TEXT FOR PRESENTATION AND Q&A SESSION ON PRELIMINARY RESULTS 13 MAY 2009

Speaker: Francis Salway, Chief Executive

Slide 1 - Introductory slide

Good morning and welcome.

Slide 2 – Agenda
Our agenda this morning is that I will start with business highlights and a summary of the valuation results. Martin Greenslade will then cover the financial numbers before Richard Akers and Mike Hussey focus on the Retail and London Portfolios. I will then close on the outlook and our positioning of the business.

Slide 3 – Business Highlights
By definition, few things are unprecedented, but the scale of fall in commercial property values over the last twelve months has been unprecedented. And this is reflected in the results we announce today.

We embarked on a good line in our last financial year - with over £1.5 billion of disposals and we further adjusted our plans in Autumn 2008 as the full severity of the downturn hit businesses.

We have sold more office buildings and let more retail units than I would have thought achievable in the environment we have encountered.

Our total disposals for the year topped £1.1 billion - with £527 million coming from property investment sales, just over £150 million from the sale of Trillium assets or contracts while we still owned Trillium and £444 million from the sale of Trillium itself.

We, of course, further strengthened our balance sheet through raising £756 million from our Rights Issue.

One of the key operational achievements within the business was around development lettings. You can see from these statistics that on schemes completed during the year we have met with considerable success with the schemes being 72% let overall. I would attribute this very much to the skills of our leasing teams and also to our decision to market aggressively for pre-lettings early on.

Slide 4 – Management actions in 2008/09
In a year of such enormous change, the scope of our management actions was of course much wider than the two areas I have just highlighted.

I am not going to run through all these areas where we took action, because many will be referred to later in the presentation. But I will pick out two – the 27% reduction in our net debt and our closing just under 300 lettings in the Retail sector.

So, whilst there was a depth to the downturn, there was also a depth and breadth to our response.

Slide 5 – Investment portfolio sales
Turning now to sales, our property investment sales during the year were at an average of 18.5% below valuation before disposal costs and at an average yield of 6.7%.

We made a real push on asset sales in the second half of the year and achieved just under £350 million over this period. Interestingly, this represented a higher market share of transactions over the 6 months than we achieved in our 2007/8 financial year when we sold £1.56 billion of property.

In terms of managing sales in a thin market, we have benefited from having a portfolio with good liquidity. We don't have high asset specific concentration, but we do have 100% ownership of the vast majority of our properties, with only 13% being in joint ventures.   We have also benefited from having a range of lot sizes during a year when, for a period of time, real liquidity was restricted to small to medium sized buildings.

The lot size capacity of the market has been edging up in recent weeks.   And we are pleased with our progress in marketing properties for sale since the financial year end date.

Slide 6 – Investment portfolio valuation results
Our portfolio showed a valuation deficit over the 12 months of 34.2%.

For most of the year, yield shift was the driver of valuation change and was relatively indiscriminate of property type. Within our portfolio, greater resilience was experienced on London retail which fell only 11.4%, benefiting from currency movements in terms of both shopper demand and investor interest.

Slide 7 – Yield profile as at 31 March 2009
I show here the yield data regularly reported by us and, indeed, by other property companies. I don't need to say that the yields are high from a historical perspective, but that is the current market.

It is also important to appreciate that the gross income yield figures include units in administration because the leases are still in place. And, by definition, the gross income yield makes no deduction for outgoings on vacant space such as empty rates and service charge.

So, if we take the example of our shopping centres and shops, which have a gross income yield of 8.9%, 0.6% of this represents units in administration, and outgoings on service charge and empty rates total a further 0.6%.

Slide 8 – Investment portfolio performance relative to IPD
Looking now at our performance relative to IPD: our ungeared total property return was -29.7% compared to -25.5% on the benchmark.

You can see from the individual bars that the performance differential was either positive or less adverse at the sector level. Effectively, four-fifths of the underperformance came from our portfolio mix as shopping centres, retail warehouses and London offices were the weakest performing segments of the IPD universe.

Relative performance on our shopping centres was hit by large writedowns on the development and pre-development sites in Cardiff and Leeds. And, in retail warehousing, four bulky goods parks accounted for much of the underperformance.

Our London offices outperformed the sector benchmark, helped by some of our well let investments in Victoria. And our London retail outperformed substantially on the back of positive rental value growth driven by some of our asset management initiatives.
I should add that over a two year period, we have still out-performed our IPD benchmark, having had as much as 6.5% out-performance last year.

Slide 9 – Investment portfolio valuation results
The valuation movement over the two month period since our rights issue valuation on 31 January is shown here. Overall, this performance is exactly in line with the movement in the IPD Monthly Index.

Slide 10 – Asset values
We said at the time of our Rights Issue that buyers would begin to be attracted by the income yield on the best let properties and we have begun to see this in recent months. As a result, just over £1.0 billion of our portfolio saw either no valuation change or a small increase over the two month period from end January.

Some of the key properties are highlighted here. Generally, it is tenant quality and lease length which explains the valuation support, although on the small retail warehouse development in Edmonton it was our success on development lettings.

Slide 11 – Rental value change and reversionary potential
Whilst yield pricing was the main driver of valuation change, rental value declines became more evident as the year progressed.

The left hand chart shows rental value change on our like-for-like portfolio over the full twelve months.

However, you can see from the right hand chart that despite the falling rental values, we still have positive reversions in our portfolio - with gross reversions at 7.0%. We recognise that the reversions are likely to diminish and the extent of over-renting will increase. Nevertheless, we are coming off a good position with a relatively low rented portfolio. Mike will say a little more about the tone of our average passing rents in London.

Slide 12 – Voids and units in administration

Turning to voids, underlying voids on the like-for-like portfolio have increased over the year, but only from 3.5% to 4.6%. Of those total voids of 4.6%, just under a fifth is currently under offer.

On the left hand bar chart, we show the additional impact of voids on pre-development properties.

And on the right hand chart, we show the additional impact of units in administration, which total 3.7% across the portfolio as a whole - ranging between just 0.3% on our London offices and 5.6% on all our retail properties.

For the portfolio as a whole, 60% of the units in administration are still trading and 15% are still paying rent.

Richard Akers will provide more detail on administrations in the Retail sector and how we are dealing with these.

But, for now, I will hand you over to Martin Greenslade for the financial figures.

Speaker: Martin Greenslade, Group Finance Director

Slide 13 – Title slide

Thank-you Francis. Good morning everyone.

Before going through a summary of our financial performance for the year, I should mention the reporting implications of the sale of Trillium and the Rights Issue both of which took place during the year. The Income Statement has been prepared on a continuing operations basis, with Trillium accounted on a single line as a discontinued operation. My analysis of the Income Statement today will focus, as you would expect, on the continuing operations of the business but further information about Trillium's performance can be found in Note 20. With regards to the Rights Issue, all historical financial data on a "per share" basis has been adjusted for the bonus element inherent in the Rights Issue. So, with that piece of housekeeping out of the way let me turn to the results for the year.

Slide 14 – Financial highlights

This morning we have reported a pre-tax loss from continuing operations of £4.77 billion pounds on the back of a valuation deficit of £4.74 billion. As Francis has explained, this deficit represents a 34.2% decline in the value of our investment portfolio over the year.

Revenue profit from continuing operations at £314.9 million was 10.6% higher than last year largely as a result of lower interest costs and adjusted diluted earnings per share were 2.9% higher at 62.57p.

On the back of the valuation decline, and the loss on the disposal of Trillium, adjusted diluted NAV per share declined by 66.4% to 593p.

At our Rights Issue presentation in February we announced our intention to re-set the dividend at a robust level from which the aim is to deliver future dividend growth. Our final proposed dividend is at the re-set quarterly level of 7p per share taking our total for the year to a restated total of 51.1p, down 10.4%.

Let’s turn now to our consolidated income statement…

Slide 15 – Consolidated income statement

As usual, I will highlight just a few key items. Most of the numbers relate to our subsidiaries with the performance of our joint ventures coming through on a post tax basis further down the income statement. Group revenues and costs were in line with last year and are covered with joint ventures on the next slide.

At the year end, Knight Frank reviewed the carrying value of our trading properties which resulted in a £92.3 million impairment primarily related to development land and infrastructure at Ebbsfleet Valley.

Our disposals during the year generated a £130.8 million loss when compared to their March 2008 carrying values. Net interest payable was £46.1 million higher due to losses of £102.1 million arising from the requirement to fair value interest rate swaps. This more than offset the lower interest charges on bank borrowings.

On the discontinued line we report a £420.9 million loss which all relates to Trillium. The components of this are the loss on disposal of £333.6 million and Trillium’s loss for the period of our ownership of £87.3 million. This latter figure includes the goodwill impairment of £148.6 million taken during the first half of the year.

Slide 16 – Revenue Profit

This slide sets out the main components of our revenue profit and includes our proportionate share of joint ventures. We will look at the increase in gross rental income in a moment. However, offsetting that increase are net service charge and property costs which rose by £17.5 million over last year reflecting the tougher climate facing our retail customers with higher void costs and empty rates as well as an increase in our bad debt provisions.

The big driver behind the growth in revenue profit is the £32.6 million decline in net interest, reflecting lower average net debt over the year following disposals and, in particular, lower interest rates. We began the year with a weighted average cost of debt of 5.4%, of which only 80% was fixed as we expected some reduction in interest rates. As we all know, the reduction in interest has been substantial, benefiting our results, and leaving us with a weighted average cost of debt of 4.1% at the end of the year.

Slide 17 – Rental income analysis

Let's turn now to the components of our gross rental income which increased by 2% with growth in both London and Retail. Like-for-like rental income in the London portfolio grew by £6.6 million, approximately equally split between London offices and London retail where both categories had properties with positive rent review settlements. For Retail, the main like-for-like growth came from the retail warehouse portfolio largely on the back of new lettings while shopping centres showed a mixed picture with some centres with growth offset by other centres with declines in income.

As I mentioned at our Interim results in November, London continues to be impacted by a fall in income from properties being prepared for development, particularly Arundel Great Court, and as a result rental income from London pre-development properties was half the level of last year. This coming financial year will see further declines in income in this area.

Compared with last year, completed developments contributed an additional £36.8 million of rental income with a large increase in London from our schemes at Queen Anne's Gate, Bankside, Cardinal Place and One Wood Street. Offsetting the income from completed developments, net sales of investment properties resulted in a loss of rental income of £37.9 million.

And finally, the main contributions under Ongoing developments are: Cabot Circus and The Elements for Retail and New Street Square for London.

Slide 18 – Cash flow and debt

During the year, we reduced our net debt by £1.46 billion, or 27%. Operating cash flow showed an improvement over last year and more than covered this year's cash dividend. We invested only £86 million in acquiring investment properties and spent a further £429 million on development and refurbishment expenditure. Development capex was mainly spent on One New Change and New Street Square in London and the Elements in Livingston. Capital expenditure on our developments in Cardiff and Bristol was also behind the £117 million outflow to joint ventures.

Our disposals, which includes the Trillium business, contributed a hugely important £1.33 billion towards the reduction in net debt, while the Rights Issue contributed a further £756 million.

Slide 19 – Financing

At 31 March, the Group had a total of £1.6 billion in cash, which we are holding outside the Security Group. I said at the time of the Rights Issue, we would initially hold the Rights Issue proceeds and the majority of our drawn facilities outside the Security Group and as a minimum use cash injections to ensure the Security Group LTV remains below 80%. This remains the case as it provides the Group with maximum flexibility as we see how valuation movements and cash flow unfold over the year. Clearly this is an evolving picture which we keep under continuous review. Shortly before the year end, we re-paid £300 million of Security Group borrowings and we may pay down more of our bank facilities during the year as we balance the flexibility of holding cash against the additional cost of doing so.

In addition to this cash, we have £560 million of assets which could be transferred into the Security Group and we will remain flexible about how we use these assets.

The graph in the bottom right hand corner of this slide shows how our debt matures over the coming years. We have £640 million of debt outstanding on bilateral facilities maturing between July and December 2010 – all of which have the option of a one year term out. Also, in the same financial year, we have a £300 million bond with an expected maturity date of February 2011 but a final maturity two years later. Thereafter, the next major item is our £1.5 billion syndicated facility which matures in August 2013.

At 31 March 2009, our committed development capital expenditure amounted to £370 million, a reduction over the position we reported at 31 December due to expenditure since that date and a revised approach on Leeds.

Finally, our Group LTV including the debt of our joint ventures was 52% at the year end. While this figure is an interesting reflection of the overall gearing of the Group, as you know, it is the Security Group LTV which is more relevant and which is the subject of my next slide.

Slide 20 – Security Group

The vast majority of our external debt is lent to the Security Group. At 31 March we had just under £7.5 billion of assets in the Security Group, securing £5.7 billion of debt giving an LTV ratio of 76.7%. This will place us in the more restricted operating environment of Initial Tier 3 when our next valuation report is submitted in June.

In the Rights Issue presentation in February, I explained in some detail the various operating tiers and, as a reminder, I have included the slide in the appendix. However, I do want to say a few words here about Initial Tier 3 and its implications for the business. First, this does not come as a surprise, as it resulted from our decision in January to draw our remaining debt facilities to give us maximum flexibility. Second, while we are in Initial Tier 3, we can still do all of the things that property companies do, namely buy and sell assets, undertake developments and pay dividends. We cannot raise high investment grade debt in the Security Group nor draw on our existing unutilised debt facilities but then we do have £1.6 billion in cash outside the Security Group.

The graph on the slide shows the steady evolution of the Security Group LTV since March 2007 with the hashed part of the final bar showing the impact of cash being retained outside the Security Group. If all our £1.6 billion of cash were injected into the Security Group, it would reduce the Security Group LTV to 55.3%

Slide 21 – Summary

So in summary, our pre-tax loss for the year, from continuing operations was £4.8 billion on the back of unprecedented valuation declines. While revenue profit from continuing operations grew this year, largely as a result of lower interest charges, we are expecting downward pressure on earnings, and it was this which lay behind our announcement in February to rebase the dividend. The pressures on income ahead include:

- Falling rental values and voids, arising from completed developments, tenant insolvencies and lease expiries. And voids not only result in loss of rental income but also impact us through empty rates and non-recoverable service charge costs;
- there is a negative impact on our earnings from slowing down our development pipeline as projects cease to be income producing but we are not in a position to capitalise interest. While these are the right decisions for the business, the impact of reduced capitalised interest in 2009/10 is likely to be in the order of £20 million;
- we will continue to sell properties to fund our limited capital expenditure commitments and maintain the strength of our balance sheet. With very low interest rates on our marginal cost of debt, currently in the order of 1-2%, there will be a negative impact on earnings from property sales;
- the amount of cash we hold outside the Security Group will be kept under review but while we hold cash there will be an earnings drag, although we will do our best to minimise it;
- and finally, the increase in our number of shares following the Rights Issue will dilute our earnings as we have only had one week of this effect in the year to 31 March 2009.

Despite my cautious tone on earnings outlook let me finish by reminding you that despite a £4.8 billion writedown on property values, we enter this financial year with a Group LTV of 52% and the flexibility to exploit opportunities with £1.6 billion in cash.

Speaker: Richard Akers, Managing Director – Retail Portfolio

Slide 22 – Title slide
Whilst it has been a very challenging year in the Retail sector, I am going to start with some highlights and then move on to the major challenges we have been facing, that is the loss of income due to insolvencies and the difficult leasing environment.

Slide 23 – Highlights
Major highlights were our development completions in Livingston and Bristol. Substantially let prior to the downturn, both of these schemes have taken our industry forward in terms of design, mix of uses, quality of environment and sustainability. Both of these new developments achieved a BREEAM excellent rating and the Elements in Livingston was the first covered enclosed shopping centre ever to do so.

Slide 24 – Highlights
Whilst we have seen adverse yield shift across all of our assets, not all of them have declined in terms of their underlying turnover or income performance and across the like-for-like portfolio, footfall is up on the year by 2.3% as opposed to the benchmark which is down by 1.1%. Consumers have rallied to the discount call and our outlet centres have performed well. Gunwharf Quays has achieved some significant new lettings and overall turnover growth of 1.7% on a like-for-like basis. This was matched by the Galleria, Hatfield.

Retail warehousing has been the hardest hit sector since the peak in 2007 and during the year we sold 5 retail parks. This may not seem particularly surprising but we were onto the sale of retail warehouse assets early in 2007 and since January of that year we have sold 11 parks, at an average initial yield of 5.2%.

Slide 25 – Retail – tenant diversification
Our tenant base is diversified which gives us a very low exposure to major failures in the Retail sector. Excluding Accor Hotels, just 11.3% of our total portfolio income is accounted for by our top 10 retail tenants. However, the other side of this coin is that we have a virtual certainty of some impact of failures in the sector when times get tough for retailers. I will talk more about the impact of these insolvencies in a few moments.

Slide 26 – Retail – Shopping centres
Another defensive quality of our portfolio is its structure and this slide shows the composition of our shopping centre portfolio at the year end. You will see that by far the highest proportion is in major prime shopping centres which are mainly city centre schemes. A significant minority is made up of London suburban centres which we believe are extremely resilient and factory outlet centres with their discount proposition. Less than a quarter of our shopping centre assets shown in pink on the pie chart are not in these categories and this includes assets like Corby and Livingston where the prospects for growth are very good based on fundamentals such as population growth and low current rent levels.

Slide 27 – Retail – occupier analysis

Moving onto our major challenges and that of insolvencies in the sector, this is hopefully a useful graphical representation of the picture. Starting with what was in administration at the beginning of the year, we then add the £21.8 million that went into administration during the course of the financial year, deduct a small proportion where administrators have disclaimed leases which leaves us with 6.2% still in administration. For about a fifth of that we have come to an agreement with buy out or phoenix companies after long drawn out negotiations where we have fought hard to ensure that we don't undermine the competitive position of our loyal rent paying occupiers and get a fair deal from these pre-pack administrations. Administrators are hopeful of finding other buyers for the remaining space, about half of which is still trading, but we are expecting much of the remainder to go to void during the course of the next year. The chart on the lower half of the slide shows the picture on expiries and breaks again showing some additional void created during the year. Within this picture, 6.4% of exercisable break clauses were actually exercised and the vacation rate on expiry was approximately 10%. The forward expiry profile within the retail portfolio is shown in the appendix slides.

Slide 28 – Retail Portfolio – analysis of voids

This final waterfall chart shows voids with the addition coming through insolvencies and expiries and a significant amount of new or refurbished space as a result of asset management activity all partially offset by a good leasing performance. Our void levels at 5.2% are significantly below the IPD benchmark of 7.4% and whilst leasing has been difficult in the current environment we have managed to contain incentives on portfolio lettings to an average of 10 months in shopping centres and 19 months in retail warehousing. At the year end some £5.8 million of rent or 2% of the portfolio was in solicitors' hands and a significant amount of the remaining space was let temporarily to offset costs and achieve some short term rental income.

Slide 29 – Development

Looking forward to this year one of our major priorities is the successful completion of our sd2 scheme in Cardiff with our partners, Liberty. At the end of March we were circa 46% let or in solicitors' hands by income and now we have moved to 50% which represents over 60% by area. We are on target for completion in October and have mitigated the majority of construction and delivery risks. Retailer interest is strengthening and whilst occupation won't be at the levels of the 2008 completions, we are happy that it will build strength after opening and will represent the prime fashion pitch in Cardiff. In Leeds we have taken a pragmatic decision to defer our Trinity scheme to a 2012 completion and will focus on pre-letting to achieve that target. We have other opportunities in a number or areas in the portfolio and particularly our Harvest JV with Sainsbury's and anticipate submitting a number of planning applications during the course of this year for smaller developments out of town.

Slide 30 – Priorities
However this financial year will be dominated by leasing, completing the letting of the Cardiff scheme, pre-letting Leeds and leasing voids in our investment assets. In doing this we will utilise the relationships we have built with retailers which have been strengthened through the recent downturn as we have reacted to their need to reduce service charges and to have some flexibility on the timing of rental payments. We want to build on the flexibility agenda and are currently consulting extensively with retailers about new forms of lease particularly in the areas of rent reviews, turnover rent and service charge. And we are determined to innovate as we have done in Poole with John Lewis providing their first of a new store concept.

In these ways we aim to achieve high levels of occupation so that we maintain the attractiveness of our assets to shoppers, maximise our income and minimise our void costs.

Speaker: Mike Hussey, Managing Director – London Portfolio

Slide 31 – Title slide
Thank you Richard. Good morning everyone.

Slide 32 – Where we are now
As Francis has described both in this presentation and previous presentations to you, the market has undergone a seismic correction beyond the “downside” scenarios that could have been envisaged. The principal activities in the London Portfolio therefore have been to preserve income, complete asset sales as well as continuing to align the assets to the cycle.

We have outperformed IPD by 1.99% and we have achieved £350m of sales during 2008/09 through careful pairing of investment demand with individual assets that may appeal to investors. This has meant an active period for our Investment Management team with the need for some agility and flexibility. I would say that, other than one or two exceptions, most of our asset sales would be in line with the sales list that we would have prepared under normal market conditions. Perhaps the most encouraging aspect of the sales activity is a reasonable level of underlying demand for prime assets and a clear stabilisation in investment yields for the longer dated leases on prime assets. There appears to be a growing flexibilty on lot size too.

Within the portfolio we are experiencing a high degree of vacation of properties on lease expiry and lease breaks but we recorded an overall 73% success rate maintaining income on leases that expired or terminated this year, including some occupiers holding-over at the end of their lease. This reflects strong performance from our Asset Managers within the London Portfolio on renewing and re-letting.
We are experiencing soft conditions generally for occupiers and wider economic conditions are clearly causing a degree of constipation in decision making amongst corporates.

Slide 33 – London Portfolio
Capital values were down generally in the portfolio. We have benefited from having 51% of our London Portfolio in the West End where values dropped at a lower rate than the City.

Excluding development pipeline properties, the average gross income yield on our like-for-like London offices now stands at 7.5% and 5.5% in Central London retail.
Our average London offices rent is £37 per square foot, with £41 per square foot in the West End and Mid-town, and £32 per square foot in the City.

Central London retail remained robust through the year with good performance continuing at the east end of Oxford Street with our JV partner Frogmore Real Estate Partnership and also the Piccadilly Lights.

Slide 34 – London Portfolio – tenant diversification
As you can see, the Government provide the backbone to our investment income with no specific large exposure to any other sector.

We believe that we made strong asset selection decisions during the last cycle and with a vastly improved portfolio of largely prime investments with some development projects, we have an attractive portfolio balance with the prospect of further performance coming through our strategic land holdings.

Whilst the residential market may still be in abeyance, there is a clear intention from government to stimulate recovery in this area.

Indeed we have seen some demand for residential reappearing, albeit that funding through the mortgage market has yet to loosen up sufficiently to enable the volume of transactions to increase to more helpful levels.

Slide 35 – London Portfolio – timing of development completions
You will be familiar with our development completion slide demonstrating our read of the cycle in London.

With no proposed acceleration in activity, this roll-out schedule indicates our current thinking on delivery with Park House likely to be the vanguard in our next wave of schemes.

Letting continues at our recently completed project at Dashwood House. One New Change retail is pre-letting well with 35% of the space now let or in solicitors' hands (25% by ERV) and a further 15% in serious negotiation (8% by ERV).

We have the final floor under offer at 5 New Street Square (23,000 sq ft) with only 2 floors (23,000 sq ft) now remaining in 6 NSS – the tower.

Development does have an impact on the income statement which is a key consideration at the moment. However, we are prepared to absorb some of this in order to drive out-performance through the development programme when we perceive the time to be right.

Slide 36 – London Portfolio – Planning for the next cycle
We continue to build our stock of planning consents with particular emphasis on the west end market. We have received consent for Selborne House, Wellington House and our mixed use project at Victoria Transport Interchange during the year and finally removed the obstacles to securing consent on park house in Oxford Street.
We now have 1.5m sq ft of valid consents in Westminster.

The planning refusal at Arundel Great Court was a disappointment and we have started the appeal process.

The Crossrail levy continues to be a topic of considerable debate in the London development market and whilst every participant is keen to see delivery of the Crossrail project for the good of London as a whole, there has been some debate over the scale, timing and application of the Crossrail levy, which has been well documented in the press.

We continue to monitor market conditions both in the West End and the City and whilst we are keen to address the dearth of good quality office space in the West End, we would want to see a little more encouragement on occupier demand, greater stability in the investment market and, above all, a further reduction in construction costs, before our next scheme start.

Speaker: Francis Salway, Chief Executive

Slide 37 -
Thank-you Mike.

Slide 38 – Outlook
The first thing I would say on outlook is that since the time we planned our Rights Issue the movements in property values and in sentiment have been exactly as we expected and modelled.

The UK property market is now at a position where property yields stand at a substantial premium to the risk free return, whether cash on deposit or gilts. This applies even if you mark property equivalent yields down by a very conservative 20% to adjust for falling rental values, which we show via the pink diamond on the graph. We have said previously that this yield gap will ultimately attract buyers for properties with secure income flows, and we are now seeing a little of this.

In terms of rents, the severity of the economic downturn will continue to put negative pressure on rental values. And some of this will continue to feed through to, and depress, capital values.

But, it is quite possible for capital values to rise when rental values are still falling, as we saw in 1993. And we think this pattern could be repeated at some stage in advance of the rental cycle turning.

It all comes down to the balance between buyers and sellers, which takes us to banks. We detect a very slight increase in bank lending, but overall we expect banks to reduce their exposure to commercial property which has to dampen the rate of growth in new lending.

On the other hand, we do not expect banks to be massive sellers of property in the short term. So, we may have a muted demand/muted supply scenario in terms of property investment transactions. And we do expect debt maturities to generate buying opportunities over an extended period of time.

Slide 39 – Sources of competitive advantage

We are at the position of having navigated through an exceptionally turbulent year and we are looking forward. As with all good businesses, our strategy is simple – we play to our strengths. We have a depth to our skills and expertise and a depth to our relationships with occupiers which, if anything, have got even stronger over the last year.

We apply our skills across a portfolio which is focused on the two largest segments of the UK commercial property market, London offices and retail, which gives us breadth of opportunity. We allocate our capital to assets which allow us to apply our development and leasing skills.

We benefit from a debt structure under which asset selection is independent of property specific financing. We expect this to allow us to start development before others and acquire assets with vacancies and short leases at a time when others may struggle to finance them.

We are fortunate to have an existing portfolio which we have renewed and improved over the last five years, and which combines a blend of long income and assets with future enhancement potential. Specifically, we have secured some major planning consents in the West End, which we see as being the market with the best recovery potential for rental values over the next couple of years.

When investing new capital, we are likely to be attracted to opportunities priced off low rental levels, whether this be via acquisition or development. But we will not be wholly prescriptive about types of opportunity.

Slide 40 – Summary
In conclusion, the 27% reduction in net debt we have achieved gives us substantial downside protection for our balance sheet.

It also gives us flexibility for the future and, via the £1.6 billion of cash, valuable liquidity.

In operational terms we are focused on protecting income through lease renewal and letting up voids.

And in terms of positioning ourselves as the cycle evolves, we are already looking forwards, but prepared to be patient if that will deliver better returns – for example to time developments to complete into markets not just with healthier occupier demand, but also with rising rents.

After a year of unprecedented falls in value, we have a strengthened balance sheet, good liquidity and an attractive mix of long income and future opportunities.

If you do want to ask a question, please raise your hand and a microphone will be brought to you. Please then give your name and company name.

For those of you watching via our live webcast, do click on "Ask the board a question" link to raise a question.

Question 1
John Lutzius - Green Street
On the one fifth of the tenants in administration that you have deals going, can you give us a sense of what the economics are? How do the new rates compare to what you have lost?

Answer
Richard Akers, Managing Director – Retail Portfolio
I deliberately haven't done that because there is some commercial sensitivity around this. Most of that number is with two organisations and what I would say is that I did hint that we had long, hard negotiations. And what I can say is I think we have had very considerable improvement from our perspective on the starting point from those negotiations and we have achieved that by going into a lot of detail and having discussions with buyout companies about their business plans and getting a sense of what they opportunities are going forward and going into deep analysis with them about their potential in various units that they have with us. So we have taken it very seriously and we haven't just taken the deals that have been offered to us. We have negotiated hard and I think we have got some very satisfactory outcomes on those particular negotiations.

Further question
Can you give a little bit of sense of the activity on the other four fifths that is yet to go, what kind of demand are you seeing?

Answer
Richard Akers, Managing Director – London Portfolio
Well we are not in control of the space that is with administrators. We are quite pleased that it is still with administrators because we are therefore not exposed to the void costs / empty rates cost on that space. And clearly it is still with those administrators because they hold out some hope of finding buyers for those businesses or parts of those businesses. And the fact that more than half of it is still trading I think is an indicator that some of those businesses can be viable in the future. But as I said, we do anticipate that much of that will drift to void during the course of this year and as we find occupiers for those units, and obviously we are continuing to market our centres generally and our parks, we will approach the administrators and take units back to lease them. So we are not holding back on finding new occupiers even for that space.

Further question
Could you comment on your target loan to value (LTV) for the company in the long run? You had about 52% today, where do you want that to be in the long run?

Answer
Martin Greenslade, Group Finance Director
We would expect to see our LTV ratio to flex across the cycle. We are very clear of the Rights Issue that we undertook and the benefit in having gearing at this point. If we deleverage too much at this point some of the returns that will come as property values swing up again may not be realised by our shareholders. We would expect gearing to flex across the cycle and I think a range of 30-50% fall in gearing is not unreasonable, but it may go outside those boundaries as property markets move.

Question 2 – from Webcast
Read by Francis Salway, Group Chief Executive
I would appreciate your view on capital values going forward. Are you seeing any green shoots of recovery?

Answer
Francis Salway, Group Chief Executive
The answer is there is a two way pull at the moment in that there is a real interest emerging about acquiring investment properties at higher yields where there is incredibly good security of income that immunises the buyer from the short-term impacts of the downturn. On the other hand we are still seeing downward pressure on rental values because of the weak economy which is dragging values down on less well let properties. And as you put that together, what we are seeing is at the moment values are still declining, but at a slower rate.

That is actually exactly what we said at our Interim Results Announcement in November ’08. And I think from an occupational point of view, and I talk to people who run businesses outside the property sector, people set pretty cautious plans for ’09 and they’re meeting those plans or doing slightly better than them. And the comments from Mike and Richard are entirely consistent with that. The insolvencies have been less bad than we feared as we moved through into ’09. But beyond January and February our performance on renewal and break clauses and lease expiring break clauses is slightly better than we had projected.

Further question from webcast
What are your views on the overhang from Lloyds and RBS, do you see them dumping stock in the market and hence increasing pressures on property values?

Answer
Francis Salway, Group Chief Executive
Clearly it’s decisions that Lloyds and RBS will make. The sense we get is that where assets are income-producing, there will be no rush to sell those assets quickly into the market; where assets have no income - partially completed development or development sites - then there may be more precipitated action by the banks.

Question 3
Miranda Cockburn – JPMorgan Cazenove
On voids, I think the numbers that you give don’t include completed developments. Have you got the numbers including the completed developments, like Dashwood House etc?

Answer
Francis Salway, Group Chief Executive
We do, they are in an appendix to the pack, slide A7 at the top of page 4, ‘Analysis of voids’. And there we build up the void picture from like-for-like through pre-development and the other development schemes. So those projects which have been completed, but not yet 95% let, add a further 1.6% to voids.

Further question
Have you completed any sales post the year end? And can you give us any indication of the amount of sales you might have under offer at the moment?

Answer
Francis Salway, Group Chief Executive
We have completed one sale since the year end. We are pleased with the progress that we are making on sales, but beyond that have nothing firm to update on. As we said at the time of the Rights Issue, we would continue to sell some properties broadly to match our expenditure on development projects. And this is a dynamic process, as Martin has outlined. We now have less future committed capex on developments and we are managing the position dynamically. But you will see some more sales being reported.

Further question
If you wanted Park House to be completed in say 2014, when would you actually need to push the button and start construction there?

Answer
Mike Hussey, Managing Director – London Portfolio
About 29 months before that.

Question 4
John Fraser-Andrews – HSBC
Could you flesh out the earnings drag on the £1.3 billion of remaining cash on the balance sheet? And also indicate what the empty rates charge was last year and what your thoughts are on that going forward?

Answer
Martin Greenslade, Group Finance Director
£1.6 billion is the amount of cash that we have got. There are two factors related to drawing down the cash. One is the incremental cost of being in initial tier 3, that is in the order of 35 basis points additional cost, dependent on the amount being drawn down. If you look at the cash drag amount, it really depends on the amount of basic risk we take. What I mean by that is if we borrow at one month and deposit at three months, we can squeeze down the cash drag effect for us. But broadly if you worked with a maximum of 1% for the overall cash drag, that would be appropriate. We will do our best to minimise that by the way in which we deposit cash versus the borrowings we have.

Further Question
Just to follow up that, the pay down of debt is that dependent on portfolio investment sales / further capital value declines or keeping your flexibility open on those issues?

Answer
Martin Greenslade, Group Finance Director
It is both of those factors. We don't intend to be an initial tier 3 forever. It is absolutely our intention to pay down our facilities and to move us relatively rapidly towards the more normal operating environments of tier 1 and tier 2. What we have to do is protect our downside in terms of balance sheet strength and liquidity, but we have a huge amount of flexibility. We could put all of that cash back into the Security Group. We could buy assets with part of that cash and we could move it into the Security Group. If we bought assets with all of that cash and moved all of the assets that are outside the Security Group, and it is not what I am proposing, I say that very quickly in front of my property colleagues. I am not proposing we use all of the cash to buy property. But if we did, we would find ourselves today, if you take the 31 March position, you would have a security group LTV of 60%. So within that you can

see there is huge flexibility in terms of how we use that cash. But it is absolutely our intention to move ourselves back towards a tier 1 or tier 2 status.

Further question
And on empty rates?

Answer
Martin Greenslade, Group Finance Director
Empty rates charge is around £6.5 million for the year, up from around £3 million.

Further question
How are leasing incentives being treated in the ERV reductions that you have reported in the year? And a follow up to that on retail, Richard could you elaborate the 10 months rent frees that you are giving away, what the increase is on the year in those? And rental levels you are achieving? You have given an answer on pre-pack administration, but how are you leasing relative to ERV in Retail?

Answer
Francis Salway, Group Chief Executive
Our valuers assess ERV by reference to the rent that they would expect under the rent review clause. So it would depend on the rent review clause precisely how incentives are dealt with.

Answer
Richard Akers, Managing Director – Retail Portfolio
The levels of incentives that I quoted on portfolio lettings of 10 months and 19 months for shopping centres and retail warehousing respectively are up on the previous year. I don't precisely have the figures in front of me for the previous year, but I think they were around 6 and 11 months respectively, they were certainly in that order of magnitude. So they are up last year on the year before. I think, what I would say is that there is considerable pressure from retailers for higher levels of incentive. We have resisted that pressure and that has been a major part of the negotiations we have had on new leases.

The impact on rental values, I think it is very much a mixed picture. It is very asset specific, whether retailers feel that current rental levels in our assets are levels from which they can be profitable. What you can see is that there has been a fall in ERV generally across Retail which is pretty equal between retail warehousing and shopping centres and that will reflect in all of those discussions on new lettings and the discussions that we have had with retailers that have pre-packed.

Question 5
Keith Crawford – KBC Peel Hunt
I just wanted to try and establish in my mind one or two trend factors here. On page 12, the information on voids, the like-for-like, this is an upward pointing ski slope isn't it? We have a

substantial increase administration element here, quite a lot of which is somewhat in the lap of the gods, we cannot say with certainty that that will not worsen in current circumstances can we, particularly on the retail side?

Answer
Francis Salway, Group Chief Executive
The comment we made in the outlook statement is that we do expect vacancy rates to continue to rise because there will continue to be some space which is released on expiry of leases, some insolvencies which continue to happen. So we would expect vacancy rates to continue to rise.

Further question
I recognise you cannot make a dividend forecast, but comments in this presentation about the robustness of the 28p and the tone of this presentation is that the conditions as they are currently, particularly if you realise real estate - which is a necessary requirement under present circumstances - is that that robustness is not without pressure?

Answer
Martin Greenslade, Group Finance Director
If you take a quarterly dividend, which is the anticipated dividend going forward, if you annualise that to give you 28 pence that gives you a cost of £212 million. But we have just reported £314.9 million as the underlying revenue profit of the business. You are right that I have set out some of the issues, but they are no different to the issues we faced and understood at the time we re-based the dividend. We are not going to give a specific headroom figure because that would be an earnings forecast, but I have given you quite a lot of information around where the annualised dividend may be and the sort of pressures on our income side.

Further question
The 1.5 million sq ft of planning consents gained in Westminster, would that have been fully reflected in these results or is that going to be reflected gradually further in the future?

Answer
Francis Salway, Group Chief Executive
In terms of revaluation of assets, the valuers take into account planning consents granted. And certainly on Victoria Transport Interchange, following grant or planning consent, there was a change in approach from looking at the value of the existing buildings to treating it as a site. I think there has been less differential in approach on the other schemes as they are simpler than the Victoria Transport Interchange site.

Answer
Mike Hussey, Managing Director – London Portfolio
Victoria Transport Interchange has been 4.5 years in the making, as they get closer to the end of that run I think the valuers start to anticipate they are getting the value.

Question 6
Carl Gough – Cazenove
Can you let us know what you are budgeting for this financial year for capex on the core portfolio, other than developments. So maintaining buildings?

Answer
Martin Greenslade, Group Finance Director
The run rate is typically around £70-80 million and that is an indication of what we expect to spend going forwards as well.

Further question
And on low amortisations you are budgeting for this year?

Answer
Martin Greenslade, Group Finance Director
In terms of in the initial tier 3, the approximate run rate is £30 million a quarter which will be collateralised. So that goes into offset the debt but it has to be blocked into a block account in initial tier 3.

Further question
On the shopping centres you mentioned, on the income growth some had shown some good positive uplifts on like-for-like, others had gone backwards. Could you just highlight an example at either end of the extreme and the reasons behind those?

Answer
Richard Akers, Managing Director – Retail Portfolio
I highlighted the factory outlet centres which have shown turnover growth. The rents are directly linked to turnover in factory outlet centres, so they have shown income growth as well. We have also added space at Gunwharf Quays, so on a non like-for-like basis, we have added income there too. At the other end of the spectrum there are some assets which have been under competitive pressure, I would highlight our assets in Liverpool - St Johns and Clayton Square - with the opening of Liverpool One. They have seen a high level of voids because some retailers have vacated to move to Liverpool One.

Question 7
Mark Young – Oriel Securities
I wonder if we could continue to talk about Retail ERVs, on the analysis of expiries and options, I note that I think you say only 6.4% of breaks were exercised and even more

significantly only 10% of tenants at the end of their leases left. This suggests that you have been pretty flexible in terms of trying to keep people in. Can you talk about the kind of rental levels you have achieved there versus passing?

Answer
Richard Akers, Managing Director – Retail Portfolio
Not specifically. Every agreement on a renewal is reflected in our ERV growth or otherwise across the whole portfolio. All that is taken into account by the valuers and appears as a reduction in ERV across the shopping centre portfolio, 4.6% and 4.9%, I think, in retail warehousing. What you will see in that picture is that a larger proportion of expired leases are still outstanding and that indicates that there is quite intense negotiation with those retailers on the rent act renewal. But the indication is that they wish to stay. We are negotiating those rents and some of them are going through the litigation process.

Further question
Some retailers in their results presentations are bragging quite firmly at the moment. They are talking about two thirds off passing rents in some cases at the end of leases or just turnover, no base rent at all. Does that sound familiar?

Answer
Richard Akers, Managing Director – Retail Portfolio
As I said, we had some very interesting and tough negotiations and there is a lot of publicity around it. In the majority of our assets, those retailers want to be there and they are paying occupancy costs that they can afford and from which they can make a profit. From that end, I think we are in a reasonably strong negotiating position. Of course there are some situations where there are high levels of voids and it is a more difficult position for us as landlord, but those are relatively few in our portfolio.

Francis Salway, Group Chief Executive
This takes us on to the next question from the webcast. And it really gives an insight into whether people trade profitably from retail units. There have been some interesting examples where people have said, this is what we want, and we have said, well we are not prepared to do a deal at that level, and they have come back and we have agreed a satisfactory deal. And this is what Richard indicated around units of administration.

Question 8 – from Webcast
Read by Francis Salway, Group Chief Executive
What is the approximate occupancy cost ratio for our retail mall portfolio?

Answer
Richard Akers, Managing Director – Retail Portfolio
We don’t have complete information on turnover for all of our retailers in our mall portfolio, we feel we have accurate information for about 40%. I hesitate to give specific figures for

occupancy cost ratios because without a complete sample, it is possible they could be inaccurate. But our feeling is that it varies quite considerably across different centres from about 13% up to around 23%. At the higher end of that level, it tends to be the centres where there are very high sales densities which clearly means that retailers can afford to pay more in terms of their occupancy costs because they get economies of scale on other costs such as staffing and other costs of occupation - heat, light and power and so on. So we feel that is a respectable level for our malls, but those are based on a very broad range and we are not going to give specific ratios on specific centres or even give an average for the whole portfolio as we don't have the full range of data available to come to that view.

Question 9
Quentin Freeman - UBS
Richard can I just pick up on that, when you talk about occupancy costs, does that include rates and service charges as well as rents?

Answer
Richard Akers, Managing Director – Retail Portfolio
Yes, that includes rent, rates and service charge.

Further question
So roughly what would you say rents are as a percentage?

Answer
Richard Akers, Managing Director – Retail Portfolio
Well I think that varies, rates are usually around 35-45% of the rent. And service charge would typically be around 15% of the rent.

Further question
Accor, can you say what the outlook is for Accor this year in terms of what the income is and what your costs are etc?

Answer
Richard Akers, Managing Director – Retail Portfolio
The performance of the Accor portfolio for the last year has been relatively good, compared to other sub sectors of the market. The reduction in values is attributable roughly 50:50 to yield shift and an anticipated fall in the income, anticipated by our valuers. So our valuers have taken a view on where they think income levels will be in that portfolio in the year to come. I am not going to give a forecast as to where we think things will go, but what I would say is I believe Accor are one of the best operators and they are a very good operator of hotels. They have been very successful at maintaining their room rates and we are confident they will deliver for us in that investment.

Further answer

Francis Salway, Group Chief Executive
Just to add a couple of statistics, the actual rental income is 1% up on the previous year, but that is retrospective. Since we acquired Accor the capital values have outperformed the general UK commercial property market by as much as 8.8% per annum and as Richard said, there is an element of forward-looking in the latest valuation which was down about 26% on the year, less than the overall portfolio.

Further question
So if the value was off 26%, is that saying they suggest income is going to be off 13%?

Further answer
Francis Salway, Group Chief Executive
I think it was a figure of exactly 50%, there was a balance between. So that is a forward looking estimate. It is not based on any specific figures yet as we are at an early stage in the year.

Further question
Mike, you said you would start developing when construction costs fell a bit further. Can you tell us what construction costs are today in your opinion?

Answer
Mike Hussey, Managing Director – London Portfolio
If you take a view across the central London office sector for the last twelve months, most of the commentators will say it has dropped between 6-10%. My view is that it has dropped between 12-18%. I think that the reason for that is that people are still averaging out some of the transactions that are still going through and on developments being completed. They are not taking a view on new development costs and the additional pressure on supply and demand in that particular market place. I think we will be anticipating further reduction, but as we don't make forward looking statements, I cannot tell you what I think that is.

Further question
So roughly per square foot, what would you say it is to build an office building today, roughly in terms of construction costs per square foot?

Answer
Mike Hussey, Managing Director – London Portfolio
I will give you a broad view, I think the commentators are saying that a typical box office building which potentially was at about £300 per square foot is probably at about £270. I think that should be nearer £225 per square foot.

Question 10 – from Webcast
Read by Francis Salway, Group Chief Executive
What is the split between variable and base rent in retail?

Answer
Francis Salway, Group Chief Executive
Our turnover rents across our shopping centres are 2.8% of income and across the whole of our retail portfolio, including retail warehouses is 1.7%.

Question 11
Marcus Phayre-Mudge – Thames River Capital
On Retail particularly, you have given us some gross like-for-like income data which presumably are slightly flatter on the top line because your weaker centres are experiencing more voids, can you give me a rough idea on the net, rather than the gross like-for-likes?

Answer
Francis Salway, Group Chief Executive
Is this the one that is answered in the slide, where we gave the gross income yield for the shopping centres and then took off 0.6 units of administration. 0.6 for empty rates and service charge?

Marcus Phayre-Mudge
Yes, thank-you

Question 12
Harm Meijer – JP Morgan
On the Bullring, can you give us an update and also what other assets are currently for sale?

Answer
Richard Akers, Managing Director – Retail Portfolio
We have nothing to report on Bullring but we have had a considerable amount of interest in the asset. Our view on the kind of buyers there would be for an asset like the Bullring and the kind of equity that is required to purchase that asset or our share in that asset, is that those buyers have not been confident in putting their money into property in the UK over the past year. That is why we haven't announced the sale of our Bullring asset but there is no shortage of interest in it. I think when the UK economy does recover and those investors are keen to place money into the UK property market, then there will be no problem in finding a buyer for what is probably the best retail asset in the country.

Further answer
Francis Salway, Group Chief Executive
On other assets being marketed for disposal and split across retail and our London portfolio, generally characterised by small to medium size lot size. Perhaps slightly larger lot size in London, as Mike articulated, it is a question of matching assets we are bringing forward to where we see demand. But we have seen demand widen out and move up the lot size curve in the last 6-8 weeks.

Further question
Mike, where do you see yields going for good quality offices with long leases over the coming months?

Answer
Mike Hussey, Managing Director – London Portfolio
I think they have hardened for that type of product. I think London and Stamford bought very well with one or two wrinkles, but they bought very well at 7.75%. I think that has probably come in 100 basis points for that type of product on the right sort of lot size. In terms of where it is going, I suspect it will continue to harden, although we could anticipate that there may be less evidence of that sort of product, because there isn't much of it left but I think people want to trade. I think that what will probably happen next is we will see the waves going out and the concentric circles picking up shorter lease lengths or indeed larger lot sizes and then we will see, I hope, a hardening of yields in that area. But I think we have definitely seen them come in in the last few months.

Further question
And are you then talking below 7?

Answer
Mike Hussey, Managing Director – London Portfolio
Yes

Further question
Which assets in your portfolio have currently the greatest attention?

Answer
Francis Salway, Group Chief Executive
I think one of the interesting things is that there has been a spreading out, as I said in the last 6-8 weeks. I think initially as we had the turn of the year, investor interest was quite narrow on the very best let assets in London and in supermarkets outside London, we have seen a broadening of interest. You will have picked up that we have sold a small shopping centre asset in Harrogate which did not have terribly long leases. So it is broadening out.

Thank you very much for joining us this morning.

– ENDS –

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