

The benefits of demerger

In November 2007 we announced our intention to demerge into three separate companies. Since then we have made progress on the extensive preparatory work required to make this happen. The Board will make the final decision on the implementation of our plan when market conditions are favourable and when it receives the mandate to do so from shareholders. Here we discuss the rationale for demerger.

Why we are considering demerger now

As a property company we set out to take key investment decisions from a position of strength. We restructured to create Retail, London and Outsourcing (now Trillium) in 2004 because it was right for the Company. The three businesses have grown and now have the size and strength to stand alone.

The demerger plan recognises that these businesses have different financial characteristics, and that specialisation will help each business to raise capital. We also believe that greater recognition will be given to major successes achieved within a specialised business, rather than within a more broadly based Group.

The history of the demerger process

The potential benefits of demerger were first raised within the Company in autumn 2005 following the successful creation of the three business units in 2004. The review process started long before current market conditions were evident and we believe demerger will be delivering value for shareholders when the current market conditions are regarded as history.

The Board has a strong track record on bold decisions. In recent years we acquired Trillium, exited the industrial sector through the property swap with SEGRO and boosted our development pipeline ahead of the current cycle. These decisive actions have proved successful. Demerger is the latest bold decision in the ongoing evolution of the Company.

Businesses benefit from specialisation

Historic data shows that in the UK and US specialist companies have produced higher shareholder returns over the last 10 years. We believe a balance sheet tailored to the respective sector cycles has the potential to improve return on shareholders' equity by a material amount. With a bespoke financial structure our London and Retail portfolios could be valued more easily and could raise capital more easily. We believe they will also be better positioned to access new flows of capital into the global listed property sector.

Our progress so far

Initial preparatory work for demerger is well advanced, and this includes the appointment of the leadership teams for each business. In terms of Chief Executives, Francis Salway will run the Retail business, Mike Hussey will continue to run London and Ian Ellis will continue to run Trillium.

Sir Christopher Bland has been appointed Chairman of Trillium in the run up to its demerger and subsequently. His recent roles include Chairman of BT and Chairman of the Board of Governors at the BBC.

Rick Haythornthwaite has been appointed as Chairman of the Retail business following demerger. He is currently Chairman of Mastercard Inc, Chairman of the Risk and Regulation Advisory Council and partner at Star Capital Partners Ltd. His previous roles include Chief Executive of Blue Circle Industries and Invensys and Non-executive Director of ICI. Paul Myners will assume the role of Chairman of the London business at demerger.

The cost of demerger

There will be the additional cost of running three corporate entities, including three boards, and our estimate is that this will be around £15m per annum, with the businesses able to manage overall costs down once separated.

In addition, the cost of finance for the three businesses is expected to increase slightly, but we believe the credit quality of the three individual portfolios will keep this increase to moderate levels. There will also be the one-off costs of undertaking the transaction – including legal, accountancy and adviser fees – and we expect these to be in line with similar transactions.

While we will keep costs under close scrutiny throughout the process, we believe the long-term benefits for shareholders will significantly outweigh the initial costs of demerger.

A clear step forward

Demerger represents a clear step forward for this Company and is in keeping with our heritage of taking key decisions early. In our view, the independent London and Retail businesses will – along with Trillium – continue to lead their markets, with their proven management teams supported by tailored financial structures.

KEY FACTS

What you should know...

The businesses will be of the size and strength to maintain market leading positions

Retail Portfolio and London Portfolio should each be of a size to be in the FTSE100 while Trillium should be of a size to be in the FTSE250

There will be a vote by shareholders before any decision is finalised

No date confirmed for demerger

The business leaders:

Retail Portfolio

*Rick Haythornthwaite Chairman
Francis Salway CEO*

London Portfolio

*Paul Myners Chairman
Mike Hussey CEO*

Trillium

*Sir Christopher Bland Chairman
Ian Ellis CEO*