Preliminary results presentation – 14 May 2008
Speaker notes

Speaker: Francis Salway, Chief Executive

Slide 1 – Introduction

Good morning, for the property market, it has been a challenging year. But we have been active, busy and have beaten our targets. This has enabled us to deliver significant out-performance in relative terms. At the same time, we have made steady progress on our plans for demerger.

This morning will cover our business achievements and the valuation results before handing over to Martin to cover the financial numbers. I will then close with a few words about outlook and our progress towards demerger.

Slide 2 – Measures of success for a property company

The levers of performance for a property company are simple, or, at least, simple to describe, if not to achieve. They are asset level performance, development timing and execution, and the management of gearing through the cycle.

Slide 3 - Measures of success for a property company (build)

We scored highly against all these measures this year. And three of the figures on the slide represent specific objectives we set for ourselves in Spring 2007 – they relate to development lettings, investment property sales and the successful launch of the Trillium Investment Partners fund – and we exceeded the targets we set ourselves on all three of these measures.

So it is perhaps no coincidence that we delivered outperformance in relative terms over the year. While the value of our investment portfolio assets fell by 8.8%, this was less than the market. On the basis of ungeared total property returns, our investment portfolio out-performed the IPD Quarterly Universe by 6.5% relative (that is our return divided by that of IPD). Our relative out-performance of IPD equates to over £800m of value preservation.

And these figures ignore the massive out-performance of Trillium relative to the conventional property investment market, with rillium recording a positive return on capital of 9.5%.

Slide 4 – Investment portfolio valuation results

Turning to the results of the investment portfolio revaluation, the green bars show the overall portfolio valuation change. In all sectors, valuation change was negative in absolute terms. London offices showed the smallest reduction in value in spite of having the greatest adverse yield shift because that yield shift was partially offset by strong rental value growth.

The blue bars show our performance relative to the IPD Quarterly Universe on the basis of ungeared total return. The blue bars are all positive showing that we outperformed the equivalent IPD sector benchmarks in all our principal sectors – and by a significant margin. This is hard evidence of the skills base and performance capabilities within each of our business divisions.

Slide 5 – Components of valuation change

We show here the sources of our out-performance relative to IPD at the total portfolio level. You can see the substantial positive contribution from our developments in brown (plus 2.0%) and also from our sales in purple (plus 1.1%). These are our initiatives, our activities creating outperformance.

On the retained income-producing investments, our outperformance came from having far superior rental value growth (plus 2.3%). On yield shift, in red at the left hand end of the slide, our portfolio moved broadly in line with the market - we were slightly less impacted on yield re-pricing (getting a small positive 0.7% performance contribution), but that was to be expected with the quality of our portfolio.

Slide 6 – Like-for-like portfolio

Movements in rental and capital values for the like-for-like portfolio for the two halves of the financial year and for the full year are shown here.

I will talk about yields but, in some respects, the stand-out figure is our rental value growth of 7.9% across our whole portfolio.

Turning to yields, our equivalent yields moved from 5.0% in March 2007 to 5.2% in September 2007 and to 5.8% in March 2008.

By sector, the yield shift for the full year was 110 basis points on our London offices, 90 on our retail warehouses and 60 on our shopping centres.

As expected, individual assets showed a wide range in yield shift. In London offices, the range was between zero and 175 basis points, the zero relating to a property let on a long lease where a substantial reversion has now converted to current income. In shopping centres the yield shift range was between 25 and 115 basis points; and in retail warehousing between 60 and 130 basis points.

Slide 7 – Investment portfolio activity

We show here capital turnover on our investment portfolio.

The highlight for the year was the sale of £1.56 billion of investment properties at 5.3% above the March 2007 valuation before disposal costs. This represents a substantial achievement in terms of both volume and price - in a year when liquidity was diminishing and prices were falling sharply.

To put this in context, selling £1.56 billion at 5.3% above valuation when the market was falling by some 14% represents value preservation of some £300m.

The yield to Land Securities on the properties sold was 4.8% and our yield on acquisitions was 4.5%.

Slide 8 – Reversionary potential

This slide shows a healthy combination of increased reversions and reduced void levels – a case of having the plus and minus signs the right way round. The 15%

reversions will support future income growth and the reduced void level at only 3.4% is positive to current P&L.

In the appendix to your packs, we also provide tables showing the amount of income subject to review and expiry over each of the next five years, and we also provide current ERVs so that you can calculate reversions annually. As a number of people have asked us specific questions about lease expiries on City offices, we have also provided in the appendix a separate table specifically on City office lease expiries and break clauses.

Slide 9 – Retail Portfolio

Our retail portfolio is approximately two thirds shopping centres and shops, and one third out of town retail warehouses and supermarkets.

The right hand side of this slide shows the subsector performance figures for the like-for-like assets.

You will see by implication that our rental value change was more positive in the second half than the first half, although I judge that to be a function of our portfolio rather than a general market trend.

We had very good growth in rental values on our London suburban shopping centres with 8% in Clapham for the full year and 14% in Islington. Outside Greater London, the highlight was 11% on Corby and then 5% on Gunwharf Quays, Portsmouth and Welwyn Garden City.

In line with the market our retail warehouses suffered very sharp adverse yield shift, but we enjoyed positive rental value growth including 12% on Aintree Retail Park in Liverpool, and 5% at each of Blackpool and Bexhill Retail Parks.

Slide 10 – Retail Portfolio – 2007/08 development completions

Despite the increasingly difficult retail trading and leasing conditions, we had enormous success in letting up our three principal retail development projects completed during the year.

Measured by income, we are now 95% let at Exeter, 100% at Cambridge and 75% in Corby. On a floor area basis, Corby is 85% let with the latest letting being to Primark. The tenant mix at willow place in Corby is now of a higher quality than we had originally projected, and this is undoubtedly moving the town up the retail hierarchy to create the 11% jump in rental values I just referred to.

I have no doubt that our success on leasing is partly a function of our position as a leading provider of new floorspace to retailers. We have calculated that (including our joint venture schemes) we have delivered and are delivering some 20% of new shopping centre floorspace in the UK between 2005 and 2009.

Slide 11 – Retail Portfolio – 2008 development completions

Turning to our retail development completions in 2008/9, our project in Bristol with Hammerson has, i am told, the highest level of lettings of any major shopping centre development being completed in the UK this year. We are 85% let or in solicitors' hands, which is precisely in line with the target we set for this stage when we started the project.

At Livingston, we are 70% let or in solicitors' hands and in discussions on the remaining space.

Looking beyond 2008, we will be completing St Davids 2 in Cardiff with capital shopping centres in autumn 2009. And in Leeds, where we have a 75% stake in a partnership with Caddick Developments, we started demolition last month and we will be delivering the trinity quarter scheme on a phased basis between late 2010 and 2011.

Slide 12 – Retail Portfolio – asset management highlights

Our largest retail asset is the white rose centre in Leeds, and it made a major contribution to income growth during the year as we concluded the major round of rent reviews. The increase in income was £3.4m per annum and the average increase in rent over the five year review period was 40%.

At Aintree Retail Park in Liverpool, new retailers to the park were next, boots and Marks & Spencer, replacing former bulky goods users. Rental values on the park increased by 12% in the year. To get there, we had to submit no less than 22 planning applications.

And we reported at our interim results the setting up of a development-orientated joint venture with Sainsburys. We see the underlying income growth prospects for supermarkets together with development upside as being an attractive combination.

Slide 13 – London Portfolio

Turning to our London Portfolio.

The pie chart shows that we have a broad exposure to the London property market with 14% in central London retail and only 16% in city offices. The bulk of our holdings are West End offices, principally in Victoria.

The bar charts on the right hand side show that we continued to enjoy good growth in rental values up 16.4% over the year. Highlights were the 25% increase in office rental values at Cardinal Place and the 33% increase on Portman House on the North side of Oxford Street.

Our London retail holdings also showed a very strong 7.6% growth in rental values with a terrific contribution from the Piccadilly Circus Lights block. As a result of our asset management initiatives, this block saw a 22% increase in rental value and a 15% increase in capital value.

Slide 14 – London portfolio – 2007/08 development successes

In terms of development, we let over 850,000 sq ft of offices from our London development programme during the year. This gave us the no. 1 position in terms of market share of office development lettings.

The highlight was the letting of 378,000 sq ft at Bankside 2&3, to RBS, which was the second largest letting in London in the year.

More recently, and on a more modest scale, we have let before completion all of our 67,000 sq ft refurbishment at 10 Eastbourne Terrace in Paddington in three separate transactions. The last of these was agreed since the turn of the year and all three transactions are at rents and rent free periods in line with or better than our targets.

Slide 15 – Looking ahead – London Portfolio

This slide highlights the propitious timing of our development programme. Last year we completed 1.6m sq ft in London and these projects are now 94% let.

Over the next two financial years, we complete only 275,000 sq ft, which is already over 20% let.

Looking beyond that, the only scheme which has started to date is one new change, which is just under 40% retail by floor area and, of the office element, 35% is already pre-let.

Slide 16 – The impact of our development activity in London

I will try here to capture the impact of our recent and future development activity in London.

The five completed projects shown at the top of the slide created top quality investments with an average unexpired lease term of just over 15 years. Their aggregate value is some £2.2bn, which is 30% of the value of the total London portfolio. This represents a major transformation of our portfolio which is now very different in terms of quality and lease length to 2002/3.

The lower half of the slide shows our future projects, currently valued at only £600 million, but with the potential to generate substantial future surpluses if we again manage our timing well.

These are our pipeline projects and, from our development programme, the one scheme which has not yet started – Park House. Park House will start this year for delivery in early 2011. On 20 Fenchurch Street, we already have some preliminary enquiries, but we are prepared to pause before starting construction if we assess that to be the best option when we review it in early 2009.

Slide 17 – Land Securities Trillium – Trillium investment partners

Turning to Trillium, our big standout achievement in the year was the successful establishment of our £1.1 billion PPP fund.

Our business plan for SMIF was to boost the return on capital employed by, firstly, establishing a fund and, secondly, securing a flow of new contracts to transfer into the fund.

Despite challenging market conditions, we have exceeded our plan - firstly, we successfully established a billion pound fund (with our stake sold down to just 10% rather than the originally targeted figure of 15% to 20%); and we have also secured some £300m of additional PFI contracts in the secondary market during the financial year.

And, as the fund is looking to grow by £200m a year, it can also act as an engine for future growth in profits.

Slide 18 – Land Securities Trillium – revaluation of investment properties

On the investment property assets within Trillium, the valuation changes for the year are shown here.

You will see that all bar the £22m Barclays office investment were resilient, but they were not immune from investment property trends.

On the Accor hotels, the values were supported by the 6% growth in the turnover-related rents and the fact the investment valuation still stands below vacant possession values. The picture for Royal Mail is similar with valuations supported by both the fixed rent increases and the high vacant possession values.

The positive valuation surplus on the investment properties formerly occupied by DWP is explained by the large surpluses generated when some of these properties were transferred into the investment portfolio, having been previously held at depreciated cost - for these properties, there was a valuation uplift from book cost of 58%. The former DWP properties classified as investments for the whole of the year showed a valuation deficit of 12%.

Slide 19 – DWP

Turning to the DWP contract, you can see from this table that we had enormous success in disposing of surplus accommodation with 1.85 million sq ft of space exited. This was largely offset by the continuing high level of vacations by the DWP at 1.66 million sq ft. So, over the year, vacant space fell, but only by about 200,000 sq ft.

Although the DWP assets are held at cost, the value embedded in this contract is not immune from wider property market conditions. This is for two reasons. The first is that it could be more challenging to dispose of this surplus space in the current market. The second relates to the vacant possession value of the properties, which is relevant to the residual value at the end of the contract. We estimate that vacant possession values will have fallen by some 14% since our REIT conversion valuation in december 2006.

Slide 20 – Land Securities Trillium – new business opportunities

Turning to Trillium's new business, the outlook is bright:

- on the 3.5 million sq ft Northern Ireland property outsourcing, we are down to a shortlist of two and we submit our final bids in June.

- on the defence training review outsourcing, our Metrix Consortium with QinetiQ is the preferred bidder and the MoD have committed to a capped cost undertaking for work we undertake through this preferred bidder stage. Financial close is targeted for the end of 2009, and construction of the new 3.6 million sq ft complex at St Athan in South Wales will start in Summer 2010 and run for some 4 years.

- in the secondary PPP market, we have bid or are looking to bid on over £115m of opportunities.

- in continental Europe, we are now targeting secondary market PFI acquisitions in Germany, Italy and the Republic of Ireland and we have established an investment partnership with Lindner in Germany to source opportunities there.

- in the primary PPP market, we are:

  - preferred bidder on the Kent Building Schools For The Future project which involves 11 schools in the first phase and 35 in total. The first phase will involve some £6m of equity investment by us.

  - and we are on a shortlist of 2 for the Birmingham BSF - involving 12 schools in the first phase and up to 89 in total.

  - following our selection as preferred bidder on the Norwich Waste contract, with just under £10m of Equity investment, we are bidding on further opportunities in the waste sector, which could involve an equity investment in excess of £20m.

All in all, this is a much more broadly based new business pipeline for Trillium - and a very vibrant one.

I will now hand you over to Martin.

Speaker: Martin Greenslade, Group Finance Director

Slide 22 - Financial highlights

Thank you Francis. Good morning everyone.

Let me begin with our financial highlights. As Francis mentioned, this has been a challenging year in the property market and our results reflect those conditions, only partly offset by our significant outperformance at the property level.

Our pre-tax loss was £888.8m, on the back of an 8.8% decline in the value of our investment properties.

Revenue profit at £379.1m was 3.3% down on last year but significantly ahead of our expectations. You will recall that the required accounting treatment for the purchase of SMIF and other PPP assets held for sale is to recognise the full interest cost on the capital tied up but not to recognise any of the underlying income.

During the year, we incurred some £42m of interest associated with such PPP assets of which £37m relates to assets we have now put into the Trillium fund. We made £47.5m profit from this transaction and the sale of Meterfit, but this profit is not included in revenue profit, pre-tax profit or adjusted earnings.

Adjusted earnings, which is of course a post-tax measure, came in at 81.7p, up some 16.4% over last year as the benefit of our REIT status resulted in a minimal current year tax charge and was behind the large rise in our dividend. Our final proposed dividend of 16p takes our total for the year to 64p, over 20% up on last year, fulfilling the commitment we made to pay over to shareholders the tax we no longer pay as a REIT. Our first quarterly dividend for the current year will be 16.5p.

Finally, adjusted diluted nav per share declined by 10.3%, the main components of which are shown in a later slide.

Let's now take a brief look at our consolidated income statement.

Slide 23 - Consolidated income statement

Let me just pick out a few key items. First of all, there was a small rise in operating profit which I'll return to on the next slide.

Demerger costs to 31 March 2008 totalled £9.8m, all of which have been expensed through the income statement with none being capitalised.

The valuation surplus here relates to our subsidiaries only and includes investment properties in Trillium. The 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 in those JVs of £134.2m, all of which was included in Francis's analysis.

Net interest payable has increased significantly, largely due to far higher levels of average capital employed in Trillium following the acquisition of the Accor hotel portfolio and the Secondary Market Infrastructure Fund. The capital employed has now reduced in Trillium following the successful launch of our PPP fund, Trillium investment partners. The sale of interests in the fund and the earlier sale of Meterfit allowed us to book a profit of £47.5m which we are required to show as profit under the inappropriate heading of discontinued operations.

And finally, tax: without wishing to spoil the enjoyment of those of you who have not yet read note 5 of the accounts, the tax credit is largely explained by a current year charge of £10.3m on non-qualifying income offset by a £20.8m tax credit in respect of prior years.

Slide 24 - Underlying operating profit by segment

If we look at the main constituents of underlying operating profit, you can see that overall Retail profits are down with London up. Over the year, Retail has been a net seller of over £600m of investment properties compared with less than £150m in London. On top of this, London has seen a strong contribution from completed developments, as we shall see from the next slide.

I will cover the strong rise in Trillium's profits in a minute but the increase was enough to offset the large decline in trading profits and long-term contract income, where last year we had recognised profits on the disposal of our crossways business park and, for the first time, on the BBC Broadcasting House contract.

Slide 25 - rental income analysis

Turning to rental income, like for like income in retail has again shown good growth, up 5.5% over the year. The main drivers were the Almondvale centre in Livingston and, once again, the White Rose Centre in Leeds.

In London, there was a more modest rise of 1% in like for like income. This was partly due to a reduction in income from Fenchurch Street which remains in the like for like portfolio and a one off adjustment to a property in 2007 not repeated in 2008. Without these, like for like income would have been up by 3.4%.

Completed developments generated a £31.7m increase in rental income. £10.3m of this increase came in Retail, the largest contributor being Princesshay in Exeter, while £21.4m of additional income was generated by London with Cardinal Place contributing an extra £10m and Bankside 2&3 a first time contribution of £8m.

The total rental income from properties we purchased or sold in the two years was £95.2m, down some £36.6m, reflecting the degree to which we have been net sellers of investment properties over that period. All of this net decline has occurred in the retail portfolio.

Adding all that up, retail has seen a decline in rental income of £11.8m while London has seen an increase of £18.7m.

Slide 26 - Trillium

Turning now to Trillium, operating profits were significantly ahead of the comparable period due to new contracts and around £43m of one off items.

On the DWP contract, the anticipated decline in operating profits due to vacations has been offset by some ongoing and one-off items. Compared to last year, vacations resulted in a net loss of income of some £32.5m, while indexation increased income by £9.5m, and one-off settlements and provision releases contributed £31.3m. Without these one-off items, DWP's profits would have been £63m.

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 additional income.

Royal Mail makes a first appearance having been bought right at the end of last year and Accor is now close to its full annual run rate, following completion of £146m of hotels in the early part of this financial year.

On the BBC contract, we have settled all outstanding issues resulting in a provision release of £9.2m.

Bid costs are up significantly on the back of our strong new business pipeline, the largest costs for the year being on DTR and the Kent BSF programme.

Central and other costs include our new business team, which has been enlarged following the purchase of SMIF and Amec's PPP business.

Slide 27 - Trillium Investment Partners fund

One of the notable successes in Trillium during the year was the creation of the Trillium Investment Partners fund, our £1.136bn joint venture with co-investors. However, this wasn't just a case of successful marketing to bring in outside investors. We first had to establish that the fund was capable of delivering a 9% + IRR to investors, through a combination of activities:

- We showed that insurance synergies are available by securing a 29% premium reduction on part of the portfolio;

- We developed a structure which enabled us to collateralise the debt obligations of a first tranche of PPP assets to obtain lower interest costs; and

- We raised a £568m 27 year debt facility to leverage the partnership and provide enhanced returns as well as provide £100m of headroom to accommodate future growth.

So how does all of this translate into our income statement and balance sheet? First of all there is our profit on sale of shares in the fund and the Meterfit business we sold separately. This amounted to £47.5m. Then there is our remaining 10% interest in the fund, currently in the balance sheet at a book value of £42.9m, which will be accounted for as an associate, not simply as an investment. The implications of this are that we will recognise our share of the underlying profits of the fund. I should warn you now that while we expect the cash return to have an IRR of around 9%, the accounting results will be far more volatile. IFRS is not kind to the fund and we will need to amortise intangibles mark to market the underlying interest rate swaps as well as other derivatives such as our RPI swaps. My advice is to look at the cash.

Finally, as Francis mentioned, we are continuing to purchase assets for onward sale into the fund and so we will continue to have capital tied up in assets where we are not able to recognise any income. At the year end, this amounted to £236m.

Slide 28 - Movement in revenue profit

Let me now summarise how the various changes in rental income and operating profits have affected our results by showing you the main movements between last year's revenue profit of £392.2m and this year's figure of £379.1m.

Despite almost £800m of net investment property sales, we saw a rise of £8.2m in net rental income for the reasons I described earlier.

Trillium's increased operating profits has been more than offset by £42m of interest related to PPP assets and £19m of increased interest due to higher capital employed. At the revenue profit level, which does not allow for the £47.5m PPP related profits, Trillium declined by £26.3m.

For the rest of the group, there was a marginal interest saving overall of £3.8m. Given our significant investment property sales, one might have expected the interest benefit to be greater. However, we need to consider that paying the REIT conversion charge of £316m increased our interest bill by around £12.5m and moving to quarterly dividends added a further £2.2m. But, we have no complaints about the higher interest bill due to the REIT conversion charge because despite lower revenue profits, investors have been more than repaid in lower taxes, and higher earnings and dividends per share.

Slide 29 - Movement in adjusted diluted NAV

So what have been the drivers behind our 10.3% decline in adjusted NAV.

No surprises that the primary driver is valuation declines but we can see here how our developments have once again outperformed. While accounting for 23% of our investment properties by value, developments were only responsible for 9.5% of the valuation deficit, on the back of strong performances from new street square, Queen Anne's Gate and Princesshay in Exeter.

Thanks to the likes of greater London House, Rennie House and Whitefriars in Canterbury, we made £67.8m of profit from selling investment properties during the year – no mean feat in a year of falling values. The sale of interests in our PPP assets contributed a further £47.5m, while dividends at £308m consumed much of the year's adjusted earnings. A few other items complete the picture to give a year end adjusted dilutive NAV per share of 1956p or 2019p if you prefer the triple net version which includes the mark to market of our debt and related swaps.

Let's now move on to our cashflow.

Slide 30 - Cash flow and debt

The decline in operating cashflow compared to last year is almost entirely a feature of higher interest costs, largely related to Trillium, but also related to an increased amount of capital tied up in our developments.

Our commitment to pay over the tax we no longer pay as a REIT is evidenced by the increase in our dividend cash outflow of some £85m. We earned the right to our tax free status by paying our REIT entry charge of £316.2m which you can see towards the bottom of this table.

In total capital expenditure was lower than last year which included the £900m acquisition of SMIF. Our main investment property acquisitions were Thomas More Square, of which we subsequently sold 50%, the remaining interest in Times Square and Leeds Trinity, which was bought as part of our development plans. Development/refurbishment expenditure remained at the high levels of last year, with a fairly even split between London, notably New Street Square, Queen Anne's Gate and One New Change, and our retail schemes at Bristol, Livingston and Exeter.

Our disposals generated over £1.9bn of proceeds of which over £1bn relates to our investment portfolio and around £800m relates to the leveraging and sale of equity interests in the Trillium fund.

The net of all our cashflows results in a £300m increase in our debt over the year, an increase solely attributable to our REIT conversion charge, and a reduction of £500m compared to our net debt at the half year position.

Slide 31 - Gearing

While our debt is only marginally higher than last year, the fall in property values has been the main factor behind the rise in our gearing levels. Adjusted gearing is up from 54.7% to 64.9% which is 39.4% on an LTV basis. Our interest cover ratio has fallen from 2.43x to 1.93x but much of the decline is due to the assets held for sale within Trillium which generate no income but have a related interest cost. If we adjust for these, our interest cover ratio remains comfortable at 2.23x.

Slide 32 - Financing

Finally, I thought it would be helpful to cover our banking facilities and a little of what our treasury team have been up to outside of the demerger work. During the course of the year, we signed up a total of 8 new facilities, providing over £1bn for group companies and a further £634m for joint ventures.

In the graph, you can see pictorially how our debt facilities are expected to expire over the years, although on most of the facilities expiring in the short term, we do have the option to extend them.

While debt is not as readily available as it was and it has clearly become more expensive (for example, last year we got down to 5 bps over LIBOR for short-term banking facilities), our activity over the last 12 months has shown that debt continues to be available to us at reasonable cost for both standing investments and joint ventures. While the bond markets effectively remain closed, I expect that we will continue to use the banking market to renew facilities, most probably on a short term basis given where current interest rates are and to maintain our flexibility as a business.

With a weighted average maturity of debt of over 10 years, weighted average cost of debt of 5.4% and undrawn headroom of some £630m, we remain comfortably placed.

On that note, let me hand you back to Francis to update you on outlook and demerger preparations.

Speaker: Francis Salway, Chief Executive

Slide 34 – Current market – yield movements

Thank you, Martin. I will now say a few words about the outlook for direct property markets. Before I do so, I should make the point that the current pricing of shares for UK property companies already anticipates some further weakening in the underlying market.

This graph compares all property equivalent yields to the risk-free benchmark, gilts, and helped us to identify excess exuberance in property pricing last year. However, between June of last year and March this year, the gap between property equivalent yields and gilts widened by some 225 basis points and is now slightly above the 15 year average.

The table on the right hand side shows the alternative analysis of comparing property initial yields to 5 year LIBOR. The relativity is slightly less favourable, but still much improved compared to last summer .

Based on a theoretical analysis, we think property now looks fairly priced - assuming we have trend growth in rents in the short-term. So, it is no surprise to us that the majority of questions we now receive have shifted from yield pricing to the outlook for rents.

Before moving on to the outlook for occupational markets, I should stress that market pricing is of course not a function of theoretical analysis, but the balance between buyers and sellers. That relationship is still fragile and selective. Anecdotal stories suggest that there is a wall of equity waiting to be invested in UK commercial property and a complete dearth of debt. Our actual experience indicates that there is both a little more debt and a little less equity than suggested by anecdote.

In terms of us as potential buyers, we also can look to be selective in this fragile market - and we have been looking at opportunities – in London, properties with future development potential for the next cycle and, in the retail sector, investments with a backlog of asset management opportunities which have not been exploited. But we are patient. If the prospects are not outstanding, we will wait.

Slide 35 – Retail sales

Turning to occupational markets, and the retail sector, the data on retail sales held up well until February, but was markedly weaker in March and April.

We ourselves have achieved a massive volume of retail lettings - £41m in the year - but incentive packages have increased since Autumn 2007.

True vacancy rates are rarely reported for retail property. You get landlords void figures, but these exclude vacant units held by tenants. The property forecasting consultancy, PMA, does estimate vacancy rates for retail property, and they put them at around 9% for both town centres and retail parks, but with an increasingly big gap between prime and secondary. They put vacancy rates at 4% for prime retail parks and 6% for prime shopping centres, but massively higher at 14% - 15% for secondary shopping centres and secondary retail parks. So the outlook for rents for prime and secondary is clearly very different.

Slide 36 – central London office take up

Turning to London offices, the position on the development pipeline in the City and West End is now well understood. The key determinant of rental performance in the short-term will be demand or take-up. Take up figures for the first quarter of 2008 are shown on the right hand side of this slide and the quarter's take up, when annualised, is not yet giving any signs of a collapse in take-up, but we know enquiries are now weaker in the City.

The downside risks for London office rental values have clearly increased with the weakness in the financial services sector. But any outlook statement for London offices in the context of Land Securities has to be seen against the background that we are delivering only 275,000 sq ft of new office development in London over the course of our next two financial years.

Slide 37 – Demerger

We announced our plans to demerge at our interim results presentation in November last year.

The rationale remains the same - our shareholders will have greater flexibility and efficiency around sector allocation. And we will have, firstly, the ability to finesse gearing and development exposure to specific markets in order to improve returns on equity and, secondly, improved prospects of access to equity capital to grow the businesses, when appropriate.

In November last year, we said that demerger is a complex process which rarely takes less than 12 months, and we said also that we would manage timing to reflect market conditions to ensure an efficient outcome.

I will now describe the stepping stones we have crossed to date and the stepping stones which lie ahead of us.

Slide 38 – Demerger – progress

We have made enormous progress in people terms. At board level, we have identified the new Chairmen for each of the three businesses so that the Chairman/Chief Executive axis is confirmed for each company.

Below board level, we have indicated to all of those in our central support teams which business they will be asked to join; we have identified the 20 or so roles at risk of redundancy; and we have also identified the additional roles which the new companies will require. We expect a net increase in headcount of just 3%.

For Trillium, we have added to the process of preparing for listing, a parallel process of exploring whether bids for a demerged Trillium company might represent a more attractive option for our shareholders than a separate listing. This process is ongoing.

We have also made a major, positive step forward in preparing for the division of our debt security pool into separate London and Retail secured debt programmes. We have been in discussions with rating agencies in recent months and, subject to certain amendments to provisions in the programme, we expect to achieve the same ratings that apply to our existing bonds of AA.

Slide 39 – Demerger – next steps

Many of the next set of stepping stones are more external facing.

But, firstly a few words about an internal decision for our board. This is the allocation of debt across the three businesses. It is premature to finalise this and we will only do so at a relatively late stage, as we are running a dynamic business and current levels of debt and future commitments to new projects have changed and will continue to change through time.

In terms of external facing processes, we will need to transition our bonds and bank debt to borrowings secured on separate London and retail asset security pools. Given current market conditions it will clearly not be appropriate to do this by redeeming the bond debt.

After that, as the final step, we will seek approval of our equity share shareholders to the demerger proposals.

Slide 40 – demerger – timing

Our position on timing remains exactly as we stated in November last year. The process is unlikely to take less than 12 months from first announcement (i.e., November) and we will maintain flexibility around timing if we consider this to be in the interests of our shareholders.

I should also add that as Trillium is not linked into our current debt security structure , we do have the option of demerging Trillium first and then demerging London and Retail at a slightly later date.

Slide 41 – In summary

To conclude, our activity levels show that preparing for demerger has not distracted us in any way from the successful running of the business.

Our timing and execution on sales and developments has been good and we have significantly out-performed the general property market with these financial results.

Our success on both property sales and the launch of the Trillium PPP fund means that we have managed to maintain gearing at moderate levels despite falling asset values. Our development programme in London is extremely well timed, and we have the financial strength to continue to plan our next generation of developments for delivery in the next cycle.

So, we are well placed for the short-term - and for the medium to longer term, we have a plan for sustained value creation through demerger, and we are progressing our demerger plans with a steady hand.