EPRA

European Public Real Estate Association

Best Practices Policy Recommendations

May 2008

BEST PRACTICES POLICY RECOMMENDATIONS

Best Practices Committee

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Introduction

Attached please find a set of revised policy recommendations from EPRA's Best Practices Committee. These recommendations include changes and additions compared to our recommendations from November 2006. They are primarily the result of the Noordwijk-summit in October 2007 and other input from EPRA members European-wide. We hope that the recommendations continue to advance EPRA's efforts to make the financial statements of public real estate companies in Europe clearer, more transparent and comparable across Europe.

As you review this, it is important to be aware of the context in which EPRA is recommending best practices. In order to facilitate compliance by real estate companies, the Best Practices Recommendations follow the general structure of annual accounts:

1 **General items:** EPRA is neither an accounting body nor a valuation body. EPRA-members report in accordance with International Financial Reporting Standards (IFRS). The Best Practices Recommendations provide a framework for:
   - Specific additional guidance for real estate companies within the IFRS framework;
   - Uniform performance reporting and presentation between real estate companies;
   - Additional disclosure guidance.

2 **Accounting and valuation principles:** for all areas where IFRS is not specific enough for real estate companies, the Best Practices Recommendations provide tailored guidance, aiming for uniform accounting and valuation principles amongst our members.

3 **Presentation of accounts:** as IFRS, to some extent, is "format free" regarding the presentation of the balance sheet, profit & loss accounts and cash flow statements, the Best Practices Recommendations propose standard formats for the presentation of these accounts.

4 **Notes and additional disclosure:** making the performance of real estate companies insightful requires additional notes and disclosure items, based upon uniform recommended standards.

5 **Performance reporting:** the EPRA Best Practices Recommendations provide guidance on the presentation of portfolio performance in five schedules on, rental data, valuation, like-for-like rental income, Development and redevelopment property and lease expiry and renewal.

6 **NAV/EPS:** The EPRA Best Practices Recommendations provide standard calculation methods for Triple NAV and EPS.

These recommendations are effective for annual accounts for accounting periods ending as from 31 December 2008.

Compliance with the recommendations will be a basis for EPRA's Best Annual Report award, sponsored by PGGM.

We recommend that each EPRA member utilising these recommendations refer readers to the EPRA web page for additional background on the Best Practices Recommendations.

The Best Practices Recommendations are a "live document"; additional issues must be addressed by EPRA's Best Practices Committee, and changes in IFRS need to be incorporated as they occur. We need the feedback of our members to continue to make these recommendations relevant and reflective of the views of EPRA's membership.

Thank you to the many people who have contributed their thoughts as to areas of improvement to last year's recommendations.

Hans Grönloh
Chairman
Best Practices Committee
May 2008

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1 General items and narrative

1.1 Status and application of Best Practices Recommendations

Issue:

- As from the financial year 2005, listed companies report in accordance with International Financial Reporting Standards (IFRS).

Rationale:

- The purpose of EPRA's Best Practices Recommendations is to enhance transparency, uniformity and comparability of financial reporting by real estate companies.
- EPRA is not an accounting body and as such cannot dictate specific accounting treatment or valuation approaches. For real estate companies, EPRA's Best Practices Recommendations provide IFRS-guidance for industry-specific issues and choice-items, as well as additional industry-specific information to be provided in financial reporting.

Recommendation:

- EPRA's Best Practices Recommendations provide guidance in addition to IFRS, and with IFRS as basis.
- EPRA's Best Practices Recommendations are effective for financial reports with accounting periods ending after 31 December 2005.
- Real estate companies should include a statement in their accounts, indicating to which extent the accounts comply with the EPRA Best Practices Recommendations. If there is no (full) compliance, real estate companies are recommended to specify the reasons for non-compliance for the specific areas.

1.2 Exemptions for compliance with Best Practices Recommendations

Issue:

- In specific circumstances, compliance with the Best Practices Recommendations may be impractical.

Rationale:

- Compliance with EPRA's Best Practices Recommendations should not lead to substantial additional costs for real estate companies, and should not cause conflicts with laws and regulations. Irrelevant information should also be avoided.

Recommendation:

- Real estate companies do not have to comply with one or more Best Practices Recommendations in the following circumstances:
  - When compliance with a recommendation would lead to substantial additional costs in gathering the information required.
  - When a recommendation relates to an amount or item that is of immaterial significance for the specific company.
  - When local GAAP or regulations are in conflict with a recommendation (as discussed in BPR 1.1).

1.3 Management review and narrative - General

Issue:

- For financial statements, IAS 1.9 encourages enterprises to include a (financial) review by management, which describes and explains the main features of the enterprise's financial performance and financial position.

Rationale:

- The financial performance and position of real estate companies requires substantial additional narrative information.

Recommendation:

- In their financial statements, real estate companies should include a management review and narrative including the elements as described in IAS 1.9.
- Additional elements to be included are discussed in BPR 1.4, 1.5 and 1.8.

1.4 Management review and narrative – Strategy information

Issue:

- Information of strategic nature is highly valuable if it is comparable between companies, but some strategic information may be sensitive and confidential.

Rationale:

- EPRA's recommendation is that disclosure be increased to clearly inform shareholders and users of financial accounts as to what the company intends to do, how it intends to do it, and to back it up clearly with relevant information and statistics. The strategy statement should also include detail on the previous reporting year's strategy and achievements.

Recommendation:

- Real estate companies should include a "strategy segment" in their management review and narrative (as discussed in BPR 1.3). This segment should at least cover the following elements and subjects[1]:
  - Corporate vision/mission
  - Review of the strategy for the year under review, such as:
    - Review of activities for the year under review
    - Review of strategy statement from the previous reporting year
    - Success in following previous reporting years' strategy
    - Problems in year under review
    - Any key personnel changes and impact on strategy
    - Discussion of activities regarding principal properties
  - Current Position, such as:
    - Position in current principal markets
    - What is the principal nature of the business? How will that change?
    - Discussion of principal asset classes (locations – countries/ cities; property types; activity types such as investment, trading, facilities management, etc.)
    - Discussion of service activities – current & proposed
  - Market Outlook, such as:
    - Principal issues
    - How do economic and market conditions impact on business?
  - Strategy for coming reporting year(s), such as:
    - Principal developments, and stage of development
    - General strategic direction
    - What are the company's principal financial objectives (e.g. maximise asset value, return on equity, earnings per share)?
    - What is the company looking to do with properties: trade, invest, manage, etc?
    - Is the company expanding/selling – any specific sales planned?
    - How do activities tie in with financial objectives?
    - Discussion of principal asset classes
    - Any corporate activities planned? (e.g. mergers, acquisitions, disposals)

[1] Items listed in the sub-bullets have been included for illustrative purposes

  - Funding objectives – types of funding, gearing levels, rating objectives.
  - Any key personnel changes proposed and likely impact on strategy.
  - Human Resources Strategy
- Challenges envisaged in the coming reporting year(s).

1.5 Management review and narrative – Supervisory Board and Executive Board information

Recommendation:

- Real estate companies should provide additional information on the members of the Supervisory Board and Executive Board.
- For each of the members of the Executive Board, the following information should be provided:
  - Name
  - Age
  - Sex
  - Nationality
  - Expiration of current term
  - Title/ Role
  - Are they on the audit/ remuneration committee?
  - Other interests/ directorships
  - Photograph
- For each of the members of the Supervisory Board and non-Executive Directors, the following information should be provided, in addition to the information as set out in the previous bullet:
  - Main employment
  - Relevant work history, including prior directorships and any relationships with major shareholders

1.6 Language of financial reporting

Issue:

- IFRS do not prescribe financial statements to be issued in a specific language.

Rationale:

- There is a constant need to broaden the industry's access to capital.
- English is increasingly utilised as the international business language. Communication issued simultaneously with a company's domestic language will strongly encourage non-local investors to feel that they are able to understand developments equally with local investors. EPRA will leave it to its members to decide upon the use of their domestic language.

Recommendation:

- Financial reports and associated management statements, footnotes and tables/exhibits of real estate companies should at least be issued in English. English should also be used on relevant web sites and on press releases.

1.7 Timing of annual and interim financial reporting

Issue:

- To enhance comparability and usefulness of financial reporting by real estate companies, this information should be provided within a limited timeframe.

Rationale:

- The timeframe should be short enough for the information to be useful, and long enough for the enterprise to prepare the information.
- A period of 60 days is considered as an appropriate timeframe for interim reports, but for annual reports, this period may be too short.

Recommendation:

- Real estate companies should publish their financial reports within 90 days after the close of the reporting period for annual reports and within 60 days for interim reports.
- A minimum of five working days' notification should be provided of forthcoming earnings announcements. Announcement of results should be made prior to the opening or after the closing of the stock market. Any preliminary announcements should include as much of the detail included in these recommendations as possible

1.8 Management review and narrative – Financial risk management policies

Recommendation:

- Real estate companies should provide a clear description of their policies for managing financial risks, including:
  - A description and sensitivity analysis of the aggregate effect of interest rate changes on a company's interest and other financial expenses
  - A description of the group's policy in relation to fixed vs. floating interest rate exposures
  - A description of the group's policy in relation to interest rate maturity dates
  - A description of the group's policy in relation to managing currency positions

1.9 Development property

Issue:

- Development activities comprise a greater financial risk to a company than the ownership of existing rented assets. How should development property be accounted for and disclosed?

Rationale:

- The valuation of development property is described in IAS 16.
- Additional information on development property is required to obtain a good understanding of the related risks.

Recommendation:

- Real estate companies should include the following information in their management narrative on development assets:
  - Information on sub-portfolios as appropriate: (e.g. appropriate sector, region or city):
    - Development costs, including costs to date, costs to completion and capitalised interest
    - Breakdown of lettable area according to regions and usage (e.g. office, residential, etc)
  - The following information should be provided for each development project:
    - Address
    - Type of property (e.g. the respective proportion of office/retail/residential/storage/etc.)
    - Lettable building space
    - Expected date of completion
    - Percentage of ownership (and commentary on control provisions)
    - Status (e.g. planning permission/under construction/letting status, etc.)

1.10 Investment assets

Recommendation:

- Real estate companies should include the following information on investment assets in their management narrative or in an exhibit:
  - Information on sub-portfolios as appropriate: (e.g. appropriate sector, region or city):
    - Area in square metres
    - Average rent per square metre
    - Annualised net rent based on current rent roll
    - Market rents (ERV) if fully leased at current market rents
    - Cash flow
    - Operating profit
    - Fair Market Value
    - Vacancy by area and rent
    - Description of lease expiration profile
    - Top 10 tenants by rental income
    - Rental income breakdown by tenant business sector
  - A list of the major properties owned, containing the following information for each major property/building in the portfolio:
    - Address
    - Land Area
    - Lettable building space
    - Type of property (e.g. the respective proportion of office/retail/residential/storage, etc.)
    - Occupancy rate
    - Acquisition Date
    - Percentage of ownership (and commentary on control provisions)
    - Form of ownership (e.g. fee or leasehold ownership)
    - Year of construction completion/major refurbishment

1.11 Like-for-like rental growth reporting

Issue:

- Headline rental growth in general is a poor indicator of the performance of real estate company's portfolio, as many of the changes in headline growth may stem from acquisitions or from completion of development projects.

Rationale:

- Information on the growth in rental income other than from acquisitions and disposals, allows stakeholders to arrive at an estimate of organic growth. This can be used to measure whether the reversions feed through as anticipated, and whether the vacancy rates are changing.
- Like-for-like rental growth compares the growth of the rental revenues of the portfolio that has been consistently in operation, and not under development, during the two full preceding periods that are described. 2008 like-for-like income growth thus compares the rental income of the stabilised portfolio with exactly the same portfolio in 2007.
- Rental income growth may be derived from several categories, including:
  - The effect of indexation to inflation or another price index;
  - The effect of an increase/decrease in the vacancy rate of the stabilised portfolio;
  - The effect of renegotiating rents with existing or new tenants.

Recommendation:

- Real estate companies should disclose the like-for-like rental growth for each significant sector of the portfolio and each geographical business segment at least twice a year.
- To enhance comparability, growth figures should be calculated year-on-year. Real estate companies should publish the growth in absolute amounts, applying fixed foreign currency exchange rates, as well as on a percentage basis.
- In addition, real estate companies should describe the size, in value, of the total portfolio or investment portfolio on which the like-for-like rental growth is based

Additional comment:

- In recommendation 5.1 a template for like-for-like rental growth reporting is included. We recognise that there are many issues that can be addressed in relation to like-for-like rental growth reporting. It is therefore important to disclose the basis and assumptions underlying the like-for-like information.

2 Accounting and Valuation Principles

2.1 Investment property – Accounting basis

Issue:

- IAS 40.30 allows real estate companies to choose either the fair value model or the cost model as their accounting policy for its investment properties.

Rationale:

- It is EPRA's Best Practices Recommendations' aim to encourage uniform and comparable performance reporting by real estate companies. Fair value accounting will enhance uniformity, comparability and transparency of financial reporting by real estate companies.
- Fair value accounting is an appropriate approach to calculate NAV.
- Cost accounting is based upon historical events and decisions. Fair value accounting is future-focused.
- Fair value accounting allows performance benchmarking with direct property market indices, such as IPD.

Recommendation:

- Real estate companies should account for their property investments based upon the fair value model.
- Where real estate companies decide not to follow the above recommendation and instead account for their investment properties based upon the depreciated cost model, the rationale for this should be clearly explained in the notes to the accounts.

2.2 Investment property – Valuation standard

Issue:

- The description of and disclosure on the valuation standard applied by real estate companies should enable improved comparability of their financial statements.

Rationale:

- It is EPRA's aim to encourage the credibility of the valuation of investment property.
- EPRA is not in a position to make unequivocal recommendations on the use of specific valuation methodologies.

Recommendation:

- Valuation - the valuation of investment property held by real estate companies should be at fair value (market value), assessed in accordance with International Valuation Standards (IVS), as set out by the IVSC. The valuation should be aggregated on an ungeared basis to include all property and related interests held, and should be performed by a valuer meeting the definitions as laid down by IVS. Where local regulations impose a departure from IVS, the difference should be explained and quantified. If the value accounted for in the financial statements deviates materially from the value as assessed by the valuer, this fact and the rationale behind should be disclosed.
- Timing - Valuations should, in accordance with IAS 40, be performed per reporting date. Companies should have the portfolio valued by an external valuer at least once a year per, the year end reporting date. Companies are encouraged to have their portfolios externally valued twice a year.
- Reporting - the full-ungeared portfolio value should be reported as a minimum, in addition to a note of confirming compliance with IVS and any departures or additional assumptions employed.
- Disclosure - real estate companies should disclose the valuation methodology applied (e.g. open market value existing use, net of purchasers costs), and specify (on an average basis for each sector of the portfolio) the quantitative elements and assumptions applied in valuing the investments property. For instance, when a DCF approach is used, the average growth rates, costs, discount rates and exit yields should be quoted.
- Balance Sheet - the valuation of assets for the entire portfolio, and sub-portfolios, should directly and transparently tie to a company's balance sheet. A reconciliation of the movements in the value of investment properties from the previous year should be provided in the notes to the accounts. Where there is a change in the valuation methodology, this should be explained and quantified.
- Joint Ventures and Partnerships may have different annual or semi-annual valuations. In that case, the last approved valuation (as adjusted for material acquisitions, divestments and capital expenditure) should be used for accounting purposes. This fact should be disclosed.

2.3 Borrowing costs

Issue:

- As an allowed alternative treatment, IAS 23.10 allows capitalization of borrowing costs attributable to the construction of a qualifying asset, such as development projects.

  The IASB adopted in 2007 revisions that prohibit immediate expensing of borrowing costs. Those revisions are effective for borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on, or after, 1 January 2009. Earlier application is permitted.

Rationale:

- Borrowing costs are an essential element of real estate development projects.
- If a development project is acquired at the moment of completion, borrowing costs are reflected in the transaction price.

Recommendation:

- Real estate companies undertaking (re)development projects or refurbishments should capitalize borrowing costs during the development period as follows:
  - Start: at the beginning of the project, e.g. when expenses for the project are being made.
  - End: at completion of (the construction of) the project (delivered by the constructor or practical completion). No interest is to be capitalized for the period in which the real estate is finalized, but not (fully) let.
  - Rate: the borrowing costs to be capitalized (with disclosure of the rate used) should be either:
    - The average borrowing costs of the company
    - The marginal borrowing costs if the project moves the company to a different rate for its last tranche of debt
    - The specific borrowing costs of the project when a specific (mortgage) loan for the project has been obtained.
- In addition, EPRA recommends that companies provide a description of the group's policy regarding the capitalization of interest including interest rate assumptions and the criteria for capitalization.

3 Presentation of Accounts

3.1 Profit & loss accounts

Issue:

- EPRA should recommend a format for the profit & loss accounts.

Rationale:

- The recommended format should be IFRS compliant.
- The recommended format should do justice to real estate-specific performance characteristics; enabling the reading to understand the components that lead to net profit, depending on the actual activities of the company.
- The recommended format should enable the reader, to the extent possible under IFRS, to understand the components of both direct and indirect profit and of realised and unrealised profit.

Recommendation:

- Real estate companies should present their profit & loss accounts in a format, which resembles the one presented on the next page.

Guidance:

- The profit and loss account is based on the IAS 40 fair value model for investment properties. Should companies decided to use the cost model the valuation gains/losses line items should be deleted and a depreciation line should be added.
- The recommended format is for an investment property company; should the company have significant other activities the profit and loss account should be adjusted accordingly.
- The profit and loss account should include a 'net rental income' line. This net rental income should relate to the valuation basis of the directly held investment properties.
- Should there be significant other activities; for example significant management fee income, the related income and expenses should not be included in other income, but be presented separately.
- Income tax is shown in one line. Companies are encouraged to present deferred tax and current tax separately.

Consolidated income statement

For the year ended 31 December 2008

In thousands of euro	Note	2006	2005	2008	2007
Total revenues		3,154	2,540	63,080	50,800
Total expenses excluding finance costs		-1,309	-1,041	(26,180)	(20,820)
Gross rental income		639	582	12,780	11,640
Interest received on finance lease assets		13	12	260	240
Ground rents paid		-11	-10	(220)	(200)
Service charge income on principal basis		98	83	1,960	1,660
Service charge expenses on principal basis		-103	-89	(2,060)	(1,780)
Property operating expenses		-73	-75	(1,460)	(1,500)
Net rental income		563	503	11,260	10,060
Proceeds from sale of trading properties		110	89	2,200	1,780
Carrying value of trading properties sold		-99	-84	(1,980)	(1,680)
Profit on disposal of trading properties		11	5	220	100
Administrative expenses		-52	-44	(1,040)	(880)
Other income		10	11	200	220
Other expenses		-10	-9	(200)	(180)
Net other income		0	2	-	40
Investment property disposal proceeds		156	202	3,120	4,040
Carrying value of investment property disposals		-140	-197	(2,800)	(3,940)
Profit on disposal of investment properties		16	5	320	100
Valuation gains		2,128	1,561	42,560	31,220
Valuation losses		-821	-533	(16,420)	(10,660)
Valuation movements		1,307	1,028	26,140	20,560
Net operating profit before finance cost		1,845	1,499	36,900	29,980
Share of the profit of associates		1	1	20	20
Dividend income		10	8	200	160
Net financing costs		-144	-113	(2,880)	(2,260)
Movement in fair value of financial instruments		7	7	140	140
Profit before tax		1,719	1,395	34,380	27,900
Income tax expense		-190	-111	(3.800)	(2.220)
Profit for the period		1,529	1,284	30,580	25,680
Attributable to:					
Equity holders of the parent		1,525	1,282	30,500	25,640
Minority interest		4	2	80	40
Profit for the period		1,529	1,284	30,580	25,680
Basic earnings per share (euro)		1,525	1,282	30.50	25.64
Diluted earnings per share (euro)		1,510	1,269	30.20	25.39

3.2 Service charges

Issue:

- There is need for guidance on how to account for income and expenses related to service charges.

Rationale:

- For real estate companies, two structures for service charges are possible:
  - The company acts as an agent, recharging service charges on a 1 to 1 basis to its tenants;
  - The company acts as a principal, bearing the risk of over-/undercharging of service charges to its tenants.
- Revenue recognition is strictly defined in IFRS (IAS 18.7-8, IAS 18.34).

Recommendation:

- Real estate companies should account for income and expenses related to service charges as follows:
  - For service charges where the company acts as an agent, the net result is nil. Both expenses and recharges should not be accounted for separately in the profit and loss accounts.
  - For service charges where the company acts as a principal, there will be a net result. Both expenses and recharges should be accounted for separately in the profit and loss accounts.
  - For recharges for which uncertainty arises about the collectability of outstanding receivables, the amount of impairment should be expensed under property operating expenses. This relates to service costs in the case of acting as an agent as well as acting as a principal.
  - Service charges related to voids will be for account of the company. These costs should be accounted for under property operating expenses.

3.3 Balance sheet

Issue:

- There is a need for guidance on the presentation of the balance sheet.

Rationale:

- The balance sheet should present all relevant real estate investment assets.

Recommendation:

- Real estate companies should present their balance sheet according to the structure and elements presented on the next page.

Consolidated Balance Sheet

As at 31 December 2008

In thousands of euro	2008	2007
Assets		
Investment property	200,780	176,200
Development property	4,660	5,280
Other property, plant and equipment	500	220
Finance lease receivables	120	100
Investments in associates	20	20
Other investments	20	-
Goodwill	660	400
Deferred tax assets	360	480
Derivative financial instruments	20	220
Total non-current assets	207,140	182,920
Investment properties held for sale	1,700	-
Development properties held for sale	4,000	-
Trading properties	500	420
Investments	20	20
Derivative financial instruments	-	200
Income tax receivable	20	40
Other receivables	1,660	2,240
Cash and cash equivalents	920	1,760
Total current assets	8,820	4,680
Total assets	215,960	187,600
Equity		
Issued capital	14,340	14,340
Share premium	19,000	19,000
Hedging and translation reserve	60	(80)
Revaluation reserve (if required by local law)	57,780	34,700
Other Reserves	8,060	11,840
Retained earnings	30,500	25,640
Total shareholders' equity	129,740	105,440
Minority interest	220	160
Total equity	129,960	105,600
Liabilities		
Interest-bearing loans and borrowings	62,240	57,700
Employee benefits	100	100
Provisions	600	420
Deferred tax liabilities	11,540	7,700
Derivative financial instruments	560	560
Total non-current liabilities	75,040	66,480
Bank overdraft	620	320
Interest-bearing loans and borrowings	4,160	8,360
Other payables	6,080	6,840
Provisions	100	-
Total current liabilities	10,960	15,520
Total liabilities	86,000	82,000
Total equity and liabilities	215,960	187,600

3.4 Cash flow statement

Issue:

- EPRA should recommend a format for the cash flow statement.

Rationale:

- IAS 7.18 allows a choice between the direct and the indirect format for the cash flow statement.
- EPRA is of the opinion that the quality of information provided by the cash flow statement to the investor / analyst is more dependent on the specification of certain items to be included therein and less on the choice between the direct and indirect formats. For practical reasons, almost all real estate companies prepare an indirect cash flow statement.

Recommendation:

- On the basis of the above, EPRA's proforma recommended format for the cash flow statement uses the indirect method. Real estate companies should present their cash flow statement according to the structure presented on the following page.

Consolidated statement of cash flows

For the year ended 31 December 2008

In thousands of euro	2008	2007
Operating activities		
Net operating profit before finance cost	36,900	29,980
Unrealised valuation movements	(26,140)	(20,560)
Realised profits/losses on disposals	(540)	(200)
Depreciation and amortisation	100	40
Movement in receivables	980	(420)
Movement in payables	(1,140)	360
Movement in provisions	(40)	-
Cash generated from operations	10,120	9,200
Interest paid	(2,740)	(2,520)
Interest received	60	60
Income taxes paid	(180)	(40)
Cash flows from operating activities	7,260	6,700
Investing activities		
Proceeds from sale of investment properties	1,960	3,820
Proceeds from sale of development properties	1,160	220
Proceeds from sale of trading properties		
Dividends received	200	60
Acquisition of investment properties	(2,300)	(10,460)
Capital expenditure on investment properties	(1,280)	(860)
Acquisition of other investments	-	-
Development expenditure	(3,140)	(5,640)
Acquisition of other property, plant and equipment	(200)	(160)
Cash flow from investing activities	(1,400)	(11,240)
Proceeds from the issue of share capital	-	-
Proceeds from the issue of convertible notes	4,000	20,000
Proceeds from the issue of redeemable preference shares	-	-
Proceeds from other non-current borrowings	13,180	4,620
Repurchase of own shares	-	-
Repayment of borrowings	(17,520)	(14,140)
Payment of finance lease liabilities	(60)	(40)
Payment of transaction costs	(60)	(60)
Dividends paid	(6,340)	(5,640)
Cash flows from financing activities	(6,800)	4,740
Net increase in cash and cash equivalents	(940)	200
Cash and cash equivalents at 1 January (incl. bankoverdraft)	1,440	1,300
Effect of exchange rate fluctuations on cash held	(200)	(60)
Cash and cash equivalents at 31 December (omcl. Bankoverdraft)	300	1,440

4 Notes and Additional Disclosure

4.1 Executive and Supervisory Board compensation

Issue:

- Information on compensation of both the Executive Board as well as the Supervisory Board provides insight to the stakeholders on possible management incentives and drivers.

Rationale:

- It is EPRA's goal to maximise disclosure of Executive and Supervisory Board compensation.

Recommendation:

- As a note to staff expenses, real estate companies should disclose the following information on their Executive and Supervisory Board compensation, for each member individually:
  - Remuneration; emoluments including taxable expenses:
    - Basic Salary
    - Bonus
    - Fees (description)
    - Benefits
    - Total
  - Contract duration
  - Pensions and other retirement benefits
  - Share options:
    - Number
    - Date of Grant
    - Exercise Price
    - Exercise Period
    - Conditions for Exercise
  - Holdings of ordinary shares (including related individuals, where relevant)
  - For Supervisory Board members: the nature and amount of compensation payments (e.g. aggregate payments to directors or past directors for loss of office)

4.2 Investment property – appraiser fee basis

Issue:

- The description of and disclosure on the procedures agreed with the external appraiser(s) should lead to an increase of the credibility of external valuations.

Rationale:

- The credibility of external valuations will increase when the external appraiser is independent and objective.
- Appraiser-fees that are dependent upon the outcome of the appraisal are in conflict with independency and objectivity of the appraiser.

Recommendation:

- Real estate companies should agree upon a fee basis for their external appraisers that is independent of the outcome of the valuation process, e.g. independent upon the appraised value.
- Real estate companies should disclose:
  - The basis for appraiser fees (fee based upon hours spent, as a result of appraised value or fixed amount);
  - The amount of annual non-valuation fees that have been paid to the appraiser(s);
  - Whether the fee for each appraiser accounts for more than 10% of that appraiser's turnover.

4.3 Jointly controlled entities – general and operational information

Issue:

- IAS 31.54-57 do not prescribe disclosure of additional (operational) information of jointly controlled entities in which the company has an interest.

Rationale:

- Additional (operational) information of jointly controlled entities in which the company has an interest, is essential to gain a better understanding of the activities of the company. This information is currently being provided by many companies on a voluntary basis.

Recommendation:

- For all the jointly controlled entities in which real estate companies have an interest, the following (additional) information should be disclosed, subject to not violating confidentiality clauses or agreements with partners:
  - Name
  - Description of business activity
  - Foundation date
  - Shareholding (% owned and shareholding form and loans)
  - Accounting period (if different from the reporting company)
  - Material restrictions on repayments
  - Dividend schedule (if applicable)
  - Details of debt and extent to which there is recourse to the company
  - Relationship with other partners (who are the partners, what are the respective shareholdings, are there any pre-emption rights, are there any relative control provisions)
  - Short narrative on the performance of the jointly controlled entity, if it is material, meeting the following criterium: the share of net assets, profit or turnover of the real estate company in any jointly controlled entity is greater than 10% of the total of net assets, profit or turnover of the company.

4.4 Jointly controlled entities – financial information

Issue:

- IAS 31.54-55 prescribes that a company having an interest in a jointly controlled entity (then being a "venturer") should separately disclose the aggregate amount of contingent liabilities and capital commitments related to its jointly controlled entities.
- IAS 31.56 prescribes that a venturer should disclose, related to its interest in jointly controlled entities, the aggregate amounts of:
  - Current assets
  - Long-term assets
  - Current liabilities
  - Income
  - Expenses

Rationale:

- The current disclosure requirements of IAS 31 are much less in scope than the requirements of certain national GAAPs. In addition, in many cases the development of disclosures of joint venture interests have advanced beyond the specific GAAP requirements, with summarized profit and loss accounts and balance sheets being provided for all joint venture interests.
- The requirements and voluntary disclosures result from the aggregate amounts, often reflecting a substantial part of the total of the company's assets and performance.

Recommendation:

- Real estate companies should disclose the information described in IAS 31.54-57 on a non-aggregated basis for jointly controlled entities (i.e. for each joint venture entity) when one of the following criteria are met:
  - The share of net assets, profit or turnover of the real estate company in any jointly controlled entity is greater than 10% of the total of net assets, profit or turnover of the real estate company;
  - The share of net assets, profit or turnover of the real estate company in all jointly controlled entities is greater than 15% of the total of net assets, profit or turnover of the real estate

company. In that case, the information is disclosed for the largest jointly controlled entities, until the aggregate amounts for the remaining jointly controlled entities are less than 15% of the total of net assets, profit or turnover of the real estate company.

4.5 Financing and debt position

Issue:

- IAS 32, 39 and IFRS 7 provide a number of detailed disclosure requirements in respect to an entity's financing

Rationale:

- There are concerns that the current hedging arrangements on interest payments undertaken by many real estate companies will not qualify to be accounted as a hedge and kept out of the profit and loss account.

Recommendation:

- EPRA-members will have to comply with the requirements of IAS 32, IAS 39 and IFRS 7, this will provide thorough analytical information on an entity's debt. However, due to the complexities of the requirements of those two standards, it is also recommended that so as to enable readers to fully understand key those elements of their accounts, entity's should provide full narrative explanation of:
  - The components of the net finance charge in their accounts;
  - Explanations of the market valuations of their hedging instruments and/or debt.
- In addition real estate companies should provide a clear description of their debt profile, at least including information on:
  - Proportion of debt that is secured by specific assets versus unsecured;
  - Weighted average cost of debt.

4.6 Historical financial results

Issue:

- IFRS do not prescribe the extent of historical financial information to be provided in annual accounts.

Rationale:

- Historical financial information should provide investors with a good understanding of a company's track record without proving to be over burdensome to the company.

Recommendation:

- In their annual accounts, as well as on their website, real estate companies should include key financial data on a consolidated basis for each of the last five financial years. Preferably, this information should be restated and reported on a consistent accounting basis

4.7 Definitions

Issue:

- Terms and statistics used in financial and real estate reporting can vary between companies and can be subject to unintended interpretation differences.

Rationale:

- Uniform terms and statistics will increase comparability and uniformity of financial reporting.
- Clarification and definition of the terms and statistics used in financial reporting will minimize the risk of unintended differences in interpretation.

Recommendation:

- Real estate companies should include a glossary of terms and statistics used in their annual accounts. A standard set of definitions is included on the following pages.

Glossary of Terms

Deferred capital gains tax
- Capital gains tax that would be realised upon the sale of assets, on a non-discounted basis.

Development property
- Property under development for the purpose of inclusion in investment property at completion.

Development property held for sale
- Property under development for the purpose of sale.

Development surplus
- The excess, if any, between fair value and total development cost.

Effective ERV (EERV)
- ERV including the net effects of lease incentives.

Estimated rental value (ERV)
- The estimated market rental value of lettable space, being passing rent plus vacancy loss and under-rented loss and less over-rent gain.

Estimate to complete (ETC)
- Costs still to be expended on a development or redevelopment to practical completion (not to complete letting), including attributable interest.

Gross current yield
- The passing rent divided by the fair value of the portfolio or of the property.

Gross initial yield
- The passing rent at acquisition date or subsequent reporting date divided by cost of acquisition (including all transaction costs).

Gross rental income
- Contractual rental income for the period from let properties, after taking into account the net effects of straightlining for lease incentives.

Gross yield
- Gross rental income of the year divided by fair value.

Initial reversionary yield
- Market rent on occupied space divided by cost of acquisition (including all transaction costs).

Lease incentive
- Any consideration or expense leading to a reduction in income in order to secure a lease.

Lettable space
- Any part of a property that can be leased to a tenant.

Like-for-like
- Comparable information relating to elements which existed for the whole of the current and prior year period.

Market rent
- The estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate terms in an arm's-length transaction after proper marketing wherein the parties has each acted knowledgeably, prudently, and without compulsion.

Market value
- The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion

Net current yield
- Passing rent less property operating expenses at last reporting date divided by the fair value of the portfolio or of the property.

Net initial yield
- The passing rent less property operating expenses divided by cost of acquisition (including all transaction costs).

Net rental income
- Gross rental income plus/less: interest received on finance lease assets, ground rents paid, service charge expenses and income on principal basis and property operating expenses..

Net yield
- Net rental income of the year divided by fair value

Over-rented space
- Space that is let at a passing rent above its estimated rental value.

Over-rent gain
- The amount by which the passing rent exceeds the market rent.

Passing rent
- The annual gross rental income as per a certain date, excluding the net effects of straightlining for lease incentives.

Pre-let
- A lease signed with an occupier prior to completion of a development.

Property operating expenses
- The expenses directly relating to a property for a certain period of time for the account of the landlord including service charges not recoverable because of vacancy.

Prospective rental income
- Passing rent plus reversion to take place in the next financial period.

Redevelopments
- Existing investment properties being redeveloped, intended to be used for continued future use as investment property.

Rent roll
- See: passing rent.

Reversion
- The estimated change in rent at review based on today's market rents expressed as a percentage of passing rent at review.

Service charge expenses
- The amounts paid and/or accrued by the landlord relating to lettable space for which it has been agreed with tenants to recover these amounts from the tenants periodically.

Service charge income
- The amounts received and/or accrued by the landlord in respect of service charge expenses.

Tenant investments
- The refurbishment expenses to (re)let vacant space, to relet space becoming vacant at the expiry date of a lease or to renew a lease which amount is amortised over the term of the lease.

Terminal capitalisation rate
- Rate used to convert income into an indication of the anticipated value of the property at the end of the holding period.

Theoretical rent
- Gross rental income plus the effective ERV applied to vacant space (voids) over the reporting period.

Total development cost
- All capital expenditure on a development project including the opening book value of the property on commencement of development, including attributable interest and other costs.

Trading property
- Property held with the intention to sell.

Turnover rent
- Any element of rent (to be) received related to the turnover of a tenant.

Under-rented space
- Space where the passing rent is below the estimated rental value.

Under-rent loss
- The amount by which the market rent exceeds the passing rent

Vacancy loss at reporting date
- The effective estimated rental value for the total of vacant space at the reporting date

Vacancy loss for the reporting period
- The estimated market rental value for the total of vacant space for the reporting period

Vacancy rate at reporting date
- The vacancy loss expressed as a percentage of the effective estimated rental value for the lettable space of the portfolio at the reporting date.

Vacancy rate for the reporting period
- The vacancy loss for the reporting period expressed as a percentage of theoretical rent.

Vacant space
- Unrented lettable space

Valuation gains
- The increase in the value of investment property on reporting date compared to the previous reporting date, less capital expenditure.

Valuation losses
- The decrease in the value of investment property on reporting date compared to the previous reporting date, less capital expenditure.

Value of developments on completion
- Calculation in today's terms of developments if they were complete assuming current rental values and yields.

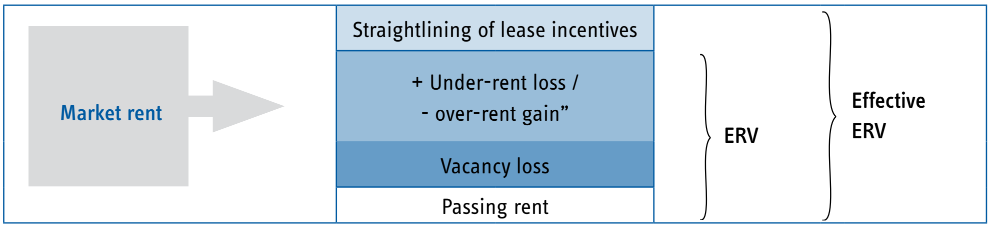
Void
- Vacant space.

Background and guidance

The glossary of terms includes definitions on yields and rental income which relate to the timeline as follows:

REPORTING PERIOD(S) UNDER REVIEW	NOW	FUTURE PERIOD(S)
Rental income:	**Rental income:**	**Rental income:**
- Gross/net rental income	- Passing rent / Rent roll - Estimated rental value - Market rent	- Prospective rental income
Yields:	**Yields:**	**Yields:**
- Gross/net yield	- Gross/net initial yield - Gross/net current yield	- Reversion

Definitions on the revenue concept are interrelated as follows:



Passing rent and reversion together make the prospective rental income. Reversion, however, in practice is not used consistently. The goal is to compare the effect of market rent compared to passing rent for that part of a property that is currently led (it thus excludes voids). The following example should clarify this:

Void 10%		Void 10%
Passing rent = 100 for 90% let	Reversion →	Market rent = 120 for 90% let

In this example, the property is 90% let. Based on today's market conditions, the market rent for that 90% is 120, whereas the passing rent is 100. The reversion then is 20%. A reversionary yield can be calculated by dividing the market rent on currently occupied space (the 90% in the above example) by the current fair value of the property.

5 Portfolio Information

5.1 Property performance reporting

Issue:

- Additional information and disclosure on property statistics is useful for investors and analysts. Where real estate companies currently provide such disclosures, it is often not consistent in format with other companies and measures are calculated in different ways resulting in lack of comparability of data.
- In order to be useful for investors and analysts, additional property statistics information should be comparable between real estate companies providing this information.
- Strategic or competitive reasons may prevent real estate companies from publishing additional information. The extent to which a company may wish to publish additional information should remain a management decision.

Recommendation:

- EPRA encourages additional information and disclosure on property statistics. A suggestion for the additional information to be provided is presented on the following pages.

Investment Property – Rental Data						
Segment	Gross rental income (€m)	Net rental income (€m)	Lettable space (Sq. m)	Passing rent (€m)	Estimated rental value (€m)	Vacancy rate %
France – offices						
France – retail						
Segment 1 - France						
Germany – offices						
Germany – industrial						
Segment 2 - Germany						
UK – offices						
UK – retail warehouses						
Segment 3 – UK						
Segment etc						
Total Portfolio						
Reconciliation to Income Statement:						
Total as above	X	X				
Add: income on redevelopments	X	X				
Other adjustments	X / (X)	X / (X)				
Gross rental income / Net rental income per income statement						

Investment Property – Valuation Data				
Segment	Property valuation (€m)	Valuation movement in the year (€m)	Gross/Net Initial yield (%)	Reversion (%)
France – offices				
France – retail				
Segment 1 - France				
Germany – offices				
Germany – industrial				
Segment 2 - Germany				
UK – offices				
UK – retail warehouses				
Segment 3 – UK				
Segment etc				
Total Portfolio				
Reconciliation :				
Total as above	X			
Add: Value of investments properties under development	X			
Other adjustments	X / (X)			
Investments property value per balance sheet				

Investment Property – Like for Like Net Rental Income

Segment	Current Year NRI						Prior Year NRI				
	Properties owned throughout the 2 years (€m)	Acquisitions (€m)	Disposals (€m)	Develop-ment property (€m)	Exchange translation difference (€m)	Total net rental income (€m)	Properties owned throughout the 2 years (€m)	Acquisitions (€m)	Disposals (€m)	Develop-ment property (€m)	Total net rental income (€m)
France – offices											
France – retail											
Segment 1 - France											
Germany – offices											
Germany – industrial											
Segment 2 - Germany											
UK – offices											
UK – retail warehouses											
Segment 3 - UK											
Segment etc											
Totals											
Reconciliation:											
Total as above						X					X
Adjustments						X / (X)					X / (X)
Total per income statements											

Development and Redevelopment Property

Property	Cost to date (€m)	Costs to complete (€m)	Future interest to be capitalised (€m)	Forecast total cost (€m)	Forecast completion date	Lettable space	% Let	ERV on completion
1 Show each development and redevelopment where the forecast net rental income is equal to, or more than, 2% of last year's total net rental income of the company								
2 Other projects (in total)								
Total								
Reconciliation:								
Total cost to date as above			X					
Less: Redevelopment properties included as investment property in the balance sheet			(X)					
Add: Revaluation surplus already taken			X					
Other adjustments			X / (X)					
Total development properties per balance sheet								

Investment Property – Lease Data														
			Lease expiry data						Lease review data					
	Average lease length		Passing rent of leases expiring in:			ERV of leases expiring in:			Passing rent subject to review in:			ERV of passing rent subject to review in:		
Segment	To break	To expiry	yr 1	yr 2	yrs 3-5	yr 1	yr 2	yrs 3-5	yr 1	yr 2	yrs 3-5	yr 1	yr 2	yrs 3-5
France – offices														
France – retail														
Segment 1 - France														
Germany – offices														
Germany – industrial														
Segment 2 - Germany														
UK – offices														
UK – retail warehouses														
Segment 3 - UK														
Segment etc														
Totals														

6 Net Asset Value and Earnings Per Share

6.1 Introduction

The introduction of IFRS has resulted in substantial changes to reported profits and net assets for real estate investment companies. Companies across Europe have begun reporting their results under IFRS, and many are making various adjustments to the IFRS GAAP measures for Earnings per Share ('EPS') and Net Asset Value ('NAV') per Share to help explain their performance to investors and analysts.

The EPRA best practice financial reporting committee has always considered consistency and comparability in performance reporting measures to be of the utmost importance. A pan European working group was established to prepare a best practice recommendation for EPRA members on the use of adjusted NAV per share and EPS measures and guidance on the nature of potential adjustments during this transitional period to IFRS reporting.

Discussion with finance directors, investors and analysts indicated strong demand for an alternative to the GAAP measures, which could be consistently applied and would provide complementary information to help better understand a company's performance when reporting under IFRS.

The working group has therefore provided guidance on an adjusted EPS and NAV per share.

In those countries where real estate has been accounted for on the balance sheet at fair value, it has become common for industry analysts to calculate and publish a 'triple net' NAV per share. Guidance has also been included for the calculation of a similar measure.

These performance measures do not replace the GAAP measures, but provide additional information to help investors understand the performance of a company.

6.2 Earnings per share (EPS)

Diluted EPRA EPS represents the earnings from the core operational activities. Therefore it excludes any revaluation results, and results from sales of investment properties. The diluted EPRA EPS should reflect the actual business model of the company in the below schedule as a true real estate investment company. Should, however, real estate trading be part of the core business, the related results should remain in.

The intention is that the adjustments would be audited so that the EPRA measures of earnings and net asset value per share have credibility with investors.

A. Earnings per share (EPS)	**Earnings** in thousands euro	**Earnings** per share * euro
Diluted earnings per IFRS income statement	**30,500**	**30.20**
(i) Revaluation movement on investment properties, development properties held for investment and other investment interests	(26,140)	(25.88)
(ii) Profits or losses on disposal of investment properties, development properties held for investment and other non current and current investment interests **	(540)	(0.53)
(iii) Tax on profits or losses on disposals ***	135	0.13
(iv) Negative goodwill / goodwill impairment	-	-
(v) Movement in fair value of financial instruments	(140)	(0.14)
(vi) Deferred tax ****	3,400	3.37
(vii) Minority interests in respect of the above *****	47	0.05
Diluted EPRA EPS	7,262	7.19

*) Average number of diluted shares used is 1,010
**) Comprise both investment property and held for trading in example p/l
***) In this example, percentage used is 25% x 540 = 135
****) Total tax expense in profit and loss 3,800, comprises 3,400 deferred tax expense and 400 current tax expense"
*****) In this example, percentage used is 0.2% x (26,140+540-135+140-3,400) = 47

The adjustments i to vii are the required adjustments to determine Diluted EPRA EPS. Other adjustments could be necessary should the company's business model so require.

6.2.1 Definitions of adjustments

(i) Revaluation movement on investment properties, development properties held for investment and other investment interests

The surplus or deficit in the profit and loss account arising in the period from the revaluation of investment properties, development properties held for investment purposes and other investment interests held as non current assets at their fair value.

(ii) Profits or losses on disposals of investment properties, development properties held for investment purposes and other non current and current investment interests

The profit or loss on disposal of investment properties, development properties held for investment and other non current investment interests, calculated with reference to the carrying value at the date of the balance sheet at the beginning of the financial year, and after deducting capital expenditure incurred over the period and the costs of sale.

(iii) Tax on profits or losses on disposals

The tax charge or credit relating to profits or losses on investment properties, development properties and other investments sold in the period, calculated consistently with (ii) above.

(iv) Negative goodwill / goodwill impairment

The excess of the fair value of assets acquired over their cost of acquisition, which IFRS requires to be recognised immediately in the income statement, together with any impairment charges in respect of positive goodwill and amortisation of intangibles.

(v) Movement in fair value of financial instruments

The surplus or deficit arising in the period from the mark to market of financial instruments which are economically effective hedges but do not qualify for hedge accounting under IFRS, including related foreign exchange differences.

To include any adjustment under this heading, Boards must explain their hedging strategy in sufficient detail, and give sufficient disclosure, for readers of the accounts to understand why the financial instruments are economically effective hedges. A description of how the Board measures the effectiveness should also be disclosed.

(vi) Deferred tax

The deferred tax charge or credit in the period which relates to the above items, and which would not crystallise until or unless the property, investment or financial instrument is sold. This would typically include deferred tax on revaluation surpluses and tax depreciation (in the UK capital allowances) on real estate which could reverse on disposal of the asset.

6.3 Net Asset Value (NAV)

Diluted EPRA NAV represents fair value of equity on a long-term basis. Items that have no impact on the company long term, such as fair value of derivatives and deferred taxes on property fair values, are therefore excluded.

B. Net asset value per share (NAV)

	NAV in thousands euro	Shares	NAV per share euro
NAV per the financial statements	**129,740**	**1,000**	**129.74**
Effect of exercise of options, convertibles and other equity interests	1,305	10	n/a
Diluted NAV, after the exercise of options, convertibles and other equity interests	**131,045**	**1,010**	**129.75**
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	-	-	
(i.b) Development properties held for investment*	1,860		1.84
(i.c) Revaluation of other non current investments	-		-
(ii) Fair value of tenant leases held as finance leases **	15		0.01
(iii) Fair value of trading properties ***	2		0.00
(iv) Fair value of financial instruments ****	540		0.53
(v.a) Deferred tax (net of asset 360 and liability 11,540)	11,180		11.07
(v.b) Goodwill as result of deferred tax	-		-
Diluted EPRA NAV	**144,642**		**143.21**

*) Difference between development property in balance sheet at cost 4,660 and fair value development property 6,520

**) Difference between finance lease receivables in balance sheet at amortised cost 120 and fair value finance lease receivables 135

***) Difference between trading properties in balance sheet at cost (IAS 2) 500 and fair value of trading properties 502

****) Net of derivative assets 20 and liabilities 560 stated in balance sheet

6.3.1 Definitions of adjustments

(i) Revaluation to fair value of investment properties, development properties held for investment and other non current investments.

If the option under IAS 40 has been taken into account for investment properties at cost, this adjustment includes the revaluation of the asset to fair value in accordance with the valuation option under IAS 40.

The valuation increase/decrease to fair value of any non current development properties held at cost under IAS16.

The valuation increase/decrease to fair value of any other non current investment where fair value can be reliably determined. The basis of valuation will need to be disclosed.

(ii) Fair value of tenant leases held as finance leases

The surplus or deficit arising on the revaluation to market value of tenant leases which are accounted for as finance leases.

(iii) Fair value of trading properties

The surplus, arising on the revaluation to market value of properties held for trading is included in the IFRS balance sheet, at the lower of cost and net realisable value.

(iv) Fair value of financial instruments

Exclude the net mark to market adjustment to the value of financial instruments which are economically effective hedges, and are required to be included as assets or liabilities in the IFRS balance sheet. The determination of and disclosure of financial instruments, considered to be economic hedges but not qualifying for hedge accounting under IAS 39, are as per adjustment (v) for EPRA EPS above.

(v) Deferred tax

(a) No deferred tax is provided in respect of the revaluation of investment property, development property held for investment or other non current investments, as this would only become payable if the assets were sold. Deferred tax in respect of these items are deducted in arriving at the 'triple net NAV', see below. Any deferred tax in the balance sheet in respect of these items, calculated in accordance with IAS 12, should therefore be added back in, arriving at the EPRA NAV.

The deferred tax liability relating to the above items (iii) and (iv), which would not crystallise until or unless the property or financial instrument, is sold should be added back.

Any deferred tax relating to property depreciation allowances (in the UK capital allowances) that could reverse on disposal of the property should be excluded.

(b) Where goodwill is included on the balance sheet as the result of a deferred tax liability that is eliminated as a result of this adjustment, the goodwill should be excluded.

6.4 Triple net NAV

Diluted EPRA NNNAV represents fair value of equity and includes fair value adjustments of all material balance sheet items which are not reported at their fair value as part of the NAV per IFRS balance sheet statement.

C. Triple net asset value (NAV)

	NAV in thousands euro	Shares	NAV per share euro
Diluted EPRA NAV	**144,642**	**1,010**	**143.21**
(i) Fair value of financial instruments	(540)		(0.53)
(ii) Fair value of debt *)	360		0.36
(iii) Deferred tax **)	(6,080)		(6.02)
Diluted EPRA NNNAV	**138,382**		**137.01**

*) Difference between interest bearing loans and borrowings included in balance sheet at amortised cost 66,400 and fair value of interest bearing loans and borrowings 66,760

**) Starting point is deferred tax 11,180 as per balance sheet. The adjustment to fair value 6,080 should be based on evidence observed in the market. In this example, a DCF calculation has been used to approximate the fair value.

6.4.1 Definitions of adjustments

(i) Fair value of financial instruments

This reinstates, and is equal to, the adjustment B (iv) being the fair value of financial instruments considered to be economic hedges but not qualifying as hedges under IAS 39.

(ii) Fair value of debt

A mark to market adjustment, measured in accordance with IAS39 in respect of all debt not held in the balance sheet at its fair value.

(iii) Deferred tax

Provision for deferred tax in respect of the latent capital gains tax, or similar according to each country's tax rules, arising on the revaluation of investment and development properties and other investments to market value. In calculating the deferred tax, consideration should be given to the market norm in which properties are disposed of and the related tax rules. For example, in some countries properties are purchased and sold directly, and in others, via the sale of shares in a corporate vehicle which owns the property. Where there is not a predominant form of sale, deferred tax should be calculated assuming the higher tax rate.

Deferred tax should be provided in respect of tax depreciation allowances (in the UK capital allowances) that potentially become payable on disposal of investment property.

The fair value of the deferred tax is the company's assessment, and is based on the expected realisation of the underlying assets and liabilities. Discounting is a common method to come to an approximation of the fair value based on the average expected holding period and manner of realisation.

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