CONFERENCE CALL ON LAND SECURITIES' Q3 INTERIM MANAGEMENT STATEMENT
24 January 2012

Speaker: Francis Salway, Chief Executive

Good morning and thank you for joining us today for our third quarter interim management statement.

Against a backdrop of continuing economic uncertainty, I am pleased to be able to report good progress at Land Securities. We've never had a bull market strategy but a realistic one. We are making sales, securing lettings to further reduce voids and we have actively managed our balance sheet with the refinancing and extension of bank facilities. All this means we are in good shape.

In November we acknowledged that these were and are uncertain and changeable times and that the challenge would be to keep occupancy rates high. We have achieved that, although lettings are taking longer to execute.

Voids at 31st December are down to 3.1% and despite the general negative headlines, our Retail voids remained almost flat at 3.4%. This level of Retail voids, when compared to the national average of around 13%, gives you some idea as to the appeal and robustness of our own portfolio. This is further reinforced by our investment lettings in the quarter which on average were slightly above our valuers' estimates of rental value. And footfall grew at our centres over the quarter.

Notwithstanding our success on lettings, it clearly has been a tough trading environment for retailers. We can see from the recent pick-up in administrations in the retail sector. Units in administration in our Retail Portfolio have increased by 1% to 2% since the quarter end. But current indications are that we will see continued trading from the vast majority of the units in our portfolio which have been affected by the most recent administrations – so companies such as La Senza and Blacks.

Turning to our development projects, you will know that we have already de-risked over half of our development pipeline through profitable site sales; retail pre-lettings and residential sales off plan.

And we are making further progress on development lettings, which we can expect to flow through into positive value creation. This is a real plus in a generally flat market.

Trinity Leeds has moved to 66% let or in solicitors' hands. The retail scheme in Glasgow is now 90% pre-let and in London, One New Change has seen another letting taking the office element to 82% let.

Our major refurbishment at 123 Victoria Street is attracting good interest and we now have 37,000 sq ft in solicitors' hands. This underpins our belief that Victoria offers a real long term opportunity as a central West End location with rents well below Mayfair and St James.

Looking to our future pipeline in Victoria, we have obtained planning consent at Kingsgate House for 336,000 sq ft of mixed-use space with a big residential element.

In Retail, we have also made progress on our edge-of-town strategy with planning permission achieved for 146,000 sq ft in Crawley where virtually all the space is already pre-let. And planning decisions are awaited on a further 254,000 sq ft across three other sites. All these schemes are again predicated on significant levels of pre-letting before we start building. We have also agreed terms to acquire a further four sites which will add approximately 0.5m sq ft to our edge-of-town development pipeline.

We have maintained the same discipline on capital recycling with sales continuing to fund other opportunities. Sales of £104m were broadly balanced by investment of £89m.

Our sales have been of assets where we see lower return prospects compared to other opportunities. The sale of more secondary assets in Corby, Livingston and Bonhill Street, on the northern fringe of the City, were at prices in line with the valuation.

Eland House was sold below valuation but that is not a read across the wider market. Eland House has four years to a break clause and is a 16 year-old building let to a tenant – the Government – publicly committed to reducing costs. Against this backdrop, we considered it made sense to accept a price of £676 per sq ft – well above our assessment of current vacant possession value.

Looking forward, and being realistic, we expect the economic uncertainty to continue in the near term and as a consequence we believe that 2012 could be the year of the balance sheet. We have worked hard in the last two years to lengthen and strengthen our financing. The refinancing of over £1bn of bank facilities completed in the last quarter at a headline rate of 120 basis points over LIBOR is an important part of this plan.

Debt is scarce and potentially more expensive for the property sector and that is likely to create opportunities for us. Our balance sheet strength and double A credit rating mean we will be able to react to these opportunities as and when they arise.

So to sum up, the economic uncertainty continues. Lettings are taking longer but they are still going through on a high quality portfolio such as ours. And we are still achieving good letting progress on our developments which we can expect to flow through into positive value creation. And with a strong balance sheet, we are confident in our ability to take advantage of the opportunities that this may create.

Now before I hand over for questions, it will not have escaped your attention that we have put another announcement out today.

I would, in a minute, like to hand you over to Rob Noel who will say a few words, but first a couple of words from me. After 11 years at Land Securities, including nearly eight as Chief Executive, I will be stepping down at the end of the financial year on 31 March.

I have thoroughly enjoyed my time at Land Securities. I like to think we have led the sector in customer service, delivered great buildings – and developments that have made money overall and our portfolio has materially outperformed the market over those seven to eight years.

And as today shows, we are making steady progress even in this more challenging environment. The business is in great shape and I'm pleased that I leave it as a clear leader in the sector with a high quality portfolio, and a great team. Getting succession right is one of the tasks of a chief executive and I know that with Rob's appointment, we have got that absolutely right.

Rob, would you like to say a few words?

Speaker: Robert Noel, Managing Director – London Portfolio

Thank you, Francis.

Good morning everyone and may I start by saying how honoured I am to be succeeding Francis at the end of this financial year. You won't be surprised to hear that I stand behind Francis's assessment of the quarter. He will be leaving behind a strong, well positioned business.

Francis is here until April and I will spend that time picking his brain, taking a closer look at the wider business and getting to know those areas with which I have had less day-to-day involvement.

We are well positioned with great assets, a strong financial state and a dedicated and talented team. It is my task from April onwards to ensure we capitalise on these strengths and I look forward to presenting to you in May.

Thank you and over to you for questions

Question 1
Carl Gough, Oriel Securities
Good morning, gentlemen, and very well done, Francis, for the time you have led the business. And good luck, Rob; I'm sure you'll do a fabulous job.

On the balance sheet, you said 2012 is going to be the year of the balance sheet and you expect opportunities to come your way. Have you got any idea because we've, sort of, gone post the rights event through lots of failed optimism about companies making acquisitions that have failed to materialise. Have you got any idea what sort of capacity you will utilise off your balance sheet? I know it's difficult before a deal has come your way, but are you going to be more aggressive in making accretive acquisitions than hitherto?

Answer – Robert Noel, Managing Director – London Portfolio

I'll take that, Carl. I think the answer is we are very much an opportunistic business and you'll know from my track record and Francis's track record that we are very disciplined. So, don't expect any overly aggressive quick moves.

Further question

Just also on the balance sheet; and I know there was a refinancing – you've given a bit more details in the IMS – that was conducted at the back end of last year that looks more flexible in the way you can use that revolving credit facility. Is the debt structure still preventative medium-term to the business considering a possible de-merger which would doubtless be put back on the agenda in the analyst community, possibly on the back of today's announcements?

Answer – Robert Noel, Managing Director – London Portfolio

Well, Carl, let me take that one as well. De-merger is absolutely not on our agenda. We are a very strong business. We will look to use that strength as our advantage going forward.

Further comment

Well, that couldn't be more clear. Thank you both very much.

Question 2

Martin Allen, Deutsche Bank

Good morning. In terms of your financing, you've gone from a £1.5bn revolving credit facility with £400m of bilateral arrangements to just over £1bn. I mean, in terms of the broad movement from £1.9bn as capacity to just over £1bn, is that a fair reflection of what you could secure in the market, or are there other reasons why that shrinkage has occurred?

Answer – Martin Greenslade, Group Finance Director

Martin, I think there are a couple of reasons here. First of all, the previous revolving credit facility was put in place in 2006. We were a very different business then and the market was very different. And the cost of debt, and particularly unutilised facilities, was also different. So, for all of those reasons, we have to assess what's right for our business today and what the cost is for us of holding unutilised facilities. Plus we wanted to put in place the additional feature of being able to draw to an LTV of greater than 65%. So, you put all that into the mix and you come up with a facility of the size that we secured at the back end of last year.

I'm very comfortable with the size of it because given our balance sheet and our access to the bond markets with our AA rating, we've got plenty of capacity, we've got £1bn of capacity today that we could write a check today, we could go to the bond markets and that lead time for that would only be a few days. So, we're very well placed. I think the limiting factor on deployment of resources will be opportunities that come our way; it won't be bank facilities.

Question 3
Harm Meijer, J.P. Morgan Cazenove
Morning, gentlemen. May I ask on the big news today, Francis, why are you actually going now? Why at this moment? And what is the opportunity you are actually eyeing currently and have you actually already got something?

Answer – Francis Salway, Chief Executive
Right, well, I've been Chief Executive of Land Securities for eight years, which is quite a long time for a FTSE 100 Chief Executive. And there's also a bit of life planning behind it, from my point of view. When I joined Land Securities, I never intended to stay for the balance of my career and I am sticking to that life planning.

There's also a very important aspect in terms of timing transition for the business. We are in great shape. We've made even more progress against our plans that we put in place following the downturn. And every Chief Executive wants to hand over a business in good shape.

In terms of next steps for me, nothing certain. One of the drawbacks of being a Chief Executive of a publicly listed company is it's not easy to look for a job because it very quickly becomes public news. But I'm sure that I will find something that I find stimulating and challenging.

Further question
But is your next job still in property?

Answer – Francis Salway, Chief Executive

I think it's far more likely to be tangential to property rather than something very close to what I do now and it certainly won't be a director of a listed property company.

Further question

Thank you. Rob, any change to be expected?

Answer – Robert Noel, Managing Director – London Portfolio

Well, Harm, I mean, you know me, but you also know that I've been here two years as part of an executive team that's worked very closely together to put in place the plans and actions that we have. And we've articulated those plans. So, please don't expect any significant change from me.

Further question

Thank you. And then just on the IMS; Retail in default, the percentage rose to 2%. Can you give any guidance on that number?

Answer – Francis Salway, Chief Executive

Yes, when I think of the more recent insolvencies, we think that about three quarters will continue trading, adding that into prior insolvencies, it's a bit over half. So, we could well see that number come down a bit as some of those organisations move out of administration into their future status. Offsetting that, do I think there will be a few more insolvencies? Yes, there probably will be.

Question 4

Hemant Kotak, Green Street Advisors

Good morning, gentlemen. I just wanted to start by saying, Francis, we'll be sorry to see you go and all the best for the future. And just a follow on question perhaps to Rob, what's the plans for the head of London position? Is that something that the process is well under way and when can we expect a new hire? And will it be internal or external?

Answer – Robert Noel, Managing Director – London Portfolio

Well, morning, Hemant. As you'd expect, I've got a very strong talent pool in London. Since mid-2010, the London business has been run by an executive committee, which I chair. This will continue. The investment and asset management side of the business is run by Scott Parsons, Colette O'Shea runs the development side. All of you who have been on our investor tours will know them very well and you will know their teams well. So, London is extremely well placed as it is.

Further question

Okay, thank you. And then I just wanted to just talk about the CBRE letting. We've seen from a press release in December... a press article, sorry, in December that the headline rent was about £53 psf, with 36 months' tenant incentives. Can you confirm if that's accurate and are you disappointed with these rates, given the high quality of the building and location?

Answer – Robert Noel, Managing Director – London Portfolio

The deal itself, I'm afraid, is subject to a confidentiality agreement, so we are not at the moment allowed to divulge the terms of the deal. It is not out of line with the deals we did last year.

Further question

Okay, thank you. And then just a question on Retail; a follow-on question on tenant administrations, please. With regards to the retailers that actually do stay in this space, what's likely to happen to the rental levels there? Can we see rents renegotiated? Will they be lower? Will they be the same?

Answer – Francis Salway, Chief Executive

Yes, you get quite a wide range of outcomes on this. Sometimes the rent doesn't change at all. Sometimes there is a variation to rent. And sometimes you have shorter-term arrangement whereby the rent is quite low, but you agree a break clause that can be exercised on short notice, so that when the landlord's rates put in place a new long-term letting, they're able to do so. I think flexibility is the key to management of these situations and maintaining occupancy. And I think we now have a lot of experience in that and a good track record in managing that sort of process to the best possible outcome for our portfolio.

Question 5

Ryan Palecek, Kempen & Co.

Good morning. Francis, also from Kempen & Co., all the best for your future endeavours. I've got a couple of granular questions. I'm wondering, could you give us some granularity on lettings relative to ERV by asset class and tell us perhaps how those are behaving, the ones that are in solicitors' hands? And could you also give us, on administrations, any kind of distribution by asset class as well?

Answer – Francis Salway, Chief Executive

I'll deal with administrations. The administrations are very much focused on shopping centres; very few in the retail warehouse park arena – I think, from memory, Peacocks have got one out of town unit from us on a retail park – but it is in-town retailing. And as you'll have seen from the statistics, we have an incredibly low level of administrations in our London portfolio.

In terms of granularity on lettings relative to ERV, we are very similar, London Portfolio and Retail Portfolio in the quarter, both up about 0.5 % or thereabouts. As you break down the Retail sector into a little more detail, we are slightly stronger in retail warehousing and a little bit less in shopping centres. In terms of space under offer, there is no difference; if anything, it's a slightly stronger position in retail warehousing.

Further question

And are there any thoughts you could perhaps share with us on how that's evolving looking forward for the coming quarters, lettings relative to ERV?

Answer – Francis Salway, Chief Executive

Yes, I think if I go back to May, we said that we saw shopping centre rental values staying flat for a good year or more and some increases coming through in retail warehousing. Actually, the environment has gotten tougher since May, but that is exactly what we're seeing. And I think the area that we'll be looking most closely at would be the trend in shopping centre lettings, with a few more insolvencies now coming into the sector.

Further question

Thanks, and could I just ask one last question. Perhaps a word on offices; what you're seeing in terms of scatter around the mean that you've mentioned?

Answer – Robert Noel, Managing Director – London Portfolio

It's Rob. If I take you back to our half-yearly results presentation in November, we said that we were receiving a little bit more interest than we had been over the summer. And, indeed, that has continued. There's no real change from November. I would say that our lettings against expectation are pretty well bang in line, if not a fraction above in the West End and a fraction below in the City, but fractions.

Question 6

Remco Simon, Bank of America Merrill Lynch

Good morning. Thank you, Francis. All the best in your future opportunities. A question on your statement: "2012 could well be the year of the balance sheet". How do you position yourselves in that environment and do you expect for there to be deleveraging or are you happy with the current net debt position, even though values could weaken slightly?

Answer – Francis Salway, Chief Executive

Well, I think we're very comfortable with our current balance sheet position. If we think that we can sell some other assets attractively, we're not averse to that. But I suspect that our LTV post the Eland House and Bonhill sales is probably about 36%. So, I think we're very comfortable with where we are and if the right opportunities came along, would we be prepared to see gearing rise again a little within that range of 35 to 45% that we've set? Yes, we absolutely would be.

Further question

Okay, and maybe one more question: Victoria Circle – you mentioned in these statements that the lease is staying until September, afterwards, demolition can start. Do you intend to start demolition then, or do you, given the environment, intend to maybe roll forward short-term leases for another year or two and postpone the project a bit?

Answer – Robert Noel, Managing Director – London Portfolio

Let's take you back again to November, Remco. And if you recall, what we said was that we were starting the process of finding a partner for Victoria Circle. We have always said that Victoria Circle is rather like 20 Fenchurch Street due to the scale of the building in one micro-location was something we would to do with a partner. That process is under way.

As far as starting demolition in September is concerned, it is more likely than not that we will start demolition. This will be a matter for discussion later on in the year. And don't forget, this is a scheme that is going to complete between 2016 and 2018. So, we're looking quite a long way out.

Further question

Is there anything more tangible to report on your process of looking for a JV partner then?

Answer – Robert Noel, Managing Director – London Portfolio

No, it's on-going and when we've got something to say, we'll let you know.

Question 7

Robert Duncan, Jefferies

Morning, just a couple of questions from me, please. Can you comment on the trends in short-term lets, specifically on your Retail Portfolio? It's obviously 1.4% of the Retail rent roll. Are we seeing that trend increasing or are we seeing it coming off? And specifically, clearly, up through to the third quarter, but also your expectations for the look forward as well please.

Answer – Francis Salway, Chief Executive

This number will always vary a little. There's no specific plan to vary it. Our preference is always to get the right long-term letting. On occasion, we're happy to put in place a short-term letting to keep occupancy up. I wouldn't read very much into short-term movement in that. I think we've stood up as being a company that has gone for longer term lettings where we could, following the downturn, and we're happy to let at what we think is the tone of rents for the centre. We haven't been doing a lot of short-term lettings to protect historic rents.

Further question

Okay, and just one last question. One thing we've talked about historically is the cash dilution, if you strip out the impact of capitalised interest from developments and also looking at the high initial yield on some of the disposals that have been outlined. Could you give an idea of how you plan to generate that forward earnings momentum, but specifically in cash earnings as opposed to accounting earnings?

Answer – Francis Salway, Chief Executive

Yes, when we came out of the downturn, we realised that there would be a lot of over-renting in the market, which would mean that the natural engine of growth and earnings, rent reviews, wouldn't really be a key driver. And it is the case that as when we let up our development schemes at high yields on cost, that will be the biggest single driver of earnings growth in the business. And when we actually get income, post cessation of capitalisation of interest, that is cash income; it isn't about capitalisation of interest.

The second point about yields on sales, I think over the last two years, one of the stand out features has been we've actually been selling assets at pretty low average yields because we've sold some sites, we've sold some very low yielding investment properties. The fact that in one quarter we happened to have had a few high yielding assets, I wouldn't read too much into that because we are very alive to the earnings implications of average yield on sales. We could well sell a few more things that currently produce zero income, which will push the average down. And we do give in today's statement the average yield year to date on sales. You see, it's still a relatively low figure.

Question 8

Quentin Freeman, UBS

Good morning, guys. Could you tell me a bit more about the details on the letting on Moorgate Hall. Can you tell me what the rental level was?

Answer – Robert Noel, Managing Director – London Portfolio

I'm not sure if I'm allowed to tell you, Q. It was above ERV. It's a 15-year lease to a break, but a 20-year term to Mace. They've taken an overriding lease on the whole building. You will appreciate this building; it's about 16 or 17 years, I think, since it was last refurbished. We've also simultaneously taken a surrender of another tenant and moved them out and there are two more tenants to come out from under Mace over the next couple of years. So, it's been quite a complicated deal. But the rent is just slightly below £40 per square foot, which was above the ERV in March and September.

Further question

Thanks very much. What's the hit on the closing down the Brand Empire business?

Answer – Martin Greenslade, Group Finance Director

There are some closing costs and there's some write off of fixed assets; together, they amount to £2.8m.

Further question

Thanks very much. And then, finally, it's another one really for Martin. Last year, you went back to an earlier policy of clearing on the final quarter dividend; you raised the final quarter to reflect this year's first three quarters' dividend. Is that the on-going policy now?

Answer – Martin Greenslade, Group Finance Director

I think that's the trend that you'll see. We try and keep the first three quarters' dividend the same. Then we'll make an assessment at the end of the year when we've got the results in as to whether or not change the final dividend, which then generally sets the tone for the next year as well. We'll assess what that final dividend should be.

Speaker: Francis Salway, Chief Executive

Thank you. I think you'll have picked up from the quarterly update that the business is in great shape; good execution on running the portfolio, strong balance sheet and strong leadership for the future. So, for the moment, at least, goodbye from me and a big hello from Rob Noel. And I hope to catch up with a number of you over the next eight to ten weeks. Bye.

– ENDS –

Forward Looking Statements

This document may contain certain 'forward-looking' statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by or on behalf of Land Securities speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Land Securities does not undertake to update forward-looking statements to reflect any changes in Land Securities' expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this document relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.