Interim results Presentation - 14 November 2007

Speaker Notes

Speaker: Francis Salway, Chief Executive

Slide 1 - Introductory slide

Good morning and welcome.

The web-cast is on and mobile phones and blackberries are, I hope, off.

Slide 2 - Agenda

We have some important issues to cover today – results which show how we have created value through an inflection point in the market and an announcement of major changes to our corporate structure to ensure best delivery of returns to shareholders in the future.

In terms of formal agenda, I will cover highlights, the valuation results and a business overview before handing to Martin to cover the financial results in detail. I will then return for a 'looking ahead' session – on both the outlook for our sectors and our plans for the future structure of the group.

Slide 4 - Business highlights

Turning to business highlights, we have had a 6 month period when our achievements on transactions have belied general market sentiment. We have physically completed 1.8 m sq ft of developments in the half year and these schemes are now 94% let. We have taken our sales since becoming a REIT on 1 January to £1.5bn. We have also made good progress towards bringing in third party capital for our PFI fund. All these achievements place the Group in a strong position.

But our success goes further than just closing transactions. We have done so at figures ahead of target. Our development lettings in the first half were at rents 11% above our valuers' March rental values. And our sales for the first half, which totalled over £900m, were 7.8% ahead of the March 2007 valuations (on a pre disposal cost basis).

Our activity has contributed positively to shareholders' net assets with our adjusted diluted NAV per share up 2.5%. This was founded upon a £131m or 0.9% valuation surplus which, as I will explain later, was more than wholly attributable to gains on developments.

Our success on both development lettings and sales has also helped us to out-perform the general UK property market. On a total property return basis, we out performed the IPD Quarterly Index by 2.3% over the 6 months.

Slide 5 - Investment portfolio valuation results

This bar chart shows the sector contributions behind our overall valuation surplus of 0.9%.

Across our whole portfolio, the shift in equivalent yields was 20 basis points as compared to 18 basis points on the IPD Quarterly Index. We benefited from positive rental value growth of 4.6% over just the 6 months.

Our total property return for the 6 months, including income, was 3.6% compared to the IPD quarterly benchmark at 1.3%. So, we outperformed on a relative basis by 2.3%.

At the sector level, our London offices and Retail assets separately out-performed the equivalent IPD sector benchmark by the same figure of 0.9% each.

Slide 6 - Valuation results – impact of developments and acquisitions

Valuation surpluses on our developments literally tipped the scales from being negative to positive - with the surplus on developments of £174m exceeding the overall surplus of £131m. So we overcame the negative trend in underlying markets to create positive value through development.

At a sector level, the percentage valuation surplus on completed and ongoing developments was 1.7% for the Retail Portfolio and 7.5% for the London Portfolio.

Slide 7 - Retail portfolio - like-for-like rental and capital values

I will now turn to our retail portfolio, starting with changes in rental and capital values on the like-for-like assets (and so, excluding developments and acquisitions).

The change in equivalent yields over the 6 months was 11 basis points for our shopping centres, reflecting the quality of our shopping centre portfolio. The greatest yield shift on an individual shopping centre asset was 60 basis points. And the equivalent yield shift was 21 basis points for our retail warehouses with a range up to 50 basis points.

The impact of adverse yield shift was slightly counter balanced by ongoing positive rental value growth for shopping centres at 1.4% for the half year.

Slide 8 - Retail portfolio sales

We were delighted with our success on sales in the retail sector. We sold some £590m in the half year at 4.1% above valuation (before disposal costs) even though the sentiment towards retail investment property was negative over the whole 6 months.

The sales at Canterbury and East Kilbride accounted for some three quarters of total sales activity.

Slide 9 - Retail development - case study

On 20 September we opened our development at Princesshay in Exeter. It is now 92% let and we have active interest in the four remaining units.

The headline on the front page in the local newspaper was “a jewel in the crown”. In the trade magazine, Retail Week, it was “fit for a princess” and in the Sunday Telegraph “cathedral city that rediscovered its soul”. These are not headlines normally associated with property development.

So, why did we get them? Firstly, because we broke the mould on tenant mix, holding out for a line up of top quality national multiples and also reserving one street for independent traders. And secondly, we successfully incorporated the work of two architects known for the quality of their design rather than their understanding of retail development.

Why does this matter to our shareholders? The first reason is because we have demonstrated to other local authorities that we are capable of making a strong civic contribution. This will help us win new business. And, the second reason is that the attractiveness of the scheme will significantly extend our reach into the outer catchment areas. So we not only have an attractive return on the development, but we have also ensured that we have good prospects for rental growth over the next 5 and 10 years.

Slide 10 - Retail development - the future

We have also put in place the jigsaw pieces for retail developments to be completed in major conurbations early in the next decade.

In Leeds we have entered into a joint venture with Caddick evelopments for the development of the Trinity Centre together with the refurbishment of our existing Leeds Shopping Plaza. Combined, they will create 900,000 sq ft of new and refurbished space in Leeds city centre opening from 2010.

At Buchanan Galleries in Glasgow, where we are in an existing JV with Henderson, we submitted a planning application in April for a 700,000 sq ft extension, and last week the local planning authority resolved to grant outline planning consent. We hope to complete the scheme in late 2011. It will create a dominant centre of 1.3 million sq ft in a city which to date has lacked a dominant centre. The existing asset is anchored by John Lewis and we have agreed terms to let a 150,000 sq ft store in the extension to Marks & Spencer.

At Stratford in East London, we will be submitting a planning application in spring next year for a 250,000 sq ft mall extension with over 1,250 residential units above.

Slide 11 - Retail portfolio – JV with Sainsbury's

We have today announced a joint venture with Sainsbury's. At the same time, we have exchanged contracts to sell to them two supermarkets in Winchester and Wolverhampton. These are modern stores which Sainsbury's will now be able to expand or modify on a simple and low cost basis to boost the trading potential of those stores.

The joint venture involves us contributing a Sainsbury's supermarket in Hull which we own and Sainsbury's contributing two of their stores in Thanet and Wandsworth. The aggregate value of the three properties is £113m. All have development potential. From our point of view, we access development opportunities and gain a partnership with one of the UK's leading retailers, and we contribute our development expertise. It is our mutual intention to grow the joint venture.

Slide 12 - London portfolio - London offices - valuation surplus

Turning to our London portfolio, the big driver of our performance over the 6 months was development which delivered a percentage valuation surplus almost 4 times that on income-producing assets.

In the 6 months, we saw valuation surpluses of 20% on New Street Square and 16% on Bankside 2&3, both of which saw lettings at rents well ahead of valuation ERVs.

Slide 13 - London portfolio - like-for-like assets

In terms of our like-for-like income-producing assets, excluding developments and acquisitions, positive rental value growth on London offices at 11.4% massively out-weighed the negative impact of 30 basis points adverse yield movement.

Slide 14 - London portfolio - sales

We sold £333m of assets in London at an average of 15.3% above valuation (before disposal costs). The greatest contribution to this surplus came from the development site in Blackfriars Road in Southwark, where we had established the likelihood of getting planning consent for a substantial scheme with 2.5 times the floor area of the existing buildings.

We show in the middle of this slide an undistinguished multi-let office building in the City. We have now sold five such assets and we have undoubtedly benefited from having started early on our sales programme of City offices to capture the hot spot of investment demand.

Slide 15 - London development - case study

In the half year, we reached practical completion on three out of the four principal buildings at New Street Square. The office element is now 87% let and the retail is 63% let or in solicitors hands.

We consider this scheme to be an exemplar of how we have managed timing and risk issues around development in London. In July 2002 we deferred the vacant possession date by 15 months as we waited for improved market conditions. We also then submitted a revised planning application for four buildings capable of phased development rather than the single monolithic building of some 700,000 sq ft for which we already had consent.

We started demolition in 2004 and initiated construction in spring 2005 after pre-letting just over 200,000 sq ft to Deloitte at £42.50 psf. As market conditions improved, we started work on the final building in January 2006, and later that year agreed terms to pre-let the majority of it at £50.00 psf.

Our most recent lettings of small floors in the tower building have been at £71.00 – £76.00 psf.

Not only have we managed risk successfully, we also expect, based on September valuation figures, that the completed scheme will deliver an IRR of over 40% and a total valuation surplus of £275m.

Slide 16 - London developments - building now

Our largest development currently under construction is one new change in the City, which we are due to complete in September 2010.

It is a mixed office and retail scheme with some 40% of the floor area being retail. We have now pre-let 120,000 sq ft or 35% of the offices to a legal practice, K&L Gates, and the rent is £61.50psf. Assuming the retail space lets to target, the break even rents on the remaining office space is now as low as £44psf even with recent adverse yield shift. This goes beyond risk management. It is about setting ourselves up to make a profit.

Slide 17 - London developments - the future

At Park House in the West End we are proposing a truly mixed use scheme with a combination of offices, retail and residential. We hope to overcome a technical planning objection within the next few months and then start construction in 2008. Completion will then be on a phased basis in late 2010 and 2011.

In July this year we also received planning consent, following a public inquiry, for our 600,000 sq ft office tower at 20 Fenchurch Street. As we have consistently said, we will reflect on the need for some risk management on this project - whether through pre-letting part, bringing in a joint venture partner or considering the project in the context of our limited remaining exposure to speculative office development. Demolition will continue until March 2009 and we will make a final decision at that time.

Slide 18 - UCD / KTS

Turning to our Urban Community Development activities, on 5 July we obtained a resolution to grant outline planning permission for our Eastern Quarry site. We broke the deadlock on contributions to highway works through a tariff solution which, along with others, has set the precedent for the government's new proposals for planning gain supplement.

This is a good day to highlight this achievement as today, 14 November, is the date when the first train runs on the new CTRL rail line to St Pancras.

Slide 19 - LST - current contracts

Moving to Trillium, Trillium again beat our internal expectations on profits, but as you can see from this slide it certainly wasn't the beauty of the buildings which created the profits.

On our largest contract with the DWP, we continue to make good progress on disposals - selling, letting or surrendering just under 750,000 sq ft of accommodation. This included the Hinchley Wood site on the outskirts of Kingston, shown top left, which we sold for residential development for £32m as compared to our original net book cost of £6.8m. Under the contract sharing provisions, our client enjoyed a gainshare of £13m.

For the DVLA, we completed the rolling refurbishment of their headquarters offices in July - within budget and some 2 months early.

The rolling refurbishment of the Norwich Union headquarters in Norwich is also due for final completion this month which will again be 5 weeks early.

On the Accor hotel portfolio, where our rental income is turnover related, turnover for the 6 months period from 1 April to 30 September was up by 5.6%. Setting aside purchase costs for the properties acquired in the half year, the hotels showed a marginal valuation surplus of 0.26%

Slide 20 - LST - new business opportunities

We now have a very substantial new business pipeline, and it is far more broadly based than previously when there was a reliance on a small number of large and intermittent outsourcing contracts.

In terms of Property Outsourcing, we are preferred bidder on package 1 of the Defence Training Review, and hope to reach financial close in spring 2009. Package 2 is still under review, but will not form part of the current deal.

For Northern Ireland Civil Service, the new assembly government has confirmed its support for the outsourcing proposal, and we now await the outcome of a legal challenge to the process for selecting the shortlist. The two shortlisted parties, ourselves and Telereal, will be submitting best and final offers once this has been resolved.

We have also recently been shortlisted as one of three for a property outsourcing by the London borough of Croydon. This involves constructing new offices for the local authority and releasing other land for development.

We have continued to be active in both the primary and secondary PPP markets. In the secondary market, buying existing contracts, we have completed on £65m of acquisitions and, since the half year, on a further £209m. This includes the AMEC acquisition which brought us both £150m of contracts and also an experienced team, one of whom, Janet Chamberlain, will now head our Trillium new business activities.

In the primary PPP market, we moved to a short list of two on the Kent Building Schools for the Future (BSF) project and a shortlist of three on the Birmingham BSF project.

I will now hand you over to Martin to cover the numbers in detail.

Speaker: Martin Greenslade, Group Finance Director

Slide 22 – Financial highlights

Let’s begin with our financial highlights.

Our pre-tax profit for the period was £375.2m, 68.2% lower than last year primarily due to a significantly lower valuation surplus. As Francis mentioned, we delivered an overall valuation surplus of £130.8m, 0.9% up on our 31 March position, due to the excellent performance of our developments.

Our underlying measures of profitability, revenue profit and adjusted earnings per share showed divergent trends. While ahead of our internal projections, revenue profit was down by 10.5% on the same period last year due to the accounting treatment which requires us to recognise the interest cost on our acquisition in Trillium of SMIF but does not permit us to recognise the income from the underlying contracts. Adjusted earnings per share, on the other hand, were up by 11% to 36.46p, driven by the very low tax rate we now enjoy as a REIT. If we strip out interest on the SMIF acquisition, which amounted to £27.1m for the half year, revenue profit would have been slightly ahead of the comparable period while adjusted earnings per share would have been up by 28.7%.

Adjusted diluted NAV per share came in 2.5% up on 31 March at 2236p, while the apparent large increase in the dividend per share reflects the payment of two quarterly dividends at 16p per quarter. Nevertheless, if we extrapolate the quarterly dividend over the year, we are on course for a full year dividend increase in excess of 20%.

Let's turn now to our consolidated income statement…

Slide 23 - Consolidated Income Statement

Let me pick out a few key items. Underlying operating profits fell by 5% to £284.3m which I analyse in more detail on the next slide.

The valuation surplus on this chart, relates to our subsidiaries only and includes a contribution from Trillium, principally on Royal Mail and Accor. The property performance of our joint ventures comes through on a post-tax basis further down the income statement. The negative return you see here is as a result of a valuation deficit of £23.5m in our retail joint ventures.

We made profits of £89m on disposals in the period, the largest gains being attributable to Whitefriars, Canterbury, 20 Blackfriars and Greater London House. The increase in interest payable is attributable to a higher debt balance which we will see when we review the cashflows.

Overall, pre-tax profit was down 68.2% at £375.2m.

And finally, in the income tax line, you can see the benefit of our REIT status with our residual tax being largely attributable to the taxable activities in Trillium.

Slide 24 - 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 the Retail Portfolio, the decline in operating profit is largely due to disposals including, a 50% interest in St Davids, Cardiff and a number of retail parks. In the London Portfolio, the main drivers behind the increase over the previous period were lettings at Cardinal Place and the acquisitions of Thomas More Square and Times Square, somewhat offset by properties that have gone into development, mainly One New Change and Dashwood House.

During the period, we recognised a small amount of profit on our contract with the BBC at Broadcasting House compared with the prior period where we had a larger first time recognition of profits on this contract and also trading profits on the sale of Crossways Business Park.

Slide 25 - Rental Income Analysis

Turning to rental income, like for like income in Retail has again shown good growth, up 4.7% over last year's first half. The main drivers were the letting of vacant units and rent review settlements, with Edmonton Retail Park, Gunwharf Quays and White Rose being the main contributors.

In London, as expected, like for like rental income was slightly down on last year due to the cessation of income at 20 Fenchurch Street and a sharp reduction at Park House on Oxford Street, both of which are pre-development properties.

Completed developments now includes Cardinal Place for the first time, which accounts for much of the increase, while the total of purchases and sales shows a decline of some £13m, reflecting the fact that we have been net sellers of investment properties compared with 2006.

Slide 26 - Trillium

Turning now to Trillium, our property partnership business. Operating profits were ahead of the comparable period but the amount of capital employed in this business has also increased substantially.

On the DWP contact, the anticipated decline in operating profits due to vacations was offset by indexation, a one-off settlement on an outstanding issue, as well as a number of smaller items. Compared to the previous period, vacations resulted in a net loss of income of £14.5m, while indexation increased income by £5.3m and a settlement regarding security officers provided a one-off income of £7.6m.

The Norwich Union and DVLA contracts are performing in line with expectations with the increase in operating profits attributable to the refurbishment projects and scope extensions generating income.

Accor appears in the list for the first time although it is not yet up to its full run rate as the purchase of some £146m of hotels only completed during the period. As Francis mentioned, the Accor hotels that we have purchased have in total shown good turnover growth, up on average 5.6% over the comparable last year.

The sharp rise in central costs over last year is almost entirely due to our move into the PPP market with the acquisition of SMIF and the remaining 50% of IIC.

Finally, there are two further items of note within Trillium. The first is this period's valuation deficit which is mainly due to the purchase costs on the Accor hotels. The second item is a key part of Trillium's business to manage and that is how successfully it disposes of surplus properties. In the current period, Trillium generated profits of £15.1m, principally from the sale of Hinchley Wood, a former DWP property.

Slide 27 - Movement in Revenue Profit

This slide pulls together the various items we have just covered show the main revenue profit movements compared to the first half last year.

The fall in net rental income is a direct result of our net disposal of investment properties since we became a REIT on 1st January.

We continue to make good progress with our development programme and as a result, capitalised interest increased by £20.9m over the previous period. Operating profits at Trillium did increase slightly but this is before taking into account interest costs. At the revenue profit level, and therefore including interest allocated to Trillium, Trillium's contribution declined by some £7.4m in total, due to higher central and new business costs following the acquisition of SMIF on top of which there is

£27.1m of interest associated with that acquisition against which we have not recognised any related income.

The increase in other interest is a result of our development programme and £3.6m of interest on the conversion charge we paid in July this year largely offset by our investment property sales.

Finally, on the investment property side, there has been a small improvement in service charge recoveries and indirects have remained relatively flat.

Slide 28 - Movement in Adjusted Diluted NAV

Set out on this slide are the components of the movement since 31 March of our adjusted diluted NAV.

As Francis outlined in more detail, our investment properties showed a small valuation decline of £43.4m although this was more than offset by our developments which showed a surplus of £174.2m over the period.

Two further valuation related items are the small deficit on the Trillium revaluations and the profit on disposal of properties.

Adjusted earnings broadly equate to last year's final dividend while "other reserve movements" includes the 4.2 million of Land Securities shares we purchased between our AGM in July and the start of our close period at the end of September. Now that we are able to re-consider share buy-backs, we will be adopting the same tactical approach as before our close period.

Finally, for those interested in a couple of items that do not appear in our adjusted diluted NAV:-

Marking to market our debt and related swaps, would increase the adjusted NAV per share by around 41p 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 29 - Cashflow and Debt

Let's now turn briefly to our cash flow and net debt over the period. In total we invested just over £1.1bn in our properties. Investment property acquisitions of £552.7m were almost entirely in London, the largest being Thomas More Square and a further 50.5% interest in Times Square in Queen Victoria street. The largest investment for Trillium was the Accor hotels which had not completed at the March year end plus £35.8m spent on Norwich Union and DVLA properties and a further £61m on additional PPP investments. Development capital expenditure was above the comparable period and relates to the large amount of space we are completing this financial year.

Cash receipts from disposals include the proceeds from the sale of Whitefriars, Canterbury, Greater London House and New London House.

We advanced a net £29.8m to our joint ventures but this masks a number of items, including £71.7m invested in our Bristol and Cardiff shopping centre developments, and £43.1m received from the sale of East Kilbride after we paid down a related loan.

To complete the list, we paid our conversion charge on 14 July and "other" is largely the purchase of our own share capital.

Slide 30 - Gearing

As we saw on the previous slide, net debt rose by just under £800m over the period, leading to an increase in our adjusted gearing from 58.8% to 63.6%. The decline in our interest cover ratio to 1.82x is largely due to the fact that we have over £900m of debt associated with the SMIF acquisition against which the accounting rules do not allow us to recognise any income. As we leverage the fund and bring in outside investors, we would expect our net debt to fall. If we strip out the entire interest cost of the SMIF loan, our interest cover ratio was 2.2x.

Slide 31 - PPP Acquisition Update

Before I hand you back to Francis, I want to update you on the PPP business and the progress we have made during the period.

What I have set out here is the balance sheet treatment for our PPP investments. Since it was our intention to dispose of the investments acquired as part of the SMIF transaction by bringing in outside investors, we have shown these assets as a disposal group. Goodwill of £71.5m less a small amount of net liabilities are the only items in the “retained” group.

Since 31 March we have acquired PPP interests for £61m and recognised £48m related to the unconditional element of the AMEC portfolio. While not all of these assets will be in the initial pool of projects for our Investment Partnership, they are expected to be added to the fund in the next 12 months. Therefore, they are also held as part of the disposal group. The final two entries relate to Meterfit on which we recognised a £10m disposal profit in these results.

As I said before, while we have not recognised any income from the disposal group in our income statement apart from the £10m profit on the sale of Meterfit, we have charged the income statement with the interest cost associated with the acquisition of SMIF and further PPP assets. In total, this interest charge amounted to £27.1m for the six months. This compares with approximately £25m of cashflow received from the underlying PPP contracts.

Finally, I want to give you an update on our progress towards bringing in outside investors.

Slide 32 - Trillium Investment Partnership – Progress Update

From the outset, we have recognised the importance of demonstrating to potential investors that there are real synergies to be had from such a large diversified pool of PPP investments. Therefore, since the purchase of SMIF we have achieved the following:

- We have obtained at least a 29% saving on insurance costs across the portfolio

- We are very close to establishing a structure to collateralise the debt obligations of a first tranche of PPP assets to obtain lower interest costs.

- We have successfully raised a £568m debt facility, including a £468m term loan to leverage the investment partnership and provide enhanced returns, as well as a £100m acquisition facility to accommodate future growth.

Delivering this, against the backdrop of the crisis in the credit markets and interest rate volatility is a fantastic achievement and testament to the strength of our banking relationships and the underlying cashflows of the PPP assets. Marketing of the fund has progressed well, and we are confident of achieving a successful first closing within the next month and at a value for the equity in excess of the book value of the disposal group.

Now let me hand you back to Francis to cover our outlook and review of business structure.

Speaker: Francis Salway, Chief Executive

Slide 34 - Looking ahead - now

I will start this section on ‘looking ahead’ by being the opposite of visionary - just focusing on ‘now’ - because I know that some of you will already be moving beyond our results and wanting to know where the market is now.

Since 30 September, we have sold 5 properties. They were sold for some £175m which, on a pre-disposal cost basis, averaged 7.1% above March valuation. Even the least favourable sale was only a marginal 0.8% below the March valuation. We have a further £175m of properties currently under offer for sale.

Slide 35 - Looking ahead - London offices

We show here the profile of our London development programme - by date of completion of the various schemes.

The completions are heavily bunched in the current financial year ending March 2008. This is no coincidence because we made a concerted push to start a large development programme in London early in the cycle - and some 18 months ago a firm of property consultants assessed that we then accounted for as much as 25% of the speculative development under construction. That same statistic would be very different today – much lower.

So, we are completing 1.6 million sq ft this year and it is 93% let. We are completing only 275,000 sq ft over the next two years. Having regard to the outlook for employment in financial services, it is likely to be advantageous to have a low level of completions over the next 2 years.

In terms of the outlook, CEBR have been widely quoted as predicting 6,500 job losses in the city, as compared to the 11,000 jobs created to date in 2007. We believe that CEBR have a good track record of forecasting GDP and employment growth in London, and we have no reason to doubt their projections. However, I have to say our experience is that enquiries are generally holding up well at the moment.

Nevertheless, our own internal forecasts of vacancy rates for London offices do anticipate a short term dip in employment, but with this being mirrored by a reining back of the supply pipeline in the city. As a result, we expect vacancy rates by 2011 to be broadly the same as our forecasts were showing 6 months ago.

So, bearing in mind the profile of our development completions between now and 2011, we believe we are well positioned to create value notwithstanding the changed outlook for the city office market.

Slide 36 - Looking ahead - Retail

The national retail sales data shows that trading conditions for retailers have, to date, remained broadly similar over the last 18 months. Our experience of leasing conditions on new and existing shopping centres and retail parks is entirely consistent with this - it has been a broadly similar environment over the last 12 to 18 months.

We said some time ago that just as there were winners and losers amongst retailers, so we would see winners and losers with retail property. The success of our newly opened Princesshay development in Exeter is evidence of that. It is a clear winner and it reinforces our belief that centres - both new and existing - which provide an attractive and improving retail environment will continue to be winners going forward.

We are particularly positive about the outlook for retail sales growth in greater London, which continues to benefit from population growth, increasing affluence and a relatively limited supply pipeline. We are unusual in having as much as 33% of our town centre retail assets in greater London through a combination of our central London shops and inner suburban London shopping centres. The outlook for rental value growth for these holdings is good.

Slide 37 - Looking ahead - Land Securities Trillium

The PBR statement on 9 October was extremely positive in terms of new business prospects for land securities Trillium.

The government reiterated that PFI should continue to form a significant part of the government's strategy for delivering high quality public services. It also said that PFI projects worth a total of £22.2bn are expected to reach final close by April 2011. This represents growth in the size of the PFI market of 38%.

In addition, the government restated its objective to sell public sector assets totalling £30bn by 2011. This sales programme will include a significant amount of property assets. So the outlook is good for new business for Trillium.

Slide 38 – Looking ahead – review of business structure

I now turn to our review of business structure.

Slide 39 – Looking ahead – review of business structure

The first point to make is that this review is not linked to short term movements in share price. It is evolution for the group and is intended to ensure the best long term structure for the business for our shareholders. The test of success will be sustained share price outperformance over the medium and long term.

In 2004 we took the first step in this evolution when we recognised the importance of focus and specialist teams - as opposed to being a broad generalist. So, we came out of industrial property and, at the same time, we moved from being structured by function - Asset Management, Development and Outsourcing - to being structured by sector or customer segments around Retail, London and Outsourcing.

These three business divisions have since grown, and have succeeded in demonstrating expertise, scale and leadership positions in each of their sectors.

The first discussions around this review then came in autumn 2005 when I identified to our non-executive directors that the key issue for the group for the second half of the decade would be whether we had the best structure for these successful, specialist business divisions. So, this is very much a 'second half of the decade' decision.

As you will have read in our statement this morning, our Board's decision is that, in the long term, specialisation represents the optimum structure for our group.

I am proud of our property achievements at Land Securities, but I and our board also have a more dispassionate commitment to shareholder returns. We strongly believe that these changes to our corporate structure will deliver better returns to shareholders off the same platform of successful property activities.

Slide 40 – The business today

Our three business divisions have performed strongly under our current diversified structure, but their business models do have different financial characteristics.

Firstly, Trillium. Our historic value creation from Trillium has been outstanding - with a return on capital since acquisition of 28% per annum. However, Trillium clearly has a very different business model and different valuation metrics. The cashflows have a value materially in excess of the book value of the Trillium assets on the balance sheet, and our shares stand at a discount to balance sheet NAV. We, therefore, believe there is substantial value to be created for shareholders through demerger.

Having grown floorspace under management by 57% in the last year, Trillium is now of a size to operate equally effectively, independent of land securities.

Our retail and London divisions also have distinctive characteristics:

- Retail – is about long term dominant assets which are moved up the retail hierarchy through a combination of asset management and development. Retail property has a natural earnings focus.

- Our London Portfolio - is what it says - it is a London Portfolio, not a pure office play. It is about investment in London as one of the major world financial centres. The portfolio has significant retail holdings, and also major retail and residential elements in its forward development programme. The London Portfolio will also offer shareholders significant value creation potential from its Kent Thameside development, which will be material relative to the size of this business. And in relation to the major office component, we have always said this is about developing and actively recycling capital to manage the sharper cyclical movements of the London office market.

Slide 41 – Business divisions to be run as separately quoted companies

For our Retail and London Portfolios, we believe that the long term development of these businesses and the interests of shareholders will be best served by a demerger into separate quoted companies. The benefits are compelling. As separate companies they will:

- Have a tailored and optimal balance sheet for their specific business through the property cycle for that business.

- Have a better currency for asset and corporate acquisitions in terms of their shares. So, our London and retail businesses will each have an acquisition currency that is valued consistently with the assets or businesses they may wish to acquire through their respective cycles.

From an investor point of view, they will:

- Ensure that the benefit of successful investment decisions will have greater impact for shareholders. So, £575m of valuation surpluses on Cardinal Place and New Street Square will no longer be spread across a diversified £15bn asset base.

- The companies will be more easily valued by an increasingly specialist investor base

- The companies will be better positioned to attract the growing flows of capital from global real estate funds.

- And the structure will give shareholders more choice - the choice of making sector allocations in line with individual preferences. And, in the property arena, this is technically much more efficient in terms of both cost and liquidity if done by shareholders as opposed to the management team of a diversified property company changing sector allocation through buying and selling property assets.

So, we see the move to specialisation as a very logical progression for these businesses. Importantly, they will retain core current strengths:

- Firstly, the strength of our customer relationships through an unchanged presence in our customers' markets.

- And, secondly, stability of cash flows, which are cemented in the 5 yearly, upward only rent review structure in the UK. This creates enormous resilience of cash flows and stable growth in income.

Management capabilities are also key to successful companies. We are fortunate in having the benefit of a strong executive management team capable of leading these three separate companies. All of our current executive directors will continue as executive directors of the new companies, and the new companies will be led by Ian Ellis as CEO of Trillium, Mike Hussey as CEO for London and myself as CEO for Retail, where I will be working with Richard Akers.

In terms of timing, there is a mass of technical preparatory work to be done before we are in a position to seek shareholder approval. It would be rare for this to be done in much less than 12 months. As part of this process, we will also liaise with debt providers. And the demergers will be executed once the preparatory work has been completed and only when market conditions are favourable.

Slide 42 – In summary

To conclude our presentation today, we have demonstrated a willingness and ability to think ahead and to take decisions to create value in the medium and long term. Our results over the last six months show the fruits of this. Through the timing and execution of our developments and sales, we have created positive value when the general market trend has been negative.

And we are in good shape for the future. Our London development exposure is well timed and the future income potential of our investment portfolio has increased as a result of growth in rental values. For Trillium, the new business pipeline is deeper and broader than ever before.

So we have three strong businesses, all performing well in their own right under the current structure. But as a Board we have taken the opportunity to test our business model and the status quo. We have considered the issues carefully and with a focus on the long term. We believe with a strong conviction that the development of these businesses and the interests of shareholders are best served by demerger into three separate, specialist companies. These are all substantial businesses. Each will be of a scale to be at the forefront of their sectors.

I will now ask my colleagues to join me on the podium for questions. If you would like to ask a question, please raise your hand and a microphone will be brought to you. May I ask that you start by giving your name and company name.