



“The measures we took during the year have enabled us to emerge in good shape from some very difficult conditions.”

Martin Greenslade Finance Director

Following a period of exceptional turbulence in the global economy, 2009/10 saw the return of positive financial dynamics in our market and a robust performance from the Group. Profit before tax was £1,069.3m, compared to a loss of £4,773.2m for the previous 12 months.

In my Financial Review last year I indicated that revenue profit, our measure of underlying profit before tax, would fall in 2009/10 as a result of the economic environment and the impact of the sales required to maintain our liquidity and sound capital base. We saw the effect of these factors during the year, with revenue profit down by 20.0%, from £314.9m to £251.8m.

Asset sales have an adverse effect on revenue profit, but our disposals during the year served to enhance the balance sheet. Our Security Group's AA rating was reaffirmed and we were able to extend £650m of bank facilities to 2014. This meant we ended the year in an excellent position from which to address opportunities as our market evolves.

While revenue profit was down, the value of our assets grew by 10.3%. Our gearing amplified the valuation gains, with adjusted diluted net assets per share up by 16.5%, from 593p to 691p.

Looking into 2010/11, we expect revenue profit to be adversely affected by the full year effect of the sales we made in 2009/10, together with some lease expiries on properties we are preparing for redevelopment. On the other hand, we see good opportunities to grow income through letting up developments and voids in our existing portfolio, while reducing void-related costs. We will also obtain some benefit from acquisitions made early in 2010/11.

The measures we took during the year have enabled us to emerge in good shape from some very difficult conditions. Over the following pages we set out a detailed review which shows how the combination of market conditions and our actions have translated into hard facts and figures. You will see that we now have the financial strength to compete and succeed as changing conditions bring opportunities to drive revenue profit growth in the medium term.

Martin Greenslade
Finance Director

Headline results

The Group's profit before tax for the year ended 31 March 2010 was £1,069.3m, compared to a loss of £4,773.2m for the previous year. Revenue profit, our measure of underlying profit before tax, reduced by 20.0% from £314.9m to £251.8m.

Basic earnings per share was 144.04p compared to a loss per share of 918.04p last year. Adjusted diluted earnings per share was 34.08p (2009: 62.57p), down 45.5% on the comparable period.

The combined investment portfolio (including joint ventures) was valued at 31 March 2010 at £9.54bn which included a valuation surplus of £863.8m or 10.3% over the year. Net assets per share increased by 111p (17.4%) from 639p at the end of March 2009 to 750p in March 2010, with adjusted diluted net assets per share increasing by 16.5% from 593p at March 2009 to 691p.

Profit before tax

The largest driver behind the improvement in the profit before tax was the valuation surplus on our combined investment portfolio (including joint ventures) of £863.8m (2009: £4,743.7m deficit). The market value of our properties increased by 10.3% (2009: 34.2% decline). London property values have been favourably impacted by significant interest from global investors and, although letting conditions in the retail sector remained challenging, our retail assets performed well, particularly in the second half of the year.

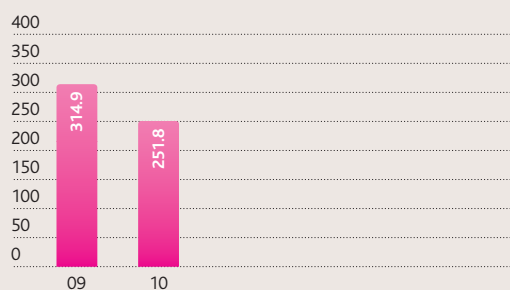
Revenue profit

Revenue profit is our measure of the underlying pre-tax profit of the Group, which we use internally to assess our income performance. It includes the pre-tax results of our joint ventures but excludes capital and other one-off items.

[Table 17](#) shows the composition of our revenue profit including the contributions from London and Retail.

Chart 16

Revenue profit (£m)

£251.8m  **20%****Table 17****Revenue profit**

	Retail Portfolio £m	London Portfolio £m	31 March 2010 £m	Retail Portfolio £m	London Portfolio £m	31 March 2009 £m
Gross rental income*	312.9	312.3	625.2	362.9	348.2	711.1
Net service charge expense	(2.5)	(4.4)	(6.9)	(4.9)	(6.3)	(11.2)
Direct property expenditure (net)	(31.2)	(19.6)	(50.8)	(39.5)	(15.3)	(54.8)
Net rental income	279.2	288.3	567.5	318.5	326.6	645.1
Indirect costs	(24.9)	(20.8)	(45.7)	(27.1)	(25.0)	(52.1)
Segment profit before interest	254.3	267.5	521.8	291.4	301.6	593.0
Unallocated expenses (net)			(35.7)			(33.4)
Net interest – Group			(201.7)			(218.0)
Net interest – joint ventures			(32.6)			(26.7)
Revenue profit			251.8			314.9

*Includes finance lease interest, net of ground rents payable.

Revenue profit declined from £314.9m last year to £251.8m mainly due to a 12% decline in net rental income. In total, net rental income was £77.6m lower than last year, with £68.6m of the decline due to the sale of investment properties. Significant disposals during the year included Portman House, W1; One Wood Street, EC2; 40/50 Eastbourne Terrace, W2; Bullring, Birmingham; Fremlin Walk, Maidstone and 50% of Princesshay, Exeter. Net rental income from the like-for-like portfolio declined by £19.6m, largely due to the failure of a number of retailers and a £3.0m decline in turnover rents from our Accor hotel properties. Compared to last year, developments added £12.4m with the increase coming from our schemes in Bristol, Cardiff and Livingston.

Earnings per share

Basic earnings per share was 144.04p, compared to a loss per share from continuing operations of 918.04p last year, the improvement being predominantly due to the valuation surplus on the investment property portfolio (98.7p per share compared to a loss last year of 791.7p per share).

In the same way that we adjust profit before tax to remove capital and one-off items to give revenue profit, we also report an adjusted earnings per share figure. Adjusted diluted earnings per share from continuing activities reduced by 45.5% from 62.57p last year to 34.08p per share this year. This was largely due to the reduction in revenue profit and the full year impact of the additional shares following the Rights Issue last year.

Property Income Distribution (PID)

Who can claim exemption from deduction of withholding tax on Property Income Distributions?¹

- UK companies
- Charities
- Local Authorities
- UK Pension Schemes
- Managers of PEPs, ISAs and Child Trust Funds

Who is unlikely to be able to claim exemption from deduction of withholding tax on Property Income Distributions?²

- Overseas shareholders²
- Individual private shareholders

1. See Investor information [p145–147](#) for how eligible shareholders can claim exemption.
2. May be able to reclaim some or all of the withholding tax under relevant double taxation treaty.

Total dividend

We are recommending a final dividend payment of 7.0p per share. Taken together with the three quarterly dividends of 7.0p, our full year dividend will be 28.0p per share (2009: 51.7p) or £212.2m (2009: £283.3m). This is in line with guidance given at the time of our Rights Issue and in our 2009 Annual Report.

During the year we introduced a scrip dividend scheme, which provides shareholders with the option to receive their dividend in shares as opposed to cash. The take up for the dividend paid on 15 January 2010 was 33%, resulting in a cash saving of £17.6m, while the scrip dividend take up for the third quarterly dividend paid on 1 April 2010 was 41%. Following the implementation of the scrip alternative, our Dividend Reinvestment Plan (DRIP) was suspended. A scrip alternative will be offered for the final dividend payment on 30 July 2010. Shareholders who wish to participate but have not yet completed a Mandate Form should download this form from our corporate website and send the completed form to our Registrars, Equiniti. Mandate Forms must be received by Equiniti at least 15 working days before the relevant dividend payment date to be eligible for that particular dividend. The calculation price for the scrip dividend alternative in respect of the final dividend payable on 30 July 2010 will be announced on 30 June 2010 and will be based upon the share price on 23, 24, 25, 28 and 29 June 2010.

All of the dividends paid and payable in respect of the financial year ended 31 March 2010, comprise Property Income Distributions (PID) from REIT qualifying activities to the extent that these dividends are paid in cash. PIDs are subject to 20% withholding tax for relevant shareholders. Scrip dividends are not treated as qualifying towards the Group PID requirement and are not subject to 20% withholding tax.

Net assets

At 31 March 2010, our net assets per share were 750p, an increase of 111p compared to the year ended 31 March 2009. The increase in our net assets was primarily driven by the increase in value of our investment property portfolio.

In common with other property companies, we calculate an adjusted measure of net assets which we believe better reflects the underlying net assets attributable to shareholders. Our adjusted net assets are lower than our reported net assets primarily due to an adjustment to our debt. Under IFRS we do not show our debt at its nominal value, although we believe it would be more appropriate to do so, and we therefore adjust our net assets accordingly. At 31 March 2010, adjusted diluted net assets per share were 691p per share, an increase of 98p or 16.5% from 31 March 2009.

[Table 18](#) summarises the main differences between net assets and our adjusted measure of net assets together with the key movements over the year.

Table 18

Net assets

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Net assets at the beginning of the year	4,823.5	9,582.9
Adjusted earnings	257.8	325.0
Valuation surplus/(deficits) on investment properties	863.8	(4,743.7)
Impairment of development land and infrastructure	(13.5)	(104.3)
Losses on investment property disposals	(24.5)	(127.9)
Other	5.3	(119.5)
Profit/(loss) after tax attributable to owners of the Parent	1,088.9	(4,770.4)
Loss on discontinued operations	–	(420.9)
Dividends paid	(217.9)	(302.4)
Rights Issue	–	755.7
Other reserve movements	(4.6)	(21.4)
Net assets at the end of the year	5,689.9	4,823.5
Mark-to-market on interest-rate swaps	37.3	150.2
Debt adjusted to nominal value	(486.0)	(499.8)
Adjusted net assets at the end of the year	5,241.2	4,473.9

Net pension deficit

The Group operates a defined benefit pension scheme which is closed to new members. At 31 March 2010 the net deficit was £6.5m, compared to a £3.0m surplus recognised at 31 March 2009. The change is primarily due to the actuarial assumptions adopted increasing the liabilities of the scheme by more than the return on the scheme's assets. This has been partially offset by additional employer contributions agreed as part of the triennial funding review concluded in January 2010.

Further details regarding the defined benefit pension scheme, including the assumptions adopted and the related sensitivities, can be found in note 29 to the financial statements [p126–128](#).

Cash flow, net debt and gearing

During the year, net debt decreased by £660.2m to £3,263.4m. This reduction was primarily driven by proceeds from the disposal of investment properties (£826.2m) and the disposal of our joint venture interest in the Bullring, Birmingham (£209.8m). The only investment property acquired in the year was the Atlas development site opposite Buchanan Galleries in Glasgow. Capital expenditure in the year totalled £219.6m of which £102.7m related to the development at One New Change, London, EC4.

We also invested £65.2m in our joint ventures, consisting mainly of £81.7m on our major developments in Cardiff and Bristol offset by capital repayments of £10.1m and £7.7m from Bristol and Bullring, respectively.

Table 19
Cash flow and net debt

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Operating cash inflow after interest and tax	179.3	367.2
Dividends paid	(217.9)	(302.4)
Non-current assets:		
Acquisitions	(46.8)	(86.1)
Disposals	847.8	823.0
Capital expenditure	(219.6)	(429.8)
	581.4	307.1
Trillium disposal:		
Gross proceeds	25.0	444.0
Net debt divested	–	48.6
	25.0	492.6
Loans advanced to third parties	(33.3)	(50.0)
Receipts from the disposal group (part of Trillium's PPP activities)	–	113.5
Joint ventures and associates	(65.2)	(117.0)
Divestment of a joint venture (Bullring)	209.8	–
Proceeds from the Rights Issue	–	755.7
Fair value of interest-rate swaps	7.0	(105.6)
Other movements	(25.9)	(0.2)
Decrease in net debt	660.2	1,460.9
Net debt at the beginning of the year	(3,923.6)	(5,384.5)
Net debt at the end of the year	(3,263.4)	(3,923.6)

Our interest cover, excluding our share of joint ventures, has increased from 1.89 times in 2009 to 1.92 times in 2010. Under the rules of the REIT regime, we need to maintain an interest cover in the exempt business of at least 1.25 times to avoid paying tax. As calculated under the REIT regulations, our interest cover of the exempt business for the year to 31 March 2010 was 1.73 times.

Gearing has reduced from 81.4% at 31 March 2009 to 57.4% at 31 March 2010. The reduction is principally due to the reduction in net debt and increase in net assets. Details of the Group's gearing are set out in [Table 20](#), which also shows the impact of joint venture debt, although the lenders to our joint ventures have no recourse to the Group for repayment.

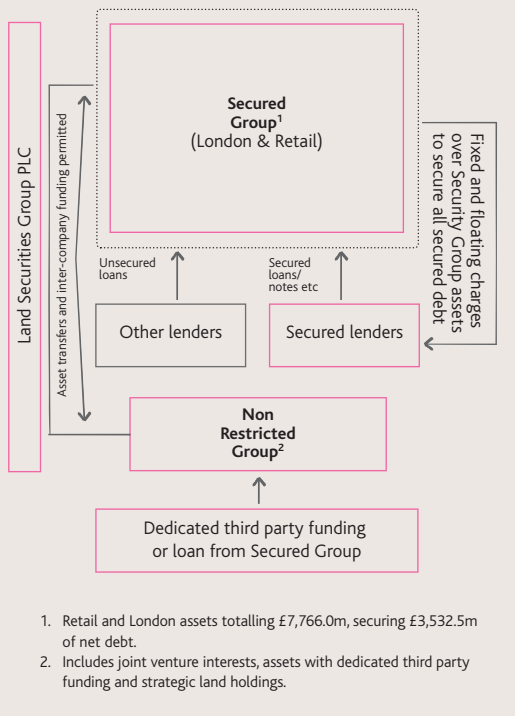
Adjusted gearing, which recognises the nominal value of our debt, reduced from 97.3% at 31 March 2009 to 72.1% at 31 March 2010. Adjusted gearing including our share of joint ventures reduced from 105.9% to 80.2% over the same period. In common with other property companies, we also show our Group LTV ratio.

Table 20
Gearing

	31 March 2010 %	31 March 2009 %
Gearing – on book value of balance sheet debt	57.4	81.4
Adjusted gearing*	72.1	97.3
Adjusted gearing* – as above plus notional share of joint venture debt	80.2	105.9
Group LTV	44.8	52.2
Group LTV – as above plus notional share of joint venture debt	43.5	49.6
Security Group LTV	45.5	76.7

*Book value of balance sheet debt increased to recognise nominal value of debt on refinancing in 2004 divided by adjusted net asset value.

Chart 21
Funding structure



Financing strategy

The Group monitors and adjusts its capital structure with a view to promoting the long-term success of the business and maintaining sustainable returns for shareholders. A key element of the Group's capital structure is that the majority of our borrowings are secured against a large pool of our assets (the Security Group). This enables us to raise long-term debt in the bond market as well as shorter-term flexible bank facilities, both at competitive rates. Our secured debt structure provides for different operating environments which apply in 'tiers' determined by levels of LTV and Interest Cover Ratios (ICR), although it is LTV which is the more likely determinant of which operating environment applies. These ratios do not trigger an event of default until LTV exceeds 100% or historic or projected ICR is less than 1.0 times. However, our operating environment becomes more restrictive at higher levels of LTV/lower levels of ICR. There are minimal operational restrictions on the Group in Tier 1 (LTV below 55%), our current level, and Tier 2 (LTV: 55% to 65%). Above an LTV of 65%, our operating environment becomes more restrictive with provisions designed to encourage a reduction in gearing including mandatory debt amortisation.

In addition, the Group holds a number of assets outside the Security Group structure (in the 'Non-restricted Group'). These assets are typically our joint venture interests or other assets on which we have raised separate, specific finance. By having both the Security Group and the Non-restricted Group, and considerable freedom to move assets between the two, we are able to raise the most appropriate finance for the specific asset or joint venture.

Chart 22

Expected debt maturities (nominal) (£m)

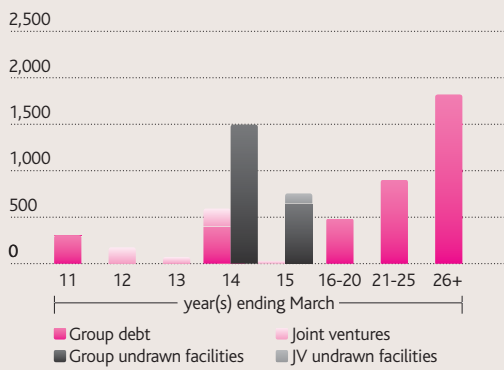
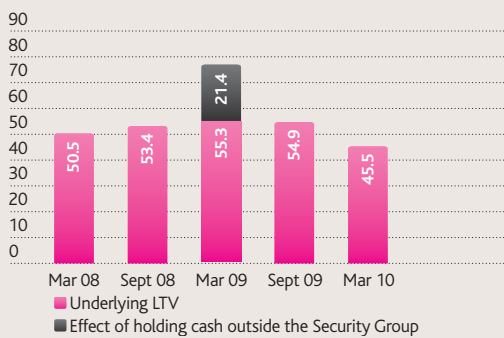


Chart 23

Security Group LTV history (%)

**Financing and capital**

In January 2009, at a time of unprecedented falls in the commercial property market, we drew down £1.1bn of credit facilities to ensure their continued availability. As a result of this decision, the Security Group temporarily entered a more restrictive operating environment in June 2009.

The focus for the year, therefore, was on our cash flows, the level of available facilities and the maturity of our debt. During the year, we refinanced £650.0m of our existing committed bilateral facilities, extending them in to the financial year ending March 2015. Outside the Security Group, our joint venture in St David's, Cardiff raised a new £290.0m facility, of which £74.4m is currently drawn (our share £37.2m). We also issued an innovative AAA-rated £360.0m amortising bond secured on the income stream from our Government-let property at Queen Anne's Gate, London SW1.

Our success in raising new debt and extending existing facilities, together with the cash raised from investment property sales, enabled us to repay £2.1bn of drawn credit facilities in the Security Group by November, which returned the Security Group to the more flexible Tier 1 operating regime.

At 31 March 2010, our net borrowings (including joint ventures) amounted to £3,657.5m (£4,170.0m at March 2009). Cash and committed but undrawn facilities were £2,447.0m. In the Security Group, £3,532.5m of net debt was secured against £7,766.0m of assets, giving a Security Group LTV ratio of 45.5%.

The weighted average duration of the Group's debt (including joint ventures) is 11.8 years with a weighted average cost of debt of 5.3%.

Hedging

We use derivative products to manage our interest-rate exposure, and have a hedging policy which requires at least 80% of our existing debt plus increases in debt associated with net committed capital expenditure to be at fixed interest rates for the coming five years. Specific interest-rate hedges are also used within our joint ventures to fix the interest exposure on limited-recourse debt. At 31 March 2010, Group debt was 98.2% fixed.

Taxation

As a consequence of the Group's conversion to REIT status, income and capital gains from our qualifying property rental business are now exempt from UK corporation tax. The tax credit for the period of £23.1m (2009: £0.5m charge) comprises a current year credit of £4.3m arising as a result of the refund of REIT conversion charges following the sale of recently completed developments, a prior year corporation tax credit of £21.0m (2009: £0.3m charge) following resolution of a number of prior year issues, less a net deferred tax charge of £2.2m (2009: £0.2m charge). The prior year tax credit for the period has not been recognised as part of our adjusted earnings as it is non-recurring and relates to the period before we became a REIT.