Land Securities preliminary results presentation

Tuesday 19 May 2015

Speaker: Robert Noel – Chief Executive

Slide 1 – Title slide

Good morning everyone, and welcome to our results presentation. These are great results for shareholders and very pleasing for us.

We're pleased because they're delivered on the back of the clear plan we have been following in our cyclical and changing market.

As you know we've had three key points of focus. And let me start with the first one - the large speculative development programme in London which we started in 2010.

The programme reached its peak rate of capex in the second half of the year and is producing strong returns for shareholders.

That's because we procured them at the right time, at the right price and because we're delivering the right product into today's sweet spot - rising rents and long leases. Colette will talk more about this in a few minutes.

The second point of focus is this - the transformation of our retail portfolio in the face of rapidly changing consumer habits.

As Scott has said before and will say again today that's been conducted under our strategic themes of dominance, experience and convenience. And it means we're exposed to, and through development, are increasing our exposure to the right assets in this rapidly evolving market. We've been bold and decisive and it's paying off.

Our third point of focus has been our financial discipline.

Our broadly net debt neutral approach to life was designed to strengthen the business.

It's instilled stronger capital discipline in our re-energised teams by forcing them to make choices - making sure we sell assets that need to be sold, while the market conditions are good, and funding the transformation of our portfolio so it's bringing financial leverage down as we move through the cycle.

Slide 2 – Funding investment through disposals since 2010

This slide shows, above the line, our capex in blue and our acquisitions in green, over the last 5 years. In aggregate, this activity has been funded almost exactly by sales, shown below the line in brown.

Nearly £8bn of acquisitions, development capex and sales since 2010, with adjusted net debt of £4.17bn today within £30m of where it was at the start.

Nearly half of our portfolio by value today has either been acquired or redeveloped in that time. We have completely transformed the business, both in terms of quality and resilience.

For shareholders, delivering on this strategy has not only created a significantly higher quality business, but excellent growth, with NAV per share shown in the green bars on this chart up 87% over the 5 years and greater strength with LTV, shown in the dark blue line, steadily coming down as we move through the cycle, as planned.

But importantly there is more to come.

With 1.1 million sq ft still to let in London's sweet spot; new shopping centre developments with strong retailer support; a portfolio well matched to customer requirements; new opportunities for the future; and all underpinned with plenty of firepower, as you will hear today.

Slide 3 – Agenda

And here's the running order this morning.

First, Martin will take you through the financial results. Scott will then talk about the successful and continued reshaping of our Retail Portfolio and Colette will update you on our progress in London. I'll wrap up and we'll then open it up to your questions.

Martin…

Speaker: Martin Greenslade – Chief Financial Officer

Slide 4 – Title slide

Thank you Rob. Good morning everyone.

It's a privilege to present such a strong set of results. Of course, the market has been supportive, but our London and Retail businesses have taken advantage of their markets and outperformed. So let's start with the financial summary.

Slide 5 – Financial summary

As usual, I'll talk through some of these numbers in more detail later in the presentation, but in summary: Our profit before tax more than doubled to £2,416.5m. Our assets rose in value by 17.3% over the year, delivering a valuation surplus of £2,036.9m, and our adjusted diluted NAV per share was 1,293p. That's an increase of 27.6%. Moving on to underlying earnings: revenue profit was £329.1m, up 3.0% and in line with expectations and, similarly, adjusted diluted earnings per share were up 2.5% to 41.5p. And, moving on to the dividend today, we are announcing a recommended final dividend of 8.15p, bringing the total to 31.85p for the financial year. That's up 3.7% and right in line with our aim of progressing the dividend in a sustainable way.

So let's go through some of these numbers in more detail, starting with revenue profit.

Slide 6 – Revenue profit

Our revenue profit for the year was £329.1m, £9.5m higher than last year. The main reasons for the increase were a £5.5m rise in net rental income and an £11.0m decrease in net interest expense, with these two improvements partly offset by £7.0m of higher indirect expenditure. I will come to net rental income in a minute, but let me cover the indirect expenditure first. The £7.0m increase is made up of these two amounts (indirect costs and unallocated expenses) and is primarily due to a £2.8m increase in feasibility costs associated with properties we did not own, principally 21 Moorfields with the balance largely due to higher variable pay and long term incentives. Our net interest expense decreased by £11.0m to £179.7m due to the repayment of more expensive asset specific debt with cheaper group facilities. As usual, I have updated our market leading breakdown of costs which you will find in the appendix.

Let's now look at the breakdown of net rental income.

Slide 7 – Net rental income analysis

So, overall net rental income was up by £5.5m or 0.9%. Net rental income on the like-for-like portfolio was down overall by £0.9m. Retail was broadly flat as an increase in bad debts offset increases in gross rental income. London's gross rental income was up £6.0m but this was more than offset by higher direct property costs, in particular £3.7m of pre-development costs related to Piccadilly Lights which we wrote-off, together with higher void costs related to space we are refurbishing.

Net rental income from the development programme was £21.2m higher due to new lettings at 62 Buckingham Gate and the recognition of rent at 20 Fenchurch Street following practical completion. Our only proposed development is Buchanan Galleries in Glasgow, where net rental income was up £4.1m following the acquisition of the 50% interest we didn't own. Completed developments were up £5.4m, primarily due to Trinity Leeds, The Bishop Centre, Taplow and 123 Victoria Street.

As you might expect, the contribution from acqusitions was signficant, up £31.6m. This was mainly driven by Bluewater but also a full year's contribution from our increased stake in X-Leisure.

The £57.3m reduction in net rental income from disposals covers all properties sold in the last two years. That's a long list which includes Bankside 2 & 3 and Dundee, both sold last year, plus Sunderland, Bristol and Livingston – all sold this year.

And remember, as you look ahead, £47.6m of this year's net rental income will no longer be in our results next year other than a small residual element on Times Square.

Turning now to our portfolio valuation.

Slide 8 – Combined Portfolio valuation

The value of our combined portfolio at 31 March was £14.0bn with values up by more than £2bn, an increase of 17.3%. Of that total increase London saw values rise by 23.2% and Retail by 11.1%.

Now it's easy to look at this breakdown and be drawn to the performance of the development programme, up 38.7% - and in a minute Colette will speak about the letting successes that have helped drive that performance - but I'd hate you to miss the valuation surplus of £1.2bn on our like-for-like portfolio, up 16.0%. That has driven more surplus than the other categories put together.

So how does all of this impact our net assets?

Slide 9 – Movement in adjusted diluted NAV

We started the period with adjusted NAV per share of 1,013p.

Adjusted earnings were £329.1m. Then comes our valuation surplus, which is followed by two items related to disposals and acquisitions; first £132.7m of profits from the disposal of investment properties (largely Sunderland and Livingston) and then a goodwill impairment related to the acquisition of our 30% stake in Bluewater which is accounted for as a business combination. I explained the accounting implications of the Bluewater acquisition at our interim results last November, so if goodwill impairment is your thing, you know where to find it.

Our cash dividend in the period was £229.8m, and we spent £12.0m buying shares for the EBT. With other reserve movements of £18.5m, that's how our adjusted diluted NAV per share ended the period up 27.6% at 1293p. Let's now move onto cash flow.

Slide 10 – Cash flow and adjusted net debt

On this slide, you can see the major components of our cash flows, proportionately consolidated, and referenced to the movement in our adjusted net debt over the year.

So we began the year with adjusted net debt of £3.95bn. Operating cash inflow was £323.7m. After dividends come three items relating to capital transactions: acquisitions relates to the purchase of our 30% stake in Bluewater last June and our partners' 50% interests in Thomas More Square and Buchanan Galleries; we spent £405.3m on development and refurbishment capex; and we received consideration of £1,026.1m from disposals. After some sundry items we ended the year with adjusted net debt of £4.17bn, up £223.4m.

Compared with last year, our average net debt this year was £75m higher, which supports my earlier comment that our lower interest costs were due to the type of debt not the amount.

Let's move onto Financing.

Slide 11 – Financing

Despite the small increase in our adjusted net debt the sharp rise in asset values has led to a reduction in our Group LTV from 32.5% to 28.5% bang in line with our strategy as Rob reminded us earlier.

The weighted average maturity of our debt is 8.3 years with a weighted average cost of 4.5%.

And in March this year, we put in place a new £1.255bn revolving credit facility with a 75 bps headline margin and, importantly, a five year term with two one year extension options giving us potential firepower over an extended period. As we demonstrated with the Bluewater acquisition, we are able to move rapidly if the right opportunity arises.

So let me summarise.

Slide 12 – Financial summary

This is a strong set of results and a reflection of good performance across the business; London has delivered a total property return of 27.7% while Retail delivered 17.7%.

And, as Scott and Colette, will explain, this performance has been delivered at the same time as we have upgraded the quality of our assets through capital recycling. So better, more resilient assets and a financially robust balance sheet. Now let me hand you over to Scott.

Speaker: Scott Parsons – Managing Director, Retail Portfolio

Slide 13 – Title slide

Thanks Martin. Good morning everyone.

Slide 14 – Retail Portfolio – a transformational year

The last 12 months have been incredibly active and transformational for our retail business. They've also been productive - we've delivered a very strong set of results and at the same time positioned the portfolio really well for future performance.

Today our £6.3bn portfolio is now made up of fewer but larger and better quality properties with Greater London shopping centres like Southside dominant regional shopping centres like White Rose and our leisure and hotel portfolio among the top performers.

Not only are same store sales and footfall up they're both well ahead of benchmarks.
So I want to kick off by taking a look at the make-up of our portfolio and show you how it's changed significantly and for the better.

Slide 15 – Portfolio focused on dominance, experience and convenience

You may remember the likes of Corby, St John's, and Martineau Galleries because it wasn't so long ago that we had a mixed bag of around two dozen regional shopping centre interests dotted throughout the country. Today, outside of Greater London, we've got seven and each and every one of them is dominant for its catchment. Each is seeing healthy sales growth that's well ahead of BRC and each offers consumers a fantastic experience that drives dwell time and spend. We've moved our shopping centre portfolio up the quality curve because that's where tenant demand is most robust and where we think future performance will be best.

Over the year we completed more than £800million of disposals at 14.3% ahead of our March 2014 book value. At the same time, we bought Bluewater and the 50% that we didn't already own of Buchanan Galleries.

Today our exposure to leisure is significant and our expertise is unique and invaluable to the wider portfolio as leisure and catering play an increasingly critical role in retail and London schemes.

And as you can see, our retail park portfolio has shrunk over the past few years, as we've actively moved away from standalone food stores and oversupplied locations. Today, we only have two standalone supermarkets and all our parks trade strongly within their catchments and offer a convenient location for consumers to shop.

Slide 16 – Retail parks – affordable rents and convenient locations

Capital value performance within our retail park portfolio has been weaker for the larger lot sizes but better for the medium-sized, convenience-focussed parks.

It's these convenience parks with retailing for things like furnishings, homewares, destination fashion, and discounters where we're focussing our retail park strategy as that's where rents are more affordable and tenant demand is greater.

On the retail park development side.

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Slide 17 – Retail park development – exploring opportunities

Our 105,000 square foot development at Taplow reached practical completion in July and it's fully let and trading well. We submitted a planning application in December for a 240,000 square foot development in Worcester Woods. It's already 69% pre-let to anchor tenants John Lewis, M&S, Next and Sainsbury's. And we have outline consent for a 200,000 square foot mixed use scheme at Selly Oak in Birmingham, with earliest delivery in 2017.

Moving on to progress in our leisure and hotel portfolio.

Slide 18 – Leisure and hotels – increasingly strong performance

The leisure portfolio continues to perform well net income is up rental values are up and restaurant turnover and footfall are up. Yields have sharpened and voids remain low. Next year should be even stronger in terms of consumer demand and operator turnover because 2015 is forecast to be an exceptionally strong year for the cinema industry.

Income from our Accor hotel portfolio is turnover based and is now at its highest level since we acquired the portfolio in 2007. The increased income and the impact on yields of increasing demand from a wider investor base has driven the strong uplift in the value of the portfolio over the period. And remember the value of this portfolio is underpinned by a vacant possession value that is higher than its investment value.

On the development front…

Slide 19 – Leisure development – in a great Crossrail location

We received reserved matters planning consent in March for a mixed use leisure and residential led development at Filmworks Ealing. The scheme consists of 161 residential units an 8 screen Picture House cinema and 50,000 square feet of retail and catering space and all in an area set to reap the benefits of Crossrail.

Now moving on to our shopping centres, I'll start with our centres in Greater London.

Slide 20 – Greater London shopping centres – 20% capital growth

Our suburban London centres have performed well over the period with capital value growth of roughly 20%. That was mainly due to strong investor demand for London assets driving sharpening yields.

I think the fundamentals underpinning these locations are compelling affluent and growing catchments and strong underlying land values as residential prices in these areas have grown on average by over 50% over the last 5 years. Between them, these centres add up to over 50 acres of suburban London real estate so there's lots of future potential for us to explore and we're doing just that.

At Southside, leading sports retailer Decathlon will open in July it's a strong addition to the 25 new retail and catering brands which have opened at the centre in recent years, and the new 82,000 sq ft Debenhams department store is due to open before Christmas.

If I turn to outside of Greater London…

Slide 21– Dominant shopping centres – beating the benchmarks

As Rob said earlier, our strategy of focussing on dominant regional shopping centres is paying off. The transformation of our portfolio over the past year… to focus on only the strongest destinations is perhaps best demonstrated by how, a year ago, we reported that our sales lagged behind the benchmark.

Today it's a radically different story: all our figures are well ahead of the benchmarks and the market in general. With our much better quality portfolio of shopping centres, we're attracting retailers, and consumers, and achieving strong sales, footfall, and new letting activity. So good performance today and resilience for the future.

We'll give you more detail on each of our centres at our investor day in September, but for now, a few highlights…

Slide 22– Dominant shopping centres – enhancing the experience

St David's footfall has reached a massive 39 million people. Letting activity through the year has brought new catering and retail brands to the centre, and we're relocating H&M to an upsized 45,000 square foot unit to accommodate their need for more space. Now that's a recurring theme in our dominant high footfall regional centres.

Gunwharf Quays, which many of you will remember from the last Retail investor day is going from strength to strength. We have an increasing number of retailers now achieving sales densities of over £1,000 per square foot. Over the year we've completed 22 lettings and introduced 10 new aspirational brands and we've just started enabling works on an upsized unit for Ralph Lauren to deliver one of their largest outlet stores in Europe. Watch out for Gunwharf this summer because it's the key event hub for the America's Cup World Series taking place in Portsmouth in July.

And at Bluewater…

Slide 23 – Bluewater – a key destination for retailers

It's been almost a year since we bought our managing stake and so far its financial performance is bang in line with our expectations. Letting transactions are running about 1% ahead of our underwriting assumptions and that's on rents totalling £6.8m.

Our strategy to reduce the number of units to create more large, statement stores has progressed well. We're creating an exciting new 45,000 square foot unit for Next, which is due to open shortly. We're currently in advanced discussions on another tenant upsize and recent lettings like Le Crueset, White Stuff and Hackett demonstrate how Bluewater is consistently the destination attracting strong brands outside London and into a mall environment for the first time.

Plans for converting the Glow space to other experiential uses are making good progress and we're in detailed negotiations with a great anchor for this space. Our leisure expertise is serving us well in broadening the restaurant offer at Bluewater and we have a number of new catering initiatives in the pipeline.

While vacancy at 4.9% remains above the Land Securities average we're pleased with progress in bringing it down from 5.3% at acquisition. That was a critical part of our asset management strategy last year because Bluewater is now 16 years old so we had to deal with the expiry of all the original 15 year leases about 160 in total. I'm glad to report that 90% of those expiries have now been dealt with and in doing so we've also triggered considerable investment by retailers in their stores with examples like Schuh launching its new Twenty FIFTEEN concept, Russell & Bromley investing in a complete new store format Hotel Chocolat upsizing into a new store, and Starbucks choosing Bluewater as the place to launch their new design coffee shop.

So Bluewater is performing well.

And we're also investing in Dominance through our development pipeline. In Oxford.

Slide 24 – Westgate – a new destination for Oxford

We're now onsite with our exciting plans for Westgate, where in late 2017 we'll deliver a stunning 800,000 square foot retail, leisure and catering destination in the heart of one of the UK's most famous, historic and vibrant cities. The scheme will provide a 140,000 square foot John Lewis flagship units for Next, Primark, H&M and Michael Kors and around 25 restaurants, cafes and bars, including Sticks n Sushi and a 5 screen Curzon Cinema.

Up in Glasgow.

Slide 25 – Buchanan Galleries – investing in dominance

Work on our extension and refurbishment plans for Buchanan Galleries is ongoing, and we continue to progress contractual arrangements. The proposed development has good retailer support and is over 36% pre let that's 3 years ahead of scheme opening and it's anchored by John Lewis, M&S and a state of the art Showcase Cinema de Lux.

So to summarise, and as I said at the start…

Slide 26 – Summary

We've had an exceptionally active transformational and successful year and we're very pleased with the results. We've produced strong returns in a year of strategic change our portfolio is better quality it's far more resilient in the face of changing consumer habits and it's very well positioned for future performance.

Thanks very much, and I'll now hand you over to Colette to update you on some of our fantastic activity in London.

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

Slide 27 – Title slide

Thank you Scott.

Now to London where we're in a great position and let me show you why.

Slide 28 – London Portfolio – business is firing on all cylinders

Since 2010, we've committed to 3.5m square feet of speculative development, with our share of total development cost being £2.4bn. We're delivering nearly half the space during the next 18 months, and have 1.1m square feet available to let in a market, which is relatively starved of new space.

Slide 29 – Central London supply – March 2014 – well timed lettings

This is the central London supply slide we showed you last May.

The green bars showed the historical run of development completions in Central London.
The black bars showed what was on site at the time and the dotted bars are what we forecast to be delivered over the next few years. This final bar showed what we believed, was on the

horizon. The falling vacancy rate meant the negotiating position would remain firmly with the landlord. Now if we zoom into the future…

Slide 30 – Central London supply – 2014 and 2015 forecasts

These bars show our 2014 forecast and these bars show today. As you can see, the outturn for 2014 was slightly less than we were predicting. This year it's slightly more and next year looks about the same. Beyond 2016 potential supply is rising. Now turning to our main chart for 2015…

Slide 31 – Central London supply – March 2015 – well timed lettings

The vacancy rate is still falling this bodes well for our current schemes which we're letting in the sweet spot Rob talked about in his introduction. We have over a million square feet to let in these favourable conditions. With the future in mind, we've also been working on new opportunities and I'll talk more about that later.

Before that, I'd like to talk about our record year of development lettings.

Slide 32 – Development – maintaining letting momentum

We let 671,000 square feet with an average lease term of 19 years, and with over a million square feet to let during the next 18 months, we're optimistic about maintaining our momentum. I'd now like to turn to the City…

Slide 33 – Development – City and mid-town – building portfolio resilience

20 Fenchurch Street is now 92% let, and has been a great success for us. New Ludgate is already 84% let or in solicitors' hands on long leases with minimum uplifts at first review. At 1 New Street Square just 10 minutes' walk from Blackfriars and Farringdon, where Crossrail meets the Thames link we've let the entire 275,000 square foot building to Deloitte on a 20 year lease. That's 15 months ahead of PC.

Turning now to Victoria where our masterplan is taking shape.

Slide 34 – Development – Victoria – great product – value creation

At 62 Buckingham Gate, we're now 87% let or in solicitors' hands. At The Zig Zag Building, we're 37% let or in solicitors hands. Next door at Kings Gate we've a fantastic product in a prime location with outstanding views and as we've said before, we expect to sell the remaining apartments after practical completion.

Going up the road to Nova…

Slide 35 – Development – Nova residential – great product – great location

We complete the residential in April 2016 and as with Kings Gate, we're confident in the product and location and expect to sell the remaining apartments after practical completion. We have two office buildings under construction, Nova North and Nova South.

Slide 36 – Development – Nova offices and retail – changing Victoria

Both are due to be delivered in July 2016, and 12% is already in solicitor's hands.

We've 18 retail units, of which 13 are let or in solicitor's hands, to restauranteurs including Jason Atherton, Will Ricker and Adam White.

Nova will be London's newest restaurant quarter, serving the growing office and residential population as well as over a hundred million people passing through Victoria Station.

Victoria really is changing. Elsewhere in the West End…

Slide 37 – Development – great Crossrail location

At Eastbourne Terrace right outside the entrance to Paddington Crossrail Station we'll be delivering 93,000 square feet of space in April 2016. Our development programme has already produced some great returns for us and there's still plenty to come, with over a million square feet remaining to let. Elsewhere in our Portfolio the Investment and Asset team remain busy.

Slide 38 – Manage – strengthening income – building portfolio resilience

Our weighted average unexpired lease term in our offices is now 9.2 years excluding our development programme. Smart lease re-gearing activity continues to strengthen our income, and we've completed just over £19m of investment lettings.

There are a couple of transactions I'd now like to highlight.

Slide 39 – Manage – strengthening income – increasing values

At Dashwood House, 81% of the income is subject to rent review by March next year. Ahead of this, we've achieved a record rent for the building, creating well timed rental evidence.

At 130 Wood Street, we agreed a surrender of the top floor and then re-let the floor to the majority tenant, increasing the passing rent by 40% to £52.50 per square foot and we simultaneously extended their existing leases. That increased the ERV by 24% and the average lease term from 3.3 years to 7.8 years. We sold the asset last week, crystallising the value gain we created.

Our voids have increased from 1.6% to 4.3%.

Slide 40 – Manage – voids – opportunities to capture rental value growth

The main contributors were Thomas More Square, 5 New Street Square and Holborn Gate where we're refurbishing the space into a rising market a sign at Piccadilly Lights which expired just before year end, and Portland House where, we're maintaining development optionality.

As you'd expect, we continue to recycle capital. We talked about the sale of 47 Mark Lane in November. Since then…

Slide 41 – Sell – successfully recycling capital

We have sold Phase 1 of Oriana and pre sold Phase 2, bar the residential. At Times Square, we re-geared 20% of the income for a further 8 years, and have exchanged contracts to sell our 95% interest for just over £268m. Our sales were 16% ahead of the March 14 valuation.

Every asset has a plan and we've taken advantage of market conditions to crystallise the value gain we've created. At Thomas More Square…

Slide 42 – Buy – Thomas More Square, E1 – capturing rental value growth

We purchased our partner's 50% interest for just over £85m, having identified it as an area for good rental growth. We expect to capture that growth through refurbishment of the main tower and public realm. It's due to complete in September and 63% of the refurbished space is already let or in solicitors' hands.

Slide 43 – 21 Moorfields, EC2 – secured 250 year leasehold interest

At 21 Moorfields, we've secured a 250 year leasehold interest for £16.5m equating to a site value of £33 per square foot. The price is subject to overage provisions, paid only when our hurdle rate is achieved on the completed development.

I'd like to spend a few minutes on the detail of the transaction.

Slide 44 – 21 Moorfields, EC2 – pre-letting opportunity

The site is 1.9 acres above the Western entrance to Liverpool Street crossrail station and Moorgate Underground. The freehold is owned by TfL and is subject to a 79 year lease.

In 2010 the leaseholder went into administration. The Administrator marketed the interest and selected us because of our expertise in large scale city centre development and in particular our experience of developing over the railway. We entered into a conditional agreement to purchase the leasehold interest in 2012. The conditionality was primarily around settling an outstanding Crossrail CPO Claim, which we did. And reaching agreement with TfL which we did in February this year.

We agreed an option and development agreement, which allows us to progress the scheme, and draw down two 250 year headleases at 5% gearing. TfL can buy up the gearing to 7.5%, and also have the ability to acquire a 15% to 25% stake in the development.

During the process we also worked up, and submitted a planning application and in March, we obtained a resolution to grant planning consent, for two buildings, totalling just over 500,000 square feet.

Our plan is to ready the site for redevelopment demolishing the existing buildings and building to grade which we aim to do by Quarter 1 2017. This is similar to the approach we took at both 20 Fenchurch Street and New Ludgate. The key here is that we would then be able to deliver half a million square feet in 27 months, which sets us up well for the pre-letting market.

So turning to our future pipeline.

Slide 45 – Future pipeline – building in optionality

At Portland House we have our residential planning consent, and as you know, a block expiry date of June 2016.

At phase 2 of Nova, we're progressing revisions to the 2009 planning consents, and like 21 Moorfields we plan to take the development to grade, leaving us only 21 months from pushing the button, to completion that again sets us up well for the pre-letting market.

This means with these and other schemes, we now have a potential future pipeline of almost 1.5 million square feet, and a plan to progress nearly 680,000 square feet to grade.

So in summary…

Slide 46 – London Portfolio summary – business is firing on all cylinders

We continue to let our large development programme on long leases at rents ahead of appraisal levels and we're strengthening existing income.

We are selling some of our more mature assets into a strong investment market, as we continue to recycle capital and have over £390m still to spend on our developments.

And looking to the future, we're actively re-stocking the pipeline and building in optionality.

The London business is firing on all cylinders and as I said at the start we're in a great position.

Now let me hand you back to Rob.

Speaker: Robert Noel – Chief Executive

Slide 47 – Title slide

Thanks Colette

So, as you've heard, these are great results and they reflect our very clear strategy.

Slide 48 – London and Retail Portfolios – both delivering results

In retail, it's been about moving our assets up the retail hierarchy.

We were decisive, and as you've heard from Scott we've been particularly busy this year and as you've also heard sales are up, footfall is up, rental values are up and values are up.

The transformation will continue as we proceed with our fabulous new retail and leisure destination in Oxford with strong early support from retailers.

In London, as you've heard from Colette, the market is behaving broadly as we were expecting. Our developments are well placed. They're being delivered right at the point of low availability and low development completions and we have provided the evidence with over 670,000 sq ft of development lettings during the year in London at a weighted average lease term of 19 years.

We have 1.1m sq ft still to let this year and next, in the cycle sweet spot, and we are building our pipeline for the future as you have also heard as we plan to take a further 680,000 sq ft to grade over the next 2 years.

Slide 49 – Building quality, strength and resilience in a cyclical market

As I said in November.

From having relatively short leases in London and a large tail of secondary retail assets at the top of the last cycle, since 2010 we've been building and trading our way to transform the business.

And by the time we've completed our current development programme – One, we will have a retail portfolio of appealing, dominant and convenient environments as you've heard from Scott. Two, we expect to have a longer weighted average unexpired lease term on London offices as you've heard from Colette; and three, we will have a more conservative Loan to Value and plenty of firepower as you've heard from Martin.

I'm really pleased with the progress we have made against these goals.

Crucially, we are in a very strong position. In London we have the capability to turn up our development pipeline if we choose and where we have a pre-let agreed. In Retail, where we have substantially transformed the portfolio, we can focus on managing our assets brilliantly.

So, we look forward to seeing you at our Investor Day at Bluewater on 25 September, and back here for our Interims in November, when I am confident you will see yet more evidence of our continued progress.

And with that, we'll now hand over to you for questions

Question 1

Hemant Kotak, Green Street Advisors

Good morning, Hemant Kotak from Green Street. Thank you for the very clear presentation and clear results. Just a question offices and your land at 21 Moorfields. Just to help us understand and put this into perspective to land values more generally in the City please. Clearly £33 a square foot is a headline number, but as you work through all the numbers and it is very complicated and I understand that, but as you work through it, what is the number that you have in your mind as an all in cost for the land please?

Answer - Robert Noel, Chief Executive

We paid £16m for it, that is the number. We now have to spend money in developing the site and in bringing the site forward, we have got to go out to tender and get that. So we don't know the number yet, but paying £16 million for a site to put up 500,000 sq ft in the centre of the City of London, right on top of a Crossrail station - that is pin money.

Further question

It does sound amazing. So it seems like you would be expecting some super profits. I just wonder you know how was this possible that you were able to get this? Was it the complication of the deal? It sounds almost too good to be true.

Answer - Robert Noel, Chief Executive

I think you have to cast your mind back Hemant to where we were in 2010/11, when we were negotiating this deal, Europe was heading towards Eurozone crisis - some things don't change! And the world was looking a pretty rocky place. And if you had development sites, no one wanted them. And if you had complicated development sites, even fewer people wanted them. So I think it was a question of timing our negotiation with the purchase which was as I say, the best part of four years ago when we started. Clearly we could not tell the market about it because the whole thing was steeped up in options and things that needed to get sorted before we were able to close the deal which was this February, when conditions were vastly different, so we were lucky.

LandSecurities

Further question

Okay thank you and just one last question from me. I guess as you look at the appendices slides in your presentation, the last slide, page 18, it has got all your big strategic land holdings. Can you help us and give us some more colour as to the future prospects of that and when can we see some value realisation there please?

Answer - Colette O'Shea – Managing Director, London Portfolio

Yes, I think if we can take them in turn: Harrow, we sold a proportion of the site very recently. We are working now on the balance of the site and feeling very optimistic about it; Ebbsfleet, if you go down there, there is a huge amount of activity there, houses are being built and our role there is to service plots and sell them to the house builders doing exactly as we said we would there; Stansted, we are waiting for the outcome of a public inquiry on the planning, again our role is getting planning consent to unlock value; and Lodge Hill, the planning has been called in for an inquiry and we are considering how we are going to manage that. So a lot of activity on the strategic land.

Further question

Just a follow-up question. Are there any numbers you can help us with, order of magnitude, how much value can be realised from some of these and how quickly?

Answer - Colette O'Shea – Managing Director, London Portfolio

I think the Kodak land was sold for £50m and we bought it for sub-£10m so that gives you a sense of the scale of the potential.

Question 2

Tim Leckie, JPMorgan Cazenove

Just one question. The retail outlook. Sales up you mentioned, footfall is up, values are up. Rents: could you talk a bit more about your outlook for rental growth and maybe tied into, you touched on the relettings at Bluewater at 90% completed. Could you give us some colour on how those went versus passing rent? And even if the ERVs aren't moving up, are incentives coming down and the effective rent coming in a bit higher? Can you provide some more colour on that?

Answer - Scott Parsons – Managing Director, Retail Portfolio

Sure. It is still tough work out there, but we are starting to see some ERV growth and I think that is really testament to how we have transformed the portfolio over the last couple of years. At Bluewater specifically, I think I said in the presentation, we are beating our financial underwriting assumptions by about 1% and starting to see rental growth come through. And as a rule, incentives are coming down across the portfolio.

Question 3 - Steve Bramley-Jackson, Credit Suisse

How much of the projected profit from the development programme is included in the full year 2015 balance sheet?

Answer - Robert Noel, Chief Executive

Well we give disclosure in the Statement on all our developments which tell you what they are valued at today, what has got to spent, what the ERV is and how much of them has been let. And you will need to remember that valuation next year will be a function of the success of our letting, what rents we get and what yields are and we are not in the forecasting business. So whatever you think they will be, you will be able to work out how much is still to come from that table.

Question 4 - Ben Richford, Credit Suisse

Just wondering about the Retail Portfolio positioning overall. You are seeing the benefits of repositioning the shopping centres, I wondered whether there was more to come on retail parks you can help us understand and when will you realise the VP (vacant possession) value in the hotels?

Answer - Scott Parsons – Managing Director, Retail Portfolio

Well I will answer the hotel question first as it is very easy. The hotels are let on a long lease. So it might be a long way off before we realise the VP values. In terms of retail park performance, there really has been two parts to the story. Performance has been more subdued for the bigger chunky lot sizes where we haven't seen any rental growth and yields have essentially been flat. On the medium size convenience-focus parks, tenant demand has been better, we have seen a little bit of rental growth and yields have eked back a little bit.

Further question

And I have another question on London office and development. Very interesting having construction costs rising and the pipeline rising along with rents. Just wondered in terms of your outlook say for three years time, do you see the higher construction costs leading to support higher rents going further from here?

Answer - Robert Noel, Chief Executive
I will ask Colette to talk about construction costs generally in a second, but the correlation between rising construction costs and rising rents I am not sure we can really make a statement on because there is no real empirical evidence going backwards. Rents are a function of supply and demand. When there aren't enough oranges for people to eat when you go in a greengrocer the price goes up. And similarly when they are about to go rotten, the price goes down. And we are at the point for the next period where the price is going to continue going up for construction costs.

Further answer - Colette O'Shea – Managing Director, London Portfolio
The construction costs are rising and it is not just the construction costs here to take into account, we are seeing a construction market that is very stretched in terms of labour resource which is putting an added pressure on. And I think the interesting thing, if you look in one of our appendices and you look at where we are buying our developments, relative to the cost curve rising, you can see why we timed our schemes when we did and this is the point about us being early cycle developers.

Question 5 - Remco Simon, Kempen
Can you talk a bit more maybe about the balance of lettings in London? You seem to have a great success in some of the City developments, in New Street Square and New Ludgate, but leasing up some of the Victoria assets seems to take a bit more time. Can you talk a bit more about that since the balance of the pipeline is now mostly in Victoria?

Answer - Colette O'Shea – Managing Director, London Portfolio
I would say that 62 Buckingham Gate, as we said before, has been slower to let than we hoped. And that was very much because it was a pioneering scheme in Victoria, it was built into a construction site and we were developing the Victoria story. In terms of Zig Zag and Nova, we are absolutely delighted with where we are. We PC (practical completion) Zig Zag later this year, Nova is already 12% let and we don't PC it until next year and we are seeing

very big interest in both those schemes. I think the point about the West End market is we are now seeing the pre-let people moving on because they are seeing there is a shortage of opportunities.

Further question

Maybe a second question on London. You made a point a couple of times of 19 year average lettings on your development schemes. Your existing portfolio, is on average about 9 years so there is also quite a bit of stuff a lot shorter. How do you see that portfolio progressing over the next couple of years?

Answer - Robert Noel, Chief Executive

Just to stop you the 9.2 years excludes our development programme.

Further question

Yes. In your existing portfolio there will be stuff which is shorter let, do you see the opportunity to extend those leases in the coming few years or is there more recycling to be done out of that?

Answer - Robert Noel, Chief Executive

There are things with very short leases, say for example Portland House as we have told you 11 months left until the block date so that is a £250 million building, so they do have short leases. I think the point on the average lease length is you don’t want all your leases expiring at the same time. But where we were in 2006/7 was that we were heading into a peak point in the market with an average lease term of six years across London and that did not leave the business in a very good state two years later. And I think one of the things we have been saying is we are working on getting that weighted average lease term up so by the time we get to a point where the cycle does mature this time it will be much longer than it was last time.

Further question

And I guess my other point on that, you started to take a bit of profit on some London assets like Queen Victoria Street, how much more of that could you see yourself doing in the foreseeable future?

Answer - Robert Noel, Chief Executive
As I said in the presentation and in the statement, the net debt neutral position has been pretty much a bedrock of our strategy this cycle. We have got something like £800m committed capex still to spend in our development programme both in London and now, of course, in Oxford. So that would tell you that there is circa £800m of sales to be done over the next period and that is before we do any acquisitions. So there are still sales to come.

Question 6 - Marc Mozzi, Societe Generale
I just have one question related to your retail segment. It seems you have now more or less nearly completed the transformation of your retail segment. Have you sought or did you ever have the idea of disposing that segment, and if so what would be the breakage cost of the debt structure to do so if you have measured it?

Answer - Scott Parsons – Managing Director, Retail Portfolio
The first one is no. We see the Retail and London businesses as very complementary. London, as Rob has repeatedly pointed out, is quite a cyclical market. Retail is more steady, provided you have the right kit. But no, we see the two businesses as being complementary.

Further answer - Robert Noel, Chief Executive
I think as well Marc, one of the things we have been saying today, and it came through both from me and Martin, is that moving towards a fortress balance sheet is one of the key threads of our strategy. Busting up the business isn't going to help that. You know, we have been pretty consistent. We always talk about it because we should, but it is not on our agenda.

Further answer: Martin Greenslade – Chief Financial Officer
On the debt. In note 14 you will see what the difference is between the book value and market value if you have to buy back the bonds. We are actually in a situation now where the amount of bond debt that we have, at £3.2 billion, you could probably live with that on a London Portfolio. We are in a low geared environment, but we want to be in a low geared environment, exactly as Rob has said. So it isn't really a feature of discussion internally as to how we would shift that debt around.

Further question
Okay, thank you. What was your average cost of debt last year?

Answer: Martin Greenslade – Chief Financial Officer

It was around 5%, it came down slightly and it has come down slightly more just because of the drawing.

Question 7 - Michael Burt, Exane BNP Paribas

You have been very clear on the outlook for supply in the London office market, I was just wondering if I could push you a bit further on the demand outlook, particularly bearing in mind the likelihood of a new referendum in 2016/17? How does that change the game in terms of the demand looking a year or two further out?

Answer - Robert Noel, Chief Executive

Yes, well the front page of the FT was fairly explicit about that this morning. We are not seeing any dampening of demand because of the EU referendum. Business is expecting the UK not to leave the EU. However any political event like this causes uncertainty. We saw exactly what happened in Scotland in the lead up to the referendum last year. From a UK within the EU perspective, I think the UK coming out of the EU would not be a good thing for London real estate, whether it is a good thing for the UK or not is for other people to debate, I am just a real estate guy. It would not be a good thing for London real estate. However the bookies are saying we are not going to leave the EU and that is how most businesses appear to us to be running themselves.

Question 8 - Keith Crawford, KBC Peel Hunt

Not wishing to draw you in any way on forecasts of course, but it would appear this valuation surplus of 17.3% is difficult to replicate because yield inward shifts of 81bps, 52bps, I don't think many of us would expect those to be replicated, that is an extraordinary thing. How do you see it, just as a mixture of rent, management and a bit of yield shift, is that the pattern do you think?

Answer - Robert Noel, Chief Executive

As Martin explained, the valuation shift of £500m, 5% of the value of the business, has come through because we have leased up our development schemes. And that has been a stand out thing for us. The remainder of the portfolio moved ahead 16%. I think the equivalent yield came in 50 or so basis points across the like-for-like portfolio. Rents are up in London, rents are pretty flat in retail, but they are going to continue rising in London and start to rise in retail.

Further question

Thank you. I would just like to ask you if I may about Portland House. It is going to be something of a rarity in a year's time as being a building of that size available in a prime location, perhaps with the best view of London and I just wondered whether you had any single party that might which to avail itself of this opportunity at an unlimited rent?

Answer - Colette O'Shea – Managing Director, London Portfolio

What we are actually doing is we are still exploring options. We have the benefit of the residential planning consent, clearly we were waiting for the outcome of the election, but also we have got amazing demand for Portland House: it is still a very, very successful office building. So we are still considering which is the best course of action for that building, but we have great optionality, we can do either.

Further question

Does the Government have any views on Queen Anne's Gate? It is one of the largest buildings and probably now the ugliest building in Britain. Any views on it? Do they think about it? Do they think about anything?

Answer - Colette O'Shea – Managing Director, London Portfolio

If they do, they haven't told us.

Further question

Have they got a rental view upcoming at some point?

Answer - Colette O'Shea – Managing Director, London Portfolio

There is one coming up, I am not sure of the date of it.

Further question

And I wanted to ask whether Bluewater, did it in any way drag down the valuation surplus or was it representative in some way within this high valuation zone?

Answer - Scott Parsons – Managing Director, Retail Portfolio
Bluewater is relatively flat.

Further question
And of these retail parks finally, this £1.13 billion, what proportion of those would you still like to perhaps churn out under suitable circumstances?

Answer - Scott Parsons – Managing Director, Retail Portfolio
No specifics. What I will say, as Rob and Martin have said many times over the years, is that we fund our acquisition and development activity through sales. We are capital recyclers, we have a great pipeline so there will be some ongoing capital recycling.

Question 9 - James Wilkinson, Blackrock
Your average cost of debt has not really moved much relative to the marginal cost of debt, is this a disappointment and could you do more to bring it down?

Answer: Martin Greenslade – Chief Financial Officer
It's terribly disappointing because interest rates out there are very low and it would be great if we had all of our debt renewing tomorrow then we could issue at super low interest rates! But unfortunately the way we are structured is a long-term business so our debt has to have a degree of term. Those bonds that we have now have an average cost of debt around 5.2%, those bonds are trading at premiums to book value. So if we buy them in, we have to buy them in effectively at a market value that represents the super yield they are getting versus current rates. So there is no NPV positive way of doing that unless we were sitting on cash which we are not. So the simple answer is, we are going to wait until those expire. We have taken the low hanging fruit, we have taken asset specific finance, we have financed that with Group facilities and so on, but in terms of those bonds, there is not a way of doing it in a way that makes sense for shareholders.

Question 10 - Osmaan Malik, UBS
Just one question on the Retail Portfolio. An observation I made is that your Retail Portfolio increased in value where most of your peers decreased in the second half. I was wondering if you could give us a bit more detail on that? It was obviously not relating to Bluewater so

presumably everything else went up more? So is it broad based across the portfolio? Are there any specific assets that drove that outperformance in the second half? Thank you.

Answer - Scott Parsons – Managing Director, Retail Portfolio

If I had to pick a couple of key drivers there I would say the suburban London centres have ridden the wave of sentiment for London assets and so they have been a big driver of the uplift in this half. And also we have had some fantastic wins on the asset management front especially at Gunwharf Quays and St David's and they were big drivers as well.

Robert Noel, Chief Executive

Well thank you very much everybody, sorry we have overrun a bit. We look forward to seeing you at Bluewater in September, back here in November. We are around all day if you have got any queries either here or back in the office. Thank you very much.

- End -

Forward Looking Statements