

Review of Business Structure

The Land Securities Board has completed its review of the structure of the business and has concluded that, over the long-term, the Group's component businesses, and shareholders, will benefit from separation, and proposes to demerge the Group into three specialist separately quoted entities.

This change will represent a continued evolution of the Land Securities business model. In 2004, the Group demonstrated its preference for a focused, sector-based approach by exiting industrial property and moving the group structure to one built around the Retail, London and Outsourcing sectors rather than the functions of asset management, development and outsourcing. Since this time, the Group has developed three specialised business divisions, which have enjoyed strong growth and each of which has considerable scale and leadership positions within their respective peer groups.

These three divisions have performed well under the current diversified structure, but the business models are distinctive and have different financial characteristics:

- **RETAIL:** The Retail division seeks to create and enhance long-term dominant assets through development and active management. It focuses on creating attractive, retail environments to generate sustainable earnings growth.
- **LONDON:** The London Portfolio has a greater emphasis on development activity and capital recycling to manage effectively the cyclical nature of its office market. The portfolio also offers a broader investment in London as one of the world's major financial centres. It has material retail assets and also major retail and residential elements in its development programme. In addition, it offers shareholders significant value creation potential from its Kent Thameside development, which will be material relative to the size of this business.
- **PROPERTY OUTSOURCING:** The historic value creation from Trillium, with a return on capital since acquisition of 28%, has been outstanding. It now has market leading positions in both property outsourcing and PFI. However, with the growing role of PFI and PPP contracts, Trillium's business and operations have increasingly different characteristics from property investment, and as such the key valuation metrics are also different.

Trillium has grown by 57% in the last year in terms of floorspace under management, and it now manages more floor space than the London and Retail divisions combined. Land Securities' brand and balance sheet have been important to the development of Trillium to date. However, Trillium now has the size and track record to operate independently of Land Securities. Having regard to the different characteristics of Trillium's business and its valuation metrics, the Board considers that the creation of long-term shareholder value is best achieved by demerger.

For the Retail and London divisions, the Board also believes that, over the longer term, the development of each business and the needs of investors will be better served by a separation of the two. Specifically,

- They operate in market segments with different characteristics and they will be able to adopt a capital structure best suited to their respective sectors' outlook;
- They will, in future, each have an acquisition currency that should be valued in line with the assets or businesses they may wish to acquire at any point in their respective cycles. As a combined group, the market rating of London and Retail will tend to reflect an average of the less favoured sector and the more favoured sector, reducing its effectiveness as a potential acquisition currency; and

- The full benefit of successful investment decisions will be more visible and have greater financial impact in separate focused entities.

As separate companies:

- The management teams of London and Retail will have a clear investment mandate and be able to allocate capital without competing demands driven by the cyclical dynamics of a different property segment;
- Shareholders will be given the choice of making sector allocations in line with their individual investment preferences. Shareholders benefit from greater liquidity and lower transaction costs in dealing through shares to change sector allocations, than can be achieved by a diversified property company transacting in property assets; and
- The businesses will be better placed to take advantage of significant inflows of capital into global real estate funds which typically favour investment in specialist companies. Over time, the ability to access this expanding pool of capital is expected to help drive the valuation of specialised property groups.

Both businesses will retain:

- The strength of their customer relationships through an unchanged presence in their customers' markets; and
- Stability of cash flows and stable income growth, which result from the five year, upward only rent review structure in the UK.

Extensive and detailed work needs to take place before the company is in a position to seek shareholder approval and effect the demergers. The demergers will be executed when the preparatory work has been completed and only when market conditions are favourable.