Chief Executive's statement

Our results

0.4%
Ungeared total property return

-4.6%
Decrease in EPRA net assets per share

12.4%
Increase in adjusted diluted earnings per share

-1.2%
Total business return

Our activity

- **£23m of investment lettings**
- **£9m of development lettings**
- **1.6 acre site at 25 Lavington Street, SE1 acquired during the year**
- **London development opportunities increased to 3.6 million sq ft with an estimated total development cost of £3.0bn**

We entered the year ready to respond to both market opportunity and challenge, focusing on the activities that create value for shareholders.

Our priorities were to maintain high occupancy levels, launch new products and, looking through current uncertainty, grow our ambitions in London.

In addressing our priorities, the team has performed with skill and determination. We maintained a high occupancy rate across the portfolio and we launched a number of new products and services, including our Myo flexible offer. We also added to our pipeline of development opportunities, with £3.0bn of schemes in London now on site, being prepared or in feasibility.

We are driven by a clear purpose: to create sustained financial, social and physical value by providing the right space for our customers and communities so that people and businesses can thrive. A growing and ageing population, changing social aspirations, increased demand for digital and physical connectivity and the need to transition to a low carbon economy are reshaping the property market. Landsec has a vital role to play in this changing world and is well-positioned to do so.

To do this profitably and sustainably, we apply our industry-leading capabilities and relationships and act to keep costs competitive, working with imagination, skill and care. By getting this right, we build long-term shareholder value through the property cycles while making an important contribution to our communities. In a year marked by turbulent politics and a very challenging retail environment, our clear strategic focus has driven our performance and will direct our future actions.

Our financial results

We've delivered a robust financial performance. Revenue profit is up 8.9% at £442m, reflecting the benefit of income from completed developments, high occupancy, uplifts at rent review and the effect of refinancing some bonds in the previous financial year. Adjusted diluted earnings per share are up 12.4% to 59.7p.

Our assets declined in value by 4.1% in aggregate over the year reflecting the well-publicised difficulties in certain segments of the consumer market. This led to a 4.6% reduction in our EPRA net asset value per share to 1,339p. With our Combined Portfolio valued at £13.8bn and adjusted net debt at £3.7bn, our loan-to-value is 27.1%.

We have raised the dividend 39% over the previous three years. From this re-based level, we are recommending a final dividend of 11.65p giving a total dividend for the year of 45.55p per share, an increase of 3.1% as we build dividend cover to maintain operational flexibility.

Robert Noel
Chief Executive

Our portfolio

By value, 65% of our assets are in London, one of the most celebrated and best connected cities in the world, energised by long-term positive economic and social trends and a comprehensive public transport system. Most market segments in the capital held up well over a year in which the UK faced, and continues to face, uncertainty, and this speaks volumes for London's attractiveness and resilience as a place to live, work, visit and invest. We've continued to see a flight to quality and flexibility amongst customers and our buildings and developments match these expectations and aspirations.

Workspaces and living spaces are evolving quickly, driven by growing demand for more flexibility, collaboration and connectivity. Retail, leisure and amenity spaces must now be included in the mix. To ensure we meet our customers' changing requirements, we're providing new services to enhance their experience and convenience. This year we progressed plans to roll out our popular Landsec Lounge concept across the portfolio. We also created new entry points to our portfolio through our Myo flexible offer, and we introduced a turnkey solution for customers too. Our aim is to offer great space to a business across its entire life-cycle, from a start-up environment to landmark corporate headquarters.

Led by 21 Moorfields, we are moving forward with new schemes and have 3.6 million sq ft of space in development, planning or feasibility. With low levels of Grade A vacancy in London and occupiers increasingly looking to pre-let, we will be starting 0.5 million sq ft of speculative development this year. In partnership with our suppliers, we've introduced innovations across design and construction to enhance the speed, efficiency, quality and environmental performance at 21 Moorfields and are applying what we learn to other schemes.

The remaining 35% of our portfolio by value is predominantly focused on consumer markets outside London. These are challenging times for retailers. The rise of online retail and cost challenges for the industry have brought store closures and lease restructures, often under company voluntary arrangements (CVAs). We are not immune from market challenges but the impact has been softened by having repositioned our portfolio in recent years towards destinations which provide a great experience and away from the high street, secondary shopping centres and retail parks. Our destinations play a core role in retailers' multi-channel strategies, drawing visitors with a mix of brand experience, product, food, drink and cinema.

Our outlets and leisure parks held up well in this difficult environment while shopping centres and retail parks were affected by downward pressure on rental values and poor investor sentiment. Operationally, I am pleased with our performance as we continue to attract new brands and upsize existing customers.

Our stakeholders

We aim to be a force for good in society because we know it makes us stronger and more sustainable as a business. This year we hit our long-term target of getting 1,200 disadvantaged people into employment by 2020. Our award-winning approach to community employment is helping to address significant skills gaps in the construction and building maintenance sectors, and enabling ex-offenders to gain training and employment in scaffolding and window cleaning at heights. This year we've set a stretching new target to generate £25m of social value by 2025.

Given the increasingly stark warnings emanating from the Intergovernmental Panel on Climate Change, it's essential we continue to help lead by example in critical areas such as energy, carbon, waste and biodiversity. This is why we've set rigorous science-based carbon reduction targets for the business. Effective collaboration is vital if we are to make progress as a company and an industry. Across the portfolio, we're working with customers and partners to drive energy efficiency, reaching an 18.2% reduction this year against our 2014 baseline.

We were recognised for our actions on sustainability in this year's edie awards, which named Landsec the leader in the built environment sector. We also retained our CDP A-list ranking and were sector leaders in the Global Real Estate Sustainability Benchmark and Dow Jones Sustainability Index.

In a year marked by turbulent politics and a very challenging retail environment, our clear strategic focus has driven our performance and will direct our future actions."

Our outlook

We expect London to remain a successful global city with enduring appeal for businesses, talent, visitors and investors. Occupational and investment demand in London have remained stable over the last two years despite uncertainties created by the UK's decision to leave the EU.

We have seen a noticeable shift to quality space by occupiers in the capital and the vacancy rate has fallen. Development starts have increased during the year but a good proportion of all new supply is already pre-let. We see positive market conditions for our quality product and have a growing pipeline of development opportunities. The demonstrable quality of our placemaking, spaces and services and our heightened approach to customer experience is central to our ambition and future success.

Areas of focus for 2019/20

- Developments in London – both on-site and in our pipeline
- Further innovation in construction and active evolution of the products and services we offer
- Improving our retail destinations
- Continued leadership on social and environmental sustainability

We see no near-term improvement in retail market conditions, with CVA activity set to continue. Rental values are likely to decline further in shopping centres and retail parks, though we expect continued rental growth in outlets and select leisure destinations. Consumers will continue to be attracted to destinations that provide a broad range of brands and experiences.

Our activities in London as a percentage of our portfolio will increase in the coming years. Much of our portfolio by value and our entire development pipeline is already in the capital and we are alert to further opportunities. Over time, capital allocated to assets outside London will reduce, but we will maintain our focus on experience-led destinations.

We are clear on what we have to do in the year ahead and beyond. Our targets focus on developments in London – both on-site and in the pipeline – together with further innovation in construction and active evolution of the products and services we offer; improving our retail destinations; and continued leadership on social and environmental sustainability.

This is an exciting time for real estate companies with the insight, capabilities and financial capacity needed to create the spaces for tomorrow's businesses and communities. Ultimately, it is the deep expertise of our employees and partners that will deliver our strategy and create sustainable value for shareholders. This is why experience matters.

Robert Noel
Chief Executive