LANDSEC ANNUAL RESULTS PRESENTATION TRANSCRIPT

9.00am on Tuesday, 14 May 2019

Speaker: Robert Noel – Chief Executive Officer

Slide – Title slide - Looking forwards

Good morning everyone.

It's been a busy and eventful year and we've much to share with you. At an operational level, we've introduced new products and services; we've added to our development pipeline; we've got consents for our outlets; and we're using innovative techniques in construction.

And strategically, we're increasing our focus on London, where we see plenty of opportunity in the future, playing to our skills and strength.

Before we get into the meat of the presentation I'd just like to talk about the direction of the business and my perspective on the year just gone.

And let me start with our more compact line up.

I was sad to see Scott leave – he's been a great colleague and instrumental in executing our shift in retail but we've great strength in our teams, with skills which are wider than just property, and which are increasingly applied across the business as one portfolio and they're stepping up to take on more responsibility.

To reflect this, the property teams have been brought together under one reporting line to Colette, as we announced last month.

While all our London Portfolio assets are in London, our Retail Portfolio includes assets which are in London and assets which aren't retail at all.

As the balance of the business is shifting, this will be the last time we'll present our financial information under the two business segments of London Portfolio and Retail Portfolio.

At our Investor Conference in September, in good time for the half-year results, we'll provide full detail on how we'll be presenting the numbers going forwards, along with a reconciliation to existing disclosure.

Slide – Our evolving strategy addressing key trends

There are four big themes influencing our strategy I'd like to mention.

First, digital technology. This permeates everything, it's both disruptor and enabler.

Second, demographics. A growing, ageing, shifting and more diverse population; nearly two generations pretty much unable to access home ownership without the help of parents and grandparents; two to three generations in the workplace; and three to four generations active in shopping and leisure activities.

Third, what people want from space. In a more mobile, agile, shared world - just as we're more demanding as consumers, occupiers are becoming more service, experience and convenience led.

And fourth, the sustainability agenda. Society is demanding that businesses become a force for good rather than just an employer. Social value, mobility and inclusion are hot topics. Resource scarcity and climate change are also key issues for real estate companies. Rightly, legislation is getting tougher.

Being on top of this is hugely important as it drives commercial advantage including, increasingly, with customers, and with getting planning consents. We've done a lot of work to position our portfolio for these trends; and our balance sheet to the right place for the environment we're in, so we're able to address these themes with vigour, and look forwards, as you'll hear today.

Slide – Balance of business shifting more to London

Our business is changing.

Today, 65% of our assets by value, and our entire £3 billion development pipeline, are in London, one of the most vibrant, best connected and popular cities in the world. This will grow as our activity will shift our business significantly more towards London over the coming years.

We're focussed on well-connected locations. We ensure our buildings are readily adaptable and we're expanding our range of products and services.

We're also spending a lot of time on how buildings will need to perform in the coming decades, investing in constructing and running buildings smarter and more efficiently; 35% of our business

is currently outside London, primarily destinations which attract people to spend time shopping, eating, exercising and socialising.

We constantly think about the retail landscape. We moved early to shift our capital out of secondary centres and two thirds of our retail parks while market conditions were strong. Going forwards, we'll focus on fewer assets, which appeal across generations, in catchments which are growing and supportive.

This will mean further sales over time, but with our balance sheet in good shape, we don't need to rush for the door.

So - expect this pie to become more pink.

Now, my perspective on the year just gone.

Slide – Robust performance against a mixed backdrop

For much of the business community, this has been a strange year - with a macro environment of contrasts.

Politics has been a bit bouncy around the world; and here in the UK, unprecedented chaos in Westminster has, so far, led to two delays to our proposed departure from the EU.

Despite this, economic growth has remained positive.

We also have record levels of employment in this country - though real wages are still lower than they were a decade ago.

The consumer remains cautious on fashion and goods but is spending more on leisure and lifestyle.

Retail has had a very difficult year, with the cyclical pressures adding to the structural, punishing retailers and retail real estate.

In contrast, London has pretty much shrugged its shoulders at Westminster with most market segments holding up well. There was good demand for Grade A space, and strong investor demand during the year, albeit we saw a quieter first quarter of 2019.

Against this backdrop, our operational performance has been good. We've retained a high occupancy level, our pipeline of schemes now extends to over £3 billion, and we expect to grow this further. And, following the actions we took this year and last, earnings growth is strong.

The difficulties in the retail market, particularly shopping centres and retail parks, are reflected in our valuation and reduction in NAV. But, importantly, we're financially strong, with a prudent level of debt and great financing facilities and this enables us to look through the current environment and turn our attention to future growth.

Finally, having rebased the dividend up 39% over the three previous years, we continue to grow the dividend – up 3.1% this year so we can increase dividend cover and give us good operational flexibility.

So, now to our results presentation.

Speaker: Martin Greenslade – Chief Financial Officer

Slide – Financial results

Thank you, Rob. Good morning everyone. Landsec continues to be in strong financial health and it's been another year of good earnings growth. Ours is a business with diverse income streams, significant development opportunities and a balance sheet which can withstand weakness in the market while supporting our next generation of development.

Slide – Financial summary

As usual, let's start by looking at the headline numbers before going into more detail. Revenue profit for the year was £442 million, that is up 8.9% despite the disposals we made last year. Our valuation deficit was £557 million, or 4.1%, and that led to a loss before tax of £123 million. Adjusted diluted earnings per share were up 12.4% to 59.7p. This increase is ahead of the growth in revenue profit and that is due to the reduction in the number of shares in issue following the share consolidation we did in September 2017 as part of the £475m return of capital to shareholders.

EPRA NAV per share was £13.39, that is down 4.6% or 64p over the year. And finally, our dividend is 45.55p for the year, an increase of 3.1%. As you know, we grew our dividend quickly between 2015 and 2018 - by 39% as Rob just said - as we completed and let our last development programme.

From that higher dividend base, we've decided to slow our dividend growth to reflect what we see ahead. Rental growth is limited in London and there will continue to be downward pressure on rents in most retail assets. Against that back-drop, having a higher dividend cover now gives us the flexibility to make the right asset decisions be that selling assets or emptying Portland House in advance of redevelopment, while still growing the dividend sustainably from here.

Let's now look at revenue profit.

Slide - Revenue profit

Revenue profit increased by £36 million to £442 million. This was driven by a £7 million increase in net rental income which I will cover in more detail in a moment, and by a £25 million reduction in net finance expense and a £4 million reduction in total indirect expenses. That £4 million reduction shown here was mainly due to lower variable pay this year.

The reduction in net finance expense was due to interest savings following the liability management exercises that we did in the year to 31 March 2018.

Turning now to net rental income.

Slide – Net rental income analysis

Here we have the changes in net rental income and split between London and Retail. Overall, net rental income increased by £7 million with the London Portfolio increasing by £21 million and the Retail Portfolio declining by £14 million. So, starting with like-for-like net rental income, that was up £10 million in total with the London Portfolio up £20 million and the Retail Portfolio declining by £10 million.

Let's look briefly at what is behind these like-for-like movements and we will start with Retail.

Slide – Like-for-like net rental income analysis – Retail Portfolio

The impact of voids, re-lettings, turnover rents and rent reviews broadly balanced out. We lost £3 million of income from retailers who have gone into CVA or administration.

A little under half of that £3 million relates to administrations and CVAs prior to the start of the financial year. So, this included Toys 'R' Us, Maplin and Prezzo. Administrations and CVAs since the beginning of this financial year include Homebase, Coast and Poundworld. We provided for over £1m of SIC 15 balances related to these retailers. That £1 million is part of this £5 million provision for bad debts and SIC 15 balances, which represents our current best estimate of the charge required today. It does cover retailers which have not yet started insolvency proceedings but where we are aware of difficulties like Arcadia, or where they started proceedings after our year end like Debenhams.

You will find a lot more information on CVAs in the appendices.

Now let's look at the London like-for-like movement.

Slide - Like-for-like net rental income analysis – London Portfolio

Like-for-like net rental income in London was up £20 million. £5 million was down to rent reviews, £8 million came from new lettings and reduced service charges and letting fees, £2 million related to lower bad debts and £5 million came from having Piccadilly Lights up and running for a full year.

Slide – Net rental income analysis

So now back to the remaining elements of the movement in net rental income. The £14 million increase from completed developments came from additional net rental income following the completion of Westgate Oxford and Nova and further lettings at The Zig Zag Building.

Acquisitions contributed £3 million – in Retail this relates to the three outlets acquired in May 2017 and in London this is largely a property acquired in Wardour Street related to the provision of affordable housing for our One Sherwood Street development. We gave up £14 million of net rental income from disposals which included our remaining interest in Livingston, sold in the current year, and 20 Fenchurch Street and the Ibis hotel at Euston which were both sold in the prior year. And finally, the reduction in non-property related income largely relates to reduced development fee income following the completion of Nova and Westgate Oxford.

So, let's now look at the valuation.

Slide - Combined Portfolio valuation

As Rob explained, 65% of our assets are in London with 35% outside the capital. London-located assets were down 0.8% in value with assets outside London down 9.4%, with a combined valuation decline of 4.1%.

Now let's turn the pie into the more familiar one showing our asset segments and split for the last time into our London and Retail portfolios. I'll talk about the segments in a minute, but overall the London Portfolio was down 0.5%, with the largest segment 'offices' up 0.4%, while the Retail Portfolio was down 8.4% driven by shopping centres and retail parks.

Let's now look at the detail by segment.

Slide – Combined Portfolio valuation

Office values were up 0.4% and this was helped by a 21.5% increase in the value of 21 Moorfields as construction risk reduced and Deutsche Bank confirmed that they would occupy the whole building. The like-for-like office portfolio saw a marginal decline in values largely due to a small outward yield shift in Victoria.

Despite the difficult retail market, central London retail held up relatively well – the 3.9% decline in valuation being largely driven by Piccadilly Lights which was down 6.8% the shorter letting profile on three sections of the screen resulted in less certain income. London shopping centres were down 5.4% driven by Southside and West 12 as rental values declined.

Our regional shopping centres saw a 13.2% decline in values with a 5.9% reduction in rental values and a 30-basis point outward movement in yields. Bluewater was the best relative performer and Buchanan Galleries the worst. Retail parks saw the greatest valuation decline in the portfolio with values down 15.5% but the range was huge with the best performer up 9% and the worst down 27%. The declines in retail parks and shopping centres contrast sharply with our outlets, where values were down, but by a more modest 0.4%. This segment of the retail market has shown more resilience but, again, is not completely immune from the challenges facing retailers.

And finally, Leisure was down 3% against a backdrop of some difficulties in the F&B market while hotels were up 0.1% as income grew.

Slide – Development expenditure

Before we look at financing, just a brief look at our expected future development expenditure. This slide shows the potential cash expenditure on our 3.6m sq ft of development opportunities that Colette will cover in a moment. As you can see, that totals £2.1bn. Even if we funded all of this expenditure from new debt and sold nothing, which is highly unlikely, our Group LTV would only rise to just under 37% assuming current values and no profit on any of the schemes.

So now turning to financing.

Slide – Financing

Our adjusted net debt increased by £85 million to £3.7 billion and that, combined with the valuation deficit resulted in an increase in our LTV to 27.1% at 31 March. While our year end cost of debt was up fractionally at 2.7%, the average cost of debt this year was 2.6% compared with 3.4% in the prior year.

Given the uncertainty borne out of a lack of progress on the Brexit negotiations, we took the opportunity to add an extra £625m of bank facilities during the year and as a result we now have £1.6 billion of fire power.

Slide – Financial summary

So, let me summarise. It’s been another year of strong earnings growth particularly in London. Our diverse income streams have helped mitigate the decline in the values of our shopping

centres and retail parks. And our balance sheet remains strong. We have plenty of firepower and balance sheet capacity to fund new investment and build out our development pipeline.
Let me now hand you over to Rob.

Speaker - Speaker: Robert Noel – Chief Executive Officer

Slide - Regional retail & leisure

Thank you, Martin.

As I said earlier, we constantly think about the retail landscape

This has been a difficult year for retailers with a hesitant consumer, rising costs and increased business stress.

With the widening use of CVAs, it's also made it a hard year for retail real estate, and we're not immune, as you heard from Martin.

Our strategy for this sector is driven by the rise of e-commerce; the demographic changes I spoke about at the beginning; increasing spend on leisure activities; and the growing importance of experience to shoppers.

We're clear that, to thrive, destinations must provide great and wide-ranging experiences. Our focus has been on fewer stronger destinations and this evolution will continue.

Slide - Regional retail and leisure – a decade of repositioning

This slide shows how we've executed our strategy so far, in anticipation of these trends. As you can see on the left, we've shifted from a large tail of retail parks and secondary shopping centres towards shopping destinations, outlets and leisure. And shown on the right, we've also shifted value south and to supportive, growing catchments.

Slide – Regional retail and leisure – now dominated by destinations

Today, these retail segments make up 34% of our portfolio. The difference between this number and the 35% outside London is made up of some hotels. 60% of our hotels by value are in London. You can see how the 34% is broken down. Overall, we have 97% occupancy, with a good level of leasing activity.

Now, it'll come as no surprise to you that both footfall and same centre sales are down, but these are high footfall destinations with 147 million visits at our shopping centres and outlets during the year and both sales and footfall metrics were ahead of industry benchmarks.

Within this, however, there are different stories as Martin has already covered. Outlets and Leisure are performing well in the context of retail. Shopping centres and retail parks are suffering as rental values continued to come under pressure with market yields rising.

So, let's start at the top, with retail parks.

Slide – Retail parks – weighted towards convenience

Having sold two thirds of our retail warehouses over the last 10 years, we sold Selly Oak and Livingston during the year. In aggregate the proceeds were 2.5% below the March 18 valuation. We now have 11 Retail Parks - and we'll continue to work our way out of them but, as I said earlier, we're not going to compete to rush for the door.

Our parks all have open A1 planning use, giving us flexibility. We have high occupancy. Our average rents are at the lower end of the range at £20 per square foot; and of the 11, two are underwritten by alternative use value for residential.

Slide - Regional shopping centres – dominant in their catchments

We have six shopping centres outside London, representing 17% of our portfolio by value, and with 97% occupancy.

This has been a busy year for the team with 65 lease events in these 6 centres, a surprising amount of positive activity given sentiment, though rental values are under pressure.

In Glasgow, we opened new stores for Victoria's Secret, Schuh and Whittards.

In Leeds, At Trinity, now in its 7th year we opened the upsized New Look store, Timberland, Khadi, Rosa Thai and Black Box Revolution.

At White Rose, the upsized River Island opened, and we completed the line up at the leisure extension and a new Screen X in the Cinema.

At Westgate Oxford, we said goodbye to LK Bennett - but Zara, Mango, Urban Outfitters and Flannels joined the line-up.

At Cardiff the opening of Stradivarius at the tail end of last year was followed this year by new stores for Bershka, Ecco and Slim Chickens.

And finally, at Bluewater, we completed and let the Plaza development, we've upsized JD Sports, Rituals and Beaverbrooks. Levis and Polo Ralph Lauren both opened new stores; and in March,

we opened the new 62,000 square foot Primark store, bringing this much requested retailer south of the river.

Slide – Leisure parks – leisure spend continuing to grow

Moving on to our leisure parks. As we sold retail parks and secondary shopping centres, we bought into these between 2012 and 2014 and they continue to serve us well in the context of the retail market as a whole.

They cater for the growing experience segment of consumer spend, providing a varied range of entertainment from family friendly cinema, sport anchored experiences and the award winning Xscape destinations.

Cinemas had their highest attendance for nearly 50 years and we've continued to maintain the investment fundamentals across this portfolio through reversionary lease agreements with both cinema and bowl operators, and we now have fixed or minimum rental uplifts across a third of the leisure park income.

Slide – Outlets – a great day out

Our outlets provide a shopping experience which is difficult to replicate online – and are destinations for a day out.

Outlet leases have the benefit of capturing income growth annually, with short term performance related agreements outside the Landlord and Tenant Act. This enables us to curate line-ups which reflect changing consumer preferences and introduce popular new brands.

Over the last four years we've grown the retail trading density at Gunwharf Quays by 36% using the upsize of key flagship brands like Polo Ralph Lauren as a catalyst for the introduction of the other premium brands who want to trade alongside them.

This year we also introduced Polo at Braintree Village in a temporary store, and their new flagship store will open in November. We've already seen trading density grow by 12.5% since acquisition - and with further new brands, we'll continue to transform the line up during the course of the year ahead.

We've also received planning permissions for our scheme upgrades at both Junction 32 and Clarks Village, where we've also introduced Mint Velvet, Jack Wolfskin, Dune, Jack Wills and Barbour this year.

These consents will enable us to implement the business plan we talked about in November and drive sales and we'll cover it again at our Investor Conference in September.

Slide – Regional retail and leisure - summary

So, to summarise in regional retail and leisure. It's been a tough year for retail, and this will continue. But the best destinations, which provide a place to spend time, shop, eat and socialise, remain in demand from consumers and retailers.

We're clear on what we want to own, and our portfolio will continue to evolve. We'll focus on fewer destinations. All of which must appeal across generations and be in growing and supportive catchments. Strategically, regional retail will continue to reduce as a proportion of our business.

Let me now hand over to Colette to talk about our growing activities in London.

Speaker: Colette O'Shea – Managing Director, London Portfolio

Slide – Title slide

Thank you, Rob.

Good morning everyone.

So, to London and what we're doing: our current performance, and how we're driving our future growth.

Let me start with our office portfolio.

Slide – Managing the strength of our office-led portfolio

We're 98% full, with a healthy WAULT of 9 years, and reversionary potential of £16m or 5% of rents over the next 5 years.

We've completed £23 million of rent reviews increasing the passing rent by 17%. The most significant were at NSS, where we completed £18m of reviews and increased the rent by 18%.

We've done £15 million of lettings including a £2 million re-gear at One New Change and lots of other activity mainly in the West End.

Slide – Meeting customers' business needs – broadening our pool of customers

We continue to attract a wide range of customers, adding to the mix today and broadening the opportunity to capture future demand from more customers as their business needs evolve.

So, our office portfolio is strong and we're performing well.

Key to our strategy, is that service, flexibility and convenience are moving from 'nice to haves' to fundamental decision drivers.

Slide – Property as a service – expanding our customer offer

To benefit from this growing trend, we're developing a range of products to broaden our customer base and deepen existing relationships. We're aligning our products and services with business priorities of talent attraction and retention maximising productivity and cost efficiency.

Providing this choice and flexibility will drive our performance.

As you'd expect each one of our products is the result of extensive research data insight and careful planning.

Now our customers can choose from one, or a combination of, our traditional HQ offering, Landsec Fitted - our new fitted-out solution and Myo - our flexible office offering. And all of these can be enhanced by our popular Landsec Lounge.

Slide – Headquarters – delivering great space and long-term partnerships

Starting with our Head Quarters offer. London remains the pre-eminent global city for HQ's and we have a strong track record delivering great space and long-term partnerships. Deloitte's commitment to NSS showcases how companies can create aspirational hubs where the experience reflects their brand and culture.

Slide – Landsec Fitted – hassle-free and ready to go

Our newest offering is Landsec Fitted. As the name suggests, the space is fully fitted out ready to move into. Our customers told us they want to use our property expertise, so they can concentrate on their business, leaving the property stuff to us.

This service gives customers another option to choose from and gives us the ability to capture premium rents doing what we do well.

Our first three spaces are underway, and we expect to expand this offer across the portfolio.

Slide – Myo – freedom to make your mark

Myo is our flexible office offer. We began marketing in January and opened at 123 Victoria Street at the start of this month. I'm delighted with how it's going, and the feedback we've had on our menu of options.

The next step is to expand it across the portfolio – we'll share more of this at our investor conference.

Slide – Landsec Lounge – delivering amenity and service

Whilst broadening our service offerings our Landsec Lounge continues to add to the popularity of our buildings. New Landsec Lounges are underway at 62 Buckingham Gate and Dashwood House with New Street Square and One New Change to follow.

These offers provide us with the opportunity to increase income through premium rents and reduced rent frees.

As well as new products we're working hard on innovative ways to reduce waste and energy whilst increasing the efficiency of our cleaning, security and maintenance. This is important to us and our customers and by taking this approach we make our space even more competitive.
So that's our office portfolio and our new services.

Slide – Hotels – great long-term opportunity

Now I'd like to update you on our hotels.

In London, we have £300 million invested with the rest in large regional cities like Birmingham, Manchester, Edinburgh and Glasgow.

Income which has grown steadily is based on a percentage of turnover. Furthermore, the vacant possession value is higher than the investment value. And because of where they're located many have significant future development potential.

I can't yet tell you when or how but let me give you some examples.

In Hammersmith, the Hotel provides a potential toehold in the future regeneration of a site next to the tube station. In Docklands and Birmingham, you can see the densification prospects.

So, whilst we enjoy a growing income stream, we can also look ahead to the potential opportunities.

Slide – Progressing drivers of growth

Talking of opportunities now to our current developments where you'll see all our new products and services emerging and more.

We've a total of 3.6 million square feet all of which is in London and has grown since November with our acquisition of Lavington Street in Southwark.

This acquisition builds on our existing investment in this location. The more we can develop in an area the greater the overall impact. But more on that in a moment.

Slide – Driving income and capital value growth

Our office programme now stands at 2.2 million square feet. It's going well, and a million square feet will be onsite by October, ready for delivery from 2021.

The total development cost is around £2 billion with a potential rental value of £140 million.
Let me take you through it.

Slide – 21 Moorfields – partner of choice

Starting with 21 Moorfields.

The complexity plays to our strengths and we continue to complete each stage on time or even ahead of target.

Here are some of the highlights. Deutsche Bank want the whole building giving us a 25-year lease. We finished our piling 6 weeks early, no mean feat as we threaded 15 piles to a depth of 60-70 metres through Moorgate Station. We've started installing the steel frame and we remain within our TDC of £576 million. All of this activity has now substantially de-risked the project and we're on track to deliver to DB at the end of 2021.

In November I talked about our new approach to using 3D modelling. Here it is again because its working and is proving its worth. We're finding design clashes early – rather than on site. We're able to sequence the programme so materials only get delivered to site when they're needed, making us more efficient. We're getting detailed costs much earlier, creating certainty, all of this reduces risk.

And now we're using it to create visualisations, so stakeholders and customers can get a better understanding of the space.

So not surprisingly given all that we will be using it across all our schemes.

Slide – Nova East – next generation Victoria

Over in the West End and Nova East which marks an evolution of our Victoria product, with highly engineered spaces and terraces on every floor. We're onsite with enabling works ready to start piling in July.

Slide – Portland House – West End landmark

A few steps away at Portland House our plans for this West End landmark are gaining momentum. In November, during our feasibility stage I talked about knocking the whole building down, but as we did more work, it became clear that extending the existing building and comprehensively remodelling it is a better option. It gives us great space faster to market with less risk creating better returns.

A new 14 storey building will be attached to Portland which currently stands at 29 storeys and we're adding one more for a roof top restaurant. Overall, we're increasing the floor area by 30% and creating a choice of floor plates from 11,000 to 17,000 square feet.

Also, I've already talked about the increasing importance of amenities for customers, and Portland House will have some of the best on offer.

As well as the cafés and wellness facilities you'd expect we're turning to neuroscience to create spaces which impact on people's moods and productivity even their blood pressure. Again, we'll be able to tell you more in September.

Slide – One Sherwood Street – behind the Lights

Now to One Sherwood Street our 144,000 square foot development behind Piccadilly Lights which I gave you a flavour of in November.

We're pairing this iconic location with an exciting design which includes a winter garden Landsec Lounge and roof top restaurant to create a product which we believe will be highly sought after and command premium rents.

We're onsite and already talking to potential occupiers. Demand for the best space in the best locations is high – and we've had interest even at this early stage.

Slide – Southwark – Expanding our presence

Moving south of the river.

Changing London's skyline with landmark buildings is always something we're proud of. But when we can invest in several buildings in close proximity and really breathe new life into an area – that's when we make a real difference.

We've done it in Victoria and we're going to continue to do it in Southwark an area we know well.

Our latest acquisition - Lavington Street brings the number of buildings we own to 5 and we're progressing 3 schemes. 105 Sumner Street, Lavington Street and Red Lion Court.

Slide – Sumner Street – Delivering new product

At Sumner Street we have consent for 131,000 square feet in 2 buildings and expect to be onsite by October in order to deliver in 2022. We're trialling our kit of parts approach here, which I'll talk about in a minute.

Slide – Lavington Street – A new destination

Lavington Street which we acquired in December is well embedded into our plans. We're in the feasibility stage and are looking at both refurbishment and redevelopment to deliver approx. 370,000 square feet. We've started discussions with Southwark and our proposed start on site date is July 2020.

Slide – Red Lion Court – Prime river front scheme

At Red Lion Court our scheme on the Thames we're working on a building of 324,000 square feet with a very large public space. We're aiming to submit a planning application later this year.

Slide – Residential - Large scale residential potential

Turning now to residential. Rob introduced this in November and our plans are moving forward. We aim to deliver 1,700 homes at Shepherds Bush and Finchley Road. We're in detailed discussions with the planners with a view to submitting applications by March. We also have potential at Lewisham where we're at the master planning stage. We'll share more about our vision for these at the Investor Conference.

So that's our developments but let me take a moment to talk more about how we're continually innovating to build and design better faster and for less to find ways of reducing our impact on the environment by sourcing responsibly and maximising our use of resources.

Slide – Leading in manufacturing and assembly

I've talked about using BIM modelling but there's another area of innovation gaining momentum our kit of parts approach I talked about in November.

To remind you this is where parts are designed and manufactured off-site, and then put together onsite using automated assembly techniques.

This has many advantages, including greater efficiency better quality control reduced risk reduced costs from economies of scale and less environmental impact. All of which lead to higher margins and an improved financial performance.

We've started with Sumner Street where a government grant awarded in recognition of our innovative approach has enabled us to significantly accelerate the testing programme.
It's still early days, but we're really excited about the potential benefits and positive impact on our performance.

And of course, the more we use this across our developments the greater the number of standardised parts the more the benefits will grow.

So, we're busy but it's exciting and we want more.

Slide – Investment in London

We're focused on buying assets which will enhance our development programme assets that will support new products and services and assets that will thrive in exciting new locations.

We maintain financial discipline, but Lavington Street shows that we're competitive for the right assets, and that there are multiple levers we can pull to win deals. In fact, we were an under bidder but our reputation as a highly credible buyer who can move quickly secured us this property at an attractive level.

Slide – London is evolving and so are we

Let me sum up. Our office portfolio is full. We have new products and services which are creating a wider customer appeal. Our focus on innovation is leading to new ways of designing and constructing buildings – better, faster and for less. Our ambition is to lead in sustainable development. Our development pipeline is growing and a million square feet will be on site this year. We're working on 1.4 million square feet of new homes. We're committed to London and delivering space suitable for the way people want to live, work and play. And we're confident about the value we can generate for shareholders

Now let me hand you back to Rob.

Speaker: Robert Noel – Chief Executive

Slide – Title slide - Outlook

Thanks Colette.

So, to conclude how has our strategy evolved and what should you expect from us going forwards?

As you'll know, we were early to develop during the run up of the cycle, so we could deliver into the hotspot. As we did this, we also took the opportunity to sell out of secondary retail - to focus on experience-led destinations.

Since the run up to the referendum, as political and economic uncertainty grew, we were net sellers - and returned capital to shareholders - while maintaining a strong balance sheet.

Internally, we've been focussed on what it would take to be the successful property company of the future.

This now means delivering more than just a great building on time and to budget - it has resulted in the development of a range of property services and modern building techniques - and taking a lead in Environmental and Social factors

At the same time – we've been preparing and expanding our 3.6m square foot pipeline for development.

Slide – Looking forwards from a position of strength

Customer demand for the right space will continue, wherever you are. London is supported by demographic and behavioural trends and has more than proven its resilience over the last two years.

The market dynamics remain healthy and customers are demanding quality space, great service and robust building performance – and this will provide opportunity for us.

The retail market will be mixed. We see continued demand in our leisure parks and growth in our outlets. Although shopping centres and retail parks will remain tough in the near term, these segments only make up 21% of our portfolio.

We're really well positioned to grow and create value for shareholders. We've created a high quality, and versatile portfolio and are in strong financial shape.

The balance of the business is shifting, as we allocate more capital and take more risk in London with an increasing development programme, and this includes our organic opportunity to enter the living market.

Outside London you'll see us focus on fewer destinations, which must provide a broad range of offer, amenity and appeal across generations, and be supported by good and growing catchments.

We're widening our range of products and services thoughtfully, ensuring that we can meet future demand, in terms of space, amenity and building performance.

We're innovating to increase efficiency and reduce cost, waste and risk.

And finally, We've a deep and demonstrable skill base; great partner relationships; and we're the sustainability role model in our sector.

So, let's end there - and hand over to you for any questions.

Question and answer session

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Jonathan Kownator, Goldman Sachs

Good morning Jonathan Kownator from Goldman Sachs. A few questions if I may. The first one, you have talked about disposals. Do you or can you quantify that in terms of quantum and perhaps, do you have a timing horizon for that?

And the second question is on offices, can you elaborate perhaps a bit on the incentives you have had to give for the new lettings on developments and the new schemes you can to commit to, would you commit on a spec basis or would you wait for pre-let to come?

And sorry, final question is on the residential, do you have a target size you want to reach in terms of portfolio? Obviously, you have added two new large schemes, do you have opportunities to do more going forward as well?

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Answer: Robert Noel, Chief Executive

Thank you very much, let me answer the disposals and residential question and then I'll ask Colette to answer the incentives on the office and the spec or not on development.

So, on disposals, I am not going to give any guidance on quantum. The last thing I want to do is tell you what I want to sell and when I am going to sell it by because that will hang us out to dry. What we have said all along is that we want to reduce our exposure to retail and warehouses, and as you know we have already sold out of a lot of them and that will continue. But we have got our balance sheet to where it is today. We are in no rush, we are very strong, and I am not going to compete to rush for the door. So that is all I am going to say on that.

On the residential, again I am not going to say what size it will be in the portfolio because there are a number of factors around the residential, this is a hugely growing sector, will be large. We have got an organic opportunity on a few sites in London which provide us with a really good opportunity. The first two themselves will be the best part of a billion (pounds). So that will give you some guidance.

The issue with residential is the political environment is so fluid and neither political party have got behind it yet. We think they will but they have not got behind the build to rent sector with clear policies. And so, the last thing we want to do is rush into a sector where the politics is fluid. But we are positioned very positively for this sector and we are very excited about what we can produce.

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Jonathan Kownator, Goldman Sachs

Just a comment on development, I am sorry on disposals. I understand you don't want to obviously give a target. Perhaps you can comment on I mean obviously you would be keen to sell some of the retail exposure I can understand that, would you be looking at funding your pipelines for further disposals perhaps in mature offices in particular?

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Answer: Robert Noel, Chief Executive

So, we are always selling and buying buildings Jonathan and I'm just not going to get taken into how much we are or not going to sell. As you see at the moment, 65% of our business is in London, that is going to get bigger, not least because we are building you know over the coming years £3 billion of development. We always sell buildings and buy buildings, it depends on what offers we get at the time. No asset is sacrosanct, and we sell all the time.

Collette, incentives and spec?

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Answer: Colette O'Shea, Managing Director - London

The incentives question is very simple. Incentives have stabilised and we are looking very typically 24 months for a 10 year term. And then spec or not, if I just can give you some insight into our thinking. As I said we have got a million square feet that we will have on site by September or October this year, half of that is 21 Moorfields which as you know is pre-let so we have de-risked that. The three schemes are in different locations. So one is Sherwood Street behind the lights. More of Victoria which as you know we like a lot and then Southwark.

And the point about those is that it is not about when you start them it is actually when you deliver them and the delivery windows. And the delivery windows for those are 2022/23. And if you have a look in some of the appendices I have put in the back you can see that we are starting to see a potential opportunity there where there is a shortage of space.

And the other thing that I would say is that we are seeing that customers now are becoming very discerning, we are seeing a real flight to quality and what they are looking for is very much grade A space. So, we see a real opportunity with our schemes.

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Jonathan Kownator, Goldman Sachs

And obviously Sumner Street which is a south of the river location, so you would effectively start whether or not pre-let effectively to be delivering to that window?

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Answer: Colette O'Shea, Managing Director - London

Yes, the plan is to start in October.

Jonathan Kownator, Goldman Sachs

Alright, thank you very much.

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Paul May, Barclays

It's Paul from Barclays, just a quick question from me. A couple on retail and then one generally. Given the lack of liquidity in retail assets what makes you/the valuers convinced that the 5% topped up yield in your shopping centres is appropriate at the current time?

Adding to this and just generally on the retail issues, do you think it is appropriate at the current time that you don't have a retail specialist at the Exec level?

And then finally, more generally, given the outlook for valuations in the near term is likely to be negative and income is likely to be the main positive return, was the slower dividend increase than earnings increased and flexibility over your operations going forward an indication that you expect earnings to decline in the near-term?

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Answer: Robert Noel, Chief Executive

Thanks Paul. I will ask Martin to answer the income and earnings question. On retail, the valuers are going to say what the valuers are going to say. The market is very quiet as you know. Rental values are coming down and yields are going up and the valuation is a sort of mathematical calculation on that. We are expecting rental values to continue to decline. So, we are expecting further valuation decline. Whether our existing valuations are, they are as right as we think they can be, but they are never right in a falling market or a rising market, and so we are as close as we can be. The important thing for us is that we are in a really strong financial position and we can ride out anything. Our shopping centres are pretty much full as we demonstrated today. We let stuff as it becomes empty. So, the quality of the space we have I am very relaxed about.

As to the Retail specialist at exec level, I am going to say two things. First of all, we have got great teams in our business, we all sit in on open planned room. We don't need specialists in everything everywhere, we need people who can galvanise very highly qualified and experienced teams to do the right job for our portfolio, so I am totally relaxed about that.

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Answer: Martin Greenslade, Chief Financial Officer

Paul on income, the question you ask around the dividend. When we do anything with assets, when we sell them, when we put certain assets into development there are times when our income dips and that is perfectly possible given there is limited rental growth if you look at Portland House with £14 million of income coming from it. If we want to redevelop it then that income will go.

I think the upside if you look at our development programme is very clear but it comes though over time. What I am trying to do is to smooth the dividend growth through the bumps in earnings that come from those asset decisions, be that selling, be that putting assets into development and so I am not going to make a prediction on exactly where the income level goes, but what I am telling you is that we are trying to smooth the dividend growth through any volatility in earnings that comes from asset decisions that we make. And it is really important to put the business in a position where it makes the right asset decisions rather than it's in some way confined by dividend policy and so we try and get the asset call right first.

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Paul May, Barclays

Thanks. So just one follow-up on the retail valuations. Given your strong balance sheet maybe compared to some of your peers, are you prepared to make the market in those retail values given nobody knows where the bottom is? And would you be prepared to sell below book value in order to, as I say, make that market given your strong balance sheet and your ability to do so?

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Answer: Robert Noel, Chief Executive

So, as I said, at the moment we are focused on experience led destinations, we have done an awful lot to shift our portfolio towards those levels over the last five years. We are very relaxed about our positioning. We will continue to sell retail warehouse parks. I am not going to tell you by when or at what price and I am not going to rush for the door and compete with anyone in the market.

But we did sell our Livingston Retail Park below book because we thought it was still the right thing to do. So, the book value is not the determinant of what price we sell at.

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Paul May, Barclays

Thank you.

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Rob Jones, Deutsche Bank

Good morning, Rob Jones from Deutsche Bank. Three questions, two on retail and one on the office development acquisition opportunities. So firstly, just on Bluewater, best relative performer for your UK shopping centres. What was the capital value decline at that asset and the outward yield shift?

Secondly on retail parks, really interesting to see such a widespread in terms of capital value movement during the period. I hope you can give a bit of detail in terms of the drivers of this, was it primarily CVAs and maybe what lessons could be learnt going forward in terms of the ability to maximise capital value resilience within that portfolio?

Then finally on the office size. So, you talk in the statement about the fact that we are seeing a bit of a polarisation of demand by occupiers towards the highest quality as assets going forwards. And I just wonder to what extent do you see scope for outward yield shift at maybe assets that might going forward be defined as undesirable second hand space?

And secondly, within that, does that then present new acquisition opportunities for you to buy out that space and redevelop it for the future?

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Answer: Robert Noel, Chief Executive

So, Martin is going to answer the Bluewater and retail parks questions. Let me just knock the office question on the head beforehand. One of the things that we have done over the last five years is to drive our London Portfolio into quality buildings. We have seen a rise of demand for quality, for flexibility, for great building performance, for good environmental performance for technical resilience as buildings are being occupied at greater densities. That has been our mission since we started developing in 2010.

So, we are in a great position with our London Portfolio, most of the buildings are of great quality and those that are effectively development sites. As Martin said, the stuff that is being developed by us here at the moment has a current rent role of £19 million. Not very much for a 3 million square foot - £19 million coming out before the new money comes in. So we are in a great position there. I don't see that we are going to have any issues in our portfolio of not being able to match customer demand.

As for buying in London, well we bought one this year and Colette and her team are all over looking at stuff we are going to buy. We will, if it is the right price and we can get the right return, if we can't we won't. But if as you say there are going to be a load of second-hand buildings which are not fit for purpose then that is an obvious hunting ground. Martin.

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Answer: Martin Greenslade, Chief Financial Officer

Yes, you asked a couple of questions there around the valuation. Bluewater was down 9%, the yield shift there was around 15 basis points, so that is coming in around 4.9% currently. But what I would say on valuations generally, income streams within shopping centres are being valued at different yields. So, if you have a particular occupier that there is concern in the market over, then the valuers will put a different yield on that unit, on that income stream, they may have some costs associated with what they expect to happen to that unit. So, the shopping centre itself is a blend of different yields.

You asked also about retail parks. The ones I think that had the largest drop, the major reason for those is if you look at them, almost certainly they will have some large units to the likes of Homebase, Carpetright and so on. So, it is where you have had the major CVA exposure that is where we have seen the biggest valuation decline.

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Chris Fremantle, Morgan Stanley

Thank you. Chris Fremantle from Morgan Stanley. One big picture question and one detailed question. The big picture question is about the rental cycle in London office. I think you have talked in the past about London office rents being close to the peak of the rental cycle. So, you still stand by that view or have you changed that view about the outlook for the rental cycle in London?

And then the detailed question. Just on the like-for-like in retail, you gave a lot of granularity about the historics of net rents and the provisions that you had taken in net rents. Can you just help us a little bit with the outlook going forward for accounting net rents, based on what you know of the leases coming due and the CVAs that have been announced? Can you just help us a little bit with how that net rent picture in retail is likely to move going forward given what you have already taken as provisions in that?

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Answer: Robert Noel, Chief Executive

So, Martin will take you through the CVA analysis and there is quite a lot of information in your appendix for you to take away, but he will refer you to that.

Colette can you talk about the rental cycle in London?

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Answer: Colette O'Shea, Managing Director - London

Yes. What we have seen is a slight sort of tiny uptick over the last 12 months. I think looking forward we are not expecting to see a huge growth in rents in London.

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Chris Fremantle, Morgan Stanley

But you are not expecting a big down cycle either? That was effectively how you were positioning the business a couple of years ago for a big down cycle in rents. If you are changing that now it would be helpful to know?

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Answer: Robert Noel, Chief Executive

So, what we are seeing is a differential between prime and secondary and the prime market has held up, the Grade A market has held up well. London, as I said earlier on, has shrugged its shoulders at Westminster. The supply demand dynamics have been good for property developers and landlords. People are delaying development decisions and that is what has given us the comfort that we can crack on with our schemes because occupiers are moving to quality very fast. So, I am not expecting a big down cycle in rents in Grade A buildings, no.

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Answer: Martin Greenslade, Chief Financial Officer

So, the million-dollar question, what is the year ahead going to look like in retail? What we have done is taken as best a provision as we can for where we see trouble ahead. So, where we see retailers are having difficulty. So, you are not going to get SIC-15 write-offs in relation to those, we have taken those. However more may yet come out over the course of the next 12 months. If you look at the spot rents and we do give you the spot rent at 31 March, there is not much of a reduction versus the rental income that we have booked for the year to date. But again, as I say the issue is actually what happens in year if you get administrations, if you get people closing units and rent dropping that is going to have the larger impact than the actual spot rents as we see them today you know on 1 April 2019. Not materially different to the income that we recognised during the course of the year.

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David Brockton, Liberum

Good morning it's David Brockton from Liberum. I have got two questions on retail as well and the first one relates to the last question. Not a day goes by where we don't see a retailer talking about sort of getting a 20% plus reduction in rents. And putting CVAs to one side, I am interested in the fact that the like-for-like net rent was broadly held stable. I was just wondering if you could help us understand what the moving parts are there? Is it just that the retailers that are negotiating rent reductions are not in your stores or are you seeing new demand coming in from different types of occupiers that are offsetting that? Just help me understand to bridge that gap please? That is the first question.

The second question relates to footfall. You clearly give footfall which is declining for the wider retail portfolio. I just wondered if you can give a feel for footfall in some of the more leisure orientated assets and also the outlet assets, is footfall still growing there? And I wonder if you can give us a feel for how much please?

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Answer: Robert Noel, Chief Executive

Sure. So, let's just talk about the 20% reduction in rents. When retailers report, they report over their portfolio as a whole and our shopping centres are not representative of the UK retail market as a whole. This is why we positioned our portfolio where we have. We have got 97% occupancy, when retailers go we generally fill them. We will fill them with slightly lower rents and you have seen where the value is falling, rental values down, that is evidence based on what is going on in our portfolio. So, whilst retailers have a stronger negotiating position obviously than they did last year and the year before and the year before that, we have not seen anything like that fall in our portfolio and we are, as I say, 97% occupied which is about as much as we have ever been.

On the, sorry the second question was on like-for-like, and that may give you an answer as to why the like-for-like is so stable. Most of the people are staying and if you saw the rent reviews and lease renewal stats in our Retail Portfolio they were flat so they haven't come down.

Footfall we don't measure in the leisure centres, we only measure in the outlets and shopping centres, I haven't got the breakdown here, but it is certainly in the appendix in your pack.

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Osmaan Malik, UBS

Morning Osmaan Malik, UBS. Just one quick question as a follow-up on Chris's question and Martin's response. As I understand it the bad debt provision in the SIC 15 provision. You have

taken a view on retailers that you think could get into difficulty. Have you shared that information with the valuers and have the valuers taken a similar approach with their valuations?

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Answer: Martin Greenslade, Chief Financial Officer

Yes, they have in terms of how they have marked out. So for example we have discussed the names, Debenhams, Arcadia, those are post year end. Those will as at 31 March within the valuation, the valuers are obviously clearly aware of those. They are also aware we have complete open dialogue on all the assets as to our concerns around particular retailers. But on those they will then move out the yield on those particular ones. So it should be tied in with our view of the retailer, but also what a buyer, how a buyer would approach any impending CVA or administration, and so it's reflected in the valuation through a yield shift.

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Osmaan Malik, UBS

Good, thank you.

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Robert Noel, Chief Executive

So, we've got a question on the screen.

Just look at the 2.7 weighted average cost of debt versus 2.6 last year, I know it has no material impact on Landsec financial expenses according to average length, however could you comment maybe the changes in your own marginal cost of debt over 2018 to the beginning of 2019 first and market spreads? Do you see the first tensions there and talk a little about lenders requirements?

Martin.

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Answer: Martin Greenslade, Chief Financial Officer

So I think what I would say is from our perspective it would be wrong to judge the lending market on what we see. We are a sort of a thin veneer - we have got a security group, a double A rating. And so what we experience isn't necessarily what other people are experiencing when they go

for single asset finance at far higher leverage levels than this. We have seen no tightening in the cost of credit for us, those additional facilities we added are no more expensive than the facilities they were added to.

So, we haven't seen a change of that. The saving on our interest across the year has been due to the reduction in the average cost of debt rather than the year end and year end. And that is the point that I was trying to make is that the average cost of debt has come down. During the course of this year it has been pretty well bang stable at 2.6% and I really don't have a feel for what the more leveraged market looks like. We hear that it is slightly tougher, but I think you are better asking those people who are actually out seeking finance on those assets to see how they are performing. All of our assets are in a security group and there is a huge amount of benefit to us from doing that.

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Robert Noel, Chief Executive

Good. So, we have no more questions, it is 10 past 10. Thank you very much, we are around all day if you want to ask questions, otherwise we will see you at our Investor Day in September which I think most of you have got to hold the date in your diaries for.

Thank you.

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