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**HAMMERSON plc - AUDITED RESULTS AND PUBLICATION OF ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

**Financial Highlights**

	<b>2008</b>	2007	Change
Net rental income	<b>£299.8m</b>	£275.7m	+8.7%
(Loss)/Profit before tax	<b>£(1,611.5)m</b>	£110.4m	
Adjusted profit before tax <sup>(1)</sup>	<b>£113.7m</b>	£117.3m	-3.1%
Basic (loss)/earnings per share	<b>(543.6)p</b>	34.9p	
Adjusted earnings per share <sup>(1)</sup>	<b>38.1p</b>	40.3p	-5.5%
Dividend per share <sup>(2)</sup>	<b>27.9p</b>	27.3p	+2.2%
Equity shareholders' funds	<b>£2,821m</b>	£4,355m	-35.2%
Net asset value per share, EPRA basis <sup>(1)</sup>	<b>£10.36</b>	£15.45	-32.9%
Return on shareholders' equity <sup>(3)</sup>	<b>(32.5)%</b>	4.5%	
Gearing	<b>118%</b>	57%	

**Notes**

- (1) The calculations for basic and adjusted figures are shown on pages 17 and 20 and in note 7 on page 33.  
(2) Recommended final dividend of 15.3 pence per share (2007: 15.3p) making a total for 2008 of 27.9 pence. It is intended that 3.8 pence per share will be paid as a PID, net of withholding tax where appropriate, and the remainder of 11.5 pence paid as a normal dividend. Further details are shown in note 6 on page 32.  
(3) Excluding deferred tax.

**Rights Issue**

Hammerson has today launched a fully underwritten rights issue to raise net proceeds of £584.2 million net of expenses. Further details of the rights issue are set out in the accompanying announcement, the circular sent to shareholders and in the prospectus. All three documents can be found on the Company's website [www.hammerson.com](http://www.hammerson.com).

The proposed rights issue, the proceeds of which will be used to reduce Hammerson's net indebtedness, will substantially strengthen the Company's overall financial position, with pro-forma gearing reducing to 81%, based on Hammerson's financial statements as at 31 December 2008.

**Key Points**

- Conditions in real estate investment markets deteriorated in 2008 causing substantial falls in property values.
- The loss for the year of £1,612 million primarily reflects the fall in value of the Group's properties which does not affect the Company's cash flow or underlying operational profitability.
- The portfolio showed a negative capital return of 20.9% overall, giving rise to a reduction in adjusted NAV in 2008 of 33% to £10.36.

- Like-for-like growth in net rental income was 3.7% in 2008.
- The Group's high quality portfolio continues to generate a robust and growing income stream from leases with an average unexpired term of nearly ten years.
- Adjusted earnings per share decreased by 5.5% to 38.1 pence, principally reflecting financing costs associated with the development programme and funding the REIT conversion charge.
- Capital expenditure amounted to £514 million, whilst £245 million was raised from disposals.
- Four major developments were successfully completed in 2008 which resulted in the occupancy rate reducing to 95.4% at 31 December 2008 from 98.2% at the end of 2007.
- Recently completed and current developments will give rise to significant additional rental income over the next three years.
- During 2008 Hammerson raised £850 million of committed debt finance. Cash and undrawn committed facilities amounted to £487 million at the year end.
- An unchanged final dividend of 15.3 pence per share is proposed, making a total dividend for 2008 of 27.9 pence, an increase of 2.2% on 2007.

**John Nelson, Chairman of Hammerson, said:**

“Since I reported to shareholders at the beginning of August on the Company's results for the first six months of 2008, property markets have shown a marked deterioration. The unprecedented conditions in financial markets worldwide and restricted availability of capital led to a sharp decline in real estate investment activity and values during 2008, particularly in the last few months of the year.

Against this background, the reduction in value of Hammerson's portfolio resulted in a negative capital return of 20.9% and led to a decline in the Company's adjusted NAV to £10.36 at the year end. By contrast, the Group's net rental income showed resilience with a like-for-like increase of 3.7%.

Following the completion of four major development projects in 2008 and one in January 2009, the Group's rental income will increase significantly over the next few years. The Group now has only one major development underway.

The fundamentals of Hammerson's business remain sound and, following the rights issue announced today, the Company's balance sheet will be substantially strengthened. Our high quality portfolio is focused on prime retail and office assets in the UK and France and generates a robust and growing income stream.”

**Enquiries:**

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**Results presentation today:**

Time 9.00 a.m.  
Venue City Presentation Centre  
4 Chiswell Street  
Finsbury Square  
London EC1Y 4UP  
Tel: 020 7628 5646

**Webcast:**

There will be a live webcast of Hammerson's results presentation today at 9.00 a.m via the Company's website at [www.hammerson.com](http://www.hammerson.com). At the end of the presentation, you will be able to participate in a question and answer session by dialing:

Participants from UK & International: +44 (0)20 3003 2666

**Financial calendar:**

Ex-dividend date	18 February 2009
Record date for the dividend	20 February 2009
General Meeting in respect of the rights issue	25 February 2009
Annual General Meeting	30 April 2009
Final dividend payable	22 May 2009
Anticipated 2009 interim dividend	September 2009

Copies of the Chairman's statement, principal risks and uncertainties, business and financial reviews, income statement, balance sheet, statement of recognised income and expense, reconciliation of equity, cash flow statement and notes are attached.

The terms in this document are defined in the glossary on pages 44 and 45.

# **CHAIRMAN'S STATEMENT**

## **INTRODUCTION**

Since I reported to shareholders at the beginning of August on the Company's results for the first six months of 2008, property markets have shown a marked deterioration. The unprecedented conditions in financial markets worldwide and restricted availability of capital led to a sharp decline in real estate investment activity and values during 2008, particularly in the last few months of the year.

Over the last eighteen months, the Board of Hammerson has taken measures to manage the Company's gearing, including selling assets and reducing development expenditure. It has also cut overheads. Since 30 June 2007, the Company has sold assets and used the net proceeds of £783 million to repay debt. The Company continues to pursue asset sales as a means of reducing gearing. However, given the lack of debt finance available to potential purchasers to fund acquisitions, negotiations regarding sales are proving protracted and the outcomes uncertain.

Against this background, the Directors have concluded that it is in shareholders' best interests for Hammerson's capital base to be increased substantially through the unconditional rights issue to raise net proceeds of £584.2 million announced today.

## **RESULTS AND DIVIDEND**

Reflecting the very difficult market conditions, there was a reduction in the value of Hammerson's portfolio which resulted in a negative capital return of 20.9% and led to a decline in the Company's adjusted NAV to £10.36 at the year end.

By contrast, the Group's net rental income showed resilience with a like-for-like increase of 3.7%. Adjusted pre-tax profits and adjusted earnings per share declined by 3.1% and 5.5% respectively, principally reflecting financing costs associated with the development programme and funding the REIT conversion charge.

The Board is recommending an unchanged final dividend of 15.3 pence per share for 2008, giving a total dividend for the year of 27.9 pence per share (compared with 27.3 pence for the year ended 31 December 2007). The final dividend is subject to shareholder approval at the AGM to be held on 30 April 2009 and will be paid to shareholders on the register as at 20 February 2009.

The total dividend for 2008 represents a dividend cover of 1.36 times. Applying the same dividend cover to pro forma 2008 adjusted earnings, restated for the effects of the rights issue, would result in a pro forma dividend for 2008 of 15.0 pence per share. This takes into account the new number of shares following the rights issue and the interest saving on the debt which will be repaid from the proceeds of the rights issue. The Board intends to maintain its policy of progressive dividend growth in the future from this base of 15.0 pence per share in respect of 2008.

## **PROPERTY MARKET BACKGROUND**

Since the onset of the major problems in the international financial markets some 18 months ago, there has been a substantial reduction in capital available for property investment leading to widespread falls in values in the Group's principal markets.

The collapse of Lehman Brothers in the Autumn of 2008, closely followed by the need for emergency action by governments to provide equity capital and other support to several banks, increased the uncertainties. The consequence was a very significant downturn in investment activity in property markets in the last quarter of 2008 and further falls in values, with the effect more pronounced in the UK than in France.

This is now accompanied by a slowdown in economic activity in the UK and France leading to a reduction in confidence both in the business sector and amongst consumers. As a consequence, rental levels for new leases for offices have reduced. Rental levels for retail space are also under pressure, except at the best locations or where rents are relatively low.

It seems likely that market activity will remain subdued until there is evidence of a return to liquidity in the capital markets and an improvement in business and consumer confidence. Nevertheless, in the context of the current very low interest rate environment, the yield on prime property now appears attractive against the returns on some other investment classes.

## **PORTFOLIO AND OPERATIONS**

Hammerson's investment portfolio continues to generate a robust income stream from a broad spread of tenants, both in the UK and France, from leases with an average unexpired term of approximately ten years.

During the year leases in respect of some 59,000m<sup>2</sup> of accommodation in the investment portfolio were signed or renewed. Expiring leases with rents of £9.1 million per annum were re-let at rents £1.6 million higher than previously. The transfer to the investment portfolio of the four developments completed during 2008 resulted in a decrease in the occupancy rate to 95.4% at 31 December 2008 from 98.2% at the end of 2007.

The Group's rent collection rates remain excellent. In the UK, 95.2% of rents were collected within 14 days of the last quarter day on 25 December 2008. This compares with 97.3% for the previous quarter and 97.8% for the equivalent period in 2007. In France, 94.7% of rents were collected within 14 days of the due date, compared with 93.9% in the previous quarter. Currently, 56 retail units are let to tenants in administration in the UK and 16 in France, of which 47 are still trading with rents being paid. The total rent receivable from tenants in administration amounts to £6.7 million, representing just 1.8% of the Group's total rent roll, of which £4.4 million relates to units which are still trading.

During 2008, Hammerson invested a total of £514 million, of which £377 million was in respect of developments. Some £245 million was raised from property sales, principally the Group's interests in two office buildings in the City of London - One London Wall for £67 million in March and Moorhouse for £152 million in September.

Reflecting the more difficult conditions in real estate investment markets, Hammerson's portfolio showed a negative capital return of 20.9% for the year as a whole. However, there were contrasting performances between the UK and France. In the UK, the negative return was 25.8%, whilst in France the portfolio showed a negative return of 11.0%.

During 2008, a staff reorganisation and cost reduction programme was carried out, which will result in savings in the Group's administration expenses of approximately £3 million in 2009. The one-off costs of implementing the programme were just over £1 million, which are reflected in the Group's accounts for the year ended 31 December 2008.

## **DEVELOPMENTS**

Excellent progress was made on the development programme. Four of the six major developments underway at the beginning of 2008 were completed during the year. At 31 December 2008, developments represented just 7% of the portfolio with £195 million of expenditure remaining to be incurred. The Group's exposure to developments has reduced further since the year end with the completion in January 2009 of a fifth scheme, 60 Threadneedle Street, in the City of London, leaving just one major development, Union Square in Aberdeen, and some smaller retail parks schemes, underway. Hammerson estimates that, when these schemes are fully let and following rent-free periods, they will generate rents of £75 million of which £49 million is contracted. Of the latter figure, £12 million was reflected in net rental income in 2008.

In August 2008 Hammerson and its partner, the City of London Corporation, were advised by JPMorgan Chase that the latter was terminating discussions regarding the development of a new headquarters building for the bank. Accordingly costs of £15.9 million have been written off in the 2008 accounts.

Over a period of several years, Hammerson has secured a substantial pipeline of potential future development opportunities. These include land ownerships, site purchase options, development agreements with local authorities and agreements with anchor stores. The book value of these interests is £239 million and they currently generate income of £6 million per annum.

In the current economic climate, Hammerson does not intend to start construction of any major development projects, although it is continuing to progress the planning and design stages so that the schemes could be advanced in the future.

## **BALANCE SHEET AND FINANCING**

At 31 December 2008, Hammerson's property portfolio was valued at £6.5 billion. The Group's borrowings were £3,453 million and cash balances were £120 million to give net debt of £3,333 million.

Cash and undrawn committed facilities amounted to £487 million at 31 December 2008. The undrawn committed facilities totalled £367 million, of which £200 million expires at the end of 2009, £17 million in June 2010 and £100 million at the end of 2010. The weighted average term to expiry of drawn committed facilities was 7.3 years at 31 December 2008.

At 31 December 2008, approximately £1,611 million or 47% of the Group's gross borrowings were denominated in euros. As a result of the appreciation of the euro relative to sterling in 2008, the sterling value of the Group's euro-denominated net liabilities increased by £496 million. This accounted for ten percentage points of the rise in the Group's gearing from 57% at the start of the year to 118% at the year end.

## **CONCLUSION**

The fundamentals of Hammerson's business remain sound and, following the rights issue announced today, the Company's financial condition will be substantially strengthened. Our high quality portfolio is focused on prime retail and office assets in the UK and France and generates a robust and growing income stream.

**John Nelson, Chairman**  
**9 February 2009**

## PRINCIPAL RISKS AND UNCERTAINTIES

### LIQUIDITY RISK

Due to falling property values, and the strengthening euro, the Group's gearing has increased significantly from 57% at the end of 2007 to 118% at 31 December 2008. Over the last 18 months, we have taken measures to manage gearing, including selling assets, reducing development expenditure and cutting overheads. Since 30 June 2007, we have used the net proceeds from asset sales of £783 million to repay debt and we continue to pursue asset sales as a means of reducing gearing. However, given the lack of debt finance available to potential purchasers to fund acquisitions, negotiations regarding sales are proving protracted and the outcomes uncertain. In the event that Hammerson is unable to sell properties and that the market value of the property portfolio continues to decline, there is a risk that the Group could breach its borrowing covenant in the future. The most stringent borrowing covenant is that gearing should not exceed 150%. We have therefore considered the option of seeking to renegotiate the financial covenants both in our bank facilities and bonds. However, in current debt market conditions, any renegotiation would be difficult to achieve, particularly in relation to the Company's bonds, and would also result in significantly increased financing costs.

Against this background, we have concluded that it is in shareholders' best interests for Hammerson's capital base to be increased substantially through the underwritten rights issue.

### EXCHANGE RISK

As at 31 December 2008, 40% of the Group's assets employed and 47% of its net debt was denominated in euros. A 1% strengthening of the euro relative to sterling has the effect of increasing shareholders' funds by around £9 million whilst gearing would be marginally higher.

### PROPERTY VALUATIONS

The value of Hammerson's property 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 rise and fall due to external factors beyond management's control. The disruption in global financial markets is continuing to restrict the availability of finance to real estate companies generally, causing values to weaken and making investors cautious about property investment.

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 on arms length terms. The current economic environment means that there have been few transactions for the types of property owned by Hammerson. Consequently, there is a greater degree of uncertainty in respect of the figures reported by our valuers. Until the number and consistency of comparable transactions increases, this situation is likely to remain.

Nevertheless, Hammerson has a high quality portfolio which is diversified by country and sector, which should help to mitigate the impact of the current state of the financial and property markets on the Group. The 'Property markets and outlook' section of the Annual Report on page 13 provides further discussion of these issues.

### TENANT DEFAULT

Some tenants, particularly in the UK retail sector, are facing difficult operating conditions resulting in an increased risk that they may be unable to pay their rents. However, the large number of tenants and the diversity of their businesses and geographical spread mean the risk of individual tenant default to Hammerson is low. Furthermore, our occupational leases are long-term contracts, thus making the income relatively secure. Additional information on the quality of income is provided on pages 13 to 15.

### INTEREST RATES

Interest is a significant cost for Hammerson and 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 2008, 65% of the Group's gross debt was at fixed rates of interest. The short-term outlook for interest rates is that they will remain low and this should benefit Hammerson. However, with the disruption to financial markets and the restricted availability of bank credit which is resulting in lenders seeking higher borrowing margins, there continues to be uncertainty over the future level of interest rates.

### DEVELOPMENT AND LETTING

The present general economic weakness has made potential occupiers more cautious about entering into commitments to lease space. Therefore it is taking longer to agree new leases at our current and recently completed developments. The table on page 16, shows the progress made to date on letting the current schemes. For the majority of our current construction contracts, the prices are fixed and the potential impact of cost inflation is limited. We will not commit to any major new development schemes until market conditions improve.

# BUSINESS REVIEW

## REAL ESTATE STRATEGY

There are three strands to our real estate strategy, which is aimed at maximising the total returns from the portfolio:

- the allocation of the portfolio between the markets and sectors in which we operate by appropriate investment and disposal decisions;
- the management of 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
- the generation of attractive income and capital returns through development.

More detail on our performance in these areas during 2008 is provided in this Business Review, together with information on the potential future growth in income and value in the portfolio.

## PROPERTY PORTFOLIO AND ALLOCATION

We analyse in detail the markets in which we operate using both external and internal research. We then base our decisions on overall portfolio allocation using this analysis. 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 approach to managing the portfolio has seen £2 billion raised from disposals in the last five years, whilst £2.5 billion has been invested in acquisitions and new developments.

Hammerson's retail portfolio provides 1.4 million m<sup>2</sup> of space comprising 15 major shopping centres and 19 retail parks, principally in the UK and France. Our office portfolio includes nine prime buildings, most of which are located in and around the City of London and in central Paris, providing 255,000m<sup>2</sup> of accommodation.

At the end of 2008, our property portfolio was valued at £6.5 billion with our investment and development portfolios valued at £6.1 billion and £0.4 billion respectively. Joint ventures, including seven major shopping centres in the UK, accounted for 29% by value of the total portfolio.

Following the completion of the shopping centre developments at O'Parinor, Highcross, Cabot Circus and the sales of two London office buildings, the retail weighting of the portfolio increased from 72% at the end of 2007 to 76% at 31 December 2008. The weighting of the UK portfolio decreased from 71% to 60% over the same period. Both the sector and geographic weightings reflected the greater rate of decline in UK property values compared with those in France and the impact of exchange rate movements. At constant exchange rates, the UK portfolio would have constituted around 66% of the total.

Hammerson's strategy is to allocate the majority of the portfolio to regionally dominant shopping centres and retail parks. Over the last ten years, IPD data for the UK shows that shopping centres and offices have produced similar average total returns of 7.0% and 6.8% respectively. However, the volatility of office returns has been greater.

The movement in the value of the portfolio during 2008 is analysed in the table below.

<b>Movement in portfolio value in 2008</b>	<b>£m</b>
Portfolio value at 1 January	7,275
Valuation decrease	(1,675)
Capital expenditure	
Acquisitions	20
Development programme	385
Expenditure on existing portfolio	19
Capitalised interest	36
Disposals	(284)
Exchange	681
<b>Portfolio value at 31 December</b>	<b>6,457</b>

## BUSINESS REVIEW

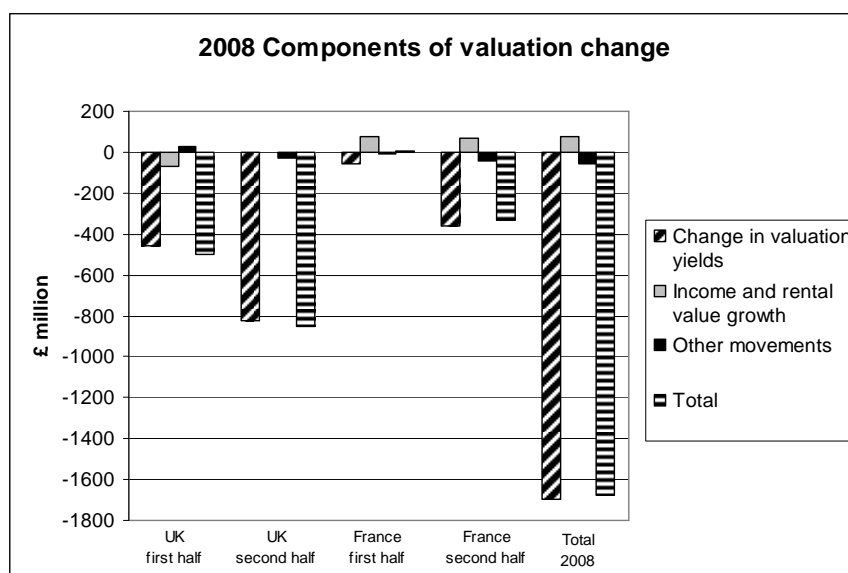
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The capital return for the whole portfolio for the year ended 31 December 2008 was -20.9%, reflecting the reduction in value of £1.7 billion in the year. The table below analyses capital returns by segment.

### Capital returns – total portfolio for the year ended 31 December 2008

	Shopping centres		Retail parks		Offices		Total	
	Value £m	Capital return %	Value £m	Capital return %	Value £m	Capital return %	Value £m	Capital return %
UK	1,838	(26.7)	891	(30.5)	1,156	(20.4)	3,885	(25.8)
France	1,928	(6.2)	171	(19.3)	383	(26.4)	2,482	(11.0)
Germany	90	(25.7)	-	-	-	-	90	(25.7)
<b>Total</b>	<b>3,856</b>	<b>(17.8)</b>	<b>1,062</b>	<b>(28.9)</b>	<b>1,539</b>	<b>(22.0)</b>	<b>6,457</b>	<b>(20.9)</b>

In 2008, the decline in the portfolio value was almost exclusively the result of an increase in investment yields in both the UK and France, although the impact was offset slightly by increased rental values, predominantly in France. Almost 70% of the fall in values occurred during the second half of the year. The City office portfolio showed falling rental values throughout 2008, although the reduction in the second six months was just over half that of the first. The chart below shows the components of the valuation change in 2008.



# BUSINESS REVIEW

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## INVESTMENT PORTFOLIO

### Valuation data for investment property for the year ended 31 December 2008

	Properties at valuation £m	Revaluation in the year £m	Capital return %	Total return %	Initial yield %	True equivalent yield %
Notes					1	2
<b>United Kingdom</b>						
Retail: Shopping centres	1,682	(539)	(23.9)	(20.7)	5.3	7.0
Retail parks	845	(360)	(30.1)	(26.6)	6.2	7.5
	2,527	(899)	(26.1)	(22.8)	5.6	7.1
Office: City	753	(189)	(20.5)	(15.7)	7.4	6.7
Other	224	(70)	(23.2)	(18.9)	6.8	7.5
	977	(259)	(21.1)	(16.5)	7.2	6.9
<b>Total United Kingdom</b>	<b>3,504</b>	<b>(1,158)</b>	<b>(24.8)</b>	<b>(21.1)</b>	<b>6.1</b>	<b>7.1</b>
<b>Continental Europe</b>						
<b>France</b>						
Retail	2,052	(148)	(7.0)	(3.0)	4.5	5.2
Office	383	(138)	(26.4)	(23.1)	6.1	5.5
<b>Total France</b>	<b>2,435</b>	<b>(286)</b>	<b>(10.9)</b>	<b>(7.0)</b>	<b>4.8</b>	<b>5.2</b>
<b>Germany</b>						
Retail	90	(30)	(25.7)	(22.9)	5.5	7.3
<b>Total Continental Europe</b>	<b>2,525</b>	<b>(316)</b>	<b>(11.5)</b>	<b>(7.7)</b>	<b>4.8</b>	<b>5.3</b>
<b>Group</b>						
Retail	4,669	(1,077)	(18.9)	(15.6)	5.1	6.3
Office	1,360	(397)	(22.7)	(18.6)	6.9	6.5
<b>Total investment portfolio</b>	<b>6,029</b>	<b>(1,474)</b>	<b>(19.9)</b>	<b>(16.4)</b>	<b>5.5</b>	<b>6.3</b>
Developments (3)	428	(201)	(34.5)	(33.8)		
<b>Total Group</b>	<b>6,457</b>	<b>(1,675)</b>	<b>(20.9)</b>	<b>(17.6)</b>		

#### Notes

- (1) Annual cash rents receivable, net of head and equity rents and the cost of vacancy, 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 to the accounts on page 29.

In the table above, the initial yield calculation is based on passing rents and excludes rent of £18.7 million per annum which will be received after the expiry of rent-free periods.

Four major developments, three retail schemes and one office building in the City of London, were completed during 2008 and transferred to the investment portfolio.

On 4 September 2008, Highcross shopping centre in Leicester, a 60:40 joint venture with Hermes, opened to the public and was visited by over one million people in the first fortnight. The project has more than doubled the size of the former Shires shopping centre to over 100,000m<sup>2</sup>. The occupancy rate for the combined scheme at Highcross at 31 December 2008 was 86%. The anchors of the scheme, John Lewis and a 7,000m<sup>2</sup> Showcase Cinema de Lux, are housed in iconic buildings. The centre won a BCSC (the UK retail property body) gold award in December in recognition of the contribution made by the scheme to the quality of the built environment.

Cabot Circus in Bristol is a 95,800m<sup>2</sup> retail-led mixed use scheme which opened on 25 September 2008. The project was developed in a 50:50 joint venture with Land Securities and at the end of 2008 was 91% let with anchor stores occupied by Harvey Nichols and House of Fraser. Within the first two weeks of opening, Cabot Circus also attracted over one million visitors and has re-established Bristol as a top-ten UK retail destination. The scheme was awarded the BREEAM 'Excellent' environmental rating in October 2008 and, in December, was awarded the supreme gold award by BCSC.

The second and final phase of the extension to O'Parinor was opened on 11 September. The project increased the number of stores at the centre to 220 and, at over 90,000m<sup>2</sup>, made it the largest shopping centre serving the north of Paris. Anchored by Planète Saturn and Toys 'R' Us, the extension was 94% let at the end of 2008 whilst the centre as a whole was 96% let.

## **BUSINESS REVIEW**

### CONTINUED

In the City of London, the redevelopment of the former London Stock Exchange at 125 Old Broad Street was completed in July. The project is a joint venture with two co-investors, Bank of Ireland and GE Real Estate, each of which has a 25% interest. The 26-storey, 30,900m<sup>2</sup> tower building was 46% let at 31 December 2008 and we are continuing to progress discussions with prospective tenants for the remaining space.

In our UK retail parks portfolio, a number of smaller extensions and reconfigurations were completed in 2008 or are underway. In Scotland, we are extending the existing Fife Central Retail Park in Kirkcaldy by 11,000 m<sup>2</sup>, which will increase the size of the scheme to 28,000 m<sup>2</sup>. The extension will be fully integrated with the existing centre, and will be anchored by B&Q. Five of the six units, representing 88% of the target income, have been pre-let and completion is expected in June 2009.

In July 2008, an extension was started at Victoria Retail Park, Nottingham which completed in December. A Tesco Homeplus store opened in November and negotiations are underway with prospective occupiers of two units, each of 700 m<sup>2</sup> with a 330 m<sup>2</sup> mezzanine level.

At Cleveland Retail Park, Middlesbrough, a 6,600 m<sup>2</sup> restructuring project will create seven units, five of which have been pre-let. Work started on site in September 2008 and the units will open in Autumn 2009.

We sold two properties during 2008, in line with our strategy of recycling the proceeds from mature assets. In March we completed the sale of One London Wall, a 18,500 m<sup>2</sup> office building in the City of London, in which Hammerson and Kajima each held a 50% interest. The development of the building was completed in 2003 at a cost to Hammerson of £50 million and the net proceeds were £67 million. Our 67% interest in Moorhouse, the 30,100 m<sup>2</sup> office building in the City of London, jointly owned with Pearl, was sold in September. The Group's share of the net disposal proceeds was £152 million compared with its total development cost of £142 million.

In April, we exchanged our properties in Paris Street and Sidwell Street, Exeter with Land Securities for their 50% interest in Parc Tawe, Swansea. We now own the whole of the latter scheme which is integral to our proposed regeneration of Swansea city centre.

Also in April, we made a payment of £137 million, contracted and provided for in 2007, to acquire the City of London's 25% long leasehold interest in Bishops Square, London EC1. The City retains the freehold interest in the scheme.

# BUSINESS REVIEW

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## RENTAL INCOME

### Rental data for investment portfolio for the year ended 31 December 2008

Notes	Gross rental income £m	Net rental income £m	Vacancy rate %	Average rent passing £/m <sup>2</sup>	Rents passing £m	Estimated rental value £m	Reversion/ (over-rented) %
			1	2	3	4	5
<b>United Kingdom</b>							
Retail: Shopping centres	99.8	81.7	5.4	480	105.0	120.7	8.9
Retail parks	53.1	48.9	5.1	190	51.0	60.6	12.0
	152.9	130.6	5.3	355	156.0	181.3	9.9
Office: City	63.7	57.9	8.1	480	53.6	52.1	(12.0)
Other	15.2	14.4	1.9	280	18.3	20.9	12.0
	78.9	72.3	6.4	410	71.9	73.0	(5.5)
<b>Total United Kingdom</b>	<b>231.8</b>	<b>202.9</b>	<b>5.7</b>	<b>365</b>	<b>227.9</b>	<b>254.3</b>	<b>5.1</b>
<b>Continental Europe</b>							
<b>France</b>							
Retail	81.3	72.8	2.2	400	114.1	122.7	5.1
Office	19.7	18.3	5.3	745	19.9	16.7	(24.1)
<b>Total France</b>	<b>101.0</b>	<b>91.1</b>	<b>2.6</b>	<b>435</b>	<b>134.0</b>	<b>139.4</b>	<b>1.4</b>
<b>Germany</b>							
Retail	4.7	3.0	8.8	240	6.2	7.1	4.5
<b>Total Continental Europe</b>	<b>105.7</b>	<b>94.1</b>	<b>2.9</b>	<b>420</b>	<b>140.2</b>	<b>146.5</b>	<b>1.5</b>
<b>Group</b>							
Retail	238.9	206.4	4.1	365	276.3	311.1	7.8
Office	98.6	90.6	6.2	445	91.8	89.7	(8.9)
<b>Total investment portfolio</b>	<b>337.5</b>	<b>297.0</b>	<b>4.6</b>	<b>380</b>	<b>368.1</b>	<b>400.8</b>	<b>3.8</b>
Income from developments and other sources not analysed above	6.7	2.8					
<b>As disclosed in note 2 to the accounts</b>	<b>344.2</b>	<b>299.8</b>					

### Selected data for the year ended 31 December 2007

<b>Group</b>							
Retail	217.9	193.9	1.9	315	214.2	237.2	8.6
Office	85.9	75.4	1.6	410	94.1	97.8	2.1
<b>Total investment portfolio</b>	<b>303.8</b>	<b>269.3</b>	<b>1.8</b>	<b>340</b>	<b>308.3</b>	<b>335.0</b>	<b>6.6</b>

#### 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 total ERV of the property or portfolio.
- (2) Average rent passing at 31 December 2008 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 2008, 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 2008, after deducting head and equity rents, calculated by the Group's 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 2008.

Net rental income for the year ended 31 December 2008 was £300 million, whilst passing rents from the investment portfolio totalled £368 million at that date.

In 2008, we agreed 65 rent reviews in the UK, for which the passing rents were £9.6 million, and secured additional annual income of £2.2 million.

In France, shopping centre rents have historically been indexed annually according to a construction cost index. A new composite index, partly based on retail prices, has been agreed with tenants with the result that, from 1 January 2009, the indexation to be applied to the majority of retail tenants in Hammerson's French portfolio is 3.85%. The applicable index for 2008 was 5.05%. The majority of rents at our French office properties are indexed annually based on a construction cost index. From 1 January 2009, the index to be applied to the majority of our office tenants is 8.85%, compared with 5.05% for 2008.

## OCCUPANCY

In the investment portfolio, the occupancy rate at 31 December 2008 was 95.4%, compared with 98.2% at the end of 2007. The reduction was principally the result of the transfer of the recently completed developments to the investment portfolio. Excluding these recent developments, the occupancy rate was 97.2%.

# BUSINESS REVIEW

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## INCOME SECURITY AND QUALITY

Hammerson's investment portfolio benefits from leases with long terms and provides a secure income stream with growth potential. The weighted average unexpired lease term was ten years at the end of 2008.

Currently, 56 retail units in the UK are let to tenants in administration, and of these, 38 are still trading. In France, there are 16 units in administration of which nine are still occupied. For the Group as a whole, income from tenants in administration represents less than 2% of passing rent at 31 December 2008.

The table below provides information on Hammerson's largest tenants by passing rent. The ten largest retail tenants account for £56 million or 15.3% of total passing rents at 31 December 2008. In the office portfolio, the five largest tenants represent £59 million or 16.0% of passing rents.

<u>Retail</u>		<u>Office</u>	
Tenant	% of total passing rent	Tenant	% of total passing rent
B&Q	2.6	Allen & Overy	9.4
H&M Hennes Limited	2.3	Deutsche Bank	2.8
Printemps	2.2	Barclays Bank	1.5
Home Retail Group	1.4	Latham & Watkins LLP	1.3
Arcadia	1.4	HM Government	1.0
Mulliez	1.3		
DSG Retail Limited	1.1		
Inditex	1.1		
Vivarte	1.0		
Next Group	0.9		
Total	<u>15.3</u>		<u>16.0</u>

Covenant strength is assessed for all new leases and our credit control team monitors the credit ratings of all key tenants, using a credit rating agency. At 31 December 2008, seven of our top ten retail tenants were rated as low risk, whilst the remainder were rated as lower than average risk. Tenants with a low or lower than average risk rating comprised 81.3% by passing rent of the UK retail portfolio.

Our office tenants are generally of lower risk than retailers, although we also monitor their risk ratings. At 31 December 2008, three of the top five office tenants were rated as low risk, one was unrated due to insufficient information being available and another's rent is guaranteed.

# BUSINESS REVIEW

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## LEASE EXPIRIES AND BREAKS

### Lease expiries and breaks

as at 31 December 2008

	Rents passing that expire/break in			ERV of leases that expire/break in			Weighted average unexpired lease term	
	2009 £m	2010 £m	2011 £m	2009 £m	2010 £m	2011 £m	to break years	to expiry years
Notes	1	1	1	2	2	2		
<b>United Kingdom</b>								
Retail: Shopping centres	7.7	3.2	4.7	9.5	3.8	4.8	9.7	10.8
Retail parks	1.1	0.7	0.6	1.5	0.8	0.7	13.3	13.7
	8.8	3.9	5.3	11.0	4.6	5.5	11.0	11.8
Office: City	-	0.2	11.5	-	0.2	9.9	14.1	15.9
Other	1.6	2.0	4.4	2.1	2.1	5.2	5.2	6.9
	1.6	2.2	15.9	2.1	2.3	15.1	12.0	13.8
<b>Total United Kingdom</b>	<b>10.4</b>	<b>6.1</b>	<b>21.2</b>	<b>13.1</b>	<b>6.9</b>	<b>20.6</b>	<b>11.3</b>	<b>12.5</b>
<b>Continental Europe</b>								
<b>France</b>								
Retail	17.8	14.8	12.8	19.8	16.1	13.7	1.8	4.3
Office	5.2	-	1.7	4.3	-	1.5	1.6	4.3
<b>Total France</b>	<b>23.0</b>	<b>14.8</b>	<b>14.5</b>	<b>24.1</b>	<b>16.1</b>	<b>15.2</b>	<b>1.8</b>	<b>4.3</b>
<b>Germany</b>								
Retail	0.8	0.3	1.1	0.8	0.3	1.1	6.1	7.6
<b>Total Continental Europe</b>	<b>23.8</b>	<b>15.1</b>	<b>15.6</b>	<b>24.9</b>	<b>16.4</b>	<b>16.3</b>	<b>2.0</b>	<b>4.5</b>
<b>Group</b>								
Retail	27.4	19.0	19.2	31.6	21.0	20.3	7.0	8.6
Office	6.8	2.2	17.6	6.4	2.3	16.6	9.9	11.9
<b>Total Group</b>	<b>34.2</b>	<b>21.2</b>	<b>36.8</b>	<b>38.0</b>	<b>23.3</b>	<b>36.9</b>	<b>7.8</b>	<b>9.5</b>

#### Notes

- (1) The amount by which rental income, based on rents passing at 31 December 2008, 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 and Germany, it is based on the earliest date of lease expiry.
- (2) The ERV at 31 December 2008 for leases that expire or break in each year and ignoring the impact of rental growth and any rent-free periods.

Leases with current rents passing of £92 million will expire, or are subject to tenants' break clauses, during the period from 2009 to 2011, as shown in the table above. We estimate that, assuming renewals were to take place at current rental values, additional rents of around £6 million per annum would be secured. The rental uplifts relate principally to the shopping centres at Brent Cross, Italie 2 and O'Parinor, and the London office, Exchange Tower. This is not a forecast and takes no account of void periods, lease incentives or possible changes in rental values.

## RENT REVIEWS

### Rent reviews

as at 31 December 2008

	Rents passing subject to review in				Projected rent at current ERV of leases subject to review in			
	Outstanding £m	2009 £m	2010 £m	2011 £m	Outstanding £m	2009 £m	2010 £m	2011 £m
Notes	1	1	1	1	2	2	2	2
<b>United Kingdom</b>								
Retail: Shopping centres	12.7	12.1	13.9	10.2	14.3	13.4	14.6	10.5
Retail parks	11.4	3.8	14.8	9.0	13.7	4.6	16.7	10.1
	24.1	15.9	28.7	19.2	28.0	18.0	31.3	20.6
Office: City	-	2.0	37.6	5.6	-	2.0	37.6	5.6
Other	2.2	2.4	5.1	2.8	2.3	3.2	5.9	3.5
	2.2	4.4	42.7	8.4	2.3	5.2	43.5	9.1
<b>Total United Kingdom</b>	<b>26.3</b>	<b>20.3</b>	<b>71.4</b>	<b>27.6</b>	<b>30.3</b>	<b>23.2</b>	<b>74.8</b>	<b>29.7</b>

#### Notes

- (1) Rents passing at 31 December 2008, after deducting head and equity rents, which is subject to review in each year.
- (2) Projected rents for space that is subject to review in each year, based on the higher of the current rental income and the ERV as at 31 December 2008 and ignoring the impact of changes in rental values before the review date.

## BUSINESS REVIEW

### CONTINUED

At the end of 2008, the investment portfolio was 3.8% reversionary overall, compared with 6.6% at 31 December 2007. The reduction in reversion was largely due to a decline in rental values, particularly in the office portfolio, which is now over-rented.

Leases with passing rents of £119 million in the UK are subject to review over the next three years, as shown in the table above. We estimate that, on review, rents receivable in respect of these leases would increase by £9 million per annum by 2011, if reviewed at current rental values. An additional £4 million per annum would be secured if outstanding rent review negotiations are concluded at current rental values. This is not a forecast and takes no account of potential changes in rental values before the relevant review dates.

The majority of leases in France are subject to indexation.

### CONTRACTED INCOME

In 2009 and 2010, our cash flow will increase substantially due to leases and contracts that have been signed at current and recently completed developments. The table below shows contracted income on both cash flow and accounting bases.

<b>Contracted rents passing at 31 December 2008</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Offices - UK	0.5	2.1	3.2	4.3	4.3
Shopping centres - UK	1.5	15.0	23.5	25.9	26.2
Retail parks - UK	-	1.0	4.4	4.9	4.9
Shopping centres - France	4.5	8.5	9.2	10.5	10.7
Retail parks - France	-	2.5	3.0	3.1	3.2
<b>Total - cash flow</b>	<b>6.5</b>	<b>29.1</b>	<b>43.3</b>	<b>48.7</b>	<b>49.3</b>
<b>- accounting basis</b>	<b>12.2</b>	<b>39.0</b>	<b>45.8</b>	<b>47.3</b>	<b>47.5</b>

#### Note

Figures show Hammerson's share of the income from joint ventures.

### CURRENT DEVELOPMENTS

Our objectives from development are:

- to create assets which generate an attractive initial yield with significant future growth in income;
- to create assets valued at a surplus above our costs; 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. The delivery of these schemes requires us to take a view of future market conditions, anticipate occupiers' needs, exercise strong project management skills and carefully manage risk.

Six major developments were underway at the beginning of 2008 and of those, four were completed during the year and transferred to the investment portfolio. At 31 December 2008, future committed expenditure in respect of these four schemes was £35 million. The two remaining major schemes, which are shown in the table below, have an estimated total development cost of £385 million, of which £254 million had been spent by 31 December 2008. We also have a number of smaller schemes within the investment portfolio for which the remaining expenditure is estimated at £29 million. Reflecting current market conditions, the value of our development portfolio at the end of 2008 was £199 million below its cost. Most of the deficit related to Union Square, Aberdeen and the future development pipeline. Following a review in early 2008, only limited capital is being invested in the future pipeline until market conditions improve.

# BUSINESS REVIEW

## CONTINUED

	Lettable area m <sup>2</sup>	Forecast completion	Cost to 31 Dec 2008 £m	Value at 31 Dec 2008 £m	Cost to complete £m	Estimated future interest capitalised £m	Forecast total cost to complete £m	Forecast total cost £m	Let %	Estimated annual income when fully let £m
Notes			1		2		1	1	3	4
<b>Current developments</b>										
<b>Retail</b>										
Union Square, Aberdeen	49,000	Oct 2009	149	55	101	10	111	260	34	15
<b>Office</b>										
60 Threadneedle Street, London EC2	20,600	Jan 2009	105	92	20	-	20	125	-	10
<b>Total</b>			<b>254</b>	<b>147</b>	<b>121</b>	<b>10</b>	<b>131</b>	<b>385</b>	<b>23</b>	<b>25</b>
Other developments			373	281						
<b>Total development properties (note 8 to the accounts)</b>			<b>627</b>	<b>428</b>						

### Notes

- (1) Capital cost including capitalised interest.
- (2) Capital cost to complete excluding estimated future capitalised interest.
- (3) Amount let or in solicitors' hands by income at 6 February 2009.
- (4) Includes estimates of non-rental income.
- (5) The current developments shown in the table above are 100% owned by Hammerson.

Practical completion was achieved in January 2009 at 60 Threadneedle Street, London EC2. The 20,600m<sup>2</sup> nine-storey office building provides prime accommodation in one of the best locations in the City of London. The building is currently unlet. There is interest from potential occupiers to take space in the building, however the current economic background means that they are taking time to determine their requirements. The estimated total cost of the building is £125 million, of which £20 million remains to be spent, and it is expected to generate £10 million of income per annum when fully let.

Work is continuing at Union Square, Aberdeen where a nine-hectare site next to the railway station is being developed to create 49,000m<sup>2</sup> of mixed-use space including retail units, leisure and catering, a 200 bedroom hotel and 1,700 car parking spaces. The estimated cost of the scheme is £260 million, of which £111 million remains to be spent, and its projected income is £15 million, of which 34% has been secured. The current economic climate means that letting has been more difficult than originally envisaged. The scheme is planned to open towards the end of 2009.

The first of our two retail park developments in France, St Omer, was recently completed and 96% of the target income of around £2 million has been secured. The cost of the scheme at 31 December 2008 was £30 million.

Cap Malo, which is anticipated to be completed in April 2009, has an estimated total cost of £20 million and the target income for the scheme is approximately £2 million. Of the latter, 98% has been secured.

### FUTURE DEVELOPMENTS

Over a number of years, Hammerson has secured a substantial pipeline of potential future development opportunities. We do not intend to start construction of any major new projects, although we are continuing to progress the planning and design stages so that the schemes could be advanced in the longer term.

During 2008, we have made progress in the early stages of these schemes:

- Site assembly for the Sevenstone scheme in Sheffield has progressed with a number of private treaty acquisitions and confirmation of the Compulsory Purchase Order in the summer.
- At Eastgate Quarter, Leeds, agreements for lease have been signed with John Lewis and Marks & Spencer for anchor stores of 26,000m<sup>2</sup> and 18,250m<sup>2</sup> respectively. In addition, the CPO inquiry was confirmed by the Secretary of State in July and the initial phase of enabling works is complete.
- A planning application for the masterplan for the regeneration of Brent Cross and Cricklewood, in north-west London, was submitted in March.
- In Southampton we are progressing outline proposals for a 42,000m<sup>2</sup> mixed-use, leisure-led extension to WestQuay Shopping Centre called Watermark WestQuay. A public consultation was held earlier in 2008 and an outline planning application has been submitted.

## 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 2008, there was a loss before tax of £1,611.5 million, compared with a profit of £110.4 million for 2007. The significant change in the result before tax principally reflected the inclusion of unrealised property revaluation gains and losses in the income statement. Revaluation losses of £1,649.9 million in 2008 compared with net losses of £5.0 million in 2007. Adjusted profit before tax, which is analysed in the table below, was £113.7 million for 2008, reduced from £117.3 million in 2007.

<b>Analysis of (loss)/profit before tax</b>	<b>2008</b>	2007
	<b>£m</b>	£m
<b>Adjusted profit before tax</b>	<b>113.7</b>	117.3
Adjustments:		
(Loss)/Profit on the sale of investment properties	<b>(32.5)</b>	39.8
Revaluation (losses)/gains on investment properties	<b>(1,473.4)</b>	20.7
Revaluation losses on development properties	<b>(176.5)</b>	(25.7)
Provision relating to formerly owned property	-	(6.0)
Asset impairment	<b>(15.9)</b>	(3.6)
Bond redemption costs	-	(28.3)
Change in fair value of derivatives	<b>(26.9)</b>	(3.8)
<b>(Loss)/Profit before tax</b>	<b>(1,611.5)</b>	110.4

Compared with 2007, adjusted earnings per share fell by 2.2 pence, or 5.5% to 38.1 pence. The main reasons for the reductions in adjusted profit and earnings per share were the financing costs associated with the development programme and the REIT conversion charge, which more than offset increased net rental income. Note 7A to the accounts on page 33 provides detailed calculations for earnings per share.

### NET RENTAL INCOME

In 2008, net rental income was £299.8 million compared with £275.7 million for the preceding year. Additional net rental income from acquisitions and completed developments was largely offset by that lost as a result of disposals. The increase therefore principally arose from properties owned throughout both years and the £11.6 million impact of exchange rate movements. The tables below compare net rental income for 2008 and 2007, analysing the portfolio between 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, our investment portfolio generated an increase of 3.7%, principally reflecting new lettings at the UK offices and indexation in France. The slight fall in like-for-like net rental income for the UK retail portfolio resulted principally from higher property outgoings, which included marketing expenses associated with the launch of the recently completed shopping centre developments and bad debt expense.

Included in net rental income for 2008 is rent receivable of £4.1 million which has been accrued and allocated to rent-free periods and £3.0 million which is related to occupiers' turnover. Shopping centre car parks generated net income of £8.4 million in 2008, compared with £7.8 million in 2007.

## FINANCIAL REVIEW

CONTINUED

### Like-for-like net rental income for the year ended 31 December 2008

	Properties owned throughout 2007/8 £m	Increase/ (Decrease) for properties owned throughout 2007/8	Acquisitions £m	Disposals £m	Developments £m	Total net rental income £m
<b>United Kingdom</b>						
Retail	122.5	(0.7)%	6.1	0.1	6.4	135.1
Office	53.0	7.1%	10.7	7.6	1.4	72.7
<b>Total United Kingdom</b>	<b>175.5</b>	<b>1.5%</b>	<b>16.8</b>	<b>7.7</b>	<b>7.8</b>	<b>207.8</b>
<b>Continental Europe</b>						
France	84.9	6.5%	0.7	-	3.4	89.0
Germany	3.0	114.3%	-	-	-	3.0
<b>Total Continental Europe</b>	<b>87.9</b>	<b>8.4%</b>	<b>0.7</b>	<b>-</b>	<b>3.4</b>	<b>92.0</b>
<b>Group</b>						
Retail	192.1	2.2%	6.8	0.1	9.8	208.8
Office	71.3	7.9%	10.7	7.6	1.4	91.0
<b>Total</b>	<b>263.4</b>	<b>3.7%</b>	<b>17.5</b>	<b>7.7</b>	<b>11.2</b>	<b>299.8</b>

### Like-for-like net rental income for the year ended 31 December 2007

	Properties owned throughout 2007/8 £m	Exchange £m	Acquisitions £m	Disposals £m	Developments £m	Total net rental income £m
<b>United Kingdom</b>						
Retail	123.4	-	5.0	8.4	2.6	139.4
Office	49.5	-	1.9	12.5	0.1	64.0
<b>Total United Kingdom</b>	<b>172.9</b>	<b>-</b>	<b>6.9</b>	<b>20.9</b>	<b>2.7</b>	<b>203.4</b>
<b>Continental Europe</b>						
France	79.7	(11.4)	-	2.7	0.1	71.1
Germany	1.4	(0.2)	-	-	-	1.2
<b>Total Continental Europe</b>	<b>81.1</b>	<b>(11.6)</b>	<b>-</b>	<b>2.7</b>	<b>0.1</b>	<b>72.3</b>
<b>Group</b>						
Retail	187.9	(9.0)	5.0	8.1	2.7	194.7
Office	66.1	(2.6)	1.9	15.5	0.1	81.0
<b>Total portfolio</b>	<b>254.0</b>	<b>(11.6)</b>	<b>6.9</b>	<b>23.6</b>	<b>2.8</b>	<b>275.7</b>

### ADMINISTRATION EXPENSES

For the year ended 31 December 2008, administration expenses were £42.3 million compared with £41.2 million for the prior year, although at constant exchange rates they were unchanged. In 2008 increased staffing costs, including £1.1 million in respect of the one-off redundancy payments arising from the staff reorganisation announced in November 2008, were offset by a reduction in professional fees. The reorganisation and a cost reduction programme are expected to result in savings of around £3 million in 2009.

### NET FINANCE COSTS

Excluding the change in fair value of derivatives, bond redemption costs and capitalised interest, net finance costs were £179.7 million in 2008, £34.9 million or 24.1% higher than the equivalent 2007 figure of £144.8 million. The increase reflected higher levels of borrowing, the cost of commitment fees for new borrowing facilities, the cost of funding the REIT conversion charge and £13.2 million arising from the movement in exchange rates over the year.

Interest of £35.9 million relating to the development programme was capitalised during 2008. This was principally in respect of the developments at 125 Old Broad Street, Highcross, Cabot Circus and O'Parinor, which all completed during the year.

For 2008, the average cost of borrowing was 5.4%, around 50 basis points lower than the equivalent figure for 2007.

# FINANCIAL REVIEW

CONTINUED

## ASSET IMPAIRMENT

Following the termination in August by JPMorgan Chase of discussions relating to the development of their new European headquarters building, we have written off £15.9 million in respect of the costs incurred on the project.

## TAX

The Group now bears minimal current tax due to its status as a UK REIT and French SIIC.

For deferred tax, a provision is made for the UK tax that could arise on dividends to be received, under the SIIC rules, by Hammerson plc from French subsidiaries. However, the UK government is proposing to introduce a corporation tax exemption for foreign dividends during 2009. If this is enacted as proposed, virtually all the Group's net deferred tax provision of £108 million at 31 December 2008 should be written back. The 2008 deferred tax credit of £38.3 million arose principally in respect of the decline in values of the French portfolio.

## DIVIDEND

The Board is proposing a final dividend of 15.3 pence per share, which together with the interim dividend of 12.6 pence makes a total dividend of 27.9 pence per share for 2008, representing an increase of 2.2% on 2007.

It is intended that 3.8 pence of the 2008 final dividend will be paid as a PID, net of withholding tax where appropriate, with the remaining 11.5 pence per share being paid as a normal dividend. The record date for the final dividend is 20 February 2009. New shares issued in conjunction with the proposed rights issue will not be eligible for this dividend.

## CASH FLOW

Cash generated from operations for the year ended 31 December 2008 was £346 million compared with £208 million for 2007. The effects of exchange, increased rental income, the expiry of rent-free periods, and an increase in the rents received from tenants by the end of 2008 compared with the previous year, all contributed to the increase.

There was a cash inflow from operating activities for the year ended 31 December 2008 of £30 million. The comparative figure for 2007 was an outflow of £29 million. The increase in cash generated from operations described above was partially offset by higher interest outflows and £37 million paid in respect of prior year UK tax liabilities.

Disposals raised £245 million whilst acquisitions, principally reflecting payment for the City of London's 25% interest in Bishops Square and capital expenditure, amounted to £514 million. After taking account of the net cash inflow from financing activities of £328 million, there was a net increase in cash and deposits of £89 million in 2008.

# FINANCIAL REVIEW

CONTINUED

## BALANCE SHEET

The decline in property values was the main reason for the fall in equity shareholders' funds from £4.4 billion to £2.8 billion and the corresponding reduction in adjusted net asset value per share from £15.45 at the end of 2007 to £10.36 as shown below.

Analysis of net asset value	2008		2007	
	£m	£ per share	£m	£ per share
<b>Basic</b>	<b>2,820.6</b>	<b>9.70</b>	4,354.6	14.98
Dilution on exercise of share options	4.8	n/a	6.4	n/a
<b>Diluted</b>	<b>2,825.4</b>	<b>9.74</b>	4,361.0	15.06
Adjustments:				
Fair value of derivatives	73.0	0.25	13.2	0.05
Deferred tax	108.4	0.37	99.6	0.34
<b>EPRA</b>	<b>3,006.8</b>	<b>10.36</b>	4,473.8	15.45
Basic shares in issue (million)	290.9		290.6	
Diluted shares in issue (million)	290.1		289.6	

A reconciliation of the movement in net asset value over the year is shown in the table below.

Movement in net asset value	Equity shareholders' funds*	EPRA NAV*
	£m	£ per share
31 December 2007	4,474	15.45
Revaluation: - equity changes	(1)	-
- income changes	(1,650)	(5.69)
Profit for the year (excluding revaluation changes)	66	0.23
Dividends	(81)	(0.30)
Exchange and other movements	199	0.67
<b>31 December 2008</b>	<b>3,007</b>	<b>10.36</b>

\* Excludes deferred tax and the fair value of derivatives

## FINANCING

We monitor the Group's financial structure against guidelines approved by the Board which currently include minimum interest cover of 1.8 times and gearing of no more than 85% for an extended period. In 2008, interest cover was below the guideline as a number of major developments were nearing completion. The ratio is anticipated to improve over the next two years as rental income flows from completed developments.

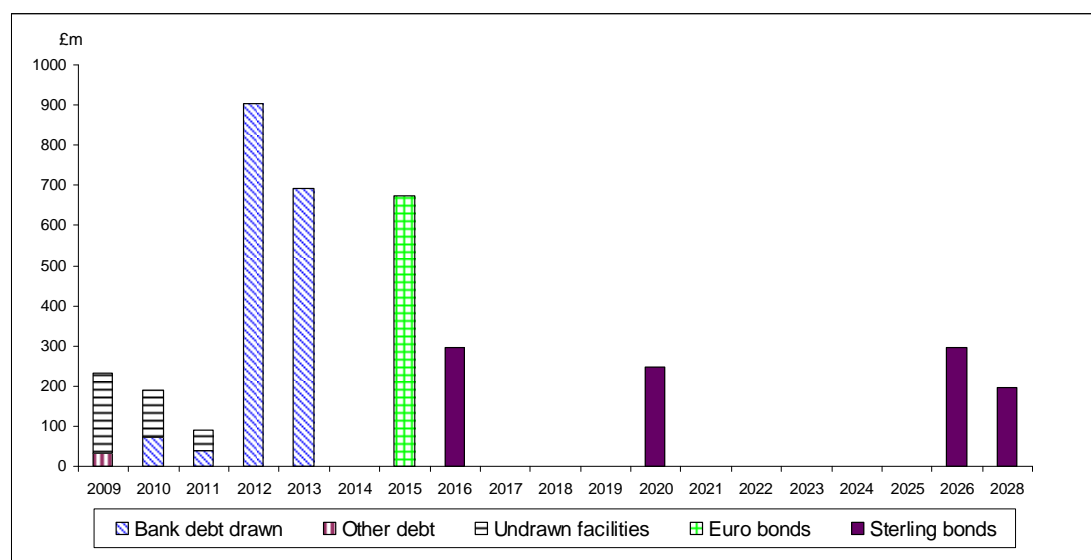
The Group's exposure to interest rate and currency fluctuations are managed using appropriate hedging policies.

Net debt at 31 December 2008 was £3,333 million comprising borrowings of £3,453 million and cash and deposits of £120 million. At the year end, approximately 65% of gross debt was at fixed rates of interest and the average maturity of the Group's borrowings was just over seven years. The chart below shows the maturity profile of our debt portfolio.

# FINANCIAL REVIEW

CONTINUED

## Maturity analysis of gross debt and undrawn facilities at 31 December 2008



During 2008, we arranged a total of £850 million of additional committed financing comprising unsecured bank facilities of £450 million and a £400 million loan secured on the office building at Bishops Square. The loan has a five-year term and carries a fixed rate of interest of 6.3% per annum. The €500 million 6.25% bonds which matured in June 2008 were redeemed and the £31 million loan financing the retail park at Parc Tawe was repaid.

In December we extended the maturity of £100 million of undrawn committed facilities from December 2009 to December 2010. Undrawn committed facilities of £200 million mature in December 2009, borrowings of £33 million mature in 2009, £72 million in 2010 and £40 million in 2011.

At the end of 2008, undrawn committed facilities were £367 million which, together with cash and short-term deposits, provided liquidity of £487 million.

The Group's unsecured bank facilities contain financial covenants that the Group's gearing, broadly defined as 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 at the end of 2008 was 118% compared with 57% at the end of 2007, the increase principally resulting from the reduction in the portfolio value, particularly in the second half of 2008, and the increase in net debt arising from the strengthening of the euro and the funding of the development programme.

Interest cover was 1.67 times compared with 1.90 times for 2007. It is anticipated that interest cover will rise over the next few years as development activity slows and income is received from completed developments.

The market value of the Group's debt at 31 December 2008 was £614 million lower than its book value. This was equivalent, after tax relief, to an increase of £1.52 in net asset value per share.

## RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

- the financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 31 December 2008. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007, but is derived from those accounts. Those accounts give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s237(2) or (3) Companies Act 1985;
- the Business Review and Financial Review within this announcement are extracted from the Company's Annual Report which gives a fair review of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Company's Annual Report, containing the Company's statutory accounts, are available at [www.hammerson.com](http://www.hammerson.com).

Signed on behalf of the Board on 9 February 2009

**John Richards**  
Director

**Simon Melliss**  
Director

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
<b>Gross rental income</b>	2	<b>344.2</b>	311.5
<b>Operating profit before other net (losses)/gains</b>	2	<b>257.5</b>	234.5
Other net (losses)/gains	2	<b>(1,698.3)</b>	25.2
<b>Operating (loss)/profit</b>	2	<b>(1,440.8)</b>	259.7
Finance costs		<b>(153.8)</b>	(129.8)
Bond redemption costs		-	(28.3)
Change in fair value of derivatives		<b>(26.9)</b>	(3.8)
Finance income		<b>10.0</b>	12.6
Net finance costs	4	<b>(170.7)</b>	(149.3)
<b>(Loss)/Profit before tax</b>		<b>(1,611.5)</b>	110.4
Current tax	5A	<b>(0.6)</b>	(16.4)
Deferred tax	5A	<b>38.3</b>	17.6
Tax credit		<b>37.7</b>	1.2
<b>(Loss)/Profit for the year</b>		<b>(1,573.8)</b>	111.6
<b>Attributable to:</b>			
Equity shareholders	20	<b>(1,572.6)</b>	101.0
Minority interests	20	<b>(1.2)</b>	10.6
<b>(Loss)/Profit for the year</b>		<b>(1,573.8)</b>	111.6
<b>Basic (loss)/earnings per share</b>	7A	<b>(543.6)p</b>	34.9p
<b>Diluted (loss)/earnings per share</b>	7A	<b>(542.8)p</b>	34.9p

Adjusted earnings per share are shown in note 7A. All results derive from continuing operations.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 £m	2007 £m
<b>Non-current assets</b>			
Investment and development properties	8	6,456.8	7,275.0
Interests in leasehold properties		25.6	30.3
Plant, equipment and owner-occupied property	9	38.5	43.1
Investments	11	112.1	80.1
Receivables	12	19.7	12.9
		<b>6,652.7</b>	<b>7,441.4</b>
<b>Current assets</b>			
Receivables	13	123.6	152.3
Cash and deposits	14	119.9	28.6
		<b>243.5</b>	<b>180.9</b>
<b>Total assets</b>		<b>6,896.2</b>	<b>7,622.3</b>
<b>Current liabilities</b>			
Payables	15	296.5	387.0
Tax	5D	3.8	113.2
Provision	2	6.0	-
Borrowings	16A	32.5	406.5
		<b>338.8</b>	<b>906.7</b>
<b>Non-current liabilities</b>			
Borrowings	16A	3,420.1	2,117.7
Deferred tax	5D	108.4	99.6
Tax	5D	0.4	3.1
Obligations under finance leases		25.5	30.1
Payables	18	93.1	34.1
Provision	2	-	6.0
		<b>3,647.5</b>	<b>2,290.6</b>
<b>Total liabilities</b>		<b>3,986.3</b>	<b>3,197.3</b>
<b>Net assets</b>		<b>2,909.9</b>	<b>4,425.0</b>
<b>Equity</b>			
Share capital	19	72.7	72.6
Share premium	20	742.2	740.0
Translation reserve	20	707.6	86.0
Hedging reserve	20	(580.1)	(71.4)
Capital redemption reserve	20	7.2	7.2
Other reserves	20	11.5	10.6
Revaluation reserve	20	100.0	238.7
Retained earnings	20	1,775.6	3,291.5
Investment in own shares	21	(4.5)	(3.8)
Treasury shares	22	(11.6)	(16.8)
<b>Equity shareholders' funds</b>		<b>2,820.6</b>	<b>4,354.6</b>
Equity minority interests	20	89.3	70.4
<b>Total equity</b>		<b>2,909.9</b>	<b>4,425.0</b>
<b>Diluted net asset value per share</b>	7B	<b>£9.74</b>	£15.06
<b>EPRA net asset value per share</b>	7B	<b>£10.36</b>	£15.45

\* See note 20

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Foreign exchange translation differences		644.5	154.0
Net loss on hedge of net investment in foreign subsidiaries	20	(508.7)	(131.3)
Revaluation (losses)/gains on development properties	20	(24.8)	75.0
Revaluation losses on owner-occupied property	20	(5.9)	-
Revaluation gains on investments	20	29.9	1.9
Transfer to income statement on impairment of asset		-	3.1
Actuarial gains on pension schemes	20	0.4	5.9
Deferred tax on items taken directly to equity	5C	(0.2)	(5.3)
Net gain recognised directly in equity		135.2	103.3
(Loss)/Profit for the year		(1,573.8)	111.6
<b>Total recognised income and expense</b>		<b>(1,438.6)</b>	214.9
<b>Attributable to:</b>			
Equity shareholders		(1,460.3)	199.2
Minority interests		21.7	15.7
<b>Total recognised income and expense</b>		<b>(1,438.6)</b>	214.9

## RECONCILIATION OF EQUITY

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Opening equity shareholders' funds		4,354.6	4,165.1
Issue of shares		2.3	80.8
Share-based employee remuneration	20	4.6	5.2
Proceeds on award of own shares to employees	20	0.1	0.2
Purchase of treasury shares	22	-	(16.8)
		4,361.6	4,234.5
Total recognised income and expense		(1,460.3)	199.2
		2,901.3	4,433.7
Dividends	20	(80.7)	(79.1)
<b>Closing equity shareholders' funds</b>		<b>2,820.6</b>	4,354.6

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
<b>Operating activities</b>			
Operating profit before other net (losses)/gains	2	257.5	234.5
Decrease/(Increase) in receivables		19.5	(10.4)
Increase in payables		50.8	13.4
Adjustment for non-cash items	23	18.5	(29.3)
<b>Cash generated from operations</b>		<b>346.3</b>	<b>208.2</b>
Interest and bond redemption costs paid		(209.7)	(177.7)
Interest received		9.4	11.9
Tax paid	5D	(116.2)	(71.6)
<b>Cash flows from operating activities</b>		<b>29.8</b>	<b>(29.2)</b>
<b>Investing activities</b>			
Property and corporate acquisitions		(123.5)	(163.3)
Development and major refurbishments		(376.7)	(335.5)
Other capital expenditure		(13.9)	(44.6)
Sale of properties		245.3	537.2
Purchase of investments		-	(11.0)
Decrease in non-current receivables		-	0.1
<b>Cash flows from investing activities</b>		<b>(268.8)</b>	<b>(17.1)</b>
<b>Financing activities</b>			
Issue of shares		2.3	1.7
Purchase of treasury shares	22	-	(16.8)
Proceeds from award of own shares		0.1	0.2
Increase/(Decrease) in non-current borrowings		1,050.0	(28.9)
(Decrease)/Increase in current borrowings		(635.1)	153.3
Dividends paid to minorities	20	(2.8)	(1.9)
Equity dividends paid	6	(86.7)	(73.1)
<b>Cash flows from financing activities</b>		<b>327.8</b>	<b>34.5</b>
<b>Net increase/(decrease) in cash and deposits</b>		<b>88.8</b>	<b>(11.8)</b>
Opening cash and deposits		28.6	39.4
Exchange translation movement		2.5	1.0
<b>Closing cash and deposits</b>	14	<b>119.9</b>	<b>28.6</b>

## ANALYSIS OF MOVEMENT IN NET DEBT

For the year ended 31 December 2008

	Short-term deposits £m	Cash at bank £m	Current borrowings £m	Non-current borrowings £m	Net debt £m
Balance at 1 January 2008	10.9	17.7	(406.5)	(2,117.7)	(2,495.6)
Property acquisition	-	12.6	-	(15.5)	(2.9)
Cash flow	28.4	47.8	635.1	(1,050.0)	(338.7)
Exchange	1.2	1.3	(261.1)	(236.9)	(495.5)
<b>Balance at 31 December 2008</b>	<b>40.5</b>	<b>79.4</b>	<b>(32.5)</b>	<b>(3,420.1)</b>	<b>(3,332.7)</b>

# NOTES TO THE ACCOUNTS

## 1. FINANCIAL INFORMATION

The principal exchange rate used to translate foreign currency denominated amounts in the balance sheet is the rate at the end of the year, £1 = €1.034 (2007: £1 = €1.362). The principal exchange rate used for the income statement is the average rate, £1 = €1.258 (2007: £1 = €1.461).

## 2. OPERATING PROFIT

	Notes	2008 £m	2007 £m
<b>Gross rental income</b>	3	<b>344.2</b>	311.5
Ground and equity rents payable		(6.2)	(5.4)
<b>Gross rental income, after rents payable</b>		<b>338.0</b>	306.1
Service charge income		59.8	53.0
Service charge expenses		(65.8)	(59.2)
Net service charge expenses		(6.0)	(6.2)
Other property outgoings		(32.2)	(24.2)
Property outgoings		(38.2)	(30.4)
<b>Net rental income</b>	3	<b>299.8</b>	275.7
Management fees receivable		4.5	4.3
Cost of property activities		(29.7)	(27.2)
Corporate expenses		(17.1)	(18.3)
Administration expenses		(42.3)	(41.2)
<b>Operating profit before other net (losses)/gains</b>		<b>257.5</b>	234.5
(Loss)/Profit on the sale of investment properties		(32.5)	39.8
Revaluation (losses)/gains on investment properties		(1,473.4)	20.7
Revaluation losses on development properties		(176.5)	(25.7)
Provision relating to formerly owned property		-	(6.0)
Asset impairment		(15.9)	(3.6)
<b>Other net (losses)/gains</b>		<b>(1,698.3)</b>	25.2
<b>Operating (loss)/profit</b>		<b>(1,440.8)</b>	259.7

Included in gross rental income is £3.0 million (2007: £2.9 million) calculated by reference to tenants' turnover.

The £6.0 million provision relating to a formerly owned property is expected to crystallise in 2009.

The £15.9 million asset impairment in 2008 relates to the write off of costs incurred in respect of the termination in August 2008 by JP Morgan Chase of discussions relating to the development of a new European headquarters building. The costs were previously included within current receivables.

## NOTES TO THE ACCOUNTS *continued*

### 3. SEGMENTAL ANALYSIS

#### PRIMARY AND SECONDARY SEGMENTS

The Group's reportable segments are the geographic locations and sectors in which it operates, which are generally managed by separate teams. Gross rental income represents the Group's revenue from external customers or tenants. Net rental income is the principal profit measure used to determine the performance of each sector. Resource allocation is based on the distribution of property assets between segments.

#### A. REVENUE AND PROFIT BY SEGMENT

	2008			2007		
	Gross rental income £m	Net rental income £m	Non-cash items £m	Gross rental income £m	Net rental income £m	Non-cash items £m
<b>United Kingdom</b>						
Retail: Shopping centres	99.8	81.7	1.9	102.3	90.0	(1.4)
Retail parks	53.1	48.9	(0.4)	50.7	48.3	0.2
	<b>152.9</b>	<b>130.6</b>	<b>1.5</b>	<b>153.0</b>	<b>138.3</b>	<b>(1.2)</b>
Office: City	63.7	57.9	0.1	57.1	49.7	17.3
Other	15.2	14.4	(0.2)	13.1	11.6	-
	<b>78.9</b>	<b>72.3</b>	<b>(0.1)</b>	<b>70.2</b>	<b>61.3</b>	<b>17.3</b>
<b>Total United Kingdom</b>	<b>231.8</b>	<b>202.9</b>	<b>1.4</b>	<b>223.2</b>	<b>199.6</b>	<b>16.1</b>
<b>Continental Europe</b>						
<b>France</b>						
Retail	81.3	72.8	0.9	61.4	54.4	-
Office	19.7	18.3	(1.3)	15.7	14.1	0.8
<b>Total France</b>	<b>101.0</b>	<b>91.1</b>	<b>(0.4)</b>	<b>77.1</b>	<b>68.5</b>	<b>0.8</b>
<b>Germany</b>						
Retail	4.7	3.0	-	3.5	1.2	-
<b>Total Continental Europe</b>	<b>105.7</b>	<b>94.1</b>	<b>(0.4)</b>	<b>80.6</b>	<b>69.7</b>	<b>0.8</b>
<b>Group</b>						
Retail	238.9	206.4	2.4	217.9	193.9	(1.2)
Office	98.6	90.6	(1.4)	85.9	75.4	18.1
<b>Total investment portfolio</b>	<b>337.5</b>	<b>297.0</b>	<b>1.0</b>	<b>303.8</b>	<b>269.3</b>	<b>16.9</b>
Developments and other sources not analysed above	6.7	2.8	-	7.7	6.4	-
<b>Total portfolio</b>	<b>344.2</b>	<b>299.8</b>	<b>1.0</b>	<b>311.5</b>	<b>275.7</b>	<b>16.9</b>
As disclosed in note	2	2	23	2	2	23

The non-cash items included within net rental income reflect the amortisation of lease incentives and other costs and movements in accrued rents receivable.

## NOTES TO THE ACCOUNTS *continued*

### 3. SEGMENTAL ANALYSIS *continued*

#### B. PROPERTY ASSETS BY SEGMENT

	Investment properties £m	Development properties £m	Total £m	2008 Capital expenditure £m	Investment properties £m	Development properties £m	Total £m	2007 Capital expenditure £m
<b>United Kingdom</b>								
Retail: Shopping centres	1,683	155	1,838	234	1,731	549	2,280	245
Retail parks	845	46	891	50	1,178	47	1,225	135
	<b>2,528</b>	<b>201</b>	<b>2,729</b>	<b>284</b>	<b>2,909</b>	<b>596</b>	<b>3,505</b>	<b>380</b>
Office: City	753	174	927	73	1,050	275	1,325	223
Other	224	5	229	-	294	5	299	73
	<b>977</b>	<b>179</b>	<b>1,156</b>	<b>73</b>	<b>1,344</b>	<b>280</b>	<b>1,624</b>	<b>296</b>
<b>Total United Kingdom</b>	<b>3,505</b>	<b>380</b>	<b>3,885</b>	<b>357</b>	<b>4,253</b>	<b>876</b>	<b>5,129</b>	<b>676</b>
<b>Continental Europe</b>								
<b>France</b>								
Retail	2,051	48	2,099	64	1,532	130	1,662	112
Office	383	-	383	(1)	395	-	395	5
<b>Total France</b>	<b>2,434</b>	<b>48</b>	<b>2,482</b>	<b>63</b>	<b>1,927</b>	<b>130</b>	<b>2,057</b>	<b>117</b>
<b>Germany</b>								
Retail	90	-	90	3	89	-	89	3
<b>Total Continental Europe</b>	<b>2,524</b>	<b>48</b>	<b>2,572</b>	<b>66</b>	<b>2,016</b>	<b>130</b>	<b>2,146</b>	<b>120</b>
<b>Group</b>								
Retail	4,669	249	4,918	351	4,530	726	5,256	495
Office	1,360	179	1,539	72	1,739	280	2,019	301
<b>Total</b>	<b>6,029</b>	<b>428</b>	<b>6,457</b>	<b>423</b>	<b>6,269</b>	<b>1,006</b>	<b>7,275</b>	<b>796</b>

#### C. ANALYSIS OF EQUITY SHAREHOLDERS' FUNDS

	Assets employed		Net debt		Equity shareholders' funds	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
United Kingdom	3,675.5	4,806.1	(1,783.8)	(1,383.2)	1,891.7	3,422.9
Continental Europe	2,477.8	2,044.1	(1,548.9)	(1,112.4)	928.9	931.7
<b>Total</b>	<b>6,153.3</b>	<b>6,850.2</b>	<b>(3,332.7)</b>	<b>(2,495.6)</b>	<b>2,820.6</b>	<b>4,354.6</b>

As part of the Group's foreign currency hedging programme, at 31 December 2008 the Group had currency swaps of £533.8 million, being €594.2 million sold forward against sterling: €304.2 million for value in March 2009 at a rate of £1 = €1.106 and €290.0 million for value in June 2009 at a rate of £1 = €1.120. At 31 December 2007 the Group had currency swaps of £442.8 million, being €609.0 million sold forward against sterling: €14.8 million for value in January 2008 and €594.2 million for value in June 2008. Net debt cannot be allocated between countries within continental Europe.

#### 4. NET FINANCE COSTS

	2008 £m	2007 £m
Interest on bank loans and overdrafts	73.6	22.0
Interest on other borrowings	110.7	126.9
Interest on obligations under finance leases	2.3	3.0
Other interest payable	3.1	5.5
Gross interest costs	189.7	157.4
Less: Interest capitalised	(35.9)	(27.6)
Finance costs	153.8	129.8
Bond redemption costs	-	28.3
Change in fair value of interest rate swaps	33.3	(2.4)
Change in fair value of currency swaps outside hedge accounting designation	(6.4)	6.2
Change in fair value of derivatives	26.9	3.8
Finance income	(10.0)	(12.6)
<b>Net finance costs</b>	<b>170.7</b>	<b>149.3</b>

## NOTES TO THE ACCOUNTS *continued*

### 5. TAX

#### A. TAX CREDIT

	2008 £m	2007 £m
<b>UK current tax</b>		
On net income before revaluations and disposals	0.1	0.1
Credit in respect of prior years	(0.4)	(1.7)
	<b>(0.3)</b>	<b>(1.6)</b>
<b>Foreign current tax</b>		
On net income before revaluations and disposals	0.3	0.2
Charge in respect of prior years	0.6	0.1
On disposals	-	17.7
	<b>0.9</b>	<b>18.0</b>
<b>Total current tax charge</b>	<b>0.6</b>	<b>16.4</b>
<b>Deferred tax credit</b>		
On net income before revaluations and disposals	13.5	(2.0)
On revaluations and disposals	(41.1)	32.7
Credit in respect of prior years	(10.7)	(7.3)
Released on disposal of 9 place Vendôme	-	(28.7)
On bond redemption costs	-	(8.5)
Effect of reduction in UK corporation tax rate	-	(3.8)
	<b>(38.3)</b>	<b>(17.6)</b>
<b>Tax credit</b>	<b>(37.7)</b>	<b>(1.2)</b>

#### B. TAX CREDIT RECONCILIATION

	2008 £m	2007 £m
(Loss)/Profit before tax	<b>(1,611.5)</b>	110.4
(Loss)/Profit multiplied by the UK corporation tax rate of 28.5% (2007:30%)	<b>(459.3)</b>	33.1
UK REIT tax exemption on net income before revaluations and disposals	<b>(30.5)</b>	(34.2)
UK REIT tax exemption on revaluations and disposals	<b>388.1</b>	64.4
SIIC tax exemption net of deferred tax provision on SIIC dividends	<b>36.3</b>	(33.4)
UK current year losses not recognised	<b>15.3</b>	-
German revaluation	<b>8.6</b>	(2.0)
Non-deductible derivative losses	<b>7.6</b>	-
Non-deductible and other items	<b>6.7</b>	5.6
Prior year adjustments	<b>(10.5)</b>	(8.9)
Disposal of 9 place Vendôme at low effective tax rate	-	(22.0)
Effect of reduction in UK corporation tax rate	-	(3.8)
<b>Tax credit</b>	<b>(37.7)</b>	<b>(1.2)</b>

#### C. DEFERRED TAX ON ITEMS TAKEN DIRECTLY TO EQUITY

	2008 £m	2007 £m
Deferred tax charge on revaluations	-	1.9
Deferred tax charge on share-based employee remuneration	<b>0.1</b>	1.8
Deferred tax charge on actuarial gains on pension schemes	<b>0.1</b>	1.6
<b>Deferred tax on items taken directly to equity</b>	<b>0.2</b>	<b>5.3</b>

## NOTES TO THE ACCOUNTS *continued*

### 5. TAX *continued*

#### D. CURRENT AND DEFERRED TAX MOVEMENTS

	1 January 2008 £m	Recognised in income £m	Recognised in equity £m	Tax paid £m	Exchange movements £m	31 December 2008 £m
<b>Current tax</b>						
UK REIT entry charge	50.2	-	-	(50.2)	-	-
Other UK tax	40.4	(0.3)	-	(40.1)	-	-
9 place Vendôme disposal	19.0	-	-	(20.6)	1.6	-
Other overseas tax	5.4	0.9	-	(5.3)	0.5	1.5
	115.0	0.6	-	(116.2)	2.1	1.5
<b>Deferred tax</b>						
Dividends receivable from						
France (note 5G)	144.8	(35.0)	-	-	47.1	156.9
Revenue tax losses	(43.9)	(4.7)	-	-	-	(48.6)
Other timing differences	(1.3)	1.4	0.2	-	(0.2)	0.1
	99.6	(38.3)	0.2	-	46.9	108.4
	214.6	(37.7)	0.2	(116.2)	49.0	109.9
<b>Analysed as:</b>						
Current assets:						
Corporation tax	(1.3)					(2.7)
Current liabilities: Tax	113.2					3.8
Non-current liabilities:						
Deferred tax	99.6					108.4
Tax	3.1					0.4
	214.6					109.9

Current tax is reduced by the UK REIT and French SIIC tax exemptions.

UK deferred tax at 31 December 2008 has been calculated at a rate of 28% reflecting the reduction in the UK corporation tax rate from 1 April 2008.

Following a decision of the High Court in January 2008 in favour of HM Revenue & Customs, the Group has paid tax of £37.4 million and interest of £14.6 million relating to capital gains incurred by the Grantchester Group prior to its acquisition by Hammerson. The Group had provided for these liabilities at 31 December 2007. The Group awaits the outcome of the Court of Appeal hearing which took place in December 2008. Should the case be ultimately decided in the Group's favour, the tax and interest paid would be refunded.

#### E. UNRECOGNISED DEFERRED TAX

Deferred tax is not provided on potential gains on investments in subsidiaries and joint ventures when the Group can control whether gains crystallise and it is probable that gains will not arise in the foreseeable future. At 31 December 2008 the total of such gains was £445 million and the potential tax effect £125 million (2007: £1,200 million, potential tax effect £336 million).

If a UK REIT sells a property completed after 1 January 2007 within three years of its completion, the REIT exemption will not apply. At 31 December 2008, the value of such completed developments was £495 million (2007: £nil) and the potential tax charge that would arise if these properties were to be sold was £nil (2007: £nil).

A deferred tax asset of £25.6 million (2007: £17.7 million) is not recognised for carried forward UK tax losses that may not be utilised, because it is uncertain whether appropriate taxable profits will arise.

## NOTES TO THE ACCOUNTS *continued*

### 5. TAX *continued*

#### F. UK REIT STATUS

The Group elected to be treated as a UK REIT with effect from 1 January 2007. The UK REIT rules exempt the profits of the Group's UK property rental business from corporation tax. Gains on UK properties are also exempt from tax, provided they are not held for trading or, for properties completed after 1 January 2007, sold within three years after completion of development. The Group is otherwise subject to UK corporation tax.

As a REIT, Hammerson plc is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income.

On entering the REIT regime, entry tax became payable equal to 2% of the market value of the Group's qualifying UK properties at 31 December 2006. The total entry charge of £100.5 million was paid in quarterly instalments between July 2007 and April 2008.

To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business which are set out in the UK REIT legislation in the Finance Act 2006.

#### G. FRENCH SIIC STATUS

Hammerson plc has been a French SIIC since 1 January 2004 and all the major French properties are covered by the SIIC tax-exempt regime. Income and gains are exempted from French tax but the French subsidiaries are required to distribute a proportion of their profits to Hammerson plc, which will then pay UK dividends to its shareholders. Dividend obligations will arise principally after property disposals but there will be a period of up to four years after a sale before dividends are required to be received in the UK and a further year before dividends must be paid to shareholders.

If all the properties were realised at the 31 December 2008 values, a total of £560 million of dividends would arise (2007: £517 million). Under current UK tax rules, Hammerson plc is taxed in the UK on dividends received from France, subject to available UK tax losses. Deferred tax of £156.9 million (2007: £144.8 million) is provided for the potential UK tax that would arise on realising the French portfolio at value. However, the UK government is proposing to exempt foreign dividends from tax, and if enacted, this should allow virtually all the Group's net deferred tax balance to be released in 2009.

If Hammerson plc was to cease to qualify as a French SIIC before 1 January 2014, tax of approximately £260 million (2007: £74 million) would be payable under a penalty regime which was strengthened in December 2008. To continue to qualify, Hammerson plc must remain listed in France, at least 80% of assets must be employed in property investment and, from 1 January 2010 and with limited temporary exceptions, no shareholder may hold 60% or more of its shares.

### 6. DIVIDENDS

The proposed final dividend of 15.3 pence per share (2007: 15.3 pence per share) was recommended by the Board on 9 February 2009 and, subject to approval by shareholders, is payable on 22 May 2009 to shareholders on the register at the close of business on 20 February 2009. It is intended that 3.8 pence per share will be paid as a PID, net of withholding tax where appropriate, and the remainder of 11.5 pence per share will be paid as a normal dividend. Based on the proposed final dividend, the total dividend for the year ended 31 December 2008 will be 27.9 pence per share (2007: 27.3 pence per share).

The £80.7 million dividend included in the reconciliation of equity on page 25 comprises the 2007 final dividend of £44.2 million, which was paid on 23 May 2008, together with the 2008 interim dividend of £36.5 million. The latter was paid on 30 September 2008 as a PID, and was subject to withholding tax of £5.5 million, which was paid on 14 October 2008. On 14 January 2008, a payment of £6.0 million was made being the withholding tax arising on the 2007 interim dividend, which was also paid as a PID.

## NOTES TO THE ACCOUNTS *continued*

### 7. EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

The European Public Real Estate Association (EPRA) has issued recommended bases for the calculation of certain per share information and these are included in the following tables.

#### A. EARNINGS PER SHARE

The calculations for earnings per share use the weighted average number of shares, which excludes those shares held in the Hammerson Employee Share Ownership Plan (note 21) and the treasury shares (note 22), which are treated as cancelled.

	Earnings £m	Shares million	2008 Pence per share	Earnings £m	Shares million	2007 Pence per share
<b>Basic</b>	<b>(1,572.6)</b>	<b>289.3</b>	<b>(543.6)</b>	101.0	289.1	34.9
Dilutive share options	-	0.4	0.8	-	0.5	-
<b>Diluted</b>	<b>(1,572.6)</b>	<b>289.7</b>	<b>(542.8)</b>	101.0	289.6	34.9
Adjustments:						
Revaluation losses/(gains) on investment properties	1,473.4		508.6	(20.7)		(7.1)
Loss/(Profit) on the sale of investment properties	32.5		11.2	(39.8)		(13.7)
Revaluation losses on development properties	176.5		60.9	25.7		8.9
Change in fair value of derivatives	26.9		9.3	3.8		1.3
Deferred tax credit	(38.3)		(13.2)	(17.6)		(6.1)
Tax on property disposals	-		-	17.7		6.1
Minority interests in respect of the above	(4.0)		(1.4)	8.6		2.9
<b>EPRA</b>	<b>94.4</b>		<b>32.6</b>	<b>78.7</b>		<b>27.2</b>
Bond redemption costs	-		-	28.3		9.8
Provision relating to formerly owned property	-		-	6.0		2.1
Asset impairment	15.9		5.5	3.6		1.2
<b>Adjusted</b>	<b>110.3</b>		<b>38.1</b>	<b>116.6</b>		<b>40.3</b>

#### B. NET ASSET VALUE PER SHARE

	Equity shareholders' funds £m	Shares million	2008 Net asset value per share £	Equity shareholders' funds £m	Shares million	2007 Net asset value per share £
<b>Basic</b>	<b>2,820.6</b>	<b>290.9</b>	<b>9.70</b>	4,354.6	290.6	14.98
Company's own shares held in Employee Share Ownership Plan	-	(0.4)	n/a	-	(0.3)	n/a
Treasury shares	-	(1.0)	n/a	-	(1.5)	n/a
Unexercised share options	4.8	0.6	n/a	6.4	0.8	n/a
<b>Diluted</b>	<b>2,825.4</b>	<b>290.1</b>	<b>9.74</b>	4,361.0	289.6	15.06
Fair value adjustment to borrowings (net of tax)	441.9		1.52	65.7		0.23
<b>EPRA triple net</b>	<b>3,267.3</b>		<b>11.26</b>	<b>4,426.7</b>		<b>15.29</b>
Fair value of derivatives	73.0		0.25	13.2		0.05
Fair value adjustment to borrowings (net of tax)	(441.9)		(1.52)	(65.7)		(0.23)
Deferred tax	108.4		0.37	99.6		0.34
<b>EPRA</b>	<b>3,006.8</b>		<b>10.36</b>	<b>4,473.8</b>		<b>15.45</b>

## NOTES TO THE ACCOUNTS *continued*

### 8. INVESTMENT AND DEVELOPMENT PROPERTIES

	Investment properties		Development properties		Valuation £m	Total Cost £m
	Valuation £m	Cost £m	Valuation £m	Cost £m		
Balance at						
1 January 2008	6,269.2	4,003.8	1,005.8	845.8	<b>7,275.0</b>	<b>4,849.6</b>
Exchange adjustment	639.5	329.3	41.1	39.1	<b>680.6</b>	<b>368.4</b>
Additions:						
- Capital expenditure	71.4	71.4	332.3	332.3	<b>403.7</b>	<b>403.7</b>
- Asset acquisitions	-	-	19.5	19.5	<b>19.5</b>	<b>19.5</b>
	71.4	71.4	351.8	351.8	<b>423.2</b>	<b>423.2</b>
Disposals	(283.6)	(215.1)	-	-	<b>(283.6)</b>	<b>(215.1)</b>
Transfers	805.2	645.9	(805.2)	(645.9)	-	-
Capitalised interest	0.3	0.3	36.0	36.0	<b>36.3</b>	<b>36.3</b>
Revaluation adjustment	(1,473.4)	-	(201.3)	-	<b>(1,674.7)</b>	-
<b>Balance at</b>						
<b>31 December 2008</b>	<b>6,028.6</b>	<b>4,835.6</b>	<b>428.2</b>	<b>626.8</b>	<b>6,456.8</b>	<b>5,462.4</b>

	Investment properties		Development properties		Valuation £m	Total Cost £m
	Valuation £m	Cost £m	Valuation £m	Cost £m		
Balance at						
1 January 2007	6,181.2	3,820.5	534.8	423.3	6,716.0	4,243.8
Exchange adjustment	156.8	91.9	2.5	1.6	159.3	93.5
Additions:						
- Capital expenditure	44.1	44.1	379.7	379.7	423.8	423.8
- Asset acquisitions	357.1	357.1	15.3	15.3	372.4	372.4
	401.2	401.2	395.0	395.0	796.2	796.2
Disposals	(490.7)	(309.8)	(3.4)	(1.7)	(494.1)	(311.5)
Capitalised interest	-	-	27.6	27.6	27.6	27.6
Revaluation adjustment	20.7	-	49.3	-	70.0	-
<b>Balance at</b>						
<b>31 December 2007</b>	<b>6,269.2</b>	<b>4,003.8</b>	<b>1,005.8</b>	<b>845.8</b>	<b>7,275.0</b>	<b>4,849.6</b>

Properties are stated at market value as at 31 December 2008, valued by professionally qualified external valuers. In the United Kingdom, the Group's properties were valued by DTZ Debenham Tie Leung, Chartered Surveyors. In France and Germany, the Group's properties were valued by Cushman & Wakefield, Chartered Surveyors. The valuations have been prepared in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors (the Standards) and with IVA 1 of the International Valuation Standards. In their valuation reports, the valuers have noted, in accordance with Guidance Note 5 of the Standards, that the primary source of evidence for valuations should be recent, comparable market transactions on arms length terms. The current economic environment means that there have been few transactions for the types of property owned by Hammerson. Consequently, there is a greater degree of uncertainty in respect of the figures reported by our valuers. Until the number and consistency of comparable transactions increases, this situation is likely to remain. Further discussion of this issue is set out in 'Principal risks and uncertainties' on page 7.

Valuation fees are based on a fixed amount agreed between the Group and the valuers and are independent of the portfolio value. Summaries of the valuers' reports are available on the Company's website [www.hammerson.com](http://www.hammerson.com).

At 31 December 2008 the total amount of interest included in development properties was £22.0 million (2007: £39.8 million), calculated using the Group's average cost of borrowings.

## NOTES TO THE ACCOUNTS *continued*

### 8. INVESTMENT AND DEVELOPMENT PROPERTIES *continued*

In April, the remaining 50% interest in Parc Tawe Unit Trust was acquired for consideration which comprised the Group's Exeter properties, the assumption of debt and cash balances and a balancing cash receipt. This transaction has been accounted for as a property acquisition as the entity acquired held no significant assets or liabilities other than the property.

	2008 £m	2007 £m
Capital commitments	159.5	419.7

At 31 December 2008, Hammerson's share of the capital commitments in respect of joint ventures, which is included in the table above, was £43.2 million (2007: £155.9 million).

### 9. PLANT, EQUIPMENT AND OWNER-OCCUPIED PROPERTY

	Owner-occupied property £m	Plant and equipment £m	Total £m
<b>Book value at 31 December 2008</b>	<b>29.0</b>	<b>9.5</b>	<b>38.5</b>
Book value at 31 December 2007	34.9	8.2	43.1

### 10. JOINT VENTURES

As at 31 December 2008 certain property and corporate interests, being jointly controlled entities, have been proportionately consolidated, and the significant interests are set out in the following table:

	Group share %
<b>Investments</b>	
Brent Cross Shopping Centre	41.2
Brent South Retail Park	40.6
Bristol Alliance Limited Partnership	50
Cricklewood Regeneration Limited	50
Queensgate Limited Partnership	50
The Bull Ring Limited Partnership	33.33
The Grosvenor Street Limited Partnership	50
The Martineau Galleries Limited Partnership	33.33
The Oracle Limited Partnership	50
The Highcross Limited Partnership (formerly The Shires Limited Partnership)	60
The West Quay Limited Partnership	50
125 OBS Limited Partnership	50
<b>Developments</b>	
Bishopsgate Goodsynd Regeneration Limited	50
Paddington Triangle	50
Wensum Developments Limited	50

In September 2008, The Moor House Limited Partnership, in which the Group has a 66.67% interest, disposed of its sole property, Moorhouse. The following summarised income statements and balance sheets show the proportion of the Group's results, assets and liabilities which are derived from its joint ventures:

## NOTES TO THE ACCOUNTS *continued*

### 10. JOINT VENTURES *continued*

#### INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Brent Cross* £m	Bristol Alliance Limited Partnership £m	Bull Ring Limited Partnership £m	Moor House Limited Partnership# £m	Oracle Limited Partnership £m	Queensgate Limited Partnership £m	Highcross Limited Partnership £m	West Quay Limited Partnership £m	Other £m	Total 2008 £m
<b>Net rental income</b>	18.1	5.1	13.2	6.9	12.0	8.7	9.2	12.5	4.8	<b>90.5</b>
Administration expenses	-	(0.1)	(0.1)	(0.1)	-	(0.2)	-	-	(0.2)	<b>(0.7)</b>
<b>Operating profit before other net losses</b>	18.1	5.0	13.1	6.8	12.0	8.5	9.2	12.5	4.6	<b>89.8</b>
Other net losses	(115.6)	(61.7)	(82.5)	(34.4)	(55.3)	(45.6)	(106.7)	(69.4)	(52.5)	<b>(623.7)</b>
Net finance costs	0.1	-	0.1	(0.1)	0.1	0.2	0.1	(0.1)	(3.7)	<b>(3.3)</b>
<b>Loss before tax</b>	<b>(97.4)</b>	<b>(56.7)</b>	<b>(69.3)</b>	<b>(27.7)</b>	<b>(43.2)</b>	<b>(36.9)</b>	<b>(97.4)</b>	<b>(57.0)</b>	<b>(51.6)</b>	<b>(537.2)</b>

#### BALANCE SHEETS AS AT 31 DECEMBER 2008

	Brent Cross* £m	Bristol Alliance Limited Partnership £m	Bull Ring Limited Partnership £m	Oracle Limited Partnership £m	Queensgate Limited Partnership £m	Highcross Limited Partnership £m	West Quay Limited Partnership £m	Other £m	Total 2008 £m
<b>Non-current assets</b>									
Investment and development properties at valuation	321.5	284.4	230.0	219.5	124.5	279.2	211.6	194.0	<b>1,864.7</b>
Interests in leasehold properties	-	7.3	-	-	-	-	2.1	0.5	<b>9.9</b>
	321.5	291.7	230.0	219.5	124.5	279.2	213.7	194.5	<b>1,874.6</b>
<b>Current assets</b>									
Other current assets	6.6	2.5	1.3	1.0	3.3	2.1	1.4	3.5	<b>21.7</b>
Cash and deposits	1.6	3.8	3.8	2.8	2.9	2.4	3.4	10.5	<b>31.2</b>
	8.2	6.3	5.1	3.8	6.2	4.5	4.8	14.0	<b>52.9</b>
<b>Current liabilities</b>									
Other liabilities	(12.5)	(7.9)	(4.0)	(3.4)	(2.7)	(4.1)	(3.9)	(6.3)	<b>(44.8)</b>
	(12.5)	(7.9)	(4.0)	(3.4)	(2.7)	(4.1)	(3.9)	(6.3)	<b>(44.8)</b>
<b>Non-current liabilities</b>									
Borrowings	-	-	-	-	-	-	-	(57.2)	<b>(57.2)</b>
Other liabilities	-	(7.3)	-	-	-	-	(2.2)	(3.3)	<b>(12.8)</b>
	-	(7.3)	-	-	-	-	(2.2)	(60.5)	<b>(70.0)</b>
<b>Net assets</b>	<b>317.2</b>	<b>282.8</b>	<b>231.1</b>	<b>219.9</b>	<b>128.0</b>	<b>279.6</b>	<b>212.4</b>	<b>141.7</b>	<b>1,812.7</b>

Other than as shown above, the joint ventures are funded by the Company and the relevant partners. 'Other net losses' principally represent valuation changes on investment properties.

\* Includes Brent Cross Shopping Centre and Brent South Retail Park.

# Reflects the Group's disposal of its 66.67% interest in Moorhouse in September 2008.

## NOTES TO THE ACCOUNTS *continued*

### 10. JOINT VENTURES *continued*

#### INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Brent Cross* £m	Bristol Alliance Limited Partnership £m	Bull Ring Limited Partnership £m	Moor House Limited Partnership £m	Oracle Limited Partnership £m	Queensgate Limited Partnership £m	Shires Limited Partnership £m	West Quay Limited Partnership+ £m	Other £m	Total 2007 £m
<b>Net rental income</b>	18.4	3.5	13.0	8.8	12.4	8.3	7.3	6.2	9.3	87.2
Administration expenses	-	(0.1)	-	(0.2)	-	(0.2)	-	-	(0.1)	(0.6)
<b>Operating profit before other net losses</b>	18.4	3.4	13.0	8.6	12.4	8.1	7.3	6.2	9.2	86.6
Other net losses	(6.5)	(3.6)	(4.3)	(21.8)	(9.6)	(10.6)	(0.2)	(19.8)	(9.4)	(85.8)
Net finance costs	-	0.3	0.1	(1.9)	0.1	0.2	0.2	(0.2)	(2.1)	(3.3)
<b>(Loss)/Profit before tax</b>	11.9	0.1	8.8	(15.1)	2.9	(2.3)	7.3	(13.8)	(2.3)	(2.5)

#### BALANCE SHEETS AS AT 31 DECEMBER 2007

	Brent Cross* £m	Bristol Alliance Limited Partnership £m	Bull Ring Limited Partnership £m	Moor House Limited Partnership £m	Oracle Limited Partnership £m	Queensgate Limited Partnership £m	Shires Limited Partnership £m	West Quay Limited Partnership+ £m	Other £m	Total 2007 £m
<b>Non-current assets</b>										
Investment and development properties at valuation	435.3	262.8	312.9	186.7	275.2	169.7	322.4	280.2	325.1	2,570.3
Interests in leasehold properties	-	0.3	-	1.9	-	-	-	2.1	10.0	14.3
	435.3	263.1	312.9	188.6	275.2	169.7	322.4	282.3	335.1	2,584.6
<b>Current assets</b>										
Other current assets	12.4	5.9	4.3	2.2	4.6	1.9	5.0	4.5	4.2	45.0
Cash and deposits	-	1.0	0.6	-	1.2	3.8	0.7	1.3	9.1	17.7
	12.4	6.9	4.9	2.2	5.8	5.7	5.7	5.8	13.3	62.7
<b>Current liabilities</b>										
Other liabilities	(8.8)	(13.0)	(4.4)	(2.2)	(3.3)	(3.2)	(6.8)	(3.5)	(7.4)	(52.6)
	(8.8)	(13.0)	(4.4)	(2.2)	(3.3)	(3.2)	(6.8)	(3.5)	(7.4)	(52.6)
<b>Non-current liabilities</b>										
Borrowings	-	-	-	-	-	-	-	-	(54.1)	(54.1)
Other liabilities	-	(0.3)	-	(2.2)	-	-	-	(2.1)	(10.0)	(14.6)
	-	(0.3)	-	(2.2)	-	-	-	(2.1)	(64.1)	(68.7)
<b>Net assets</b>	438.9	256.7	313.4	186.4	277.7	172.2	321.3	282.5	276.9	2,526.0

Other than as shown above, the joint ventures are funded by the Company and the relevant partners. 'Other net losses' principally represent valuation changes on investment properties.

\* Includes Brent Cross Shopping Centre and Brent South Retail Park.

+ Reflects the Group's disposal of a 50% interest in WestQuay Shopping Centre in July 2007.

## NOTES TO THE ACCOUNTS *continued*

### 11. INVESTMENTS

	2008	2007
	£m	£m
<b>Available for sale investments</b>		
Value Retail Investors Limited Partnerships	52.5	41.2
Investments in Value Retail plc and related companies	58.3	38.0
Other investments	1.3	0.9
	<b>112.1</b>	<b>80.1</b>

### 12. RECEIVABLES: NON-CURRENT ASSETS

	2008	2007
	£m	£m
Loans receivable	15.5	11.7
Other receivables	2.4	1.2
Fair value of interest rate swaps	1.8	-
	<b>19.7</b>	<b>12.9</b>

Loans receivable of £15.5 million (2007: £11.7 million) comprised a loan of €16.0 million to Value Retail plc bearing interest based on EURIBOR and maturing on 22 August 2010.

### 13. RECEIVABLES: CURRENT ASSETS

	2008	2007
	£m	£m
Trade receivables	48.1	75.9
Other receivables	69.4	65.9
Corporation tax	2.7	1.3
Prepayments	3.4	9.2
	<b>123.6</b>	<b>152.3</b>

### 14. CASH AND DEPOSITS

	2008	2007
	£m	£m
Cash at bank	79.4	17.7
Short-term deposits	40.5	10.9
	<b>119.9</b>	<b>28.6</b>
<b>Currency profile</b>		
Sterling	58.3	20.7
Euro	61.6	7.9
	<b>119.9</b>	<b>28.6</b>

### 15. PAYABLES: CURRENT LIABILITIES

	2008	2007
	£m	£m
Trade payables	92.3	60.6
Other payables	178.2	300.3
Accruals	26.0	19.7
Fair value of interest rate swaps	-	6.4
	<b>296.5</b>	<b>387.0</b>

## NOTES TO THE ACCOUNTS *continued*

### 16. BORROWINGS

#### A. MATURITY

	Bank loans and overdrafts £m	Other borrowings £m	2008 Total £m	2007 Total £m
After five years	-	1,714.0	1,714.0	1,550.2
From two to five years	1,634.3	-	1,634.3	552.0
From one to two years	71.8	-	71.8	15.5
Due after more than one year	1,706.1	1,714.0	3,420.1	2,117.7
Due within one year	(0.8)	33.3	32.5	406.5
	1,705.3	1,747.3	3,452.6	2,524.2

At 31 December 2007 and 2008 there were no borrowings due after five years repayable by instalments.

#### B. ANALYSIS

	2008 £m	2007 £m
<b>Unsecured</b>		
£200 million 7.25% Sterling bonds due 2028	197.6	197.6
£300 million 6% Sterling bonds due 2026	296.7	296.6
£250 million 6.875% Sterling bonds due 2020	247.3	247.1
£300 million 5.25% Sterling bonds due 2016	297.5	297.2
€700 million 4.875% Euro bonds due 2015	674.9	511.7
€500 million 6.25% Euro bonds due 2008	-	366.8
£26 million variable rate loan notes due 2008	-	26.0
Bank loans and overdrafts	1,255.5	520.3
	2,969.5	2,463.3
Fair value of currency swaps	33.3	6.8
	3,002.8	2,470.1
<b>Secured</b>		
Sterling variable rate mortgage due 2013	392.6	-
Sterling variable rate mortgage due 2010	57.2	38.6
Sterling variable rate mortgage due 2009	-	15.5
	449.8	54.1
	3,452.6	2,524.2

Security for secured borrowings as at 31 December 2008 is provided by charges on property with a carrying value of £598 million. The loan is secured by a first legal charge on the respective properties.

#### C. UNDRAWN COMMITTED FACILITIES

	2008 £m	2007 £m
Expiring within one year	200.0	-
Expiring between one and two years	117.5	-
Expiring after more than two years	50.0	561.0
	367.5	561.0

## NOTES TO THE ACCOUNTS *continued*

### 16. BORROWINGS *continued*

#### D. INTEREST RATE AND CURRENCY PROFILE

	Fixed rate borrowings		Variable rate borrowings		2008
	%	Years	£m	£m	Total £m
Sterling	5.85	10	1,583.3	258.8	1,842.1
Euro	4.88	6	674.9	935.6	1,610.5
	5.56	9	2,258.2	1,194.4	3,452.6

	Fixed rate borrowings		Variable rate borrowings		2007
	%	Years	£m	£m	Total £m
Sterling	6.58	14	782.9	621.0	1,403.9
Euro	5.45	5	878.5	241.8	1,120.3
	5.98	10	1,661.4	862.8	2,524.2

#### E. RATES AT WHICH INTEREST IS CHARGED ON BORROWINGS DUE AFTER MORE THAN ONE YEAR

	2008 £m	2007 £m
Up to 7%	2,060.6	1,397.0
7% to 10%	197.6	197.6
	2,258.2	1,594.6
Variable rates	1,161.9	523.1
	3,420.1	2,117.7

Variable rate borrowings bear interest based on LIBOR, with the exception of certain euro borrowings whose interest costs are linked to EURIBOR. The analysis in notes 16D and 16E above reflects the effect of currency and interest rate swaps in place at 31 December 2007 and 2008.

#### 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of borrowings, with their carrying amounts included in the balance sheet, are as follows:

	2008		2007	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Current borrowings	0.2	0.2	399.9	402.1
Non-current borrowings	3,438.4	2,824.6	2,133.5	2,040.0
Unamortised borrowing costs	(19.3)	(19.3)	(16.0)	(16.0)
Currency swaps	33.3	33.3	6.8	6.8
<b>Total borrowings</b>	<b>3,452.6</b>	<b>2,838.8</b>	<b>2,524.2</b>	<b>2,432.9</b>
<b>Interest rate swaps</b>	<b>39.7</b>	<b>39.7</b>	<b>6.4</b>	<b>6.4</b>

At 31 December 2008, the book value of financial liabilities exceeded their fair value by £613.8 million (2007: £91.3 million), equivalent to 212 pence per share (2007: 32 pence per share) on an adjusted net asset value per share basis. On a post-tax basis, the difference was equivalent to 152 pence per share (2007: 23 pence per share).

#### 18. PAYABLES: NON-CURRENT LIABILITIES

	2008 £m	2007 £m
Net pension liability	9.6	4.8
Other payables	42.0	29.3
Fair value of interest rate swaps	41.5	-
	93.1	34.1

## NOTES TO THE ACCOUNTS *continued*

### 19. SHARE CAPITAL

	2008 £m	Authorised 2007 £m	Called up, allotted and fully paid 2008 £m	2007 £m
<b>Ordinary shares of 25p each</b>	<b>94.8</b>	94.8	<b>72.7</b>	72.6
				<b>Number</b>
<b>Movements in issued share capital</b>				
Number of shares in issue at 1 January 2008				290,583,916
Issued in respect of property acquisition				115,266
Share options exercised				135,822
- Share option schemes				19,835
- Save As You Earn				
<b>Number of shares in issue at 31 December 2008</b>				<b>290,854,839</b>

The number of shares in issue at the balance sheet date included 1,000,000 shares held in treasury (2007: 1,450,000), see note 22.

### 20. EQUITY

	Share premium £m	Translation reserve £m	Hedging reserve £m	Capital redemption reserve £m
Balance at 1 January 2008	740.0	86.0	(71.4)	7.2
Exchange adjustment	-	621.6	-	-
Net loss on hedging activities	-	-	(508.7)	-
Premium on issue of shares	2.2	-	-	-
<b>Balance at 31 December 2008</b>	<b>742.2</b>	<b>707.6</b>	<b>(580.1)</b>	<b>7.2</b>
	Other reserves £m	Revaluation reserve £m	Retained earnings £m	Minority interests £m
Balance at 1 January 2008				
- as previously reported	10.6	156.3	3,373.9	70.4
- reclassification *	-	82.4	(82.4)	-
Balance at 1 January 2008 as restated	10.6	238.7	3,291.5	70.4
Exchange adjustment	-	-	-	22.9
Share-based employee remuneration	4.6	-	-	-
Cost of shares awarded to employees	(4.5)	-	-	-
Transfer on award of own shares to employees	0.8	-	(0.8)	-
Revaluation losses on development properties	-	(24.8)	-	-
Revaluation losses on owner-occupied property	-	(5.9)	-	-
Revaluation gains on investments	-	29.9	-	-
Transfer of revaluation on completion of development properties	-	(141.8)	141.8	-
Transfer of deferred tax on completed properties	-	3.9	(3.9)	-
Actuarial gains on pension schemes	-	-	0.4	-
Proceeds on award of own shares to employees	-	-	0.1	-
Dividends	-	-	(80.7)	(2.8)
Deferred tax on items taken directly to equity	-	-	(0.2)	-
Loss for the year attributable to equity shareholders	-	-	(1,572.6)	(1.2)
<b>Balance at 31 December 2008</b>	<b>11.5</b>	<b>100.0</b>	<b>1,775.6</b>	<b>89.3</b>

\* An amount in respect of deferred tax on properties that were transferred from development to investment properties in prior years has now been reclassified from the revaluation reserve to retained earnings, to match previously transferred amounts in respect of the revaluation of those properties.

## NOTES TO THE ACCOUNTS *continued*

### 21. INVESTMENT IN OWN SHARES

<b>At cost</b>	<b>2008 £m</b>	<b>2007 £m</b>
Balance at 1 January	3.8	7.0
Transfer from treasury shares	5.2	-
Cost of shares awarded to employees	(4.5)	(3.2)
<b>Balance at 31 December</b>	<b>4.5</b>	<b>3.8</b>

### 22. TREASURY SHARES

<b>At cost</b>	<b>2008 £m</b>	<b>2007 £m</b>
Balance at 1 January	16.8	-
Purchase of treasury shares	-	16.8
Transfer to investment in own shares	(5.2)	-
<b>Balance at 31 December</b>	<b>11.6</b>	<b>16.8</b>

### 23. ADJUSTMENT FOR NON-CASH ITEMS IN THE CASH FLOW STATEMENT

	Notes	<b>2008 £m</b>	<b>2007 £m</b>
Amortisation of lease incentives and other costs		3.1	1.3
Increase in accrued rents receivable		(4.1)	(18.2)
Non-cash items included within net rental income	3A	(1.0)	(16.9)
Depreciation		1.3	1.2
Share-based employee remuneration		4.6	5.2
Exchange and other items		13.6	(18.8)
		<b>18.5</b>	<b>(29.3)</b>

### 24. CONTINGENT LIABILITIES

There are contingent liabilities of £4.1 million (2007: £28.7 million) relating to guarantees given by the Group and a further £27.8 million (2007: £27.3 million) relating to claims against the Group arising in the normal course of business. Hammerson's share of contingent liabilities arising within joint ventures, which is included in the figures shown above, is £16.9 million (2007: £4.0 million).

## OTHER INFORMATION

### DIRECTORS

**John Nelson\*** FCA, Chairman

**John Richards** BSc, FRICS, Chief Executive

**David Atkins** BSc, MRICS

**John Clare\*** CBE, BSc, Senior Independent Director

**Peter Cole** BSc, MRICS

**David Edmonds\*** CBE, BA, D.Litt

**Jacques Espinasse\*** BBA, MBA

**John Hirst\*** BA, FCA, ACT, CCMI

**Simon Melliss** BA, FCA

**Tony Watson\*** CBE, BSc (Econ), Barrister at Law, ASIP, FSI (Hon)

\*Non-Executive Director

### SECRETARY

**Stuart Haydon** FCIS

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### WEBSITE

The 2008 Annual Report and other information is available on the Company's website, [www.hammerson.com](http://www.hammerson.com). The Company operates a service whereby all registered users can choose to receive, via e-mail, notice of all Company announcements which can be viewed on the website.

### UK REIT TAXATION

As a UK REIT, Hammerson plc is exempted from corporation tax on rental income and gains on UK investment properties but is required to pay Property Income Distributions (PIDs). UK shareholders will be taxed on PIDs received at their full marginal tax rates. A REIT may in addition pay normal dividends and Hammerson currently expects that its interim dividends will be paid entirely as PIDs while its final dividends will have both a PID and a normal dividend element.

For most shareholders, PIDs will be paid after deducting withholding tax at the basic rate. However, certain categories of shareholder are entitled to receive PIDs without withholding tax, principally UK resident companies, UK public bodies, UK pension funds and managers of ISAs, PEPs and Child Trust Funds. Hammerson's website includes a form to be used by shareholders to certify if they qualify to receive PIDs without withholding tax. Further information on UK REITs is available on the Company's website.

### FINANCIAL CALENDAR

Full year results announced		9 February 2009
General Meeting in respect of the rights issue		25 February 2009
Annual General Meeting		30 April 2009
Recommended final dividend	- Ex-dividend date	18 February 2009
	- Record date	20 February 2009
	- Payable on	22 May 2009
Anticipated 2009 interim dividend		September 2009

## GLOSSARY OF TERMS

<b>Adjusted figures (per share)</b>	Reported amounts adjusted to exclude certain items as set out in note 7 to the accounts. EPRA NAV is sometimes described as 'adjusted NAV'.
<b>Anchor store</b>	A major store, usually a department, variety or DIY store or supermarket, occupying a large unit within a shopping centre or retail park, which serves as a draw to other retailers and consumers.
<b>Average cost of borrowing</b>	The cost of finance expressed as a percentage of the weighted average of borrowings during the period.
<b>Capital return</b>	The change in value during the period for properties held at the balance sheet date, after taking account of capital expenditure and exchange translation movements, calculated on a monthly time-weighted basis.
<b>Dividend cover</b>	Adjusted earnings per share divided by dividend per share.
<b>DTR</b>	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
<b>Earnings per share (EPS)</b>	Profit for the period attributable to equity shareholders divided by the average number of shares in issue during the period.
<b>EPRA</b>	European Public Real Estate Association. This organisation has issued recommended bases for the calculation of earnings per share and net asset value per share.
<b>ERV</b>	The estimated market rental value of the total lettable space in a property, after deducting head and equity rents, calculated by the Group's valuers.
<b>Gearing</b>	Net debt expressed as a percentage of equity shareholders' funds.
<b>Gross property value</b>	Property value before deduction of purchaser's costs, as provided by the Group's valuers.
<b>Gross rental income</b>	Income from rents, car parks and commercial income.
<b>IAS</b>	International Accounting Standard.
<b>IFRS</b>	International Financial Reporting Standard.
<b>Initial yield</b>	Annual cash rents receivable, net of head and equity rents and the cost of vacancy, 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.
<b>Interest cover</b>	Net rental income divided by net cost of finance before capitalised interest, the change in fair value of derivatives and bond redemption costs.
<b>Interest rate or currency swap (or derivative)</b>	An agreement with another party to exchange an interest or currency rate obligation for a pre-determined period of time.
<b>IPD</b>	Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
<b>Like-for-like / underlying net rental income</b>	The percentage change in net rental income for completed investment properties owned throughout both current and prior periods, after taking account of exchange translation movements.
<b>Net asset value per share (NAV)</b>	Equity shareholders' funds divided by the number of shares in issue at the balance sheet date.
<b>Net rental income</b>	Income from rents, car parks and commercial income, after deducting head and equity rents payable, and other property related costs.
<b>Over-rented</b>	The amount by which the ERV falls short of rents passing, together with the estimated rental value of vacant space.

## **GLOSSARY OF TERMS** *continued*

<b>Pre-let</b>	A lease signed with a tenant prior to the completion of a development.
<b>Property Income Distribution (PID)</b>	A dividend, generally subject to withholding tax, that a UK REIT is required to pay from its tax-exempted property rental business and which is taxable for UK-resident shareholders at their marginal tax rate.
<b>REIT</b>	Real Estate Investment Trust. A tax regime which in the UK exempts participants from corporation tax both on UK rental income and gains arising on UK investment property sales, subject to certain requirements.
<b>Rents passing or passing rents</b>	The annual rental income receivable from an investment property, after any rent-free periods and after deducting head and equity rents. This may be more or less than the ERV (see over-rented and reversionary or under-rented).
<b>Return on shareholders' equity (ROE)</b>	Capital growth and profit for the year expressed as a percentage of equity shareholders' funds at the beginning of the year, all excluding deferred tax and certain non-recurring items.
<b>Reversionary or under-rented</b>	The amount by which the ERV exceeds the rents passing, together with the estimated rental value of vacant space.
<b>SIIC</b>	Sociétés d'Investissements Immobiliers Côtées. A French tax-exempt regime available to property companies listed in France.
<b>Total development cost</b>	All capital expenditure on a development project, including capitalised interest.
<b>Total return</b>	Net rental income and capital return expressed as a percentage of the opening book value of property adjusted for capital expenditure and exchange translation movements, calculated on a monthly time-weighted basis.
<b>True equivalent yield</b>	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.
<b>Vacancy rate</b>	The ERV of the area in a property, or portfolio, excluding developments, which is currently available for letting, expressed as a percentage of the total ERV of the property or portfolio.

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