Land Securities Half-yearly Results Presentation

Thursday 10 November 2011

Speaker: Francis Salway – Chief Executive

Slide 1 – Title slide

Good morning. I want to start by way of saying a few words about background context. Our core purpose is to meet the space requirements of our customers and we wrap around this appropriate flexing of development activity and balance sheet gearing. Despite the changeable and uncertain conditions, our results today show the positive impact of our activities in these three areas.

On the customer side we have continued to reduce void levels, and have done so whilst still achieving rents above ERV.

On developments, we have significantly de-risked the development projects we have started since January 2010 – and by more than, I think, is generally appreciated. And development surpluses were again the key driver of valuation gains and our asset level outperformance.

On gearing, we have done what we said we would do – which is to keep net debt broadly constant through recycling of capital to ensure that gearing reduces as value rises. Our gearing is now 4.4% lower than a year ago.

So, where does this leave us? Firstly, with revenue profits up. Secondly, with optionality between further de-risking our development programme or adding in some additional schemes from our pipeline – and I expect us to do a bit of both. And, thirdly, we have a balance sheet that is both resilient and gives us the capacity to make some earnings accretive acquisitions.

Slide 2 – Overview

And here is the evidence on this slide.

The one additional point on the slide relates to our development programme, where we are also seeing an encouraging level of enquiries from occupiers. Rob and Richard will give you a little more colour on this.

Slide 3 – Drivers of performance – Focus on income

Turning to the income-related drivers of performance, our investment lettings at 5.8% ahead of ERV, which is split between the London Portfolio lettings at 7.7% ahead of ERV and the Retail Portfolio lettings at 2.9% ahead of ERV.

On voids; the voids on our like-for-like portfolio have reduced from 4.1% in March to 3.4% in September. As you know, our void figure includes temporary lettings. If we adjust for these and for units in solicitors' hands, our residual voids are as low as 2.3%.

And, at the total portfolio level, the level of units in administration remains unchanged at 0.4%.

Slide 4 – Drivers of performance – Capital recycling

From income to capital recycling. As you will see, our sales funded a small amount of purchases, but a much greater level of investment in developments and in projects across the portfolio which will tend to generate higher returns than acquisitions. The 'other capital expenditure' includes, in London, the refurbishment of 40 Strand for Bain and, in Retail, the various stores for Primark.

On sales, the prices achieved delivered a strong contribution to NAV performance, being 10.2% ahead of March valuations.

Slide 5 – Drivers of performance – Development

I spoke earlier of the extent to which we have already de-risked the £1.6bn of development projects we have initiated since January 2010. You will see that we have already de-risked 52% of this programme.

This comes through a combination of sales and pre-lettings. The sales were at prices giving us all or virtually all of our targeted profit **–** Park House, 110 Cannon Street, Wandsworth and the flats in Wellington House. The pre-lettings are on the retail schemes – both city centre and out of town.

We do have some continuing development exposure, but the schemes which have not yet been fully de-risked can continue to be a source of profits.

Slide 6 – Drivers of performance – Development (2)

Here we show the schemes started since January 2010 which have not yet been fully de-risked. For each scheme, you can see the current figures for total development cost and anticipated gross yield on cost. These figures have changed slightly from when the schemes were first started because of some higher rents and lower costs. To arrive at a feel for percentage profitability, you need to adjust these gross yield figures with an estimated allowance for letting void and rent free period.

And here we add in the valuation surpluses taken to date so that you can see in the right hand column the running gross yield on cost reflecting the addition of valuation surpluses taken to the total development cost. Again, you will need to adjust these gross yield figures to reflect letting voids and rent free periods.

In my view, these are still high yield on cost figures, which, if you are pessimistic, shows the resilience of these schemes or, if you are like me, shows that these schemes have more to contribute to our valuation surpluses and earnings.

Slide 7 – Investment portfolio valuation surplus

Turning to the results of the portfolio revaluation, you can see that London, both London shops and London offices, have again delivered the highest absolute valuation gains.

Of particular note is the fact that, again, assets in our current development programme delivered materially higher valuation surpluses. This is essentially the London offices and shopping centres and shops – with the central London shops being the retail at One New Change, which was already fully let at both the beginning and the end of the reporting period.

Some of the increase in value on the development programme is attributable to building cost figures coming in below estimates, as at Buchanan Street, Glasgow and 20 Fenchurch Street.

The overall valuation surplus is up 2.1%.

Slide 8 – Rental and capital value trends – Like-for-like portfolio

Stripping out developments, and looking at rental and capital movements on the like-for-like portfolio, this slide shows the trends over the last three six-month periods – with rental value change shown in brown and capital value movements in purple.

If we look first at the middle column covering the six months to the end of 31 March 2011, you can see that capital value movements were higher than rental value movements implying ongoing yield compression.

As we move to the most recent reporting period to end-September, you can see that there is very little difference between rental and capital value movements. Rental value has become the key driver. There is still some yield movement, for example on one or two of our shopping centres, but in a number of instances the excess of capital value movement over rental value movement is a function of specific asset management initiatives – for example, re-letting on longer leases.

In terms of rental value movements in the most recent period, we are – as we guided – seeing a slightly different pattern in shopping centres and retail warehouses. Shopping centre rental values were, on average, absolutely flat at 0% change. Retail warehouse rental values were up 2.1%.

Slide 9 – Investment portfolio performance relative to IPD – Ungeared total return

I show here our performance compared to the IPD quarterly universe. You will see that at the total portfolio level, we again outperformed – this time by 1.0%.

For London offices, we saw slight underperformance. We would expect that the biggest uplifts in value on our development and pre-development properties will come through unevenly around key milestones such as lettings.

Our central London retail is below the benchmark, but do remember that in the previous 12 months we outperformed IPD by as much as 12.6%.

Retail warehouses are close to the benchmark and shopping centres are ahead – helped by gains on the developments in Leeds and Glasgow.

So, overall, we benefited from our developments and from sector mix.

I will now hand you over to Martin to cover the financial numbers.

Speaker: Martin Greenslade – Group Finance Director

Slide 10 – Title slide

Thank you Francis. Good morning everyone.

Francis has just taken you through our key drivers of performance. What I'd like to do is show you how those drivers impact on our profits for the six months but also how they further strengthen our balance sheet.

Slide 11 – Financial summary

Our profit before tax was £378.9m, partly driven by the £211.5m valuation surplus Francis has just covered but also due to our revenue profit. Revenue profit was up strongly over the six months at £159.3m, an increase of 17.2% over the comparable period.

Adjusted diluted earnings per share is now calculated on a similar basis to revenue profit. So it's no surprise that our diluted EPS was up by a similar amount, 16.5% to 20.5p, with the slightly lower growth due to take-up under our scrip dividend scheme increasing the number of shares.

On dividend, we have today confirmed a second interim dividend of 7.2p in line with the pattern of equal quarterly dividends until the final dividend. That 7.2p brings the total to 14.4p for the six months, up 2.9%.

Next, I'd like to show you how the increase in revenue profit was down to two key issues: net rental income growth and a decline in net interest costs.

Slide 12 – Revenue profit

This slide sets out the main components of our revenue profit including our proportionate share of joint ventures. And what you can see in the variance column is that net rental income was up £14.2m and total interest costs were down £11.2m.

There is a full breakdown of net rental income in the appendix but the main reason for the £14.2m rise is that we benefited from some £13m of non-recurring items. These included the release of £5.8m of dilapidation provisions that are no longer required, the receipt of a £4.8m surrender premium and £1.2m received for outstanding rent reviews in respect of our previous interest in the Bullring, Birmingham. If you ignore the non-recurring items, then net rental income on the like-for-like portfolio is broadly flat for Retail and down about £4m for London – with the loss of income from Bain on the refurbishment at 40 Strand accounting for much of the decline in London. Outside the like-for-like portfolio, without the non-recurring items, net rental income is up by some £6m as lost income from properties we sold is more than compensated for by acquisitions and new income from developments.

So net rental income growth was one of the key drivers to the increase in revenue profit, the other main contributor was a £11.2m reduction in net interest costs. This resulted from the buyback of medium term notes in December last year, which was done to increase the flexibility of our debt by using cheaper, revolving credit facilities.

Slide 13 – Movement in adjusted diluted NAV

So let's now look at adjusted net assets. We started the period with adjusted NAV per share of 826p and ended it at 863p, up 4.5%. And what this slide shows you is the three main components of that increase. Adjusted earnings were £158.4m. The next three items reflect the changes in the value of our assets. I've spoken already about the valuation surplus of £211.5m, up 2.1% over the last six months. The second is investment property disposals which contributed a profit of £25.4m or 10.2% above their carrying values. And the third was a small impairment of £0.7m relating to trading properties.

Dividends were £67.0m, made up of two elements: £109.5m paid to shareholders in the six months less £42.5m which was in the form of a scrip dividend. One additional item this period is that we purchased £14.8m of our shares for the Employee Benefit Trust. So our adjusted diluted NAV per share ended the period at 863p.

Now, I'd hate to fall into the category of people who only discuss their triple net assets per share, when the figure is above the adjusted net version shown here. So, the relevant figures are: triple net assets per share at 31 March 2011 were 812p and at 30 September were 815p

– virtually unchanged over the period. The reason for this is the sharp decline in interest rates over the period – 10 year swap rates declined from 3.8% to 2.6% - and that decline was not matched by a reduction in property equivalent yields. So, in our case, the estimated market value of our debt (on a like-for-like basis) increased by approximately £250m or around 6% of our adjusted net debt.

Slide 14 – Cash flow and net debt

Let's move onto cash flow. Set out on this slide are the major components of our statutory cash flow movements, so IFRS net debt excluding joint ventures. But it doesn't matter whether we use IFRS net debt or adjusted net debt, including or excluding our joint ventures. The picture is the same: we started and ended the period with similar levels of debt and, as Francis showed, we broadly recycled capital in the business.

We began the year with net debt of £3.31bn. Operating cash inflow after interest was £100.3m. Tax paid, as you would expect, was minimal at £1.1m. After dividends come the three items related to capital transactions. Acquisitions totalled £55.6m, we spent £115.8m on capital expenditure, and cash from disposals was £185.2m, with the largest sale being the development at 110 Cannon Street.

Taken together, these three capital items represent a net disinvestment of £13.8m. And, if you include our joint ventures, net disinvestment is a little higher at £27.6m so we're in line with our strategy of not being a net investor using debt but letting valuation increases reduce our gearing.

Slide 15 – Financing

So let's look at our gearing and why we believe our balance sheet is in good shape. At 30 September we have cash and undrawn facilities of £1.9bn. In line with the strategy I just referred to, our LTV fell to 37.7% during the six months largely as a result of the rise in property values.

With no changes to debt in the period our weighted average maturity of debt fell by four months to 11.0 years, with a weighted average cost of debt of 4.9%.

In line with the comments I made at the year end and in our annual report, we have started discussions with a number of banks regarding a new facility to replace our £1.5bn revolving credit facility which we put in place in 2006 and which expires in August 2013. As part of these discussions, we may also replace some or all of our £700m of bilateral facilities. Despite the change in recent months in the credit markets, these discussions are progressing well and I am confident we will be able to arrange a new facility which is sufficient for our requirements.

Slide 16 – Summary

So let me summarise. Even ignoring the non-recurring items, growth in revenue profit has been good.

Our capital recycling discipline continues – I'm sure we won't perfectly match sales with investments but the strength of our balance sheet gives us the flexibility to respond to opportunities as they arise.

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

Speaker: Richard Akers – Managing Director, Retail Portfolio

Slide 17 – Title slide

In the retail occupational market we continue to see high levels of vacancy in the poorer locations and shortage of supply of good quality floorspace in the stronger areas. Similarly, in the retail sector there is a widening gap between the winners and the losers. Today, the winners are generally the retailers who have effectively adopted technology to enhance their customer proposition, with a good example being Next, as we heard recently.

The result is a period of unprecedented change. So our strategy of active asset management and development, and our focus on the performance of individual assets, is designed to take advantage of this accelerating change.

At our Results presentation in May, and at our Investor Day in Leeds in July, we emphasised that we were improving our resilience to the consumer downturn, that we were increasing the focus on leisure as a core part of our business, and we updated you on all the asset management initiatives ongoing in the portfolio. These projects are progressing well.

Slide 18 – Overview

Over the next ten minutes I'd like to update you on progress and, in particular to explain:

- how we are taking advantage of change in the retail sector
- how we are embracing technology ourselves and alongside our retailers to improve our operational performance, and
- how we are improving our resilience to a weaker consumer economy.

Slide 19 – Protecting income

Despite the concerns about retailer sales and profitability we are all reading about in the newspapers, we have managed to reduce our voids significantly over the period.

This slide shows the familiar graphs demonstrating the progression of our voids and administrations at the top and a waterfall chart showing our residual voids below. Albeit that our administrations are slightly up, our like-for-like voids and administrations together have reduced from 5.3% to 4.3% over the period. That significant improvement is being driven by 104 investment lettings for £8.9m of rent. Excluding turnover and temporary lettings these have been at 2.9% above ERV. Including the 12 turnover lettings based on turnover estimates, they are at 2% below ERV. All of this results in our occupancy rate improving from 97% to 97.5% over the six month period.

Our investment property sales have once again exceeded values by a significant margin. And, that's despite the fact that approximately half of the sales were agreed at the time of the last valuation and therefore are in line with value.

Slide 20 – Sales and acquisitions

During the period, we have sold £101.7m of assets at 5.8% above March 2011 values at a yield of 5.3%. And, since the end of the half year period we have sold our interest in Corby for £67.8m right in line with the March valuation.

Acquisitions have been relatively modest: £31.6m with this leisure asset in Bath making up the majority of that total. But the Bath acquisition is important because leisure is becoming a more significant sector for us. Not only is it an integral part of the shopping experience, but you can't have a meal out on the internet.

Slide 21 – Leisure

In total, we have 1.75m sq ft of leisure space in the retail portfolio, producing £35m per annum of rental income. That includes ten cinemas, but the majority is restaurants and other food outlets.

Also under the banner of leisure, we have the Accor Hotel portfolio. This is a portfolio of 29 hotels, two-thirds of which, by value, are in London. The portfolio produces over £28m per annum of rental income, has shown a valuation surplus in the six months of 4%, and, since our purchase, has outperformed the IPD All Property Index by 4.5% per annum.

Slide 22 – Development – In-town

We have also been making good progress on our in-town developments. They have generated strong performance over these six months, as Francis said at the start.

In Leeds, letting progress is on plan and our valuation surplus has been 6.7%. At Buchanan Street, we have moved lettings on to over 90%. And, that has produced a valuation surplus of 22.5%. Our Buchanan Street development incorporates 49 apartments and here we have introduced a digital innovation. If people want to register for more information on the apartments, then they can scan a QR code, which is situated on the hoardings around the development site.

Slide 23 – Integrating technology into the business

I have included the QR code on this slide so you can try it out. This is just one of a number of digital innovations we are rolling out across the portfolio. Here, you can see:

- events promoted through social media
- how we are changing our consumer websites to be mobile enabled
- rolling out free Wi-Fi in our centres
- innovating with new navigation techniques such as indoor sat-nav, and
- how we're using iPads for all of our business-to-business marketing information.

Slide 24 – Key lettings – John Lewis

Now, taking forward our theme of good relationships with major retailers, we have again made progress with John Lewis.

In Exeter, we have agreed with them to upsize the previously agreed 'at Home' store to become a small format department store. It will open in the autumn of 2012.

And we continue to work closely with them to design a similar store format to anchor our Westgate development in Oxford. And, together with our good progress on discussions with Oxford City Council and others, we now see strong potential for this scheme.

Slide 25 – Asset management – Shopping centres

We have 24 shopping centres in our portfolio, and we have asset management plans for all of them. But, I'm just going to talk about the largest four assets, which account for over 40% of that portfolio.

Those of you who were at our Investor Day in Leeds in July would have heard about how we are using our additional planning permission at the White Rose centre to implement asset management initiatives to right-size retailers and, in the process, improve the tenant mix. So far, this move has produced a new store for H&M, and will produce an expanded New Look and downsized WH Smith.

At Gunwharf Quays, we have continued to see strong growth in sales, ERV and capital value.

At Cabot Circus, we are seeing sales growth for our retailers as the centre matures.

And in Cardiff, we have made good progress on lettings with St David's 2 now 93.2% let or in solicitors' hands.

Slide 26 – Asset management – Retail warehousing

And, in our Retail Warehouse portfolio, there's still strong demand for out-of-town space.

In Chesterfield, we had planned to split the former Focus store into three separate units but at a meeting with Debenhams in July, we suggested that they might take the whole of the space. Just five weeks later, they signed up to take a store extending to some 62,000 sq ft, including a full mezzanine, at a rent which was double the previous rent from Focus.

At Bexhill, we are planning to replace a ten-pin bowling facility with Marks and Spencer. And, that will significantly enhance our retail park and produce five times the existing rental income.

Slide 27 – Development – Out of town

And lastly, we are pursuing our objective of enhancing our out-of-town development pipeline and have made planning applications for four schemes based on food stores for a total of over 400,000sq ft.

Peterborough, Taplow, Chadwell Heath and Crawley.

We have already let the principal units in two of these schemes and, if these applications are granted, we will see a valuation uplift and profit which will generate about 2% additional performance on our retail warehouse portfolio.

Slide 28 – Summary

So, the retail sector is always dynamic, but the pace of change is exceptional at the moment. Our long-term and continued focus on customer relationships is really paying dividends, as we are able to identify the retailers that are struggling and take appropriate action to improve our resilience. Plus, we clearly understand the expansion plans of our key retailers. For instance, Marks and Spencer have recently stated that they intend to add 3% per annum to their current floorspace in the UK. Our initiatives in leisure and digital marketing also align us with our retailers attracting more people who stay longer in our centres.

All of this enables us to have a portfolio which is well positioned for what our customers want. Just as the winning retailers will be the ones growing market share, and taking space in the strongest locations, the winning property owners will be those providing that space through asset management and development on a low-risk, pre-let basis.

Speaker: Robert Noel – Managing Director, London Portfolio

Slide 29 – Title slide

Thank you Richard.

In May we talked about being in no hurry to buy in central London in a very competitive investment market. We said that with falling vacancy rates across London, and with the industry unable to turn the tap on, we were recycling capital into our development programme. Today, take up is more subdued and the wider economic outlook is uncertain. 'City type' jobs are contracting, but new supply in London looks set to be even more restricted than previously estimated. And as competition in the investment market cools a bit our clear development plan remains on track, together with our relentless attention to asset management.

I'd like to cover our asset management activity first; then talk about forecast development completions in the central London market before covering our development programme.

Slide 30 - Asset management activity

Following the £423 million of sales last year, we have completed £94 million of sales in the first half at 15.6% ahead of the March valuation.

During the same period, we spent £83 million on acquisitions and other capital expenditure.

The team has completed £13.7 million of investment lettings, 7.7% ahead of the March rental values and they are constantly working at tweaking leases.

Voids are down slightly from 3.4% in March to 3.3% at 30 September. And if we exclude pre-development properties, where we are lining up vacant possession, the underlying rate is 2.7%.

All that activity has led to an increase in the weighted average unexpired lease term. For our offices, it now stands at 9.6 years or 10.5 years excluding pre-development properties. And with an average office rent of under £40 per square foot, and plenty of organic opportunity, the London portfolio is in great shape.

As I said a minute ago, new supply in London looks set to be more restricted than previously forecast.

Slide 31 - Central London office development completions

This slide shows central London development completions forecast by CBRE at the end of Q1 this year for 2012, 2013 and 2014. The West End is in blue, City in brown, and the remainder of central London in green. Their current forecast for the same period, shown in the bars for Sept 11, shows a significant downgrade in the amount of space expected to be delivered. Over a period of 6 months their projections for 2013 and 14 have been reduced by 3.3 million square feet, a fall of 30%. These are much more in line with the figures we presented in May.

Slide 32 – City office pipeline

Looking at the City market in isolation, this slide shows how forecast completions have slipped. And, we believe the risk remains on the downside due to a combination of factors including: the availability of development finance; vacant possession of sites; and third party issues such as rights to light, which have yet to be bottomed out.

Slide 33 – Central London office cycles

In a historic context, we will have the lowest run of development completions since the mid 90's and we enter this cycle with far less availability, shown in the red line, than in both the early 90's and early noughties.

Slide 34 – London development – City: progress and sale

Just before we start looking at developments in detail, I would like to make the point that we are able to provide new, much more efficient buildings, to occupiers who are able to leave historic lease commitments, and dated building stock. And we can do that at little price differential to what they are currently paying.

So we remain focussed on our plan to deliver our three remaining speculative schemes into this window of opportunity.

Looking at our developments in more detail, starting in the City, with One New Change. During the first half, we let the 6th floor. The offices are now 75% let with just the 90,000 sq ft third floor still available. Viewings have increased since the summer and we have discussions underway for all of the space with a number of interested parties.

At 110 Cannon Street, we sold our development during the course of construction. As with Park House last year, this sale realised virtually all of our anticipated development surplus up front with virtually none of the incremental capex spent.

Slide 35 – London development – City: 20 Fenchurch Street, EC3

At 20 Fenchurch Street, our joint venture with the Canary Wharf Group has committed to build out the scheme, and as you can see from this clip, we have been very busy in the ground.

We are on programme for completion in April 2014, just at a time when the volume of other completions looks set to be much lower than previously forecast. In July, following detailed design, we received a revised planning consent. And in August, the City resolved to use section 237 powers to make sure we were not held up by spurious right to light negotiations.

The building is being procured through a construction management contract. That means we are buying the construction in packages. We have placed contracts for all packages which affect the critical path. So far, in addition to the substructure, we’re contracted for the lifts, the cladding and the frame and steelwork. And we are busy procuring the remaining packages. All packages negotiated so far have come in below the estimated cost outturn and so we are expecting the total development cost to come within the £250 million guidance (our share) we gave you in May.

Slide 36 – London development – City and Mid-town

At 30 Old Bailey and 60 Ludgate Hill we obtained planning permission in August. Demolition is underway and on schedule to complete in January. At this point we will be 24 months from practical completion. We have interest from two parties for a substantial pre-let

Finally, in the City, at IPC Tower on Shoe Lane we have obtained a resolution to grant planning consent for 1 New Street Square.

Slide 37 – London development – West End

Moving to the West End. Following the sale of Park House, our development focus is concentrated in Victoria.

Here you can see an aerial shot of this part of the West End with Cardinal Place right in the middle. We have a 10 year vision, already underway, and it will be a game changer.

Slide 38 – London development – West End (2)

Of our committed schemes:

- 123 Victoria Street is the first to complete on the south side of the street.
- followed by Wellington House to the north
- then 62 Buckingham Gate

And looking forward to non committed schemes, we have:

- Kingsgate House
- and finally Victoria Circle at the western end.

Slide 39 – London development – West End: progress

So looking at these in more detail, starting with our committed schemes.

At Wellington House, seen for the first time here as a photo, not a computer generated image, we have now pre-sold 58 of the 59 apartments at an average price of £1,400 per sq ft. And we are on track to deliver a profit on cost of 50%. Completion is on schedule for July next year.

At 123 Victoria Street, the existing building was stripped back to the concrete frame. The core has been reconfigured and we are producing what is essentially a new building for completion in June next year at a time when there are very few other completions in the West End. We are right on schedule and we already have good interest with our numbers, as you know, based on an average office rent of £52 per sq ft.

At 62 Buckingham Gate the structure is now rising fast from the ground and the building will be completed to full category A in April 2013. It will have flexible 24,000 sq ft floor plates with our numbers here based on an average rent of £65.50 per sq ft.

Slide 40 – London development – West End: continued progress

Turning to our pipeline.

At Kingsgate House, where the existing buildings are fully let until March, we achieved resolution to grant consent from Westminster City Council last week for a 336,000 sq ft mixed use scheme - this image shows the proposed scheme, with the residential building on the right and the commercial building on the left.

Finally, at Victoria Circle, our compulsory purchase order was confirmed last month following a Public Enquiry and we have started the process for selecting a partner. The earliest we can start demolition is September 2012. Completion of this transformational mixed use scheme will be phased from 2016 to 2018.

Slide 41 – London development – West End (3)

These schemes are a game changer for this part of the West End and the rents are able to be a significant discount to the core.

Slide 42 – Summary

So, in summary:

Numerous asset management wins have seen us selling above valuation, leasing above valuation, restructuring leases, reducing voids and lengthening our Weighted Average Unexpired Lease Term.

In our development programme, even though leasing has been quieter for the last two quarters, we have good momentum - and we have good interest in the last floor at One New Change.

Following the sale of Park House, we continue to recycle capital taking money off the table at Cannon Street, and we have all but pre-sold Wellington House.

We are left with just 3 speculative schemes committed at the moment, with a total development cost of £580 million. That's just 10% of our current London portfolio valuation, just as others find it increasingly difficult to build.

Our City schemes will complete in a period of very limited supply of new space, and we are securing building contracts at the bottom of the cost cycle.

The next phase of projects is focussed on a new centre for the West End.

Before I hand you back to Francis, I'd like to make two points. First, the bulk of our portfolio is being subjected to a relentless focus on asset management, at every level and this is resulting in our income being lengthened and strengthened.

Second, we have been, and will continue to be, extremely disciplined in recycling capital. Although the wider economic climate is challenging, our development programme is well placed with a fantastic pipeline of optionality.

Now, let me hand you back to Francis.

Speaker: Francis Salway – Chief Executive

Slide 43 – Outlook title slide

I will now say a few words about outlook before concluding.

We are operating in a changeable and uncertain environment.

Slide 44 – Market outlook

These are the sorts of headlines you would expect to read in the press.

Slide 45 – Market outlook (2)

But there are some important nuances, or 'buts', in terms of how this uncertainty flows through into our market.

Our core customers are large corporates who, unlike the consumer and various nation states, are in sound financial health. This perhaps explains why we are continuing to see an encouraging level of enquiries.

In capital markets, there is uncertainty, but it is also the case that the benchmark risk free rate of return has gone even lower. This is continuing to support demand for the best and most secure types of investment property, and we also continue to see selective demand from global sovereign wealth funds for the very best assets in London. So, we are seeing varying impacts across different property types and different individual assets. It remains the case that a well-executed asset management plan can still create value.

The general feeling of uncertainty is flowing through to a slower pace on transactions – both lettings and property investment deals. But wherever there is uncertainty and perhaps a shift in the balance between buyers and sellers, opportunity may arise. And you may have picked up that we have bid on more properties over the last three months. We have not been successful to date, but I am relaxed about that. We will continue to be patient and disciplined on price.

So that is our high level outlook.

In terms of what is happening right now in our markets: as you heard from Rob, we have a good level of enquiries on our developments in London – and more than in the summer. And in Retail, I can tell you that units in solicitors' hands in Leeds have gone up in the last week. And we sold what some of you in the room have unkindly described as a secondary asset in Corby, bang in line with the March valuation.

Slide 46 – Land Securities' proposition

Exactly two years ago we talked about potential ripples. So our plan has never been a bull market plan. It is a clear strategy based on a realistic market outlook.

We will maintain the same intense focus on our customers' needs and on key operational metrics to deliver earnings growth.

We are helped in this by the fact that our portfolio and our developments are well aligned to the business needs of large corporates.

Our lower gearing gives the business both resilience and the capacity to invest.   I believe that we will make some acquisitions over the next 15 months which make a real contribution to both earnings and total return.

Now we are happy to take questions and we are going to take questions from the room, from the webcast and at the end from the telephone conference call. If you are in the room and want to ask a question please do raise your hand, a microphone will be brought to you and if you could then give your name and company name.

Question 1

Martin Allen, Deutsche Bank

A question for Martin Greenslade. You highlighted that you have started negotiations with refinancing your revolving credit facility. Obviously the original facility was sort of negotiated when spreads were very low. Could you give your best estimate of how the spreads have moved and what would be the pro-forma impact of that on Land Securities' earnings?

Answer – Martin Greenslade, Group Finance Director

Right, can I start by welcoming to this meeting, a number of our banks who we are in discussion with. So you will appreciate my comments might be slighted guarded. Broadly speaking, the level of interest rate over LIBOR was around 17 basis points on our old facilities. I think you will see that up around where our bilateral facilities are now which is at 125 plus or minus. So that is where I would see it going to. On the question of how it impacts earnings, the situation is as follows. The majority of our debt is bond debt, so that is fixed. The bit that is variable is the bit that we draw under those facilities, that is just over £400 million – £410 million. That is the sort of level that I would expect the revolving credit facilities to be drawn at. Because the rest of that is really for capacity to react to situations, be they acquisitions, but also they are there for the development pipeline, so that if, for whatever reason, we are not recycling capital, you know we haven't made the sales, we have full coverage of all our committed development capex. We have that covered with outstanding facilities. So from that you should be able to work out roughly the impact.

Question 2

Remco Simon, Bank of America Merrill Lynch

Two questions; Martin you indicated that so far the strategy has been through capital growth, to drive gearing down a bit. If capital growth is going to be non-existent or even might go slightly negative, what is your strategy on gearing? Do you intend to actively manage it down or let it go up?

Answer – Martin Greenslade, Group Finance Director

It is a great question. Six months ago you were asking me about capital return, now we are on values falling. That is exactly the situation we have to manage. We have said that we would like to see our gearing operate in a core range of 35%–45%. So we will be flexible as we go through the cycle. What we have said is that broadly we are not trying to be net investors from debt and we would expect flexibility in that gearing range. And we will go outside it if we see ourselves at the extremes in the property cycle.

Further Answer – Francis Salway, Chief Executive

Can I just add one thing on that. There is quite a bit of commentary at the moment about some companies with higher gearing, perhaps looking to de-gear and the impact on earnings. I think one of our standout achievements over the last 18–24 months has been reducing gearing while growing earnings. There has been an enormous amount of attention to detail on the balance at which assets have been sold, selling some very low yielding or zero yielding assets.

Further question

Agreed. Maybe a question for Rob. How much of the potential schemes that you highlighted – Ludgate and West End schemes – are you willing to commit to on a speculative basis and for how much do you think you would rather have a pre-let first before committing?

Answer – Robert Noel, Managing Director – London Portfolio

Well our next development will be Ludgate Hill / Old Bailey and as I said in the text this morning, we are in discussion with two parties for a substantial pre-let. Now what I don't want to do or we don't want to do is press the button on that development while those discussions are underway because both of them will lead to modifications of the scheme. And it would be silly to start the developments to then unwind them. So we will make that decision in the new year as these discussions take their course.

Further question

And for the West End schemes?

Answer – Robert Noel, Managing Director – London Portfolio

West End schemes – we have just got consent for Kingsgate House which in theory would be the next one to start. We can't get on site to demolish until next summer, so we wouldn't be completing that scheme until 2015 and again that decision will be made at around May. But at the moment we have just literally got our planning consent last week, so the detailed design will start now.

Question 3

Harm Meijer, J.P. Morgan Cazenove

Just on the lettings first; can you give a breakdown for shopping centres and retail parks and also your ERV targets for your development pipeline? Are you still happy with those and do you think you are surprised on the upside potentially?

Answer – Francis Salway, Chief Executive

I think on ERV targets on developments, yes we are very happy. On one or two, we have exceeded targets as at Buchanan Street, Glasgow. And I think Rob hinted at a confidence of beating £52 per square foot at 123 Victoria Street. In terms of the variance on lettings,..Richard?

Further answer – Richard Akers, Managing Director – Retail Portfolio

On shopping centres, the completed lettings, excluding turnover lettings are at 0.4% above ERV, including turnover lettings at 6% below ERV. And on retail warehousing we are significantly above on completed lettings. What I would like to do is give you an idea of where we are on all of our lettings in solicitors' hands and the conditional lettings that we have executed that would be conditional either on us getting vacant possession or on planning permission. And there across all of our assets, shopping centres and retail warehousing, we are 4.4% above ERV on all of those lettings. But there is a disparity between retail warehousing and shopping centres on those – we are 10% ahead of ERV on retail warehouses; shopping centres 6% below ERV on all of those as well.

Further question

Just on opportunities, what kind of opportunities are we talking about? And would you be interested in bidding on other development sites potentially, ie have you bid on a site like the Royal Mail site and why not for example?

Answer – Robert Noel, Managing Director – London Portfolio

Let's start with the Royal Mail site. Well we did bid on the Royal Mail site, but we weren't the best bidder and we will bide our time in everything that we do. We have plenty of opportunity within the portfolio, so we have to weigh up anything coming in to what we have got.

Further answer – Francis Salway, Chief Executive

And I think on acquisitions, one of the things you do is you look for whether there is an imbalance between buyers and sellers. We are particularly interested in good quality, but not necessarily absolutely prime retail assets outside London where we think there is an opportunity to get similar rental value growth to some prime assets, but coming in at a materially higher yield.

Further question

Last one, is there anything for sale at this moment?

Answer – Francis Salway, Chief Executive

There are some properties in the market and our approach on sales is there are some things we want to sell. We also respond to where somebody wants to own something more than we do. So we continue to be opportunistic about sales. But there are one or two things that we have in the market, not particularly large. I don't think we will grab the headlines when it comes out.

Question 4

Steve Bramley-Jackson, Credit Suisse

What percentage of the portfolio actually fell in value in the first half and by what degree? If so, was there a common theme behind the reduction in value?

Answer – Francis Salway, Chief Executive

I haven't got the precise figure on that. We saw a very small number of our properties reducing in value. We saw a couple of retail assets and it was linked to rental value which is the general theme we have been talking about. So probably 3–4 retail assets came off fractionally in value, capital value, because they came off fractionally in rental value. I do think that in the IPD monthly index, shopping centres were actually down about 1% on average. Ours were clearly up over the period as a whole. And the one other area where you always get volatility is on big pre-development sites in London. But to be quite honest they can be down one half year, up the next, it is just volatile.

Question 5

John Lutzius, Green Street Advisors

Richard regarding the Accor portfolio, should we regard that as core now?

Answer – Richard Akers, Managing Director – Retail Portfolio

I think we are very, very happy with its performance. We have seen the figures over time and over the last six months. I think probably to answer that I would say I shouldn't expect to see us buying another hotel portfolio. I think we are very happy with the Accor portfolio and our expertise in hotels is very useful for us, because we are finding that in our developments and in our asset management initiatives, often there are opportunities to develop new hotels. And we are doing so in Portsmouth, in Shepherd's Bush and a number of other locations around the relationship with this particular occupier which is very helpful for us. And we are very happy whilst it continues to perform. And we do expect it to continue to perform well over time.

Further question

Thank you. Rob can you share some updated thoughts on the rental tone at One New Change? The next round of leasing – should we expect a material improvement over where you have been or about flat?

Answer – Robert Noel, Managing Director – London Portfolio

Broadly flat to what we have been doing this year.

Further question

And with respect to the "Walkie-Talkie", can you give a little bit more colour as to what you are seeing perhaps in terms of rental tone or interest?

Answer – Robert Noel, Managing Director – London Portfolio

Well don't forget we are two and a half years out from practical completion. We have started reacting to interest in the building. We have quite a few discussions going on – more than you might expect. We have a marketing suite that doesn't open formally until the new year, so marketing will commence then. As far as rental tone is concerned, our aspiration as you know is to let this building at an average rent around £60 per square foot which is average. And we see no reason to think that we won't achieve those numbers at the moment.

Further question

Thank you and then last question if I may, Francis, regarding acquisitions **–** that has come up a number of times in the discussion today. As you consider an acquisition, do you also look at your share price relative to NAV, is that a benchmark for you? And what is your current thinking on that relationship and the attractiveness of share purchases?

Answer – Francis Salway, Chief Executive

Yes we do, and we do at natural points think about it seriously, discuss it with the whole Board. And I think when there is a considerable amount of uncertainty, one would question whether through share buy-backs you would effectively want to increase gearing of the balance sheet. Share buy-backs have one point something times the impact of an acquisition. Interestingly one of the key drivers is the earnings impact. We think that we would be able to make acquisitions that are so much more attractive from an EPS point of view, if we are selective, than share buy-backs. So, earnings probably drives our decision-making more than you might assume.

Further question

Just one follow up on that. When you think about buy-backs, do you also think of them on a leverage neutral basis, so you would fund it with property sales?

Answer – Francis Salway, Chief Executive

That is a possibility, but I think if you were to take sales off the bottom of the pack as it were, it would be very dilutive.

Question 6

Alan Carter, Evolution Securities

Given the pre-letting progress at Leeds and Glasgow and the maintained high occupancy in the Retail Portfolio, can you explain why Cardiff continues to let up relatively slowly?

Answer – Richard Akers, Managing Director – Retail Portfolio

Well I don't really agree with the proposition, but I think Cardiff is letting up very well. We did produce a very large scheme in Cardiff which opened at a time of quite a bit of volatility in the market and quite a bit of weakness in the market. And it is more difficult to lease space after completion of a scheme than it is prior to completion and that has become clear over time. Cardiff has footfall of 38 million per annum. It is, until Stratford will have been opened for a year, the highest footfall of any centre in the UK and we are very confident that Cardiff will continue, as leasing progresses, to be as successful as we originally expected it to be.

Question 7

Ryan Palecek, Kempen & co

I am wondering, could you talk a little about your outlook on yields, particularly yield expansion to the extent that we have seen a bit more temperate expectations as far as rental value growth is concerned looking out to the coming years?

Answer – Francis Salway, Chief Executive

I think it is really about risk premia, in that you could argue that the spread between property yields and gilts have rarely looked as attractive. But that is not going to cause me to say that property yields are going to come down. I think what is happening is that people are very cautious about risk and so we will see assets that have more risk potentially attracting bigger risk premiums which means potentially slightly higher yields. And as I said, if you delve into the entrails of the disaggregation of the IPD monthly index, I think you can already begin to see that happening.

Further question

And in terms of asset classes, is there any distinction you think you could make along those lines?

Answer – Francis Salway, Chief Executive

Simplistically – London good, outside London a bit more challenging other than retail in the very big cities. And I think we are pleased to have over 60% of our portfolio in greater London.

And can I just make one extra comment about this point about where people see risk. One of the things that I think is again an achievement is our average unexpired lease term is higher than it was in March 2006 – five years ago. So we have kept the high quality developments on longer leases. As Rob has said, we have done a lot of restructuring with tenants. The market as a whole will have seen a material shortening of unexpired lease terms over that five-year period. We have actively worked to get a higher average. That makes our investment properties more resilient.

- End -

Forward Looking Statements

This document may contain certain ‘forward-looking’ statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by or on behalf of Land Securities speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Land Securities does not undertake to update forward-looking statements to reflect any changes in Land Securities’ expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this document relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.