

**LAND SECURITIES 2007 PRELIMINARY RESULTS PRESENTATION  
WEDNESDAY 16 MAY AT 09:30AM (BST)  
AT THE GREAT EASTERN HOTEL, LONDON**

**SPEAKER: FRANCIS SALWAY, GROUP CHIEF EXECUTIVE**

**SLIDE 1 – INTRO SLIDE**

GOOD MORNING AND WELCOME. YOU DO NOT OFTEN GET A RESPITE FROM BLACKBERRYS AND MOBILE PHONES, BUT PRESENTATIONS LIKE THIS ARE ONE OF THE THOSE RESPITES. PLEASE MAKE THE MOST OF IT.

AFTER A FEW SHORT WORDS OF INTRODUCTION FROM MYSELF, I'LL HAND OVER TO MARTIN GREENSLADE WHO WILL COVER OUR FINANCIAL RESULTS. I WILL THEN REPORT ON OUR REVALUATION, BUSINESS ACTIVITY AND OUTLOOK.

**SLIDE 2 – BUSINESS HIGHLIGHTS IN 2006/07**

OUR TOTAL PROPERTY RETURN ON THE INVESTMENT PORTFOLIO WAS 16.3% AND OUR RETURN ON CAPITAL EMPLOYED FOR LAND SECURITIES TRILLIUM ON ASSETS HELD OVER THE FULL YEAR WAS 16.8%.

LAST YEAR, WE HIGHLIGHTED TWO KEY OBJECTIVES - TO LEASE UP OUR DEVELOPMENTS AND TO WIN NEW BUSINESS FOR TRILLIUM. WE HAVE HAD CONSIDERABLE SUCCESS ON BOTH.

WE HAVE LET ALMOST 1.5 MILLION SQ FT FROM OUR DEVELOPMENT PROGRAMME - AND THAT EXCLUDES THE 360,000 SQ FT AT BANKSIDE 2 & 3 UNDER OFFER TO RBS.

LETTINGS ACROSS OUR WHOLE BUSINESS TOTALLED SOME 3.7 MILLION SQ FT. ALMOST 2 MILLION SQ FT OF THAT WAS IN RETAIL IN 350 SEPARATE TRANSACTIONS. SO, THE RETAIL MARKET IS DEFINITELY ALIVE.

WE HAVE INVESTED £1.4 BILLION IN LAND SECURITIES TRILLIUM AND GROWN FLOORSPACE UNDER MANAGEMENT BY 16M SQ FT. THAT IS AN INCREASE OF 45%. IT EXCLUDES THE POTENTIAL NEW BUSINESS WITH THE MINISTRY OF DEFENCE AND NORTHERN IRELAND CIVIL SERVICE, WHERE WE ARE ONE OF TWO PARTIES AT BAFO STAGE. IF THESE TWO ALSO CONVERT TO COMPLETED CONTRACTS, THEY WILL REPRESENT A FURTHER 19% OF GROWTH.

OF PARTICULAR NOTE FOR TRILLIUM WAS THE PURCHASE OF SECONDARY MARKET INFRASTRUCTURE FUND OR SMIF, OUR LARGEST EVER ACQUISITION. IT

GAVE US A SECTOR LEADING POSITION IN THE PFI MARKET. THIS IS OF REAL SIGNIFICANCE TO US BECAUSE IT IS IN OUTSOURCING AND PFI THAT WE CAN ACHIEVE THE GREATEST BENEFITS AND ECONOMIES OF SCALE.

WE SAID THAT FOLLOWING REIT CONVERSION WE WOULD INCREASE THE DIVIDEND TO REFLECT THE CORPORATION TAX NO LONGER PAYABLE, GIVING AN INCREASE OF AROUND 30% ON A FULL YEAR BASIS. WE HAVE NOT DISAPPOINTED. THE RECOMMENDED FULL YEAR DIVIDEND FOR 2006/7 IS UP 13.5% AND WE ARE ALSO MOVING TO QUARTERLY DIVIDEND PAYMENTS FOR 2007/8 WITH THE FIRST THREE QUARTERLY DIVIDENDS AT 16.0 PENCE PER QUARTER, WHICH IMPLIES A FURTHER INCREASE OF OVER 20% FOR 2007/8.

I WILL NOW HAND OVER TO MARTIN GREENSLADE FOR THE FINANCIAL RESULTS.

**SPEAKER: MARTIN GREENSLADE, GROUP FINANCE DIRECTOR**

**SLIDE 3 – FINANCIAL RESULTS**

THANK YOU FRANCIS. GOOD MORNING LADIES AND GENTLEMEN.

AS USUAL, I HAVE TRIED TO KEEP THE ANALYSIS SHORT, PICKING OUT THE MAIN POINTS OF OUR PERFORMANCE. AS THIS IS THE FIRST FORMAL PRESENTATION SINCE OUR CONVERSION TO A REIT, I WILL FINISH WITH A BIT MORE DETAIL ABOUT REITS AND OUR DIVIDEND. THERE IS FURTHER ANALYSIS IN THE APPENDICES AT THE BACK OF YOUR PACKS.

**SLIDE 4 – FINANCIAL HIGHLIGHTS**

SO STARTING WITH OUR FINANCIAL HIGHLIGHTS.

OUR PRE-TAX PROFIT FOR THE YEAR WAS £1.98BN, 16.1% LOWER THAN LAST YEAR, PRIMARILY DUE TO A LOWER VALUATION SURPLUS, BUT ALSO BECAUSE LAST YEAR'S RESULT INCLUDED THE EXCEPTIONAL GAIN ON THE TELEREAL DISPOSAL. ON A PRE-EXCEPTIONAL BASIS, THE DECLINE WAS 11.7%.

A LARGE COMPONENT OF OUR PRE-TAX PROFIT IS THE VALUATION SURPLUS ON OUR LONDON AND RETAIL INVESTMENT PORTFOLIOS WHICH AMOUNTED TO JUST UNDER £1.4BN OR A 10.6% INCREASE IN THE VALUE OF OUR ASSETS OVER THE YEAR. AROUND 2/3RDS OF THIS INCREASE OCCURRED IN THE FIRST HALF OF THE YEAR AND THIS SLOWING OF GROWTH IN ASSET VALUES MEANT THE TOTAL SURPLUS FELL A LITTLE SHORT OF LAST YEAR'S STELLAR PERFORMANCE.

OUR UNDERLYING MEASURES OF PROFITABILITY, REVENUE PROFIT AND ADJUSTED EARNINGS PER SHARE WERE BROADLY FLAT AT £392.2M AND 70.2P RESPECTIVELY. I WILL DISCUSS REVENUE PROFIT IN MORE DETAIL LATER AND EXPLAIN WHY WE ARE VERY PLEASED WITH THIS RESULT.

ADJUSTED DILUTED NET ASSETS PER SHARE WERE UP 14.1% TO 2181P, OR UP 17.6% IF WE IGNORE THE REIT CONVERSION CHARGE. AND AS FRANCIS INDICATED OUR DIVIDEND PER SHARE ROSE BY 13.5%. I WILL DESCRIBE THE IMPACT OF REIT STATUS ON OUR DIVIDEND IN MORE DETAIL LATER.

TURNING TO OUR CONSOLIDATED INCOME STATEMENT ...

### **SLIDE 5 – CONSOLIDATED INCOME STATEMENT**

LET ME PICK OUT A FEW KEY ITEMS. UNDERLYING OPERATING PROFITS ROSE BY 7.7% TO JUST UNDER £595M WHICH I ANALYSE IN MORE DETAIL ON THE NEXT SLIDE.

THE VALUATION SURPLUS ON THIS CHART, AS YOU KNOW, RELATES TO OUR SUBSIDIARIES ONLY AS THE TOTAL RETURN FROM JOINT VENTURES COMES THROUGH ON A POST-TAX BASIS FURTHER DOWN THE INCOME STATEMENT. FRANCIS WILL COVER THE COMPONENTS OF THE VALUATION SURPLUS IN MORE DETAIL IN A MOMENT.

WE MADE PROFITS OF £118.2M ON THE SALE OF PROPERTIES IN THE YEAR, THE LARGEST GAIN BEING ATTRIBUTABLE TO DEVONSHIRE HOUSE. THE INCREASE IN INTEREST PAYABLE IS PARTLY DUE TO A HIGHER DEBT BALANCE WHICH WE WILL SEE WHEN WE REVIEW THE CASHFLOWS BUT ALSO DUE TO £19.2M OF DEBT REFINANCING CHARGES. DURING THE 9 MONTHS TO 31 DECEMBER, BEFORE WE BECAME A REIT, WE TOOK THE OPPORTUNITY TO REPLACE A NUMBER OF BANKING FACILITIES. THE £19.2M OF REFINANCING CHARGES HAVE BEEN EXCLUDED FROM REVENUE PROFIT.

OVERALL, PRE-TAX PROFIT WAS DOWN 16.1% AT £1.98BN.

TURNING TO INCOME TAX, UNDER THE ORDINARY ITEMS COLUMN, THE TAX CHARGE WAS £445M. IF WE STRIP OUT DEFERRED TAX AND TAX ON DISPOSALS, OUR UNDERLYING TAX RATE WAS 17.6% COMPARED TO 23.2% LAST YEAR, REFLECTING THE SAVING MADE AS A REIT FOR 3 MONTHS. IN ADDITION, THERE WAS AN EXCEPTIONAL TAX CREDIT OF £98.0M IN OUR JOINT VENTURES AND JUST

UNDER £2BN IN OUR SUBSIDIARIES RESULTING FROM THE DEFERRED TAX RELEASED FOLLOWING REIT CONVERSION LESS THE CONVERSION CHARGE OF £315M.

#### **SLIDE 6 – UNDERLYING OPERATING PROFIT BY SEGMENT**

SET OUT ON THIS SLIDE ARE THE MAIN CONSTITUENTS OF THE UNDERLYING OPERATING PROFIT FOR OUR SUBSIDIARIES WHICH TIES BACK INTO THE PREVIOUS SLIDE.

FOR LONDON AND RETAIL THE MAIN DRIVER OF INCREASED OPERATING PROFIT IS GROWTH IN RENTAL INCOME, THE BACKGROUND TO WHICH IS SET OUT ON THE NEXT SLIDE.

WITH RESPECT TO PROPERTY OUTSOURCING I WILL COME ON TO DISCUSS THIS IN MORE DETAIL IN A MINUTE.

DURING THE YEAR, WE RECOGNISED £14.3M OF PROFITS ON LONG-TERM CONTRACTS, THE MAJORITY OF WHICH RELATED TO OUR CONTRACT WITH THE BBC FOR THE WORKS AT BROADCASTING HOUSE WHERE WE RECOGNISED PROFITS FOR THE FIRST TIME HAVING REACHED NECESSARY MILESTONES. TRADING PROPERTY PROFITS OF £12.4M WERE LARGELY ATTRIBUTABLE TO THE DISPOSAL OF OUR CROSSWAYS BUSINESS PARK IN KENT, WITH £4.4M RELATED TO SALES OF RESIDENTIAL ACCOMMODATION AT ROEBUCK HOUSE IN LONDON. AS YOU CAN SEE, THERE IS A REDUCTION IN THESE PROFITS AGAINST LAST YEAR, WHEN WE SAW STRONG CONTRIBUTIONS IN LONDON FROM BANKSIDE I AND HIGHER TRADING PROPERTY PROFITS AT BANKSIDE IV AND ROEBUCK HOUSE. THE REDUCTION IN THESE PROFITS AGAINST LAST YEAR ALSO EXPLAINS THE FALL IN ADJUSTED EARNINGS PER SHARE ALTHOUGH THIS HAS BEEN LARGELY MITIGATED BY THE LOWER TAX RATE FOLLOWING OUR BECOMING A REIT.

INCLUDED WITHIN RETAIL JOINT VENTURES FOR THE FIRST TIME IS THE ST DAVID'S LIMITED PARTNERSHIP, OUR JOINT VENTURE WITH LIBERTY FOR THE CARDIFF CITY CENTRE REDEVELOPMENT.

## **SLIDE 7 - RENTAL INCOME ANALYSIS**

TURNING NOW TO OUR RENTAL INCOME.

LIKE FOR LIKE INCOME IN RETAIL HAS AGAIN SHOWN GOOD GROWTH AT 6.5% UP OVER LAST YEAR. NOTABLE CONTRIBUTORS TO THIS GROWTH INCLUDE GUNWHARF QUAYS IN PORTSMOUTH, WHITE ROSE – LEEDS, BULLRING – BIRMINGHAM AND OUR RETAIL PARK IN GATESHEAD.

INCOME FROM THE LONDON PORTFOLIO GREW BY 1.5%. AS EXPECTED, INCOME WAS HELD BACK AS PROPERTIES EMPTY IN ANTICIPATION OF DEVELOPMENT. IN PARTICULAR, £5.5M OF ANNUAL INCOME FROM THE FENCHURCH STREET ESTATE CEASED IN JUNE BUT THE PROPERTY REMAINS IN THE LIKE-FOR-LIKE PORTFOLIO AS WE HAVE YET TO COMMIT TO THE REDEVELOPMENT.

TWO PROPERTIES THAT HAVE BEEN TRANSFERRED TO THE “ONGOING DEVELOPMENTS” LINE ARE ONE NEW CHANGE AND DASHWOOD HOUSE WHERE A COMBINED £20M OF ANNUAL INCOME CEASED IN THE SECOND HALF OF THE YEAR.

OVERALL, GROSS RENTAL INCOME INCREASED BY £65M OF WHICH JUST UNDER HALF WAS ATTRIBUTABLE TO NEWLY ACQUIRED PROPERTIES NET OF SALES.

## **SLIDE 8 – PROPERTY PARTNERSHIPS**

LET’S TURN NOW TO OUR PROPERTY PARTNERSHIPS BUSINESS. ITS BEEN A PARTICULARLY BUSY YEAR FOR TRILLIUM YET MUCH OF THEIR NEW BUSINESS SUCCESS HAS YET TO MAKE A SIGNIFICANT IMPACT AT THE OPERATING PROFIT LEVEL.

ON THE DWP CONTRACT, OPERATING PROFITS HAVE DECLINED ON LAST YEAR AS A RESULT OF THE FULL YEAR IMPACT OF PRIOR YEAR VACATIONS PLUS FURTHER VACATIONS DURING THIS YEAR OF OVER 2.2 MILLION SQ FT.

THIS IS IN LINE WITH THE EXPECTATIONS I SET OUT A YEAR AGO. VACATIONS HAVE HAD AN IMPACT ON INCOME OF SOME £45M, ALTHOUGH THAT IMPACT HAS BEEN PARTIALLY MITIGATED BY RELATED REDUCTIONS IN SERVICE PARTNER COSTS AND AN INCREASE IN THE UNITARY CHARGE DUE TO INDEXATION.

THE BBC CONTRACT CONCLUDED IN JUNE 2006 AND AS A RESULT WE WERE ABLE TO RELEASE PROVISIONS FOLLOWING CAREFUL MANAGEMENT OF OUR EXIT COSTS. SOME PROVISIONS STILL REMAIN.

THE INCREASE IN BOTH OPERATING PROFITS ON THE NORWICH UNION AND DVLA CONTRACTS REFLECT THE REFURBISHMENT CONTRACTS BEGINNING TO

GENERATE INCOME AS WELL AS THE INCREASED CAPITAL TIED UP IN THESE SCHEMES.

THE TELEREAL II OPERATING PROFIT OF £16.1M REFLECTS A FULL YEAR'S CONTRIBUTION AND, DUE TO TIMING DIFFERENCES, IS marginally ahead of our expectations of £14M P.A. ACCOR IS ONLY INCLUDED FOR ONE MONTH OF THE YEAR AND COMPRISES ONLY 2/3RDS OF THE AGREED PORTFOLIO AS COMPLETION ON THE REMAINING PROPERTIES AWAITS THIRD PARTY CONSENTS. ROYAL MAIL'S CONTRIBUTION TO OPERATING PROFIT IS NEGLIGIBLE DUE TO ITS PURCHASE SO CLOSE TO THE YEAR END. HOWEVER, THE DEFICIT ON REVALUATION RELATES TO BOTH ROYAL MAIL AND ACCOR, REFLECTING THE IMPACT OF STAMP DUTY AND PURCHASE COSTS ON BOTH TRANSACTIONS.

THE REDUCTION IN BID COSTS IS LARGELY A TIMING ISSUE AS THE MAJORITY OF DTR RELATED COSTS WERE INCURRED LAST YEAR, WHILE CENTRAL COSTS ARE HIGHER AS A RESULT OF A COMBINATION OF NEW SYSTEMS BEING IMPLEMENTED, A REVISED INCENTIVE SCHEME, AND OVERHEADS ASSOCIATED WITH NEW BUSINESS INCLUDING THE NEWLY ACQUIRED SMIF TEAM.

ON THE SUBJECT OF SMIF, YOU MAY BE WONDERING WHY IT DOESN'T APPEAR IN THIS TABLE – SO LET ME EXPLAIN THE ACCOUNTING TREATMENT.

#### **SLIDE 9 – ACCOUNTING FOR SMIF SLIDE**

THE SMIF ACQUISITION CAN BE DIVIDED INTO TWO COMPONENTS; THE COMPANIES ASSOCIATED WITH THE MANAGEMENT OF THE INVESTMENTS AND THE PFI INVESTMENTS THEMSELVES. WHILE WE INTEND TO RETAIN THE MANAGEMENT OF SMIF, IT HAS BEEN OUR AIM FROM THE OUTSET TO DIVEST THE PFI ASSETS BY TRANSFERRING THEM TO A FUND AND BRINGING IN OUTSIDE INVESTORS. WE HAVE THEREFORE ACCOUNTED FOR THESE ASSETS AS A DISPOSAL GROUP. THE IMPLICATIONS OF THIS ARE THAT WE DO NOT CONSOLIDATE THE INDIVIDUAL ASSETS AND LIABILITIES OF THE PFI INVESTMENTS. INSTEAD, THEY ARE HELD AT FAIR VALUE LESS COSTS TO SELL IN THE BALANCE SHEET AND WE ALSO DO NOT RECOGNISE OUR SHARE OF THE UNDERLYING NET INCOME ON THE PFI PROJECTS. HOWEVER, WE DO INCLUDE THE INTEREST COST OF THE LOAN ASSOCIATED WITH ACQUIRING THE SMIF GROUP, WHICH FOR THE TWO MONTHS OF OUR OWNERSHIP AMOUNTED TO £8.3M. I HAVE NOT ADJUSTED OUR REVENUE PROFIT EITHER TO EXCLUDE THIS INTEREST CHARGE OR TO INCLUDE OUR SHARE OF THE RESULTS OF THE UNDERLYING PFI INVESTMENTS. CURRENTLY, THE PFI PROJECTS ACCOUNT UNDER UK GAAP AND UNTIL WE HAVE PERFORMED THE EXERCISE OF CONVERTING ALL PROJECTS TO IFRS, I DO NOT THINK A REVENUE PROFIT

ADJUSTMENT IS APPROPRIATE. UNDER UK GAAP AND BASED ON MANAGEMENT ACCOUNTS, OUR SHARE OF THE UNDERLYING PROJECTS' PRE-TAX PROFIT FOR THE TWO MONTHS IS APPROXIMATELY £7M.

FINALLY, THE ACQUISITION OF SMIF HAS RESULTED IN GOODWILL OF £71.5M, WHICH WILL BE HELD AT COST AND TESTED REGULARLY FOR IMPAIRMENT.

#### **SLIDE 10 – MOVEMENT IN REVENUE PROFIT**

SO WITH GOOD RENTAL INCOME GROWTH AND MARGINALLY HIGHER OPERATING PROFIT AT TRILLIUM, WHY IS OUR OVERALL REVENUE PROFIT FLAT?

THIS CHART SETS OUT THE MAIN MOVEMENTS BETWEEN LAST YEAR'S REVENUE PROFIT OF £391.3M TO £392.2M THIS YEAR.

AS YOU CAN SEE, OUR RENTAL INCOME IS A STRONG CONTRIBUTOR BUT BECAUSE SOME OF THAT GROWTH COMES FROM NET ACQUISITIONS, THE INCREASE IS PARTLY OFFSET BY THE HIGHER INTEREST CHARGES.

WE CONTINUE TO MAKE GOOD PROGRESS WITH OUR DEVELOPMENT PROGRAMME AND AS A RESULT, CAPITALISED INTEREST INCREASED BY £7.7M OVER THE YEAR. OPERATING PROFITS AT TRILLIUM DID INCREASE SLIGHTLY BUT THIS IS BEFORE TAKING INTO ACCOUNT INTEREST COSTS AND THE EFFECT OF THE TELEREAL DISPOSAL. AT THE REVENUE PROFIT LEVEL, TRILLIUM'S CONTRIBUTION DECLINED BY SOME £21.5M IN TOTAL, DUE TO THE ANTICIPATED DECLINE IN DWP PROFITABILITY AND INTEREST TO FUND THE SMIF ACQUISITION.

ON THE INVESTMENT PROPERTY SIDE, THERE HAS ALSO BEEN A SMALL INCREASE IN SERVICE CHARGE COSTS AND OVERHEADS LARGELY RELATED TO ACQUISITIONS.

FINALLY, YOU MAY BE WONDERING WHETHER A FLAT REVENUE PROFIT IS MUCH OF AN ACHIEVEMENT. WE THINK IT IS. TO BE ABLE TO FREE UP RENT PRODUCING ASSETS FOR OUR DEVELOPMENT PIPELINE AND COVER THE DECLINE IN DWP PROFITABILITY AS WELL AS THE INTEREST ON THE SMIF ACQUISITION DEBT IS NO SMALL ACHIEVEMENT AND WELL AHEAD OF INTERNAL BUDGETS.

NEXT YEAR THE CHALLENGE REMAINS THE SAME; PROPERTIES THAT WERE RENT PRODUCING FOR A GOOD PART OF THIS YEAR WILL PRODUCE NO INCOME, THE DWP WILL CONTINUE TO VACATE PROPERTIES AND WE HAVE THE ADDED COST OF

INTEREST ON OUR CONVERSION CHARGE WHICH IS AROUND £17.5M ON AN ANNUALISED BASIS.

#### **SLIDE 11 – MOVEMENT IN ADJUSTED DILUTED NAV**

SET OUT ON THIS SLIDE ARE THE COMPONENTS OF THE MOVEMENT DURING THE YEAR OF OUR ADJUSTED NAV.

THE ADJUSTMENTS WE MAKE TO OUR HEADLINE NAV TO ARRIVE AT ADJUSTED NAV ARE SHOWN IN THE APPENDIX. IF IN A MOMENT OF CURIOSITY LATER TODAY YOU DO TURN TO THAT SLIDE, YOU WILL SEE THAT FOR THE FIRST TIME OUR NAV NUMBER EXCEEDS OUR ADJUSTED NAV. THE SIZE OF THAT DIFFERENCE IS LARGER THAN FOR MOST PROPERTY COMPANIES AND RELATES TO THAT FACT THAT WE BELIEVE IFRS UNDERSTATES THE NOMINAL VALUE OF OUR DEBT. OUR ADJUSTED NAV REFLECTS THE HIGHER DEBT FIGURE.

SO WHAT HAVE BEEN THE DRIVERS BEHIND THE £1.24BN INCREASE IN ADJUSTED NAV?

VALUATION SURPLUS REMAINS THE MAIN DRIVER, BUT THIS CHART SHOWS THE SIGNIFICANCE OF OUR DEVELOPMENT PIPELINE TO VALUE CREATION. TWO FURTHER VALUATION RELATED ITEMS ARE THE DEFICIT ON THE TRILLIUM REVALUATIONS WHICH I HAVE ALREADY COVERED AND THE PROFIT ON DISPOSAL OF PROPERTIES.

THE ONE-OFF REIT CONVERSION CHARGE OF £315M, WHICH IS PAYABLE IN JULY BUT ALREADY PROVIDED FOR HERE, REDUCES OUR ADJUSTED NAV BY AROUND 67P PER SHARE. THE MAJORITY OF "OTHER" RELATES TO THE TREASURY SHARES WE BOUGHT IN JUNE LAST YEAR AT AROUND £17.00 PER SHARE.

A COUPLE OF FINAL COMMENTS:

MARKING TO MARKET OUR DEBT AND THE RELATED SWAP, WOULD INCREASE THE ADJUSTED NAV PER SHARE BY AROUND 5P AND YOU SHOULD NOTE THAT THESE NUMBERS DO NOT INCLUDE ANY UPLIFT FOR THE REIT RELATED REVALUATION OF THE TRILLIUM OPERATING PROPERTIES WHICH PRODUCED A 78P PER SHARE SURPLUS AT 31 DECEMBER 2006.

## **SLIDE 12 – CASH FLOW AND DEBT**

LET'S TURN NOW TO OUR CASH FLOW AND NET DEBT OVER THE YEAR.

TOTAL CAPITAL EXPENDITURE WAS AT A SIMILAR LEVEL TO LAST YEAR AT £2.4BN BUT THE COMPOSITION DIFFERS SIGNIFICANTLY AS WE FOCUSED OUR EXPENDITURE ON TRILLIUM AND DEVELOPMENTS. INVESTMENT PROPERTY ACQUISITIONS AT £524M WERE SIGNIFICANTLY LOWER THAN LAST YEAR WHICH INCLUDED THE TOPS AND LXB TRANSACTIONS. HOWEVER, IN TRILLIUM, THE CASH INVESTMENT OF OVER £1.3BN ON ACQUISITIONS COMPARED WITH LESS THAN £7M LAST YEAR. INVESTMENT PROPERTY ACQUISITIONS FOR TRILLIUM INCLUDED £305M ON THOSE ACCOR HOTELS WHICH HAD COMPLETED BY THE YEAR END AND £78M ON ROYAL MAIL ASSETS. AND, OF COURSE, WE INVESTED £919M ON THE ACQUISITION OF SMIF AND THE 50% OF IIC WE DIDN'T ALREADY OWN.

DEVELOPMENT AND REFURBISHMENT CAPITAL EXPENDITURE WAS UP TO £533M, LARGELY SPENT ON NEW STREET SQUARE AND BANKSIDE 2&3 IN LONDON AND SHOPPING CENTRE DEVELOPMENTS IN EXETER AND LIVINGSTON. IN ADDITION, WE SPENT £70M THROUGH OUR JOINT VENTURES ON OUR DEVELOPMENTS IN CARDIFF AND BRISTOL.

WE ALSO MADE A NUMBER OF SALES, THE LARGEST OF WHICH WAS DEVONSHIRE HOUSE.

THE NET OF ALL OUR CASHFLOW RESULTS IS A £1.4BN INCREASE IN NET DEBT OVER THE YEAR, WHICH MEANS OVER THE LAST 2 YEARS WE HAVE DOUBLED OUR NET DEBT.

## **SLIDE 13 - GEARING**

YOU WOULD BE FORGIVEN FOR EXPECTING THIS RAPID RISE IN NET DEBT TO IMPACT OUR GEARING. HOWEVER, DUE TO THE RAPID RISE IN THE VALUE OF OUR PROPERTIES AND THE RELEASE OF THE DEFERRED TAX LIABILITY, GEARING HAS REMAINED FAIRLY SIMILAR TO LAST YEAR, ALTHOUGH THE MORE RELEVANT ADJUSTED GEARING FIGURE HAS RISEN TO CLOSE TO 60%.

BUT GEARING RATIOS AND HOW THEY CHANGE TELL US LITTLE ABOUT THE COMPANY'S ABILITY TO SERVICE ITS DEBT. WITH SIMILAR LEVELS OF PROFITABILITY BUT MORE DEBT, OUR INTEREST COVER HAS DECLINED SLIGHTLY BUT REMAINS COMFORTABLE AT 2.43X. WHILE WE ARE LOOKING AT THIS RATIO, THERE IS ALSO A REIT INTEREST COVER TEST WHICH, FOR THE 3 MONTHS WE

WERE A REIT, STOOD AT 2.25X. THIS COMFORTABLY EXCEEDS THE 1.25X INTEREST COVER AT WHICH REITS BECOME LIABLE TO AN ADDITIONAL TAX.

#### **SLIDE 14 – REIT BALANCE OF BUSINESS SLIDE**

AS A REIT, WE ARE OBLIGED TO MEET THE TWO BALANCE OF BUSINESS TESTS, NAMELY THE 75% PROFITS TEST AND THE 75% ASSETS TEST. THE RELEVANT REIT PERIOD FOR THE PROFITS TEST IS THE 3 MONTHS TO 31 MARCH 2007 AND FROM THEN ON IT WILL BE ANNUALLY.

ON THIS SLIDE, I HAVE SHOWN THE 3 MONTH REIT PROFITS TEST, WHICH AT 96% QUALIFYING SHOWS WE COMFORTABLY SATISFIED THE TEST. OUR 3 MONTH PERIOD IS SUBJECT TO SPECIFIC ONE-OFF ITEMS AS WELL AS ESTIMATES ON APPORTIONING COSTS PART WAY THROUGH THE YEAR. THEREFORE, WE HAVE ALSO CALCULATED AN INDICATIVE PROFITS TEST FOR THE WHOLE YEAR TO 31 MARCH 2007 WHICH SHOWS QUALIFYING PROFITS OF 89.3%. THIS IS SIMILAR TO THE 88.1% WE ESTIMATED FOR THE YEAR TO 31 MARCH 2006 AND IS PROBABLY A BETTER INDICATION OF OUR ACTUAL POSITION. NATURALLY THIS WILL CHANGE OVER TIME.

AS FOR THE ASSETS BALANCE OF BUSINESS TEST, WE COMFORTABLY SATISFY THE REQUIREMENT WITH 88.1% OF ASSETS EMPLOYED IN THE QUALIFYING BUSINESS AT 31 MARCH 2007.

#### **SLIDE 15 – DIVIDENDS**

MY FINAL SLIDE RELATES TO OUR DIVIDEND. AS YOU KNOW WE HAVE GROWN OUR DIVIDEND CONSISTENTLY WITH A 25% INCREASE IN THE LAST 2 YEARS ALONE. WE ARE DELIGHTED THAT WE CAN CONTINUE OUR STRONG DIVIDEND GROWTH STORY BY PAYING OVER TO OUR SHAREHOLDERS THE TAX WE SAVE AS A REIT.

FOR THIS YEAR, WE HAVE PROPOSED A FINAL DIVIDEND OF 34P TAKING THE TOTAL FOR THE YEAR TO 53P, 13.5% UP ON LAST YEAR. OF THE FINAL DIVIDEND, APPROXIMATELY 4P IS OUR REIT ENHANCEMENT, EQUATING TO ONE QUARTER OF OUR ESTIMATED ANNUAL TAX SAVING OF £75M.

10P OF THE FINAL DIVIDEND WILL BE PAID AS A PROPERTY INCOME DIVIDEND (OR PID) WITH THE BALANCE AS A NON-PID. IN A FULL YEAR AS A REIT, WE EXPECT APPROXIMATELY 80% OF OUR DIVIDEND TO BE A PID AND THEREFORE SUBJECT TO WITHHOLDING TAX ON THAT ELEMENT.

**SPEAKER: FRANCIS SALWAY, GROUP CHIEF EXECUTIVE**

**SLIDE 16 - DIVIDENDS**

LOOKING FORWARDS, WE ALSO ANNOUNCED TODAY OUR INTENTION TO PAY QUARTERLY DIVIDENDS. IN GENERAL, WE WILL AIM TO PAY 25% OF THE PREVIOUS YEAR'S TOTAL DIVIDEND AS A QUARTERLY DIVIDEND WITH, WE HOPE, AT LEAST THAT MUCH AS THE FINAL DIVIDEND. AS THIS YEAR WAS A TRANSITIONAL YEAR, WE HAVE SET OUR QUARTERLY DIVIDEND FOR THE NEXT YEAR AT 16P.

OUR THREE QUARTERLY DIVIDENDS, WILL BE 80% PIDS WITH THE FINAL DIVIDEND SUBJECT TO OUR DECISION AT THE TIME. A 16P QUARTERLY DIVIDEND IMPLIES WE EXPECT AT LEAST 64P AS NEXT YEAR'S TOTAL DIVIDEND, REPRESENTING ANOTHER 20% INCREASE IN DIVIDEND OVER THE 13.5% INCREASE FOR THIS YEAR. AND ON THAT NOTE, LET ME HAND YOU BACK TO FRANCIS.

**SLIDE 17 – VALUATION RESULTS AND OPERATIONAL REVIEW**

I WILL NOW COVER THE VALUATION RESULTS, OUR ACHIEVEMENTS OVER THE YEAR AND TRILLIUM'S CONTRACTS.

I WILL NOT BE PROVIDING A FULL MARKET OVERVIEW AS WE DID THIS, IN SOME DETAIL, AT OUR INVESTOR CONFERENCE ON 9 MARCH. YOU CAN ACCESS THAT PRESENTATION ON OUR WEBSITE.

IN SUMMARY, THE OUTLOOK FOR RENTS IS SATISFACTORY IN THE RETAIL SECTOR AND EXTREMELY GOOD FOR LONDON OFFICES. HOWEVER, PROPERTY YIELDS LOOK A LITTLE STRETCHED RELATIVE TO BORROWING COSTS AND YIELDS ON OTHER ASSET CLASSES. THAT CREATES A RISK - DESPITE MONEY FLOWS INTO PROPERTY. MONEY FLOWS ARE NOW WEAKENING FOR MARKET SECTORS WITH LOWER GROWTH PROSPECTS AND THESE HAVE ALREADY SEEN SOME ADVERSE YIELD SHIFT. IN OUR VIEW, THIS TREND WILL SPREAD MORE WIDELY. WE BELIEVE THAT PRIME PROPERTY WILL HOLD UP BETTER, BUT MAY NOT BE TOTALLY IMMUNE.

FOR US, POSITIVE VALUE MOMENTUM WILL COME FROM RENTAL VALUE GROWTH FOR LONDON OFFICES, DEVELOPMENT ACTIVITY AND PROPERTY OUTSOURCING.

## **SLIDE 18 – PORTFOLIO VALUATION RESULTS**

OUR OVERALL INVESTMENT PORTFOLIO SHOWED A VALUATION SURPLUS OF 10.6%. WITHIN THAT, LONDON OFFICES WERE UP OVER 18%.

AS I SAID, THE TOTAL PROPERTY RETURN, INCLUDING INCOME AND PROFITS ON SALES, WAS 16.2% - AHEAD OF THE IPD QUARTERLY BENCHMARK AT 15.8%.

## **SLIDE 19 – PORTFOLIO VALUATION RESULTS**

WE AGAIN SAW A PARTICULARLY STRONG CONTRIBUTION FROM OUR DEVELOPMENTS WHICH SAW A SURPLUS OF 21.9% OVER THE MARCH '06 REVALUATION, MORE THAN £450M IN ABSOLUTE TERMS. SO, OUR DEVELOPMENTS CONTRIBUTED 33% OF OUR TOTAL VALUATION SURPLUS ON JUST 17% OF THE ASSET BASE.

## **SLIDE 20 – LIKE-FOR-LIKE PORTFOLIO**

THE FIGURES IN THESE BAR CHARTS RELATE TO OUR LIKE-FOR-LIKE PORTFOLIO AND EXCLUDE DEVELOPMENTS.

THE DIFFERENCES BETWEEN RENTAL VALUE AND CAPITAL VALUE CHANGE IMPLY A SLOWING IN YIELD COMPRESSION IN THE SECOND HALF OF THE YEAR, PARTICULARLY FOR RETAIL.

RENTAL VALUE GROWTH WAS 4.9% OVERALL AND REPRESENTED OVER HALF OF THE CAPITAL VALUE INCREASE.

BREAKING DOWN THE RENTAL VALUE GROWTH FIGURE FOR RETAIL - AND THE BREAKDOWN IS IN THE APPENDIX TO YOUR PACKS - WE HAD 3.0% RENTAL VALUE GROWTH FOR SHOPPING CENTRES OVER THE YEAR - SPLIT EVENLY BETWEEN THE TWO HALVES. FOR RETAIL WAREHOUSES, WE SAW LOWER RENTAL VALUES APPLIED TO SOME LARGE RETAIL WAREHOUSE UNITS IN THE SECOND HALF, WHICH RESULTED IN A MARGINAL DECREASE IN RENTAL VALUES FOR THE FULL YEAR AT MINUS 0.6%.

## **SLIDE 21 – H2 VALUATION SURPLUS**

FOR THOSE FOCUSING ON QUARTERLY VALUATION CHANGES – AND WE DO NOT - WE SPLIT OUT HERE THE RESULTS FROM Q3 AND Q4. YOU CAN SEE A PICK UP IN THE 4<sup>TH</sup> QUARTER FOR LONDON OFFICES, WHICH IS LARGELY DOWN TO STRONGER GROWTH IN RENTAL VALUES.

## **SLIDE 22 – CAPITAL MANAGEMENT**

DESPITE BEING INTENTIONALLY QUIETER ON INVESTMENT PROPERTY PURCHASES AND SALES IN THE 2006 CALENDAR YEAR, WE HAD TOTAL CAPITAL TURNOVER OF £3.3BN FOR THE YEAR. THIS MAKES A TOTAL OF JUST OVER £10BN FOR THE LAST FOUR YEARS.

WHAT STANDS OUT FOR 2006/7 IS THE HIGH CONCENTRATION OF NET INVESTMENT IN TRILLIUM AND DEVELOPMENT - WITH NET DISINVESTMENT FROM INCOME PRODUCING INVESTMENT PROPERTIES.

## **SLIDE 23 – INVESTMENT PORTFOLIO ACTIVITY**

SO, WITHIN THE INVESTMENT PORTFOLIO YOU CAN SEE THAT OUR EXPENDITURE ON DEVELOPMENT WAS MORE THAN TWICE AS MUCH AS OUR OVERALL NET INVESTMENT.

WE WERE ALSO NET DISINVESTORS FROM RETAIL AND NET INVESTORS IN LONDON OFFICES.

## **SLIDE 24 – RETAIL PORTFOLIO - SALES**

TURNING TO THE RETAIL PORTFOLIO, WE DECIDED TO HOLD BACK ON A NUMBER OF SALES UNTIL THE FIRST QUARTER OF THE 2007 CALENDAR YEAR TO AVOID CGT. RETAIL SALES DURING THE YEAR TOTALLED £417M, OF WHICH £250M (INCLUDING THE PROPERTIES SHOWN HERE) HAVE BEEN SOLD BETWEEN 1 JANUARY AND 31 MARCH.

SINCE 31 MARCH, WE HAVE BEEN MARKETING ANOTHER £580M OF RETAIL PROPERTIES FOR SALE, AND WE HAVE NOW EXCHANGED CONTRACTS ON OVER £230M INCLUDING OUR HALF INTEREST IN EAST KILBRIDE SHOPPING CENTRE.

## **SLIDE 25 – RETAIL PORTFOLIO - LETTING PROGRESS OF INVESTMENT ASSETS**

ON OUR LIKE-FOR-LIKE RETAIL PORTFOLIO WE WERE DELIGHTED TO HAVE MANAGED VOID LEVELS EFFECTIVELY AND REDUCED THEM SLIGHTLY FROM 3.4% AT MARCH 2006 TO 3.3% AT THE YEAR END. YOU WILL SEE THAT THIS IS WELL BELOW THE UK AVERAGE.

OUR SUCCESS WAS FOUNDED UPON LETTING A TOTAL OF 1.0M SQ FT OUTSIDE THE DEVELOPMENT PROGRAMME GENERATING £20.0M PER ANNUM OF RENTS. OUR RETAIL WAREHOUSES MADE THE GREATEST CONTRIBUTION TO THE REDUCTION IN VOIDS FALLING FROM 2.7% TO 1.8%.

## **SLIDE 26 – RETAIL PORTFOLIO – DEVELOPMENT LETTINGS**

WE HAVE MADE SIGNIFICANT PROGRESS ON LEASING UP OUR SHOPPING CENTRE DEVELOPMENTS. FOR THOSE SCHEMES OPENING IN 2007, SHOWN ON THE TOP HALF OF THE SLIDE, WE ARE 80% OR MORE PRE-LET OR TERMS AGREED AT EXETER AND CAMBRIDGE; AND, AT CORBY, WE ARE AT 40%, BUT WE HAVE ONLY 8 UNITS STILL TO LET. ACROSS THESE THREE SCHEMES, WE HAVE JUST 15 MORE UNITS TO GO IN ORDER TO BE FULLY LET BY THE TIME OF OPENING.

OUR EXPERIENCE IS THAT THE RECENT TREND OF INCREASING TENANT INCENTIVE PACKAGES ON SHOPPING CENTRE DEVELOPMENTS HAS NOW STABILISED.

OUR SCHEME IN EXETER IS TRULY PUSHING OUT THE BOUNDARIES - IT HAS A LOW CARBON FOOTPRINT FROM AN OPEN STREET DESIGN; IT IS PUSHING BACK AGAINST CLONE CITIES THROUGH RESERVING A WHOLE STREET FOR INDEPENDENT RETAILERS; IT IS ALREADY GETTING POSITIVE FEEDBACK FROM THE TARGETED SECONDARY CATCHMENT; AND ON RESIDENTIAL FLATS ABOVE SHOPS WE ARE SETTING THE HIGHEST SALES PRICE PER SQ FT YET ACHIEVED IN EXETER.

## **SLIDE 27 – LONDON PORTFOLIO – PURCHASES AND SALES**

TURNING TO OUR LONDON PORTFOLIO, WE SOLD A TROPHY BUILDING AT DEVONSHIRE HOUSE FOR £1,500 PER SQ FT AND, FOR A SIMILAR OUTLAY, BOUGHT INTO A HOLDING WITH OVER 4 TIMES THE SITE AREA AT JUST OVER £600 PER SQ FT CAPITAL VALUE.

## **SLIDE 28 – LONDON PORTFOLIO – DEVELOPMENT LETTINGS**

SINCE 1 APRIL 2006, WE HAVE LET OR AGREED TERMS TO LET 1.0M SQ FT FROM OUR LONDON DEVELOPMENT PROGRAMME. THIS INCLUDES THE PROPOSED LETTING AT BANKSIDE 2 AND 3 TO RBS WHICH HAS BEEN REPORTED IN THE PRESS.

THESE LETTINGS HELPED GENERATE A SURPLUS ON LONDON DEVELOPMENTS OF £425M.

WITH A DEVELOPMENT PROGRAMME OF OUR SCALE, WE LIKE TO MAKE PROGRESS ON LETTINGS AS WE MOVE THROUGH THE CONSTRUCTION PHASE. HOWEVER, WE HAVE SPECIFICALLY HELD BACK ON THE TOWER BUILDING AT NEW STREET SQUARE (OF JUST UNDER 200,000 SQ FT), WHERE WE EXPECT THE UPPER FLOORS TO SET RECORD RENTS FOR MID-TOWN DURING 2007.

## **SLIDE 29 – LONDON PORTFOLIO – THE NEXT PHASE OF DEVELOPMENTS**

THE SUPPLY OF NEW DEVELOPMENTS IS INCREASING (PARTICULARLY IN THE CITY) AND, AGAINST THIS BACKGROUND, WE HAVE ACCELERATED OUR REFURBISHMENT SCHEMES AT DASHWOOD HOUSE AND EASTBOURNE TERRACE FOR DELIVERY IN 2008 AND 2009.

AT ONE NEW CHANGE, WHICH WE HAVE NOW STARTED, THE MIX BETWEEN RETAIL AND OFFICES DIVERSIFIES THE RISK. SO ASSUMING WE LEASE UP THE RETAIL TO TARGET, THE BREAK EVEN RENT ON THE OFFICES IS UNDER £45.00 PER SQ FT.

LOOKING SLIGHTLY FURTHER OUT, PARK HOUSE IS A MIXED USE SCHEME WITH RETAIL, RESIDENTIAL AND 165,000 SQ FT OF OFFICES. AT 20 FENCHURCH STREET IN THE CITY, WE SHOULD KNOW THE OUTCOME OF THE PUBLIC INQUIRY BY THE END OF JULY AND WE WILL THEN EITHER SEEK A PRE-LET OF PART OR BRING IN A DEVELOPMENT PARTNER.

## **SLIDE 30 – LONDON PORTFOLIO – THE NEXT GENERATION OF DEVELOPMENT**

WE ARE NOW AT AN ADVANCED STAGE OF FORWARD PLANNING FOR THE NEXT GENERATION OF DEVELOPMENT IN VICTORIA - BUILDING ON THE SUCCESS OF CARDINAL PLACE - BUT VERY MUCH FOR THE 2010s DECADE. MOST DEVELOPMENTS IN LONDON PLAYS THE CYCLE. HERE IS AN EXAMPLE OF A SCHEME WHICH WE EXPECT TO REPOSITION A DISTRICT UP THE VALUE

HIERARCHY - AND THAT APPLIES TO ALL OF THE RESIDENTIAL, RETAIL AND OFFICE ELEMENTS.

#### **SLIDE 31 – DEVELOPMENT CONTRIBUTION - I**

COMBINING THE LONDON AND RETAIL DEVELOPMENT PIPELINES, THE FIGURES ON THIS SLIDE UPDATE THOSE DISCLOSED LAST AUTUMN. THEY ENABLE A READY RECKONER OF POTENTIAL VALUATION SURPLUS AND P&L CONTRIBUTION FROM OUR DEVELOPMENT ACTIVITIES. AT A TIME WHEN THE YIELDS ON MOST INVESTMENT ACQUISITIONS MAKE THEM DILUTIVE TO EARNINGS, THE 6.8% P&L YIELD FROM THESE DEVELOPMENTS IS PARTICULARLY ATTRACTIVE. IT IS ALSO HIGHER THAN THE EQUIVALENT FIGURE FROM AUTUMN '06 AT 6.5% BECAUSE OF HIGHER RENTS AND SHORTER RENT FREE PERIODS FOR LONDON OFFICE DEVELOPMENTS.

I HAVE TO SAY THAT THIS SLIDE IS CAPABLE OF REDUCING A DIVERSE DEVELOPMENT PROGRAMME TO ONE OR TWO DRY FIGURES - SO ...

#### **SLIDE 32 – DEVELOPMENT CONTRIBUTION - II**

TO GIVE YOU A BETTER FEEL FOR THE INDIVIDUAL SCHEMES, THEIR RELATIVE SIZE AND TIMINGS, WE SHOW THEM HERE ON A TIMELINE OF COMPLETION DATES AND SIZED BY TOTAL DEVELOPMENT COST.

EXCLUDING THE PHYSICALLY COMPLETED SCHEMES AT CARDINAL PLACE AND POOLE, THE TOTAL DEVELOPMENT COST OF THESE SCHEMES WITH FUTURE COMPLETION DATES EQUATES TO SOME 33% OF OUR ADJUSTED NAV.

#### **SLIDE 33 – URBAN COMMUNITY DEVELOPMENT**

THE FIGURES ON THE LAST TWO SLIDES EXCLUDE OUR URBAN COMMUNITY DEVELOPMENT ACTIVITIES - MOST NOTABLY IN NORTH KENT WHERE THE LAND IS NOW HELD AS A TRADING ASSET.

WE EXPECT 2007 TO BE A YEAR OF IMPORTANT MILESTONES FOR EBBSFLEET VALLEY. IN THE SECOND HALF OF THE YEAR, THE EBBSFLEET STATION WILL OPEN FOR INTERNATIONAL TRAFFIC AND WE ALSO EXPECT TO GET PLANNING CONSENT FOR EASTERN QUARRY.

THE FIGURES ON THE SLIDE PROVIDE UNDERLYING DATA ON OUR EBBSFLEET VALLEY HOLDINGS. YOU WILL SEE THAT WE HAVE ALREADY RECOGNISED AN UPLIFT OF £21M BEFORE RECLASSIFYING THE LAND AS A TRADING PROPERTY IN APRIL 2005. OUR CURRENT BOOK VALUE OF £85M PLUS FUTURE INFRASTRUCTURE COSTS EQUATES TO £1.25M PER ACRE. TO PUT THAT IN CONTEXT, CURRENT LAND VALUES IN THE AREA ARE £1.3M TO £1.6M PER ACRE FOR RESIDENTIAL, AFTER ALLOWING FOR AN AFFORDABLE HOUSING ELEMENT, AND AROUND £1.25M PER ACRE FOR COMMERCIAL (PER NET DEVELOPABLE ACRE OF SERVICED LAND). THIS AVERAGES AROUND £1.4M PER ACRE ON OUR MIX OF LAND USES.

SO, WE HAVE A POSITIVE HEADLINE DIFFERENTIAL OF JUST UNDER £150,000 PER ACRE - OR SOME £50M IN ABSOLUTE TERMS.

THAT LOOKS PURELY AT LAND VALUES. WE HAVE MOVED ON FROM SELLING LAND WITH OVERAGE ARRANGEMENTS TO JOINT VENTURES, AND WE ARE NOW CONSIDERING UNDERTAKING SOME DIRECT DEVELOPMENT OF RESIDENTIAL TO ACCESS A HIGHER PROPORTION OF THE POTENTIAL DEVELOPMENT PROFITS - ON TOP OF THE LAND PROFITS.

#### **SLIDE 34 – LAND SECURITIES TRILLIUM**

2007 HAS BEEN A YEAR OF PHENOMENAL GROWTH FOR TRILLIUM. THE RIGHT HAND PART OF THE PIE CHART UP TO 7 O'CLOCK REPRESENTS TRILLIUM'S FLOORSPACE UNDER MANAGEMENT IN AUTUMN 2006, AND THE REST OF THE PIE SHOWS ACTUAL AND PROSPECTIVE GROWTH SINCE THEN. WE NOW HAVE UNRIVALLED SCALE AND BREADTH OF COVERAGE IN THE ACCOMMODATION SECTOR - OFFICES, SCHOOLS, HOSPITALS ETC.

THIS GROWTH IN THE YEAR IS SIGNIFICANT FOR TWO REASONS:

- FIRSTLY, WE WERE PREPARED TO TAKE PROFITS ON THE TELEREAL AND BBC CONTRACTS IN THE CONFIDENCE THAT WE COULD WIN NEW BUSINESS - AND WE HAVE DONE SO.
- SECONDLY, WE BELIEVE THAT, HAVING REGARD TO THE CURRENT STAGE OF THE INVESTMENT PROPERTY CYCLE, OUTSOURCING WILL DELIVER MORE ATTRACTIVE RETURNS IN THE MEDIUM TERM.

### **SLIDE 35 – LAND SECURITIES TRILLIUM – POTENTIAL NEW CONTRACTS**

ON FUTURE NEW BUSINESS, WE AND QINETIQ ARE PREFERRED BIDDER FOR TRANCHE 1 AND PROVISIONAL PREFERRED BIDDER FOR TRANCHE 2 OF THE DEFENCE TRAINING REVIEW. WE EXPECT TO KNOW BY THE END OF THE SUMMER WHETHER TRANCHE 2, WHICH REPRESENTS SOME 40% OF THE WHOLE, WILL PROCEED. YOU WILL RECALL THAT WE HAVE PREVIOUSLY GUIDED ON £10M - £20M PER ANNUM PBT FOR THE WHOLE CONTRACT.

FOR THE NORTHERN IRELAND CIVIL SERVICE OUTSOURCING, WE WERE DELIGHTED TO MOVE FROM THE SHORTLIST OF FOUR TO TWO FOR BEST AND FINAL OFFERS. THE GOVERNMENT'S PROGRAMME FOR THE NEXT STAGE IS NOT QUICK AND WE EXPECT A PREFERRED BIDDER TO BE SELECTED BY JANUARY NEXT YEAR.

### **SLIDE 36 – DEPARTMENT FOR WORK AND PENSIONS - I**

IN LIGHT OF THE GROWTH OF TRILLIUM, I THOUGHT IT WOULD BE HELPFUL TO RECAP ON THE VALUE DRIVERS FOR OUR CURRENT CONTRACTS.

I WILL TALK NOW ABOUT THE TWO LARGEST PARTS OF THIS BUSINESS - THE DWP CONTRACT AND SECONDARY MARKET INFRASTRUCTURE FUND. IN THE FIRST APPENDIX TO YOUR PACKS YOU WILL FIND SIMILAR DETAILED INFORMATION AND WRITTEN COMMENTARY ON ALL THE OTHER CONTRACTS. YOU CAN READ THESE AT YOUR LEISURE AND THEY SHOULD ENABLE YOU TO UNDERSTAND AND VALUE THE CONTRACTS.

ON THE DWP, THE UNITARY CHARGE REFLECTS:

1. THE RIGHT TO OCCUPY THE FREEHOLD AND VALUABLE LEASEHOLD PROPERTIES.
2. A MARGIN ON THE SHORT LEASEHOLD PROPERTIES TO REFLECT RENT REVIEW RISK AND, PARTICULARLY, VACATION RIGHTS.
3. A MARGIN ON SERVICES AND MAINTENANCE.

THE CASHFLOW RELATING TO THE RIGHT TO OCCUPY THE FREEHOLDS IS SHOWN AS THE RED LINE ON THIS GRAPH. THIS CASHFLOW TOGETHER WITH THE TERMINAL VALUE OF THE PROPERTIES AT THE END OF THE CONTRACT WAS

VALUED BY KNIGHT FRANK IN DECEMBER 2006 FOR REIT CONVERSION PURPOSES AT £853M - OR £359M ABOVE THE THEN BOOK VALUE.

TOTAL EBIT ON THE CONTRACT IS SHOWN IN BLUE FOR THE PAST - WITH A RANGE GIVEN FOR THE FUTURE BETWEEN THE GREEN AND BROWN LINES. YOU WILL SEE THAT ON THE BALANCE OF THE UNITARY CHARGE, OVER AND ABOVE THE CASHFLOW RELATING TO OCCUPATION OF FREEHOLDS, WE HAVE BEEN MAKING AN EXCESS RETURN AS THE DWP WAS SLOW TO USE ITS VACATION ENTITLEMENT. IF THE VACATION ENTITLEMENT IS FULLY USED OVER A SHORT PERIOD, AS IS HAPPENING NOW, WE HAVE A LIABILITY WHICH, DEPENDING ON OUR SUCCESS ON RELETTINGS AND OTHER MATTERS, COULD EXCEED THE POSITIVE MARGINS ON SERVICES ETC.

EXCLUDED FROM THE EBIT LINES ON THE GRAPH ARE ACCOUNTING PROVISIONS FOR DILAPIDATIONS AND THE DEPRECIATION PROVISIONS WHICH INCREASE AS YOU APPROACH THE END OF A CONTRACT.

SO, IN ESSENCE, YOU HAVE SOME SHORT TERM EXCESS RETURNS IN THE EARLY YEARS COUNTERBALANCED BY SOME LIABILITIES TOWARDS THE END OF THE CONTRACT. AT THIS STAGE IN THE CONTRACT, THE KNIGHT FRANK VALUATION OF THE FREEHOLD AND VALUABLE LEASEHOLDS HAPPENS TO BE A REASONABLE PROXY FOR A PRUDENT ESTIMATION OF THE VALUE OF THE CASHFLOWS IN THE CONTRACT.

#### **SLIDE 37 – DEPARTMENT FOR WORK AND PENSIONS - II**

ADDITIONAL VALUE IN THE CONTRACT ABOVE THE KNIGHT FRANK REVALUATION WILL COME LARGELY FROM OUR MANAGEMENT OF THE SHORT LEASEHOLDS:

- FIRSTLY, SETTLING RENT REVIEWS AT LOW LEVELS – AND REMEMBER THAT, FOR ONCE WE ARE HERE LOOKING FOR LOW RENT REVIEW SETTLEMENTS. SO WE ARE DELIGHTED THAT IN 2006/7 RENT REVIEW INCREASES WERE 1.7% PER ANNUM AGAINST THE RPI INCREASE IN THE UNITARY CHARGE AT 3.2% PER ANNUM.
- THE SECOND AREA OF POTENTIAL ADDED VALUE CREATION WILL BE DRIVEN BY OUR SUCCESS IN DISPOSING OF SURPLUS SPACE.

YOU CAN SEE THAT BETWEEN NOW AND MARCH 2010, WHEN DWP ARE EXPECTED TO HAVE CAUGHT UP WITH THEIR VACATION ENTITLEMENT, WE WILL HAVE A TOTAL OF SOME 4.3M SQ FT OF VACANT LEASEHOLD SPACE TO DEAL WITH.

IN 2006/7 OUR INTERNAL TARGET WAS TO DISPOSE OF 200,000 SQ FT OF SURPLUS LEASEHOLDS AND WE ACTUALLY DISPOSED OF 670,000 SQ FT. A FURTHER 350,000 SQ FT WENT THROUGH LEASE EXPIRIES AND BREAK CLAUSES. SO WE EXITED LIABILITIES ON A TOTAL OF 1.0M SQ FT OF LEASEHOLD SPACE OVER THE 12 MONTHS. WHERE WE BEAT BUDGET ON DISPOSING OF SURPLUS LEASEHOLDS, THE POSITIVE VARIANCE TO P&L EXPECTATIONS IS SOME £14 PER SQ FT ON A FULL YEAR BASIS.

IN ADDITION, WHERE IT IS FREEHOLD SPACE VACATED, WE MAKE ACCOUNTING PROFITS IF IT IS SOLD AT ABOVE BOOK VALUE - AND WE CREATE ADDITIONAL VALUE ABOVE THE ONE-OFF KNIGHT FRANK DECEMBER 2006 VALUATION IF THE SITES ARE SOLD AT MORE THAN THOSE VALUATION FIGURES. WE HAVE OVER 800,000 SQ FT OF VACANT FREEHOLDS AT MARCH 2007 WITH A FURTHER 400,000 SQ FT REVERTING TO US IN 2007/8, AND WE WILL OBVIOUSLY HOPE TO CREATE PROFITS FROM THE SALE OF THESE FREEHOLDS.

### **SLIDE 39 – SMIF**

PROPERTY OUTSOURCING HAS ALWAYS HAD SIMILARITIES TO PFI - THE PROVISION OF A SERVICE FOR AN INCLUSIVE AND LARGELY PRE-DETERMINED ANNUAL CHARGE. THE DIFFERENCE IS THAT PFI TENDS TO BE LINKED TO CAPITAL PROJECTS AND TO ONE BUILDING OR A SMALL NUMBER OF BUILDINGS - RATHER THAN TO A LARGE PORTFOLIO. PFI ALSO RARELY INVOLVES THE TRANSFER OF AN INTEREST IN PROPERTY.

WE ENTERED THE PFI MARKET IN JANUARY 2006 WITH OUR PURCHASE OF A HALF INTEREST IN THE IIC JOINT VENTURE, WHICH BIDS FOR NEW PFI CONTRACTS. SMIF HAS A DIFFERENT BUSINESS MODEL - IT OPERATES IN THE SECONDARY MARKET AND BUYS PFI CONTRACTS WHEN THEY HAVE ALREADY BEEN WON.

OUR ACQUISITION OF SMIF GAVE US REAL CRITICAL MASS AS IT HAD THE LARGEST SHARE OF PFI CONTRACTS IN THE UK. THE SMIF PFI CONTRACTS PREDOMINANTLY RELATE TO ACCOMMODATION WITH THE CHARGE GENERALLY DETERMINED BY AVAILABILITY (WHICH WE CONTROL) RATHER THAN BY USAGE BY THE CLIENT OR THE PUBLIC.

PFI CONTRACTS ARE APPRAISED ON THE IRR OF CASH FLOWS AND WE GAIN COMPETITIVE ADVANTAGE THROUGH SCALE. WE ACHIEVE SIGNIFICANT AGGREGATION BENEFITS ON REFINANCING, INSURANCE AND MAINTENANCE. THESE BENEFITS APPLY TO THE WHOLE OR A MAJOR PART OF THE CASHFLOWS, WHEREAS OUR FINANCIAL INTEREST IS IN THE THIN EQUITY STAKE. SO, THE BENEFITS OF AGGREGATION CAN BE SIGNIFICANT, MOVING EQUITY IRRs FROM AROUND 6% - 7% TO SOME 10% - 11%

AS PFI GENERATES STABLE RETURNS FROM HOMOGENISED CONTRACTS, WE INTEND TO BRING IN THIRD PARTY CAPITAL ONCE CONTRACTS HAVE REACHED THE STABILISED OR POST-CONSTRUCTION PHASE. WE HAVE ALREADY APPOINTED UBS ON THE SET UP AND MARKETING OF A FUND.

ONCE THE FUND HAS BEEN ESTABLISHED, OUR P&L WILL COME FROM OUR SHARE OF DIVIDENDS PAID TO FUND INVESTORS (AND WE WILL HAVE A MINORITY STAKE IN THE FUND) TOGETHER WITH FEE INCOME AND ANY SURPLUSES AS NEW CONTRACTS ARE TRANSFERRED INTO THE FUND.

OUR TARGET IRR FOR THE INITIAL ACQUISITION WAS IN EXCESS OF 10% AND, FOR SUBSEQUENT PURCHASES, IS AROUND THAT LEVEL, PRIOR TO THE BENEFITS OF FUND DIVESTMENT.

#### **SLIDE 40 – OUTLOOK AND PROPOSITION**

IN CONCLUSION, THE UK ECONOMY IS STRONG. OCCUPIER DEMAND IS SATISFACTORY IN THE RETAIL SECTOR AND EXTREMELY GOOD FOR LONDON OFFICES. IN TERMS OF THE INVESTMENT MARKET, WE NOW SEE BOTH POCKETS OF STRENGTH AND POCKETS OF WEAKNESS. WE BELIEVE THERE IS A RISK OF ADVERSE YIELD SHIFT SPREADING MORE WIDELY ACROSS THE MARKET, WHICH MAKES OUR FOCUS ON DEVELOPMENT AND OUTSOURCING ATTRACTIVE.

OUR PROPOSITION IS THAT WE HAVE REPOSITIONED OUR INVESTMENT PORTFOLIO, AND WE HAVE DEMONSTRATED A STRONG TRACK RECORD OF EXECUTION ON LEASING UP OUR DEVELOPMENTS AND ALSO WINNING NEW BUSINESS FOR TRILLIUM. WE HAVE A HIGH QUALITY DEVELOPMENT PROGRAMME AND WE HAVE INVESTED £1.4 BILLION IN LAND SECURITIES TRILLIUM, WHICH WE BELIEVE WILL DELIVER HIGHER RETURNS WITH LOWER VOLATILITY THAN INVESTMENT PROPERTY OVER THE NEXT FEW YEARS.

AS A REIT, WE HAVE DEMONSTRATED THAT WE CAN MAINTAIN OUR BUSINESS FLEXIBILITY, INDEED INCREASING IT WITH A HIGH LEVEL OF SALES IN RECENT MONTHS. AT THE SAME TIME OUR SHAREHOLDERS WILL BENEFIT FROM THE SIGNIFICANT STEP UP IN DIVIDEND.

I WILL NOW ASK MY FELLOW DIRECTORS TO JOIN ME FOR QUESTIONS. PLEASE RAISE YOUR HAND TO ASK A QUESTION AND THE MICROPHONE WILL BE BROUGHT TO YOU. COULD YOU THEN START WITH YOUR NAME AND THE NAME OF YOUR COMPANY BEFORE PUTTING YOUR QUESTION TO US.