

Chief Executive's Statement

The current environment imposes pressures across all business sectors. The challenge for business leaders, and their shareholders, is to understand clearly how these pressures impact results and future performance prospects.

Our interim results demonstrate both the impact of sharply reduced asset valuations and the resilience of our underlying revenue profits. These seemingly divergent trends flow from the fundamental characteristics of the property sector. On the one hand, there are the 'mark-to-market' valuations of property assets, which are sharply negative in the current environment and under International Financial Reporting Standards now flow through to the income statement. On the other hand, the long-term nature of our contracts with customers provides us with unusually high resilience of income and underlying revenue profits.

Translating these themes to the specifics of our half year results, our investment portfolio showed a valuation deficit of 12.7% or £1,723.1m, which contributed to our reported pre-tax loss of £1,737.2m. However, our underlying revenue profits showed growth of 13.3%, compared to the equivalent half year 12 months previously, and likewise our adjusted diluted earnings per share increased by 14.7%. We have confirmed the second quarter's dividend at the same level as in the first quarter at 16.5 pence per share.

The performance of the business in terms of underlying income is significant. In downturns, it is my experience that it is income which ultimately provides the support for the valuation of property and of businesses.

Achievements

In September we successfully launched Cabot Circus shopping centre in Bristol, which we have developed in partnership with Hammerson. The opening of the centre attracted the attention of a number of television film crews in search of a story of weakness in the retail sector. Their expectations were confounded. The scheme is over 90% let, trading well and has been attracting over half a million shoppers a week since opening. In October, shortly after our half year end date, Trillium closed the largest contract to date under the Building Schools for the Future programme with Kent County Council.

Our property investment sales during the period were, as we had previously guided, at much lower volumes than in the previous financial year, but the sales were at prices 1.7% above our March 2008 valuation figures.

Returning to the strength gained through stability of income flows, our vacancy rates across our like-for-like investment portfolio rose only slightly from 3.4% in March to 4.0% in September, excluding properties in our development pipeline intentionally being emptied for redevelopment.

In terms of the relative performance of our investment portfolio, the ungeared total return was 2.4% below that of the IPD benchmark, which was explained by a combination of the sector mix of our portfolio, sharper downward movements in valuation yields and lower valuations on development sites.

Positioning of the business

We have considerable inherent strength and resilience through the portfolio structure and positioning of our business. On the investment portfolio, average unexpired lease terms are 9.5 years and, for Trillium, average unexpired contract terms are 13 years.

The average maturity of our debt is 10.7 years with only £1.3m to be repaid before mid 2010, having repaid £105.1m since 30 September 2008. Despite ongoing expenditure on development schemes, the absolute level of

our debt has decreased slightly over the period. However, sharply falling property values mean that despite having a lower absolute level of debt, our gearing ratios have increased. Loan-to-value (LTV) for the Group stands at only 43.5% or 45.4% overall including joint ventures.

The peaks and troughs of our development activity are broadly matched to the property cycle, with 242,200sq m having been delivered in our last financial year and only 104,940sq m completing this financial year. The development projects completed in the first half are, on average, 92% let.

At a time of economic downturn, there is a natural focus on strength of counterparties. For Trillium, some 80% of our income flows from government or government-related bodies. And, within our property investment portfolio, we also have the Government as our largest customer representing 9.6% of portfolio income. Within our Retail Portfolio, we have extremely high levels of diversification of customer base; our largest customer, Arcadia Group, represents only 1.7% of our total investment portfolio income.

Demerger

The Company has undertaken extensive work over the last year to be in a position to demerge when market conditions are favourable. Internal preparation has progressed well and our business divisions have seen operational benefits from this work. The Board continues to believe in the benefits of specialisation, but has decided that, given current adverse market conditions, it would not be in shareholders' interests to proceed with implementation and our work on demerger has therefore stopped.

We are continuing work on a potential sale of Trillium, but timescales for transactions are protracted in the current environment.

Outlook and priorities

We are in the teeth of a sharp downturn and we expect volatility in capital markets to continue in the short-term. Occupational or leasing markets will only reflect the full impact of economic conditions relatively late in the cycle. We therefore expect the period of recovery in property markets to be extended with investment property pricing seeing a turning point well ahead of a recovery in rental markets.

We have benefited from anticipating a slowdown in the property market through the actions we took last year. However, the speed and extent of slowdown is greater than anticipated, and this requires us to show continuing flexibility in setting our priorities.

A number of the factors affecting our market, and by extension our performance, are beyond our control. Others are not, and we are maintaining a sharp focus on the business fundamentals we can control. We are taking advantage of our strong customer relationships to maximise income; we will sell assets selectively to maintain the strength of our balance sheet and we will continue to invest in our development pipeline for the recovery phase, but with appropriate flexibility on start dates.

Our objective is to navigate a prudent line through current volatilities and we continue to manage the business with a cautious outlook. Land Securities has been successful by being strong in managing day to day operations, while maintaining a long-term perspective on value generation. This combination will continue to guide our actions.