TEXT FOR CONFERENCE CALL ON LAND SECURITIES' Q1 INTERIM MANAGAMENT STATEMENT
15 JULY 2009

Speaker: Francis Salway, Chief Executive

Good morning and welcome to our first quarter interim management statement. This covers the period from April to June. I have with me our Finance Director, Martin Greenslade, and after I have taken you through some of the detail in the announcement, we will be happy to take your questions.

In the first quarter we have made good progress in delivering on our plan to strengthen our balance sheet - ahead of taking advantage of the opportunities that will emerge as we move through the cycle.

Our activity in the quarter, and what we have seen and experienced in the market, is all entirely consistent with our plans and it supports the views we expressed early in 2009 on valuation trends and where opportunities might arise. This creates a strong platform for us as the market turns.

We have continued to sell properties to meet our objective of funding the balance of our committed development expenditure from sales proceeds. Our experience in the market selling properties mirrors what we alluded to in our full year results that there is growing investor interest for both prime and mid-quality properties. It also suggests that our view on peak to trough falls in values that we used in our Rights Issue calculations of 45-50% peak to trough is likely to be accurate.

Our sales in the quarter of £357.4million were at 2.7% below March valuation in the quarter and we have sold a further £162.0million since 30 June at 2.5% below valuation. These sales demonstrate the increased interest in the market for a broader spectrum of properties in terms of quality, lease length and lot size – going up to £150 million plus. This interest has also allowed us to actively manage our investment portfolio with the sale of certain properties which we felt were more at risk from rental value pressure or income pressure than other parts of our portfolio.

We will continue to sell a bit as part of the normal portfolio management process, but it will be at reduced volumes.

And the flip side to selling to re-position a portfolio is to start to look at buying assets. We have in the quarter looked at some opportunities, but we have yet to make an acquisition. This will change but we are prepared to be patient. Patience can be a virtue and it is our belief that banks – the main potential source of opportunity - will not rush to be sellers of assets. So these opportunities will arise over years rather than just the next few months.

In terms of our development opportunities, we have consistently said that the key will be to time developments to match not just healthier occupier demand, but also rising rents. We have again had success in the quarter in gaining new planning consents and we now have a number of opportunities ready to go. Our view has been that the West End office market will bounce back quicker in rental terms than other markets and we have actively begun to firm up our plans for the start of the Park House and Selborne House schemes in Mayfair and Victoria respectively during 2010.

And while we are looking to the future we are also paying very close attention to the present which is all about maintaining income.

We are delighted that units in administration have fallen over the quarter from 3.7% in March to 3.3% in June. This has been driven primarily by lettings, with 0.7% gross of units in administration re-let in the quarter. In addition, there is potential for a further 0.5% of units in administration to be bought out of administration in the short term.

Voids in the like-for-like portfolio rose a little from 4.6% to 5.1% largely as a result of the 0.3% of administrations moving to voids and one unit being voluntarily taken back at a retail park as part of an asset management scheme. Within retail, not withstanding the ongoing negative news coverage the void level of the like-for-like portfolio has stayed broadly stable at 5.5% at 30 June compared to 5.2% at 31 March.

Generally we are also beginning to see businesses more willing to commit to leasing new accommodation in the London office market. But as we have said previously, occupier markets will tend to track the wider economy and the resumption of rental growth will almost certainly lag behind the recovery of the investment market.

On finances, we have continued to manage our balance sheet to ensure we have the capacity to manage through the downturn and to have funds to invest when we choose. In the quarter we have reduced net debt (including joint ventures) by a further 5.3% to £4.48billion.

As you are aware the vast majority of our external debt is lent to the Security Group, and based on our most recent valuation at 31 March, the Loan to Value (LTV) on the Security Group was 76% on 30 June.

At 30 June we had a total of £1.887billion in cash and short term investments. Within this, we had £1.5 billion of cash available outside the Security Group. If this were re-injected into the Security Group the LTV would fall back to 54.7% based on June assets and March values, as compared to an actual figure of 55.3% at March.

Our current debt and cash position gives us ultimate flexibility, but we have been clear that at the right time we will use some or all of our cash to pay down debt to move to a lower operating tier within our debt structure. There are a number of moving parts around this, but through our actions and from what we have seen in the market, we are confident that we can comfortably move towards meeting this aspiration.

So in summing up, our activity in the quarter has been in line with the plans we outlined at the start of the year and it has also been consistent with how we then saw the market evolving. We are confident in our position and in our ability to take advantage of opportunities as the cycle evolves.

Now over to you for questions.

Question One:
Harm Meijer – JPMorgan:
Are you becoming slightly more positive compared to the full year numbers?

Francis Salway – Chief Executive:
If you were to look at our outlook statement in our annual report there is a very high degree of consistency. And if you were to go back to February our view on market trends hasn't changed at all, what has changed is our confidence that that view on market outlook will prove to be correct. We have to remember February was a very uncertain period; we did express a view on market outlook which we used for sizing our Rights Issue. Everything we have seen makes us more confident in that outlook.

Further question:
Can you please tell us what is happening on the ground, what is happening when leases are expiring, what is happening with the kind of incentives you have to give, for example, shopping centre lettings? And maybe also can you tell us with the tenants in administration number coming down, do you think that the number will stay there or is there a risk that it will move out again?

Francis Salway – Chief Executive:
Right, if I deal with units in administration first, we did say after our year end results that we thought there would come a point when units in administration figures came down. Because even though there would continue to be some fresh insolvencies we would let some units and also parts of businesses would be bought out of administration, and we're just beginning to see both of those happen. We can't be certain precisely when the closure of the sale of part of the business out of administration will happen, but we have indicated that there's another tranche that we can see happening which is another half a percent of income in the not-too-distant future.

In terms of leasing negotiations, I think the pattern in London for rent-free periods is widely reported. We are not at the four years plus that has been reported in some other transactions, but then we don't have big units of accommodation to let – floors at Dashwood House, a relatively small unit of accommodation, so slightly shorter rent-free periods. We are encouraged to have had a noticeable pickup in enquiries on Dashwood House within the last 10 weeks or so and you've seen that the proportion let or in solicitors' hands has begun to move up a little and there are other discussions underway.

In terms of shopping centres I had an example being quoted to me at Cardiff, of a rent-free period in excess of 5 years with a particular retailer, the truth on what's been agreed is 22 months. People love to create wild stories; they're not always in line with reality.

So I think leasing negotiations continue to be difficult. At the level of vacancy rates that we have in retail and London office markets, the strength of negotiating position sits with the occupiers but we are seeing activity and if my memory serves me right more activity than in the early 1990s when virtually nothing happened for quite an extended period.

In Retail we've had lettings all the way through the downturn; London offices, there was probably a period of four or five months which was very, very quiet, but we've seen more negotiations kicking off in the last 10 weeks.

Question Two:
Bhupen Master – Merrill Lynch:
Just looking at the Security Group, could you give us a bit of insight in terms of what your target operating tier is?

Martin Greenslade – Finance Director:
We've been absolutely consistent all the way through, it's our intention to move back into a normal operating environment which is Tier 1 or Tier 2, so that's to bring the LTV below 65%.

Question Three:
Harry Stokes – Evolution Securities:
Could you give any details on the incentive paid to M&S to get them into One New Change, and whether there was a capital contribution with that?

Francis Salway – Chief Executive:
I would expect that there would have been a capital contribution, I'm afraid I don't have the detail on all individual transactions. But I don't think there's anything out of line and certainly we are paying capital contributions to retailers taking stores at that sort of size which effectively anchor a scheme. And I don't think we'd be out of line with anybody else on that.

Further question:
Could you give any feeling for what sort of multiple of the annual rent they're running at?

Francis Salway – Chief Executive:
If I take the example of Cardiff, the deals we are agreeing are entirely consistent with the guidance that we've been giving for some time which is rent-free or rent-free with an element of capital contribution of up to about 24 months.

Further question:
What's the amount of property now sitting outside the Security Group?

Martin Greenslade – Finance Director:
Apart from ones that are in the process of being sold, very little has changed since the March year-end. What we said then was that there was around £560 million, that's come down slightly by about £35 million that we've moved into the Security Group. So you've got just over £500 million that's available to put into the Security Group. And then you've got JV interests of around £1.5 billion.

Further question:
Could you give a feel for the lease lengths on the Maidstone and Portman House sales, what they were at the median if possible rather than the average?

Francis Salway – Chief Executive:
Maidstone was about 10 years unexpired or a little over 10 years on average. And Portman House, the office leases ranged from 3-7 years but from memory in excess of two-thirds of the office income being no more than four years.

Further question:
And in terms of their lease length to break?

Francis Salway – Chief Executive:
That covers break or expire. I treated them as synonymous.

Further question:
On the sale of One Wood Street, how much tax did you have to pay on that?

Martin Greenslade – Finance Director:
We're not expecting to pay any tax on that.

Further question:
It was outside the REIT rules though presumably or was it within the development programme?

Martin Greenslade – Finance Director:
You're correct about the timeframe. But there isn't tax to pay on it.

Question Four:
Robbie Duncan – Cazenove:
Could you just remind me what the annual amortisation bill at the moment is given your 76% Loan to Value and therefore the operating Tier in which you're in?

Martin Greenslade – Finance Director:
We said it's just under £30 million a quarter that gets locked up.

Further question:
You've mentioned you're progressing discussions to raise new debt on assets held outside the Security Group; any indication on potential uses of that new debt please?

Martin Greenslade – Finance Director:
Well, I think it's all part of our strengthening of the balance sheet, of making those assets outside the Security Group be more efficient and ultimately we will move the cash back into the Security Group and restore the Security Group to a normal operating environment.

Question Five:
Remco Simon – Kempen:
Could you give us an indication about the terms that you have been agreeing on the lettings that came out of administration compared to where previous rental levels were?

Francis Salway – Chief Executive:
Generally if we look at re-lettings in shopping centre units it's at about 15% below. Interestingly on retail warehousing, the delta on re-lettings not just on administration but to the extent we had other voids, has been much more in line with the previous tone of rents. But average contributions of about 12 months, so that balances out a little bit. We've had larger contributions in the retail warehouse sector.

Further question:
And secondly could you give us an indication what you're most actively looking at in terms of acquisition opportunities, which kind of asset class or which kind of sector you're favouring at the moment?

Francis Salway – Chief Executive:
We are looking at some income producing investment properties within the retail sector; in London we are looking at low density properties around the central area, not necessarily right in the central area which have 3-5 years of income and we think have the potential for much higher density development on lease expiry. And you'll have picked up from this

announcement that something we bought some four years ago we've had success on that front; City Forum just north of the City currently two-storey office warehouse units with large yards and a planning consent for about a million square feet of residential-led development.

And if I could just go back to your first question, I was incorrect on the retail warehouse. The actual rents, the headline rents are 12% above but the package is about a year, so it brings it back on a net effective basis to in line and I apologise for the incorrect guidance on that. But shopping centres is 15% below.

Question six:
Julian Livingston-Booth – Goldman Sachs:
Can you talk a bit about vacancy on proposed development space and I guess in particular your latest plans in terms of upcoming lease expiries on proposed development space?

Francis Salway – Chief Executive:
On the various assets, Park House is a cleared site; Selborne House, the lease was rolled forward a couple of months from March to May but it is now a vacant building; and then you'll be aware that in the City, 20 Fenchurch Street is a cleared site. With Arundel Great Court we have income from the hotel and we're seeking some short-term income from that. And on all these properties we are balancing works to de-rate the building against prospects of getting short-term occupation. So we are looking for some short-term income on Arundel Great Court, Selborne House we concluded that the more efficient thing from a net Profit and Loss basis was to begin to strip out the building to de-rate it which is underway at the moment.

Further question:
You showed about 1.5% of the rent roll would have expiries related to development space, so most of that will come through as vacancy; is that fair?

Francis Salway – Chief Executive:
Yes it is.

Further question:
In terms of interest rate hedging, are you still at over 100% in terms of interest rate hedging on the net debt and can you say something about the maturity profile of those hedges?

Martin Greenslade – Finance Director:
We are just over 100% because clearly with sales and bringing down our net debt. We have our bond debt which is all fixed rate, so that's hedged. And then we have additional hedges and effectively the normal term for those is not more than five years, it's a five year period ahead that we're hedging. So the hedges would normally be of that order.

And in due course again depending on the outlook for our net debt position we may well close out some of those swaps.

Question seven:
Nicolas Lyle – HSBC:
What acquisition firepower do you estimate that you have taking into account your target operating level Tier 1 or Tier 2?

Martin Greenslade – Finance Director:
I think there are a number of moving parts in the assessment of how much firepower we have. And that includes where we see values going and how we see our disposal and debt-raising programme looking forward. But if we take it just on a purely static basis of where we are today, I think what you could say is that we have at least the firepower of the Rights Issue, and in fact that's extremely important. At the time of the Rights Issue, we said that we saw the forecast for valuation movements from peak to trough to be in the order of the 45-50% range. We also looked at a worst-case scenario and we said that the Rights Issue proceeds in the worst case would protect us against downside, in the better case, so in the case that we anticipated, it would give us the firepower to invest as opportunities arose.

If we were to invest the £756 million that we raised, you would see our LTV of the Security Group if we put all the cash in and all those assets bought you'd see our LTV go to 55%. If you allow some valuation decline then it would be in the upper 50s. That is within our normal operating range so I'm very comfortable saying that we could deploy our Rights Issue proceeds comfortably for acquisition.

Further question:
If you were to include your tenants in administration into the vacancy number, what is the impact on your overall vacancy of the slightly increased voids in the like-for-like portfolio and the slightly reduced tenants in administration?

Francis Salway – Chief Executive:
The net effect is that the sum of the two has increased by 0.2% over the quarter. But we have to remember it's a fluid position, and I indicated that the biggest cause of movement in voids was one retail warehouse unit which we're in discussions on. So I think broadly we kept the overall position constant when overall market vacancy rates are still rising slightly.

Question eight:
Randeep Grewal – ICAP:
On City Forum, the residential aspect, would you propose developing that yourselves or selling it onto someone else? And secondly in terms of on the office side, where are rents now compared to where they were say a year ago? What I'm trying to do is get a comparable

to your comments earlier about shopping centres being about 15% below and retail warehouses being about in line?

Francis Salway – Chief Executive:
On City Forum we keep an open mind as to whether we develop or we sell the site or work in a joint venture. We've used all of those approaches where we've created value through getting residential consents in the past, vacant possession is not for a couple of years, a number of leases fall in around the 2012 mark and we've not drawn any firm conclusions on that yet.

In terms of office rental values in central London, I think there is quite a lot of data available on movements in rental values, and the downward movement is probably 30%, 30%+ compared to the figure that I gave on those shopping centres where we've had re-lettings. And I think that would be consistent with the analysis of lettings in central London that have been reported generally, not just our own. But as I speak I've been thinking of one West End letting where we've just re-let space, and it would fall within that category being a bit over 30% down.

Further question:
In terms of acquisition, is there any particular size you're looking for and is it going to be one transaction or are you looking for multiple smaller acquisitions?

Francis Salway – Chief Executive:
I think we get competitive advantage on larger lot sizes in that we have the capacity to make large acquisitions. And although there's more money coming into the market, little of it really extends much beyond £100-150 million. However I think one has to stay open to the opportunities that come forward and certainly if I'm talking about properties around the edge of central London, low density at the moment, potential for higher density through planning consent on redevelopment, those are not going to be large lot size.

I think we absolutely should stay flexible but at the same time be aware of where we have particular competitive advantage, and the two things are size and short lease investments, in that we've got the capacity to make larger acquisitions, and our pool debt structure means that we can acquire shorter lease assets that others may struggle to finance on a standalone basis.

Question nine:
Daniel Horwood – Singer Capital Market:
Francis, I was interested by your bullish comment on investors becoming more interested not only in prime assets but in, what you called middling quality. Can you expand on that a little bit because I still have the impression that it's quite hard to finance purchases of middling quality depending on what your definition is?

Francis Salway – Chief Executive:
We have now sold a number of properties since the turn of the year, and none of them are free of attributes; but then I hope the properties in our Portfolio don't have zero attributes. But they have one or maybe two out of: quality of property, quality of location, quality of tenant, length of lease. But they absolutely don't have necessarily all of those attributes.

So we've sold a single let building in a street just above Holborn with five years left on the lease. I commented earlier on the average unexpired lease terms on the office element in Portman House in Oxford Street. Some of the smaller retail warehouse assets that we've sold absolutely are not prime, and in terms of location they support the offer in the particular town but they aren't the key element of the offer.

So I think we've actually got hard evidence that that is the case. At the same time as we have buyers who are looking for absolutely top quality properties with rock solid income, we've seen since March people looking being prepared to compromise on one or more of those attributes to get a bit more yield.

Further question:
On those properties where the third box is not ticked on the length of lease let's say, are any of those buyers leveraged? Do you get the sense of what the difference between the leveraged and the un-leveraged buyer is?

Francis Salway – Chief Executive:
In one example there is leverage on the acquisition yes when the lease length is not that long, but it is at a conservative LTV ratio.

Question ten:
Quentin Freeman – UBS:
At the end of your talk you said that you were comfortable to move back to a lower operating tier on your debt. In 18 months time can we assume that that will be the case or do we have to be patient on this as well?

Francis Salway – Chief Executive:
We're not putting a firm timescale on it. What I hope comes out from this announcement is that we have made extremely good progress against our plans, which gives us confidence of taking the business forward in a normal fashion. Martin has commented that there are a number of moving parts around this decision, but we're continuing to make progress on them.

Question eleven
Matthew Churstain – KBC Peel Hunt:
Is there any word on when we can expect an announcement regarding an appointment to replace Mike Hussey? And secondly with regards to the amount of sales that have been done since year-end, it's very impressive. Is the quantum of sales in the future, in the short term likely to be of a similar level or considerably less?

Francis Salway – Chief Executive:
Within our London team we have a strong senior team who under demerger plans would have been reporting to a Chief Executive and they're currently reporting to a Chief Executive which is myself. So we've indicated we're not taking any immediate steps about recruitment, and over a period of time we'll assess how we approach complementing the skills within that team.

On your second question, which is about quantum of sales, I've said at the beginning of this conference call that sales going forward will be at a lower level. There will still be some sales and it could be the odd larger asset. We've indicated that we are unlikely to be a holder of our interests in the Bullring centre in the long term. For technical reasons we don't manage the relationship with retailers and it's inefficient in terms of balance sheet. The partnership doesn't have debt in it and we can't up the partnership interests in our debt structure. But we'll be looking for the right sort of price for a high quality asset.

Francis Salway – Chief Executive (in closing):
Thank you very much for joining us. I think the key message is that our achievements over the quarter are exactly in line with the plans that we outlined earlier. We are pleased that our view on ultimate peak to trough movement in values hasn't changed but our confidence that that view is correct has increased because of what we've seen in the market and what we ourselves have achieved in the market. Thank you.

– ENDS –

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