TEXT FOR CONFERENCE CALL ON LAND SECURITIES' SALE OF TRILLIUM
8 JANUARY 2009

Speaker: Francis Salway, Group Chief Executive

Good morning and thank you for joining us at such short notice.

Martin Greenslade is with me on the call and in a few minutes we will be happy to take questions, but first I would like to take the opportunity to talk about the Trillium sale announced today.

Trillium has been a successful business for Land Securities, but slightly unusual in the context of the REIT sector and is no longer viewed by our Board as forming a part of the Group in the long term. The sale leaves the Group with a stronger balance sheet and a simpler property investment and development company with market leading positions in the London office and retail sectors.

In assessing the transaction we took into account a number of factors.

As I have said with our focus on balance sheet management we consider it desirable to receive cash now as opposed to a unspecified time in the future – particularly as any future disposal might suffer from the running down of the largest contract with the DWP which now has less than 10 years to run.

We also judged that the short term earnings outlook for Trillium had deteriorated over the last few months.

Short term forecasts for RPI are now much lower or even negative, and Trillium has 2.7 million sq ft of vacant space to dispose of during an economic recession.

It was these factors which led our Board to conclude that in the current market the interests of our shareholders were best served by us securing cash proceeds from a sale and using it to pay down debt. This will strengthen our balance sheet and subsequently put us in a stronger position as the cycle turns.

The impact of this sale on our balance sheet strength is heightened as Trillium sits outside our debt Security Group and so the transaction is highly efficient in terms of managing LTV ratios, having almost twice the beneficial impact of sales of investment properties from within the Security Group.

As well as this transaction we have also been active in the property investment market and have now sold, or exchanged contracts to sell, approximately £200 million of investment properties since 30 September.

Looking ahead, the sale of Trillium now gives us a simpler and more focused property company. In London and Retail we continue to have best in class businesses with a track record of adding value through the cycle.

Our strategy remains the same, we will continue to invest in property where we have expertise and operational skills which provide competitive advantage. We do expect that at some stage in the cycle there will be a wide range of buying opportunities.

However, in the near term our outlook remains cautious and we will continue to run the Group around our short term priorities of balance sheet management and leasing vacant space.

I will now hand over to Martin to go through some of the numbers.

Speaker: Martin Greenslade, Group Finance Director

Good morning and thank you Francis.

We have agreed a sale at a total consideration of £750million. Of this we will receive £444m in cash with a further £25m within 24 months. The cash proceeds will be used to reduce Group debt in line with the business priorities that we outlined in November. This will improve our LTV ratio but as we do not have the current valuations to compare our debt against it would be misleading for us to give any indication of what that might be.

The total consideration of £750m is an enterprise value based on Trillium's 31 March balance sheet, excluding Accor, with subsequent profits and cash flows accruing to the purchaser. The difference between this figure and the £444m total cash is comprised of three amounts. The first is £232m of cash the majority of which we have received from Trillium since that balance sheet date, a large part of which relates to asset sales. The second element is £49m of third party debt owed by Trillium, which the purchaser will assume and the third is the £25m deferred amount I mentioned earlier.

The loss on the sale is approximately £340m. The exact figure will depend on the profits of Trillium up to the date of completion. For those of you who wish to reference the £750m consideration to our latest published results, namely those at 30 September, the equivalent figure for the consideration at that date is £590m.

The sale of Trillium is earnings dilutive, particularly in the context of Trillium's historic profitability. However, we guided that the future earnings for Trillium would be under pressure going forward as DWP continues to vacate space and, on our latest estimates, we believe the dilution will be in the order of 5 pence per share per annum in the coming years.

It may also be helpful to point out that Trillium under Land Securities' ownership has delivered a good return for our shareholders. Trillium has delivered a return on capital employed, including the loss on the sale, of over 10% per annum since acquisition – as compared to the total return on the IPD Index over the same period of 6.9% per annum.

Finally, a couple of additional points:

- we are not anticipating any material tax charge on the sale of the business; and

- with regard to the impact of the sale on our dividend, the Board will consider this alongside the performance of our on-going business, reviewing the matter in the normal way at the end of the financial year as part of our full year results announcement.

Let me now hand back to the operator for any questions.

Question 1
Harm Meijer – JP Morgan

Is it possible, Martin, to give a bit more detail on what the impact on the balance sheet would have been if you look at your balance sheet at the end of September 2008, assuming that time?

Martin Greenslade

Yes, at that time we had capital employed, if you exclude Accor, of £896 million, and what I'm saying is that the £750 million of consideration was a 31 March number. As we had cashflows between 31 March and 30 September, that effectively adjusts to a headline price of £590 million. The difference between the £590 million and the £896 million of capital employed represents the loss as at that date, so effectively, some £306 million. Now, to get to the £340 million that I mentioned, what you have to do is add some advisors' costs, but more importantly, you have to consider the profits since 30 September, which haven't been reported anywhere, because to the extent that we've reported we have profits, the capital employed goes up by those, and therefore there is a difference which increases your loss. So it would be £306 million if we ignore costs; £306 million at 30 September.

Further question

And can you also give a guidance of what the impact would have been then on LTV at the end of that date, also the LTV of the Security Group, please?

Martin Greenslade

The only relevant LTV is the LTV of the Security Group. That's how we look at our business in terms of LTVs. At that date, we had in the Security Group £9.993 billion worth of assets, so give or take £10 billion of assets, and we had an LTV of 53.4%. Now, if you take the cash that we would receive - let's assume we received it there and then, the £444 million - you would have a reduction of 4.44% on your LTV. But it is important to recognise that obviously the V has changed. I'm just trying to give you a snapshot of that cash in relation to our Security Group.

Francis Salway

And I think if I can just bring out the other point which I referred to, had we sold investment properties delivering the same amount of cash, the reduction on Security Group LTV would have been half the figure of 4.4% or thereabouts that Martin has referred to.

Further question

You were also talking about future opportunities. When do you see that or do you expect first more sales before we are entering that phase?

Francis Salway

We're patient. As I said, we are cautious about the outlook and we will continue with some asset sales, and that figure of £200 million which we've achieved since 30 September I think can pretty much be arrived at by picking up commentary in the press, but we haven't formally made that comment. So yes, we are continuing with some asset sales. The background is that in the year to March 2008, we sold £1.56 billion at a yield of 4.8%, which we were very pleased with. As we moved through this autumn, we recognised that focus on the balance sheet became important in a rapidly deteriorating environment and so we are continuing with asset sales.

Question 2
Keith Crawford – KBC Peel Hunt

Francis, this loss of £340 million, are there mitigations by way of these cash receipts that have occurred since September, i.e. reported to 30 September? Is that £340 million mitigated in any serious way by receipts from Trillium between September and today?

Francis Salway

No. It's a true figure.

Further question

Now, the next point of course is you've passed over or will be passing over - operating properties in this package, and obviously we've been taking account of those falling in value. Are you able to confirm, is that a substantial amount of money in terms of the operating properties that pass over?

Francis Salway

Well, the capital of what's being passed over as at 30 September is the £896 million we referred to, so that's all of the assets less the liabilities that will be passing over.

Further question

Of which the majority is the operating property, isn't it?

Francis Salway

Correct.

Further question

Yes, because of course we've allowed for those going down over a period of time, and the other thing is the strategy, of course. It's very interesting, you obviously have made a very powerful gesture in relation to banks. Is this the way one looks at life now, that one wishes to show one's banks one can act; is that the way one gets co operation from the banking system?

Francis Salway

We do believe that for all our stakeholders, whether it be providers of debt or equity shareholders, that maintaining a strong balance sheet is extremely important, to come through a downturn with resilience and then be in a position to move positively as you come out of the downturn.

Further question

Now, the other thing is this 5 pence, or thereabouts, a share of earnings dilution. You're expressing that as being the long-term effect - to try and sort of embrace this in my mind - that's broadly the sort of guidance you're giving on this, is it, that that should be the broad effect, i.e. the historic dividend is obviously still well covered on that basis?

Martin Greenslade

Well, I think there's a mixture there, because you referred to the historic dividend, but what we referred to as the 5 pence per share estimated dilution is a forward-looking number and we've said that profits will be coming down. So we obviously have our estimates of what the business would have done over the next two or three years, and that 5 pence is an approximation for that. Other people may have different forecasts, but we have been clear in all our public statements that we did expect the profitability of Trillium to decline.

Further question

Francis, are you actively reviewing at this time to buy properties in this market, i.e. at the new prices? Do you expect that you will make announcements of acquisitions at today's prices which are quite different to yesterday's prices, as it were?

Francis Salway

I think the comment I made was that we are continuing to manage the business with a cautious outlook in the short term. We do see pressure not only on capital values, but on rental values and we have typically made very good returns from getting the occupational side of property right through achieving lettings and buying into rising rents. So we're prepared to be patient.

Question 3
Mike Prew – Nomura

The outstanding £25 million, the deferred amount of consideration, what are the conditions attached to that?

Francis Salway

There aren't conditions attached to it. It's the passage of time. It may come in before 24 months if certain events occur, but there is a backstop date of 24 months.

Further question

Okay. And do you care to make a comment that this is probably the first stage of the original sort of trisection of the business. What about the remaining property businesses and segregating them between the Office and the Retail activities?

Francis Salway

We made a very clear statement in November that we have closed the file. It doesn't sit on my desk or anybody else's. We're not continually looking to reopen it.

Question 4
Carl Gough – Cazenove

I was just following up from Mike's question there. On the loan of £50 million that you're making available to Trillium, you've said "on market terms". What exactly are market terms these days? Can you elaborate on that?

Martin Greenslade

I think, Carl, what we're trying to indicate by that that it wasn't an interest free loan. We're getting a good margin. We're getting a margin that we think represents the current environment. It's 400 basis points over LIBOR is the deal that we've struck.

Further question

How long is that for?

Martin Greenslade

The term of the debt is 26 years. At that margin, we think there is a good prospect that the debt will either be refinanced or we'll be able to find a buyer for that debt in the coming years.

Further question

And the yield to the purchaser of the assets you have sold must be extremely high? You'll eventually come back to the market to buy property assets rather than assets that Trillium necessarily owns. Is the yield going to very different between those two? This seems a balance sheet exercise rather than long term earnings or dividend potential issue. Is that fair?

Francis Salway

I think we've always seen that a disposal of Trillium would be earnings dilutive. I think there has clearly been movement through asset repricing on the earnings yield, both on the Trillium business, as evidenced by this transaction, and clearly also in the property investment market, but we would still see this as being probably slightly dilutive, relative to acquisition opportunities. But clearly, as we haven't made them yet, it's difficult to be definitive on that.

Question 5
Quentin Freeman – UBS

When you sell the business, what is the reduction of central overhead?

Martin Greenslade

The issue is that Trillium is a relatively standalone business and therefore there is not much overlap. There is some and we will, you know, try and extract as much as possible, but, you know, that isn't the basis of the deal, so it's in the rounding of our costs.

Further question

No, I was just trying to work out going forward, you know, whether this knocks about 10% off your admin, 20% off your admin. Or it's, as you say, standalone, so it really has no impact at all?

Martin Greenslade

Limited impact, because, you know, there is no sort of inter company charge or the like. I mean, they had their own finance function, they had their own marketing. It is a different business, i think that's quite an important point of the strategy, and, you know, operated from a different location with a standalone management team and so there really isn't a huge amount of cost that comes out of the central business.

Further question

So the £100 million admin charge you there's none of that relates to Trillium?

Martin Greenslade

Right. Sorry, I understand what you're saying is how much of the admin charge in our total P&L relates to Trillium?

Quentin Freeman

Yes.

Martin Greenslade

Can I come back to you on that?

Quentin Freeman

Sure. Thanks very much.

Question 6
Bhupen Master – Merrill Lynch

Look, just a quick question on the remaining debt outside the securitisation group. How much debt is actually against the Accor portfolio following this transaction?

Martin Greenslade

We don't have any, Accor is in the Security Group.

Further question

And just to understand how you get the cash proceeds in. Are you going to actually take out bonds within the securitisation group or can you actually just pledge that cash into the group?

Martin Greenslade

We have revolving credit facilities and bilateral facilities that are drawable and repayable on demand, so that's how we'd utilise it.

Question 7
Daniel Horwood – Singer Capital

Martin, can I just ask, in your 5 pence a share forward-looking earnings forecast for the Trillium business being disposed, can I just ask what your interest charge or sort of debt assumption was?

Martin Greenslade

We just used our weighted average cost of debt at 5.4%.

Further question

Right, and on what level of debt was that?

Martin Greenslade

Well, if you're comparing operating profit, then it's the proceeds, so you can take the full £750 million as proceeds that we've received for that business or that have or where the debt has been taken over.

Further question

I'm just trying to make sure I get this number right. It appears to me to be about £350 million, is that about right?

Martin Greenslade

No. The £750 million that we're being paid for the business is being paid through either cash receipts that we've received through the Trillium business or through a payment at the end of the process, so there is effectively £750 million coming to us from that business. That is the amount that one can use for the earning.

Further question

At September, you've given us this £896 million of capital employed. The assets relating to that, can you just remind me, what was revalued at September?

Martin Greenslade
Versus March? Well, the goodwill was written off between March and September, so there was no goodwill in the notes as at 30 September. The Accor portfolio was revalued, but we've stripped that out of the numbers, so it doesn't impact that, and then there was a small additional revaluation of the Royal Mail portfolio on one or two other interests that they own.

Further question

What I'm trying to get to is the proportion of assets relating to this capital employed that was being revalued, because some of it wasn't, is that right?

Martin Greenslade

Yes. Within the £896 million, so removing Accor, it would be a small proportion, about £115 million of that we think would be properties that are revalued, so £115 million out of the £896 million would be properties that are revalued on an ongoing basis, so that's the Barclays' properties, the Royal Mail and so on.

Question 8
Rob [?] – Invista Real Estate

I just want to understand when you might be prepared to talk a bit about your dividend policy going forward, if in fact it's not going to be covered, what your appetite is for continuing that and when you might talk about right sizing your dividend so that it's covered by recurring cashflow.

Martin Greenslade

Yes, I think as I indicated in what I said just in the sort of few minutes before the Q&A, we think the right time for the board to consider dividend matters is at the end of the financial year, when we'll consider the disposal of Trillium alongside the performance of our business, the London and Retail businesses. We'll do that as part of the year end process, and that will therefore obviously come through in our announcement in May.

Further question

Could you just talk a bit about your thinking about uncovered dividends and just theoretically whether you view that as something that makes sense in the current environment or not?

Martin Greenslade

Well, I don't really want to be drawn on it. I think it's clear from our policy that, as you know, we've been a dividend friendly company and our view is that dividends can flex, the cover can flex through the cycle, but beyond that I think, you know, the indication is from us that we'll revisit the issue with you at the appropriate time in May.

Francis Salway

Thank you very much for joining us on the call. At a time when we think balance sheet management is important, this is disposal of a business that we now see as being non core, which brings a substantial amount of cash into the business, which gives us resilience through the downturn and positions us well as the cycle turns. As you know from history with Trillium, there is a degree of complexity about the numbers. If you have further questions, please do call Ed Thacker. Thank you again for joining us.

– ENDS –

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