Information on Hammerson’s Tax Exempt Status

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Hammerson’s principal operations are based in the UK, France and Ireland where the group benefits from tax exempt status. Hammerson was among the first to become a UK Real Estate Investment Trust (“REIT”) in 2007. In France, Hammerson has been a Société d'Investissement Immobilier Côtée (“SIIC”) since 2004 and in Ireland, Hammerson established a Qualifying Investor Alternative Investment Fund (“QIAIF”) in 2015.

These tax regimes generally exempt the group’s investment property income and gains from corporate income and capital gains taxes. Hammerson pays corporate taxes on non-exempt income and is also subject to other taxes such as VAT, employment taxes, property transfer taxes, local business taxes and environmental taxes in all countries in which we operate.

UK REITs

- An elective regime introduced in the UK in 2007 for UK-resident listed real estate companies whose property investment business comprises more than 75% of its assets and profits
- A one-off conversion charge of 2% of the value of property assets was payable by a company electing for REIT status. The conversion charge was abolished in 2012
- After conversion to a REIT, rental income on UK investment properties is exempt from corporation tax. Gains on disposals of investment properties are also exempt except for properties sold within three years of completion of development
- A minimum of 90% of the tax exempt income must be paid to shareholders as a Property Income Distribution ("PID"). PIDs may be paid in cash or as a scrip dividend (i.e. in the form of new shares)
- Basic rate income tax (currently 20%) must be deducted from PIDs but certain categories of shareholders including UK companies and UK pension funds may elect to receive PIDs gross
- Other UK income and gains of the company are subject to corporation tax in the normal way

French SIICs

- Introduced in 2003 for French listed real estate companies whose principal business is to acquire or build real estate for property investment purposes. Hammerson plc elected for SIIC status on 1 January 2004
- After converting to SIIC status, rental income and capital gains on qualifying properties are exempt from French corporate income tax
- Qualifying assets may be included within a SIIC on payment of a conversion charge and penalties apply if a company ceases to qualify as a SIIC
- Other non-SIIC income and gains of the company are subject to corporate income tax
- A minimum of 95% of a SIIC’s property income profits and 70% of a SIIC’s chargeable gains must be distributed to its shareholders

Irish QIAIFs

- A QIAIF is an alternative investment fund regulated by the Central Bank of Ireland and provides broadly similar tax treatment to that of a UK REIT. QIAIFs were introduced in 2013
- Hammerson established a QIAIF in 2015 to acquire and hold all of our Irish retail property investments and developments
- Although QIAIFs do not have a distribution requirement, any dividends paid from a QIAIF are subject to a 20% withholding tax
- Non-QIAIF income and gains are subject to Irish corporate tax as normal

Effects on Hammerson

- Hammerson's tax exempt property portfolio comprises substantially all of the UK, French and Irish shopping centres and retail parks
- Rental income from the group's investment properties are not subject to tax in the UK, France and Ireland, nor are gains on investment property disposals except for UK development properties which are sold within three years of their completion
- Sales of assets are therefore largely unfettered by tax considerations
- Hammerson paid a conversion charge of £101 million to become a REIT in 2007 and €80 million to become a SIIC in 2004
- Hammerson plc's dividends are paid as a mixture of PIDs and normal dividends to satisfy our UK REIT distribution requirements
- Hammerson plc is able to meet its SIIC distribution requirements by designating dividends, whether paid as a PID or a normal dividend, as SIIC dividends

Benefits to Shareholders

- Investing in a REIT provides access to a high quality and diversified property portfolio 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 investment trusts."* Despite their name, REITs are companies
- *"Conversion is complex."* All that was needed was for Hammerson to make a tax election and no other changes were required
- *"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's assets in France and Ireland qualify
- *"REITs can't own properties in joint ventures."* Many of Hammerson's shopping centre investments are held in joint ventures and the income and gains arising on these are tax exempt