20 February, 2007

LAND SECURITIES

Telephone Conference Call - Results of REIT Conversion Valuation

Present: **Francis Salway Group Chief Executive**
Martin Greenslade, Group Finance Director
Ian Ellis, Chief Executive, Land Securities Trillium

Francis Salway

Good morning. As you know the purpose of this morning's conference call is to report the outcome of the one-off valuation exercise we undertook as at 31 December 2006 in order to establish our tax charge for conversion to REIT status.

The valuation covers both the Group's investment portfolio and the qualifying assets of our outsourcing business, Land Securities Trillium (LST). There has, of course, been no revaluation of the outsourcing assets since acquisition - whether that be the acquisition of the assets from outsourcing clients or our acquisition of Trillium in November 2000. Since acquisition, the LST property assets have generally been held on the balance sheet at cost less depreciation on the grounds that they are not classified as investment properties (the exception being the one Barclays Bank investment property)

Turning first to the revaluation of the investment portfolio as at 31 December 2006, these assets were revalued at £14.793bn to show a 1.6% valuation surplus over the three months since 30 September 2006 and an 8.7% surplus over the nine months since 31 March 2006.

Examining the three month valuation surplus in more detail, our retail assets were up by 0.5% and our London office assets by 2.8%. Within the overall valuation surplus of 1.6%, our development properties again made a strong contribution, being up 2.9%.

Our retail assets generally saw no yield change over the quarter, which is consistent with our experience of a levelling off in the balance between the demand for retail property investments and the supply of these properties coming forward for sale. However, our 'solus' or non-park retail warehouse assets experienced a small adverse yield shift. Within London, there has been some rental value growth and some further yield shift. Indeed, rental value growth in both West End and City markets has accelerated further since 31 December (which, of course, is not reflected in these valuation figures).

Turning now to Land Securities Trillium. The valuation covered the REIT qualifying property assets held under the outsourcing contracts with Department for Work and Pensions (DWP), Norwich Union and Barclays Bank. These property assets were valued at £931.9m as at 31 December. With the exception of the investment property let to Barclays Bank, these buildings are not classified as investment properties for accounting purposes, and so have been, and will continue to be, held in the Group's balance sheet at cost less depreciation, which I will now refer to as 'book value'. The 'book value' of the qualifying property assets was £564.5m as at

31 December 2006. The valuation surplus over book value is therefore £367.4m or 78p per share

The property valuation excludes finance leases, such as the DVLA headquarters in Swansea, which had a book value of £86.7m as at 31 December 2006.

Turning now to the DWP contract, which accounts for over 90% of the Trillium properties revalued. As you know, there is a unitary charge covering all properties - including short leasehold properties leased from third party landlords. The unitary charge includes not only the right to occupy, but also FM services and lifecycle maintenance.

The valuation of the freehold and long leasehold property assets was undertaken by our valuers, Knight Frank, by reference to the property income element of the unitary charge, for the 479 freehold and valuable leasehold properties, as notified to them by Land Securities Trillium. The valuers assumed that certain of these buildings would be vacated in accordance with the DWP's flexibility entitlement under the contract, on the basis of full utilisation of the vacation entitlement - with the timing and selection of properties for vacation being specified by Land Securities Trillium.

The property occupation element of the unitary charge is subject to increases quarterly in line with RPI, and this was taken into account by our valuers.

Our valuers, using their own judgement, considered that a purchaser would assume the DWP would continue to occupy a proportion of the buildings following the end of the outsourcing contract in March 2018. Their assumption was that 70% of the property income of the buildings still then in occupation would continue beyond March 2018.

Under the terms of this outsourcing contract, the DWP is entitled to a gain share upon vacating properties - by reference to the vacant possession value of the property agreed at the commencement of the relevant contract. This gain share liability has been taken into account in the reported valuation figures.

On the DWP occupied properties, the average net initial yield for a purchaser (after incurring purchase costs) is 6.1% prior to adjustment for the gain share liabilities and 6.4% on the reported valuation figure after taking into account the gain share liability. This figure reflects the average net initial yield across those properties assumed to be occupied until contract termination in March 2018 and also the properties assumed to be vacated within the next few years.

The underlying current vacant possession value for the DWP occupied properties is £524.8m, which represents 66% of the appraised value for the same properties.

At the time of the commencement of the PRIME and TIES contracts, the price paid for the properties was generally assessed on the basis of vacant possession value with the unitary charge being set at a commensurately low level reflecting both the property transfer prices and the extensive vacation entitlement of the DWP under the terms of the contract. Hence, the DWP enjoy a reduced property occupation cost over the duration of the contract.

The subsequent increase in values to 31 December 2006 is a function of increases in vacant possession value driven by greater demand for redevelopment of land or buildings for residential purposes together with the value of the secure cash flows.

I should also add that the LST property valuation excludes liabilities on short leasehold interest as liabilities are ignored for the purpose of the tax charge for REIT conversion

The property valuation does not represent a whole business valuation for either LST or the individual contracts within LST as it ignores the value of new business prospects, income from Telereal, our margins on the services we provide and also the liabilities we have assumed across some of our clients' leasehold estates.

In conclusion, we can use the investment portfolio revaluation surplus and the liability for the tax charge on REIT conversion to calculate a pro-forma figure for our adjusted diluted net asset value per share based on our 30 September numbers. It should be noted that this figure ignores the revaluation of LST's qualifying properties as, for accounting purposes, these assets mostly continue to be held on the balance sheet at depreciated cost.

So, ignoring the impact of the LST property asset revaluation, but taking into account the increase in value of investment portfolio assets between 30 September and 31 December 2006 and also the future liability for the REIT conversion charge, the Group's adjusted diluted net asset value decreases by 0.9% from 2121 pence per share as at 30 September 2006 to 2101 pence per share as at 31 December 2006. Ignoring the future liability for REIT conversion charge, the increase is 2.2% since September and 11.8% since March 2006. These numbers ignore any other movements in shareholders' equity in the three months such as any profit or loss.

I would now like to open the call to questions and I will hand back to the Conference Call operator to take those questions. Thank you.

Question & Answer Session

Question 1
Carl Gough, Cazenove

Good morning Francis. I was wondering, is it possible on the leasehold liability side to give us a sense of income stream versus what you pay away to effectively give us a net current liability position?

Answer
Ian Ellis

Carl can I answer that one. It's Ian Ellis. Obviously this figure moves depending on what properties have come back to us and how we deal with our letting and disposal strategy. But currently the liability is about £15m a year ie, that is the difference between what we pay the third party landlords and income, where we receive it, from sub-tenants. That figure will move up and down over the years as leases expire and where we do better on sub lettings. But currently it is £15m a year approximately.

Question 2
Harm Meijer, JP Morgan

Good morning. I just have something to ask on the valuation. If we see for example shopping centres +0.2% I was wondering what does this mean for the outlook since these numbers basically look at the last three months - what do you think going forward, the outlook is? That is question 1.

Answer

Thank you. Well if I take question 1, I think that the results of the three month period, although it is difficult to read too much into a three month period, are broadly consistent with what we have been saying over that period which is, we are now in a stable position in terms of supply/demand of good quality retail property investment. There has been a slight weakening for more secondary investments which I referred to in terms of our 'solus' retail warehouse assets, where we saw for the first time in quite a considerable period, slight adverse yield movement for those secondary retail warehouse holdings.

Going back to shopping centres, for good quality assets we believe that demand will stay broadly constant and one is then looking at rental value growth to drive future performance, plus returns on development projects as and when they come through for completion.

Further Question

You are still positive or is it a turning point?

Answer

We would distinguish between good and secondary assets. Ironically secondary retail property performed even better than prime over the last 2-3 years as it saw greater yield differentiation. Our message has been that going forward we will now begin to see winners and losers in the property sector with prime property doing better again. We happen to think that on a medium to long term view, good quality shopping centres actually look quite attractively priced relative to certain other property types within the UK at the moment.

Further Question

Also on the pipeline, +2.9% which projects were particularly adding value here?

Answer

We saw a further uplift from Cardinal Place. You will recall that in the last quarter of the year we issued a number of press releases about further progress on lettings at Cardinal Place. So as we converted vacant space into let space, we saw a valuation uplift. But I think that in a three month period it is hard to get a fair picture on the contribution from development because a lot depends on whether you make progress on letting? And for us it was at Cardinal Place that we had a raft of small to medium size lettings. We now have just one floor still vacant in that building with strong interest in it.

Questioner

Thank you very much. Thanks.

Question 3
John Fraser-Andrews, HSBC

Good morning gentlemen. Francis would you care to comment on the portfolio valuation performance versus the quarterly IPD Index as a starter and particularly in the retail assets, the adverse yield shift you saw in 'solus' retail warehouse units, was there a discrepancy there between Open A1 and Bulky Goods?

Answer
Francis

I think there is a quality differential. I would not put it wholly down to whether it is Bulky Goods or Open A1. I think it was possible for some Bulky Goods Parks still to perform successfully. Going back to your first question, about a comparison to the IPD quarterly index over the quarter, you may be aware that I have spent a substantial part of my career in property fund management, which is rather more strongly driven by comparison to IPD than a quoted property company. I then applied a discipline of looking at rolling 12 month comparisons to the end of each quarter, not individual quarterly comparisons, which is too short a time period.

Further Question

Thank you and in terms of your development surpluses you refer to Cardinal Place being a contributor to the three month period. In terms of contributions for your final quarter, would it be fair to say that there would be another contribution in Cardinal as you have almost fully let that, plus a project completion surplus to come through? And elsewhere in the development portfolio, are there any specific surpluses or issues that could increase your development surplus for the fourth quarter?

Answer

Cardinal Place is virtually fully let now, so we would not expect to see substantial further valuation surpluses. In the context of the overall development programme, a letting of the last floor would not have a material impact. I think the key schemes are New Street Square and Bankside 2 & 3, in that both are now at a really relatively advanced stage of construction and there is positive rental value movement both in mid town and on the South Bank. But the real boost would come upon conclusion of a letting at either of those two projects at attractive rents. You may see a small amount of movement from valuers reappraising rental values, but the more substantial change to valuation would come if we were to achieve lettings within the next three months on either of those two schemes.

Further Question

Okay. To my understanding neither are sensitive in terms of completion to your fourth quarter. And just as a supplementary, was the Taylor Wessing letting reflected in the three month valuation surplus at New Street Square?

Answer

Not particularly in that the Taylor Wessing letting was at an incredibly advanced stage of negotiation at 30 September, although it technically concluded shortly after. But valuers would normally have regard to the probability of something happening and they were clearly aware of the rent which was in the terms agreed with Taylor Wessing. So the valuation impact was more in the prior period to 30 September rather than the last quarter of the year.

Questioner

Thank you very much.

[There are no further questions at this time]

Francis Salway

Can I just thank you for joining this Conference Call. This was a one off valuation for which we have provided a succinct report. When we report at the year end you will get full disclosure of data in the normal way. Thank you for your time.

End of Conference Call