

INTU LAKESIDE LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Company number 4144192



INTU LAKESIDE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors submit their Strategic Report of Intu Lakeside Limited ("the company") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the company is the ownership, management and development of intu Lakeside shopping centre, Thurrock.

BUSINESS REVIEW

The company's results and financial position for the year ended 31 December 2013 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 £55.8 million compared to £55.0 million for the previous year. A revaluation surplus of £26.2 million was recorded during the year (2012 £8.3 million). The company recorded a profit before tax of £52.0 million, compared with £8.8 million for the previous year. Net assets at 31 December 2013 were £220.3 million, an increase of £52.0 million from the 31 December 2012 figure of £168.3 million.

During the year the Intu Properties plc group established a new debt funding platform (the "Secured Group Structure"). The company was transferred into this structure as part of a ring-fenced security pool, allowing the raising of bond and bank debt secured on its assets. This resulted in the settlement of the company's external debt and derivative financial instruments. On 19 March 2013, the entire share capital of the company was acquired by Intu (SGS) Limited. The ultimate parent company remained unchanged.

The directors expect the current level of activity to continue into the foreseeable future.

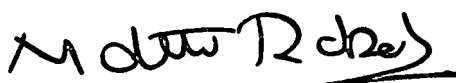
Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

As the company's ultimate parent company is Intu Properties plc, 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.

By order of the Board



David Fischel
Director
23 June 2014



Matthew Roberts
Director
23 June 2014

INTU LAKESIDE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report and the audited financial statements of the company for the year ended 31 December 2013.

The company is incorporated and registered in England and Wales (company number 4144192). The company's registered office is 40 Broadway, London, SW1H 0BU.

DIVIDENDS

The directors do not recommend a dividend for the year (2012 £nil).

CAPITAL MANAGEMENT

The directors consider the capital of the company to be the ordinary share capital of £196.0 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 7.

DIRECTORS IN THE YEAR

The directors who held office during the year and until the date of this report are given below:

Martin Ellis

David Fischel

Hugh Ford

Trevor Pereira

Matthew Roberts

Daniel Shepherd

Peter Weir

appointed 12 March 2013

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.

INTU LAKESIDE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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.

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



David Fischel
Director
23 June 2014

INTU LAKESIDE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTU LAKESIDE LIMITED

Report on the financial statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by Intu Lakeside Limited, comprise the:

- Income Statement;
- Balance Sheet;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- related notes.

The financial reporting framework that has been applied in their preparation comprises applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on matter prescribed by the Companies Act 2006

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

INTU LAKESIDE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTU LAKESIDE LIMITED

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Ranjan Sriskandan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 June 2014

INTU LAKESIDE LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Revenue	2	<u>72.4</u>	<u>71.4</u>
Net rental income	2	55.8	55.0
Revaluation of investment and development property		26.2	8.3
Administration expenses		<u>(2.0)</u>	<u>(2.7)</u>
Operating profit	3	80.0	60.6
Finance costs	4	(26.4)	(47.5)
Other finance costs	5	(53.0)	-
Change in fair value of derivative financial instruments		<u>51.4</u>	<u>(4.3)</u>
Profit before tax		52.0	8.8
Taxation	6	<u>-</u>	<u>-</u>
Profit for the year		<u>52.0</u>	<u>8.8</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 2013

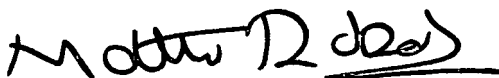
	Notes	2013 £m	2012 £m
Non-current assets			
Investment and development property	7	1,114.4	1,082.8
Derivative financial instruments	10	4.2	-
Trade and other receivables	8	11.2	11.4
		<u>1,129.8</u>	<u>1,094.2</u>
Current assets			
Trade and other receivables	8	30.9	6.8
Cash and cash equivalents		7.9	1.7
		<u>38.8</u>	<u>8.5</u>
Total assets		<u>1,168.6</u>	<u>1,102.7</u>
Current liabilities			
Trade and other payables	9	(948.2)	(378.7)
Borrowings	11	-	(4.3)
Derivative financial instruments	10	(0.1)	(1.7)
		<u>(948.3)</u>	<u>(384.7)</u>
Non-current liabilities			
Borrowings	11	-	(502.5)
Derivative financial instruments	10	-	(47.2)
		<u>-</u>	<u>(549.7)</u>
Total liabilities		<u>(948.3)</u>	<u>(934.4)</u>
Net assets		<u>220.3</u>	<u>168.3</u>
Equity			
Share capital	13	196.0	196.0
Retained earnings		24.3	(27.7)
Total equity		<u>220.3</u>	<u>168.3</u>

The notes on page 10 to 26 form part of these financial statements.

The financial statements on pages 6 to 26 have been approved for issue by the Board of Directors on 23 June 2014 and were signed on its behalf by



David Fischel
Director



Matthew Roberts
Director

INTU LAKESIDE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £m	Retained earnings £m	Total equity £m
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
At 1 January 2013	196.0	(27.7)	168.3
Profit for the year	-	52.0	52.0
Total comprehensive income for the year	-	52.0	52.0
At 31 December 2013	196.0	24.3	220.3

INTU LAKESIDE LIMITED

STATEMENT OF CASH FLOWS AT 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Cash generated from operations	15	38.0	57.8
Interest and other finance costs paid		<u>(79.2)</u>	<u>(47.0)</u>
Cash flows from operating activities		<u>(41.2)</u>	<u>10.8</u>
Purchase and development of property		<u>(5.4)</u>	<u>(4.9)</u>
Cash flows from investing activities		<u>(5.4)</u>	<u>(4.9)</u>
Loan due to group undertaking received		562.1	-
Borrowings repaid		<u>(509.3)</u>	<u>(5.3)</u>
Cash flows from financing activities		<u>52.8</u>	<u>(5.3)</u>
Net increase in cash and cash equivalents		6.2	0.6
Cash and cash equivalents at 1 January		<u>1.7</u>	<u>1.1</u>
Cash and cash equivalents at 31 December		<u><u>7.9</u></u>	<u><u>1.7</u></u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 group companies related to the company requesting settlement of the balances due to them. 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 financial statements 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 2013, the following relevant standards, amendments and interpretations endorsed by the EU became effective for the first time for the company's 31 December 2013 year end:

- IFRS 7 Financial Instruments: Disclosures (amendment);
- IFRS 13 Fair Value Measurement;
- IAS 1 Presentation of Financial Statements (amendment); and
- IAS 12 Income Taxes (amendment).

These have resulted in changes to presentation or disclosure only.

The following relevant standards have been issued and adopted by the EU but are not effective until 1 January 2014 and have not been adopted early:

- IAS 27 Separate Financial Statements (revised);
- IAS 32 Financial Instruments: Presentation (amendment);
- IAS 36 Impairment of Assets (amendment); and
- Amendments to IFRS 10, IFRS 11 and IFRS 12 (transition guidance).

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

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 is IFRS 9 Financial Instruments (and related amendments to other IFRSs) and the impact on the company is being reviewed.

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.

Investment and development property

Investment and development property is owned or leased 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 – Professional Standards 2012.

The main estimates and judgements underlying the valuations are described in note 7.

The cost of investment and development property includes capitalised interest and other directly attributable outgoings incurred during development. Interest is capitalised on the basis of the average rate of interest paid on the relevant debt outstanding. Interest ceases to be capitalised on the date of practical completion.

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

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Principal accounting policies (continued)

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.

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. The fair value of interest rate swaps is calculated by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date. These values are tested for reasonableness based upon broker or counterparty quotes.

Amounts paid under derivative financial instruments (currently for the company this relates to interest rate swaps), both on obligations as they fall due and on early settlement are recognised in the income statement as finance costs. Fair value movements on revaluation of derivative financial instruments are shown in the income statement through changes in fair value of financial instruments.

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.

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.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Principal accounting policies (continued)

Cash and cash equivalents

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

Trade payables

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

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 2013

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.

	2013 £m	2012 £m
Rent receivable	61.1	60.9
Service charge income	11.3	10.5
Revenue	<u>72.4</u>	<u>71.4</u>
Service charge costs	(12.3)	(11.1)
Other non-recoverable costs	<u>(4.3)</u>	<u>(5.3)</u>
Net rental income	<u>55.8</u>	<u>55.0</u>

3. Operating profit

The operating profit of £80.0 million (2012 £60.6 million) did not include any amounts in respect of auditors' remuneration or directors' remuneration (2012 £nil). The directors' remuneration for services to the company has been borne by other entities that are part of the Intu Properties plc group. No deduction is made for auditors' remuneration of £3,300 (2012 £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 (2012 nil).

4. Finance costs

	2013 £m	2012 £m
On borrowings	5.7	25.8
On loans due to group undertakings	<u>20.7</u>	<u>21.7</u>
Finance costs	<u>26.4</u>	<u>47.5</u>

5. Other finance costs

	2013 £m	2012 £m
Cost of termination of derivative financial instruments and other fees	<u>53.0</u>	<u>-</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

6. Taxation

The tax expense for the year is lower (2012 lower) than the standard rate of corporation tax in the UK. The differences are explained below.

	2013 £m	2012 £m
Profit before tax	<u>52.0</u>	<u>8.8</u>
Profit before tax multiplied by the standard rate of tax in the UK of 23.25% (2012 24.5%)	12.1	2.2
Expenses disallowed	0.1	0.1
Transfer pricing adjustment	-	3.8
Group relief	-	0.7
Unrecognised deferred tax asset	0.4	-
REIT exemption - corporate tax	5.6	(5.6)
REIT exemption - deferred tax	<u>(18.2)</u>	<u>(1.2)</u>
Tax expense	<u>-</u>	<u>-</u>

The company has tax losses of £1.9 million (2013 £nil), but no deferred tax asset has been recognised due to uncertainty over the level of profits that will be available in the non-REIT business of the company in future periods.

7. Investment and development property

	Freehold £m
At 1 January 2012	1,069.8
Additions	4.7
Surplus on revaluation	<u>8.3</u>
At 31 December 2012	<u>1,082.8</u>
At 1 January 2013	1,082.8
Additions	5.4
Surplus on revaluation	<u>26.2</u>
At 31 December 2013	<u>1,114.4</u>
Adjustment in respect of tenant incentives	<u>12.3</u>
Market value	<u>1,126.7</u>

Investment property principally represents the intu Lakeside shopping centre, Thurrock.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

7. Investment and development property (continued)

Investment property is measured at fair value and is categorised as Level 3 in the fair value hierarchy (see note 18 for definition) as one or more inputs to the valuation are partly based on unobservable market data.

Transfers into and transfers out of the fair value hierarchy levels are recognised on the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 for investment property during the year.

Valuation methodology

The fair value of the company's investment and development property as at 31 December 2013 was determined by an independent external valuer at that date. The valuations are in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards 2012 and were arrived at by reference to market transactions for similar properties. Fair values for investment properties are calculated using the present value income approach. The main assumptions underlying the valuations are in relation to rent profile and yields as discussed below.

The key driver of the property valuations is the terms of the leases in place at the valuation date. These determine the majority of the cash flow profile of the property for a number of years and therefore form the base of the valuation. The valuation assumes adjustments from these rental values to current market rent at the time of the next rent review (where a typical lease allows only for upward adjustment) and as leases expire and are replaced by new leases. The current market level of rent is assessed based on evidence provided by the most recent relevant leasing transactions and negotiations. This is based on evidence available at the date of valuation and does not assume future increases in market rent.

The nominal equivalent yield is applied as a discount rate to the rental cash flows which, after taking into account other input assumptions such as vacancies and costs, generates the market value of the property. The nominal equivalent yield applied is assessed by reference to market transactions for similar properties and takes into account, amongst other things, any risks associated with the rent uplift assumptions.

The net initial yield is calculated as the current net income over the gross market value of the asset and is used as a sense check and to compare against market transactions for similar properties.

The valuation output, along with inputs and assumptions, are reviewed to ensure these are in line with what a market participant would use when pricing the asset.

A significant change in the nominal equivalent yield in isolation, would result in a significant change in the value of investment and development property. A decrease in nominal equivalent yield of 50 basis points would result in an increase in the total market value of £114.0 million, while a 50 basis point increase would result in a decrease in the total market value of £95.0 million.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

7. Investment and development property (continued)

For the company's significant investment and development property, the table below provides details of the 31 December 2013 assumptions used in the valuation and key unobservable inputs:

	Market value £m	Net initial yield	Nominal equivalent yield	Annual property income £m
intu Lakeside	1,124.5	4.8%	5.5%	58.6

Valuation process

It is the company's policy to engage an independent external valuer to determine the market value of its investment and development property at both 30 June and 31 December. The company provides data to the valuer, including current lease and tenant data along with asset specific business plans. The valuer uses this and other inputs including market transactions for similar properties to produce valuations. These valuations and the assumptions they have made are then discussed and reviewed with the company's directors.

8. Trade and other receivables

	2013 £m	2012 £m
Current		
Trade receivables	2.3	2.6
Amounts owed from group undertakings	23.9	-
Other receivables	0.2	0.2
Prepayments and accrued income	4.5	4.0
	<u>30.9</u>	<u>6.8</u>
Non-current		
Prepayments and accrued income	<u>11.2</u>	<u>11.4</u>

Included within prepayments and accrued income are tenant incentives of £12.3 million (2012 £11.8 million).

Amounts owed from group undertakings are unsecured, repayable on demand and non-interest bearing.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

9. Trade and other payables

	2013 £m	2012 £m
Current		
Rents received in advance	13.3	13.4
Trade payables	0.9	-
Amounts due to group undertakings	930.7	357.7
Accruals and deferred income	1.9	3.5
Other payables	0.2	1.2
Other taxation and social security	1.2	2.9
	<u>948.2</u>	<u>378.7</u>

Amounts owed to group undertakings are unsecured and repayable on demand.

Interest on amounts due to group undertakings is charged at rates agreed between the company and the group undertakings.

10. Derivative financial instruments

Derivative financial instruments are all interest rate swaps classified as held for trading. As at 31 December 2013 the interest rate swaps are with another company within the Intu Properties plc group, and relate to external borrowings within the Secured Group Structure. For interest rate swaps held at 31 December 2012 see note 18.

11. Borrowings

	2013 £m	2012 £m
Current		
Bank loan	<u>-</u>	<u>4.3</u>
Non-current		
Bank loan	<u>-</u>	<u>502.5</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

12. 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:

	2013 £m	2012 £m
Not later than one year	54.7	55.6
Later than one year and not later than five years	143.4	169.9
Later than five years	133.1	147.3
	<u>331.2</u>	<u>372.8</u>

13. Share capital

	2013 £m	2012 £m
Issued, called up and fully paid		
196,044,100 (2012 196,044,100) ordinary shares of £1 each	<u>196.0</u>	<u>196.0</u>

14. Capital commitments

At 31 December 2013, the Board had approved £8.5 million (2012 £18.1 million) of future expenditure for the purchase, construction, development and enhancement of investment property. Of this, £7.4 million (2012 £0.8 million) is contractually committed. Of the £8.5 million, all is expected to be spent in 2014.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

15. Cash generated from operations

	2013 £m	2012 £m
Profit before tax	52.0	8.8
Remove:		
Revaluation of investment property	(26.2)	(8.3)
Lease incentives and letting costs	(0.6)	0.4
Finance costs	26.4	47.5
Other finance costs	53.0	-
Change in fair value of derivative financial instruments	(51.4)	4.3
Changes in working capital:		
Change in trade and other receivables	(23.3)	(0.9)
Change in trade and other payables	8.1	6.0
Cash generated from operations	<u>38.0</u>	<u>57.8</u>

16. Related party transactions

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

	Nature of transaction	2013 £m	2012 £m
Intu Shopping Centres plc	Interest payable	4.7	21.7
Intu (SGS) Finco Limited	Interest payable	<u>15.9</u>	<u>-</u>

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

	Amounts owed from	
	2013 £m	2012 £m
Intu (SGS) Finco Limited	<u>23.9</u>	<u>-</u>

	Amounts owed to	
	2013 £m	2012 £m
Liberty International Group		
Treasury Limited	383.1	-
Intu Shopping Centres plc	-	357.6
Intu Payments Limited	4.4	-
Intu (SGS) Finco Limited	<u>543.2</u>	<u>-</u>

At 31 December 2013 the company held derivative financial instruments with Intu (SGS) Finco Limited being the counterparty. These financial instruments are presented on the balance sheet as an asset with a fair value of £4.2 million.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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. Prior to 19 March 2013, the immediate parent company was Intu Shopping Centres plc, a company incorporated and registered in England and Wales, copies of whose financial statements may be obtained as above. After this date, the immediate parent company is Intu (SGS) Limited, a company incorporated in England and Wales, copies of whose financial statements may be obtained as above.

18. 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.

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.

As at 31 December 2013 there are no non-Intu group borrowings or non-Intu group derivative financial instruments. Interest on amounts due to group undertakings is charged at rates agreed between the company and the group undertakings.

For the year ended 31 December 2012 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.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

18. Financial risk management (continued)

The below table shows the effects of interest rate swaps on the borrowings profile of the company at 31 December 2012:

	Fixed 2012 £m	Floating 2012 £m
Borrowings	-	510.6
Derivative impact	<u>390.0</u>	<u>(390.0)</u>
Net borrowings profile	<u>390.0</u>	<u>120.6</u>
Interest rate protection on floating debt		<u>76.4%</u>

At 31 December 2012 the weighted average rate of interest rates contracted through interest rates swaps was 3.4 per cent.

At 31 December 2012 the approximate impact of a 50 basis point shift upwards in the level of interest rates would be a positive movement £9.2 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 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.

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

18. Financial risk management (continued)

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.

	2013				
	Within 1 year or on demand £m	1-2 years £m	3-5 years £m	over 5 years £m	Total £m
Amounts due to group undertaking	(930.7)	-	-	-	(930.7)
Other financial liabilities	(0.9)	-	-	-	(0.9)
Derivatives payments	(1.5)	(1.5)	(3.4)	-	(6.4)
Derivative receipts	0.8	1.6	8.2	-	10.6
	<u>(932.3)</u>	<u>0.1</u>	<u>4.8</u>	<u>-</u>	<u>(927.4)</u>
	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 group undertaking	(357.7)	-	-	-	(357.7)
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>(393.4)</u>	<u>(32.1)</u>	<u>(559.0)</u>	<u>-</u>	<u>(984.5)</u>

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

18. Financial risk management (continued)

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 2013 is £0.4 million (2012 £0.6 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:

	2013 £m	2012 £m
Up to three months	1.4	2.3
Three to six months	0.9	0.3
Trade receivables	2.3	2.6

At 31 December 2013 trade receivables are shown net of provisions totalling £1.0 million (2012 £0.9 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 2013

18. 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 2013 and 31 December 2012. 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
2013			
Trade and other receivables	26.4	26.4	-
Cash and cash equivalents	7.9	7.9	-
Total cash and receivables	34.3	34.3	-
Derivative financial instruments	4.1	4.1	51.4
Total held for trading assets/(liabilities)	4.1	4.1	51.4
Trade and other payables	(931.6)	(931.6)	-
Total loans and payables	(931.6)	(931.6)	-

INTU LAKESIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

18. Financial risk management (continued)

2012	Carrying value £m	Fair Value £m	Gain/(loss) to income statement £m
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 assets/(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)	-

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.