

INTU LAKESIDE LIMITED
(FORMERLY CSC LAKESIDE LIMITED)

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Company number 4144192

SATURDAY



A25R063F

A18

06/04/2013

#292

COMPANIES HOUSE

INTU LAKESIDE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their report and the audited financial statements of the company for the year ended 31 December 2012

Intu Lakeside Limited (formerly CSC Lakeside Limited) is incorporated and registered in England and Wales. The company's registered office is 40 Broadway, London, SW1H 0BU

PRINCIPAL ACTIVITY

The principal activity of the company is the ownership, management and development of the Lakeside Shopping Centre, Thurrock

BUSINESS REVIEW

The company's results and financial position for the year ended 31 December 2012 are set out in full in the income statement, balance sheet, statement of changes in equity, statement of cash flows and the notes to the financial statements

The company's performance during the year reflects a satisfactory rental performance, given the prevailing property market conditions. Net rental income was £55.0 million compared to £57.7 million for the previous year. A revaluation surplus of £8.3 million was recorded during the year (2011 surplus £21.5 million). The company recorded a profit before tax of £8.8 million, compared with a loss before tax of £0.6 million for the previous year. Net assets at 31 December 2012 were £168.3 million, an increase of £8.8 million from the 31 December 2011 figure of £159.5 million.

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

As the company's ultimate parent company is Intu Properties plc (formerly Capital Shopping Centres Group PLC), the company faces largely those risks and uncertainties faced by the group. These risks and uncertainties, including financial risks and the management thereof, are disclosed in the group financial statements.

The company changed its name from CSC Lakeside Limited to Intu Lakeside Limited on 15 February 2013. On the same date the company's ultimate parent changed its name from Capital Shopping Centres Group PLC to Intu Properties plc.

DIVIDENDS

The directors do not recommend a dividend for the year (2011 £nil).

CAPITAL MANAGEMENT

The directors consider the capital of the company to be the ordinary share capital of £196.0 million and funding from the Company's immediate parent company of £357.6 million. Management of this capital is performed at a group level.

INVESTMENT AND DEVELOPMENT PROPERTY

The movements in investment and development property are set out in note 6.

INTU LAKESIDE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS IN THE YEAR

The directors who held office during the year are given below

Martin Ellis
David Fischel
Hugh Ford
Trevor Pereira
Matthew Roberts
Peter Weir

DIRECTORS' INDEMNITY PROVISION

A qualifying indemnity provision (as defined in S234 of the Companies Act 2006) was in force for the benefit of the directors of the company during the financial year and at the date of the approval of the financial statements. The company's ultimate parent, Intu Properties plc, maintains directors' and officers' insurance which is reviewed annually.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information of which the auditors are unaware and each director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

INTU LAKESIDE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. Under the provisions of the Companies Act 2006, the company is not required to hold an annual general meeting. Elective Resolutions are in force to dispense with the appointment of auditors annually. The auditors, PricewaterhouseCoopers LLP, will therefore be deemed to be reappointed for each succeeding financial year.

By order of the Board



Peter Weir
Director
25 February 2013

INTU LAKESIDE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTU LAKESIDE LIMITED

We have audited the financial statements of Intu Lakeside Limited (registered company no 4144192) for the year ended 31 December 2012 which comprise the income statement, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities set out on page 2, 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INTU LAKESIDE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTU LAKESIDE LIMITED

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.

Alison Morris (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2013

INTU LAKESIDE LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £m	2011 £m
Revenue	2	<u>71 4</u>	<u>70 7</u>
Net rental income	2	55 0	57 7
Revaluation of investment and development property		8 3	21 5
Administration expenses		<u>(2 7)</u>	<u>(3 3)</u>
Operating profit	3	60 6	75 9
Finance costs	4	(47 5)	(44 6)
Change in fair value of derivative financial instruments		<u>(4 3)</u>	<u>(31 9)</u>
Profit/(loss) before tax		8 8	(0 6)
Taxation	5	<u>-</u>	<u>-</u>
Profit/(loss) for the year		<u>8 8</u>	<u>(0 6)</u>

Other than the items in the income statement above, there are no other items of comprehensive income and accordingly, a separate statement of comprehensive income has not been prepared

INTU LAKESIDE LIMITED

BALANCE SHEET AT 31 DECEMBER 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Investment and development property	6	1,082.8	1,069.8
Trade and other receivables	7	11.4	10.7
		<u>1,094.2</u>	<u>1,080.5</u>
Current assets			
Trade and other receivables	7	6.8	7.0
Cash and cash equivalents		1.7	1.1
		<u>8.5</u>	<u>8.1</u>
Total assets		<u>1,102.7</u>	<u>1,088.6</u>
Current liabilities			
Trade and other payables	8	(378.7)	(374.0)
Borrowings	10	(4.3)	(4.3)
Derivative financial instruments	9	(1.7)	(1.0)
		<u>(384.7)</u>	<u>(379.3)</u>
Non-current liabilities			
Borrowings	10	(502.5)	(506.8)
Derivative financial instruments	9	(47.2)	(43.0)
		<u>(549.7)</u>	<u>(549.8)</u>
Total liabilities		<u>(934.4)</u>	<u>(929.1)</u>
Net assets		<u>168.3</u>	<u>159.5</u>
Equity			
Share capital	13	196.0	196.0
Accumulated losses		<u>(27.7)</u>	<u>(36.5)</u>
Total equity		<u>168.3</u>	<u>159.5</u>

The notes on page 10 to 23 form part of these financial statements

The financial statements on pages 6 to 23 have been approved for issue by the Board of Directors on 25 February 2013 and were signed on its behalf by



Trevor Pereira
Director



Peter Weir
Director

INTU LAKESIDE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital £m	Accumulated losses £m	Total equity £m
At 1 January 2011	196 0	(35 9)	160 1
Loss for the year	-	(0 6)	(0 6)
Total comprehensive income for the year	-	(0 6)	(0 6)
At 31 December 2011	196 0	(36 5)	159 5
At 1 January 2012	196 0	(36 5)	159 5
Profit for the year	-	8 8	8 8
Total comprehensive income for the year	-	8 8	8 8
At 31 December 2012	196 0	(27 7)	168 3

INTU LAKESIDE LIMITED

STATEMENT OF CASH FLOWS AT 31 DECEMBER 2012

	Notes	2012 £m	2011 £m
Cash generated from operations	15	57.8	58.0
Interest paid		(47.0)	(43.5)
Taxation – REIT entry charge		-	(3.9)
Cash flows from operating activities		<u>10.8</u>	<u>10.6</u>
Purchase and development of property		<u>(4.9)</u>	<u>(5.3)</u>
Cash flows from investing activities		<u>(4.9)</u>	<u>(5.3)</u>
Borrowings repaid		<u>(5.3)</u>	<u>(5.3)</u>
Cash flows from financing activities		<u>(5.3)</u>	<u>(5.3)</u>
Net increase in cash and cash equivalents		0.6	-
Cash and cash equivalents at 1 January		<u>1.1</u>	<u>1.1</u>
Cash and cash equivalents at 31 December		<u>1.7</u>	<u>1.1</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Principal accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties and derivative financial instruments. A summary of the accounting policies is set out below

In assessing whether the going concern basis of preparation is appropriate to adopt, the directors considered a number of factors including financial projections of the company and the level of financial support that may be made available to the company by its ultimate parent, Intu Properties plc. In addition, the directors assessed the risk of the company's immediate parent company, Capital Shopping Centres PLC, requesting settlement of the balance due to it. Based on this review the directors have concluded that there is a reasonable expectation that the company will have sufficient resources to continue in operational existence for the foreseeable future and have therefore prepared the accounts on a going concern basis.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where such judgements are made they are included within the accounting policies given below.

The accounting policies used are consistent with those applied in the last annual financial statements, as amended to reflect the adoption of new standards, amendments, and interpretations which became effective in the year. During 2012, the following standards, amendments and interpretations endorsed by the EU became effective for the first time for the company's 31 December 2012 year end:

- IFRS 7 Financial Instruments: Disclosures (amendment – disclosures on transfers of financial assets)

This amendment had no impact on the financial statements.

The following standards have been issued and adopted by the EU but are not effective for the year ended 31 December 2012 and have not been adopted early:

- IFRS 7 Financial Instruments: Disclosures (amendment – offsetting requirements and converged disclosure) (effective from 1 January 2013),
- IFRS 10 Consolidated Financial Statements (effective from 1 January 2014),
- IFRS 11 Joint Arrangements (effective from 1 January 2014),
- IFRS 12 Disclosure of Interests in Other Entities (effective from 1 January 2014),
- IFRS 13 Fair Value Measurement (effective from 1 January 2013),
- IAS 1 Presentation of Financial Statements (amendment) (effective from 1 July 2013),
- IAS 12 Income Taxes (amendment) (effective from 1 January 2013),
- IAS 19 Employee Benefits (revised) (effective from 1 January 2013),
- IAS 27 Separate Financial Statements (revised) (effective from 1 January 2014),
- IAS 28 Investments in Associates and Joint Ventures (revised) (effective from 1 January 2014), and
- IAS 32 Financial Instruments: Presentation (amendment) (effective from 1 January 2014)

These pronouncements are not expected to have a material impact on the financial statements, but may result in changes to presentations or disclosure.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Principal accounting policies (continued)

Additionally a number of standards have been issued but are not yet adopted by the EU and so are not available for early adoption. The most significant of these are

- IFRS 9 Financial Instruments,
- IFRS 10 Consolidated Financial Statements,
- IFRS 12 Disclosure of Interests in Other Entities (amendment),
- IAS 27 Separate Financial Statements (amendment),
- IAS 32 Financial Instruments Presentation (amendment),
- Amendments to (transition guidance) IFRS 10, IFRS 11 and IFRS 12, and
- Amendments arising from annual improvements 2009-2011 cycle

The impact of these on the company is being reviewed. It is anticipated that the earliest period that these standards may be applied will be the year ended 31 December 2013.

Investment and development property

Investment and development property is owned by the company and held for long-term rental income and capital appreciation.

The company has elected to use the fair value model. Property is initially recognised at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value. Valuations conform with the Royal Institution of Chartered Surveyors ("RICS"), Valuation Standards 8th Edition and IVS1 of International Valuation Standards.

The main estimates and judgements underlying the valuations are in relation to market rent, taking into account forecast growth rates and yields based on known transactions for similar properties and likely incentives offered to tenants.

The cost of investment and development property includes capitalised interest and other directly attributable outgoings incurred during development, except in the case of properties and land where no development is imminent, in which case no interest is included. Interest is capitalised (before tax relief), on the basis of the average rate of interest paid on the relevant debt outstanding, until the date of practical completion.

Gains or losses arising from changes in the fair value of investment property are recognised in the income statement. Depreciation is not provided in respect of investment property.

Gains or losses arising on the sale of investment and development property are recognised when the significant risks and rewards of ownership have been transferred to the buyer. This will normally take place on exchange of contracts. The gain or loss recognised is the proceeds received less the carrying value of the property and costs directly associated with the sale.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Principal accounting policies (continued)

Revenue recognition

The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the company

Rental income receivable is recognised on a straight line basis over the term of the lease. Directly attributable lease incentives are recognised within rental income on the same basis.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews or rents linked to tenant revenues, are recorded as income in the periods in which they are earned. Rent reviews are recognised as income from the date of the rent review, based on management's estimates. Estimates are derived from knowledge of market rents for comparable properties determined on an individual property basis and updated for progress of negotiations.

Service charge income is recognised on an accruals basis in line with the service being provided.

Taxation

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Derivative financial instruments

The company uses derivative financial instruments to manage exposure to interest rate risk. They are initially recognised on the trade date at fair value and subsequently re-measured at fair value. In assessing fair value the company uses its judgement to select suitable valuation techniques and make assumptions which are mainly based on market conditions existing at the balance sheet date.

Changes in fair value are recognised directly in the income statement.

Leases

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are normally classified as operating leases.

Investment properties are leased to tenants under operating leases, with rental income being recognised on a straight-line basis over the lease term. For more detail see the revenue recognition accounting policy.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Principal accounting policies (continued)

Impairment of assets

The company's assets are reviewed at each balance sheet date to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost.

The directors exercise judgement as to the collectability of the trade receivables and determine if it is appropriate to impair these assets. Factors such as days past due, credit status of the counterparty and historical evidence of collection are considered.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits with banks, whether restricted or unrestricted and other short-term liquid investments with original maturities of three months or less.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

Borrowings

Borrowings are recognised initially at their net proceeds on issue and subsequently carried at amortised cost. Any transaction costs and premiums or discounts are recognised over the contractual life using the effective interest rate method.

In the event of early repayment, all unamortised transaction costs are recognised immediately in the income statement.

Current/non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or consumption in, the course of the company's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the company's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. Revenue and net rental income

Revenue arose in the United Kingdom from continuing operations and in the opinion of the directors the company carries on only one class of business

	2012 £m	2011 £m
Rent receivable	60.9	61.0
Service charge income	10.5	9.7
Revenue	<u>71.4</u>	<u>70.7</u>
Service charge costs	(11.1)	(10.0)
Other non-recoverable costs	<u>(5.3)</u>	<u>(3.0)</u>
Net rental income	<u>55.0</u>	<u>57.7</u>

3. Operating profit

The operating profit of £60.6 million (2011 £75.9 million) did not include any amounts in respect of auditors' remuneration or directors' remuneration (2011 £nil). No deduction is made for auditors' remuneration of £3,300 (2011 £3,300) which was settled on behalf of the company by the ultimate parent company, Intu Properties, and has not been recharged.

There were no employees during the year (2011 nil)

4. Finance costs

	2012 £m	2011 £m
On borrowings	25.8	23.2
On amounts due to immediate parent company	<u>21.7</u>	<u>21.4</u>
Finance costs	<u>47.5</u>	<u>44.6</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5. Taxation

The total tax expense of £nil (2011 £nil) is all in respect of current taxation. The tax expense for the year is lower (2011 higher) than the standard rate of corporation tax in the UK. The differences are explained below.

	2012 £m	2011 £m
Profit/(loss) before tax	8.8	(0.6)
Profit/(loss) before tax multiplied by the standard rate of tax in the UK of 24.5% (2011 26.5%)	2.2	(0.2)
Expenses disallowed	0.1	0.1
Transfer pricing adjustment	3.8	3.7
Group relief	0.7	0.7
REIT exemption - corporate tax	(5.6)	(6.8)
REIT exemption - deferred tax	(1.2)	2.5
Tax expense	-	-

6. Investment and development property

	Freehold £m
At 1 January 2011	1,042.8
Additions	5.5
Surplus on revaluation	21.5
At 31 December 2011	1,069.8
At 1 January 2012	1,069.8
Additions	4.7
Surplus on revaluation	8.3
At 31 December 2012	1,082.8
Adjustment in respect of tenant incentives	11.8
Market value	1,094.6

The fair value of the company's investment and development property as at 31 December 2012 was determined by independent external valuers at that date. The valuation conforms with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards 8th edition and with IVS1 of Internal Valuation Standards, and was arrived at by reference to market transactions for similar properties.

Investment property principally represents the Lakeside Shopping Centre, Thurrock.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7. Trade and other receivables

	2012 £m	2011 £m
Current		
Trade receivables	2 6	2 4
Other receivables	0 2	0 4
Prepayments and accrued income	4 0	4 2
	<u>6 8</u>	<u>7 0</u>
Non-current		
Prepayments and accrued income	11 4	10 7
	<u>11 4</u>	<u>10 7</u>

Included within prepayments and accrued income are tenant incentives of £11 8 million (2011 £12 2 million)

8. Trade and other payables

	2012 £m	2011 £m
Rents received in advance	13 4	14 0
Amounts owed to immediate parent company	357 6	350 3
Amounts owed to group undertakings	0 1	-
Accruals and deferred income	3 5	4 0
Other payables	1 2	2 8
Other taxation and social security	2 9	2 9
	<u>378 7</u>	<u>374 0</u>

Amounts owed to the immediate parent company are unsecured, repayable on demand and subordinated to the borrowings. Interest on amounts due to group undertakings has been charged at a rate of 6 25 per cent per annum (2011 6 25 per cent)

9. Derivative financial instruments

Derivative financial instruments at 31 December 2012 comprise interest rate swaps classified as held for trading

10. Borrowings

	2012 £m	2011 £m
Current		
Bank loan	<u>4 3</u>	<u>4 3</u>
Non-current		
Bank loan	<u>502 5</u>	<u>506 8</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11. Operating leases

The company earns rental income by leasing its investment properties to tenants under operating leases

In the UK the standard shopping centre lease is for a term of 10 to 15 years. Standard lease provisions include service charge payments, recovery of other direct costs and review every five years to market rent. Standard turnover based leases have a turnover percentage agreed with each lessee which is applied to a retail unit's annual sales and any excess between the resulting turnover rent and the minimum rent is receivable by the company.

The future minimum lease amounts receivable under non-cancellable operating leases for continuing operations are as follows

	2012 £m	2011 £m
Not later than one year	55.6	54.8
Later than one year and not later than five years	169.9	187.3
Later than five years	147.3	137.4
	<u>372.8</u>	<u>379.5</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

12 Financial risk management

The company is exposed to a variety of risks arising from the company's operations being principally market risk (including interest rate risk and market price risk), liquidity risk and credit risk

The majority of the company's financial risk management is carried out by Intu Properties plc's treasury department and the group's policies for managing each of these risks as they apply to the company and the principal effects of these policies on the results for the year are summarised below

Market risk

Interest rate risk

Interest rate risk comprises of both cash flow and fair value risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market interest rates

The company's interest rate risk arises from borrowings issued at variable rates that expose the company to cash flow interest rate risk, whereas borrowings issued at fixed interest rates expose the Group to fair value interest rate risk

Bank debt is typically issued at floating rates linked to LIBOR. Bond debt and other capital market debt are generally issued at fixed rates

It is the group's policy, and often a requirement of the group's lenders, to eliminate substantially all short and medium-term exposure to interest rate fluctuations in order to establish certainty over medium-term cash flows by using floating to fixed interest rate swaps. Such swaps have the economic effect of converting borrowings from floating to fixed rates. As a consequence, the company is exposed to market price risk in respect of the fair value of its fixed rate interest rate swaps, as discussed in the financial review

The below table shows the effects of interest rate swaps on the borrowings profile of the company

	Fixed 2012 £m	Floating 2012 £m	Fixed 2011 £m	Floating 2011 £m
Borrowings	-	510.6	-	515.8
Derivative impact	390.0	(390.0)	390.0	(390.0)
Net borrowings profile	390.0	120.6	390.0	125.8
Interest rate protection on floating debt		76.4%		75.6%

The weighted average rate of interest rates contracted through interest rates swaps is 3.4 per cent (2011 3.4 per cent)

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

12. Financial risk management (continued)

The approximate impact of a 50 basis point shift upwards in the level of interest rates would be a positive movement of £9.2 million (2011 £11.0 million) in the fair value of derivatives. The approximate impact of a 50 basis point shift downwards in the level of interest rates would be a negative movement of £9.4 million (2011 £11.3 million) in the fair value of derivatives. In practice, a parallel shift in the yield curve is highly unlikely. However, the above sensitivity analysis is a reasonable illustration of the possible effect from the changes in slope and shifts in the yield curve that may actually occur.

Liquidity risk

Liquidity risk is managed to ensure that the company is able to meet future payment obligations when financial liabilities fall due. Liquidity analysis is conducted to ensure that sufficient headroom is available to meet the operational requirements and committed investments. The group treasury policy aims to meet this objective through maintaining adequate cash, marketable securities and committed facilities to meet these requirements. The group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect the Group seeks to borrow for as long as possible at the lowest acceptable cost.

The tables below set out the maturity analysis of the company's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal. Where interest payment obligations are based on a floating rate the rates used are those implied by the par yield curve.

	2012				
	Within 1 year or on demand £m	1-2 years £m	3-5 years £m	over 5 years £m	Total £m
Borrowings (including interest)	(19 2)	(19 4)	(534 5)	-	(573 1)
Amounts due to immediate parent company	(357 6)	-	-	-	(357 6)
Amounts due to group undertaking	(0 1)				(0 1)
Other financial liabilities	(4 1)	-	-	-	(4 1)
Derivatives payments	(14 8)	(15 4)	(33 6)	-	(63 8)
Derivative receipts	2 4	2 7	9 1	-	14 2
	<u>(393 3)</u>	<u>(32 1)</u>	<u>(559 0)</u>	<u>-</u>	<u>(984 4)</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

12 Financial risk management (continued)

	2011			
	Within 1 year or on demand £m	1-2 years £m	3-5 years £m	over 5 years £m
Borrowings (including interest)	(22 2)	(21 9)	(70 3)	(494 3)
Amounts due to immediate parent company	(350 3)	-	-	-
Other financial liabilities	(6 2)	-	-	-
Derivatives payments	(11 5)	(14 8)	(45 6)	(3 4)
Derivative receipts	3 8	4 7	19 5	2 1
	<u>(385 9)</u>	<u>(32 0)</u>	<u>(96 4)</u>	<u>(495 6)</u>
				<u>(1,009 9)</u>

Credit risk

Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables relating to tenants but also from the company's holdings of assets with counterparties such as cash deposits, loans and derivative instruments.

Credit risk associated with trade receivables is actively managed, tenants are managed individually by asset managers, who continuously monitor and work with tenants, anticipating and, wherever possible, identifying and addressing risks prior to default.

Prospective tenants are assessed via a review process, including obtaining credit ratings and reviewing financial information which is conducted internally. As a result deposits or guarantors may be obtained. The amount of deposits held as collateral at 31 December 2012 is £0.6 million (2011 £0.5 million).

Due to the nature of tenants being managed individually by asset managers, it is company policy to calculate any impairment specifically on each contract.

The ageing analysis of these trade receivables is as follows:

	2012 £m	2011 £m
Up to three months	2 3	2 1
Three to six months	<u>0 3</u>	<u>0 3</u>
Trade receivables	<u>2 6</u>	<u>2 4</u>

At 31 December 2012 trade receivables are shown net of provisions totalling £0.9 million (2011 £0.3 million).

The credit risk relating to cash, deposits and derivative financial instruments is actively managed centrally by Intu Properties plc, the ultimate parent. Relationships are maintained with a number of tier one institutional counterparties, ensuring compliance with Intu Properties plc company policy relating to limits on the credit ratings of counterparties (between BBB+ and AAA).

Excessive credit risk is avoided through adhering to authorised limits for all counterparties.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

12. Financial risk management (continued)

Classification of financial assets and liabilities

The table below sets out the company's accounting classification of each class of financial assets and liabilities, and their fair values at 31 December 2012 and 31 December 2011. The fair values of quoted borrowings are based on the asking price. The fair values of derivative financial instruments are determined from observable market prices or estimated using appropriate yield curves at 31 December each year by discounting the future contractual cash flows to the net present values.

	Carrying value £m	Fair value £m	Gain/(loss) to income statement £m
2012			
Trade and other receivables	2.8	2.8	-
Cash and cash equivalents	1.7	1.7	-
Total cash and receivables	4.5	4.5	-
Derivative financial instruments	(48.9)	(48.9)	(4.3)
Total held for trading liabilities	(48.9)	(48.9)	(4.3)
Trade and other payables	(361.8)	(361.8)	-
Borrowings	(506.8)	(506.8)	-
Total loans and payables	(868.6)	(868.6)	-
	Carrying value £m	Fair Value £m	Gain/(loss) to income statement £m
2011			
Trade and other receivables	2.8	2.8	-
Cash and cash equivalents	1.1	1.1	-
Total cash and receivables	3.9	3.9	-
Derivative financial instruments	44.0	44.0	(31.9)
Total held for trading liabilities	44.0	44.0	(31.9)
Trade and other payables	(356.5)	(356.5)	-
Borrowings	(511.1)	(511.1)	-
Total loans and payables	(867.6)	(867.6)	-

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

12. Financial risk management (continued)

The only financial assets and liabilities of the company recognised at fair value are derivative financial instruments. These are all held at fair value through profit or loss and are categorised as level 2 in the fair value hierarchy as explained below.

Fair value hierarchy

- Level 1 valuation based on quoted market prices traded in active markets
- Level 2 valuation techniques are used, maximising the use of observable market data, either directly from market prices or derived from market prices
- Level 3 where one or more inputs to valuation are not based on observable market data. Valuations at this level are more subjective and therefore more closely managed, including sensitivity analysis of inputs to valuation models. Such testing has not indicated that any material difference would arise due to a change in input variables.

Capital structure

The company seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure. The company uses a mix of equity, debt and other financial instruments and aims to access the debt market with maximum efficiency and flexibility.

13. Share capital

	2012 £m	2011 £m
Issued, called up and fully paid		
196,044,100 ordinary shares of £1 each	196.0	196.0

The concept of authorised share capital was abolished by the Companies Act 2006 with effect from 1 October 2009. Under saving provisions, the current maximum number of shares which may be issued by the company is 196,500,000 ordinary shares of £1 each.

14. Capital commitments

At 31 December 2012, the Board had approved £18.1 million (2011 – £5.1 million) of future expenditure for the purchase, construction, development and enhancement of investment property. Of this, £0.8 million (2011 – £4.2 million) is contractually committed. Of the £18.1 million, £9.8 million is expected to be spent in 2013.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

15 Cash generated from operations

	2012 £m	2011 £m
Profit/(loss) before tax	8 8	(0 6)
Remove		
Revaluation of investment property	(8 3)	(21 5)
Lease incentives and letting costs	0 4	(0 4)
Finance costs	47 5	44 6
Change in fair value of derivative financial instruments	4 3	31 9
Changes in working capital		
Change in trade and other receivables	(0 9)	(1 8)
Change in trade and other payables	6 0	5 8
Cash generated from operations	<u>57 8</u>	<u>58 0</u>

16. Related party transactions

During the year the company entered into the following transactions with other group companies

	Nature of transaction	2012 £m	2011 £m
Capital Shopping Centres PLC	Interest payable	21 7	21 4

Significant balances outstanding between the company and other group companies are shown below

	Amounts owed to	
	2012 £m	2011 £m
Capital Shopping Centres PLC	357 6	350 3

17. Ultimate parent company

The ultimate parent company is Intu Properties plc, a company incorporated and registered in England and Wales, copies of whose financial statements may be obtained from the Company Secretary, 40 Broadway, London, SW1H 0BT. The immediate parent company is Capital Shopping Centres PLC, a company incorporated and registered in England and Wales, copies of whose financial statements may be obtained as above.