

"I believe that REITs represent a tremendous opportunity for Hammerson. The company is well positioned to benefit from this exciting new tax exempt environment."

John Richards
Chief Executive

Background

- The UK will have a tax exempt Real Estate Investment Trust (REIT) regime from the beginning of 2007
- REITs will provide tax exemptions for listed property companies and have proved successful in many other countries including the US, Australia and France
- Hammerson plc was the first major quoted UK real estate company to announce its intention to elect for REIT tax treatment
- Hammerson's business in France already benefits from tax exempt status following the group's entry in 2004 into the equivalent French SIIC tax regime

UK REITS in Brief

- Optional elective tax regime for UK-resident listed property companies
- To qualify, property investment must represent more than 75% of a company's assets and profits
- One-off conversion charge of 2% of property assets payable by a company electing for REIT status
- Conversion charge payable in four quarterly instalments between July 2007 and April 2008
- After conversion to a REIT, rental income and capital gains on UK properties exempted from corporation tax
- 90% of exempted rental income to be paid as Property Income Dividends ("PIDs")
- REITs can distribute more than the mandatory minimum PIDs if they choose
- 22% withholding tax deducted on payment of PIDs (except that PIDs to some categories of shareholders such as UK pension funds may be made without withholding tax)
- Other UK income and gains of the company are subject to corporation tax as normal, but this can be offset against related expenses and brought forward tax losses

Effects on Hammerson

- UK rental income not subject to corporation tax
- UK investment property sales not subject to corporation tax on capital gains (except for gains arising on developed properties sold within three years of completion)
- Sales of assets therefore largely unfettered by tax considerations
- Conversion charge dependent on value of UK property assets owned at 31 Dec 2006. (The charge would have been £96 million based on 30 June 2006 portfolio valuation)
- Increase in shareholders' funds of approximately £300 million from the write back of most deferred tax after conversion charge
- Hammerson's existing strategy and business model are suited to the REIT regime
- Hammerson's Board believes that REITs represents a good proxy for direct property investment. It is likely to lead to greater focus by investors on ungeared underlying property performance

REIT and SIIC

- Hammerson already has experience of operating within a tax-exempt environment. Since 2004 most of the group's French business has been within the similar French SIIC regime
- Under SIIC rules, the French subsidiaries are required to distribute part of their income and gains as a dividend to their shareholder, Hammerson plc. Hammerson plc is subject to tax in the UK on these dividends received and provision is made in deferred tax for the liability that may arise. In practice, UK tax losses may be available to offset tax payable

Benefits to UK Government

- Conversion charge receipts estimated at more than £1 billion in 2008 tax year
- Enhance the attractions of property investment and development leading to an improvement in the nation's property stock
- Increase the attractions of investing in property as an asset class by creating a more liquid and tax efficient vehicle
- Increased liquidity in property markets leading to greater transparency
- Stem the flow of "offshore" property investment

Benefits to Investors

- Provides access to diversified high quality property portfolios and experienced management
- Income and capital returns from property assets accrue to shareholders in a tax-efficient way, with returns more closely aligned to direct property investment
- Removes "double taxation" as no tax is payable within the company, but only by shareholders on income dividends and capital gains on disposals

REIT Myths

- *"REITs are trusts."* Despite the name REITs are companies
- *"Conversion will be complex."* All that is required is for the company to make a tax election. The existing company continues and is otherwise unaffected
- *"REITs can't undertake property development."* REITs can develop properties and benefit from the REIT exemption provided development is undertaken for investment purposes and properties are retained for three years after completion. Alternatively, development can be carried out for trading purposes in the taxable part of the business
- *"REITs can't own non-UK properties."* Overseas investment properties are specifically included in the 75% balance of business tests, so Hammerson can own French assets
- *"REITs can't own properties in joint ventures."* Hammerson's share of income from partnerships, the form of all its major joint ventures, will be tax exempt

Hammerson's Timetable

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| • Final HMRC regulations and guidance | Nov 06 |
| • Extraordinary General Meeting | Dec 06 |
| • Election to become a REIT | Dec 06 |
| • Conversion charge included in accounts | Dec 06 |
| • Start of first period as REIT | Jan 07 |
| • First of four quarterly payments of conversion charge | Jul 07 |
| • First Property Income Dividend paid to shareholders | Oct 07 |