

## Our financial position

# 329p

adjusted net assets per share

### Financial results

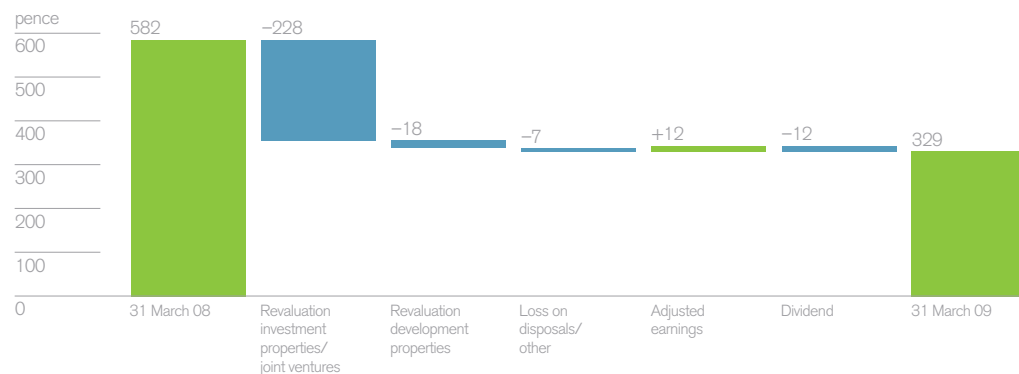
The Group's financial performance has been affected by the extremely difficult market conditions experienced during the financial year.

Net assets per share have fallen substantially since 31 March 2008 as a result of the fall in value of the portfolio. The underlying income statement results have been slightly more resilient primarily due to lower administration and interest costs. Property sales and operational cash flow have reduced net debt over the year and the Group's leverage ratios remain at relatively conservative levels.

### Net asset value

Adjusted net assets per share fell by 43.5% in the year to 329 pence, largely because of the reduction in the value of the property portfolio. At 31 March 2009, the Group's net assets were £568.6 million, down from £1,049.4 million at March 2008.

### Adjusted net assets per share – movement since 31 March 2008



The main factors behind the 253 pence per share change in adjusted net assets per share over the year were:

- the fall of 228 pence per share arising from the revaluation of the investment and joint venture portfolios;
- a valuation reduction of 18 pence per share from development properties;
- sale of properties including 208/222 Regent Street, W1 and 180 Great Portland Street, W1 triggered a decline in net assets of 6 pence per share with a further decline of 1 pence per share arising from the revaluation of the pension plan asset;
- adjusted earnings for the year of 12.2 pence per share enhanced NAV; and
- the payment of dividends caused a reduction in net assets by 12 pence per share.

Triple net assets per share (NNNAV) was 336 pence at 31 March 2009 compared to 590 pence a year earlier. At year end the difference between adjusted net assets per share and NNNAV was the positive mark to market of debt of 7 pence arising from the low interest rate of the Group's 2029 debenture partially offset by a negative value of the Group's interest rate derivatives. There were no movements in deferred tax provisions during the period.

### Income statement and earnings per share

Rental income and joint venture fees for the year were £42.4 million and £4.7 million respectively, generating a combined income of £47.1 million, 6.2% lower than last year. Rental income was £2.0 million down on last year partly due to the lease expiries at Buchanan House, EC1 and Pollen House, W1.

Rent reviews, lease renewals and new lettings added £10.3 million to rental income during the year. The estimated rental value of the portfolio declined by 18.5% in the year, due to the challenging occupational market. The Group's joint ventures generated management fees of £4.7 million down 19.0% on last year, as a result of disposals and constrained development activity at GVP2, GWP and GCP.

Adjusted profit before tax of £21.9 million was £1.9 million or 8.0% lower than 2008.

The decline was caused by reduced development management profits and lower underlying joint venture profits partly mitigated by a fall in administration and interest costs.

# £21.9m

adjusted profit before tax.

## Adjusted profit before tax – year to 31 March 2009



Development management profits from the Tooley Street, SE1 scheme contributed £4.0 million this year (2008: £7.1 million), which represents the final tranche of the profits from this successful project. Adjusted profits from joint ventures (excluding valuation movements, movements in the fair value of derivatives and loss on property sales) were £9.2 million, down £6.9 million on last year, mainly due to the sale of properties and the refinancing of GCP which has increased interest costs within the joint venture but reduced the Group's interest expense. Administration costs fell by almost 10% year on year to £12.8 million primarily due to lower variable employee costs, reduced accounting charges for share-based compensation schemes and corporate overheads. During the year the Group's headcount was reduced by six people (around 10%) as a result of business realignment initiatives. Underlying finance costs were managed down by 30.0% to £20.8 million due to lower interest rates and reduced debt.

Adjusted earnings per share were 12.2 pence, 3.2% lower than last year. This reduction in earnings per share was mainly driven by lower adjusted profit before tax, described above.

Revaluation falls and loss on sale of assets caused the Group to report an accounting loss after tax of £436.1 million (2008: loss of £4.1 million). Basic EPS for the year showed a loss of 241.1 pence (2008: loss of 2.2 pence).

### Results of joint ventures

The joint venture operations have contracted since last year end following disposals at GVP2, GWP and GCP. At 31 March 2009 28.9% of Group rent roll and 32.2% of net assets were in 50:50 joint ventures; at 31 March 2008 the comparable figures were 36.3% and 37.2% respectively. Non-recourse net debt in the joint ventures has fallen from £145.8 million at 31 March 2008 to £135.4 million at year end, primarily due to the repayment of the loan in GVP2 following the sale of 208/222 Regent Street, W1 in July.

The Group's net investment in joint ventures was £183.2 million compared to £390.6 million at the end of last year, a decline caused by valuation falls and significant property sales. Our share of joint venture net rental income was £22.1 million, compared to £21.8 million for last year, principally due to a full year's ownership of GCP. The Group's share of joint venture adjusted profits fell to £9.2 million as a result of disposals and higher interest costs in GCP. The underlying joint venture profits are stated after charging £4.7 million of GPE management fees (2008: £5.8 million).

### Financial resources and capital management

Although the Group's underlying profits were lower than last year, a favourable movement in working capital contributed to the cash generated from operations improving to £48.5 million, up £21.0 million compared to 2008. Group consolidated net debt was £371.0 million at 31 March 2009 down from £424.6 million a year earlier as a consequence of major disposals and operational cash flow. The sales of properties (including our share of joint ventures) generated £102.9 million in proceeds. Group gearing increased to 65.2% at 31 March 2009 from 40.5% at 31 March 2008 because of the fall in portfolio valuation which outweighed the reduction in debt. Interest cover for the year improved to 2.1x (2008: 1.8x), the highest level for over four years.

# £371.0m

Group consolidated net debt was down 13% from 31 March 2008

**Debt analysis**

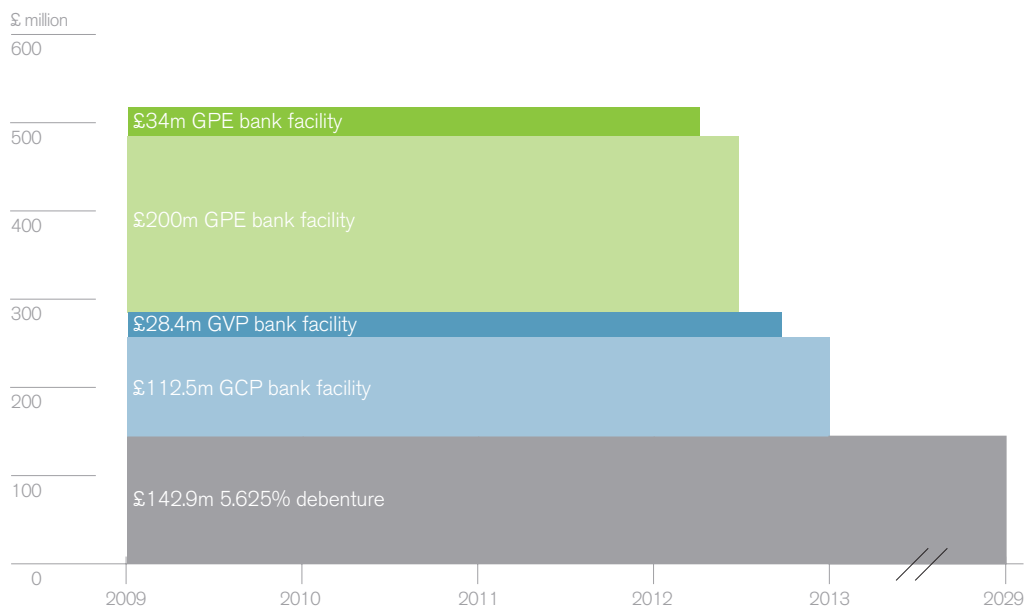
	March 2009 £m	March 2008 £m
<b>Year end net debt position</b>		
Group net debt	<b>371.0</b>	424.6
Group net gearing	<b>65.2%</b>	40.5%
Total net debt including 50% JV non-recourse debt	<b>506.4</b>	570.4
Loan-to-property value including joint ventures	<b>44.9%</b>	34.9%
<b>Group credit statistics</b>		
Interest cover	<b>2.1x</b>	1.8x
Weighted average interest rate	<b>5.78%</b>	6.01%
Percentage of total debt/capped	<b>88%</b>	76%

Including the non-recourse debt in our joint ventures, total net debt was £506.4 million (2008: £570.4 million) equivalent to a loan to value ratio of 44.9% (2008: 34.9%) which remains at a modest level compared to many other real estate companies. The Group, including joint ventures is operating with substantial headroom over its bank and debenture covenants (further details are set out in note 14 on page 79).

At 31 March 2009, the Group, including its joint ventures, had cash and undrawn committed credit facilities of £329.7 million, which is substantially in excess of the capital expenditure of around £1.3 million required to complete all remaining near-term development schemes. The earliest debt maturity the Group faces is an undrawn £50 million bilateral facility which expires in November 2010, the revolving credit facilities which are currently drawn mature in 2012.

**Maturity profile**

No maturity of drawn facilities until 2012



The Group's weighted average interest rate for the period was 5.78% (5.84% including joint venture debt), a decrease of 23 basis points compared to the year to 31 March 2008. This was due, in part, to the dramatic fall in short-term money market rates which have been led down by Bank of England policies. At year end, 88% of the Group's total debt (86% including non-recourse joint ventures) was at fixed or capped rates (2008: 76%). During the course of the year we terminated £60 million of interest rate derivatives as they no longer provided appropriate protection to the Group given the significant reduction in market interest rates.

# 94%

March 2009 quarter rent collected in seven days

Our operational priorities remain cash generation and tenant retention

### Cash collection and tenant delinquencies

For the first three quarters of the year our cash collection profile was in line with our experience over recent years and we exceeded our target of collecting 96% of quarterly rent after seven working days. As anticipated, the March 2009 quarter saw a worsening of the collection rates to 94% after seven working days. During the final quarter of our financial year four of our tenants went into administration, generating arrears of around 0.01% of rent roll (December 2008 – four tenants, 0.1% of rent roll), the largest being a retailer in Regent Street. Less than 1% of our rent roll is subject to monthly payments. At year end 20.6% of the Group's rent roll (including share of joint ventures) was covered by bank guarantees or rent deposits amounting to £14.4 million. The segmentation of our tenant base is shown on page 4.

### Taxation

The current tax credit in the income statement for the year is £0.1 million (2008 charge: £0.1 million) as a result of the tax free nature of much of the Group's income and other allowances being available to set against non-REIT profits. The low level of taxable profits for the year meant the Group's underlying effective tax rate was around minus 1% (2008: 5%). The Group complied with all relevant REIT tests for the financial year.

### Dividend

The Board has declared a final dividend of 8 pence per share (2008: 8 pence per share) which will be paid on 14 July 2009. This brings the total dividend for the year to 12 pence per share, an increase of 0.8% over last year. Of the final dividend 6 pence per share is a REIT Property Income Distribution (PID) in respect of the Group's tax exempt property rental business. Further information on the tax treatment of dividends can be found on the Group's website.

### Outlook

We believe that UK economic conditions are unlikely to return to growth before the second half of 2010. Rising unemployment and business contraction will put downward pressure on rental values during this period, although the rate of decline will differ across central London sub-sectors. However, we expect London's commercial property values to recover earlier than its occupational markets as investors pre-empt the return to rental growth. We anticipate that valuation falls over the next six months are likely, albeit at a lower run rate than that seen recently.

Since the peak of the property market in the summer of 2007, the current economic downturn has produced one of the most severe asset value corrections ever recorded. The Rights Issue announced on 19 May 2009 substantially increases the resources we will have available to take advantage of attractive investment opportunities which are emerging as a result.

For this year, our operational priorities remain cash generation, tenant retention and targeted investment in fundamentally cheap assets in our core central London markets. We expect that a combination of our intense focus on local markets, the central West End location of many of our buildings and the value for money offered by our properties will support rental income levels. We remain confident that our disciplined approach and flexible capital structure will underpin the long-term prospects of the Group.