

Business framework

LEGAL AND REGULATORY FRAMEWORK

Hammerson operates in the UK and France where planning regimes impose restrictions on new property developments. These restrictions are particularly onerous in the case of large retail schemes, limiting the supply of new space and thereby benefiting owners of existing retail properties. By contrast, it is generally more straightforward to gain permission to create new office buildings, which can lead to more marked imbalances between supply and demand, resulting in greater fluctuations in rents and values. From a developer's perspective, the planning process can sometimes be uncertain and protracted.

In England and Wales, contracts to lease property are governed principally by the Landlord and Tenant Act 1954. The duration of a typical lease is 10-15 years, with rent payable quarterly in advance and with rent reviews at the end of each five year period. Rent reviews are generally 'upward only' whereby the rent will be increased to the market rent, unless the market rent is lower than the passing rent, in which case it will remain unchanged. Occupiers bear the responsibility for repairing and insuring the property and have a right to renew their leases for a further term at the end of the lease.

Scotland has its own legal system and there is no equivalent of the Landlord and Tenant Act. There is little legislation or case law relating to leases and a Scottish lease will usually contain all relevant terms. However, common law provisions may apply if the lease is silent on a particular issue. Despite the legal differences, the commercial terms of Scottish leases are similar to those elsewhere in the UK discussed above.

The trend in the UK is for a more flexible approach by property owners, which may include shorter leases, rent which is related to an occupier's turnover and rents being paid monthly.

In France, leases are governed by the 'Code du Commerce' and a typical lease is of around ten years' duration, with the occupier often having the right to break the lease every three years. Rent for the majority of leases is revised annually according to one of two official indices which are related to retail prices, retail sales and construction costs. Rents may go up or down depending on the index. Occupiers have the right to renew their leases for a further term at the end of the lease.

Hammerson is subject to various environmental regulations in the UK and France. In particular, our office and retail portfolio investment activities are subject to:

- Climate Change Act
- Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES)
- Energy Performance Certificates (EPC)
- European Energy Performance of Buildings Directive
- Landfill regulations
- Grenelle de l'Environment – Acts one and two

STRATEGY AND RISK MANAGEMENT

The Group's strategy, which is summarised on pages 7 to 11, is set by the Board and documented in the Group's annual three-year business plan. The strategy and associated action plans take into account the current and anticipated conditions in property markets. Set out opposite is a review of the property markets in 2010 and the medium-term outlook.

Operational and financial strategies support the Group's real estate strategy and are implemented within a risk management framework designed to identify and manage risk. More details of these strategies are provided in the Business and Financial Reviews on pages 18 and 31 respectively. A summary of the principal risks and uncertainties faced by Hammerson and how these are managed is set out on pages 14 and 15.

KEY PERFORMANCE INDICATORS

We use financial and operational measures to monitor the performance of the business. The Key Performance Indicators (KPIs) which we believe are most important to the Group's performance are shown on page 16 and details of our financial and property returns are on page 17.

CORPORATE RESPONSIBILITY

The impact of our business on the environment and our stakeholders, including employees and the communities in which we operate, is discussed on pages 32 to 37.

CONTRACTUAL RELATIONSHIPS

Our principal contractual relationships are with occupiers, joint venture partners, managing agents and building contractors. However, due to the number and diversity of the businesses with whom we deal, there are no individual contractual arrangements which are essential to the Group's business. As part of our commentary on the security of Hammerson's income, details of our largest occupiers by rental income are provided in the Business Review on page 23.

We have important relationships with our banks and bondholders who, together with shareholders, finance the Group. We use a number of banks and our bonds are widely held by a diverse range of investors. Accordingly, our financing risk is not concentrated with any particular lender.

Property markets and outlook

INVESTMENT MARKET

Global economic recovery and supportive monetary policy contributed to a marked improvement in the performance of UK and French commercial property during 2010. In both countries, improving investor sentiment increased the demand for commercial property, boosted transaction volumes and led to lower investment yields and higher property valuations. Demand has been mainly focused on high quality property assets with secure income streams.

The value of UK commercial property transactions reached £35 billion during 2010, an annual rise of almost 50%. The quarterly IPD all-property equivalent yield moved in consistently throughout the year, falling 80bp to 7.1% by December 2010. Although the rate of inward yield movement slowed as the year progressed, a stabilisation of rental values helped to push up annual all-property total returns to 15.1%, the highest level since 2006.

The French commercial property market recorded a smaller decline in capital values during the downturn, and accordingly has not seen as sharp a recovery as the UK. The volume of transactions in France in 2010 remained below the historic average, but accelerated through the year to a total of €11 billion, a year-on-year rise of 40%. Rising demand put pressure on yields throughout the year, contributing to a return to capital value growth.

Commercial property continues to look attractive. The spread between property yields and interest rates remains well above the historic average, which should continue to encourage investor demand. However, investors are expected to prefer prime properties, helping to maintain the wide spread between prime and secondary yields.

RETAIL PROPERTY

In the UK, non-food retail sales rose by almost 3% over the year, as households reduced savings and increased spending. The recovery in retail sales was partly the result of lower than expected unemployment.

Although overall sales recovered, trading conditions for retailers in the UK have been mixed. Some retailers have taken advantage of the downturn to improve operations and increase market share. However, factors such as the weakness of sterling and rising commodity costs have affected retailer profitability. Against this background we expect to see a continued polarisation to prime, regionally dominant shopping centres and conveniently located retail parks.

During the recent downturn, many of the UK's planned retail developments were either delayed or cancelled by property companies. Accordingly, the UK development pipeline is now substantially smaller. Fewer new developments and an improved sales environment helped UK retail vacancy rates to stabilise in 2010, reducing the pace of shopping centre rental decline, and returning positive rental growth to the retail warehouse sector during the second half of the year. Vacancy levels at prime well-let shopping centres and retail parks such as Hammerson's are significantly lower than market averages, supporting rental values.

In France, retail sales have also started to grow as economic recovery and a stabilisation of unemployment have overcome weak consumer confidence. French households have a higher level of savings and lower level of personal debt than those in the UK, and the economic downturn in France resulted in fewer retailer administrations, helping to keep shopping centre vacancy rates lower than in the UK, at around 3%. However, retailers are yet to increase appreciably their demand for new stores. Shopping centre rents declined on average by just 1% during the downturn, and are estimated to have returned to growth in 2010. The main French indexation rate for existing retail leases was set at -0.22% with effect from 1 January 2011, and compares with +0.84% a year earlier. Indexation in France is likely to track any further increase in inflation, helping to maintain real rental incomes.

OFFICE PROPERTY

The performance of the central London office market generally mirrored the movements in global financial markets. Take-up fell back during the Greek sovereign debt crisis, but improved in the final quarter to a three-year high, as equity markets reached levels not seen since mid-2008.

Over the year as a whole, central London take-up was 15 million ft², a 67% rise on the previous year, and represented the highest level of leasing activity since 2006. For the first time since 2008, significant pre-letting activity began to return to the market. The central London vacancy rate fell from 7.2% at the start of the year, to 5.5% by the end of 2010, supporting continued rental growth and smaller incentive payments to tenants. Prime City rents were £55/ft² by the end of the year, whilst rent-free periods had reduced by six months to 24 months for a ten-year lease.

The completion of additional floor space in the City will fall over the next two years, with the likely consequence of lower availability of grade-A offices and further increases in prime rents. Demand has increased but remains unpredictable, which in conjunction with an increase in development activity could temper rental growth in the longer-term.

Risk management

Risk management is integral to the achievement of our financial and operating objectives. Risk management policies are designed to reduce the chances of financial loss, protect our reputation and enhance performance when opportunities arise. Our risk management framework, which is regularly reviewed by our senior team, helps us to identify and control risk. The five principal risk areas in that framework, and the steps we take to mitigate them, are shown in the table below. Also noted are references to the pages in this Annual Report where the risks, or the elements of the business affected by them, are discussed further.

	Risk	Mitigation	Commentary	Page
Business strategy	<ul style="list-style-type: none"> Implementation of a strategy inconsistent with the market environment. Over-concentration of activities and investment exposure in particular markets. 	<ul style="list-style-type: none"> We commission and evaluate research into the economy and investment and occupational markets and use this to prepare an annual Business Plan and regular financial forecasts. Hammerson's portfolio is geographically diversified and its allocation is regularly reviewed. 	<ul style="list-style-type: none"> Property markets and outlook 	13
			<ul style="list-style-type: none"> Property portfolio and allocation 	18
			<ul style="list-style-type: none"> Principal uncertainties 	15
Property development	<ul style="list-style-type: none"> Poor control of the development programme and failure to address investment and occupational market risks. Overexposure to developments within a short timeframe. 	<ul style="list-style-type: none"> Detailed analysis, including market research, is undertaken prior to the approval of each development project. The Group's overall exposure to development is monitored and projects phased. A programme of post completion reviews ensures potential improvements to processes are identified. 	<ul style="list-style-type: none"> Current and future developments 	25
			<ul style="list-style-type: none"> Principal uncertainties 	15
Property investment	<ul style="list-style-type: none"> Acquisition of properties that fail to meet performance expectations. 	<ul style="list-style-type: none"> Acquisitions are thoroughly evaluated, including due diligence reviews. The performance of individual properties is benchmarked against target returns. 	<ul style="list-style-type: none"> Investment portfolio 	20
Treasury	<ul style="list-style-type: none"> Breach of borrowing covenants, triggering default and/or repayment. Insufficient liquidity to progress the development programme. Adverse currency or interest rate movements. 	<ul style="list-style-type: none"> Guidelines for financial ratios are set and monitored by the Board. Future investment requirements are approved by the Board and sufficient facilities put in place. Diverse sources of funding used. Fixed rate borrowings are used where appropriate and foreign currency denominated assets financed by borrowings in the same currency. 	<ul style="list-style-type: none"> Chairman's statement 	5
			<ul style="list-style-type: none"> Financial Review 	31
			<ul style="list-style-type: none"> Notes 20 and 21 to the accounts Principal uncertainties 	83 to 90 15
Business organisation and human resources	<ul style="list-style-type: none"> Failure to recruit and retain key staff with appropriate skills and calibre. 	<ul style="list-style-type: none"> Recruitment procedures and the remuneration structure are regularly reviewed and benchmarked. Succession plans are in place for senior positions. 	<ul style="list-style-type: none"> Remuneration Report Human Resources Corporate Governance 	46 to 51 32 38 to 41

Principal uncertainties

PROPERTY VALUATIONS

The property portfolio is the largest component of the Group's net asset value. The value of the portfolio is affected by the conditions prevailing in the property investment market and the general economic environment. Accordingly, the Group's net asset value can change due to external factors beyond management's control. During 2010, improved economic conditions and the relatively attractive income yield on prime property have encouraged investors to be more active in the real estate investment market and property values have risen. However, there remains some uncertainty in the outlook for the economy whilst the continued high levels of bank finance secured on commercial property and the associated refinancing requirements could cause weakness in the investment market. The Property markets and outlook section of this report provides further discussion of these issues.

Hammerson has a high quality portfolio which is geographically diversified and let to a large number of tenants. These factors should help to mitigate any negative impact arising from changing conditions in the financial and property markets.

Our property portfolio is valued in compliance with international standards by external, professionally qualified valuers. The primary source of evidence for valuations should be recent, comparable market transactions. The current level of activity in the commercial property investment markets in the UK and France has meant that our valuers have had sufficient market evidence on which to base their valuations.

LIQUIDITY

Although conditions in the financial markets have stabilised during 2010, companies with short-term refinancing requirements may continue to find it difficult to secure adequate funding at costs comparable with their existing facilities. Hammerson has just £43 million of debt maturing before April 2012 and a further £175 million in 2013. Accordingly we have time to plan for an optimal debt maturity and cost profile.

Gearing at 31 December 2010 was 52%. The risk that the Group could breach its borrowing covenants, the most stringent of which is that gearing should not exceed 150%, is therefore low. We estimate that, on a proforma basis, the value of our portfolio would have to fall by 43% to endanger our most rigorous gearing covenant.

DEVELOPMENT AND LETTING

Potential occupiers remain cautious about entering into commitments to lease space, although the level of interest has increased over the last year. Vacancy is discussed further in the Business Review on page 22. We currently have one significant development underway, Les Terrasses du Port in Marseille, which is 49% let or under offer and where we have much interest from prospective tenants. Although we have a significant development pipeline, the programme will be phased and we will not start major capital projects without substantial pre-lets. The construction contract at Les Terrasses is for a fixed price and is therefore protected from the effects of inflation.

TENANT DEFAULT

The trading environment has continued to improve during 2010, and the rate at which retail companies in the UK are going into administration has fallen. However the effects of increased taxation and restrictions on government spending may mean that some tenants, principally in the UK retail sector, face difficult operating conditions and there is a risk that they will be unable to pay their rents. The large number of tenants and their geographical spread mean the impact of individual tenant default to Hammerson is low. Furthermore, our occupational leases are long-term contracts, thus making the income relatively secure. The quality of the Group's income is discussed on page 23 of the Business Review.

INTEREST RATES

Interest charged on borrowings is a significant cost for Hammerson. We set guidelines for our exposure to fixed and floating interest rates and use interest rate and currency swaps to manage this risk. At 31 December 2010, 94% of the Group's gross debt was at fixed rates of interest. If short-term interest rates increase, our hedging programme should partly mitigate the impact of any rise.

EXCHANGE RISK

Exchange risk is managed by matching foreign currency assets with foreign currency debt, using derivatives where appropriate. At the end of 2010, 82% of the value of the French portfolio was hedged. We estimate that a 1% strengthening of the euro relative to sterling would have the effect of increasing shareholders' funds by around £2 million and would increase net debt by approximately £11 million.

Key performance indicators

To monitor the performance of our business, we measure three principal indicators against appropriate benchmarks. Set against the background of our strategy, these 'Key Performance Indicators', or 'KPIs', demonstrate the extent to which earnings and valuation growth drive returns. Growth in portfolio and equity returns should, over time, be reflected in improved shareholder returns. The sources of the information used to calculate KPIs are management reporting systems and IPD.

	Return on shareholders' equity (ROE)	Portfolio return relative to IPD ⁽²⁾	Occupancy
Description	ROE represents the income and capital returns in a year expressed as a percentage of shareholders' equity at the start of the year. ⁽¹⁾	We compare the total return achieved from the portfolio against the relevant IPD index.	The ERV of the space in the portfolio which is currently let, as a percentage of the total portfolio. ⁽¹⁾⁽³⁾
Why it is important	It is a measure of how effective Hammerson is in generating a return on the equity invested by shareholders in the business.	It enables us to monitor the return achieved from the portfolio against a recognised benchmark.	We aim to maximise the occupancy of our properties as income lost through vacancy has a direct impact on profitability.
Benchmark	8.2% (estimated cost of equity)	IPD Universe +1.0%	97.0%
2009 actual	-16.9%	-4.1% (IPD Universe 1.3%)	95.4%
2010 actual	21.1%	18.6% (IPD Universe: 15.1%)	97.3%
Commentary	Financial and property returns, page 17	Financial and property returns, page 17	Business Review, page 22

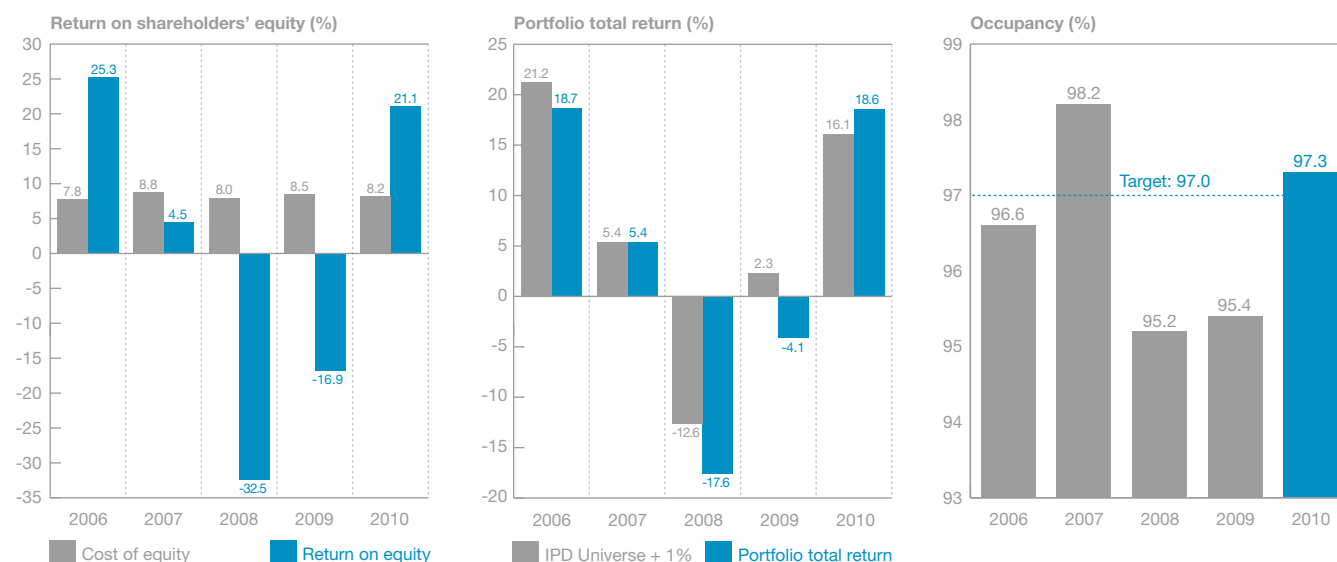
Notes

¹ Please refer to the glossary on page 117 for a full definition.

² 2010 figures refer to UK data only, based on the IPD quarterly index, as the UK annual index was unavailable at the time of publication. There is no French quarterly index and the French annual IPD index was unavailable at the time of publication. The figures will be updated when the annual indices are available.

³ EPRA has issued revised guidance for the calculation of vacancy. Previously, vacancy was reported as a percentage of rents passing plus the ERV of vacant space. The revised definition expresses vacancy as a percentage of the total ERV of a property or portfolio. We have adopted this new definition and restated our 2009 comparatives for vacancy and occupancy data.

Five-year record for key performance indicators



The chart above shows weighted returns and indices for 2006 to 2009 for the UK and French portfolios. The data for 2010 is for the UK only as the IPD index for France is not yet available.

Financial and property returns

RETURNS

Our objective is to achieve a return on equity which is greater than our cost of equity. To achieve this, we set hurdle rates for investment. The hurdle rates are based on a minimum five-year internal rate of return and are adjusted according to the risk associated with each project. When appropriate, the returns that would be generated by buying in the Company's own shares are evaluated against the potential returns from property investment and development. The table below provides information on the financial returns achieved in 2010 and compares them with appropriate benchmark indices. The IPD annual return was not available at the time of publication, so the IPD benchmarks shown for the UK portfolio are based on the quarterly index. There is no benchmark for total portfolio returns which is comparable with Hammerson's geographical portfolio allocation. IPD data relating to the returns of the French property sector in 2010 will be available only after this Annual Report has been published.

Returns data for 2010

Return	%	Benchmark	%
UK portfolio capital return	12.5	UK IPD Universe – capital	8.5
UK portfolio income return	5.5	UK IPD Universe – income	6.2
UK portfolio total return	18.6	UK IPD Universe – total	15.1
Total portfolio capital return	9.3	n/a	
Total portfolio income return	5.3	n/a	
Total portfolio total return	15.0	n/a	
Return on shareholders' equity	21.1	Estimated cost of equity	8.2
Total shareholder return over one year	2.5	FTSE EPRA/NAREIT UK index over one year	4.9
Total shareholder return over three years p.a.	-11.9	FTSE EPRA/NAREIT UK index over three years p.a.	-13.4
Total shareholder return over five years p.a.	-6.6	FTSE EPRA/NAREIT UK index over five years p.a.	-9.3

An analysis of capital and total returns by business segment is provided in the Business Review on pages 19 and 20.

The IPD Universe includes retail, office and industrial returns for all grades of property in the UK, although Hammerson does not invest in the industrial sector. The outperformance of the IPD Universe capital return index arose principally because of the prime nature of Hammerson's shopping centre portfolio. Prime shopping centres and offices provide low initial yields reflecting the high quality of these assets. Consequently, the income returns for our portfolio are lower than the index.

Hammerson's return on shareholders' equity for the year ended 31 December 2010 was 21.1%. The income element of the return on shareholders' equity will tend to be relatively low given the high quality of the property portfolio, as described above. In 2010 the capital element of the return on equity reflected the increase in the value of the portfolio during the year, which resulted from the continuing recovery of the real estate investment market.

Total shareholder return for 2010 underperformed the FTSE EPRA/NAREIT UK index. Over the last five years, Hammerson's average annual total shareholder return has been -6.6% compared with -9.3% for the EPRA/NAREIT UK index.

EPRA performance measures

EPRA promotes the presentation of certain performance measures in its Best Practices Recommendations. A summary is set out below.

Performance measure	
EPRA Earnings Page 75	Definition Recurring earnings from core operational activities. Purpose A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings.
EPRA NAV Page 75	Definition Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. Purpose Adjusts IFRS NAV to provide stakeholders with relevant information on the fair value of the assets and liabilities of a real estate investment company with a long-term investment strategy.
EPRA NNAV Page 75	Definition EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes. Purpose Adjusts EPRA NAV to provide stakeholders with relevant information on the current fair value of the assets and liabilities of a real estate company.
EPRA Net Initial Yield (NIY) Page 21	Definition Annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, including estimated purchasers' costs.
EPRA 'topped-up' NIY Page 21	Definition EPRA NIY adjusted for the expiry of rent-free periods. Purpose Comparable measures in Europe for portfolio valuations.
Vacancy Page 22	Definition Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio. Purpose A measure of investment property space that is vacant, based on ERV.

Business review

REAL ESTATE STRATEGY

Our real estate strategy focuses on high quality properties and income growth, and aims to maximise the total returns from the portfolio by:

- allocating the majority of the portfolio to prime regional shopping centres and retail parks;
- managing our investment properties so that they continue to be attractive to occupiers, enabling us to increase the Group's rental income and other revenues over time; and
- generating attractive income and capital returns through development, in both the retail and office sectors.

Our performance in these areas during 2010 is discussed in this Business Review, which also provides information on the potential future growth in the portfolio's income and value.

PROPERTY PORTFOLIO AND ALLOCATION

Our portfolio allocation is based on external and internal research which is used to analyse in detail the markets in which we operate. As part of our annual business planning process, we review the current and projected performance of each of our properties and identify assets for disposal. This active portfolio management has resulted in £555 million being raised from disposals in 2010, whilst £305 million has been invested in acquisitions, new developments and improving existing properties over the same period.

At 31 December 2010, our property portfolio was valued at £5.3 billion, with the investment portfolio valued at £5.2 billion and developments making up the balance. Joint ventures accounted for 46% by value of the total portfolio, including eight major shopping centres in the UK and two in France.

Our ten most valuable properties represented 48% of the portfolio value at 31 December 2010, with an average lot size of £253 million.

At the end of 2010, Hammerson's retail portfolio in the UK and France provided 1.6 million m² of space and included 16 major shopping centres and 17 retail parks. Our office portfolio includes seven prime buildings in central London, providing 157,000m² of accommodation.

The retail weighting of the portfolio at 31 December 2010 was unchanged from the end of the previous year at 88%. However, over the course of 2010 acquisitions, disposals and the effects of exchange rates have combined to change the geographical weighting of the portfolio so that the UK accounted for 74% compared with 66% at the end of 2009.

The value of the portfolio increased by £190 million during 2010, and the movement is analysed in the table below.

Movement in portfolio value in 2010	£m
Portfolio value at 1 January	5,142
Valuation increase	447
Capital expenditure	
Acquisitions	219
Developments	26
Expenditure on existing portfolio	47
Capitalised interest	2
Disposals	(491)
Exchange	(61)
Portfolio value at 31 December	5,331

The capital return for the portfolio in 2010 was 9.3%. The table below analyses capital returns by segment.

Capital returns for the year ended 31 December 2010

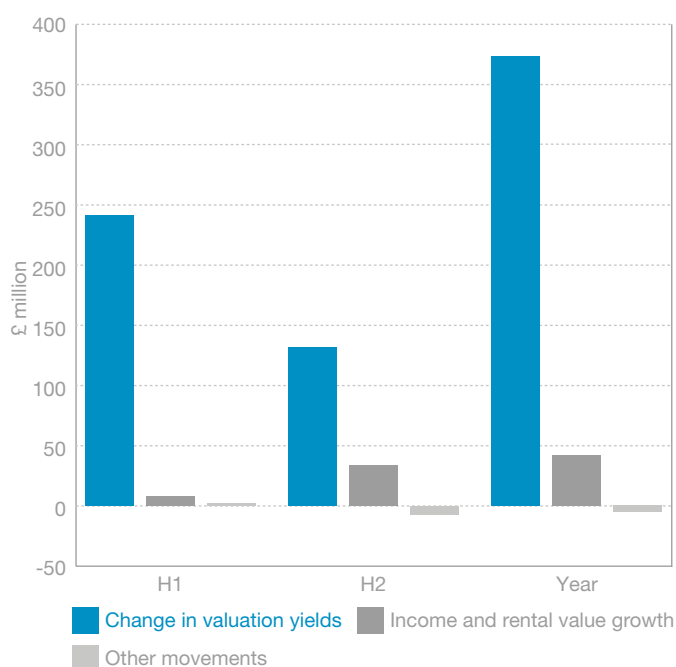
	Shopping centres		Retail parks		Offices		Total	
	Value £m	Capital return %	Value £m	Capital return %	Value £m	Capital return %	Value £m	Capital return %
UK	2,254	13.2	1,038	12.4	644	10.7	3,936	12.5
France	1,299	1.6	96	7.4	–	–	1,395	1.9
Total	3,553	8.3	1,134	11.9	644	10.7	5,331	9.3

The underlying valuation increase for the UK portfolio was 12.5%. Changes to investment yields accounted for virtually all of the increase in value in the UK retail portfolio, with shopping centres and retail parks showing a similar performance. For the UK office portfolio, nearly three-quarters of the valuation uplift resulted from lower investment yields with the balance reflecting increased rental income. The valuation uplift from yield movement in the UK was weighted towards the first half of the year, whilst the last six months of 2010 benefited from increased income and rental values.

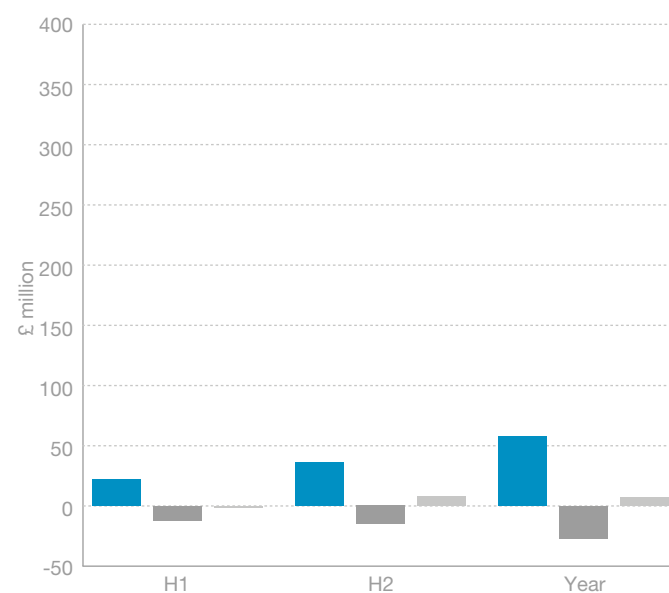
In France, valuations were broadly static as improved investment yields offset a small reduction in rental values. The improvement in yields was weighted towards the second half of the year and rental values declined fairly evenly in 2010.

The components of the valuation change in 2010 for the UK and French portfolios are shown in the charts below.

2010 components of valuation change UK portfolio



2010 components of valuation change French portfolio



Business review (continued)

INVESTMENT PORTFOLIO

Valuation data for investment property
for the year ended 31 December 2010

	Properties at valuation £m	Revaluation in the year £m	Capital return %	Total return %	Initial yield %	True equivalent yield %
Notes					1	2
United Kingdom						
Retail: Shopping centres	2,243	261	13.3	19.3	5.2	6.3
Retail parks	1,025	102	11.8	18.1	5.5	6.1
	3,268	363	12.9	18.9	5.3	6.2
Office: City	518	40	15.2	23.3	5.3	6.1
Other	66	4	7.4	15.1	5.2	6.6
	584	44	12.7	20.7	5.3	6.1
Total United Kingdom	3,852	407	12.8	19.2	5.3	6.2
Continental Europe						
France: Retail	1,338	40	2.1	7.3	4.9	5.6
Group						
Retail	4,606	403	9.1	14.9	5.2	6.0
Office	584	44	12.7	20.7	5.3	6.1
Total investment portfolio	5,190	447	9.6	15.6	5.2	6.0
Developments	141	–	(1.8)	(3.6)		
Total Group	5,331	447	9.3	15.0		

Notes

¹ Annual cash rents receivable (net of head and equity rents and the cost of vacancy and in the case of France, net of an allowance for costs of approximately 5.2% primarily for management fees), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included. Rent reviews are assumed to have been settled at the contractual review date at ERV.

² The capitalisation rate applied to future cash flows to calculate the gross property value. The cash flows reflect the timing of future rents resulting from lettings, lease renewals and rent reviews based on current ERVs and assuming rents are received quarterly in advance. The property true equivalent yields are determined by the Group's external valuers.

³ Further analysis of development properties by segment is provided in note 3B on page 67.

⁴ The weighted average remaining rent-free period is 1.1 years.

The initial yield calculation in the table 'Valuation data for investment property', is based on passing rents at 31 December 2010 excluding rents of £20.8 million per annum which will be received after the expiry of rent-free periods.

We have had an active year in 2010, disposing of several properties and reinvesting the proceeds in acquisitions and developments which provide opportunities for income and valuation growth.

At 54–60 rue du Faubourg Saint-Honoré, Paris 8ème, the redevelopment work is being completed and six of the seven stores have been handed over to tenants for fitting out. The stores, all but one of which are pre-let, will open for trading during the second quarter of 2011. The total development cost is £31 million and the increase in annual rents as a result of the redevelopment is £3.1 million. At 31 December 2010 the valuation of the property was £36 million above cost.

In October we completed the sales of interests in the Espace Saint Quentin and O'Parinor shopping centres near Paris. Hammerson will continue to manage both schemes and receive management fees. A 75% interest in Espace Saint Quentin, Saint Quentin-en-Yvelines, was sold to Allianz Real Estate GmbH for net proceeds of £151 million, and a further £2 million is contingent upon the purchaser's option to acquire one of the shop units in 2012. Using the exchange rate prevailing at the time of the transaction, the value of the property at 31 December 2009 was £209 million and net income for the year then ended was £11.6 million. The property is now held in a 25:75 joint venture, and Hammerson's annual net income from the arrangement, comprising rental income and management fees, is estimated at £4.0 million.

The sale of a 51% interest in O'Parinor, Aulnay-sous-Bois, to The National Pension Service of Korea raised net proceeds of £187 million. We have agreed with the purchaser that it can purchase, and Hammerson can sell, an additional 24% interest in autumn 2011 at a price based on the same valuation for the centre as was used for the initial transaction. This further sale would raise around £91 million. The value of the property, using the exchange rate at the date of the initial sale, was £395 million at 31 December 2009 and it contributed £19.0 million of net income during the year then ended. We estimate that Hammerson's income from the 49:51 joint venture, including management fees, will be £10.0 million per annum.

Elsewhere in our shopping centre portfolio, Glasgow City Council confirmed in October our application to extend Silverburn by 7,700m². The extension will provide high quality retail and leisure space and include an upgrade of the promenade leading to the Pollok Civic Realm. Silverburn, currently Scotland's largest purpose-built shopping centre, is held in a 50:50 joint venture with Canada Pension Plan Investment Board (CPPIB).

We have received planning consents for a 1,000m² restaurant quarter at Bullring, Birmingham and a 930m² extension to Queensgate, Peterborough. The latter will allow us to accommodate Primark in a new 5,500m² unit as part of a £20 million upgrade of the scheme.

We have also been active in the retail park sector during the year. In June, we acquired the remaining 75% interest in Battery Retail Park, Birmingham, from our partner TIAA-CREF, the US pensions group. The cost of the acquisition was £49 million and Hammerson now wholly owns the 13,000m² park which is fully occupied by retailers including B&Q, Currys, Halfords, Homebase, Next and PC World. We have planning consents to extend this scheme and Abbey Retail Park, Belfast.

In November, we acquired Wrekin Retail Park, Telford, for £42 million including costs. The 13,400m² park was built in 1996, adjoins an owner-occupied Tesco Extra store and has open A1 planning consent. The scheme is fully let to nine retailers including Asda Living, Boots, Homebase and Matalan. Annual gross rental income is £2.6 million, equivalent to around £18 per square foot, and the leases have an unexpired term of more than ten years. Wrekin has excellent transport links, located to the west of Telford town centre, beside junction 6 of the M54 and has a primary catchment population of around 270,000.

We have recently agreed terms to acquire our partner's 75% interest in Central Retail Park, Falkirk for £69 million including costs.

We continued the theme of asset recycling in our office portfolio. In September, we sold Exchange Tower in London's Docklands, for net proceeds of £134 million. Originally acquired in 1999 for £77 million, the building was valued at £131 million at 31 December 2009 and rents passing were £10.7 million at that time.

Bishops Square, London E1, which was developed by Hammerson, completed in 2005, and in which we held a 25% interest through a joint venture with Oman Investment Fund (OIF), was sold in December. The property was let to Allen & Overy LLP and a number of retailers at a total rent of £35 million per annum. The sale reflected a property value of £557 million compared with £481 million at 31 December 2009. The net proceeds due to Hammerson from the sale of our interest, including performance payments from OIF, the repayment of loans and after taking account of the joint venture's debt and interest rate swap, were £80 million.

A long leasehold interest in Leadenhall Court, London EC3, was acquired in July for £65 million including costs. The property was built in 1988 and provides 10,000m² of office space in a prime City of London location between Bank and Liverpool Street stations. The property is fully let until March 2014 to a subsidiary of RSA Insurance Group plc, with rents passing of £7.2 million per annum net of head rents payable. There is a wide range of opportunities to add value to the property, including the potential for refurbishment or full redevelopment.

In August we entered into a joint venture with CPPIB to acquire a long leasehold interest in 10 Gresham Street, London EC2, for £183 million including costs. Hammerson will manage the property on behalf of the joint venture, in which we have a 30% interest. The 23,600m² eight-storey building was designed by Foster+Partners, was completed in 2003 and comprises high-quality offices, retail and ancillary accommodation. Lloyds TSB Bank is the principal occupier, with the remainder of the property let to seven other tenants including Milbank Tweed Hadley & McCloy and JC Flowers. The average unexpired lease term is over 10 years and Hammerson's share of the rents passing, net of head rent payable, is £3.2 million per annum, reflecting average headline rents of £44 per square foot.

INVESTMENT PORTFOLIO OVERVIEW

Investment portfolio at 31 December 2010

	Income £m	Gross value £m	Net book value £m
Portfolio value (net of cost to complete)		5,474	5,474
Purchasers' costs			(284)
Net portfolio valuation as reported in the financial statements			5,190
Income and yields			
Rent for valuers' initial yield (equivalent to EPRA Net Initial Yield)	287.1	5.2%	5.5%
Rent-free periods	20.8	0.4%	0.4%
Rent for 'topped-up' initial yield	307.9	5.6%	5.9%
Non-recoverable costs (net of outstanding rent reviews)	7.0	0.1%	0.2%
Passing rents (note 1)	314.9	5.7%	6.1%
ERV of vacant space	8.8	0.2%	0.2%
Reversions	6.4	0.1%	0.1%
Total ERV/Reversionary yield	330.1	6.0%	6.4%
True equivalent yield		6.0%	
Nominal equivalent yield		5.8%	

Note

¹ The yield of 5.7% based on passing rents and the gross value is equivalent to EPRA's 'topped-up' net initial yield.

The table above analyses the net and gross valuations, income and yields for the Group's investment portfolio, excluding developments. Purchasers' costs equate to 5.5% of the net portfolio value.

Business review (continued)

The net initial yield, based on the net portfolio value, at 31 December 2010 of 5.5% compares with 5.8% at the end of 2009, and the movement reflects the strengthening of the property investment market over the year.

RENTAL INCOME**Rental data for investment portfolio
for the year ended 31 December 2010**

	Gross rental income £m	Net rental income £m	Vacancy rate %	Average rents passing £/m ²	Rents passing £m	Estimated rental value £m	Reversion/ (over- rented) %
Notes			1	2	3	4	5
United Kingdom							
Retail: Shopping centres	136.8	113.6	3.1	430	134.2	144.9	4.8
Retail parks	54.1	50.2	1.8	195	60.2	63.0	2.8
	190.9	163.8	2.7	340	194.4	207.9	4.2
Office: City	36.1	31.6	3.3	490	40.4	35.7	(16.9)
Other	14.0	12.2	11.8	245	4.8	5.7	4.4
	50.1	43.8	4.4	445	45.2	41.4	(14.0)
Total United Kingdom	241.0	207.6	3.0	355	239.6	249.3	1.0
Continental Europe							
France: Retail	90.4	79.4	1.9	350	75.3	80.8	5.2
Group							
Retail	281.3	243.2	2.5	340	269.7	288.7	4.5
Office	50.1	43.8	4.4	445	45.2	41.4	(14.0)
Total investment portfolio	331.4	287.0	2.7	355	314.9	330.1	2.0
Income from developments and other sources not analysed above	0.6	(2.3)					
As disclosed in note 2 to the accounts	332.0	284.7					

Selected data for the year ended 31 December 2009

Group							
Retail	275.4	234.8	3.9	340	274.7	306.0	7.0
Office	68.2	59.2	9.5	365	43.7	41.8	(15.1)
Total investment portfolio	343.6	294.0	4.6	345	318.4	347.8	4.1

Notes

¹ The ERV of the area in a property, or portfolio, excluding developments, which is currently available for letting, expressed as a percentage of the ERV of that property or portfolio.

² Average rents passing at 31 December 2010 before deducting head and equity rents and excluding rents passing from anchor units and car parks.

³ The annual rental income receivable from an investment property at 31 December 2010, after any rent-free periods and after deducting head and equity rents.

⁴ The estimated market rental value of the total lettable space in a property at 31 December 2010, after deducting head and equity rents, calculated by the Group's external valuers.

⁵ The percentage by which the ERV exceeds, or falls short of, rents passing together with the estimated rental value of vacant space, all at 31 December 2010.

Net rental income was £284.7 million for the year ended 31 December 2010, whilst passing rents from the investment portfolio totalled £314.9 million at that date. Further details of net rental income, including a like-for-like analysis, are provided in the Financial Review on pages 28 and 29.

In 2010 we agreed 118 rent reviews in the UK, for which the existing rents receivable were £11.7 million, and secured an uplift of £2.3 million per annum. Annual rents could increase by a further £2.7 million, assuming that rent reviews outstanding at the end of the year are settled at ERV.

Shopping centre rents in France change annually according to one of two indices: a composite index, partly based on retail prices (ILC); or a construction cost index (ICC). Around 72% by value of the retail leases in Hammerson's French portfolio will fall by 0.22% from 1 January 2011. The corresponding movement in the index for 2010 was an increase of 0.84%. The balance of the leases in France is indexed according to construction costs, for which the index for 2011 is an increase of 1.27%.

OCCUPANCY/VACANCY

EPRA has issued revised guidance for the calculation of vacancy. Previously, vacancy was reported as a percentage of the rents passing plus the ERV of vacant space. The revised definition expresses vacancy as a percentage of the total ERV of a property or portfolio. We have adopted this new definition and restated our 2009 comparatives for vacancy and occupancy data.

At 31 December 2010, occupancy in the investment portfolio stood at 97.3%, compared with 95.4% at the 2009 year end and our target of 97%. The increased occupancy over the last 12 months principally reflected lettings at the recently completed shopping centre developments in the UK and at 60 Threadneedle Street, London EC2, although this positive impact was partly offset by slightly increased vacancy at some of our French shopping centres.

INCOME SECURITY AND QUALITY

Our investment portfolio has a secure income stream, demonstrated by a weighted average unexpired lease term of nearly nine years at the end of 2010.

At 31 December 2010, 21 UK retail units were let to tenants in administration, and of these, ten were still trading. In France, the equivalent figures were 15 and 13 units respectively. Income from tenants in administration for the Group as a whole represents less than 1% of passing rents at 31 December 2010.

Hammerson's ten largest retail tenants accounted for £54 million, or 17%, of total passing rents at the end of 2010. In the office portfolio, the five largest tenants represented £26 million or 8% of total passing rents. Our largest occupiers by rental income are shown in the table below.

Retail tenant	% of total passing rent	Office tenant	% of total passing rent
B&Q	3.2	Deutsche Bank	3.3
H&M Hennes	2.3	Royal & SunAlliance	2.1
Arcadia	1.8	Latham & Watkins LLP	1.5
Home Retail Group	1.8	Lloyds TSB	0.9
DSG Retail	1.7	DTZ Holdings	0.6
Next Group	1.5		
New Look	1.4		
Boots	1.3		
J Sainsbury	1.2		
JDSports	1.1		
Total	17.3	Total	8.4

Our credit control team assesses the covenant strength of all prospective tenants and monitors the credit ratings of key existing tenants, using a credit rating agency's risk indicator scale of one to five, with one being low risk and two lower-than-average risk. At 31 December 2010, our top ten retail tenants were all rated as low risk. Tenants with a low or lower-than-average risk indicator comprised 80% by passing rents of the UK retail portfolio and the score in the portfolio averaged 1.6.

We also monitor the risk indicators of our office tenants, although they tend to be of lower risk than retailers. This is evidenced by the fact that there have been no significant rent payment defaults in our office portfolio in 2010. At 31 December 2010, four of the top five office tenants had a low or lower-than-average risk indicator. In the UK office portfolio at 31 December 2010, the average risk score was 1.3 and 83% of passing rents were provided by tenants with a risk rating of one or two.

Retailer trends

Overall in 2010 retail sales in the UK increased by 2.6%, despite weak consumer confidence. There was a polarisation in consumer preference between local retailing destinations and the broad merchandise offers at regional shopping centres.

The growth in Multichannel retail continues, with retailers reporting the accelerated growth of 'Click & Collect' and the increased value to retailers of customers that shop using a number of channels. We have continued to develop our understanding of Multichannel retailing, for example using social media and the content on our shopping centre websites to develop better relationships with consumers. In France, we are also trialling a 'flash sales' concept, using our O'Parinor shopping centre website to sell stock on behalf of retailers. Continually developing our plan and technical capabilities to ensure we are well placed to deal with the challenges and opportunities afforded by Multichannel is a high priority.

Retailer performance

In the UK, like-for-like turnover at Hammerson's shopping centres rose by 3.5% during 2010. Results were positive throughout the year, except for January when sales were affected by adverse weather conditions. Highcross shopping centre in Leicester saw like-for-like growth of 7.1% demonstrating the success of the extension which opened in September 2008. The Bullring in Birmingham and Brent Cross shopping centre in London also showed a good performance.

In the UK portfolio, like-for-like sales in department stores rose by 3.2% in 2010 with nearly all operators in this sector showing some growth. Unit shops saw selective sales growth with catering specialists performing well. Within fashion, the MSUs remain the strongest format for sales growth as consumers still favour larger stores which provide a one-stop shop for footwear, lingerie, accessories and clothing.

Business review (continued)

Footfall across the UK portfolio has increased by 1.8% on a like-for-like basis and by 8.0% including Silverburn, Glasgow and Union Square, Aberdeen. Nearly all centres recorded growth in the number of visitors, with Cabot Circus in Bristol showing the largest increase at 11.2%.

In France, overall spending increased by 1.0% in 2010, marginally ahead of the performance in the previous year. Nationally, sales at regional shopping centres fell by 0.6% on a like-for-like basis, whilst Hammerson shopping centres showed an increase of 0.7%. Strasbourg recorded the best performance with sales up 4.7%, reflecting a recovery following the opening of a competing centre in late 2008. Our other regional shopping centres showed a positive trend with the exception of Bercy 2 (-9.5%) which suffered from competitor activity. In the Hammerson France portfolio, turnover at unit shops was positive at 1.5% whilst larger stores saw sales decline by 0.9%; hypermarket sales decreased by 2.2%.

Footfall performances outperformed the national benchmark with an increase of 0.7% year-on-year. Within the Hammerson portfolio, Espace Saint Quentin and Place des Halles outperformed.

Rent to sales ratio

Across the UK portfolio, affordability levels, measured as rent as a percentage of sales, have improved as a result of retail sales growth. Only one centre reported an increase in rent to sales ratio, reflecting recent rent reviews.

In France, the level of rents in relation to turnover is generally lower than in the UK. The modest movements seen in the indexation of rents compared to turnover growth has meant that rent to sales ratios fell during 2010 at nearly all Hammerson's shopping centres.

LEASE EXPIRIES AND BREAKS

as at 31 December 2010

Notes	Rents passing that expire/break in			ERV of leases that expire/break in			Weighted average unexpired lease term	
	2011 £m	2012 £m	2013 £m	2011 £m	2012 £m	2013 £m	to break years	to expiry years
United Kingdom								
Retail: Shopping centres	13.4	2.8	7.6	17.3	2.9	7.6	8.7	10.0
Retail parks	2.4	2.3	0.9	2.5	2.3	0.9	11.7	12.2
	15.8	5.1	8.5	19.8	5.2	8.5	9.7	10.8
Office: City	9.1	–	0.5	7.4	–	0.4	6.6	7.9
Other	1.0	0.3	0.5	1.0	0.3	0.6	6.2	8.3
	10.1	0.3	1.0	8.4	0.3	1.0	6.6	7.9
Total United Kingdom	25.9	5.4	9.5	28.2	5.5	9.5	9.0	10.2
France: Retail	17.3	9.3	5.5	18.7	9.3	5.6	1.9	4.5
Group								
Retail	33.1	14.4	14.0	38.5	14.5	14.1	7.4	8.9
Office	10.1	0.3	1.0	8.4	0.3	1.0	6.6	7.9
Total Group	43.2	14.7	15.0	46.9	14.8	15.1	7.3	8.8

Notes

¹ The amount by which rental income, based on rents passing at 31 December 2010, could fall in the event that occupational leases due to expire are not renewed or replaced by new leases. For the UK it includes tenants' break options. For France, it is based on the date of lease expiry.

² The ERV at 31 December 2010 for leases that expire or break in each year and ignoring the impact of rental growth and any rent-free periods.

As shown in the table above, during the period from 2011 to 2013 leases with current rents passing of £72.9 million will expire, or are subject to tenants' break clauses. We estimate that additional rents of £3.9 million per annum would be secured, assuming renewals take place at current rental values. The potential uplifts in the UK and French retail portfolios are partly offset by over-renting at the UK offices, particularly at 99 Bishopsgate where there are lease expiries in 2011. This is not a forecast and takes no account of void periods, lease incentives or possible changes in rental values.

RENT REVIEWS as at 31 December 2010

	Rents passing subject to review in				Projected rent at current ERV of leases subject to review in			
	Outstanding £m	2011 £m	2012 £m	2013 £m	Outstanding £m	2011 £m	2012 £m	2013 £m
Notes	1	1	1	1	2	2	2	2
United Kingdom								
Retail: Shopping centres	22.3	10.7	12.3	35.1	23.7	11.0	13.5	36.2
Retail parks	19.3	12.5	9.4	6.0	20.4	12.7	9.6	6.4
	41.6	23.2	21.7	41.1	44.1	23.7	23.1	42.6
Office: City	10.4	9.3	0.4	4.6	10.6	9.4	0.7	4.6
Other	2.0	0.1	–	–	2.0	0.1	–	–
	12.4	9.4	0.4	4.6	12.6	9.5	0.7	4.6
Total United Kingdom	54.0	32.6	22.1	45.7	56.7	33.2	23.8	47.2

Notes

¹ Rents passing at 31 December 2010, after deducting head and equity rents, which are subject to review in each year.

² Projected rents for space that are subject to review in each year, based on the higher of the current rental income and the ERV as at 31 December 2010 and ignoring the impact of changes in rental values before the review date.

At 31 December 2010, the investment portfolio was 2.0% reversionary, compared with 4.1% reversionary at the end of 2009. The change during the year resulted from an increase in passing rents and lower ERVs reflecting acquisitions and disposals. Our shopping centre and retail park portfolios were 4.8% and 2.8% reversionary respectively at the end of 2010, whilst the offices were 14.0% over-rented, principally due to Leadenhall Court, 99 Bishopsgate and 125 Old Broad Street in the City of London.

In the UK, leases with passing rents of £100.4 million are subject to review over the next three years. If reviewed at current rental values, we estimate that rents receivable in respect of these leases would increase by £3.8 million per annum by 2013. Furthermore, assuming that outstanding rent review negotiations are concluded at current rental values, an additional £2.7 million per annum would be secured. This is not a forecast and takes no account of potential changes in rental values before the relevant review dates.

In France, the majority of leases are subject to annual indexation.

CONTRACTED INCOME

In 2011, our cash flow will increase by around £9 million due to leases and contracts that have been signed at Union Square in Aberdeen, 125 Old Broad Street and 60 Threadneedle Street in the City of London and 54-60 rue du Faubourg Saint-Honoré in Paris. On an accounting basis, the increase will be approximately £4 million.

CURRENT AND FUTURE DEVELOPMENTS

We have three objectives for our development programme:

- to create assets which generate an attractive initial yield with the potential for future growth in income;
- to create assets valued at a surplus above cost; and
- to create prime assets of a type which are difficult to obtain in the open market.

Hammerson has built a reputation as one of the leading developers in the UK and France, managing complex urban regeneration schemes and forging strong links with local authorities and key occupiers. We currently have one development underway, at Les Terrasses du Port, Marseille.

Les Terrasses du Port, at 56,000m², will be one of the largest shopping centre developments in France over the next few years and will comprise 160 shops and 2,600 car parking spaces. We acquired the site in December 2009 and have since established relationships with key local stakeholders and re-engineered the scheme to optimise the retail layout, reduce costs and target a BREEAM 'Excellent' environmental rating. By renegotiating the construction contracts to fixed cost and creating comprehensive tenant mix and leasing strategies, we have reduced risk considerably. Enabling works commenced in August and we expect to start the main construction in spring 2011 with completion forecast in spring 2014. The project's total development cost is estimated at £370 million and the centre is projected to generate income of £28 million, net of head rents payable and leases representing 49% of the retail income are pre-let or under offer.

Business review (continued)

We have a substantial pipeline of potential future development opportunities and continue to maintain close contact with the local authorities involved with these schemes. A number of milestones in the progression of these projects have been met during 2010.

Planning consent comprising 1.4 million m² of mixed-use development was granted in October for the regeneration of Brent Cross Cricklewood as a new town centre. The judicial review period has expired and the planning consent is free from challenge. We intend to work up a phased masterplan in 2011, including a 78,000m² retail and leisure extension to Brent Cross shopping centre. On the Cricklewood site, we are planning 33,000m² of retail accommodation, office and leisure space of 450,000m² and 26,000m² respectively, a 61,000m² hotel, 7,500 residential units and new schools. In June, Hammerson assumed control of the Cricklewood project from its former joint venture partner, Brookfield Europe Limited. The broader regeneration plans are under the control of the Brent Cross Cricklewood Development Partners, comprising Hammerson and Standard Life Investments UK Shopping Centre Trust.

We submitted in November a detailed planning application for our office scheme at London Wall Place, formerly known as the St Alphage House site. The project involves the creation of two landmark buildings at 121 and 123 London Wall, London EC2, to replace the existing podium and 1950's tower. The 28,000m² headquarter office building to be built at 121 London Wall will encompass extensive multi-level landscaped terraces and offer flexible space ranging from large trading floors to individual office suites. To the west of the site, 123 London Wall will provide 18,000m² of office space in an elegant multi-tenanted building. More than half the site will comprise publicly accessible open space in the form of a series of gardens. We anticipate that the application will be determined by the summer of 2011 and are currently seeking to pre-let 121 London Wall. Subject to planning approval and occupier demand, completion of that building would be in 2014 and, following a fit-out period, it would be ready for occupation by the middle of 2015.

We have planning permission for the Bishops Place, London EC2, regeneration project. Foster+Partners have designed a 140,000m² scheme encompassing two high-quality office buildings, a 51-storey mixed-use tower providing residential and hotel accommodation, retail space and 50 affordable housing units. We are proposing to submit a revised application for an office building of 52,000m², with individual floors of 3,800m², together with a 51-storey residential tower and ancillary retail. Our approach is to pre-let a significant portion of the office space and seek a specialist developer to partner the residential element.

Watermark WestQuay is a development project set on a four hectare brownfield site adjacent to our existing WestQuay shopping centre. The planning consent for the mixed-use scheme includes up to 24,000m² of retail accommodation, a hotel, a 240-unit apartment building and leisure facilities. We have a development agreement with Southampton City Council and are working with the council and other stakeholders to bring forward the retail and leisure elements of the scheme.

We also have a development agreement with Sheffield City Council for Sevenstone, a retail-led city centre development, and are in discussion with the council to complete the land acquisition phase of the scheme. Sevenstone has outline planning consent, some of the buildings within the scheme have detailed consent and we are working closely with principal stakeholders, such as John Lewis, to progress the project. The current scheme comprises 80,000m² of retail and leisure accommodation and 2,500 car parking spaces.

Outline planning consent has been renewed for Eastgate Quarters, Leeds, our proposed retail-led regeneration of Leeds city centre. We have agreements for lease with anchors John Lewis and Marks & Spencer and a development agreement with Leeds City Council. A new outline planning application for an improved scheme will be submitted early in 2011.

In February 2011, we acquired SQY Ouest, a 31,000m² shopping centre in Saint Quentin-en-Yvelines, in a 50:50 joint venture with Codic France. The total consideration for the property was £33 million and Hammerson's initial commitment was £17 million, including transaction costs. SQY Ouest is a modern retail and leisure scheme developed in 2005, and is adjacent to Espace Saint Quentin, in which we have a 25% interest. SQY Ouest has over 45 retailers on four floors, including international brands such as Bershka, GoSport, Virgin Megastore and Zara. The top floor is anchored by one of UGC's most successful multiplex cinemas. SQY Ouest is currently 87% occupied, and there is an opportunity to reconfigure the existing centre by introducing new anchor tenants, improving the catering offer, and creating additional retail space. Hammerson will manage the centre.

We were appointed in January 2010 as development and asset manager of The Rock, Bury, by the administrators of Thornfield Ventures Limited. The shopping centre opened on schedule on 16 July and at that time, leases representing 78% of the projected income had been exchanged or were in solicitors' hands, meeting the target set on our appointment.

Financial review

The financial information contained in this review is extracted or calculated from the attached income statement, balance sheet, cash flow statement, other financial statements, notes and the glossary of terms.

RESULT BEFORE TAX

For the year ended 31 December 2010 there was a profit before tax of £620.2 million, compared with the loss of £453.1 million in 2009. The profit in 2010 reflected increased property values.

The table below reconciles the profit for the year to the adjusted profit before tax of £144.5 million.

	2010 £m	2009 £m
Analysis of profit/(loss) before tax		
Adjusted profit before tax	144.5	130.0
Adjustments:		
Profit/(Loss) on the sale of investment properties and associate/subsidiary	22.8	(163.4)
Revaluation gains/(losses) on investment properties	447.0	(403.9)
Revaluation gains/(losses) on development properties	0.1	(40.2)
Revaluation changes in associate	(0.5)	(1.7)
Release of provision relating to formerly owned property	-	5.3
Recycled exchange differences	-	9.8
Goodwill impairment	-	2.0
Distribution from other investments	4.6	13.1
Change in fair value of derivatives	1.7	(4.1)
Profit/(Loss) before tax	620.2	(453.1)

In 2010 adjusted profit before tax increased by £14.5 million, or 11.2%, compared with the previous year. Acquisitions, lower interest costs, rent reviews in the UK and indexation in France and increased management fees receivable all contributed to the higher profit. However, their impacts were partly offset by the effects of disposals, the cessation of capitalised interest at Union Square, Aberdeen and exchange rate movements.

For the year ended 31 December 2010, adjusted earnings per share were 19.9 pence, an increase of 0.2 pence compared with 2009. Although adjusted profit was significantly higher in 2010, the number of shares used to calculate earnings per share reflected the full year impact of the rights issue in March 2009. Detailed calculations are shown in note 10A to the accounts on page 75 and these are summarised in the following table:

	2010	2009	Change
Adjusted profit for the year (£m)	140.2	125.3	+11.9%
Average number of shares in issue (million)	706.0	637.2	+10.8%
Adjusted earnings per share (pence)	19.9	19.7	+1.0%

Financial review (continued)

NET RENTAL INCOME

Net rental income for 2010 at £284.7 million was £8.9 million, or 3.0%, lower than the prior year. The reduction reflected disposals in 2009 and 2010, although the impact was partly mitigated by income from acquisitions, a full year's contribution from recently completed developments, rent reviews and lettings in the UK portfolio and indexation in France. Net rental income for 2010 and 2009 is shown in the tables opposite, analysed by investment properties owned throughout both years and those properties which have been acquired, sold or been under development at any time during the two year period. On a like-for-like basis, net rental income for the Group as a whole increased by 3.5% principally as a result of rent reviews, lettings and a lower bad debt expense in the UK retail portfolio. A lease expiry at Bercy 2, Charenton-le-Pont was the main factor behind the 1.6% reduction in income from the French portfolio.

In 2010, net rental income included net income from car parks of £11.3 million (2009: £8.6 million) and rent related to tenants' turnover amounting to £5.1 million (2009: £3.5 million). Net income from the sale of advertising and merchandising opportunities in our shopping malls was £4.8 million in 2010, compared with £3.9 million in 2009.

We have changed the way we present lease incentives in 2010. Previously, the amortisation of lease incentives and related costs was included within other property outgoings. These items are now within gross rental income as we consider this a more appropriate treatment. There is no impact on net rental income or net profit and prior year comparatives have been restated to reflect the change.

Property outgoings were £42.2 million in 2010, down from £45.3 million in the previous year. The decrease principally reflected disposals in the year and lower vacancy.

Analysis of net rental income	2010	2009
	£m	£m
Net rental income as reported in the income statement	284.7	293.6
Items included in net rental income		
Amortisation of tenant incentives and other costs	6.4	5.3
Rent allocated to rent-free periods	(12.8)	(10.6)
Net income receivable	278.3	288.3

The table above reconciles net rental income as reported in the income statement to net income receivable, the latter being a proxy for the net cash inflow from tenant leases.

LIKE-FOR-LIKE NET RENTAL INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Properties owned throughout 2009/10 £m	Increase/ (Decrease) for properties owned throughout 2009/10 %	Acquisitions £m	Disposals £m	Developments £m	Total net rental income £m
United Kingdom						
Retail	143.6	6.6	10.1	(0.2)	10.4	163.9
Office	23.5	2.9	5.5	9.1	3.3	41.4
Total United Kingdom	167.1	6.1	15.6	8.9	13.7	205.3
Continental Europe						
France retail	79.5	(1.6)	(1.2)	–	1.1	79.4
Group						
Retail	223.1	3.5	8.9	(0.2)	11.5	243.3
Office	23.5	2.9	5.5	9.1	3.3	41.4
Total	246.6	3.5	14.4	8.9	14.8	284.7

LIKE-FOR-LIKE NET RENTAL INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Properties owned throughout 2009/10 £m	Exchange £m	Acquisitions £m	Disposals £m	Developments £m	Total net rental income £m
United Kingdom						
Retail	134.6	–	0.2	2.9	4.8	142.5
Office	22.9	–	–	25.8	(1.0)	47.7
Total United Kingdom	157.5	–	0.2	28.7	3.8	190.2
Continental Europe						
France retail and office	80.7	3.8	3.3	13.0	2.6	103.4
Group						
Retail	215.3	3.8	3.5	5.2	7.4	235.2
Office	22.9	–	–	36.5	(1.0)	58.4
Total	238.2	3.8	3.5	41.7	6.4	293.6

ADMINISTRATION EXPENSES

In 2010, administration expenses were £35.9 million, compared with £41.0 million in 2009. Higher employment costs, principally reflecting recruitment, increased costs by £2.6 million, but this was more than offset by £6.7 million of additional management fees receivable, including fees from the Thornfield development and management contract. Following the completion of The Rock, Bury, during 2010, fees from the Thornfield contract will be lower in 2011.

NET FINANCE COSTS

Excluding the change in fair value of derivatives, capitalised interest and investment income, net finance costs were £108.0 million in 2010, some £25.5 million or 19% lower than the 2009 equivalent of £133.5 million. The proceeds from disposals have been used to repay debt and we have benefited from lower interest rates, reduced commitment fees and a full year's impact from the proceeds of the 2009 rights issue.

Reflecting the low level of development activity in 2010, interest capitalised was £1.7 million, compared with £10.0 million in 2009.

The Group's average cost of borrowing in 2010 was 5.0%, marginally less than the average cost for 2009 of 5.1%.

SHARE OF RESULTS OF ASSOCIATE

Our 25% investment in the company which owned Bishops Square, London E1, was sold in December 2010. The property and its related debt were accounted for as an associate up to the point of disposal. Hammerson's share of net rental income and interest costs in 2010 amounted to £2.0 million.

TAX

Due to its status as a UK REIT and French SIIC, the Group bears minimal current tax. Deferred tax is also low now that foreign dividends are exempt from UK corporation tax.

Financial review (continued)

DIVIDEND

The Board is recommending a final dividend of 8.8 pence per share, which together with the interim dividend of 7.15 pence, makes a 2010 total dividend of 15.95 pence per share. This compares with a total dividend for 2009 of 15.45 pence per share.

The final dividend, for which the record date is 11 March 2011, will be paid as a PID, net of withholding tax if appropriate, but shareholders will be offered a scrip dividend alternative. Further details of the scrip scheme are provided in a letter which is being sent to shareholders on 21 March. Where shareholders elect for the scrip alternative, this will not be treated as a PID and will not be subject to withholding tax. Shareholders should note that there is no guarantee that the Board will offer a scrip dividend alternative for future dividends.

CASH FLOW

In 2010, cash generated from operations was £237 million compared with £239 million in the prior year and, largely due to lower interest costs, the cash inflow from operating activities was £133 million, up from £105 million in 2009. Capital expenditure, including acquisitions, was £305 million in 2010, whilst £555 million was raised from disposals.

Net debt at 31 December 2010 stood at £1.8 billion, a reduction of £330 million over the year, and comprised borrowings of £1.9 billion and cash and deposits of £126 million. The proceeds from disposals, to the extent that they exceeded the cost of acquisitions and capital expenditure, were used to repay debt.

BALANCE SHEET

Equity shareholders' funds at the end of 2010 were £3.5 billion, up by £530 million on the year, reflecting increased property values. Adjusted net asset value per share, excluding deferred tax and other items, increased by £0.74, or 17.6%, to £4.95. Note 10B to the accounts provides detailed calculations for net asset value per share and a reconciliation of the movement in net asset value over the year is shown in the table below.

Analysis of net asset value	2010		2009	
	£m	£ per share	£m	£ per share
Basic	3,480.0	4.92	2,949.7	4.20
Dilution on exercise of share options	4.2	0.1	4.5	n/a
Diluted	3,484.2	4.93	2,954.2	4.20
Adjustments:				
Fair value of derivatives	12.9	0.02	(1.9)	–
Deferred tax	0.5	–	0.4	–
Adjustment for associate	–	–	7.6	0.01
EPRA	3,497.6	4.95	2,960.3	4.21
Basic shares in issue (million)	707.6		702.8	
Diluted shares in issue (million)	707.3		702.9	

Movement in net asset value	Equity shareholders' funds*	EPRA NAV*
	£m	£ per share
31 December 2009	2,960	4.21
Revaluation changes	447	0.63
Net profit on disposals	23	0.03
Retained profit (excluding revaluation changes and loss on disposal)	144	0.20
Dividends	(92)	(0.13)
Exchange and other movements	16	0.01
31 December 2010	3,498	4.95

* Excluding deferred tax and the fair value of derivatives, calculated in accordance with EPRA best practice.

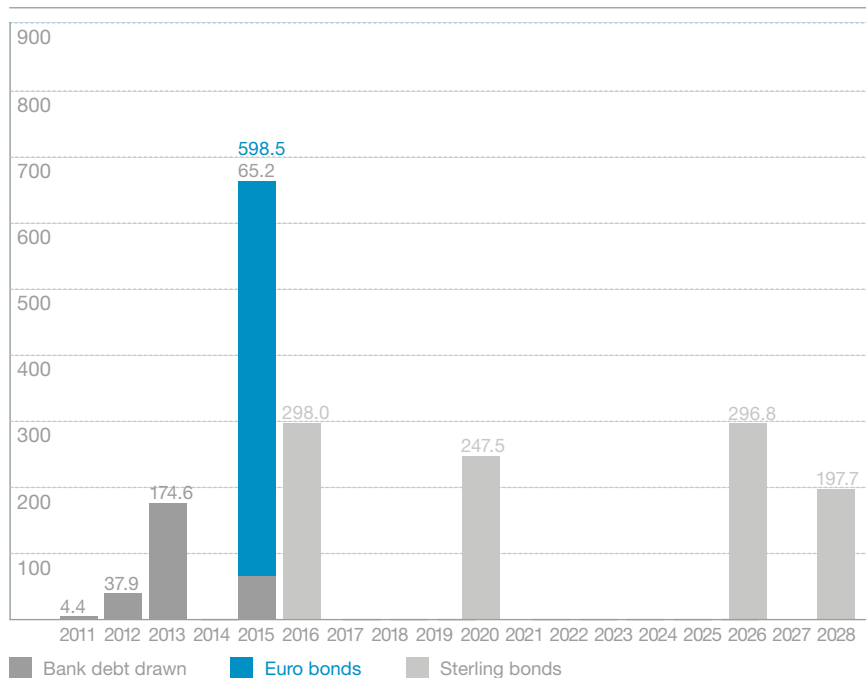
FINANCING

Our real estate strategy is complemented by prudent financial management. Our financing policy is to optimise the Group's weighted average cost of capital by using an appropriate mix of debt and equity. The Board monitors the Group's financial structure with reference to guidelines which currently include gearing of no more than 85% for an extended period, interest cover in excess of 2.0 times and a maximum net debt to EBITDA ratio of ten times. For the year ended 31 December 2010, these ratios were 52%, 2.6 times and 7.2 times respectively.

The Group's exposure to interest rate and currency fluctuations is managed using appropriate hedging policies.

At the end of 2010, the weighted average maturity of the Group's borrowings was eight years and 94% of gross debt was at fixed rates of interest. The maturity profile of our debt portfolio is shown in the chart below.

Maturity analysis of gross debt at 31 December 2010 (£m)



When added to cash and deposits, undrawn committed facilities of £913 million, of which £40 million mature in 2011 and £747 million mature in 2012, provided liquidity of around £1 billion at 31 December 2010.

The Group's unsecured bank facilities contain financial covenants that the Group's gearing, broadly equivalent to the ratio of net debt to shareholders' equity, should not exceed 150% and that interest cover, defined as net rental income divided by net interest payable, should be not less than 1.25 times. Three of the Company's unsecured bonds contain a similar gearing covenant and two contain a covenant that gearing should not exceed 175%. The bonds do not contain an interest cover covenant.

Gearing was 52% at the end of 2010 compared with 72% at 31 December 2009. The reduction reflected lower net debt and the increase in shareholders' equity principally arising from the higher portfolio value.

The market value of the Group's debt at 31 December 2010 was £78 million higher than its book value, equivalent to 11 pence per share on an adjusted net asset value per share basis.

Human resources

Our people are more than just the face of Hammerson. They deliver our products and services to customers and other key partners. Our people bring our values to life.

Our goal is to create a high performing organisation, made up of people who are inspired and enabled to give their very best. Over the last 12 months we have reviewed almost every aspect of our people management and development practices to ensure they are aligned to this goal.

ENGAGEMENT

We conduct an annual staff survey through 'Great Place To Work' and use the results as a basis for improving working life. We share the results openly with staff, discuss and involve them in developing solutions, and commit to an action plan against which management can be judged. For our 2010 survey 84% of staff from across the Group participated and the results show that three-quarters of respondents rate Hammerson highly for its friendliness, its support for training and development, the office facilities, and the way the organisation manages its impact on the environment and society. Targeted areas for improvement in 2010 were training and development, employee recognition, and internal communications. All three have seen improved responses from employees.

ORGANISATION

Toward the end of 2009, we reorganised our UK property teams to provide better performance for our customers. In 2010 our attention turned to embedding this new way of working into day-to-day practices. We recruited new talent, including people from outside the real estate sector, to bring new ideas and, in particular, to strengthen our customer account management and marketing capabilities. Throughout the year we continued to integrate the shopping centre-based property management teams into our business to help us deliver our operational service goals. In April 2010 we appointed Jean-Philippe Mouton to run our French business. Here too, the

organisation has benefited from an increasing performance focus and a strengthening of the calibre of the team in both property and finance. Throughout the Group, the focus has been on active team-working to ensure expertise and knowledge within functional areas are shared to benefit the business as a whole.

DEVELOPMENT

At the start of the year, we incorporated skills assessment into appraisals for London-based staff to add a strong development dimension to employee reviews and help improve performance. To make the most of existing capabilities, support succession planning, and provide people with career development options, we also introduced a talent review to identify those with the motivation and potential to progress to new or more senior roles. Both these approaches will be rolled out throughout the Group in 2011. In 2010 we also added to the resources we provide to support learning and development – in particular we have used coaching to support managers who are new to their role. In December we launched a leadership development programme to aid managers in this important area.

REWARD

We aim to ensure that our employee reward policies encourage the highest levels of performance in support of business goals, and that they align with our desire to attract and retain talented people. In the last quarter of 2010 we launched a Group-wide review of reward with the involvement of representative staff from around the organisation. The review identified areas for improvement which we will start to implement from 2011.

Employees of Hammerson are encouraged to become investors in the Company through a range of share ownership schemes. At 31 December 2010, 217 employees owned shares or participated in one of the Group's share plans.

The remuneration of Directors is set out on pages 46 to 51.

DIVERSITY AND EQUALITY

Hammerson now employs around 250 people in the UK and 100 in France.

We have an active equal opportunities policy and monitor employee satisfaction in our annual staff survey by various demographics including gender, age, racial or ethnic minority, full and part-time status and those with caring responsibilities as well as responses to specific questions on fair treatment on the grounds of age, race or ethnicity, gender, sexual orientation and disability.

Hammerson reports on a number of performance indicators relating to employees as part of the Global Reporting Initiative. These are available in the online CR report at www.reports.hammerson.com/cr

Senior management

UK



James Aitchison
Director of Taxation



Warren Austin
Group Financial
Controller



Duncan Beardsley
Group Treasurer



Janette Bell
Director, Sales
and Marketing



Andrew Berger-North
Director, Retail Parks



Morgan Bone
Director of Corporate
Communications



Sarah Booth
General Counsel



Peter Cooper
Portfolio Director,
UK Retail



Stephen Court
Director of Commercial
& Brand Partnerships



Kevin Crowley
Director, Business
Development



Robin Dobson
Director, UK Retail
Development



Paul Edwards
Head of Sustainability



Nick Hardie
Director, UK Finance



Stuart Haydon
Company Secretary



Lawrence Hutchings*
Managing Director,
UK Retail



Martin Jepson*
Managing Director,
London Group



Sheila King
Director, Group
Retail Leasing



Sally Learoyd
Group Human
Resources Director



John Mulqueen
Director, Investment
Management,
London Group



Ryan Perryman
Director, Information
Systems



Vinod Thakrar
Director, Project
Management



Andrew Thomson
Director, UK Operations



Simon Travis
Director, Business
Development

France



Igor Aglat
Director, Retail Leasing



André Bentze
Director, Finance
& Administration



Gérald Ferezou
Director, Investment
& Asset Management



Stéphane Girard
Director, Retail
Management



Thomas Havas
Director, Marketing
& Communication



Michael Krief
Director, IT



Jean-Philippe Mouton*
Managing Director,
France



Christophe Proffit
Director, Reporting
and Control



Vincent Ravat
Director of Operations



Christophe Rigo
Director, Human
Resources



Laurent Santiago
Director, Project
Management

*Members of the Group Executive Committee.

Corporate responsibility

IMPLEMENTING OUR CR STRATEGY AND MONITORING PERFORMANCE

This year we continued to concentrate on the environmental, social and financial challenges faced by our investment portfolio and on ensuring that our development pipeline is designed to be sustainable. Acquisitions and disposals in 2010 have changed the shape of our portfolio, and brought new CR challenges and opportunities.

Activity within our investment portfolio focused on the big three environmental issues of energy, water and waste. We improved our understanding of usage and potential savings, whilst developing and implementing new initiatives to improve our performance in these areas. We also continued to improve our understanding of the social impacts of our business activities, through increased monitoring of community investment and improved community engagement. We implemented a new community engagement framework at Bishops Quarter, London, coordinating the approach on the existing property at Bishops Square with our new projects at Bishops Place and Bishopsgate Goods Yard.

PROVIDING VALUE TO OUR CUSTOMERS

Our initiatives have helped us to maintain competitive service charges for our customers. Since our baseline year of 2006, we have reduced our carbon emissions (expressed in CO₂e) from landlord shared services by 21% (excluding Highcross) for UK shopping centres, 13% (excluding O'Parinor) for French shopping centres and by 13% for UK offices, on a like-for-like basis.

We have improved both the level and quality of engagement with our occupiers. We have increased the number of occupier-led 'green groups' at our properties in both the UK and France, so providing a forum for information and knowledge sharing between landlords and occupiers. We have now completed over 200 green leases in France and continue to work with occupiers in the UK to sign the Better Building Partnership Memorandum of Understanding. Working with the industry we have signed an agreement with PROCOS (the industry body for French tenants) to produce an industry standard green lease, which will be implemented in 2011.

We are reducing the amount of waste sent to landfill, and are on track to achieve our 2008 target of recycling 75% by 2013. In France we have increased our original target of 50% recycling by 2013 to 75%, to align with the new Government target announced in 2010. We have completed waste audits in both countries to understand the waste recycling potential of our portfolio so that we can create appropriate recycling solutions.

MEETING OUR INVESTORS' REQUIREMENTS

Through an established programme of investor meetings and tours we continued to improve our understanding of Environmental Social Governance (ESG) requirements being set by our shareholders, and have expanded our engagement programme to include North America.

Over the past three years, through reporting against annual and in some cases quarterly KPIs, we have tracked our performance, identifying any achievements or challenges whilst improving transparency for our external stakeholders. Our ESG indicators are fully disclosed in our CR report. Although they are not fully independently audited, they are validated by third party sustainability advisers Jones Lang LaSalle.

Furthermore, progress against our annual targets is analysed by our advisers and a full report is available on our CR Report website.

WORKING WITH OUR SUPPLY CHAIN

Hammerson is committed to maintaining the highest standards for safety, health and welfare for all employees, visitors and partners in line with statutory obligations and audited internal guidelines. This proactive approach to Health and Safety management means we find solutions to potential problems rather than just dealing with issues after they arise.

As a well managed, low-risk business, preventing accidents is a priority for Hammerson which is achieved by a thorough risk assessment process led by a dedicated H&S team working in conjunction with property managers.

During 2010, the employee accident and lost time injuries rate remained under 1% and reportable accidents are reducing. The aim for 2011 is to continue this downward trend.

BUILDING EMPLOYEE KNOWLEDGE

In 2009, we noted that sustainability should be integrated into employee roles. We provided job specific training for each part of the business. The training included presentations from people with equivalent roles in other organisations who understand Government legislation. We held eight full-day CR training courses for employees in 2010.

In 2010 we nominated a 'sustainability champion' in each part of the business. The champions provide a point of contact and conduit for the CR team through which they channel information relevant to that area. Each champion has been trained to improve their understanding of sustainability as it relates to their role. The champion for the project management team completed a Building Research Establishment training course, becoming a qualified BREEAM assessor, and thereafter provided an internal BREEAM training course to all project and development managers.

Despite the reduced level of development activity in 2010, we continue to improve sustainability initiatives in building design. At London Wall Place we have developed our first truly integrated design platform which includes an overarching vision, six guiding CR themes and 21 principles, ranging from waste to employment. In France we implemented our first Sustainable Implementation Plan at Les Terrasses du Port, Marseille, and improved our BREEAM score from 29 to 73 points. The project, when complete, will provide Hammerson with its first BREEAM Excellent project in France.

MITIGATING OUR RISKS AND IDENTIFYING OPPORTUNITIES

A full summary of legislative risks and opportunities and stakeholder engagement in 2010 is available in our CR Report and in the business risk section of this report on pages 14 and 15.

Some examples of how we manage our most significant legislative risks include:

- The work over the last three years which enabled Hammerson to complete the Carbon Reduction Commitment Energy Efficiency Scheme registration and associated Carbon Trust Standard certification on time and at a relatively low cost. We continue to work with industry groups and the Government to try to simplify the scheme and ensure that the 'polluter pays' principle is met.
- The adjustment in France of our original target of 50% of waste recycled by 2013 to 75% to align with the new government requirement announced in 2010.

We identify, mitigate and manage any risks and opportunities on a regular basis through:

- Regular legislation tracking.
- Extensive stakeholder engagement.
- Setting policies with stretching objectives linked to our targets. These include Environmental, Responsible Procurement, Biodiversity, Climate Change and Carbon Management Policies. All policies will be reviewed annually.
- Ensuring our CR strategy is embedded across our operations and that individuals are accountable for sustainability objectives.

ALIGNING WITH BUSINESS STRATEGY AND MONITORING PERFORMANCE

At the end of 2010 we started to define a new CR strategy for the following three years, which will integrate with our business strategy. Our approach included a benchmarking study, internal and external

stakeholder interviews, a youth forum and senior management workshops which were organised by two independent advisers, Jones Lang LaSalle and Forum for the Future.

The new CR strategy is set out in our CR report. We have retained the governance structure for CR as shown below and will continue to report against the same Key Performance Indicators.

The monitoring of our strategy, including the review of risks and opportunities and our performance, is carried out at quarterly meetings of our CR Board, chaired by our Chief Executive, as well as at our European management meetings where appropriate. The main plc Board and GEC are also updated on these risks and opportunities every six months.

HOW WE MANAGE CR

Set and monitor policies, measures and deliverables	Achieve measures and deliverables
CR Board	CR Working Groups
<p>David Atkins, Chief Executive</p> <p>Paul Edwards, Head of Sustainability</p> <p>Jean-Philippe Mouton, Managing Director, France</p> <p>Robin Dobson, Director, UK Retail Development</p> <p>Andrew Thomson, Director, UK Operations</p> <p>Morgan Bone, Director of Corporate Communications</p> <p>Janette Bell, Sales and Marketing Director</p> <p>Philippe Bouveret, Sustainability Director, France</p>	<p>Operations</p> <p>Andrew Thomson, Director, UK Operations</p> <p>Marc Valente, Deputy Director, Retail Management</p> <p>Development</p> <p>Robin Dobson, Director, UK Retail Development</p> <p>Barthélemy Doat, Deputy Director, Asset Management</p> <p>Corporate</p> <p>Paul Edwards, Head of Sustainability</p> <p>Thomas Havas, Director, Marketing and Communication</p>

REPORTING

This is our third year of reporting using the Global Reporting Initiative (GRI) guidelines. As in previous years, we are aiming to achieve GRI Level B. We also participate in indices such as the DJSI, FTSE4Good and have published our response to the Carbon Disclosure Project and comply with the Green Property Alliance Common Metrics.

Corporate responsibility (continued)

CONNECTED REPORTING FRAMEWORK

	1. Climate change and energy	2. Resource use																																								
Strategic objectives	<ul style="list-style-type: none"> Reduce the carbon footprint of each of our properties. Adapt our buildings to minimise the impact of climate change. 	<ul style="list-style-type: none"> Maximise the efficiency of our use of natural resources. Reduce waste and re-use where viable. 																																								
Actions in 2010	<p>Reduce energy consumption and greenhouse gas emissions on a like-for-like basis in our investment portfolio in line with our 2010 target. In order to do this we have:</p> <ul style="list-style-type: none"> Continued to improve our metering and monitoring capability through the installation of automated half hourly meters. Completed the Carbon Trust Standard for our managed shopping centres in England and our offices portfolio. Continued the upgrade of car park lighting from T8 to T5 technology. Investigated natural ventilation at managed shopping centres. Completed the registration of all properties into the Carbon Reduction Commitment Energy Efficiency Scheme as required by the UK Government. 	<ul style="list-style-type: none"> We completed water audits in the UK and France. In France this included an audit of tenant water consumption across the portfolio. We launched our first biodiversity policy and commenced the implementation of biodiversity action plans at our UK shopping centres. In France we started our first biodiversity audits at all five shopping centres. Waste audits commenced in France to establish recycling potential. Environmental coordinators employed at five UK assets. We completed a sustainability implementation plan for France for our development projects. 																																								
Performance	<p>CO₂e from UK Offices, UK Shopping Centres and France Shopping Centres</p> <p>Year-on-year greenhouse gas emissions intensity by portfolio (like-for-like properties)</p> <table border="1"> <thead> <tr> <th></th> <th>2006</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>Change from 2006 to 2010</th> </tr> </thead> <tbody> <tr> <td>-- UK Offices (2)</td> <td>245</td> <td>249</td> <td>245</td> <td>204</td> <td>214</td> <td>-12.5%</td> </tr> <tr> <td>-- UK Shopping Centres (5)</td> <td>163</td> <td>157</td> <td>156</td> <td>135</td> <td>129</td> <td>-20.9%</td> </tr> <tr> <td>-- France Shopping Centres (6)</td> <td>75</td> <td>68</td> <td>66</td> <td>62</td> <td>65</td> <td>-13.0%</td> </tr> </tbody> </table>		2006	2007	2008	2009	2010	Change from 2006 to 2010	-- UK Offices (2)	245	249	245	204	214	-12.5%	-- UK Shopping Centres (5)	163	157	156	135	129	-20.9%	-- France Shopping Centres (6)	75	68	66	62	65	-13.0%	<p>Shopping Centres (UK & France) Annual waste production (absolute by final disposal route)</p> <p>Offices (UK) Annual waste production (absolute by final disposal route)</p>												
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For full data, notes and commentary, please visit our online CR report at www.reports.hammerson.com/cr

3. Community regeneration	4. Supply chain	5. Customers									
<ul style="list-style-type: none"> Invest in local communities including skills training and job creation. <ul style="list-style-type: none"> The community investment tool which measures local contributions now includes Silverburn and Union Square. The community investment tool has been translated into French to be implemented in France in 2011. Community bursary projects set up in Highcross, Leicester and continued at Union Square, Aberdeen. National skills academy skills shops extended to Oracle, Brent Cross, WestQuay and Union Square. University partnerships continue with Southampton, DeMontford and Middlesex Universities. Supported the launch of The Rock, Bury by introducing an employment charter and jobs programme with Bury Council and Jobcentre Plus. Established a community bursary scheme distributing £20,000 to local charities and not for profit organisations. Provided 302,553m² of space within the retail and office portfolio for use by local community and charitable groups. 	<ul style="list-style-type: none"> Engage with our suppliers to share best practice and to procure sustainable goods and services. <ul style="list-style-type: none"> We issued a sustainable supply chain questionnaire to main contractors, architects, consultants, lawyers, IT contractors. We also increased our engagement with suppliers through the supply chain questionnaire, individual one-to-one meetings, teleconferences and presentations. In the UK the questionnaire formed part of the tender process and supplier selection for the Spiceal Street, Bishops Gate Goods Yard and London Wall Place projects. In France we implemented a detailed supply chain questionnaire during the tender process at Les Terrasses du Port, Marseille and 54-60 rue du Faubourg Saint-Honoré. A standard monthly data collection form is produced for all new developments. 	<ul style="list-style-type: none"> Anticipate and meet our occupiers' long-term sustainability needs. Share best practice on sustainability issues. <p>Our approach to engaging with our customers on sustainability issues builds on the success of previous years and in 2010 included:</p> <ul style="list-style-type: none"> Introduction of green leases across the portfolio, targeting the Better Building Partnership Memorandum of understanding for existing leases where possible. Provide all new customers with a Tenants' Sustainability Guide. Developing exemplar stores in partnership with customers. Created Green Groups at nine properties. Held a retailer event with over 50 retailers in attendance and the first retailer panel seminar during sustainability awareness week. 									
<p>Number of organisations that benefited from Hammerson direct and indirect contributions:</p> <p>(2009: 235)</p> <h1>202</h1> <p>Indirect contributions (UK) (e.g. charitable donations raised by customers in Hammerson shopping centres):</p> <p>(2009: £821,494)</p> <h1>£400,776</h1> <p>Direct contributions (UK) (e.g. cash, value of time and in-kind donations made directly by Hammerson):</p> <p>(2009: £753,611)</p> <h1>£631,816</h1>	<p>Total number of suppliers:</p> <p>(2009: 2,361)</p> <h1>2,202</h1> <p>Number of suppliers we engaged with on sustainability:</p> <p>(2009: 155)</p> <h1>183</h1> <p>Total cost of goods and materials:</p> <p>(2009: £307.2m)</p> <h1>£188.6m</h1> <p>Value of contracts for suppliers we engaged with on sustainability:</p> <p>(2009: £166m)</p> <h1>£230m</h1>	<p>Total number of green leases in portfolio:</p> <p>(2009: 698)</p> <h1>787</h1> <p>Total number of occupiers:</p> <p>(2009: 2,568)</p> <h1>2,531</h1> <p>Green leases as a proportion of passing rent (UK and France):</p> <p>(2009: 19%)</p> <h1>24%</h1> <table border="1"> <thead> <tr> <th>Year</th> <th>Green leases (£m)</th> <th>Other (£m)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>75</td> <td>240</td> </tr> <tr> <td>2009</td> <td>60</td> <td>259</td> </tr> </tbody> </table>	Year	Green leases (£m)	Other (£m)	2010	75	240	2009	60	259
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<ul style="list-style-type: none"> We completed a comprehensive review of the community strategy; this included extensive engagement with internal and external stakeholders in the UK and France. A series of recommendations will now be implemented. The community strategy review took place as the UK Coalition Government announced the introduction of Local Enterprise Partnerships and the Localism Bill. Changes are also expected to the French planning system. We have commenced discussions with councils in Leeds, Sheffield, Barnet and Redcar as part of the preparation relating to our development pipeline. We continue to use the London Benchmarking Group (LBG) model to measure and evaluate our community investment. We will start work with other LBG members to develop a toolkit to measure the value of community investment in 2011. <p>New measure:</p> <ul style="list-style-type: none"> Prepare community plans for all developments and managed assets (2014). 75% of community activity to be long-term community investment (2014). 	<ul style="list-style-type: none"> We continue to engage with our suppliers in order to mitigate any risks associated with non-sustainable practices as these could have reputational and financial impacts. Through increasingly stringent legislation and our continued engagement, we can see that suppliers are willing to improve their sustainability performance. The findings of the supply chain questionnaire will be presented by our Chief Executive at a presentation to suppliers in 2011. Furthermore, in 2011 we intend to trial the implementation of the supply chain questionnaire at one shopping centre in the UK. <p>New measure:</p> <p>50% of suppliers by value to be engaged in the survey.</p>	<ul style="list-style-type: none"> The majority of our actions to date have focused on gradually sharing best practice with our customers, fostering knowledge-sharing and providing practical advice on how to minimise our environmental impact together. An example of this type of practical advice is the opening of the first RetailLab in partnership with DeMontford University. Several customers have used the facility, and a tour is planned for retailers in 2011. We now have a strong platform for taking advantage of sustainability opportunities together with our tenants and helping them to decrease their operating costs and implement their corporate sustainability policies. <p>New measure:</p> <ul style="list-style-type: none"> Engage with 100% of customers on sustainability issues by 2013. 									