

## Our Chief Executive reports

*High volume of sales, £1.56bn, in challenging market – prices 5.3% above valuation*

*Highest ever level of development completions at 242,200m<sup>2</sup> – 94% let by year end*

*Successful launch of £1.1bn fund in PPP sector*

*Business continued to perform well while making progress on demerger*



Francis Salway

This year the Company anticipated changing conditions, acted decisively and achieved relative outperformance as a result. Chief Executive Francis Salway reports on our actions and our outlook for the year ahead.

*“I believe the key to our performance this year can be summed up in two words – timing and execution...”*

After a long run of good market conditions the property sector experienced a setback this year, with less liquidity in the capital markets and some caution on likely demand from occupiers. Although we anticipated this inflection point some time ago, and started preparations for changed market dynamics, our portfolio and our performance have not been immune to the general market trends.

Our key challenge this year was to keep evolving our businesses so they were fit to compete and win in the current demanding conditions, while laying the foundations for future growth. Our strategy delivered a strong relative performance, with our portfolio outperforming the IPD Quarterly Universe by 6.5% in relative terms. This outperformance represents some £800m of value preservation for our shareholders.

### Timing and execution

I believe the key to our performance this year can be summed up in two words – timing and execution. Take our sales programme. We made our last major retail acquisition in February 2006, while this year we sold £835m of retail assets and achieved prices on average 3.1% above valuation.

As a result we have a high quality retail portfolio well suited to our customers' needs and we have the resources required to make acquisitions when the right opportunities appear. In London we have achieved similar success, with £716m of sales made at 8.2% above average valuation, providing resources to address future opportunities.

Our development programme was equally well timed and executed. This year we secured our highest ever level of development completions at 242,200m<sup>2</sup>, and at year end these were 94% let. In London we had expected employment growth in the financial services sector to be weaker, so we will be completing just 25,500m<sup>2</sup> of office developments over the next two financial years, keeping our supply of high quality space in line with expected levels of demand.

### Three market leaders within one company

Our three businesses performed well throughout the year and demonstrated their market leadership credentials.

In London we achieved the highest levels of office development lettings of any company or organisation this year. This included the leasing of Bankside 2&3, SE1 to Royal Bank of Scotland – the second largest letting of the year in the sector. In July we won planning consent from the Secretary of State for 20 Fenchurch Street. This followed a high profile media debate and public inquiry, and once again we showed that taking a project of this scale from vision to approval requires both imagination and determination – a rare blend.

Our Retail business capped a strong year with the completion and successful letting of Princesshay in Exeter. I think this is one of the finest developments in our history and deserved its British Council of Shopping Centres' Supreme Gold Award – the third year in a row a Land Securities development has won this accolade. I am also pleased by the launch and early progress of The Harvest Partnership, our joint venture with Sainsbury's.

Trillium produced another year of strong growth. Having integrated the Secondary Market Infrastructure Fund business acquired in February 2007, we launched our PPP fund, Trillium Investment Partners, this year and – despite less liquidity and increasing anxiety in the market – achieved a successful close of the fund in March 2008. Trillium Investment Partners has been established with an initial capital of £1.136bn, of which half is debt financed and half equity. The quality of the investors in the fund speaks volumes for Trillium's reputation, while our success in winning the Kent Building Schools for the Future contract confirms both the strength of our offer and the scale of the opportunities ahead.

### Meeting changing needs and expectations

Our businesses are increasingly adept at understanding and responding to our customers' changing needs and expectations. This often requires us to make key decisions early, from adjusting the volume and type of space we are developing to incorporating innovative forms of public space into our projects.

Sustainability is of growing importance to many people and is one area where we have sought to anticipate change and act early. For a decade we have focused on environmental issues and this was recognised during the year when sustainablebusiness.com named us one of the World's Top 20 Sustainable Stocks, with Land Securities the only UK company included. I am also pleased that the Dow Jones

*Our timing and execution of development has been good. We anticipated changing conditions, and timed our future level of space with expected levels of demand.*

Chart 3

Timing of completion of development pipeline (year to 31 March) (£m)

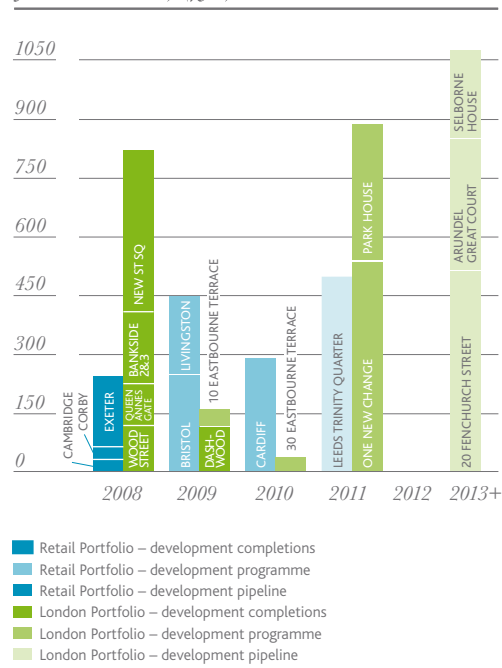


Table 4

Total property returns (%)

Year to 31/03/08	Land Securities	IPD	Relative return
Total portfolio	(3.2)	(9.1)	6.5

Source: IPD

Sustainability Index named us a global leader in both the real estate and finance sectors. Acting responsibly means addressing some big challenges, such as working to reuse or recycle at least 80% of the demolition waste created by a new development, or enabling customers to improve the energy performance of a building. But it's about smaller things too, like offering our employees up to two days paid leave so they can help local community organisations. In our experience, both big and small acts help to make us a better business.

### The value of REIT status

We converted to REIT status on 1 January 2007 and so this year we enjoyed exemption from corporation tax on qualifying rental income and on gains from investment property sales.

Although the conversion has coincided with the more challenging market conditions I outlined earlier, our change in status has been and continues to be advantageous for shareholders. First, we now pay less tax, which has increased earnings per share. Second, the representation of international shareholders on our register has increased from 23% to 37% since March 2005 and this suggests REIT status has attracted more international capital and potentially wider demand for shares – a clear benefit.

### Plans for demerger

Since 2004 we have structured the Company around three large and distinct business divisions. The Board believes there is now potential to create greater value for shareholders by separating these businesses. In our Interim Report in November 2007 we confirmed our intention to demerger the Group into three separately quoted entities and we set out our rationale for doing so.

This is not a reaction to short-term market trends. A demerger has been under careful consideration for some time and, as with our conversion to REIT status, the Board's proposal is made with long-term value creation in mind. In the past few years we have run our three businesses with a high degree of autonomy and the demerger process is a natural step in our Company's evolution.

I am delighted to report that our planning for the demerger did not impact the activity levels or performance of the Company nor did it affect the support we provide to customers. Indeed, our satisfaction rating with our largest customer, the Department for Work and Pensions, was the highest ever at 94%, up three percentage points on 2006.

Throughout the year the Non-executive Directors have provided invaluable guidance to the senior management team. I would like to take this opportunity to thank them for their support.

### Outlook

The market is certainly demanding but we have performed well in relative terms this year. As a result, we are well placed in our London and Retail property investment businesses, with moderate gearing levels, a well-timed development programme and strong portfolios well matched to occupiers' needs. Trillium is in excellent health with stable long-term cash flows and a robust pipeline of new opportunities across a number of dynamic sectors. I am confident our businesses have the strength and scale to thrive.

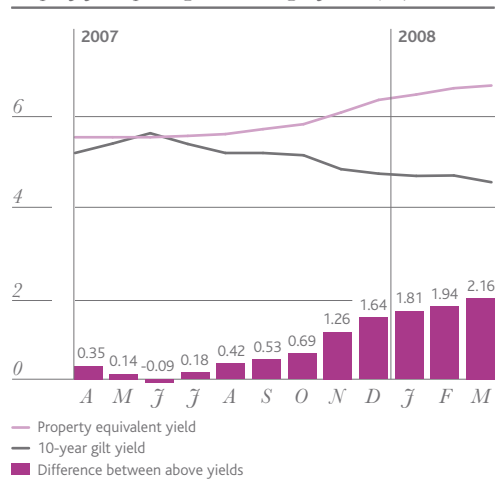
How occupiers respond to current economic conditions will prove key over the next 12 months. We are alive to the challenges involved and we will concentrate on competing hard in this environment while preparing for the next set of opportunities. I have long believed the companies that thrive in our industry do so because they maintain a clear long-term view of their markets and have the confidence to evolve their businesses well ahead of changing conditions – this is the approach Land Securities will continue to take.

Francis Salway

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Chart 5

Property yield pricing relative to gilt yields (%)



Source: IPD

# 80%

We are working to reuse or recycle at least 80% of our demolition waste on development projects.



### Bankside 2&3, London

We increased the momentum of regeneration with the successful completion of Bankside 2&3, now let to RBS.