# Land Securities Group PLC
# Morgan Stanley 10th Annual European Property Conference
# Speaker Notes

**Speaker – Martin Greenslade, Group Finance Director**

**SLIDE 1 – INTRODUCTION**

Good morning ladies and gentlemen.

Thank you very much for joining me today. My aim is to move us very quickly through the Land Securities' business picking out the key elements of our strategy and showing how this is borne out in our activities.

Before I start, let me remind you:
Land Securities has around half of its investment properties in London and half in retail around £7.5bn each and £2bn of capital in Trillium, our property partnerships business.

**SLIDE 2 – BUSINESS HIGHLIGHTS IN 2006/7**

Our total property return on the investment portfolio was 16.2% and our return on capital employed for Land Securities Trillium on assets held over the full year was 16.8%.

This total return translated into a growth in adjust NAV of 17.6% before REIT conversion charge. At 31 March 2007, our NAV stood at 2181p per share and that doesn't include the 78p per share property surplus Knight Frank identified when they valued it for REIT entry purposes at 31 December 2006.

Last year, we highlighted two key objectives - to lease up our developments and to win new business for Trillium. We have had considerable success on both.

We have let almost 1.5 million sq ft from our development programme - and that excludes the 360,000 sq ft at Bankside 2 & 3 under offer to RBS. Lettings across our whole business totalled some 3.7 million sq ft.

We have invested £1.4 billion in Land Securities Trillium and grown floorspace under management by 16m sq ft. That is an increase of 45%. It excludes the potential new business with the ministry of defence and Northern Ireland civil service.

Of particular note for Trillium was the purchase of secondary market infrastructure fund or SMIF, our largest ever acquisition. It gave us a sector leading position in the PFI market. More on that later.

We said that following REIT conversion we would increase the dividend to reflect the corporation tax no longer payable, giving an increase of around 30% on a full year basis. We have not disappointed. The recommended full year dividend for 2006/7 is up 13.5% and we are also moving to quarterly dividend payments for 2007/8 with the first three quarterly dividends at 16.0 pence per quarter, which implies a further increase of over 20% for 2007/8.

## SLIDE 3 – CAPITAL MANAGEMENT

Over the last four years, we have been incredibly active with a total capital turnover of some £10bn.

What stands out for 2006/7 is the high concentration of net investment in Trillium and development - with net disinvestment from income producing investment properties. As the rate of capital growth of investment properties moderates, we are delighted to have been able to allocate more capital to Land Securities Trillium and into developments. The characteristics of the Trillium business are such that most of the return is in the form of income with less dependence on capital growth. And our developments continue to show a positive carry compared to the investment market where that is virtually impossible to find.

Finally, a quick comment on our investment portfolio.

During the course of the year we held back some sales until the final quarter of our financial year so that we could benefit from our recently acquired REIT status and avoid any capital gains tax liability. For the year, we were slight net sellers of investment properties.

## SLIDE 4 – RETAIL PORTFOLIO

Our retail strategy is to create a portfolio of scale with dominant assets and, using our development and asset management skills, move our properties up the retail hierarchy. Our retail assets are concentrated on shopping centres (generally in town) and out of town retail parks. It is our strategy to manage all of our assets because we see the relationship with our tenants, or customers as we refer to them, as paramount.

When it comes to retail appetite for property, our leasing team have had an impressive year. In 350 separate transactions, they have let or agreed to let some 2m sq ft of space, over half of which is from our existing investment portfolio with the rest in our development programme. The retail sector is certainly still alive.

On the subject of developments, of our 3 schemes due to complete in 2007, Exeter is the largest and shown on the image here.

Just before I talk a little about what we are doing in Exeter, I wanted to touch on the issue of environmental impact. Ironically, there is a lot of hot air on this subject and the property sector is not immune from it. At Land Securities, we have been doing rather than talking about what we intend to do. We were the first company and possibly still are the only company, to have ISO 14001 accreditation for an environmental system across our entire business. If you look at some of the environmental targets of property companies in the UK, we have been meeting those targets for the last five years. Indeed we have been participating voluntarily in the UK Carbon Emissions Trading Scheme for the last five years and we have exceeded the target set for us in each of those years. A couple of years ago the Carbon Trust who run the trading emission scheme ran an advert encouraging companies to cut their CO2 emissions under the headline of Land Securities already does, one day all companies will. If you are interested in this area please do get in contact with us and we will be happy to explain further what we do.

In Exeter, our development is in a very sensitive site, overlooked by Exeter Cathedral. We have chosen an open plan design which has a low carbon footprint compared with an enclosed mall which requires heating and cooling. This is the first attempt by a major developer in the UK to break the mould of clone cities; the increasing concern that towns and city centres are becoming too alike with the same retailers. In Exeter, we have committed to leasing up one of the streets to independent retailers to provide a difference. You may also be aware of the government's policy to encourage town centres to be more vibrant with greater amounts of people living there. And we are delighted that the flats that we have created above the shops in the town centre set the highest ever sales price per sq ft in Exeter.

And finally, since becoming a REIT on 1 January 2007 we have sold or marketed for sale some three quarters of a billion pounds worth of retail property.

**SLIDE 5 – LONDON PORTFOLIO**

Turning to our London portfolio, the strong rise in London rental values last year means our portfolio is now reversionary, in the same way that our retail portfolio is, and we continue to be positive about rental values in London over the next 12 months or so.

During the course of the year, we let or we agreed terms to let some one million sq ft from our London development programme including the proposed letting of the entire space at Bankside 2 & 3 to RBS which you may have seen reported in the press. These development lettings helped generate a surplus on London developments of some £425m for our last financial year.

And it is a feature of our business model that we can have some 70% of our development pipeline focussed on our London and 30% on Retail when our split at the investment property level is 50/50.

**SLIDE 6 – DEVELOPMENT PIPELINE**

I would just like to take you very quickly through our development pipeline particularly as I believe it will give you some insight into our view on the London market. Let us however start with our retail development programme which is in purple. For those schemes completing in 2007 we are 85% let or in solicitors hands in Exeter, 91% in Cambridge and 40% in Corby but we only need 15 new lettings to be 100% let across all three schemes. For the next financial year, the largest scheme is Bristol which we are developing with Hammerson where we are some 55% let or in solicitors hands.

If we turn to our London portfolio, it is worth reminding you that we committed very early in the cycle to developments and our Cardinal Place scheme, which completed in March 2006, was a tremendous success and is now our most valuable single asset. But looking ahead to this year, a number of our properties are scheduled for completion. Wood Street, Queen Anne's Gate and Bankside 2 & 3 (if press reports are accurate) are all fully let with New Street Square partly let to Deloittes. We have deliberately held back our letting on New Street Square as we believe parts of the tower building will fetch record rents for that part of town in the coming months.

Dashwood house epitomises our approach to developments and our caution around the amount of space potentially coming forward for the end of decade. Instead of going for a larger scheme but developed later, we chose to refurbish Dashwood House, increase the space available within the boundaries of the existing structure and get it back into the market as soon as possible. At One New Change, where we would have some concern bring forward some 550k sq ft of offices at that point in the cycle, we have mitigated our risk by dividing the scheme into 40% retail and 60% offices. If we pre-let the retail space at our target levels, the break even on the office space is around £45 per sq ft.

Looking slightly further out, Park House is a mixed use scheme with retail, residential and 165k sq ft of offices. At 20 Fenchurch Street in the city, we should know the outcome of the public enquiry by the end of July and we will then either seek a pre-let of part or bring in a development partner.

**SLIDE 7 – LAND SECURITIES TRILLIUM**

2007 has been a year of phenomenal growth for Trillium. The right hand part of the pie chart up to 7 o'clock represents Trillium's floorspace under management in April 2006, and the rest of the pie shows actual and prospective growth since then. We now have unrivalled scale and breadth of coverage in the accommodation sector - offices, schools, hospitals etc.

This growth in the year is significant for two reasons:

- First, we were prepared to take profits on the Telereal and BBC contracts in the confidence that we could win new business - and we have done so.
- Secondly, we believe that, particularly having regard to the current stage of the investment property cycle, outsourcing is likely to deliver more attractive returns in the medium term.

Before we look at the PPP market, let me remind you about what we do in Trillium and the current status of some of the new/prospective contracts.

In the DWP contract, we provide a full property outsourcing service for the Department of Work and Pensions across the country. Our services include refurbishment and lifecycle capex management, guarding, cleaning, catering and so on. We purchased from DWP their freehold and long leasehold property interests and assumed their exposure to short leases. For all of this we receive a unitary charge which goes up with RPI. Also within the contract is a right for DWP to vacate property. As they do this, our returns will fall from their current high level (high teens return on capital employed).

Our other outsourcing contracts have similar features. During the course of 2007 we purchased 30 hotels from Accor and leased them back on a turnover rent basis. Trillium is responsible for maintenance of the external fabric and insurance and we also undertook to help Accor secure new hotel development opportunities.

The Royal Mail portfolio is in two parts – a freehold sale and leaseback portfolio and the management of surplus space on a leasehold portfolio.

On DTR, Defence Training Review, we and QinetiQ are preferred bidder for Tranche 1 and provisional preferred bidder for Tranche 2.

For the Northern Ireland Civil Service outsourcing, we were delighted to move from the short list of four to two for best and final offers. We expect preferred bidder to be selected by the end of our financial year.

**SLIDE 8 – SMIF**

Property outsourcing has always had similarities to PFI - the provision of a service for an inclusive and largely pre-determined annual charge. The difference is that PFI tends to be linked to capital projects and to one building or a small number of buildings - rather than to a large portfolio. PFI also rarely involves the transfer of an interest in property.

We entered the PFI market in January 2006 with our purchase of a half interest in the IIC joint venture, which bids for new PFI contracts. SMIF has a different business model - it operates in the secondary market and buys PFI contracts when they have already been won.

Our acquisition of SMIF gave us real critical mass as it had the largest share of PFI contracts in the UK. The SMIF PFI contracts predominantly relate to accommodation with the charge generally determined by availability (which we control) rather than by usage by the client or the public.

PFI contracts are appraised on the IRR of cash flows and we gain competitive advantage through scale. We achieve significant aggregation benefits on refinancing, insurance and maintenance. These benefits apply to the whole or a major part of the cashflows, whereas our financial interest is in the thin equity stake. So, the benefits of aggregation can be significant, moving equity IRRs from around 6% - 7% to some 10% - 11%

As PFI generates stable returns from homogenised contracts, we intend to bring in third party capital once contracts have reached the stabilised or post-construction phase. We have already appointed UBS on the set up and marketing of a fund.

Once the fund has been established, our P&L will come from our share of dividends paid to fund investors (as we will have a minority stake in the fund) together with fee income and any surpluses as new contracts are transferred into the fund.

Our target IRR for the initial acquisition was in excess of 10% and, for subsequent purchases, is around that level, prior to the benefits of fund divestment.

**SLIDE 9 – OUTLOOK & PROPOSITION**

In conclusion, the UK economy is strong. Occupier demand is satisfactory in the Retail sector and extremely good for London offices. In terms of the investment market, we now see both pockets of strength and pockets of weakness.

As I said before, in an environment of lower valuation surpluses, our focus on development and outsourcing is attractive.

Our proposition is that we have repositioned our investment portfolio, and we have demonstrated a strong track record of execution on leasing up our developments and also winning new business for Trillium. We have a high quality development programme and we have invested £1.4 billion in Land Securities Trillium, which we believe will deliver higher returns with lower volatility than investment property over the next few years.

And finally, as a REIT, we have demonstrated that we can maintain our business flexibility, indeed increasing it with a high level of sales in recent months. At the same time our shareholders will benefit from the significant step up in dividend.