Chief Executive's Statement

In our first full reporting period since becoming a Real Estate Investment Trust (REIT), we have delivered a set of results which belie the current negative sentiment towards the UK commercial property market. Our success has been founded upon our ability to judge the timing of both our development programme and our execution of a programme of property sales. During the period, our Board has also demonstrated its commitment to long-term value creation for shareholders by undertaking a comprehensive review of our current business structure.

Our achievements have resulted in a 2.5% increase in adjusted diluted net assets per share over the six months, founded on a 0.9% valuation surplus from our £15.0bn investment portfolio. Pre-tax profit was £375.2m, down 68.2% on the comparable period as a result of a smaller valuation surplus than in the prior period. As expected, revenue profit, our measure of underlying pre-tax profit, was down by 10.5% to £172.8m due to the accounting treatment which requires us to recognise the interest cost of the loan associated with acquiring Secondary Market Infrastructure Fund (SMIF) but not the income from the underlying contracts. However, our adjusted diluted earnings per share were up by 11.0% to 36.46 pence per share, largely as a result of no longer paying tax on the majority of our activities following conversion to REIT status on 1 January. For the current financial year commencing 1 April 2007, we have moved to quarterly dividend payments and, as previously announced, the second quarterly dividend will be 16.00 pence per share payable on 7 January 2008.

Over a 12 month period we benchmark our performance against three key indicators, providing shareholders with a clear indication of the value we are creating. Over a six month period, however, the most relevant indicator of our performance is a comparison to the Investment Property Databank (IPD), the industry standard for commercial property performance in the UK. During the period under review, our ungeared investment portfolio total return was 3.6% as compared to 1.3% for the IPD Quarterly benchmark. Our outperformance is largely attributable to the timing and execution of our development programme; this has delivered substantial valuation surpluses, which accounted for more than the whole of our overall revaluation surplus. Our financial performance also benefited from the timing of our sales of £929.1m of investment properties, where the sale prices were on average 7.8% above valuation (pre-disposal costs).

The defensive income characteristics of our investment portfolio have strengthened over the period. As a result of major development lettings, the average unexpired duration of leases has increased by half a year to approximately 10 years; and the net reversionary potential of the portfolio (the extent to which today's rental values exceed rents currently payable) has increased from 10.6% to 14.6%.

Performance Highlights

We have achieved notable success over the half year in the areas of leasing up our developments, securing planning consents for the future, selling investment properties and progressing the establishment of a fund for investment in Private Finance Initiatives (PFI) contracts.

In our London Portfolio, our development projects delivered a valuation surplus of 7.5% with the strongest contributions being from New Street Square, EC4 and Bankside 2&3, SE1, at both of which we achieved significant lettings. At New Street Square we achieved record rents for Mid-town in the range of £71.00psf - £76.00psf in the tower building as compared to £42.50psf on our initial pre-letting within the scheme two and a half years ago. At Bankside 2&3, we were delighted to conclude a letting of the whole of the office element totalling 34,600m^2 to Royal Bank of Scotland. Within the Retail Portfolio, we opened our Princesshay shopping centre development in Exeter with the scheme 90% let on the date of opening. The scheme makes a strong civic contribution to Exeter, and this has been widely recognised in the press with accolades such as the headline 'A Jewel in the Crown'.

We have sold £333.3m of property from our London Portfolio at an average of 15.3% above the 31 March 2007 valuation figures (pre-disposal costs). The premium pricing reflected, in a number of instances, specific actions we took to create additional value. An example was at Blackfriars Road in Southwark, SE1 where we established the likelihood of getting planning consent for a new building over 2.5 times the size of the existing buildings. Sales from our Retail Portfolio totalled £589.1m and, despite negative sentiment towards retail investment property over the whole period, averaged 4.1% above March valuation figures (pre-disposal costs).

Whilst 2007 represents the high point in terms of the level of our development completions, we continue to create future opportunities for development in the medium-term. We obtained planning consent following a Public Inquiry for a 55,700m^2 tower building at 20 Fenchurch Street in the City of London; and we received a resolution to grant outline planning consent for Eastern Quarry, the largest of our landholdings at Ebbsfleet Valley in Kent.

Our Property Partnerships division, Land Securities Trillium (Trillium), has successfully widened the base for its new business opportunities by moving into the PFI sector. We made our principal acquisition in this area, SMIF, in early 2007 and we stated at the time that we would establish a fund for the PFI contracts acquired and introduce third party co-investors. We have made good progress in establishing the fund: we have successfully raised £568m of debt for the fund; and we are at an advanced stage of discussions with a number of prospective investors. We expect to move to a first closing for the fund before the end of this calendar year.

Whilst delivering financial returns for our shareholders continues to be our first priority, it is increasingly important to us to meet the expectations of our customers and other stakeholders on environmental issues. We were therefore delighted to be placed within SustainableBusiness.com's 'Top 20 Sustainable Stocks in the World'. We were both the only UK company and the only property company within this list. We have also been adjudged the Global Sector Leader in the Financial Services sector in the 2007 Dow Jones Sustainability Index.

Outlook

We had anticipated a weakening in the pricing of property investments and so accelerated our programme of property sales in the first half of the calendar year. We expect the current weak trend in property investment pricing to continue, but we believe that the greatest impact will be experienced on secondary properties where, in recent years, yield pricing has not fully reflected the risks associated with lower quality properties. We therefore expect our shareholders to benefit, in relative terms, as a result of the high quality of our portfolio.

Our London development programme completions are concentrated in the current financial year ending 31 March 2008 reflecting our decision to start a substantial development programme early in the cycle. We will be completing 148,600m^2 of developments in London in the current financial year, and these projects are now 93% let. Over the next two financial years, when employment growth in the financial services sector may be weaker, we will be completing just 25,400m^2 of office developments in London.

The leasing environment for our Retail Portfolio has been broadly consistent over the last 18 months. Our Princesshay project in Exeter once again demonstrated that high quality schemes which enhance the shopping experience for consumers will continue to be attractive to retailers. We expect to be able to sustain the good progress we have made in leasing up our other retail development projects.

New business acquisitions for Trillium continue to be one of our priorities. Since 1 April 2007 we have agreed terms to acquire over £274m of additional PFI contracts, and we are encouraged by recent comments from Government which reaffirm its commitment to future PFI projects.

Review of Business Structure

The Land Securities Board has completed its review of the structure of the business and has concluded that, over the long-term, the Group's component businesses, and shareholders, will benefit from separation, and proposes to demerge the Group into three specialist separately quoted entities.

This change will represent a continued evolution of the Land Securities business model. In 2004, the Group demonstrated its preference for a focused, sector-based approach by exiting industrial property and moving the group structure to one built around the Retail, London and Outsourcing sectors rather than the functions of asset management, development and outsourcing. Since this time, the Group has developed three specialised business divisions, which have enjoyed strong growth and each of which has considerable scale and leadership positions within their respective peer groups.

These three divisions have performed well under the current diversified structure, but the business models are distinctive and have different financial characteristics:

- RETAIL: The Retail division seeks to create and enhance long-term dominant assets through development and active management. It focuses on creating attractive, retail environments to generate sustainable earnings growth.

- LONDON: The London Portfolio has a greater emphasis on development activity and capital recycling to manage effectively the cyclical nature of its office market. The portfolio also offers a broader investment in London as one of the world's major financial centres. It has material retail assets and also major retail and residential elements in its development programme. In addition, it offers shareholders significant value creation potential from its Kent Thameside development, which will be material relative to the size of this business.

- PROPERTY OUTSOURCING: The historic value creation from Trillium, with a return on capital since acquisition of 28%, has been outstanding. It now has market leading positions in both property outsourcing and PFI. However, with the growing role of PFI and PPP contracts, Trillium's business and operations have increasingly different characteristics from property investment, and as such the key valuation metrics are also different.

Trillium has grown by 57% in the last year in terms of floorspace under management, and it now manages more floor space than the London and Retail divisions combined. Land Securities' brand and balance sheet have been important to the development of Trillium to date. However, Trillium now has the size and track record to operate independently of Land Securities. Having regard to the different characteristics of Trillium's business and its valuation metrics, the Board considers that the creation of long-term shareholder value is best achieved by demerger.

For the Retail and London divisions, the Board also believes that, over the longer term, the development of each business and the needs of investors will be better served by a separation of the two. Specifically,

- They operate in market segments with different characteristics and they will be able to adopt a capital structure best suited to their respective sectors' outlook;

- They will, in future, each have an acquisition currency that should be valued in line with the assets or businesses they may wish to acquire at any point in their respective cycles. As a combined group, the market rating of London and Retail will tend to reflect an average of the less favoured sector and the more favoured sector, reducing its effectiveness as a potential acquisition currency; and

- The full benefit of successful investment decisions will be more visible and have greater financial impact in separate focused entities.

As separate companies:

- The management teams of London and Retail will have a clear investment mandate and be able to allocate capital without competing demands driven by the cyclical dynamics of a different property segment;

- Shareholders will be given the choice of making sector allocations in line with their individual investment preferences. Shareholders benefit from greater liquidity and lower transaction costs in dealing through shares to change sector allocations, than can be achieved by a diversified property company transacting in property assets; and

- The businesses will be better placed to take advantage of significant inflows of capital into global real estate funds which typically favour investment in specialist companies. Over time, the ability to access this expanding pool of capital is expected to help drive the valuation of specialised property groups.

Both businesses will retain:

- The strength of their customer relationships through an unchanged presence in their customers' markets; and

- Stability of cash flows and stable income growth, which result from the five year, upward only rent review structure in the UK.

Extensive and detailed work needs to take place before the company is in a position to seek shareholder approval and effect the demergers. The demergers will be executed when the preparatory work has been completed and only when market conditions are favourable.