

# HALF YEAR RESULTS PRESENTATION

**September 2008**

# Presentation

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☐ Overview

**Philip Warner**

☐ Finance Review

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☐ Property Review

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# We continue to face a challenging market.....

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- ❑ Slow thawing of financial markets ... imminent recession.....
  
- ❑ Focus on what we can control:
  - Improving the quality and security of our income;
  - Reducing costs; and
  - Maximising our cash
  
- ❑ Our portfolio is resilient
  - Strong income yield;
  - Small lot size provides liquidity; and
  - Sector and geographical spread

## ..... and we continue to deliver recurring profit growth

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	September 2008	September 2007
Recurring profits	<b>£5.7m</b>	£5.1m
Realised pre tax profit	<b>£3.6m</b>	£11.2m
Recurring earnings per share <sup>(1)</sup>	<b>7.1p</b>	9.2p
Adjusted NAV	<b>320p</b>	557p

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(1) Adjusted for net movements on investments properties and other items

## Full year dividend to be paid as Final

# Profitability –improving recurring profit

	<b>September 2008 £m</b>	September 2007 £m
Recurring operating profit	<b>15.6</b>	13.8
Interest	<b>(9.9)</b>	(8.7)
Recurring Profit	<b>5.7</b>	5.1
Performance fees <sup>(1)</sup>	<b>(0.9)</b>	-
	<b>4.8</b>	5.1
Non-recurring profit	<b>(1.2)</b>	5.1
Realised profit before tax	<b>3.6</b>	11.2
Current tax*	<b>(1.8)</b>	1.0
Profit/ (loss) after tax	<b>1.8</b>	12.2
Valuation movements (net of deferred tax)*	<b>(125.3)</b>	(18.2)
Loss for the year	<b>(123.5)</b>	(6.0)

\* Including share of joint ventures

(1) A full provision of £2.5m made against all performance fee subject to claw back; £1.6m provided fee in the year ended 2008.

# Three levers for improving profitability (1)

## ❑ Income initiatives

- Reversion
- Commercialisation
- Asset management

## ❑ Cost Management

- Void management (services charges, rates and insurance)
- Alignment of activities, processes and systems for the future
- Further annualised cost savings identified

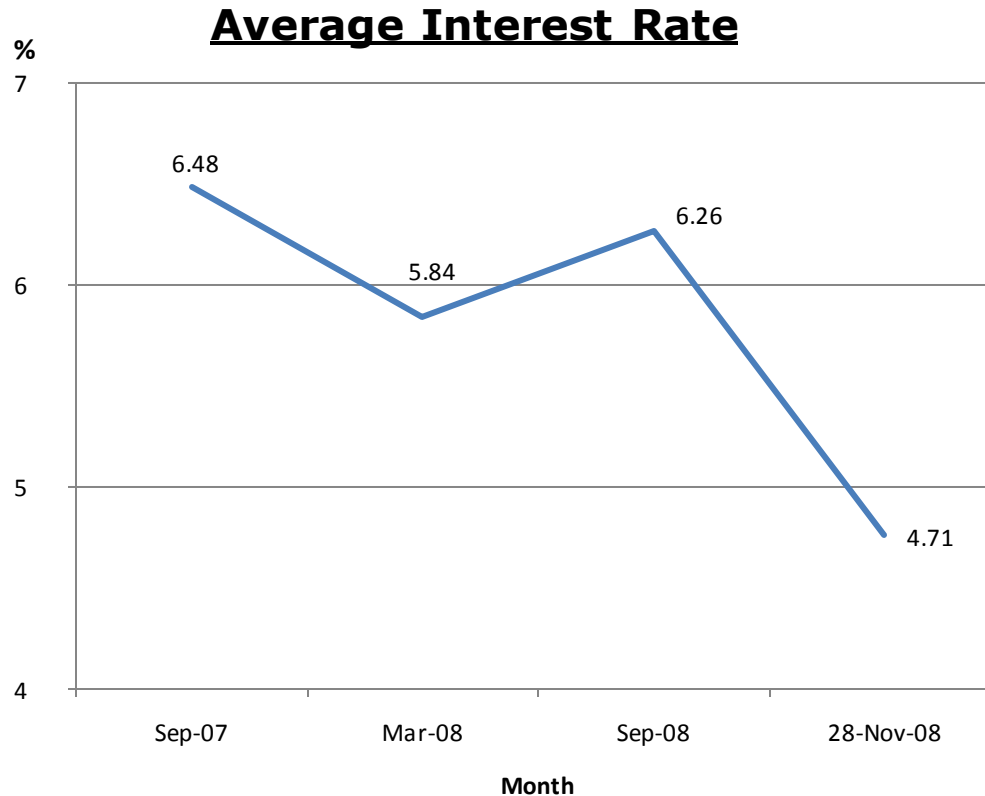
## Annualised Cost Savings

	June 2008 Final Results Presentation	August 2008 Interim Management Statement	September 2008 Half Year Results Presentation
	£m	£m	£m
Organisational	0.3	0.9	2.0
Overheads	0.4	0.6	1.0
	<u>0.7</u>	<u>1.5</u>	<u>3.0</u>

# Three levers for improving profitability (2)

## ❑ Interest cost management

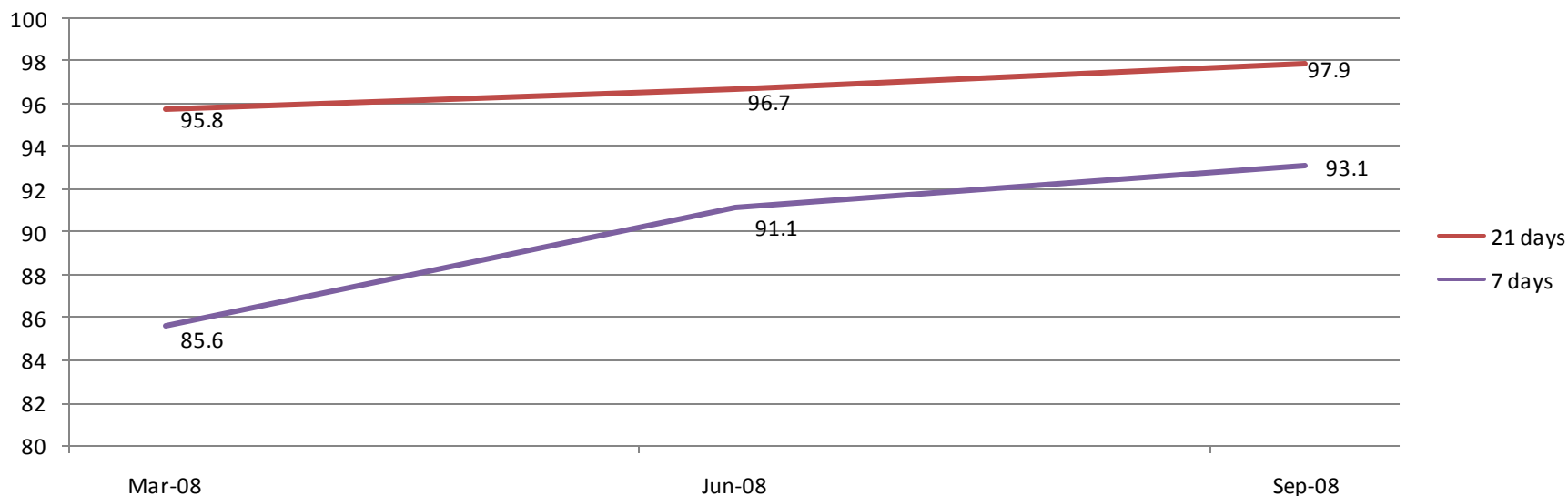
- Balance between 'covenant insurance', cost and certainty through hedging



- £50m hedge at 3.08% effective from 28 November 2008- £0.4m savings pa based on current LIBOR
- Every 50bps fall in LIBOR will reduce the Group's interest cost by £1.0m p.a.

# Cash collection % following Quarter Day constantly improving

- £185m annual rent roll under management
- Bad debt cost for the period to September 2008 0.7% of annual rent roll under management (September 2007; 0.6%; March 2008 0.8 %)
- ❑ Processes aligned with finance and property systems
- ❑ Approach is based on Four F's
  - First
  - Friendly
  - Firm
  - Fair



# Bank Covenants – Debt Profile

	Wholly Owned		Share of Joint Ventures		Share of Funds		Warner Estate Share	
	Sept 2008 £m	March 2008 £m	Sept 2008 £m	March 2008 £m	Sept 2008 £m	March 2008 £m	Sept 2008 £m	March 2008 £m
<b>Net short term debt/ (cash)</b>	(15)	55	(9)	(9)	(6)	(5)	(30)	41
<b>Long term debt</b>	364	292	341	342	88	94	793	728
	<u>349</u>	<u>347</u>	<u>332</u>	<u>333</u>	<u>82</u>	<u>89</u>	<u>763</u>	<u>769</u>
<b>Net debt Movement</b>	<b>(2)</b>		<b>1</b>		<b>7</b>		<b>6</b>	
Non recourse debt			332	333	82	89	414	422

# Facilities' renewal commenced ...

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	£m	Renewal Date
1. Revolving Bank Facilities		
➤ RBS	225	January 2010
➤ HBoS	100	March 2010
➤ Barclays (Renewed June 2008)	60	May 2011
➤ Barclays	30	To be redeemed January 2009 as unutilised
	<hr/> <b>415</b>	
2. Term Loan		
➤ Canada Life	25	Redeemed November 2008
	<hr/> <b>440</b>	
Net Debt September 2008	<hr/> <b>349</b>	

# Actions in place to reduce net debt and improve profitability .....

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- ❑ Planned disposal programme - £100m+
- ❑ Securing uncharged assets - £50m+ units, asset management business....
- ❑ Income initiatives - £4m+ over the next two years – Reversion / Commercialisation
- ❑ Cost savings - £3m annualised
- ❑ Interest cost – every 50bps movement in LIBOR moves interest cost by £1m

# Outperforming IPD

Standing Investments	Wholly Owned Portfolio	Equity Portfolio	IPD Benchmark
Income Growth	4.0%	1.4%	1.0%
Income Return	3.2%	3.1%	3.0%
ERV Growth	0.6%	1.0%	(0.4%)
Value Movement	(9.9%)	(9.8%)	(10.0%)
NIY	6.47%	6.36%	6.03%
EYE	7.11%	7.30%	7.24%
Void	3.8%	6.7%	9.3%

## Wholly Owned: Disposals of non core assets softens capital decline and improves income

	Net Sale Receipts	March 2008 Value	Performance
Wholly Owned Portfolio (H1)	£10.4m	£10.9m	(4.6%)
Wholly Owned Portfolio (Post H1)	£9.0m	£8.8m	2.2%
<b>TOTAL</b>	<b>£19.4m</b>	<b>£19.7m</b>	<b>(1.5%)</b>

# Resilient Wholly Owned Portfolio

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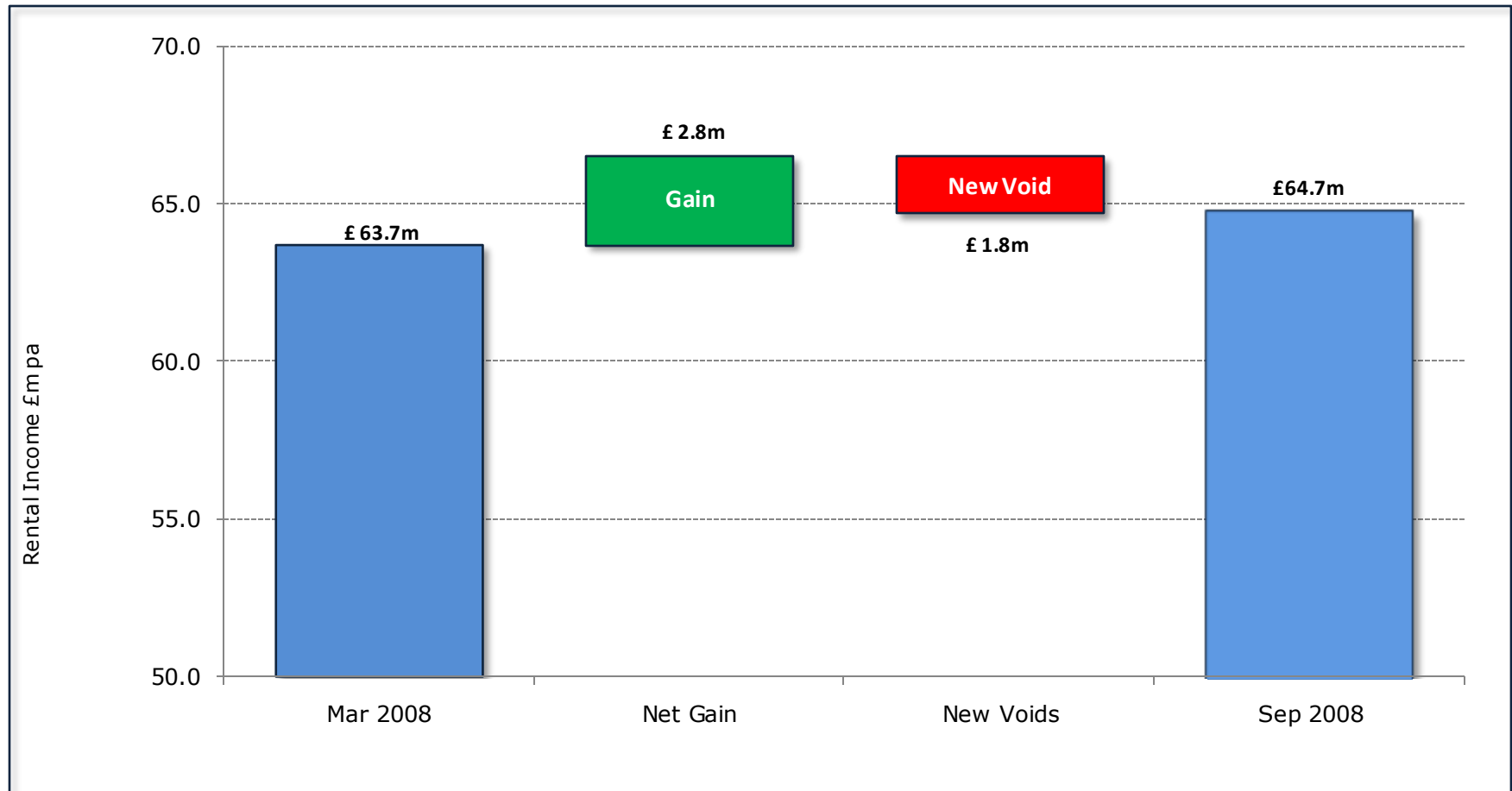
	Wholly Owned Portfolio
Number of tenants	336
Average Lot Size	£6.2m
Average Residual Term	8.3 years
Void Rate*	3.8 %
Reversion Potential (excl. voids)	13.2%

\*Void rate adjusted for assets held for demolition / development

# Equity Portfolio: Increased revenue through reversion capture (first half year)

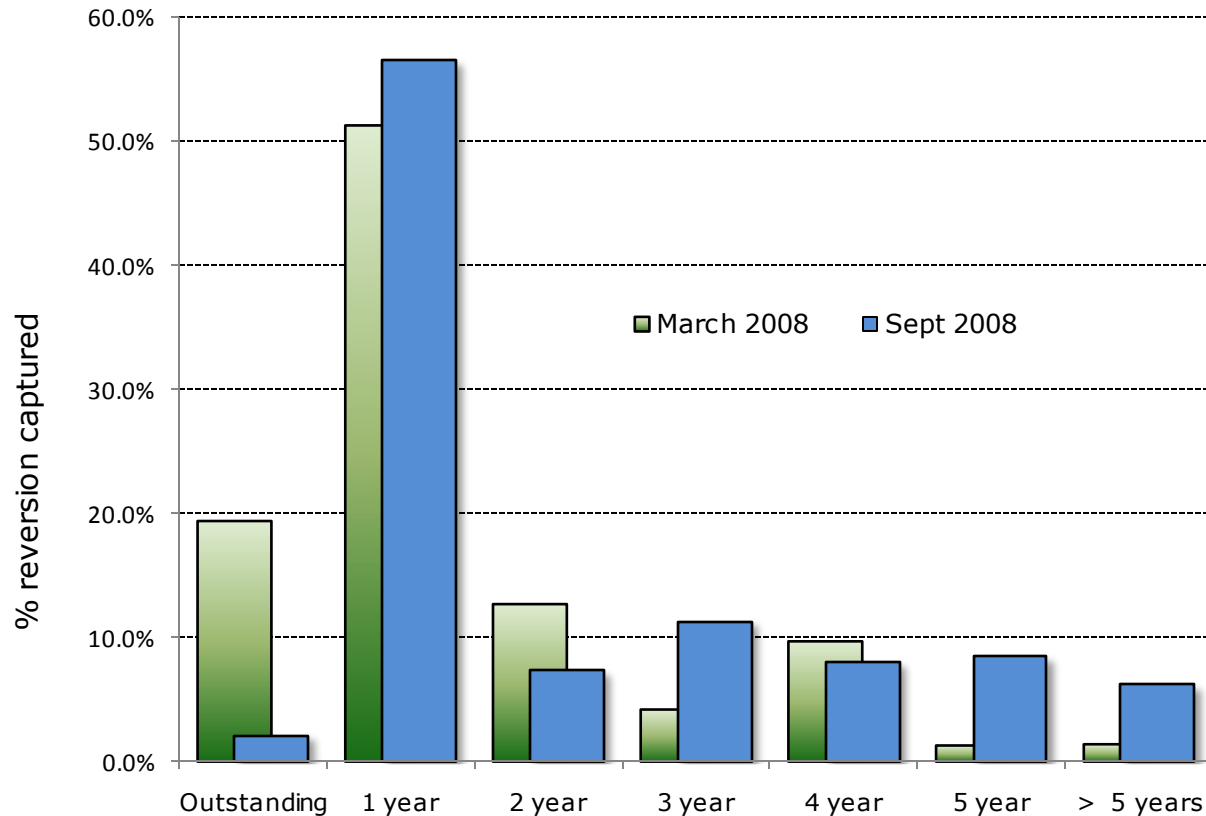
	New Rent	ERV	Previous Rent	Rent +/-
Lease Renewals	£1.9m	£1.9m	£1.7m	£0.2m
New Lettings and AMI's	£2.3m	£2.1m	n/a	£2.3m
Rent Reviews	£4.7m	£4.6m	£4.4m	£0.3m
<b>TOTAL</b>	<b>£8.9m</b>	<b>£8.6m</b>	<b>£6.1m</b>	<b>£2.8m</b>

# Equity Portfolio: Net income growth through asset management (first half year)



\*circa 10% of new voids are due to tenant failures.

# Strong reversion potential



□ Potential reversion of £7.8m, or 12% of current income (excluding void units).

□ Over 60% of which can be captured in the next 2 years.

# Summary

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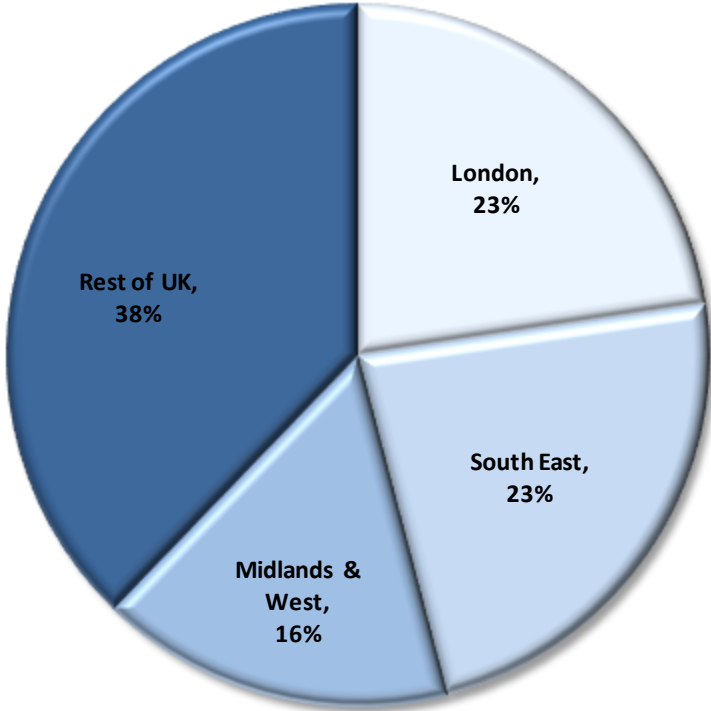
- ❑ Focussing on the three levers
  - Improving income
  - Reducing costs
  - Lower interest rates
  
- ❑ Meeting the challenge of falling values

# Appendices

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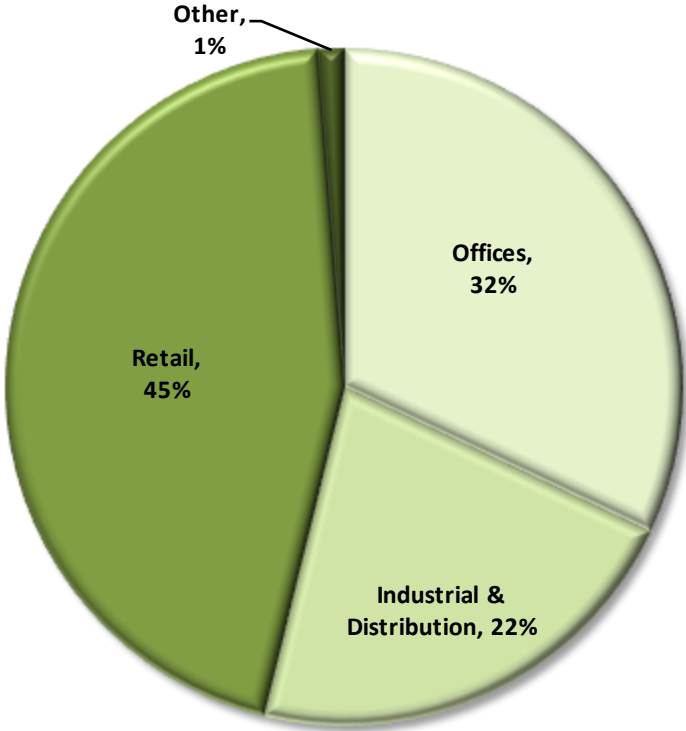
# Balanced portfolio by location and sector

Location



£971m

Use



£971m

# Appendices – Impact of Empty Rates including pre budget report

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## ➤ Equity Portfolio

▪ Actual additional annual cost:	£1.8m
▪ Budgeted cost:	£2.1m
▪ Effective drag on net income:	2.8%
▪ Post legislation drag on net income:	2.0%

## ➤ Wholly Owned Portfolio

▪ Actual additional annual cost:	£600k
▪ Budgeted cost:	£700k
▪ Effective drag on net income:	2.2%
▪ Post legislation drag on net income:	1.6%

# Appendices – Top 30 tenants by rental contribution

<b>Wholly Owned Portfolio</b>	<b>% Total Income</b>	<b>Equity Portfolio</b>	<b>% Total Income</b>
Boots the Chemist	3%	Government	3%
Government	2%	HSBC Bank PLC	2%
Debenhams	2%	Boots the Chemists	2%
Cheshire Disability	2%	Debenhams	2%
Business Express Network Services Limited	2%	Tesco Sores Ltd	2%
Groupama UK Services Ltd	2%	Travis Perkins Properties Limited	2%
Lookers PLC	2%	Focus DIY Ltd	2%
St Paul London Properties Ltd	2%	Marks & Spencer PLC	1%
Focus DIY Limited	2%	Royal Insurance (UK) Ltd	1%
Lifestyle Europe Ltd	2%	South Marston DC Limited	1%
Next Group Plc	1%	Lloyds TSB	1%
Primark Stores Ltd	1%	TK Maxx	1%
HSBC Bank PLC	1%	Eddie Stobart Ltd	1%
CGU Insurance Plc	1%	Maersk Line UK Ltd	1%
Allianz Comhill Insurance Plc	1%	NCP Ltd	1%
South Marston DC Limited	1%	Ingram Micro Holdings Ltd	1%
Magnet Limited	1%	Lifestyle Europe Ltd	1%
Inchcape Estates Ltd	1%	Business Express Network Services Limited	1%
TK Maxx	1%	Antalis Ltd	1%
Poundland Limited	1%	Accident Exchange	1%
Orange Personal Communications Services Ltd	1%	Groupama UK Services Ltd	1%
Dorsman Estates Co Limited (Peacocks)	1%	Poundland Ltd	1%
Bhs Limited	1%	Lookers PLC	1%
Argos Distributors Ltd	1%	Unipart Logistics Ltd.	1%
London Guildhall University	1%	MWB Business Exchange plc	1%
Virgin Cosmetics Company Ltd	1%	St Paul London Properties Ltd	1%
Baker Tilly Properties Limited	1%	Argos Distributors Ltd	1%
London Market Claims Services Ltd	1%	Northrop Grumman Properties Limited	1%
River Thames Insurance Company Ltd	1%	Magnet Limited	1%
Trevone House Ltd	1%	Mall Income	1%
<b>Total</b>	<b>42%</b>	<b>Total</b>	<b>34%</b>

# Appendices – List of Key Reversions

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	Building	Business Area	Tenant	Rent	ERV
<b>Renewals:</b>	Dirft E1, Daventry	JV	NFT Distribution	£1.23m	£1.18m
	Hale Leys, Aylesbury	WO	Boots	£320k	£290k
<b>New Lettings:</b>	Bouverie Place, Folkestone	WO	HMV	£130k	£130k
	55 Old Broad Street	JV	MWB	£255k	£244k
<b>Rent Reviews:</b>	Market Place, Bolton	JV	Debenhams	£850k	£735k
	The Royals, Southend	WO	Peacocks	£345k	£318k