HD **Half Year 2014 Hammerson PLC Earnings Call - Final**

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Presentation

DAVID ATKINS, CHIEF EXECUTIVE, HAMMERSON PLC: Well, good morning, everyone. Welcome to our 2014 half-year results. Firstly, looking at the agenda, I'm going to give you the highlights. Timon will run through the financial performance. Then I'm going to come back and talk through what we're seeing in both our occupational and investment markets and how we're capitalizing on that to the advantage of shareholders.

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Now, looking at the headline figures first, you know that our clearly defined vision since our conversion to a pure retail business has been to focus on the secular trends in retail towards experience, convenience and luxury. We've talked before about those being the winning locations and formats for retailers.

And we aim to be the best owner-manager and developer of retail property in Europe. And today's figures again show that we're delivering on that ambition to shareholders.

Earnings per share is up 4.5%; dividend, up 6% in line with previous guidance; NAV up nearly 7%, all of which lead to a sector-beating TSR of almost 18% in the first six months.

Now, to some operational highlights. We've made good progress across the business in the period. We continue to improve the quality of our best-in-class retail portfolio, opening the stunning Terrasses du Port in Marseilles and acquiring Saint Sebastien in Nancy.

The quality of our retail assets is evidenced by a strong valuation uplift, strong leasing performance, occupancy above our target and good tenant sales, particularly in value retail.

Top-right of the page, you see that we're also advancing developments, which will create the future venues for our portfolio. And we've broken ground at Victoria Gate in Leeds, received planning for Watermark and submitted a planning application for The Goodsyard.

Bottom-right, I flag our continuing progress understanding and responding to retailer and consumer needs. We launched the industry leading PLUS, or PLUS in French, app in Marseilles, of which more later, my French coming through there, months of lessons.

We have also just commissioned our latest Considered Consumer research, a copy of which is on your chairs. I believe we're the only European retail operator to take such a detailed view of how consumer spend flows through our business and what this means for our centers and parks of the future.

And lastly, we've delivered on our promise to enhance returns by managing both the cost of debt and cost of operations. We secured new premises in London and Reading recently. And have issued new debt at record low levels.

Despite investing into areas of future revenue generation, we're on track to hit our target cost/income ratio of 21% by 2016 and more of this from Timon later. All of this activity to create the right venues, maximize income and increase the flow through to the bottom line has helped us to deliver that strong TSR for shareholders.

Now, looking forward. In our occupier market, we're benefiting from an improving economy in the UK and a stabilizing one in France. Against that backdrop, successful retailers are looking to expand and we're seeing three clear themes. Existing tenants are upsizing; new market entrants are driving additional demand; and there is continued profitable expansion of the catering sector.

In investment markets, following the enthusiasm for London offices and residential, we have clearly seen very strong global demand for high-quality retail assets in the period, with volumes dramatically up in the first half-year.

I see demand continuing to be strong in both our occupier markets and investment markets. After Timon has run through the figures, I'll return to tell you our view on the implications this has for both our ERVs and cap rates.

TIMON DRAKESMITH, CFO, HAMMERSON PLC: Well, good morning, everybody. I've got three areas to cover this morning, an analysis on the first-half financial performance; an update on our cost management activities; and a review of the refinancing program.

But first, the headline results and we believe these figures show continuing momentum in meeting our growth targets. NRI at GBP146.9 million is down on 2013 due to disposals, but up on a like-for-like basis.

Adjusted PBT is up 4.6% on last year, driven by growth in like-for-like net rental income and value retail profits, despite a GBP5.2 million restructuring charge linked to cost management activities. And this translates into an EPS figure of 11.6p, a rise of 4.5% on this time last year. Our interim dividend at 8.8p per share is up 6%.

Turning to the balance sheet, the property portfolio including VR was valued at GBP7.1 billion, showing an uplift of 4.3% in the first half. NAV per share came out at GBP6.12, up 6.8% on December 2013, boosted by that portfolio valuation growth. And LTV is stable as at the end of 2013, at 38%.

So next, I'd like to look at the trends in rental income. And here, we summarize the changes in the like-for-like NRI by sector, and the figures exclude value retail.

On the left, you can see UK shopping centers generating an uplift of 2%, with significant contributions from centers such as Highcross and Cabot Circus. Gross rents grew by 1.5%.

UK retail parks posted an improvement in NRI, with positive impacts from Manor Walks, Falkirk and Ex Junction fun parks.

French retail had a decent half-year with Italie and Place des Halles being the main drivers.

Overall, the total, 1.5% increase shown on the right in green, is a little below our long-term target of 2%. Now, this is as a result of increased tenant rotation and associated incentives, which are higher than this time last year. David is going to explain a little later how this links with our re-merchandising plans.

Moving on to adjusted profit before tax, I'd like to talk you through this walk, which explains like-for-like changes on last year's number of GBP81.3 million, shown in the light blue on the left.

Moving across the chart, NRI growth improved profit before tax by GBP2 million, and net disposals reduced profits by GBP3.8 million. Completed developments, such as Terrasses du Port in Marseilles, and Monument Mall in Newcastle, boosted PBT by GBP3.3 million. And value retail provided an uplift of GBP900,000.

Now, turning to admin costs, there are three drivers for the overall change in GBP0.5 million, and these are shown in the box. First, there's a GBP2.3 million underlying reduction in admin costs; then a one-off curtailment gain of GBP2.4 million from closing the DB pension scheme to future accrual; then finally, a GBP5.2 million charge from restructuring activities I'll touch on in a moment.

Interest expenses reduced as a consequence of refinancing, and I'll also go into detail shortly.

So the first-half figure of GBP85 million is up 4.6%, but would have been 8% higher without the one-off items.

So earlier on this year, we announced a range of restructuring measures designed to fund investment in growth segments of our business. We're reducing overhead costs in order to enhance our development capabilities and our digital marketing platform.

It's been an intense first-half of activities, as you can see from the table on the left. We've progressed occupational moves in London and Reading, and rationalized employment costs. Cost reductions in France are also on track.

These actions have resulted in a restructuring charge of GBP5.2 million, as taken in the first half. And we anticipate that, when complete, the gross savings will be around about GBP6 million per annum.

Looking at the right-hand side of the page, these cost reductions will fund vital investments in areas such as development leasing, project management and multichannel marketing.

We anticipate that, despite these new resources, our 2016 net admin costs will only be slightly higher than that seen in 2013. And with the expected growth in net rental income, the Group's cost/income ratio is forecast to fall, as set out in the chart at the bottom of this slide.

Now, turning to the property valuation, we've segmented the portfolio by sector as usual, and I'm going to review the first-half movements in the second column before addressing the key drivers shown in the gray box.

The largest segment, UK shopping centers, is up 6.6% at the half-year. And as you can see, this is caused by material yield shift plus some income growth.

UK retail parks saw a rise in valuation of 3.9%, which is predominantly driven by yield compression. In France, our investment portfolio was down 0.3%. Here, there was a positive yield shift and income growth, but we were impacted by refurbishment costs and higher transfer taxes imposed across the market by many French (spoken in French).

Other UK interests increased in value by a little more than 1%. Developments were up 1.9% in the first six months and, looking at the right, GBP146 million of value reflects the transfer of Terrasses du Port to the French retail category.

Finally, I've split out our share of value retail's properties, which generated a capital growth of 8.5% from the start of the year, driven by excellent growth in rental income.

So, overall, the total portfolio value had a capital return of 4.3%, and was valued at a little bit more than GBP7 billion.

That takes me on to NAV, and here we show a walk which illustrates movements in the value of 573p at December 2013, shown on the left. The valuation increases I've just described in the investment portfolio boosted NAV by 31p a share, and development properties increased value by 1p.

Our investment in value retail was up an equivalent of 9p a share, with positive gains across the board, but particularly at Bicester Village and Wertheim, near Stuttgart.

Adjusted profit contributed 11p a share, and dividends paid out reduced NAV by another 11p, which takes us to NAV per share of 612p, up nearly 7% on the first six months of 2014.

So next is a review of value retail's performance, and operationally, value retail has had a positive six months, with brand sales up 11% year on year.

The major extension to the Village in Barcelona, opened in May, and we now have Sunday trading. The Village southeast of Milan has been revitalized due to remerchandising efforts. At Kildare, progress continues with the extension. And one hour west of Shanghai, value retail have opened a first Chinese Village to an encouraging local response. This new scheme will enhance relationships with key luxury brands.

Looking at the key figures on the right-hand side of the slide, VR had an excellent six months. And here we show Hammerson's share of value retail's numbers, with net rental income up 11% on a like-for-like basis; EPRA net income up 16%; and our share of EPRA net assets up to nearly GBP700 million or 9% on the start of the year.

Shifting to the analysis of debt, our balance sheet remains very stable, and at June 2014, the column here shows total net debt of GBP2.36 billion, up from the end of 2013, primarily due to development CapEx and acquisitions.

Gearing and LTV are comfortable at 54% and 38% respectively. We had substantial liquidity of nearly GBP1 billion, post receipt of funds on July 1 from our recent bond issue.

And the bottom-half of the table looks at some detail ratios. As you know, we've been targeting the weighted average interest rate, which has now fallen to 4.6%. And we anticipate further declines in coming years.

Interest cover and net debt to EBITDA ratios are similar to 2013.

Recently, we've slightly increased the proportion of fixed-rate debt to 90% as a consequence of our latest bond issue, which neatly takes me on to our refinancing activities.

Now, in the last two years, we've embarked on a major refinancing program, which is being driven by two objectives; reducing the cost of long-term debt and funding our growth plans.

The table on the left shows the details of recent financings, including our latest GBP400 **million**, or EUR500 **million** bond issue with a coupon of just 2%, a new record for the UK **property** industry.

Overall, these issues have raised over GBP1 **billion** at an average coupon of only 2.7%. These funding sources will replace some expensive legacy **bonds**, which are shown on the right. And these are due to mature over the next 18 months.

As you can see the average coupon of these instruments is 5%. That implies an interest saving of around about GBP20 **million** per annum, which will boost EPS and interest cover, as the old **bonds** roll away.

Now, in summary, positive first-half financial results and more actions to foster future EPS and NAV growth. So that's it from me for the time being. I'**m** going to hand back to David.

DAVID ATKINS: Thanks, Timon. So let's take a look first at our occupier markets. As anticipated a combination of an improving economic backdrop, plus some of our own asset management is leading to a picture of increasing health for our retailers, as you see from the headline figures on the chart on the left. This supports our assertion that conditions are improving in the UK and stabilizing in France.

Now, let's get into the detail behind that for a moment. Importantly, the tenant sales trend has been improving quarter on quarter, with our UK second-quarter tenant sales up over 3%, and our refurbished French shopping centers showing an improved sales performance versus national benchmarks.

The headline figures are even more impressive when you consider two mitigating factors. First, as we analyzed at the full year, this data does not capture the additional sales benefit which physical stores create online. That's worth about another 2% on the reported sales performance here.

Secondly, retailers are dropping prices, with fashion experiencing price deflation of around 8% during the period.

Now, looking at leasing activity on the chart on the right, you see a picture of steadily increasing space requirements as successful retailers gear up for the next stage of their expansion by looking for space in the quality environments that we provide.

As I said earlier, this is manifesting itself in three specific trends; first, upsizing. Across our portfolio, we're seeing good retailers dramatically increasing their physical space requirements in order to provide full-range offers and enhance their own brands.

Taking Union Square as a good example, in the first six months, we've done deals to treble the size of the River **Island** unit and are doubling the Fat Face unit. Now clearly, this space has to come from elsewhere in the center, which adds demand pressure across the center as a whole. Union Square has been one of our stars in the first six months, with ERVs increasing by 5% over the period.

You can also see similar examples across our other winning locations, with Next keen to take large home and fashion stores in several of our parks, and both Gucci and Prada significantly upsizing at Bicester.

The second major trend is the continued impact of new market entrants and formats. Now, you all know the likes of Apple and Hollister, and the impact they've had over the retail landscape in recent years. But others are now taking their place. And I've put just a few examples up on the slide.

Victoria's Secret, as those of you know who've walked past the flagship Bond Street store, is closer to full-blown tourist attraction than a shop. As Timon mentioned, there is a short-term impact from active tenant engineering as we account for the incentives for a new store. But by putting Victoria's Secret into Brent Cross, we've continued to lift the overall attraction of the center, keeping a 38-year-old mall vibrant and compelling for consumers.

Now, I've mentioned Smiggle before. This is a retailer of stationery and accessories, very popular with young teenage girls, as my three daughters will testify. It's a well-established brand from Australia, with a good footprint throughout Asia. We've now done deals at Oracle and Highcross with them, and are in discussions for another three units across our portfolio.

These retailers depend on locations that match the consumer demand for experience, convenience and luxury. Hence Michael Kors is expanding from the prestigious Victoria Quarter into several units elsewhere in the portfolio, including Marseilles and Bullring.

The third main trend is the continuing expansion of catering. We've talked about this previously. But the requirement for quality catering offer across all elements of our portfolio is both adding demand for space and driving rent.

We undertook a combination of catering deals at Highcross in the period, putting three good restaurants into a fashion area which had previously struggled. As a consequence of this activity, we saw a directly attributable capital-value increase of GBP3.5 **million** for the center.

And at Wrekin, by creating new catering pods, we've generated additional rents and thus lifted the value of the **park** by some GBP2 **million**; so by capitalizing on the demand for good coffee, even from convenience shoppers.

And at Terrasses du Port, Dalloyau, the prestigious Parisian restaurant, is breaking the mold by taking its first even shopping center unit.

So pulling these three things together, let me give you a brief case study of Parinor. As you know, we've been through the process of refurbishing many of our French assets, but Parinor is a great example of capitalizing on these themes to reposition a center which, if I'**m** honest, had been underinvested, and facing stiff competition from Aeroville.

We created a new offer for the center by opening Paris' first Primark store. We're building a UGC cinema and significantly improved catering offer.

Many of you will know how popular Primark has been throughout France. And you can see the evidence of Parinor from the picture on the right. It had a dramatic impact on the center with first-half footfall up 17% overall and very marked swing in tenant sales in the period since Primark opened.

The center has been successfully repositioned to face local competition by providing what local consumers want. And we've further plans for the second half to keep improving its attraction.

So, to summarize the occupational performance, the three trends I've identified are helping us lease above ERV and above previous rent in all areas of our business.

As we flagged earlier this year, we see this translating to underlying ERV growth in selected areas, leading to a modest overall increase in ERVs in the period. This has been helped in particular by catering deals in UK shopping centers, which have all been well above prevailing ERVs.

In France, a stabilizing economic backdrop, combined with strong international retailer enquiries, is providing good demand for space.

And in parks, by capitalizing on catering demand, we're securing new rent in areas where there was previously none. And expansion of domestic homeware and fashion brands into large new formats is, again, providing strong demand and supporting rents.

So, in summary, a strong and improving occupational market, leading to ERVs starting to grow in areas of the portfolio.

Let's now look at the investment markets. As I mentioned at the start, global investors have awoken to the retail recovery and focus their attention on high-quality retail assets.

That weight of money has had a direct impact across our portfolio, with a new prime benchmark yield being set for UK shopping centers at 4.5%, although clearly, with some deals going at levels below that.

Personally, I think that we saw an acceleration of investment demand into the first half of the year. It feels to me like we've had one year's compression in just six months. So while I wouldn't rule out a further inward move in yields, it will be dependent on the nature of individual deals themselves.

So how do we apply capital in this environment? The short answer is with discipline. You can see from the chart on the left that we have continuously invested capital into good retail areas through acquisitions. But we won't chase the market to levels that we think would erode shareholder value. And as you can see from the blue bars, we've continued to recycle capital by selling assets that don't meet our return criteria.

It's always been important to me that we fund investments, at least in part, by disposing of mature assets. And you should expect us to continue this approach in a strong investment market.

Part of the reason that we're able to be disciplined in assessing acquisitions is that we've built up a best-in-class portfolio over many years and we have other ways to generate shareholder value.

You see from the chart on the right that by building out our development pipeline, we will not only create the successful retail venues of the future, but do so with a yield on cost at a significant spread over investment yields.

So how have we done? Well I think we've got one of the best track records in the sector. I've set out here the returns on investment across our portfolio as we applied proceeds from the office disposals into our chosen sectors. In just over three years, we've deployed over GBP1 billion with a combined IRR of around 18%.

Let me highlight Bullring and the Junction Fund, as we've talked elsewhere about value retail, and will shortly about Les Terrasses du Port. Since we put more money into Bullring in May last year, we've generated an IRR of 18%. The Junction acquisition has delivered an IRR over 20%. I think these are both excellent demonstrations of our ability to select the appropriate assets, assess the potential for asset management and therefore, judge the appropriate pricing level in order to create future value for our shareholders.

So turning to our portfolio activity. As you know, Les Terrasses du Port opened very successfully in May and has had 2 million visitors through its doors already.

Importantly, dwell time has been very impressive and as you see from the comments at the bottom, the early anecdotal trading indications are very strong, with many stores outperforming their original expectations.

Now, Les Terrasses du Port is not only a development which has delivered a 23% profit on cost for shareholders, it's also a good example of the template we have created for our future portfolio.

It has unrivaled Wi-Fi and digital engagement with consumers and retailers. I'm delighted that the PLUS app, which has industry leading geolocation technology and allows us to liaise with consumers in real time with one of the app stores top 10 downloads, when it was unveiled at the center opening.

In addition, Terrasses du Port has the comprehensive suite of services which modern consumers demand from an experienced center. It has a catering experience which I have to say is unique to any center I've ever visited. If you haven't yet been to Marseilles, I recommend you get down there, eat lunch on the terrace overlooking the Med. You'll be quite amazed at what a great experience it is and, if I'm honest, it beats having a sandwich in a damp quarry in Kent any day (laughter). So think about it.

So, looking to our future development, we have broken ground at Victoria Gate in Leeds, where we are creating a luxury destination for the north of England. The scheme will have one of the largest John Lewis stores outside of London and integrate the stunning arcades of our existing Victoria Quarter.

At Le Jeu de Paume, north of Paris, we're creating a new 24,000 square meter retail development, which incorporates the city's historic arches and pre-letting has now hit the 50% threshold.

We're also making good progress on our major London schemes. We've just signed the very significant Section 106 Agreement, which triggers the planning consent that will transform Brent Cross shopping center, while delivering major transport improvements, as well as new parks and open spaces. The council has also announced it will jointly develop the land to the south with a third party.

We're making good progress in Croydon, where we're currently speaking with other landowners and interested parties regarding the land assembly process.

And finally, on Tuesday this week, we submitted our planning application with our partner, Ballymore, for our residential-led development at The Goodsyard. Remember, this 10-acre site has the potential to deliver 19,000 square meters of retail, 60,000 square meters of offices and, importantly, up to 1,500 new homes; one to watch, as we hope to secure planning consent next year.

I'd also like to flag activity within our retail parks portfolio. We completed the terrace extension at Abbotsinch early and have already submitted a further planning application for the next phase of its development. And this was a park which again was acquired as part of the Junction transaction.

We said at the time, we felt confident we could deliver value from what many claimed was an ex-growth portfolio and we've done just that, with the value of Abbotsinch up by GBP11 million or 22% above its cost since acquisition.

At Elliot's Field in Rugby, following the conclusion of the JR in our favor, we are cracking on with the development. We've secured a terrific lineup of major retailers, including Debenhams, Arcadia and Next, are in encouraging discussions with M&S.

And at Merthyr, we've handed over B&Q's first ever low-energy store, which we designed for them. And have signed contracts for a new 50,000 square foot store with M&S.

The M&S example shows that if you have the right location and the right product, you can meet demand from retailers, even those who are publicly very cautious about their existing space requirements.

So, looking at our future developments in aggregate, you see from this slide we have a phased investment program over the next few years, which peaks at a manageable GBP250 million per annum.

Committed developments are shown below the dotted line, with future developments above it.

As Marseille, which is shown in yellow, completes, the CapEx tails off, but you see the pipeline replenished by the new inclusion on this chart of both Watermark WestQuay and The Goodsyard, following excellent progress on both in the period as I've just covered.

And this development activity will drive significant income into the business. This chart shows the additional annual rental income that will be generated from our medium-term developments.

Committed developments, which are shown in purple left of the dotted line, will deliver an additional GBP54 million of annual rent by 2016. And our major schemes at Croydon and Brent Cross, shown in blue on the right of the dotted line, should together deliver an additional GBP63 million of annual rents.

So, in total, we anticipate the annual rent roll of Hammerson growing by GBP117 million, or over one-third by 2019.

So, to conclude, we're allocating capital to successful areas of the retail market in a disciplined way, focused on investor returns. Our high-quality portfolio continues to deliver high occupancy and improving leasing statistics.

We've done this whilst maintaining modest leverage and the necessary liquidity to provide flexibility when we see attractive opportunities. And I believe our portfolio and expertize makes us a leader in each of our three focus areas.

And, as I've described, we're implementing this strategy against a backdrop of improving occupier sentiment and strong investor demand. I'm therefore confident in continuing to deliver strong shareholder returns by investing in the future, to ensure we continue to grow both capital and income from the business.

With that, I'll hand over to you all for our questions.

Questions and Answers

OPERATOR: (Operator Instructions).

DAVID ATKINS: Questions? Hemant?

HEMANT KOTAK, ANALYST, GREEN STREET ADVISORS: Just a question looking at slide 24 on the presentation, the valuation yield movement, in particular the UK. I'm just wondering here. Was the 50 basis point movement largely a reflection of the Bluewater deal or is there any other transactions you can point to that might show, that might warrant this 50 basis point move in valuation yields at the market level?

DAVID ATKINS: Well, interestingly, as you know, the Bluewater transaction happened just before the year-end. So that is included in our valuers' estimation of yields.

The actual valuation process takes a number of weeks, as you might imagine, and at the beginning of the process, the deal hadn't completed. At that point, our valuers were indicating a marginal inward yield shift, so that was reflecting other valuation benchmarks and deals done earlier in the year. But I think the key is that the Bluewater was one of the major factors which shifted the regional shopping center yield.

HEMANT KOTAK: Okay, thank you. That's very clear.

And clearly, you were one of the final round of bidders for Bluewater. Was the reason for that just the high-quality nature of the asset? Or are you in the market looking for acquisition opportunities?

DAVID ATKINS: Well, a major part of our business is focused on live, dominant shopping centers. Therefore, it shouldn't be a surprise that when an asset like Bluewater comes along, that we would look at it.

We're particularly drawn by its scale, the management opportunity and the fact it's in the southeast of England which, as you know, is perhaps a greater economic driver right now than elsewhere in the regions.

So we would look at similar opportunities that arise in the UK and indeed, France. But we can't predict those. But of course, we did look at that one.

HEMANT KOTAK: Okay, thank you. And just one last question on Les Terrasses du Port. You mentioned 23% profit on cost. That's based on the most recent valuation. Just looking at some quick math, if I've got that right, it's a high 5% yield on that asset.

You're pointing to 4.4% yields for French shopping centers. How can we bridge the gap? And is there a lot more to come?

DAVID ATKINS: I think there's a bit more to come. I think just remember it is a leasehold interest, so I think there would be a discount from prime yields which tend to be on a freehold basis. And our valuers are indicating that when we lease the remaining space and we see a bit more visibility on retail sales, that they may well look at that yield. So I think there's a bit more value to come.

Timon, do you want to add anything to that?

TIMON DRAKESMITH: No, I think that's right. I'll help you out with your yields after the meeting. I think you may have got it a little bit too high.

HEMANT KOTAK: Okay. Thank you.

NICK WEBB, ANALYST, EXANEBNP PARIBAS: Nick Webb, Exane BNP Paribas. I just wanted to ask; when you say you expect to see ERV growth in selected locations in the UK, would any of those locations include your retail parks?

DAVID ATKINS: Yes, absolutely. I think we're seeing growth in all three of our focus sectors; obviously, value retail, designer outlets growing very strongly.

We're seeing beginnings of growth in the shopping centers, more focused on the very dominant and very prime of our schemes. That will, I think, permeate out into the rest of the portfolio, but we're already beginning to see ERV growth selectively in the parks. Those are much more almost unit-specific because it really depends on letting deals rather than a regional bias or anything like that.

NICK WEBB: Okay. And could I just ask one second question on rents? You talked about the trend for existing retailers expanding, which I guess fits into the dominance theme anyway. Are you finding that as they expand, you're able to maintain the rental levels on a per-square foot basis? Because I guess historically, the MSUs have always had a discount to where we've seen the smaller shops.

DAVID ATKINS: Yes, it really depends on the nature of that expansion. So, quite often, we're expanding sideways into other units and I'd point to deals we've done in the first half of the year in Brent Cross and Bullring, where we saw an equivalent rent or an increasing rent by doing that.

Elsewhere, we go up; it's cheaper. And in those cases, we're often creating new space. There's no comparable. But for upper-floor space, as ever been the case, that's a bit cheaper, so that's more efficient for the retailer. But overall, the short answer is yes, we can grow rents, even on the expansion.

NICK WEBB: Makes sense. Thanks.

REMCO SIMON, ANALYST, KEMPEN & CO: Remco Simon, Kempen. Can you help us maybe understand a little bit more about your thinking about Europe? You've been involved in the bidding for Neo. That would have meant that you would have had one asset in Belgium. Is that enough? Do you need a platform there? Is that representative of how you would approach other markets? Can you maybe talk a little bit more about how you look at a continent outside of France?

DAVID ATKINS: Yes. As you know, we're focused in the UK and France. As I always remind people, through value retail, we have exposure to seven European countries, so we are more broader than I think would be seen at face value.

Neo was a good example. It wasn't a case we wanted to move into Belgium, not that I've got anything against Belgium, but we saw an opportunity in Brussels; dominant city, lack of retail and a good scheme.

So I think in assessing other situations across Europe, which we continue to monitor, then I wouldn't rule out that sort of move. But I'd just caution. We are focused on the UK and France and value retail; plenty of opportunities.

We don't feel the absolute need to move into other European countries, but if the right opportunity came along, then we would look at it.

REMCO SIMON: And that would -- so do you mean in terms of development, or would you also consider buying one single asset in a new market or --?

DAVID ATKINS: I think we would consider both. Of course, the challenge is managing a single asset. So I think I'd caution against that unless it was a particularly dominant large asset that could support a team to run it.

REMCO SIMON: Okay. In terms of your UK and French business (technical difficulty) an ambition to grow the portfolio quite substantially over time and obviously, you've got a lot of developments going on. But with yields coming down as much as they have, does that restrict you in **acquisition** and that growth? Is that something which is going to be less likely going forward?

DAVID ATKINS: I think, as I said, we've got plenty of opportunities through our development pipeline to grow our business. That would **lead** to well over GBP1 **billion** of capital over the coming years, so we're not short of opportunities. You see the extensions that we're going on **site** with, and shortly in WestQuay and the redevelopment of Rugby, on **site** in Leeds, so there's plenty of activity.

Look, we've missed out on one or two opportunities in the last six months. I don't think that means we're unable to deploy capital in the investment market and look back a few months before that, and we were very successful with things like portfolios like the Junction portfolio.

But we reiterate; we don't have to chase that market. We don't have to transform our portfolio or convert secondary to prime. We did that many, many years ago. So here we are with a very prime portfolio that's producing good income growth and a very large development pipeline. I feel pretty relaxed.

REMCO SIMON: Last question maybe. Waiting for your results, you put up a slide with PMA rental-value growth forecasts and you indicated you expect to do better than that.

How's your thinking about that progressed? Do you confirm those expectations? Has that improved? Has that decreased? Can you maybe talk a bit about that?

DAVID ATKINS: No, we've shown ERV growth of just under 1% in the first half of the year. In our shopping centers, I think for the full year, one should expect somewhere between 1% and 2%. As I said at the full year, that that level of rental growth will grow modestly over the next one to three years. I think we're bang on track.

REMCO SIMON: Thanks.

KEITH CRAWFORD, ANALYST, PEEL HUNT: Keith Crawford, Peel Hunt. Just a couple of things. This Goodsyard, now a highly fashionable **residential** location, although recent developments round there aren't particularly interesting, but this looks very -- quite different to how it looks at the moment. What proportion of social housing do you think you'll have to provide there?

DAVID ATKINS: Well, our expert on The Goodsyard is Peter. Peter, do you want to answer a question on that?

PETER COLE, CIO, HAMMERSON PLC: I think the -- obviously, the application's in now, so we're going to be negotiating that over the next six to nine months. That's a -- the social housing content is a matter of viability discussions with the local authorities; early days.

There's quite a lot of infrastructure costs on The Goodsyard in terms of working round a rail **site**. So we're anticipating 140 homes for affordable in terms of end result.

KEITH CRAWFORD: Okay, good. Good. Good. And then the other thing that caught my eye here was your comment about development pipeline yield on cost in relation to investment yields.

And it looks as though the returns on five-star schemes like Brent Cross, Croydon and Leeds, will be higher than the Marseilles returns, potentially; which are good. I mean, that's a very good outcome on Marseilles, but it looks like higher returns, if anything, trending higher.

DAVID ATKINS: Well, we've shown a yield on cost of around 7% for Marseilles, and we're guiding between 6.5%, 7.5% for our scheme. So I think for most of those, it's a little early to be very precise in terms of where we'll end up. But what I would say is the returns will be above investment yields.

KEITH CRAWFORD: Yes. But they are not very high-risk schemes, are they?

DAVID ATKINS: It's a tough job developing retail schemes, you know. There's a lot of things to be done. So I wouldn't pass it off as ex risk. They've been very good.

JON STEWART, ANALYST, LIBERUM: Jon Stewart, Liberum. First question just on the collection rate in France appeared to be down in the first half. I just wondered if there was any background to that.

And also, the tenant sales growth continuing to be negative, just a bit of context. Is that a disappointing result on the back of the refurb program or were you expecting it to take a bit longer to bed in?

TIMON DRAKESMITH: So I'll do the collection stats and Jean-Philippe will talk about the sales. We took on **board** a couple of schemes during the first half, Jon. So Nancy was brought into the portfolio, so we've had some handover activities with the previous manager. And Terrasses du Port, of course, went live in May, so often it takes you a bit of time to get some of the payment processes together. But we're very comfortable and I think it'll improve in coming quarters.

JEAN-PHILIPPE MOUTON, EXECUTIVE DIRECTOR, HAMMERSON PLC: And lastly, we're charging back some of the renovation works that have been carried last year, or ongoing. So it takes longer, of course, to collect.

JON STEWART: Okay, sorry. And just --

DAVID ATKINS: Take the second question on sales?

JON STEWART: Yes, the tenant sales question.

JEAN-PHILIPPE MOUTON: Sorry, what is the question exactly?

DAVID ATKINS: Could you repeat the question?

JON STEWART: The fact the tenant sales were down again in the first half, I just wanted to get a bit of context. Was that a disappointing result in the context of having done the refurbishment program last year? Or would you have expected that anyway?

JEAN-PHILIPPE MOUTON: No. I think it's a direct consequence of the renovation. So the cycle of renovation is the following one. You decide to renovate, you renovate, which creates, of course, new winds to the customers, so they leave you. So we lost customers.

So now, the target, once it's completed, the renovation is completed, which okay, is now, is to re-conquer them, attract new customers, but as importantly, is to attract new tenants, new inspirational tenants, to replace the old ones by the new ones. So it takes time. And all this process takes relatively ones to two years. So it's normal that we see this shift in sales, but we will undoubtedly recover.

JON STEWART: Great. Just one follow-up question on finance, really. And that's, obviously, you've done the bond issue and the private placement. The proportion of fixed rate debt is now up to 90%. As your bond facilities next year and in 2016 mature, how would you anticipate the balance between fixed rate long-term facilities and bank debt evolving from here?

TIMON DRAKESMITH: Yes, having done the most recent bond issue we've retired our credit facilities, which are still in place, but we can re-draw on those and therefore, access a very cheap floating rate debt. So paying the bills for Leeds, Beauvais, retail parks will come out of credit facilities.

We have a policy of running fixed-rate debt of between 60% and 80% of -- the totals are actually above that at the moment, so I think the 90% will come down to somewhere between 70% and 80%.

So it's the right balance between protecting ourselves, particularly from sterling interest-rate rises, but also, benefiting from very low euro rates. Because we're a mixed business; we're having exposure to both euro and sterling. So coming down slightly from 90% is the answer, Jon.

JON STEWART: Fine.

MIKE BESSELL, ANALYST, BOFA MERRILL LYNCH: Mike Bessell, Bank of America Merrill Lynch. Just a couple of quick ones from me, if I may and then -- but firstly is on the restructuring charges. That's it, or is there anything still remaining to come through 2H?

TIMON DRAKESMITH: Yes, it's a good question. At the year-end results in February, we signaled around about a GBP5 **million** restructuring charge that was coming, because at that point, we'd decided to press ahead with our changes in accommodation in London and Reading and we had, obviously, an employment restructuring plan in mind.

There may be a couple of hundred thousand quid more, but it will be below GBP5.5 million for this year.

MIKE BESSELL: Okay. And on slide 22, there's a note of the UK shopping centers in the first half. It's to do with specific locations, but leasing versus ERV plus 15%, but versus previous parsing of 2%. Given overall your portfolio is let on a very tight spread, can you give us just a bit more color on those specific examples and what drove that?

DAVID ATKINS: Well it was across all centers, but we're saying it's deal specific. It covers upsizing as I said for major multiples. It includes some catering deals that are significantly above ERV.

But the range is very dramatic. We've had some deals that are 50%, 60% above ERV, but equally, some deals below ERV. But overall, the vast majority of deals are above ERV, it's a very healthy number.

So I think what that does do is obviously provide future upward momentum and growth to come, but that takes a while because I'd just put it into context. We did 192 leasing deals in the first half of the year; we've got well over 3,000 leases in our portfolio, so it's quite a small proportion. So that's why it takes a bit of time to flow through to our overall like-for-like net rental income.

MIKE BESSELL: Okay. And just finally, back to the Bluewater impact on the yields. The chart you've put up shows in the first half of this year, according to DTZ, 75 basis points of yield compression on an equivalent basis.

Looking at the appendices to the announcement and comparing it to the full year, you've taken 40 basis points through the portfolio as a whole. Should we be expecting a little more to come from this effect, or is it the remainder of the portfolio effect that means you're -- the 40 basis points is on there?

DAVID ATKINS: Well I did consider asking Rob Noel to become our valuer, but barring that, I think you should assume that is it. The valuers look at the deals in front of them and I think perhaps they look at what they believe is the more market clearing price for an asset rather than perhaps the one-off sale price, [light in] -- at the market yield.

TIM LECKIE, ANALYST, JPMORGAN CAZENOVE: Tim Leckie, JPMorgan Cazenove. Just one question from me. I saw you on CNBC this morning, but unfortunately, it was on mute on our floor (laughter).

DAVID ATKINS: Yes, that was quite deliberate (laughter). Did I look all right?

TIM LECKIE: You looked great.

DAVID ATKINS: Thank you.

TIM LECKIE: It looked like some interesting discussion around -- there were some comments from Carney about impact of higher mortgage rates and what it means for disposable income, spending and obviously, that's an important part of the growth outlook.

I'm just wondering. If there is a higher-rate impact on consumer spending, what sort of strategic flexibility do you have in the development pipeline? Having a number of planning permissions go in and just been approved, can you move round the timing? Or are you now fully committed to these developments come rain or shine?

DAVID ATKINS: Well I'll make a general comment perhaps, then, Peter, just talk on the phasing and flexibility. But just on the interest-rate movement, and there's an article in the FT today, what I'm personally very positive about is that Mark Carney is very aware of the indebtedness of the consumer, and he talks about modest interest rates over an extended period of time.

And of course, rates will only go up where they believe the economy is recovering at a point where wage growth is coming through and inflation is coming through. And I just highlight fashion sales; there's quite deep deflation at the moment, so I think it's not absolutely certain that we will see a rate soon. But I think when it comes, it will be fairly modest.

But we do have considerable flexibility. Peter, do you want to just comment on the phasing?

PETER COLE: Yes. I think we obviously manage the risks as aggressively in terms of development and make sure we're not overexposed in one time. So, if you see our pipeline, it is phased. So we're committed now in Leeds, which we're 30% pre-let on, so that will work through.

We're going to make decisions on Rugby and Watermark which we'll start at the second half again; they're 40%, 50% pre-let, so letting risk is already pretty removed from those.

The larger projects, Brent Cross and Croydon, they're one or two years away from major commitments, so we'll have greater visibility of the economic outlook by that time.

And there's no commitment to deliver those projects. At the moment, are, obviously -- we're controlling our capital quite carefully to work out the risk in terms of pre-lettings, planning and making sure we've got delivery and cost control before we actually make the full commitments.

TIM LECKIE: Thanks very much.

OSMAAN MALIK, ANALYST, UBS: Osmaan Malik, UBS. Just one thing I'm struggling to reconcile is on the portfolio valuation change for the current developments which were up 1.9%, so less than half the rate of the whole portfolio. And this is in a period where you've completed Terrasses du Port, you're onsite five other projects and market yields have come in, rents have gone up. I'm just struggling to reconcile that. Could you comment?

TIMON DRAKESMITH: Yes, it's a great question, Osmaan; well spotted. So this is page 11 for those interested in looking at the detail. We've had an uplift in current developments of a couple of million quid, GBP6 million, which is predominantly driven by Marseilles which actually generated between GBP10 million and GBP15 million of uplift in the first half.

But that category was brought down by some write-offs in some of our landholdings. So, for example, some land we own in Leeds was written down.

So, were it not for that, the development uplift would have been quite strongly positive, but the valuers have taken a view conservatively. You might say that some of our strategic landholdings should have been written down.

We had some preliminary costs, design costs, some work-up costs for some of the schemes that Peter's just been mentioning, which again, have not been reflected in the books.

So our UK valuation position for our development is extremely conservative. We've taken quite a lot of write-offs, and from here we think that should provide decent growth in terms of portfolio value and NAV.

DAVID ATKINS: I would just add, this is not unusual, and it's almost the nature of residual valuation, that when you go on site, you often see a reduction in value, a fall in value. It's the nature of appraisers and we have discussions with them saying it just doesn't look logical. It's the way the appraising works, because they add in allowance for risk and for profit; whereas before, they didn't have the profit allowance.

So I'm confident we'll recover those reductions. It's just more a timing point around the cycle of the actual developments concerned.

OSMAAN MALIK: Okay. Thank you.

JOANNA FRONTA, ANALYST, KAIZER VALUE: [Joanna Fronta, Kaizer Value]. You have mentioned that there is no need to move anywhere else as you are focused on both the UK and French markets. But at the same time, your French activities keep underperforming the UK ones. So I wonder, firstly, what are the main difficulties you keep experiencing in France. And second, why are you so confident about this market?

DAVID ATKINS: Well, it's a good question, but I remind you that, for many years, our French business was outperforming our UK business. And our job is to look over the medium to long term, in terms of generating returns. And I also point to what we've just achieved in Marseille. So there's a great way of adding considerable value to our overall business and returns to shareholders.

So my feeling is, from a strategic point of view, France is one of the largest economies in Mainland Europe. It is still growing. It's not in recession; it's growing from a GDP point of view. We have a high level of occupancy. And I believe, as recovery comes through, and remember that the consumer in France has a much lower level of personal debt than their UK cousins, I think the potential for spending to grow slightly more quickly than the UK is, is my belief, will come through.

So it's a business which is struggling at the moment, an economy which is challenging, but I think, over the medium term, it will provide better returns.

MARC MOZZI, ANALYST, SOCIETE GENERALE: Marc Mozzi, Societe Generale. I have three questions. The first one is can you provide us a yield at which Les Terrasses du Port has been valuated?

TIMON DRAKESMITH: A bit more than 5%. Bear in mind that you've got some vacancy. So it was 97% leased as at the end of June, now 98%, so that's part of the answer to your earlier question, Hemant. So it's a little bit more than 5%.

MARC MOZZI: Okay. And the second one is, the GBP20 million economy of financial costs you're providing us over the next two to three years, is it based on the 2.7% average cost of debt on the (multiple speakers)?

TIMON DRAKESMITH: It's fairly mechanical, Marc, because you've got the roll-off of two bonds. So, in June next year, you have GBP400 million worth of bonds being retired at 4.875%. So that's great to say goodbye to those. Then, in about 18 months, we've got a sterling bond, around about GBP270 million. That's got a coupon of 5.25%, so great news to see the back of that one.

So what we're doing is we're disappearing legacy bonds and replacing them with new, longer-term debt instruments at structurally lower levels of debt.

It's been quite hard work, but to be fair, we're not unique in this respect. Much of the property industry is aware of a restructuring of the liability side of the balance sheet. It's just that we've had to wait for some of these bond maturities; whereas other companies have been fortunate enough to have them coming earlier in the post-downturn era.

So yes, GBP20 million is quite a lot of money. It's the equivalent of nearly 3p a share in earnings. So that's all going to help as we seek to push earnings per share higher in coming years.

MARC MOZZI: And to make things clear, it's based on a 2.7% implied cost of debt?

TIMON DRAKESMITH: Yes.

MARC MOZZI: Okay. And the third question is related to your aim to become the leading asset manager-owner in retail properties in Europe. You've been on the Beaugrenelle deal, you've been on the Neo deal, you've been on the Bluewater deal. Any other deals we should expect Hammerson to look at, if any, at the time? That's the first point.

And the second point, have you been approached or have you been approaching some other corporates to reach that head on a larger scale?

DAVID ATKINS: Well, in terms of other transactions, you name the public ones and we continue to review the market, but nothing we are currently working on.

And from a corporate point of view, as you might imagine, it's really not anything I can comment on.

MARC MOZZI: Have you been approached?

DAVID ATKINS: If I say yes or no, then it'll get taken in the wrong way. In simple terms, it really isn't something I would comment on.

I think now, just for a moment, we will go to any questions we have over the wires.

OPERATOR: We do not have any questions over the phone at this time.

DAVID ATKINS: Okay. Well look, it that just leaves me to thank you all for coming along today.

Before we finish, I just do want to say one thing. Many of you will know that Morgan Bone, who has been our Head of Corporate Communications, will be leaving us shortly, so this is his last results presentation.

I know he's enjoyed a very positive relationship with many of you. I just wanted to say my personal thanks to Morgan and wish him well in his new global role with HSBC. It's a very exciting role and I thank you for all you've done for Hammerson over many years.

As ever, we're going to leave with a video as you leave about the opening of Les Terrasses du Port. But thank you for your time, and look forward to seeing you over the summer.

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