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Land Securities interim results presentation

Tuesday 15 November 2016

Speaker: Robert Noel – Chief Executive

Slide 2 – Title slide

Good morning everyone, and welcome to our interim results presentation.

When we met in May, we talked about how we had been positioning the business for uncertainty ahead.

Since May 2014 we have shared with you our aim to get to the end of this calendar year with no developments on site which were not substantially pre-let; a longer weighted average unexpired lease term in London offices; a first class retail portfolio; and lower financial gearing.

And we've been focussed on three things:

Preparing for what we thought would be an inflexion point in the balance between occupational supply and demand in the London office market at some point in 2017;

Transforming our retail portfolio while markets were not so discerning; and

In the second half of last financial year, reducing debt.

Back in May the business community was still pretty confident that the UK would vote to remain within the EU. But here we are, 6 months on, and we've had a change of Government, with its change in rhetoric, and set to invoke Article 50 within the next 94 working days.

Business in general finds itself in uncharted territory.

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It remains far too early to tell what the long-term effect on our markets will be. That will depend on a huge range of factors, not least when, and how, our terms of trade with and outwith the EU are settled.

But the short-term effect has seen a shift in sentiment, for which we are well prepared.

In London, take-up is hesitant, the vacancy rate is rising and so the negotiating position is changing as you heard from Marcus at our Investor Day in September. However, on the other hand development commitments may be delayed.

In the investment market, while volumes are down, there is still a large amount of global capital targeted on London.

In retail, the consumer was seemingly less bothered over the summer, but now appears to be under increasing pressure and the polarising of the best destinations versus the rest that convinced us to reshape our portfolio continues at pace.

All the work we did to strengthen the business puts us where we wanted to be today. And firmly on the front foot for tomorrow.

And our relative performance at the property level continues

Slide 3 – Performance – creating shareholder value while strengthening the balance sheet

You've seen this chart before, now updated. It shows our ungeared total property return since March 2010, in green, against our key benchmark, the IPD quarterly universe, in blue. During this time we've delivered a strong performance at the property level.

The pink line shows our total business return over the period; that's rise in net asset value per share, plus dividend, and we have achieved this while slowly halving LTV from 44% in March 2010 to 22% in March this year.

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Slide 4 – Total dividend for year ending 31 March

And we have achieved this position while growing our dividend each year. Since 2010, we have increased our total dividend by 25%. And we retain good dividend cover.

And so now, as the market valuation curve turns down, our world class portfolio, combined with historically low financial and operational gearing, leaves us really well protected.

As I said, we approach the current market environment on the front foot. The next phase of our plan will be re-investment in the pipeline for the future. We are in no hurry, but we can move very swiftly when we see opportunity.

Slide 5 – Agenda

So let me now hand over to Martin to take you through the results in detail, before we have brief updates from Colette and Scott.

Speaker: Martin Greenslade – Chief Financial Officer

Slide 6 – Title slide

Thank you Rob. Good morning everyone.

Set against a market backdrop of falling property values, our results reflect the quality and resilience of the assets we have chosen to own. While our values are down slightly, underlying earnings are up and gearing remains low.

So, let me begin with our headline numbers.

Slide 7 – Financial summary

Over the last six months, we posted a loss before tax of £95.0m, on the back of a £259.6m valuation deficit. Our adjusted diluted net assets per share was £14.08, a decrease of 1.8% or 26p since March.

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Revenue profit for the six months was £192.5m, up 4.5% on the same period last year. Adjusted diluted earnings per share were up 4.7% to 24.3p and our dividend was 17.9p for the six months, up 9.8%. The percentage increase in the first half dividend is simply a reflection of last year's increase in the total dividend which was driven by a significant rise in the final dividend.

So the percentage increase should not be viewed as a forecast growth rate for this year. That said, we will continue with our aim of growing the dividend in a sustainable manner.

Slide 8 – Revenue profit

So, turning now to more detail on revenue profit.

This slide sets out the main components of our revenue profit on a proportionate basis.

Revenue profit increased by £8.3m to £192.5m. However, net rental income actually decreased by £6.7m due to disposals and I'll cover this in more detail in a moment. The drivers behind the increase in revenue profit were lower indirect costs and a significant reduction in net interest expense.

The £3.7m reduction in indirect costs was mainly due to lower staff costs driven by lower headcount and lower share based payments.

Net interest costs decreased by £12.2m. This was due to lower average debt and the impact of the bond buy back we completed in March.

I'm now going to cover net rental income in more detail.

Slide 9 – Net rental income analysis

On this slide, I have set out the changes in net rental income, split between London and Retail.

Overall, net rental income decreased by £6.7m, made up of a £2.0m increase in London and an £8.7m reduction in Retail.

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Like-for-like net rental income was up £5.0m with the majority of the increase in Retail. The increase was due in part to higher turnover income at Gunwharf Quays, White Rose and our Accor hotels. London's net rental income growth is largely due to new lettings and the settlement of a number of rent reviews.

The development programme saw net rental income increase by £6.8m with the significant contributors being The Zig Zag Building and 20 Eastbourne Terrace.

Completed developments increased rents by £7.9m largely due to 1 & 2 New Ludgate and 62 Buckingham Gate.

And finally, disposals. The impact of our disposal activity last year, particularly the net selling we did in the second half, resulted in a decline in rents of £25.7m. The main impact was from the sale of our retail parks in Gateshead, Derby and Dundee and the disposal of Thomas More Square and Holborn Gate in London.

Slide 10 – Combined Portfolio valuation

Turning now to the valuation.

The value of our Combined Portfolio at 30 September was £14.4bn. We reported a valuation deficit of £259.6m, representing an overall reduction of 1.8%. Within this, the Retail and London performances were similar: Retail saw values down by 1.9% and London by 1.8%.

The vast majority of the fall in values came from the like-for-like portfolio where yields moved out 11 bps and rental values grew by 0.6%. The rental value growth was predominately in shopping centres and central London shops while London office rental values were unchanged. Our completed developments were down in value by 1.7%. Here, 62 Buckingham Gate and 20 Fenchurch Street saw outward yield movements of around 10bps.

The development programme saw values rise 2.3% as construction risk reduced particularly at Nova and Eastbourne Terrace.

Slide 11 – Adjusted net debt – Year-on-year comparison by month

So let's now turn to our net debt and how it has changed.

On this slide, last year's adjusted net debt is in pink with the year to date in blue. You can see that our adjusted net debt rose only slightly over the period from £3.2bn at March to £3.3bn at September. You can also see the impact of our net selling in the second half of last year with net debt falling by £800m over that period.

Alongside the bond redemption in March, the reduction in net debt is a major factor behind why our net interest expense was over £12m lower in this six months versus the same period last year.

Now on to financing.

Slide 12 – Financing

The £74m increase in our adjusted net debt, and the small fall in asset values, led to a 0.6 percentage point increase in our LTV to 22.6%.

The average maturity of our debt is 9.0 years with a weighted average cost of 4.7%, down from 4.9% at March. And as you can see, we have nearly £1.5bn of cash and available facilities.

Slide 13 – Financial summary

So let me summarise.

The business is in good shape:

Our capital recycling in recent years means we have a portfolio of high quality, resilient assets;

Our approach to managing gearing through the cycle as well as the disposals we made in the second half last year, mean we enter the current uncertainty with low financial leverage; and despite those disposals, revenue profit is up on the same period last year.

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Now with news of the London portfolio, let me hand you over to Colette.

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

Slide 14 – Title slide

Thank you Martin.

Now to London where we've been working hard to transform the portfolio into one that's well prepared for whatever lies ahead.

And I'm proud of what we've achieved.

Slide 15 – A modern resilient office portfolio

At 10.1 years we've a long office lease term, 81% of the portfolio is less than 10 years old and we've a diverse customer base.

Slide 16 – Our focus

As I said at the Investor Conference in September, our focus is now on:

One, letting the last 13% of the development programme;

Two, extracting reversion from the portfolio;

Three, anticipating our customer's changing needs and;

Four, restocking the portfolio with new product.

Before updating you on the London portfolio, I'll talk about our view of the market.

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Slide 17 – Market – supply/demand balance has shifted negotiating position

Take-up was already slowing last year and is now below the ten year average. There was an uptick in the last quarter, but the year-on-year movement is down.

We're monitoring closely the volume of development intentions that slip and estimate approximately 5 million sq ft has moved out to 2020 and beyond. What's interesting is that while our supply estimates have fallen compared to our view in March, the fall wasn't as great as might have been expected. We're seeing 3 factors adding to supply, firstly space being released from occupier moves, secondly occupiers releasing surplus space, and thirdly residential schemes switching to offices.

The vacancy rate is rising.

This shift in the supply and demand dynamics means that occupiers will have more choice. This is likely to put pressure on negotiating terms and ultimately future rental values. There are slides in the appendix showing the detail.

Slide 18 – Investment market – quality provides resilience

In the investment market, trading volumes were falling pre the Brexit vote and by Q3 were 34% below the same period in 2015. Those assets that have traded are generally high quality buildings in core locations with longer income streams.

The good news is that these more resilient assets mirror our portfolio, reflecting our relative valuation performance in London as you've heard from Martin.

We anticipate a different outlook for short let more risky assets. Whilst there's been limited transactional evidence, as schemes and capex are put on hold, the market is re-evaluating risk and therefore pricing. However, what this means for us, is opportunities in the future.

And no, we can't say exactly when, but we'll let you know when it happens.

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That's the market context, so what about our performance. Martin has talked about our valuations, so I'll update you on the London activity that delivered that performance.

Slide 19 – Development – continued letting momentum

Since March we've let or have in solicitors' hands, a third of the space we had available, on an average lease term of 12 years. This leaves only 13% of the 3 million sq ft left to let.

Slide 20 – Development – City lettings successfully completed

In the City, we've completed our developments, and I'm delighted to tell you we're full! With an average rent of £64 per sq ft, an average lease term of 18 years, and an average rent free of 8.7 months for every 5 years, we've exceeded our underwriting.

Slide 21 – Development – West End focus is Nova

Over in the West End where our focus is Nova, we're now 41% pre-let or in solicitors' hands with an average office lease term of 15 years. The first phases have completed and retailer and office occupiers are fitting out.

Slide 22 – Nova – good interest as we approach completion

We've a great customer line up, a great product, with flexibility to meet future customer needs, and have created an outstanding destination. We're staying at the top of customer short lists.

Slide 23 - Residential – small exposure

Residential at Kingsgate and Nova pretty much conclude our development activities. Whilst the market is challenging our £100m exposure represents 1% of the London portfolio. Since March we've sold £14.7m pounds of apartments at an average price of £1,900 per sq ft.

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Slide 24 – Manage – strengthening income and building portfolio resilience

As I said at the start, we're focused on capturing reversion in the portfolio, and, given its heightened importance in the current environment, it's worth repeating that our WAULT is now a reassuring 10.1 years.

Voids remain low at 3.9% rising from 2.9% in March, primarily due to 10 Eastbourne Terrace and Portland House. At Piccadilly Lights we're continuing to work towards vacant possession in January 2017.

We've completed £8m of investment lettings and £20.0m of rent reviews.

As I've said before, we're all over our assets and I'll now update you on progress in some of the buildings I talked about in May.

Slide 25 – Manage – strengthening and lengthening income

Let's start with Dashwood House where 86% of the income was up for review by March of this year.

Well, we've completed those reviews and increased the passing rent by 26%.

At One New Change 87% of the rent is due to be reviewed over the next 2 years. We've already reviewed 60% maintained the office rents achieved at the very peak of the last cycle and the most recent review has increased the passing rent by 7%. The retail reviews have increased the passing rent by 25%.

At Cardinal Place, I told you we were celebrating our 10th anniversary which means we're in the second review cycle with £12m subject to review in the next 15 months.

Again we're underway. We re-gear Wellington Management's leases in 2013, adding 5 years. We've now settled their December 2015 review increasing the passing rent by 19%, providing good evidence for the other reviews.

Rather like the growth story of Trip Advisor in Soho Square we told you about at the Investor Conference, at 140 Aldersgate Street we've completed the 2nd upsize for Mount Anvil who've

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taken un-refurbished space at £57.50 per sq ft quadrupling their floor space since they moved to the building in 2009.

Slide 26 – Restocking with new product

While we've been doing all this, we've had a clear eye to the future. We've started restocking the pipeline, working on over 1 million sq ft of new development, with flexibility on timing as these were effectively land purchases.

And we've an appetite for more. As I said at the Investor Conference, on the buying side we know what we want, and are tracking over £2bn of assets. I can't tell you exactly when the next major acquisition will be, but we're happy to be patient until we find what's right for us. What I can tell you is that when we do, we can move fast.

Slide 27 – A sustainable business

We have a high quality, well-let, resilient portfolio.

We're focused on letting our remaining space and capturing reversion.

We're focused on deepening our understanding of our customer's needs now and for the future, and we're focused on restocking the portfolio with new product.

I'll now hand over to Scott.

Speaker: Scott Parsons – Managing Director, Retail Portfolio

Slide 28 – Title slide

Thanks Colette, and good morning everyone.

Now, Rob has been clear about where we as a business wanted to get to at this point in the cycle and since I became MD of our retail business, I've spoken a lot about our strategy to improve the quality and resilience of our portfolio in a fast-changing retail environment.

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In a strong market, a shift to quality might get a mixed reaction but in an uncertain market like the current one, having implemented that strategy pays off and gives us confidence. Our results today clearly demonstrate why.

A couple of minutes ago, Martin spoke about our valuations so let me kick off by spending a minute on our relative performance.

Slide 29 – Quality assets outperforming

Here's how our portfolio has performed over the first six months of the financial year a 0.8% total return.

Now let's compare that to how IPD and the market at large has performed. Overall, our modern, high quality portfolio has outperformed the market by 240bps.

While our shopping centres outperformed, and our retail parks were in line with the benchmark our one and a half billion pounds of leisure and hotels produced the strongest returns, with valuations marginally up.

Slide 30 – Accor – underpinned by vacant possession values

And speaking of hotel valuations, since 30th September we've exchanged contracts to sell four of the seven Accor hotels where breaks were served.

Now remember that the income on the remaining 22 hotels in the portfolio is secured until 2031 and remember too that I've said in the past that our hotels are underpinned by vacant possession values that are higher than their investment values.

Well, the proof of the pudding is in the sale proceeds and the four hotels we've sold transacted at vacant possession values, which equates to about 10% above March book values.

And it's not just on the valuation front where we've achieved good relative performance let's take a look at footfall and sales.

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Slide 31 – Footfall & sales – active asset management delivering sales growth

Footfall in our centres was down 1.1% reflecting the trend of shoppers making fewer big shopping trips.

People may be shopping online but social creatures that we are, the right experience in the right destination draws people in, and our centres outperformed the national benchmark by 110bps.

And in fact, if we exclude White Rose, where development of our leisure extension has blocked an entrance and impacted footfall figures, our overall footfall would be flat.

Moving on to sales now weather for retailers is like leaves on the line for the trains too hot, too cold, too wet, too dry but it's the best assets that "weather" the storm and our same centre sales were up 0.8%, outperforming the benchmark for bricks & mortar same centre sales by 260bps and even outperforming the benchmark for total retail sales including online.

This demonstrates how our relentless active management can grow sales even in a challenging retail environment. Our same store sales also outperformed the benchmark.

Now with sales and footfall figures outperforming the market at large our occupancy remains strong.

Slide 32 – Low voids driving rental tension

Overall, our voids and administrations remain low.

At 2.1%, our like-for-like voids were broadly unchanged over the period and our retail parks, leisure and hotels remain pretty much full.

The slight upwards movement in shopping centre units in administration is driven by BHS at White Rose and Trinity but we've exchanged contracts with Next to upsize into the BHS space at White Rose, and have two upsizes teed up to fill their space at Trinity.

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Investment and development letting activity has been consistent and strong throughout the first half of the financial year. Across the investment portfolio, we've exchanged 65 lettings equating to £7.1m in rent per annum.

Slide 33 & 34 – Creating value and consumer experience / continually adding to the experience

On the development side, our leisure extension at White Rose is rapidly taking shape on time and on budget delivering a new IMAX cinema and six new restaurants all of which are let or in solicitors' hands.

At Bluewater, we're aiming to start on site shortly to convert the former Glow events space into an expanded state-of-the-art cinema, three new restaurants and a new leisure unit.

Slide 35 & 36 – Westgate – Exciting mix of brands / Great momentum

And at Westgate, with a year to go until opening we're now more than 50% let, with a further 14% in solicitors' hands.

On the main level, all units but 6 are spoken for and up on the roof, we've secured an absolutely brilliant line-up of restaurants to sit alongside the new Curzon cinema.

I'm really looking forward to welcoming you all to Westgate for our next Investor Day so you'll be able to see for yourselves why we're so confident, and excited about this vibrant and stunning new destination.

Slide 37 – Growing net rental income

And speaking of confidence, with our high quality portfolio of destination assets, there are always opportunities to grow net rental income through rigorous asset management. And as always, we've been busy with regears, renewals, reconfigurations, rent reviews, key retailer upsizes and tenant mix plays.

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At Gunwharf Quays, Oliver Sweeney, Under Armour, Coach, Jigsaw and Guess are adding to our already fantastic line-up of brands, and we've secured planning for two additional units in the scheme.

In Glasgow we opened Street Dots, Scotland's first indoor street food concept at Buchanan Galleries.

Progress at Bluewater continues at pace, with 8 new openings in the period, H&M's new 40,000 sq ft flagship store unveiled this month, and discussions underway with 8 retailers about upsizing their units.

Across our retail park and leisure portfolios we're continuing to grow income through small but impactful development-led opportunities.

At Westwood Cross we acquired an adjacent site and secured planning for four restaurants, all of which are exchanged or in solicitors' hands. And the refurbishment and reconfiguration of Fountain Park in Edinburgh is progressing well and is now 100% let or in solicitors' hands.

Overall, our efforts have driven an increase in like-for-like net rental income of 2.1% in the first six months of the financial year.

Slide 38 – Resilient portfolio and dynamic team

So, in an uncertain market, it's the strongest assets that perform best with voids low and occupier interest high.

But our outperformance is not just because of our assets, it's because of our exceptionally strong team and their passion for our customers and their experience, for growing net rental income and for delivering a constant flow of asset management wins.

And on that note, I'll hand you back to Rob. Many thanks

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Speaker: Robert Noel, Chief Executive Officer

Slide 39 – Title slide

Thanks Scott. So before we hand over to you for questions I'd like to share our outlook for the next six months.

Slide 40 – Outlook – Land Securities well-positioned as planned

In London offices, we expect net effective rental values to weaken. This is because the negotiating position is changing due to the uncertain environment for business. Headline rents may, or may not be, particularly impacted but lease terms are getting shorter again, and incentives are ticking up.

However, the supply outlook may change if development intentions are not converted into development commitments but it is too early to tell right now. There will likely be many twists and turns in the months ahead.

As ever, we will watch the supply landscape like a hawk. Remember this is what gave us the conviction to kick start development in 2010. Even in the nadirs of 1992, 2002 and 2009 take up never dropped much below 75% of the long-run average.

We will remain fully committed to London. It is a deep and liquid market and will remain one of the worlds key cities whether or not we are part of the single market. 9 million people and growing will always need fit for purpose space to live, work, shop and play.

In Retail, well socialised price increases would be difficult for the consumer and therefore difficult for retailers.

However, we believe our strong destinations will continue to serve us well, as you have just heard from Scott, and we are pleased with our current position having sold our secondary assets during 2014 and 15.

If we can add to what we have, we will, as we are doing in Oxford.

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Retailers models continue to change and without a tail of secondary centres our destinations put us right at the heart of this change. Great brands, great catering, great front of house, great connectivity. Because everything is about experience.

Standing here today, it's unlikely that we will be big spenders in the second half, but if history is any guide to the future uncertainty provides opportunity and we are fully prepared.

This is exactly where we wanted to get the business at this point.

Let's now hand over to you for questions

- End -

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