Land Securities

People making property work
Annual Report 2007

What is it that makes a property *work*?

What makes one development popular and famous when so many others lack identity and vitality?

What turns an unloved, inefficient building into a highly valued, high-performing asset?

Report of the Directors

Report from the Directors on the key strategic, financial and operational developments during the year.

Financial Statements

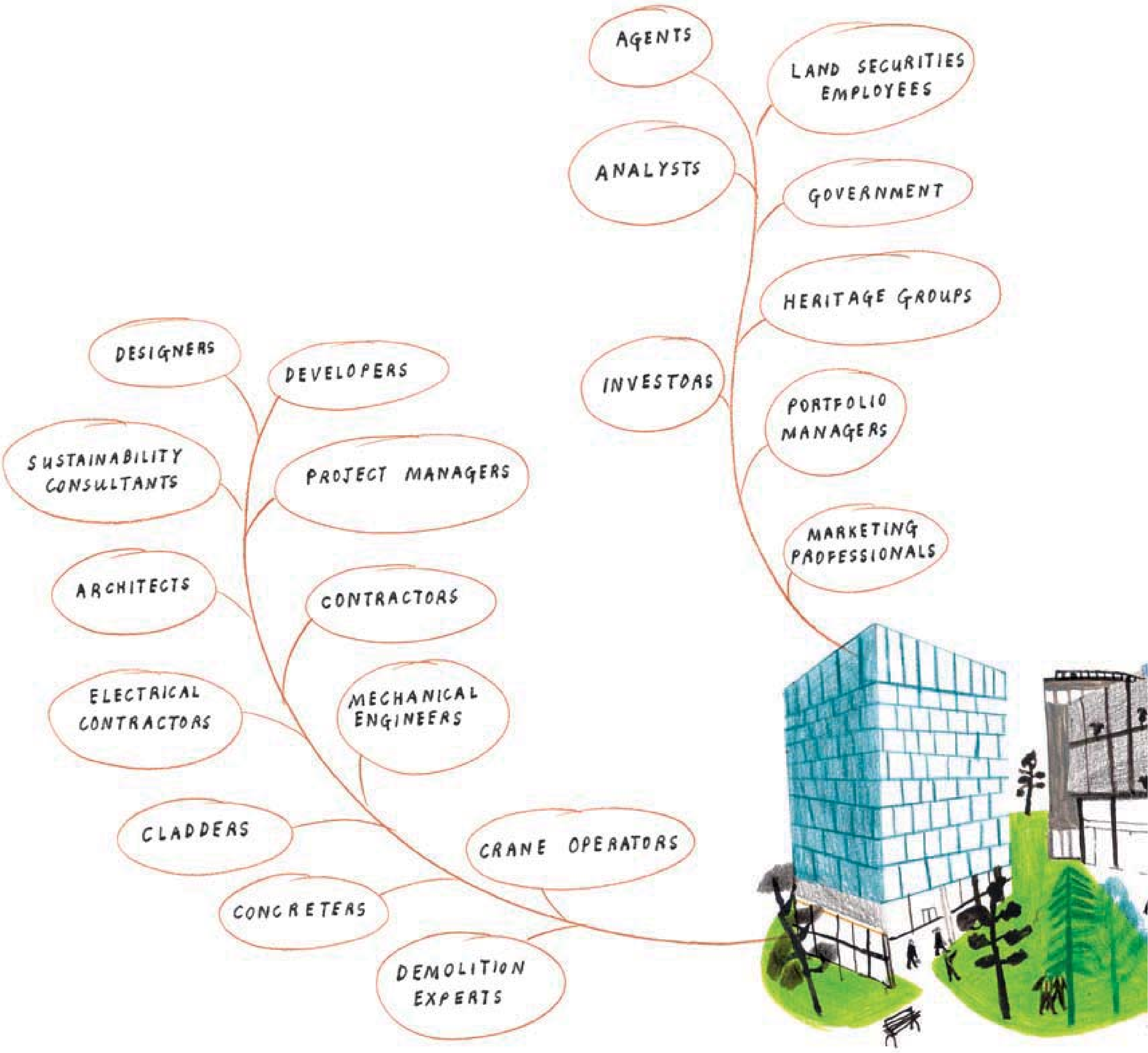
Statements presenting the essential numbers, including the independent auditors' report.

Investor Information

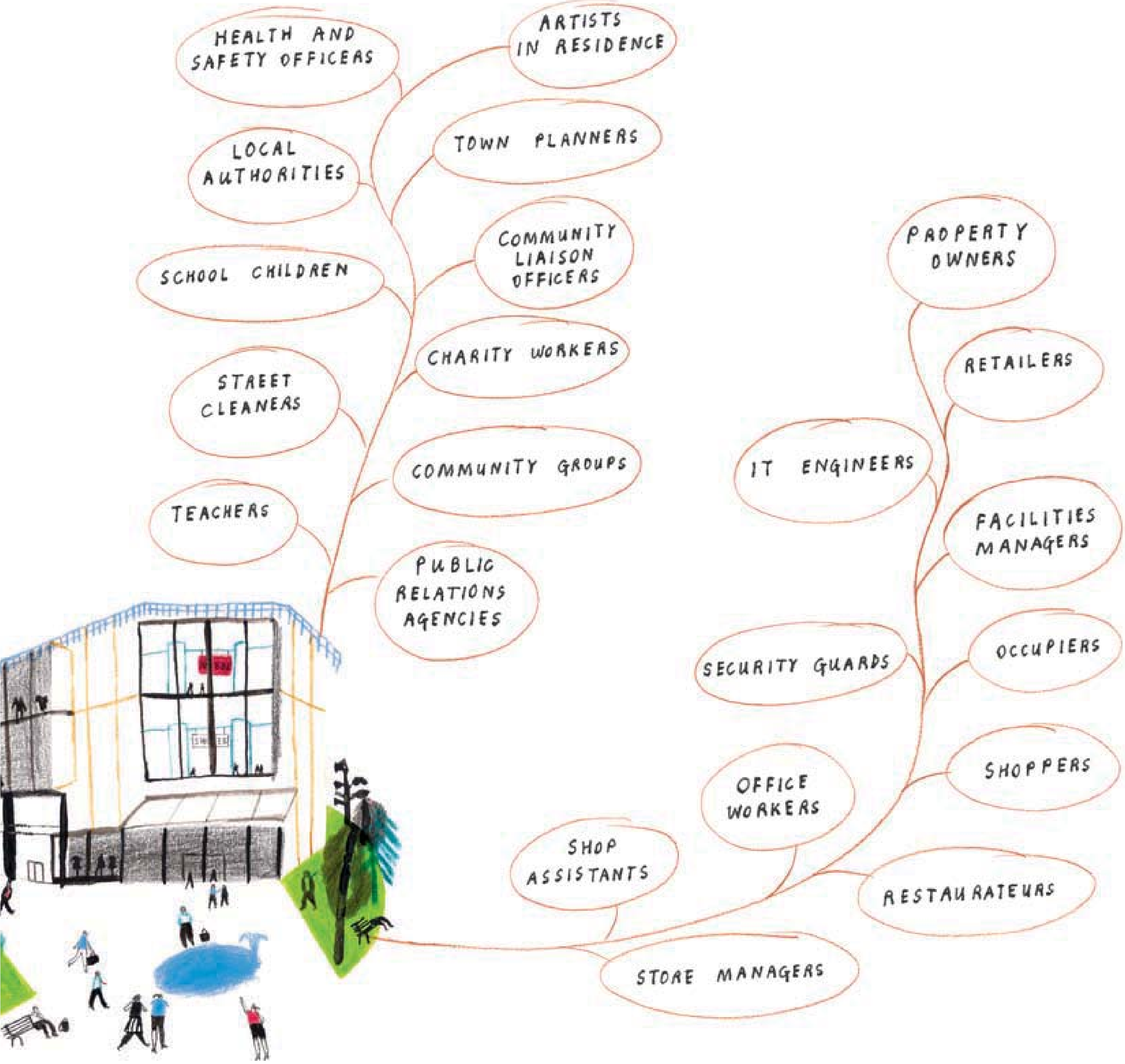
Summaries, analysis and information on properties, contracts and related subjects for shareholders.

The answer is simple. *People.*

Complex developments, fast-moving retail environments, world-class offices, outsourced facilities – all require the talent and dedication of experts if they are to thrive.



We believe success comes from uniting our exceptional people with the very best suppliers and partners. And inspiring that team to keep finding new and better ways to make property work – for our customers, and their customers.



All you need to know

Land Securities is one of the world's five largest Real Estate Investment Trusts. Our national portfolio of commercial property includes some of UK's best-known shopping centres and landmarks.

We are leading urban renaissance through our multi-billion pound development programme, transforming regional city centres and key sites in Central London. We are also one of the leading names in Property Partnerships, and are involved in long-term, large-scale regeneration projects in the south east.

Our values

There are certain core values that form the foundation of Land Securities. They embody the way in which employees and service partners work together to deliver effective customer relationships.

The values are:

- Customer Service
- Respect
- Integrity
- Excellence
- Innovation

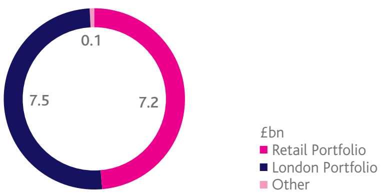
Our vision

Our vision is 'bringing property to life'. We will go beyond bricks and mortar, through design, community engagement and customer service to create places where people choose to shop, are proud to work and want to live.

Our strategy

Our strategy is to invest in commercial property in sectors where we have expertise and operational skills which provide competitive advantage. In these sectors we will apply our risk management skills and we will actively recycle capital with a view to delivering total returns in excess of our cost of equity.

Chart 1:
Combined portfolio value £14.8bn



Investment portfolio excludes property held by Land Securities Trillium

People who work for us

1,500

Awards and accreditation

Investor in People accreditation

Property Company of the Year: *Property Week*

Property Company of the Year: *Estates Gazette*

Best Corporate Website: *Corporate Comms* magazine

Developer of the Year: *Property Week*

Environmental Impact Award: Business in the Community

Winner of '*For Telling It How It Is*': Building Public Trust Awards

Construction Client of the Year: *Building* magazine

Land Securities Group

Retail Portfolio

See pages 34–43

This business unit includes shopping centres, retail warehouses, shops outside London, shops held through the Metro Shopping Fund LP, regional offices and other regional properties.

Key points:
- 29 shopping centres and 31 retail parks
- 1.8 million m² of retail accommodation
- approximately 1,700 retailer occupiers
- nearly 300 million shopper visits per year
- development pipeline for some 255,000m² of retail led space

London Portfolio

See pages 44–53

This business unit includes all London offices and London retail, but excludes those assets held in the Metro Shopping Fund LP.

Key points:
- over one million m² of office and retail accommodation
- more than 50,000 people work in offices owned by us
- provides accommodation for over 400 organisations
- potential to develop 600,000m² of commercial and residential space over next 10 years

Property Partnerships*

See pages 54–63

This business unit is engaged in long-term property outsourcing partnerships with public sector organisations including DWP, DVLA and Royal Mail and with corporates including Norwich Union, Barclays and Accor Hotels. We have interests in 105 Public Private Partnership (PPP) projects in areas such as schools, hospitals, secure accommodation and offices.

Key points:
- 3.4 million m² across 2,024 properties in property outsourcing partnerships
- 1.4 million m² of PPP project floorspace
- average length of property outsourcing partnership contracts is 24 years with gross income of £794m
- Property Partnerships employs 919 people across the UK

*Land Securities Trillium, which we previously described as our property outsourcing business, is now known as Land Securities Trillium Property Partnerships as a result of our expansion into the PPP/Private Finance Initiative (PFI) markets.

Urban Community Development

See pages 64–67

How we own:

Investment	PPP/Property outsourcing

What we do:

Property development	Asset management	Property services

At Land Securities our core purpose is making property work. This simple statement masks the enormous influence we have on the day-to-day lives of thousands of people across the UK.

- For occupiers and clients it means providing buildings and services which help them to operate successfully every day
- For communities it means providing the buildings and places where people live, work and relax
- For our people it is the satisfaction of the positive impact we have on communities
- For shareholders it is the investment returns that we generate

These define the key objectives we have set for ourselves, and the progress we have made.

Please see page 8 for a succinct performance overview.

Our offer to investors

- A commitment to the creation of attractive and sustainable returns through our activities in the UK property market
- A strategic focus on our customers
- Market leading positions in three sectors:
  - Retail
  - Central London offices
  - Property Partnerships
- Cash flow through quarterly dividend payments
- Potential for capital and revenue growth through:
  - Superior management of assets
  - New property outsourcing business
- Aiming to be recognised as the UK's leading property company

On pages 54–63 we talk in more detail about how we are supporting our clients.

Properties we own

£15.5bn

Great teams are vital to our success. We talk more about our people on pages 22–23.

Developments in the pipeline

648,900m²

Key performance indicators

Objective	Metric	Progress
To create sustainable long-term returns for shareholders	■ Sustained real growth in adjusted earnings per share to be at least 3% per annum over rolling three year periods ■ Annual revenue profit to exceed budget target	■ Adjusted earnings per share growth over three years to 31 March 2007 exceeded RPI by 7.8% per annum ■ Achieved for this financial year
To maximise the returns from the investment portfolio	■ IPD outperformance in each core sector and on an overall portfolio basis	■ Outperformed IPD on an overall portfolio basis by 0.3% ■ Underperformed IPD at the sector level
To complete and let our development programme	■ Over £15.6m of retail development lettings to be completed ■ Over£32.1m of office development lettings to be completed ■ Developments to be completed on budget and on time	■ Just under £9.7m of retail lettings achieved with a further £5.6m in solicitors' hands ■ Over £37.4m of lettings achieved ■ Development schemes for BBC at Pacific Quay, Glasgow and Egton Wing, Broadcasting House, London, completed on budget and on time
To grow our Property Partnerships business by winning new contracts and expanding existing ones	■ Secure two new business contracts, including one with a new client	■ Signed contract extensions with DVLA and new clients Accor and Royal Mail ■ Also completed acquisition of SMIF and remaining 50% of IIC
Ensure high levels of customer satisfaction	■ Overall customer satisfaction in Retail and London Portfolios to exceed targets ■ 90% satisfaction ratings from our largest outsourcing client	■ Achieved in shopping centre portfolio, but not for London Offices or Retail Warehouses ■ Achieved in year
Attract, develop, retain and motivate high-performance teams and individuals	■ Employee engagement to exceed ETS industry benchmark	■ Exceeded with grand mean score of 3.13 (classified as excellent by our external survey provider) compared to benchmark figure of 2.96 ■ Group wide accreditation from Investors in People

Performance overview

Welcome to our Annual Report for 2007 – another year of strong growth and positive change for Land Securities.

Pre-tax profit
down 16.1%

£1,979.1m

2006 benefited from higher property revaluation surpluses and the exceptional profit on the sale of Telereal joint venture (£293.0m)

Revenue profit
up 0.2%

£392.2m

Our measure of the underlying pre-tax profit

Total dividend
up 13.5%

53.0p

Final proposed dividend of 34.0p together with the interim dividend of 19.0p. Over three years the dividend has increased by 42.9% reflecting confidence in the business and REIT conversion

Net assets per share
up 44.3%

2304p

Increase driven by investment portfolio surplus and the release of deferred tax following REIT conversion

Adjusted diluted net assets per share *up 14.1%*

2181p

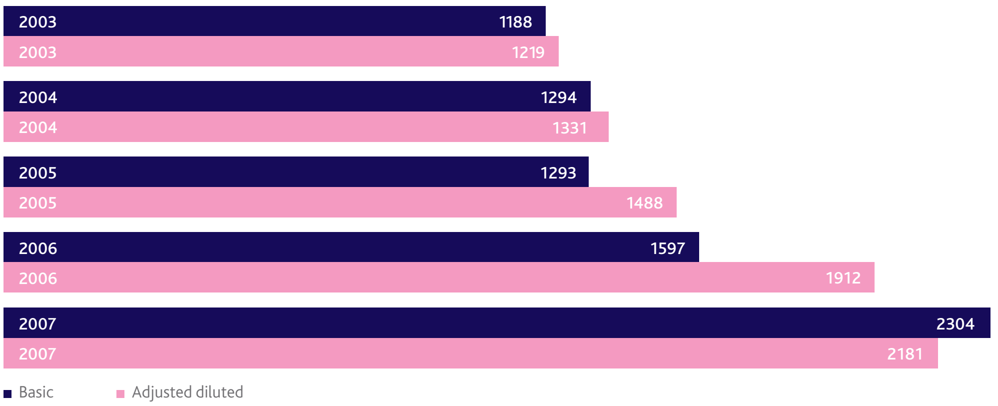
Substantial portfolio valuation surplus offset by REIT conversion charge

Combined portfolio valuation surplus of *10.6%*

£1.4bn

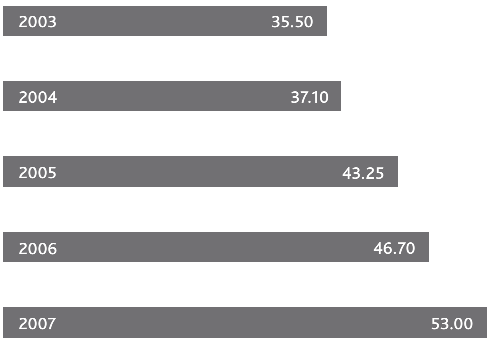
Strong contribution from development activities as well as continued yield shift

Net assets per share*



*Calculated under UK GAAP in 2003 and 2004; under IFRS thereafter.

Dividends per share (p)



Financial highlights

	31/03/07	31/03/06	change %
Gross property income (including joint ventures)			
Retail Portfolio	£406.2m	£371.8m	+9.3%
London Portfolio	£428.1m	£514.0m	-16.7%
Other investment portfolio	£91.2m	£88.8m	+2.7%
Property Partnerships	£797.2m	£1,013.6m	-21.3%
Total	£1,722.7m	£1,988.2m	-13.3%
Operating profit	£2,020.7m	£2,443.4m	-17.3%
Pre-tax profit	£1,979.1m	£2,359.2m	-16.1%
Revenue profit	£392.2m	£391.3m	+0.2%
Earnings per share	753.59p	357.95p	+110.5%
Adjusted diluted earnings per share	70.20p	70.47p	-0.4%
Dividends per share	53.0p	46.7p	+13.5%
Diluted net assets per share	2297p	1590p	+44.5%
Adjusted diluted net assets per share	2181p	1912p	+14.1%
Combined portfolio valuation	£14,752.5m	£12,892.9m	+14.4%
Net borrowings	£5,087.9m	£3,685.9m	+38.0%
Equity shareholders' funds	£10,791.3m	£7,493.9m	+44.0%
Gearing (net)	47.1%	49.2%	

Revenue profit

This is a measure of underlying profit before tax calculated by excluding from pre-tax profit the following: profits on the sale of non-current asset and trading properties; profits on long-term development contracts; revaluation surpluses; mark-to-market adjustments on interest rate swaps and similar instruments used for hedging purposes; the adjustment to interest payable resulting from the amortisation of the bond exchange de-recognition; debt restructuring charges and any one-off exceptional items.

Adjusted diluted earnings per share

These are based on revenue profits plus profits on trading properties and long-term development contracts, all after tax.

Adjusted diluted net assets per share

This is often used to compare a property company's net assets per share with the share price. It is calculated by dividing equity shareholders' funds, adjusted primarily for the bond exchange de-recognition adjustment, by the number of shares in issue.

Combined portfolio

The combined portfolio on page 128, is the wholly-owned portfolio in our investment property business combined with our share of the value of properties held in joint ventures. Unless stated these are the pro-forma numbers we use when discussing the investment property business.

Chairman's statement

This is my first statement to you as Chairman of Land Securities. My predecessor, Peter Birch, stepped down from the Board on 1 January 2007. Peter led a period of substantial change that has left the Group in good shape. The Board and I would like to thank him for his contribution.

Paul Myners

Land Securities invests in property to generate returns in excess of our weighted average cost of capital. Our total business return for the year of 16.6% compares with an average weighted cost of capital of 6.75% *(Chart 2)*. Over a six-year period, Land Securities has delivered a total shareholder return of 206.3% compared to 36.1% for the FTSE 100 and 194.8% for the FTSE Real Estate Index *(Table 3)*. We have announced a substantial increase in our dividend, with the proposed full year dividend representing a 13.5% increase over the preceding year. We have also announced a further significant increase for the current year.

Our business activities comprise property investment, development and property outsourcing. Each presents different risks and opportunities and provides a different level of return. It is our challenge to maximise return taking into account our risk assessment for each activity.

For property investment, this means adding value by active management and judging the right moment to buy or sell. For development, it means creating the right product and delivering it on time and on budget, at the right moment in the market cycle. For property outsourcing, it means accessing new markets and new income streams profitably.

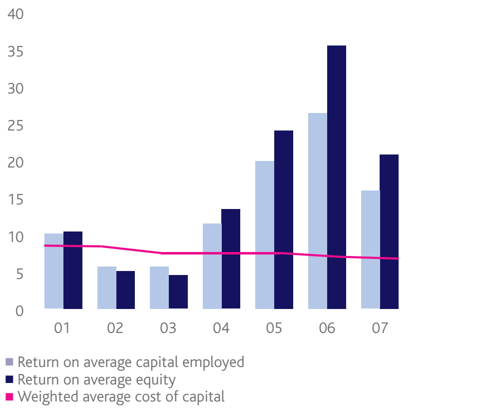
I have been impressed by the people at Land Securities. We have a substantial pool of talent to draw from, encompassing a wide range of skills. Attracting, retaining and developing this talent is fundamental to our success.

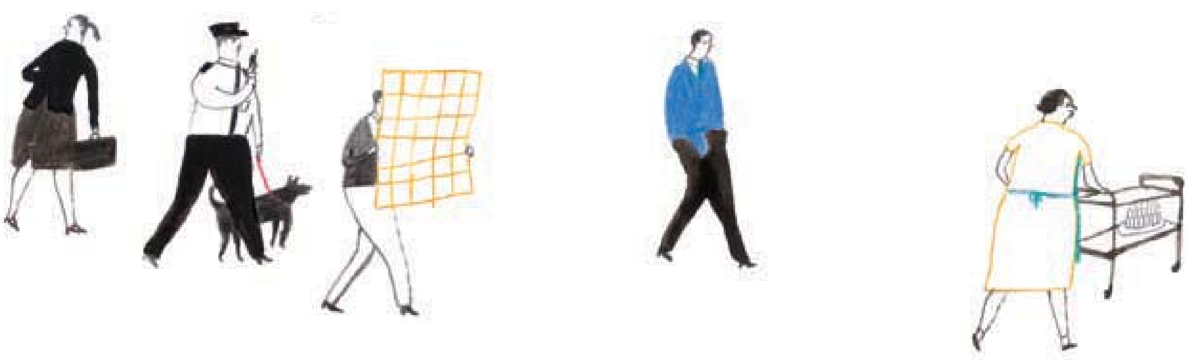
As a capital intensive business, access to capital and its efficient use is critical. Our debt structure is an important element. In the past year we raised £800m of publicly listed notes with an average coupon of 5.03%, refinanced our corporate banking facility of £1.5bn, arranged a £1.0bn acquisition facility and launched our £750m Euro Commercial Paper Programme. We used these funds to invest £1.9bn in Land Securities Trillium and development, which the Board identified 12 months ago as key drivers of future value. That decision was timely, given the lower levels of growth now evident across the investment market.

Investment in Property Partnerships and development

£1.9bn

Chart 2
Land Securities returns (%)





My first day as Chairman of the Company coincided with our conversion to Real Estate Investment Trust (REIT) status. This eliminated the double taxation of company and shareholder, which has been an impediment for the quoted property sector. REITs now offer tax equivalence to direct ownership of property, but with substantially greater liquidity and professional management.

Since becoming Chairman, the Board and I have identified three key issues facing our business. The first I have already alluded to: generating returns from investment property. The era of valuation gains driven by market re-pricing is largely over. Our challenge will be to deliver returns through the application of our skills and the identification of new growth markets. We have demonstrated the latter through our move into the Public Private Partnership (PPP) and Private Finance Initiative (PFI) markets this year with the acquisition of Secondary Market Infrastructure Fund (SMIF).

The second issue is transparency. Land Securities is recognised as a leader in this area. Under the new Transparency Directive all companies have to produce Interim Management Statements. We will be doing so, but will not be moving to quarterly reporting or quarterly valuations. The Board believes that the link between strategy and financial returns in the property sector is only evident over a longer time frame.

The third issue is how we do things. We have a good reputation for the way in which we address the impact of our activities on communities and the environment. As one of the UK's leading developers, we are committed to providing attractive buildings and spaces that enhance the quality of the built environment, for the benefit of both occupiers and the wider community. We have led the property sector in being a voluntary participant in the UK Emissions Trading Scheme (UKETS) since its inception in 2002 and have reduced carbon emissions by three times the target set for us.

The Board would like to thank our colleagues, customers and suppliers for helping to deliver another year of strong growth for Land Securities. Thanks to you the business is prospering and we can look to the future with confidence.

Each year we report on key performance benchmarks, including those shown in *Table 3* and *Table 4*, that help shareholders evaluate our performance against our major competitors and the underlying commercial property markets.

Table 3
Total shareholder returns

	% return for year to 31/03/07	% return for six years to 31/03/07
Land Securities	13.8	206.3
FTSE 100	9.3	36.1
FTSE 350 Real Estate	22.9	189.8
FTSE All Share Real Estate	22.1	194.8

Source: Datastream

Chief Executive's report

I am delighted that we achieved considerable success in implementing the two key objectives we set for the year. The first was to meet letting targets across our development programme. We exceeded our targets in leasing up some 143,000m². The second objective was to grow Land Securities Trillium. We secured substantial new business opportunities resulting in floorspace under management increasing by 45%.

Francis Salway

The ungeared total property return on our investment portfolio was 16.2%, as compared to 15.8% on the Investment Property Databank (IPD) Quarterly Index *(Table 4)*. The ungeared return on capital employed on our Property Partnerships business (excluding acquisitions made in the last two months of the year) was 16.9%. The Group pre-tax return on equity was 21.1%.

Our pre-tax profit, which includes revaluation surpluses, profits on disposals and exceptional items, was £1,979.1m (2006: £2,359.2m). The reduction in pre-tax profit is explained by the slightly lower revaluation surplus in the current year, and the exceptional profit of £293.0m in the prior year from the sale of our interest in the Telereal joint venture. Revenue profit, our measure of underlying or recurring profit, was up marginally by 0.2% at £392.2m (2006: £391.3m). We achieved this despite both the expected reduction in profit on our largest property outsourcing contract with the Department for Work and Pensions (DWP) and the loss of rental income on a number of substantial investment properties being vacated prior to redevelopment.

Our conversion to REIT status, which brings tax exemption on approximately 90% of our current activities, will result in us paying a REIT conversion charge in July this year estimated at £315.0m. The benefits of REIT conversion are the elimination of a latent capital tax liability of £1,327m and the boosting of post-tax earnings through exemption from corporation tax on qualifying activities. We will remit this saving in corporation tax to shareholders by way of an increased dividend. As such, we have announced a substantial increase to our final dividend payment, giving a full year dividend of 53.0p per share, up 13.5% (2006: 46.7p per share). The increase in dividend over three years has been 42.9%. In recognition of the importance of income distributions in a REIT environment, we will move to quarterly dividend payments. The first three payments, at 16.0p per share, will be payable in October 2007, January 2008 and April 2008. These quarterly dividend payments imply a further dividend increase for 2007/08 of over 20%.

We have demonstrated strong execution in leasing up our development programme. In London we have let, or agreed terms to pre-let, approximately 95,000m² of offices since 1 April 2006. Our project at Cardinal Place in Victoria is now almost fully let, re-establishing Victoria as a location for major corporates, and substantially improving the future redevelopment prospects for our other extensive holdings in the area.

Increase in floorspace under management by Land Securities Trillium

45%

Table 4
Total property returns (%)

Year to 31/03/07	Land Securities[1]	IPD[1]	Relative return[2]
Total portfolio	16.2	15.8	0.3

Source: IPD Quarterly Universe to 31 March 2007
1. Includes acquisitions, sales and developments
2. Relative return relates to the geometric (not arithmetic) difference between Land Securities and IPD

In the Retail Portfolio we have made good progress on leasing up our six projects now under construction, with 82,000m² of development lettings during the year. Our shopping centre scheme in Exeter will open in the autumn and is now 85% pre-let or agreed to be pre-let. This scheme is breaking the mould both through its low carbon footprint and our commitment to let one of the streets to independent retailers.

For Land Securities Trillium, 2006/07 has been a year of exceptional growth and achievement. We have consolidated our position in the infrastructure market through our £910.5m acquisition of SMIF, which now has equity stakes in 105 PPP contracts. We intend to secure third party investment into these assets by the end of calendar year 2007 while retaining asset management responsibilities. We have also concluded a property outsourcing contract with Royal Mail and, in partnership with QinetiQ, were appointed preferred bidder on a major Ministry of Defence (MoD) outsourcing contract. This phase of growth for Land Securities Trillium is significant because property outsourcing and PPP bring greater benefits from economies of scale than property investment.

The UK economy is performing strongly. We expect growth in rental values across our investment portfolio to be slightly above trend in the short-term, driven particularly by buoyant leasing conditions in the London office market.

However, the year end valuation of our investment portfolio showed a slowing in the rate of growth in capital values in the second half of the year. This is consistent with our view that the yield re-pricing of UK property assets is close to having run its course and, indeed, lesser quality property investments in the retail sector have seen weaker yield pricing and a fall in values over the past six to nine months.

Against this background, we expect our property investment business to achieve outperformance on a relative basis primarily through our development capabilities and the scale of our development programme. We are also pleased to be investing substantial capital in property outsourcing and PPP/PFI (PPP) contracts, which offer attractive return prospects with low volatility.

Group pre-tax return on equity

21.1%

Full year dividend per share

53.0p

Increase in dividend over three years

42.9%

Business review

In this section:

- Conversion to REIT status
- Market dynamics and competitive landscape
- Key opportunities and risks
- Sustainable development

Introduction

Over the year we made excellent progress with our development programme. We also delivered on our aspirations to grow Land Securities Trillium by committing in excess of £1.4bn to acquisitions and new contracts for this business unit.

Most notably during the period we converted to REIT status. This beneficial change in tax status for the Group is explained in more detail later in this review. Following conversion and our exemption from future capital gains tax, we have accelerated our sales programme, particularly in the retail sector. The low level of prevailing yields relative to our marginal cost of debt means that this sales programme will be accretive to earnings.

Our combined portfolio delivered a total property return of 16.2%, outperforming the IPD Quarterly Index by 0.3%. This outperformance was attributable to our significant exposure to the buoyant London office market and also to development activities. The valuation surplus on our developments was £453.9m, which represented 33% of the overall valuation surplus on 17% of the assets. At the sector level, our assets underperformed their IPD sector benchmarks. This is largely explained by less positive rental value growth on our retail warehouse portfolio and the older office buildings in our Victoria estate.

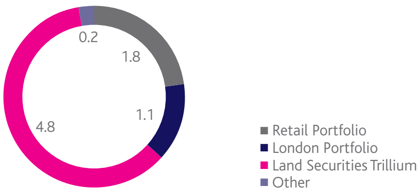
The growth in Land Securities Trillium came from the £910.5m acquisition of SMIF (the largest PPP investment business in the UK); the £439.0m acquisition of a hotel portfolio from Accor involving the provision of maintenance services; and a £71.1m property outsourcing contract with Royal Mail. In addition, our Metrix joint venture with QinetiQ was selected as preferred bidder on Package 1 of the MoD training outsourcing contract and provisional preferred bidder on Package 2.

Regulatory

The most important change in our regulatory environment was the new legislation introducing REITs in the UK from 1 January 2007 and, on that day, we elected to convert to REIT status. A REIT is a listed entity, whose main business is to invest in property and which enjoys exemption from UK corporation tax on income and capital gains from qualifying property. In return, a REIT is required to distribute to shareholders a minimum of 90% of its taxable profits from qualifying properties. Conversion to REIT status eliminated our latent capital gains tax liability on qualifying assets, which stood at £1,327m. This represents a 282p per share increase in our net asset value. However, this is partially offset by our liability on REIT conversion to a one-off tax charge calculated at 2% of the gross value of our qualifying properties. This tax charge is expected to be approximately £315.0m or 67p per share. Although it will be payable in July 2007 it has been recognised in this year's results.

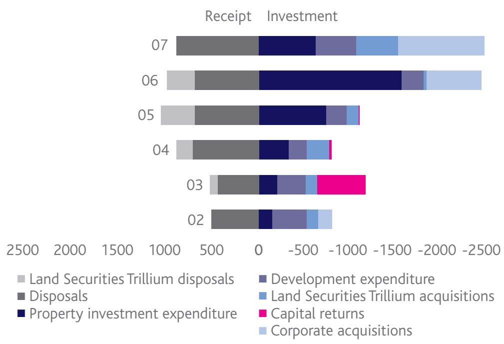
Our Business review follows the successful format we introduced a year ago. Certain sections remain largely unchanged from last year, notably the information relating to our business model and business risks. We have repeated these sections as investors new to our business may appreciate this information.

Chart 5
Floorspace under management (million m^2)



Growth in floorspace under management reflects a year of very strong new business performance by Land Securities Trillium.

Chart 6
Active capital management (£m)



REIT conversion is not expected to constrain our business operations but rather provide some significant benefits which relate predominantly to tax. As we will no longer be subject to capital gains tax on the disposal of qualifying properties, this removes tax considerations in respect of selling property assets from the investment portfolio. In addition, our new tax status has boosted our post-tax returns relative to our weighted average cost of capital.

As expected, our tax exempt activities include the majority of our property outsourcing business and also development activities if the developments are subsequently held as investments. For the full year, almost 90% of the income generated by the Group came from qualifying activities. A REIT is permitted to have up to 25% of its business, measured by both profits and gross assets, in non-qualifying taxable activities. We intend to use this capacity where we can identify opportunities which produce post-tax returns that are attractive relative to the untaxed returns from qualifying activities. An example of this is the PPP business, SMIF, which we acquired in February of this year and will be tax paying.

We have also announced a substantial increase in our dividend, which reflects the increased tax savings we will enjoy as a REIT. This is covered in more detail on page 27.

Competitive landscape

Land Securities operates principally in the UK commercial property market. We were one of the world's five largest REITs as measured by market capitalisation at 31 March 2007, which at £10.1bn represented 28.5% of the UK REIT sector *(Table 7)*. We have a diversified business model focused on retail property, London offices and property outsourcing. Within these core sectors our activities include property management, investment, development and the provision of property related services. We are the only REIT to operate on a significant scale in the property outsourcing market.

Since 1 January, 61.0% of the UK quoted property sector has elected for REIT status and this emerging sector now has a total market capitalisation of £35.3bn. We expect further growth in the sector over time with the flotation of new REITs.

The UK commercial property market has an estimated total value of £710bn, excluding Government-owned property, with approximately half of this market held by owner occupiers. Of the balance, which comprises the property investment market, only around 15% is held in REITs. Experience in other countries following the introduction of REIT structures indicates that it is reasonable to anticipate a substantial growth in the size of the quoted REIT sector in the medium-term even if, as we expect, only a small proportion of pension funds and other property investors move their holdings from direct property to REITs.

Over the second half of the financial year we have seen a moderation in the level of investor demand for commercial property investments. Demand for London office investments is still strong, albeit less so, and the retail property investment market has seen a return to equilibrium conditions. However, the fundamental attractions of the UK commercial property markets remain. These include economic and political stability together with the UK's long-term lease structure. The reduction in investor demand has made the investment market less competitive in certain sectors, but property yields are still at a level which makes acquisitions less attractive than development and property outsourcing. This is where we continue to focus our activities while remaining alert to selective property acquisitions.

The scale of our business continues to be a source of competitive advantage, as demonstrated by our ability to finance large scale development and investment acquisitions at a lower cost of debt than many others in the industry. We also have a relatively large market share of the sectors in which we invest, which provides competitive advantage in terms of relationship management with key customers. We plan to continue capitalising on this to increase market share in each of our core markets.

Land Securities combined portfolio value at 31 March 2007

£14.8bn

Table 7
REIT rank at 31 March 2007

Rank	REIT	Market cap £bn
1	Westfield Group	15.04
2	Simon Property Group Inc	12.57
3	Land Securities	10.07
4	Vornado Realty Trust	9.22
5	Prologis	8.48
6	Public Storage	8.22
7	General Growth Props	8.03
8	British Land	7.97
9	Equity Residential Trust Properties	7.23
10	Boston Properties	7.12

Source: Datastream

London continues to be a vibrant and growing centre for business, government, retail and tourism.

Report of the Directors

The following section talks about a number of key areas of interest, from our business model to customers, from risks to our approach to learning and development. Previous readers of our Annual Report may know much of what follows, but we feel this section will provide important background information for many people.

Our business

Although diversified in terms of activities, there are some common elements to the business environment which impact on our business as a whole.

While it is easier to predict the supply side for the property market by examining trends on new floorspace under construction, it is our experience that the demand side, whether it be business expansion or consumer expenditure trends, is a more important factor in determining growth in rental values. Consumer trends are influenced by earnings growth, unemployment levels and interest rates. Trends in consumer spending also impact growth prospects for an increasing number of businesses in the UK. While macro-economic conditions continue to be reasonably stable, there is evidence of some pressure on consumer spending from higher interest rates, tax increases, energy costs and personal debt. With continued growth in average earnings and unemployment still at relatively low levels, we have not seen and do not expect severe weaknesses in the retail property sector, but rental growth prospects have moderated.

By contrast, employment growth in London has been strongly buoyed by the performance of the financial services sector. This has generated strong rental growth for our London office portfolio and will continue to do so as vacancy rates for London offices reduce to low levels.

There is also a correlation between property yields and bond interest rates. Over the past five years we have seen a sustained property yield shift, largely driven by a reduction in gilt yields and borrowing costs. However, during calendar year 2006, property yields continued to reduce at a time when interest rates for borrowing increased. We see little scope for property yields to fall much further. Indeed, towards the end of this financial year, it became evident that yield shift had slowed substantially. Under these circumstances, we believe that our capabilities as a developer and our activities within the property outsourcing business will continue to differentiate Land Securities in terms of future value generation.

Our business model

The next three sections describe the common elements of the Land Securities business model.

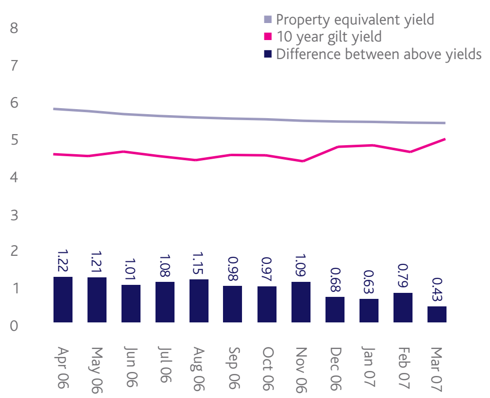
Owning property

At the core of our activities is the ownership of commercial property. Our portfolio is now concentrated on larger assets, which provide better opportunities for us to benefit from our scale as well as our asset and property management skills. We own 219 investment properties across the country with an average property value of £67.4m (2006: £58.6m). The combined portfolio, which includes our share of the value of assets held in joint ventures, was valued at £14.8bn (2006: £12.9bn) by Knight Frank LLP, our external valuers.

In addition, through Land Securities Trillium, we manage or own over 2,000 buildings. Those we own are held as fixed assets on our balance sheet at £1.0bn (2006: £0.6bn). This is split between investment properties at £0.4bn and operating properties at £0.6bn. The main difference between investment and operating properties is that, with the former, we provide limited additional services

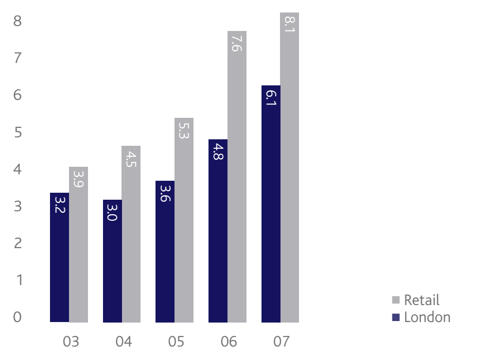
With yields reducing, we have focused on areas where we can add value to gain higher returns, such as development and property outsourcing.

Chart 8
Yield pricing relative to gilt yields (%)



Source: IPD

Chart 9
Retail and London offices valuations at 31 March (£bn)



to the occupiers, whereas with the latter we provide a broad range of facilities management services. We hold the operating properties on our balance sheet at depreciated book cost and do not revalue them in the balance sheet, unlike our investment properties which are externally valued twice a year.

Efficiently financed and actively managed investment in well-let property is relatively low risk and the vast majority of our portfolio is just that. This is particularly true if the property benefits from the traditional UK lease structure, which has two unique attributes from an international perspective. The first is the long-term nature of the leases, which usually last more than 10 years and in many instances can be as long as 25 years. The second is that most leases include an upward-only rent review clause. Increasingly, occupiers are seeking a wider range of choice on lease terms or forms of contract for occupying property, and we address this through our property outsourcing business and the expansion of our Landflex office product.

We expect our activities to generate investment returns in excess of our cost of capital, with target returns of approximately 8% on investment property before taking borrowing into account, and slightly higher returns from our property outsourcing and development activities reflecting their relatively higher degree of risk. In *Table 10* we list some of the key risks we believe are involved in property investment.

How do we define an 'investment property'?
An investment property is one held by an investor to deliver rental or capital growth, or both. A property's value can change according to a number of factors, including rental growth prospects, the level of demand for property from investors, and exceptional strategic or location factors.

Table 10
Property investment – principal risks

Risk description	Impact	Mitigation
Market cycle ■ Property markets are cyclical	■ Underperformance of investment portfolio impacting on financial performance	■ Diversified business model – outsourcing is less impacted by market cycles ■ Secure income flows under UK lease structure ■ Annual investment appraisals
Property risk ■ Asset value concentration	■ Poor performance of a single asset having material impact on overall performance	■ Diversified portfolio ■ Largest property represents only 5.2% of combined portfolio ■ Average investment property lot size of £67m
Tenant risk ■ Tenant concentration	■ Impact on revenue if a major occupier fails	■ Diversified tenant base ■ Government is the largest single customer representing 10.1% gross rents with the next largest representing only 2.0% ■ Of our income, 75% is derived from tenants which make less than a 1% contribution to rent roll
Health, safety and environment risk ■ Responsibility for the safety of visitors to our properties and our environmental performance	■ Impact on reputation or potential criminal proceedings resulting in financial impact	■ Annual cycle of health and safety audits ■ Quarterly Board reporting ■ Dedicated specialist personnel for environment and health and safety ■ Established policy and procedures, including award-winning health and safety system and ISO 14001 certified environmental management system ■ Active environment programme addressing key areas of impact (energy and waste)

Developing property

One of Land Securities' key differentiators is our ability to deliver large, complex, mixed use developments both on our own behalf and for third-party clients. We are one of only a handful of UK companies today which has these capabilities. Our target investment return for development activities is between 11% and 14%. Through development we continue to renew our portfolio and create assets of a quality seldom available on the open investment market. It is an activity where our achievements demonstrate real competitive advantage, especially if you consider that negotiating the labyrinthine planning system in the UK is but one element of an enormously complex regeneration process.

Table 11
Group development activity

	No. of projects	Floor-space m²	TDC[1] £m	ERV[2] £m
Retail Portfolio				
Programme	9	269,970	1,075	70
Proposed development	1	4,180	10	1
Total pipeline	10	274,150	1,085	71
London Portfolio				
Programme	8	283,500	1,871	148
Proposed development	2	91,280	827	58
Total pipeline	10	374,780	2,698	206
Land Securities				
Third party	2	114,790	n/a	n/a
Land Securities Trillium				
Third party	2	94,290	n/a	n/a

1. TDC: Total Development Cost
2. ERV: Estimated Rental Value

Table 11 shows all the development currently being planned by us. In the year under review we spent £582.4m (2006: £488.7m) on development activity and we expect this level of spend will continue at similar levels over the next few years. Our ability to deliver complex development projects relies upon a range of skills built up over a number of years which incorporate site assembly, design, project management, public consultation and change management capabilities. We now have a team of 80 people involved in the delivery of development projects addressing the numerous requirements of our stakeholder groups *(Table 12)*.

Development is one way to create additional value for shareholders with our ongoing developments contributing £453.9m (21.9% valuation surplus) (2006: £310.4m or 28.2% valuation surplus) this year to the uplift in our valuation. However, we have to manage the risks inherent in this activity as described in *Table 13*.

One of the key areas of risk in development is the successful letting and management of construction contracts, where we transfer a number of key risks to our development contractors. We have seen an increase in the number of new developments coming on line and are already seeing inflationary pressure in the supply chain. In mitigation our project management team has been working closely with a number of our contractors to address this.

Table 13
Property development – principal risks

Risk description	Impact	Mitigation
Site assembly risk ■ Third-party interests in part of site cannot be acquired	■ Unable to progress development either in time, at all, or within budget	■ Policy of buying into all or part of future development sites early as income-producing investments ■ Experience of Compulsory Purchase Order procedures
Planning risk ■ Development proposals fail to gain sufficient support and therefore planning consent	■ Unable to progress developments in a timely manner	Development expertise including: ■ Skilled development management teams ■ Public consultation and change management capabilities ■ Long-standing relationships with key development stakeholders ■ Reputation
Construction risk ■ Construction cost overruns or poor management of construction	■ Returns are eroded by cost overruns or project completion is delayed	■ Transfer of risk to specialist contractors ■ Skilled project management teams
■ Construction cost inflation	■ Cost in excess of assumptions in appraisal	■ Adequate provision in appraisals ■ Forward purchase of high inflation risk items
■ Supplier capacity and capability	■ Lack of competitive tension ■ Poor performance by suppliers ■ Contractor less willing to take on risk	■ Closer, more open relationship with the supply chain
Letting risk ■ Development remains unlet after completion or fails to meet lettings target	■ Impact on profit	■ Experienced and skilled in-house leasing teams ■ Risk evaluation model to ensure that dividend remains covered by forecast earnings in the unlikely situation that all of our London developments remain 100% vacant and retail schemes are only 65% let
Health, safety and environment risk ■ Construction is a high risk activity in terms of health and safety	■ Impact on reputation ■ Potential criminal proceedings ■ Financial impact of above	■ Advanced health and safety training programme in place, working in conjunction with our contractors
■ The environmental performance of a building is increasingly important	■ Corporate reputation ■ Reluctance by occupiers to lease	■ All of our office development schemes are subject to BREEAM (energy performance) ratings with a minimum target rating of Very Good ■ Implementation of sustainable development process checklist

Table 12
Development stakeholder groups

Stage	Stakeholder
Site assembly	■ Adjacent owners ■ Local authorities
Design	■ CABE ■ Energy consultants and BREEAM ■ Heritage bodies ■ Local authorities
Public consultation	■ Businesses ■ Local authorities ■ Residents ■ Schools and other community organisations ■ Transport
Planning	■ Department for Communities and Local Government ■ Local authorities ■ Local communities
Construction	■ Contractors ■ Design team ■ Local communities
Letting	■ Agents ■ Occupiers

2006/07 expenditure on development

£0.6bn

Along with many other property businesses, we are seeing inflationary pressure in our supply chain. In response, we have reviewed our procurement processes and supplier relationships, and we are introducing new approaches that better manage procurement and risk.

The regeneration of the centre of Exeter is proving popular with local people and will put the city on the UK shopping map.

Sustainable development

We are very aware of the long-term impact of development activities, both economically and environmentally, on the communities that these developments support. We address this issue in greater detail in both our recently published 2007 Corporate Responsibility Report and our Sustainable Development Brochure, which are available on our website. These detail the key aspects we consider when planning a major new project and are described in *Table 14*.

Table 14
Sustainable development

Significant environmental aspects	Other sustainability issues
■ Mitigation of local environmental impact	■ Economic regeneration and attracting inward investment
■ Reuse and recycling of demolition waste and use of recycled materials in construction	■ Community/stakeholder involvement in decision-making process
■ Habitat enhancement to promote biodiversity	■ Design and integration into existing communities, including uses and housing
■ Reduction of carbon emissions of developments through design, energy efficient technology and use of renewable energy sources	■ Building an effective social infrastructure
■ Inclusion of facilities for the storage and collection of waste to facilitate recycling	■ Employment creation and skills training
■ Transport surveys and integration of developments with public transport systems	■ Crime prevention – through better design of public spaces
■ Climate change and mitigation	■ Use of local labour, suppliers and materials
■ Water resources	

An increasing number of organisations and individuals care about the environment, so our commitment to sustainable development gives us a clear advantage when bidding for new contracts.

Property Partnerships

Our Property Partnerships business, Land Securities Trillium, differs from the conventional property investment market in that it offers customers a wider range of property or accommodation services than under a conventional lease, which simply grants a right to occupy. The wider services can encompass some or all of the following: refurbishment, development, cleaning, security, catering, furniture provision, maintenance, disposal of surplus properties and pre-paid vacation rights. We provide these services at a predetermined price, and so act as a principal rather than in an agency capacity.

We typically reference the pricing of these services over the life of the contract to inflation rather than to increases in property rental values. For customers, it is easier to budget for inflationary increases rather than the more volatile changes in property rental values.

Our Property Partnerships business offers two types of contract. The first is the PFI or PPP contracts now commonly used by public sector bodies to deliver new or upgraded accommodation. Under these contracts, public sector bodies look to a private sector provider to design and construct, or refurbish, a building and subsequently maintain it for the life of a contract of 25 or 30 years' duration. Ownership of the property is not transferred to the service provider, who is simply entitled to an income stream to reflect the construction costs and subsequent maintenance costs spread over the life of the contract.

The second form of contract, property outsourcing, differs from PPP contracts in a number of respects: the contracts commonly cover a larger portfolio of properties; they involve the transfer of property ownership rights or liabilities (the provider acquires the freehold interest or undertakes to meet the rental and other liabilities under a lease to a third-party landlord); they typically involve a wider range of services, such as facilities management; and also real estate activities such as managing surplus properties with pre-paid vacation rights. There is no single definition of property outsourcing as it offers tailor-made solutions to individual clients. In essence, property outsourcing involves the transfer of an organisation's capital investment in buildings together with the risks and operational management to an expert property partner. The client organisation converts its property assets and liabilities into an integrated property contract with a single provider and with price predictability.

Last year we stated our intention to access the Public Private Partnership market – a major growth area for our property outsourcing business. Strengthened by our acquisition of SMIF, we are now a market-leading provider of PPP solutions.

Property Partnerships (m^2)

4.8 million

Commercial accommodation under management

Land Securities Trillium benefits from high-quality cashflows under these long-term contracts, which are typically for 20 years or more and are backed by public sector or strong corporate covenants. The wide range of services undertaken by Land Securities Trillium implies a greater risk transfer than on conventional property investment, and we seek a higher rate of return to compensate for this extra risk transfer. From our point of view, the nature of the risks are also different in our Property Partnerships business; whereas the principal risk in conventional property investment is the cyclicality of the market, the main risks under Property Partnerships are within our control and so we have greater certainty of outcome on returns provided we can manage those risks satisfactorily. *Table 15* outlines risks involved in Property Partnerships.

The capital invested in our Property Partnerships business is held on our balance sheet as operating properties, investment properties, or finance leases, depending on the form of contract. Investment properties are revalued at each financial reporting date and the revalued amount recorded in the balance sheet shows the current fair value of the asset; the total return from an investment property comes partly in the form of income and partly from the revaluation surplus (or deficit). In contrast, finance leases and operating properties are held in the balance sheet at cost less amortisation and depreciation respectively. This means that the total return comes in the form of income and that the figure recorded in the balance sheet does not necessarily represent the current fair value of the contract.

We provide a full range of property management expertise, from cost-base analysis to cleaning.

Table 15
Property Partnerships – principal risks

Risk description	Impact	Mitigation
New business risk ■ Unable to originate and win attractive new business	■ Market pressure pushes down returns on new business growth opportunities creating a potential mismatch with investors' return expectations	■ Dedicated new business team ■ Established bid process framework ■ Regular Investment Committee review
Market change in perception of infrastructure assets ■ Risk of change in market perception of infrastructure assets either in terms of appetite to invest or required return	■ May impede performance of infrastructure fund	■ Proactively source appropriate fund investors
Service partners risk ■ Performance of service partners	■ Impact on reputation and potential financial penalties should service partners not deliver to agreed standards	■ Regular assessment of service partners' performance ■ Ongoing suppliers performance reviews ■ Contingency plan set up with alternative suppliers where appropriate
Vacation of space risk ■ Client space remains unlet after vacation	■ Impact on income as a result of shortfall in rental income and ongoing holding costs	■ Specialist national disposals team manages surplus space
Head rent growth risk ■ Inflation on head rents payable higher than increases in unitary charge	■ Growth of head rent on leasehold properties with negative effect on income statement	■ Budgetary forecasts to asset level ■ Lease restructuring/rent review processes ■ Freehold buy-ins ■ Hedging income from freehold against leasehold properties
Health, safety and environmental risk ■ Responsibility for the health and safety and environmental risks on behalf of clients and their employees	■ Impact on reputation or potential criminal proceedings resulting in financial impact	■ Annual cycle of health and safety audits ■ Quarterly Board reporting ■ Dedicated specialist personnel for environment and health and safety ■ Established policy and procedures including award-winning health and safety system and ISO 14001 certified environmental management system ■ Active environment programme addressing key areas of impact (energy and waste)

Our customers

We are responsible for providing business accommodation to over 2,000 organisations across our 2.8 million m^2 investment property business. We have a total of 5,311 separate leases with occupiers as well as providing 4.8 million m^2 of accommodation to our seven property outsourcing clients and 105 PPP clients. The majority of our relationships are long-term, with an average lease length of 10 years and an average property outsourcing contract length of 24 years.

Our investment portfolio customers fall into two main groups: occupiers of retail accommodation and occupiers of London commercial accommodation. Our tenants include multi-national retailers, leisure and restaurant operators, Government departments, financial service and banking organisations, law firms and consultancy practices, major corporations as well as small independent retailers and office occupiers.

Over the past few years we have seen enormous changes to the contractual relationship between occupiers and property owners. The key drivers of these changes are global businesses seeking more flexible ways to procure accommodation in line with practices overseas, together with occupier dissatisfaction with certain aspects of the typical UK lease structure. In response to this our business units have developed a wide variety of different products for occupiers which include:

- Property outsourcing
- Landflex
- Index-linked leases
- Outsourced service contracts
- Turnover linked retail leases

The majority of these products are focused on the office occupier, but we continue to develop new leasing products for retail occupiers who have different occupational needs. We believe that there will still be demand for traditional leases but, as the demands of modern business change, so will the dynamics of the way in which we provide accommodation. The challenge for us is to ensure that we satisfactorily blend the introduction of new products with more traditional leases, which we believe will continue to be the preferred option for both occupiers and ourselves.

Customer service

We are responsible for the provision of customer services and property management activities across both the properties held in our investment portfolio and those held by Land Securities Trillium. These services can include:

- Repairs and maintenance
- Security and building reception services
- Cleaning
- Key services, such as electricity, water and waste
- Insurance
- Promotional and marketing activity (at shopping centres)

On the investment portfolio, these are procured and managed by us and the related costs charged back to our occupiers through an annual service charge. This is potentially an area of contention between an occupier and the property owner, and we have worked hard over the past few years to provide transparent communication on service charges to our occupiers.

In property outsourcing, these costs are included in the annual unitary charge and we provide more detail on our activities under the Property Partnerships section in this review.

Unlike many of our peer group, we do not outsource our customer service responsibilities, although we may well outsource much of the service provision itself. Instead we have developed strong in-house capabilities which we believe improve dialogue and lines of communication with our occupiers and clients, and is increasingly a differentiator as we seek to consolidate these relationships.

We conduct annual customer satisfaction surveys across our business and believe that willingness to recommend Land Securities as a landlord is a key measure of our performance.

Landflex offices

72,000m^2

We have two types of investment portfolio customer – retailers, and businesses and public sector bodies which occupy offices in London.

In the past year we were pleased to note a greater than 84% willingness to recommend us as a landlord by those customers surveyed. We believe our approach to customer service differentiates Land Securities from other providers of commercial property accommodation, strengthening our ability to attract both new and retain existing customers, and enhancing our market leading reputation.

New business

Our new business activities incorporate the acquisition of single buildings or portfolios together with corporate acquisitions; the creation and expansion of joint ventures; identification and entry into new markets; the letting of new developments as well as the securing of lettings and renewal of leases across the investment portfolio; and the winning of new Property Partnership contracts.

Much of this activity is conducted at business unit level. For example, Retail Portfolio and London Portfolio have leasing, asset and investment professionals who are focused on securing lettings across the development programme and ensuring that we minimise the levels of vacancy across the portfolios. This year we have let 143,000m^2 (2006: 83,600m^2) of new developments. This represents future annual income of £43.9m (2006: £31.7m).

Three years ago we created a Group business development team to assist with more complex corporate or portfolio transactions and to examine opportunities for expansion into new non-core activities. Last year the team introduced transactions into the business valued at £1.4bn, including the SMIF and Accor Hotel deals for Land Securities Trillium and worked with the Retail and London Portfolio business units on a number of disposals.

Our people

We continue to make good progress in delivering our human resource strategy covering the four core areas of:

- Communication and engagement
- Reward and recognition
- Learning and development
- Succession planning and talent management

People remain key to the ongoing growth and success of our business and this drives our strategy to become the employer of choice in the property sector. Our objective is to attract, retain and develop high-performing employees who can add value to the business for our stakeholders.

Communication and engagement

We have a geographically spread and diverse workforce, with about half our employees located outside our headquarters or regional offices, and we are keen to engage with these employees as well as their office-based colleagues. We also want to ensure that all employees see communication as a two-way process. Our business exchange forums, which meet every three months, comprise an elected representative group of employees who meet with senior management. Our annual employee engagement survey provides a forum for all employees to comment on business issues and we received a significant response rate to this survey this year of 84%. The results were communicated to all employees in January 2007.

While results were positive, with scores in the 'Excellent' category compared to the external benchmarks, the survey highlighted two areas for improvement:

- Ensure more active career management
- Ensure our salaries and benefits remain competitive in a buoyant market

As is the case in previous years we have put together detailed action plans to address these areas for improvement.

Employee satisfaction

83%

of employees at Land Securities feel positive about their jobs

Land Securities as an employer

87%

of employees believe Land Securities is a better employer than other companies

Our annual employee engagement survey enables every Land Securities employee to comment on the Company, management, colleagues and their own performance.

Reward and recognition

To remain competitive and to recruit and retain the people we need, we externally benchmark remuneration packages against a range of comparable organisations and professional skills areas. In addition to base salary, the majority of our employees participate in performance related bonus schemes and are eligible for a range of benefits including defined benefit (now closed to new members) or defined contribution pension schemes, health and life insurance, and a range of 'salary sacrifice' and discount scheme benefits.

Learning and development

We were delighted that the success of our learning and development programme was recognised by the award of Investor in People accreditation across the Group. Investors in People assessors stated that we demonstrated top quartile performance in all areas of the standard. Their report commented: "The quality and quantity of evidence provided by the people selected enabled the assessors to make a unanimous decision that Land Securities was fully meeting the requirements of the Standard before the end of their planned time on site".

Our learning and development activities have been devised to focus on the core skills and behaviours identified as essential to the successful achievement of our business objectives. In particular, the property industry is recognised for developing highly technical managers, and we have introduced a number of leadership programmes to ensure that our leadership skills are comparable to our technical expertise.

People are key to the success of our business and we value their talents and contribution at every level. Our Investor in People accreditation recognises the quality of the learning and development offering we provide.

Talent and succession planning

Extensive work has been undertaken to ensure we focus on attracting new talent as well as developing existing talent across the organisation. Key positions across the Group have been filled both by promotions within the existing employee population and by successful new hires.

Employment policies

It is the Group's policy to treat its employees without discrimination and to operate equal opportunity employment practices designed to achieve this end. Furthermore, it is the Group's policy to give full and fair consideration to applications for employment made by disabled people; to continue, wherever possible, the employment of staff who become disabled; and to provide equal opportunities for the training and career development of disabled employees.

Business planning

Land Securities has in place a rigorous business planning process, with a five year rolling Group forecast supported by annual Group and business unit plans and balanced scorecards. Every six months our performance against these is communicated to employees.

Business plan

Our business plan is based on inputs from our five year asset based forecast, which reflect the current structure of our business together with our predictions for market conditions. We then overlay assumptions on target gearing levels and capital allocation across our core sectors and between investment acquisitions and sales, development and outsourcing to achieve ongoing growth in net asset value and earnings.

Balanced scorecard

We are strong advocates of balanced scorecards, which look at quantitative performance measures across the full spectrum of finance, customer, employee, process and innovation. We have had a balanced scorecard in place for three years, and it has particularly helped us to focus on customer service and the interaction between our teams and customers. We see the results of the balanced scorecard as a lead indicator for the health of the business.

The impact of REITs

Qualifying activities

89%

Profits test: performance year to 31 March 2007

As this is the first time we have reported our results as a REIT, we explain here what a REIT is and what conversion means for our financial results.

A REIT is a listed entity which invests in UK property and enjoys exemption from corporation tax on qualifying rental income and on the gains on disposal of qualifying properties.

As a REIT, our favourable tax status will allow Land Securities to pay higher dividends to shareholders than if we had not elected for REIT status. It will provide greater flexibility to undertake asset disposals since we no longer have to take account of tax on capital gains on disposal. In total, across our investment property portfolio, a latent capital gains tax liability of £1.3bn has been eliminated.

REIT status enables our shareholders to gain indirect exposure to property investments on a similar tax basis to direct property ownership while benefiting from greater liquidity, a diversified portfolio, experienced management, and lower transaction and management costs. Shareholders should also benefit from the higher dividends referred to above. Although certain classes of shareholder will be subject to withholding tax, it is likely that almost all shareholders will receive higher net dividends.

Key financial impacts of REIT conversion

	Assume no conversion to a REIT £m	Conversion charge £m	Deferred tax release £m	Tax saving on exempt business £m	Results following conversion £m
Profit before tax	1,979.1	–	–	–	1,979.1
Tax at 30% on profits	593.7	–	–	–	593.7
Non-taxable/disallowable items	(48.6)	315.0	(2,309.2)	(100.1)	(2,142.9)
Tax charge/(credit)	545.1	315.0	(2,309.2)	(100.1)	(1,549.2)

What impact has converting to a REIT had on Land Securities' financial statements? There have been three principal effects of converting to a REIT on 1 January 2007:

1. Conversion charge

To convert to a REIT the Group is obliged to pay a one-off conversion charge of approximately £315.0m. The conversion charge is calculated as 2% of the Group's REIT qualifying assets. The conversion charge represents a cash outflow, and will be paid in July 2007. The liability for the conversion charge has been provided for in these financial statements and has been classified as an exceptional item on our income statement.

2. Release of deferred tax

Deferred tax in respect of qualifying activities that had been accrued prior to the conversion to a REIT has been released to the income statement as it is no longer required.

The deferred tax released relates primarily to revaluation surpluses (£1,962.4m), accelerated tax depreciation (£157.7m), and the bond exchange de-recognition adjustment (£157.1m). In addition to the £2,309.2m released in the Group, a further £98.0m has been released in the Group's joint ventures. The deferred tax release is a non-cash item and has been treated as exceptional.

3. Taxation on results post 1 January 2007

Profits made by Land Securities prior to conversion to a REIT on 1 January 2007 were subject to the normal UK taxation regime. Profits arising from qualifying properties subsequent to the conversion are exempt from UK corporation taxation. Approximately 89% of the Group's activities qualify for tax exempt status and this has resulted in a reduction in the tax charge of £100.1m.

It should be noted that only £52.9m is a reduction in corporation tax (that is, a cash saving). The remainder is principally deferred tax on revaluation surpluses.

In future financial years, profits from qualifying properties will be exempt from UK corporation tax for the full year.

Financial review

In this section:
- Key financial results
- Earnings per share
- Drivers of performance
- Financing strategy and financial structure

Martin Greenslade

This year, our numbers reflect the impact of our conversion to REIT status from 1 January 2007. The impact on our dividends and the balance of business that we can conduct is outlined in this section.

Headline results

Profit before tax was £1,979.1m, down from £2,359.2m a year ago. Revenue profit, our measure of underlying profit before tax, increased from £391.3m to £392.2m. Earnings per share more than doubled to 753.59p (2006: 357.95p) with adjusted diluted earnings per share showing a 0.4% decrease on the last year to 70.20p (2006: 70.47p).

The impact of conversion to REIT status has resulted in three exceptional items, two of which affect our post-tax results. The first is the £315.0m conversion charge payable in July this year. The second is the release of a £2,309.2m deferred tax provision, a non-cash item, relating primarily to the accumulated valuation surplus on the investment portfolio. The third is a net exceptional tax credit of £98.0m in respect of joint ventures, which is disclosed within profit before tax as part of our share of the joint ventures post-tax profits. The net effect of these three exceptional items is to increase profit after tax by £2,092.2m to £3,528.3m and a 110.5% increase in earnings per share. Adjusted diluted earnings per share, which is based on revenue profit and removes the effect of the exceptional items related to REIT conversion, showed a marginal decrease of 0.4%.

The combined portfolio rose in value from £12.9bn to £14.8bn. This included a valuation surplus of £1,396.3m or 10.6%. Net assets per share rose by 44.3% to 2304p from 1597p, with adjusted diluted net assets per share rising by 14.1% to 2181p (2006: 1912p).

Profit before tax

The main drivers of our profit before tax performance are the change in value of our investment portfolio (including any profits or losses on disposal of properties), our net rental income, the performance of our Property Partnerships business, Land Securities Trillium, and the amount of interest we paid. The degree to which movement on these and other items led to the reduction against last year in our profit before tax to £1,979.1m (2006: £2,359.2m) is explained in *Table 16* below.

Table 16
Principal changes in profit before tax and revenue profit

	Profit before tax £m	Revenue profit £m
Year ended 31 March 2006	2,359.2	391.3
Valuation surplus	(302.3)	–
Profit on disposal of Telereal[1]	(293.0)	–
Distributions received from Telereal[2]	(11.7)	–
Impact of Telereal sale 30 September 2005[2]	–	(16.1)
Profit on disposal of non-current properties	44.0	–
Profit on sale of trading properties	(3.9)	–
Increase in capitalised interest	7.7	7.7
Amortisation of bond de-recognition[3]	11.0	–
Long-term development contract profits[4]	(7.6)	–
Goodwill impairment[5]	64.5	–
Property outsourcing profit[6]	(2.0)	(2.0)
Net rental and service charge income[7]	60.5	60.5
Indirect costs[8]	(2.5)	(2.5)
Interest on increased debt	(46.7)	(46.7)
Debt restructuring charges	(19.2)	–
Exceptional deferred tax release following REIT conversion within the joint ventures[9]	98.0	–
Other	23.1	–
Year ended 31 March 2007	1,979.1	392.2

Notes:
1. The disposal of our interest in the Telereal joint venture was completed on 30 September 2005.
2. Distributions/profits from Telereal ceased on 30 September 2005 following its disposal, although this has been largely mitigated by the Telereal II contract and interest on the disposal proceeds.
3. The debt instruments issued as part of the refinancing in November 2004 do not meet the requirements of IAS39 as they are not deemed to be substantially different from the debt they replaced. As a result, the book value of the new instruments is reduced to the book value of the debt it replaced and the difference is amortised over the life of the new instruments. The decrease in amortisation over the comparable period is a reflection of the maturity profile of debt replaced.
4. Lower levels of activity, with the recognition of profits on the development contract at Broadcasting House being below the profit recognised on Bankside 1 in the previous year.
5. Goodwill arising on the acquisition of Tops Estates PLC in June 2005 was impaired in the year ended 31 March 2006. There was no goodwill impairment in the current year.
6. Lower profits on DWP following increased vacation, offset by increases in Telereal II and Norwich Union.
7. Increase in rental income and service charge income is largely driven by acquisitions made in the year ended 31 March 2006.
8. Primarily due to higher staff costs for existing employees and increased employee numbers following acquisitions.
9. The results of joint ventures are reported post-tax.

Revenue profit

Revenue profit is our measure of the underlying pre-tax profit of the Group, which we use internally to assess our performance. It includes the pre-tax results of our joint ventures but excludes capital and other one-off items such as the valuation surplus, gains on disposals and profits on long-term development contracts.

Revenue profit for the year grew by 0.2% from £391.3m to £392.2m. An explanation of the year on year change is also given in *Table 16*.

While Land Securities Trillium's operating profit is at a similar level to last year, there has been a decline of £21.5m at the revenue profit level, which is largely attributable to interest on the SMIF acquisition and the anticipated decline in profitability on the DWP contract. In addition, while operating profits have increased on certain contracts so too has the associated capital employed, and allocated interest cost, leading to a smaller pre-tax profit increase. Within London Portfolio, we have lost rental income as we freed up properties for redevelopment with no associated reduction in interest costs. At a Group level, the decline in underlying pre-tax profits in Land Securities Trillium and the loss of rental income in London have been offset by an increase in passing rents in our Retail Portfolio leading to the small increase in revenue profit over last year.

Towards the end of the financial year, Land Securities Trillium purchased SMIF, a business which owns and provides management services to PPP contracts. It has been our intention from the outset to divest the PPP contracts by transferring them to a fund and bringing in outside investors while maintaining a minority interest. We have therefore accounted for these assets as a disposal group. The implications of this are that we do not consolidate the individual assets and liabilities of the PPP contracts. Instead, they are held in the balance sheet at fair value less costs to sell and we do not recognise our share of the underlying net income of the PPP projects. However, we do include the interest cost of the loan associated with acquiring SMIF in Group revenue profit.

We are delighted to have a wide range of shareholders, from individuals to some of the world's largest institutions.

Reconciliation between profit before tax and revenue profit is shown in *Table 17*.

Table 17
Reconciliation of profit before tax to revenue profit

	Year ended 31/03/07 £m	Year ended 31/03/06 £m
Profit before tax	1,979.1	2,359.2
Valuation surplus – Group	(1,307.6)	(1,579.5)
– joint ventures	(75.1)	(105.5)
Non-current property disposals	(118.4)	(75.3)
Goodwill impairment	–	64.5
Mark-to-market adjustment on interest rate swaps	(17.4)	2.2
Eliminate effect of bond exchange de-recognition	17.1	28.1
Debt restructuring charges	19.2	–
Credit arising from change in pension scheme benefits	–	(8.3)
Profit on disposal of Telereal joint venture	–	(293.0)
Adjustment to restate the Group's share of Telereal earnings from a distribution basis to an equity basis	–	5.0
Joint venture tax adjustment	(76.8)	37.5
Profit on sale of trading properties	(13.6)	(21.7)
Long-term development contract profits	(14.3)	(21.9)
Revenue profit	392.2	391.3

Earnings per share

Basic earnings per share grew by 110.5% to 753.59p (2006: 357.95p), the increase predominantly relating to the one-off tax items associated with our adoption of REIT status, together with the reasons set out in more detail in Taxation below.

In the same way that we adjust profit before tax to remove capital and one-off items to give revenue profit, we also report an adjusted earnings per share figure. This is a post-tax measure and includes some adjustments to revenue profit. The adjustments to earnings per share are set out in note 11 to the financial statements. They are based on the guidance given by European Public Real Estate Association (EPRA), with a limited number of further adjustments to reflect better our underlying earnings. Adjusted diluted earnings per share declined from 70.47p per share in 2006 to 70.20p per share in 2007, a 0.4% decrease. The decline in adjusted earnings per share is attributable to a reduction in profits on long-term development contracts and trading property sales, largely offset by a lower tax rate following REIT conversion.

Total dividend

We are recommending a final dividend payment of 34.0p per share. Taken together with the interim dividend of 19.0p, this makes a full year dividend of 53.0p per share (2006: 46.7p), which represents a 13.5% increase. Part of this substantial increase is attributable to the tax we have saved by being a REIT for the final quarter of this financial year.

REIT conversion also impacts on the make-up of the Group's dividend, which now consists of two components: a Property Income Distribution (PID) from the REIT qualifying activities and a dividend distribution from the non-qualifying activities (non-PID). The aggregate of these two components will still be referred to as our total dividend *(Table 18)*. We are obliged for certain shareholders to withhold tax, currently at a rate of 22% (decreasing to 20% from 6 April 2008), from the PID element of the dividend. Our total dividend is therefore a gross dividend.

Since Land Securities only became a REIT on 1 January 2007, three-quarters of this financial year fell outside REIT status. While only one payment will be made on 23 July 2007, shareholders will find an explanation of the individual components of the total dividend on the tax voucher sent out with the payment. A note on the tax consequences for shareholders and forms to enable certain classes of shareholder to claim exemption from withholding tax are available on our website at www.landsecurities.com

Of the proposed final dividend of 34.0p, only 10.0p is a PID. This is subject to 22% withholding tax for relevant shareholders. Next year we expect a far higher proportion of the total dividend payments to be in the form of a PID.

The full year dividend distribution is covered 1.3 times by adjusted earnings (2006: 1.5 times). Subject to approval by shareholders at the Annual General Meeting to be held on 17 July 2007, the final dividend will be paid on 23 July 2007 to shareholders on the Register on 22 June 2007.

For the 2007/08 financial year, we will be making four dividend payments, in October 2007, January 2008 and April 2008 and (subject to shareholder approval) in July 2008. The first three quarterly payments will be 16.0p per share, implying an increase of over 20% on the 2006/07 year dividend on an annualised basis. The first three quarterly dividends will be 80% PIDs, with the final dividend to be confirmed at the time.

Balance of business tests

REIT legislation specifies conditions in relation to the type of business a REIT may conduct, which the Group is required to meet in order to retain its REIT status. In summary, at least 75% of the Group's profits must be derived from REIT qualifying activities (the 75% profits test) and 75% of the Group's assets must be employed in REIT qualifying activities (the 75% assets test). Qualifying activities means a property rental business. The results of these tests for the Group for the three-month period we were a REIT, the whole financial year (which is more representative of our ongoing position) and at the balance sheet date are shown in *Table 19*.

Table 19
REIT balance of business tests

	For the three months ended/ as at 31 March 2007			For the year ended 31 March 2007		
	Tax-Exempt Business	Residual Business	Adjusted Results	Tax-Exempt Business	Residual Business	Adjusted Results
Adjusted profit before tax (£m)	104.5	4.1	108.6	358.3	42.9	401.2
Balance of business – 75% profits test	96.2%	3.8%		89.3%	10.7%	
Adjusted total assets (£m)	15,695.8	2,111.6	17,807.4			
Balance of business – 75% assets test	88.1%	11.9%				

Total dividend per share

53.0p

Table 18
Total dividend

	Interim Dividend p	Final Dividend p	Total Dividend p
Property income distribution	–	10.0	10.0
Non-property income distribution	19.0	24.0	43.0
Total	19.0	34.0	53.0

Property Income Distribution (PID)

Who can claim exemption from deduction of withholding tax on Property Income Distributions?[1]

- UK companies
- Charities
- Local Authorities
- UK Pension Schemes
- Managers of PEPs, ISAs and Child Trust Funds

Who is unlikely to be able to claim exemption from deduction of withholding tax on Property Income Distributions?

- Overseas shareholders[2]
- Individual private shareholders

1. See Total dividend information on how eligible shareholders can claim exemption.
2. May be able to reclaim some or all of the withholding tax under relevant double taxation treaty.

Net assets

At the financial year end, net assets per share were 2304p, an increase of 707p over the year. A significant part of this increase resulted from our conversion to REIT status, as we were able to release all accumulated deferred tax on revaluation surpluses to 31 December 2006. The impact of this, less our REIT conversion charge, amounted to 447p per share.

In common with other property companies, we calculate an adjusted measure of net assets which we believe better reflects the underlying net assets attributable to shareholders. In previous years, the main adjustment to net assets has been to remove the deferred tax on revaluations. Since we no longer provide for deferred tax on revaluations due to our REIT status, this adjustment is no longer required. As a result, our adjusted net assets are now lower than our reported net assets primarily due to the debt adjustment we continue to make. Under IFRS, we do not show our debt at its nominal value, although we believe it would be more appropriate to do so and we therefore adjust our net assets accordingly *(Table 20)*. At the year end, adjusted diluted net assets per share were 2181p per share, an increase of 14.1% from last year end despite the conversion charge of 67p per share. Excluding the conversion charge, adjusted net assets per share would have risen by 17.6%.

Table 20
Net assets

	Year ended 31/03/07 £m	Year ended 31/03/06 £m
Net assets at the beginning of the year	7,493.9	6,050.3
Profit after tax	3,528.3	1,675.9
Dividends paid	(223.0)	(238.9)
Other	(7.9)	6.6
Net assets at the end of the year	10,791.3	7,493.9
Deferred tax on investment properties	–	145.0
Deferred tax on net revaluation surpluses	–	1,739.7
Mark-to-market on interest rate hedges	(23.6)	8.6
Debt adjusted to nominal value	(519.1)	(375.3)
Adjusted net assets at the end of the year	10,248.6	9,011.9

Drivers of performance

A key driver of the increase in our net assets is the underlying performance of the combined portfolio, which includes our share of joint ventures *(Table 21)*. This year, the combined portfolio saw a 10.6% valuation surplus. At 31 March 2007 the portfolio was valued at £14.8bn (2006: £12.9bn). Part of the increase in value is due to our net expenditure arising from purchases, sales and developments, with the balance comprising the valuation surplus.

On the like-for-like portfolio, which allows for performance comparison of income growth and yield change over time, the valuation surplus for the year was £735.8m or 9.3%, of which £219.0m or 2.9% occurred in the six months since 30 September 2006. As expected, we saw a notable slowing of yield shift in the second half of the year and this is reflected in the lower rate of valuation growth. It is in these circumstances that our value creation capabilities can provide a point of differentiation, for example through leasing, development and refurbishment activities.

We have invested £106m in Bankside 2&3 (spend to date). 2007 will be a big year for the project, with completion due in the autumn.

Table 21
Valuation and rental income summary

	Open market value at 31/03/07 £m	Open market value at 31/03/06 £m	Valuation surplus[1] %	Rental income for the year ended 31/03/07 £m	Rental income for the year ended 31/03/06 £m	Rental income change %
Shopping centres and shops	2,829.4	2,591.9	7.8	162.1	152.3	6.4
Retail warehouses	1,474.8	1,431.6	2.0	61.8	56.7	9.0
London retail	932.6	853.1	7.2	47.2	43.4	8.8
London offices	3,202.2	2,773.7	15.1	164.2	165.2	(0.6)
Other	347.2	309.1	11.6	15.4	15.6	(1.2)
Like-for-like investment portfolio[2]	8,786.2	7,959.4	9.3	450.7	433.2	4.0
Completed developments	320.5	306.2	3.4	14.0	10.5	33.3
Purchases	3,092.5	2,278.0	6.8	133.1	67.3	97.8
Disposals and restructured interests	–	930.4	–	33.9	67.8	(50.0)
Development programme[3]	2,553.3	1,418.9	21.9	48.0	35.2	36.9
Combined portfolio	14,752.5	12,892.9	10.6	679.7	614.0	10.7
Adjustment for finance leases	–	–	–	(12.6)	(13.2)	4.5
Combined portfolio[4]	14,752.5	12,892.9	10.6	667.1	600.8	11.0

1. The valuation surplus and rental income value are stated after adjusting for the effect of spreading rents and rent free periods over the duration of leases in accordance with IFRS but before restating for finance leases.
2. Properties that have been in the combined portfolio for the whole of the current and previous financial periods.
3. Development programme comprising projects which are completed but less than 95% let, developments on site, committed developments (approved projects with the building contract let), and authorised developments (projects approved by the Board but for which the contract has not yet been let).
4. The combined portfolio includes our proportionate share of the assets and rental income of our joint ventures.

Table 22 details the top six performing properties over £50m in each sector by revaluation surplus, together with an explanation of the key drivers of their performance. Yield shift played only a part in the creation of shareholder value. This analysis also demonstrates the strong contribution from London developments.

Table 22
Top six performing properties over £50m for Retail Portfolio and London Portfolio

Retail Portfolio	Valuation surplus %	Description	London Portfolio	Valuation surplus %	Description
Lewisham Shopping Centre	21.1	Rental value growth and yield shift	Dashwood House, EC2	64.7	Development
Gunwharf Quays, Portsmouth	15.5	Rental value growth and yield shift	Bankside 2&3, SE1	61.3	Development
Queslett Road, Birmingham	15.3	Rental value growth and yield shift	New Street Square, EC4	41.9	Development
The Mall, Stratford	13.3	Reconfiguration and new lettings	Selborne House, SW1	27.7	Potential development opportunity
High Street, Exeter	13.1	Impact of our adjoining development	New London House, EC3	26.9	Potential refurbishment opportunity
Poole Road, Poole	11.0	Development	Cardinal Place, SW1	26.8	Development

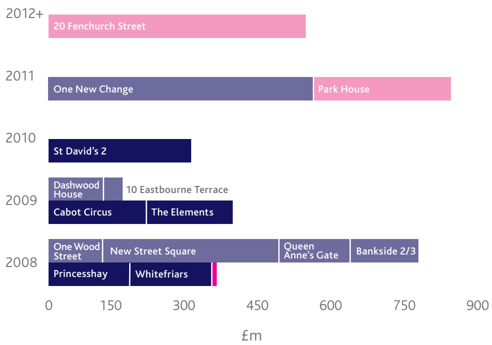
Future drivers of performance

A key driver of our performance is development. We have a large and profitable development programme. Including our share of joint ventures and those properties completed and let in the year, our development programme produced a valuation surplus of 21.9% or £453.9m, of which £198.1m occurred in the second half of the year. We have an estimated further spend of £1,162m on the projects currently under way which, when complete and fully let, will produce £218m of annual income (at today's estimated rental value). Capital expenditure on proposed developments could total £597m if we proceed with these schemes, which are held as part of the investment portfolio and have a current carrying value of £329.3m. The figures given for capital expenditure represent the Group's actual or forecast cash outlays on developments excluding land values and capitalised interest. Including these, the total development cost for the full development pipeline is £3.8bn, of which £2.9bn relates to our current development programme.

Further details of our development pipeline are contained in the Retail Portfolio and London Portfolio sections of this review.

Now that yield shift has slowed, rental value growth and minimising void levels are again becoming more important determinants of performance. Rental values on our like-for-like portfolio increased by 4.9% over the year, and the net reversionary potential of the like-for-like portfolio at the year end was 10.4% compared to 7.7% 12 months ago. Void levels on our like-for-like Retail Portfolio have reduced slightly over the year from 3.4% to 3.3%. On our like-for-like London offices, void levels have increased from 3.2% to 8.1%, which is attributable to pre-development properties where we have intentionally been seeking vacant possession.

Chart 23
Timing of completion of development pipeline (year to 31 March)



■ Retail Portfolio – development programme
■ Retail Portfolio – development pipeline
■ London Portfolio – development programme
■ London Portfolio – development pipeline

For more information see *Tables 35* and *43* .

Cash flow and net debt

Cash receipts during the year totalled £841.0m from investment portfolio property disposals, which included Devonshire House, W1, Regis House, EC4, and White City Retail Park, Manchester. In total we invested £1,497.0m in our properties including £523.7m on investment property acquisitions, £416.5m by Land Securities Trillium (primarily Accor hotels £305.2m and Royal Mail £77.8m) and £429.4m on development. The development expenditure, which includes land acquisitions but excludes capitalised interest and our share of joint ventures (which expended £70.1m on shopping centre developments in Bristol and Cardiff), was spent principally on New Street Square, EC4, Bankside 2&3, SE1, and shopping centre developments in Exeter and Livingston. As part of our strategy to expand Land Securities Trillium into the PPP market, we spent £919.0m acquiring SMIF and the remaining 50% of Investors in the Community (IIC). Further details are given in the Property Partnerships section.

Rents are reviewed in five-year cycles, as a result of which the current rents on the portfolio can be less than the estimated rental value of the property (ERV), in which case a property is described as having reversionary potential. Equally, as happened at the beginning of this decade in the London office markets, if the ERV drops below the current rent a property becomes over-rented. This, together with the level of vacancies (voids) across the portfolio, is an important factor in terms of future growth in income.

From our joint ventures, we received a net £50.0m, largely as a result of an equalisation receipt from the St David's Limited Partnership. At 31 March 2007, the Group's net debt was £5,087.9m, some £1,402.0m higher than 2006 (£3,685.9m). The factors contributing to this increase in net debt are shown in *Table 24*.

Table 24
Cash flow and net debt

	Year ended 31/03/07 £m	Year ended 31/03/06 £m
Operating cash inflow after interest and tax	361.5	375.9
Dividends paid	(223.0)	(238.9)
Investment property acquisitions	(523.7)	(2,008.3)
Property Partnerships property acquisitions	(416.5)	(6.8)
Development and refurbishment capital expenditure	(532.6)	(338.3)
Investment in properties	(1,472.8)	(2,353.4)
Acquisition of SMIF and IIC	(919.0)	–
Other capital expenditure	(18.8)	(26.9)
Total capital expenditure	(2,410.6)	(2,380.3)
Disposals (including Telereal in 2005/06)	869.8	972.6
Joint ventures	50.0	133.8
Other movements	(49.7)	(110.9)
Increase in net debt	(1,402.0)	(1,247.8)
Opening net debt	(3,685.9)	(2,438.1)
Closing net debt	(5,087.9)	(3,685.9)

Details of the Group's gearing are set out in *Table 25*, which includes the effects of our share of joint venture debt, although the lenders to our joint ventures have no recourse to the wider Group for repayment.

Table 25
Gearing

	At 31/03/07 %	At 31/03/06 %
Gearing – on book value of balance sheet debt	47.1	49.2
Adjusted gearing*	54.7	46.9
Adjusted gearing* – as above plus notional share of joint venture debt	58.8	51.1

*Book value of balance sheet debt increased to recognise nominal value of debt on refinancing in 2004 divided by adjusted net asset value.

Financing strategy and financial structure

Our financing strategy is to maintain an appropriate net debt to equity ratio (gearing). This ensures that asset-level performance is translated into enhanced returns for shareholders while maintaining an appropriate risk reward balance. One feature of our REIT status is that the effective cost of our debt has risen significantly for our REIT qualifying activities. As we no longer pay tax on these activities, we no longer benefit from the tax shield provided by the tax deductibility of interest charges. This results in a higher effective cost of debt, although it remains an attractive source of capital for us due to its ready availability and flexibility. However, in an environment of low capital returns and low to negative yield spreads (the difference between income on the investment and the cost of debt), underlying asset returns become a more important determinant of performance than levels of financial gearing.

As previously stated, the Group made significant investment in property related activities, and net debt has grown by 38.0% from £3.7bn to £5.1bn. However, gearing has decreased from 49.2% to 47.1% due to the £2.3bn deferred tax release and the strong valuation growth of our portfolio. Looking ahead, we have to pay our REIT entry charge (£315.0m), complete the final phase of the Accor hotel acquisition (£150m) and satisfy the capital expenditure requirements of our development programme.

Despite the increase in our year end net debt, our interest cover ratio, excluding our share of joint ventures, has fallen only marginally from 2.65 times in 2006 to 2.43 times in 2007. Under the rules of the REIT regime, we need to maintain an interest cover ratio in the exempt business of at least 1.25 times to avoid paying tax. As calculated under the REIT regulations, our interest cover ratio for the exempt business for the three months to 31 March 2007, the period for which we were a REIT in this financial year, was approximately 2.25 times.

As well as having the right level of debt in the business, we also need to ensure that we have a financing structure that is both flexible and cost effective. Both of these issues were addressed in the 2004/05 year with the introduction of a new secured funding structure as illustrated in *Chart 26*. Under this structure, we benefit from a lower cost of finance by utilising the credit strength of our investment portfolio without the more onerous restrictions of individually collateralised obligations. Operational flexibility is maintained through provisions which allow us to buy and sell assets, without restriction, and to undertake to development. At 31 March 2007, our debt investors had security over £11.6bn of investment properties in this structure against loans of £5.1bn, representing a loan to value ratio of 44.0%.

As part of the funding structure, a committed revolving credit facility provides us with the financial flexibility to draw and repay loans at will, and react swiftly to investment opportunities. In August 2006, the Group replaced its existing five-year £2.0bn revolving credit facility with a new seven-year £1.5bn facility. The new facility carries lower margins, reduced commitment fees, a reduced and more focused bank group and extends the maturity by nearly four years. In October we also took the opportunity to diversify further and reduce the cost of our short-term debt by establishing a £750m Euro Commercial Paper Programme.

During the course of the year, we increased the size of our Irish listed Note programme from £4bn to £6bn and issued two further Sterling bonds. The first was an issue of £300m with a fixed coupon of 4.875% and an expected maturity of 2023. The second was a £500m 5.125% fixed rate bond with an expected maturity of 2034. As a result of our flexible funding structure, both deals were priced within four working days of announcement.

In December 2006, we arranged a one-year acquisition facility with an option to extend it by a further year, to provide funding for the purchase of SMIF. In the same month Land Securities Trillium refinanced its limited recourse DWP bank loan with a new secured facility which offers a lower margin and increased operational flexibility. The new facility matures in 2017 to coincide with the end of the underlying DWP contract.

At 31 March 2007, Land Securities' total borrowings (including joint ventures) amounted to £6,096.0m, of which £183.0m was drawn under our £1.5bn secured bank facility and £71.0m related to finance leases. Committed but undrawn facilities amounted to £1,319.0m. The Group also has £238.5m of uncommitted facilities. The maturity profile of the Group's debt is shown in *Chart 27*. The majority of debt due in less than one year relates to drawings under the £1.0bn committed acquisition facility.

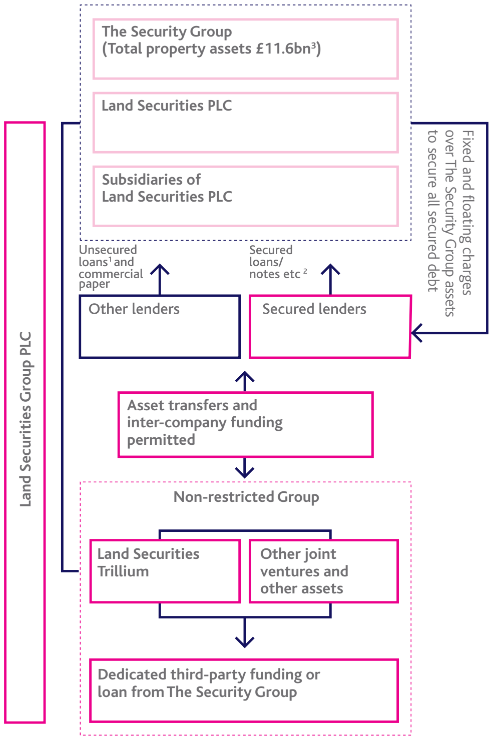
Hedging

We use derivative products to manage our interest rate exposure, and have a hedging policy which requires at least 80% of our existing debt plus our net committed capital expenditure to be at fixed interest rates for the coming five years. Specific hedges are also used in geared joint ventures to fix the interest exposure on limited recourse debt. At the year end we had £1.8bn of hedges in place, and our debt was 96% fixed. Consequently, based on year end debt levels, a 1% rise in interest rates would increase full year interest charges by less than £3m.

Future funding

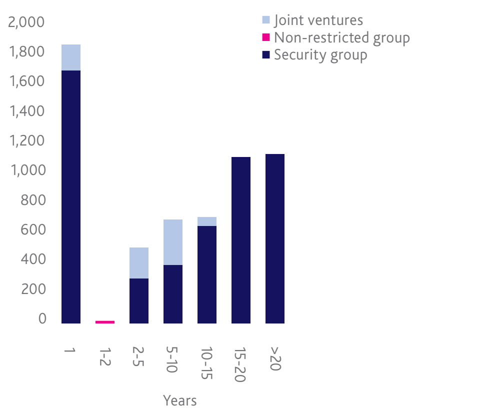
The Group's modest gearing levels and robust interest cover provide significant debt capacity to meet its projected capital requirements. Market capacity remains in Sterling and the Group has the flexibility, if necessary, to tap other markets such as the Euro. With £1.3bn of committed but undrawn facilities, the Group is confident that it will be able to finance its planned capital commitments.

Chart 26
Funding structure



1. Limited to the higher of £150m or 2% of total collateral value.
2. The borrower under the Secured Bank Facility is LS Property Finance Company Limited. Notes are issued from Land Securities Capital Markets PLC. Commercial paper is issued from Land Securities PLC.
3. Source: Knight Frank LLP Valuation Report for 31 March 2007.

Chart 27
Expected debt maturities (nominal) £m



Report of the Directors

Payment policy

The Group is a registered supporter of the CBI's Better Payment Practice Code to which it subscribes when dealing with all of its suppliers. The Code requires a clear and consistent policy that payments are made in accordance with contract or as required by law; that payment terms are agreed at the outset of a transaction and adhered to; that no amendments to payment terms are made without the prior agreement of suppliers; and that there is a system which deals quickly with complaints and disputes to ensure that suppliers are advised accordingly without delay when invoices or parts are contested. The effect of the Group's payment policy is that its trade creditors at the financial year end represented seven days' purchases.

Taxation

As a consequence of the Group's conversion to REIT status, income and capital gains from our qualifying property rental business are now exempt from UK corporation tax. This has had a major impact on our tax position, and for the year, we had a net tax credit of £1,549.2m (2006: £683.3m charge) comprised of the following items:

- £99.4m corporation tax and £345.6m deferred tax on income and gains arising in the nine months to 31 December 2006 and on non-exempt (residual) income and gains for the three months to 31 March 2007; and
- Two exceptional items: the £315.0m REIT conversion charge and a £2,309.2m release of deferred tax on revaluation reserves, capital allowances and other temporary differences which will no longer be taxed when they reverse as a consequence of our REIT status.

Excluding the exceptional items and adjusting for prior year tax credits and non-allowable IFRS bond amortisation, the effective cash tax rate on our profit before revaluations, joint venture income and disposals was 17.6% (2006: 23.2%). This reduction is largely due to REIT tax exemption for the final quarter.

Our new status as a REIT makes us more attractive to investors around the world and the proportion of international investors on our share register has increased over the year.

Table 28
Principal financial risks

Risk description	Impact	Mitigation
Funding ■ Lack of available funds	■ Unable to progress investment opportunities	■ Flexible funding structure. Sizeable committed, undrawn facilities – see page 31
Interest rates ■ Exposure to prevailing market rates	■ Increased borrowing costs following interest rate rise	■ Hedging policy – see page 31
Accounting ■ Insufficient clarity on IFRS accounting standards ■ Acquired companies not yet reporting under IFRS	■ Unexpected impact on income statement and balance sheet. No impact on cash flows.	■ Internal and external review of IFRS treatment for all proposed investments where possible
Taxation ■ Failure to meet REIT compliance tests ■ Inefficient tax structure in REIT environment ■ Poor tax reporting	■ Loss of REIT status leading to higher tax costs ■ Higher tax costs ■ Uncertainty over tax liability, exempt income and REIT dividend requirement	■ Internal monitoring procedures and current safety margin – see page 27 ■ Internal tax specialists and appropriate use of external advisers

Pension schemes

The Group operates a number of defined benefit pension schemes which are closed to new members. At 31 March 2007, the schemes had a combined deficit, net of deferred tax of £5.2m (2006: £4.5m). During the year we made a further special contribution of £1.5m (2006: £1.5m) to the principal defined benefit pension scheme and we are maintaining our enhanced contribution rate to address this relatively small deficit.

Investor relations

The aim of our communication programme with the investment community is to encourage two-way dialogue with existing and potential equity and debt investors. We maintain an investor relations programme which extends beyond legislative requirements and believe that our approach results in a better understanding of our activities and a more open relationship. We hold regular financial presentations, site visits and meetings with key audiences, including institutions, private shareholders, private client intermediaries and both equity and debt analysts. Our aim is to provide a clear, balanced picture of the Group within the constraints of protecting price-sensitive information from selective disclosure.

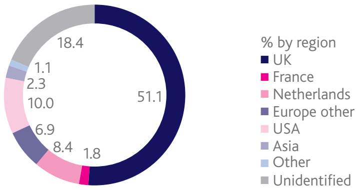
Our objective is to ensure a diversified share register, both in terms of type and geographic location of holdings. We have placed particular emphasis on helping investors to improve their understanding of Land Securities Trillium and on increasing the geographic diversity of our share register. One region which has historically been substantially under-represented on our share register is the USA, although we believe that this will improve now that we have elected REIT status and US REIT investors are now able to hold our shares. Over the past 12 months US investor representation on our share register has risen to 9.98% (2006: 6.85%).

We monitor the effectiveness of our communication programme through feedback to the Company and independent perception audits, which are commissioned bi-annually. A shareholder audit was conducted by Makinson Cowell in July 2005 and we will be conducting a further audit this year, the results of which will be communicated to the Board. The Board also receives quarterly reports and conducts an annual review of investor relations.

Legal proceedings

There are no legal proceedings which would have a material effect on the financial position or operations of the Group.

Chart 29
Geographical spread of equity shareholders



Source: JP Morgan Cazenove

Table 30
Analysis of equity shareholdings by size of holding at 31 March 2007

	Number of holdings	%	Balance as at 31/03/07	%
1 to 500	12,098	48.0	3,120,999	0.7
501 to 1,000	6,097	24.2	4,489,611	1.0
1,001 to 5,000	5,460	21.7	10,821,956	2.3
5,001 to 10,000	504	2.0	3,600,379	0.8
10,001 to 50,000	519	2.1	11,534,216	2.4
50,001 to 100,000	138	0.5	10,129,560	2.1
100,001 to 500,000	216	0.9	48,202,659	10.2
500,000 to 1,000,000	74	0.3	54,061,616	11.5
1,000,001 to highest	79	0.3	324,395,550	69.0
Total	25,185	100.0	470,356,546	100.0

Report of the Directors

Consumers want easy access to the best retail brands and the promise of a great shopping experience. We're enabling retailers to *meet demand* by providing the thriving environments they need to increase footfall and sales.


BOOKS
CAFE UPSTAIRS
OPEN LATE
SHOES etc
RESTAURANTS
SHOPS
CAFES

Sandy Case
Orange Tree, Exeter

"We're a family-run retailer selling everything from furniture to handbags, with a strong emphasis on exclusivity and service. Princesshay gives us the right space in a vibrant environment that will attract the discerning local shoppers we currently lose to Bath or London. It's a breath of fresh air for Exeter."

In this section:

- Market overview
- Our strategy
- Our performance
- Retail Portfolio development pipeline

Richard Akers

Our Retail Portfolio business represents 49.0% of the combined portfolio and produced £273.0m of the Group's underlying operating profit. We own 1.8 million m² of retail accommodation including 29 shopping centres and 31 retail parks. This represents a core market share of 5.8% and we have approximately 1,700 occupiers across this portfolio. Many of our retail properties form the central shopping districts of major cities and towns across the UK and we estimate that 300 million visits are made by consumers to our retail destinations each year. We are also investing £1.1bn to create the next generation of retail locations through a 255,000m² development pipeline.

The retail market

The overall economic backdrop is favourable and the UK has seen continuing growth in like-for-like retail sales, which were 3.5% higher in the quarter to 31 March 2007 compared with the same period in 2006. Absolute sales growth continues at 5.7% per annum. For us this is the most important measure of retailer confidence since it includes the effect of retailers taking on new or improved floorspace to grow market share.

Over the past year the winners versus losers trend, identified by us some time ago, became increasingly apparent. Supermarkets and internet retailers have generally been the winners along with some major store groups, such as Marks & Spencer, John Lewis and Primark. Smaller retailers have found it harder to combat rising costs and price deflation, particularly in sectors impacted by online competition. The popularity of out-of-town shopping continues, driven by convenience, accessibility and plentiful car parking. The bulky goods sector, which has been depressed for two years, is now showing signs of improving trade.

Across our like-for-like portfolio we saw rental income growth of 6.5% over the year and, in total, we let retail units with an annual rent roll of £29.7m – equivalent to 8.8% of our current retail rent roll. This was in some 350 transactions involving approximately 180,000m² of retail accommodation. This demonstrates an active leasing market and it has resulted in a reduction in the void levels across our like-for-like Retail Portfolio over the year. On our development projects, demand remains good and the trend of increasing leasing incentives such as rent-free periods has now stabilised.

The UK retail property market

The retail property market in the UK extends to some 115 million m² and is highly diversified both in terms of ownership and type. This is exemplified by looking at any medium-sized town in the UK where you will find high street shops, covered parades, a shopping centre and, on the edge of town, retail parks and supermarkets. A range of owners, from private individuals and owner-occupiers to property companies, pension funds and institutional investors, are involved. Furthermore each retail location is unique, with different catchment populations, transport infrastructure, local economy and townscape.

Chart 31
Retail Portfolio by value £7.2bn

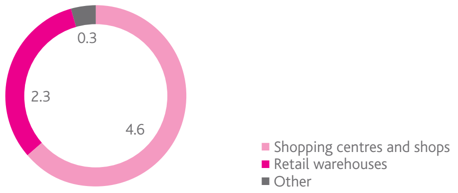
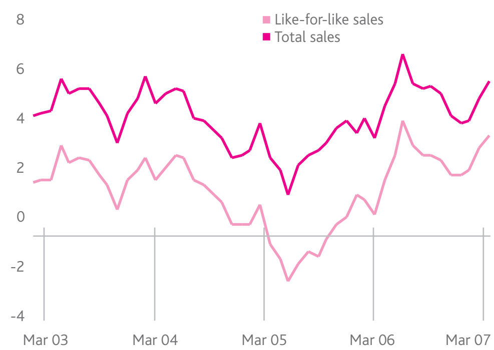


Chart 32
UK retail sales growth (%)



Source: British Retail Consortium/KPMG

Table 33
Retail property – floorspace

Type of retail property	Market million m²	LS million m²	% market share
Shopping centres	14.9	1.2	8.1
Retail parks	14.5	0.5	3.4
Total core markets	29.4	1.7	5.8
Other retail markets	85.5	0.1	–
Total	114.9	1.8	1.6

Source: Property Market Analysis/Office of the Deputy Prime Minister

Retail Portfolio

Top 12 properties

White Rose Centre, Leeds
Award-winning shopping centre with more than 100 stores and excellent transport connections.

Bullring, Birmingham
An iconic shopping location, this partnership development has led the city's retail renaissance (one-third ownership).

Gunwharf Quays, Portsmouth
The waterfront destination hosts 85 designer outlets, over 20 bars and restaurants, a 14-screen cinema and 26-lane Bowlplex.

Almondvale Centre, Livingston
Our shopping centre, retail parks and designer outlet combine to create a unique town centre destination (50% ownership in designer outlet).

Team Valley, Gateshead
Retail World, where big shed retailing meets the high street to provide an accessible shopping experience.

The Bridges, Sunderland
Forming the core of Sunderland, this community shopping centre provides a focal point for city centre retailing.

Certain retail market sectors are highly constrained in terms of supply side growth, as a result of planning restrictions aimed at preventing new development on greenfield sites and also the huge complexity of developing town and city centre sites in multiple ownerships. This restricts the development of new out-of-town retail parks and major regional shopping centres and slows down in-town development, resulting in a highly competitive investment and development market for existing assets and development opportunities.

Against this background retailers can experience frustration with the difficulties of procuring and occupying retail property. As a result major retail property owners like Land Securities can benefit both from the way we manage our relationship with retailers and our considerable expertise in urban regeneration.

Following several years of strong favourable yield shift, the past 12 months have, as expected, seen the investment market for retail property returning to equilibrium. After a period of convergence between prime and secondary yields, we are now starting to see the yield gap widening again particularly in the retail warehouse sector.

Table 34
Retail Portfolio valuation and performance summary

	31/03/07	31/03/06
Combined portfolio valuation	**£7,226.2m**	£6,899.1m
Like-for-like investment portfolio valuation	**£4,561.1m**	£4,254.2m
Rental income	**£237.8m**	£223.2m
Gross estimated rental value	**£266.5m**	£258.9m
Voids by estimated rental value	**£8.7m**	£8.8m
Gross income yield	**5.0%**	5.0%

Combined portfolio extracted from Business analysis and by reference to the combined investment portfolio reconciliation tables on page 128.

Our strategy

We will seek to strengthen our position as a leading owner of retail property through:

- Investment in dominant retail assets and application of our skills to create value
- Development
- Provision of market leading levels of customer service and property management

Retail Portfolio value

£7.2bn

Our focus this year has been more on development and asset management activities, rather than on acquisitions and disposals. However, towards the end of the financial year and following the elimination of latent capital gains tax liabilities upon REIT conversion, we sold a number of assets where we felt that opportunity to grow value was restricted. In the year to 31 March 2007 we made £62.8m of acquisitions and sold £417.1m of properties (based on the net effect of asset transfers into the St David's partnership), and since the year end we have sold or exchanged contracts for a further £233.5m of properties. In a year of consolidation, we restructured our property management activities to allow us to improve service delivery across the portfolio. We also invested £286.6m (2006: £76.9m) in the development programme, further details of which are contained later in this review.

Our performance

The valuation surplus on our Retail Portfolio was £368.1m or 5.4% over the year. However, the slowing of growth rates in recent months is evident from the fact that the valuation surplus in the second half of the year was only 0.3%. These lower levels of performance compared to the prior year primarily reflect the impact of reduced yield shift and also lower levels of like-for-like rental value growth of 1.7% (2006: 4.3%).

Whitefriars, Canterbury
A fresh, dynamic 21st century retail experience in a historic city centre location.

St David's Centre, Cardiff
Home to 70 stores, the centre will link with the St David's 2 development to provide 130,000m^2 (50% ownership).

Lakeside Retail Park, West Thurrock
Large format retailing, right next door to one of the south east's most famous shopping centres.

Princesshay, Exeter
A vibrant mixed-use development planned around pedestrian streets and public spaces.

Cabot Circus, Bristol
Over 92,000m^2 of retail and leisure space, together with residential units, a hotel and public spaces (50% ownership).

East Kilbride Centre
Four malls combine to create the biggest shopping centre in Scotland, with 230 shops and a Debenhams (50% ownership).

Future growth will come from our significant reversionary potential of 10.9%, as rent reviews are settled, and from rental value growth. In mature centres and parks, rental value growth can only be achieved if void levels are low and so we are particularly pleased that our strong performance on leasing (£20.0m of rent secured excluding development) has kept voids to 4.6% in our shopping centre portfolio and reduced them to 1.6% in our retail warehouse portfolio.

Our contribution to performance

Over the past few years we have restructured the shopping centre element of our Retail Portfolio to respond to longer-term trends in the retail markets, particularly retailers' desire for more efficient retail units. Over the coming year we will be looking to restructure our retail park portfolio, now that REIT status has eliminated our latent capital gains tax position, which has previously inhibited trading of this portfolio. We have already sold two retail parks at Erdington, Birmingham, and White City, Manchester, for an aggregate of £127.2m and, since the year end, we have exchanged contracts on two more retail warehouse assets for £40.1m.

Application of skills to create value in investment properties

Across the shopping centre portfolio, we focused on adding value through asset management activities. At Gunwharf Quays we have driven financial performance through innovative consumer marketing events, a long-term approach to tenant mix (where the optimum balance does not always lead to the highest level of rent) and exemplary on-site customer service. During the year 10 new lettings improved the overall attraction of the centre. Through Gunwharf Quays, we have gained invaluable experience of the Factory Outlet Centre model, and are now rolling out these management techniques to Hatfield Galleria and The Outlet, at Bridgewater Park, Banbridge, which has recently opened in Northern Ireland.

At our shopping centre in Stratford we are repositioning the tenant mix of the scheme to optimise trading in the lead up to the Olympics and beyond. Our active asset management has improved both the fashion and food offer, and rental growth has been immediately achieved with rental values up 11.8% over the year.

In our retail warehouse portfolio, we continue to reconfigure space to provide the right size of units for retailers. In Edmonton we have agreed to relocate Wickes into the former Courts store and we have refurbished it for them. We have secured planning consent for the redevelopment of the former Wickes into five units of 700m^2, each with mezzanines, and are currently discussing terms with potential occupiers. As part of the refurbishment of our scheme in Poole, we have exchanged contracts with Homebase to surrender their existing lease, which had five years to run, for a new 20 year lease. Homebase will completely re-image the external elevations to match the new scheme design and extend into the former Comet unit. Comet also relocated within the scheme.

Our Princesshay development in Exeter has provided space for big name retail brands and local independent retailers, creating a lively mix of shops.

Retail Portfolio

Development timeline

■ 2007

Princesshay, Exeter
Innovative city centre development with apartments and shops including independent retailers.

Willow Place, Corby
With the town's population set to double by 2010, this scheme provides modern units for quality multiple retailers.

Christ's Lane, Cambridge
This retail and residential development re-establishes a historic shopping thoroughfare-Christ's Lane.

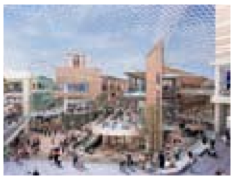
Table 35
Retail Portfolio development pipeline at 31 March 2007

Property	Description of use	Size m^2	Planning status	Letting status	Estimated/ actual completion date	Cost £m
Shopping Centres and Shops						
Developments approved and those in progress						
■ **Cabot Circus, Bristol**	Retail	83,610		43%	Sep 2008	215
The Bristol Alliance – a limited partnership with Hammerson plc	Leisure	9,000				
Construction commenced	Offices	28,000				
Key tenants include Harvey Nichols, Zara and Next, and anchored by House of Fraser	Residential	18,740				
■ **Christ's Lane, Cambridge**	Retail	5,800		84%	Dec 2007	27
Christ College works to refurbish existing student rooms completed	Residential	1,350				
Tenants include Giraffe, Bank, H&M, Zara and Lombok						
■ **Princesshay, Exeter**	Retail	37,360		76%	Jul 2007	160
The residential and retail units south of Bedford Street have been handed over for tenant fit out as planned	Residential	7,200				
Debenhams' handover of shell and core achieved and fit out commenced February 2007						
■ **Willow Place, Corby**	Retail	16,260		34%	Oct 2007	34
Completion scheduled for October 2007						
Tenants include TK Maxx, WH Smith, New Look, Superdrug and Arcadia Group						
■ **St David's, Cardiff**	Retail/leisure	89,900		7%	Sep 2009	294
St David's Partnership – a limited partnership with Capital Shopping Centres	Residential	16,500				
Scheme given Board approval						
Demolition and enabling works progressing well. Main building contract commenced.						
Anchor tenants secured – John Lewis and Debenhams						
■ **The Elements, Livingston**	Retail	32,000		17%	Sep 2008	130
Demolition complete with building works progressing on schedule.	Leisure	5,670				
Anchor tenants secured – Debenhams and Marks & Spencer						
Retail Warehouses						
Developments, let and transferred or sold						
■ Kingsway Retail Park, Dundee, Phase II	Retail	8,650		64%	May 2004	16
Developments completed						
■ **Commerce Centre, Poole**	Retail	19,100		76%	Aug 2006	22
Building works now complete						
Active marketing to let last two available units						
Developments approved and those in progress						
■ **Maskew Avenue, Peterborough**	Retail	13,380		91%	Sep 2007	32
Building works now commenced						
Secured tenants are B&Q and Matalan						
■ **Thanet Leisure, Thanet**	Leisure	8,970		100%	Aug 2007	24
Building works now commenced						
Tenants include restaurants, cinema complex and a hotel						
Proposed developments						
■ Almondvale South Phase II b, Livingston	Retail	4,180	PR*		2008	

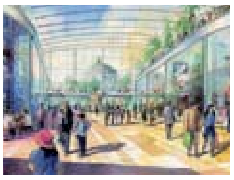
* Planning received

Cost (£m) refers to the estimated capital expenditure required to develop the scheme from the start of the financial year in which the property is added to our development programme. Finance charges are excluded from cost. Floor areas shown above represent the full scheme whereas the cost represents our share of costs. Letting % is measured by ERV and shows letting status at 31 March 2007. Trading property development schemes are excluded from the development pipeline.

■ 2008



Cabot Circus, Bristol
A mixed use development bringing a fresh retail and leisure buzz to the regenerated city centre (50% ownership).



The Elements, Livingston
In the heart of the town, new shops, apartments and public spaces, including a winter garden.

■ 2009

St David's 2, Cardiff
To launch in 2009, this mixed used development featuring arcades and boulevards will help make the city a top retail destination (50% ownership).

As demonstrated by these examples, we aim to create a strong platform from which our retail customers can trade profitably and an attractive environment for shoppers visiting our properties. It is our responsibility to make sure that our retail environments remain safe and clean and to provide relevant promotion and marketing activities. To some extent we can assess the success of these activities through the number of visitors to the portfolio, which is measured for us by a third-party provider and then compared to a national index. In the year to December 2006, the number of visitors to our portfolio increased by 1.0%, as compared to a 5.1% fall in the national index. This increase can partially be explained by the completion of our development in Canterbury, the success of which is reflected in much higher visitor numbers. It can also be explained by the success we have had in identifying and acquiring those centres which provide a rewarding experience and therefore attract a greater number of visits.

We also work closely with our retailers to monitor sales trends at each of our centres. Last year we introduced a new trading index at the St David's Centre. This innovative use of technology provides retailers with weekly trading trends across a number of categories, so that they can compare their trading with competitors in the Centre. It also provides feedback on consumer spending patterns.

Development

We have continued with our extensive development programme and have made good progress. We have achieved our letting targets for all our developments on site, achieving 82,300m² of lettings during the year, with a further 22,700m² under offer or in solicitors' hands. This represents future cash rental income of £15.3m (our share).

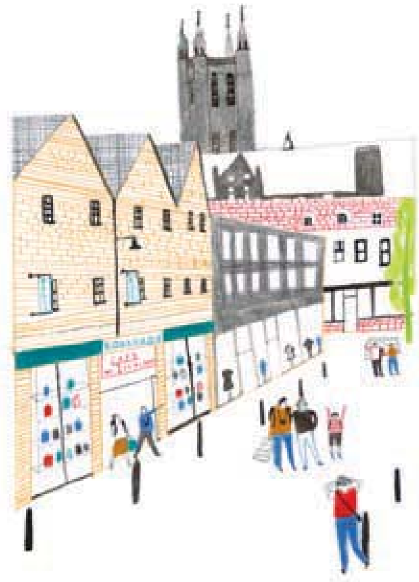
In Exeter, we have had a very encouraging response from both retailers and customers to the first phase of Princesshay which opened in April. This development reflects our objective to create vital and vibrant mixed use destinations and is framed around high-quality public spaces, adopting an innovative design approach to produce a number of individual and distinctive buildings. In a challenging market we are pleased to have some 80% of the scheme let and a further 5% in solicitors' hands, including a strong line-up of national retail brands and restaurants. To create a point of differentiation and a local identity, we have also reserved an element of the scheme for independent retailers. The scheme is scheduled for completion in autumn 2007.

Cabot Circus in Bristol, which we are developing in partnership with Hammerson, is proceeding on programme and is due for completion in September 2008. It has a wide range of uses and the tenant mix has been carefully planned to create areas within the scheme with a distinct appeal, such as the mid to upper market in Quakers Friars with lettings to Harvey Nichols and Ted Baker. The scheme is now 47% let with a further 8% in solicitors' hands.

At St David's 2 in Cardiff, which we are developing in partnership with Capital Shopping Centres, we have started on the main building contract after a series of demolition and enabling works, and completion is due in autumn 2009. The scheme is to be anchored by Debenhams and a 24,150m² store for John Lewis, their first in Wales.

In addition to our committed schemes we have recently submitted a planning application for an extension to Buchanan Galleries, Glasgow. This will be undertaken in partnership with Henderson Global Investors and will double the size of the scheme to 120,000m².

We are also conducting feasibility studies for a number of other major schemes including a substantial refurbishment of St John's Centre, Liverpool, and a second phase of development in Corby.



Through our development we have helped to rejuvenate Canterbury city centre, and higher visitor numbers have already been recorded.

Total retail space (m²)

1.8 million

Letting success in Princesshay, Exeter

85%

of space has already been let to the likes of Debenhams, River Island, Zara and Quiksilver

Retail Portfolio

Last year we reported that we had agreed a forward purchase of a retail park development site in Banbridge, Northern Ireland, immediately adjacent to our factory outlet development. A planning application for 33,450m² has now been submitted for the retail park scheme and a conditional land sale deal signed with Tesco for approximately 40% of the site. We outline our development pipeline in *Table 35*.

Provision of market leading levels of customer service, property management and sustainability initiatives

We continue to monitor levels of retailer customer satisfaction across the Retail Portfolio, both at the centre and head office level. At the centres, our managers and consumer marketing teams run campaigns to improve footfall and shopper dwell times.

One of the consistent responses from our retail customers is the desire for a direct relationship. This has been addressed by introducing dedicated relationship managers for over 170 retailers and an innovative tenant portal.

Our environmental team has been at the forefront of the sustainable agenda from both a design and operational viewpoint for some years. Shopping centres usually score well in terms of sustainability due to their very location in the centre of towns. We have measured energy usage from the common parts of our centres for over 15 years and by taking half hourly readings have been consistently able to achieve improved efficiencies each year. We encourage the use of renewable energy resources and are exploring with key retailers what the shopping centre of the future may look like.

To the extent that we have not been able to supply our reduced energy usage from renewable sources or a green tariff, we have offset the residual carbon footprint of the mall and other common areas of our shopping centres for the last measured annual period to March 2006 with The Carbon Neutral Company.

Table 36
Customer satisfaction survey – Shopping centres

Objective	2006 Actual	2007 Target	2007 Actual
Understanding needs	3.60	n/a	3.63
Communication	3.79	3.87	3.65
Willingness to recommend us	94%	94%	91%
Responsiveness	3.85	n/a	3.93
Overall satisfaction	3.94	3.80	3.81

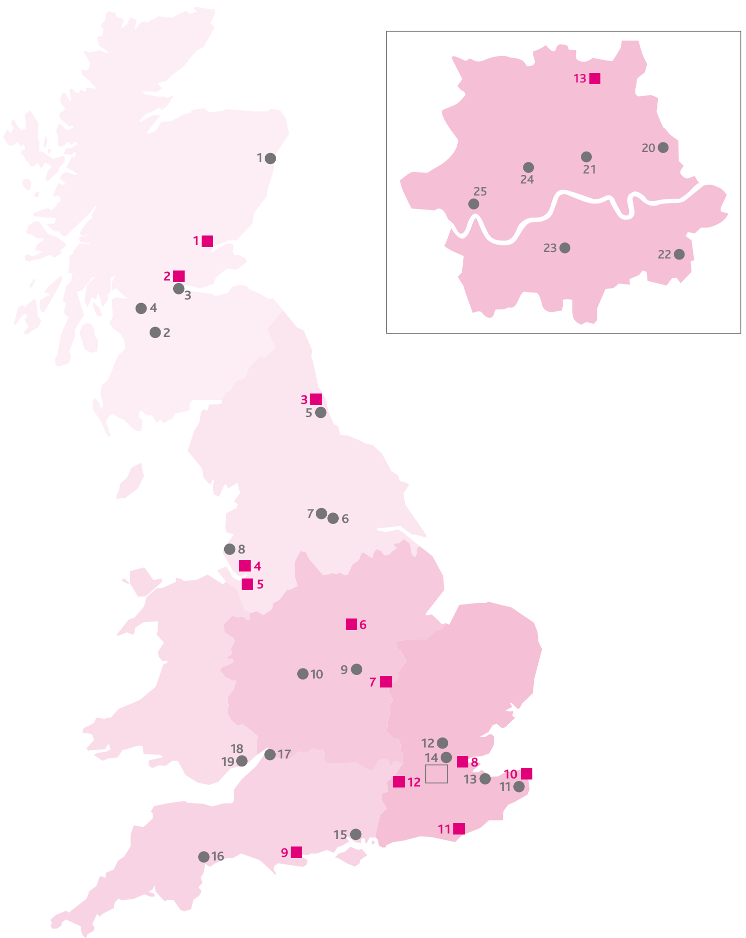
Customer satisfaction surveys are for calendar year period.
Scale 1 = very poor, 5 = excellent

Table 37
Customer satisfaction survey – Retail parks

Objective	2006 Actual	2007 Target	2007 Actual
Understanding needs	2.91	n/a	2.86
Communication	2.99	3.21	2.57
Willingness to recommend us	89%	89%	78%
Responsiveness	3.10	n/a	3.03
Overall satisfaction	3.33	3.40	3.11

Customer satisfaction surveys are for calendar year period.
Scale 1 = very poor, 5 = excellent

Top Retail Portfolio properties over £50m by location



● Shopping centres

Scotland
Aberdeen
1. Bon Accord Centre[1]*
   St Nicholas Centre[1]

East Kilbride
2. East Kilbride Shopping Centre[1]*

Livingston
3. Almondvale Centre*●

Glasgow
4. Buchanan Galleries[2]*

North, north west, Yorkshire and Humberside
Sunderland
5. The Bridges*

Leeds
6. White Rose Shopping Centre*
7. Leeds Plaza and Albion St*

Liverpool
8. St Johns Centre and Williamson Sq, Clayton Sq*

Midlands
Corby
9. Corby Town CentreΔ●

Birmingham
10. Bullring[3]*

South and south east
Canterbury
11. Whitefriars*

Welwyn Garden City
12. Howard CentreΔ

Maidstone
13. Fremlin Walk*

Hatfield
14. The Galleria*

Portsmouth
15. Gunwharf Quays*

Wales and south west
Exeter
16. Princesshay*●

Bristol
17. Cabot CircusΔ●

Cardiff
18. St David's 2[4]*●
19. St David's Centre[4]*

London
20. Stratford Centre, Stratford*
21. N1, Islington[5]Δ
22. Lewisham Centre*
23. Southside, Wandsworth[5]*
24. Notting Hill Gate, W11[5]Δ
25. W12 Centre, Shepherds BushΔ

Notes
1. Part of Scottish Retail Property Limited Partnership
2. Part of Buchanan Partnership
3. Part of Birmingham Alliance
4. Part of St David's Limited Partnership
5. Part of Metro Shopping Fund LP

■ Retail warehouses

Scotland
Dundee
1. Kingsway Retail Park*

Livingston
2. Almondvale West
   Almondvale Retail Park
   Almondvale South●Δ

North, north west, Yorkshire and Humberside
Gateshead
3. Retail World, Team Valley*

Liverpool
4. Aintree Retail Park*

Chester
5. Chester Retail ParkΔ
   Greyhound Retail ParkΔ

Midlands
Derby
6. The Meteor CentreΔ

Northampton
7. Nene Valley Retail ParkΔ

South and south east
West Thurrock
8. Lakeside Retail Park*

Poole
9. Commerce CentreΔ

Thanet
10. The Fort, Westwood Cross*

Bexhill-on-Sea
11. Ravenside Retail and Leisure Park*

Bracknell
12. The Peel CentreΔ

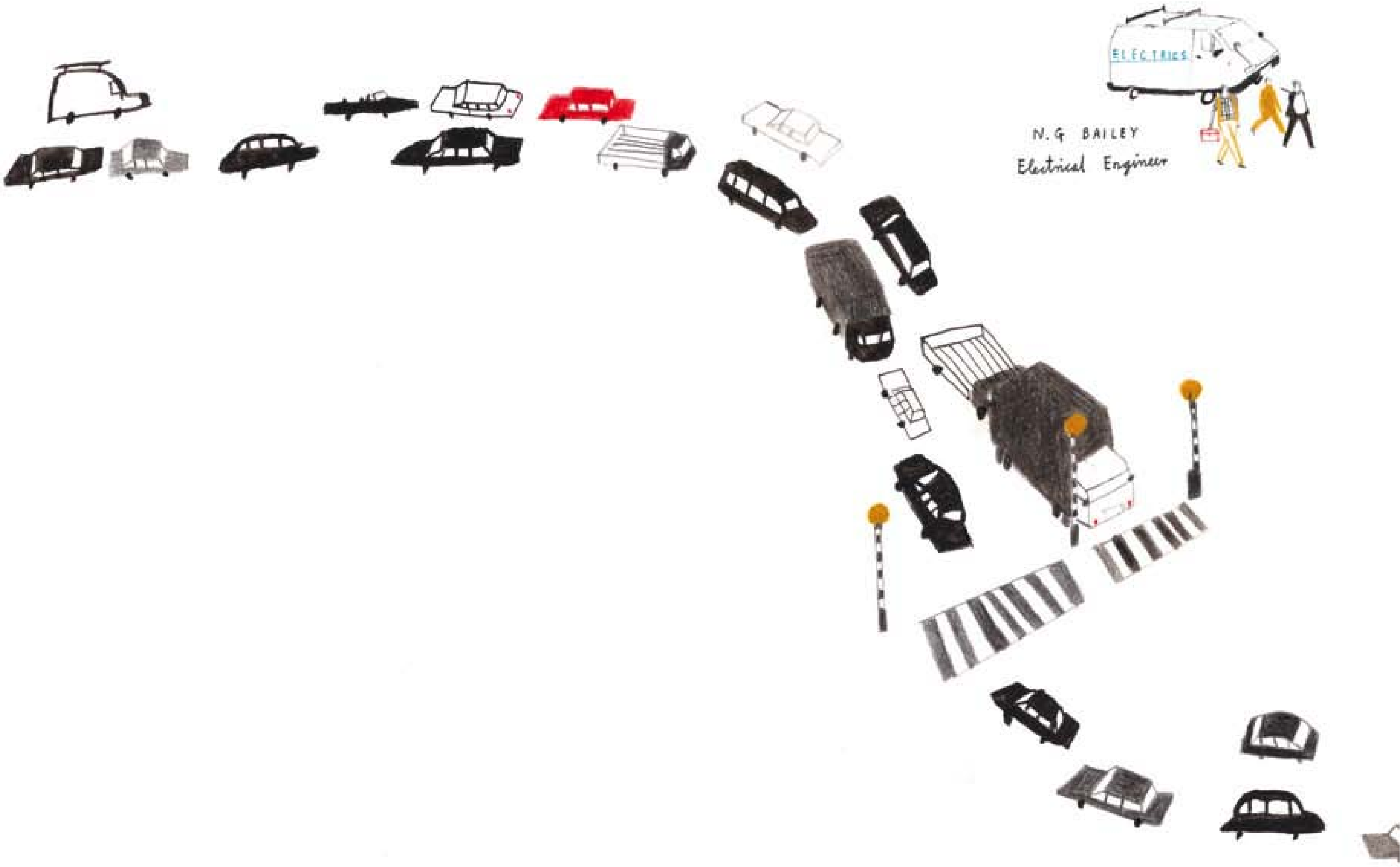
London
13. Ravenside Retail Park, EdmontonΔ

* £100m and above
Δ £50m–£100m
● In the development pipeline

Mark Rymell
Land Securities Development Manager, Willow Place, Corby

"When the foundries closed, Corby really suffered. Local people chose to shop anywhere but here, yet this is a great location, just an hour from London. Land Securities recognised the opportunity for renewal and expansion and is helping to lead Corby's transformation. There's an enormous amount to do, but the potential is extraordinary."

In a fast-changing world how do you create *sustainable* property assets? By drawing together experts – proven professionals with the foresight and capabilities required to future-proof the most complex developments.




CANTILLON
Demolition
LAND SECURITIES
Client
SIR ROBERT MCALPINE
Contractor
BENNETTS ASSOCIATES
Architects
CUNDALLS
Consulting Engineers
DAVIS LANGDON
Employers Agent and Cost Consultant
BYRNE BROTHERS
Concrete frame
AMEC
Mechanical Engineers
PERMASTEELISA
Cladding
ELEMENT 4
Sustainability Consultants
PELL FRISCHMANN
Structural Engineers

Rab Bennetts
Bennetts Associates, Architects
London

"Many more businesses have started to take sustainability seriously – the change is rapid and remarkable. Some are now asking for less energy-intensive air conditioning, for example. The team behind New Street Square anticipated this demand, and tenants can choose a system that reduces emissions by more than 50% compared to normal City of London benchmarks."

London Portfolio

In this section:
- Market overview
- Our strategy
- Our performance
- London Portfolio's development pipeline

Mike Hussey

Our London Portfolio represents 50.6% of the combined portfolio and produced £270.5m of the Group's underlying operating profit. We own 929,000m² of office accommodation and 101,000m² of retail floorspace. Our office portfolio represents approximately 4.5% of the total London office floorspace with over 400 occupiers accommodating more than 50,000 people. We are investing £2.7bn on development to meet demand for effective modern business accommodation.

Chart 38
London Portfolio valuation breakdown £7.5bn

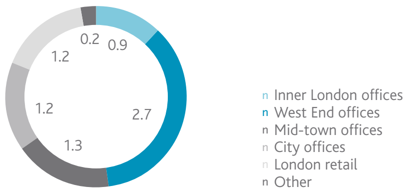
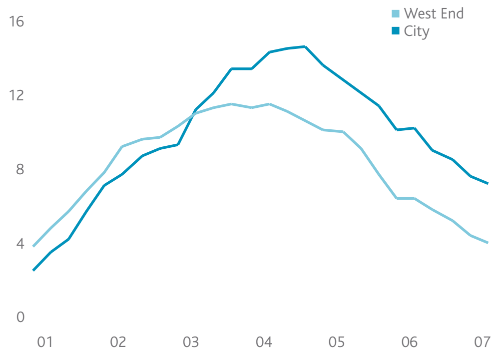


Chart 39
West End and City vacancy rates (%)



Source: Knight Frank LLP

London's economy

London is the world's leading financial centre, the centre of Government and a major tourist destination offering outstanding cultural and retail experiences. It is home to over seven million people and numerous businesses. London's economy is growing at a faster rate than that of the rest of the UK, and is forecast to grow by 3.1% over the next four years compared with UK growth of 2.5%. As London grows it will need continued investment in new buildings, homes and infrastructure.

London office market

The London office market extends to approximately 20.5 million m² across several geographic locations. The majority of our portfolio is located in the three main markets, West End, Mid-town and the City, but we are also investing in Bankside/South Bank and in the Docklands.

The London market is fragmented in terms of ownership and type of property and has a highly diversified occupier base. It has been historically more volatile than the retail market, reflecting its economy and its dependence in the City on the financial services industry. It is also affected by the supply of new development stock. Current market letting conditions are favourable with lower vacancy levels across the core markets. The West End has significant under supply and the City is also now under supplied and will remain so for the short-term. We are cautious about the future supply of offices in the City but are confident in the timing and scale of our current development programme. Opportunities in the West End for new development are more limited and we expect continuing robust market conditions.

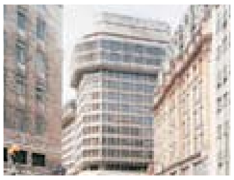
London investment market

The trading of investment properties in London has been at a historic high, with yields reducing and capital values rising significantly during the year. There is a sense of 'overheating' in some market segments but, for the time being, prime London assets continue to attract buyers at strong prices.

Top 12 properties

Cardinal Place, SW1
Landmark office accommodation and ground floor retail anchored by Marks & Spencer.

New Street Square, EC4
Landmark office buildings around a public square, with retail and restaurant space completing this innovative scheme.



50 Queen Anne's Gate, SW1
Former Home Office building, being refurbished for occupation by the Ministry of Justice.

Arundel Great Court and Howard Hotel, WC2
Offices located in a prominent position on the Thames and the Strand and incorporating The Howard Hotel.

Portland House, SW1
Located in central Victoria, these offices are let to occupiers such as American Express and the Government.

Eland House, SW1
Forming part of our Victoria holdings, this building has benefited from the Cardinal Place redevelopment.

Table 40
Office floorspace by market and type of occupier

Market	Market current floorspace m^2	Land Securities current floorspace[1] m^2	Market vacancy 31/03/07 %	Market development m^2	Land Securities development m^2	Type of occupier
West End	8,247,180	300,360	4.3	197,250	87,420	■ Government and NGOs, media, technology, telecoms, consultancies
South Bank	n/a	46,500	n/a	n/a	35,550	■ Media, consultancies
Mid-town	n/a	122,730	n/a	n/a	62,340	■ Legal, accountancy, consultancies
City	10,253,250	143,000	7.5	622,560	60,550	■ International and domestic financial institutions, related support services
Docklands	1,995,370	29,700	7.7	133,710	–	■ As City
Total	20,495,800	642,290	8.7	953,520	245,860	

Source: Market data – Knight Frank LLP
1. Empress State Building, SW6, 41,290m^2, is not included within the above analysis.
2. No separate market data is available analysing the areas and vacancy rates for South Bank and Mid-town.

Our strategy

Four years ago we set our strategy for the London Portfolio to address the more cyclical nature of the operating environment in London. We stated that we would seek to create value through:

- Active asset management
- Focus on geographic areas of activity – clustering
- Development activity, particularly mixed use
- Leveraging strong relationships with occupiers

In the past 12 months we acquired £478.7m and sold £480.5m of property, including the £275.3m sale of Devonshire House, W1. We made substantial progress on our development programme; spending £315.7m on development, started 72,300m^2 of new projects, achieved 60,700m^2 of lettings and submitted planning applications for a further 89,700m^2 of commercial accommodation.

Our performance

Our London Portfolio grew in size over the year from £5.9bn to £7.5bn, showing a 16.2% valuation surplus *(Table 41)*. Our development activities showed a £425.8m or 28.4% surplus and our like-for-like investment holdings a £476.3m or 13.4% surplus.

Unique opportunities exist to exploit London's attractiveness as a place to visit and live. We are looking to redevelop and improve the environment in key areas of the West End and Bankside/South Bank, assisting the performance of our commercial holdings and driving additional value from residential and retail development. This diversity has strong defensive qualities against a cyclical office market.

Future growth in income comes from rent reviews, lease renewals and new lettings. During the year we achieved lease renewals and new lettings (including developments) for £26.9m of income and

New trends and overseas visitor numbers significantly affect retailers in London, so the 2012 Olympics – and all the interest the Games are already creating – is good news for them and for us.

London Portfolio

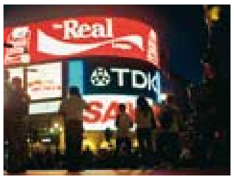
Portman House, W1
Prime office and retail space located in the heart of the West End, adjacent to Oxford Street.

Bankside 2&3, SE1
Contemporary office, retail and leisure space in the midst of London's thriving South Bank.

Empress State Building, SW6
Let to the Metropolitan Police, this property also incorporates mixed use retail and leisure space.

Ashdown House, SW1
Occupying a prominent position in Victoria, the office space is let to the Government and retail space to brands such as Boots and Currys.

Kingsgate House, SW1
Located on Victoria Street, the building is let to the Department for Trade and Industry and has 18 shops at ground level.



Piccadilly Lights, W1
Offices, retail and restaurants, a pub and one of the world's most iconic illuminated advertising hoardings.

settled 36 rent reviews achieving or exceeding estimated rental value. We have reduced the over-rented element of the portfolio from 6.2% to 2.0% mainly through our investment activities and strong rental growth across all our core markets. Void levels have increased but this is a temporary issue explained by the emptying of major holdings prior to redevelopment. The net reversionary potential of the like-for-like London offices has therefore improved from 0.1% to 8.4%. London retail like-for-like is 13.3% net reversionary and void levels remain low at 2.0% on a like-for-like basis with new developments offering the prospect of good growth as new locations attract more customers.

In 2003, in anticipation of improved market conditions in the London commercial property markets, we started a development programme. This has now delivered some £765m of value. From 2004 we also started a substantial restructuring of the portfolio, which has seen the acquisition of £1.5bn of investment properties let at low rents averaging £278.2m^2. We are selling selected buildings where we are able to secure a premium in today's strong investment market.

Active asset management and recycling of capital

Across the London Portfolio, we focused on adding value through asset management activities. Two examples of this are:

Devonshire House, W1

Devonshire House had been in Land Securities' portfolio since 1955, but we took the decision to sell it last year. We assessed the demand from investors for premium large-scale property assets to be reaching a peak during the second half of 2006. Devonshire House needed significant refurbishment and capital expenditure, so we undertook to refurbish one floor in order to demonstrate the strength of demand in the underlying occupational market and to assist with selling the asset. We secured £1,184m^2 rent on the refurbished floor and achieved a significant premium (21%) to book value on the disposal.

Dashwood House, EC2

Dashwood House is a recognisable City landmark which was reaching the end of its occupation leases (2010/11). While full redevelopment was a possibility, our approach has been to secure early vacant possession and accelerate a planning application for a major refurbishment including some additional office floors. By adopting this strategy we have targeted completion at an earlier date which we expect to be at a strong point in the City occupational market.

Focus on geographic areas of activity – clustering

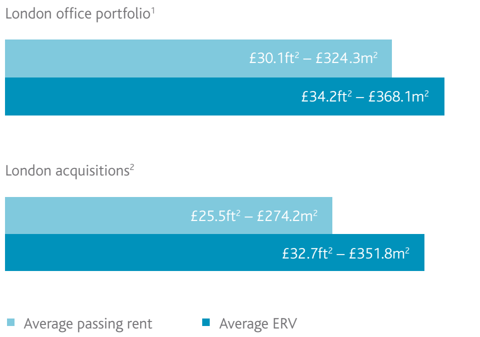
We have been developing this policy for a number of years. The principle is to develop and invest in geographic locations where the performance of the investment holdings can benefit from active asset management or development in the immediate locality. We have benefited from significant performance of our assets around New Street Square as well as a strong performance of the development itself. It has also enabled us to hold constructive discussions with occupiers in the area to manage their medium- and long-term occupational requirements using our substantial holdings. The extent of our ownerships in Victoria Street and the immediate vicinity has enabled us to

Table 41
London Portfolio valuation and performance summary

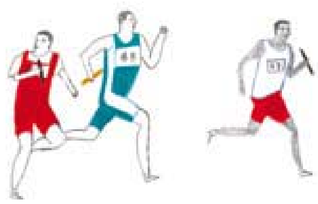
	31/03/07	31/03/06
Combined portfolio valuation	**£7,461.3m**	£5,932.4m
Like-for-like investment portfolio valuation	**£4,160.1m**	£3,645.8m
Rental income	**£209.2m**	£206.2m
Gross estimated rental value	**£236.4m**	£218.9m
Voids by estimated rental value	**£16.2m**	£6.2m
Gross income yield	**4.3%**	5.2%

Combined portfolio extracted from Business analysis and by reference to the combined investment portfolio reconciliation tables on page 128.

Chart 42
London office portfolio



1. Excluding voids and properties in the current development programme.
2. Acquisitions completed between 1 April 2006 and 31 March 2007.



Report of the Directors

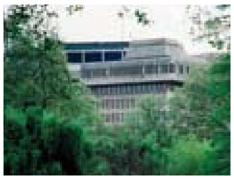
London Portfolio

Development timeline

■ 2007

Bankside 2&3, SE1
A focal point for business on the South Bank with office and retail accommodation in three stunning buildings.

One Wood Street, EC2
The first step in the transformation of Cheapside, with high quality office space and retail accommodation.



50 Queen Anne's Gate, SW1
A major refurbishment programme is bringing a new lease of life to this iconic building.

bring forward two significant redevelopment proposals. We have achieved this in a timely manner while managing the risk these assets pose as dominant holdings in the area. In addition, we have been able to relocate occupiers within the portfolio, for example the Department for Constitutional Affairs shortly to become the Ministry of Justice, will be moving to 50 Queen Anne's Gate from our holdings on Victoria Street. Meanwhile the redevelopment of Cardinal Place has demonstrated the attractiveness of comprehensive redevelopment providing a mix of uses and open space. It has also secured some very high-profile occupiers such as 3i, P&O, Wellington Management and Microsoft MSN in a location not previously recognised for this type of occupier. We expect this to have an ongoing benefit when redeveloping and re-leasing accommodation in this location.

The retail accommodation at Cardinal Place has demonstrated a strength of demand for good quality units and for food and beverage outlets. We anticipate this will continue, given the volume of people passing through Victoria Station (approximately 100 million per annum).

We have also invested significantly on the South Bank around our developments at Bankside 2&3, the cultural hub of Tate Modern and the new residential activity that is ongoing.

Development

We have continued to deliver substantial value from our development activities with a valuation surplus of £425.8m over the 12 months. We believe we have achieved our objective of delivering our developments early in the cycle to ensure lease-up and strong performance. Our developments have also largely been mixed use, which helps to mitigate risk exposure to any one particular sector.

Within the next 12 months we will complete significant amounts of office floorspace at Bankside 2&3 in Southwark, New Street Square in Mid-town and Wood Street in the City. During the development phase we have been securing pre-lettings and pre-commitments on a progressive basis with a view to improving returns while managing risk. We now have approximately 80% of this office floorspace either pre-let or in solicitors' hands. We have also been able to secure good rental growth in these developments as the leasing programme has progressed.

We have also started One New Change, EC4, which is a mixed use scheme of 19,830m² retail and 31,660m² office accommodation.

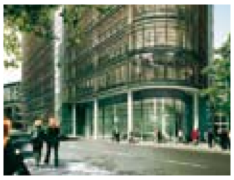
Planning consents are important to the underlying value of the assets we hold in our investment portfolio. We have secured a number of new planning consents this year including:

- Dashwood House
  We have now started our scheme at Dashwood House, EC2, as described above, with a view to completing it by November 2008.
- Park House
  Park House, Oxford Street, W1, is awaiting the outcome of a Judicial Review. Its associated development at Wilton Plaza will be providing student housing and affordable housing together with a small component of private residential flats which will be completed in the early part of 2009.
- 20 Fenchurch Street
  The scheme at 20 Fenchurch Street, EC3, received planning consent from the City of London in November last year. Unfortunately it was called in for a planning inquiry by the Secretary of State, despite no stakeholders or statutory consultees referring it to the Minister. The planning inquiry has now been held and we await the Planning Inspector's decision.

Creating an exceptional development requires many skills, not least extraordinary imagination. That's why we seek out and work with some of the world's best architects, like Jean Nouvel, the architect behind One New Change.

Successful development means thinking through what goes on inside and outside a building. We consult and involve local communities to ensure that what we do improves quality of life for everyone.

■ 2008



New Street Square, EC4
Furthering the regeneration of Mid-town, these four contemporary buildings replace an assortment of post-war office blocks.

■ 2010

Park House, W1
On Oxford Street, an opportunity to develop an entire block to provide offices, prime retail space and apartments.

■ 2010

One New Change, EC4
Rare opportunity for a comprehensive City redevelopment with office and retail space plus new public views of St Paul's Cathedral.

Table 43
London Portfolio development pipeline at 31 March 2007

Property	Description of use	Size m²	Planning status	Letting status	Estimated/ actual completion date	Cost £m
Central and inner London properties						
Developments approved and those in progress						
■ **Cardinal Place, SW1**	Offices	51,130		93%	Jan 2006	270
Cardinal Place was completed in 2006. There has been a significant series of office lettings over the last year including MSN Microsoft, EDF Trading, 3i, Experian and Kazakhmys plc.	Retail	9,420		100%		
■ **Bankside 2&3, SE1**	Offices	35,550		*	Aug 2007	121
Redevelopment of two speculative office buildings on a prominent site in Southbank next to Tate Modern. Construction progressing, completion due August 2007 with 100% offices pre-let to a single tenant.	Retail/leisure	3,170		10%		
■ **One Wood Street, EC2**	Offices	15,020		100%	Sep 2007	103
Office redevelopment with retail at ground floor level. Offices pre-let to Eversheds LLP.	Retail	1,500				
■ **New Street Square, EC4**	Offices	62,340		61%	Apr 2008	312
Four dramatic new buildings arranged around a new public square with retail space and restaurants. 35% of office space is pre-let to Deloitte and 26% to Taylor Wessing LLP.	Retail	2,980				
■ **50 Queen Anne's Gate, SW1**	Offices	30,140		100%	Dec 2007	127
A comprehensive interior refurbishment together with external clean of mid-1970s office accommodation. Works commenced on site in December 2005. The accommodation is fully pre-let to a Government Department.						
■ **10 Eastbourne Terrace, W2**	Offices	6,150			May 2008	23
Three 1950s office buildings with an 18 floor tower. We received planning consent in 2006 to refurbish all three buildings to provide an additional 2,000m². We have commenced construction of the first phase.						
■ **Dashwood House, EC2**	Offices	13,870			Nov 2008	62
A comprehensive refurbishment including replacement of external cladding. The works commenced on site in March 2007 and will complete in November 2008.	Retail	740				
■ **One New Change, EC4**	Offices	31,660			Sep 2010	340
Major office and retail development adjacent to St Paul's Cathedral creating an iconic building. Planning consent granted 2006. Started on site 2007.	Retail	19,830		1%		
Proposed developments						
■ **Park House, W1**	Offices	15,550	PI†		2010	
Planning permission was granted in November 2006 to redevelop into a mixed use scheme comprising offices, retail and residential accommodation. The office accommodation will provide some of the largest floor plates in the West End and the residential apartments will have views of Selfridges and Mayfair.	Retail	8,470				
	Residential	11,890				
■ **20 Fenchurch Street, EC3**	Offices	54,810	PI†		2011	
City office tower designed by Rafael Viñoly. The City of London resolved to grant planning permission in September 2006 which was then subject to a call in by the Secretary of State. A local public inquiry was held in March 2007 and a decision is expected in the summer of 2007.	Retail	560				

* 100% of the office space was placed in solicitors' hands after 31 March 2007.
† Planning Inquiry
Cost (£m) refers to the estimated capital expenditure required to develop the scheme from the start of the financial year in which the property is added to our development programme. Finance charges are excluded from cost. Floor areas shown above represent the full scheme whereas the cost represents our share of costs. Letting % is measured by ERV and shows letting status at 31 March 2007. Trading property development schemes are excluded from the development pipeline.

These schemes contain innovative design and environmental features and will provide attractive commercial floorspace layouts and a mix of uses appropriate to their locations.

We have also advanced our plans for Victoria Transport Interchange and Victoria Masterplan – a coordinated yet comprehensive redevelopment of a significant number of our holdings in Victoria over the next decade. We believe Victoria is an area of the West End office market with potential for significant growth and it also offers substantial retail and residential potential. It is one of the busiest transport nodes in London and it is adjacent to one of the highest value residential districts. We outline our development pipeline in *Table 43*.

Leverage strong relationships with occupiers

Our Asset Management and Property Management functions now operate in tandem across mini-portfolios, providing a seamless service from building management issues to more strategic decisions. This helps us to meet occupiers' needs. We have also introduced some new features including occupier portals and consumer marketing initiatives, which help our occupiers promote their businesses and offer benefits to their staff.

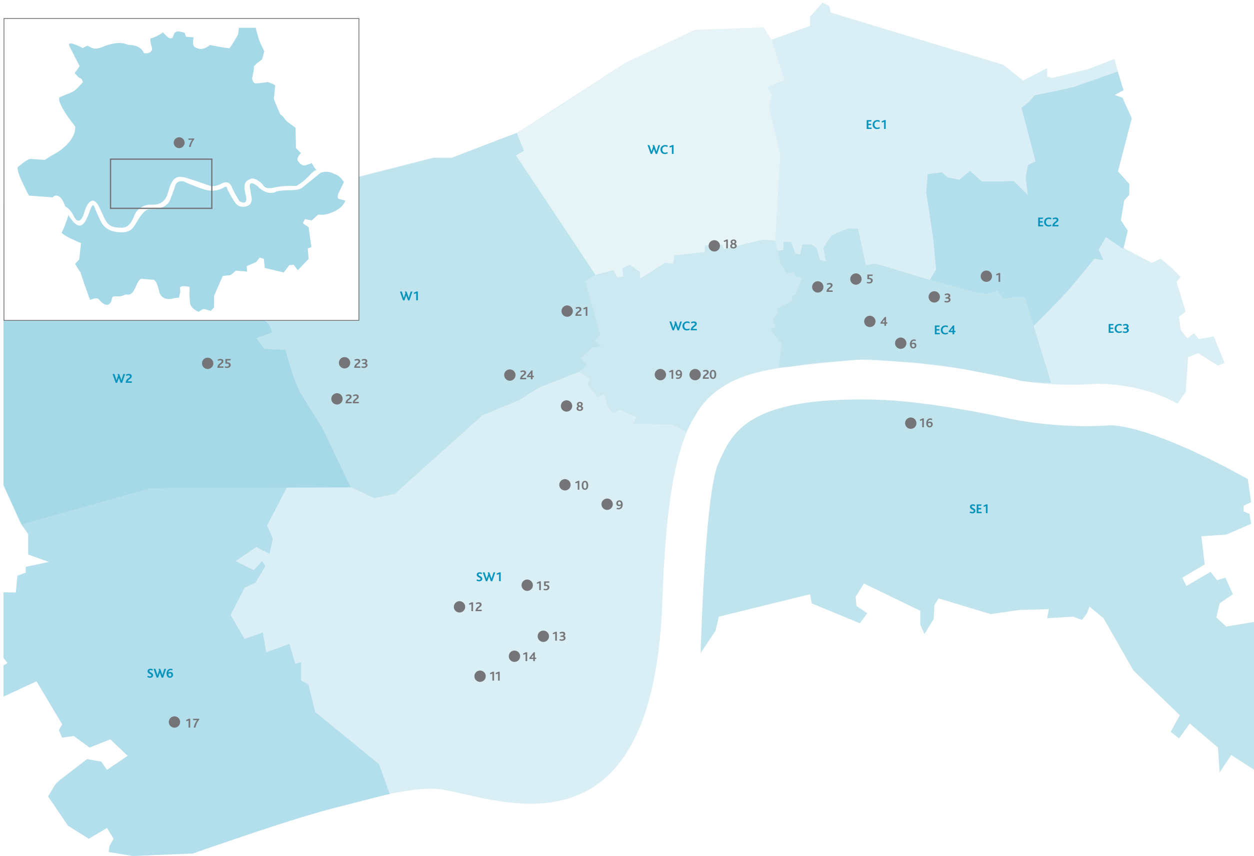
Our innovative approach to environment, health and safety continues, with New Street Square, EC4, recognised for its sustainable design, and schemes such as 20 Fenchurch Street, EC3, featuring advanced management of carbon emissions.

Table 44
Customer satisfaction survey – London offices

Objective	2006 Actual	2007 Target	2007 Actual
Understanding needs	3.52	n/a	3.44
Communication	3.26	3.77	3.71
Willingness to recommend us	94%	95%	81%
Responsiveness	3.66	n/a	3.45
Overall satisfaction	n/a	3.75	3.57

Customer satisfaction surveys are for calendar year period.
Scale 1 = very poor, 5 = excellent

Top London Portfolio properties over £100m by location



● £100m and above

EC2
1. One Wood Street•

EC4
2. New Street Square•
3. One New Change•
4. 50 Ludgate Hill and 26 Old Bailey
5. Hill House
6. Times Square

NW1
7. Greater London House

SW1
8. Haymarket House
9. New Scotland Yard
10. 50 Queen Anne's Gate•
11. Portland House
12. Eland House
13. Kingsgate House
14. Cardinal Place•
15. Ashdown House

SE1
16. Bankside 2&3•

SW6
17. Empress State building[L]

WC1
18. Holborn Gate, 330 High Holborn

WC2
19. 40 Strand
20. Arundel Great Court

W1
21. 4/48 Oxford Street
21. 6/17 Tottenham Court Road
22. 455/475 and 475/497 Oxford Street and Park House•
23. Portman House
24. Piccadilly Circus

W2
25. 10/20/30/40[L]/50 Eastbourne Terrace•

• In the development pipeline
[L] Landflex building

Wendy Franks
Land Securities Community Liaison Manager, Bankside 123

"Involving the community in key decisions is the most effective way to develop trust. For example, we felt an artwork could provide a focal point for the wider refurbishment at Bankside. So we invited a public art panel that included local residents to take responsibility for the commission."

Working with QinetiQ, we've won an extraordinary opportunity to create and manage a world-class Ministry of Defence training centre at St Athan, South Wales. Our ability to identify partners with complementary expertise and create a *winning team* enables us to address major outsourcing opportunities.


PARADE GROUNDS
NEW BARRACKS
NEW MESSES
RAF
Army
NEW ACCOMMODATION
Royal Navy
NEW SPORTS FACILITIES
METRIX CONSORTIUM DELIVERS:
• Quality Training
• Quality Environment
• Quality of Life

Rebecca Francis
DVLA Contract Manager, Swansea

"The refurbishment works for me. My shabby, dated work space has been transformed into a smart and fresh 21st Century office, with non-territorial working, pods for printers, and break out areas, all with good quality lighting, thank goodness."

In this section:

- Market overview
- Our strategy
- New contracts
- Our performance

Ian Ellis

A year ago we stated that Land Securities Trillium was positioned for a phase of further growth. This happened in the second half of the financial year under review. As a result, this business has grown from 3.3 million m² to 4.8 million m² of floorspace, with seven clients and 105 PPP contracts. We now provide accommodation services to more than 450,000 people.

Chart 45
History of Land Securities Trillium

1998 – 2000	2001 – 2003	2004 – 2005	2006 – Today
■ Department for Work and Pensions (DWP) PRIME deal signed	■ Trillium acquired by Land Securities ■ BT deal signed ■ BBC deal signed ■ DWP TIES deal extended	■ Norwich Union deal signed ■ Barclays deal signed ■ DVLA deal signed	■ 50% acquisition of Investors in the Community (IIC) ■ Acquisition of SMIF ■ Preferred bidder on Package 1 and provisional preferred bidder on Package 2 of Defence Training Review (DTR) ■ Accor acquisition ■ Royal Mail deal signed ■ 100% acquisition of IIC

Chart 46
The Land Securities Trillium business model

Origination	Commercial Strategy	Partnership delivery	Investment Capital Group
Deal flow ■ Leading business development capability in Property Partnership and PPP markets ■ Responsive product offering	Value enhancement ■ Cash flow enhancement ■ Aggregation benefits ■ Asset business plans	Customer service ■ Core services delivery ■ Service enhancements ■ Customer satisfaction	Capital divestment ■ Maximising value of long dated, asset backed cash flows ■ Strategic input to origination

Chart 47
Existing portfolio by use

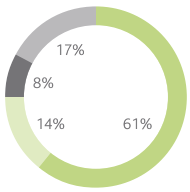
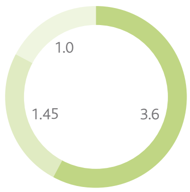


Chart 48
Existing and potential contracts by floor area (million m²)



Property Partnership markets

Property Partnership markets encompass both the property outsourcing and PPP markets, which we described on page 19. Our target markets are public and private sector organisations and we estimate the potential property values which could be accessed through Property Partnership contracts at in excess of £100bn, excluding any leasehold property which may also be transferred in a property outsourcing contract.

A year ago we described the changes that have taken place in the Property Partnership markets and the actions we were taking in response to these changes. In summary, we recognised that the market for major property outsourcing projects, which began in earnest in 1998 with the DWP contract, was constrained in terms of the number of organisations with portfolios suitable for a full outsourcing contract. In recognition of this we evolved our business model to respond to our clients' need for smaller, tailored property outsourcing contracts, such as those undertaken by the DVLA and Norwich Union. We also recognised that PPP projects are a form of property outsourcing. As a result we decided to focus on this area, in particular on defence, education and community assets.

Department for Work and Pensions (DWP)
A 20-year partnership covering 1,807 properties, delivering operating cost savings of £560m and £350m capital release.

Norwich Union
25-year partnership involving the transfer of ownership, management and improvement of 19 properties.

Barclays
A 20-year partnership spanning 14 properties, with a focus on the core estate and leasehold liability risk.

Chart 49
History of Property Partnerships

Property outsourcing

1990–1993 | 1994–1997 | 1998–2000 | 2001–2003 | 2004–2005 | 2006–Today

- 1998–2000:
  - DWP PRIME deal signed
- 2001–2003:
  - Inland Revenue STEPS deal signed
  - BT deal signed
  - BBC deal signed
  - DWP 'TIES' deal extended
- 2004–2005:
  - Norwich Union deal signed
  - Barclays deal signed
  - DVLA deal signed
- 2006–Today:
  - Royal Mail deal signed
  - Accor acquisition

PPP/PFI

1990–1993 | 1994–1997 | 1998–2000 | 2001–2003 | 2004–2005 | 2006–Today

- 1990–1993:
  - PFI policy announced by UK government
- 1994–1997:
  - First schemes signed (health & prisons)
- 1998–2000:
  - Value of signed deals reaches £10bn
- 2001–2003:
  - SMIF Canary deal is first in secondary market
  - OGC refinancing code issued
- 2004–2005:
  - BSF launched
  - PFI CO is first listed PFI investor
- 2006–Today:
  - Land Securities acquires SMIF
  - PFI funds listed by HSBC and Babcock

The PPP market was established in 1992 and has since grown to a substantial and increasingly global method for Governments to procure capital projects for accommodation and infrastructure. In the UK alone, nearly £50bn of projects have been completed and some £5bn per annum of new projects are anticipated. This market is expanding in Continental Europe and shows strong growth potential and demonstrates good resilience to downturns in the economic cycle.

Our strategy

Our strategy remains the same:

- Access new opportunities for Property Partnerships in existing and new markets
- Grow our business with existing and new clients
- Lead innovation in the outsourcing industry

Through the acquisition of SMIF and IIC, Land Securities Trillium has positioned itself as the clear market leader in the UK and has unrivalled capability in the primary and secondary PPP markets (the primary market involves bidding for new contracts and the secondary market being the acquisition of existing contracts). At the same time, Land Securities Trillium has remained at the forefront of the property outsourcing market as demonstrated by the Royal Mail and Accor transactions and our appointment as Preferred Bidder on the MoD Defence Training Review Package 1 in the last quarter of this financial year.

We are now seeking to exploit the advantages of scale and diversity created over the past year to access UK and Continental European PPP markets. In the UK, primary bidding activity for new contracts will focus on sectors where we have competitive advantage, for example the Building Schools for the Future programme, using the service skills within our organisation. In Europe, we will target countries where we can both quickly acquire diversified portfolios of existing contracts at attractive returns and look over the medium-term to develop our partnering and primary bidding strategies.

Our partnership with Royal Mail helps them concentrate on the things they do best.

Royal Mail
A partnership involving the acquisition of 295 properties and leaseback of 176 properties.

Accor
An acquisition and leaseback partnership with the Accor Group covering 30 hotels leased back on 84-year leases.

DVLA
A 20-year partnership covering 58 properties, the refurbishment of HQ and innovative service delivery.

All our targets have common characteristics. They generate high prospective cash flows that:

- Have good credit quality – being generated from either an investment grade or Government counter-party
- Are often inflation linked
- Have low volatility, reflecting performance and availability risk which Land Securities Trillium is very competent at managing

We are very pleased with the progress we have made to deliver against our strategy.

Our new contracts

The Land Securities Trillium business has evolved substantially in the past year, developing from being market leader in property outsourcing to being market leader in both property outsourcing and the PPP market.

The second half of the year was notable for the high level of acquisitions and new business activity. We made acquisitions totalling £1.4bn, including the £910.5m acquisition of SMIF, the £439.0m acquisition of the Accor hotel portfolio (including eight properties yet to complete), the £71.1m acquisition of Royal Mail and our purchase of the remaining 50% of IIC for £8.5m. Our Metrix joint venture with QinetiQ was appointed preferred bidder on Package 1 of the Defence Training Review and provisional preferred bidder on Package 2.

SMIF

Land Securities Trillium completed the acquisition of SMIF in February 2007. Together with our outright acquisition of IIC, the joint venture set up with Mill Group in 2006, this establishes us as the leader in the UK market for PPP contracts. We have equity and/or management interests in 105 projects and offer a market leading bidding and business development capability across key target sectors of community infrastructure. This includes education, health, security and general accommodation. At the time of acquiring SMIF we stated our intention to divest the underlying projects by transferring them to a fund and bringing in third-party investors, while maintaining a minority interest. We have appointed an investment bank to execute this strategy and anticipate its successful implementation by the end of 2007.

At St Athan sophisticated next generation training methods – like virtual reality simulations and web-based e-learning – require sophisticated next generation facilities.

Leicester Grammar School
Partnership agreement covering construction funding and long-term investment for the relocation of the school.

Falkirk schools
Partnership covering building maintenance, cleaning, janitorial services and catering for five schools over 25 years.

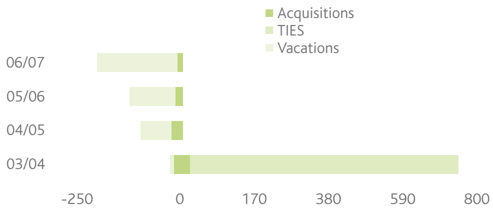
Darent Valley Hospital, Dartford
A 30-year PFI partnership to finance, design, build and operate Darent Valley Hospital, an acute hospital in Dartford, Kent.

Metrix

In January 2007, the Secretary of State for Defence announced that the Metrix consortium was awarded preferred bidder status for Package 1 (Technical training) and provisional preferred bidder status for Package 2 (Non-technical training) of the Defence Training Review (DTR) programme. The DTR will provide the best possible specialist training for all three Armed Services by creating National Centres of Excellence, through a programme of investment, rationalisation and modernisation.

We are a 50% shareholder in the successful Metrix consortium with leading defence service provider QinetiQ and we will also provide full construction management and facilities management services to Metrix. This project will be one of the largest PPP projects yet undertaken and involves the building, maintenance and operation of a new Defence Training Academy at RAF St Athan in South Wales. Improvements and investments are also planned at a number of other training sites.

Chart 50
DWP contract growth and vacations (m^2)



Accor Hotels

In February 2007, we agreed terms for the purchase of 30 Ibis and Novotel hotels in the UK from Accor Group, the fourth largest hotel chain in the world. The consideration was £439m with a commitment to contribute £35m towards improvement works over four years and to assist Accor in locating and acquiring new sites. The current hotels, primarily in major city centre locations, are leased back to Accor for 84 years with 12-yearly tenant break clauses. The rent is set as a percentage of the hotels' turnover. We also provide maintenance services for the external fabric of the hotels. The partnership model adopted here is important to Accor's expansion strategy and exemplifies our Property Partnership approach.

Royal Mail

In March 2007, Land Securities Trillium completed the acquisition of a portfolio of 295 properties from Royal Mail for a net consideration of £71.1m. This includes 114 vacant, surplus leasehold properties on which we have taken full risk transfer and operational responsibility, 176 freehold properties occupied by Royal Mail under a 15-year leaseback, and five investment properties not occupied by Royal Mail. Royal Mail occupies only the space it requires in these buildings and we manage both sub-tenants and vacant space. This transaction represents just 3% of the operational space of Royal Mail and is a key element in their drive to increase efficiency, with scope to grow the partnership in future.

We're working in partnership with Accor Hotels; we look after the property so they can look after the people.

Workplace 2010

Land Securities Trillium has reached the Best and Final Offer stage of the Workplace 2010 procurement. This is a 20-year full property outsourcing contract by the Northern Ireland Civil Service (NICS), involving significant new build and refurbishment across an initial estate of 270,000m^2 (77 properties), with potential for expansion at phase 2. This programme is a major element in adoption of modern working practices by NICS. If successful, initial investment would be up to £300m in freehold purchases and capital spend on building improvements.

British Embassy, Berlin
A 30-year partnership to design, build and operate the British embassy in Berlin.

Peterborough Schools
A 30-year PFI partnership to design, build and provide facilities management services for three schools in Peterborough.

Defence Training Review
Innovative 25 year public private partnership between the MoD and Metrix – a 50-50 joint venture with QinetiQ.

Our performance

Land Securities Trillium produced an underlying operating profit of £98.8m excluding IIC (2006: £96.6m). This performance reflected our expectations for growth in profits across all contracts except the DWP.

The reduction in DWP profitability is in line with expectations and reflects the full year impact of prior year vacations plus further vacations during 2006/07 in accordance with their contractual entitlement of 220,500m^2. The improved profit contributions from both DVLA and Norwich Union reflect the increases in income as more space is occupied by our clients as further phases of refurbishment work are completed. The BBC contract concluded in June 2006, and Telereal II reflects a full year's result. One month of Accor profitability is included.

The increase in central costs primarily reflects the increase in overheads associated with new business and also the costs associated with the implementation of new systems. The majority of the bid costs associated with DTR were incurred in the prior year. The deficit on revaluation reflects the impact of stamp duty and other purchase costs on the Accor and Royal Mail portfolios which were acquired close to the year end. The IIC losses reflect the high level of new business activity, much of which continued over the year end, which is expensed prior to selection as preferred bidder.

Land Securities Trillium business model

We have integrated IIC and the management of our SMIF investments into Land Securities Trillium and organised the business into four core operating areas, supported by Finance and Human Resource functions. These four areas are:

Origination

We now have unrivalled business development capability in both the PPP and property outsourcing markets. The focus is on long-term customer focused partnerships which generate high-quality cash flows with significant enhancement prospects using our asset management skills and the application of economies of scale. The opportunities could be in either the primary market, in which we are currently bidding on the NICS outsourcing contract and various Building Schools for the Future projects, or the secondary market. The key areas of focus are health, education and office accommodation, but we will consider assets in other sectors in the UK and Continental Europe that meet our return criteria and where we can deploy our expertise.

Table 51
Land Securities Trillium financial results

	Year ended 31/03/07 £m	Year ended 31/03/06 £m
Contract level operating profit		
– Barclays	3.3	2.5
– BBC	2.8	0.5
– Driver and Vehicle Licensing Agency (DVLA)	1.7	1.0
– Department for Work and Pensions (DWP)	81.0	97.7
– Norwich Union	9.2	5.0
– Telereal II*	16.1	6.9
– Accor	1.5	–
Bid costs	(2.8)	(7.4)
Central costs	(14.0)	(9.6)
Underlying operating profit	98.8	96.6
Profit on sale of non-current properties	7.5	1.0
Net (deficit)/surplus on revaluation of investment properties	(13.6)	1.9
Profit on disposal of joint venture (Telereal)	–	293.0
Segment profit	92.7	392.5
Share of loss from Investors in the Community (IIC) joint venture	(3.0)	–
Distribution received from Telereal	–	11.7

*The operating profit for Telereal II for the year to 31 March 2006 related to a six-month period only.

By building and managing better schools we're helping to make learning more effective, efficient and enjoyable.

Commercial and business strategy

Commercial and business strategy has overall responsibility for the profitability of our partnerships and for developing business plans across Land Securities Trillium. It owns and drives value enhancement plans which allow us to leverage our scale and achieve aggregation benefits in areas such as refinancing, insurance pooling and life cycle expenditure.

Partnerships delivery

The role of partnerships delivery is to provide excellent customer service across all elements of our offering and to manage our operational risks. If achieved effectively, this leads to strong partnering relationships in which customers are keen to expand the services and risks we manage on their behalf, secure in the knowledge that we are providing high-quality, value for money solutions.

Over the past 12 months we have again achieved very high levels of customer satisfaction in our DWP operation, securing a 91% rating, while continuing to work in a flexible and responsive manner with this customer to help it meet its business challenges. As predicted, the rate at which DWP has utilised its free flexible vacation allowance has continued to increase over the past 12 months. In all, DWP vacated 220,500m^2 during the year, and over the same period we mitigated our exposure by letting or otherwise disposing of 148,800m^2 of vacant space from across our portfolio.

In other key contracts, we are continuing to deliver our successful refurbishment project at the Norwich Union headquarters. At the DVLA in Swansea our relationship has grown to the extent that we have now more than doubled the capital we will invest in refurbishment and new build projects. These projects are playing their part in transforming the way in which the DVLA carries out its business.

We continue to focus on the environmental aspects of our business and we were very pleased to retain our ISO 14001 accreditation for the Environmental Management System we operate across the DWP contract. In addition to this continued external recognition, we identified and trained a number of people as 'Environmental Champions' throughout our business. With their support, we undertook a series of biodiversity surveys, sustainable catering and eco-friendly cleaning initiatives across our estate. Together with our supply chain we continue to focus on environmental initiatives and we set challenging targets aimed at continuing to improve our collective performance.

Investment Capital Group

Following the completion of the SMIF acquisition and as part of the general reorganisation of Land Securities Trillium, a new division, the Investment Capital Group (ICG) was established. ICG's principal activities are the recycling and management of equity capital utilised within Land Securities Trillium's ongoing PPP activities.

ICG is committed to reduce substantially the capital invested in SMIF by the end of calendar year 2007, while retaining a significant management role and a minority equity holding in its existing PPP portfolio. The market and investor appetite for mature, long dated PPP investment is strong and we are evaluating a number of options to access it. These options include the establishment of a fund that should enable Land Securities Trillium to achieve its capital recycling objectives as we continue to acquire new contracts in the PPP market in line with our business plan.

Chart 52
DWP customer satisfaction

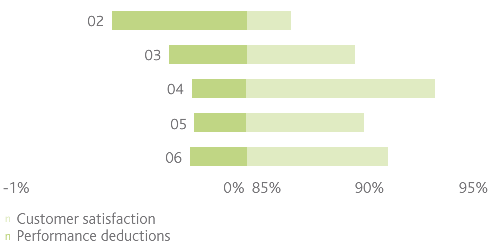
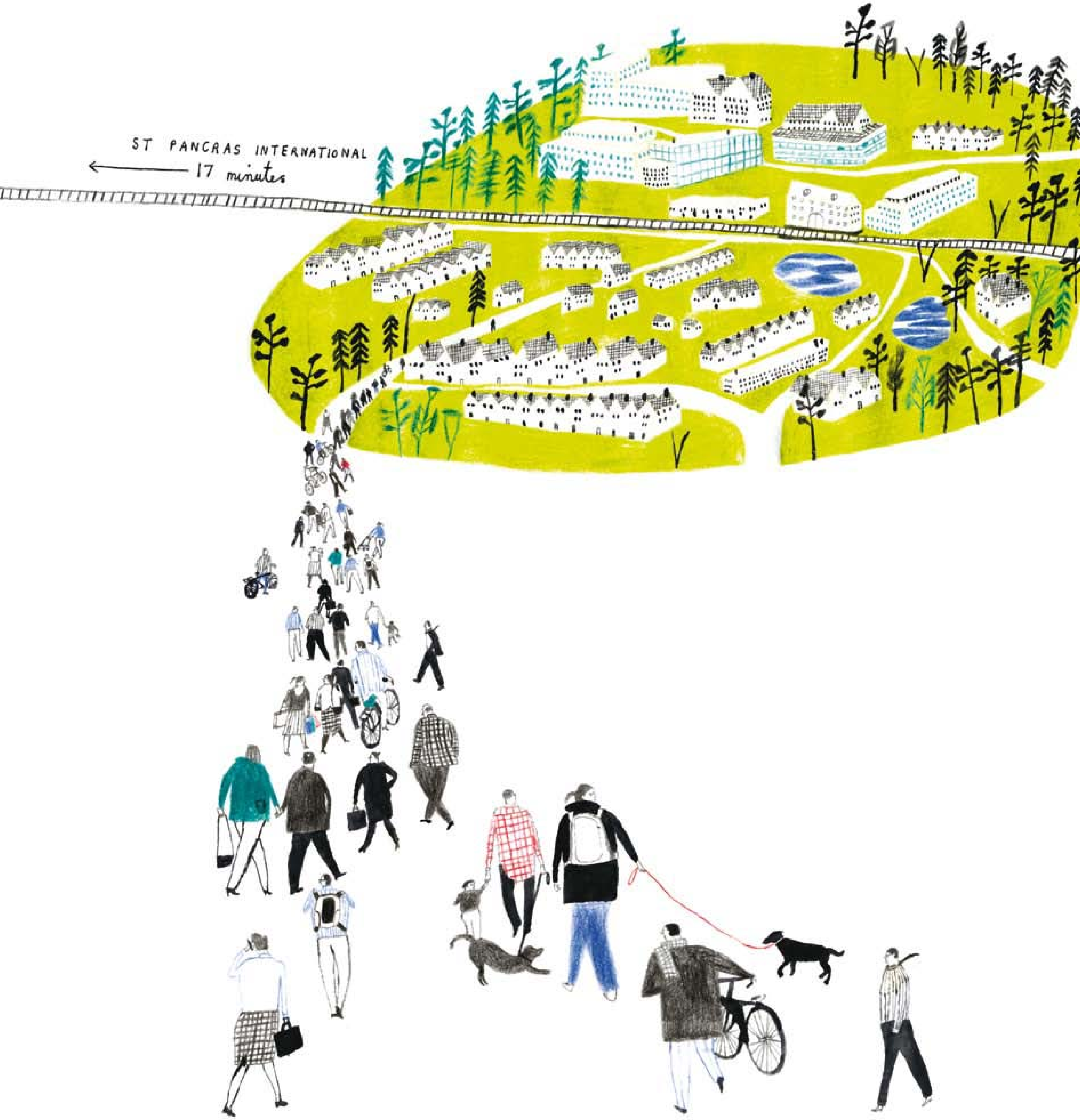


Table 53
Number of people by occupation

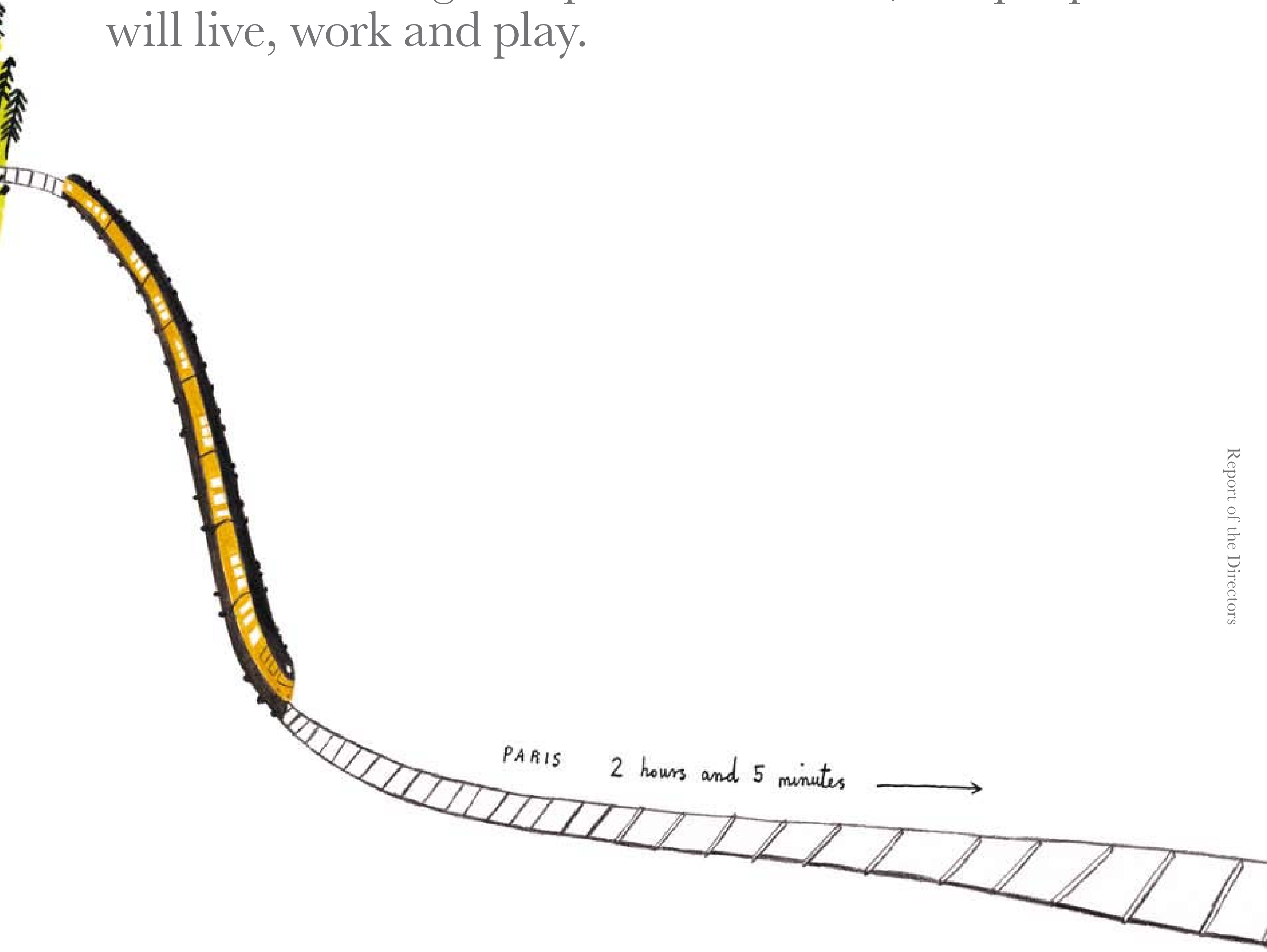
At 31/03/07	Total
Asset management	80
Call centre	78
Capital projects	143
Quality assurance	31
Facilities management	389
HR/finance	110
Business development and commercial	88
Total	919

Chris Edwards
Chief Executive, Education Leeds

"Our fantastic partnership with Land Securities through Investors in the Community has delivered state-of-the-art facilities. The partnership works because we share a vision of brilliant learning and a commitment to creating inspiring learning places where children and young people can achieve their potential."


ST PANCRAS INTERNATIONAL
17 minutes

When you have teams of experts, skilled partners and a strong balance sheet you can move the earth. In Kent, for example, we're *transforming* brownfield sites into exciting new places where 40,000 people will live, work and play.



Urban Community Development

Urban Community Development seeks to generate high long-term returns from large scale mixed use residential led development projects. The continuing imbalance between supply and demand is creating strong growth in the residential markets within London and the south east, to our benefit.

Kent Thameside

Our primary area of activity is Kent Thameside where we own or have development rights over approximately 512 hectares of development land.

In July 2006, we completed the sale of the remainder of our land interests at Crossways Business Park, generating overall profits of £5.7m. We also completed a 2,380m^2 office building forward sold to Moat Housing Association.

Substantial progress has been made on the second phase of development at Waterstone Park, led by our development partner Countryside Properties. This award winning residential scheme has achieved strong sales over the year with more than 32 houses and 58 apartments completed.

Our principal holdings in Kent Thameside are Eastern Quarry and Ebbsfleet which together form Ebbsfleet Valley. The 420-hectare mixed use development, located north of the A2 between Bluewater and the new Ebbsfleet International Station has seen a step change in activity with international rail services due to commence in November 2007.

At Eastern Quarry, we are making gradual progress towards concluding an agreement with the Highways Agency on the transport measures required to accommodate our development proposals for some 6,250 new homes and mixed use space totalling 232,000m^2. We remain confident that planning permission will be granted shortly. Earth works needed to create the development platform for the first residential village in Eastern Quarry are almost complete.

At Ebbsfleet, outline planning permission has already been obtained. Work has concentrated on the detailed master planning studies needed to deliver development before the commencement of high-speed domestic rail services into London St Pancras in 2009. Train travel times from Ebbsfleet to London will reduce from approximately 50 minutes to 17 minutes.

At Springhead Park, within the Ebbsfleet site, we proposed some 600 new homes and approximately 46,500m^2 of new business space. Planning permission has been obtained and work has begun on phase one of 383 new homes, in our second joint venture with Countryside Properties.

The delivery of this scale of development over a 25-year period at Ebbsfleet Valley requires innovation, commitment and partnership with stakeholders. During the year, we created strategic alliances to ensure cost effective delivery of utilities infrastructure. Heads of Terms have been entered into with Thames Water and EDF to create the Ebbsfleet Valley Multi Utility Company which, subject to the approval of the Regulator, will deliver utility services. Heads of Terms have also been reached with BT and Sky to deliver a fibre optic network providing phone and entertainment services to new homes and businesses. Reflecting the strategic importance of this development to the Government's regeneration proposals for the Thames Gateway, the Department of Communities and Local Government has identified Ebbsfleet Valley as one of the four transformational economic opportunities within the Thames Gateway Interim Plan.

Stansted

At Easton Park, our 650-hectare landholding adjacent to Stansted Airport, we have submitted further representations as part of the review of the Regional Spatial Strategy for the East of England. These have identified the potential of the site to help accommodate the growth forecast for the region if permission for a second runway at Stansted Airport is granted. To maximise medium-term income from Easton Park, we have applied with Aggregate Industries to seek approval to extract some four million tons of sand and gravel.

"I'm helping to create new communities at Kent Thameside and the test I always apply is how would it be for my family if we lived there? Will it be safe, secure and exciting? Will there be great parks, schools and shops? Will there be lots of things for us all to do?"

Adam Cunnington
Land Securities Development Director, UCD

Adam's children
Lucie & Emily

Board of Directors

Paul Myners (59)
Chairman and Non-executive Director

Appointed to the Board in September 2006 and Chairman in January 2007. Member of the Court of the Bank of England and Chairman of Guardian Media Group plc, Tate and the Low Pay Commission. Also a Trustee of Glyndebourne and the Smith Institute.

Francis Salway (49)
Executive Director

Joined the Group in October 2000. Previously an Investment Director at Standard Life Investments. He was appointed to the Board in April 2001. Appointed Group Chief Executive in July 2004. Also a Director of London First.

Martin Greenslade (42)
Executive Director

Joined the Board as Group Finance Director in September 2005. Previously Group Finance Director of Alvis PLC and a member of the executive committee of Nordea's investment banking division and Managing Director of its UK business. Also a Director of International Justice Mission UK.

Sir Winfried Bischoff (66)
Non-executive Director

Appointed to the Board in November 1999. Chairman of Citigroup Europe, and a Non-executive Director of The McGraw-Hill Companies, USA, Eli Lilly & Company, USA and Akbank, Turkey.

David Rough (56)
Non-executive Director

Joined the Board as a Non-executive Director in April 2002 and appointed Senior Independent Director in November 2003. Group Director (Investments) of Legal and General Group PLC until December 2001. A Non-executive Director of EMAP Group PLC and Xstrata Group PLC.

Ian Ellis (51)
Executive Director

Joined the Board in November 2002. An original member of the management team which set up Trillium. Previously Chief Executive of the investment management division of Insignia Richard Ellis. Chief Executive of Land Securities Trillium. Non-executive director of Rok plc.

Mike Hussey (41)
Executive Director

Appointed to the Board in September 2004 after joining the Group as Development Director in 2002. Previously Head of Leasing and Marketing at Canary Wharf Group. Appointed Managing Director, London Portfolio in July 2004. A Director of New West End Company.

Richard Akers (45)
Executive Director

Joined the Board in May 2005, following his appointment as Managing Director, Retail Portfolio in July 2004. Joined the Group in 1995 and previously held the position of Head of Retail Portfolio Management.

Stuart Rose (58)
Non-executive Director

Joined the Board as a Non-executive Director in May 2003. Chief Executive of Marks & Spencer Group plc. Previously Chief Executive of Arcadia Group until December 2002. Chief Executive of Booker PLC from 1998 until 2000.

Bo Lerenius (60)
Non-executive Director

Appointed to the Board as a Non-executive Director in June 2004. Chief Executive Officer and Vice Chairman of Stena Line AB until 1999. A Non-executive Director of Group 4 Securicor plc and Associated British Ports Holdings PLC (previously Chief Executive until March 2007).

Alison Carnwath (54)
Non-executive Director

Appointed to the Board as a Non-executive Director in September 2004. A Non-executive Director of Friends Provident plc, Glas Cymru and Man Group plc and an independent Director of PACCAR Inc.

Corporate responsibility

Land Securities sees Corporate Responsibility (CR) as determining the manner in which the Company undertakes its business activities. It drives the business to achieve balance between its environmental, social and economic responsibilities.

To make CR issues relevant to the daily activities of our people our approach to CR is structured into the seven work streams summarised below, as we believe this stakeholder approach better reflects the range of issues we face as a business. It also allows us to allocate clear responsibility for each group at senior management level.

Customers

We believe customer service differentiates Land Securities from other providers of commercial property accommodation and services. Our aim is to provide best in class levels of service so that occupiers and clients choose Land Securities as their business partner.

Health and safety

Health and safety underpins everything we do. We are committed to taking every reasonable step to secure the health and safety of our employees and anyone else who may be affected by our business activities.

Employees

Land Securities employs some 1,500 people across its business and we recognise the key contribution they make to our ongoing growth and success. Their wellbeing and professional development is central to the Group's strategy to be the employer of choice in the property sector, recruiting and retaining high-performing individuals.

Suppliers

We recognise that we have a responsibility and an opportunity to influence suppliers and all business partners in the way in which they carry out their business. Working with suppliers whose values and cultures are complementary to our own helps to ensure high standards are maintained and that risks are managed effectively.

Community

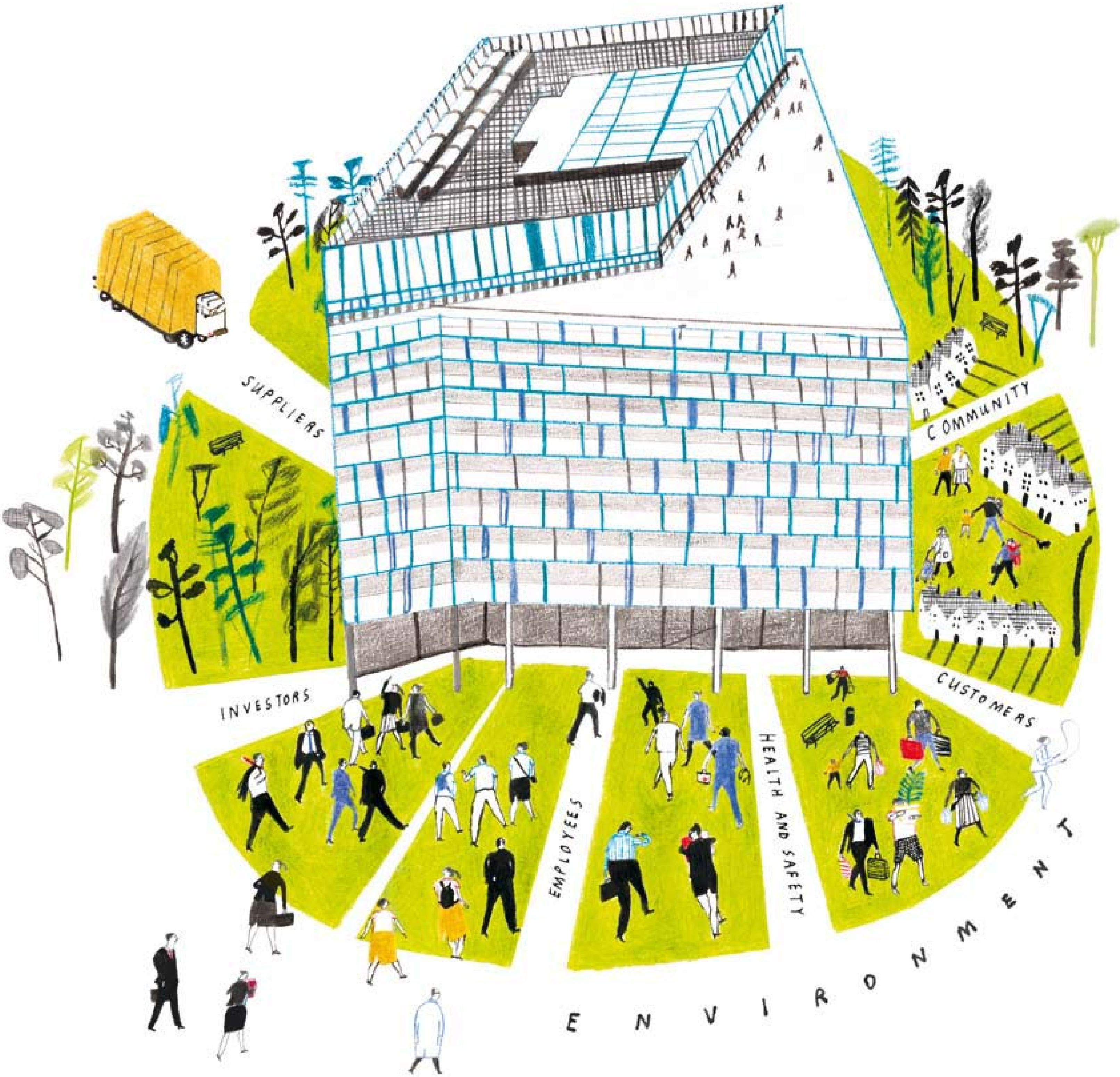
We are involved in a wide range of community activities through our development programme, retail destinations and Property Partnership activities. We have seen our activities transform towns and cities and create a civic focus. There are numerous stakeholders with whom we build relationships, ranging from government and schools to local residents.

Investors

Land Securities has a shareholder base of approximately 25,000. We encourage a two-way dialogue with existing and potential investors – private, debt and equity – and with other commentators. We believe our proactive approach will result in a better understanding of our business and a more open relationship.

Environment

Our wide ranging activities have direct impacts on the built and surrounding environment, in particular the development of new sites and buildings. We also have a major role to play in ensuring our existing properties and those of our clients are managed to good environmental standards.


SUPPLIERS
COMMUNITY
INVESTORS
CUSTOMERS
EMPLOYEES
HEALTH AND SAFETY
ENVIRONMENT

Stakeholder	Business benefit	Areas of focus and measures	2006/07 activity highlights	2007/08 key targets*
Customers Providing serviced accommodation and property solutions to a wide range of occupiers.	Repeat business. Scope extensions. New contract wins.	▪ Client and occupier communication and satisfaction	▪ 91% satisfaction rating on DWP Customer Survey ▪ Shopping centres achieved overall target	Host Energy and Environmental Efficiency workshops for customers at 12 managed properties across Retail and London Portfolios.
Health and safety Affects all stakeholders and underpins all business activities.	Provision of safe and healthy environments for employees, customers, occupiers and members of the public. Enhances corporate reputation.	▪ Health and safety training ▪ Accident reporting ▪ Risk assessment and audits	▪ Zero prohibition notices ▪ Health and safety training to all new starters and 30% of existing managers	Ensure that 70% of Group contractors achieve the Construction Skills Certification Scheme (CSCS) accreditation.
Employees Some 1,500 people are employed across the Group.	Supports our vision to be the leading employer in the property sector – ‘recruiting and retaining high-performing individuals’.	▪ Communication and engagement ▪ Reward and recognition ▪ Learning and development ▪ Succession planning and talent management ▪ Diversity	▪ Promoting family friendly policies, volunteering, payroll giving and CR across the Group ▪ Out-performance on annual employee engagement survey	Provide professional support to the Board of British Volleyball Federation in the development of its Business Plan.
Suppliers Working with over 5,000 suppliers to support our business activities.	Ensure high standards are maintained and risks are minimised and managed effectively.	▪ Investing in suppliers ▪ Sharing knowledge ▪ Monitoring supplier performance	▪ Published ‘suppliers approach’ brochure ▪ Integrating CR requirements into supplier evaluation procedures	Identify agencies to facilitate the recruitment of disabled and disadvantaged people in the Land Securities Trillium supply chain.
Community Our activities enable us to become involved in a wide range of community initiatives.	Support for development scheme planning approvals. A sense of ownership by community creating strong relationships.	▪ Charitable funds ▪ Employee volunteering ▪ Community consultation ▪ Community communication	▪ Establishing the Land Securities Foundation ▪ Sponsor of national Story Quest initiative with Arts & Kids	Consult with 33% of schools in the Land Securities Trillium portfolio to develop the appropriate ‘support programmes’.
Investors Maintaining proactive communications with private, debt and equity investors.	Better understanding of our business and REIT environment.	▪ Shareholder analysis ▪ Analysis of investors’ meetings ▪ CR governance structures ▪ Awards	▪ Socially responsible investor seminar at New Street Square development ▪ Two UKSA presentations and lunches ▪ Active participation in REITA seminars	Increase from 7% to 10% the number of investors subscribing to e-communications.
Environment Our activities impact on the built and surrounding environment.	Creating accommodation our customers require.	▪ External benchmarking ▪ Environmental assessments ▪ Recycling and waste management ▪ Energy use: CO_2 emissions ▪ Water use ▪ Environmental innovation	▪ ISO 14001 accreditation across the Group ▪ BREEAM ratings achieved for all developments ▪ Increased shopping centre recycling from 26.6% in 2006 to 37% in 2007 ▪ Funded ‘Energy Innovation Group’	Design all new developments to be 20% below the Building Regulation requirements for CO_2 emissions.

*See www.landsecurities.com for full list of 2007/08 key targets.

Social, ethical and environmental (SEE) risks

As a capital intensive company with a relatively low number of employees, we have identified health and safety, climate change and business ethics as the key SEE risks to our business.

Corporate responsibility

The focus on CR has grown in recent years, with shareholders and other stakeholders showing increasing interest in the wide range of non-financial aspects of the company's performance. This year we published our fourth CR report which can be found on our website together with more detailed information, graphs and downloads. We recognise that an effective CR programme can help to identify and manage business risks and contribute towards enhancing our reputation and achieving differentiation in the market place.

Our business activities mean that we are closely aligned with the communities within which we operate. In designing, specifying and managing our developments and property portfolio, we need to consider their impact on the surrounding environment. We want to create spaces the public enjoy using and contribute to the local communities in which our properties lie. We also want our 1,500 employees to understand the impact of our activities, the benefits they can bring and be proud to work for Land Securities.

Supporting CR across the Group

The CR Committee seeks to support and provide a framework for the range of CR initiatives undertaken nationally by all parts of our business. It establishes and publishes annual targets for each of the seven streams of activity we have identified as being key to Land Securities CR performance. The Committee comprises senior representatives from each area of the business, is chaired by the Chief Operating Officer of Land Securities Trillium and the Group Chief Executive is also a member.

Donations

During the year ended 31 March 2007, charitable donations amounted to £330,735. Donations were made to a variety of health, research and community charities. The Group has a long-standing relationship with Land Aid and has committed to support their 'Foundations for Life' fund for the next three years. Community funds are made available to areas where we have substantial development activity. This includes London, Bristol, Cambridge, Cardiff, Corby, Exeter and Livingston. There were no contributions of a political nature during the year.

Climate change

The theme for this year's CR report was climate change, how it impacts on our business and how we are responding. Land Securities has been gathering energy data for 25 years. Our approach to efficient energy management has been able to deliver significant year-on-year energy reductions for the past five years. Although we have adopted a carbon offsetting policy, we believe this is not the solution to climate change but that it plays a very useful role in helping to raise awareness and give a financial value to the issue.

Future challenges

It is important for the business to look further into the future and ascertain the issues that will impact upon the business in three to five years' time. The CR Committee has therefore established a series of stretching objectives for 2010 which address issues including supply chain management, climate change, employee diversity and certification of contractors and suppliers. Progress against these objectives will be assessed against a series of annual milestones.

Table 54

Performance highlights

- FTSE4Good, Dow Jones and World's 100 Sustainable companies indices.
- First property company to achieve ISO 14001 certification across all property management and development activities covering the provision of retail, office and outsourced accommodation.
- New Group energy policy on carbon offsetting.
- RoSPA Gold Award for health and safety practices.
- One-day programme for new employees with information provided on health and safety, core values and CR.
- Publication of 'Development and Sustainability' and 'Working with Land Securities' documents to help our suppliers, contractors and consultants better understand our approach to development activity and procurement process.
- Granting over £200,000 to local community and voluntary groups through the Capital Commitment Fund in London, ARISE initiative in Leeds and the LINK fund in Kent, Thameside.

Corporate governance

Introduction

The Board is responsible for providing leadership for the Group. It ensures that the right strategy and controls, together with appropriate financial and human resources, are in place in order to deliver value not only to shareholders but also to a wider community of individuals and organisations which benefit from the Group's activities. The Board is also responsible for setting standards of ethical behaviour and for monitoring environmental and health and safety performance. The Directors consider that the Company has complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code) published in July 2003 throughout the year ended 31 March 2007, with the exception of the provisions relating to independence of Non-executive Directors, board balance and membership of the Nominations Committee. As explained in this report, the departures from the Code relating to Board balance and membership of the Nominations Committee have now been addressed. Details of how Land Securities complies with the Code can be found in this report and in the Corporate Governance section of the Company's website, which also contains the terms of reference of the Audit, Nominations and Remuneration Committees.

The role of the Board

The Board formulated strategy and monitored the operating and financial performance of the Group. It operated in accordance with a written schedule of matters reserved to the Board, a copy of which is available on the Company's website. This schedule is backed by clearly defined written limits of delegated authority across the Group. Key matters reserved to the Board include:

- authorisation of significant transactions in excess of £250m
- dividend policy
- internal controls and risk management (via the Audit Committee)
- remuneration policy (via the Remuneration Committee)
- shareholder circulars and listing particulars
- matters relating to share capital such as share buy backs
- treasury policy and significant fundraising
- appointment/removal of Directors and Company Secretary

The Board used an annual process timetable to ensure that relevant matters were given due consideration as follows:

- *Strategy* – the Board held an annual off-site meeting at which the Company's strategy was reviewed in the context of the macro- and micro-economic environment, potential legislative changes, competitor strategies and the need for the Company to create and exploit competitive advantage.
- *Business plans* – the Board reviewed at six-monthly intervals five-year forecasts, the annual budget and business plan and the balanced scorecard, all of which are designed to support the Company's strategy.
- *Progress reporting* – a detailed monthly Board report was circulated to the Board and at each regular Board meeting the heads of business units provided an update on progress within their areas of responsibility. In addition, the interim and final results, together with a comparison of investment property performance to IPD indices on a six-monthly basis, were reviewed in detail.
- *Compliance and external relationships* – the Board reviewed at least annually Investor Relations, HR policy, Corporate Governance, Health and safety (with quarterly updates), Environmental performance, Board performance evaluation and Corporate and Social Responsibility matters.

Table 55 below sets out the number of principal Board and Committee meetings held during the year together with individual attendance by Board members at those meetings.

Board balance and independence

The roles of the Chairman and Chief Executive are split, with clear written guidance to support the division of responsibility. No single individual had unfettered powers of decision. The Chairman was primarily responsible for the effective working of the Board, ensuring that all Directors were able to play a full part in its activities. He was also responsible for ensuring effective communication with shareholders and making sure that all Board members were aware of the views of major investors.

Francis Salway, as Group Chief Executive, was responsible for all aspects of the operation and management of the Group and its business. His role included developing, for Board approval, an appropriate business strategy and ensuring that the agreed strategy was implemented in a timely and effective manner.

Table 55
Attendance at Board and Committee meetings

	Board (11 meetings)	Audit Committee (4 meetings)	Nominations Committee (1 meeting)	Remuneration Committee (2 meetings)
Peter Birch (Chairman to 1 January 2007)	7/7*	–	–	–
Francis Salway (Group Chief Executive)	11/11	–	1/1	–
Mark Collins (resigned 19 October 2006)	5/5*	–	–	–
Martin Greenslade	11/11	–	–	–
Ian Ellis	11/11	–	–	–
Mike Hussey	10/11	–	–	–
Richard Akers	11/11	–	–	–
David Rough (Senior Independent Director)	11/11	4/4	1/1	2/2
Sir Winfried Bischoff	8/11	1/4	–	2/2
Stuart Rose	11/11	4/4	–	2/2
Bo Lerenius	10/11	4/4	–	2/2
Alison Carnwath	10/11	4/4	–	2/2
Paul Myners (appointed 1 September 2006)	7/7*	–	1/1	1/1*

*Actual attendance/maximum number of meetings a Director could attend as a Board/Committee member.

There existed a strong Non-executive element on the Board which currently consists of the Chairman, five Executive Directors and five Non-executive Directors. Paul Myners was an independent Director at the time of his appointment as Chairman. David Rough is the Senior Independent Director. While the Board regards each of the five Non-executive Directors as being independent, Sir Winfried Bischoff is the Chairman of Citigroup Europe which provides investment banking services to the Group and as a result did not fully meet the independence criteria set out in the Code. However the unanimous view of his colleagues on the Board is that, by virtue of his character and experience, he is robustly independent.

During part of the year the Board was non-compliant with the provision of the Code which provides that at least half of the Board, excluding the Chairman, should comprise independent Non-executive Directors. However, the Board considers that the experience and independent judgement of its Non-executive Directors are more important than absolute numbers. The Board is now fully compliant with this provision of the Code. It is satisfied that no individual or group of Directors has unfettered powers of discretion and that an appropriate balance exists between the Executive and Non-executive members of the Board, while not being so large as to be unwieldy.

Details of the roles, backgrounds and other commitments of the Directors are shown in the Directors' biographies on pages 68 and 69.

The Chairman holds at least two meetings a year with the Non-executive Directors without Executive Directors being present.

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters and for ensuring good information flows within the Board. All Directors have access to the advice and services of the Company Secretary, as well as access to external advice, if required, at the expense of the Group (the procedure for Directors wishing to seek such external advice is published on the Group's website). No such external advice was sought by any Director during the year.

Information and professional development

The Board is supplied with information in a form and quality to enable it to take informed decisions and to discharge its duties. All Directors are encouraged to make further enquiries as they consider appropriate of the Executive Directors or management. Directors were provided with the opportunity to update their skills and knowledge, including, in the year under review, updates on the legal and taxation aspects of REITs and on the Companies Act 2006. In the case of newly appointed Directors, an induction programme, which includes training on the responsibilities of a Director, occurred prior to or immediately following their appointment to the Board, if that appointment was the first occasion that they have been appointed to the Board of a listed company. A tailored induction programme is provided for Non-executive Directors on appointment, co-ordinated by the Company Secretary in accordance with guidelines issued by the Institute of Chartered Secretaries and Administrators. Non-executive Directors are encouraged to visit the Group's major properties to enable them to gain a greater understanding of the Group's activities. In addition, one Board meeting each year is held at an 'off-site' location which incorporates a visit to one of the Group's principal properties or developments.

The Board supports Executive Directors taking up Non-executive Directorships as part of their continuing development which will ultimately benefit the Company. As a matter of policy such appointments are normally limited to one Non-executive Directorship.

Board performance appraisal

The formal annual appraisal of the performance of the Board, its Committees and individual Directors was undertaken in early 2007. This consisted of an internally run exercise led by the Chairman with the assistance of the Company Secretary, although the Board will consider using external facilitation from time to time in the future. The wide-ranging appraisal questionnaire was based on the process and questions outlined in the Code, covering Board and Committee performance. The appraisal output is used to highlight strengths and weaknesses and revealed that the Board and its Committees were judged to be operating effectively. It identified a number of opportunities to develop Board processes in the future. In addition, individual performance as Board Directors was appraised, based on one-to-one interviews with the Chairman, or in the case of the Chairman, with the Senior Independent Director.

Nominations Committee

The Nominations Committee, which comprised the Chairman, David Rough and Francis Salway, met once during the year under review to consider Board structure, size, composition and succession needs, keeping under review the balance of membership and the required blend of skills, knowledge and experience of the Board. While the membership of the Nominations Committee was non-compliant with the Code, all key outputs and decisions relating to appointments and membership of Board Committees were relayed to and considered by the full Board which includes a strong representation of experienced independent Non-executive Directors. During May 2007, Bo Lerenius was appointed to this Committee and Francis Salway stood down from the Committee so that its membership now satisfies the requirements of the Code. The Committee reviewed the time required from Non-executive Directors and the annual performance evaluation was used to assess whether Non-executive Directors were spending sufficient time to fulfil their duties.

The Committee reviewed succession plans for Executive Directors and senior managers. It also made recommendations to the Board on the reappointment of Non-executive Directors at the conclusion of their specified terms of office, after first considering the effectiveness and commitment of those Non-executive Directors. Where Non-executive Directors are proposed for reappointment after having served on the Board for more than six years, a particularly rigorous review is undertaken by the Committee.

A key focus for the Committee during the year under review was the matter of Chairman succession and two additional meetings of a specially constituted Nominations Committee, comprising Sir Winfried Bischoff and Stuart Rose, were held to progress this process. A firm of executive search consultants was used to identify and help assess potential external candidates for this position. As a result of this process, Paul Myners was appointed to the Board on 1 September 2006 and was appointed as Chairman, upon the retirement of Peter Birch, on 1 January 2007.

When considering candidates the Committee uses objective criteria and all appointments are made on merit.

Remuneration Committee

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, which comprised solely of Non-executive Directors, determined the remuneration and conditions of employment of the Executive Directors and senior employees. The Committee's activity is described in detail in the Directors' remuneration report on pages 79 to 86.

Investor Relations

Land Securities has a comprehensive Investor Relations programme which aims to provide existing and potential equity and bond investors with a means of developing their understanding of the Company and raising any concerns or issues they may have. Further detail on the Group's Investor relations activity is provided in the Corporate responsibility section of this Report.

The Senior Independent Director normally attends the preliminary and interim results meetings to which investors were invited and his attendance is notified to investors in advance. In addition, the Chairman wrote to principal shareholders offering a clear line of contact with either him or the Senior Independent Director as recommended by the Code. The Senior Independent Director was available to shareholders should they have had any concerns which could not be resolved through the normal channels of communication with the Chairman or Chief Executive. No such concerns were raised by shareholders during the year ended 31 March 2007.

In relation to private shareholders, we actively encourage feedback and communication, both on the Annual Report (see inside back cover), at the Annual General Meeting and through regular meetings with the United Kingdom Shareholders' Association.

The Annual General Meeting provided all shareholders with an opportunity to question the Company on matters put to the meeting including the Annual Report. Shareholders attending the Annual General Meeting were given a detailed presentation by the Chief Executive on the activities and performance of the Group over the preceding year. From the 2007 Annual General Meeting, voting will be conducted by poll instead of by show of hands, since the result is more democratic because all shares represented at the meeting are voted and added to the proxy vote lodged in advance of the meeting. The results of proxy voting at general meetings were published on the Company's website as required by the Code.

Audit Committee

The Audit Committee consisted of all the independent Non-executive Directors and was chaired by David Rough. Although all of the Committee members are considered as appropriately experienced to fulfil their role, Alison Carnwath is considered as having significant, recent and relevant financial experience in line with the Code. Further details of each of the independent Directors are set out on pages 68 and 69.

The Audit Committee's written terms of reference are available on the Company's website. Its principal oversight responsibilities cover:

- internal control and risk management
- internal audit
- external audit (including auditor independence)
- financial reporting

The Committee met four times during the year. The Audit Committee Chairman invited all other Group Board Directors to attend every meeting and from time to time other senior management. In addition, the Director of Risk Management and Internal Audit and representatives from the external auditors, PricewaterhouseCoopers LLP (PwC), were also present at each meeting. The Committee also met separately with the external and internal auditors and the Committee Chairman met with the valuers.

The Committee undertook the following activities at these meetings:

- reviewed the interim and annual results and considered any matters raised by management and the external auditors
- reviewed and approved the audit plans for the external and internal auditors
- monitored the scope, effectiveness, independence and objectivity of the external audit
- discussed the results of internal audit reviews, significant findings, management action plans and the timeliness of resolution
- reviewed the Group's 'Turnbull Report' to support the Board's sign-off on the system of internal control (see page 77 for more details)
- reviewed reports on the Group's risk management measures and actions
- reviewed the Group's approach to developing a 'best practice' OFR, including considering the advice of external consultants
- in conjunction with the Board appraisal detailed on page 75, the Committee reviewed its own effectiveness and concluded that it had continued to operate as an effective Audit Committee.

External auditors

The Audit Committee appraised the effectiveness of the external auditors and the external audit process. The evaluation process included feedback from relevant members of management and the results were reported to the Board and Audit Committee.

The Company had a policy and procedures in place to monitor and maintain the objectivity and independence of the external auditors, PwC. The policy requires prior approval by the Audit Committee of non-audit work above a de minimis threshold level. On a six-monthly basis, the Audit Committee reviewed a summary of all non-audit work. In addition to the audit related services, PwC provided the following services during the year:

- accounting advice relating to the debt restructuring
- taxation advice, including planning and compliance
- advice on IFRS accounting
- pension fund audit
- advice on a number of Land Securities Trillium bids

Details of the amounts paid to PwC are set out in note 7 to the financial statements.

The external auditors reported to the Committee that they remained independent and had maintained internal safeguards to ensure their objectivity.

Valuers

The Group gives the valuers and external auditors access to each other. These advisers have a dialogue and exchange of information which is entirely independent of the Group. The Audit Committee Chairman attends key valuation meetings (as do the external auditors) to be assured of the independence of the process.

In line with the Carsberg Committee report we have a fixed fee arrangement with our Valuers, Knight Frank LLP. The proportion of total fees paid by the Company to the total fee income of Knight Frank LLP was less than 5%.

Financial reporting

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects, and details are given in the Report of the Directors.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that this system is designed to be in accordance with the 2005 version of the Turnbull guidance and has been in place for the year under review and up to the date of approval of the Report and Financial statements.

The key features of our system of internal control include:

- Strategic and business planning: the Group and each business unit produce and agree a business plan each year, against which the performance of the business is regularly monitored. Balanced scorecards are prepared that set out targets for a wide variety of key performance indicators, including risk management and internal audit actions.
- Investment appraisal: capital projects, major contracts and business and property acquisitions are reviewed in detail and approved by the Investment Committee and/or the Board where appropriate, in accordance with delegated authority limits.
- Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a monthly basis, including explanations of variances between actual and budgeted performance.
- Systems of control procedures and delegated authorities: there are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions. Operational and financial procedures and controls are maintained on the Group's intranet.
- Risk management: we have an ongoing process to identify, evaluate and manage the risks faced by the Group. Further details of our risk management process and our principal business risks are set out on page 78.
- Six-monthly assessments: a compliance questionnaire is completed twice a year (before external reports are issued), which is signed off by senior managers, providing assurances that controls are both embedded and effective within the business (a similar questionnaire is completed annually in respect of joint ventures).
- Internal audit: responsible for reviewing and testing key business processes and controls, including following up the implementation of management actions and reporting any overdue actions to the Audit Committee.

The Director of Internal Audit and Risk Management reports to the Group Chief Executive and has direct access to the Audit Committee Chairman. The internal audit function operates a risk-based audit approach and provides a summary report on the operation of the system of risk management and internal control to support the Board's annual statement.

The Company has established a whistleblowing policy and hotline to enable employees to raise public interest issues on a confidential basis.

The Audit Committee reviews the effectiveness of internal audit activities including the scope of work, authority and resources of the internal audit function.

The Audit Committee on behalf of the Board has reviewed the effectiveness of the systems of internal control and risk management. The review covered all material areas of the business including financial, operational and compliance controls and risk management and no significant failings in control were found. In performing its review of effectiveness, the Audit Committee took into account the following reports and activities:

- Internal audit reports on reviews of business processes and activities, including action plans to address any identified control weaknesses
- Management's own assessments of the strengths and weaknesses of the overall control environment in their area, with action plans to address the weaknesses
- External auditor reports on any issues identified in the course of their work, including internal control reports on control weaknesses, which were provided to the Audit Committee as well as executive management
- Risk management reporting, including the status of actions to mitigate major risks and the quantification of selected risks

The Board confirms that no significant failings or weaknesses have been identified from that review.

Risk management

We rate each risk in terms of probability of occurrence and potential impact on performance, and we identify mitigating actions, control effectiveness and management responsibility.

Our approach is supported by an oversight structure. This includes the Audit Committee, which reviews on behalf of the Board the effectiveness of our risk management process.

Throughout the Annual Report we provide detailed disclosure on risks, particularly those related to owning property, developing property, Property Partnerships and financial risks. Key social, ethical and environmental risks are outlined in the Corporate responsibility section.

We have four categories of risk:

- External
- Organisational
- Property
- Operational

Chart 56
Risk management process

Table 57
Readers' guide–
Key business risks, where they are discussed in this Annual Report or other Land Securities' communications, and other risk management actions.

Risk group	Type of risk	Explained in
External	Economic	Business and Financial review
	Regulatory	Business review
	Market	Business review, Retail Portfolio, London Portfolio and Property Partnerships
	Planning	Business review
	Customer	Business review, Retail Portfolio, London Portfolio and Property Partnerships
Organisational	People	Business review, Corporate responsibility and 2007 Corporate Responsibility report
		Succession plans are reviewed at least annually
		We also run a learning and development programme to nurture talent across the organisation
Property	Asset management	Business review
	Investment	Business review
	Development	Business review
	Construction management	Business review
	Supplier management	Business review
	Service delivery	Business review
	Contract mobilisation	Business review and Property Partnerships
Operational	Finance	Financial review and Notes to the financial statements
	Customer satisfaction	Retail Portfolio, London Portfolio and Property Partnerships
	Health and safety	Business review and Corporate responsibility
	Environment	Corporate responsibility and 2007 Corporate Responsibility Report
	Disaster planning	We have comprehensive disaster recovery plans which include the use of off-site facilities. These plans are updated and rehearsed regularly.
	Information technology	We operate stringent security controls to protect the integrity of our IT systems from external threats. In the event of system failures we have an operational IT Business Continuity site which enables us to start to recover systems immediately.

Directors' remuneration report

Introduction and compliance

In preparing this Remuneration report, the Remuneration Committee (the Committee) has followed the requirements of Section 1 of the 2003 Combined Code on Corporate Governance, the Companies Act 1985, as amended by the Director's Remuneration Report Regulations 2002, and the Listing Rules of the Financial Services Authority. PricewaterhouseCoopers LLP have audited the table of Directors' emoluments and associated footnotes, the table and associated footnotes of Directors' defined benefit pension entitlements, the disclosures relating to compensation for loss of office and the tables of Directors' share-based incentive awards and associated footnotes. This report will be submitted to shareholders for approval at the Annual General Meeting to be held on 17 July 2007.

Table 58
Remuneration: summary of individual components

	Purpose	Performance period	Policy
Basic Salary	To reflect individual performance and contribution	1 year	■ Annual review with changes effective from July ■ Review process considers mid-market salary levels in a range of UK based companies of similar size and complexity but with particular emphasis on the property sector
Benefits	To provide market competitive benefits	N/A	■ Benefits provided include pension (up to 25% of salary), car, life and medical insurance cover
Annual Bonus	Incentivise delivery of annual performance objectives and aid retention	1 year	■ Provide above market bonus opportunity for the generation of superior value creation ■ Retention delivered through inter-relationship with LTIP and deferral of part of bonus into shares
Long Term Incentive Plan (LTIP)	To provide alignment between long-term business objectives and reward	3 years	■ Half of any award is subject to earnings per share growth. The remaining half is subject to total property return versus property benchmarks.

The Committee

The Committee is chaired by Sir Winfried Bischoff. The other members of the Committee are Paul Myners (chairman of the Board who was an independent Director at the time of his appointment to the Board), and David Rough, Stuart Rose, Bo Lerenius and Alison Carnwath, each of whom are independent Directors. Sir Winfried Bischoff is a member of the Management Committee of the Holding Company of the Group's principal relationship bank. However, since he does not participate in any discussions between or regarding the relationship between these two parties, the Company does not consider this relationship to compromise his independence.

The Committee recommends to the Board the remuneration framework to attract and retain its Executive Directors. In line with the Combined Code, it also monitors and makes recommendations on remuneration for senior managers across the Group. The terms of reference of the Committee are available on the Company's website at www.landsecurities.com More specifically, its principal responsibilities and tasks are:

- to determine and keep under review the remuneration policy covering the Chairman, Executive Directors and senior managers
- to determine the individual remuneration packages within that policy for the Executive Directors and senior managers
- to oversee any significant changes to employee benefits, including pensions
- to approve the design of and targets for performance-related incentive schemes
- to oversee the operation of all incentive schemes including the award of incentives and the determination of whether performance criteria have been met.

The Group Human Resources Director provides information and advice to the Committee. The Committee has appointed and receives advice from New Bridge Street Consultants LLP (NBSC) and also makes use of various published surveys to help the Committee determine appropriate remuneration levels. NBSC has no other connection with the Group other than in the provision of advice on executive and employee remuneration.

The Group Chief Executive and Group Human Resources Director are invited to attend meetings of the Committee but no Director is involved in any decisions relating to their own remuneration.

As detailed in the Corporate Governance report on page 74, Committee performance is reviewed annually by the Chairman with the assistance of the Company Secretary.

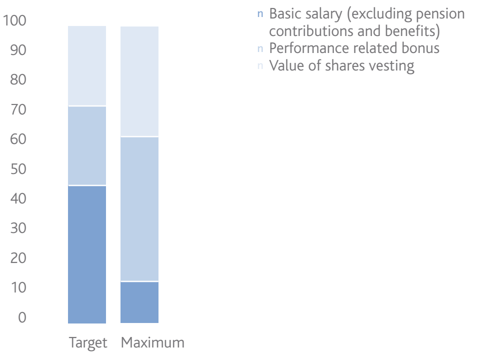
Remuneration policy and philosophy

The Group's remuneration policy, as it was applied to the year under review, and is intended to apply in all future years, seeks to provide remuneration in a form and amount to attract, retain and motivate high-quality management. Emphasis is placed on delivering superior reward for achieving and exceeding the Group's business plan. A substantial proportion of the Executive Directors' remuneration is delivered through performance related pay with the objective being to provide Executive Directors with substantial incentives to out-perform industry performance benchmarks.

A summary of the principal components of Executive Directors' remuneration is set out in *Table 58*. *Chart 59* illustrates the balance between fixed and variable pay at the target and maximum performance levels, assuming maximum participation in the Long Term Incentive Plan (LTIP). This information reflects the policy that operated during the year under review.

The Group's remuneration policy is reviewed on a regular basis along with the balance between fixed and variable pay to ensure that it remains appropriate and recognises developments in corporate governance best practice. Performance targets are set to align with Group

Chart 59
Balance fixed versus variable pay (%)



1. Target performance delivers a bonus award of 50% of base salary and 25% vesting under the LTIP.
2. Maximum performance delivers a bonus award of 300% of base salary and full vesting under the LTIP.
3. 5% per annum share price growth is assumed for target performance and 10% per annum for maximum performance.
4. Deferred shares (and any shares invested in the LTIP) benefit from share price growth.

strategic objectives and KPIs as outlined on page 7. In 2006, the Committee gave specific consideration to the balance between fixed and variable pay, which resulted in the changes that were made to annual bonus arrangements following the end of the 2005/06 financial year. The Committee considers the current balance to be appropriate and no significant changes are currently proposed to be made to the existing policy for the 2007/08 financial year.

2006/07 Directors' remuneration

Base salary

Executive Directors receive a salary which reflects their responsibilities, experience and performance. Salaries are reviewed annually with any changes taking place in July. The review process includes the use of comparator information and reports from the Group's remuneration consultants. The Group's policy is to set salary around the mid-market rate, but the Committee is mindful of the need to treat pay comparisons with caution to avoid an upward ratchet of remuneration levels with no corresponding improvement in performance. It also takes account of pay and employment conditions across the Group, especially when determining annual salary increases. The current salaries of the Executive Directors (and in brackets, revised salaries to take effect from July 2007) are as follows:

Francis Salway	£600,000	(£625,000)
Martin Greenslade	£340,000	(£400,000)
Ian Ellis	£390,000	(£420,000)
Mike Hussey	£390,000	(£420,000)
Richard Akers	£340,000	(£360,000)

The salary increase awarded to Martin Greenslade reflects his development into the role of Finance Director for a FTSE 100 company in the property sector.

Annual bonus

During the year under review, the Executive Directors had individually tailored annual bonus performance targets that provided the potential to earn up to 300% of base salary.

The annual bonus opportunity was structured in two distinct parts:

- Bonus Opportunity: up to 100% of salary

Table 60
Criteria for Directors' 2006/07 bonuses

F W Salway	Total returns in excess of WACC	Group profit	Performance of all business units	REIT conversion
M F Greenslade	Total returns in excess of WACC	Group profit	Performance of group support functions	REIT conversion
A M Collins	Total returns in excess of WACC	Group profit	Project and property management targets	Acquisition targets
I D Ellis	Total returns in excess of WACC	Group profit	Land Securities Trillium Profit	New business wins/opportunities
M R Hussey	Total returns in excess of WACC	Group profit	Investment performance	Office development lettings
R J Akers	Total returns in excess of WACC	Group profit	Investment performance	Retail leasing

The performance targets that applied to this part of the Executive Directors' annual bonus opportunity are set out in *Table 60*.

The Committee calibrated the bonus targets so that the achievement of a maximum payout under this part of the bonus arrangements would represent performance in excess of the Group budget and individual targets. 25% of any bonus award is compulsorily deferred into the Company's shares for a period of three years and receives a Matching Award under the terms of the LTIP (see page 81).

- Additional Bonus Opportunity: up to 200% of salary

This part of Executive Directors' annual bonus opportunity is intended to reward exceptional performance and value creation for shareholders. The performance targets are set out in *Table 61*.

The Committee calibrated the bonus targets that applied to this part of the Executive Directors' bonus opportunity so that the performance required for any additional bonus to be earned was above that required for bonuses of up to 100% of salary. To provide some context as to the challenging nature of the performance targets, the Total Property Return (TPR) conditions, for example, based on over 10 years of historic data, require TPR performance to fall broadly within the top 30th percentile of each relevant Investment Property Databank (IPD) performance benchmark for any additional bonus to start to be earned. The performance targets set for the Chief Executive, Land Securities Trillium were considered to be equally challenging to the TPR targets by the Committee.

TPR was chosen as a performance measure because it is used both internally and externally within the property sector for measurement of relative performance. For the Chief Executive of Land Securities Trillium, the excess total return above WACC was employed because it remains a key measure of Land Securities Trillium's underlying financial performance. In addition, to make the conditions more challenging, the targets for each Executive Director are also cumulative so that any under or over performance in a single year results in the following year's targets being increased or decreased by a corresponding amount.

Half of any bonus earned between 100% and 300% of salary is compulsorily deferred into the Company's shares for a period of

Table 61
Additional bonus opportunity – targets

Executive Directors	Performance Measures and Range	Additional Bonus
Managing Directors of the London & Retail Portfolios	2% – 4% out-performance of relevant (London /Retail) total property return (TPR) Benchmarks[1]	0% – 200%
Chief Executive Land Securities Trillium	4% – 6% annual return on total capital employed above Weighted Average Cost of Capital (8% – 13% above WACC for geared equity)	0% – 200%
Chief Executive & Finance Director	Aggregated performance of London and Retail Portfolios and Land Securities Trillium relative to the above measures	0% – 200%
Chief Operating Officer[2]	75%: 2% – 4% out-performance of TPR benchmark on assets acquired by COO's Business Development Team 25%: as CEO and FD	0% – 200%

1. The relevant sector benchmarks are provided by IPD and relate to ungeared total property return (reflecting the increase in the value of all assets plus income streams arising from those assets in the year). IPD benchmarks are generally acknowledged as the industry standard.
2. The Chief Operating Officer left service after eight months of the year under review.

three years to aid retention. Any deferral under this part of the annual bonus arrangements is not the subject of a matching award under the LTIP.

The introduction of potential bonuses above 100% of salary, including the performance targets, was discussed with our major shareholders before last year's Directors' Remuneration Report was published.

Executive Directors are also eligible to participate in a discretionary bonus pool for all employees which, if applicable, is normally in the range of 5-30% of salary, although it is not the Committee's current intention to pay bonuses in excess of 300% of salary.

The actual total bonus payouts, inclusive of the additional bonus opportunity described above, that were earned in respect of the two financial years ended 31 March 2006 and 2007 are set out in *Table 62*.

Long-term incentives

Executive Directors participate in a LTIP approved by Shareholders at the 2005 AGM. The LTIP replaced the share option scheme approved in 2002 and also replaced, from 2006/07, the performance share matching plan, also approved in 2002.

The LTIP consists of the facility to make annual awards of Performance Shares and Matching Shares.

- LTIP Performance Shares

In the year under review, Executive Directors were eligible to receive conditional awards of shares of up to 100% of salary and this will continue to be the case in future years *(Table 63)*.

- LTIP Matching Shares

Matching share awards are linked to co-investment by participants in shares. A Director's investment can be made through the deferral of an annual bonus award (with the maximum permitted investment by this means of 25% of base salary). Investment can also be made through the pledging of shares purchased in the market. Such additional investment is permitted to bring the Director's total investment to 50% of base salary (for this purpose the value of pledged shares is taken as the amount of gross salary that would have been required to fund the purchase of the shares). Accordingly, Executive Directors are eligible to receive a matching award of shares under the LTIP which is made at a ratio of up to 2 for 1 on a gross to net tax basis (up to 100 shares for every 30 purchased out of net income). The maximum Matching Share award is over shares with a value of 100% of salary.

Awards of Performance Shares and Matching Shares are subject to the same performance conditions measured over three years. Half of any award will vest based on achieving increases in Earnings Per Share (EPS) and the other half will vest dependent on the Group's TPR equalling, or exceeding, IPD weighted indices reflecting the sector mix of Land Securities' investment portfolio. The targets are as follows:

- EPS Target
  – Growth of RPI + 3% per annum – 12.5% of the award vests;
  – Growth of RPI + 5% per annum – 50% of the award vests; and
  – Straight line vesting occurs between these points.

- TPR target
  – Performance equal to the sector weighted IPD index – 12.5% of the award vests
  – Performance equal to the sector weighted IPD index plus 1% per annum – 50% of the initial award vests
  – Straight line vesting occurs between these points.

Table 62
Annual bonus payouts

Executive Directors	Total Bonus Earned 2006/07	% of Salary Total Bonus Earned 2005/06
Chief Executive	109	112
Finance Director	104	59[1]
Managing Director of the Retail Portfolio	71	89
Managing Director of the London Portfolio	106	238
Chief Executive Land Securities Trillium	295	300
Chief Operating Officer[2]	69	101

1. Includes pro-rating of bonus for the seven months of employment (M F Greenslade joined on 1 September 2005).
2. The Chief Operating Officer left service after eight months of the year under review.

The Committee considers EPS and TPR to be key long-term measures of the Group's performance and is committed to reviewing their appropriateness on an ongoing basis.

The maximum number of shares which could potentially vest as a result of historic long-term incentive awards and the number of shares which vested in the financial year are shown in *Table 64*.

Share options

Land Securities has historically operated share option arrangements for Executive Directors. Vesting of share options was subject to performance tests and was dependent on growth in NADEPS exceeding RPI by at least 2.5% per annum. Following the adoption of the LTIP in 2005/06, no further awards of share options have been made to the Executive Directors.

For grants made over the period 2000 to 2004, the Committee has determined that the required level of increase in NADEPS was achieved. Directors' options over ordinary shares are shown in *Table 66*.

Directors' emoluments

Due to internal restructuring which took place during the year, the role of Chief Operating Officer was no longer required. As a result Mark Collins resigned from the Board on 19 October 2006 and left employment with the Company on 30 November 2006.

Under the terms of the mitigation provisions, agreed to by all Executive Directors in May 2005, he will receive monthly payments over a period of up to 12 months totalling a maximum of £507,000 based on:

- Salary: £390,000 p.a.
- Pension benefits at 25% of salary – £97,500 p.a.
- Compensation for other miscellaneous benefits, including car, at £19,500, representing 5% of salary.

The above amounts may be reduced by way of offset against salary received, for example, from a new employer.

Table 63
Performance shares* (audited)

	Cycle ending	Award date	Market price at award date (p)	Shares awarded	Shares vested	Vesting date
F W Salway	2007	12/07/04	1159	12,794	12,794	12/07/07
	2008	04/07/05	1405	21,234	–	04/07/08
I D Ellis	2007	12/07/04	1159	28,290	28,290	12/07/07
	2008	04/07/05	1405	17,536	–	04/07/08
A M Collins	2007	12/07/04	1159	14,174	–	–
	2008	04/07/05	1405	15,988	–	–
M R Hussey	2007	31/03/04	1090	20,000	18,950	31/03/07
	2008	04/07/05	1405	14,600	–	04/07/08
R J Akers	2007	12/07/04	1159	2,506	2,506	12/07/07
	2008	04/07/05	1405	8,228	–	04/07/08

*See Note 11 on page 83.

Table 64
LTIP and matching shares* (audited)

	Cycle ending	Award date	Market price at award date (p)	Shares awarded	Shares vested	Vesting date
F W Salway						
LTIP shares	2008	29/07/05	1393	40,464	–	29/07/08
	2009	29/06/06	1767	29,793	–	29/06/09
Matching shares	2009	31/07/06	1973	30,302	–	31/07/09
I D Ellis						
LTIP shares	2008	29/07/05	1393	24,631	–	29/07/08
	2009	29/06/06	1767	20,150	–	29/06/09
Matching shares	2009	31/07/06	1973	17,564	–	31/07/09
A M Collins						
LTIP shares	2008	29/07/05	1393	24,631	8,210	30/11/06
	2009	29/06/06	1767	15,112	2,519	30/11/06
Matching shares	2009	31/07/06	1973	18,542	3,090	30/11/06
M R Hussey						
LTIP shares	2008	29/07/05	1393	23,927	–	29/07/08
	2009	29/06/06	1767	19,574	–	29/06/09
Matching shares	2009	31/07/06	1973	18,144	–	31/07/09
R J Akers						
LTIP shares	2008	29/07/05	1393	20,056	–	29/07/08
	2009	29/06/06	1767	12,306	–	29/06/09
Matching shares	2009	31/07/06	1973	14,914	–	31/07/09
M F Greenslade						
LTIP shares	2008	28/09/05	1471	22,679	–	28/09/08
	2009	29/06/06	1767	18,710	–	29/06/09
Matching shares	2008	30/09/05	1479	16,666	–	30/09/08
	2008	01/06/06	1799	4,557	–	01/06/09
	2009	31/07/06	1973	16,844	–	31/07/09

*Subject to performance tests (see page 81).

Also, under the terms of his contract, Mark Collins received:

- Time pro-rated annual cash bonus for 2006/07 – £146,250
- Time pro-rated award of deferred bonus shares with a value of £48,750
- Vesting of LTIP and Maturing Share awards with a total value of £293,653
- Redundancy payment: £60,000, based on the Company's standard policy together with outplacement services
- Contractual payment, originally due in June 2007, as compensation for long-term incentives foregone at previous employer of £208,033

Of the amounts described above £385,442 represents emoluments for services as a Director and is included in *Table 65a*; maximum £670,211 is payable as compensation for loss of office (assuming no mitigation) which includes £103,211 in respect of LTIP and Matching Shares which vested in the year and were awarded on a discretionary basis and £208,033 represents the acceleration of a payment to which he was already entitled from when he was appointed as a Director on 20 November 2002.

Mark Collins was considered to be a 'good leaver' for the purpose of the Group's employee share schemes. Accordingly, he was eligible to exercise share options granted under the Savings-related and Executive Share Option Schemes and to receive shares awarded under the Deferred Bonus Plan, subject to the rules of the relevant Plans and Schemes in force. Mark Collins was also eligible to receive vested shares arising from awards of shares under the LTIP in respect of awards made in 2005 and 2006 and the Matching Share Plan Award in 2006. These awards were subject to attainment of the relevant performance conditions and were pro-rated to the next six month anniversary from date of grant as specified by the rules of this Plan.

The Committee determined attainment of the performance conditions at 50% and applied its discretion favourably to add six months to the time pro-rating period (that is, giving 66.66% time pro-rating of the 2005 award and 33.33% time pro-rating of the 2006 awards). This was considered to be fair in view of the fact that if Mark Collins had served the 12 month notice period, he would have been entitled to an additional 12 month increase in the time pro-rating for the next anniversary from the date of grant.

All awards granted under the Company's share incentive plans in 2006 were made immediately available to the employee following the date of leaving. This was in accordance with 'good leaver' status under the relevant plans.

All Performance Shares awarded to Mark Collins in 2004 and 2005 were not, under the rules of the relevant scheme, eligible for vesting and were cancelled on the Termination Date.

Table 65 sets out Directors' emoluments for the year under review and the financial year ended 31 March 2007. The basis of disclosure has been changed from previous years, with this year's table being prepared on an 'accruals' basis, that is the annual bonus and Deferred Bonus Shares columns include the amount that will be paid and awarded respectively for performance achieved in the financial year under review. The Performance Shares 2006/07 column includes the value of Performance Shares which will vest in July 2007 as a result of performance measured over a three year period ended 31 March 2007. The previous approach adopted was a 'paid' basis which reflected the timing of payments as opposed to the year in which those payments were earned. Where appropriate comparative numbers have been amended. In addition, Deferred Bonus Share awards have been included as part of total emoluments and comparatives have also been re-stated on this basis.

Table 65a

Directors' emoluments (£'000)(audited)

	Basic salary and fees	Benefits[2]	Bonuses		Deferred bonus shares[3]		Total emoluments excluding pensions	
	2006/07	2006/07	2006/07	2005/06 as restated[1]	2006/07	2005/06 as restated[1]	2006/07	2005/06
Executive:								
F W Salway	594	19	536	527	119	118	1,268	1,195
A M Collins (resigned 19 October 2006)[4]	250	12	146	553	49	70	457	979
I D Ellis[5]	380	14	669	620	483	407	1,546	1,380
M R Hussey	378	13	338	530	74	265	803	1,130
R J Akers	326	14	190	201	52	53	582	539
M F Greenslade[6]	336	13	282	154	71	38	702	387
A E Macfarlane (resigned 5 August 2005)	–	–	–	–	–	–	–	128
	2,264	85	2,161	2,585	848	951	5,358	5,738
Non-Executive:								
P G Birch (Chairman to 1 January 2007)	194	–	–	–	–	–	194	202
D Rough	69	–	–	–	–	–	69	60
Sir Winfried Bischoff	58	–	–	–	–	–	58	50
S A R Rose	50	–	–	–	–	–	50	45
B A Lerenius	50	–	–	–	–	–	50	45
A J Carnwath	50	–	–	–	–	–	50	45
P Myners (appointed a Director on 1 September 2006 and Chairman on 1 January 2007)	80	–	–	–	–	–	80	–
Total	2,815	85	2,161	2,585	848	951	5,909	6,185

Table 65b

Directors' emoluments (£'000)(audited)

	Pensions		Performance shares vested		LTIP and matching shares vested		Gain on exercise of share options	
	2006/07	2005/06	2006/07	2005/06 as restated[1]	2006/07	2005/06	2006/07	2005/06
Executive:								
F W Salway	148	134	271	228	–	–	465	250
A M Collins (resigned 19 October 2006)[4]	95	85	–	140	190	–	–	425
I D Ellis	95	96	599	186	–	–	–	310
M R Hussey	131	80	398	–	–	–	542	319
R J Akers	136	66	53	68	–	–	105	200
M F Greenslade	131	47	–	–	–	–	–	–
A E Macfarlane (resigned 5 August 2005)	–	30	–	–	–	–	–	242
	736	538	1,321	622	190	–	1,112	1,746
Non-Executive:								
P G Birch (Chairman to 1 January 2007)	–	–	–	–	–	–	–	–
D Rough	–	–	–	–	–	–	–	–
Sir Winfried Bischoff	–	–	–	–	–	–	–	–
S A R Rose	–	–	–	–	–	–	–	–
B A Lerenius	–	–	–	–	–	–	–	–
A J Carnwath	–	–	–	–	–	–	–	–
P Myners (appointed a Director on 1 September 2006 and Chairman on 1 January 2007)	–	–	–	–	–	–	–	–
Total	736	538	1,321	622	190	–	1,112	1,746

Notes:

1. As noted on page 82, a number of comparatives have been restated from a paid basis to an accruals basis. The following amounts were reported in *Table 3* of the Remuneration report on page 93 of last year's Annual Report: bonuses £1,282,000; deferred bonus shares £543,000; and performance shares vested £232,000.
2. Benefits consist of the provision of a company car or car allowance, private medical insurance and life assurance premiums.
3. Deferred bonus shares represent the value ascribed to shares awarded under the Deferred Bonus Plan. This has been presented on an accruals basis for 2006/07 and therefore includes the deferred bonus shares to be awarded in July 2007 but vesting in July 2010. The comparative has been restated on the same basis.
4. As a result of an internal restructuring, the role of Group Chief Operating Officer was no longer required and A M Collins stepped down from the Board on 19 October and left Land Securities on 30 November 2006. His responsibilities were re-allocated to other Executive Directors. In line with the terms of his contract of employment he received the payments described above and on the preceding page. His compensation for loss of office is a maximum of £670,211, assuming no mitigation as described on the preceding page.
5. I D Ellis received fees of £35,000 from Rok plc in respect of his Non-executive Directorship of that company.
6. Following his appointment to the Board, M F Greenslade was awarded grants of 22,679 Performance Shares and Matching Share awards over 21,223 shares under the LTIP. These awards will be subject to the LTIP performance conditions set out in this report.
7. Pensions of £61,708 (2006: £90,738) resulting from unfunded historic benefit obligations were paid to former Directors or their dependants.
8. P G Freeman served as a Director of the Company until 14 July 2004 and thereafter served as a consultant advising on matters relating to development projects. Fees paid to P G Freeman amounted to £25,000 in 2005/06 and £20,833 in 2006/07. His consultancy arrangement with the Company ceased on 2 February 2007.
9. The Performance Share award for 2006/07 represents the value of shares that will vest as a result of performance targets satisfied during the year to 31 March 2007. The comparative has been restated on the same basis.
10. The pension contributions for M R Hussey, R J Akers and M F Greenslade for 2006/07 contain additional contributions to correct a shortfall in respect of prior years.
11. For awards made under the Performance Share Matching Plan, vesting of awards is equally dependent on the growth in EPS (defined to be normalised adjusted diluted EPS (NADEPS) and TPR measured over a three year period. 25% of the total award vests for NADEPS growth of 2.5% p.a. rising on a straight line basis to 50% of the total award vesting for achieving NADEPS of 4% p.a. The remaining half of an award vests, dependent on the Company's TPR equalling, or exceeding, the IPD All Fund Universe Index over a rolling three year period.
12. The Committee determined that the long-term incentive award made under the Performance Share Matching Plan in 2004 (the performance conditions as set out in note 11), vested in full.
13. Performance Shares vested represent the value of shares awarded in respect of the performance period ended 31 March 2007 and therefore include Performance Shares which will vest in July 2007. The comparatives have been restated on the same basis.

Table 66
Directors' options over ordinary shares (audited)

	Note	No of options at 01/04/06	Granted during year No	Granted during year Grant price (pence)	Exercised during the year No	Exercised during the year Exercise price (pence)	Exercised during the year Market price on exercise (pence)	No of options at 31/3/07	Exercise price (pence)	Exercisable dates
F W Salway	3	41,250	–	–	41,250	788	1915	–	–	07/2006-07/2013
	3	43,065	–	–	–	–	–	43,065	1159	07/2007-07/2014
A M Collins	3	34,375	–	–	–	–	–	34,375*	788	07/2006-07/2013
	3	34,695	–	–	–	–	–	34,695*	1159	07/2007-07/2014
	4	2,477	–	–	–	–	–	2,477*	677	09/2010-03/2011
I D Ellis	3	34,375	–	–	–	–	–	34,375	788	07/2006-07/2013
	3	41,759	–	–	–	–	–	41,759	1159	07/2007-07/2014
	4	2,546	–	–	–	–	–	2,546	650	08/2007-02/2008
M R Hussey	3	40,000	–	–	14,000	788	1903	–	–	07/2006-07/2013
		–	–	–	11,000	788	1890	–	–	–
		–	–	–	15,000	788	2219	–	–	
	3	23,727	–	–	–	–	–	23,727	1159	07/2007-07/2014
	4	1,726	–	–	–	–	–	1,726	957	10/2009-04/2010
R J Akers	1	10,500	–	–	–	–	–	10,500	869	07/2004-07/2011
	1	6,000	–	–	6,000	812	2302	–	–	07/2004-07/2011
	3	7,750	–	–	–	–	–	7,750	788	07/2006-07/2013
	3	11,500	–	–	–	–	–	11,500	1159	07/2007-07/2014
	4	2,167	645	1523	1,420	713	1869	1,392	1219	10/2009-03/2012
M F Greenslade	4	–	1,075	1523	–	–	–	1,075	1523	09/2011

Weighted average exercise price
Notes:
1. 2000 Executive Share Option Scheme. Vesting of awards is dependent on the Company's growth in normalised adjusted EPS exceeding the growth in RPI by 2.5% per year.
2. 1993 Savings Related Share Option Scheme. Not subject to performance conditions because it is available to all staff and HM Revenue & Customs rules do not permit performance conditions to be set for this type of scheme.
3. 2002 Executive Share Option Scheme. Vesting of awards is dependent on the Company's growth in normalised adjusted EPS exceeding the growth in RPI by at least 2.5% per year.
4. 2003 Savings Related Share Option Scheme. Not subject to performance conditions because it is available to all staff and HM Revenue & Customs rules do not permit performance conditions to be set for this type of scheme.

The total number of options over ordinary shares held by F W Salway, I D Ellis, M R Hussey, R J Akers and M F Greenslade at 31 March 2007 was 43,065, 78,680, 25,453, 31,142 and 1,075 respectively. The total number of options over ordinary shares held by all Directors at 31 March 2007 was 179,415.
The range of the closing middle market prices for Land Securities' shares during the year was 1,682p to 2,340p. The middle market price at 31 March 2007 was 2,140p.
No options held by Directors lapsed during the year under review.
*At date of leaving

Pensions

The Company operates a contributory money purchase pension scheme which was introduced for all staff joining the Group from 1 January 1999. Prior to the introduction of the contributory money purchase arrangement the Company provided pension benefits on a defined benefit basis.

Following a review of pension provision in light of the tax changes that came into effect from 1 April 2006, it was decided that Executive Directors would continue to be entitled to a pension benefit that is equivalent to 25% of their total salary. Executive Directors have the flexibility to determine how this 25% of salary benefit is used, as follows:

- Pension contributions may be made into the Land Securities contributory money purchase scheme up to the personal level that is advised plus a cash contribution on the balance
- 25% cash payment on total salary to invest outside Land Securities pension arrangements
- Richard Akers participates in a defined benefit pension scheme *(Table 68)* which was open to property management and administration staff until 31 December 1998. This scheme

Table 67
Directors' shareholdings/deferred shares

	Ordinary shares 2007	Ordinary shares 2006	Deferred shares[1] 2007	Deferred shares[1] 2006
P G Birch	20,005[2]	20,005	–	–
F W Salway	66,948	36,286	25,076	24,506
M F Greenslade	6,345	5,000	2,199	–
I D Ellis	26,407	17,080	48,122	29,425
M R Hussey	21,957	500	23,638	18,048
R J Akers	9,322	6,670	8,773	7,589
D Rough	7,675	7,675	–	–
Sir Winfried Bischoff	8,750	8,750	–	–
S A R Rose	10,000	10,000	–	–
B A Lerenius	12,000	12,000	–	–
A J Carnwath	6,514	6,365	–	–
P Myners	10,000	10,000[3]	–	–
A M Collins	12,877[2]	15,877	–	19,825

Notes:
1. Deferred Shares include awards made subsequent to the financial year which relate to that year.
2. At date of leaving.
3. At date of appointment.

Table 68
Defined benefit pension scheme (audited)

	Accrued benefit at 31 March 2007 £	Increase in accrued benefits excluding inflation £	Increase in accrued benefits including inflation £	Transfer value increase in accrued benefit excluding inflation £	Transfer value of accrued benefits at 1 April 2006 £	Transfer value of accrued benefits at 31 March 2007 £	Increase in transfer value net of director's contributions £
R J Akers	22,164	1,803	2,511	17,800	201,100	218,700	16,500

The 'Increase in transfer value net of Directors' contributions' differs from the 'Transfer value of increase in accrued benefit' in that it reflects changes in market conditions over the year less the Directors' own contributions to the pension scheme.
The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement in respect of qualifying service represents the value of assets that the pension scheme would need to transfer to another pension provider on transferring the liability in respect of the Directors' pension benefits that they earned in respect of qualifying service. They do not represent sums payable to individual Directors and, therefore, cannot be added meaningfully to annual remuneration.

is designed to provide, at normal retirement age, a pension of 1/60th of Pensionable Salary for each year of pensionable service. The scheme also provides lump sum death-in-service benefits on death before normal retirement age of four times Pensionable Salary and pension provision for dependants of members. Only basic salary is treated as Pensionable Salary. The benefits provided to Richard Akers are based on a Pensionable Salary which is subject to the statutory earnings cap. With effect from 1 April 2006 the defined benefit pension scheme has moved to future accrual on a 'CARE' (Career Average Revalued Earnings) basis on either a 1/80th accrual or 1/60th accrual subject to employee contributions. Richard Akers has chosen to accrue benefits on a 1/60th basis with employee contributions of 1% of basic salary in 2006, 3% of basic salary in 2007 and 5% of basic salary thereafter. The balance of Richard Akers' pension allowance is paid to him to invest outside Land Securities pension arrangements.

As disclosed in last year's Directors' remuneration report, no changes were made to pension provision that provided a tax advantage to Executives and the changes made were cost neutral to the Company.

Non-executive Directors

The annual fees of the Chairman of the Board are determined by the Committee having regard to independent advice. The other Non-executive Directors each receive a fee agreed by the Board following a review of fees paid by comparable organisations. The Board also takes into account the time commitments of the Non-executive Directors, which are reviewed annually as part of the Board appraisal process. During the year under review the fees of the Non-executive Directors were reviewed in the context of fees payable by comparable domestic FTSE 100 companies. It was agreed to increase fees, with the base Non-executive Directors' fee of £55,000 representing an annualised increase of 10.67% per annum. It was also agreed to maintain the new levels for a period of two years. Neither the Chairman nor the other Non-executive Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes. Non-executive Directors are appointed under letters of appointment which provide for an initial term of service of three years. A specimen letter of appointment is available on the Company's website at www.landsecurities.com The dates of the current letters of appointment of the Non-executive Directors are in *Table 69*.

Table 69
Non-executive Directors' date of appointment

Name	Date of appointment*	Date of current letter of appointment
D Rough	2 April 2002	29 April 2004
Sir Winfried Bischoff	1 November 1999	29 April 2004
S A R Rose	21 May 2003	29 April 2004
B A Lerenius	1 June 2004	6 May 2004
A J Carnwath	1 September 2004	7 June 2004
P Myners	1 September 2006	20 Sept 2006

*Date of appointment to the Board of Land Securities Group PLC or its predecessor company, Land Securities PLC.

Service agreements

The Committee's policy on service agreements for Executive Directors is that they should provide for 12 months' rolling notice of termination by the Company. As a result, the unexpired term and the notice periods (both from the Company and from the Executive Director) are 12 months, except in the case of Richard Akers whose notice period to the Company is six months. Any proposals for the early termination of the service agreements of Directors or senior executives are considered by the Committee.

The dates of appointment and the dates of the service agreements of the Executive Directors are in *Table 70*.

Table 70
Executive Directors' date of appointment

Name	Date of appointment*	Date of contract
F W Salway	2 April 2001	31 May 2005
A M Collins	20 November 2002	13 March 2003
M F Greenslade	1 September 2005	1 September 2005
I D Ellis	20 November 2002	28 January 2003
M R Hussey	30 September 2004	1 January 2006
R J Akers	17 May 2005	17 May 2005

*Date of appointment to the Board of Land Securities Group PLC or its predecessor company, Land Securities PLC.

In May 2005, an amendment was made to the service agreements of the Executive Directors to provide for phased payments of amounts payable on termination, in order to mitigate amounts potentially payable by the Company. If 'good leaver' status applies, termination payments include salary, pension at 25% of salary, and compensation for all other benefits at 5% of salary. These payments are paid monthly and are pro-rated if new employment is found within 12 months of the termination date. All payments cease after 12 months from the termination date. Bonus, LTIP, redundancy and outplacement payments are considered by the Committee and are dependent on the circumstances of leaving and the rules of the relevant bonus and incentive schemes.

The Chairman and the other Non-executive Directors do not have service agreements with the Company.

Directors' shareholdings

The interests of the directors in the shares of the Company as at 31 March are shown in *Table 67*.

There have been no changes in the shareholdings of the Directors between the end of the financial year and 16 May 2007.

No Director had any other interests in contracts or securities of Land Securities Group PLC or any of its subsidiary undertakings during the year.

Shareholding guidelines

The Committee believes that it is important for a significant part of the compensation of each Executive Director to be tied to ownership of the Company's shares so that each Executive Director's interest in the growth and performance of the Company is closely aligned with the interests of our shareholders. The Committee has, therefore, established share ownership guidelines for the Company's Executive Directors. Following the Committee's review of remuneration in 2006, these now require the Chief Executive to own shares with a value equal to twice his base salary and for other Executive Directors to own shares with a value equal to 1.5 times their base salary. An Executive Director must normally satisfy the guidelines within five years of his date of appointment or the date of introduction of this requirement in order to qualify for future awards of long-term incentives. In May 2007, the Committee determined that Francis Salway and Ian Ellis had met the revised share ownership guidelines.

In addition, Non-Executive Directors are required to own shares with a value equal to their annual fees within three years of the date of their appointment.

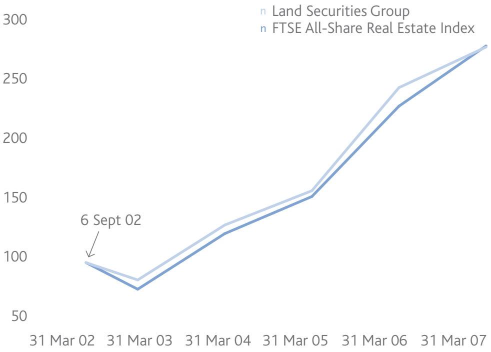
Information regarding senior managers below Board level

The Group currently employs 34 senior managers in positions below Board level. None of these senior managers is paid at a rate higher than the Executive Directors and the structure of their remuneration package, including bonuses, is broadly consistent with that of Executive Directors. The senior managers are not eligible to participate in the additional bonus opportunity (that is above 100% of salary) for the delivery of exceptional financial returns described in this report. During the year under review, bonuses for this group of employees ranged from 50% to 77% of salary, with an average bonus of 64% of salary.

Performance graphs

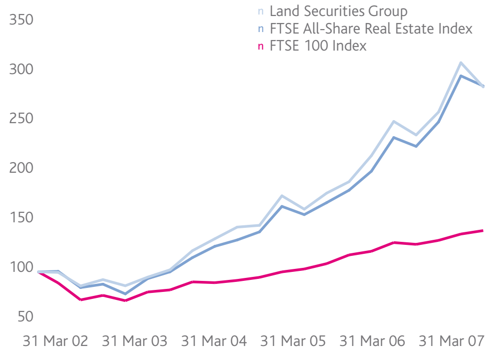
As required by legislation covering the Directors' Remuneration report, *Chart 71a* illustrates the performance of the Company measured by total shareholder return (share price growth plus dividends paid) against a 'broad equity market index' over the period since the return of capital on 6 September 2002. As the Company is a constituent of the FTSE All Share Real Estate sector this index is considered to be the most appropriate benchmark for the purposes of the graph. The Committee also considered that it would be helpful to provide an additional graph to illustrate performance prior to the return of capital on 6 September 2002 compared with the FTSE 100 index and the FTSE All Share Real Estate sector over the previous five years of the Company and its predecessor *(Chart 71b)*.

Chart 71a
Total shareholder return



Source: Thomson Financial

Chart 71b
Total shareholder return



Source: Thomson Financial

Signed for and on behalf of the Board by
Sir Winfried Bischoff

Report of the Directors

Additional disclosures

Share capital

The company was authorised at the Annual General Meeting held on 19 July 2006 to repurchase in the market ordinary shares representing up to approximately 10% of the issued share capital at that time with such authority to expire at the 2007 Annual General Meeting. 1,225,000 shares were repurchased in the year to 31 March 2007. A resolution to renew this authority in respect of up to approximately 10% of the issued share capital will be proposed at the 2007 Annual General Meeting.

Substantial shareholders

At 16 May 2007 the following interests in issued share capital had been notified to the Company under Part VI of the Companies Act 1985.

Table 72
Substantial Shareholders

	Number of shares	%
Barclays plc/Barclays Global Investors	23,183,852	5.35
ABP Investments	19,116,647	4.06
M&G Investment Management Limited	17,926,401	3.81
Legal & General Investment Management Limited	17,404,809	3.70

Directors' indemnities

On 5 May 2006 the Company agreed in writing to indemnify each of the Directors against any liability incurred by the Director in respect of acts or omissions arising in the course of their office. The indemnity only applies to the extent permitted by law. A copy of the deed of indemnity is available for inspection at the registered office and at the Annual General Meeting.

Auditors and disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Annual General Meeting

Accompanying this report is the Notice of the Annual General Meeting which sets out the resolutions for the meeting. These are explained in a letter which accompanies the Notice.

By order of the Board
P M Dudgeon
Secretary
16 May 2007

Report of the Directors

Report from the Directors on the key strategic, financial and operational developments during the year.

Financial Statements

Statements presenting the essential numbers, including the independent auditors' report.

Investor Information

Summaries, analysis and information on properties, contracts and related subjects for shareholders.

Directors' statements of responsibilities

in respect of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

The Directors are required by company law to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their profit or loss for that period.

In preparing those financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state that the financial statements comply with IFRS as adopted by the European Union.

It is also the responsibility of the Directors to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Land Securities Group PLC website is the responsibility of the Company; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
P M Dudgeon
Secretary
16 May 2007

Independent auditors' report
to the members of Land Securities Group PLC

We have audited the Group and Parent Company financial statements (the financial statements) of Land Securities Group PLC for the year ended 31 March 2007 which comprise the Group Income Statement, the Group and Parent Company balance sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' statements of responsibilities on page 88.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any person to whom this report is shown or into whose hands it may come, other than the Company and the Company's members as a body, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements.

The information given in the Directors' Report comprises the items listed under the heading 'Report of the Directors' on pages 4 to 86. In addition we also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the 'Report of the Directors' and the items listed under the heading 'Investor Information' on page 133. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2007 and of its cash flows for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the 'Report of the Directors' is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
16 May 2007

Income statement
for the year ended 31 March 2007

Group	Notes	2007 Before exceptional items £m	2007 Exceptional items £m	2007 Total £m	2006 Before exceptional items £m	2006 Exceptional items £m	2006 Total £m
Income: Group and share of joint ventures		1,722.7	–	1,722.7	1,988.2	–	1,988.2
Less: share of joint ventures income	17	(81.6)	–	(81.6)	(159.5)	–	(159.5)
Group revenue	4	1,641.1	–	1,641.1	1,828.7	–	1,828.7
Costs	4	(1,046.2)	–	(1,046.2)	(1,267.8)	–	(1,267.8)
		594.9	–	594.9	560.9	–	560.9
Profit on disposal of non-current properties	4	118.2	–	118.2	74.5	–	74.5
Net surplus on revaluation of investment properties	4	1,307.6	–	1,307.6	1,579.5	–	1,579.5
Goodwill impairment	4,8	–	–	–	–	(64.5)	(64.5)
Profit on disposal of joint venture (Telereal)	4,8	–	–	–	–	293.0	293.0
Operating profit		2,020.7	–	2,020.7	2,214.9	228.5	2,443.4
Interest expense	6	(233.3)	–	(233.3)	(201.8)	–	(201.8)
Interest income	6	12.4	–	12.4	7.3	–	7.3
		1,799.8	–	1,799.8	2,020.4	228.5	2,248.9
Share of the profit of joint ventures (post-tax)	17	81.3	98.0	179.3	98.6	–	98.6
Distribution received from joint venture (Telereal)	17	–	–	–	11.7	–	11.7
Profit before tax	4	1,881.1	98.0	1,979.1	2,130.7	228.5	2,359.2
Income tax (expense)/credit	9	(445.0)	1,994.2	1,549.2	(593.3)	(90.0)	(683.3)
Profit for the financial year attributable to equity shareholders	31	1,436.1	2,092.2	3,528.3	1,537.4	138.5	1,675.9
Earnings per share							
Basic earnings per share*	11			753.59p			357.95p
Diluted earnings per share*	11			750.54p			356.50p

*adjusted earnings per share is given in note 11

Statement of recognised income and expense
for the year ended 31 March 2007

Group	2007 £m	2006 £m
Actuarial losses on defined benefit pension schemes	(1.3)	(5.0)
Deferred tax on actuarial losses on defined benefit pension schemes	1.0	1.5
Fair value movement on cash flow hedges taken to equity – Group	6.7	(2.2)
– joint ventures	11.8	(2.7)
Deferred tax on fair value movement on cash flow hedges taken to equity – Group	(1.6)	0.6
– joint ventures	(2.3)	0.8
Net gains/(losses) recognised directly in equity	14.3	(7.0)
Profit for the financial year	3,528.3	1,675.9
Total recognised income and expense attributable to equity shareholders	3,542.6	1,668.9

Company
The Company has no recognised income or expense other than that recognised in the income statement (see note 31).

Balance sheets
at 31 March 2007

		Group		Company	
	Notes	2007 £m	2006 £m	2007 £m	2006 £m
Non-current assets					
Investment properties	13	12,891.7	11,440.5	–	–
Property, plant and equipment					
Property Partnership properties	13	979.1	563.2	–	–
Other property, plant and equipment	13	78.2	73.6	–	–
	13	13,949.0	12,077.3	–	–
Net investment in finance leases	14	262.4	233.9	–	–
Goodwill	15	129.6	34.3	–	–
Investments in subsidiary undertakings	16	–	–	5,037.1	5,037.1
Investments in joint ventures	17	1,338.8	829.5	–	–
Total non-current assets		15,679.8	13,175.0	5,037.1	5,037.1
Current assets					
Trading properties and long-term development contracts	18	148.3	255.9	–	–
Trade and other receivables	19	641.8	578.9	5.5	142.7
Cash and cash equivalents	20	52.7	15.6	5.0	5.0
Total current assets (excluding non-current assets classified as held for sale)		842.8	850.4	10.5	147.7
Non-current assets classified as held for sale	21	2,420.3	–	–	–
Total current assets		3,263.1	850.4	10.5	147.7
Total assets		18,942.9	14,025.4	5,047.6	5,184.8
Current liabilities					
Short-term borrowings and overdrafts	22	(1,683.2)	(163.6)	(61.9)	(34.0)
Trade and other payables	23	(783.9)	(585.0)	(50.8)	–
Current tax liabilities		(535.8)	(212.5)	(0.7)	(3.6)
Total non-current liabilities (excluding liabilities directly associated with non-current assets classified as held for sale)		(3,002.9)	(961.1)	(113.4)	(37.6)
Liabilities directly associated with non-current assets classified as held for sale	21	(1,601.0)	–	–	–
Total current liabilities		(4,603.9)	(961.1)	(113.4)	(37.6)
Non-current liabilities					
Provisions	24	(80.7)	(58.2)	–	–
Borrowings	25	(3,457.4)	(3,537.9)	–	–
Net pension benefit obligations	26	(5.6)	(6.5)	–	–
Deferred tax liabilities	27	(4.0)	(1,967.8)	–	–
Total non-current liabilities		(3,547.7)	(5,570.4)	–	–
Total liabilities		(8,151.6)	(6,531.5)	(113.4)	(37.6)
Net assets		10,791.3	7,493.9	4,934.2	5,147.2
Equity					
Ordinary shares	29, 31	47.0	46.9	47.0	46.9
Own shares	31	(14.5)	(3.4)	–	–
Share-based payments	31	7.9	6.3	–	–
Share premium	31	51.5	43.2	51.5	43.2
Capital redemption reserve	31	30.5	30.5	30.5	30.5
Merger reserve	31	–	–	373.6	373.6
Retained earnings	31	10,668.9	7,370.4	4,431.6	4,653.0
Total shareholders' equity		10,791.3	7,493.9	4,934.2	5,147.2

The financial statements on pages 90 to 122 were approved by the Board of Directors on 16 May 2007 and were signed on its behalf by:

F W Salway *M F Greenslade*
Directors

Financial Statements

Cash flow statements

for the year ended 31 March 2007

Group	Notes	2007 £m	2007 £m	2006 £m	2006 £m
Net cash generated from operations					
Cash generated from operations	32		682.4		591.5
Interest paid			(237.5)		(187.7)
Interest received			12.4		7.3
Funding pension scheme deficit			(3.9)		(4.9)
Taxation (corporation tax paid)			(91.9)		(30.3)
Net cash inflow from operations			361.5		375.9
Cash flows from investing activities					
Investment property development expenditure		(429.4)		(236.6)	
Acquisition of investment properties		(523.7)		(1,429.2)	
Other investment property related expenditure		(77.2)		(78.8)	
Acquisition of properties by Property Partnerships		(416.5)		(6.8)	
Capital expenditure by Property Partnerships		(26.0)		(22.9)	
Capital expenditure on properties		(1,472.8)		(1,774.3)	
Disposal of non-current investment properties		841.0		675.5	
Disposal of non-current operating properties		28.8		4.1	
Net expenditure on properties		(603.0)		(1,094.7)	
Net expenditure on non-property related non-current assets		(18.8)		(26.9)	
Net cash outflow from capital expenditure		(621.8)		(1,121.6)	
Receivable finance leases acquired		(43.3)		(84.8)	
Receipts in respect of receivable finance leases		3.8		2.3	
Net loans from/(to) joint ventures and cash contributed		10.8		(72.8)	
Distributions from joint ventures		39.2		206.6	
Net cash advanced to disposal group		(372.6)		–	
Proceeds from disposal of joint venture (Telereal)		–		293.0	
Acquisitions of Group undertakings (net of cash acquired)	35	(521.4)		(321.2)	
Net cash used in investing activities			(1,505.3)		(1,098.5)
Cash flows from financing activities					
Issue of shares		8.4		11.9	
Purchase of own share capital		(36.2)		(1.9)	
Increase in debt		1,433.9		1,221.2	
Debt repaid on acquisition of Group undertaking	35	–		(257.9)	
Decrease in finance leases payable		(2.2)		(1.2)	
Dividends paid to ordinary shareholders		(223.0)		(238.9)	
Net cash inflow from financing activities			1,180.9		733.2
Increase in cash and cash for the year			37.1		10.6

Company	Notes	2007 £m	2007 £m	2006 £m	2006 £m
Net cash generated from operations					
Cash generated from operations	32		184.4		182.8
Interest paid			(3.4)		(5.4)
Interest received			5.7		17.5
Taxation (corporation tax received)			–		2.8
Net cash inflow from operations			186.7		197.7
Cash flows from financing activities					
Issue of shares		8.4		11.9	
Dividends paid to ordinary shareholders		(223.0)		(238.9)	
Net cash used in financing activities			(214.6)		(227.0)
Decrease in cash and cash equivalents for the year			(27.9)		(29.3)

Notes to the financial statements
for the year ended 31 March 2007

1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared in Sterling (rounded to the nearest hundred thousand), which is the presentation currency of the Group, and under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, derivative financial instruments and financial assets and liabilities held for trading. A summary of the more important Group accounting policies which have been applied consistently across the Group is set out in note 2 below.

The accounting policies are consistent with those applied in the year ended 31 March 2006, as amended to reflect the adoption of the new Standards, Amendments to Standards and Interpretations which are mandatory for the year ended 31 March 2007. In most cases, these new requirements are not relevant for the Group. This is the case for the Amendments to IAS 39, IAS 21 and IFRS 4, to the new Standard IFRS 6, and to the new Interpretations IFRIC 5 and IFRIC 6. In accordance with the requirements of IFRIC 4 'Determining whether an arrangement contains a lease', the Group has reviewed its sales and purchase arrangements to ascertain whether any of them effectively contain a lease with the Group acting as either lessor or lessee. No changes to the accounting treatments of the Group's sales and purchase arrangements have been necessary.

The following new Standards and Interpretations have been issued but are not effective for the year ended 31 March 2007, and have not been adopted early, IFRS 7 'Financial Instruments: Disclosures' and the related amendment to IAS 1 on capital disclosures, IFRS 8 'Operating Segments', IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives', IFRIC 10 'Interim Financial Reporting and Impairment', IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions', and IFRIC 12 'Service Concession Arrangements'. It is anticipated that the adoption of these new Standards and Interpretations in future periods will not have a material impact on the measurement of assets and liabilities included in the financial statements or the Group's income and expenses. IFRS 7 is expected to result in additional disclosure about the Group's financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

2. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements for the year ended 31 March 2007 incorporate the financial statements of Land Securities Group PLC (the Company) and its subsidiary undertakings (the Group). Subsidiary undertakings are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences and until the date control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IAS 31 'Interests in joint ventures' and following the procedures for this method set out in IAS 28 'Investments in associates'. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet. Joint ventures (Telereal) with net liabilities are carried at zero value in the balance sheet where there is no commitment to fund the deficit and any distributions received are included in the consolidated profit for the year.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

(b) Acquisitions and business combinations

Where properties are acquired through corporate acquisitions and there are no significant assets or liabilities other than property, the acquisition is treated as an asset acquisition. In all other cases the acquisition is accounted for as a business combination, in which case, the assets and liabilities of a subsidiary or joint venture are measured at their estimated fair value at the date of acquisition or, in the case of non-current assets and disposal groups acquired with a view to resale, at the lower of cost and fair value less costs to sell (see (k) below). The cost of acquisition is measured at the fair value of the consideration given together with any liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group is organised into business segments.

Unallocated expenses are costs incurred centrally which are neither directly attributable nor reasonably allocatable to individual segments. Unallocated assets are cash and cash equivalents. Unallocated liabilities include short-term borrowings and overdrafts, and certain non-current liabilities (borrowings, net pension benefit obligations and deferred tax liabilities).

(d) Investment properties

Investment properties are those properties, either owned by the Group or where the Group is a lessee under a finance lease, that are held either to earn rental income or for capital appreciation or both. In addition, properties held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment properties are measured initially at cost, including related transaction costs. After initial recognition at cost, investment properties are carried at their fair values based on a professional valuation made as of each reporting date. Properties are treated as acquired at the point when the Group assumes the significant risks and returns of ownership and as disposed when these are transferred to the buyer. Additions to investment properties consist of costs of a capital nature and, in the case of investment properties under development, capitalised interest. Certain internal staff and associated costs directly attributable to the management of major schemes during the construction phase are also capitalised.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included in the income statement as a valuation gain or loss. When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of the transfer with any gain or loss being taken to profit or loss. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

Property that is being constructed or developed for future use as an investment property, but which has not previously been classified as such, is classified as investment property under development within property, plant and equipment. This is recognised initially at cost but is subsequently re-measured to fair value at each reporting date. Any gain or loss on re-measurement is taken direct to equity unless any loss in the period exceeds any net cumulative gain previously recognised in equity. In the latter case, the amount by which the loss in the period exceeds the net cumulative gain previously recognised is taken to profit or loss. On completion, the property is transferred to investment property with any final difference on re-measurement accounted for in accordance with the foregoing policy.

2. Significant accounting policies continued

Gross borrowing costs associated with direct expenditure on properties under development or undergoing major refurbishment are capitalised. The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site or property acquired specifically for redevelopment in the short term but only where activities necessary to prepare the asset for redevelopment are in progress.

(e) Property, plant and equipment

Operating properties

These are properties owned and managed by Land Securities Trillium, the Group's Property Partnerships business, and which do not satisfy the definition of an investment property. Operating properties are stated at cost less accumulated depreciation. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the properties concerned.

The estimated useful lives are as follows:

Freehold land	–	Not depreciated
Freehold buildings	–	Up to 50 years
Leasehold properties	–	Shorter of the unexpired lease term and 50 years

Other property, plant and equipment

This category comprises computers, motor vehicles, furniture, fixtures and fittings and improvements to Group offices. These assets are stated at cost less accumulated depreciation and are depreciated to their residual value on a straight-line basis over their estimated useful lives of between two and five years.

The residual values and useful lives of all property, plant and equipment are reviewed, and adjusted if appropriate, at least at each financial year end.

(f) Goodwill

At the date of the Group's transition to IFRS, 1 April 2004, the goodwill in the Group balance sheet represented that arising on the acquisition of Trillium less amortisation to that date. In accordance with IFRS 1 'First-time adoption of IFRS', this amount has been adopted as the carrying amount of the goodwill for IFRS accounting purposes. In accordance with IFRS 3 'Business combinations', the goodwill is not amortised but is reviewed for impairment at each reporting date. The Group's policy on impairment is set out in (u) below.

(g) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less any provision for permanent impairment in value.

(h) Trading properties and long-term development contracts

Trading properties are those properties held for sale and are shown at the lower of cost and net realisable value.

Revenue on long-term development contracts is recognised according to the stage reached in the contract by reference to the value of work completed using the percentage of completion method. An appropriate estimate of the profit attributable to work completed is recognised once the outcome of the contract can be estimated reliably. The gross amount due from customers for contract work is shown as a receivable. The gross amount due comprises costs incurred plus recognised profits less the sum of recognised losses and progress billings. Where the sum of recognised losses and progress billings exceeds costs incurred plus recognised profits, the amount is shown as a liability.

(i) Trade and finance lease receivables

Trade and finance lease receivables are recognised initially at fair value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

(j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are deducted from cash and cash equivalents for the purpose of the statement of cash flows.

(k) Non-current assets held for sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are categorised as non-current assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management are committed to a plan to achieve the sale; there is an active programme to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan. Non-current assets held for sale are valued at the lower of their carrying value and fair value less costs to sell.

Where an asset or disposal group is acquired with a view to resale, it is classified as a non-current asset held for sale if the disposal is expected to take place within one year of the acquisition, and it is highly likely that the other conditions referred to above will be met within a short period of the acquisition.

(l) Trade and other payables

Trade and other payables are stated at cost.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a constructive or legal obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Provision is made for dilapidations that will crystallise in the future where, on the basis of the present condition of the property, an obligation exists at the reporting date and can be reliably measured. The estimate is revised over the remaining period of the lease to reflect changes in the condition of the building or other changes in circumstances. The estimate of the obligation takes account of relevant external advice.

(n) Borrowings

Borrowings other than bank overdrafts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

Where existing borrowings are exchanged for new borrowings and the terms of the existing and new borrowings are not substantially different (as defined by IAS 39), the new borrowings are recognised initially at the carrying amount of the existing borrowings. The difference between the amount initially recognised and the redemption value of the new borrowings is recognised in the income statement over the period of the new borrowings, using the effective interest method.

(o) Pension benefits

The Group accounts for pensions under IAS 19 'Employee Benefits'. In respect of defined benefit pension schemes, obligations are measured at discounted present value while scheme assets are measured at their fair value except annuities, which are valued to match the liability or benefit value. The operating and financing costs of such plans are recognised separately in the income statement. Service costs are spread using the projected unit method. Financing costs are recognised in the periods in which they arise and are included in interest expense. Actuarial gains and losses arising from either experience differing from previous actuarial assumptions or changes to those assumptions are recognised immediately in the statement of recognised income and expense.

Contributions to defined contribution schemes are expensed as incurred.

(p) Share capital

Ordinary shares are classed as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2. Significant accounting policies continued

The consideration paid, including any directly attributable incremental costs, by any Group entity to acquire the Company's equity share capital, is deducted from equity until the shares are cancelled, reissued or disposed of. Where own shares are sold or reissued, the net consideration received is included in equity. Shares acquired by the Employee Share Ownership Plan (ESOP) are presented on the balance sheet as 'own shares'. Purchases of treasury shares are deducted from retained earnings.

(q) Share-based payments

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the income statement. These are equity-settled and therefore the fair value is measured at the grant date. The Group has used the Black-Scholes option valuation model to establish the relevant fair values. The resulting values are amortised through the income statement over the vesting period of the options and other grants. The charge is reversed if it appears probable that applicable performance criteria will not be met although the performance criteria are not market related.

(r) Revenue

The Group recognises revenue on an accruals basis, and when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. Revenue comprises rental income, service charges and other recoveries from tenants of the Group's investment and trading properties, property services income earned by its Property Partnerships business, proceeds of sales of its trading properties and income arising on long-term contracts. Rental income includes the income from managed operations such as car parks, food courts, serviced offices and flats. Service charges and other recoveries include income in relation to service charges and directly recoverable expenditure together with any chargeable management fees. Property services income represents unitary charges and the recovery of other direct property or contract expenditure reimbursable by customers. Where revenue is obtained from the rendering of services, it is recognised by reference to the stage of completion of the relevant transactions at the reporting date. The Group discloses its joint venture revenue on a gross basis as this is considered to be a more meaningful presentation.

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property and are therefore recognised on the same, straight-line basis.

When property is let out under a finance lease, the Group recognises a receivable at an amount equal to the net investment in the lease at inception of the lease. Rentals received are accounted for as repayments of principal and finance income as appropriate. Finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining net investment in the finance lease. Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded as income in the periods in which they are earned.

Where revenue is obtained by the sale of assets, it is recognised when the significant risks and returns have been transferred to the buyer. In the case of sales of properties, this is generally on unconditional exchange except where payment or completion is expected to occur significantly after exchange. For conditional exchanges, sales are recognised when the conditions are satisfied. Sales of investment and other non-current properties, which are not included in revenue, are recognised on the same basis.

(s) Expenses

Property and contract expenditure, including bid costs incurred prior to the exchange of a contract, is expensed as incurred with the exception of expenditure on long-term development contracts (see (h) above).

Rental payments made under an operating lease are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the net consideration for the use of the property and also recognised on a straight-line basis.

Minimum lease payments payable on finance leases and operating leases accounted for as finance leases under IAS 40 are apportioned between finance expense and reduction of the outstanding liability. Finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining liability. Contingent rents (as defined in (r) above) are charged as expense in the periods in which they are incurred.

(t) Exceptional items

Items which are sufficiently material by either their size or nature to require separate disclosure are disclosed as exceptional items within the relevant consolidated income statement category. Items that management consider fall into this category are presented separately in the consolidated income statement in the column headed 'Exceptional items'. Events that may give rise to exceptional items include gains or losses on the disposal of joint ventures or other investments, impairment of assets including goodwill arising as a result of recognising deferred tax on a business combination, financial restructurings and significant changes in the tax regime.

(u) Impairment

The carrying amounts of the Group's non-financial assets, other than investment properties (see (d) above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows.

Goodwill is tested for impairment at each reporting date, or more frequently if there are indicators that the goodwill might be impaired. For this purpose goodwill is allocated to units or groups of units which represent the lowest level at which the goodwill is monitored for internal management purposes.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would have been determined, net of applicable depreciation, if no impairment loss had been recognised.

(v) Derivative financial instruments (derivatives) and hedge accounting

The Group uses interest rate swaps to help manage its interest rate risk, and cross-currency swaps to manage its currency risk. In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes.

All derivatives are intially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

- Fair value hedges: Where a derivative is designated and qualifies as a hedge of the exposures to fair value of a recognised asset or liability that is attributable to a particular risk and could affect the income statement, changes in the fair value of the derivative are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
- Cash flow hedges: Where a derivative is designated as a hedge of the variability of a highly probable forecast transaction i.e. an interest payment, the element of the gain or loss on the derivative that is an effective hedge is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same periods or periods during which the asset acquired or liability assumed affects the income statement i.e. when interest income or expense is recognised.
- Derivatives that do not qualify for hedge accounting: The gain or loss on derivatives that do not qualify for hedge accounting, and the non-qualifying element of derivatives that do qualify for hedge accounting, are recognised in the income statement immediately.

(w) Income tax

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

Prior to REIT conversion, deferred tax was provided on the full difference between the original cost of investment properties and their carrying amounts at the reporting date without taking into account deductions and allowances which would only apply if the properties concerned were to be sold, except where such properties are classified as held for disposal (see note 9).

No provision is made for temporary differences (i) arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

(x) Leases

A Group company is the lessee

i) Operating lease – leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

ii) Finance lease – leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The finance charges are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are subsequently carried at their fair value.

A Group company is the lessor

i) Operating lease – properties leased out to tenants under operating leases are included in investment properties in the balance sheet.

ii) Finance lease – when assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return. Where only the buildings element of a property lease is classified as a finance lease, the land element is shown within operating leases.

(y) Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, except that interim dividends are recognised when paid.

(z) Foreign currency translation

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

3. Significant judgements, key assumptions and estimates

The Group's significant accounting policies are stated in note 2 above. Not all of these significant accounting policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

(a) Goodwill

The goodwill that arises from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations is sometimes judged not to be an asset, and is accordingly impaired on completion of the relevant acquisition. Otherwise goodwill is tested annually for impairment on the basis set out in note 15.

(b) Distinction between operating properties and investment properties

A property is classified as an operating property rather than an investment property where the degree of ancillary services supplied is judged to be significant in the context of the arrangements between the landlord and tenant.

(c) Finance lease calculations

In apportioning rentals on finance lease properties, the Group is required to estimate the split of the fair values of the properties concerned between land and buildings. The inception of many of the Group's leases took place many years ago and therefore reliable estimates are very difficult to obtain. Accordingly, the Group has had to apply its judgement in estimating the split at inception of certain finance lease properties.

(d) Trading properties

Trading properties are carried at the lower of cost and net realisable value. The latter is assessed by the Group having regard to suitable external advice and knowledge of recent comparable transactions.

(e) Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts.

(f) Exceptional items

Exceptional items are defined as those items which are sufficiently material by either their size or nature as to require separate disclosure. Deciding which items meet this definition requires the Group to exercise its judgement.

(g) Investment property valuation

The Group normally uses the valuation performed by its independent valuers as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

(h) Unagreed rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon an estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

(i) Non-current assets held for sale

The majority of the consideration paid to acquire the Secondary Market Infrastructure Fund (SMIF) relates to Public Private Partnerships (PPP) contracts which were acquired exclusively with a view to resale. These PPP contracts have been classified as a disposal group. Significant judgement has been required in assessing whether the PPP contracts qualify as a disposal group and in determining the fair value less costs to sell of this disposal group, which has been evaluated both at the date of acquisition and the balance sheet date. At the balance sheet date, the disposal group is held at the lower of cost and fair value less costs to sell.

(j) Compliance with the Real Estate Investment Trust taxation regime

On 1 January 2007 the Group converted to a group REIT. In order to achieve and retain group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets
- at least 75% of the Group's total profits must arise from the tax exempt business
- at least 90% of the profit of the property rental business must be distributed.

The Directors intend that the Group should continue as a group REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business.

(k) Onerous lease and dilapidation provisions

The Group needs to use judgement in determining its onerous lease and dilapidation provisions, based on the condition of each property and market conditions in the relevant location. External advice is obtained where appropriate.

4. Segmental information

Group	2007					2006				
Income statements	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Property Partnerships £m	Total £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Property Partnerships £m	Total £m
Rental income	279.2	311.6	8.7	–	599.5	255.9	278.5	4.3	–	538.7
Service charge income	46.8	48.6	0.3	–	95.7	38.3	40.0	0.2	–	78.5
Property services income	–	–	–	785.9	785.9	–	–	–	924.8	924.8
Trading property sale proceeds	–	33.1	29.0	1.7	63.8	–	93.8	5.9	–	99.7
Long-term development contract income	–	28.9	51.8	–	80.7	–	95.7	78.4	–	174.1
Finance lease interest	3.5	5.9	–	6.1	15.5	4.4	6.0	–	2.5	12.9
Revenue	329.5	428.1	89.8	793.7	1,641.1	298.6	514.0	88.8	927.3	1,828.7
Rents payable	(11.3)	(4.9)	–	(179.9)	(196.1)	(12.0)	(4.1)	–	(183.9)	(200.0)
Other direct property or contract expenditure	(67.7)	(62.1)	(0.8)	(469.0)	(599.6)	(59.7)	(47.9)	(0.9)	(610.1)	(718.6)
Indirect property or contract expenditure	(31.6)	(30.9)	(5.8)	(16.3)	(84.6)	(32.7)	(28.7)	(4.8)	(8.8)	(75.0)
Long-term development contract expenditure	–	(26.1)	(40.3)	–	(66.4)	–	(74.7)	(77.5)	–	(152.2)
Bid costs	–	–	–	(2.8)	(2.8)	–	–	–	(7.4)	(7.4)
Cost of sales of trading properties	(0.1)	(28.7)	(20.9)	(0.5)	(50.2)	–	(78.0)	(4.2)	–	(82.2)
Depreciation	(1.5)	(4.9)	(0.1)	(26.4)	(32.9)	(1.0)	(4.1)	(0.1)	(20.5)	(25.7)
Underlying operating profit	217.3	270.5	21.9	98.8	608.5	193.2	276.5	1.3	96.6	567.6
Profit on disposal of non-current properties	28.5	81.7	0.5	7.5	118.2	40.1	33.2	0.2	1.0	74.5
Net surplus/(deficit) on revaluation of investment properties	293.6	1,022.0	5.6	(13.6)	1,307.6	636.9	935.5	5.2	1.9	1,579.5
Goodwill impairment	–	–	–	–	–	(64.5)	–	–	–	(64.5)
Profit on disposal of joint venture (Telereal)	–	–	–	–	–	–	–	–	293.0	293.0
Segment result	539.4	1,374.2	28.0	92.7	2,034.3	805.7	1,245.2	6.7	392.5	2,450.1
Credit arising from change in pension scheme benefits					–					8.3
Unallocated expenses					(13.6)					(15.0)
Operating profit					2,020.7					2,443.4
Net finance costs					(220.9)					(194.5)
					1,799.8					2,248.9
Share of the profit of joint ventures (post-tax)					179.3					98.6
Distribution received from joint venture (Telereal)					–					11.7
Profit before tax from continuing activities					1,979.1					2,359.2

Included within rents payable is finance lease interest payable of **£1.9m** (2006: £1.8m) and **£3.1m** (2006: £2.8m) respectively for Retail Portfolio and London Portfolio.

Of the share of the profit of joint ventures (post-tax) **£182.5m** (2006: £98.6m) is attributable to Retail Portfolio, and a loss of **£3.2m** (2006: £nil) is attributable to Property Partnerships.

The distribution received from the joint venture (Telereal) for the year ended 31 March 2006 of £11.7m is attributable to Property Partnerships.

Financial Statements

4. Segmental information continued

Group					2007					2006
Balance sheets	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Property Partnerships £m	Total £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Property Partnerships £m	Total £m
Investment properties	5,497.7	7,329.4	64.6	427.6	13,319.3	5,514.6	5,856.5	69.4	–	11,440.5
Operating properties	–	–	–	551.5	551.5	–	–	–	563.2	563.2
Other property, plant and equipment	9.3	8.3	5.0	55.6	78.2	7.3	6.5	4.7	55.1	73.6
Net investment in finance leases	63.0	104.0	–	95.4	262.4	73.8	107.1	–	53.0	233.9
Goodwill	–	–	–	129.6	129.6	–	–	–	34.3	34.3
Investment in equity accounted joint ventures	1,315.9	–	17.9	5.0	1,338.8	768.5	–	41.2	19.8	829.5
Trading properties and long-term development contracts	–	41.4	106.2	0.7	148.3	–	150.5	104.3	1.1	255.9
Trade and other receivables	185.9	220.3	27.7	207.5	641.4	158.7	207.5	9.7	202.7	578.6
Non-current assets classified as held for sale	–	–	–	2,420.3	2,420.3	–	–	–	–	–
Segment assets	7,071.8	7,703.4	221.4	3,893.2	18,889.8	6,522.9	6,328.1	229.3	929.2	14,009.5
Unallocated assets					53.1					15.9
Total assets					18,942.9					14,025.4
Trade and other payables	(286.7)	(160.8)	(20.0)	(281.8)	(749.3)	(153.4)	(135.0)	(31.5)	(235.6)	(555.5)
Non-current payables	–	–	–	(80.7)	(80.7)	–	–	–	(58.2)	(58.2)
Liabilities directly associated with non-current assets classified as held for sale	–	–	–	(1,601.0)	(1,601.0)	–	–	–	–	–
Segment liabilities	(286.7)	(160.8)	(20.0)	(1,963.5)	(2,431.0)	(153.4)	(135.0)	(31.5)	(293.8)	(613.7)
Unallocated liabilities					(5,720.6)					(5,917.8)
Total liabilities					(8,151.6)					(6,531.5)
Other segment items										
Capital expenditure	148.5	357.1	0.3	39.6	545.5	121.3	207.8	0.6	38.7	368.4

All the Group's operations are in the UK and are organised into four main business segments against which the Group reports its primary segment information. These are Retail Portfolio, London Portfolio, Other investment portfolio and Property Partnerships.

Company

The Company's business is to invest in its subsidiaries, and therefore it operates in a single segment.

5. Employee costs

	2007 No.	2006 No.	2007 £m	2006 £m
The average number of employees during the year, excluding Directors, and the corresponding aggregate employee costs were:				
Indirect property or contract and administration	584	499	48.6	44.9
Direct property or contract services:				
Full time	1,041	1,258	49.1	52.0
Part time	23	85	1.0	1.5
	1,648	1,842	98.7	98.4
Employee costs				
Salaries			77.5	74.3
Social security			10.4	13.6
Other pension			9.3	8.2
Share-based payments			1.5	2.3
			98.7	98.4
Directors				
Aggregate emoluments excluding pensions			6.7	4.2
Company contributions to pension schemes			0.9	0.8
			7.6	5.0

With the exception of the Directors, who are employed by Land Securities Group PLC, all employees are employed by subsidiaries of the Group.

Five Directors (2006: five) have retirement benefits accruing under money purchase pension schemes. Retirement benefits accrue to **one** Director (2006: one) under the Group's defined benefit pension scheme. Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' remuneration report on pages 79 to 86.

6. Net finance costs

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Interest expense				
Bond and debenture debt	(173.1)	(143.1)	–	–
Bank borrowings	(89.6)	(56.8)	–	–
Other interest payable	(1.2)	(1.3)	(3.4)	(5.4)
Fair value profits/(losses) on interest rate swaps	15.4	(2.2)	–	–
Provision discounting (note 24)	(1.0)	–	–	–
Amortisation of bond exchange de-recognition (note 25)	(17.1)	(26.6)	–	–
Bond exchange de-recognition adjustment written off on redemption of bonds (note 25)	–	(1.5)	–	–
Expected return on pension scheme assets	8.6	7.3	–	–
Interest on pension scheme liabilities	(7.6)	(7.2)	–	–
Net financing income on pension scheme	1.0	0.1	–	–
	(265.6)	(231.4)	(3.4)	(5.4)
Interest capitalised in relation to properties under development	32.3	29.6	–	–
Total interest expense	(233.3)	(201.8)	(3.4)	(5.4)
Interest income				
Short-term deposits	1.5	1.0	–	–
Other interest receivable	2.4	1.7	5.7	17.5
Interest receivable from joint ventures	8.5	4.6	–	–
Total interest income	12.4	7.3	5.7	17.5
Net finance (costs)/income	(220.9)	(194.5)	2.3	12.1

Included within rents payable (note 4) is finance lease interest payable of **£5.0m** (2006: £4.6m).

7. Profit before taxation

	2007 £m	2006 £m
The following items have been charged or (credited) in arriving at profit before taxation:		
Employee costs (note 5)	98.7	98.4
Depreciation of property, plant and equipment (note 13):		
Investment properties	3.3	2.9
Operating properties	15.4	11.6
Other property, plant and equipment	14.2	11.2
Impairment of goodwill (note 15)	–	64.5
Profit on disposal of non-current properties	(118.2)	(74.5)
Profit on disposal of joint venture (Telereal)	–	(293.0)
Bad debts written off and provision for doubtful debts	3.4	13.1
Services provided by the Group's auditor		
During the year the Group obtained the following services from the Group's auditor at costs as detailed below:		
Audit fees in respect of the accounts of the Company	0.6	0.5
Audit fees in respect of the audit of Group subsidiary undertakings and associates	0.4	0.4
Fees for services supplied pursuant to legislation	0.1	–
Services relating to taxation	0.1	0.5
Other services	0.1	0.4
	1.3	1.8

8. Exceptional items

	2007 £m	2006 £m
Profit on disposal of a joint venture (Telereal)	–	293.0
Goodwill impairment	–	(64.5)
Deferred taxation released within joint ventures on conversion to a Real Estate Investment Trust	98.0	–
Exceptional items before tax	98.0	228.5
Taxation on profit on disposal of a joint venture (Telereal)	–	(90.0)
Deferred taxation released on conversion to a Real Estate Investment Trust	2,309.2	–
Real Estate Investment Trust conversion charge	(315.0)	–
	2,092.2	138.5

The exceptional items arising from the Group's conversion to a Real Estate Investment Trust are explained in note 9 below. On 30 September 2005 the Group sold its interest in the Telereal joint venture for £293.0m (net of costs), resulting in an exceptional profit of £293.0m, as the book value of the joint venture was £nil. The tax charge arising on the disposal was £90.0m. Where goodwill arises as a result of recognising deferred tax on a business combination, the goodwill is written off immediately to the income statement. The goodwill impaired arose on the acquisition of Tops Estates PLC on 10 June 2005 and on the assets acquired from Slough Estates PLC on 15 December 2004.

9. Income tax expense

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Current tax				
Corporation tax expense for the year	68.8	181.6	0.7	3.6
Adjustment in respect of prior years	(0.6)	(14.7)	–	(2.8)
Corporation tax in respect of property disposals	32.0	38.0	–	–
Real Estate Investment Trust conversion charge	315.0	–	–	–
Total current tax expense	415.2	204.9	0.7	0.8
Deferred tax				
Origination and reversal of timing differences	32.9	34.6	–	–
Released in respect of property disposals	(18.8)	(30.1)	–	–
On valuation surplus	330.7	473.9	–	–
Released on conversion to a Real Estate Investment Trust	(2,309.2)	–	–	–
Total deferred tax (credit)/expense	(1,964.4)	478.4	–	–
Total income tax (credit)/expense in the income statement	(1,549.2)	683.3	0.7	0.8

The tax for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on activities before taxation	1,979.1	2,359.2	2.3	12.1
Profit on activities multiplied by rate of corporation tax in the UK of 30%	593.7	707.8	0.7	3.6
Effects of:				
Deferred tax released in respect of property disposals	(18.8)	(34.7)	–	–
Corporation tax on disposal of non-current assets	6.0	23.0	–	–
Goodwill impairment	–	19.4	–	–
Joint venture accounting adjustments	(44.2)	(26.5)	–	–
Prior year corporation tax adjustments	(0.6)	(14.7)	–	(2.8)
Prior year deferred tax adjustments	1.1	0.8	–	–
Non-allowable expenses and non-taxable items	7.9	8.2	–	–
Real Estate Investment Trust conversion charge	315.0	–	–	–
Deferred tax released on conversion to a Real Estate Investment Trust	(2,309.2)	–	–	–
Exempt property rental profits in the three months ended 31 March 2007	(89.8)	–	–	–
Exempt property gains in the three months ended 31 March 2007	(10.3)	–	–	–
Total income tax (credit)/expense in the income statement (as above)	(1,549.2)	683.3	0.7	0.8

Land Securities Group PLC has elected for group Real Estate Investment Trust (REIT) status with effect from 1 January 2007. As a result the Group will no longer pay UK corporation tax on the profits and gains from qualifying rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal. On entering the REIT regime an entry charge equal to 2% of the aggregate market value of the properties associated with the qualifying rental business is payable. Deferred tax accrued at the date of conversion in respect of the assets and liabilities of the qualifying rental business has been released to the income statement, as the relevant temporary differences will no longer be taxable on reversal. An equivalent release of deferred taxation has also been made by the joint ventures, of which the Group's share is £98.0m.

The calculation of the Group's tax expense and liability necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. If all such issues are resolved in the Group's favour, provisions established in previous periods of up to £225.0m could be released in the future.

10. Dividends

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Ordinary dividends paid				
Final dividend for the year ended 31 March 2006 (28.55p per share)	133.8	–	133.8	–
Final dividend for the year ended 31 March 2005 (32.85p per share)	–	153.8	–	153.8
Interim dividend for the year ended 31 March 2007 (19.00p per share)	89.2	–	89.2	–
Interim dividend for the year ended 31 March 2006 (18.15p per share)	–	85.1	–	85.1
	223.0	238.9	223.0	238.9

The Board has proposed a final dividend of **34.00p** per share (final dividend for the year ended 31 March 2006: 28.55p) which will result in a further distribution of **£159.9m**. It will be paid on 23 July 2007 to shareholders who are on the Register of Members on 22 June 2007.

11. Earnings per share

	2007 £m	2006 £m
Profit for the financial year	3,528.3	1,675.9
Revaluation surpluses net of deferred taxation – Group	(976.9)	(1,105.6)
– joint ventures	(54.5)	(73.8)
Profit on non-current property disposals after current and deferred tax	(105.2)	(66.5)
Profit on disposal of joint venture (net of taxation)	–	(203.0)
Goodwill impairment	–	64.5
Mark-to-market adjustment on interest rate swaps (net of deferred tax)	(13.7)	1.5
Deferred tax arising from capital allowances on investment properties	11.7	12.2
Deferred tax arising from capitalised interest on investment properties	5.8	7.2
Real Estate Investment Trust conversion charge	315.0	–
Deferred tax released on conversion to a Real Estate Investment Trust – Group	(2,309.2)	–
– joint ventures	(98.0)	–
EPRA adjusted earnings	303.3	312.4
Eliminate effect of debt restructuring charges (net of taxation)	13.4	–
Credit arising from change in pension scheme benefits (net of deferred tax)	–	(5.8)
Eliminate effect of bond exchange de-recognition (net of deferred tax)	13.3	19.7
Adjustment to restate the Group's share of Telereal's earnings from a distribution to an equity basis	–	5.0
Adjusted earnings	330.0	331.3

	No. m	No. m
Weighted average number of ordinary shares	469.8	468.5
Effect of own shares and treasury shares	(1.6)	(0.3)
Weighted average number of ordinary shares after adjusting for own shares	468.2	468.2
Effect of dilutive share options	1.9	1.9
Weighted average number of ordinary shares adjusted for dilutive instruments	470.1	470.1

	Pence	Pence
Basic earnings per share	753.59	357.95
Diluted earnings per share	750.54	356.50
Adjusted earnings per share	70.48	70.76
Adjusted diluted earnings per share	70.20	70.47
EPRA diluted earnings per share	64.52	66.45

Management have chosen to disclose adjusted earnings per share in order to provide an indication of the Group's underlying business performance. Accordingly, it excludes the effect of all exceptional items, debt restructuring charges, the one-off benefit from the pension scheme changes and other items of a capital nature (excluding trading properties and long-term contract profits) as indicated above. In addition, the corporation tax charge arising from the conversion to a REIT, and the deferred tax released following the conversion to a REIT, have also been excluded due to their size and incidence. Further, prior to the conversion to a REIT, the deferred tax arising on capital allowances in respect of investment properties was eliminated as experience had shown that these allowances are not in practice repayable, and deferred tax on capitalised interest was also added back as this was effectively a permanent difference. An EPRA measure has been included to assist comparison between European property companies. We believe our measure of adjusted diluted earnings per share is more indicative of underlying performance.

12. Net assets per share

	2007 £m	2006 £m
Net assets attributable to equity shareholders	10,791.3	7,493.9
Cumulative mark-to-market adjustment on interest rate swaps (net of deferred tax) – Group	(14.4)	5.4
– joint ventures	(9.2)	3.2
Deferred tax arising on revaluation surpluses	–	1,739.7
Deferred tax arising from capital allowances on investment properties	–	116.8
Deferred tax arising from capitalised interest on investment properties	–	28.2
EPRA adjusted net assets	10,767.7	9,387.2
Reverse bond exchange de-recognition adjustment (net of deferred tax)	(519.1)	(375.3)
Adjusted net assets attributable to equity shareholders	10,248.6	9,011.9
Reinstate bond exchange de-recognition adjustment (net of deferred tax)	519.1	375.3
Cumulative mark-to-market adjustment on interest rate swaps (net of deferred tax) – Group	14.4	(5.4)
– joint ventures	9.2	(3.2)
Excess of fair value over book value of debt (net of deferred tax)	(511.5)	(507.2)
Tax on latent capital gains	–	(991.2)
EPRA triple net asset value	10,279.8	7,880.2

12. Net assets per share continued

	No. m	No. m
Number of ordinary shares	470.4	469.3
Effect of own shares and treasury shares	(2.1)	(0.3)
Number of ordinary shares after adjusting for own shares	468.3	469.0
Effect of dilutive share options	1.6	2.1
Number of ordinary shares adjusted for dilutive instruments	469.9	471.1

	Pence	Pence
Net assets per share	2304	1597
Diluted net assets per share	2297	1590
Adjusted net assets per share	2188	1920
Adjusted diluted net assets per share	2181	1912
EPRA measure – adjusted diluted net assets per share	2291	1993
– triple net assets per share	2188	1673

Adjusted net assets per share excludes the deferred tax arising on revaluation surpluses, mark-to-market adjustments on financial instruments used for hedging purposes and the bond exchange de-recognition adjustment as management consider that this better represents the expected future cash flows of the Group. In previous years deferred tax arising on capital allowances in respect of investment properties was excluded as experience had shown that these allowances do not in practice crystallise. Deferred tax on capitalised interest was also added back as this was effectively a permanent difference. This is no longer the case as the Group is a REIT. EPRA measures have been included to assist comparison between European property companies. We believe our measure of adjusted net assets attributable to equity shareholders is more appropriate than the EPRA measure.

13. Non-current assets

	Property investment			Property Partnerships	Other	
	Portfolio management £m	Development programme £m	Total investment properties £m	Operating and investment properties £m	Other property, plant and equipment £m	Total £m
Net book value at 1 April 2005	7,484.5	755.6	8,240.1	546.3	57.9	8,844.3
Properties transferred from portfolio management into the development programme during the year (at 1 April 2005 valuation)	(102.4)	102.4	–	–	–	–
Developments completed, let and transferred from the development programme into portfolio management during the year	271.6	(271.6)	–	–	–	–
Property acquisitions	1,414.1	24.7	1,438.8	–	–	1,438.8
Acquisitions through business combinations	592.6	–	592.6	6.8	–	599.4
Capital expenditure	78.8	239.3	318.1	22.9	27.4	368.4
Capitalised interest	–	24.5	24.5	–	–	24.5
Disposals	(641.8)	(7.8)	(649.6)	(3.1)	(0.5)	(653.2)
Transfer to trading properties	(84.7)	–	(84.7)	–	–	(84.7)
Surrender premiums received	(14.0)	–	(14.0)	–	–	(14.0)
Depreciation	(2.9)	–	(2.9)	(11.6)	(11.2)	(25.7)
Surplus on revaluation	1,215.4	362.2	1,577.6	1.9	–	1,579.5
Net book value at 31 March 2006	**10,211.2**	**1,229.3**	**11,440.5**	**563.2**	**73.6**	**12,077.3**
Properties transferred from portfolio management into the development programme during the year (at 1 April 2006 valuation)	(219.0)	219.0	–	–	–	–
Developments completed, let and transferred from the development programme into portfolio management during the year	60.8	(60.8)	–	–	–	–
Property acquisitions	510.0	13.7	523.7	440.7	–	964.4
Capital expenditure	77.2	422.1	499.3	27.2	19.0	545.5
Capitalised interest	–	29.8	29.8	–	–	29.8
Disposals	(643.5)	(5.6)	(649.1)	(23.0)	(0.2)	(672.3)
Transfer to joint ventures	(266.5)	–	(266.5)	–	–	(266.5)
Surrender premiums received	(3.9)	–	(3.9)	–	–	(3.9)
Depreciation	(3.3)	–	(3.3)	(15.4)	(14.2)	(32.9)
Surplus on revaluation	884.4	436.8	1,321.2	(13.6)	–	1,307.6
Net book value at 31 March 2007	**10,607.4**	**2,284.3**	**12,891.7**	**979.1**	**78.2**	**13,949.0**

The following table reconciles the net book value of the investment properties (excluding those within Land Securities Trillium) to the market value. The components of the reconciliation are included within their relevant balance sheet headings.

13. Non-current assets continued

	Property investment		
	Portfolio management £m	Development programme £m	Total investment properties £m
Net book value at 31 March 2006	10,211.2	1,229.3	11,440.5
Plus: amount included in prepayments in respect of lease incentives	76.8	4.6	81.4
Less: head leases capitalised (note 28)	(66.1)	(8.5)	(74.6)
Plus: properties treated as finance leases	171.7	–	171.7
Market value at 31 March 2006 – Group	10,393.6	1,225.4	11,619.0
– plus: share of joint ventures (note 17)			1,273.9
Market value at 31 March 2006 – Group and share of joint ventures			12,892.9
Net book value at 31 March 2007	10,607.4	2,284.3	12,891.7
Plus: amount included in prepayments in respect of lease incentives	93.6	37.4	131.0
Less: head leases capitalised (note 28)	(61.6)	(9.4)	(71.0)
Plus: properties treated as finance leases	163.1	–	163.1
Market value at 31 March 2007 – Group	10,802.5	2,312.3	13,114.8
– plus: share of joint ventures (note 17)			1,637.7
Market value at 31 March 2007 – Group and share of joint ventures			14,752.5

Included in investment properties are leasehold properties with a net book value of **£1,485.5m** (2006: £1,419.8m).

In accordance with IFRS 1 'First time adoption of International Reporting Standards' and IAS 17 'Leases', the Group has reviewed the classification of all leases at the opening balance sheet date of 1 April 2004. In reviewing leases of land and buildings in accordance with IAS 17 the land and buildings elements of the lease need to be considered separately. On this basis, leases on 43 properties entered into between 1923 and 2003 were reclassified as finance leases in these accounts. This resulted in an increase in fixed assets of £77.2m and a finance lease creditor of the same amount at first time adoption on 1 April 2004. At 31 March 2007 leases on **28** properties (2006: 34) entered into between 1958 and 2005 were classified as finance leases. The corresponding increase in fixed assets and finance lease creditor was **£71.0m** (2006: £74.6m). Operating lease expense has reduced by **£7.2m** (2006: £5.8m).

The fair value of the Group's investment properties at 31 March 2007 has been arrived at on the basis of a valuation carried out at that date by Knight Frank LLP, independent valuers, with the exception of properties acquired from the Royal Mail in February 2007 with a value of £97.8m, which have been valued at cost (excluding acquisition costs) by the Directors. The valuation by Knight Frank LLP, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. Included within Property Partnerships' operating and investment properties are investment properties with a market value of **£427.6m** (2006: £27.1m). At 31 December 2006, Property Partnerships' operating properties with a net book value of £564.5m were valued by Knight Frank LLP at £931.9m, a surplus of £367.4m. The valuation was performed solely for the purpose of calculating the REIT conversion charge and has not been adopted in the financial statements. Fixed asset properties include capitalised interest of **£145.6m** (2006: £115.8m). The average rate of capitalisation is **5.5%** (2006: 5.5%). The historical cost of investment properties is **£7,210.6m** (2006: £6,265.5m).

The current value of investment properties in respect of proposed developments is **£329.3m** (2006: £383.8m). Developments are transferred out of the development programme when physically complete and 95% let. The scheme completed during the year was Kingsway West Phase III, Dundee. The property rental income earned by the Group from its investment properties amounted to **£599.5m** (2006: £537.2m).

	2007 £m	2006 £m
Capital commitments	726.6	689.8

14. Net investment in finance leases

	2007 £m	2006 £m
Non-current		
Finance leases – gross receivables	603.9	595.6
Unearned finance income	(368.0)	(391.1)
Unguaranteed residual value	26.5	29.4
	262.4	233.9
Current		
Finance leases – gross receivables	14.6	14.8
Unearned finance income	(10.9)	(10.6)
	3.7	4.2
Total net investment in finance leases	266.1	238.1

14. Net investment in finance leases continued

	2007 £m	2006 £m
Gross receivables from finance leases:		
Not later than one year	14.6	14.8
Later than one year but not more than five years	116.7	72.5
More than five years	487.2	523.1
	618.5	610.4
Unearned future finance income	(378.9)	(401.7)
Unguaranteed residual value	26.5	29.4
Net investment in finance leases	266.1	238.1

The Group has leased out a number of investment properties under finance leases ranging between 15 and 100 years in duration. These are accounted for as finance lease receivables rather than investment properties. The fair value of the Group's finance lease receivables approximates to the carrying amount.

15. Goodwill

	2007 £m	2006 £m
At the beginning of the year	34.3	34.3
Arising on acquisitions during the year (note 35)	83.2	64.5
Transferred on acquisition of a joint venture (note 17)	12.1	–
Impaired during the year	–	(64.5)
At the end of the year	129.6	34.3
Represented by:		
Gross goodwill recognised	214.5	119.2
Total accumulated impairment losses	(84.9)	(84.9)
	129.6	34.3

The goodwill carried in the Group balance sheet relates entirely to the Group's Property Partnership business. It comprises £71.5m in respect of the SMIF management companies, £23.8m in respect of IIC, and £34.3m from the original acquisition of Land Securities Trillium.

Impairment has been tested by comparing the carrying amount of each business' assets and liabilities with its recoverable amount, being its value in use. The latter has been calculated by reference to the cash flow projections for each business for its major contracts and covering the entire term of the contracts concerned. The main assumptions underlying the forecasts are the relative inflation rates applying to costs and revenues and the amount of expenditure required for the business' to fulfil their service level commitments and the vacation rate under the DWP contract; and the volume of new business for SMIF management companies and IIC. The cash flows are discounted at a rate reflecting market assessments of the time value of money and the risks specific to each business. The discount rate used for the 2007 test was 6.5%. With effect from 1 April 2007, the Property Partnership business has been restructured and goodwill will be tested for impairment for the business as a whole.

During the prior year, the Group acquired 100% of Tops Estates PLC. The fair value exercise gave rise to goodwill of £64.5m. The goodwill arises primarily from the difference between how deferred tax was calculated for accounting purposes and the value ascribed to it in negotiations. The former was based on the difference between the values of the assets and liabilities concerned for accounts purposes and those applying for taxation. The latter was based on tax payments likely to be made. In the Group's opinion, the carrying amount of this goodwill could not be justified by reference to future cash flows and it was accordingly impaired.

16. Investments in subsidiary undertakings

Company	2007 £m	2006 £m
At the beginning and at the end of the year (at cost)	5,037.1	5,037.1

Certain subsidiaries and joint ventures have non-coterminous year ends. In these circumstances, management accounts prepared to 31 March 2007 are used for the purposes of the Group consolidation.

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The principal Group undertakings, all of which are wholly owned, either directly by the Company or through a fellow subsidiary undertaking, and its joint ventures, which are 50% owned (with the exception of The Bull Ring Limited Partnership which is 33% owned), are:

Wholly owned subsidiary undertakings

Group operations
Land Securities Properties Limited

Property Partnerships
Land Securities Trillium Limited

Investment property business
Land Securities Intermediate Limited
Land Securities Property Holdings Limited
Ravenseft Properties Limited
The City of London Real Property Company Limited
Ravenside Investments Limited

Joint ventures

Scottish Retail Property Limited Partnership
Metro Shopping Fund LP
Buchanan Galleries Partnership
The Bull Ring Limited Partnership
Bristol Alliance
St David's Limited Partnership

All principal subsidiary undertakings operate in Great Britain and are registered in England.

A full list of subsidiary undertakings at 31 March 2007 will be appended to the Company's next annual return.

17. Investments in joint ventures

Year ended 31/03/07 and at 31/03/07

Summary financial information of Group's share of joint ventures	Scottish Retail Property Limited Partnership £m	Metro Shopping Fund LP £m	Buchanan Galleries Partnership £m	St David's Limited Partnership £m	Martineau Galleries Limited Partnership £m	The Bull Ring Limited Partnership £m	Bristol Alliance £m	Other[1] £m	Telereal £m	Total £m
Income statement										
Rental income	20.6	13.3	10.2	2.0	1.4	15.1	3.3	1.7	–	67.6
Service charges income	4.5	3.2	1.4	0.2	0.3	2.6	–	0.2	–	12.4
Property services income	–	–	–	–	–	–	–	1.6	–	1.6
Trading property sale proceeds	–	–	–	–	–	–	–	–	–	–
Revenue	25.1	16.5	11.6	2.2	1.7	17.7	3.3	3.5	–	81.6
Rents payable	(0.2)	–	–	–	(0.1)	–	–	–	–	(0.3)
Other direct property expenditure	(8.4)	(4.3)	(2.4)	(0.4)	(0.8)	(4.5)	(0.2)	(3.8)	–	(24.8)
Indirect property expenditure	(1.4)	(1.0)	(0.1)	–	–	(0.2)	(0.1)	(0.9)	–	(3.7)
Cost of sales of trading properties	–	–	–	–	–	–	–	–	–	–
Depreciation	–	–	–	–	–	–	–	(0.1)	–	(0.1)
	15.1	11.2	9.1	1.8	0.8	13.0	3.0	(1.3)	–	52.7
Profit on disposal of non-current properties	–	–	–	–	–	–	–	0.2	–	0.2
Net surplus on revaluation of investment properties	6.3	23.0	10.2	2.6	2.0	23.8	6.9	0.3	–	75.1
Operating profit/(loss)	21.4	34.2	19.3	4.4	2.8	36.8	9.9	(0.8)	–	128.0
Net finance (costs)/income	(11.7)	(10.9)	(3.4)	0.2	0.2	0.1	0.4	(0.4)	–	(25.5)
Profit/(loss) before tax	9.7	23.3	15.9	4.6	3.0	36.9	10.3	(1.2)	–	102.5
Income tax (expense)/credit – ordinary	(2.7)	(6.2)	(3.5)	(1.2)	(0.6)	(5.6)	(1.1)	(0.3)	–	(21.2)
– exceptional	17.7	16.9	6.9	1.2	1.9	44.9	8.1	0.4	–	98.0
Profit/(loss) after tax	24.7	34.0	19.3	4.6	4.3	76.2	17.3	(1.1)	–	179.3
Adjustment due to net liabilities	–	–	–	–	–	–	–	–	–	–
Share of profits/(losses) of joint ventures after tax	**24.7**	**34.0**	**19.3**	**4.6**	**4.3**	**76.2**	**17.3**	**(1.1)**	**–**	**179.3**
Distribution received from Telereal									–	–
Balance sheet										
Investment properties[2]	357.2	301.0	185.1	213.2	25.0	319.6	197.3	32.9	–	1,631.3
Current assets	15.2	9.8	7.5	116.3	3.0	10.7	15.5	27.1	–	205.1
	372.4	310.8	192.6	329.5	28.0	330.3	212.8	60.0	–	1,836.4
Current liabilities	(4.5)	(5.2)	(4.0)	(21.2)	(0.6)	(9.2)	(11.8)	(5.3)	–	(61.8)
Non-current liabilities	(222.1)	(210.3)	–	(0.2)	–	–	(2.4)	(0.8)	–	(435.8)
Deferred tax	–	–	–	–	–	–	–	–	–	–
	(226.6)	(215.5)	(4.0)	(21.4)	(0.6)	(9.2)	(14.2)	(6.1)	–	(497.6)
Net assets	**145.8**	**95.3**	**188.6**	**308.1**	**27.4**	**321.1**	**198.6**	**53.9**	**–**	**1,338.8**
Capital commitments	**0.6**	**1.1**	**1.3**	**1.9**	**–**	**–**	**129.3**	**–**	**–**	**134.2**
Market value of investment properties[2]	**351.4**	**299.3**	**189.3**	**213.3**	**26.2**	**325.0**	**200.5**	**32.7**	**–**	**1,637.7**
Net investment										
At 1 April 2006	105.2	81.0	173.0	0.8	23.1	259.3	118.5	68.6	–	829.5
Properties contributed	–	–	–	267.6	–	–	–	–	–	267.6
Cash contributed	9.5	6.8	1.4	35.1	–	0.3	–	2.5	–	55.6
Cost of acquisition	–	–	–	–	–	–	–	0.5	–	0.5
Share of post-tax results	24.7	34.0	19.3	4.6	4.3	76.2	17.3	(1.1)	–	179.3
Adjustment to restate the Group's share of Telereal's earnings from an equity to a distribution basis	–	–	–	–	–	–	–	–	–	–
Distributions	–	(29.6)	(5.1)	–	–	–	–	(4.5)	–	(39.2)
Fair value movement on cash flow hedges taken to equity	6.4	3.1	–	–	–	–	–	–	–	9.5
Transferred to goodwill	–	–	–	–	–	–	–	(12.1)	–	(12.1)
Loan advances	–	–	–	–	–	–	67.0	–	–	67.0
Loan repayments	–	–	–	–	–	(14.7)	(4.2)	–	–	(18.9)
At 31 March 2007	**145.8**	**95.3**	**188.6**	**308.1**	**27.4**	**321.1**	**198.6**	**53.9**	**–**	**1,338.8**

1. Other principally includes the Martineau Limited Partnership, the Ebbsfleet Limited Partnership, the A2 Limited Partnership and Investors in the Community (IIC).
2. The difference between the book value and the market value is the amount included in prepayments in respect of lease incentives, head leases capitalised and properties treated as finance leases.

17. Investments in joint ventures continued

Year ended 31/03/06 and at 31/03/06

Summary financial information of Group's share of joint ventures	Scottish Retail Property Limited Partnership £m	Metro Shopping Fund LP £m	Buchanan Galleries Partnership £m	Parc Tawe £m	Martineau Galleries Limited Partnership £m	The Bull Ring Limited Partnership £m	Bristol Alliance £m	Other[1] £m	Telereal £m	Total £m
Income statement										
Rental income	20.8	11.8	9.1	0.5	1.3	14.6	3.5	0.5	–	62.1
Service charges income	4.8	2.3	1.5	–	0.4	2.1	–	–	–	11.1
Property services income	–	–	–	–	–	–	–	–	80.8	80.8
Trading property sale proceeds	–	–	–	–	–	–	–	–	5.5	5.5
Revenue	25.6	14.1	10.6	0.5	1.7	16.7	3.5	0.5	86.3	159.5
Rents payable	–	–	–	–	(0.1)	–	–	–	(17.1)	(17.2)
Other direct property expenditure	(8.8)	(3.2)	(2.5)	(0.1)	(1.2)	(4.0)	(0.5)	–	–	(20.3)
Indirect property expenditure	(1.0)	(0.6)	(0.1)	–	–	(0.3)	(0.3)	–	(7.6)	(9.9)
Cost of sales of trading properties	–	–	–	–	–	–	–	–	(1.3)	(1.3)
Depreciation	–	–	–	–	–	–	–	–	(7.1)	(7.1)
	15.8	10.3	8.0	0.4	0.4	12.4	2.7	0.5	53.2	103.7
(Loss)/profit on disposal of non-current properties	–	–	–	–	–	(0.2)	–	0.1	0.9	0.8
Net surplus/(deficit) on revaluation of investment properties	20.7	23.2	14.4	0.1	(0.3)	31.3	15.7	0.4	–	105.5
Operating profit	36.5	33.5	22.4	0.5	0.1	43.5	18.4	1.0	54.1	210.0
Net finance (costs)/income	(10.8)	(9.4)	(4.3)	–	0.1	0.1	0.3	(0.3)	(32.9)	(57.2)
Profit before tax	25.7	24.1	18.1	0.5	0.2	43.6	18.7	0.7	21.2	152.8
Income tax (expense)/credit – ordinary	(6.5)	(7.8)	(4.3)	–	0.1	(9.7)	(4.7)	(0.1)	(4.5)	(37.5)
– exceptional	–	–	–	–	–	–	–	–	–	–
Profit after tax	19.2	16.3	13.8	0.5	0.3	33.9	14.0	0.6	16.7	115.3
Adjustment due to net liabilities	–	–	–	–	–	–	–	–	(16.7)	(16.7)
Share of profits of joint ventures after tax	**19.2**	**16.3**	**13.8**	**0.5**	**0.3**	**33.9**	**14.0**	**0.6**	**–**	**98.6**
Distribution received from Telereal									**11.7**	**11.7**
Balance sheet										
Investment properties[2]	345.3	275.9	173.9	21.4	22.8	297.2	120.7	11.2	–	1,268.4
Current assets	12.0	7.8	6.6	3.9	2.0	10.6	16.3	39.0	–	98.2
	357.3	283.7	180.5	25.3	24.8	307.8	137.0	50.2	–	1,366.6
Current liabilities	(17.7)	(8.5)	(4.2)	(0.4)	(0.4)	(4.9)	(9.2)	(5.6)	–	(50.9)
Non-current liabilities	(221.2)	(184.0)	–	–	–	–	(2.4)	–	–	(407.6)
Deferred tax	(13.2)	(10.2)	(3.3)	–	(1.3)	(43.6)	(6.9)	(0.1)	–	(78.6)
	(252.1)	(202.7)	(7.5)	(0.4)	(1.7)	(48.5)	(18.5)	(5.7)	–	(537.1)
Net assets	**105.2**	**81.0**	**173.0**	**24.9**	**23.1**	**259.3**	**118.5**	**44.5**	**–**	**829.5**
Capital commitments	**–**	**–**	**–**	**–**	**–**	**–**	**153.2**	**–**	**–**	**153.2**
Market value of investment properties[2]	**339.2**	**274.1**	**177.5**	**21.4**	**23.8**	**303.0**	**123.7**	**11.2**	**–**	**1,273.9**
Net investment										
At 1 April 2005	293.6	39.6	163.5	–	23.5	238.2	82.0	14.5	–	854.9
Properties contributed	–	–	–	–	–	–	–	6.4	–	6.4
Cash contributed	–	24.7	–	24.8	–	–	–	0.8	–	50.3
Cost of acquisition	–	–	–	–	–	–	–	26.5	–	26.5
Share of post-tax results	19.2	16.3	13.8	0.5	0.3	33.9	14.0	0.6	16.7	115.3
Adjustment to restate the Group's share of Telereal's earnings from an equity to a distribution basis	–	–	–	–	–	–	–	–	(5.0)	(5.0)
Distributions	(185.9)	(1.5)	(4.3)	(0.4)	(1.5)	–	–	(1.3)	(11.7)	(206.6)
Fair value movement on cash flow hedges taken to equity	(1.8)	(0.1)	–	–	–	–	–	–	–	(1.9)
Loan advances	–	2.0	–	–	0.8	–	27.5	–	–	30.3
Loan repayments	(19.9)	–	–	–	–	(12.8)	(5.0)	(3.0)	–	(40.7)
At 31 March 2006	**105.2**	**81.0**	**173.0**	**24.9**	**23.1**	**259.3**	**118.5**	**44.5**	**–**	**829.5**

1. Other principally includes the Martineau Limited Partnership, the Ebbsfleet Limited Partnership, the A2 Limited Partnership and Investors in the Community (IIC).
2. The difference between the book value and the market value is the amount included in prepayments in respect of lease incentives, head leases capitalised and properties treated as finance leases.

18. Trading properties and long-term development contracts

	2007 £m	2006 £m
Trading properties	148.3	163.5
Amount recoverable under long-term development contracts less payments on account	–	92.4
	148.3	255.9
The amounts for contracts in progress at the balance sheet date are as follows:		
Contract revenue recognised as revenue in the year	80.7	174.1
Contract costs incurred and recognised profits (less recognised losses) to date	494.8	414.0
Advances received	(504.1)	(339.0)
	(9.3)	75.0
Plus: gross amount due to customers for contract work (included in accruals and deferred income)	9.3	17.4
Gross amount due from customers for contract work	–	92.4

19. Trade and other receivables

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade receivables – Property investment	26.4	27.1	–	–
– Property Partnerships	96.2	107.4	–	–
Property sales receivables	78.6	145.2	–	–
Other receivables	100.5	61.4	–	–
Prepayments and accrued income	336.4	233.6	–	–
Finance leases receivable within one year (note 14)	3.7	4.2	–	–
Loans to Group undertakings	–	–	5.5	142.7
	641.8	578.9	5.5	142.7

Trade receivables are net of provisions for doubtful debts of **£15.2m** (2006: £12.6m).

20. Cash and cash equivalents

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Cash at bank and in hand	32.4	5.1	5.0	5.0
Short-term deposits	20.3	10.5	–	–
	52.7	15.6	5.0	5.0

The effective interest rate on short-term deposits was **8.0%** (2006: 4.6%) and the deposits have an average maturity of **30** days (2006: 2 days).

21. Non-current assets classified as held for sale

	2007 £m	2006 £m
Non-current assets classified as held for sale	2,420.3	–
Liabilities directly associated with non-current assets classified as held for sale	(1,601.0)	–
	819.3	–

SMIF was acquired on 5 February 2007 for £517.0m. SMIF includes a number of PPP contracts which the Group acquired exclusively with a view to being resold to third-party investors, while maintaining a minority share. The Group announced at the time of the acquisition that these PPP contracts would be sold, and an Investment Bank has been appointed to execute the disposal strategy. The PPP contracts are available for immediate sale in their present condition, although a new fund or similar vehicle may be created for the purposes of the disposal. The expected timetable for the completion of the divestment is October to December 2007. Accordingly, these PPP contracts have been designated as a disposal group. The net carrying value of the disposal group is based on its fair value less costs to sell at the date of acquisition, as adjusted to reflect cash advanced to the disposal group to enable it to repay external debt (£397.6m) and cash returned from the disposal group prior to the year end (£25.0m). The disposal group represents a discontinued operation, and the Group has not recognised any profits or losses in respect of this discontinued operation for the period from acquisition to 31 March 2007. SMIF is held in the Property Partnerships segment.

22. Short-term borrowings and overdrafts

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Borrowings falling due within one year (note 25)	1,687.4	176.1	–	–
Overdrafts	–	–	61.9	34.0
Bond exchange de-recognition adjustment falling due within one year (note 25)	(6.3)	(15.6)	–	–
Amounts payable under finance leases falling due within one year (notes 25 and 28)	2.1	3.1	–	–
	1,683.2	163.6	61.9	34.0

Where the Group operates a notional cash pooling arrangement the cash and overdraft balances are netted off.

Financial Statements

23. Trade and other payables

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade payables	26.7	42.9	–	–
Capital payables	77.9	85.2	–	–
Other payables	37.7	28.2	–	–
Accruals and deferred income	526.6	428.7	–	–
Loans from joint venture	115.0	–	–	–
Loans from Group undertakings	–	–	50.8	–
	783.9	585.0	50.8	–

Capital payables represent amounts due under contracts to purchase properties, which were unconditionally exchanged at the year end, and for work completed on investment properties but not paid for at the financial year end. Deferred income principally relates to rents received in advance.

24. Provisions

	Dilapidations £m	Onerous leases £m	Other £m	Total £m
At 1 April 2005	22.7	–	19.3	42.0
Charged to income statement for the year	1.9	25.0	8.9	35.8
Utilised in the year	(1.5)	(5.2)	(12.9)	(19.6)
At 31 March 2006	23.1	19.8	15.3	58.2
Charged/(credited) to income statement for the year	5.9	(0.5)	7.1	12.5
Release of discount charged to net finance costs (note 6)	–	1.0	–	1.0
Utilised in the year	(8.1)	(4.7)	(2.4)	(15.2)
On acquisition of Royal Mail property portfolio	–	24.2	–	24.2
At 31 March 2007	20.9	39.8	20.0	80.7

Dilapidations

Provision for dilapidations is made in respect of certain leasehold properties where the Group anticipates incurring future expenditure at the end of the lease. The provision is calculated on those leases that expire within the next five years or where the lease has already expired and the liability has not yet been settled. The amounts provided are based on the current estimate of the future costs determined on the basis of the present condition of the relevant properties. Settlement of the amounts provided occurs once agreement is reached with the parties to the lease.

Onerous leases

An onerous lease provision is established in respect of leasehold properties that are unoccupied or the expected future rental income is not expected to meet the Group's rental obligations. The provisions are based on assumptions about expected future rentals and voids. This provision will be settled as the net rental obligations develop. The provision may vary based on reassessment of the relevant assumptions as circumstances change and new obligations are established.

Other

Other provisions include liabilities arising from the contractual arrangements with clients that include specific performance measurement targets and life cycle capital expenditure requirements. Settlement of the amounts provided follows agreement with the clients. It is expected that most of the other provisions will be utilised within the next three years.

25. Borrowings

		Book value							At 31/03/07
	Nominal/ notional value[7] £m	Secured £m	Unsecured £m	Total £m	Fixed/ floating[9]	Effective interest rate %	Weighted average time for which interest rate is fixed Years	Fair value[10] £m	Excess of fair value over book value £m
Sterling									
5.016 per cent Notes due 2007[1]	181.7	181.7	–	181.7	Fixed	5.0	0.1	181.6	(0.1)
4.625 per cent Notes due 2013[1]	300.0	299.6	–	299.6	Fixed	4.6	5.9	288.5	(11.1)
5.292 per cent Notes due 2015[1]	391.5	390.7	–	390.7	Fixed	5.3	8.7	384.3	(6.4)
4.875 per cent Notes due 2019[1]	400.0	395.7	–	395.7	Fixed	4.9	12.6	379.1	(16.6)
5.425 per cent Notes due 2022[1]	255.3	254.4	–	254.4	Fixed	5.4	15.0	255.4	1.0
4.875 per cent Notes due 2025[1]	300.0	296.9	–	296.9	Fixed	4.9	18.0	286.2	(10.7)
5.391 per cent Notes due 2026[1]	210.7	209.8	–	209.8	Fixed	5.4	18.9	213.2	3.4
5.391 per cent Notes due 2027[1]	611.3	608.3	–	608.3	Fixed	5.4	20.0	614.8	6.5
5.376 per cent Notes due 2029[1]	317.9	316.2	–	316.2	Fixed	5.4	22.5	324.5	8.3
5.396 per cent Notes due 2032[1]	322.9	321.0	–	321.0	Fixed	5.4	25.4	331.3	10.3
5.125 per cent Notes due 2036[1]	500.0	498.4	–	498.4	Fixed	5.1	28.9	498.0	(0.4)
Bank facility due 2010	15.5	15.5	–	15.5	Floating	5.7	0.1	15.5	–
Euro Commercial Paper[2]	139.2	–	139.2	139.2	Floating	5.4	–	139.2	–
DWP term loan[3]	173.1	173.1	–	173.1	Floating	5.7	0.5	173.1	–
Syndicated bank debt[4]	183.0	183.0	–	183.0	Floating	5.5	–	183.0	–
Bilateral facility[5]	885.6	885.6	–	885.6	Floating	5.9	0.4	885.6	–
Acquisition loan notes[6]	114.4	–	114.4	114.4	Floating	4.4	0.5	114.4	–
Money market borrowings	192.0	–	192.0	192.0	Floating	5.5	0.1	192.0	–
	5,494.1	5,029.9	445.6	5,475.5				5,459.7	(15.8)
Euro - Bilateral facility	26.9	26.9	–	26.9	Floating	4.0	0.2	26.9	–
- Euro Commercial Paper[2]	41.1	–	41.1	41.1	Floating	5.6	0.3	41.1	–
	68.0	26.9	41.1	68.0				68.0	–
Swiss Francs - Euro Commercial Paper[2]	21.0	–	21.0	21.0	Floating	5.5	–	21.0	–
Yen - Euro Commercial Paper[2]	38.8	–	38.8	38.8	Floating	5.4	–	38.8	–
Amounts payable under finance leases (note 28)	71.0	71.0	–	71.0	Fixed	5.5	86.9	79.2	8.2
	5,692.9	5,127.8	546.5	5,674.3				5,666.7	(7.6)
Fair value of derivative instruments									
Interest rate swaps – qualifying hedges	195.6	–	(2.4)	(2.4)		4.9	3.2	(2.4)	–
– non-qualifying hedges	1,205.0	–	(12.0)	(12.0)		5.1	10.1	(12.0)	–
Foreign currency swaps – qualifying hedges	100.9	–	(0.2)	(0.2)		5.8	0.3	(0.2)	–
	1,501.5	–	(14.6)	(14.6)				(14.6)	–
Bond exchange de-recognition adjustment[8]		(519.1)	–	(519.1)				–	519.1
Total borrowings		4,608.7	531.9	5,140.6				5,652.1	511.5

Less: borrowings falling due within one year (note 22)	(1,687.4)
Plus: bond exchange de-recognition falling due within one year (note 22)	6.3
Less: amounts payable under finance leases falling due within one year (notes 22 and 28)	(2.1)
	3,457.4

Notes:

1. The Notes and the committed bank facilities are secured on a fixed and floating pool of assets (The Security Group). This grants the Group's investors security over a pool of investment properties valued at **£11.6bn** at 31 March 2007 (2006: £9.4bn). The amount borrowed against these assets was **£5,126.9m** (2006: £3,741.3m). The secured debt structure has a tiered covenant regime which gives the Group substantial operational flexibility when the loan to value and interest rate cover in The Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded, operational restrictions increase significantly and could act as an incentive to reduce gearing.
2. Euro Commercial Paper is unsecured. However, the amount drawn is required to be supported by an unutilised committed bank facility, which is a secured facility.
3. The DWP term loan was refinanced in December 2006 and expires in December 2017. It is secured on the freehold and long leasehold properties acquired from the Department for Work and Pensions. The carrying amount of the properties concerned was **£380.4m** at 31 March 2007 (2006: £388.1m).
4. At 31 March 2007, the Group had a £1.5bn syndicated bank facility. In August 2006, the Group refinanced its syndicated bank facility with the effect of extending its maturity to August 2013. The facility is committed and secured on the assets of the Security Group. The maturity profile is calculated on the basis that it is the Group's intention to retain the existing loans or that the existing loans will be refinanced or rescheduled with the same financial institutions under the terms of the facility.
5. In December 2006 the Group entered into a £1.0bn bilateral facility relating to the acquisition of SMIF, which is due to mature in December 2007, although the Group has an option to extend it by a further year. The facility is committed and secured on the assets of The Security Group. This debt has been classified as maturing within one year as this is the Group's current intention.
6. The acquisition loan notes were issued by Retail Property Holdings Trust Limited, a subsidiary of the Group, as partial consideration for the purchase of Tops Estates PLC and the LxB portfolio. The notes are unsecured, however they have the benefit of a commercial bank guarantee. Interest is calculated with reference to six month LIBOR. The notes are due to be redeemed in 2015, however the holders of the notes can request redemption in full at the next interest payment date with at least 30 days notice. Accordingly, the notes have been classified as current liabilities. In the prior year, these notes which had a carrying value of £122.8m, were shown as non-current liabilities but the comparatives in these accounts have been amended to show them as current.
7. For foreign currency amounts, the nominal/notional value is the Sterling equivalent of the principal amount at 31 March.
8. On 3 November 2004, a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new Notes. The new Notes do not meet the IAS 39 requirement to be substantially different from the debt that it replaced. Consequently the book value of the new Notes is reduced to the book value of the original debt (the bond exchange de-recognition adjustment). The adjustment will be amortised to zero over the life of the new Notes.
9. Before the effect of derivative instruments.
10. The Group's Notes are listed on the Irish Stock Exchange and their fair values are based on their respective market prices. The fair value of interest rate swaps is based on the market price of comparable instruments at the balance sheet date. The fair values of short-term deposits, loans and overdrafts are assumed to approximate to their book values, as are the values of longer-term, floating rate bank loans.

25. Borrowings continued

At 31/03/06

	Nominal/notional value[7] £m	Book value Secured £m	Book value Unsecured £m	Book value Total £m	Fixed/floating[9]	Effective interest rate %	Weighted average time for which interest rate is fixed Years	Fair value[10] £m	Excess of fair value over book value £m
Sterling									
5.016 per cent Notes due 2007[1]	181.7	181.6	–	181.6	Fixed	5.0	1.1	186.0	4.4
4.625 per cent Notes due 2013[1]	300.0	299.5	–	299.5	Fixed	4.6	6.9	298.2	(1.3)
5.292 per cent Notes due 2015[1]	391.5	390.6	–	390.6	Fixed	5.3	9.7	406.4	15.8
4.875 per cent Notes due 2019[1]	400.0	395.4	–	395.4	Fixed	4.9	13.6	404.5	9.1
5.425 per cent Notes due 2022[1]	255.3	254.3	–	254.3	Fixed	5.4	16.0	268.3	14.0
5.391 per cent Notes due 2026[1]	210.7	209.7	–	209.7	Fixed	5.4	19.9	226.0	16.3
5.391 per cent Notes due 2027[1]	611.3	608.2	–	608.2	Fixed	5.4	21.0	655.3	47.1
5.376 per cent Notes due 2029[1]	317.9	316.2	–	316.2	Fixed	5.4	23.5	343.4	27.2
5.396 per cent Notes due 2032[1]	322.9	320.9	–	320.9	Fixed	5.4	26.4	353.2	32.3
Bank facility due 2010	15.5	15.4	–	15.4	Floating	5.3	0.1	15.4	–
DWP term loan[3]	260.0	248.8	–	248.8	Floating	4.7	0.5	260.0	11.2
Syndicated bank debt[4]	750.0	748.4	–	748.4	Floating	5.0	–	750.0	1.6
Acquisition loan notes[6]	122.8	–	122.8	122.8	Floating	4.5	0.5	122.8	–
Money market borrowings	43.6	–	43.6	43.6	Floating	5.1	–	43.6	–
	4,183.2	3,989.0	166.4	4,155.4				4,333.1	177.7
Amounts payable under finance leases (note 28)	74.6	74.6	–	74.6	Fixed	5.5	85.2	85.2	10.6
	4,257.8	4,063.6	166.4	4,230.0				4,418.3	188.3
Fair value of derivative instruments									
Interest rate swaps – qualifying hedges	243.2	–	4.3	4.3		4.9	2.8	4.3	–
– non-qualifying hedges	615.0	–	3.4	3.4		5.1	4.3	3.4	–
	858.2	–	7.7	7.7				7.7	–
Bond exchange de-recognition adjustment[8]		(536.2)	–	(536.2)				–	536.2
Total borrowings		3,527.4	174.1	3,701.5				4,426.0	724.5

Less: borrowings falling due within one year (note 22)	(176.1)
Plus: bond exchange de-recognition falling due within one year (note 22)	15.6
Less: amounts payable under finance leases falling due within one year (notes 22 and 28)	(3.1)
	3,537.9

The interest rate and currency profiles of the Group's borrowings, after taking into account the effect of the foreign currency swaps and interest rate swaps, are set out below:

	2007 Fixed rate £m	2007 Floating rate £m	2007 Total £m	2006 Fixed rate £m	2006 Floating rate £m	2006 Total £m
Sterling	5,439.8	207.6	5,647.4	3,909.2	320.8	4,230.0
Euro	–	26.9	26.9	–	–	–
	5,439.8	234.5	5,674.3	3,909.2	320.8	4,230.0

The maturity profiles of the Group's borrowings are as follows:

	2007 Fixed rate £m	2007 Floating rate £m	2007 Total £m	2006 Fixed rate £m	2006 Floating rate £m	2006 Total £m
One year or less, or on demand	1,457.2	234.5	1,691.7	12.5	166.4	178.9
More than one year but no more than two years	2.3	–	2.3	196.5	–	196.5
More than two years but no more than five years	22.0	–	22.0	71.6	–	71.6
More than five years	3,958.3	–	3,958.3	3,628.6	154.4	3,783.0
	5,439.8	234.5	5,674.3	3,909.2	320.8	4,230.0

The expiry periods of the Group's undrawn committed borrowing facilities are:

	2007 £m	2006 £m
More than two years but no more than five years	2.0	1,252.0
More than five years	1,317.0	–
	1,319.0	1,252.0

The undrawn committed borrowing facilities are required to support the Euro Commercial Paper.

25. Borrowings continued

The maturity profiles of the Group's derivative instruments are as follows:

	2007			2006		
	Interest rate swaps £m	Foreign currency swaps £m	Total £m	Interest rate swaps £m	Foreign currency swaps £m	Total £m
One year or less	274.9	100.9	375.8	17.2	–	17.2
More than one year but no more than two years	178.9	–	178.9	246.7	–	246.7
More than two years but no more than five years	867.3	–	867.3	458.6	–	458.6
More than five years	79.5	–	79.5	135.7	–	135.7
	1,400.6	100.9	1,501.5	858.2	–	858.2

Financial risk management

Financial risk factors

The Group's operations and debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, credit, liquidity and currency risks and interest rates.

Interest rate risk

The Group uses interest rate swaps and similar instruments (forward rate agreements, forward starting swaps and gilt locks) to manage its interest rate exposure. With property and interest rate cycles typically of four to seven years duration, the Group's target is to have a minimum of 80% of anticipated debt at fixed rates of interest and 20% floating over this timeframe. Due to a combination of factors, principally the high level of certainty required under IAS 39 'Financial Instruments: Recognition and Measurement', hedging instruments used in this context do not qualify for hedge accounting.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, finance lease receivables and short-term investments. The Group's credit risk is primarily attributable to its trade and finance lease receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned. The credit risk on liquid funds and derivative financial instruments is limited due to the Group's policy of monitoring counterparty exposures. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties.

Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the Group has sufficient available funds for operations and planned future investments.

Currency risk

The Group is able to issue Commercial Paper in currencies other than Sterling. In such cases, currency swaps are taken out to fix the Sterling value of the debt.

26. Net pension benefit obligations

Defined benefit schemes

Land Securities Scheme

The Pension & Assurance Scheme of the Land Securities Group of Companies (the Scheme) is the most significant defined benefit pension scheme of the Group. The Scheme is a wholly funded scheme, and the assets of the Scheme are held in a self-administered trust fund which is separate from the Group's assets.

Contributions to the Scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. As the Scheme is closed to new members, the current service cost will be expected to increase as a percentage of salary, under the projected unit method, as members approach retirement.

A full actuarial valuation of the Land Securities Scheme was undertaken on 1 July 2005 by the independent actuaries, Hymans Robertson Consultants & Actuaries. This valuation, and the latest formal valuation of the Trillium Plan, was updated to 31 March 2007.

As a result of the valuation performed on 1 July 2005, the actuary recommended that the employer contributions of 30% of pensionable salary be continued together with additional employer contributions to address the deficit.

Contributory money purchase scheme

A contributory money purchase scheme was introduced on 1 January 1999 for all new administrative and senior property based employees, subject to eligibility, together with a separate similar scheme, effective 1 April 1998, for other property based employees. A further separate similar scheme, previously set up by Trillium, is also in operation for Land Securities Trillium employees.

Pension costs for defined contribution schemes are as follows:

Group	2007 £m	2006 £m
Defined contribution schemes	1.8	1.7

All death-in-service and benefits for incapacity arising during employment are wholly insured. No post retirement benefits other than pensions are made available to employees of the Group.

26. Net pension benefit obligations continued

The major assumptions used in the valuation, were (in nominal terms):

	2007 %	2006 %
Rate of increase in pensionable salaries	3.25*	3.25*
Rate of increase in pensions in payment	3.25	3.00
Discount rate	5.40	4.90
Inflation	3.25	3.00
Expected return on plan assets	6.14	5.90

*Plus an allowance of 1.25% per annum for promotional salary increases in respect of employee members of the Trillium Plan.

The expected return on plan assets is based on expectations for bonds and equities. At the year end, the expected return on bonds is based on market yields of long dated bonds at that date. The estimated expected return on equities includes an additional equity risk premium.

The mortality assumptions used in this valuation were:

	2007 years	2006 years
Life expectancy at age 60 for current pensioners – Men	28.4	26.6
– Women	31.5	29.5
Life expectancy at age 60 for future pensioners (current age 40) – Men	29.6	27.8
– Women	32.6	30.6

The fair value of the assets in the schemes (including annuities purchased to provide certain pensions in payment) and the expected rate of return (net of investment management expenses) were:

	2007 %	2006 %	2005 %	2007 £m	2006 £m	2005 £m
Equities	7.50	7.50	7.50	70.8	64.1	48.7
Bonds and insurance contracts	4.80	4.60	5.00	71.6	82.9	62.3
Other	5.25	4.50	4.75	2.0	3.0	14.7
Fair value of schemes' assets				144.4	150.0	125.7
Present value of schemes' liabilities				(150.0)	(156.5)	(136.6)
Deficit in the schemes				(5.6)	(6.5)	(10.9)
Related deferred tax asset				0.4	2.0	3.3
Net pension liability				(5.2)	(4.5)	(7.6)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2007 %	2006 %
Equities	49	43
Bonds and insurance contracts	49	55
Other	2	2

The plan assets do not include any directly owned financial instruments issued by Land Securities Group PLC. Indirectly owned financial instruments had a fair value of less than £0.2m.

Analysis of the amounts charged/(credited) to the income statement	2007 £m	2006 £m
Analysis of the amount charged /(credited) to operating profit		
Current service cost	2.7	3.9
Past service credit	–	(8.3)
Charge/(credit) to operating profit	2.7	(4.4)
Analysis of amount (credited)/charged to interest expense		
Expected return on plan assets	(8.6)	(7.3)
Interest on schemes' liabilities	7.6	7.2
Net return	(1.0)	(0.1)

During the year ended 31 March 2006, the Group introduced amendments to the main scheme, which were adopted by the Trustees for active members who had given their consent. As a result, the accrued entitlement of the active members at 31 March 2006 has been linked to inflation, with future benefits according to annual earnings. The effect of this change was a reduction of £8.3m in the Group's pension liability associated with funding future anticipated salary increases.

26. Net pension benefit obligations continued

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2% or £3.0m
Rate of mortality	Increase by 1 year	Increase by 2.5% or £3.8m

Changes in the present value of the defined benefit obligation	2007 £m	2006 £m
At the beginning of the year	156.5	136.6
Current service cost	2.7	3.9
Past service credit	–	(8.3)
Interest cost	7.6	7.2
Actuarial (gains)/losses	(1.3)	20.5
Benefits paid	(15.6)	(3.6)
Contributions by plan participants	0.1	0.2
At the end of the year	150.0	156.5

Changes in the fair value of plan assets	2007 £m	2006 £m
At the beginning of the year	150.0	125.7
Expected return on plan assets	8.6	7.3
Employer contributions	3.9	4.9
Actuarial (losses)/gains	(2.6)	15.5
Benefits paid	(15.6)	(3.6)
Contributions by plan participants	0.1	0.2
At the end of the year	144.4	150.0

Analysis of the movement in the balance sheet deficit	2007 £m	2006 £m
At the beginning of the year	6.5	10.9
Charge/(credit) to operating profit	2.7	(4.4)
Expected return on plan assets	(8.6)	(7.3)
Interest on schemes' liabilities	7.6	7.2
Employer contributions	(3.9)	(4.9)
Actuarial losses	1.3	5.0
At the end of the year	5.6	6.5

Analysis of the amounts recognised in the statement of recognised income and expense	2007 £m	2006 £m
Analysis of gains and losses		
Actual return less expected return on schemes' assets	(2.6)	15.5
Experience gains and losses arising on schemes' liabilities	1.3	(20.5)
Actuarial losses	(1.3)	(5.0)

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense.

History of experience gains and losses	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Experience adjustments arising on schemes' assets					
Amount	(2.6)	15.5	3.1	13.7	(16.3)
Percentage of schemes' assets	–1.8%	10.3%	2.5%	13.1%	–21.3%
Experience adjustments arising on schemes' liabilities					
Amount	(1.3)	20.5	7.8	0.2	2.7
Percentage of the present value of funded obligations	–0.9%	13.1%	5.7%	0.1%	2.8%
Present value of schemes' liabilities	(150.0)	(156.5)	(136.6)	(121.8)	(95.0)
Fair value of schemes' assets	144.4	150.0	125.7	104.6	76.4
Deficit	(5.6)	(6.5)	(10.9)	(17.2)	(18.6)

The contributions expected to be paid in respect of the defined benefit schemes during the financial year ending 31 March 2008 amount to £3.7m. The Company did not operate any defined contribution schemes or defined benefit schemes during the financial year ended 31 March 2007 or in the previous financial year.

27. Deferred taxation

Deferred tax liabilities	Accelerated tax depreciation £m	Capitalised interest £m	Revaluation surplus £m	Other £m	Total £m
At 1 April 2005	(135.6)	(28.9)	(1,136.9)	(158.7)	(1,460.1)
Net (charge)/credit to income statement for the year	(20.4)	(8.9)	(473.9)	8.1	(495.1)
Released/(charged) in respect of property disposals during the year	17.8	11.3	10.9	(4.6)	35.4
Deferred tax on acquisition of a company	(9.7)	–	(64.3)	0.5	(73.5)
At 31 March 2006	**(147.9)**	**(26.5)**	**(1,664.2)**	**(154.7)**	**(1,993.3)**
Net (charge)/credit to income statement for the year	(17.7)	(6.1)	(330.7)	0.8	(353.7)
Released in respect of property disposals during the year	1.1	–	32.5	–	33.6
Released on conversion to a Real Estate Investment Trust	160.1	31.7	1,962.4	154.8	2,309.0
At 31 March 2007	(4.4)	(0.9)	–	0.9	(4.4)

Deferred tax assets	Tax losses £m	Hedges £m	Pension deficit £m	Other £m	Total £m
At 1 April 2005	37.8	1.0	3.3	–	42.1
Net (charge)/credit to income statement for the year	(20.3)	0.7	(2.8)	9.0	(13.4)
Released in respect of property disposals during the year	(5.3)	–	–	–	(5.3)
Charged to equity	–	0.6	1.5	–	2.1
At 31 March 2006	**12.2**	**2.3**	**2.0**	**9.0**	**25.5**
Net charge to income statement for the year	(6.4)	(3.1)	(0.4)	–	(9.9)
Released in respect of property disposals during the year	(5.8)	–	–	(9.0)	(14.8)
Released on conversion to a Real Estate Investment Trust	–	2.4	(2.2)	–	0.2
(Credited)/charged to equity	–	(1.6)	1.0	–	(0.6)
At 31 March 2007	–	–	0.4	–	0.4

	2007 £m	2006 £m
Deferred tax is provided as follows:		
Excess of capital allowances over depreciation – investment properties	–	116.8
– operating properties	4.4	31.1
Capitalised interest – investment properties	–	23.9
– operating properties	0.9	2.6
Revaluation surpluses – own	–	1,580.9
– acquired	–	83.3
Tax losses	–	(12.2)
Other temporary differences	(1.3)	141.4
Total deferred tax	4.0	1,967.8

28. Obligations under finance leases

	2007 £m	2006 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	6.9	7.2
Later than one year but not more than five years	26.7	27.7
More than five years	425.9	438.4
	459.5	473.3
Future finance charges on finance leases	(388.5)	(398.7)
Present value of finance lease liabilities (notes 13 and 25)	71.0	74.6
The present value of finance lease liabilities is as follows:		
Not later than one year (notes 22 and 25)	2.1	3.1
Later than one year but not more than five years	8.8	5.6
More than five years	60.1	65.9
	71.0	74.6

The fair value of the Group's lease obligations, using a discount rate of 5.5%, is **£79.2m** (2006: £85.2m).

29. Called up share capital

	Authorised		Allotted and fully paid	
	2007 No. m	2006 No. m	2007 £m	2006 £m
Ordinary shares of 10p each	600.0	600.0	47.0	46.9
Non-equity B shares of £1.02 each	38.9	38.9	–	–
Redeemable preference shares of £1.00 each	0.1	0.1	–	–
			47.0	46.9

	Number of shares	
	2007	2006
Movements in the share capital of the Company were:		
At the beginning of the year	469,283,782	467,803,066
Issued on the exercise of options under:		
1993 Savings Related Share Option Scheme	85,658	173,302
2003 Savings Related Share Option Scheme	113,606	1,413
2000 Executive Share Option Scheme	63,371	1,176,464
2002 Executive Share Option Scheme	810,129	129,537
At the end of the year	470,356,546	469,283,782

The number of ordinary shares that would be issued if all options were exercised at 31 March 2007 is **3,423,934** (2006: 4,217,859).

30. Share-based payments

The Group's share-based payments are all equity-settled and comprise the Savings Related Share Option Schemes (Sharesave), various Executive Share Option Schemes (ESOS), Performance and Deferred Bonus share schemes related to the annual bonus scheme, and the Long-Term Incentive Plan. In accordance with IFRS 2 'Share-based Payment' the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. Fair value is calculated using a Black-Scholes option pricing model.

Savings Related Share Option Scheme

Under the 1993 and 2003 Savings Related Share Option Scheme all staff who have been with the Group for a continuous period of not less than six months are eligible to make regular monthly contributions into a Sharesave scheme operated by Lloyds TSB Bank Plc. On completion of the three, five or seven year contract period ordinary shares in Land Securities Group PLC may be purchased at a price based upon the current market price at date of invitation less 20% discount. Options are satisfied by the issue of new shares. Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within six months of the bonus date. In certain circumstances leavers may exercise their options early based upon current savings. Alternatively, they may continue saving to receive the tax-free bonus at the end of the contract or withdraw their cash immediately. Fair value calculations, which relate to the 2003 Scheme only, assume a lapse rate, based upon historic values, of approximately 20% for employees leaving the Group before vesting.

1993 Savings Related Share Option Scheme

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2007	2006	2007 pence	2006 pence
At the beginning of the year	237,713	428,729	663	659
Exercised	(85,658)	(173,302)	682	652
Forfeited	(8,169)	(9,838)	651	658
Lapsed	3,547	(7,876)	692	661
At the end of the year	147,433	237,713	656	663
Exercisable at the end of the year	–	5,908	–	650

	Years	Years
Weighted average remaining contractual life	0.85	1.54

The options outstanding under the scheme are exercisable at prices between 628p and 713p after three, five or seven years from the date of grant during the period 2007 to 2009.

The weighted average share price at the date of exercise during the year was **2023p** (2006: 1468p).

No expense was recognised by the Group during the year, or during the corresponding year as the grants preceded the date relevant for IFRS 2 'Share-based Payment'.

30. Share-based payments continued

2003 Savings Related Share Option Scheme

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2007	2006	2007 pence	2006 pence
At the beginning of the year	510,104	369,215	914	803
Granted	128,173	171,233	1523	1146
Exercised	(113,606)	(1,413)	709	684
Forfeited	(42,202)	(15,085)	941	796
Lapsed	(20,353)	(13,846)	1129	964
At the end of the year	462,116	510,104	1121	914
Exercisable at the end of the year	–	8,498	–	775

	Years	Years
Weighted average remaining contractual life	2.42	2.54

The options outstanding under the scheme are exercisable at prices between 677p and 1523p after three, five or seven years from the date of grant. 74,260 of the options outstanding are exercisable at 677p, 120,307 are exercisable at 957p, 144,928 at 1146p, and 122,621 at 1523p during the periods 2007 to 2010, 2008 to 2012 and 2009 to 2013, respectively.

The weighted average share price at the date of exercise during the year was **2132p** (2006: 1487p). During the year, options were granted on 29 September 2006 (2006: 30 September 2005). The estimated fair value of the options granted on that date was **£0.5m** (2006: £0.6m).

During the year, the Group recognised total expenses of **£0.3m** (2006: £0.2m) relating to the 2003 Savings Related Share Option Scheme.

2000 Executive Share Option Scheme

No new grants to Directors and senior management of the Group have been made under this scheme since 19 July 2002. These options have fully vested as the growth in the Group's normalised adjusted diluted earnings per share exceeded the growth in the Retail Prices Index by 2.5% per annum over the vesting period. Options are satisfied by the issue of new shares. Options are forfeited, in most circumstances, when an employee leaves the Group before vesting or lapse if they are not exercised within 10 years of the date of grant.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2007	2006	2007 pence	2006 pence
At the beginning of the year	312,600	1,513,564	836	827
Exercised	(63,371)	(1,176,464)	824	824
Forfeited	(1,829)	(24,500)	820	849
At the end of the year	247,400	312,600	839	836
Exercisable at the end of the year	247,400	312,600	839	836

	Years	Years
Weighted average remaining contractual life	4.69	5.73

The options outstanding under the scheme are exercisable at prices between 812p and 869p up to 2012. The weighted average share price at the date of exercise for share options exercised during the year was **1996p** (2006: 1516p).

No expense was recognised by the Group during the year, or during the corresponding year as the grants preceded the date relevant for IFRS 2 'Share-based Payment'.

2002 Executive Share Option Scheme

The final grants to Directors and senior management of the Group under this scheme were made on 12 July 2004. Vesting is subject to growth in the Group's normalised adjusted diluted earnings per share exceeding the growth in the Retail Prices Index by 2.5% per annum over the three year vesting period. For options granted in the year ended 31 March 2004 there are a maximum of two retests for performance criteria in years four and five. For options granted in the year ended 31 March 2005 there is no retesting of performance criteria. Options are satisfied by the issue of new shares.

Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within 10 years of the date of grant. Fair value calculations assume a lapse rate, based upon historic values, of between 2% and 5% per annum for employees leaving the Group before vesting.

30. Share-based payments continued

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2007	2006	2007 pence	2006 pence
At the beginning of the year	2,818,574	3,129,174	970	965
Exercised	(810,129)	(129,537)	805	852
Forfeited	(30,499)	(181,063)	1037	978
At the end of the year	1,977,946	2,818,574	1036	970
Exercisable at the end of the year	652,018	26,200	787	756

	Years	Years
Weighted average remaining contractual life	6.94	7.76

18,500, 633,518 and 1,325,928 of the options outstanding under the 2002 Executive Share Option Scheme are exercisable at 756p, 788p and 1159p respectively up to 2014, provided the associated performance conditions are met.

The weighted average share price at the date of exercise for share options exercised during the year was **2018p** (2006: 1653p).

During the year, the Group recognised an expense of **£1.2m** (2006: £0.8m) relating to the 2002 Executive Share Option Scheme.

2005 Executive Share Option Scheme

The 2005 Executive Share Option Scheme is open to executives and management staff not eligible to participate in the Land Securities 2005 Long-Term Incentive Plan for senior executives. Options are granted in the ordinary shares of Land Securities Group PLC at the middle market price on the three dealing days immediately preceding the date of grant. The three-year vesting period is not subject to performance conditions. Options are satisfied by the transfer of shares.

Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within 10 years of the date of grant. Fair value calculations assume a lapse rate, based upon historic values, of 2% per annum for employees leaving the Group before vesting.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2007	2006	2007 pence	2006 pence
At the beginning of the year	338,868	–	1421	–
Granted	287,375	350,737	1737	1421
Exercised	(12,486)	(898)	1481	1421
Lapsed	(24,718)	(10,971)	1548	1421
At the end of the year	589,039	338,868	1569	1421
Exercisable at the end of the year	–	–	–	–

	Years	Years
Weighted average remaining contractual life	8.76	9.33

The options outstanding under the scheme are exercisable at 1421p and 1737p during the periods 2008 to 2015, and 2009 to 2016, respectively.

The weighted average share price at the date of exercise for share options exercised during the year was **2018p** (2006: 1696p). During the year, options were granted on 29 June 2006 (2006: 29 July 2005). The estimated fair value of the options granted on that date was **£0.6m** (2006: £0.7m).

During the year, the Group recognised an expense of **£0.4m** (2006: £0.1m) relating to the 2005 Executive Share Option Scheme.

Performance Shares

Under the Performance Shares plan approved by shareholders in 2002, senior executives of the Group receive up to two shares for each deferred share received under the separate management bonus scheme depending on the extent to which performance criteria are satisfied. Half of these Performance Shares are dependent on the real increase in the Group's normalised adjusted diluted earnings per share over three financial years. The other half of the Performance Shares are subject to the Group's total property return equalling or exceeding the Investment Property Databank All Fund Universe Index over a three-year rolling period. The final grant under the scheme was made in July 2005. Awards under the plan are satisfied by transfer of existing shares. Fair value calculations have been adjusted for participants who have left the Group but no adjustment has been made for future anticipated lapses.

30. Share-based payments continued

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2007	2006
At the beginning of the year	411,646	311,834
Granted	–	171,940
Exercised	(104,918)	(31,528)
Forfeited	(30,162)	(9,072)
Lapsed	(31,856)	(31,528)
At the end of the year	244,710	411,646
Exercisable at the end of the year	–	–

	Years	Years
Weighted average remaining contractual life	0.84	1.45

The Performance Shares outstanding under the scheme are to be issued at £nil consideration provided that performance conditions are met.

The weighted average share price at the date of exercise for Performance Shares exercised during the year was **1875p** (2006: 1416p). The final grant of Performance Shares was made on 4 July 2005. The estimated fair value of the shares granted on that date was £1.1m.

During the year, the Group recognised an expense of **£0.8m** (2006: £1.0m) relating to Performance Shares.

Deferred Bonus Shares Schemes

Under the Executive Directors and senior managements' bonus plan participants are eligible for awards in cash and deferred shares. The underlying performance criteria are earnings per share and increase in net asset value over the previous year. In previous years Executive Directors have had the opportunity to earn a bonus of up to 20% of salary in cash and 20% of salary in shares for meeting rigorous targets and up to a maximum of 40% of salary in cash and 40% of salary in shares for superior results. Following a review of the reward structure by the Remuneration Committee, Executive Directors are in future eligible for awards of up to 100% of salary, 25% of which must be taken in deferred shares. Other management grades must now take their entire bonus in cash. Awards under the plan are satisfied by transfers of existing shares held by the ESOP trust.

The shares are deferred for three years and normally forfeited if the executive leaves employment during the period. Fair value has been adjusted for participants who have left the Group, but no adjustment has been made for future anticipated lapses.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2007	2006
At the beginning of the year	270,627	195,095
Granted	54,787	103,246
Capitalisation of dividends	5,734	6,551
Exercised	(103,729)	(8,895)
Forfeited	(6,355)	(25,370)
At the end of the year	221,064	270,627
Exercisable at the end of the year	–	–

	Years	Years
Weighted average remaining contractual life	1.17	1.36

The deferred shares outstanding under the scheme are to be issued at £nil consideration subject to vesting conditions being met.

The weighted average share price at the date of exercise for shares exercised during the year was **1925p** (2006: 1483p). During the year, rights were granted over 24,987 deferred shares on 29 June 2006 and 29,800 deferred shares on 24 July 2006 (2006: 4 July 2005). The estimated fair value of the rights over shares granted on that date was **£0.9m** (2006: £1.3m).

During the year, the Group recognised an expense of **£0.9m** (2006: £0.7m) relating to Deferred Bonus Shares.

2005 Long-Term Incentive Plan

The new Long-Term Incentive Plan (LTIP) for Executive Directors and senior executives authorises the Remuneration Committee to make grants of LTIP shares with a face value of up to 100% of salary for Executive Directors and up to 75% of salary for senior executives. In addition, an award of matching shares can be made, linked to co-investment in shares by participants. The participant's investment can be made through deferral of an annual bonus award and/or through optional pledging of shares purchased in the market. The maximum level of matching is shares with a face value of 50% of salary for Executive Directors and 25% of salary for senior executives. Performance conditions are similarly structured to those applying to the Performance Share Plan except that the EPS targets are increased and the IPD index measure is more closely targeted to the Group's asset classes. Awards may be satisfied by the issue of new shares and/or transfer of treasury shares and/or transfer of shares other than treasury shares.

Fair value calculations include the assumption that LTIP and matching shares will be awarded at 50% of the maximum possible under the scheme and have been adjusted for participants who have left the scheme but no adjustment has been made for future anticipated lapses.

30. Share-based payments continued

Details of the rights over shares outstanding during the year are as follows:

	Number of shares 2007	Number of shares 2006
At the beginning of the year	351,425	–
Granted	468,274	359,870
Exercised	(13,819)	–
Forfeited	(49,251)	(8,445)
At the end of the year	756,629	351,425
Exercisable at the end of the year	–	–

	Years	Years
Weighted average remaining contractual life	1.89	2.35

The shares outstanding under the scheme are to be issued at £nil consideration provided performance conditions are met.

The weighted average share price at the date of exercise for shares exercised during the year was **2117p**. Rights to receive 258,987 Performance Shares were granted on 29 June 2006. Rights to receive 4,557 matching shares were granted on 1 June 2006, and 204,730 on 31 July 2006. The estimated fair value of the rights over the shares granted on those dates was **£4.0m** (2006: £4.4m).

During the year, the Group recognised an expense of **£2.0m** (2006: £0.8m) relating to the 2005 Long-Term Incentive Plan.

Fair values are calculated using the Black-Scholes option pricing model. Inputs into this model for each scheme are as follows:

	2003 Savings Related Share Option Scheme	2002 Executive Share Option Scheme	2005 Executive Share Option Scheme	Performance Shares	Deferred Bonus Shares	2005 Long-Term Incentive Plan
Range of share prices at grant date	846p to 1903p	756p to 1159p	1421p to 1737p	787p to 1405p	787p to 1737p	1421p to 1737p
Range of exercise prices	677p to 1523p	756p to 1159p	1421p to 1737p	nil p	nil p	nil p
Expected volatility	19%	19%	19%	19%	19%	19%
Expected life	3 to 7 years	3 to 5 years	3 to 5 years	3 years	3 to 5 years	3 to 5 years
Risk free rate	4.17% to 4.84%	3.60% to 5.10%	4.17% to 4.81%	3.60% to 5.03%	4.08% to 5.03%	4.17% to 4.81%
Expected dividend yield	3.43% to 4.37%	4.11% to 4.34%	3.43% to 3.81%	3.81% to 4.34%	3.43% to 4.34%	3.43% to 3.81%

Expected volatility was determined by calculating the historic volatility of the Group's share price over the previous 10 years. The expected life used in the model has been determined, based upon management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Risk free rate is the yield, at the date of the grant of an option, on a gilt-edged stock with a redemption date equal to the anticipated exercise of that option.

31. Total shareholders' equity

Group	Ordinary shares £m	Own shares £m	Share-based payments £m	Share premium £m	Capital redemption reserve £m	Retained earnings* £m	Total £m
At 1 April 2005	46.8	(2.1)	3.3	31.4	30.5	5,940.4	6,050.3
Exercise of options	0.1	–	–	11.8	–	–	11.9
Fair value movement on cash flow hedges – Group	–	–	–	–	–	(1.6)	(1.6)
– joint ventures	–	–	–	–	–	(1.9)	(1.9)
Fair value of share-based payments	–	–	3.6	–	–	–	3.6
Own shares acquired	–	(1.9)	–	–	–	–	(1.9)
Cost of shares awarded to employees	–	0.6	(0.6)	–	–	–	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(3.5)	(3.5)
Dividend paid (note 10)	–	–	–	–	–	(238.9)	(238.9)
Profit for the financial year	–	–	–	–	–	1,675.9	1,675.9
At 31 March 2006	**46.9**	**(3.4)**	**6.3**	**43.2**	**30.5**	**7,370.4**	**7,493.9**
Exercise of options	0.1	–	–	8.3	–	–	8.4
Fair value movement on cash flow hedges – Group	–	–	–	–	–	5.1	5.1
– joint ventures	–	–	–	–	–	9.5	9.5
Fair value of share-based payments	–	–	5.6	–	–	–	5.6
Own shares acquired	–	(15.1)	–	–	–	(21.1)	(36.2)
Cost of shares awarded to employees	–	4.0	(4.0)	–	–	–	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(0.3)	(0.3)
Dividend paid (note 10)	–	–	–	–	–	(223.0)	(223.0)
Profit for the financial year	–	–	–	–	–	3,528.3	3,528.3
At 31 March 2007	47.0	(14.5)	7.9	51.5	30.5	10,668.9	10,791.3

*Included within retained earnings is **£14.6m** (2006: £3.5m loss; 2005: £nil) of gains in respect of cash flow hedges.

31. Total shareholders' equity continued

Own shares represent the cost of shares purchased in Land Securities Group PLC by the Employee Share Ownership Plan (ESOP) which is operated by the Group in respect of its commitment to the Deferred Bonus Shares Scheme (note 30). The number of shares held by the ESOP at 31 March 2007 was **895,771** (2006: 292,703).

In July 2005 and 2006 the shareholders at the Annual General Meeting authorised the acquisition of shares issued by the Company representing up to 10% of its share capital to be held as treasury shares. At 31 March 2007 the Group owned **1,225,000** (2006: nil) shares with a market value of **£25.9m** (2006: £nil).

Company	Ordinary shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings* £m	Total £m
At 1 April 2005	46.8	31.4	30.5	373.6	4,880.6	5,362.9
Exercise of options	0.1	11.8	–	–	–	11.9
Dividend paid (note 10)	–	–	–	–	(238.9)	(238.9)
Profit for the financial year	–	–	–	–	11.3	11.3
At 31 March 2006	**46.9**	**43.2**	**30.5**	**373.6**	**4,653.0**	**5,147.2**
Exercise of options	0.1	8.3	–	–	–	8.4
Dividend paid (note 10)	–	–	–	–	(223.0)	(223.0)
Profit for the financial year	–	–	–	–	1.6	1.6
At 31 March 2007	**47.0**	**51.5**	**30.5**	**373.6**	**4,431.6**	**4,934.2**

*Available for distribution

Land Securities Group PLC has not presented its own income statement, as permitted by Section 230 (1)(b) Companies Act 1985. The profit for the year of the Company, dealt with in its financial statements, was **£1.6m** (2006: £11.3m).

The merger reserve arose on 6 September 2002 when the Company acquired 100% of the issued share capital of Land Securities PLC. The merger reserve represents the excess of the cost of acquisition over the nominal value of the shares issued by the Company to acquire Land Securities PLC. The merger reserve does not represent a realised or distributable profit.

32. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Cash generated from operations				
Profit for the financial year	3,528.3	1,675.9	1.6	11.3
Income tax (credit)/expense	(1,549.2)	683.3	0.7	0.8
Profit before tax	1,979.1	2,359.2	2.3	12.1
Distribution received from joint venture (Telereal)	–	(11.7)	–	–
Share of profits of joint ventures (post-tax)	(179.3)	(98.6)	–	–
	1,799.8	2,248.9	2.3	12.1
Interest income	(12.4)	(7.3)	(5.7)	(17.5)
Interest expense	233.3	201.8	3.4	5.4
Operating profit	2,020.7	2,443.4	–	–
Adjustments for:				
Depreciation	32.9	25.7	–	–
Profit on disposal of non-current properties	(118.2)	(74.5)	–	–
Profit on disposal of joint venture	–	(293.0)	–	–
Net surplus on revaluation of investment properties	(1,307.6)	(1,579.5)	–	–
Goodwill impairment	–	64.5	–	–
Pension scheme charge/(credit)	2.7	(4.4)	–	–
Changes in working capital:				
Decrease/(increase) in trading properties and long-term development contracts	110.1	(2.1)	–	–
(Increase)/decrease in receivables	(121.6)	23.0	137.2	182.8
Increase/(decrease) in payables and provisions	63.4	(11.6)	47.2	–
Net cash generated from operations	682.4	591.5	184.4	182.8

33. Related party transactions

Subsidiaries

In accordance with IAS 27 'Consolidated and Separate Financial Statements', transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Joint ventures

As disclosed in note 17, the Group has investments in a number of joint ventures. Details of transactions and balances between the Group and its joint ventures are disclosed as follows:

	Year ended 31/03/07 and at 31/03/07				Year ended 31/03/06 and at 31/03/06			
	Revenues £m	Net investments into joint ventures £m	Amounts owed by joint ventures £m	Amounts owed to joint ventures £m	Revenues £m	Net investments into joint ventures £m	Amounts owed by joint ventures £m	Amounts owed to joint ventures £m
Scottish Retail Property Limited Partnership	1.5	(9.5)	0.2	(7.6)	1.4	205.8	–	(0.7)
Metro Shopping Fund Limited Partnership	0.5	22.8	–	(0.1)	0.1	(25.2)	–	(0.1)
Buchanan Galleries Partnership	3.6	3.7	0.3	–	4.4	4.3	0.3	–
St David's Limited Partnership	1.9	(302.7)	20.6	(115.5)	–	(0.8)	–	–
Martineau Galleries Limited Partnership	0.2	–	0.1	–	0.2	0.6	–	–
The Bull Ring Limited Partnership	–	14.5	–	–	–	12.8	–	–
Bristol Alliance	5.1	(62.8)	4.3	(1.9)	0.5	(22.5)	0.5	(0.1)
Martineau Limited Partnership	–	0.5	–	–	–	1.3	–	–
A2 Limited Partnership	–	–	–	–	–	(6.7)	–	–
Parc Tawe	–	4.0	–	–	–	(24.4)	–	–
Hungate	–	(1.6)	–	–	–	3.0	–	–
Countryside	–	(0.9)	–	–	–	–	–	–
Investors in the Community	–	4.7	–	–	–	1.2	–	–
Telereal	–	–	–	–	–	11.7	–	–
	12.8	327.3	25.5	(125.1)	6.6	161.1	0.8	(0.9)

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the applicable categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited section of the Directors' remuneration report on pages 79 to 86.

	2007 £m	2006 £m
Short-term employee benefits	6.1	6.2
Post-employment benefits	0.9	0.5
Share-based payments	2.4	2.4
Compensation for loss of office	0.7	–
	10.1	9.1

The amount shown as compensation for loss of office represents the maximum potential amount assuming no mitigation.

34. Operating lease arrangements

The Group earns non-rental income by leasing its investment and operating properties to tenants under non-cancellable operating leases.

At the balance sheet date, the Group had contracted with tenants to receive the following future minimum lease payments:

	2007 £m	2006 £m
Not later than one year	516.8	496.7
Later than one year but not more than five years	2,055.6	1,927.3
More than five years	4,078.7	3,724.5
	6,651.1	6,148.5

The total of contingent rents recognised as income during the year was **£11.6m** (2006: £7.4m).

35. Business combinations

Secondary Market Infrastructure Fund (SMIF)

The Group acquired 100% of the voting rights of SMIF on 5 February 2007 for a consideration of £517.0m, including costs. This has been accounted for as a business combination.

	£m
Fair value of net assets acquired	
Assets of the disposal group	2,445.3
Liabilities directly associated with the assets of the disposal group	(1,998.6)
Disposal group	446.7
Current assets	1.2
Cash and cash equivalents	4.1
Current liabilities	(6.5)
Net assets acquired	445.5
Fair value of consideration	
Cash	514.0
Costs	3.0
	517.0
Goodwill (note 15)	(71.5)
	445.5

The disposal group comprises a number of PPP contracts which were acquired exclusively with a view to being resold to third-party investors, while maintaining a minority share. The net amount attributed to the disposal group at the date of acquisition represents fair value less costs to sell. The liabilities of the disposal group reported above include external debt of £397.6m that was repaid immediately after the acquisition using cash advanced by the Group. This debt is excluded from the liabilities of the disposal group reported at 31 March 2007. The remaining assets and liabilities relate to the management companies within SMIF that are being retained. The fair values reported above in respect of these assets and liabilities equate to their book values, with the exception of goodwill of £6.3m recognised by the companies that has been excluded. The goodwill acquired is attributable to the knowledge and market expertise of the management team of the retained portion of the SMIF business.

Set out below are the results of SMIF, excluding the disposal group, from the date of acquisition (5 February 2007) to 31 March 2007 and for the period from 1 April 2006 to the date of acquisition:

	Results for SMIF from 5 February 2007 to 31 March 2007 £m	Results for the Group excluding SMIF for the year ended 31 March 2007 £m	Results for the Group for the year ended 31 March 2007 £m	Results for SMIF from 1 April 2006 to 5 February 2007 £m	Results for the Group as if SMIF had been acquired on 1 April 2006 £m
Revenue	1.7	1,639.4	1,641.1	9.5	1,650.6
Profit before tax	–	1,979.1	1,979.1	0.3	1,979.4
Taxation credit	–	1,549.2	1,549.2	(0.1)	1,549.1
Profit after tax	–	3,528.3	3,528.3	0.2	3,528.5

There were no recognised gains or losses in the year other than the profit attributable to shareholders.

Investors in the Community (IIC)

The Group acquired the remaining 50% of the voting rights of IIC on 28 February 2007 for a consideration of £8.5m, including costs. This has been accounted for as a business combination.

	Fair value acquired £m
Fair value of net assets acquired (50% share)	
Current assets	1.6
Current liabilities	(4.8)
Net liabilities acquired	(3.2)
Fair value of consideration	
Cash	8.0
Costs	0.5
	8.5
Goodwill (note 15)	(11.7)
	(3.2)

No fair value adjustments have been made in respect of the book value of IIC's assets and liabilities at the date of acquisition. The results of IIC from the date of acquisition (28 February 2007) to 31 March 2007 and for the period from 1 April 2006 to the date of acquisition are not material.

Report of the Directors

Report from the Directors on the key strategic, financial and operational developments during the year.

Financial Statements

Statements presenting the essential numbers, including the independent auditors' report.

Investor Information

Summaries, analysis and information on properties, contracts and related subjects for shareholders.

Five year summary

	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2004 UK GAAP £m	2003 UK GAAP £m
Income statement					
Before exceptional items					
Group revenue	1,641.1	1,828.7	1,627.1	1,285.8	1,071.3
Costs	(1,046.2)	(1,267.8)	(1,134.7)	(821.1)	(608.9)
	594.9	560.9	492.4	464.7	462.4
Profit on disposal of non-current asset properties	118.2	74.5	112.0	52.0	26.6
Net surplus on revaluation of investment properties	1,307.6	1,579.5	827.9	–	–
Operating profit	2,020.7	2,214.9	1,432.3	516.7	489.0
Net finance expenses	(220.9)	(194.5)	(189.0)	(174.4)	(144.9)
	1,799.8	2,020.4	1,243.3	342.3	344.1
Income from joint ventures (post-tax)	81.3	110.3	141.5	17.7	13.0
Profit before tax	1881.1	2,130.7	1,384.8	360.0	357.1
Income tax expense	(445.0)	(593.3)	(265.8)	(71.7)	(90.8)
Profit after tax	1,436.1	1,537.4	1,119.0	288.3	266.3
Exceptional items					
Goodwill impairment	–	(64.5)	(12.7)	–	–
Profit on disposal of joint venture (Telereal)	–	293.0	–	–	–
Debt restructuring costs	–	–	(64.6)	–	(52.0)
Exceptional tax in joint ventures	98.0	–	–	–	–
Total exceptional items	98.0	228.5	(77.3)	–	(52.0)
Tax on exceptional items	1,994.2	(90.0)	19.2	–	15.6
Exceptional items post tax	2,092.2	138.5	(58.1)	–	(36.4)
Profit for the financial year	3,528.3	1,675.9	1,060.9	288.3	229.9
Revaluation surplus/(deficit) for the year					
Group	1,307.6	1,579.5	827.9	400.7	(56.8)
Joint ventures	75.1	105.5	69.5	6.2	–
Total	1,382.7	1,685.0	897.4	406.9	(56.8)
Revenue profit (old definition)	420.1	434.9	401.3	309.2	336.2
Less: trading properties	(13.6)	(21.7)	(27.9)	(7.3)	(1.8)
Less: long-term contracts	(14.3)	(21.9)	(11.6)	–	–
Revenue profit (new definition)	392.2	391.3	361.8	301.9	334.4
Balance sheet					
Investment properties	12,891.7	11,440.5	8,240.1	7,880.9	7,823.9
Property Partnership properties	979.1	563.2	546.3	769.2	557.4
Net investment in finance leases	262.4	233.9	163.4	–	–
Goodwill	129.6	34.3	34.3	34.3	36.7
Investment in joint ventures	1,338.8	829.5	854.9	204.2	106.8
Other non-current assets	78.2	73.6	57.9	51.0	41.5
Total non-current assets	15,679.8	13,175.0	9,896.9	8,939.6	8,566.3
Trading properties and long-term development contracts	148.3	255.9	164.0	85.0	52.6
Cash and cash equivalents less short-term borrowings and overdrafts	(1,630.5)	(148.0)	(45.8)	(439.9)	59.1
Other current assets and liabilities	(677.9)	(218.6)	(101.6)	(365.3)	(287.5)
Non-current assets classified as held for sale (net)	819.3	–	–	–	–
Total current assets and liabilities	(1,340.8)	(110.7)	16.6	(720.2)	(175.8)
Provisions	(80.7)	(58.2)	(42.0)	(11.7)	(5.9)
Borrowings	(3,457.4)	(3,537.9)	(2,392.3)	(1,995.9)	(2,648.4)
Pension benefits	(5.6)	(6.5)	(10.9)	–	–
Deferred tax liabilities	(4.0)	(1,967.8)	(1,418.0)	(173.3)	(173.1)
Total non-current liabilities	(3,547.7)	(5,570.4)	(3,863.2)	(2,180.9)	(2,827.4)
Net assets	10,791.3	7,493.9	6,050.3	6,038.5	5,563.1
Net debt	(5,087.9)	(4,942.0)	(2,438.1)	(2,435.8)	(2,589.3)
Results per share					
Total dividend per share (all amounts represent the interim dividend paid and final proposed dividend)	53.00p	46.70p	43.25p	37.10p	35.50p
Basic earnings per share	753.59p	357.95p	227.32p	61.84p	46.46p
Diluted earnings per share	750.54p	356.50p	226.45p	61.76p	46.44p
Adjusted earnings per share	70.48p	70.76p	67.13p	47.86p	50.89p
Adjusted diluted earnings per share	70.20p	70.47p	66.87p	47.80p	50.88p
Net assets per share	2304p	1597p	1293p	1294p	1188p
Diluted net assets per share	2297p	1590p	1289p	1293p	1188p
Adjusted net assets per share	2188p	1920p	1493p	1333p	1220p
Adjusted diluted net assets per share	2181p	1912p	1488p	1331p	1219p

Business analysis

In this section we provide information about our major investment properties, development programme and property outsourcing contracts to help you understand more about our business activities. The detailed list of major property holdings is found on our website at www.landsecurities.com

Portfolio valuation

The market value of the investment property interests in the combined portfolio, including a pro-rata share of our property joint ventures totalled **£14,752.5m** at 31 March 2007 (31 March 2006: £12,892.9m). Detailed breakdowns by sector, including comprehensive analyses of the Group's valuation, rental income and yield profiles follow in the investment portfolio analysis. The aggregate of the market values of those investment properties held by the Group, excluding joint ventures and Land Securities Trillium, as at 31 March 2007 was **£13,114.8m** (31 March 2006: £11,619.0m).

The valuation of the freehold and leasehold investment properties in the combined portfolio at 31 March 2007 was undertaken by Knight Frank LLP as External Valuer. The valuations were in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and the International Valuation Standards. The valuation of each property was on the basis of market value, subject to the assumptions that investment properties would be sold subject to any existing leases and that properties held for development would be sold with vacant possession in existing condition. The External Valuer's opinion of market value was primarily derived using comparable recent market transactions on arm's length terms.

Combined portfolio valuation

£14.8bn

Table 73

Long-term performance relative to IPD
Ungeared total returns – periods to 31 March 2007

	Land Securities % pa	IPD % pa	IPD upper quartile % pa
10 years	13.7	13.2	14.3
20 years	12.0	11.3	12.3

Source: IPD Quarterly Universe at 31 March 2007.

Land Securities' ungeared total property return compared over the last 10 and 20-year periods to 31 March 2007 to the IPD. It can be seen that Land Securities' portfolio has outperformed on a sustained basis over the last 10 and 20-year time periods.

Table 74

One-year performance relative to IPD
Ungeared total returns – period to 31 March 2007

	Land Securities % pa	IPD % pa
Retail – Shopping centres	11.5	12.8
Retail warehouses	7.4	12.6
Shops	10.3	12.2
Central London offices*	24.9	26.2
Total portfolio	16.2	15.8

Source: IPD Quarterly Universe to March 2007.
*Central London defined as West End, City, Mid-town and Inner London regions.

The performance of the Group's portfolio compared to that of IPD on a similar basis at sector, sub-sector and total portfolio levels over the 12-month period to 31 March 2007. It can be seen that Land Securities outperformed at the total portfolio level, but underperformed at the sub-sector level. The principal reasons for the latter are less positive growth in rental value for London West End offices and retail warehouses.

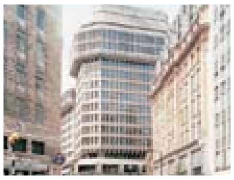
Roll-up, roll-up... at Cabot Circus we will be opening more than 90,000m^2 of first class mixed use space, right in the heart of Bristol.

Top 12 properties

Cardinal Place, SW1
This trio of office buildings has created a new focal point for Victoria with shopping and cafés, art gallery and improved public spaces.

New Street Square, EC4
A bold, innovative development providing office, retail and community spaces, all drawn together by landscaped walkways.

White Rose Centre, Leeds
An award winning 63,170m^2 shopping centre on the edge of Leeds, White Rose is anchored by a Debenhams department store.



50 Queen Anne's Gate, SW1
This iconic 30,140m^2 building is undergoing a major refurbishment and will be occupied by the Ministry of Justice.

Bullring, Birmingham
Opened in 2003, the 110,000m^2 shopping centre has transformed retail in the city centre (one-third ownership).

Arundel Great Court and Howard Hotel, WC2
Offices and retail units located prominently on the Strand. The principal occupier is Deloitte.

Table 75
Combined portfolio value by location

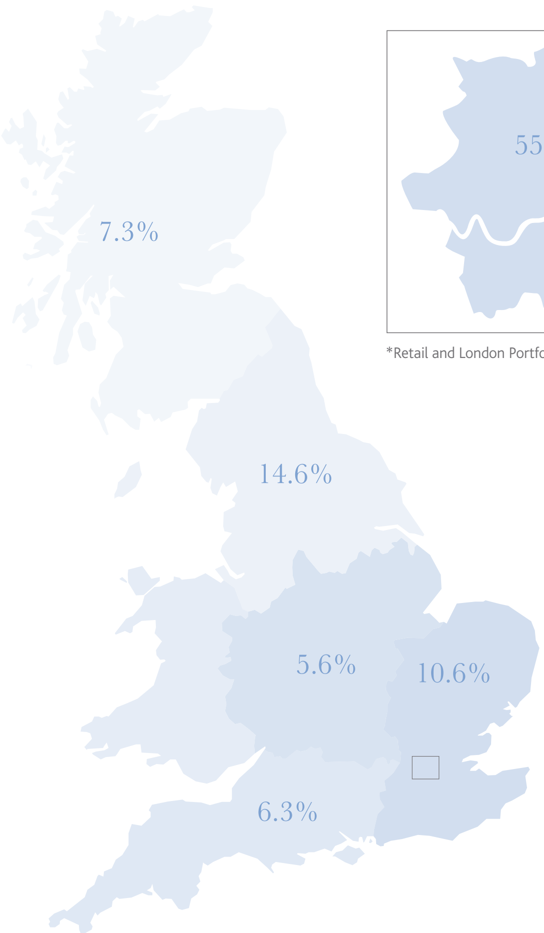
	Shopping centres and shops %	Retail warehouses %	Offices %	Other %	Total %
Central, inner and outer London	10.5	0.7	43.8	0.6	55.6
South East and Eastern	6.2	3.8	–	0.6	10.6
Midlands	3.6	2.0	–	–	5.6
Wales and South West	4.8	1.4	0.1	–	6.3
North and North West	8.1	6.1	0.3	0.1	14.6
Scotland and Northern Ireland	5.4	1.7	–	0.2	7.3
Total	38.6	15.7	44.2	1.5	100.0

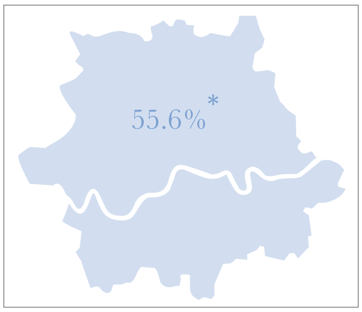
% figures calculated by reference to the combined portfolio value of £14.8bn.

Table 76
Portfolio by value and number of property holdings at 31 March 2007

£m	Value %	No. of properties
0 – 9.99	1.4	60
10 – 24.99	3.7	32
25 – 49.99	10.2	39
50 – 99.99	17.0	38
100 – 149.99	18.3	22
150 – 199.99	11.1	9
Over 200	38.3	19
Total	100.0	219

Includes share of joint venture properties.





*Retail and London Portfolios combined.

Table 77
Average rents at 31 March 2007

	Average rent £/m^2	Average ERV £/m^2
Retail		
Shopping centres and shops	n/a	n/a
Retail warehouses (including supermarkets)	183	205
Offices		
Central and inner London	322	361

Average rent and estimated rental value have not been provided where it is considered that the figures would be potentially misleading (i.e. where there is a combination of analysis on rents on an overall and Zone A basis in the retail sector or where there is a combination of uses, or small sample sizes).
This is not a like-for-like analysis with the previous year.
Excludes properties in the development programme and voids.

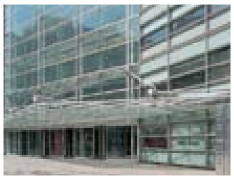
Gunwharf Quays, Portsmouth
41,290m² mixed use waterfront destination with 87 shops, cinema, Bowlplex, comedy club, night club, hotel, 22 restaurants, fitness club and marina.

Almondvale Centre, Livingston
75,000m² shopping centre and designer outlet mall. Principal tenants include JJB Sports, New Look, Gap and Marks & Spencer (50% ownership in designer outlet mall).

Portland House, SW1
Landmark building with 29,120m² of refurbished offices, incorporating a 1,207m² basement gym. The major occupier is American Express.

Retail World Team Valley, Gateshead
This retail park was acquired in 1996 and comprises 26 units totalling 35,228m². Major retailers include Next, Boots and Borders.

The Bridges, Sunderland
Extended in 2000, the shopping centre now offers more than 100 retailers and is anchored by Debenhams. It is visited more than 26 million times each year.



Eland House, SW1
A key property within the Victoria portfolio, this 23,170m² office building is occupied by the Government.

Major occupiers

Table 78
Top 12 occupiers

		Current gross rent roll %
1	Central Government	10.1
2	Deloitte	2.0
3	Sainsbury's	1.8
4	DSG International	1.8
5	Arcadia Group	1.7
6	Alliance – Boots	1.6
7	The Home Retail Group PLC (includes Argos and Homebase)	1.2
8	Metropolitan Police Authority	1.1
9	Marks & Spencer	1.1
10	Next	1.1
11	Lloyds TSB	1.0
12	Virgin	1.0
Total		25.5

Total Retail Portfolio

£7.2bn

Total London Portfolio

£7.5bn

Table 79
Like-for-like reversionary potential at 31 March 2007

Reversionary potential	31/03/07 % of rent roll	31/03/06 % of rent roll
Gross reversions	12.2	11.1
Over-rented	(1.8)	(3.4)
Net reversionary potential	10.4	7.7

The reversion is calculated with reference to the gross secure rent roll after the expiry of rent-free periods on those properties which fall under the like-for-like definition as set out in the notes to combined portfolio analysis on page 128.

Of the over-rented income, 65.2% is subject to a lease expiry or break clause in the next five years.

Reversionary potential excludes additional income from the letting of voids.

Combined portfolio analysis

The like-for-like portfolio[2]

	Open Market Value[7]		Valuation Surplus[1]		Gross Rental Income[1]		Annual Net Rent[8]		Annual Net Estimated Rental Value[9]	
	31/03/07 £m	31/03/06 £m	Surplus/ (deficit) £m	Surplus/ (deficit) %	31/03/07 £m	31/03/06 £m	31/03/07 £m	31/03/06 £m	31/03/07 £m	31/03/06 £m
Shopping centres and shops										
Shopping centres	2,537.8	2,318.8	192.8	8.3	147.5	137.5	139.6	128.9	154.9	146.2
Central London shops	932.6	853.1	62.5	7.2	47.2	43.4	41.3	41.4	48.0	46.3
Other in-town shops	291.6	273.1	9.5	3.5	14.6	14.8	13.4	13.0	16.3	15.7
	3,762.0	3,445.0	264.8	7.6	209.3	195.7	194.3	183.3	219.2	208.2
Retail warehouses										
Retail parks	1,269.4	1,225.6	33.7	2.8	52.0	46.9	53.9	50.3	61.4	60.5
Other	205.4	206.0	(4.5)	(2.2)	9.8	9.8	9.0	8.5	10.4	10.5
	1,474.8	1,431.6	29.2	2.0	61.8	56.7	62.9	58.8	71.8	71.0
Total retail	5,236.8	4,876.6	294.0	6.0	271.1	252.4	257.2	242.1	291.0	279.2
London offices										
West End	1,726.8	1,501.5	232.0	15.6	88.9	84.5	82.5	80.8	98.8	89.4
City	575.6	479.1	87.1	17.8	35.3	38.5	22.0	32.5	33.6	30.7
Mid-town	396.8	341.6	46.0	16.9	13.0	13.4	19.3	19.3	20.8	18.6
Inner London	503.0	451.5	41.0	9.4	27.0	28.8	13.7	16.6	30.1	29.2
Total London offices	3,202.2	2,773.7	406.1	15.1	164.2	165.2	137.5	149.2	183.3	167.9
Rest of UK	54.0	51.3	2.2	4.3	2.2	1.9	3.4	3.3	4.4	4.3
Total offices	3,256.2	2,825.0	408.3	14.9	166.4	167.1	140.9	152.5	187.7	172.2
Other	293.2	257.8	33.5	13.1	13.2	13.7	12.8	11.7	14.4	15.8
Like-for-like portfolio[2]	8,786.2	7,959.4	735.8	9.3	450.7	433.2	410.9	406.3	493.1	467.2
Completed developments[3]	320.5	306.2	10.2	3.4	14.0	10.5	14.5	10.8	17.2	17.0
Total	9,106.7	8,265.6	746.0	9.1	464.7	443.7	425.4	417.1	510.3	484.2
Acquisitions[4]	3,092.5	2,278.0	196.4	6.8	133.1	67.3	143.4	103.7	169.0	131.9
Sales and restructured interests[5]	–	930.4	–	–	33.9	67.8	–	48.2	–	55.5
Total development programme[6]	2,553.3	1,418.9	453.9	21.9	48.0	35.2	15.7	29.1	236.6	156.6
Combined portfolio	14,752.5	12,892.9	1,396.3	10.6	679.7	614.0	584.5	598.1	915.9	828.2
Properties treated as finance leases			(12.5)	n/a	(12.6)	(13.2)				
Combined portfolio			1,383.8	10.6	667.1	600.8				

Total portfolio analysis

	Open Market Value[7]		Valuation Surplus[1]		Gross Rental Income[1]		Annual Net Rent[8]		Annual Net Estimated Rental Value[9]	
	31/03/07 £m	31/03/06 £m	Surplus/ (deficit) £m	Surplus/ (deficit) %	31/03/07 £m	31/03/06 £m	31/03/07 £m	31/03/06 £m	31/03/07 £m	31/03/06 £m
Shopping centres and shops										
Shopping centres	4,157.9	3,823.3	251.8	6.5	214.4	192.8	200.2	193.9	287.4	255.5
Central London shops	1,236.0	1,101.5	105.0	9.3	57.4	51.9	47.9	51.3	71.1	58.9
Other in-town shops	359.9	350.7	10.8	3.2	18.0	24.5	16.3	17.1	22.3	22.9
	5,753.8	5,275.5	367.6	6.9	289.8	269.2	264.4	262.3	380.8	337.3
Retail warehouses										
Retail parks	1,872.7	1,904.9	59.5	3.3	77.8	68.2	79.4	75.0	94.8	95.3
Other	434.2	409.7	21.3	5.5	21.7	19.4	17.0	17.6	22.1	23.9
	2,306.9	2,314.6	80.8	3.7	99.5	87.6	96.4	92.6	116.9	119.2
Total retail	8,060.7	7,590.1	448.4	6.0	389.3	356.8	360.8	354.9	497.7	456.5
London offices										
West End	2,721.3	2,416.4	403.3	17.5	134.1	102.8	97.6	97.4	168.6	156.4
City	1,200.4	1,059.7	172.1	16.6	70.0	88.7	38.1	71.3	87.0	74.3
Mid-town	1,253.3	654.8	187.0	19.1	20.6	13.7	40.0	26.9	77.4	57.2
Inner London	927.9	675.6	152.3	20.3	36.3	31.7	24.0	25.7	57.2	52.8
Total London offices	6,102.9	4,806.5	914.7	18.1	261.0	236.9	199.7	221.3	390.2	340.7
Rest of UK	90.1	88.0	1.7	1.9	2.3	1.8	3.5	3.9	4.6	4.9
Total offices	6,193.0	4,894.5	916.4	17.8	263.3	238.7	203.2	225.2	394.8	345.6
Other	498.8	408.3	31.5	6.8	27.1	18.5	20.5	18.0	23.4	26.1
Combined portfolio	14,752.5	12,892.9	1,396.3	10.6	679.7	614.0	584.5	598.1	915.9	828.2
Properties treated as finance leases			(12.5)	n/a	(12.6)	(13.2)				
Combined portfolio			1,383.8	10.6	667.1	600.8				
Represented by:										
Investment portfolio	13,114.8	11,619.0	1,309.3	11.4	599.5	538.7	509.2	515.0	791.0	718.3
Share of joint ventures	1,637.7	1,273.9	74.5	4.8	67.6	62.1	75.3	83.1	124.9	109.9
Combined portfolio	14,752.5	12,892.9	1,383.8	10.6	667.1	600.8	584.5	598.1	915.9	828.2

The like-for-like portfolio[2]

	Gross Income Yield[10] 31/03/07 %	Gross Income Yield[10] 31/03/06 %	Equivalent Yield[11] 31/03/07 %	Equivalent Yield[11] 31/03/06 £m	Annual Gross Estimated Rental Value[12] 31/03/07 £m	Annual Gross Estimated Rental Value[12] 31/03/06 £m	Voids (by ERV)[13] 31/03/07 %	Voids (by ERV)[13] 31/03/06 %	Lease Length at 31/03/07[14] Median years(i)	Lease Length at 31/03/07[14] Mean years(ii)
Shopping centres and shops										
Shopping centres	5.5	5.6	5.0	5.3	163.3	154.8	3.3	2.8	8.0	9.4
Central London shops	4.4	4.9	4.8	5.0	48.2	47.4	1.9	1.7	5.0	7.0
Other in-town shops	4.6	4.8	5.0	5.2	17.8	17.4	6.2	4.6	8.3	12.8
	5.2	5.3	4.9	5.3	229.3	219.6	3.2	2.7	7.5	9.1
Retail warehouses										
Retail parks	4.2	4.1	4.6	4.7	61.4	60.5	0.8	2.0	12.3	11.9
Other	4.4	4.1	4.7	4.8	10.4	10.5	7.7	6.7	14.3	12.5
	4.3	4.1	4.6	4.7	71.8	71.0	1.8	2.7	12.8	12.0
Total retail	4.9	5.0	4.9	5.1	301.1	290.6	2.9	2.7	8.3	9.8
London offices										
West End	4.8	5.4	5.1	5.6	99.9	90.8	1.2	3.0	4.8	7.9
City	3.8	6.8	5.1	5.6	35.7	31.8	26.3	8.2	3.0	3.3
Mid-town	4.9	5.6	4.9	5.2	21.2	19.1	–	–	2.3	10.1
Inner London	2.7	3.7	5.4	5.8	30.1	29.2	15.3	0.7	6.0	5.5
Total London offices	4.3	5.4	5.1	5.6	186.9	170.9	8.1	3.2	4.5	7.2
Rest of UK	6.3	6.4	7.1	7.7	4.6	4.4	19.6	22.7	1.8	5.3
Total offices	4.3	5.4	5.2	5.6	191.5	175.3	8.4	3.7	4.5	7.2
Other	4.4	4.5	5.6	6.2	14.5	16.0	2.1	4.4	5.3	13.9
Like-for-like portfolio[2]	4.7	5.1	5.0	5.3	507.1	481.9	4.9	3.1	6.5	9.0
Completed developments[3]	4.5	3.5	4.9	4.9	18.3	17.7	1.1	3.4	12.8	13.8
Total	4.7	5.0	5.0	5.3	525.4	499.6	4.8	3.1	6.8	9.3
Acquisitions[4]	4.6	4.6	5.0	5.3	172.3	133.4	5.7	7.1	9.0	12.3
Sales and restructured interests[5]	–	5.2	–	5.1	n/a	n/a	n/a	n/a	n/a	n/a
Total development programme[6]	0.6	2.1	4.6	5.6	n/a	n/a	n/a	n/a	n/a	n/a
Combined portfolio	4.0	4.6	5.0	5.3	n/a	n/a	n/a	n/a	n/a	n/a

Total portfolio analysis

Shopping centres and shops				
Shopping centres	4.8	5.1	5.0	5.3
Central London shops	3.9	4.7	4.8	5.1
Other in-town shops	4.5	4.9	5.0	5.2
	4.6	5.0	5.0	5.3
Retail warehouses				
Retail parks	4.2	3.9	4.6	4.8
Other	3.9	4.3	4.5	4.9
	4.2	4.0	4.6	4.8
Total retail	4.5	4.7	4.9	5.1
London offices				
West End	3.6	4.0	4.9	5.5
City	3.2	6.7	5.0	5.6
Mid-town	3.2	4.1	5.0	5.4
Inner London	2.6	3.8	5.2	5.8
Total London offices	3.3	4.6	5.0	5.5
Rest of UK	3.9	4.4	6.9	7.4
Total offices	3.3	4.6	5.0	5.6
Other	4.1	4.4	5.6	5.9
Combined portfolio	4.0	4.6	5.0	5.3
Represented by:				
Investment portfolio	3.9	4.4	5.0	5.3
Share of joint ventures	4.6	6.5	4.8	5.2
Combined portfolio	4.0	4.6	5.0	5.3

Notes:

1. The valuation surplus and rental income values are stated after adjusting for the effect of SIC 15 under IFRS, but before restating for finance leases.
2. The like-for-like portfolio includes all properties which have been in the portfolio since 1 April 2005 but excluding those which were acquired, sold or included in the development programme at any time during that period. Capital expenditure on refurbishments, acquisition of headleases and similar capital expenditure has been allocated to the like-for-like portfolio in preparing this table. Changes in valuation from period-to-period reflect this capital expenditure as well as the disclosed valuation surplus.
3. Completed developments represent those properties previously included in the development programme, which have been completed, let and removed from the development programme in the period since 1 April 2005.
4. Includes all properties acquired in the period since 1 April 2005, other than those included in the development programme.
5. Includes all properties sold (other than directly out of the development programme), or where the ownership interest has been restructured, in the period since 1 April 2005.
6. Ongoing developments are properties in the development programme. They exclude completed developments as defined in note 3 above.
7. The open market value figures include the Group's share of the various joint ventures and exclude properties owned by Land Securities Trillium.
8. Annual net rent is annual rents in payment at 31 March 2007 after deduction of ground rents. It excludes the value of voids and current rent free periods.
9. Annual net estimated rental value includes vacant space, rent-frees and future estimated rental values for properties in the development programme and is calculated after deducting expected ground rents.
10. The gross income yield represents the annual net rent expressed as a percentage of the market value ignoring costs of purchase or sale.
11. The net nominal equivalent yield has been calculated on the gross outlays for a purchase of the property (including purchase costs) and assuming that rent is received annually in arrears.
12. Annual gross estimated rental value is calculated in the same way as net estimated rental value before the deduction of ground rents.
13. Voids represent all unlet space in the properties, including voids where refurbishment work is being carried out and voids in respect of pre-development properties. Voids are calculated based on their gross estimated rental value as defined in 12 above.
14. The definition for the figures in each column is:
    - (i) Median is the number of years until half of income is subject to lease expiry/break clauses.
    - (ii) Mean is the rent-weighted average remaining term on leases subject to lease expiry/break clauses.

Combined portfolio reconciliation

Income statement – gross rental income reconciliation

	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Year ended 31/03/07 £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Year ended 31/03/06 £m
Combined portfolio	389.3	261.0	27.1	677.4	356.8	236.9	18.5	612.2
Central London shops (excluding Metro Shopping Fund LP)	(52.5)	52.5	–	–	(47.1)	47.1	–	–
Inner London offices in Metro Shopping Fund LP	1.5	(1.5)	–	–	1.5	(1.5)	–	–
Rest of UK offices	2.3	–	–	2.3	1.8	–	–	1.8
Allocation of other	10.6	7.8	(18.4)	–	10.1	4.2	(14.3)	–
	351.2	319.8	8.7	679.7	323.1	286.7	4.2	614.0
Less: finance lease adjustment	(4.4)	(8.2)	–	(12.6)	(5.1)	(8.2)	0.1	(13.2)
Total rental income	**346.8**	**311.6**	**8.7**	**667.1**	**318.0**	**278.5**	**4.3**	**600.8**

Open market value reconciliation

	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Year ended 31/03/07 £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Year ended 31/03/06 £m
Combined portfolio	8,060.7	6,102.9	498.8	14,662.4	7,590.1	4,806.5	408.3	12,804.9
Central London shops (excluding Metro Shopping Fund LP)	(1,182.6)	1,182.6	–	–	(1,053.8)	1,053.8	–	–
Inner London offices in Metro Shopping Fund LP	21.0	(21.0)	–	–	18.3	(18.3)	–	–
Rest of UK offices	90.1	–	–	90.1	88.0	–	–	88.0
Allocation of other	237.0	196.8	(433.8)	–	256.5	90.4	(346.9)	–
Combined portfolio	**7,226.2**	**7,461.3**	**65.0**	**14,752.5**	**6,899.1**	**5,932.4**	**61.4**	**12,892.9**

Gross estimated rental value reconciliation

	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Year ended 31/03/07 £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Year ended 31/03/06 £m
Combined portfolio	512.4	394.3	23.4	930.1	470.3	344.4	26.3	841.0
Central London shops (excluding Metro Shopping Fund LP)	(70.7)	70.7	–	–	(57.5)	57.5	–	–
Inner London offices in Metro Shopping Fund LP	1.0	(1.0)	–	–	0.9	(0.9)	–	–
Rest of UK offices	4.7	–	–	4.7	5.0	–	–	5.0
Allocation of other	8.5	10.7	(19.2)	–	15.3	6.7	(22.0)	–
Combined portfolio	**455.9**	**474.7**	**4.2**	**934.8**	**434.0**	**407.7**	**4.3**	**846.0**

Development pipeline financial summary

	Cumulative movements on the development programme to 31/03/07						Total scheme details				
	Market value at start of scheme £m	Capital expenditure incurred to date £m	Capitalised interest to date £m	Revaluation surplus to date[1] £m	Disposals, SIC15 rent and other adjustments £m	Market value at 31/03/07 £m	Estimated total capital expenditure[4] £m	Estimated total capitalised interest £m	Estimated total cost less proceeds[2] £m	Net income/ ERV[3] £m	Valuation surplus/ (deficit) for year ended 31/03/07[1] £m
Development programme let, transferred or sold											
Retail warehouses	5	16	1	11	–	33	16	1	22	2	(2)
Development programme completed, approved or in progress											
Shopping centres and shops	110	328	18	53	(5)	504	860	63	963	63	32
Retail warehouses	31	54	1	6	3	95	78	3	112	7	6
London Portfolio	387	752	55	719	41	1,954	1,358	126	1,871	148	421
	528	1,134	74	778	39	2,553	2,296	192	2,946	218	459
	Movement on proposed developments for the year ended 31/03/07										
Proposed developments											
Retail warehouses	6	–	–	–	–	6	4	–	10	1	–
London Portfolio	281	14	–	26	2	323	617	51	827	58	26
	287	14	–	26	2	329	621	51	837	59	26

Notes:
1. Includes profit realised on the disposal of property.
2. Includes the property at the market valuation at the start of the financial year in which the property was added to the development programme together with estimated capitalised interest. For proposed development properties, the market value of the property at 31 March 2007 is included in the estimated total cost. Estimated total cost is stated net of residential proceeds for shopping centres and shops of £70m, for developments in progress. The London Portfolio proposed developments are stated net of residential proceeds of £122m. Allowances for rent-free periods are excluded from cost.
3. Net headline annual rental payable on let units plus net ERV at 31 March 2007 on unlet units.
4. For those schemes transferred, or sold, completed or in progress the cost for each scheme is shown on page 40 for Retail Portfolio and page 51 for London Portfolio. The costs of the proposed development properties are not shown on a scheme by scheme basis as the schemes have not yet been finalised and could still be subject to material change. For proposed development properties the estimated total capital expenditure represents the outstanding costs required to complete the schemes as at 31 March 2007 together with pre-development costs incurred prior to that date if the benefit of that expenditure has been excluded from the valuation as at 31 March 2007. Such pre-development costs are included in the accounts as prepayments and are not included in the property additions.

Land Securities Trillium contract analysis

Year ended 31/03/07	Contract								
	DWP	BBC	Norwich Union	DVLA	Barclays	Telereal II	Other[3]	Total	IIC[2] (50%)
Contract length									
Term (years)[1]	20	5	25	20	20	4.5			
Expiry date	Mar 2018	Jun 2006	Jun 2029	Mar 2025	Dec 2024	Mar 2010			
Income statement	£m	£m	£m	£m	£m	£m	£m	£m	£m
Unitary charge	519.8	16.4	12.3	8.3	2.1	–	–	558.9	–
Third party (sublet) income	8.0	–	0.9	–	1.6	–	0.9	11.4	–
Capital projects	129.4	10.5	0.5	6.6	–	–	0.5	147.5	–
Other revenue	10.6	6.4	0.9	1.2	–	44.9	2.9	66.9	1.6
Proceeds of sales of trading properties	–	–	1.7	–	–	–	–	1.7	–
Finance lease income	–	–	5.1	1.0	–	–	–	6.1	–
Gross property income	667.8	33.3	21.4	17.1	3.7	44.9	4.3	792.5	1.6
Rents payable	(174.4)	–	(3.7)	(1.8)	–	–	–	(179.9)	–
Service partners (maintenance, facilities, etc)	(155.8)	(11.7)	(3.6)	(4.0)	–	–	(1.0)	(176.1)	–
Life cycle maintenance costs	(23.0)	–	(1.1)	(0.7)	–	–	–	(24.8)	–
Capital projects	(126.1)	(8.6)	(0.5)	(6.3)	–	–	(0.5)	(142.0)	–
Cost of sales of trading properties	–	–	(0.5)	–	–	–	–	(0.5)	–
Other costs, including overheads	(82.7)	(10.2)	(2.1)	(2.2)	(0.4)	(28.8)	(14.8)	(141.2)	(3.6)
Bid costs	–	–	–	–	–	–	(2.8)	(2.8)	(0.9)
Depreciation	(24.8)	–	(0.7)	(0.4)	–	–	(0.5)	(26.4)	(0.1)
Underlying operating profit/(loss)	81.0	2.8	9.2	1.7	3.3	16.1	(15.3)	98.8	(3.0)
Profit on sale of non-current assets	2.8	4.7	–	–	–	–	–	7.5	–
Net surplus/(deficit) on revaluation of investment properties	–	–	–	–	0.8	–	(14.4)	(13.6)	–
Segment profit/(loss)	83.8	7.5	9.2	1.7	4.1	16.1	(29.7)	92.7	(3.0)
Capital expenditure									
Life cycle maintenance costs capitalised	(18.7)	–	(0.2)	–	–	–	(0.1)	(19.0)	
Estates costs capitalised	(7.6)	–	–	–	–	–	(0.3)	(7.9)	
Book value of assets at 31 March 2007									
Investment in associate	–	–	–	–	–	–	5.0	5.0	
Investment properties	–	–	–	–	27.9	–	399.7	427.6	
Operating properties	507.5	–	43.4	–	–	–	0.6	551.5	

1. Barclays contract is a sale and leaseback term.
2. IIC includes the results for the period for which it was a joint venture.
3. The Other column includes:
   Royal Mail – revaluation deficit of £6.1m in relation to stamp duty and other acquisition costs.
   Accor – one month trading profit of £1.5m, and revaluation deficit of £11.7m in relation to stamp duty and other acquisition costs.
   Other – revaluation surplus of £3.4m.

Land Securities Trillium contract analysis by floor area at 31 March 2007

Floor space	DWP 000m²	Norwich Union 000m²	DVLA 000m²	Barclays 000m²	Telereal II 000m²	Royal Mail 000m²	Accor 000m²	Other 000m²	Total 000m²
Client occupied	1,996.0	107.0	16.2	11.4	–	92.7	251.0	14.2	2,488.5
Third party (sublet)	81.0	5.3	–	18.1	–	94.1	–	11.0	209.5
Vacant	244.2	2.7	–	7.5	–	68.5	–	–	322.9
Total	2,321.2	115.0	16.2	37.0	–	255.3	251.0	25.2	3,020.9
Freeholds/valuable leaseholds	840.0	40.0	–	11.3	–	128.5	251.0	25.2	1,296.0
Leaseholds	1,481.2	75.0	16.2	25.7	–	126.8	–	–	1,724.9
Total	2,321.2	115.0	16.2	37.0	–	255.3	251.0	25.2	3,020.9
Estate managed but not transferred	78.7	8.7	86.7	–	150.0	–	–	–	324.1

Figures exclude the PPP assets held for sale of 1,458,000m².

Land Securities Trillium vacation allowance and portfolio activity – DWP

000m²	31/03/06	Acquisitions	Vacations*	Lettings	Disposals	31/03/07
Client occupied	2,216.2	0.3	(220.5)	–	–	1,996.0
Third party (sublet)	66.4	–	(9.0)	34.6	(11.0)	81.0
Vacant	163.5	–	229.5	(34.6)	(114.2)	244.2
Total	2,446.1	0.3	–	–	(125.2)	2,321.2
Freeholds/valuable leaseholds	861.5	0.3	–	–	(21.8)	840.0
Leaseholds	1,584.6	–	–	–	(103.4)	1,481.2
Total	2,446.1	0.3	–	–	(125.2)	2,321.2
Estate managed but not transferred	93.1	–	(14.4)	–	–	78.7

	31/03/06	31/03/07
Vacation allowance used to date	234.1	392.7
Available allowance	289.7	130.5
Future allowance	198.2	164.4

*Includes core vacations.

Land Securities Trillium portfolio activity – Barclays

000m²	31/03/06	Acquisitions	Vacations	Lettings	Disposals*	31/03/07
Client occupied	11.4	–	–	–	–	11.4
Third party (sublet)	14.8	–	(0.1)	3.4	–	18.1
Vacant	23.9	–	0.1	(3.4)	(13.1)	7.5
Total	50.1	–	–	–	(13.1)	37.0
Freeholds/valuable leaseholds	11.3	–	–	–	–	11.3
Leaseholds	38.8	–	–	–	(13.1)	25.7
Total	50.1	–	–	–	(13.1)	37.0

*Includes lease surrenders, lease expiries and disposals.

Land Securities Trillium portfolio activity – Royal Mail

000m²	31/03/06	Acquisitions	Vacations	Lettings	Disposals	31/03/07
Client occupied	–	92.7	–	–	–	92.7
Third party (sublet)	–	94.1	–	–	–	94.1
Vacant	–	68.5	–	–	–	68.5
Total	–	255.3	–	–	–	255.3
Freeholds/valuable leaseholds	–	128.5	–	–	–	128.5
Leaseholds	–	126.8	–	–	–	126.8
Total	–	255.3	–	–	–	255.3

Since acquisition at 7 March 2007 there has been no change in the portfolio.

Investor information

The report and financial statements, share price information, company presentations, primary financial statements as Excel downloads, the financial calendar, Corporate Governance, contact details and other debt and equity investor information on the Group are available through the internet on www.landsecurities.com/investorrelations

Registrar

All general enquiries concerning holdings of ordinary shares in Land Securities Group PLC, should be addressed to:
Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.
Telephone: 0870 600 3972
Textphone: 0870 600 3950
Website: www.shareview.co.uk

An online share management service is available, enabling shareholders to access details of their Land Securities shareholdings electronically. Shareholders wishing to view this information, together with additional information such as indicative share prices and information on recent dividends, should visit the online shareholder centre at www.landsecurities.com/investorrelations or www.shareview.co.uk

E-communication

UK shareholders may elect to receive communications electronically. Shareholders who opt to receive electronic communications can also submit their proxy votes electronically. To register for this service, shareholders should visit the online shareholder centre at www.landsecurities.com/investorrelations or www.shareview.co.uk

Payment of dividends

Shareholders whose dividends are not currently paid to mandated accounts may wish to consider having their dividends paid directly into their bank or building society account. This has a number of advantages, including the crediting of cleared funds into the nominated account on the dividend payment date. If shareholders would like their future dividends to be paid in this way, they should complete a mandate instruction available from the registrars. Under this arrangement tax vouchers are sent to the shareholder's registered address.

Dividend reinvestment plan (DRIP)

The Company offers shareholders the option to participate in a DRIP. This enables shareholders to reinvest their cash dividends in Land Securities Group PLC shares.

For further details, contact:
The Share Dividend Team, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA
Telephone: 0870 241 3018
International dialling: +44 121 415 7049

For participants in the plan, key dates can be found in the online financial calendar at www.landsecurities.com/investorrelations

REIT dividend payments

An explanation of the impact of REIT conversion on the Group's dividend payments is given on page 27. A more detailed note on the tax consequences for shareholders and forms to enable certain classes of shareholder to claim exemption from withholding tax are available on our website at www.landsecurities.com

Low cost share dealing facilities

Shareview provides both existing and prospective UK shareholders with simple, low cost ways of buying and selling Land Securities Group PLC ordinary shares by telephone, internet or post.

For telephone dealing, call 0870 850 0852 between 8.00am and 4.30pm Monday to Friday.
For internet dealing, log on to www.shareview.co.uk/dealing
For postal dealing, call 0870 242 4244 for full details and a form.

Existing shareholders will need to provide the account/shareholder reference number, shown on the share certificate.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to the charity ShareGift, (registered charity 1052686) which specialises in using such holdings for charitable benefit. A ShareGift Donation form can be obtained from:
Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA

Further information about ShareGift is available at www.sharegift.org or by writing to:
ShareGift, 46 Grosvenor Street, London W1K 3HN
Telephone: 020 7828 1151

Corporate Individual Savings Accounts (ISAs)

The Company has arranged for a Corporate ISA to be managed by Lloyds TSB Registrars, who can be contacted at:
The Causeway, Worthing, West Sussex BN99 6UY
Telephone: 0870 242 4244

Capital gains tax

For the purpose of capital gains tax, the price of the Company's ordinary shares at 31 March 1982, adjusted for the capitalisation issue in November 1983, was 205p.

The appropriate values to be used as base costs in respect of shares in Land Securities Group PLC issued under the Scheme of Arrangement in September 2002 are:
Ordinary shares – 769p
B shares – 101p
so that the new ordinary shares and the B shares received in respect of the old ordinary shares in Land Securities PLC will attract 86.99% and 13.01% respectively of the base cost of those old ordinary shares.

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register, which provides a search facility for financial assets which may have been forgotten. For further information, contact:
The Unclaimed Assets Register, Cardinal Place, 6th Floor, 80 Victoria Street, London SW1E 5JL
Telephone: 0870 241 1713
Website: www.uar.co.uk

Share price information

The latest information on Land Securities Group PLC share price is available on our website www.landsecurities.com

Registered office

5 Strand, London WC2N 5AF
Registered in England and Wales
No. 4369054

Offices

5 Strand, London WC2N 5AF
and at:
140 London Wall, London EC2Y 5DN
1 City Walk, Leeds S11 9DX
120 Bath Street, Glasgow G2 2EN

Glossary

Adjusted earnings per share (EPS)
Earnings per share based on revenue profit plus profits on trading properties and long-term development contracts all after tax.

Adjusted net asset value (NAV) per share
NAV per share adjusted to add back deferred tax associated with investment properties and capitalised interest, the adjustment arising from the de-recognition of the bond exchange, together with cumulative mark-to-market adjustment arising on interest swaps and similar instruments used for hedging purposes. After REIT conversion, the adding back of deferred tax is no longer relevant.

Average unexpired lease term
Excludes short-term lettings such as car parks and advertising hoardings, residential leases and long ground leases.

Balanced scorecard
An approach to strategic management developed in the early 1990s by Drs. Robert Kaplan and David Norton to translate an organisation's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth.

Book value
The amount at which assets and liabilities are reported in the financial statements.

Breeam
Building Research Establishment Environmental Assessment Method, world's most widely used environmental assessment method for buildings which assesses environmental impact against a set of objective criteria.

CABE
Commission for Architecture and the Built Environment (CABE).

Combined portfolio
The combined portfolio is our wholly-owned investment property portfolio combined with our share of the value of properties held in joint ventures, but excludes any investment properties owned by Land Securities Trillium. Unless stated these are the pro-forma numbers we use when discussing the investment property business.

Development pipeline
The Group's development programme together with any proposed schemes that are not yet included in the development programme but which are more likely to proceed than not.

Development programme
The Group's development programme comprises projects which are completed but less than 95% let; developments on site; committed developments (being projects which are approved and the building contract let); and authorised developments (those projects approved by the Board for which the building contract has not yet been let). For reporting purposes we retain properties in the programme until they are 95% let.

Development surplus
Excess of latest valuation over the total development cost (TDC).

Diluted figures
Reported amount adjusted to include the effects of potential shares issuable under employee share schemes.

Earnings per share (EPS)
Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

Equivalent yield
The internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent, and such items as voids and expenditures but disregarding potential changes in market rents and reflecting the actual cash flow rents.

Estimated rental value (ERV)
The estimated market rental value of lettable space as determined biannually by the Company's valuers. This will normally be different to the rent being paid.

Exceptional item
An item of income or expense that is deemed to be sufficiently material, either by its size or nature, to require separate disclosure.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Flexible accommodation allowance
Allowance agreed between a property outsourcing client and Land Securities Trillium, to vacate a given amount of floor space or to expand over the life of the contract.

Gearing (net)
Total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus non-equity shareholders' funds as a percentage of equity shareholders' funds.

Gross income yield
The annual net rent on investment properties expressed as a percentage of the valuation ignoring costs of purchase or sale.

Head lease
A lease under which the Group holds an investment property.

Initial yield
Annualised net rents on investment properties expressed as a percentage of the valuation.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are used by the Group to convert floating rate debt to fixed rates.

Investment portfolio
The investment portfolio comprises our wholly-owned investment properties together with the properties held for development but excludes Land Securities Trillium properties.

Joint venture
An entity in which the Group holds an interest on a long-term basis and is jointly controlled by the Group and one or more venturers under a contractual arrangement whereby decisions on financial and operating policies essential to the operation, performance and financial position of the venture require each venturer's consent.

Landflex
Landflex fits between a conventional office and a serviced office solution by offering flexibility on leases, certainty on costs and a broader range of services.

Lease incentives
Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent-free period, or a cash contribution to fit-out or similar costs. For accounting purposes, under IFRS, the value of the rent-free period is spread over the non-cancellable life of the lease.

LIBOR
The London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

Like-for-like portfolio
Properties that have been in the investment or combined portfolio for the whole of the current and previous financial year.

London Portfolio
This business includes all London offices and London retail, but excludes those assets held in the Metro Shopping Fund LP.

Mark-to-market adjustment
An accounting adjustment to change the book value of an asset or liability to its market value.

Net asset value (NAV) per share
Total equity divided by the number of ordinary shares in issue at the period end.

Open A1 planning consent
Planning permission for the retail sale of any goods.

Open market value
Open market value is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers). In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees.

Operating properties
Properties acquired and managed by Land Securities Trillium as part of its property outsourcing contracts with third parties and which do not meet the accounting definition of investment property.

Other investment portfolio
This comprises all other investment properties not included in Retail or London Portfolio.

Outline planning consent
This gives consent in principle for a development, and covers matters such as use and building mass. Full details of the development scheme must be provided in an application for full planning consent, including detailed design, external appearance and landscaping before a project can proceed. An outline planning permission will lapse if full planning permission is not granted within three years.

Over-rented
Space that is let at a rent above its ERV.

Passing rent
The annual rental income receivable which may be more or less than the ERV (see over-rented and reversionary).

Pre-let
A lease signed with an occupier prior to completion of a development.

Private Finance Initiative (PFI)
A particular form of PPP, that is a government or public authority initiative to acquire private financing for public sector infrastructure.

Property Income Distribution (PID)
A PID is a distribution by a REIT to its shareholders paid out of qualifying profits. A REIT is required to distribute at least 90% of its qualifying profits as a PID to its shareholders.

Public Private Partnership (PPP)
A partnership that brings together, for mutual benefit, a public body and a private company in a long-term joint venture for the purpose of delivering public projects or services.

Qualifying activities/Qualifying assets
The ownership (activity) of property (assets) which is held to earn rental income and qualifies for tax-exempt treatment (income and capital gains) under UK REIT legislation.

Real Estate Investment Trust (REIT)
A REIT must be a publicly quoted company with at least three quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90% of those profits to shareholders. Corporation tax is payable on non-qualifying activities in the normal way.

Rental value growth
Increase in the current rental value, as determined by the Company's valuers, over the 12 month period on a like-for-like basis.

Retail park
A scheme of three or more retail warehouse units aggregating over 4,650m^2 with shared parking.

Retail Portfolio
This business includes our shopping centres, shops, retail warehouse properties and assets held in retail joint ventures but not London retail.

Return on average capital employed
Group profit before interest, plus joint venture profit before tax, divided by the average capital employed (defined as shareholders' funds plus net debt).

Return on average equity
Group profit before tax plus joint venture tax divided by the average equity shareholders' funds.

Revenue profit
Profit before tax, excluding profits on the sale of non-current asset and trading properties, profits on long-term development contracts, revaluation surpluses, mark-to-market adjustments on interest rate swaps and similar instruments used for hedging purposes, the adjustment to interest payable resulting from the amortisation of the bond exchange de-recognition, debt restructuring charges and any exceptional items.

Reversionary or under-rented
Space where the passing rent is below the ERV.

Reversionary yield
The anticipated yield to which the initial yield will rise once the rent reaches the ERV.

Total business return
Dividend per share, plus the increase in adjusted diluted net asset value per share, divided by the adjusted diluted net asset value per share at the beginning of the period.

Total development cost (TDC)
All capital expenditure on a project including the opening book value of the property on commencement of development, together with all finance costs less residential proceeds.

Total property return
Valuation surplus, profit/(loss) on property sales and net rental income in respect of investment properties expressed as a percentage of opening book value of the investment property portfolio.

Total shareholder return
The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Trading properties
Properties held for trading purposes and shown as current assets in the balance sheet.

Turnover rent
Rental income which is related to an occupier's turnover.

Underlying operating profit
Operating profit before profit on disposal of non-current properties, revaluation of investment properties, and exceptional items stated within operating profit.

Unitary charge
The basic payment received by Land Securities Trillium under a property outsourcing contract.

Voids
The area in a property or portfolio, excluding developments, which is currently available for letting.

Weighted average cost of capital (WACC)
Weighted average of cost of debt and notional cost of equity, used as a benchmark to assess investment returns.

Yield shift
A movement (negative or positive) in the equivalent yield of a property asset.

Zone A
A means of analysing and comparing the rental value of retail space by dividing it into zones parallel with the main frontage. The most valuable zone, Zone A, is at the front of the unit. Each successive zone is valued at half the rate of the zone in front of it.

Index

Investor Information

Annual Report

- All you need to know about us
- Performance overview for financial year 2006/07
- Chairman's statement
- Chief Executive's report
- Business and Financial review
- The impact of REITs
- Performance of Retail Portfolio, London Portfolio and Property Partnerships
- Board of Directors
- Corporate responsibility summary
- Corporate governance
- Risk management
- Directors' remuneration report
- Financial statements
- Business analysis
- Investor information

What would you like to know about Land Securities?

Corporate Responsibility Report

- Our approach to corporate responsibility
- Our response to climate change
- Corporate responsibility stakeholders
- 2006/07 activities and achievements
- 2007/08 targets and 2010 objectives
- Future challenges

Website
www.landsecurities.com

- Our vision, strategy, objectives and values
- Information on our Retail Portfolio, London Portfolio and Property Partnerships
- Structure and Senior Management at Land Securities
- Latest information for investors
- Corporate responsibility
- Media centre
- Working at Land Securities
- Awards and memberships
- FAQs
- Contact details

Liability Limitation Statement

Forward-looking Statements
By their nature, the statements concerning the risks and uncertainties facing the Group in the 2007 Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated.
The statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these statements. Nothing in this Annual Report should be construed as a profit forecast.

Website
Land Securities' website www.landsecurities.com gives additional information on the Group. Information made available on the website does not constitute part of this Annual Report.

Notice regarding limitations on Director liability under English law
Under the UK Companies Act 2006, a new safe harbour limits the liability of Directors in respect of statements in and omissions from the Report of the Directors contained on pages 4 to 86. Under English law the Directors would be liable to the Company (but not to any third party) if the Report of the Directors contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

Report of the Directors
Pages 4 to 86 inclusive consist of a Report of the Directors that has been drawn up and presented in accordance with and in reliance upon English law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

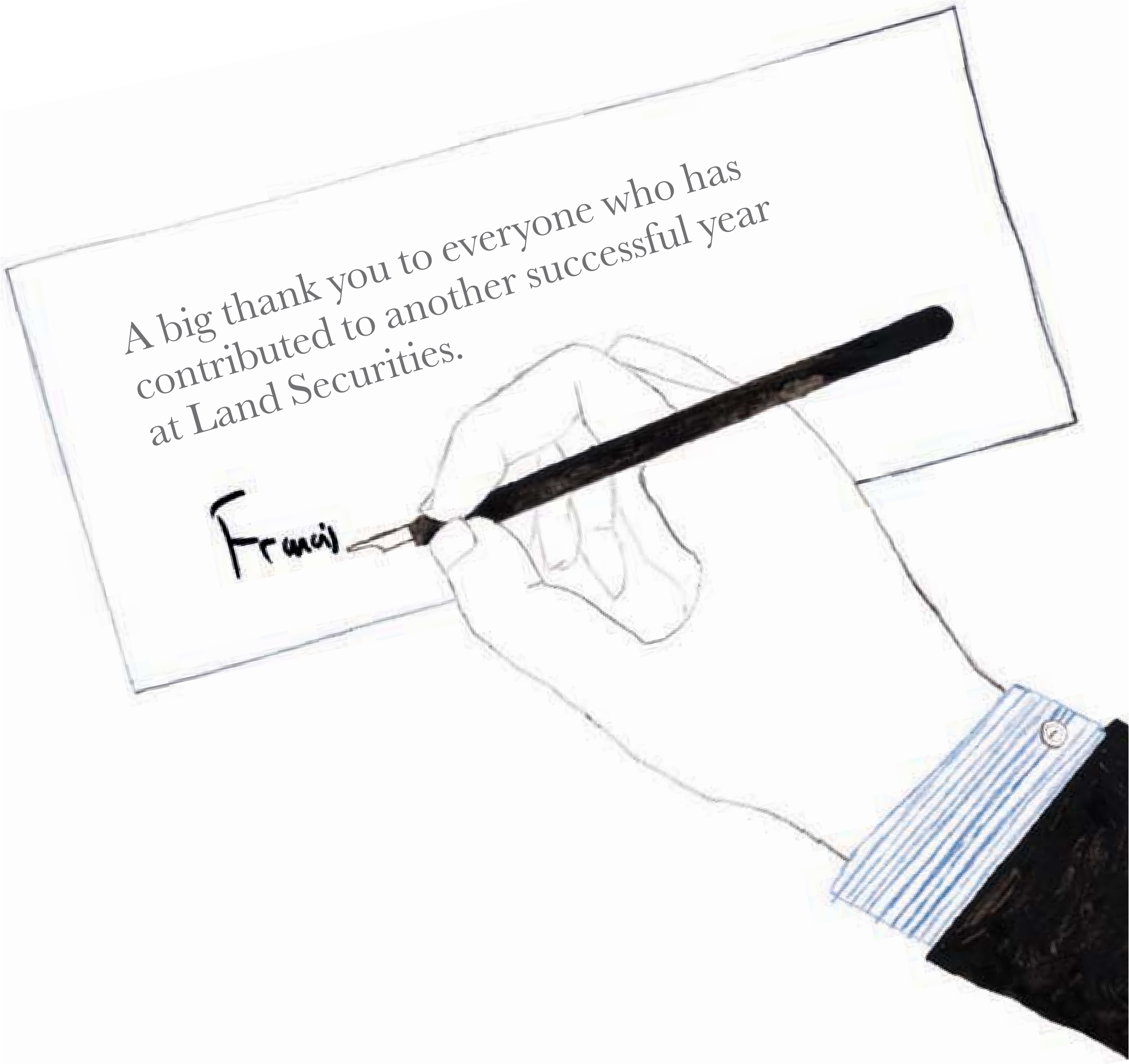
Contact details

If you have any comments in respect to this year's Annual Report please contact:

Investor Relations Department
Land Securities Group PLC
5 Strand
London WC2N 5AF

T: +44(0)20 7413 9000
E: investor.relations@landsecurities.com
www.landsecurities.com

If you have any other comments or queries on any aspect of our business, please do not hesitate to contact us as above and we will pass your enquiry on to the relevant individual.



Design by sasdesign.co.uk
Illustrations by Laura Carlin
Photography by Matt Mawson
Printed by St Ives Westerham Press, environmentally accredited printers ISO 14001.

This report is printed on paper that meets international environment standards, contains total chlorine free virgin pulp, obtained from sustainably managed forests.