Land Securities Annual Results Presentation

Wednesday 18 May 2011

Speaker: Francis Salway – Chief Executive
Slide 1 – Title slide
Good morning and welcome.

Slide 2 – Drivers of performance
The financial results we announce today are founded on a clear plan – and the plan entails:

- Early mover advantage on developments
- Growing momentum on asset management initiatives; and
- Specific actions to drive earnings growth

Let me deal briefly with each of these. We were the first to initiate a large development programme in London and the first to embark on city centre retail development. And, through that, we have created early mover advantage. The potential financial benefits of this were demonstrated most clearly with our sale of the Park House site in London. But the wider point I want to leave you with is that, having started developments in 2010 appraised off conservative figures, many of our schemes have real potential to deliver returns materially in excess of standard profit margins.

Secondly, as the year has progressed, we have been generating real momentum on asset management initiatives. Rob and Richard will both give you examples. Our success here comes down to strong relationships with occupiers and, in a number of instances, planning skills.

Thirdly, as I said a year ago, we have also put in place a plan to drive earnings growth – because we are in a market where the natural engine of earnings growth, rent reviews, is in semi-hibernation. We have, and will, generate earnings growth through reducing void levels and making dormant development sites productive. And Park House is an example of that – it is not just about the gain on valuation; it is also about reinvesting capital from a site that was generating no income. And this year we have also been selling assets at materially lower yields than we have been buying at.

Slide 3 – Financial summary
So, on to the financial results themselves.

Our pre-tax profit is £1.227 billion. This of course includes the 'apples and pears' combination of underlying income profits and valuation movements.

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Our measure of underlying income profits, revenue profit, was £274.7m, up 9.1%. Adjusted diluted EPS were up a little less at 6.5% largely because of the impact of scrip dividends and also various minor movements including joint venture taxes.

Now, a year ago, we said that we would resume dividend growth as revenue profit growth returned – and that we expected this to come some time after the end of the 2010/11 financial year. However, we have returned to a growth in earnings a little sooner, and so we are today announcing a recommended 2.9% increase in the fourth quarter dividend to 7.2 pence per share. This results in the small increase in the full year dividend you see here on the slide. You should expect this increased quarterly dividend rate of 7.2 pence to be maintained over the first three quarters of the 2011/12 financial year.

Our valuation surplus was £909m, up 9.7%. This has contributed to an increase in adjusted diluted NAV per share to 826 pence, up 19.5%.

Our total business return for the year, dividend plus NAV movement, was 23.6%.

Slide 4 – Investment portfolio (by sector)

Turning now to the valuation results, you will see that we generated a materially bigger increase in values in the second half as compared to the first half. That of course is in stark contrast to the market as a whole, as measured by IPD, which saw a slowing of performance in the second half. Our strong second half performance reflects growing momentum on asset management initiatives and a continued strong contribution from our developments.

At the sub-sector level, the stand-out figure is the 21.5% increase in value for our central London shops. That came from a combination of the successful letting of the retail units at One New Change, the conditional letting to Primark at the east end of Oxford Street and agreeing a letting for one of the advertising signs at Piccadilly Circus which virtually doubled the rental value.

Slide 5 – Investment portfolio (activity impact)

Moving from the sector analysis of valuation movement to activity impact. You can see that the £1 billion or so of assets in our development programme were up by 19.4%. So, our early mover advantage on developments is already contributing to outperformance – and this is before lettings have been crystallised on most of our newly started schemes.

Slide 6 – Like-for-like portfolio

I also talked about reducing voids as being an important part of our plan. You can see that we have had real success in this area. Headline voids are down from 5.3% to 4.3%. And if you take out pre-development properties, units occupied on temporary lettings and units under offer, the residual void figure is as low as 2.0%.

Slide 7 – Capital recycling
We have continued to recycle capital, as we said we would. With a large development programme, and a commitment to prudent levels of gearing, capital recycling is an important part of our plan.

And this slide shows the evidence supporting my comment that the yield on sales has been lower than the yield on acquisitions – 3.0% on sales and 5.2% on acquisitions. In both cases this includes the impact of non-income producing development sites.

You will also see that the sales were at 12.7% above March 2010 valuations. This figure is above the valuation surplus on our retained assets and so the capital recycling has further contributed to our overall returns.

Slide 8 – Rental value performance
Here we show rental value movements on the like-for-like assets compared to rental value movements on IPD. You can see that overall rental values were up by 4.7% and we outperformed IPD by a significant amount on London retail, which I have touched upon, and also on our shopping centres.

If stage 1 of the recovery was about yield shift, and if stage 2 is to be about rental value growth, these are strong positive indicators for our business.

Slide 9 – Investment portfolio performance relative to IPD
Now comparing our performance to IPD on the basis of ungeared total returns, you will see that within our specific sectors, we have outperformed in all the retail segments – and by a wide margin on central London retail.

And, if you go to the right hand bar, you can see that our performance relative to IPD at the overall portfolio level has been massively positive – with a total return of 16.8% compared to 11.3% on the IPD quarterly universe. That outperformance represents in absolute money terms just under £525 million.

Our outperformance reflects in part the very beneficial impact of the mix of our portfolio – with a heavy concentration on central London offices and also a big exposure to retail in central London and the London suburbs.

I will now hand you over to Martin to go through the financial numbers in more detail.

Speaker: Martin Greenslade – Group Finance Director
Slide 10 – Title slide
Thank you Francis. Good morning everyone.

Slide 11 – Revenue profit
This slide sets out the main components of our revenue profit and includes our proportionate share of joint ventures. As Francis has mentioned, our revenue profit for the year was £274.7m, up 9.1% on last year. Let's look at the major movements behind this.

Gross and net rental income were down on last year predominantly due to property disposals but I will explain further on the next slide. That leaves all the cost categories and what is particularly pleasing is that all of these show a year-on-year reduction. Net service charges and direct property expenditure declined as we let property while indirect costs improved as we saw the full year impact of cost cutting and the release of some provisions no longer required.

The main driver of the increase in revenue profit was the £28.2m reduction in net interest costs. This resulted from a lower average debt balance following the sales we made last year and a lower cost of debt due to cancelled interest rate swaps and the buy-back of some of our bonds.

Our revenue profit performance was ahead of our internal expectations. Rent review settlements were higher than forecast, voids were reduced and provisions were released as circumstances changed or balances were recovered. This is a normal feature of this phase of the recovery cycle, but difficult to forecast. While much of this benefit will carry through to next year, we estimate that approximately £10m will not recur.

So let's now look at the rental income movement in more detail.

Slide 12 – Rental income analysis
I have set out here our net rental income split into various categories on the left hand side, to help explain the £10.8m reduction. The largest impact on net rental income came from the properties sold since 1 April 2009 with a decline of £34.6m. As usual, proposed developments showed a reduction compared to the previous year and the principal property here was 60 Ludgate Hill which the government vacated during the year. Within the development programme, the main change also occurred in London where the part year rental income from One New Change was not sufficient to offset in full the income we received last year from 123 Victoria Street, and 62 Buckingham Gate but which has now ceased. These three items taken together reduced our net rental income by £45m. So why was our net rental income only £10.8m lower?

That was due to a very good performance in our other categories. Net rental income on our like-for-like properties increased by £14.1m or 3.2%. The majority of this increase came from the Retail portfolio where net rental income was 6.3% higher primarily due to new lettings. Within completed developments, the main increases were at Dashwood House, 30 Eastbourne Terrace and New Street Square. And finally, retail acquisitions, notably the O2 Centre and Overgate, Dundee, generated £10.3m of net rental income in the year.

Slide 13 – EPS approach
Before we leave the income statement, I wanted to bring to your attention a small change we intend to make next year in the calculation of our adjusted earnings.

As many of you will be aware, our revenue profit ignores profits from trading property sales and long term contracts but these items are included in our adjusted eps calculation. Looking ahead, these profits are likely to be larger but occur infrequently as they will predominately relate to the sale of residential property such as the flats at Wellington House. So, going forward, we intend to exclude these profits from our calculation of adjusted earnings. Had we adopted this revised definition for this year end, the adjusted diluted eps would have been 35.45p and the growth over last year would have been 7.1%.

Slide 14 – Movement in adjusted diluted NAV
On this slide, I have set out the key items behind the 19.5% increase in our adjusted diluted net assets per share. Adjusted earnings were £278.0m. The next two items reflect the changes in the value of our assets. First is the valuation surplus of £908.8m, up 9.7% over the year. And the second is investment property disposals which contributed a profit of £79.3m or 12.7% above their carrying values, with Park House the main contributor.

Dividends were £142.8m, made up of two elements: £213.6m paid to shareholders in the year less £70.8m which was in the form of a scrip dividend.

With minimal other reserve movements our adjusted diluted NAV per share ended the year at 826p.

Let’s move onto cash flow.

Slide 15 – Cash flow and net debt
Set out on this slide are the major components of our statutory cash flow movements, so IFRS debt excluding joint ventures.

We began the year with net debt of £3.26bn. Operating cash inflow after interest was £214.2m. In the first half of the year, we made a protective tax payment to HMRC in respect of prior year matters which were fully provided for at the time. After dividends come the three items related to capital transactions. Acquisitions totalled £371.3m, we invested £226.1m in developments, principally at One New Change and Trinity Leeds, and cash from disposals was £535.0m, with the largest sale being Park House.

Our aim for the year was that property disposals would broadly match capital outflows on acquisitions and capital expenditure. Taken together, these three capital items represent a net investment of £62.4m and when we take into account our joint ventures, particularly the sales in Metro, we end up with an even closer match. Not bad on a £10bn portfolio but more importantly it meant our debt remained fairly constant. And that is right in line with our strategy of not being a net investor using debt but letting valuation increases reduce our gearing as we move through this phase of the property cycle. On the next slide you will see that our Group LTV has indeed reduced, falling to 39.0% from 43.5% last year.

Slide 16 - Financing

So, on to financing…

This has been another active year for us in which we have increased the flexibility of our debt, reduced gearing and reduced interest costs.

But let me put that activity into context. We began the financial year with no borrowings under our revolving credit or bilateral facilities and so to increase the flexibility of our borrowings we bought back £521m of our bonds using funding from our revolving credit facilities. During the year we also arranged a new £100m bilateral facility and renegotiated pricing on our existing bilateral facilities, reducing the margin by an average 78bps.

The weighted average maturity of the Group's debt, including JVs, is 11.4 years with a weighted average cost of debt of 4.9%.

Now you can compare this figure against the cost of debt for other companies, but it will tell you more about the history of when the debt or swaps were entered into and less about the cost at which companies can raise new debt today. For that we should look at the publicly-traded debt markets.

Slide 17 – Peer group spread comparison

What this slide shows is the historic spread to the relevant gilt for similar duration bonds issued by a number of property companies. This tells you what margin investors required to own the debts of these companies at different points in time.

The position today is shown in the table. Our spread to gilts is 135bps, around 50bps or ½% lower than any of the other property companies shown here. And that's an important cost advantage when you consider that almost all property companies will need to refinance at least part of their debt facilities in the next few years.

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So let me summarise.

Slide 18 – Summary

This year we have delivered a strong set of results, we've increased the flexibility of our debt and reduced its cost and, as we said we would, we have recycled capital to allow rising asset values to reduce our gearing. In simple terms, on the liability side of the balance sheet we have the debt structure and the capacity to enable us to deliver on the strategy for all our assets including our development programme.

Let me hand you over to Richard for news on the Retail Portfolio.

Speaker: Richard Akers – Managing Director – Retail Portfolio
Slide 19 – Title slide

Slide 20 - Context
There is one key dynamic which is driving retail property forward. Major retailers are trying to grow market share and adapt to being genuine multi-channel businesses. And whilst retail vacancies in general are quite high, the space required by these retailers is limited in its supply.

This positive force has to be set against a weak consumer economy and little immediate prospect of market wide rental growth.

We recognise that the market in this phase will be driven by retailer requirements not consumer expenditure growth and that our performance will be dictated by the actions that we take. Over the course of the next 10 minutes I will give examples of the actions we have taken to deliver what our customers want now and need for the future and how that will translate into value for shareholders.

In capital management where we have been very active in acquisitions and disposals, in development where we have been the first to restart major retail development and in asset management where our focus has been on growing our income in our shopping centres, executing key lettings which enhance the attraction of our assets and obtaining valuable planning permissions.

Slide 21 – Protecting income
I have said that our first priority would be to protect our income and manage our costs. Our net income on the like-for-like portfolio is up 6.3%, partly as a result of letting up previously vacant space, but also through savings in empty rates, net service charges and bad debts. We've driven our voids and units in administration down from 8.7% to 5.1% and our occupancy rate is 97% including those units in solicitors' hands.

In a very difficult market we have completed 179 investment lettings for £13.5m of rent at 0.6% above ERV. Our 59 lettings in solicitors' hands at the year end were 8.9% above ERV. These figures exclude temporary and turnover lettings.

Slide 22 – Capital management
We have been very active in capital management. £678m of turnover in the Retail Portfolio. Sales have added value, developments have outperformed and our total annualised return on acquisitions after costs was over 10%, which implies an underlying performance 4% ahead of IPD Shopping Centres.

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We have acted quickly to drive performance in our acquisitions and in just 3½ months at Overgate in Dundee we have let a triple unit to Superdry, agreed lettings with two other new retailers, re-geared a lease to 10 years with Sports Direct, acquired an adjacent property to accommodate an expansion and taken steps to renew a planning permission for a more substantial extension to the centre.

Slide 23 – Development (in-town)
On to development, and in Leeds, construction is progressing well and lettings have moved to 58%. The attraction of the centre was significantly enhanced in March when we concluded a letting to Primark for a 90,000 sq ft store. This requires an extension to the development but it can be accommodated within the current construction programme. These actions, mitigating risk and adding value have created a valuation surplus of 27.4%

At Buchanan Street we signed up Forever 21, Paperchase and Gap for the three principal units of this 11 unit scheme, representing 69% of the income. The site was bought from administrators acting for Lloyds Bank in December 2009, the remaining land for the scheme was acquired during 2010 and planning permission for the scheme was achieved in March of this year. These actions have driven a valuation surplus of nearly 40%.

Slide 24 – Development (out of town)
In November we completed the first development in our Harvest joint venture with Sainsbury expanding their Lincoln store to be one of their largest stores in the country.

The next Harvest scheme will be the expansion of their Garratt Lane store in Wandsworth. The scheme has planning, is due to start later this financial year and since our year end has been sold on a forward-funding basis to PRUPIM.

Expect to see us significantly expand our activities in out of town development, accessing opportunities from our Harvest JV, from our existing portfolio and through new acquisitions.

Slide 25 – Asset management (growing income)
Now on to asset management initiatives which have been a really significant driver of performance and here, growing income from our shopping centres portfolio is crucial. At Gunwharf Quays value has grown by 19.5% over the year, driven by 5% rental value growth. This rental growth has been generated by improvements in trade for existing operators and over 23 lettings or asset management deals introducing new retailers such as Jamie's Italian, The White Company and Cath Kidston.

At Southside it is rental income that has driven performance and this has been achieved at the same time as dramatically improving the tenant mix with lettings to Topshop, TK Maxx, New Look, Republic and H&M Kids.

At West 12 in Shepherds Bush we achieved a pre-letting to Accor for an Ibis Hotel and we have seen a valuation surplus on this asset of 12.8% driven by the additional income this will produce.

Slide 26 – Asset management (key lettings – Primark)
Key lettings will enhance the future performance of our assets. In addition to Trinity Leeds, we are building stores for Primark in Livingston for spring 2012, Sunderland, spring 2013 and we've just received planning permission for Westwood Cross which will be Primark's first out of town store.

Slide 27 – Asset management (key lettings – John Lewis)
John Lewis have also committed to two further locations. At Greyhound Retail Park in Chester, they will open a 59,000 sq ft store in October and in Exeter the 67,000 sq ft store will open in 2012. This will have a huge impact on Exeter as currently many in the catchment area travel all the way to Bristol for their John Lewis shopping.

Slide 28 – Asset management (planning)
New planning permissions are an important contributor to value enhancement, particularly out of town where they are harder to achieve. 22,000 sq ft at Bracknell in four units, two of which we've pre-let to JD Sports and New Look and due for completion later this year.

25,000 sq ft at Lakeside Retail Park, three-quarters of which is pre-let and due for completion in October 2012.

45,000 sq ft at The White Rose Centre which can be used to extend units generally in our efforts to provide the right space to key retailers. The first step was achieved here with H&M opening a new 15,000 sq ft store in the centre.

110,000 sq ft at Banbridge in Northern Ireland on a site which has been pre-sold to Tesco.

Since the year end in April we obtained a Minded to Grant Resolution from Derby City Council for a reorganisation of our Meteor Retail Park to develop 140,000 sq ft including a major food store.

Slide 29 – Retail Portfolio
We are in a market where there is no prospect of an immediate return to market-wide rental growth. Consequently it is our actions that drive our performance. As you have seen, the contributors to our success over the past year have been broadly spread across these activities and across our portfolio. This coming year it will be more of the same except you will see us increasing our activity in out of town development.

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I have used half of our 43 principal assets as examples of value creation in this presentation, you can expect to hear about our plans for the other half over the course of the next 12 months.

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Speaker: Robert Noel – Managing Director – London Portfolio
Slide 30 – Title slide
Thank you Richard.

We started development in anticipation of a supply constrained market. And now as the market competes for tomorrow's development sites we are able to proceed with today's, having locked into some good profits on the way and added to this early mover advantage in development our re-invigorated asset management team is now fully tuned.

Slide 31 – Market context
Today, I will show that as vacancy rates across the capital continue to fall, the industry has been unable to turn the tap on, and that over the next three years there will be a relatively limited number of development completions, little more in fact, than were being forecast this time last year

And as we get on with it, our portfolio is set to benefit from capturing lettings just as our top performers have done this year.

Slide 32 – Creating value
And here are some examples; 30 Eastbourne Terrace, top left, up 24%, is now fully let and has seen the combined benefit of the removal of letting risk return to rental value growth and a functional investment market. Bottom left, 62 Buckingham Gate, up 29%, another example following Park House last year of how land values improve strongly as risk is removed from the ground, completion is nearer and rental values start to rise.

And as rental values rise real value can be added through astute asset management as we have done this year, for example at Harbour Exchange, top right, where a lease regearing has lead to an uplift in value of 26%; and Oxford Street, bottom right where a deal with Primark has added 34%.

Slide 33 – Central London office vacancy rates
So turning to the market, I have four slides for you. First, supply and this slide shows office vacancy in central London going back over the last three cycles. And as you can see, the vacancy rate has continued to come down over the last 12 months. And the amount of Grade A space available, now shown in the solid line, is coming down faster and now stands at 8 million sq ft and there is still not much new space being built.

Slide 34 – Central London office development pipeline
The second slide shows development completions. The right hand five bars in pink show those forecast in central London, compared to previous cycles, still low in a historical context as it was last year.

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Slide 35 – Central London office pipeline

In fact, developers have been unable to turn the taps on. The third slide shows, in green, the average forecasts of Knight Frank, CBRE, JLL and PMA for development completions for 2011–2014 inclusive compared to, in pink, their forecasts this time last year for the same period. The total increase in out-turn of 1.7million sq ft over four years is very modest in the context of a 230 million sq ft market despite everyone talking about building.

For the next three years there is, in fact, no discernible increase because the ability or propensity to build in this window remains restricted. To do so, you need a vacant site or building, a planning consent, neighbourhood issues, like rights to light, sorted; and the money to build.

Slide 36 – Central London office take-up

The final slide, the other side of the equation – Demand – which is robust through the cycles, and this slide shows the 25 year history in central London and since 1993 with Grade A in green, the remainder in pink. The dotted line shows the 18 year average Grade A take-up of 6.3 million sq ft per annum.

So if you take current Grade A vacancy levels of 8 million sq ft from the first slide, and add projected development completions of 11.6 million sq ft from the second slide, you have a four-year supply of Grade A space of 4.9 million sq ft per annum from now to the end of 2014, versus this long term average take up of Grade A space of 6.3 million sq ft. Not have enough Grade A space to keep up with demand.

So we remain positive and have expanded our programme to supply more space into this three-year window.

Slide 37 – London development (Park House)

On to our developments, then, and starting with Park House, which is now totally sold. As you know, last June we pre-sold the scheme for £250m of which £25m was deferred to PC in 2012 with a further contingent profit share to come a year later estimated at the time we closed the deal at £33m.

In March, as Barwa transferred their interests to a State-controlled vehicle, we restructured the deferred payment and contingent profit share into a single fixed unconditional payment to be paid on the earlier of practical completion or 28 February 2013.

This sale effectively represents a tax-free development profit of £74m on £219m of capital employed for just a few months from committing to the development in early 2010 and it enables us to build more schemes into the window, whilst containing the increase in development exposure.

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Slide 38 – London development (West End)

Elsewhere in the West End; at Wellington House, Buckingham Gate, we have pre-sold 54 of the 59 apartments at average prices of over £1,300 per sq ft. The five apartments remaining are duplex penthouse apartments on the 8th and 9th floors. We are expecting these premium apartments to sell closer to completion at prices averaging £2,000 per sq ft. Sales at these levels would deliver a profit on cost for the scheme of approaching 50%.

At 62 Buckingham Gate, following demolition last year, construction started on schedule in the autumn and the building is now coming out of the ground on programme and to budget with practical completion due in April 2013. Opposite 62 Buckingham Gate, at 123 Victoria Street, we submitted a planning application, secured consent and started on site during the year to completely reposition this asset.

We will be delivering new, Grade A space, into the market in June 2012 at a time when development completions will be particularly low. With rental values rising and values appraised off yields of 5.75% and 6%, respectively, for these two schemes by the valuers in March, we are well set.

Slide 39 – London development (One New Change)

In the City; we completed One New Change during the year. The retail space was fully let when the scheme opened in October and many of you came on our tour in December.

Since PC we have let 121,000 sq ft in three lettings to Chicago Mercantile Exchange, Friends Life, and SMBC at rents of £52.50, £53.50 and £54.50. This leaves 100,000 sq ft left, on the 3rd and 6th Floors, in which we have good interest. The scheme is now 81% let, as opposed to 46% pre-let in March 2010.

Slide 40 – London development (City)

At 20 Fenchurch Street, we started on site in January and will complete the structure to grade in 8 months' time. We have submitted a planning application for minor amendments to the scheme and when we have consent, expected in June, we will be in a position to place the orders for long lead-in packages and enable construction of the superstructure to continue as we get to grade.

We started on site this week at 110 Cannon Street. A complete overhaul for this mini tower which will be ready by March next year.

…and a new one for the programme…

In January, we submitted a planning application for two buildings, 30 Old Bailey and 60 Ludgate Hill. We get vacant possession of the existing buildings in July and our intention is to start demolition immediately.

Slide 41 – London development (planning consents & applications)
At schemes where we have planning consent and are heading towards vacant possession we have also made good progress. At Victoria Circle, formerly VTI, Westminster City Council confirmed compulsory purchase notices in January. And as with 20 Fenchurch Street last year, we aim to bring in a joint venture partner for this scheme.

At Arundel Great Court, we completed a deal with the freeholder and we now own the freehold of the southern riverside half of the site and a new 155 year lease on the northern half. We have also aligned all occupational leases to expire by September 2012 and can start a phased demolition from March 2012.

In Shoe Lane, between the Deloitte and Goldman Sachs Campuses, we submitted a planning application in March for a new office building, 1 New Street Square.

Finally, at Kingsgate House, we submitted a planning application last month for 341,000 sq ft of office, retail and residential space as part of our transformation of Victoria.

Slide 42 – London development
So, to set the pipeline out in full. The sale of Park House, substantial letting of One New Change and pre-sales of flats at Wellington House have allowed us to commit to more near-term schemes. These five schemes under construction, including 20 Fenchurch Street and the 375,000 sq ft at 30 Old Bailey and 60 Ludgate Hill, expected to start during the course of this year, will bring a total of 1.7 million sq ft to be delivered by April 2014.

We have planning consent for a further 1.7 million sq ft at 20 Eastbourne Terrace, Arundel Great Court and Victoria Circle. Planning applications submitted for 600,000 sq ft at 1 New Street Square and Kingsgate House. And we are working on submitting a planning application during the course of this financial year of just under 400,000 sq ft at Portland House. A current total of 4.4 million sq ft. As you can see, there is no shortage of opportunity.

Slide 43 – Summary
To summarise, a busy year for the team. There is good momentum at One New Change. We have taken our money off the table at Park House. And sold more units at Wellington House than we expected, leaving just five premium duplexes to go.

All this has allowed us to expand our programme with the addition of 20 Fenchurch Street, 123 Victoria Street, 110 Cannon St, 30 Old Bailey and 60 Ludgate Hill, building speculatively just at a time when there will be little else coming through.

Our asset management team is firing on all cylinders. Following the deals at Harbour Exchange, the east end of Oxford Street, and 40 Strand I spoke about in November, lengthening and strengthening our income – examples of where we are now taking space back to capture rising rental evidence include Piccadilly Lights, Cardinal Place and Haymarket House, so there will be plenty to talk about in November.

And we are still in no hurry to buy. We have a great pipeline of opportunity to work on within the portfolio and the discipline, demonstrated with Park House, to lock into profits and recycle capital into new opportunities when the time is right.

And with that, let me hand you back to Francis to wrap up.

Speaker: Francis Salway – Chief Executive

Slide 44 – Outlook title slide

In terms of outlook, there are many positives in today's announcement.

But as you would expect, we also talk within the business about risk. And there are two risk areas at the moment. The first is around pressures on consumer expenditure and the second relates to the potential, at some stage, for rising interest rates and higher gilt yields. But we are also alive to the fact that these two risk areas tend to counter-balance one another.

In terms of surprises, they have been more on the upside in the property market. As compared to a year ago, take up in our sectors has been better than expected and the rate of new development starts has been lower than expected. So the outlook on availability is favourable, and I am now going to cover this in a bit more detail.

Slide 45 – Central London office availability

In terms of London offices, Rob has talked about the medium term dynamics of the market. I just want to amplify my comment about 'better than expected', and reflect on the implications of this in the short term.

In 2010 take-up of central London offices was just under 30% above the long term average. Our forward planning had been predicated on limited employment growth and take up at no better than long term average levels.

As a consequence, we now expect availability of new buildings to be at very low levels by mid 2012. And of course, this bodes well for our projects completing in 2012 and 2013.

Slide 46 – Retail vacancy levels

Turning to retail – financially strong retailers have been more acquisitive in taking new space than most commentators expected. But perhaps we should not be surprised about that because at a time when it is difficult to generate positive like-for-like sales growth, it makes sense for retailers to be prudently taking additional floor space to grow profits. But this demand from financially strong retailers is generally focused on better quality locations.

So, you can see from this bar chart that while vacancy levels in high streets across the country are still high, vacancy rates on better quality retail assets, such as our own, are at much lower levels.

Slide 47 – Shopping centre development completions

And the supply tap for new shopping centre developments has been turned off. In 2012 there will be no new shopping centre development completions in the country – I am told, a first for 40 years. And the first scheme to complete after 2012 is our Trinity Leeds project, which is already letting up well.

Slide 48 – Land Securities development commitments
Against this backdrop, we believe that our developments will be well timed. We moved quickly to build up our development programme to a scale that will be material to the business. Looking at the schemes we expect to have committed by the middle of this year, the total development cost is some £1.4 billion – or 13% of current portfolio value.

Slide 49 – Land Securities potential forward development pipeline
And behind the current projects we have a pipeline of additional schemes totalling £2.5 billion. You should not expect to see us have more than around 20% of our capital committed to speculative developments, and so we will not do all of these projects on our own. But all will, I believe, create value.

So you could see us do more capital recycling on developments, as we did with Park House, so that we maximise development level returns from a controlled level of development risk exposure.

Slide 50 – Drivers of performance – 2011/12 and 2012/13
To conclude, we have a plan which in the last year has already delivered tangible returns for shareholders. And this same plan also leaves us well positioned over the coming years to deliver both earnings growth and attractive relative total returns.

As we move forward, there are some minor differences in how we see this plan playing out.

On developments, we now think that the availability of new buildings by mid 2012 will be even lower than we anticipated last year when we restarted our development programme. So that is a clear plus.

And, in terms of driving earnings growth, as we move through the next couple of years, we will also see our completing developments making a major contribution to earnings as they deliver a yield well ahead of our cost of finance. On our analysis, this is likely to be the biggest single contributor to our earnings growth over the next few years.

I have talked about our plan and the results it has delivered. It is now over to you for questions.

Question 1
Harm Meijer, J.P. Morgan Cazenove
Good morning Harm Meijer, J.P. Morgan Cazenove. Just maybe for you Rob, are we anywhere closer for pre-letting in the office development pipeline next month, for example on 20 Fenchurch Street?

Answer – Robert Noel, Managing Director – London Portfolio
Well we don't have any pre-lettings in place, otherwise we would have announced them, Harm. But I can tell you though the last couple of months, the number of conversations we are having with potential tenants across our entire portfolio has raised markedly. We believe strongly that this market is going to pick up during the course of the year.

Further question
In terms of sales, is there anything lined up at this moment and are you also close to buying something across the two businesses?

Answer – Francis Salway, Chief Executive
We will continue to sell assets. We have a couple of small assets in the market at the moment. Buying opportunities - we are prepared to be patient. We are delighted with the acquisitions that we made last year, but the reality is the margin between returns on development and a lot of acquisition opportunities is very wide, hence we are open to putting quite a high proportion of our new capital investment into development projects. I think we will see a few more buying opportunities this year. I think we will get a bit of a stronger flow of disposals from banks, but I don't think it is going to be a flood.

Further question
And maybe just a last one on your outlook on capital growth. You were talking still about potential ripples. Could it be also ripples for your assets or are you talking more about markets? And then linked to this, you were also saying, that you remain geared to London. For how long do you actually think you will remain geared to London before moving out of London?

Answer – Francis Salway, Chief Executive
In terms of market outlook, I think it is now fairly widely accepted that stage one of the property market recovery was about yield shift and that can have quite an oomph when it moves. And people have said that stage two has to be about rental value growth with a slight question mark. I think the strong bit of our results is that we demonstrated rental value growth coming through. It is always slower burn. But what you have also heard is there is enough within our business about value-add from our actions to keep some positive momentum. Do we like our high exposure to London? Yes we do. I am a great believer that you can look forward three years; beyond that, it is getting a little optimistic in terms of your ability to have a view on things. On a three-year view, we are delighted still to have high exposure to London.

Question 2
Hemant Kotak, Green Street Advisors
Good morning, Hemant Kotak from Green Street. A couple of questions please. One on offices first. The press release from October stated the total development cost for Fenchurch Street to be about £500 million. That number is not disclosed in the current reports. I am just

wondering if there is an update on that number? For example, has there been any changes since Canary Wharf have come on? Or due to any other external factors?

Answer – Robert Noel, Managing Director – London Portfolio
No update at all. We don't publish total development costs in our announcements for proposed developments, only the buildings which we are currently committed to. 20 Fenchurch Street is in proposed developments, due to technicality, because we are procuring this scheme through a construction management scheme, so we are buying it in packages. We haven't negotiated all the packages yet, so how can we commit to it? There is no update on total development cost, I am expecting it to come in bang in line with what we said in October, which was actually after we teamed up with Canary Wharf.

Further question
Okay, that's great, thank you. And a question on Retail please. First of all it is great to see the additional disclosure on page 16 with the rent to sales and the occupancy costs. Just a bit more on that. You give what I think is an overall number for shopping centres, but can you give us an indication as to what it would look like when you think about the three main types of tenants, so the anchors, the MSU's and the standard shops?

Answer – Richard Akers, Managing Director – Retail Portfolio
We have given that breakdown for the occupancy cost trends on the slide at the bottom [refer to Appendix slide A3]. So we have provided an overall figure for rent to sales and excluding anchor stores and MSU's, that accords to information that was provided by CSC I think in a previous period. In terms of the movement in store sales, I don't have that breakdown for you. But overall you can see the change here. This is the 12 month figure for last year compared to previous year. What we have done, hopefully which is helpful, is also looking at one quarter, that is the quarter to the end of March, is explaining the difference between a very strict like-for-like definition of same store, same retailer sales which in that period were down 3%. And then looking at same centre sales, which includes the letting up of vacant space and changing retailers to more profitable, productive retailers, which gives a figure of plus 3%. So there is a 6 percentage point difference in those figures.

Question 3
James Wilkinson, Thames River Capital
From the webcast – read out by Francis Salway, Chief Executive
Within the Retail Portfolio, how do the temporary and turnover lettings compare to ERV and how many of them did you do? What proportion of income now comes from temporary lettings?

Answer – Richard Akers, Managing Director – Retail Portfolio
We did 28 turnover lettings in addition to the 179 investment lettings. If they are included in the figure we were 3.4% below ERV. Including those lettings in solicitors' hands, we are 4.2%

above ERV. We concluded 101 temporary lettings. Those are not included in the rental statistics. All of those temporary let stores are within our voids. So they are included in voids. The income from our temporary lettings was 1.3% of our portfolio income and that has fallen from previous periods, I think, in line with a market where temporary lettings are gradually reducing their impact in portfolios.

Question 4
Remco Simon, Bank of America Merrill Lynch
Good morning. Francis, you mentioned that the second stage of the recovery in capital value should be about rental growth. And Richard, you mentioned that you see no immediate prospects for rental growth in your part of the business. What is your expectation for capital growth in the retail side of the business?

Answer – Richard Akers, Managing Director – Retail Portfolio
The words I used was that we don't see any prospect of market-wide rental growth. I think the important thing to consider in retail is that there is a lot of disparity between different assets and different types of asset and there is a lot of opportunity to create rental growth through good lettings and good asset management initiatives. And I think that is what comes through in our results this time. We have taken a lot of actions which have enabled us to deliver rental growth, albeit still very flat this year, but ahead of the market. And we are confident that we can keep doing that in the future.

Further answer – Francis Salway, Chief Executive
I think what I would add is the way we report rental values is very strict. A lot of the activity in the Retail Portfolio is about significantly remodelling units. We adjust for those in our rental value movement. If you just take a straight IPD comparison, the degree of our outperformance to the market on retail rental value movement is even stronger than the figures we put up there. I think bits of the retail warehousing sector is where we will first see emerging rental value growth market wide.

Further question
Maybe a question on the financing side. You indicated that you wanted to basically match capital outflows with asset sales. How far do you see your loan to value going down? What is the target assuming there is going to be further capital growth?

Answer – Martin Greenslade, Group Finance Director
I think that is a disguised question on how much we see asset values rising. If the debt stays the same what is the gearing going to be. I am going to duck that question on that basis, but I think we have discussed it is about rental value growth that is going to drive the next leg of valuation increases.

Question 5
Bernd Stahli, Bank of America Merrill Lynch
Then let me rephrase the question. If you have an exceptional level of activity in your portfolio, ultimately it will lead to an exceptional level of capital recycling. Can you see yourself doing a capital return one or two years down the road?

Answer – Francis Salway, Chief Executive
I think we have to stay open minded about the shape of the balance sheet. I think we are in a great place now because we are not under pressure to sell. We are not under pressure to buy, but if the right opportunity comes either to buy or to sell, we have the ability to do that and then to reflect on where our balance sheet then sits.

Question 6
Quentin Freeman, UBS
Richard can I just ask, really back on the rental growth. On slide 21 on page 21, the lettings in solicitors' hands. At the moment you are 8.9% above ERV. So what is driving that upside?

Answer – Richard Akers, Managing Director – Retail Portfolio
I think Francis mentioned that this is more oriented to retail warehousing. But I think what is driving it is that retailers are very specific about the space they want and there isn't much supply of the space that these major retailers want. So if you have got it, even if there isn't competition for the unit, we start to get a better negotiating position on these lettings. And this is coming through, particularly on lettings where we are having to create a vacancy in order to put the retailer in. So we have got a number of conditional lettings, where we have to get a surrender of the unit. And obviously we will only do that if we can raise the rents. So we are starting to see more of those deals coming through and those will create some rental growth in our portfolio.

Further question
Are you implying this is all retail warehouses?

Answer – Richard Akers, Managing Director – Retail Portfolio
No it is not all retail warehouses. But I think that effect is more apparent in retail warehouses than it is in shopping centres.

Further question
Thank you. You talked about an extension to Overgate. How big would that be?

Answer – Richard Akers, Managing Director – Retail Portfolio
Well we are not intending to implement that extension to Overgate. Planning permission was achieved some time ago and in common with a lot of planning permissions achieved at that time, we don't think that the scheme that had planning is particularly viable, but we wanted to

protect the position by renewing the planning permission so that we have the chance to investigate whether there is a viable development or expansion opportunity there. We didn't buy the centre because of that expansion opportunity. We think that the asset management opportunities within the centre will drive performance, but it is wise for us to keep that opportunity there.

Further question
How big is it?

Answer – Richard Akers, Managing Director – Retail Portfolio
I am not sure exactly but I think it is around 200,000 square feet.

Further question
And how close is Oxford to being viable?

Answer – Richard Akers, Managing Director – Retail Portfolio
We think we have made considerable progress on Oxford in our initial investigations there. Again it will need a new planning permission. And it will need a new development agreement with Oxford City Council and a new anchor store pre-let agreement with John Lewis. We are working on those at the moment, but we are hopeful that we will get something fruitful there in due course.

Further question
Is your target returns still 8% on retail developments? Cash return?

Answer – Richard Akers, Managing Director – Retail Portfolio
I think 8% would be a very adequate return. I think on some developments such as Buchanan Street in Glasgow, you don't need an 8% yield on cost because the yield on the end of investment there, may even start with a 4% in the current market. Maybe very low 5%. So we don't need to get 8%. I think on shopping centres we would like to be close to 8%, yes.

Further question
Thank you. And lastly can I ask on London. You talked about recycling and mentioned Park House as an example historically. If we are looking for recycling in the current year, does that mean focus will be on developments, recycling or do you have mature assets that you might be looking to sell?

Answer – Robert Noel, Managing Director – London Portfolio
No asset is sacrosanct. If we think we can take money off the table and put it to better use elsewhere, we will. It doesn't matter whether it is a development or an investment property. There are no set targets at the moment.

LandSecurities

Question 7
Alan Carter, Evolution Securities
From the webcast – read out by Francis Salway, Chief Executive
Can you give a flavour of the rental assumptions made by the valuers in valuing your developments and what discount rate has been used?

Answer – Francis Salway, Chief Executive
Our valuers will reconsider rental values at each valuation. By and large on the schemes that have been started in the last 18 months, there hasn't been a movement in rental value from the valuers. The exception would be the Atlas site [now called Buchanan Street] in Glasgow where we achieved lettings someway ahead of rental value expectations. In terms of discount rate, I think they probably more put a cost of finance and then have a profit margin at the end of the scheme. The profit margin is released mainly in relation to getting to 90 to 100% occupancy. There is a little bit of release of profit margin as you get to practical completion of a scheme on time and to budget.

Question 8
Keith Crawford - KBC Peel Hunt
Now you have said that the development exposure at the moment will be around 13% of the portfolio, but you might take it to 20%. Whilst I can see that the earliest completion of some of these schemes on the London schedule on page 42, may not be alterable, but perhaps these schemes can be pre-let or pre-sold or that sort of movement could happen. And in fact you have moved Old Bailey, obviously one of the most promising ones forward. So there is scope, on your own parameters, and it would seem that in this particular window, you have made your own argument here; it is extremely compelling to move these forward?

Answer – Francis Salway, Chief Executive
We would agree. And I think it is about getting pace of throughput in the development projects through occasionally taking profits when we get a very good offer or as you say, pre-letting. And I think as rents begin to move ahead, you will see us becoming increasingly open to locking in some lettings during the construction period.

Further question
Are you receiving, for your completed buildings in London, the trophy buildings, are you getting strange offers for some of these buildings, very high offers? Has that happened yet?

Answer – Robert Noel, Managing Director – London Portfolio
We're getting offers fairly frequently for quite a lot of assets, Keith. At the moment they are not at levels I want to sell at.

Further question
Victoria in particular, where you are creating a new Victoria, North Victoria, this is a hive of activity there?

Answer – Robert Noel, Managing Director – London Portfolio
Well one of the things we said this morning is we are VTI, now called Victoria Circle, which is a million square foot development, set to start in 2012. We will be looking for a partner as we did on 20 Fenchurch Street.

Further question
Also these residential values, we have all got houses, obviously with £1,500 to £2,000 a square foot. We have all got a special house haven't we?! Everybody in the whole country has got a special house! But I am just curious as it is a mug's game. It is wonderful isn't it. It is just wonderful, whether you will be able to expand that proportion. Presumably Aldwych is one of those?

Answer – Robert Noel, Managing Director – London Portolio
The Aldwych is one of those, yes, Arundel Great Court and Kingsgate House is largely residential, 100,000 square feet and Portland House as well where there are 400,000 square feet of residential. So all in all it is getting on for a million square feet.

Further question
Can you advance Portland House?

Answer – Robert Noel, Managing Director – London Portfolio
Not until 2015. We need to get planning consent for that.

Further question
Almost tomorrow then, good. And the other thing I thought was real fun is page 17 [of the presentation], these bond spreads, is this really representational? These various companies, they are prepared to issue bonds are they?

Answer – Martin Greenslade, Group Finance Director
I don't set the market prices on that so that is what happens.

Further comment
This is an amazing slide.

Further Answer – Martin Greenslade, Group Finance Director
Thank you.

Question 9
Graham Jones, Arbuthnot Securities
Just looking at the portfolio valuation movements, they have all gone up in a straight line apart from the rest of UK offices which showed a 13.6% decline. I know it is only £40 million of the portfolio, but what happened there?

Answer – Francis Salway, Chief Executive
Well I suspect that most of that relates to some older office buildings within sites which potentially will become retail developments. And we will be intentionally taking out tenancies to get vacant possession. As you do that it doesn't do much to the value of the office building.

Question 10
Martin Allen, Deutsche Bank
With circa 50% profit margin on Wellington House residential development. Are you tempted to start a new business line?

Answer – Robert Noel, Managing Director – London Portfolio
I think with residential, what we said last year still stands. As a developer in central London we are required to provide residential space as we provide commercial space. And we said last year that we intended to turn this necessity into a virtue, which is what we are doing. We don't intend to become a volume house builder. We will stick at the medium, £1,000 to 2,000 a square foot bracket. And as I said a moment ago, you know we have got the best part of a million square foot pipeline - that is plenty for me and plenty to stick with in our business.

Further answer – Francis Salway, Chief Executive
I think there are two parts to it. One is getting planning consent for residential which creates value. We then have a separate decision as to whether we develop or we sell. If we develop and sell the units, we then pay tax. So we will consider it against other development opportunities which would be non-taxable if retained.

Question 11
Bernd Stahli, Bank of America Merrill Lynch
That actually leads me onto my question on tax. The capital recycling that ultimately is going to come through, how much of that would you think would be taxable under REIT legislation?

Answer – Martin Greenslade, Group Finance Director
A tiny amount of the capital recycling will be taxable. We do have some tax losses brought forward but the vast majority of what we did - if you look at Park House as an example, if you had sold that as a completed development, we would have paid tax on it. We actually sold the land site; it was an investment property, we didn't pay tax on it. So we take these things into

account. I think there will be a limited amount of tax payable. But clearly the residential side falls into the tax payable bracket.

Further question
Francis are you still enjoying yourself? Can we assume you are going to be around for a little bit longer?

Answer - Francis Salway, Chief Executive
I think it is a very exciting platform that we have got.

Closing remarks – Francis Salway, Chief Executive
Great, well if there are no more questions. There are no questions on the conference call or the webcast. Thank you very much for joining us. Thank you.

- End -

Forward Looking Statements