

Webcast script for the Real Estate Survey 2007 – 18 September 2008 – 10 – 12 hrs (UK)

Introduction – Kees Hage

(sheet 1) Hello. I am Kees Hage from the PwC Luxembourg office. I am the chairman of our global IFRS real estate technical committee and also responsible for our Real Estate audit practice in continental Europe.

Last year we conducted a survey on the 2006 financial statements of real estate entities. Our main conclusion was that the real estate sector still had a way to go on IFRS, especially with regard to increasing the transparency and comparability of the financial statements. We were therefore curious this year to see what progress the industry has made in this respect.

Scope

(sheet 2) This year's survey consisted of a global review of 50 IFRS financial statements. We selected listed real estate entities with audited financial statements.

(sheet 3) The survey includes annual reports from Western, Central and Eastern Europe as well as the Nordic countries and this year, we also included entities from the Asia Pacific region.

(sheet 4) Our main driver behind conducting this survey was to assess the status of the real estate industry with the application of IFRS and industry guidance. We also wanted to look at the application of new IFRS developments.

I now hand over to my colleague, Kees Roozen, who is also a member of our technical committee and led this survey together with an international team.

Key findings – Kees Roozen

Kees - thank you very much for the brief introduction. I would like to give you an overview of our most important key findings.

(sheet 5) The first key finding I would like to mention is around **measurement**. Under IFRS, investment property is initially measured at cost and subsequently at cost or at fair value. 46 entities measured their investment property subsequently at fair value while the remaining entities applied the cost model.

All entities except for one engaged an external independent appraiser to value their investment property and stated this in their financial statements. Furthermore we noted that the disclosures on the valuation process were unclear. What we mean by this is that there was little disclosure in areas such as the timing of the valuation process (as of what date the valuation was performed), or the extent to which the valuation was determined based on internal as opposed to external valuation. It was also unclear whether a limited, desktop review or a full valuation was performed.

Our survey also reveals that 11 entities included an extract of an appraisers' report. The reports differ from one another, but in general they explain the instructions received, the appraiser's independence, the valuation method, the procedures performed, the assumptions made and the appraiser's opinion.

In general we found that entities do not disclose any assumptions used in determining the valuation. Of the surveyed entities 13 disclosed the discount rates used in the discounted cash flow model.

(sheet 6) The next key finding concerns **the income statement**.

15 entities presented the proceeds of real estate sold as part of revenue in the income statement. In case the core business of the entity is trading in real estate, the proceeds of real estate sold can be presented as part of revenue. If trading is not the core business of the ordinary activities of the entity, the realised gains and losses are presented as a separate line item in the income statement, outside revenue.

(sheet 7) The third key finding we would like to mention is on **IFRS 7**.

As IFRS 7 became effective for reporting periods on or after 1 January 2007 we included this topic into the survey. 8 companies did not apply IFRS 7 as their reported periods started earlier than 1 January 2007, which was explained in the financial statements. IFRS 7 gives guidance on risk disclosures, but in this survey we only looked at the assumptions used in the sensitivity analysis. The most common used assumptions for sensitivity analysis of the interest rate risk were an 0.5%, 1% and 100 basis points. For the currency risk this was 5% and 10%. Disclosures on market price risks were mostly qualitative.

(sheet 8) Another key finding is that real estate entities included in their annual report whether they have applied **industry guidance**, such as EPRA-guidance. One entity stated that it is fully compliant with EPRA guidelines. 13 disclosed the NNNAV or EPRA NAV and 14 entities disclosed the like-for-like growth in rental income. We also noted 4 entities disclosed 'direct' and 'indirect result', 2 of them on the face of the income statement and the other 2 in a separate overview in the primary statements.

Now let us look at **the new developments**, like IFRS 8 and ED 9. **IFRS 8, dealing with Operating Segments**, will be effective from 1 January 2009. Only one entity in the survey was an early adopter of IFRS 8. This entity explained that the notes used in the financial statements are in line with the requirements of both IAS 14 and IFRS 8.

In connection with issuance of **ED 9 'Joint Arrangements'** the survey also assessed whether entities are currently consolidating their joint ventures proportionally. If a new standard is implemented, based on ED 9, it will no longer be possible to consolidate joint ventures proportionally.

(sheet 9) For a more detailed overview of the survey findings and a full report we would like to refer to this year's publication.

Closing remarks - Kees Hage

Kees, thank you very much for sharing these key findings.

I hope the results of this survey will help you to better assess at what level your financial statements stand, and then to further enhance these.

(sheet 10) Considering the current market conditions I expect more focus on thorough disclosures in the 2008 financial statements, especially on financial risks and on fair value.

The new standard IFRS 8 is effective from 1 January 2009 and if ED 9 is translated into a new standard - this may have an impact on the financial statements.

(sheet 11) Thank you for your attention and please do not hesitate to contact your PwC specialists to discuss further.