

Notes forming part of the Group financial statements

1 Accounting policies

Basis of preparation

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

The financial statements have been prepared on the historical cost basis, except for the revaluation of properties, financial instruments and pension assets. In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that may affect the financial statements. Management believes that the judgements made in the preparation of the financial statements are reasonable. However, actual outcomes may differ from those anticipated. Critical accounting judgements include the classification of tenant leases between financing and operating and the determination of profit taking on development management agreements, the accounting policies for these areas of judgement are set out below.

During 2008, the following accounting standards and guidance were adopted by the Group:

- IFRS 7 Financial Instruments – Disclosures;
- Amendments to IAS 23 Borrowing costs; and
- IFRIC 11: IFRS 2 Group and treasury share transactions.

At the date of approval of these financial statements, the following standards and guidance relevant to the Group were in issue:

- IFRIC 14: IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction;
- IFRS 8 Operating segments;
- Amendments to IAS 1 Presentation of financial statements – A revised presentation;
- Amendments to IFRS 2 Share-based payment;
- IFRS 3 (revised) Business combinations; and
- Amendments to IAS 27 Consolidated and separate financial statements.

These pronouncements will either result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 March 2008.

Rent receivable

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

Tenant leases

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

Lease incentives

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

Other property expenses

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

Administration expenses

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

Share-based payment

The cost of granting share-based payments to employees and directors is recognised within administration expenses in the income statement. The Group has used the Stochastic model to value the grants which is dependent upon factors including the share price, expected volatility and vesting period and the resulting fair value is amortised through the income statement over the vesting period. The charge is reversed if it is likely that any non-market based criteria will not be met.

Investment properties

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

1 Accounting policies (continued)

Depreciation

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

Fixtures and fittings – over three to five years.

Leasehold improvements – over the term of the lease.

Development properties

Development properties are carried in property, plant and equipment and are professionally valued each year, on a market value basis, and any surpluses arising are taken to the revaluation reserve with any deficits below cost taken to the income statement. A development property is one purchased for the purposes of development, redevelopment or substantial refurbishment with relatively little, or short-term, income whether planning permission exists or is still to be granted. All directly attributable costs of bringing a property to a condition suitable for letting are capitalised into the cost of the property. Once development is concluded, the property is transferred to investment property. Any cumulative revaluation reserve in respect of that property is transferred to retained earnings.

Joint ventures

Joint ventures are accounted for under the equity method: the Group balance sheet contains the Group's share of the net assets of its joint ventures. Long-term loans owed to or from the Group by joint ventures are included within investments. The Group's share of joint ventures' profit is included in the Group income statement in a single line.

Deferred tax

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

Pension benefits

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

Capitalisation of interest

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

Financial instruments:

i Derivatives The Group's derivatives are measured at fair value in the balance sheet. To the extent that a derivative provides an effective cash flow hedge against the Group's underlying exposure the movements in the fair value of the hedge are taken to equity. To the extent that the derivative does not effectively hedge the underlying exposure the movement in the fair value of the hedge is taken to the income statement.

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

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

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

Head leases

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

Segmental analysis

The Group has only one reportable segment on the basis that all of its revenue is generated from investment properties located in central London; accordingly no segmental analysis is presented.

1 Accounting policies (continued)**Development management agreements**

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

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

2 Rental income

	2008 £m	2007 £m
Gross rental income	39.0	44.9
Amortisation of capitalised lease incentives	5.4	2.1
Ground rents payable	–	(0.1)
	44.4	46.9

3 Administration expenses

	2008 £m	2007 £m
Administration expenses		
Employee costs	11.0	11.2
Other	3.2	2.7
Non-recurring items		
Cost of REIT conversion	–	0.3
	14.2	14.2

Included within administration expenses are fees charged by the auditors comprising audit fees for the Company and its subsidiaries of £0.1 million (2007: £0.1 million) and non-audit fees, which largely related to transactions, of £nil (2007: £0.1 million) and depreciation of £0.4 million (2007: £0.4 million).

Included within employee costs is an accounting charge for the LTIP and SMP schemes of £1.6 million (2007: £1.2 million).

Employee information

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

	2008 Number	2007 Number
Head office and administration	74	68

Included within administration expenses are staff costs, including those of directors, comprising:

	2008 £m	2007 £m
Wages and salaries	9.4	8.9
Social security costs	1.2	1.8
Other pension costs	0.9	0.8
	11.5	11.5
Less: recovered through service charge	(0.5)	(0.3)
	11.0	11.2

The directors received fees of £354,000 (2007: £330,000) and other emoluments of £2,692,000 (2007: £2,764,000), pension contributions have been made for directors of £257,000 (2007: £218,000). The emoluments and pension benefits of the directors are set out in detail within the Directors' remuneration report on page 49.

4 Finance income

	2008 £m	2007 £m
Interest on short-term deposits	0.6	0.2
Other	–	0.1
	0.6	0.3

5 Finance costs

	2008 £m	2007 £m
Interest on bank overdrafts and bank loans	24.7	11.5
Interest on debentures	8.0	7.4
Interest on convertible bonds	–	3.6
Interest on loan notes	–	0.1
Interest on obligations under finance leases	0.7	0.6
Other interest	–	0.2
Gross finance costs	33.4	23.4
Less: capitalised interest at an average rate 6.0% (2007: 5.7%)	(3.1)	(1.5)
	30.3	21.9
Fair value movement on derivatives in ineffective hedging relationships	0.4	0.1
	30.7	22.0

6 Tax

	2008 £m	2007 £m
Current tax		
UK corporation tax	–	0.3
REIT conversion charge	–	28.3
Tax under/(over) provided in previous years	0.1	(0.1)
Total current tax	0.1	28.5
Deferred tax	1.0	(85.3)
Tax charge/(credit) for the year	1.1	(56.8)

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

	2008 £m	2007 £m
(Loss)/profit before tax	(3.0)	326.0
Tax (credit)/charge on profit at standard rate of 30%	(0.9)	97.8
Deferred tax released on conversion to REIT status	–	(135.4)
REIT conversion charge	–	28.3
Property revaluations	–	(41.5)
Sale of investment properties	–	(5.2)
Ring-fenced rental income	(4.2)	(0.9)
Accelerated capital allowances	–	(0.8)
Receipts taxable as chargeable gains or taxed in prior year	–	(0.4)
Other	0.6	(0.5)
Accounting losses arising in the year not deductible for tax purposes/(profits arising in the year not taxable)	4.7	(0.3)
Previous years' corporation tax	0.1	(0.1)
Expenses not deductible for tax purposes	0.1	0.3
Accounting losses arising in the year not relievable against current tax	0.7	1.9
Tax charge/(credit) for the year	1.1	(56.8)

During the year a tax credit of £0.2 million (2007: a charge of £0.1 million) was allocated directly to equity. This credit related to deferred tax in respect of derivatives.

6 Tax (continued)

The Group converted to a REIT on 1 January 2007. From that date, the Group has been exempt from corporation tax in respect of the following:

- rental profits arising from its property investment business; and
- chargeable gains arising on the sale of properties from its property investment business, provided that the relevant property is not both:
 - the subject of a development which costs more than 30% of the property's fair value at the later of 1 January 2007 and the date that it was purchased by the Group; and
 - sold within three years of the completion of the development.

The Group is otherwise subject to corporation tax. The Group estimates that as the majority of its future profits will not be subject to corporation tax, it will have a very low tax charge over the coming years. The Group has no current intention of selling any development properties that would give rise to a tax charge.

As a REIT, Great Portland Estates plc is required to pay Property Income Distributions of at least 90% of the profits (excluding chargeable gains) of the Group's property investment business (calculated by tax rules rather than accounting rules).

In order to ensure that the Group is able to both retain its status as a REIT and to avoid financial charges being imposed, a number of tests must be met by both Great Portland Estates plc and by the Group as a whole on an ongoing basis. These conditions are detailed in the Finance Act 2006.

7 Earnings and net assets per share

Adjusted earnings and net assets per share are calculated in accordance with the guidance issued in January 2006 by the European Public Real Estate Association (EPRA).

Weighted average number of ordinary shares

	2008 Number of shares	2007 Number of shares
Issued ordinary share capital at 1 April	181,019,809	163,181,906
Conversion of convertible bonds	2,430	346,843
Investment in own shares	(707,455)	(1,115,628)
Weighted average number of ordinary shares	180,314,784	162,413,121
Effect of conversion of convertible bonds	–	17,534,658
Diluted weighted average number of ordinary shares	180,314,784	179,947,779

Basic, diluted and adjusted earnings per share

	2008 (Loss)/profit before tax £m	2008 Tax £m	2008 (Loss)/profit after tax £m	2008 (Loss)/earnings per share pence	2007 Profit after tax £m	2007 Earnings per share pence
Basic	(3.0)	(1.1)	(4.1)	(2.2)	382.8	235.7
Effect of convertible bonds	–	–	–	–	2.8	(21.4)
Diluted	(3.0)	(1.1)	(4.1)	(2.2)	385.6	214.3
Deferred tax on accelerated capital allowances	–	–	–	–	(7.7)	(4.3)
Premium on redemption of loans	–	–	–	–	9.0	5.1
REIT conversion charge and associated costs	–	–	–	–	28.5	15.8
Movement in fair value of derivatives	0.4	–	0.4	0.2	0.1	–
Reversal of deferred tax on REIT conversion	–	–	–	–	(76.1)	(42.3)
Deficit/(gain) from investment property	8.7	–	8.7	4.8	(278.9)	(155.0)
Deficit/(gain) from joint venture investment property	17.7	–	17.7	9.8	(42.1)	(23.4)
Adjusted (diluted)	23.8	(1.1)	22.7	12.6	18.4	10.2

7 Earnings and net assets per share (continued)

Net assets per share

	2008 Shareholders' funds £m	2008 Number of shares million	2008 Net assets per share pence	2007 Shareholders' funds £m	2007 Number of shares million	2007 Net assets per share pence
Basic	1,049.3	181.0	580	1,075.9	181.0	594
Convertible bonds	–	–	–	–	–	–
Diluted	1,049.3	181.0	580	1,075.9	181.0	594
Fair value of financial liabilities	17.6		10	(1.7)		(1)
Diluted triple net assets	1,066.9		590	1,074.2		593
Fair value of financial liabilities	(17.6)		(10)	1.7		1
Fair value of derivatives	4.0		2	(0.9)		–
Adjusted net assets	1,053.3		582	1,075.0		594

8 Investment property

Investment property

	Freehold £m	Leasehold £m	Total £m
Book value at 1 April 2006	697.9	146.8	844.7
Acquisitions	123.3	42.7	166.0
Costs capitalised	11.3	5.7	17.0
Disposals	(71.4)	(24.5)	(95.9)
Transfer from development property	22.5	–	22.5
Transfer from investment property under development	–	48.8	48.8
Transfer to investment property under development	(44.4)	–	(44.4)
Net valuation gain on investment property	167.7	56.1	223.8
Book value at 31 March 2007	906.9	275.6	1,182.5
Acquisitions	21.8	–	21.8
Costs capitalised	14.1	0.7	14.8
Disposals	(223.2)	(61.2)	(284.4)
Transfer from investment property-development	61.9	–	61.9
Net valuation gain/(deficit) on investment property	0.5	(9.3)	(8.8)
Book value at 31 March 2008	782.0	205.8	987.8

8 Investment property (continued)**Investment property-development**

	Freehold £m	Leasehold £m	Total £m
Book value at 1 April 2006	72.6	47.8	120.4
Costs capitalised	20.9	1.0	21.9
Interest capitalised	0.6	–	0.6
Disposals	(49.7)	–	(49.7)
Transfer from investment property	44.4	–	44.4
Transfer to investment property	–	(48.8)	(48.8)
Net valuation gain on investment property-development	43.0	–	43.0
Book value at 31 March 2007	131.8	–	131.8
Costs capitalised	37.2	–	37.2
Interest capitalised	1.9	–	1.9
Disposals	(31.2)	–	(31.2)
Transfer to investment property	(61.9)	–	(61.9)
Net valuation gain on investment property-development	7.7	–	7.7
Book value at 31 March 2008	85.5	–	85.5
Total investment property	867.5	205.8	1,073.3

	2008 £m	2007 £m
Net valuation (deficit)/gain on investment property	(1.1)	266.8
(Loss)/profit on sale of investment properties	(5.8)	11.3
Net valuation deficit on development property taken to the income statement	(1.8)	–
(Deficit)/gain from investment property	(8.7)	278.1

The investment and development properties (note 9) were valued on the basis of market value by CB Richard Ellis, independent valuers, as at 31 March 2008 in accordance with the RICS Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors and has been primarily derived using comparable recent market transactions on arm's-length terms. The book value of investment property includes £8.5 million (2007: £10.0 million) in respect of the present value of future ground rents.

At 31 March 2008 the Group had capital commitments of £24.3 million (2007: £58.1 million).

At 31 March 2008, properties with carrying value of £253.5 million (2007: £260.2 million) were secured under first mortgage debenture stock (see note 13).

9 Development property, plant and equipment

	Leasehold improvements £m	Fixtures and fittings £m	Development property £m	Total £m
Cost or valuation				
At 1 April 2006	1.9	0.6	58.6	61.1
Acquisitions	0.1	0.1	8.5	8.7
Costs capitalised	–	–	1.0	1.0
Interest capitalised	–	–	0.8	0.8
Disposals	–	–	(29.2)	(29.2)
Transfers to investment property	–	–	(22.5)	(22.5)
Net valuation gain taken to equity	–	–	1.5	1.5
At 31 March 2007	2.0	0.7	18.7	21.4
Costs capitalised	–	0.1	4.6	4.7
Interest capitalised	–	–	1.2	1.2
Net valuation deficit value taken to income statement	–	–	(1.8)	(1.8)
Net valuation deficit taken to equity	–	–	(0.2)	(0.2)
At 31 March 2008	2.0	0.8	22.5	25.3
Depreciation				
At 1 April 2007	0.3	0.2	–	0.5
Charge for the year	0.2	0.2	–	0.4
At 31 March 2008	0.5	0.4	–	0.9
Carrying amount at 31 March 2007	1.7	0.5	18.7	20.9
Carrying amount at 31 March 2008	1.5	0.4	22.5	24.4

The historical cost of development property at 31 March 2008 was £22.9 million (2007: £17.1 million). The cumulative interest capitalised in development property was £1.7 million (2007: £0.5 million).

10 Investment in joint ventures

The Group has the following investments in joint ventures:

	Equity £m	Loans £m	Total £m
At 1 April 2007	166.5	9.5	176.0
Acquisitions	316.1	14.2	330.3
Movement on loan balances	–	(103.4)	(103.4)
Share of profit of joint ventures	16.1	–	16.1
Share of profit on disposal of joint venture properties	2.7	–	2.7
Share of revaluation deficit of joint ventures	(20.4)	–	(20.4)
Deficit from joint venture investment property	(17.7)	–	(17.7)
Distributions	(10.7)	–	(10.7)
At 31 March 2008	470.3	(79.7)	390.6

The investments in joint ventures comprise the following:

	Country	2008	2007
The Great Capital Partnership	United Kingdom	50%	–
The Great Ropemaker Partnership	United Kingdom	50%	–
The Great Victoria Partnership	United Kingdom	50%	50%
The Great Victoria Partnership (No. 2)	United Kingdom	50%	50%
The Great Wigmore Partnership	United Kingdom	50%	50%

10 Investment in joint ventures (continued)

On 25 April 2007 the Group entered into a joint venture with Liberty International subsidiary, Capital & Counties Limited. The Group contributed four properties worth £161.6 million and a balancing sum of £68 million in cash. On 26 March 2008 the Group entered into a joint venture with Ropemaker Properties Limited, the property nominee of the BP Pension Fund. The Group contributed its Blackfriars development site to the joint venture for consideration of £20.5 million.

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

	Great Capital Partnership £m	Great Ropemaker Partnership £m	Great Wigmore Partnership £m	Great Victoria Partnerships £m	2008 Total £m	2007 Total £m
Investment property	337.1	12.2	79.4	129.3	558.0	212.6
Current assets	8.9	–	1.1	6.3	16.3	14.3
Loans to/(from) Partners	85.9	–	(0.7)	(5.5)	79.7	(9.5)
Bank loans	(111.7)	–	–	(46.1)	(157.8)	(46.0)
Current liabilities	(8.1)	(1.4)	(1.8)	(5.2)	(16.5)	(4.9)
Finance leases	(9.4)	–	–	–	(9.4)	–
Net assets	302.7	10.8	78.0	78.8	470.3	166.5
Net rental income	13.1	–	3.1	5.6	21.8	5.6
Finance costs	(0.7)	–	–	(2.1)	(2.8)	(1.8)
Property and administration costs	(1.5)	–	(1.2)	(0.2)	(2.9)	(0.7)
Share of profit from joint ventures	10.9	–	1.9	3.3	16.1	3.1
Revaluation of investment property	(6.9)	(4.8)	(8.1)	(0.6)	(20.4)	38.4
Profit on sale of investment property	2.7	–	–	–	2.7	3.7
Net profit/(loss)	6.7	(4.8)	(6.2)	2.7	(1.6)	45.2

The book value of investment property includes £9.4 million (2007: £nil) in respect of the present value of future ground rents.

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

	2008 £m	2007 £m
New loans during the year	89.2	–
Loans outstanding at the year end from/(to) joint ventures	79.7	(9.5)
Distributions	10.7	2.5
Fee income	5.8	1.6

None of the above balances are secured. The Group earns fee income from its joint ventures for the provision of management services. All of the above transactions are made on terms equivalent to those that prevail in arm's-length transactions.

At 31 March 2008 the Group had capital commitments of £5.4 million (2007: £nil) in respect of balances arising in its joint ventures.

11 Trade and other receivables

	2008 £m	2007 £m
Trade receivables	3.1	4.4
Allowance for doubtful debts	(0.3)	(0.5)
	2.8	3.9
Prepayments and accrued income	1.6	1.1
Other trade receivables	5.4	4.9
Amounts recoverable under development management agreements	12.4	11.4
Derivatives	–	0.9
	22.2	22.2

Trade receivables consist of rent and service charge monies, which are due on the quarter day with no credit period. Interest is charged on trade receivables in accordance with the terms of the tenant's lease. Trade receivables are provided for based on estimated irrecoverable amounts determined by past default experience and knowledge of the individual tenant's circumstance. At 31 March 2008 the weighted average of the Group's trade receivables that were past due but not impaired was 21 days.

Amounts recoverable on development management agreements relate to amounts due to the Group primarily on its Tooley Street development. During the year the Group received payments on account of £34.4 million (2007: £12.2 million). The aggregate costs incurred and profits less losses recognised to date are £46.6 million (2007: £18.3 million) and £12.4 million (2007: £5.3 million) respectively. There are no material retentions on the projects.

11 Trade and other receivables (continued)

	2008 £m	2007 £m
Movements in allowance of doubtful debts		
Balance at the beginning of the year	(0.5)	(1.2)
Amounts recovered during the year	0.1	–
Amounts written off as uncollectible	0.1	0.7
	(0.3)	(0.5)

12 Trade and other payables

	2008 £m	2007 £m
Trade payables	9.8	12.7
Non-trade payables and accrued expenses	16.8	18.0
	26.6	30.7

13 Interest bearing loans and borrowings

	2008 £m	2007 £m
Non-current liabilities at amortised cost		
Secured		
£142.9 million 5½% debenture stock 2029	144.3	144.4
Unsecured		
Bank loans	281.0	246.0
Non-current liabilities at fair value		
Derivatives	4.0	–
	429.3	390.4
Current liabilities at amortised cost		
Loan notes	–	2.9
	429.3	393.3

The Group has two floating rate revolving credit facilities of £300 million, £200 million and a £50 million bilateral facility. The £300 million facility is unsecured, attracts a floating rate of 0.525% above LIBOR and expires in 2012. The £200 million facility is unsecured, attracts a floating rate of 0.50% above LIBOR and expires in 2012. The £50 million facility is unsecured, attracts a floating rate of 0.65% above LIBOR and expires in 2010. The unsecured loan notes, which together with an associated guarantee attracted a floating rate of interest of 0.275% in aggregate above LIBOR matured in April 2007. All interest bearing loans and borrowings are in sterling. At 31 March 2008 the Group had £269 million (2007: £239 million) of undrawn credit facilities.

14 Financial instruments

Categories of financial instrument	Carrying amount 2008 £m	Income/ (expense) 2008 £m	Gain/(loss) to equity 2008 £m	Carrying amount 2007 £m	Income/ (expense) 2007 £m	Gain/(loss) to equity 2007 £m
Interest rate swap, caps and collars	(4.0)	(0.4)	(4.5)	0.9	(0.1)	0.7
Non-current liabilities at fair value	(4.0)	(0.4)	(4.5)	0.9	(0.1)	0.7
Trade receivables	22.2	–	–	22.2	–	–
Cash and cash equivalents	0.7	0.6	–	4.2	0.2	–
Loans and receivables	22.9	0.6	–	26.4	0.2	–
Trade and other payables	(26.6)	–	–	(30.7)	–	–
Interest bearing loans and borrowings	(425.3)	(32.7)	–	(393.3)	(22.8)	–
Finance leases	(8.5)	(0.7)	–	(10.0)	(0.6)	–
Liabilities at amortised cost	(460.4)	(33.4)	–	(434.0)	(23.4)	–
Total financial instruments	(441.5)	(33.2)	(4.5)	(406.7)	(23.3)	0.7

14 Financial instruments (continued)

Financial risk management objectives**Credit risk**

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

The concentration of credit risk is limited due to the large and diverse tenant base. Accordingly the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of rent deposits obtained. Details of the Group's receivables are summarised in note 11 of the financial statements.

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

Liquidity risk

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

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

	Carrying amount £m	Contractual cash flows £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 31 March 2008						
Non-derivative financial liabilities						
£142.9 million 5½% debenture stock 2029	144.3	311.6	8.0	8.0	24.1	271.5
Bank loans	281.0	349.7	17.5	17.5	314.7	–
Derivative financial instruments						
Interest rate swaps	3.7	(1.3)	(0.4)	(0.4)	(0.5)	–
Interest rate caps	(0.1)	–	–	–	–	–
Interest rate collars	0.4	–	–	–	–	–
	429.3	660.0	25.1	25.1	338.3	271.5

	Carrying amount £m	Contractual cash flows £m	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 31 March 2007						
Non-derivative financial liabilities						
£142.9 million 5½% debenture stock 2029	144.4	319.6	8.0	8.0	24.1	279.5
Bank loans	246.0	318.3	14.7	14.7	288.9	–
Loan notes	2.9	2.9	2.9	–	–	–
Derivative financial instruments						
Interest rate swaps	(0.7)	(0.5)	(0.1)	(0.1)	(0.3)	–
Interest rate caps	(0.2)	–	–	–	–	–
	392.4	640.3	25.5	22.6	312.7	279.5

Market risk

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

14 Financial instruments (continued)

The Group uses interest rate swaps, caps and collars to manage its interest rate risk.

Interest rate swaps

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

Interest rate caps

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

Interest rate collars

An interest rate collar is an interest rate cap combined with an interest rate floor. In a floor arrangement if the underlying interest rate falls below a specified rate (the "floor") the Group will make a payment based upon the difference between the underlying rate and the floor. Therefore an interest rate collar gives the Group certainty that the interest rate it will pay will only fluctuate between the floor and the cap giving certainty that its interest rate exposure can only fluctuate within these restricted parameters.

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

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 £m	2007 £m	2008 £m	2007 £m
Cash flow hedges						
Interest rate swaps						
Between two and five years	5.50%	5.12%	185.0	40.0	3.7	(0.7)
Interest rate caps						
Between two and five years	6.00%	6.00%	40.0	40.0	(0.1)	(0.2)
Interest rate collars						
Between two and five years	4.68%–6.5%	–	25.0	–	0.4	–
			250.0	80.0	4.0	(0.9)

As at 31 March 2008 the aggregate amount of unrealised losses in respect of cash flow hedges was £3.8 million (2007: £0.7 million). It is anticipated that floating interest cash flows will continue to arise until the maturity of the debt. Amounts deferred in equity will be realised in line with these cash flows.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both non-derivative and derivative financial instruments at the balance sheet date. For the floating liabilities the analysis is prepared assuming the amount of the liability at 31 March 2008 was outstanding for the whole year.

	Impact on profit		Impact on equity	
	2008 £m	2007 £m	2008 £m	2007 £m
Increase of 50 basis points	–	(0.1)	–	(0.1)
Increase of 100 basis points	(0.1)	(0.2)	(0.1)	(0.2)
Decrease of 50 basis points	–	0.1	–	0.1
Decrease of 100 basis points	0.1	0.2	0.1	0.2

Fair value of interest-bearing loans and borrowings

	2008	2008	2007	2007
	Book value £m	Fair value £m	Book value £m	Fair value £m
Current liabilities at amortised cost	–	–	2.9	2.9
Non-current liabilities at amortised cost	425.3	407.7	390.4	392.1
Non-current liabilities held at fair value (derivatives)	4.0	4.0	(0.9)	(0.9)
	429.3	411.7	392.4	394.1

The fair values of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements. Quoted market values have been used to determine the fair value of listed long-term borrowings, and derivatives have been valued by reference to market rates of interest. The market values of all other items have been calculated by discounting the expected future cash flows at market interest rates.

15 Finance leases

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

	2008 Minimum lease payments £m	2008 Interest £m	2008 Principal £m	2007 Minimum lease payments £m	2007 Interest £m	2007 Principal £m
Less than one year	0.6	(0.6)	–	0.7	(0.7)	–
Between one and five years	2.3	(2.3)	–	2.7	(2.7)	–
More than five years	68.2	(59.7)	8.5	76.8	(66.8)	10.0
	71.1	(62.6)	8.5	80.2	(70.2)	10.0

16 Deferred tax

	1 April 2007 £m	Reversal to income £m	Reversal directly to equity £m	31 March 2008 £m
Deferred tax liabilities				
Derivatives	(0.2)	–	0.2	–
Deferred tax assets				
Long-Term Incentive Plan and Share Matching Plan	0.9	(0.9)	–	–
Pension liabilities	0.1	(0.1)	–	–
Net deferred tax asset/(provision)	0.8	(1.0)	0.2	–

A deferred tax asset of £4.9 million, mainly relating to tax losses carried forward at 31 March 2008, was not recognised because it is uncertain whether future taxable profits against which these losses can be offset will arise.

17 Share capital

	2008 Number	2008 £m	2007 Number	2007 £m
Ordinary shares of 12½ pence each				
Authorised	550,100,752	68.8	550,100,752	68.8
Allotted, called up and fully paid				
At 1 April	181,019,809	22.6	163,181,906	20.4
Conversion of convertible bonds	3,225	–	17,837,903	2.2
At 31 March	181,023,034	22.6	181,019,809	22.6

18 Share premium

	2008 £m	2007 £m
At 1 April	68.2	15.1
Conversion of convertible bonds	–	53.1
At 31 March	68.2	68.2

19 Reserves

	Hedging reserve £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m
At 1 April 2007	0.5	16.4	1.5	967.7
Loss for the year	–	–	–	(4.1)
Net valuation deficit taken to equity	–	–	(0.2)	–
Actuarial gains on defined benefits schemes	–	–	–	1.9
Fair value movement on derivatives in effective hedging relationships	(4.5)	–	–	–
Deferred tax on fair value movements on derivatives	0.2	–	–	–
Dividends to shareholders	–	–	–	(20.6)
At 31 March 2008	(3.8)	16.4	1.3	944.9

20 Investment in own shares

	2008 £m	2007 £m
At 1 April	1.0	1.8
Employee Long-Term Incentive and Share Matching Plan charge	(1.6)	(1.2)
Purchase of shares	0.9	–
Transfer to retained earnings	–	0.4
At 31 March	0.3	1.0

The investment in the Company's own shares is held at cost and comprises 758,027 shares (2007: 1,115,628 shares) held by the Great Portland Estates plc LTIP Employee Share Trust which will vest in certain senior employees of the Group if performance conditions are met.

During the year 541,757 shares (2007: nil) were awarded to directors and senior employees in respect of the 2004 LTIP award. On 26 November 2007 the Company purchased a further 184,156 shares at an average cost of £4.63 per share to augment the scheme.

The fair value of shares awarded and outstanding at 31 March 2008 was £7.7 million (2007: £4.9 million).

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

	2008 £m	2007 £m
Deficit/(gain) from investment property	8.7	(278.1)
Employee Long-Term Incentive and Share Matching Plan charge	1.6	1.2
Amortisation of capitalised lease incentives	(5.4)	0.2
Share of profit from joint ventures	12.3	(42.7)
Adjustments for non-cash items	17.2	(319.4)

22 Dividends

	2008 £m	2007 £m
Ordinary dividends paid		
Interim dividend for the year ended 31 March 2008 of 3.9 pence per share	7.0	–
Final dividend for the year ended 31 March 2007 of 7.55 pence per share	13.6	–
Interim dividend for the year ended 31 March 2007 of 3.75 pence per share	–	6.1
Final dividend for the year ended 31 March 2006 of 7.33 pence per share	–	11.9
	20.6	18.0

The proposed final dividend of 8.0 pence per share (2007: 7.55 pence per share) was approved by the Board on 21 May 2008 and is payable on 8 July 2008 to shareholders on the register on 13 June 2008. The dividend is not recognised as a liability at 31 March 2008. The 2007 final dividend and the 2008 interim dividend were paid in the year and are included within the Group reconciliation of other movements in equity.

23 Operating leases

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

	2008 £m	2007 £m
The Group as a lessor		
Less than one year	35.3	45.0
Between one and five years	103.4	115.2
More than five years	137.9	88.0
	276.6	248.2

The Group leases its investment properties under operating leases. The weighted average length of lease at 31 March 2008 was 6.4 years (2007: 5.4 years). All investment properties except those under development generated rental income and no contingent rents were recognised in the year (2007: £nil).

24 Employee benefits

The Group contributes to a defined benefit pension plan (the "Plan"), the assets of which are held by trustees separately from the assets of the Group. The Plan has been closed to new entrants since April 2002. The most recent actuarial valuation of the Plan was conducted at 1 April 2005 by a qualified independent actuary using the projected unit method. The Plan was valued using the following main assumptions:

	2008 %	2007 %
Discount rate	6.50	5.25
Expected return on Plan assets	5.56	5.13
Expected rate of salary increases	4.50	4.00
Future pension increases	3.50	3.00

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the long-term rate of return on assets assumption for the portfolio. This resulted in the 5.56% assumption.

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

	2008 £m	2007 £m
Present value of unfunded obligations	13.9	16.0
Fair value of Plan assets	(16.1)	(15.8)
Pension (asset)/liability	(2.2)	0.2

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

	2008 £m	2007 £m
Current service cost	0.2	0.2
Interest on obligation	0.8	0.8
Expected return on Plan assets	(0.9)	(0.8)
	0.1	0.2

Actuarial gain recognised immediately in the Group statement of recognised income and expense

Cumulative actuarial gains recognised in the Group statement of recognised income and expense

1.9	–
4.2	2.3

24 Employee benefits (continued)

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

	2008 £m	2007 £m
Defined benefit obligation at 1 April	16.0	15.6
Service cost	0.2	0.2
Interest cost	0.8	0.8
Actuarial loss	(2.7)	(0.2)
Benefits paid	(0.4)	(0.4)
Defined benefit obligation at 31 March	13.9	16.0
Changes to the fair value of the Plan assets are as follows:		
Fair value of Plan assets at 1 April	15.8	14.9
Expected return	0.9	0.8
Actuarial loss	(0.8)	(0.2)
Contributions	0.6	0.7
Benefits paid	(0.4)	(0.4)
Fair value of Plan assets at 31 March	16.1	15.8
Net (asset)/liability	(2.2)	0.2

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

	2008 £m	2007 £m
Equities	6.4	6.3
Bonds	9.7	9.5
	16.1	15.8

The actual return on Plan assets was £0.1 million (2007: £0.6 million).

Life expectancy assumptions:

	2008 Years	2007 Years
Male aged 65	20	20
Female aged 65	23	23
Male aged 45	21	21
Female aged 45	24	24

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

	2008	2007	2006	2005
Difference between expected and actual return on the scheme assets:				
Amount £m	(0.8)	(0.2)	1.9	0.6
Percentage of scheme assets	(5%)	(1%)	13%	5%
Experience gains and losses on scheme liabilities:				
Amount £m	–	–	0.5	0.6
Percentage of scheme assets	–	–	3%	4%
Total gains and losses:				
Amount £m	1.9	–	1.0	1.2
Percentage of scheme assets	13%	–	7%	9%

The Group expects to contribute approximately 20.4% of members' pensionable salaries plus £0.4 million to the Plan in the year to 31 March 2009. However this rate will be subject to review pending the outcome of the triennial funding valuation due as at 1 April 2008.