables	13	21,914	136,083
Cash and cash equivalents	14	197,817	234,622
		<u>219,740</u>	<u>370,714</u>
<b>Total assets</b>		<u>366,243</u>	<u>494,125</u>
<b>Current liabilities</b>			
Trade and other payables	16	(21,511)	(319,574)
<b>Non-current liabilities</b>			
Deferred tax liability	7	-	-
Provision for liabilities and charges	17	(37,900)	(22,300)
Payable to related parties	16	(13,152)	(14,435)
<b>Total liabilities</b>		<u>(72,563)</u>	<u>(356,309)</u>
<b>Net assets</b>		<u>293,680</u>	<u>137,816</u>
<b>Equity attributable to equity holder of the parent</b>			
Share capital	19	958	958
Share premium	20	47,667	47,667
Capital redemption reserve	21	21,448	21,448
Retained earnings	22	164,413	8,549
Capital Contribution	22	59,194	59,194
<b>Total equity</b>		<u>293,680</u>	<u>137,816</u>

These financial statements were approved by the board of directors on 14th July 2017 and were signed on its behalf by:

P Hawthorne  
 Finance Director



The notes on pages 28 to 57 are an integral part of these financial statements.

## Statement of Changes in Equity – Company

For the year ended 31 March 2017

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Retained Earnings & Capital Contributions £'000	Total Parent Equity £'000
Balance at 1 April 2015	958	47,667	21,448	300,999	371,072
<b>Comprehensive income:</b>					
Profit for the year	-	-	-	303,383	303,383
Dividend to parent	-	-	-	(365,835)	(365,835)
<b>Total comprehensive income for the year</b>	-	-	-	(62,452)	(62,452)
<b>Balance at 31 March 2016</b>	958	47,667	21,448	238,547	308,620
Prior year adjustment : see note 1.18	-	-	-	(170,804)	(170,804)
<b>Balance at 31 March 2016 (Restated – see note 1.18)</b>	958	47,667	21,448	67,743	137,816
<b>Comprehensive income:</b>					
Profit for the year				10,060	10,060
Dividend to parent				(25,000)	(25,000)
Prior year adjustment : see note 1.18				170,804	170,804
<b>Total comprehensive income for the year</b>	-	-	-	155,864	155,864
<b>Balance at 31 March 2017</b>	958	47,667	21,448	223,607	293,680

The notes on pages 28 to 57 are an integral part of these financial statements.

## Statement of Cash Flows – Company

For the year ended 31 March 2017

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 (restated) £'000
<b>Cash flows from operating activities</b>		
Profit for the year	305,391	7,555
<i>Adjustments for:</i>		
Depreciation	136	158
Change in value of investment property	(18,995)	(3,851)
Financial income	(689)	(1,034)
Release of accruals and provisions	(376)	-
Movement in onerous lease provision	15,173	3,528
Dividend received from Joint venture	(20,000)	-
Gain on disposal of investment in associate	(275,331)	-
Gain on disposal of investment property	(9,208)	(12,387)
Taxation	(2,062)	(1,875)
	(5,961)	(7,906)
(Increase) in trade and other receivables	(9,867)	(2,645)
Increase/(Decrease) in trade and other payables	2,226	5,572
Interest received	1,116	1,506
Tax paid	(614)	-
<b>Net cash from operating activities</b>	<b>(13,100)</b>	<b>(3,473)</b>
<b>Cash flows from investing activities</b>		
Acquisition of investment property	(18,413)	(3,880)
Sale of investment property and inventory	19,708	82,165
Sale of investment in associate (net proceeds)	-	365,835
Dividend to DfT	(25,000)	(365,835)
Dividend from joint venture	-	20,000
Loan repaid from joint venture	-	1,750
<b>Net cash from investing activities</b>	<b>(23,705)</b>	<b>100,035</b>
Increase in cash and cash equivalents	(36,805)	96,562
Cash and cash equivalents at 1 April	234,622	138,060
<b>Cash and cash equivalents at 31 March</b>	<b>197,817</b>	<b>234,622</b>

The notes on pages 28 to 57 are an integral part of these financial statements.

## Accounting Policies

### **1. *Reporting entity and basis of preparation***

London & Continental Railways Limited (the "Company") is a private company incorporated, registered, and domiciled in the United Kingdom. The registered number is 2966054 and the registered address is included on Page 1.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"), and equity account for the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

As permitted under IFRS 1, upon its transition to IFRS the Group elected to use the previous UK Generally Accepted Accounting Practice ("UKGAAP") valuation as the deemed cost for all property, plant and equipment.

### ***Impact of standards and interpretations in issue, but not effective***

The following adopted IFRSs, amendments to standards and interpretations have been issued, but have not been applied by the Group in these consolidated financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

#### **Standards**

IFRS 9 Financial Instruments. Effective 1 January 2018.

IFRS 15 Revenue from Contracts with Customers. Effective 1 January 2018.

IFRS 16 Leases. Effective 1 January 2019.

#### **Amendments**

Amendments to IAS 7: Disclosure Initiative. Effective 1 January 2017.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses. Effective 1 January 2017.

Annual Improvements to IFRS 2014-2016 Cycle. Effective 1 January 2018.

Amendments to IAS 40: Transfers of Investment Property. Effective 1 January 2018.

It is not expected that these standards or amendments will have a significant impact on the Group.

The Group has not early-adopted any standard, amendment or interpretation. None of the above have yet been endorsed by the EU.

## **Accounting Policies (continued)**

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

### **1.1. Basis of measurement**

The financial statements are prepared on the historical cost basis except that investment property is stated at fair value.

### **1.2. Going concern**

The financial statements are prepared on a going concern basis, in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain non-current assets. The Directors have carried out a review of the LCR business plan at the Board meeting in November 2016 and are satisfied that these accounts be prepared on a going concern basis. The Directors also consider the going concern basis to be appropriate because the Group has adequate cash reserves to settle its obligations.

### **1.3. Basis of consolidation**

The Company uses IFRS 10, 11, and 12.

#### *Subsidiaries*

The Group's accounting policy for determining whether it has control over and consequently whether it consolidates its investees follows IFRS 10. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees at 1 January 2014. No modifications of previous conclusions about control regarding the Group's investees were required.

#### *Joint Arrangements*

Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

No modifications of previous conclusions about joint arrangements were required.

#### *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50 % of the voting power of another entity. The consolidated financial statements include the Group's share of the total comprehensive

## **Accounting Policies (continued)**

income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases.

### **1.4. Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Plant and equipment                      3 years
- Fixtures and fittings                      5 years

### **1.5. Investment property**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value.

The investment property portfolio is externally valued on an open market basis each year by independent valuers in accordance with the RICS regulations. The valuations are prepared by considering the value in existing use together with the value to be derived from planned developments, discounted to reflect inherent risks, and taking into account where appropriate net rental yields and development and other costs.

Occasionally, investment property may be valued internally by management. These valuations are undertaken through management's knowledge of the property and compared to movements in the valuation of similar assets.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in the revenue accounting policy (note 1.14).

### **1.6. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

### **1.7. Trade and other receivables**

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.



## **Accounting Policies (continued)**

Cash collected on the Company's behalf by property managing agents has been accounted for within trade and other receivables as cash held by third parties.

### **1.8. Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Deposits placed for a fixed term of more than one year are classified as other financial assets.

### **1.9. Trade and other payables**

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

### **1.10. Acquisitions and disposals of non-controlling interests**

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

### **1.11. Impairment excluding inventories, investment properties and deferred tax assets**

#### *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

## **Accounting Policies (continued)**

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the Income statement.

### **1.12. Employee benefits**

#### *Defined benefit pension*

All the Group's employees are eligible to participate in the retirement and death benefits scheme which are provided for by payments to a section of the Railways Pension Scheme (RPS), a shared-cost defined benefit scheme. Contributions to the Scheme are paid in accordance with the Scheme's rules. Contributions to the scheme are expensed as incurred (as would be the case with a defined contribution scheme) because the assets of the shared-cost scheme cannot be separated between employers.

#### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### **1.13. Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

### **1.14. Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Property sales*

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent there are significant uncertainties regarding recovery of the consideration due or associated costs.

#### *Rental income*

Rental income from operating leases and investment properties is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided

## **Accounting Policies (continued)**

to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

### **1.15. Expenses**

#### *Operating lease payments*

Payments made under operating leases are recognised in the income statements on a straight-line basis over the term of the lease.

#### *Financing income and expenses*

Financing income comprises interest receivable on funds invested and dividend income. Financing expenses comprise interest payable. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

#### *Administrative expenses and Cost of sales*

Administrative expenses and cost of sales are accounted for on an accruals basis.

### **1.16. Taxation**

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### **1.17. Government Grants**

The Group receives government grants related to the refurbishment of a number of buildings at RTC Derby. Government grants are recognised when it is reasonably certain

## Accounting Policies (continued)

that the conditions related to receiving the grants have been met or will be met and that the grants have been or will be received. Grants contributing to the cost of an asset are deducted from the asset's cost and reflected in the depreciation throughout the useful life of the asset.

### 1.18. *Prior Year Adjustment*

During the 2015/16 financial year, London & Continental Railway (LCR) paid a dividend of £365.8m on 5<sup>th</sup> February 2016 to the DfT relating to the proceeds generated from the disposal of the Group's interest in the joint venture at King's Cross. The Group's interest in King's Cross was held through 2 subsidiary companies (KXC (LCR) GP Investment Ltd and KXC (LCR) LP Investment Ltd). The Company accounts assumed that the proceeds had been transferred to LCR by way of 2 dividends. These dividends were not in fact declared until January 2017. This meant that the LCR company did not have enough distributable reserves to legally declare the dividend to the DfT. The deficit in the LCR company distributable reserves was £124.5m. A prior year adjustment has been made in the 15/16 Group accounts to treat £124.5m of the dividend as a receivable amount from DfT. An interim dividend of £124.5m has been declared during the 2016/17 financial year to regularise the legal position for the LCR Group with this dividend being recognised during the 2016/17 financial year.

The prior year adjustment to the Consolidated Accounts for the year ended 31 March 2016 is summarised in the table below:

	<b>£'000</b>
<b>Consolidated Net Assets as at 31 March 2016 (per filed accounts)</b>	<b>352,075</b>
Prior year adjustment : Receivable amount from DfT	124,527
<b>Consolidated Net Assets as at 31 March 2016 (Restated)</b>	<b>476,602</b>

The prior year adjustment reduced dividends payable to parent in the SOCIE by £124.5m and a receivable of £124.5m was recorded in the Statement of Financial Position. This had no effect on the LCR Consolidated Statement of Income for the 2015/16 year.

The LCR Company accounts have also been adjusted to reflect the receivable amount due from DfT referred to above.

The LCR company accounts for the year ended 31 March 2016 that were filed included dividends receivable from subsidiary companies totalling £300,582k. These dividends had not been declared during the 2015/16 financial year.

As a result, a prior year adjustment has been booked to remove the dividend income from the LCR Income Statement for the year to 31 March 2016 and to record a payable balance of £300,582k to its subsidiaries at 31 March 2016. A partially offsetting debtor of £5,251k has been booked in the 15/16 accounts. This relates to the advisor costs for the King's Cross sale that are to be recovered from the DfT through the dividend declared in the 16/17 year. An amount receivable from DfT of £5,251k was booked in the Statement of Financial Position at 31 March 2016, and the profit on disposal of LCR's share in KXC was reduced by £5,251k in the Statement of Comprehensive Income for the year to 31 March 2016.

## **Accounting Policies (continued)**

The subsidiary dividends have been declared in the 2016/17 year, with the dividend income being accounted for in the LCR Income Statement for the 2016/17 financial year. The prior year adjustments to the LCR Company Accounts for the year ended 31 March 2016 are summarised in the table below:

	<b>£'000</b>
<b>Company Net Assets as at 31 March 2016 (per filed accounts)</b>	<b>308,620</b>
Prior year adjustment :	
Prepaid element of the dividend to the DfT	124,527
Removal of subsidiary dividends that had not been declared in the 15/16 year	(300,582)
Disposal costs from sale of KXC to be recovered in 16/17	5,251
<b>Company Net Assets as at 31 March 2016 (Restated)</b>	<b>137,816</b>
<b>Company Profit after tax for the year ended 31 March 2016 (per filed accounts)</b>	<b>303,383</b>
Prior year adjustment :	
Removal of subsidiary dividends that had not been declared in the 15/16 year	(300,582)
Disposal costs from sale of KXC to be recovered in 16/17	5,251
<b>Company Profit after tax for the year ended 31 March 2016 (restated)</b>	<b>8,052</b>

### **1.19. Critical Accounting Policies**

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies, which are described in note 29, and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The key source of estimation and uncertainty is property valuations.

The fair value of the investment property is typically determined by an independent real estate valuation expert primarily using comparable recent market transactions on arm's length terms. Note 9 provides further details on the judgements and assumptions made.

## Notes to the Financial Statements

### 2. Revenue

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Property sales (inventory)	5,208	13,319
Investment property rentals and sundry income	18,206	17,954
<b>Total revenues</b>	<b>23,414</b>	<b>31,273</b>

### 3. Expenses and auditor's remuneration

*Included in operating results are the following:*

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Onerous lease provision P&L movement (Note 17)	(15,173)	(3,528)
Exceptional income – release of ex-HS1 property obligations	376	-
Depreciation	(136)	(158)

#### *Auditor's remuneration:*

Audit of these financial statements	46	45
Audit of financial statements of subsidiaries of the Company	10	10
Audit of Whole of Government Accounting	3	3
	<b>59</b>	<b>58</b>

### 4. Staff numbers and costs

The average number of persons employed by the Group including executive directors (but excluding non-executive directors) during the year, analysed by category, was as follows:

	Year ended 31 March 2017	Year ended 31 March 2016
Property management and corporate	38	36

The aggregate payroll costs of these persons were as follows (Group and Company):

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Wages and salaries	3,334	3,031
Social security costs	346	377
Expenses related to defined benefit plans	574	305
Other staff costs	436	410
	<b>4,690</b>	<b>4,123</b>

## Notes to the Financial Statements (continued)

### 5. *Directors' remuneration*

	Year ended 31 March 2017	Year ended 31 March 2016
	£	£
Directors' emoluments	612,849	608,164
Company contributions to defined benefit pension plans	45,286	43,707
Amounts paid to third party in respect of director's services	35,000	35,000
	<u>693,135</u>	<u>686,871</u>

The emoluments of the highest paid director are £319k (2016: £316k).

	Number of Directors 31 March 2017	31 March 2016
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>2</u>	<u>2</u>

The sum of accrued annual pension for the 2 directors was £21k (2016: £16k), as at 31 March 2017 (accrued lump sum: £19k (2016 : £15k)).

### 6. *Net Finance Income*

#### Recognised in the income statement

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Interest income on unimpaired financial assets, comprising cash and cash equivalents	1,116	907
Less:		
Unwinding of discount on provisions (Note 17)	<u>(427)</u>	<u>(472)</u>
Total finance income	<u>689</u>	<u>435</u>

## Notes to the Financial Statements (continued)

### 7. Taxation

#### Recognised in the income statement

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Current tax</b>		
Current year (credit)/charge	(1,428)	3,003
<b>Deferred tax</b>	(399)	240
<b>Total tax (credit)/charge for the year</b>	<b>(1,827)</b>	<b>3,243</b>

#### Reconciliation of effective tax rate

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Profit before taxation	23,153	212,225
Tax using the UK corporation tax rate of 20% (2016: 20%)	4,631	42,445
Effects of:		
(Utilisation) of tax losses	1,558	(24,092)
(Non-taxable income)	(3,697)	(340)
Share of gains of associates and joint venture not subject to tax in LCR	(1,831)	(16,532)
Trading profits of KXCLP allocable to LCR for tax purposes	-	2,032
Prior year adjustment	(2,159)	389
Change in tax rate	(329)	(659)
<b>Total tax (credit) / charge for the year</b>	<b>(1,827)</b>	<b>3,243</b>

#### Deferred tax assets and liabilities – Group and Company

The deferred tax liabilities / (assets) recognised at the current balance sheet date, and the movement thereon during the year, are as follows:

	Investment property £'000	Inventory £'000	Onerous lease provision £'000	Total £'000
<b>Group</b>				
At 1 April 2016	9,945	-	(4,014)	5,931
Charge / (credit) to income	2,030	-	(2,429)	(399)
At 31 March 2017	11,975	-	(6,443)	5,532
<b>Company</b>				
At 1 April 2016	2,888	-	(4,014)	(1,126)
(Credit) to income	367	-	(2,429)	(2,062)
At 31 March 2017	3,255	-	(6,443)	(3,188)



## Notes to the Financial Statements (continued)

The Company has an unrecognised deferred tax asset of approximately £123 million (2016: £131m), arising from significant accumulated losses which have the potential to offset future profits of the Group, which has not been recognised due to uncertainty over the timing of future loss utilisation.

The Finance Act 2016 which reduced the UK corporation tax rate to 17%, effective 1 April 2020 was substantively enacted on 6 September 2016. This has reduced the unrecognised deferred tax asset by approximately £7 million at 31 March 2017.

### 8. *Property, plant and equipment – Group and Company*

	<b>Plant and Equipment £'000</b>
<b>Cost</b>	
Balance at 31 March 2016	521
Additions	11
<b>Balance as at 31 March 2017</b>	<u>532</u>
<b>Depreciation and impairment</b>	
At 31 March 2016	(364)
Depreciation charge for the year	(79)
<b>Balance as at 31 March 2017</b>	<u>(443)</u>
<b>Net book value</b>	
<b>At 31 March 2017</b>	<u>89</u>
At 31 March 2016	<u>157</u>

Property, plant and equipment has not been subject to impairment or reversal of impairment.

### 9. *Investment property – Group*

	<b>Investment Property £'000</b>
Balance at 31 March 2016	134,439
Additions	34,083
Disposals	(23,985)
Transfer to Other receivable	(3,487)
Amortisation	(57)
Surplus on revaluation	19,365
<b>Balance at 31 March 2017</b>	<u>160,358</u>

## **Notes to the Financial Statements (continued)**

Most of the Group's investment property is valued at each accounting date by the Group's independent valuers, principally GL Hearn, GVA, Sanderson Weatherall, Deloitte, Cushman & Wakefield and Lambert Smith Hampton, in accordance with 'The RICS Valuation- Professional Standards (2012)'. Valuations are undertaken on the basis of the market value of each site, taking into account where appropriate the current use and planning conditions. As at 31 March 2017, Group investment property totalling £1,100k in Bedford (31 March 2016, £ 13,485k in Drummond Crescent) was valued internally by management. This valuation was made by applying comparative rates of increase in the valuation of the similar assets within the Group and using IPD Index information from outside the Group.

IFRS 13 requires enhanced disclosures about assets and liabilities that are measured and reported at fair value and establishes a hierarchical disclosure framework which prioritises and ranks the level of market price observability used in measuring investments at fair value. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The Group has concluded that the investment properties should be categorised as Level 3 fair value based on the inputs to the valuation technique used.

Transfers between levels are deemed to have occurred on the date of the event or the change in circumstance that caused the transfer. There was no movement or transfer between level 1, level 2, level 3 investments during the year ended 31 March 2017 (2016: none).

The Group receives government grants related to the improvement works at RTC Derby. Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have been met or will be met and that the grants have been or will be received. Grants contributing to the cost of an asset are deducted from the asset's cost and reflected in the depreciation throughout the useful life of the asset.

### ***Valuation technique and significant unobservable inputs***

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

## Notes to the Financial Statements (continued)

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Redbook valuation in accordance with the 'RICS Valuation – Professional Standards (2012)	Void periods (0 to 24 months) Occupancy rate (0 to 100%) Rent-free periods (0 to 24 months) Initial yield (4 to 13%) Level of affordable housing (0 to 35%)	The estimated fair value would increase (decrease) if : Void periods were shorter (longer); The occupancy rate were higher (lower); Rent-free periods were shorter (longer); or The initial yield was lower (higher). The level of affordable housing was lower (higher).

### 10. Investment property - Company

	<b>Investment Property £'000</b>
Balance at 31 March 2016	48,689
Additions	31,974
Disposals	(23,985)
Amortisation	(57)
Surplus on revaluation	18,908
Transfer to Other receivables	(3,487)
<b>Balance at 31 March 2017</b>	<b>72,042</b>

Investment property is valued at each accounting date by the Group's independent valuers, principally GL Hearn, GVA, and Lambert Smith Hampton, in accordance with 'The RICS Valuation – Professional Standards (2012)'. Valuations are undertaken on the basis of the market value of each site, taking into account where appropriate the current use and planning conditions.

Company investment properties are valued using the same techniques as disclosed for Group in note 9. They are all level 3 assets under IFRS 13.

The Company receives government grants related to the improvement works at RTC Derby. Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have been met or will be met and that the grants have been or will be received. Grants contributing to the cost of an asset are deducted from the asset's cost and reflected in the depreciation throughout the useful life of the asset.

## Notes to the Financial Statements (continued)

### 11. Investments in subsidiaries, associates and jointly controlled entities

The Group and Company have the following main investments in subsidiaries, associates and jointly controlled entities, which are directly and indirectly held:

	Class of shares held	Ownership	
		31 March 2017	31 March 2016
<b>Group:</b>			
Stratford City Business District Limited <sup>1</sup>	Ordinary	50%	50%
LCR St Pancras Chambers Ltd <sup>2</sup>	Ordinary	100%	100%
Mayfield Partnership Ltd <sup>2</sup>	Ordinary	33.3%	33.3%
Whittles Properties Brunel Ltd <sup>2</sup>	Ordinary	100%	100%
Whittles Properties Croydon Ltd <sup>2</sup>	Ordinary	100%	100%
Whittles Properties Manchester Ltd <sup>2</sup>	Ordinary	100%	100%
RTC Regeneration 2015 Ltd <sup>2</sup>	Ordinary	100%	100%
Mayfield Partnership(General Partner) Ltd <sup>3</sup>	Ordinary	33.3%	-
Mayfield Partnership Limited Partnership <sup>3</sup>	Partnership	33.3%	-

The registered offices are as follows :

<sup>1</sup> 20 Triton Street, Regent's Place, London NW1 3BF

<sup>2</sup> One Kemble Street, London WC2B 4AN

<sup>3</sup> 3 Melville Street, Edinburgh, Scotland EH3 7PE

#### Company:

The Company's interest in the Stratford City Business District Joint Venture is held via a 100% interest in subsidiary companies LCR Stratford GP Limited and LCR Stratford LP Limited, which in turn hold 100% of LCR Stratford Limited Partnership, which has a 50% holding in Stratford City Business District Limited.

All investment entities are incorporated or registered in England & Wales, with the exception of Mayfield Partnership (General Partnership) Ltd which is incorporated in Scotland and Mayfield Partnership Limited Partnership which is registered in Scotland.

The Company's cost of investments is set out in note 11(d).

The Mayfield Partnership Limited Partnership was formed in December 2016 between LCR, Manchester City Council and Transport for Great Manchester. LCR and its partners have subsequently entered in to a further partnership with U+I, as the private sector development partner, to redevelop the Mayfield area.

## Notes to the Financial Statements (continued)

### 11(a) Carrying values of investments in associates - Group

	Interest in associate: King's Cross	Loans to associate: King's Cross	Total Investment in Associates
	£'000	£'000	£'000
<b>Balance as at 31 March 2015</b>	<b>197,394</b>	<b>19,632</b>	<b>217,026</b>
Total share of results of associates:			
Share of operating profits after tax	48,903	-	48,903
Other Comprehensive Income items of associates:			
IAS 39 fair value adjustment	(9,688)	9,688	-
Movement in fair value of cash flow hedges	(971)	-	(971)
Sub-total	235,638	29,320	264,958
Sale of 36.5% stake in King's Cross	(235,638)	(29,320)	(264,958)
<b>Balance at 31 March 2016 &amp; 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

Loans to the King's Cross Partnership are set out in note 13.

The LCR Group profit on the disposal of its interest in King's Cross in 15/16 is as follows:-

	Investment Property £'000
Sales proceeds	371,086
Disposal costs	(5,251)
Net proceeds	365,835
Carrying value	(264,958)
Profit on disposal of investment in associate	100,877

The net proceeds of £365,835k have been paid as a dividend to LCR's sole shareholder, the DfT.

## Notes to the Financial Statements (continued)

### 11(b) *Associate: King's Cross Central Limited Partnership (KXCLP)*

The total investment in KXCLP, including loan advances, was recognised as an associate of LCR, by virtue of its 36.5% partnership interest, up to 22nd January 2016 when it was sold to Australian Super for £371.1m, including £28.7m for the loans.

The Group's interest in KXCLP was held through units in the King's Cross Central Property Trust, a property unit trust established in Jersey, which owns the King's Cross Central Limited Partnership. KXCLP is a UK registered partnership. (KXCLP's principal activity is the redevelopment of lands at King's Cross as a partnering arrangement).

Loans to the King's Cross Partnership were classified as receivables in the Company's balance sheet up to 22nd January 2016 (as set out in note 13) when they were sold. They were classified as investments by the Group as shown in note 11(a).

The LCR Group's share of total recognised profit falling in the year to 31 March 2016, and the aggregate assets and liabilities of KXCLP stated at fair value as at 22 January 2016, are set out below:

Share of KXCLP results:

	<b>Period ended 22 January 2016 £'000</b>
Gain / (loss) after tax attributable to partners, including share of fair value movements in investment property	48,903
'Other comprehensive income' – movement in fair value of cash flow hedge	(971)
Overall impact of KXCLP results	<u>47,932</u>

The profits arising in KXCLP in 2015/16 were generated principally from the revaluation of investment properties held by the Partnership.

Summary financial information on the KXCLP Partnership, adopting fair value of investment properties – 100 per cent:

	<b>22 January 2016 £'000</b>
Revenue	201,721
Profit from continuing operations	133,982
Other comprehensive Loss	(2,660)
Tax	-
Total comprehensive Income	<u>131,322</u>

	<b>22 January 2016 £'000</b>
Current Assets	364,515
Non-current assets	978,873
Current liabilities	(59,979)
Non-current liabilities	(454,882)
Net assets	<u>828,527</u>

## Notes to the Financial Statements (continued)

### 11(c) *Carrying value of investments in jointly controlled entities (JV) – Group*

<b>Cost:</b>	<b>JV: Stratford City £'000</b>
At 31 March 2016	25,182
Share of operating profit	8,822
Share of interest rate hedge movement	121
Release of profit on land sold	334
<b>At 31 March 2017</b>	<b>34,459</b>

### Joint Venture: Stratford City Business District Limited (SCBDL)

SCBDL is considered to be a jointly controlled entity because the Group owns 50% of the company, and it shares equally in the strategy and decision-making of SCBDL. SCBDL's principal activity is the redevelopment of lands at Stratford, East London, as a joint venture arrangement between LCR and Lend Lease Europe Limited.

Since SCBDL's accounting reference date is 30 June annually (Lend Lease Europe Limited's year end date), a share of internally-reported results is included in these accounts for the period to 31 March. The LCR Group's share of total recognised profit or loss, and the aggregate assets and liabilities of SCBDL, are set out below:

Share of SCBDL results:

	<b>Year ended 31 March 2017 £'000</b>	<b>Year ended 31 March 2016 £'000</b>
Share of operating profit / (loss) after tax and non-operating costs	8,822	33,755

Summary financial information on JV SCBDL – 100 per cent:

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Revenue	368,131	245,014
Profit / Loss from continuing operations <sup>1</sup>	17,644	67,510
Total comprehensive Income	17,886	67,226
	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
Current Assets	261,283	248,888
Non-current assets	5,777	432
Current liabilities	(73,792)	(58,515)
Non-current liabilities	(103,444)	(137,714)
Net assets (including new share issues)	89,824	53,091

<sup>1</sup> Includes: - Depreciation and amortisation of £1,407,921  
- Interest expense (net of interest income) of £6,976,510

## Notes to the Financial Statements (continued)

Included in LCR's balance sheet at 31 March 2017 as an 'asset held for sale' at £1 is a reversionary interest in land whose title transferred to SCBDL in March 2013 but which remains subject to a restrictive charge in favour of LCR. Sale of land parcels will only be recognised by LCR as and when drawn-down and paid by SCBDL for use in the JV (see also note 27). SCBDL has until 2024 to exercise the draw-down and payment of part or all of the land.

The Company previously recognised the sale of land to SCBDL in 2011 for £7 million generating a profit of £7 million, and this sum was adjusted by a further sale of £966,000 during the 12/13 year upon title transfer, generating a further profit of £966,000. From a Group perspective 50% of all such profit is deferred as remaining within the Group, and is being recognised by the Group upon the onward sale of plots by SCBDL. Profit of £483,000 was deferred by the Group in 2012/13; and profits of £700,000 were released in the year 2013/14, £574,000 in 2014/15, £1,953,000 in 2015/16 and £334,000 in 2016/17 in respect of external sales by SCBDL.

**Group: sale of assets held for sale:**

	<b>Year ended 31 March 2017 £'000</b>	<b>Year ended 31 March 2016 £'000</b>
Release / (deferral) of profit on land sold to SCBDL JV	334	1,953
Profit on disposal of property	334	1,953

### 11(d) **Cost of investments – Company's subsidiaries (100% ownership)**

Following the abolition of BRB (Residuary) Ltd (BRBR), the ownership of Whittles Properties Trent & Derwent Ltd, Whittles Properties Brunel Ltd, Whittles Properties Croydon Ltd and Whittles Properties Manchester Ltd (collectively known as 'Whittles Entities') were transferred to the Company.

The Whittles Entities were transferred at the fair value of net assets at the transfer date of 30 September 2013 and had a value of £30m. The carrying value as at 31 March 2017 has remained unchanged at £30m as shown below:

	<b>RTC Regeneration 2015<sup>2</sup> £'000</b>	<b>Whittles Brunel £'000</b>	<b>Whittles Croydon £'000</b>	<b>Whittles Manchester £'000</b>	<b>Total Investments £'000</b>
Balance as at 31 March 2016					
and at 31 March 2017	17,659	2,353	750	9,322	30,084

<sup>2</sup> Whittles Trent & Derwent Ltd changed its name to RTC Regeneration 2015 Ltd on 1<sup>st</sup> April 2015



## Notes to the Financial Statements (continued)

### 12. Inventories – Group and Company

	31 March 2017 £'000	31 March 2016 £'000
Opening balance	9	4,307
Disposals	-	(4,298)
Closing balance	9	9

Included within inventories is £9k (2016: £9k) expected to be recovered in more than 12 months. The value of land held for development and sale that was taken to 'cost of sales' in the year amounted to £nil (2016: £4,298k).

### 13. Trade and other receivables

	31 March 2017 £'000	31 March 2016 (restated – see note 1.18) £'000
<b>Group:</b>		
Trade receivables	19,597	3,026
Cash held by third parties	3,123	4,174
Other trade receivables, prepayments, and accrued income	866	124,806
Other Receivables	3,487	-
	27,073	132,006
Less non-current proportion of receivables	(3,487)	-
	23,586	132,006

	31 March 2017 £'000	31 March 2016 (restated – see note 1.18) £'000
<b>Company:</b>		
Trade receivables	18,440	1,852
Cash held by third parties	3,123	4,174
Receivables due from related parties	37,613	43,355
Other trade receivables, prepayments, and accrued income	351	130,057
Other Receivables	3,487	-
	63,014	179,438
Less: non-current proportion of receivables	(41,100)	(43,355)
Current receivables	21,914	136,083

## Notes to the Financial Statements (continued)

The Company's non-current receivables comprise the following loans and receivables with related parties:

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
KXC (LCR) LP Investment Limited	134	2,109
LCR Stratford Limited Partnership	9,466	9,466
Mayfield Partnership Limited Partnership	3,487	-
Whittles property companies	28,013	31,780
	<u>41,100</u>	<u>43,355</u>

Loans to KXCLP to form the King's Cross partnership arrangements were substantially long-term in nature and were classified as investments for Group accounts, as set out in note 11a. The loans to KXCLP were sold to Australian Super on 22nd January 2016. An amount of £59.5m of the long term loans of £61.5 million to the subsidiary company KXC (LCR) LP Investments Limited were repaid following the sale of the subsidiary's interest in King's Cross.

Non-current receivables include project costs of £3,487k (Group and Company) which are recoverable from the Mayfield Partnership Limited Partnership.

### 14. *Cash and cash equivalents*

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
<b>Group and Company:</b>		
Cash and cash equivalents per balance sheet	<u>197,817</u>	<u>234,622</u>

### 15. *Trade and other payables*

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
<b>Group - Current:</b>		
Trade payables	1,701	2,540
Other trade payables	7,159	8,820
Corporation tax payable	1,197	1,810
Non-trade payables, accrued expenses and deferred income	14,140	8,412
	<u>24,197</u>	<u>21,582</u>

## Notes to the Financial Statements (continued)

### 16. Trade and other payables

	<b>31 March 2016 (Restated – see note 1.18)</b>	<b>31 March 2017 £'000</b>
<b>Company - Current:</b>		
Trade payables	2,366	3,339
Other trade payables	8,820	6,479
Non-trade payables, accrued expenses and deferred income	7,806	11,693
Payables due to related parties	300,582	-
	<b>319,574</b>	<b>21,511</b>
<b>Company – Non-current:</b>		
Payables due to related parties	14,435	13,152

The Company's current payables comprise the following balances with related parties:

	<b>31 March 2016 (Restated – see note 1.18)</b>	<b>31 March 2017 £'000</b>
KXC (LCR) LP Investment Limited	280,336	-
KXC (LCR) GP Investment Limited	246	-
LCR Stratford LP Limited	20,000	-
	<b>300,582</b>	<b>-</b>

**Notes to the Financial Statements (continued)****17. Provision for liabilities and charges – Group and Company**

	<b>Onerous Lease £'000</b>
<b>Balance as at 31 March 2015</b>	18,300
Charged to the Income Statement	3,230
Utilised in the year	298
Unwinding of discount rate	472
<b>Balance as at 31 March 2016</b>	22,300
Charged to the Income Statement	14,650
Utilised in the year	523
Unwinding of discount rate	427
<b>Balance as at 31 March 2017</b>	<u>37,900</u>

The property portfolio includes a leased administration building with on-going contractual liabilities expiring in 2098. Forecast cash flows have been produced for the building based on external valuations and discounted using appropriate Government gilt rates in line with IAS 37. Factors considered include the outcome of rent reviews, refurbishment costs, dilapidations and, in particular, the ability to sub-let these properties. No provision is made for management expenses and day to day administration costs. The movement in discount rate reflects changes in gilt rates during the period.

The increase in the year is driven by a reduction in the Government gilt rate (£9m), and an increase in the level of refurbishments expected to be undertaken in 2021 (£5m).

**18. Employee benefits**

The Group's pension arrangements are provided by a section of the Railways Pension Scheme, which all employees are eligible to join.

**Railways Pension Scheme**

The Group is a member of the British Rail Shared Cost section of the Railways Pension Scheme (RPS), having transferred-in the assets and accrued rights relating to LCR staff and those of its former subsidiary Channel Tunnel Rail Link Limited ('CTRLL') in 2011. The Group has no reliable and consistent method to identify its share of the assets and liabilities of the defined benefit pension scheme in which it participates, and accordingly its defined benefit pension costs are accounted for on a defined contribution payment basis.

The Group's RPS contributions are charged to the profit and loss account as incurred and for the year were £305,000 (2016: £269,000). All contributions were fully paid up at 31 March 2017 and 31 March 2016.

## Notes to the Financial Statements (continued)

### 19. *Share capital – Group and Company*

	<b>31 March 2017 £</b>	<b>31 March 2016 £</b>
3,831,983 Ordinary shares of 25 pence each	<u>957,996</u>	<u>957,996</u>

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company.

### 20. *Share premium – Group and Company*

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
At beginning and end of year	<u>47,667</u>	<u>47,667</u>

### 21. *Capital redemption reserve – Group and Company*

	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
At beginning and end of year	<u>21,448</u>	<u>21,448</u>

## Notes to the Financial Statements (continued)

### 22. *Retained earnings and capital contribution*

<b>Group:</b>	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
At 1 April	406,671	440,319
Profit for year	24,980	208,982
Other comprehensive income of Associate:		
Dividend to parent	(149,527)	(365,835)
Hedge adjustment re: King's Cross	-	(1,322)
<b>At 31 March</b>	<b>282,124</b>	<b>282,144</b>
Prior year adjustment : see note 1.18	-	124,527
<b>At 31 March (restated)</b>	<b>282,124</b>	<b>406,671</b>

<b>Company:</b>	<b>31 March 2017 £'000</b>	<b>31 March 2016 (restated - see note 1.18) £'000</b>
At 1 April	67,743	300,999
Profit for year	305,391	303,383
Dividend to parent – King's Cross	(124,527)	(365,835)
Dividend to parent – Current year	(25,000)	-
<b>At 31 March</b>	<b>223,607</b>	<b>238,547</b>
Prior year adjustment – see note 1.18	-	(170,804)
<b>At 31 March (Restated)</b>	<b>223,607</b>	<b>67,743</b>

### **Capital introduced by parent**

BRB (Residuary) Limited was abolished under the Public Bodies Act 2011 on 30 September 2013. Net assets with a fair value of £59.2m were transferred to LCR. This transaction has been treated as a capital contribution of £59.2m within the financial statements.

## Notes to the Financial Statements (continued)

### 23. *Hedge reserve*

<b>Group:</b>	<b>31 March 2017 £'000</b>	<b>31 March 2016 £'000</b>
At 1 April	142	351
Other comprehensive income of Associates:		
KXCLP hedge provision	-	971
SCBDL hedge provision	(121)	142
Sale of 36.5% stake in King's Cross	-	(1,322)
<b>At 31 March</b>	<b>21</b>	<b>142</b>

### 24. *Financial instruments – Group and Company*

#### 24(a) *Fair values of financial instruments*

##### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market rate of interest at the balance sheet date, if the effect of discounting is considered to be material.

##### *Trade and other payables*

The fair value of trade and other payables is estimated as the present value of future cash flows discounted at the market rate of interest at the balance sheet date, if the effect of discounting is considered to be material.

##### *Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

The fair values of the Group's financial assets and financial liabilities are not materially different to their carrying values.

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## Notes to the Financial Statements (continued)

### 24(b) **Credit Risk**

#### *Financial risk management and credit quality*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash investments.

Trade receivables at 31 March 2017 do not pose a material credit risk to the Group.

Cash in hand at 31 March 2017 is £197.8m. Such balances are invested in highly-rated listed debt securities and bank deposits. There is not considered to be a material credit risk.

### 24(c) **Liquidity Risk**

#### *Financial risk management*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk is low as the Group has an excess of cash reserves over obligations. The adequacy of the Group's funding reserve is reviewed by the Board on a regular basis. Trade and other payables are all less than one year.

### 24(d) **Market Risk**

#### *Financial risk management*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The Group is exposed to market risk only in respect of interest rate risk on its cash reserves, which vary with market rates. No interest rate hedging is considered appropriate. The Group has no interest-bearing borrowings.

### 24(e) **Capital management**

The capital structure of the group consists entirely of shareholder's equity, with no external borrowings.

It is not anticipated that the Group will require external borrowings for the foreseeable future, due to its cash reserves. The Group does not have a credit rating and is wholly owned by the UK Government.



## Notes to the Financial Statements (continued)

### 25. *Operating Leases – Group & Company*

#### (a) Operating lease commitments – Group as lessee

The Group pays head rent on office premises under a non-cancellable operating lease agreement.

The Company's property portfolio includes a leased administration building with on-going contractual liabilities expiring at various dates between 2017 and 2098. The Company has adopted a net basis of presentation in respect of this lease and the net liabilities arising from this arrangement, being akin to an onerous contract provision, have been included in provisions for other liabilities and charges.

The future aggregate minimum lease payments under this non-cancellable operating lease are as follows:

	<b>31 March 2017 £m</b>	<b>31 March 2016 £m</b>
Due for repayment within 1 year	2	2
Between 1 and 2 years	2	2
Between 2 and 5 years	6	6
In 5 years or more	480	494
<b>Total</b>	<b>490</b>	<b>504</b>

#### (b) Operating lease receipts – Group as lessor

The Group receives rental income on several office premises under non-cancellable operating lease agreements.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	<b>31 March 2017 £m</b>	<b>31 March 2016 £m</b>
Due to be received within 1 year	11	9
Between 1 and 2 years	10	8
Between 2 and 5 years	24	21
In 5 years or more	16	21
<b>Total</b>	<b>61</b>	<b>59</b>

## **Notes to the Financial Statements (continued)**

### **26. Commitments and contingencies – Group and Company**

#### *Capital commitments*

The Group has no contracted capital commitments at 31 March 2017 (2016: £nil).

#### *Contingencies*

The Group is from time to time party to or affected by legal proceedings and claims and enters into guarantees, financing arrangements and commitments which are in the ordinary course of business, including claims by residents close to HS1 for disturbance and loss of property value arising since the opening of the HS1; the obligation for such claims was transferred to the Company in 2008. It is not possible to predict with certainty the results of these claims, but the Directors, taking into account counter-claims, claims against third parties, provisions in the accounts, and having due regard to professional advice, do not anticipate that the outcome of these proceedings, claims, guarantees, financing arrangements and commitments, either individually or in aggregate, will have a materially adverse effect upon the Group's financial position.

### **27. Related parties – Company**

In connection with LCR's contract to complete the sale of land to SCBDL at a pre-agreed price at the option of SCBDL, a profit of £1,953,000 was released in the 15/16 and £334,000 in the 16/17 year. LCR's residual interest in the land is held as an 'asset held for sale' at cost of £1, as explained in note 11c.

The Company recognised no interest income from the King's Cross Partnership (2016: nil).

Interest income from Stratford Partnership was nil in the 16/17 year (2016: £607,000).

No administrative expenses were received from the parent, associates or joint ventures.

Loans receivable by the Company from Associate KXCLP were sold to Australian Super on 22nd January 2016, as set out in note 13. These were classified as Investments by the Group.

Non-current receivables include project costs of £3,487k (Group and Company) which are recoverable from the Mayfield Partnership Limited Partnership.

### **28. Parent undertaking and controlling party**

At 31 March 2017 and 31 March 2016 the Company's sole shareholder was the Secretary of State for Transport (Great Minster House, 33 Horseferry Road, Westminster, London SW1P 4DR). The Secretary of State for Transport has a fixed and floating charge over all assets of the Company.

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## Notes to the Financial Statements (continued)

### 29. *Accounting estimates and judgements*

The Group's investment properties are carried at fair value, which necessarily means that estimates are used in determining the carrying value of non-current assets. Key assumptions include the expected yield from properties, anticipated rents, planning permissions, development costs and the rate of inflation; such assumptions are advised by the group's independent valuers.

Interest in land at Stratford with a cost of £1 is classified as 'asset held for sale' (note 11c) as it is highly probable that its value will be realised through the completion of future sales.