

Business Analysis

Investment Portfolio

The investment properties in our Retail Portfolio and London Portfolio business units make up the majority of our Investment Portfolio. The Investment Portfolio includes a pro-rata share of our property joint ventures, but excludes investment properties within our property outsourcing business, Trillium.

The market value of the investment property interests in the Investment Portfolio totalled £15,043.2m at 30 September 2007 (31 March 2007: £14,752.5m). The aggregate of the market values of those investment properties held by the Group, excluding joint ventures and Trillium, as at 30 September 2007 was £13,550.1m (31 March 2007: £13,114.8m).

The valuation of the freehold and leasehold investment properties in the Investment Portfolio at 30 September 2007 was undertaken by Knight Frank LLP as External Valuer. The valuations were in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and the International Valuation Standards. The valuation of each property was on the basis of market value, subject to the assumptions that investment properties would be sold subject to any existing leases and that properties held for development would be sold with vacant possession in existing condition. The External Valuer's opinion of market value was primarily derived using recent comparable market transactions on arm's length terms.

There follows a number of tables which give further detail of the underlying performance of the combined portfolio:

Table 10: Top 12 property holdings

Total value £4.5bn
(30.1% of combined portfolio)
Values in excess of £250.0m

Cardinal Place, SW1
New Street Square, EC4
50 Queen Anne's Gate, SW1
White Rose Centre, Leeds
Bullring, Birmingham
Bankside 2&3, SE1
Gunwharf Quays, Portsmouth
Princesshay, Exeter
Times Square, EC4
Arundel Great Court and Howard Hotel, WC2
Portland House, SW1
Thomas More Square Estate, E1

Table 11: Income statement – rental income reconciliation

	Retail Portfolio	London Portfolio	Other investment portfolio	Six months ended 30 September 2007	Retail Portfolio	London Portfolio	Other investment portfolio	Six months ended 31 March 2007	Retail Portfolio	London Portfolio	Other investment portfolio	Six months ended 30 September 2006
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Combined portfolio	183.1	131.8	13.9	328.8	195.5	131.9	15.1	342.5	193.1	129.4	13.8	336.3
Central London shops (excluding Metro Shopping Fund LP)	(23.6)	23.6	-	-	(26.1)	26.1	-	-	(25.6)	25.6	-	-
Inner London offices in Metro Shopping Fund LP	0.4	(0.4)	-	-	0.4	(0.4)	-	-	0.4	(0.4)	-	-
Rest of UK offices	0.8	-	(0.8)	-	0.9	-	(0.9)	-	1.1	-	(1.1)	-
Allocation of other	3.0	5.3	(8.3)	-	6.3	4.1	(10.4)	-	4.3	3.5	(7.8)	-
Less: finance lease adjustment	(1.7)	(4.1)	-	(5.8)	(2.2)	(4.1)	-	(6.3)	(2.2)	(4.1)	-	(6.3)
Segmental analysis	162.0	156.2	4.8	323.0	174.8	157.6	3.8	336.2	171.1	154.0	4.9	330.0

Table 12: Open market value reconciliation

	Retail Portfolio	London Portfolio	Other investment portfolio	30 September 2007	Retail Portfolio	London Portfolio	Other investment portfolio	31 March 2007	Retail Portfolio	London Portfolio	Other investment portfolio	30 September 2006
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Combined portfolio	7,591.2	6,859.3	592.7	15,043.2	8,060.7	6,102.9	588.9	14,752.5	8,061.3	5,750.9	627.6	14,439.8
Central London shops (excluding Metro Shopping Fund LP)	(1,213.9)	1,213.9	-	-	(1,182.6)	1,182.6	-	-	(1,121.2)	1,121.2	-	-
Inner London offices in Metro Shopping Fund LP	19.5	(19.5)	-	-	21.0	(21.0)	-	-	19.0	(19.0)	-	-
Rest of UK offices	83.2	-	(83.2)	-	90.1	-	(90.1)	-	90.8	-	(90.8)	-
Allocation of other	246.7	206.4	(453.1)	-	235.5	198.3	(433.8)	-	287.6	186.7	(474.3)	-
Segmental analysis	6,726.7	8,260.1	56.4	15,043.2	7,224.7	7,462.8	65.0	14,752.5	7,337.5	7,039.8	62.5	14,439.8

Table 13: Gross estimated rental value reconciliation

	Retail Portfolio	London Portfolio	Other investment portfolio	30 September 2007	Retail Portfolio	London Portfolio	Other investment portfolio	31 March 2007	Retail Portfolio	London Portfolio	Other investment portfolio	30 September 2006
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Combined portfolio	478.1	434.2	27.2	939.5	512.4	394.3	28.1	934.8	479.7	374.0	28.7	882.4
Central London shops (excluding Metro Shopping Fund LP)	(71.3)	71.3	-	-	(70.7)	70.7	-	-	(58.3)	58.3	-	-
Inner London offices in Metro Shopping Fund LP	1.0	(1.0)	-	-	1.0	(1.0)	-	-	0.9	(0.9)	-	-
Rest of UK offices	3.2	-	(3.2)	-	4.7	-	(4.7)	-	5.2	-	(5.2)	-
Allocation of other	9.5	10.8	(20.3)	-	8.5	10.7	(19.2)	-	12.5	5.5	(18.0)	-
Segmental analysis	420.5	515.3	3.7	939.5	455.9	474.7	4.2	934.8	440.0	436.9	5.5	882.4

Table 14: Top 12 occupiers

	Current gross rent roll %
Central Government	10.2
Deloitte	4.0
Metropolitan Police Authority	3.0
Taveta Limited (Arcadia Group)	1.7
DSG International PLC	1.6
J Sainsbury PLC	1.5
The Boots Company PLC	1.5
H&M	1.3
Eversheds Properties Limited	1.3
M&S Group PLC	1.3
Taylor Wessing (European law firm)	1.2
The Home Retail Group PLC (Argos and Homebase)	1.2
Total	29.8

Includes share of joint venture properties

Table 15: % Portfolio by value and number of property holdings at 30 September 2007

£m	Value %	Number of properties
0 – 9.99	1.5	68
10 – 24.99	2.3	22
25 – 49.99	9.0	35
50 – 99.99	18.2	39
100 – 149.99	18.2	22
150 – 199.99	8.7	7
200 +	42.1	20
Total	100.0	213

Includes share of joint venture properties

Table 16: Combined portfolio value by location

	Shopping centres and shops %	Retail warehouses %	Offices %	Other %	Total %
Central inner and outer London	8.5	0.7	48.2	0.6	58.0
South East and Eastern	4.5	3.4	-	0.6	8.5
Midlands	3.4	1.7	-	-	5.1
Wales and South West	3.8	1.3	0.1	-	5.2
North, North West, Yorkshire and Humberside	7.9	5.5	0.3	0.2	13.9
Scotland and Northern Ireland	2.9	1.5	-	0.4	4.8
No region (i.e. indirects)	4.5	-	-	-	4.5
Total	35.5	14.1	48.6	1.8	100.0

% figures calculated by reference to the combined portfolio value of £15.0bn.

Table 17: Average rents as at 30 September 2007

	Average rent £/m ²	Average ERV £/m ²
Retail		
Shopping centres and shops	N/A	N/A
Retail warehouses (including supermarkets)	187	207
Offices		
Central and inner London	332	382

Average rent and estimated rental value have not been provided where it is considered that the figures would be potentially misleading (i.e. where there is a combination of analysis on rents on an overall and Zone A basis in the retail sector or where there is a combination of uses, or small sample sizes). This is not a like-for-like analysis with the previous year. Excludes properties in the development programme and voids.

Table 18: Like-for-like reversionary potential as at 30 September 2007

	30 September 2007 % of rent roll	31 March 2007 % of rent roll
Reversionary potential		
Gross reversions	15.8	12.1
Over-rented	(1.2)	(1.5)
Net reversionary potential	14.6	10.6

The reversion is calculated with reference to the gross secure rent roll after the expiry of rent free periods on those properties which fall under the like-for-like definition as set out in the notes to the combined portfolio analysis. Reversionary potential excludes additional income from the letting of voids. Of the over-rented income, 59.6% is subject to a lease expiry or break clause in the next five years.

Half Yearly Report for the six months ended 30 September 2007

Table 20: Development pipeline financial summary

	Cumulative movements on the development programme to 30 September 2007						Total scheme details				Valuation surplus / (deficit) for six months ended 30 September 2007 ⁽¹⁾
	Market value at start of scheme £m	Capital expenditure incurred to date £m	Capitalised interest to date £m	Revaluation surplus/ (deficit) to date ⁽¹⁾ £m	Disposals, SIC15 rent and other adjustments £m	Market value at 30 September 2007 £m	Estimated total capital expenditure ⁽⁴⁾ £m	Estimated total capitalised interest £m	Estimated total cost less proceeds ⁽²⁾ £m	Net income/ ERV ⁽³⁾ £m	
Development programme let, transferred or sold											
Retail warehouses	-	24	1	(2)	-	23	24	1	25	1	2
London Portfolio	137	502	42	539	33	1,253	519	42	698	61	54
	137	526	43	537	33	1,276	543	43	723	62	56
Development programme completed, approved or in progress											
Shopping centres and shops	110	498	30	62	(20)	680	863	65	964	62	10
Retail warehouses	43	48	2	13	3	109	61	2	106	7	4
London Portfolio	259	448	31	343	14	1,095	921	85	1,265	91	107
	412	994	63	418	(3)	1,884	1,845	152	2,335	160	121
	Movement on proposed developments for the six months ended 30 September 2007										
Proposed developments											
Shopping centres and shops	179	-	-	(3)	-	176	304	34	505	30	(3)
Retail warehouses	6	-	-	-	-	6	4	-	10	1	-
London Portfolio	323	45	-	7	(2)	373	619	50	871	58	7
	508	45	-	4	(2)	555	927	84	1,386	89	4

Notes:

- Includes profit realised on the disposal of property.
- Includes the property at the market valuation at the start of the financial year in which the property was added to the Development Programme together with estimated capitalised interest. For Proposed Development properties, the market value of the property at 31 March 2007 is included in the estimated total cost. Estimated total cost is stated net of residential proceeds for Shopping Centres and shops of £74m for developments in progress and £12m for proposed developments. The London Portfolio proposed developments are stated net of residential proceeds of £121m. Allowances for rent free periods are excluded from cost.
- Net headline annual rental payable on let units plus net ERV at 30 September 2007 on unlet units.
- For Proposed Development properties the estimated total capital expenditure represents the outstanding costs required to complete the scheme as at 31 March 2007 together with pre-development costs incurred prior to that date if the benefit of that expenditure has been excluded from the valuation as at 31 March 2007. Such pre-development costs are included in the accounts as prepayments and are not included in the property additions.

Table 21: Trillium contract analysis

Six months ended 30 September 2007

Contract	NorwichU		DVLA	Barclays ⁽¹⁾	Telereal II	Accor ⁽²⁾	Royal Mail ⁽³⁾	Other ⁽⁴⁾	Total
	DWP	nion							
Contract length term (years)	20.0	25.0	20.0	20.0	4.5	84.0	15.0		
Expiry date	Mar 2018	Jun 2029	Mar 2025	Mar 2024	Mar 2010	Mar 2091	Mar 2022		
Income statement	£m	£m	£m	£m	£m	£m	£m	£m	£m
Unitary charge	268.2	6.1	4.4	0.1	-	12.2	2.1	3.1	296.2
Third party (sublet) income	5.7	0.4	-	0.8	-	-	0.8	0.5	8.2
Capital projects	37.2	0.1	3.1	-	-	-	-	0.8	41.2
Other revenue	5.7	0.2	0.6	-	21.9	-	-	2.1	30.5
Finance lease income	-	3.3	1.2	-	-	-	-	-	4.5
Gross property income	316.8	10.1	9.3	0.9	21.9	12.2	2.9	6.5	380.6
Rents payable	(81.0)	(1.8)	(1.0)	-	-	-	-	-	(83.8)
Service partners (maintenance, facilities, etc)	(83.3)	(1.7)	(2.0)	-	-	-	-	(0.5)	(87.5)
Life cycle maintenance costs	(10.6)	(0.6)	(0.2)	-	-	(0.2)	-	-	(11.6)
Capital projects	(36.3)	(0.1)	(2.8)	-	-	-	-	-	(39.2)
Other costs, including overheads	(44.9)	(0.7)	(1.5)	-	(14.3)	(0.4)	(0.8)	(18.0)	(80.6)
Bid costs	-	-	-	-	-	-	-	(3.1)	(3.1)
Depreciation	(15.5)	(0.4)	-	-	-	-	-	(1.1)	(17.0)
Underlying operating profit / (loss)	45.2	4.8	1.8	0.9	7.6	11.6	2.1	(16.2)	57.8
Profit on sale of non-current assets	14.1	-	-	-	-	-	-	11.0	25.1
Net (deficit) / surplus on revaluation of investment properties	-	-	-	(2.9)	-	(5.9)	(0.6)	0.6	(8.8)
Segment profit / (loss)	59.3	4.8	1.8	(2.0)	7.6	5.7	1.5	(4.6)	74.1
Capital expenditure									
Life cycle maintenance costs capitalised	5.5	0.8	-	-	-	3.1	-	-	9.4
Estates costs capitalised	3.0	-	-	-	-	-	-	-	3.0
Book value of assets at 30 September 2007									
Investment in associate	-	-	-	-	-	-	-	5.2	5.2
Investment properties	-	-	-	25.0	-	440.4	97.2	9.6	572.2
Operating properties	490.5	43.9	-	-	-	-	-	-	534.4

Notes:

1. Barclays sale and leaseback terms include a tenant break clause in December 2014, with annual breaks until expiry
2. Accor sale and leaseback terms include a tenant break clause every 12 years with the first in 2019
3. Royal Mail sale and leaseback terms include 12 tenants who have a break clause in March 2012 and 164 tenants with a break clause in March 2017
4. Other includes new business and corporate overheads, SPV's, management income and profit on the disposal of Meterfit (£10.0m) which was previously classified as an asset held for sale.

Glossary

Table 22: Trillium contract analysis at 30 September 2007

Floor space (000m ²)	DWP	Norwich Union	DVLA	Barclays	Telereal II	Accor	Royal Mail	Other	Total
Client occupied	1,944.4	107.0	16.2	11.4	-	229.5	92.7	14.2	2,415.4
Third party (sublet)	95.0	5.3	-	17.5	-	-	91.8	-	209.6
Vacant	208.6	1.6	-	8.1	-	-	64.8	-	283.1
Total	2,248.0	113.9	16.2	37.0	-	229.5	249.3	14.2	2,908.1
Freeholds / valuable leaseholds	808.1	38.9	-	11.4	-	229.5	128.5	14.2	1,230.6
Leaseholds	1,439.9	75.0	16.2	25.6	-	-	120.8	-	1,677.5
Total	2,248.0	113.9	16.2	37.0	-	229.5	249.3	14.2	2,908.1
Estate managed but not transferred	73.9	8.7	86.6	-	150.0	-	-	-	319.2

Table 23: Trillium vacation allowance and portfolio activity – DWP

Floor space (000m ²)	31 March 2007					30 September 2007	
	Acquisitions	Vacations*	Lettings	Disposals			
Client occupied	1,996.0	14.4	(57.1)	-	(8.9)	1,944.4	
Third party (sublet)	81.0	-	(1.4)	21.1	(5.7)	95.0	
Vacant	244.2	-	58.5	(21.1)	(73.0)	208.6	
Total	2,321.2	14.4	-	-	(87.6)	2,248.0	
Freeholds / valuable leaseholds	840.0	1.6	-	-	(33.5)	808.1	
Leaseholds	1,481.2	12.8	-	-	(54.1)	1,439.9	
Total	2,321.2	14.4	-	-	(87.6)	2,248.0	
Estate managed but not transferred	78.7	-	(4.8)	-	-	73.9	

* Includes core vacations

	31 March 2007	30 September 2007
Vacation allowance used to date	392.7	439.3
Available allowance	130.5	117.5
Future allowance *	164.4	164.4

* The future allowance relates to the period commencing 1 April 2008

Table 24: Trillium portfolio activity – Barclays

Floor space (000m ²)	31 March 2007					30 September 2007
	Acquisitions	Vacations*	Lettings	Disposals		
Client occupied	11.4	-	-	-	-	11.4
Third party (sublet)	18.1	-	(1.2)	0.6	-	17.5
Vacant	7.5	-	1.2	(0.6)	-	8.1
Total	37.0	-	-	-	-	37.0
Freeholds / valuable leaseholds	11.3	-	-	-	-	11.3
Leaseholds	25.7	-	-	-	-	25.7
Total	37.0	-	-	-	-	37.0

* Includes lease surrenders, lease expiries and disposals

Glossary

Table 25: Trillium portfolio activity – Royal Mail

Floor space (000m ²)	31 March	Acquisitions	Vacations	Lettings	Disposals	30 September
	2007					2007
Client occupied	92.7	-	-	-	-	92.7
Third party (sublet)	94.1	-	(6.5)	4.2	-	91.8
Vacant	68.5	-	6.5	(4.2)	(6.0)	64.8
Total	255.3	-	-	-	(6.0)	249.3
Freeholds / valuable leaseholds	128.5	-	-	-	-	128.5
Leaseholds	126.8	-	-	-	(6.0)	120.8
Total	255.3	-	-	-	(6.0)	249.3

Table 26: Trillium number of people by occupation

As at 30 September 2007	Total
Asset management	92
Call centre	69
Capital projects	142
Quality assurance	28
Facilities management	387
Human resources / Finance	116
Business development and commercial	84
Total	918