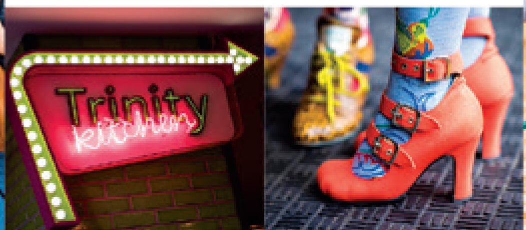



# ANNUAL REPORT 2016

LandSecurities



# LAND SECURITIES AT A GLANCE

We are the largest listed commercial property company in the UK by market capitalisation.

We buy, sell, develop and manage commercial property, with a focus on offices, retail and leisure in London, and retail and leisure outside London.

Our vision is to be the best property company in the UK in the eyes of our customers, our communities, our partners and our employees. Our goal is to outperform our peer group in terms of total shareholder return through the property cycle. Here we show our financial performance over the last 12 months and beyond.

**PROFIT BEFORE TAX**
INCLUDING VALUATION SURPLUS
**£1,335.6m**
2015: £2,416.5m

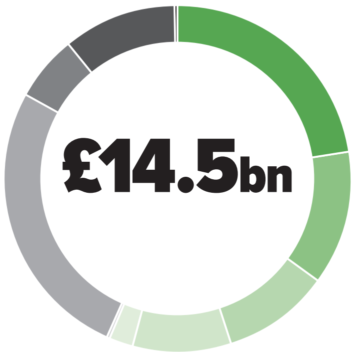
**TOTAL PROPERTY RETURN**
**11.5%**
2015: 23.0%

**TOTAL SHAREHOLDER RETURN[1]**
**-9.6%**
2015: 26.3%

**TOTAL BUSINESS RETURN[1]**
**13.4%**
2015: 30.7%

**DIVIDEND PER SHARE[2]**
**35.0p**
2015: 31.85p

## COMBINED PORTFOLIO VALUE



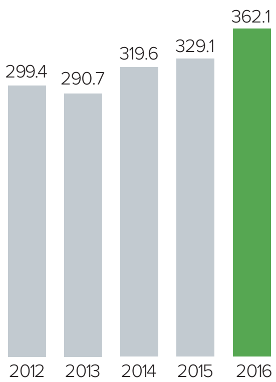

**LONDON**

| | |
|---|---|
| West End offices | 22.5% |
| City offices | 12.5% |
| Central London shops | 10.1% |
| Mid-town offices | 9.2% |
| Inner London offices | 2.2% |
| Other | 0.3% |

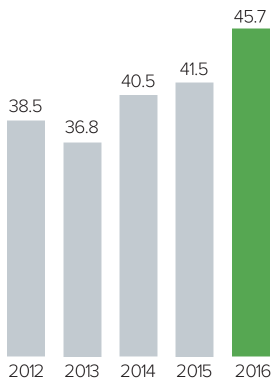
**RETAIL**

| | |
|---|---|
| Shopping centres and shops | 26.2% |
| Retail parks | 6.2% |
| Leisure and hotels | 10.7% |
| Other | 0.1% |

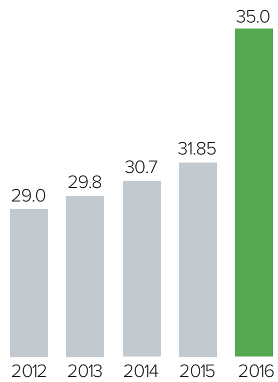
**REVENUE PROFIT[3,4]**
£m



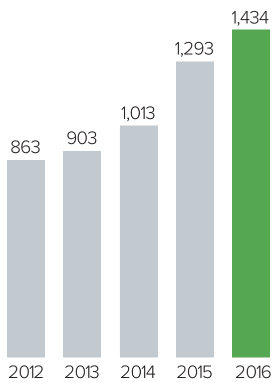

**ADJUSTED DILUTED EARNINGS[4]**
PENCE PER SHARE



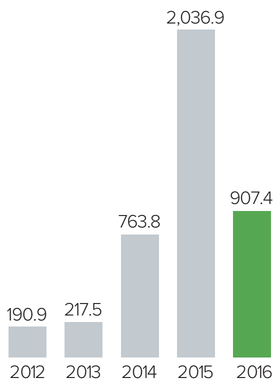

**DIVIDEND[2]**
PENCE PER SHARE



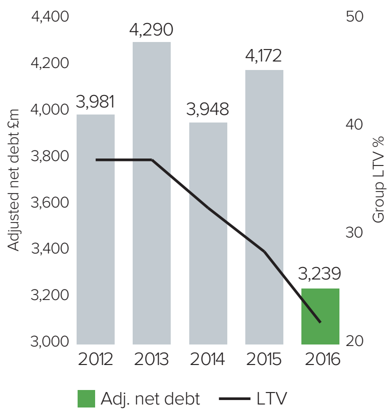

**ADJUSTED DILUTED NAV**
PENCE PER SHARE




**VALUATION SURPLUS[4,5]**
£m




**ADJUSTED NET DEBT AND LTV RATIO[4]**




The six charts above show the main components of our most important indicator of progress – total return.

**Notes**
1. Total Shareholder Return and total business return provide shareholders with the clearest guide to the Group's progress in financial terms.
2. We aim to deliver a progressive dividend.
3. Revenue profit is our measure of the underlying pre-tax profit of the Group.
4. Includes proportionate share of joint ventures and subsidiaries, as explained in the notes to the financial statements.
5. The percentage change for the valuation surplus represents the increase in value of the Combined Portfolio over the year, adjusted for net investment.

# OUR PURPOSE IS TO PROVIDE THE RIGHT SPACE FOR OUR CUSTOMERS AND OUR COMMUNITIES – HELPING BUSINESSES TO SUCCEED, THE ECONOMY TO GROW AND PEOPLE TO THRIVE.

To ensure we provide the right space we must constantly anticipate and meet people's changing needs, using our insight and experience to inspire how we shape our buildings.

This year we highlight some of the gems in our portfolio, the key things we did at those places during the year, and how people use and enjoy our space.

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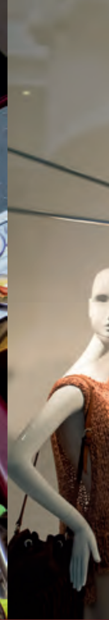
# BLUEWATER, KENT

A famous location for fabulous shopping and a great day out, Bluewater attracts 27 million visits a year and is ranked the number one out-of-town retail destination in the UK.

We acquired a 30% stake and asset management rights in 2014. Since then we've been working to take the guest experience to the next level. The centre already has the longest dwell time of any UK shopping centre; by constantly reviewing the retail and leisure mix and enhancing the space, we want to give people an even better time.

The centre has more than 300 retailers. Much of our work this year has focused on adding space for some of the most popular brands. For example, we completed a major extension for Next, new space for Swiss luxury watchmaker Breitling, and are currently extending the H&M store.

Along with the shops, guests also enjoy an amazing array of restaurants, cafés, bars and a cinema. We closed the Glow events area this year so we could create more space for food and new opportunities to introduce exciting retailers in the coming months. We also introduced a new natural ventilation system, which keeps the temperature just right, while reducing costs and carbon emissions. And we've continued to promote biodiversity in the 50 acres of surrounding parkland, which is home to one million trees and shrubs as well as orchards, lakes and 27 rare and protected species of plants and animals.



**"AS FACILITIES MANAGER FOR BLUEWATER, OUR AIM IS TO FOCUS ON GIVING GUESTS A TRULY OUTSTANDING EXPERIENCE ON EVERY VISIT."**

**Bruce McDonnell,** Managing Director, Incentive FM LTD


**"RETAIL IS ALL ABOUT THE DELIVERY OF OUTSTANDING EXPERIENCES AND WE ARE PROUD OF THE ROLE WE PLAY IN SUPPORTING THIS AT BLUEWATER."**

**Ben Gay,** Training and Facilities Manager, The Learning Shop

**ALWAYS LOVE GOING TO BLUEWATER, ALWAYS CLEAN, AND THE STAFF ARE VERY HELPFUL.”**

**Visitor to Bluewater Shopping Centre**

## WE WERE DELIGHTED TO RECEIVE SO MANY WONDERFUL GIFTS FROM BLUEWATER FOR OUR DISADVANTAGED CHILDREN – THE GIVING TREE IS A TRULY MAGICAL INITIATIVE.”

**Katherine Mobey,** Partnerships Manager, Ellenor

**THERE’S A TOTAL FOCUS HERE ON DELIVERING AN OUTSTANDING RETAIL AND LEISURE EXPERIENCE FOR OUR GUESTS.”**

**Claire Mitchell,** Marketing Communication Manager, Bluewater

# THE ZIG ZAG BUILDING, SW1

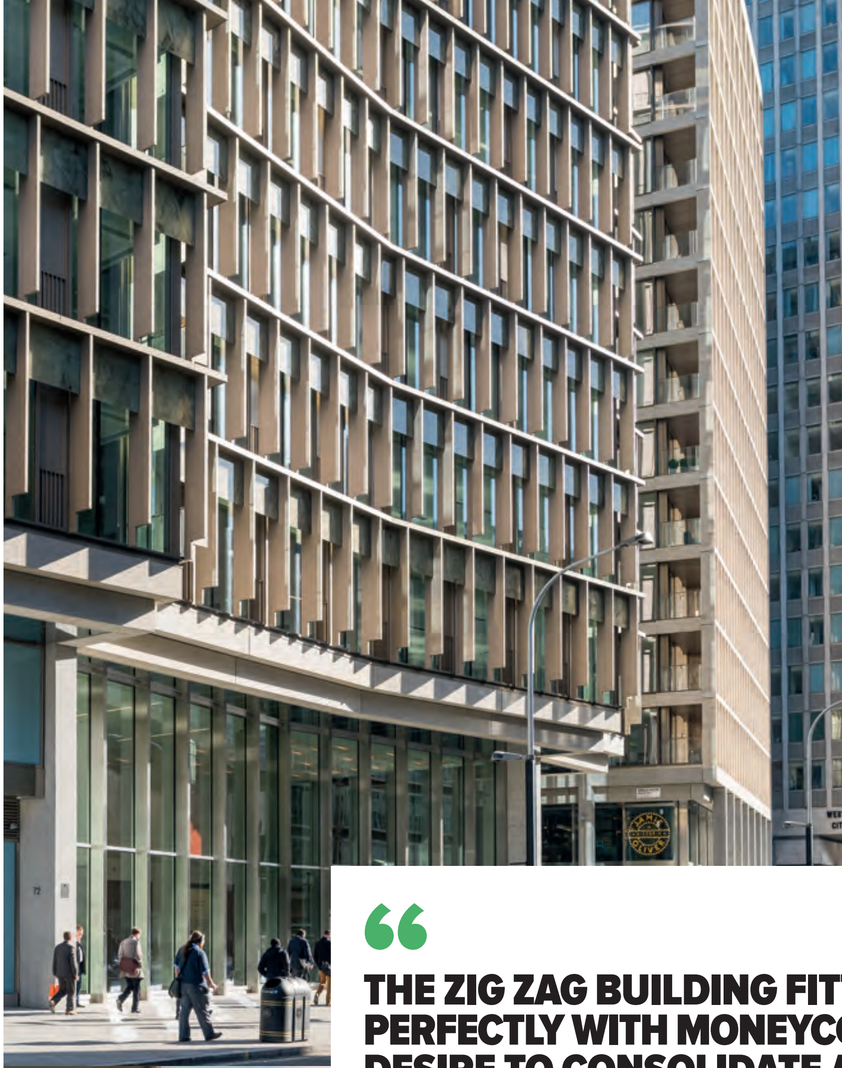
Completed this year and 88% let, The Zig Zag Building is 11 floors of bright, flexible commercial office space with new shops, restaurants and public realm at street level – all in the heart of a transformed Victoria, SW1.

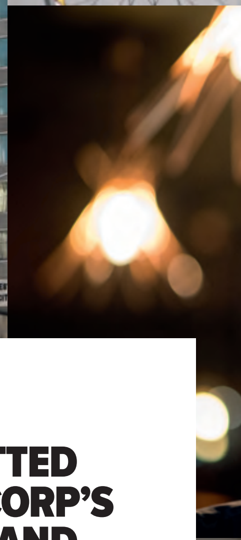
Its design has earned it the moniker the 'thoughtful building'. By harnessing the latest innovations, it offers a healthy, inspiring and productive working environment.

Higher ceilings, open terraces and full-length openable windows mean more space, natural light and exceptional views. Ample cycle spaces, showers and high-end changing rooms anticipate growing employee demand, especially as Londoners diversify their commutes. With an 'Excellent' BREEAM rating, the building features resilient power, LED lighting, solar panels and rainwater harvesting.

The Zig Zag Building has drawn new occupiers from across the West End and City, helping to redefine Victoria as a place businesses are proud to call home. We delivered into supply-constrained market conditions, achieving rental values and lease lengths ahead of our expectations. We've carefully planned development along Victoria Street to ensure our schemes don't compete. For example, as well as being delivered 30 months after nearby 62 Buckingham Gate, The Zig Zag Building neatly complements the former's larger floorplates.

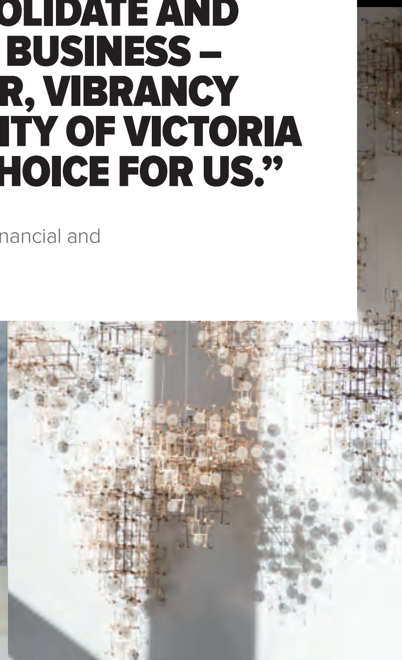
The Zig Zag Building is already proving popular with office occupiers, shoppers and diners. Architecturally, the building both rises and recedes – effectively giving back space to Victoria Street and transforming it from a thoroughfare into a destination in its own right.





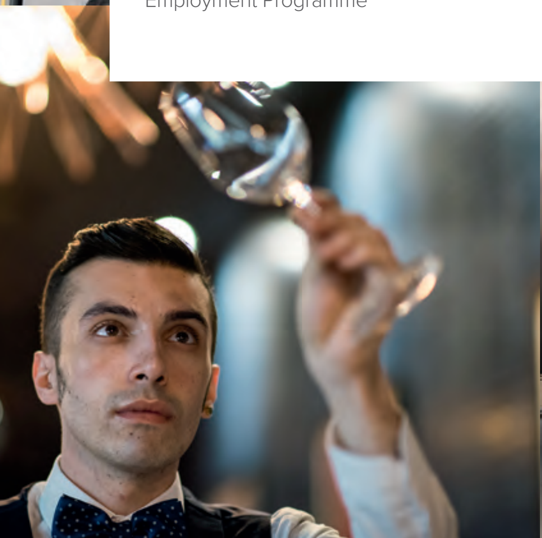
**"THE ZIG ZAG BUILDING FITTED PERFECTLY WITH MONEYCORP'S DESIRE TO CONSOLIDATE AND REPOSITION THE BUSINESS – THE RETAIL OFFER, VIBRANCY AND CONNECTIVITY OF VICTORIA WAS THE ONLY CHOICE FOR US."**

**Nick Haslehurst,** Director, Chief Financial and Operating Officer, Moneycorp



“MY SELF-CONFIDENCE AND SKILLS HAVE BROUGHT ME INTO CONTACT WITH PEOPLE I WOULDN’T NORMALLY MEET.”

**Michael,** Candidate, Community Employment Programme


“I HAVE BEEN SEARCHING FOR THE PERFECT LOCATION TO OPEN A NEW VENUE. VICTORIA STUCK OUT AS THE AREA WHICH IS BECOMING LONDON’S MOST EXCITING CREATIVE HUB. THE DEMOGRAPHIC OF RESIDENTS AND WORKERS IN VICTORIA SUITS OUR BRAND PERFECTLY, IT’S A LOCATION IN WHICH I AM SURE OUR MULTI-FACETED VENUE WILL THRIVE.”

**Martin Williams,** Founder and CEO, M Restaurants

“WE ARE VERY HAPPY TO BE PART OF THE REGENERATION OF VICTORIA.”

**Maarten Slendebroek,** Chief Executive Officer, Jupiter

# NOVA, VICTORIA, SW1

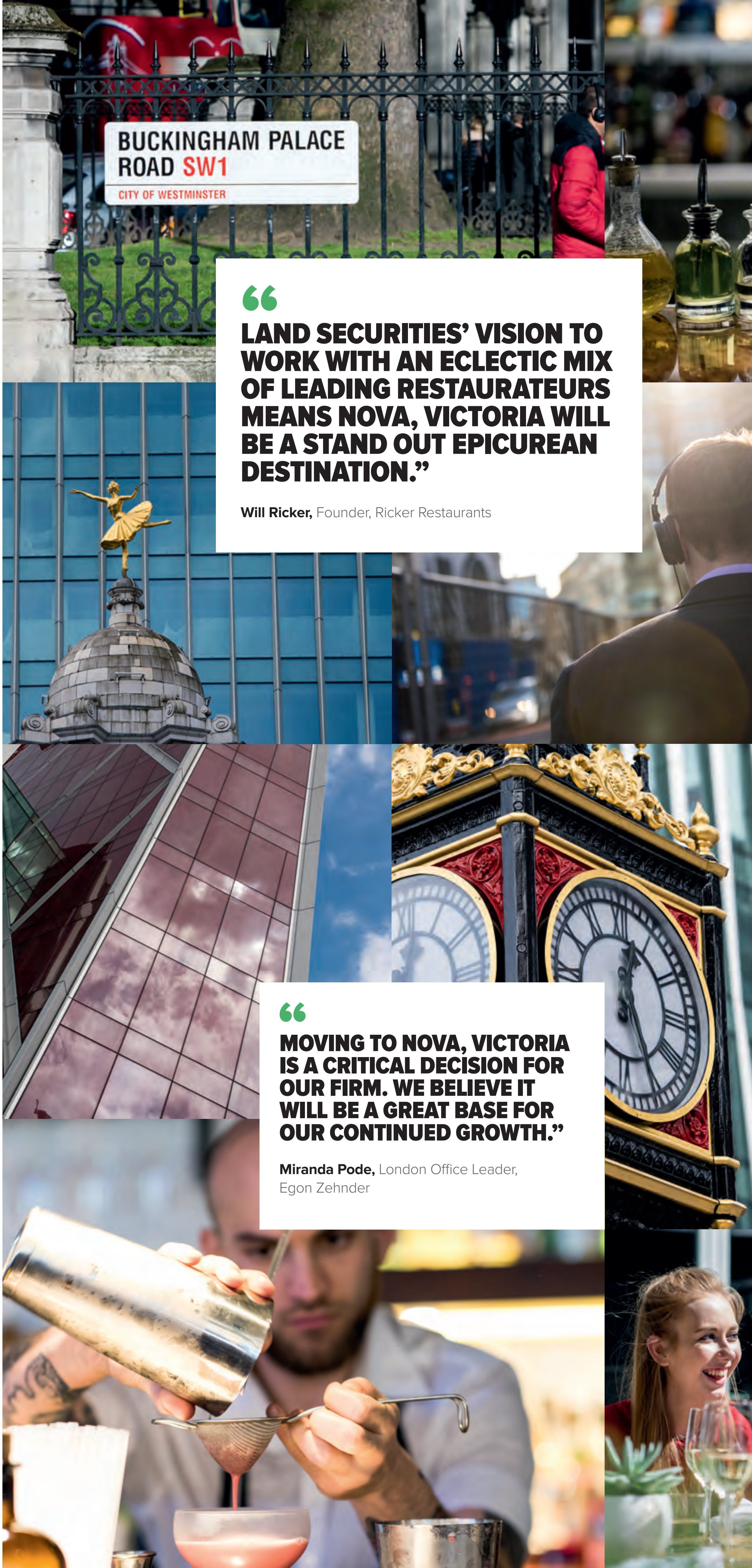
Our landmark 5.5 acre mixed-use scheme in SW1 will deliver first-class offices, contemporary apartments and London’s newest Food Quarter with 18 restaurants and cafés. It will comprise a collection of buildings within a pedestrianised, landscaped public space with art and extensive al fresco seating, opposite Victoria station.

Nova, Victoria will create a new food quarter for London. The carefully selected mix of established and refreshingly new restaurant, café, and ‘grab and go’ concepts will meet the needs of customers entertaining clients, busy office workers and local residents – as well as Londoners looking for somewhere new to socialise at weekends and evenings.

The scheme has been constructed on an island site that previously seemed unapproachable for pedestrians. We’re opening it up with walkways that properly connect it with its surroundings and by curating new public art we will encourage people to explore. Already eagerly anticipated and set to be incredibly popular, Nova, Victoria will benefit further still when the Tube station upgrade is complete.

When we broke ground, this was one of the largest top-down construction sites in Europe, so we’ve faced some challenges. Our neighbours at the Victoria Palace theatre have been running matinee shows throughout construction so we’ve adjusted our work plans to ensure we don’t cause disruption when the curtain goes up.

We’re delivering the scheme into a strong London market. Lettings are currently at 17% for offices and 65% for retail. The development is set for completion in September.



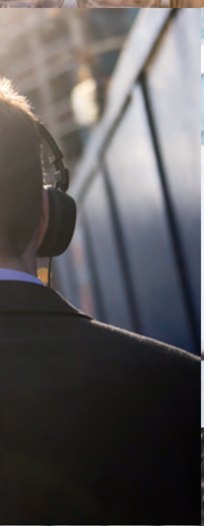

**“LAND SECURITIES’ VISION TO WORK WITH AN ECLECTIC MIX OF LEADING RESTAURATEURS MEANS NOVA, VICTORIA WILL BE A STAND OUT EPICUREAN DESTINATION.”**

**Will Ricker,** Founder, Ricker Restaurants

**“MOVING TO NOVA, VICTORIA IS A CRITICAL DECISION FOR OUR FIRM. WE BELIEVE IT WILL BE A GREAT BASE FOR OUR CONTINUED GROWTH.”**

**Miranda Pode,** London Office Leader, Egon Zehnder


> **“THE SUCCESS OF THE CITY COUNCIL’S PARTNERSHIP WITH LAND SECURITIES SERVES AS A YARDSTICK FOR PLACEMAKING PROJECTS ACROSS THE CAPITAL.”**
>
> **Cllr Robert Davis MBE DL,** Westminster City Council



> **“THE QUALITY OF THE RESTAURANT OFFER WILL DRAW FOODIES TO NOVA, VICTORIA.”**
>
> **Ben O’Brien,** Founder & CEO, Sourced Market

# TRINITY LEEDS

Opened in 2013, Trinity Leeds has gone on to establish itself as one of the UK's most innovative and popular shopping centres, bringing a great experience to a catchment of some 4.5 million people.

Leeds is the UK's largest financial centre outside London and its third largest city. Despite that, for many years it was under-served in terms of contemporary retail space. Many now consider it one of the country's best shopping destinations.

We knew the place well through our ownership of the well-established White Rose centre. Trinity Leeds added a fresh angle, the 778,000 sq ft centre bringing in 40 brands new to Leeds, including Apple. Today it is home to over 100 brands and welcomes more than 20 million people each year.

Visitors enjoy the shopping and leisure, but eating is at the heart of things too, from pop-up street food to fine dining. Our active use of social media, smart screens and wifi services ensures there's a terrific digital dimension to every day out too.

Construction of the centre generated some 600 jobs, more than half for local people. Hundreds more jobs were created when the shops, bars and restaurants opened, making the centre an important employer in the region.

Our focus during the year has been to maintain very high levels of occupancy – now at 99.6% – and to constantly refresh the offer. People keep coming back to Trinity Leeds because the centre gives them superb shopping and leisure, and a consistently surprising experience.


**"THE FASHION SHOW WAS A HUGE SUCCESS FOR THE STORE, WITH EXCELLENT CUSTOMER REACTION AND FOOTFALL."**

**Nez,** Store Manager, New Look


**"IT'S A GREAT BUILDING WITH FANTASTIC SHOPS – MAKES ME PROUD OF MY HOME CITY."**

**Tony,** Leeds


“CAN’T WAIT TO COME BACK WITH THE CHILDREN – THEY WANT TO TRY THE CHICAGO RIB SHACK!”

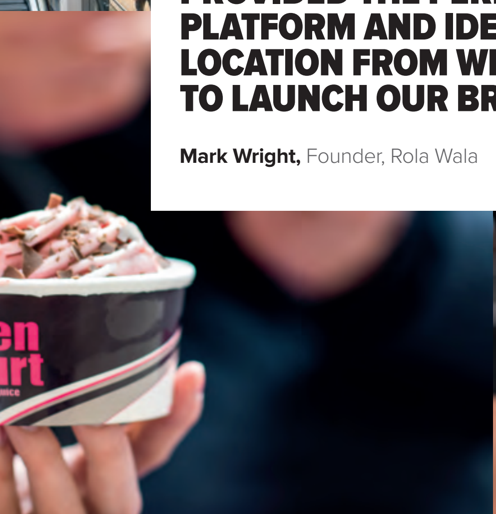
**Katie,** Leeds


“CONFIRMS LEEDS’ LONG HELD POSITION AS THE SHOPPING CAPITAL OF THE NORTH.”

**Chris,** Leeds

“TRINITY KITCHEN HAS PROVIDED THE PERFECT PLATFORM AND IDEAL LOCATION FROM WHICH TO LAUNCH OUR BRAND.”

**Mark Wright,** Founder, Rola Wala



# 1 & 2 NEW LUDGATE, EC4

Completed in 2015, our New Ludgate scheme comprises two architecturally distinctive buildings united by a new public piazza in the heart of the City. Together they comprise 355,000 sq ft of contemporary office accommodation and 27,000 sq ft of restaurant and retail.

The buildings were designed to provide fantastic working environments for our customers' employees and both have enhanced heating and cooling controls and high levels of fresh air. Spacious floorplates with far-reaching sightlines accommodate large groups and smaller gatherings, so teams can work creatively together.

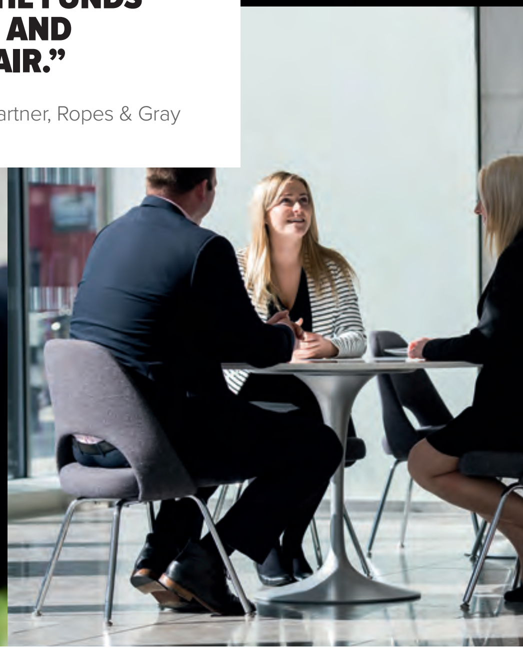
A mix of shops and restaurants in the new public realm makes for a great work-life balance, while our occupiers benefit from being in walking distance of One New Change and New Street Square, both of which have transformed the City into a seven-day-a-week destination. Transport connections are superb: Blackfriars and City Thameslink stations are a stone's throw away and the new Crossrail station at Farringdon (opening 2018) is just a seven-minute walk.

Resilience is the cornerstone of New Ludgate. Our systems – particularly the power supply – have to support critical 24/7 financial operations for customers like Mizuho Group, who chose 2 New Ludgate as their European headquarters. We brought together experts in development, engineering, leasing, property management and project management to meet the technical challenges and deliver a truly robust, contemporary space.

The building is 94% let.

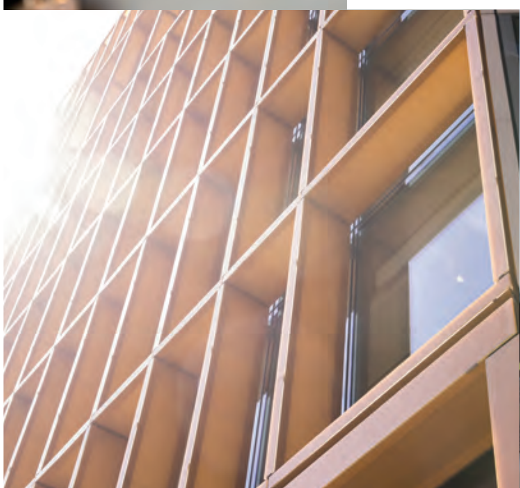
**“ONE NEW LUDGATE IS PERFECTLY LOCATED BETWEEN THE CITY OF LONDON AND THE FUNDS COMMUNITY IN AND AROUND MAYFAIR.”**

**Mike Goetz,** Managing Partner, Ropes & Gray



**“AS A COLOURED BODY IN A HISTORIC CONTEXT, 2 NEW LUDGATE SUCCEEDS IN RECONCILING CONFORMITY WITH UNIQUENESS.”**

**Louisa Hutton,** Partner, Sauerbruch Hutton

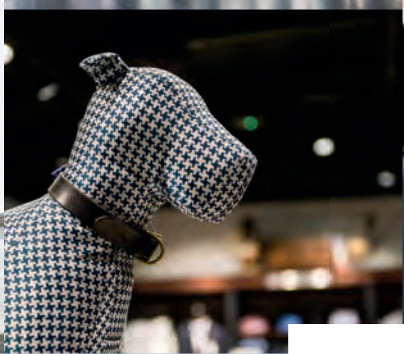
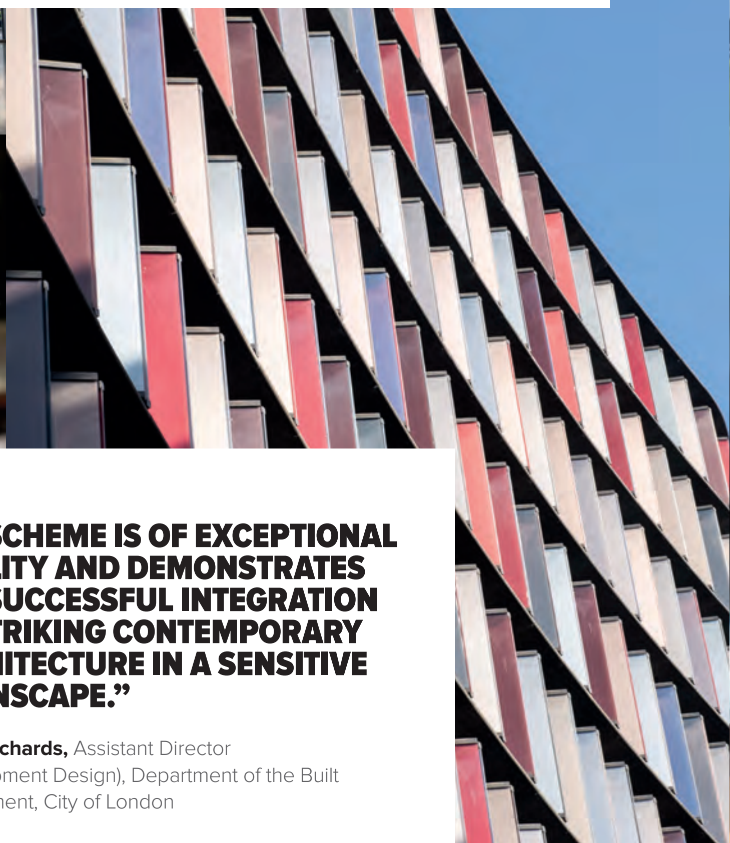




> **THE SUSTAINABILITY CREDENTIALS OF NEW LUDGATE GO WELL BEYOND ENERGY EFFICIENCY TO INCLUDE WIDER ENVIRONMENTAL INFLUENCES.”**

**Stephen Barton,** Partner, Fletcher Priest Architects




> **THE SCHEME IS OF EXCEPTIONAL QUALITY AND DEMONSTRATES THE SUCCESSFUL INTEGRATION OF STRIKING CONTEMPORARY ARCHITECTURE IN A SENSITIVE TOWNSCAPE.”**

**Gwyn Richards,** Assistant Director (Development Design), Department of the Built Environment, City of London



# WESTGATE OXFORD

## Oxford is the most undersupplied major city in the UK in terms of retail. Our Westgate Oxford scheme will transform the shopping and leisure offer, creating a new centre worthy of its historic location.

Very strong demand from retailers gave us the confidence to move forward with this ambitious and technically demanding £440m scheme. Through our Westgate Oxford Alliance joint venture with The Crown Estate, we will create 800,000 sq ft of retail-led mixed-use space, with a 142,000 sq ft flagship John Lewis as its anchor department store. The centre will offer shops, restaurants, cafés and leisure – including a boutique five-screen Curzon Cinema – set in a mix of covered streets, arcades, lanes and public squares.

This is a sensitive site; the commercial heart of one of the UK's most historic and loved cities. Quite rightly the Local Authority set stretching requirements for the scheme, including architectural integrity, sustainable design, biodiversity enhancement and new spaces for cars and cycles. We are working hard to not just meet but, wherever possible, exceed their expectations. For example, we have brought our Community Employment Programme to Oxford.

Construction is moving ahead at pace and we are on schedule to open in autumn 2017. As at 31 March, the scheme was 43% pre-let by income. During the year, we extended the scope of our activity through the acquisition of Castle Quarter. This adjoining area is made up of a Malmaison hotel, an exciting hub of restaurants and bars, and 40 modern apartments.

**"LAING O'ROURKE ARE PROUD TO BE WORKING WITH A DEVELOPER WHO HAS SUCH AMBITIOUS SUSTAINABILITY GOALS."**

**Chris Rafferty,** Project Leader, Laing O'Rourke

**"WE'VE BEEN WORKING WITH LAND SECURITIES AND PARTNERS TO PROVIDE TRAINING AND JOB OPPORTUNITIES FOR LOCAL PEOPLE – ESPECIALLY YOUNG AND UNEMPLOYED INDIVIDUALS."**

**Helen Brind,** City of Oxford College

> A DONATION HAS ENABLED US TO DEVELOP A NEW LITERACY PROJECT WITH WINDALE SCHOOL – A SHIP-THEMED SPACE HOSTING STORYTELLING AND READING ACTIVITIES.”

**Caroline Jones,** Community partner, Story Museum

> WESTGATE WILL COMPLEMENT THE HERITAGE OF THE CITY WITH A 21ST CENTURY QUARTER THAT PROVIDES A MASSIVE BOOST TO OUR RETAIL AND VISITOR ECONOMY.”

**Cllr Bob Price,** Leader, Oxford City Council

# CHIEF EXECUTIVE'S STATEMENT

## OUR RESULTS

**13.4%**
Total business return

**11.5%**
Ungeared total property return

**10.9%**
Increase in adjusted diluted NAV per share

## OUR HIGHLIGHTS

— £37.6m of investment lettings
— £33.8m of development lettings
— Acquisitions of £123.4m
— Development and refurbishment expenditure of £372.6m
— Disposals of £1,493.1m

Over the last six years, Land Securities has worked at pace to create value and resilience through disciplined buying, selling, development and management of space. In London, we have delivered a well timed, well executed, speculative development programme into a supply-constrained market. And in Retail, we have responded to growing demand for great experiences, transforming our portfolio so it is dominated by destination centres.

And to what end? In March 2010, our Combined Portfolio was valued at £9.5bn and adjusted net debt was £4.2bn. Today, our Combined Portfolio is valued at £14.5bn and adjusted net debt has been reduced to £3.2bn. Our adjusted diluted net asset value per share has more than doubled and our balance sheet is in terrific shape, with low gearing and plenty of financial capacity.

## “AS GUARDIANS OF SHAREHOLDER CAPITAL, OUR RESPONSIBILITY IS TO POSITION THE COMPANY SO IT CAN THRIVE WHATEVER THE OUTCOME. THAT’S WHAT WE HAVE DONE.”

**Robert Noel,** Chief Executive

This year, revenue profit was up 10.0% to £362.1m and adjusted diluted net asset value per share was up 10.9% to 1,434p. Total business return (the increase per share in adjusted net assets plus dividends paid) was 13.4%.

We’ve transformed more than the numbers. We now have a higher quality portfolio of first-class assets let on longer leases. And across the Company we are working hard to realise our vision of being the best property company in the UK in the eyes of our customers, communities, partners and employees. More on that in a moment.

### Raising the dividend

Since 2010, we have built and let 1.4m sq ft of space in our Retail Portfolio. At the same time we committed to 3.1m sq ft of speculative commercial development in our London Portfolio – a huge leasing challenge. After another strong year of lettings, we now have just 0.5m sq ft left to let in London and interest in this remaining space is healthy.

Given the success of our development lettings, the higher quality of our rental income and reduced speculative risk in our development programme, we have recommended a final dividend of 10.55p per share taking the total dividend for the year to 35.0p per share, up 9.9%. We aim to maintain our progressive dividend policy from this level.

### Balance sheet discipline

As those of you who have followed us for some time will know, we have funded our activity since 2010 through a net debt neutral approach. Put simply, by September 2015 we had invested £4.4bn and funded this through disposals. At the half year, we signalled we would be net sellers in the second half and we were, taking advantage of great market conditions to sell £1.1bn of assets as we saw wider economic and political uncertainty increasing. As a result, our balance sheet gearing is now at its lowest level for many years. Though no asset is sacrosanct, we are not expecting to make any material disposals over the coming year.

### Customers

Shopping is more and more about spending time as well as spending money. People want to enjoy a fantastic day out in a place that offers great brands, food, entertainment and atmosphere. While cost and convenience continue to drive growth in online retailing – at the expense of physical stores – the most successful shopping destinations offer a unique experience. And the best retailers need to be in those locations.

Over the last few years, we have sold all of our standalone superstores and secondary regional assets and reinvested proceeds into buying and building truly premium destinations such as Bluewater, Trinity Leeds and Westgate Oxford. We have also stepped up the offer at Gunwharf Quays, St David’s and our retail parks. The retail sector moves fast so we will continue to anticipate and respond to changing needs.

In London, we have been providing the outstanding spaces and places today’s leading companies – and their employees – require and expect. With construction largely complete, we are focused on letting our remaining space and giving our customers the best occupier experience. We will continue to seed our portfolio with opportunities for the future, although we are unlikely to resume building at scale in London in the near term.

### Communities and partners

Our properties help to generate and sustain local economic activity. Our shopping centres are major employers and our offices create demand for local services. In turn, a vibrant local economy and environment is more attractive to the customers who support our business.

Support from our communities and partners is key to Land Securities’ sustainability. This year we have consolidated our sustainability approach under three broad themes – creating jobs and opportunities, efficient use of natural resources, and sustainable design and innovation. This is about being smart in the way we minimise disruptive impacts while maximising the benefits our assets create for everyone who encounters them. As part of this, we have continued to set ourselves stretching social and environmental targets.

Our approach also brings together partners to extend the benefits of our activity. For example, 779 people have gained training and job opportunities through our groundbreaking Community Employment Programme. I was delighted that this team effort was recognised with the Business in the Community Work Inclusion Award for 2015. We are now applying what we have learnt in London to Oxford, where we are working with partners on the Westgate Oxford scheme to deliver construction training and jobs.

### Employees

I would like to thank my colleagues for their consistently impressive contribution. To be the best property company in the UK, we need to keep attracting and developing exceptional people. Land Securities should stand out as a place where individuals from diverse backgrounds are united by talent, values, ambition and opportunity.

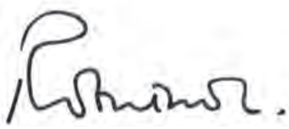
Employee engagement is high and we expect it to go higher over the next 12 months as, due to an approaching lease expiry at our current head office, we move into a new office with a more collaborative and flexible work environment. The relocation will mark the start of an exciting new chapter in the life of our company.

### Outlook

Some have suggested our current market positioning is more prudent than exciting. I am happy with that description. As risk has been rising outside the business, we have been reducing risk inside the business. Ongoing challenges include appropriately managing the changing balance between supply and demand in London offices and responding to the evolution of consumer habits in retail. And next month, we face the prospect of a UK exit from the European Union.

We believe a vote to leave the EU would lead to business uncertainty while negotiations take place on an exit treaty. Uncertainty slows decision-making. Over the short term, we anticipate this would drive down occupational demand in our market. In turn, this would lead to falling rental values and a reduction in construction commitments, particularly in London. So an exit could be painful for the property industry and those it supports. But there is a higher principle at play here. This is a decision for the British people, not businesses. It is up to individuals – including those amongst our customers, communities and partners – to decide what’s best. As guardians of shareholder capital, our responsibility is to position the Company so it can thrive whatever the outcome. That’s what we have done.

After another strong performance, the business is in terrific shape with the financial resources needed to address future opportunities. And we have a team of great people who are imaginative, but disciplined, in the way they manage assets – a team that is absolutely focused on our core purpose of providing the right space for our customers and communities.



**Robert Noel**
Chief Executive

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

# OUR MARKET

## UK commercial property market

The commercial property market provides built infrastructure for business and offers an alternative for investors to other investment markets, including stocks and bonds. Historically, the market's performance has broadly tracked GDP growth. Interest rates also influence the market. For example, rising interest rates tend to put downward pressure on property values. This may be balanced by growth in rental values if higher interest rates are accompanied by a higher level of inflation.

The market is cyclical, particularly the London office market which currently accounts for 46.4% of our assets by value. The balance between supply and demand is the single most powerful driver of property values (see page 23 for more on the market cycle). Structural changes in a sector – for example, the change in retail consumer shopping habits – also influence market behaviour and values.

To enhance returns, property companies use financial gearing, for example through bonds and bank debt. They also use operational gearing by developing or refurbishing properties, which carries more risk than investing in completed or let assets. Access to finance varies according to the market cycle, and buying and selling property has significant friction costs compared to buying stocks and bonds.

Due to the cyclical nature of the property market, the timing of investment is critical to future returns. Timing is also important in developments, and in addition, capacity in the construction market is particularly key to property companies' margins. Land Securities prefers to be an early cycle developer, acting when others find it harder to access finance, and when construction contracts can be secured on relatively favourable terms.

In addition to rent, business rates are one of the main occupancy costs incurred by occupiers of commercial property. The government will announce the results of its current review of rates in 2017. Whilst the overall increase in the business rates should be in line with inflation, the increases in London and the South East are likely to be much greater due to the significant growth in property values in this region since the last review. Conversely, properties in other parts of the UK may see their rates increase by a lower amount or possibly decline.

Across investment and development, costs and risk can also be affected by a range of other factors such as changing customer requirements, the needs and views of local residents and the wider community, the availability of natural resources used in construction and the effects of climate change on buildings, together with new regulation. Property companies are also increasingly expected to generate wider social benefits.

## LONDON PORTFOLIO MARKET

We invest in, actively manage and develop office, retail, leisure and residential space in central London.

For more information on our London Portfolio go to: **pages 28–31**

**Dynamics**

The market in London is cyclical, with pronounced fluctuations in property values in response to changing levels of occupier supply and demand. We are currently in supply-constrained conditions. There remains a relatively healthy level of occupiers looking to take space in the West End, but the level of letting activity in the City is slowing. The level of new building completions is increasing and we expect the supply-constrained conditions to ease from 2017.

The market is also driven by the evolving needs and expectations of customers and communities, particularly in areas such as flexible open plan space; occupational density; energy efficiency; high quality design and facilities; and imaginative improvements to the environment around buildings, including the public realm. Our customers are increasingly interested in sustainable design, recognising that wellbeing influences staff retention and productivity.

**Enduring appeal**

Central London has enduring appeal for investors and occupiers offering:

— The capabilities and opportunities of a global financial centre
— A deep and liquid property investment market
— An international gateway
— Reasonable and relatively stable tax rates
— Strong business infrastructure

## RETAIL PORTFOLIO MARKET

We actively manage, invest and develop retail and leisure space in the best locations.


For more information on our Retail Portfolio go to: **pages 32–35**

**Dynamics**

The UK retail landscape continues to undergo structural change, influenced by the growth of online sales, the rise of omnichannel and economic factors impacting consumers. Although consumer confidence grew in 2015 and remains ahead of pre-2007 levels, this has not translated into a strong uplift in consumer spend. There is, however, good demand from retailers for the right size space, in the right location, available at the right time. Quality destinations that provide breadth and depth in retail and catering offers – together with great formats – are best positioned to drive footfall and sales.

The investment market sees continued demand for prime assets, which are relatively scarce. With secondary assets, we're seeing mismatches between vendor expectations and prices offered.

**Opportunities**

Experiential 'showrooms' and flagship stores are increasingly popular. Some retailers have also invested in smaller format stores to geographically infill their portfolios and support omnichannel services such as click & collect. Click & collect sales in the UK are expected to grow by a further 50% from 2016 to 2020 (Verdict Research). The physical store plays a significant role in the click & collect process, and driving store visits via this channel also encourages additional purchases by the consumer while they are there to pick up their items. Landlords who partner with omnichannel retailers can provide inspiring store environments that drive footfall and both in-store and online sales. Successful centres with low void rates can create rental tension and leasing momentum as retailers seek out the right trading space.

— A diverse community
— English-speaking population
— Excellent quality of life
— Access to top universities
— Good transport infrastructure.

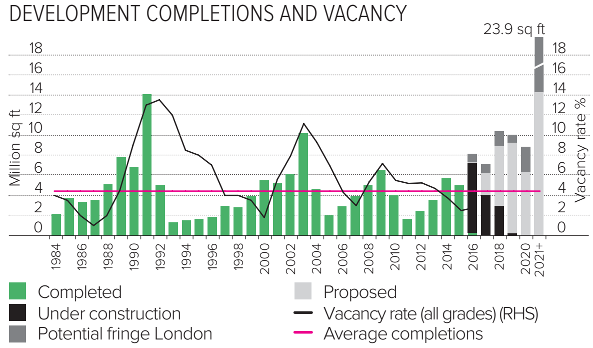
**Strengths**
London's strengths attract a large and diverse mix of property investors, many from overseas. This helps us when selling assets but increases competition when buying.

**Challenges**
Challenges for London include:
— Limitations on economic growth due to restrictions on immigration
— The impact of a growing population leading to high costs, both for businesses and residents
— Lack of housing at affordable or attractive prices
— Pressure on an ageing infrastructure, including power and sewerage
— Continued lack of clarity around airport expansion
— Increased levels of stamp duty on residential and commercial transactions
— Uncertainty around the UK's continued membership of the EU.

**Market during the year**
— Take-up of office space in central London for the 12 months to 31 March 2016 totalled 14.7m sq ft compared to the 10-year average rate of 12.9m sq ft
— At 31 March 2016 the vacancy rate stood at 2.6% compared to a long-term trend of 4.3%
— Over the 12 months to 31 March 2016, prime headline office rents grew by 7.7% in the City and by 2.1% in the West End
— The volume of high value residential sales remains subdued.

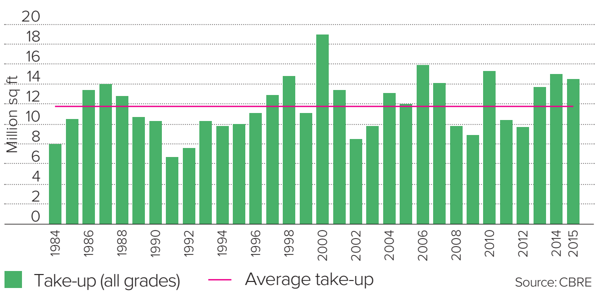
**Outlook**
We expect supply-constrained conditions to remain this financial year as the volume of development schemes projected to complete over the next 12 months is not expected to satisfy the forecast level of demand for new space. Beyond 2017, the demand/supply balance is less clear as the level of development completions is rising. If the UK votes to leave the EU in June, this could quickly result in a significant reduction in demand for London office space and change in the demand/supply balance leading to falling rental values and asset prices.

**CENTRAL LONDON SUPPLY** Chart 1
DEVELOPMENT COMPLETIONS AND VACANCY




Source: CBRE, Knight Frank, Land Securities

**LONDON OFFICE MARKET** Chart 2
TAKE-UP




Source: CBRE

**Challenges**
Although consumers are continuing to enjoy low interest rates and a low inflation environment, UK economic uncertainty is reflected in relatively cautious consumer spending figures from the British Retail Consortium.

Some famous high street brands, with well-established and mature store portfolios, are finding it hard to keep up with fast fashion operators, who can react quicker to consumer trends, and those who embraced omnichannel early. Large but inefficient stores, or those in marginal locations, are likely to lose out to consolidation.

Online retail sales growth from 2015 to 2020 is forecast to be slower than the previous five years, but it will still account for circa 17% of all retail sales in 2020, up from just 8% in 2010. A third of UK shoppers are spending more online versus a year ago (Verdict Research).

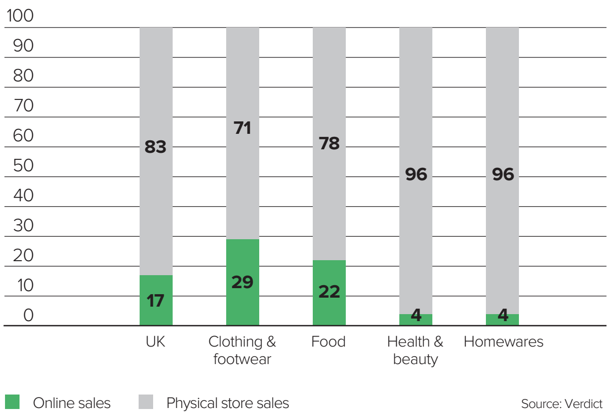
**Market during the year**
Consumer spending continued to rise throughout 2015 and was 2.7% higher in Q4 2015 than in the same period a year ago (Source: ONS). ONS data also points towards growing appetite for leisure experiences such as eating out and visiting the cinema.

Looking ahead, British Retail Consortium forecasts shows double-digit growth for online. Sales growth in physical stores will remain low although dominant destinations with flagship stores will see greater overall sales. Footfall in the UK continues to lag behind previous years, although footfall in prime locations out-of-town and in regional cities is bucking this trend.

**Outlook**
We expect continued demand from both international and national operators for the best trading destinations across the UK. Fast-moving fashion brands and omnichannel retailers are expected to capitalise on ever-changing consumer shopping habits, setting them apart from mature and established high street brands. The physical store is seen as an integral part of the omnichannel model, but it must provide the right consumer experience.

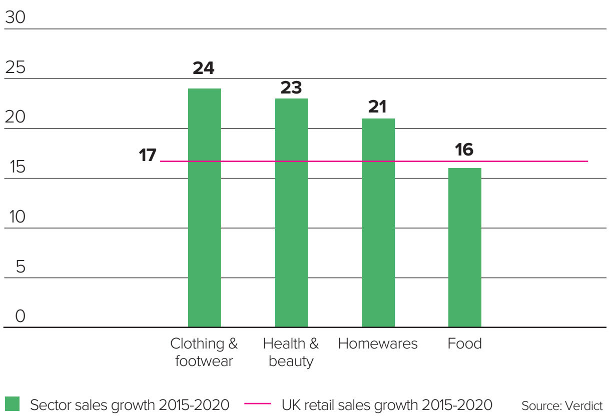
Successful destinations will be those that provide a great experience; places where people can shop, eat, socialise and take part in leisure activities, preferably regularly. Locations that can provide a relevant and dynamic line up of retailers, food and beverage operators, events and an inspiring shopping environment will ultimately outperform.

**2020: SHARE OF ONLINE SALES VS PHYSICAL STORE SALES %** Chart 3
KEY SECTORS




Source: Verdict

**RETAIL SECTOR SALES GROWTH 2015-2020 %** Chart 4




Source: Verdict

# OUR BUSINESS MODEL

How we set about creating sustainable, long-term value for our shareholders and the wider world.

## INPUTS

### FINANCIAL

Including the different types of funds we use to invest in our business, from shareholder capital to borrowings.

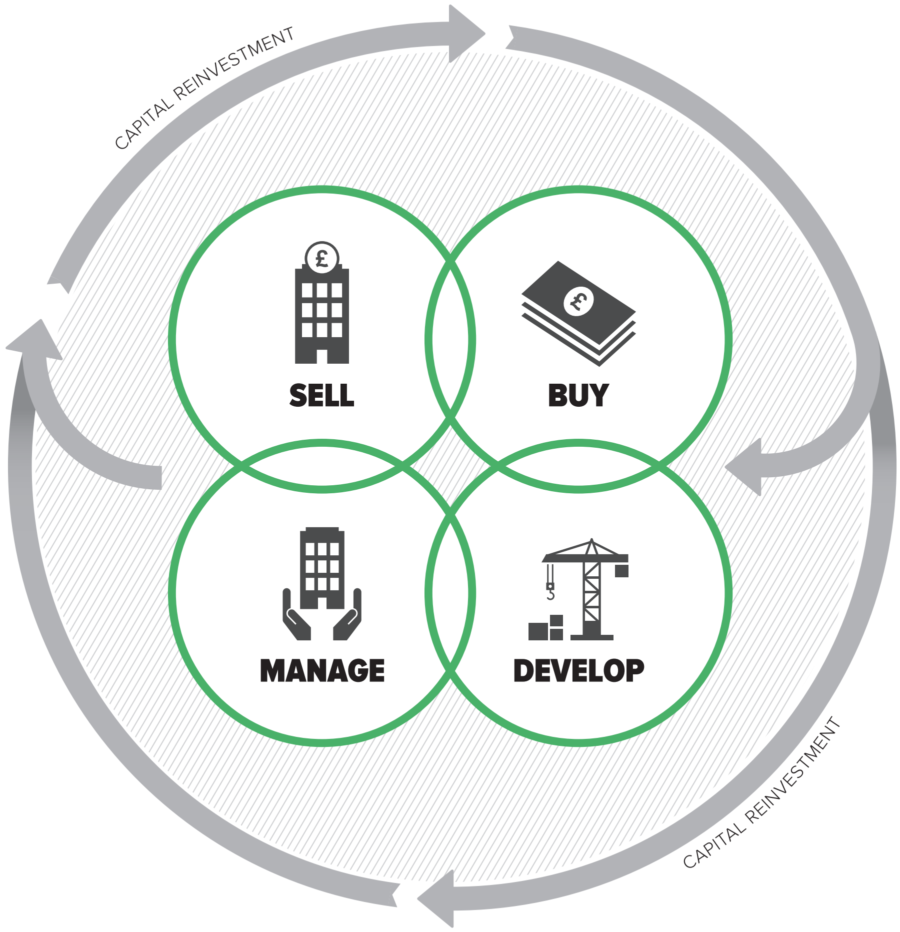
### PHYSICAL

Including our land and buildings, the materials and technologies we use, and the natural environment.

### SOCIAL

Including the relationships we have with customers, communities and partners and the capabilities of our employees.

## CORE ACTIVITIES




**Opportunities**
Our core markets are London offices and UK shopping centres. We buy, develop, manage and sell assets in line with how we see those markets evolving.

For more information on opportunities go to: **pages 28–35**

**Risks**
We identify and monitor principal and emerging risks across health, safety, security, politics, society, finance, economy, people, environment and technology.

For more information on risks go to: **pages 46–50**

**Value**
We aim to be a sustainable business through the market cycles by anticipating and responding to the changing needs of customers, communities, partners and employees.

For more information on sustainable long-term return go to: **pages 22–23**

## OUTPUTS

# FINANCIAL

Long-term growth in income and asset value, creating capacity for us to increase dividends for our shareholders and reinvest.

Read more on **pages 36–41**

# PHYSICAL

Space that creates value for us by meeting the changing requirements of our customers and communities; efficient operations; and a healthy environment.

Read more on **pages 42–43**

# SOCIAL

Our ability to help businesses succeed, the economy to grow and people to thrive – including our own employees.

Read more on **pages 44–45**

# DEVELOPMENT TIMELINE

How we set about creating sustainable, long-term value for our shareholders and the wider world. An overview of our key development activity during a busy and productive six years.

## 2010

### PARK HOUSE, W1
**Total disposal proceeds** £296.0m

We started construction of this 309,000 sq ft development in early 2010. We forward-sold the scheme later that year, realising our development profit and enabling us to commence other schemes.

## 2011

### 110 CANNON STREET, EC4
**Total disposal proceeds** £48.5m

We sold this 74,000 sq ft refurbishment shortly after starting construction in 2011, crystallising virtually all of the anticipated development profit.

## 2012

### 123 VICTORIA STREET, SW1
**Completed** August 2012
**Principal occupiers** Jimmy Choo, JLP
**Total development cost** £154m
**Current valuation band** £300m–£400m

A 228,000 sq ft refurbishment of office and retail space. Refurbishing the existing asset enabled us to complete the scheme quicker and bring it to the market earlier ensuring we phased the completion of our developments in Victoria. The scheme attracted new occupiers to Victoria, notably Jimmy Choo, thus enhancing the overall occupier mix of the area.

### WELLINGTON HOUSE, SW1
**Completed** October 2012
**Total development cost** £58m
**Total disposal proceeds** £90.4m

59 premium apartments representing the residential planning requirement for the 62 Buckingham Gate development. Locating the apartments on a separate site enabled us to maximise the value from the residential scheme.

## 2013

### TRINITY LEEDS
**Completed** February 2013
**Principal occupiers** H&M, Topshop, Next, Primark
**Total development cost** £372m
**Current valuation band** £500m+

This 778,000 sq ft shopping centre is located in the heart of Leeds city centre in a prime location. Leeds is a major city and the financial centre of northern England. The city was under-supplied with retail and this scheme attracted many retailers to Leeds for the first time e.g. Apple.

### 185–221 BUCHANAN STREET, GLASGOW
**Completed** March 2013
**Principal occupier** Forever 21
**Total development cost** £49m
**Current valuation band** £100m–£200m

We created 118,000 sq ft of new retail and restaurant space in one of the UK's busiest shopping streets. The development transformed an area of the street that had not been developed for decades, thus creating vibrant new space and improving the area opposite our Buchanan Galleries shopping centre.

### 62 BUCKINGHAM GATE, SW1
**Completed** May 2013
**Principal occupiers** Rolls Royce, Schlumberger
**Total development cost** £178m
**Current valuation band** £400m–£500m

We transformed a 114,000 sq ft 1960's office block into a 275,000 sq ft office and retail scheme with a Curzon cinema. This bold new building for Victoria was delivered into a market with limited supply and the relatively large floorplates of this scheme attracted corporate occupiers to Victoria to further enhance the occupier mix in the area.

### WHALEBONE LANE, CHADWELL HEATH
**Completed** September 2013
**Principal occupier** Asda
**Total development cost** £18m
**Disposal price** £21.7m

We pre-let and redeveloped a vacant B&Q building in Chadwell Heath. Securing Asda enabled us to de-risk the scheme which led to an increase in valuation. We subsequently sold the asset to crystallise the value.

### 100 HIGH STREET, CRAWLEY
**Completed** December 2013
**Principal occupiers** Morrisons, Travelodge
**Total development cost** £39m
**Current valuation band** £42m

This Morrisons-anchored scheme included 6,000 sq ft of restaurant space and a 110 bedroom Travelodge. It was sold in 2016 and the disposal means we now have no standalone supermarket assets in the Retail Portfolio.

# 2014

### BISHOP CENTRE, TAPLOW

**Completed** July 2014
**Principal occupier** Tesco
**Total development cost** £38m
**Current valuation band** £50m–£100m

We recycled capital into convenience centres. Taplow is a convenient, edge-of-town location in the South East. This popular scheme was 88% let on opening and was fully let within nine months.

### 20 FENCHURCH STREET, EC3

**Completed** December 2014
**Principal occupiers** Liberty Mutual, Markel, RSA
**Total development cost** £237m (LS 50% share)
**Current valuation band** £500m+ (LS 50% share)

Delivered into a supply-constrained market, this scheme of modern efficient space attracted strong demand from the insurance sector and secured rental levels and lease lengths ahead of our expectations. The scheme has long average lease lengths and will provide resilience as well as delivering a high profit on cost.

# 2015

### 1 & 2 NEW LUDGATE, EC4

**Completed** April 2015
**Principal occupiers** Mizuho, Ropes & Gray, Commonwealth Bank of Australia, Petronas
**Total development cost** £248m
**Current valuation band** £500m+

Building the foundations early and securing a construction contract allowed us to be flexible in the delivery of this scheme. We timed the completion to coincide with supply-constrained conditions and secured long leases as a result. The scheme is located next to City Thameslink station Another example of a well timed development delivering strong returns.

### THE ZIG ZAG BUILDING, SW1

**Completed** November 2015
**Principal occupiers** Deutsche Wealth Management, Jupiter Asset Management
**Total development cost** £178m
**Current valuation band** £300m–£400m

Phasing the delivery of our developments along Victoria Street has ensured our developments do not compete for the same occupiers. The Zig Zag Building provides modern space in a great location with a less corporate feel than 62 Buckingham Gate. It has attracted occupiers who were previously located in central West End and the City which demonstrates the appeal of the scheme and is supported by a great mix of restaurants.


### KINGS GATE, SW1

**Completed** October 2015
**Total development cost** £160m
**Total disposal proceeds to date** £146m

This 100 apartment scheme forms part of the residential planning requirement for The Zig Zag Building. This relatively small scheme attracted good interest and 86 of the apartments have been sold.

# DUE 2016

### 20 EASTBOURNE TERRACE, W2

**Completed** May 2016
**Forecast total development cost** £66m

Completed in May 2016, our 93,000 sq ft scheme is an exciting new hub for business near the Paddington Crossrail station. The building is now 77% pre-let or in solicitors' hands.

### 1 NEW STREET SQUARE, EC4

**Completes** July 2016
**Principal occupiers** Deloitte
**Forecast total development cost** £176m

Located next to our New Street Square cluster of buildings, 1 New Street Square was started speculatively. Deloitte pre-let the entirety of the 275,000 sq ft building for 20 years with a guaranteed minimum rental uplift at first rent review. Again, construction contracts were agreed at favourable levels and delivery timed to coincide with a lack of supply in mid-town.

### NOVA, VICTORIA, SW1 – PHASE I

**Completes** September 2016
**Principal occupiers** Egon Zehnder, BHP Billiton, Advent International
**Forecast total development cost** £248m (LS 50% share)

The last scheme in this phase of our Victoria development programme. Phase I consists of two office buildings with a fantastic line-up of restaurants and food offers which will create London's newest food quarter. The scheme will benefit from a new underground station entrance next to the site.

### NOVA, VICTORIA, SW1 – PHASE I – RESIDENTIAL

**Completes** September 2016
**Forecast total development cost** £142m

This 170 apartment scheme forms part of the residential planning requirement for Nova, Victoria. 138 apartments have been pre-sold.

# DUE 2017

### WESTGATE OXFORD

**Completes** October 2017
**Forecast total development cost** £220m (LS 50% share)

Oxford has a significant shortage of modern, well-configured retail space. This 800,000 sq ft retail and leisure scheme will deliver much-needed retail and leisure space and is attracting strong demand. The scheme was already 43% pre-let to retailers at 31 March 2016 including John Lewis, Next and Primark.

# STRATEGY

Our strategy is designed to ensure we are a sustainable business through the market cycle.

## OUR STRATEGIC OBJECTIVES

To deliver our strategy we have set clear objectives that relate to specific financial and operational outcomes:

— Deliver sustainable long-term shareholder returns
— Maximise the returns from the investment portfolio
— Manage our balance sheet effectively
— Maximise development performance
— Ensure high levels of customer satisfaction
— Attract, develop, retain and motivate high performance individuals
— Continually improve sustainability performance

Through our strategy we aim to realise our vision of being the best property company in the UK in the eyes of our customers, communities, partners and employees.

We work hard to anticipate and respond to changes in our markets. We make understanding the needs of our customers and communities our top priority, so we can provide the space businesses and people need to thrive.

We also look beyond our buildings, shaping the future for good by ensuring our activities meet the wider requirements and expectations of our customers, communities, partners and employees.

Our approach is to buy assets and start development early in the cycle; manage assets actively to ensure they generate strong income; and sell at the right time to maximise profit and recycle capital. We are risk aware, not risk averse. Across the portfolio we have a clear plan for every asset.

We aim to make sound, long-term investments in our assets so they continue to attract strong demand from customers, their performance meets changing regulation and they generate sustainable returns through the market cycle for years to come.

## OUR STRATEGIC CHOICES

**Relationships**
We work to ensure that our customers and partners can trust us to deliver the right space on time and to plan; that our communities and partners can trust us to create benefits for their area; and that the public can trust us to develop and manage space safely and sustainably, and use natural resources carefully. Acting with integrity in this way helps us to attract and retain great people.

**Market**
We focus on two geographically defined sectors of the UK commercial property market – offices, retail, leisure and residential in central London, and retail and leisure outside London. Being active in these two sectors rather than one provides us with greater financial stability as they work to different cycles.

**Timing**
We aim to own high quality assets with enduring appeal that can generate strong income through the cycle. We carefully time the way we buy, develop, manage and sell assets within our two core markets.

**Scale**
We are currently the UK's largest Real Estate Investment Trust (REIT) on the basis of equity market capitalisation. Scale enables us to make large acquisitions and develop a number of major assets at the appropriate time. We can acquire sites then wait to deploy our capital at the most advantageous point in the cycle.

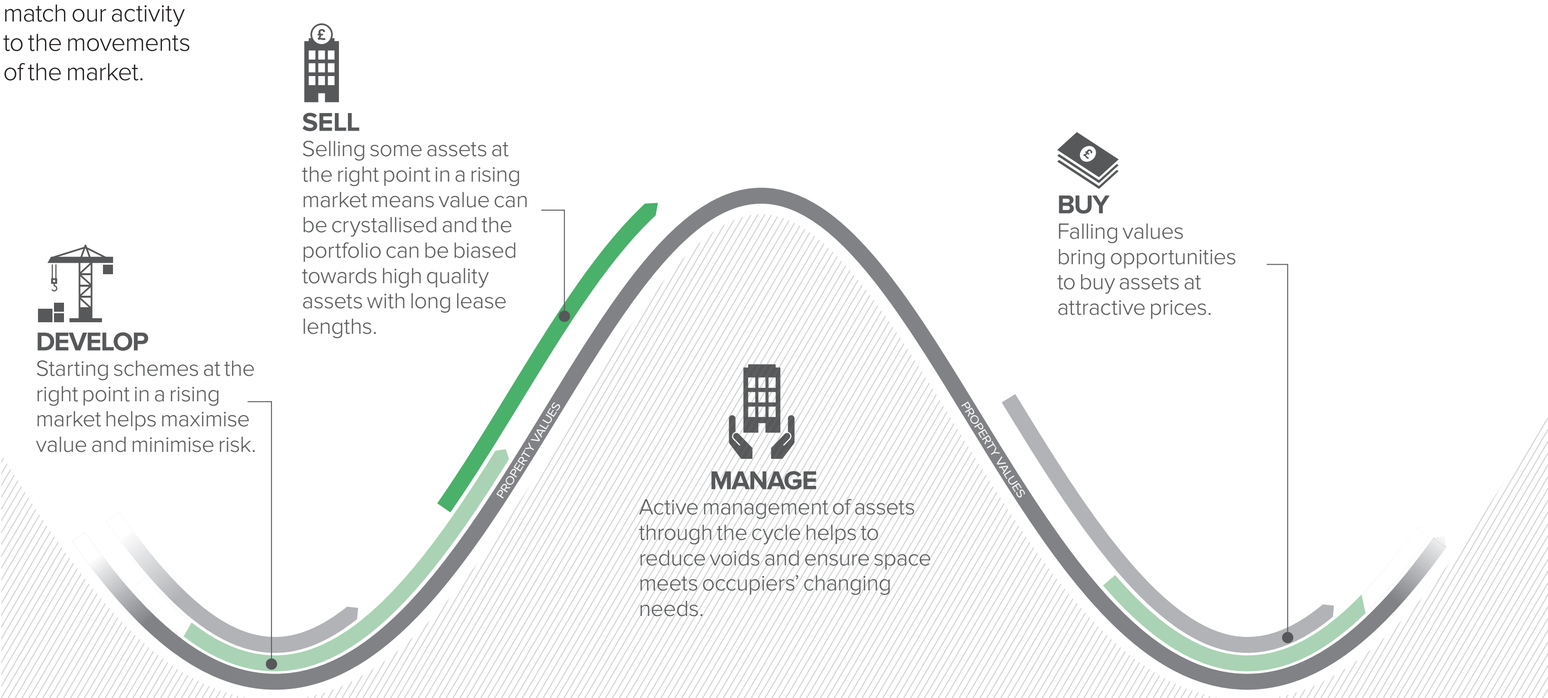
**Locations**
We choose to buy and develop in thriving locations, or places with excellent potential, where an under-performing building or plot of land can be transformed to generate income and value. Placemaking – the long-term regeneration of an area into a thriving location – is an increasingly important part of what we do.

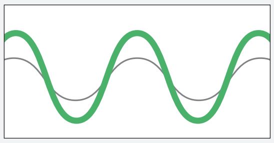
**Finance**
We have been following a net debt neutral financial approach as we move through the cycle. So we have broadly balanced the proceeds we received from disposals with outgoings on acquisitions and capital expenditure for developments. This approach creates strong competition for capital within the Group, so only the best options are pursued and financial gearing reduces steadily as values rise through the cycle.

**Risk**
We are risk aware, not risk averse. Our main risk is that space in our developments will be left unlet – or let at low rents – if the market turns unexpectedly and supply outstrips demand. We mitigate this through the quality of our new buildings, developing early in the cycle, and using our excellent market knowledge and occupier relationships. We also respond to the long-term risks affecting our industry, including climate change, environmental regulation and resource constraints, including energy supply.

## MARKET CYCLE

How we aim to match our activity to the movements of the market.



## LONDON

The London offices market sees marked periods of over- and under- supply, and demand can move from one phase to another quite quickly. We create value by developing space in line with the cycle; strengthening income through smart asset management; and recycling capital through well timed disposals and acquisitions. We operate in central London in areas we know well.

Everything we do is driven by the need to meet the needs of our customers, communities and partners. We give particular attention to placemaking, designing sustainable buildings, enhancing public realm and facilities in and around our buildings.

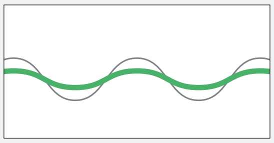
**Buy**
We aim to buy assets when values are falling or low, or when we see a long-term opportunity to enhance value.

**Develop**
We start to develop early in the cycle so we benefit from lower construction costs, aiming to deliver completed schemes while demand from customers is rising and levels of available space are low. We generally develop speculatively so we monitor changing conditions forensically. We are drawing our major development programme to a close for this cycle. We have plenty of options for development within our portfolio – and the financial capacity to acquire development sites – as we move into a new cycle. With every development we aim to create a positive environmental, social and economic impact.

**Manage**
We are constantly in dialogue with our customers throughout their leases. This gives us fresh insight and enables us to be proactive. This helps us to retain customers and improve rental values resulting in greater portfolio resilience.

**Sell**
We sell assets at appropriate points in the cycle. Where possible, we aim to add value through asset management or refurbishment ahead of selling an asset.

For more on our London Portfolio go to: **pages 28–31**



## RETAIL

The retail property market is less volatile than London offices and is fundamentally driven by long-term structural changes, such as the effect of the economy on consumers or the impact of online retailing. We are seeing increasing demand for high quality space in thriving locations where visitors can enjoy a great experience. We create value by providing customers with new or more efficient space that can attract the right shoppers and visitors in the right numbers. Geographically, we are focused in the south east and the best regional destinations.

**Buy**
We acquire when we see an opportunity to transform an under-managed property or land into a great destination for shoppers and visitors.

**Develop**
We use our close relationships with retailers to ensure we understand their changing needs. We put strong emphasis on creating attractive, well-considered space where people will want to spend time and return frequently. We help customers pursue multi-channel strategies and we ensure our environments use new technology to enhance the shopper's experience. We de-risk developments by seeking substantial pre-lettings before we start construction. And we ensure we contribute to the environmental, social and economic fabric of the local area and community, which helps to make our centres busy and well regarded.

**Manage**
We are proactive managers, constantly looking for opportunities to enhance our space in line with the changing needs of our customers and communities. We continually refresh the tenant mix in our centres and are particularly focused on finding the most compelling blend of retail and leisure.

**Sell**
We dispose of an asset when we see opportunities elsewhere to use capital to create better, more valuable space with greater appeal.

For more on our Retail Portfolio go to: **pages 32–35**

# INVESTING THROUGH THE LIFECYCLE

We aim to buy, develop, manage and sell assets in a way that benefits those closest to the company – our customers, communities, partners and employees.

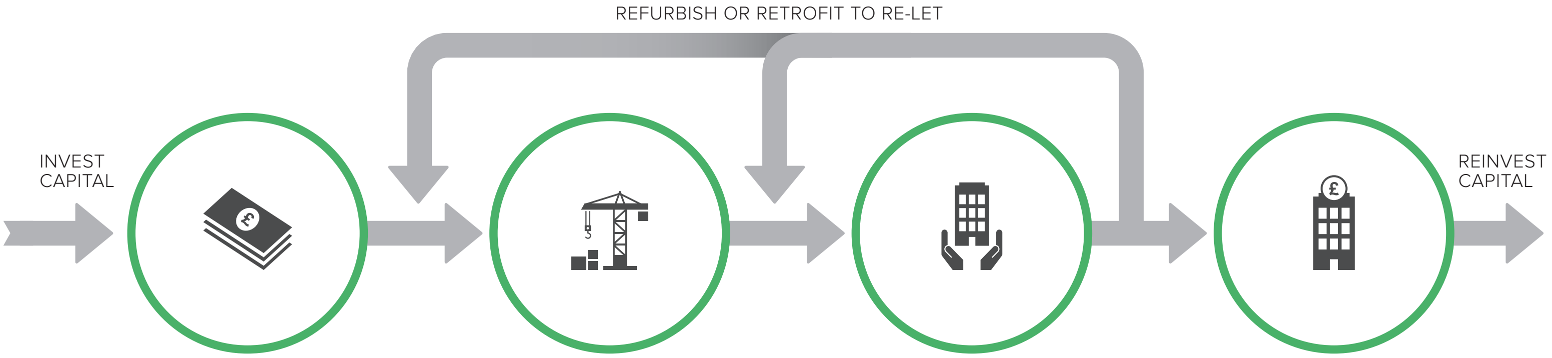
We believe that responding to people's needs – and giving careful consideration to the environment, economy and community – helps us to create enduring financial, social and physical value over the long term. Put another way, if we look after our cities, our cities will look after us.

Where we acquire or develop, we work closely with customers and communities to ensure the new space meets their needs and expectations. We manage most of the buildings we own which means we get to see how people interact with them and hear their views. Because we have control of assets, we can then take decisive action to improve things for the better.

Across the Company, we aim to develop and manage buildings in a sustainable and innovative way; make efficient use of natural resources in everything we do; and create jobs and opportunities for the people who live near our assets, including marginal groups who are furthest from employment.

## ADDING VALUE THROUGH THE LIFECYCLE

The diagram below illustrates some of the ways in which we work to create value through the lifecycle of a typical asset.




### BUY

We acquire an asset if it has the potential to meet the evolving needs of our customers and communities, can be acquired at the right price, and is likely to generate financial value for us over time.

Our investment manager will assess physical and environmental due diligence information on the state of the building. This will include details on physical and legislative risks that may affect performance and value. When we commit to buying a property, we bring long-term economic investment to that area.

### DEVELOP

We develop when we see an opportunity to create space that will appeal to customers, enhance the area and create financial value for us.

We design for the safety, health and wellbeing of occupants, considering things such as air quality and natural lighting. We also design for efficiency and productivity. Behind the scenes we consider areas such as reception, cycle spaces, showers, changing rooms, loading bays, lift service and power supply, with an emphasis on operational resilience, energy use and the customers' experience.

We also design to improve the public realm around our buildings. And we consider the place within its context, including townscape and communication connectivity, urban biodiversity and wider infrastructure.

Our development activity supports economic prosperity by helping to create job opportunities, both through construction and the ongoing use of the space. We work with the local authority to identify areas of social need, help people access opportunities and collaborate with our partners to address key issues. In particular, our activity enables young people to raise their aspirations, improve their skills and educational standards, and stand a better chance of getting a job.

### MANAGE

We work with customers and the community to ensure a building operates as it was designed to.

We redesign and refurbish space if we spot an opportunity to make it more attractive, useful and valued. We work with occupiers to manage energy, waste and water as cost efficiency and environmental factors, which helps to protect the building from external risks such as price volatility, changing regulation, supply issues and premature obsolescence.

In this stage of the building's lifecycle our activities are similar to the development phase, from working with local authorities and groups to helping to increase aspirations and prosperity.

### SELL

We sell an asset when we see an opportunity to deploy our capital more effectively elsewhere. Because of our investment and activity, the building we sell should perform at a higher level than the building we bought – financially, socially and environmentally. This should make it more valuable, which is good news for our shareholders and other stakeholders.

We aim to build a positive legacy, leaving a place in a better state than when we arrived. And by helping to improve people's lives, we strengthen our reputation and add value to our asset.

Read more about our performance in terms of social and physical inputs and outputs on: **pages 42–45**

# OUR STRATEGY IN ACTION

## BUY

### RETAIL

**CASTLE QUARTER, OXFORD**
In February we acquired this leisure and hotel asset for £47.2m (LS share: £23.6m) in joint venture with The Crown Estate. Castle Quarter is located next to our Westgate Oxford scheme and will complement the leisure offer at the centre.

### LONDON

**6–17 TOTTENHAM COURT ROAD, W1**
During the year we acquired our partner's 50% interest in 6–17 Tottenham Court Road, W1. Located next to the Crossrail station, this retail asset has strong rental growth prospects and long-term development potential.

## DEVELOP

### RETAIL

**WESTGATE OXFORD**
Our 800,000 sq ft joint venture redevelopment of Westgate Oxford is progressing well. We have continued to strengthen the retail and leisure line-up at the centre which was already 43% pre-let at 31 March 2016.

**BUCHANAN GALLERIES, GLASGOW**
During the year, we decided to put on hold our plans to extend Buchanan Galleries because of a conflict between our development programme and rail improvement works at the adjacent Queen Street Station.

### LONDON

**1 & 2 NEW LUDGATE, EC4**
We completed this 382,000 sq ft mixed-use development in April 2015. The scheme, which is located next to City Thameslink station, is now 94% let.

**THE ZIG ZAG BUILDING, SW1**
Construction of this commercial office and retail scheme completed in November 2015. The offices are 89% let and the retail space at The Zig Zag Building and Kings Gate is now 78% let to Jamie's Italian, Iberica, M Restaurants and Mango.

**KINGS GATE, SW1**
This 100 apartment scheme completed in October 2015 and 86 apartments have been sold at March 2016.

**NOVA, VICTORIA, SW1 – PHASE I**
Construction of this 727,000 sq ft office, retail and residential scheme will complete in September 2016. 17% of the office space is pre-let and we have pre-sold 138 of the 170 apartments. 12 of the 18 retail units are pre-let as we approach the completion of this landmark development and restaurant quarter.

**20 EASTBOURNE TERRACE, W2**
This 93,000 sq ft refurbishment completed in May 2016 and has created an exciting new hub for business near the future Paddington Crossrail station. The scheme is already 77% let or in solicitors' hands.

## MANAGE

### RETAIL

**BLUEWATER, KENT**
We have submitted a planning application for the redevelopment of the Glow entertainments space so we can enhance the leisure and food experience for customers. We also extended the Next store and are currently extending the H&M store.

**WHITE ROSE, LEEDS**
Our extension to this centre is adding six new restaurants together with a Cine UK IMAX cinema.

**SOUTHSIDE, WANDSWORTH**
We completed new stores for Debenhams and Decathlon along with several new restaurants.

### LONDON

**CARDINAL PLACE, SW1**
Completed in 2006, 72% of income was subject to break or expiry as at March 2012 of which 48% has been regeared to 2026 and beyond.

**NEW STREET SQUARE, EC4**
Completed in 2008, New Street Square is fully let with an office lease term of almost nine years. Our letting activity this year has created good evidence ahead of reviews on 58% of the income over the next 24 months.

**DASHWOOD HOUSE, EC2**
At Dashwood House, 86% of income was subject to review by March 2016. 55% of this income has been reviewed at 23% ahead of passing rent.

## SELL

### RETAIL

**RETAIL WORLD TEAM VALLEY, GATESHEAD**
**KINGSWAY WEST RETAIL PARK, DUNDEE**
**THE METEOR CENTRE, DERBY**
We sold these retail parks in one transaction for £273.2m. These disposals were in line with our strategy to focus on convenience parks with strong catchments, flexible planning consents and resilient property fundamentals.

**100 HIGH STREET, CRAWLEY**
The sale of this asset completed our strategy to exit the standalone foodstore sector of the market.

### LONDON

**TIMES SQUARE, EC4**
An asset held for sale at 31 March 2015, we completed the disposal of our 95% share in July 2015 following an asset initiative which lengthened the income and increased its value.

**HAYMARKET HOUSE, SW1**
We took advantage of a strong investment market to sell this asset ahead of a number of office lease expiries.

**THOMAS MORE SQUARE, E1**
The completion of our refurbishment in September brought new retailers, occupiers and a refreshed public realm to this asset and a significant increase in valuation. The subsequent disposal of this asset enabled us to crystallise the increase in value.

**HOLBORN GATE, WC1**
The sale of this asset for £134m crystallised the valuation gains resulting from the completion of a refurbishment of the reception and some office space.

# KEY PERFORMANCE INDICATORS

We work to turn our strategic objectives into tangible performance, using individual key performance indicators to measure our progress.

| STRATEGIC OBJECTIVES | KPI FOR THE YEAR | PERFORMANCE |
|---|---|---|
| Deliver sustainable long-term shareholder returns | Three year Total Shareholder Return (TSR) performance compared to the TSR performance (weighted) of a comparator group of property companies within the FTSE 350 Real Estate Index | TSR of 40.8% for the three year period from April 2013 did not match our comparator group at 45.3% |
| Maximise the returns from the investment portfolio | One year Total Property Return (TPR) compared to all March valued properties within IPD | Estimated outperformance versus the benchmark of 0.3% over one year |
| | Three year TPR performance compared to the IPD Quarterly Universe, weighted to the sectors in which the Group is invested | Marginally outperformed versus the benchmark over three years |
| | Revenue profit to exceed a rebased internal threshold | Revenue profit of £362.1m was above a rebased internal threshold |
| Manage our balance sheet effectively | Proceeds from the disposal of specific assets ahead of book value to fund our investment activity | Achieved. Target assets were sold at 103.5% of book value |
| Maximise development performance | Progress development lettings within our development programme | Mostly achieved. £33.8m of lettings in the year against a threshold £27.4m |
| | Progress on planning applications | Mostly achieved. Planning permissions obtained on five of the six assets targeted for the year |
| Ensure high levels of customer satisfaction | Maintain overall customer satisfaction rates in Retail and London customer surveys of 4 (out of 5) or over | Retail: 4.3<br>London: 4.3 |
| Attract, develop, retain and motivate high performance individuals | Embedding of the purpose, vision and values throughout the business with positive effect on engagement | Achieved. The Executive Directors led the embedding of purpose, vision and values in a company-wide series of presentations and workshops |
| Continually improve sustainability performance | Reduce the absolute energy consumption of our five largest energy consuming managed buildings by 15% by 2020 against a 2014 baseline | Reductions achieved at each property, resulting in an overall reduction of 15% |
| | Send zero waste to landfill with at least 70% recycled across all our operational and construction activities by 2020 | Overall:<br>Diverted – 98.6%<br>Recycled – 72.0% |
| | Reduce the absolute water use of our five largest water consuming managed buildings by 15% by 2020 against a 2014 baseline | Reductions achieved at three properties, increases seen at two properties, resulting in an overall reduction of 4% |
| | A further 170 people through training and into jobs via our Community Employment Programme | A further 196 people through training and into jobs via our Community Employment Programme |
| | Leadership in gender and ethnic diversity | An integrated plan around diversity has been launched, including the establishment of a sector wide working group led by Land Securities |
| | 100% of mandatory health and safety training and 80% of desirable health and safety training completed within six months of joining | Achieved. 100% of mandatory training and 98% of desirable training was delivered to all existing employees and to new employees within six months of joining |

To read about our other sustainability commitments, go to **pages 150–153**

| REMUNERATION | READ MORE |
|---|---|
| 50% of the award of long-term share investment plans is determined by the three year TSR performance compared to the comparator group | Remuneration see **pages 75–76** |
| 50% of the award of long-term share investment plans is determined by the three year TPR performance compared to our benchmark. The same measure, on a one year basis, also determines part of the annual bonus<br>The outturn is adjusted to take account of the performance of trading properties and the capital and income extracted from Queen Anne's Gate, SW1, through a bond issue in 2009 | Remuneration see **pages 75–76** Our risks see **pages 46–49** |
| Forms part of the specific business targets which determine a proportion of annual bonus | |
| Forms part of the specific business targets which determine a proportion of annual bonus | Remuneration see **pages 75–76** Our risks see **pages 46–49** |
| Forms part of the specific business targets which determine a proportion of annual bonus | Remuneration see **pages 75–76** Our risks see **pages 46–49** |
| Forms part of the specific business targets which determine a proportion of annual bonus | Remuneration see **pages 75–76** Our risks see **pages 46–49** |
| Forms part of the specific business targets which determine a proportion of annual bonus | Remuneration see **pages 75–76** Our risks see **pages 46–49** |
| No direct link to remuneration | Remuneration see **pages 75–76** Our risks see **pages 46–49** |
| No direct link to remuneration | |
| No direct link to remuneration | |
| Forms part of the specific business targets which determine a proportion of annual bonus | |
| Forms part of the specific business targets which determine a proportion of annual bonus | |
| Forms part of the specific business targets which determine a proportion of annual bonus | |

| KPI FOR 2016/17 | LINKED TO REMUNERATION | READ MORE |
|---|---|---|
| Three year Total Shareholder Return (TSR) performance compared to the TSR performance (weighted) of a comparator group of property companies within the FTSE 350 Real Estate Index | ✓ | See **pages 80–81** |
| One year and three year TPR compared to all March valued properties within IPD | ✓ | See **pages 80–81** |
| Revenue profit to exceed a rebased internal threshold | ✓ | |
| No specific balance sheet target set for 2016/17 | | See **pages 80–81** |
| Progress development lettings and residential sales within our development programme | ✓ | See **pages 80–81** |
| Maintain overall customer satisfaction rates in Retail and London customer surveys<br>Deliver an internal Customer Focus Programme<br>Deliver an external Customer Engagement Programme | ✓ | See **pages 80–81** |
| Ensure that the new ways of working, including those associated with the head office move, help to embed the purpose, vision and values in a measurable way | ✓ | See **pages 80–81** |
| Deliver an impactful 'Sustainability Matters' awareness raising and training programme | ✓ | See **pages 80–81** |
| Support operational efficiency by conducting site-specific energy reduction assessments of the like-for-like portfolio to accelerate our existing energy management programme | ✓ | |
| A further 173 people into jobs via our Community Employment Programme and Trainee Academy | ✓ | |

# LONDON PORTFOLIO REVIEW

> **“OUR PORTFOLIO IS HIGH QUALITY, WELL LET, RESILIENT AND FOCUSED ON MEETING THE CHANGING NEEDS OF CUSTOMERS AND COMMUNITIES.”**

**Colette O’Shea,** Managing Director, London Portfolio

1 & 2 New Ludgate, EC4

## HIGHLIGHTS

**9.7%**
Valuation surplus

**£17.6m**
of investment lettings

**£31.7m**
of development lettings

| OBJECTIVES | PROGRESS AT 31 MARCH 2016 | OBJECTIVES FOR 2016/17 |
|---|---|---|
| Outperform IPD sector benchmark | The total return of the London Portfolio was 13.8% underperforming its IPD sector benchmark at 17.6% | Outperform IPD sector benchmark |
| Complete the letting of 62 Buckingham Gate, SW1; 20 Fenchurch Street, EC3; 1 & 2 New Ludgate, EC4; and The Zig Zag Building, SW1 | 62 Buckingham Gate fully let; 20 Fenchurch Street fully let; 1 & 2 New Ludgate 94% let; and The Zig Zag Building 88% let | Complete the letting of 1 & 2 New Ludgate; The Zig Zag Building; and 20 Eastbourne Terrace |
| Progress development lettings at Nova, Victoria, SW1 | Nova, Victoria 17% pre-let | Progress development lettings at Nova, Victoria |
| Progress planning applications and obtain planning permission at Nova East, SW1; 21 Moorfields, EC2; and Harrow | Planning consent achieved at Nova East; 21 Moorfields; and Harrow | Submit a planning application at Southwark Street, SE1 and secure planning consent for new screens at Piccadilly Lights, W1 |
| Progress to revised time and to budget at our committed developments | 1 & 2 New Ludgate completed to time and budget; 1 New Street Square, EC4 on time and budget; The Zig Zag Building and Kings Gate, SW1 delayed from July 2015 to November 2015; 20 Eastbourne Terrace, W2 delayed from April 2016 to May 2016; and Nova, Victoria delayed from July 2016 to September 2016 | Progress to revised time and to budget at our committed developments |
| Secure employment for a further 145 candidates via our Community Employment Programme | Secured employment for 164 candidates | Secure employment for a further 129 candidates through our Community Employment Programme |
| Disposal of specific assets to fund our investment activity | Disposals as planned of 130 Wood Street, EC2; 23-39 Eastcheap, EC3; 6 Castle Lane, SW1; 50 Oxford Street, W1; Hanway Street, W1; Haymarket House, SW1; Holborn Gate, WC1; and land at Harrow | |

**New Ludgate**
Light and art in reception.

## AT A GLANCE

**9.7%**
Valuation surplus

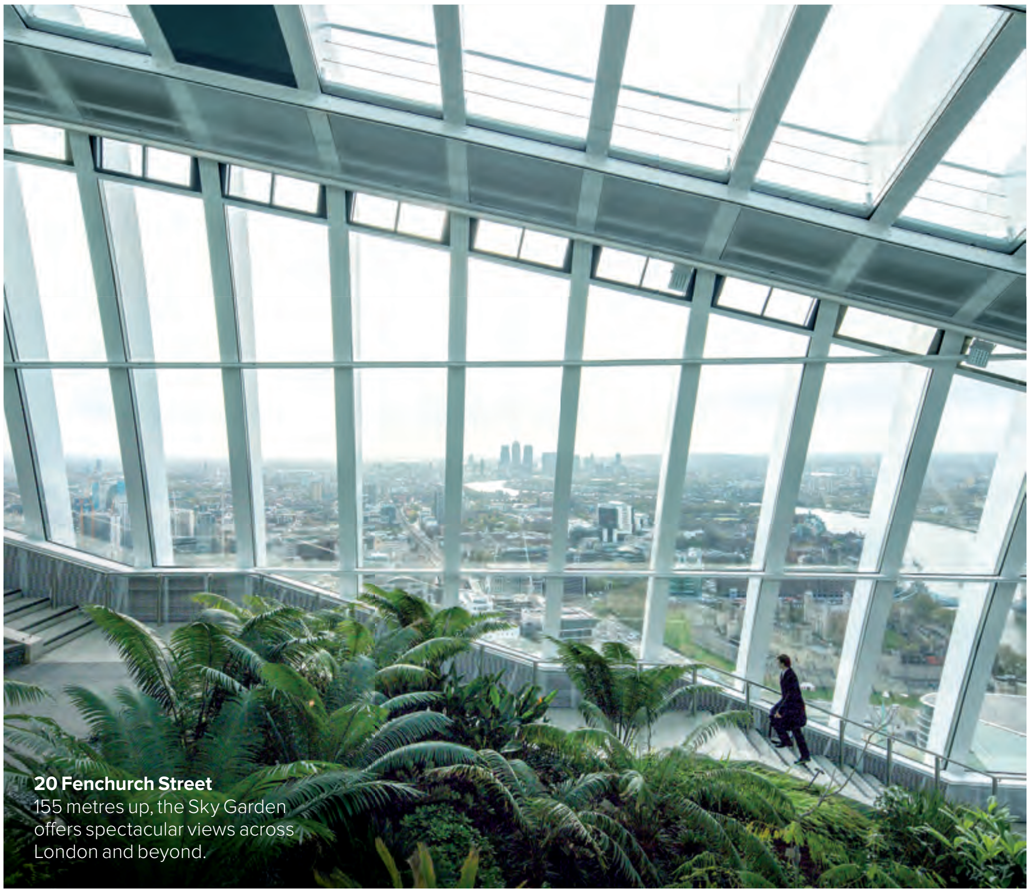
**13.8%**
Ungeared total property return

**17.6%**
The portfolio underperformed its IPD Quarterly Universe sector benchmark

**£17.6m**
of investment lettings

**£31.7m**
of development lettings

**2.9%**
Like-for-like voids (2015: 2.9%)



**20 Fenchurch Street**
155 metres up, the Sky Garden offers spectacular views across London and beyond.

We have delivered another strong year of lettings in good market conditions. Our well timed development programme and rigorous asset management has enabled us to further lengthen income. Our portfolio is high quality, well let, resilient and focused on meeting the changing needs of customers and communities.

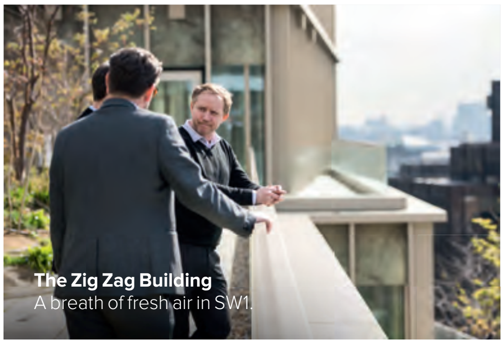
**Buy**
During the year, we paid £57.1m for our partner's 50% interest in 6-17 Tottenham Court Road, W1. This retail asset, located next to the Crossrail station, has strong rental prospects and long-term development potential.

**Develop**
We have continued our strong letting momentum, securing a further 524,000 sq ft of lettings during the year.

20 Fenchurch Street, EC3 is now fully let. Our space provides a great day-to-day experience for occupiers and a memorable destination for visitors. Technically resilient and environmentally efficient, the building is now home to a diverse mix of businesses, with the spectacular Sky Garden attracting over 900,000 visitors during the year.

Our work at 1 & 2 New Ludgate, EC4 has created two distinctive office buildings as well as new shops, restaurants and a public piazza, accelerating the rejuvenation of a previously underwhelming part of the City. The scheme, which was 94% let at year end, sits next to City Thameslink station.

Our developments at Victoria, SW1 continue to transform the area. Strong office lettings have given Victoria the seal of approval as a thriving business destination for a range of leading companies. The Zig Zag Building let faster than expected this year reflecting the asset's popularity with occupiers and their employees. Its terraces, exceptional daylight and fresh filtered air all contribute to an environment designed to promote productivity.


**The Zig Zag Building**
A breath of fresh air in SW1.

Next door, our Kings Gate residential scheme completed in October 2015 a few months later than planned. Although the residential market in London slowed dramatically in the year and only one further apartment was sold, sales have completed at 86 of the 100 apartments. At the landmark Nova, Victoria scheme – the culmination of our Victoria regeneration – 33% of the 480,000 sq ft office space is now pre-let or in solicitors' hands and 138 of the 170 apartments pre-sold, an increase of five this year. We are creating London's newest food quarter here, with Jason Atherton, Bone Daddies, Sourced Market, Jamie Oliver's Barbecoa and others taking space. The retail and food-related space is now 90% pre-let or in solicitors' hands.

At 20 Eastbourne Terrace, W2, we completed our 93,000 sq ft scheme earlier this month, creating an exciting new hub for businesses near the Paddington Crossrail station. The space includes a shared roof garden, café and collaboration areas, cycle spaces, showers and changing rooms. 77% of the space is already let or in solicitors' hands.

We gained consent across three sites: at 21 Moorfields, EC2 for 515,000 sq ft which sits over the future western entrance to Liverpool Street Crossrail station and where we have now started demolition and enabling works; at Nova East, SW1 for a 196,000 sq ft office led mixed-use scheme; and at 1 Sherwood Street, W1 for a 142,000 sq ft mixed-use scheme behind Piccadilly Lights.

**Manage**

We have continued to rigorously manage the portfolio, seizing and creating opportunities to lengthen and strengthen income as we move through the cycle. Our weighted average lease term in London offices is now 9.7 years.

During the year, we have had notable successes at: Cardinal Place, SW1 where lease terms have been lengthened; 30 Eastbourne Terrace, W2, where we set a new rental tone above £60 per sq ft creating timely evidence ahead of rent reviews; New Street Square, EC4 where we have lengthened leases and settled reviews creating good evidence in advance of 58% of the income being subject to rent review over the next 24 months; and Dashwood House, EC2 where 55% of the income was reviewed this year at 23% above passing rent.

At Thomas More Square, E1, we repositioned the estate creating a completely new environment. Vacant offices and the public realm were refurbished and we successfully re-let the space prior to sale. At Holborn Gate, WC1, we carried out a similar refurbishment driving a significant increase in rental values and again sold the building after a successful letting campaign.

**Sell**

During a busy year, we completed the disposal of Times Square, EC4 for £284.6m and made further investment property disposals of £660.8m, at 14.2% ahead of the March 2015 valuation. We disposed of those assets we felt were most at risk in the event of a downturn, including Haymarket House, SW1, Holborn Gate, WC1 and Thomas More Square, E1. The sale of Thomas More Square was the culmination of our plan for the asset where we bought our partner's 50% interest for £85.3m in November 2014, spent £36.5m on refurbishment and sold it for £283.8m generating a 36.2% surplus to the purchase price.

**Outlook**

The London market remains healthy but faces uncertainty in the lead up to the EU referendum on 23 June. In the event of a vote to remain, we expect the relative balance between supply and demand to remain in the landlords' favour this year and for rental values to continue to rise, albeit at a slower pace than the last few years. This is because there is more choice on the horizon for occupiers. If there is a vote to leave, we expect demand to fall and this balance to shift, which in turn is likely to have a negative impact on rents and values. We are well positioned to take advantage of either outcome.

**NET RENTAL INCOME[1]** Table 5

| | 31 March 2016 £m | 31 March 2015 £m | Change £m |
|---|---|---|---|
| Like-for-like investment properties | **199.6** | 198.0 | 1.6 |
| Proposed developments | **–** | – | – |
| Development programme | **20.3** | (2.2) | 22.5 |
| Completed developments | **29.2** | 23.7 | 5.5 |
| Acquisitions since 1 April 2014 | **1.2** | – | 1.2 |
| Sales since 1 April 2014 | **20.7** | 37.1 | (16.4) |
| Non-property related income | **4.2** | 3.3 | 0.9 |
| **Net rental income** | **275.2** | 259.9 | 15.3 |

1. On a proportionate basis.

Net rental income increased by £15.3m to £275.2m, driven by the greater contribution from our developments.

The development programme saw net rental income grow by £22.5m following the completion of 1 & 2 New Ludgate, EC4 and The Zig Zag Building, SW1. We let the remaining space at our completed developments, 20 Fenchurch Street, EC3 and 62 Buckingham Gate, SW1, delivering an increase in net rental income of £5.5m. Like-for-like net rental income grew by £1.6m with rent reviews at a number of properties partly offset by lower rents at Portland House, SW1 where we had previously agreed some short-term lettings to preserve development optionality. These leases are now being renegotiated following our decision not to proceed with a residential scheme for this asset. The growth in net rental income was partly offset by a £16.4m reduction due to disposals, with the sale of Times Square, EC4, 130 Wood Street, EC2 and Holborn Gate, WC1 having the greatest impact.


**62 Buckingham Gate**
Contemporary office and retail space on Victoria Street, fully let this year.

For more information on our London Portfolio go to: **page 148**

For more information on our approach to sustainability and responsibility go to: **pages 150–153**

# RETAIL PORTFOLIO REVIEW

“WE ARE PROVIDING OUR CUSTOMERS WITH THE SPACE THEY NEED TO THRIVE, BRINGING IN NEW BRANDS TO IMPROVE AND REFRESH THE OFFER FOR VISITORS, AND PLAYING A POSITIVE ROLE IN OUR LOCAL COMMUNITIES.”

**Scott Parsons,** Managing Director, Retail Portfolio

**Trinity Leeds**
From shopping to socialising: customers enjoying a great day out.

## HIGHLIGHTS

**3.7%**
Valuation surplus

**£20.0m**
of investment lettings

**£2.1m**
of development lettings

| OBJECTIVES | PROGRESS AT 31 MARCH 2016 | OBJECTIVES FOR 2016/17 |
|---|---|---|
| Outperform IPD sector benchmark | The total return of the Retail Portfolio was 8.6% outperforming its IPD sector benchmark at 7.1% | Outperform IPD sector benchmark |
| Progress lettings at Buchanan Galleries, Glasgow and Westgate Oxford | No further pre-lettings were made at Buchanan Galleries because the scheme was put on hold; Westgate Oxford 43% pre-let | Progress lettings at Westgate Oxford; Selly Oak, Birmingham; and the White Rose, Leeds leisure extension |
| Resolution to grant planning consent at Worcester Woods | Awaiting committee date | Resolution to grant planning consent at Worcester Woods<br><br>Achieve planning consent and progress lettings for Glow space at Bluewater, Kent |
| Progress to time and budget at our committed developments | Westgate Oxford on time and budget | Progress committed developments to time and budget |
| Progress key disposals according to plan | Disposals of: Team Valley Retail Park, Gateshead; Kingsway West Retail Park, Dundee; and 100 High Street, Crawley were made in line with our plan | |
| Implement Community Employment Programme at Westgate Oxford | Implemented and secured 22 jobs for people from disadvantaged backgrounds | Expand the Community Employment Programme to other retail sites |


**Trinity Leeds**
Providing a great customer experience in the heart of Leeds.

## AT A GLANCE

**3.7%**
Valuation surplus

**8.6%**
Ungeared total property return

**7.1%**
The portfolio outperformed its IPD Quarterly Universe sector benchmark

**£20.0m**
of investment lettings

**£2.1m**
of development lettings

**1.8%**
Like-for-like voids (2015: 2.4%)

**0.6%**
Units in administration (2015: 1.1%)

### KEY INDICATORS

- Footfall in our shopping centres was up 3.4% (national benchmark down 1.3%)
- Same store non-food retail sales were up 1.5% (national benchmark for physical store non-food retail sales down 0.2%)
- Same store catering sales were up 3.8% (national benchmark for catering sales up 1.2%)
- Same centre non-food retail sales, taking into account new lettings and occupier changes, were up 3.3%
- Same centre catering sales, taking into account new lettings and occupier changes, were up 6.6%
- Retailers' rent to sales ratio was 10.2%
- Total occupancy costs (including rent, rates, service charges and insurance) represented 17.8% of sales

**Bluewater, Kent**
Home to 300 retailers and much, much more.

Following the transformation of our portfolio, we are now focused on further enhancing the consumer experience at our assets. Through proactive management, we are providing customers with the space they need to thrive, bringing in new brands to improve and refresh the retail, catering and leisure offer for visitors, and playing a positive role in our local communities.

**Buy**
During the year, we acquired Castle Quarter in Oxford for £47.2m (our share: £23.6m) in joint venture with The Crown Estate. This asset is located next to our Westgate Oxford scheme and is set to benefit from the improvement our development will bring to the city centre. Castle Quarter includes a heritage visitor attraction, a 95-bedroom Malmaison hotel and numerous restaurants and bars.

**Develop**
Our 800,000 sq ft joint venture redevelopment of Westgate Oxford is progressing well and is now almost 50% pre-let to occupiers including John Lewis, Next, Calvin Klein, Joules, Jo Malone, Curzon Cinemas and Sticks'n'Sushi. When the scheme opens in late 2017, it will transform the retail scene in Oxford providing an amazing new destination with dozens of retail and catering brands not currently represented in the city.

Disappointingly, during the year we decided to put on hold our plans to extend Buchanan Galleries, Glasgow because of a conflict between our development programme and rail improvement works at the adjacent Queen Street station. We are continuing to work on our plans to improve the retail, leisure and food offer at the centre though these are unlikely to be at the scale previously envisaged.

At Selly Oak, Birmingham we expect to start on site in the autumn to deliver a mixed-use scheme featuring student housing and 200,000 sq ft of retail and catering space. Completion is scheduled for late 2018.

At Worcester Woods, we have submitted a planning application for a 240,000 sq ft retail park development which is already substantially pre-let and would bring a much-anticipated John Lewis store to the Worcester consumer. Frustratingly, the planning process has been delayed but we now hope for a committee date in the summer. At Filmworks, Ealing where we have detailed planning permission for a leisure and residential development, approval was received in October for the compulsory purchase of remaining land interests on the site.

### Manage

Across the portfolio, our proactive approach to management has delivered strong results, with like-for-like income up and voids down. Our retail parks and leisure portfolios are virtually full, with occupancy of 100% and 99.3%, respectively.

In order to increase net rental income, we have secured pre-lettings and planning consents to construct new units on a number of our retail parks. We are delivering additional retail space at Chadwell Heath and Blackpool and completed the construction of further units at Lincoln and Dundee prior to disposal. Within our hotel portfolio, Accor has exercised a break notice on seven of their 29 hotels, effective from 2019. The seven hotels only represent approximately 9% of the income and we will likely look to sell them once Accor has vacated. Income on the remaining 22 hotels is now secured until 2031.

This year we continued to meet demand for upsized space at our shopping centres from a number of our most popular retailers. At Bluewater, Kent we completed a new state-of-the-art store for Next and are currently on site delivering a new flagship store for H&M.

**A delicious offer**
We're seeing increasing demand for food and leisure.

Upsized stores were also delivered for H&M at St David's, Cardiff, and for Polo Ralph Lauren at Gunwharf Quays, Portsmouth. At Southside, Wandsworth we completed new stores for Debenhams and Decathlon along with several new restaurants.

Reflecting growing demand from consumers, we have continued to broaden the range of catering and leisure space across our portfolio. We negotiated numerous lease surrender and re-let transactions so we could bring fresh and exciting restaurant brands to our retail and leisure destinations. For example, we secured planning consent for four new restaurant units at Fountain Park, Edinburgh which are due to complete in early 2017. At Bluewater, we have submitted a planning application to convert the Glow entertainment space into new leisure and catering units along with an expansion of the popular Showcase Cinema, all aimed at enhancing the consumer experience. We will also be delivering a Cine UK IMAX cinema and six new restaurants at White Rose, Leeds.

### Sell

During the year we made £384.8m of disposals at a surplus to the 31 March 2015 valuation of 1.4%. Properties sold included retail parks in Gateshead, Dundee and Derby, a leisure park in Maidstone, and a supermarket in Crawley, which was the last remaining standalone food store in our portfolio.

### Outlook

The retail environment remains fast-paced and challenging, with consumers increasingly demanding in terms of price, experience and service. Many of the most successful retailers are those that can maximise sales through multiple channels, from traditional physical stores to online and click & collect. We expect the importance of digital channels to continue to increase. Retailers are changing the way they think about and use their physical space, with many investing more in shop design and layout, and using technology to transform their shops into interactive showrooms for their goods and services. Physical stores that provide the right space in the right place are worth this investment because of the crucial role they play for retailers in engaging consumers with their brands.

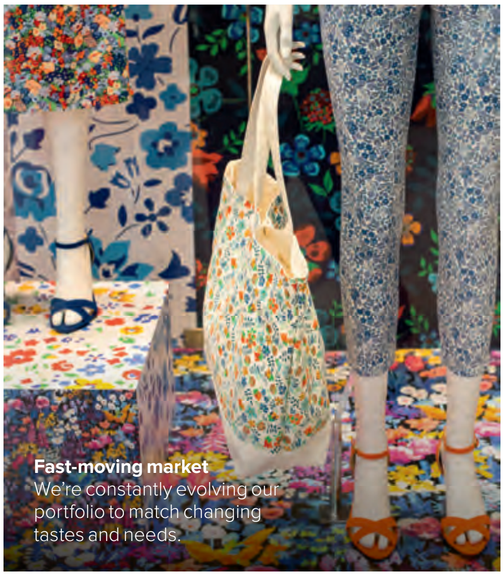
We have worked hard to ensure that our portfolio is made up of the best space for our customers' needs, in the best locations. This gives us confidence in our future performance.

**NET RENTAL INCOME[1]** Table 6

| | 31 March 2016 £m | 31 March 2015 £m | Change £m |
|---|---|---|---|
| Like-for-like investment properties | **263.7** | 252.3 | 11.4 |
| Proposed developments | **–** | (0.2) | 0.2 |
| Development programme | **0.5** | 1.5 | (1.0) |
| Completed developments | **2.7** | 1.7 | 1.0 |
| Acquisitions since 1 April 2014 | **35.4** | 25.4 | 10.0 |
| Sales since 1 April 2014 | **15.7** | 50.4 | (34.7) |
| Non-property related income | **10.5** | 8.5 | 2.0 |
| **Net rental income** | **328.5** | 339.6 | (11.1) |

1. On a proportionate basis.

Net rental income reduced by £11.1m from £339.6m to £328.5m. This was largely driven by our disposals which included the three retail parks sold in December 2015. Disposals in the prior year include The Bridges, Sunderland, as well as our 50% interests in Cabot Circus, Bristol and Princesshay, Exeter. The £34.7m reduction in net rental income due to disposals is partly offset by our acquisitions, predominantly Bluewater, which contributed an additional £10.0m, and our like-for-like portfolio which contributed an additional £11.4m of income. The increase in our like-for-like portfolio is largely due to new lettings, rent reviews, an increase in turnover rents from the Accor hotels and £4.1m of surrender receipts. The £1.0m increase in net rental income from completed developments relates to The Bishop Centre, Taplow, which completed in July 2014 and is fully let.



**Fast-moving market**
We're constantly evolving our portfolio to match changing tastes and needs.

# FINANCIAL REVIEW

## OUR RESULTS

**£1,335.6m**
Profit before tax (2015: £2,416.5m)

**£362.1m**
Revenue profit[1] (2015: £329.1m)

**£14.5bn**
Combined Portfolio[1] (2015: £14.0bn)

## OUR HIGHLIGHTS

- Basic earnings per share 169.4p (2015: 306.1p)
- Adjusted diluted earnings per share[1] 45.7p (2015: 41.5p)
- Dividend 35.0p (2015: 31.85p)
- Valuation surplus[1] £907.4m (2015: £2,036.9m)
- Net assets per share 1,482p (2015: 1,343p)
- Adjusted diluted net assets per share 1,434p (2015: 1,293p)
- Adjusted net debt[1] £3,238.7m (2015: £4,171.7m)
- Group LTV[1] 22.0% (2015: 28.5%)

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the notes to the financial statements.

The Group has delivered another strong performance this year. While profit before tax was down on last year at £1,335.6m as valuation increases were unable to match the sharp increases in the year to March 2015, revenue profit was up 10.0% at £362.1m. This has been achieved alongside considerable improvements to the quality and resilience of our property assets.

This resilience is important because we recognise that the commercial property market is inherently cyclical with London office assets, in particular, susceptible to fluctuating rental and yield movements. Over the past six years, our significant speculative development programme in London has not only been a great financial success but it has also provided the Group with resilient assets in the form of new buildings, let on long leases to major corporates. Our Retail Portfolio has been transformed. Despite the initial impact on earnings, we have sold secondary, higher yielding assets not suited to changing retailer and consumer requirements, and acquired or developed destinations which are.

Between 2010 and 2015, we broadly followed a 'net debt neutral' approach, keeping debt relatively constant and allowing rising values to reduce our leverage. We achieved this by funding investment in acquisitions and developments through disposal proceeds rather than increased debt. Between March 2010 and March 2015, our LTV reduced from 43.5% to 28.5%, while adjusted net debt was unchanged at £4.2bn on both dates. However, this year we have taken the opportunity presented by a strong investment market to become net sellers, with adjusted net debt and LTV at 31 March 2016 down at £3.2bn and 22.0% respectively. We chose to sell those assets where we had completed asset management initiatives and which would be harder to sell in a weak market.

In the same way that we consider whether we have the right assets, we also need to ensure we have appropriate financing facilities for future buying opportunities. Our main syndicated revolving credit facility was increased to £1.38bn this year and is available to us until at least 2021. We also repurchased our 4.875% £400m bond as the lack of remaining duration to its expected maturity in 2017 meant it was no longer part of our long-term financing considerations.

The proposed final dividend takes the full year dividend to 35.0p, up 9.9% over last year. Our dividend cover remains healthy, giving us scope to make asset decisions based on their total return outlook rather than any short-term earnings impact. We aim to continue to grow our annual dividend in a progressive manner with limited consideration of short-term earnings fluctuations.

**Presentation of financial information**

A number of our financial measures include the results of our joint ventures and subsidiaries on a proportionate basis. Measures that are described as being presented on a proportionate basis include the Group's share of joint ventures on a line-by-line basis, and are adjusted to exclude the non-owned elements of our subsidiaries. This is in contrast to the Group's statutory financial statements, where the Group's interest in joint ventures is presented as one line on the income statement and balance sheet, and all subsidiaries are consolidated at 100% with any non-owned element being adjusted as a non-controlling interest or redemption liability, as appropriate. Our joint operations are presented on a proportionate basis in all financial measures.

**Revenue profit**

Revenue profit is our measure of underlying pre-tax profit, which is used internally to assess the Group's income performance. It excludes all capital items, such as valuation movements and profits and losses on disposals, as well as items of an exceptional nature. A full definition of revenue profit is given in the glossary. The main components of revenue profit, including the contributions from London and Retail, are presented on a proportionate basis in the table below and a reconciliation of revenue profit to our IFRS profit before tax is included in table 9.

Revenue profit increased by £33.0m from £329.1m last year to £362.1m in the year ended 31 March 2016. The 10.0% increase was mainly due to higher net rental income, lower net indirect expenses and lower net interest expense as explained further overleaf.

Table 7 shows the composition of our revenue profit including the contributions from London and Retail.

**REVENUE PROFIT** Table 7

| | Year ended 31 March 2016 | | | Year ended 31 March 2015 | | | |
|---|---|---|---|---|---|---|---|
| | **Retail Portfolio £m** | **London Portfolio £m** | **Total £m** | Retail Portfolio £m | London Portfolio £m | Total £m | Change £m |
| Gross rental income[1] | **355.7** | **293.0** | **648.7** | 367.7 | 273.1 | 640.8 | 7.9 |
| Net service charge expense | **(2.7)** | **(1.0)** | **(3.7)** | (2.8) | 0.6 | (2.2) | (1.5) |
| Net direct property expenditure | **(24.5)** | **(16.8)** | **(41.3)** | (25.3) | (13.8) | (39.1) | (2.2) |
| **Net rental income** | **328.5** | **275.2** | **603.7** | 339.6 | 259.9 | 599.5 | 4.2 |
| Indirect costs | **(25.5)** | **(18.8)** | **(44.3)** | (29.7) | (21.6) | (51.3) | 7.0 |
| **Segment profit before interest** | **303.0** | **256.4** | **559.4** | 309.9 | 238.3 | 548.2 | 11.2 |
| Net unallocated expenses | | | **(34.0)** | | | (39.4) | 5.4 |
| Net interest expense | | | **(163.3)** | | | (179.7) | 16.4 |
| **Revenue profit** | | | **362.1** | | | 329.1 | 33.0 |

1. Includes finance lease interest, after rents payable.

### *Net rental income*

Net rental income increased by £4.2m this year (see chart 8). The increase was driven by £28.2m of additional income from our developments, principally 1 & 2 New Ludgate, EC4; 20 Fenchurch Street, EC3; and 62 Buckingham Gate, SW1. Like-for-like growth of £13.0m is mainly due to new lettings and rent reviews, and includes £4.1m of surrender receipts. Increased net rental income from acquisitions of £11.2m largely relates to our 30% interest in Bluewater, Kent acquired part way through the previous financial year. Offsetting these increases is a £51.1m reduction in net rental income from properties sold since 1 April 2014, with the largest impact coming from the sale of Times Square, EC4 in London and the sale of retail assets in Bristol, Livingston and Exeter. The effect of disposals will continue to be felt in reduced rental income next year as a number of asset sales occurred towards the end of the financial year. In total, assets which have now been sold contributed £36.4m of net rental income in the financial year. Interest savings from the disposal proceeds will only partly compensate for this lost rental income in the year ahead.

Further information on the net rental income performance of the London and Retail portfolios is given in the respective business reviews.

### *Net indirect expenses*

The indirect costs of the London and Retail portfolios and net unallocated expenses need to be considered together as collectively they represent the net indirect expenses of the Group including joint ventures. In total, net indirect expenses were £78.3m compared with £90.7m last year. The £12.4m reduction is largely due to lower costs written off in respect of potential developments and lower staff costs due to a reduction in headcount and variable pay.

### *Net interest expense*

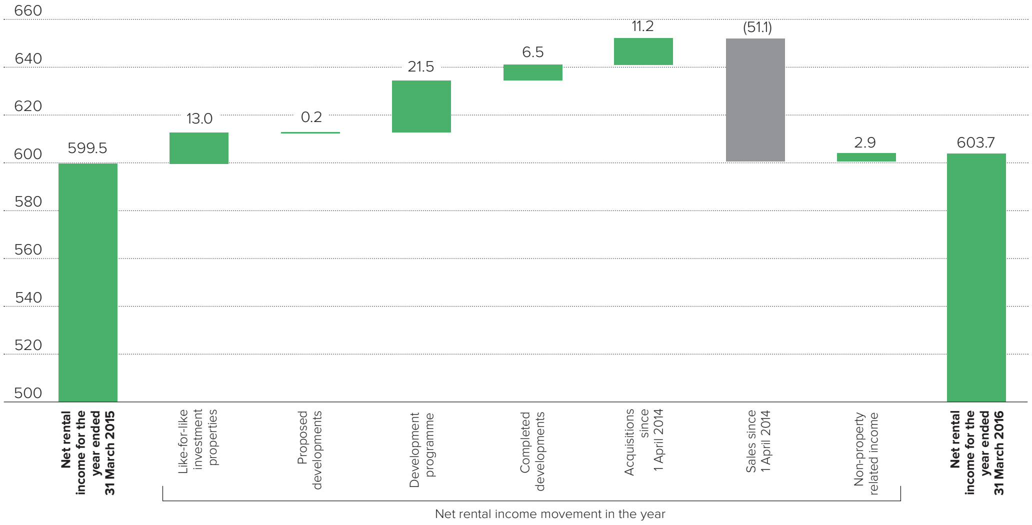
Our net interest expense has decreased by £16.4m to £163.3m, largely due to lower interest rates following the refinancing of the Group's revolving credit facility in March 2015 and the increased use of our European Commercial Paper (ECP) programme, as well as lower average net debt compared with last year.

### Profit before tax

Profit before tax for the year was £1,335.6m, down £1,080.9m on last year, largely due to a reduction in the valuation surplus. In addition to our revenue profit, the net change in values of our investment properties, any profits or losses on the disposal of assets and any exceptional items are key components of our profit before tax. Table 9 shows a reconciliation between revenue profit and profit before tax, with the main items discussed further overleaf.

**NET RENTAL INCOME[1] (£m)** Chart 8

Year ended 31 March 2016




1. Including our proportionate share of subsidiaries and joint ventures, as explained in the notes to the financial statements.

**RECONCILIATION OF REVENUE PROFIT TO PROFIT BEFORE TAX** Table 9

| | **Year ended 31 March 2016 £m** | Year ended 31 March 2015 £m |
|---|---|---|
| **Revenue profit[1]** | **362.1** | 329.1 |
| Valuation surplus[1] | **907.4** | 2,036.9 |
| Profits on disposals[1] | **119.4** | 167.5 |
| Other net interest expense | **(33.6)** | (67.0) |
| Exceptional items: | | |
| Business combinations | **–** | (36.3) |
| Impairment of long-term development contracts | **–** | (11.3) |
| Redemption of medium term notes | **(27.1)** | – |
| Head office relocation | **(5.6)** | – |
| Other | **13.0** | (2.4) |
| **Profit before tax** | **1,335.6** | 2,416.5 |
| Taxation | **2.4** | 0.3 |
| **Profit attributable to owners of the parent** | **1,338.0** | 2,416.8 |

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the notes to the financial statements.

## Valuation surplus

The valuation surplus of our Combined Portfolio was £907.4m (2015: £2,036.9m), representing a net increase in values over the year of 7.0%. A breakdown of valuation movements by category is shown in table 10.

In line with best practice, we conducted a tender exercise earlier this financial year, as a result of which we appointed CBRE to replace Knight Frank as our principal valuer. CBRE performed the valuation at both 30 September 2015 and 31 March 2016.

Over the year to 31 March 2016, we have seen values rise in almost every category of our Combined Portfolio. Overall, values were up by 7.0%, with the like-for-like portfolio up by 5.5% largely due to rental value growth.

As reported at the half year, there is a slight difference in approach between CBRE and Knight Frank on how they look at the rental value and equivalent yield components of a valuation. The changes in rental values and equivalent yields over the year reflect both this difference in approach and market movements. As a result, there are some rental value and equivalent yield movements in the year which look counter-intuitive.

Within the like-for-like portfolio, our shopping centres increased in value by 4.3% predominantly due to rental value growth and a small reduction in yields. The value of our retail parks was down 1.0% as yields softened slightly. Leisure and hotels reported a 6.2% valuation surplus as a result of rental value growth and yield reduction. London offices saw values rise by 6.3% with rental values up by 10.6% and yields moving outwards by six basis points. In general, yields of London offices have reduced over the year but our yield movements have been impacted by the change in approach between valuers (see below).

Outside the like-for-like portfolio, completed developments increased in value by 12.4% due to a 47 basis points reduction in yields and rental values up by 6.5%. Within acquisitions, the value of our 30% interest in Bluewater increased in line with the overall Retail Portfolio while Buchanan Galleries, Glasgow declined as we put the development on hold. The development programme valuation surplus was 16.6% due to letting successes on all our major schemes.

## Profits on disposals

Profits on disposals relate to the sale of investment and trading properties. We made a profit on disposal of investment properties (on a proportionate basis) of £78.7m, compared with £132.7m last year. For transactions agreed during the year, the profit on disposals represented a 9.1% surplus over 31 March 2015 values and was largely attributable to the sale of Thomas More Square, E1; Holborn Gate, WC1; and Haymarket House, SW1.

We made a profit on disposal of trading properties of £40.7m, compared with £31.5m last year. The trading profits largely relate to the sale of 86 apartments at Kings Gate, SW1, a residential building we completed this year. The majority of the apartments were pre-sold off plan but we only recognise the sale once legal completion occurs. Under the REIT rules, profits on the disposal of trading properties are subject to tax. However, we had sufficient tax losses to offset the taxable profits from these sales.

## Exceptional items

During the year, there were two items of an exceptional nature which are not included in revenue profit but are part of our pre-tax profits. On 29 March 2016, we redeemed £400m of our bonds at a premium of £26.2m. The redemption premium and £0.9m of unamortised issue costs have been charged to the income statement as an interest cost. Further details are given in the financing section below.

Also in March, we committed to moving our head office to Cardinal Place, SW1, one of our buildings in Victoria. We will occupy a single floor allowing us to accommodate all of our staff into one open space. As a result of our decision to move offices, we have made an onerous lease provision of £5.0m in respect of the estimated net occupational costs of our current head office, after anticipated subletting, for the period from January 2017 until the lease expires in December 2018. We have also incurred £0.6m of relocation costs.

### VALUATION ANALYSIS

Table 10

| | Market value 31 March 2016 £m | Valuation movement % | Rental value change[1] % | Net initial yield % | Equivalent yield % | Movement in equivalent yield bps |
|---|---|---|---|---|---|---|
| Shopping centres and shops | **2,871.3** | 4.3 | 2.3 | 4.5 | 4.7 | (7) |
| Retail parks | **834.3** | (1.0) | – | 5.2 | 5.4 | 4 |
| Leisure and hotels | **1,510.9** | 6.2 | 5.1 | 5.4 | 5.5 | (34) |
| London offices | **4,193.1** | 6.3 | 10.6 | 3.7 | 4.5 | 6 |
| Central London shops | **1,187.4** | 10.3 | 8.1 | 3.5 | 4.0 | (38) |
| Other (Retail and London) | **66.1** | (0.8) | – | 2.7 | 3.5 | 1 |
| **Total like-for-like portfolio** | **10,663.1** | **5.5** | **5.8** | **4.2** | **4.7** | **(8)** |
| Proposed developments | **3.5** | (4.2) | n/a | – | n/a | n/a |
| Completed developments | **1,038.5** | 12.4 | 6.5 | 1.6 | 3.8 | (47) |
| Acquisitions | **967.9** | 1.2 | n/a | 3.7 | 4.3 | n/a |
| Development programme | **1,797.5** | 16.6 | n/a | – | 4.1 | n/a |
| **Total Combined Portfolio** | **14,470.5** | **7.0** | **5.9** | **3.5** | **4.5** | **(22)** |

1. Rental value change excludes units materially altered during the year and Queen Anne's Gate, SW1.

## Earnings per share

Basic earnings per share were 169.4p, compared with 306.1p last year, primarily due to the lower valuation surplus.

Similar to the adjustments we make to profit before tax, which remove capital and one-off items to give revenue profit, we also report adjusted earnings per share figures. Adjusted diluted earnings per share increased by 10.1% from 41.5p last year to 45.7p per share as a result of the increase in revenue profit.

## Dividend

We are recommending a final dividend of 10.55p per share to be paid on 28 July 2016 entirely as a Property Income Distribution (PID) to shareholders registered at the close of business on 24 June 2016. Taken together with the three quarterly dividends of 8.15p per share already paid, our full year dividend will be up 9.9% at 35.0p per share (2015: 31.85p), or £276.5m (2015: £251.6m).

Dividend cover remains good at 1.3x providing a strong platform from which we aim to continue to grow our dividend. Accordingly, the first quarterly dividend for 2016/17 will be 8.95p per share (2015: 8.15p). It will be paid entirely as a PID on 7 October 2016 to shareholders registered at the close of business on 9 September 2016. Further information on our dividends paid and payable in respect of the year under review is given in note 12.

## Net assets

At 31 March 2016, our net assets per share were 1,482p, an increase of 139p or 10.3% from 31 March 2015.

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. Our adjusted net assets are lower than our reported net assets primarily due to an adjustment to increase our debt to its nominal value. At 31 March 2016, adjusted diluted net assets per share were 1,434p per share, an increase of 141p or 10.9% from 31 March 2015.

Chart 11 summarises the key components of the increase in our adjusted net assets per share over the year.

## Net debt and gearing

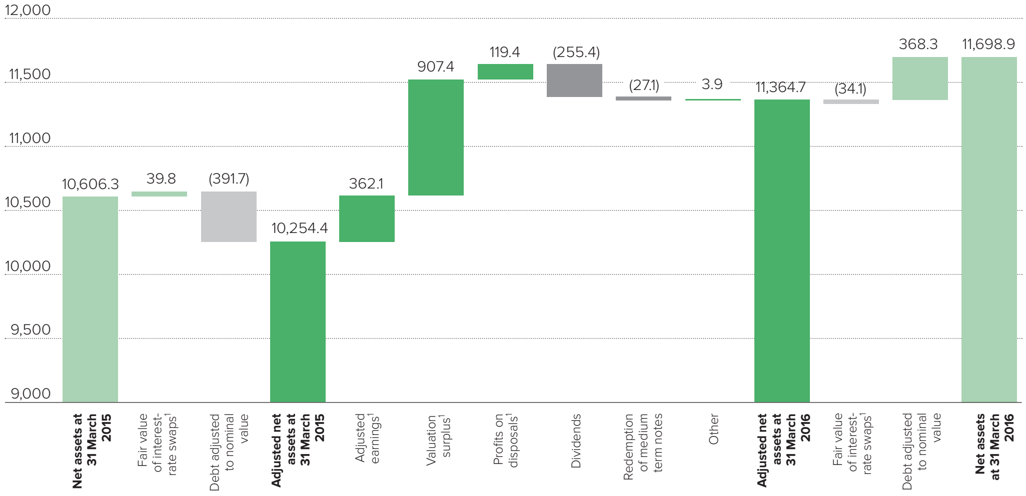
Over the year, our net debt decreased by £940.0m to £2,860.5m. The main elements behind this decrease are set out in our statement of cash flows.

Adjusted net debt, which is presented on a proportionate basis and includes the nominal value of our debt but excludes the mark-to-market on our swaps, was down £933.0m to £3,238.7m (2015: £4,171.7m).

Chart 12 sets out the main movements behind the reduction in our adjusted net debt. Net cash flow from operations was £322.6m, largely offset by dividend payments of

**NET ASSETS** (£m) Chart 11

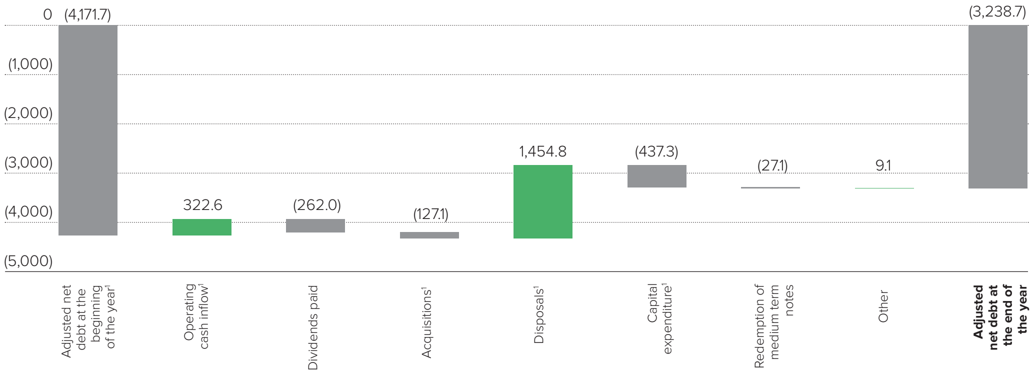
**Year ended 31 March 2016**




1. Including our proportionate share of subsidiaries and joint ventures, as explained in the notes to the financial statements.

**ADJUSTED NET DEBT** (£m) Chart 12

**Year ended 31 March 2016**




1. Including our proportionate share of subsidiaries and joint ventures, as explained in the notes to the financial statements.

**GEARING** Table 13

| | **31 March 2016 %** | 31 March 2015 % |
|---|---|---|
| Adjusted gearing[1] – on a proportionate basis | **28.5** | 40.7 |
| Group LTV | **24.7** | 31.6 |
| Group LTV – on a proportionate basis | **22.0** | 28.5 |
| Security Group LTV | **23.4** | 31.5 |

1. Adjusted net debt divided by adjusted net asset value.

£262.0m. There were few acquisitions in the year with the largest being the acquisition of our partner's 50% interest in 6-17 Tottenham Court Road, W1. Capital expenditure was £437.3m, largely relating to our development programme. Significant disposals in the year included Thomas More Square, Haymarket House, and Holborn Gate in London, and retail parks in Gateshead, Dundee and Derby.

Table 13 above sets out various measures of our gearing.

All of our gearing measures have decreased since 31 March 2015 due to the increase in the value of our assets coupled with a decrease in our adjusted net debt. The measure most widely used in our industry is loan-to-value (LTV). We focus most on Group LTV, presented on a proportionate basis, which decreased from 28.5% at 31 March 2015 to 22.0% at 31 March 2016.

When we consider gearing, we need to recognise that we have both financial gearing and operational gearing. We aim to use both forms of gearing to enhance our returns without taking excessive risk.

**OUR APPROACH TO GEARING** Table 14

| | How it arises | The potential benefits and risks | How we measure it | How we manage it |
|---|---|---|---|---|
| Financial | — Debt we have on our balance sheet or in joint ventures | — Magnifies the financial effects of income and valuation movements<br>— Accentuates negative as well as positive movements | — Assess in terms of interest cover ratios (ICR) and loan-to-value (LTV) ratios | — In normal market conditions: 35% to 45% LTV (inner range)<br>— Certain stages in the cycle: 25% to 55% LTV (outer range)<br>— Increased pace at which market factors influence asset values is encouraging us towards lower financial leverage<br>— We also consider LTV including unspent but committed development capital expenditure |
| Operational | — Principally from development of properties, particularly if speculative | — Magnifies the potential returns available from capital invested in property<br>— Higher volatility of valuation movements and potential income shortfalls | — Assess in terms of income at risk from capital invested<br>— The proportion of capital deployed in development<br>— Level of committed capital expenditure | — Using conservative letting assumptions, the income impact from the unlet element of our development programme should not exceed underlying retained earnings for the year<br>— Total development cost of current developments should not exceed 20% of total assets unless significantly pre-let<br>— Committed development expenditure not to exceed 90% of available cash and undrawn bank facilities |

**Financing**

The total capital of the Group consists of shareholders' equity and adjusted net debt. Under IFRS, a large part of our net debt is carried at below its final redemption amount and is increased over its life to its full nominal value. We view our capital structure as if the debt were carried at its full redemption amount. For further details see notes 22 and 23 to the financial statements.

At 31 March 2016, our committed revolving facilities totalled £1,865.0m (2015: £2,240.0m). The £375.0m reduction in committed facilities is the result of the cancellation of the £500m Bluewater acquisition facility, as it had insufficient remaining duration, offset by an additional £125m commitment in our syndicated revolving credit facility. The pricing of our facilities which fall due in more than one year ranges from LIBOR +75 basis points to LIBOR +120 basis points. Borrowings under our commercial paper programme typically have a maturity of less than three months, carry an interest rate of approximately LIBOR +25 basis points and are unsecured. Overall, the amounts drawn under the bilateral facilities, syndicated bank debt and commercial paper in issue totalled £432.5m, a £518.6m decrease since 31 March 2015, primarily due to property disposals exceeding capital investment.

Following the high volume of property disposals made this year, on 22 February 2016 we gave notice to redeem the £400m A8 bonds due to mature in November 2017, which paid a 4.875% coupon. Cash settlement was made on 29 March 2016. A premium to par of £26.2m was payable on redemption, which reflects future interest coupon savings of £31.3m. Taking into account the interest rate of the facilities used for the redemption, we estimate the Group's net interest saving will be £16.0m in the coming financial year and £9.6m in the year to 31 March 2018. In addition, the redemption premium is allowable for tax purposes, helping to offset the taxable gain from trading property disposals.

The Group's debt (on a proportionate basis) has a weighted average maturity of 9.6 years, a weighted average cost of 4.9% and 94.9% is at fixed interest rates. At 31 March 2016, we had £1.5bn of cash and available facilities. This gives the business considerable flexibility to deploy capital quickly should an acquisition opportunity arise.

**Taxation**

As a consequence of the Group's REIT status, income and capital gains from our qualifying property rental business are exempt from UK corporation tax. There was a tax credit of £2.4m in the year (2015: £0.3m credit), which comprised a current year charge of £0.3m (2015: nil) on non-property related income, a credit of £1.8m (2015: £0.1m credit) relating to a release of provisions on the settlement of historic issues and a £0.9m credit (2015: £0.2m credit) in respect of the movement in deferred tax liabilities.

As a REIT, although the Group's activities are largely exempt from UK corporation tax, our total contribution to UK public finances is made up of a wide range of taxes. During the year ended 31 March 2016, taxes borne and collected by Land Securities companies exceeded £100m.

**Martin Greenslade**
Chief Financial Officer

For our mandatory carbon report see: **pages 150–153**

For baseline adjustments see: **www.landsecurities.com/sustainability**

# PHYSICAL REVIEW

A focus on the materials and technologies we use to create and operate our assets, and the effect our spaces have on people and the natural environment.

## OUR TOP TEN ASSETS BY VALUE

1 **Cardinal Place, SW1**
Landmark site home to blue-chip businesses and retailers
Annualised net rent £33.4m

2 **New Street Square, EC4**
Contemporary offices with retail and restaurants
Annualised net rent £32.2m

3 **Bluewater, Kent**
The dominant shopping centre in the south east of England
Annualised net rent £29.5m (LS share)

4 **One New Change, EC4**
Office and leisure destination in an iconic building
Annualised net rent £29.2m

5 **Trinity Leeds**
Superb 778,000 sq ft retail destination developed by us
Annualised net rent £27.9m

6 **1 Sherwood Street/Piccadilly Lights, W1**
Offices, retail, leisure and a world famous advertising landmark
Annualised net rent £19.6m

7 **20 Fenchurch Street, EC3**
687,900 sq ft of offices and a unique public Sky Garden
Annualised net rent £2.9m

8 **Gunwharf Quays, Portsmouth**
Outlet shopping, leisure and entertainment on a waterfront location
Annualised net rent £26.4m

9 **Queen Anne's Gate, SW1**
BREEAM 'Excellent' offices: built by us in 1977, refurbished in 2008
Annualised net rent £30.9m

10 **1 & 2 New Ludgate, EC4**
382,300 sq ft of modern, technically resilient office space, restaurant and retail
Annualised net rent £1.0m

## NEW DEVELOPMENTS

We look to build assets that can create value for us and our customers, communities and partners for years to come. We are ambitious, imaginative and considered in the way we develop.

We believe sustainable design helps make our operations and assets more efficient and cost-effective, minimises future operational costs, mitigates the business risk of changing regulation and creates resilient schemes with enduring appeal. It's also what the people who support us – from office occupiers to retailers, from Local Authorities to local communities – expect from us. Where Part L is applicable, the building code for carbon emissions, our new developments are being designed beyond the requirements. We carry out embodied carbon assessments at major developments and currently divert 98.3% of waste from landfill.

You can see a timeline of our recent developments on pages 20–21 of this Annual Report, and you can read what other people think about our approach – at Oxford and Victoria – on pages 2–13.

## BIODIVERSITY

We have led our industry in understanding and minimising environmental impact and want to continue that leadership in our approach to wildlife and natural systems. These systems sustain our business, our communities and each of us as individuals. We have a strategic target to 'maximise the biodiversity potential of our operational and development sites' and have been working with The Wildlife Trusts to understand what this means for us in practice and what we need to do to achieve it. Whether it's the new green roofs at 1 & 2 New Ludgate or the rich diversity of parkland at Bluewater, we already pay attention to biodiversity and provide green infrastructure at many of our assets; now we want to do more.

## WELLBEING

When designing a new development we consider the effect our space will have on everyone who encounters it – from office occupiers and their employees to retailers, their employees and their customers; from visitors to neighbours; from people today to those who may experience the building ten or twenty years from now. By thinking in smart and innovative ways we can create new space that enriches people's lives. Given the amount of time employees spend at work, and the preciousness of leisure hours, it's vital our office and shopping centres are safe, healthy and enjoyable places to spend time.

**23.61m**
Amount of space we own in sq ft

**85,000**
Number of plants in our green walls in central London

**27**
Number of nationally rare and protected species of plants and animals in Bluewater's parkland

### THE BREADTH OF OUR SUSTAINABLE DESIGN AND INNOVATION AT WESTGATE OXFORD

## CARBON TARGETS

In December 2015, world leaders met in Paris at the UN Conference on Climate Change, known as COP21, to negotiate global cuts to carbon emissions. The resulting agreement commits countries to limit global warming below 2°C and to ideally not go over 1.5°C. In the run up to COP21, Land Securities took part in the conference and was one of hundreds of businesses that made significant pledges to action. In particular, we committed to:
— Report climate change information in mainstream reports as a fiduciary duty
— Engage responsibly in climate policy
— Procure 100% of electricity from renewable sources.

In response, we have set an ambitious science-based carbon target: to reduce carbon intensity ($kgCO_2/m^2$) by 40% by 2030 compared to a 2013/14 baseline for property under our management for at least two years. This target will set us on the path to achieve our long-term ambition of an 80% carbon intensity reduction by 2050.

## 100% RENEWABLE ELECTRICITY

From April 2016, our Group electricity contract went 100% renewable with the appointment of Smartest Energy as our new provider. We were also the first property company in the UK to join RE100, a collaborative initiative of influential businesses committed to 100% renewable electricity. The contract helps secure a competitive price for our customers with great service levels, and it also enables them to reduce their carbon impacts too. For us, the new deal also means better contract terms including lower management costs, better payment terms and a strong service level agreement.

## CLIMATE RISKS

Climate change is bringing increasingly erratic and severe weather conditions. In the UK this includes hotter, drier summers; warmer, wetter winters; sea levels rising; and increases in extreme weather events such as heavy rain and heatwaves. It is important for us to review our assets, particularly older buildings, in relation to future climate projections. Understanding the risks and acting accordingly will ensure that our portfolio is sufficiently resilient to climate change, so we can continue to provide the right space for our customers and communities.

## ENERGY

For many years we've worked to reduce our energy requirements through active energy management at our sites. We focus not only on the energy used within landlord-controlled areas but also the energy used by our customers when sub-metered from landlord supplies. We're sharing the benefits of greater efficiency with our customers, helping them to meet regulatory obligations and reduce their energy bills. Our aim is to self-generate as much of the energy consumed at our properties as possible. We are working to achieve this at design, by selecting the least carbon intensive technologies possible, and by retrofitting technologies such as photovoltaics on some of our shopping centres and other assets.

## WASTE

More than 10,000 tonnes of waste is generated at our properties each year. We offer our building occupiers the facilities needed to dispose of their waste, and it's our responsibility to ensure that this is done safely, securely and sustainably. Reflecting our drive to be leaders in our sector, this year we reset our overall recycling target from 70% to a more ambitious 75%, and achieved an average recycling rate of 72%.

**15%**
Reduction in energy consumption in our five largest energy consuming assets against a 2013/14 baseline

**1.84GWH**
Power capacity generated this year from renewables installed across our portfolio

**270TONNES**
Annual carbon emissions saving from our hydrogen fuel cell at 20 Fenchurch Street

# SOCIAL REVIEW

A focus on some of the key activities we carry out to support our customers, communities, partners and employees.

## CUSTOMERS

Understanding and meeting our customers' changing needs is central to everything we do.

As you'll read throughout this Annual Report, we work hard to understand future market dynamics and anticipate evolving requirements. Ensuring high levels of customer satisfaction is one of our KPIs and we carry out annual surveys with customers to assess our performance and gain insight. For more on our work with occupiers see our London Portfolio and Retail Portfolio reviews on pages 28–35.

## COMMUNITY EMPLOYMENT

We work to help people from disadvantaged groups access training, job opportunities and apprenticeships in property, construction and customer service, often on our development sites and with partners who work alongside us. We also help to create opportunities for people once construction has finished, including with our service partners in our buildings and retail and hospitality customers who have space in our shopping centres. To do this successfully, we collaborate with a wide range of organisations, from Local Authorities to community groups, supply chain partners, specialist training providers, charities and prisons.

Our award winning Community Employment Programme is the bedrock of our approach. This started by addressing long-term unemployment in the capital and skills gaps in the construction industry. Now we are extending the programme across our Retail Portfolio. We have committed to help 1,200 disadvantaged people secure jobs by 2020.

For more please see our Sustainability Report 2016 at: **landsecurities.com/sustainability**

**"YOUR WORK, REACHING OUT TO AND INSPIRING THE PEOPLE FURTHEST FROM THE LABOUR MARKET AND EQUIPPING THEM WITH THE SKILLS THEY NEED TO GET ON, IS TO BE COMMENDED."**

**Rt Hon David Cameron MP,** Prime Minister

## EDUCATION

Through our education programmes we aim to:
- Help young people develop commercial skills and become more aware of careers in our wider industry
- Attract talent to Land Securities and promote diversity and social mobility within the property industry
- Engage young people and education institutions in the development of our local communities
- Engage our employees and the employees of partner companies in meaningful professional volunteering.

Along with these objectives, we find that successful activities can help to strengthen our relationships with the communities around our assets, including local pupils and their families, and with Local Authorities.

## FAIRNESS

We are committed to ensuring the working environment we control is fair and that everyone who works on our behalf – in an environment we control – is paid at least the Living Wage by 2020.

All employees within the company, with the exception of trainees and interns, are paid at least the Living Wage (as defined by the Living Wage Foundation). In London, 29 of our 33 service partners have committed to paying the Living Wage.

**779**
Number of people who have gained a job through our Community Employment Programme since 2011

**6,745**
Number of hours given to volunteering projects by our employees in 2015/16

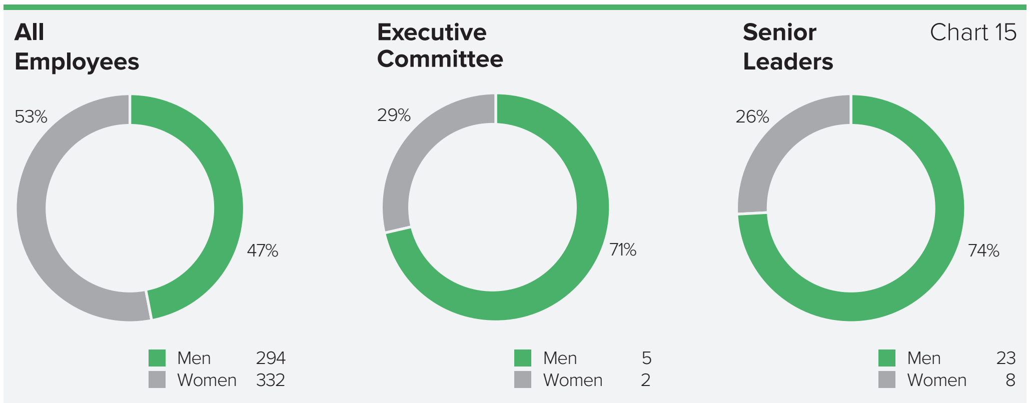
**£260,000**
Amount raised since the beginning of our partnership with Mencap in April 2014

In Retail, we're making progress at different rates according to the location, type of asset and timing of supplier contract renewals. All future tenders and contracts for our principal contractors on new developments will stipulate our Living Wage requirements.

## CHARITABLE PARTNERSHIPS

We work in partnership with charities to:
- Help people from disadvantaged backgrounds get work experience and jobs
- Support education for young people
- Respond to local inequalities and needs, such as homelessness.

Our scale means that we are able to provide great support and exposure for one national charity partner across our business – currently Mencap – as well as supporting local groups at each of our shopping centres and other buildings. Our partnerships involve everything from providing space to hosting community awards, giving grants, offering pro-bono support and volunteering.



## EMPLOYEE STRATEGY AND PERFORMANCE

We are clear on the capabilities that set us apart from our competitors. Put simply, it's our ability to understand the changing needs of our customers, communities and partners, and then our ability to use that understanding to read the market cycle accurately, deliver complex projects and maximise financial, physical and social value.

Over the past year our focus was on delivering outstanding developments in London and Retail. We are now preparing for the next phase, with less emphasis on development and more on investment and asset management. We are also building a truly collaborative 'one company' culture founded on a well-understood purpose, vision and values. Our leadership team has articulated and discussed this with every part of the organisation through a programme of open, two-way communication. Our forthcoming London office move will also provide a very tangible opportunity to bring our evolving culture to life.

We believe that developing greater diversity of thought within the organisation is fundamental to being a sustainable business. This year we took further steps to make Land Securities truly inclusive in terms of culture and people processes. Broadening the talent pool is a sector-wide challenge; we aim to lead on this issue.

### Key activities during the year:

**Organisation** Designing role, team, business unit and corporate structures that balance clarity of accountabilities with the flexibility to adapt to changing market conditions and evolving customer needs.

- In Retail: marketing, research and commercialisation teams reorganised to support a more joined-up approach to brand activity, consumer trends and customer relationships.
- In London: capabilities built to support the transition from delivering developments to maximising commercial and investment opportunities. We've also clarified leadership accountabilities and given several key people more stretching, broader roles.
- Further consolidation of activities into central teams, including all the economic, social and educational strands involved in sustainability, and finance activities previously managed locally at Bluewater.

**Talent management** Using our strong employee brand to attract the best people. Clarifying the skills and capabilities that the business needs and retaining talent by providing outstanding career, learning and development opportunities.

- Conducted a thorough review of leadership strength and succession, including internal and external talent mapping related to future leadership requirements. Several cross-business unit career moves took place as a result.
- Continued the roll-out of our development programmes, with all Senior Leaders (approximately 30 people) having completed the 'Positive Influence' programme.
- Introduced a new development offer for the Executive Committee, including one to one coaching and mentoring, business school programmes and board-level networking opportunities.

**Reward for performance** Ensuring that our reward packages (including base pay, benefits, annual bonus plans and long-term incentives) help motivate and retain the people we need.

- Ensured that everyone understands the new bonus plan and can make a clear link between reward and individual, team and corporate performance, and the potential outturns of the plan.
- Conducted a complete review of benefits to ensure that they appeal to all employees. This included a focus on wellness, including reduced gym membership fees and the extension of our cycle to work scheme.
- Our recognition programme 'People into Action' provided a total reward of £75,000 over the year for great examples of our values in action, both from employees and service partners.

**Engagement** Articulating the purpose, vision and values to express our shared culture while enabling people to bring them to life in their own way, irrespective of background, race or gender. Providing meaningful channels for involving all our people in our business, and encouraging their feedback:

- Created compelling visual material – including a film – and defined a common vocabulary and imagery to support all internal communications around the purpose, vision and values.
- Led the way in collaborating with our peers to address the diversity challenge within our sector. We chaired a new industry working group, which has set a common framework for measuring progress, and identified key collaboration opportunities including guidelines for recruitment activity, and school outreach programmes.
- Continued to ensure that employees received regular updates on matters relating to their employment and the strategy and performance of the business including the financial and economic factors affecting it. This was achieved through a combination of results presentations by the CEO, regular executive, management and town hall briefings, 'Food for Thought' forums, the Company's intranet ('Landlink') and social networking sites, and emails.
- The Employee Forum continued to play an important role in helping the Executive Committee communicate and consult with employees on key matters affecting the business, and similarly the Employee Survey provided important feedback on how employees feel about working for Land Securities.
- We again invited all employees to take part in the Savings-Related Share Option Scheme, to encourage them to make a long-term investment in Land Securities.

## EMPLOYEE SURVEY RESULTS

Our overall engagement score, at 88%, was one point up from our last full survey. It exceeded the Towers Watson high performing companies' norm by 4%. We saw an improvement in most question categories, with 'My Job' (authority, empowerment, clear responsibilities, tools for the job), 'Leadership' (clarity of vision, interest in employees, open communications channels) and 'Development' (right people recruited and retained, development opportunities) identified as the key drivers of engagement.

## HUMAN RIGHTS

Further details relating to human rights and equal opportunities compliance appear in the Directors' Report on page 87.

## HEALTH, SAFETY AND SECURITY

Our goal is to maintain an exceptional standard of health, safety and security in all the working environments we control. We aim to be a leader in this within our industry. Our specific objectives are:

- Safety – zero reportable health and safety incidents
- Health – every worker to have a transferable occupational health record
- Wellbeing – all construction and managed portfolio partners to have a wellbeing policy.

# MANAGING RISK

The management of risk is embedded in our everyday business activities and culture, with all our employees having an important role to play.

**Our approach**

In order to be the best property company in the UK in the eyes of our customers, our communities our partners and our employees we must understand and manage the risks faced by the organisation. Risk is an inherent part of our business model. Our approach to risk is to be risk aware, not risk averse.

The Board has overall responsibility for the monitoring of risk management and the system of internal control. It recognises the importance of identifying and actively monitoring the full range of financial and non-financial risks facing the business. By regularly reviewing the risk appetite of the business, the Board ensures that the risk exposure remains appropriate at any point in the cycle. Whilst it has chosen to delegate this responsibility to the Audit Committee, who are responsible for providing assurance over these areas, managing risk is embedded as part of our everyday business activities and culture with all our employees having a role to play. Our Executive Committee are responsible for the day-to-day management of risks, which includes the ongoing identification, assessment and mitigation of risks as well as for the design, implementation and evaluation of the system of internal control and for ensuring its operational effectiveness.

Diagram 16 sets out our approach to managing risk and the link to the three lines of defence governance model for effective risk management and internal control.

We assess each risk on three factors: likelihood; financial impact, both to income and capital values; and reputational impact, from the business unit through to Group level. We also consider the inherent (gross) risk (the impact of the risk before any mitigating action is taken) and the residual (net) risk (the risk that remains after the effect of mitigating actions and controls are taken into account). As a result of this analysis we identify principal risks (current risks with relatively high impact and certainty) and emerging risks (those risks for which the extent and implications are not yet fully understood). This also informs the business as to those risks that have a high dependency on the internal control systems, which then directly helps to focus the work of the internal audit team. The business considers the full range of external and internal risks, including strategic, operational, people and technology. A risk scoring matrix is used to ensure a consistent approach is followed.

The identification of risk is a continual process. Risks are identified through discussion with management, external agencies, stakeholders and government bodies. A full and detailed review of the risks is undertaken with our executive committees four times a year and from this, and the feedback from our external advisors, the top Group risks, which form the basis for the principal risks and uncertainties, as well as emerging risks, are challenged and validated by the Executive Committee. These risks are then presented to the Audit Committee four times a year to ensure representatives of the Board are aware of, and contribute to, the latest position. In addition, a risk session is held with the Board every two years to ensure full Board participation in our risk management process. Such a session was undertaken in 2015/16.

Senior management from across the business will also attend the Executive Committee and the Audit Committee to discuss specific risk areas, such as cyber threat.

The Risk Management function, headed by the Director of Risk Management and Internal Audit is responsible for facilitating the risk discussions with the business, for providing challenge and for coordinating the presentation of the risks to the executive committees, the Audit Committee and the Board.

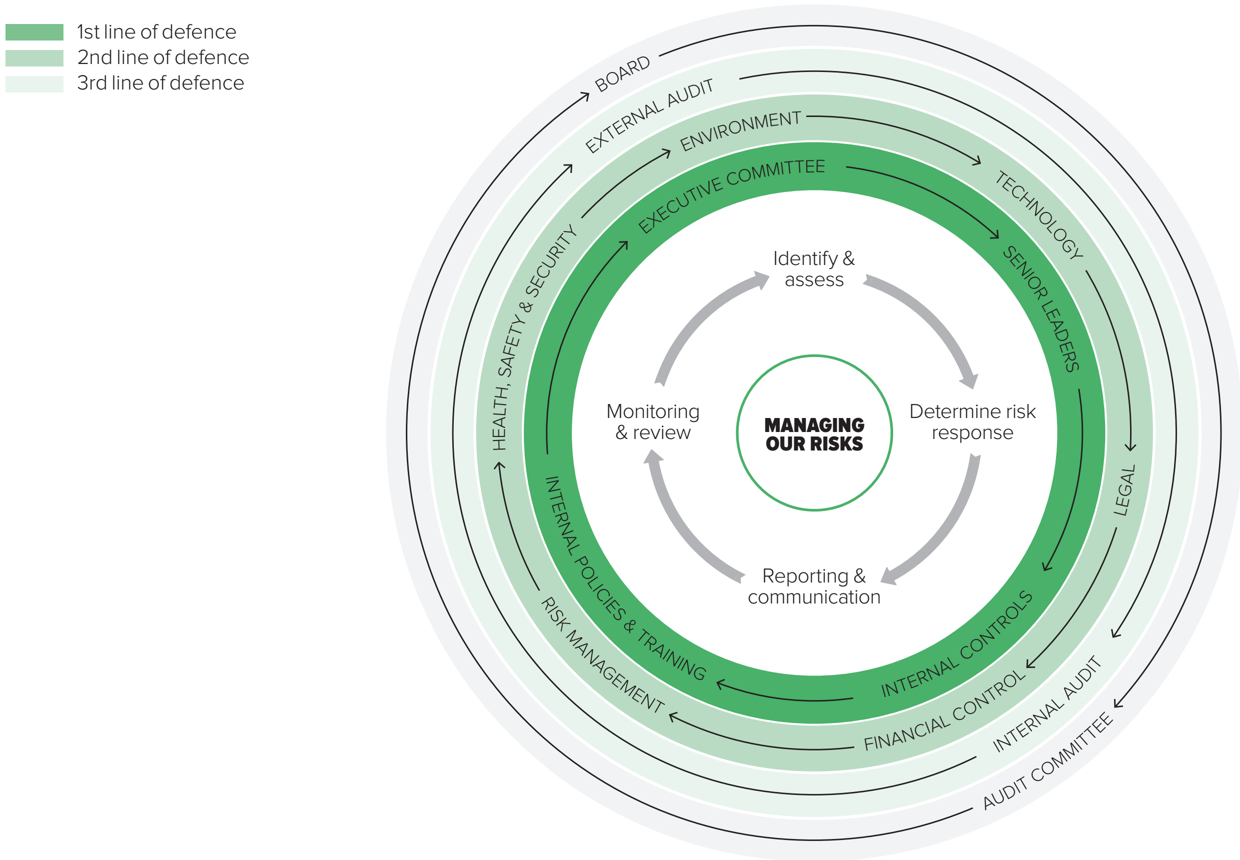
Internal Audit reviews internal controls using a risk-based approach, and management on a quarterly basis self-certify that the key controls within its area of responsibility have been operating effectively.

This year we have also undertaken a detailed sustainability materiality assessment to identify key risks and areas for focus. This has included reviewing current and forthcoming legislation, peer activity, and interviews with our own people and external stakeholders, including investors, customers, supply chain partners and community groups. The assessment has confirmed that energy and carbon, and sustainable building design are our most material sustainability issues. Please refer to our Sustainability Report for more detail on our programme and priorities in this area.

Diagram 17 shows our current assessment of the principal risks and the emerging risks we are monitoring.

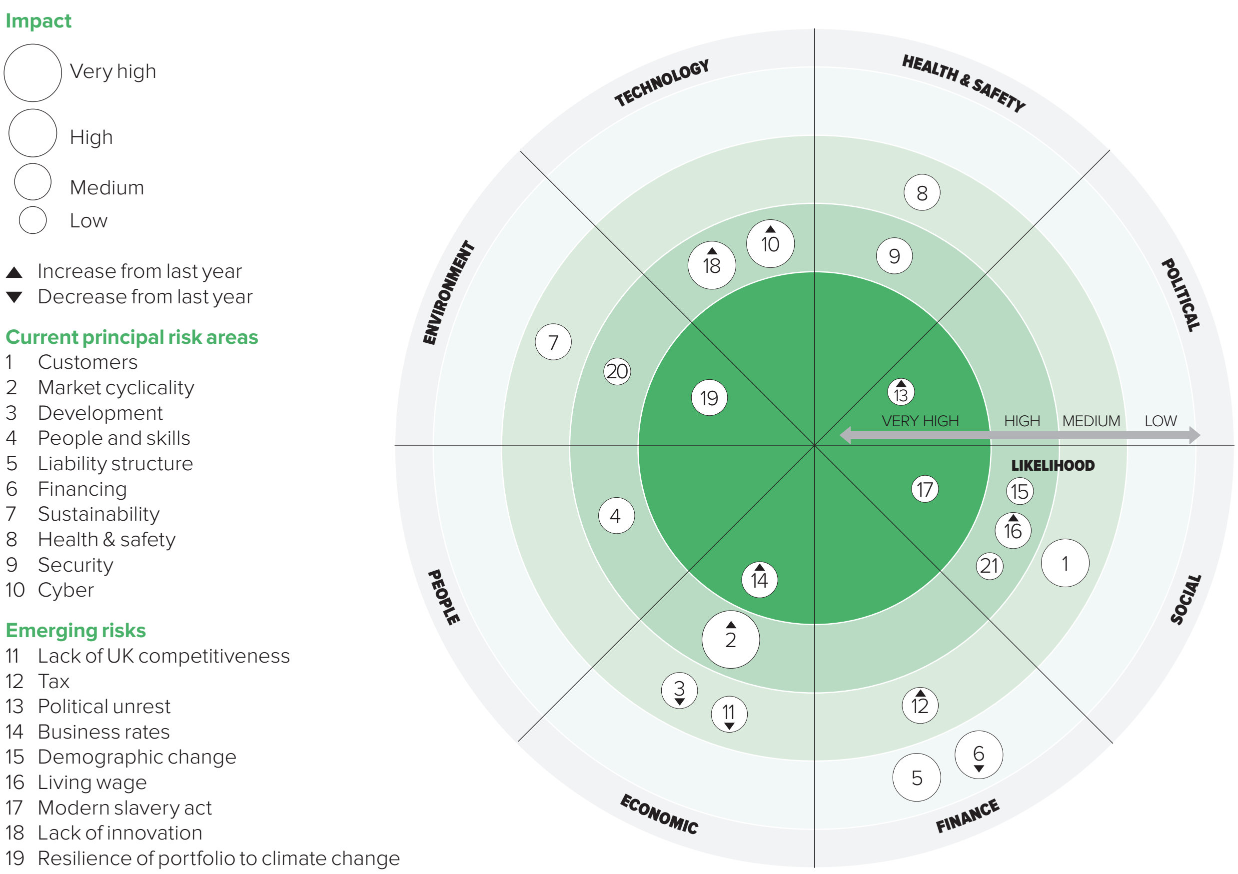
## RISK MANAGEMENT PROCESS

Diagram 16




## CURRENT ASSESSMENT OF PRINCIPAL RISKS

Diagram 17




**Current principal risk areas**
1 Customers
2 Market cyclicality
3 Development
4 People and skills
5 Liability structure
6 Financing
7 Sustainability
8 Health & safety
9 Security
10 Cyber

**Emerging risks**
11 Lack of UK competitiveness
12 Tax
13 Political unrest
14 Business rates
15 Demographic change
16 Living wage
17 Modern slavery act
18 Lack of innovation
19 Resilience of portfolio to climate change
20 Energy supply
21 Organised crime

# MANAGING RISK

## OUR PRINCIPAL RISKS AND UNCERTAINTIES

As set out in pages 26–27, we have set ourselves clear strategic objectives against which we measure our performance:

1. Deliver sustainable long-term shareholder value
2. Maximise the returns from the investment portfolio
3. Manage our balance sheet effectively
4. Maximise development performance
5. Ensure high levels of customer satisfaction
6. Attract, develop, retain and motivate high performance individuals
7. Continually improve sustainability performance

**Movement in the year**

- Increased
- No change
- Reduced

In the same way that we measure our performance against our strategic objectives, we also consider our risks and their potential impact on these objectives as well as our approach to mitigating those risks. Our principal risks and uncertainties are set out below together with the strategic objectives that they are most likely to impact.

## INVESTMENT

| Risk description | Impact | Mitigation | Movement in the year |
|---|---|---|---|
| **Customers**<br>Structural changes in customer and consumer behaviours, and pressure on consumer spending.<br><br>Link to strategy: 1 2 5 | — Shift in office and retailer customer demand with consequent impact on lettings, renewal of existing leases and rental growth<br>— Retailers unable to meet existing rental commitments. | — Large and diversified customer base (no single customer represents more than 5.2% of rents)<br>— Of our income 75.4% is derived from occupiers who individually make less than a 1% contribution to rent roll<br>— Clear retail strategy focused on dominance, convenience and experience<br>— Development programme has delivered a modern office portfolio well suited to occupier requirements<br>— Experienced asset management team<br>— Strong relationships with occupiers. | No change |
| **Market cyclicality**<br>Volatility and speed of change of asset valuations and market conditions.<br><br>Link to strategy: 1 2 | — Reduces liquidity of assets and relative property performance<br>— Fall in values. | — Large multi-asset portfolio<br>— Monitor asset concentration (our largest asset is only 6.1% of the total portfolio)<br>— Average investment property lot size of £119.6m<br>— Generally favour full control and ownership of assets (11.5% of assets currently in joint ventures)<br>— Average unexpired lease term of 8.9 years with a maximum of 7.8% of gross rental income expiring or subject to break clauses in any single year. | Increased<br>Real estate values at risk of fall with increased economic and political uncertainty including the UK's potential exit from the EU. |

## DEVELOPMENT

| Risk description | Impact | Mitigation | Movement in the year |
|---|---|---|---|
| **Development**<br>Occupiers reluctant to enter into commitments to take new space in our developments.<br><br>Link to strategy: 1 4 | — Negative valuation movements<br>— Reduction in income. | — Amount of speculative development restricted so that the impact of failing to lease the un-let element of our development programme does not exceed the Group's retained earnings<br>— Proportion of capital employed in development programme (based on total costs to completion) will not exceed 20% of our total capital employed, save that where a material part of the development programme is pre-let; this proportion can rise to 25%<br>— Monitor market cycle and likely occupier demand before committing to new developments and secure pre-lets where appropriate<br>— Assessment of developments against hurdle rates. | Reduced<br>Market risk has increased but as we now have less capital invested our risk is considered to be lower. |

## PEOPLE

| Risk description | Impact | Mitigation | Movement in the year |
|---|---|---|---|
| **People and skills**<br>Inability to attract, retain and develop the right people and skills.<br><br>Link to strategy:<br>1 6 | — Lack the skills necessary to deliver the business objectives. | — Competitive remuneration plans<br>— Appropriate mix of insourcing and outsourcing<br>— Clear employee objectives and development plans<br>— Clear organisation and individual accountabilities<br>— Annual employee engagement survey to identify issues early<br>— Succession planning and talent management<br>— High profile, cutting edge developments and assets to manage. | Refer to our people strategy on page 45. |

## FINANCIAL

| Risk description | Impact | Mitigation | Movement in the year |
|---|---|---|---|
| **Liability structure**<br>Liability structure is unable to adapt to changing asset strategy or property values.<br><br>Link to strategy:<br>1 3 | — Bank debt not able to be drawn<br>— Unable to raise new debt or no flexible debt to repay<br>— Potentially constrains decisions. | — The Group's Asset and Liability Committee meets three times a year to monitor both sides of the balance sheet and recommend strategy to the Board<br>— Continuous review of level of drawn bank debt to ensure flexibility maintained<br>— Our principal debt funding structure benefits from financial default only being triggered if the Security Group interest cover ratio falls below 1.0x (last reported 4.0x) or Security Group LTV rises above 100% (currently 23.4%)<br>— Aim to align length of bank facilities with our view on property cycle<br>— The existing revolving credit facility provides flexibility as it allows debt to be drawn in certain circumstances even up to a Security Group LTV of 80%. | |
| **Financing**<br>Lack of availability of funding.<br><br>Link to strategy:<br>1 3 | — Increased cost of funding<br>— Limits ability to refinance existing debt maturities and fund forward cash requirements. | — £1.4bn revolving credit facility in place, which matures in 2021 and a total of £0.5bn of bilateral facilities which mature between August 2017 and September 2018<br>— Access to different sources of finance with most of our funding on a long-term basis and with a spread of maturity dates. The weighted average life of our debt at 31 March 2016 is 9.6 years<br>— Modest gearing (Security Group LTV at 31 March 2016 of 23.4%). | An additional £125m has been added to our existing revolving credit facility, which has also been extended by one year, now maturing in 2021. |

## OPERATIONAL

| Risk description | Impact | Mitigation | Movement in the year |
|---|---|---|---|
| **Sustainability**<br>Properties do not comply with legislation or meet customer expectations.<br><br>Link to strategy:<br>5 7 | — Increased cost base<br>— Inability to attract or retain occupiers<br>— Premature obsolescence and loss of asset value. | — Dedicated specialist personnel<br>— ISO accredited environmental and energy management systems<br>— Active involvement in legislative working parties<br>— Active environmental programme addressing key areas of carbon, energy and waste<br>— Sustainability materiality assessment undertaken to identify key risks and areas of focus. | Refer to our Sustainability Report for more details. |
| **Major health and safety incident**<br>Accidents causing injury to employees, contractors, occupiers and visitors to our properties.<br><br>Link to strategy:<br>5 | — Criminal/civil proceedings and resultant reputational damage<br>— Delays to building projects and can restrict access to shopping centres. | — CEO chairs Health, Safety and Security Committee<br>— Regular Board reporting<br>— Dedicated specialist personnel<br>— Annual cycle of health and safety audits<br>— Established policy and procedures including ISO 18001 certification. | |
| **Security threat or attack**<br>Failure to identify or prevent a major security-related threat or attack or react immediately and effectively.<br><br>Link to strategy:<br>5 | — Loss of consumer confidence with consequent impact on new lettings, renewal of existing leases and rental growth<br>— Loss of income. | — Strong relationship with the National Counter Terrorism Security Office<br>— Dedicated property security teams, supported by CCTV and other physical security measures<br>— Experienced property management teams<br>— Regular on-site and national training<br>— Group insurance programme protects against losses of rent and service charge due to terrorism<br>— Business continuity and crisis management practice. | Despite recent terrorist attacks on mainland Europe, the UK threat level of 'Severe' has not changed. |
| **Cyber threat or attack**<br>External and internal threat to systems and data.<br><br>Link to strategy:<br>5 | — Negative reputational impact<br>— Adverse operational and financial impact. | — Dedicated Information Security team, which monitors information security risk<br>— Regular review of Information Security policy<br>— Independent information security audit and penetration testing<br>— Staff information security training. | The threat is continuing to increase and evolve. |

# GOING CONCERN STATEMENT

The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. This confirmation is made after having reviewed assumptions about future trading performance, valuation projections, capital expenditure, asset sales and debt requirements contained within the Group's current five-year plan. The Directors also considered potential risks and uncertainties, in the business, credit, market and liquidity risks, including the availability and repayment profile of bank facilities, as well as forecast covenant compliance. Based on the above, together with available market information and the Directors' knowledge and experience of the Group's property portfolio and markets, the Directors continue to adopt the going concern basis in preparing the accounts for the year ended 31 March 2016.

# VIABILITY STATEMENT

The Directors have assessed the viability of the Group over a five year period to March 2021, taking account of the Group's current position and the potential impact of the risks documented elsewhere in the Strategic Report.

The Group's financial planning process comprises a budget for the next financial year, together with a forecast for the following four financial years. Achievement of the one-year budget has a greater level of certainty and is used to set near-term targets across the Group. Achievement of the five-year plan is less certain than the budget, but provides a longer term outlook against which strategic decisions can be made. The Directors have determined five years to be the most appropriate period as this fits well with the Group's development and leasing cycles, and is broadly aligned to the maturity of the Group's floating rate debt facilities. The financial planning process considers the Group's profitability, capital values, gearing, cash flows and other key financial metrics over the period. These metrics are subject to sensitivity analysis, in which a number of the main underlying assumptions are flexed to consider alternative macro-economic environments. Additionally, the Group also considers the impact of potential changes to the business in light of varying economic conditions, such as significant additional sales and acquisitions or refinancing. Specifically for the purposes of the viability assessment, the Directors have considered a scenario in which macro-economic conditions are significantly worse than currently expected. The scenario assumes capital values fall significantly in the next two financial years and only start to recover slowly at the end of the plan. Rental values follow a similar pattern; falling sharply in the middle three years of the plan before starting to recover in the final year. Even in a scenario where values fall significantly, the Group believes it will be able to refinance maturing debt facilities.

Based on this assessment the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to March 2021.

This Strategic Report was approved by the Board of Directors on 16 May 2016 and signed on its behalf by:

**Robert Noel**
Chief Executive

# GOVERNANCE

## LEADERSHIP

How the Board and its Committees lead from the front.

For more information go to:
**page 57**

## EFFECTIVENESS

How this year's Board evaluation was conducted and its outcome.

For more information go to:
**pages 61–62**

## ACCOUNTABILITY

How the Audit Committee fulfils its oversight responsibilities.

For more information go to:
**pages 65–68**

## RELATIONS WITH SHAREHOLDERS

How we maintain relations with our investors.

For more information go to:
**page 71**

## REMUNERATION

How we align Executive pay with our performance and the interests of shareholders.

For more information go to:
**pages 72–85**

**GOVERNANCE**

Including information on our Board, its Committees and our high governance standards.

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# LETTER FROM THE CHAIRMAN

“

**IT HAS BEEN ANOTHER BUSY YEAR OF TRANSACTIONAL ACTIVITY, AND LAND SECURITIES IS IN A STRONG POSITION. THE BOARD HAS BEEN SPENDING MORE OF ITS TIME ANTICIPATING CHANGES AND UNCERTAINTIES IN THE MARKET AND THEIR POSSIBLE IMPACT ON THE BUSINESS.”**

**Dame Alison Carnwath,** Chairman

**Dear Shareholder,**

**Governance**

I am pleased to report that your Company has, once again, complied in full with the principles of the 2014 UK Corporate Governance Code throughout the year.

The Company has continued to follow the strategy set by the Board in 2010. We have reshaped our portfolio of retail assets with a focus on thriving shopping centres capable of providing a great customer experience. In London, we have been delivering a substantial development programme of offices into a supply-constrained market. In both cases this has been achieved by recycling capital rather than increasing debt. These activities are preparing us well for the next phase of the property cycle, and they support our aim to make the business robust and sustainable.

During the year under review, the Board devoted more of its time to its own readiness (and the Company's) to deal with any changes in the market and resulting opportunities for the next cycle. It also addressed the Company's governance, culture, purpose, vision and values, all of which are essential ingredients to successful execution of a business strategy and risk management.

Land Securities is in a strong position, with low gearing and ownership of a portfolio of first class assets. However, we continue to plan for the future, anticipating risks and challenges, and being ready to move quickly if required. The Board is allocating significant time to succession planning and talent development, and thinking about the skills and experience required to keep delivering for our shareholders in these changing and uncertain markets.

**Culture and diversity**

I believe that boards should give sufficient time not only to managing performance and results, but also to understanding the culture and values that underpin the company. This year, Robert Noel and his executive team have spent considerable time and energy on embedding Land Securities' values within the organisation, and reinforcing the levels of communication and behaviour that are expected of everyone. Not only is it the right thing to do, but for our shareholders it demonstrates that management is focusing on the long term sustainability of the business and business model. Having a strong culture provides a framework for the consideration and evaluation of risk, as well as demonstrating a positive way of working with our customers, communities, partners and employees. Rob's leadership on culture has the full support of the Board and we will make this an area of priority again in the coming year.

We continue to promote and support diversity within the business. Land Securities already meets the revised target under the Lord Davies' report to have 33% women on the board by 2020. Additionally, 29% of the

Executive Committee and 25% of the Senior Leaders within the organisation are women. We have also introduced a mentoring programme designed to help women develop through our management ranks. We strongly believe that diversity in all aspects, not just gender, provides the business with a better collective decision-making capacity.

**Investor meetings**
The Board is conscious of the need for the Company to engage and communicate clearly with investors, and for its largest investors to have the opportunity to offer their views on Land Securities and its strategy, management, remuneration and governance. The executive team is widely recognised for its sector leading investor relations programme.

During the year, I offered to hold meetings with our largest investors. Other Non-executive Directors attended and met investors at our results presentations and investor days. Also, Rob and I held a group meeting with some 'long only' potential investors to explain the Company's approach and to understand their perspectives, which we found very informative.

We also recognise and appreciate the support of our lenders. The Company's treasury team meets debt providers and bond investors in the period following the publication of the Company's results, and bank lenders have access to the Executive Directors.

**Board effectiveness**
The smooth operation of the Board and effective relationships between the Non-executive and Executive Directors is critical and firmly in place at Land Securities. Frequent and open conversations with Rob enable me and the Board to understand and debate both what is going on in the business and the challenges that lie ahead.

We conducted an externally facilitated Board evaluation during the year, the outcome of which was very positive and confirmed that the Board and its Committees operate to a high standard. The Board discussed the findings in detail at one of its meetings, including observations from other executives who attended Board meetings. Separately, I met with each of the Directors individually in respect of their own performance. Particular strengths highlighted were the culture and openness at Board meetings, the relationship between the Directors and their ability to challenge each other, the relationship with shareholders and the time allocated to future issues that may affect the business.

As always, there is room for improvement and we have plans in place to ensure that we keep challenging ourselves to get better. The Board agenda will continue to balance the need to provide oversight and governance of all aspects of the business, and the ability to debate and examine forward-looking strategy, including changes to the business environment and markets in which we operate and compete.

The Board's specific strategy sessions provide us with an opportunity for a wide-ranging discussion with the Company's senior management on a number of topics and we find these meetings particularly insightful.

**Sustainability**
The Board is mindful of the way that the future of Land Securities (and its priorities) fit with and support wider goals in society. In my view, this wider perspective is now an essential ingredient to be considered by boards when making decisions in order that longer term viability is properly taken into account. The risks that could affect Land Securities specifically, together with broader threats affecting the property sector or the economy as a whole, are outlined in the Strategic Report on pages 14–50. This is supplemented for the first time by the introduction of a Viability Statement, for which the Board has chosen to use a five year time horizon, which appears on page 50.

Sustainability in a broad sense is regularly discussed at Board meetings and the Company issues a separate Sustainability Report that sets out our activity in more detail. We are making improvements against a wide range of measures, and have considered our sustainability strategy to support our corporate purpose and vision through three broad themes – creating jobs and opportunities, efficient use of natural resources, and sustainable design and innovation.

**Health, safety and security**
The health, safety and security of our customers, employees, contractors and visitors to our properties remains of paramount importance. We work closely with our partners and our safety record remains well ahead of industry benchmarks. However, during the year, there was a tragic incident at one of our development sites in which a contractor's employee was fatally injured. We are addressing the issues involved in that case with the contractor to ensure that lessons learnt are shared with our industry partners.

Our own health and safety training programme meant that everyone within the business received relevant training during the year. On our construction sites, and with the full co-operation of our construction partners, our health and safety procedures are rigorous and non-negotiable. As well as safety, we are also focusing on the "health" aspect, by providing training (and healthy eating options) on our sites to promote health and well-being to those who work there and we are collaborating with others in our industry to set standards for occupational health.

Other legislation was introduced during the year on matters such as slavery and human trafficking protection. The Board and the Company is taking active steps to address these new requirements.

**Risk management**
Risk management and the nature of the principal risks facing the Company is discussed frequently by the Board. Additionally, we held an externally facilitated risk review with the full Board and obtained specialist advice on crisis and reputation management. Details of the Company's principal risks and uncertainties are set out on pages 46–49.

There are two areas that I would like to touch on: security and Brexit. We have witnessed dreadful scenes in Paris and Brussels, and, as a company, we are conscious that many visitors and employees come to our properties every day. We have security procedures in place, supported by relevant training, and we work with and support the government authorities in this critical area. Separately, we have reviewed the increasing threat from cyber-attack.

I am writing this letter before the British electorate has voted on whether to remain within the EU or leave. Land Securities and its Board are of the view that a vote to leave the EU would result in a lengthy period of uncertainty during the negotiation of exit terms. This would likely create a fall in occupational demand, particularly for London offices, leading to a decline in office rents and a fall in office values. The impact on retail assets may be less pronounced. The Board is not able to judge whether the UK economy would benefit in the years to come as this would, in large part, depend on the exit terms negotiated; therefore, the longer term impact on the Company is harder to predict.

**The Board**
There were no changes to the composition of the Board during the year, and I would like to thank my fellow Directors for their ongoing support, wisdom and challenge.

Kevin O'Byrne (who was appointed in April 2008) will relinquish his role as Senior Independent Director and Chairman of the Audit Committee in the coming year but will remain on the Board for the time being. I am delighted to say that Edward Bonham Carter will assume the role of Senior Independent Director with effect from 21 July 2016, following the Annual General Meeting, and a process is underway to identify and appoint a new Director to become Chairman of the Audit Committee. I say more about this in my letter to shareholders on the work of the Nomination Committee.

Finally, on behalf of the Board, I would like to thank management and all our colleagues at Land Securities for their work, energy and passion throughout the year, and for the results that they have achieved. I am confident that we have an excellent team to steer Land Securities through the challenges and opportunities ahead.

**Dame Alison Carnwath**
Chairman

# BOARD OF DIRECTORS

The Board is responsible for ensuring it has the appropriate skills, experience, knowledge and independence to perform its role effectively. It sets the strategy and provides leadership and direction to the business as a whole.

## EXECUTIVE DIRECTORS

**Robert Noel**
Chief Executive

Robert was appointed to the Board in January 2010 as Managing Director, London Portfolio, and became Chief Executive in April 2012.

Age: 52

**Career** A chartered surveyor and graduate of the University of Reading, Robert was Property Director at Great Portland Estates plc between August 2002 and September 2009. Prior to that, he was a director of the property services group, Nelson Bakewell. He is a former director of the New West End Company and former Chairman of the Westminster Property Association.

Robert is currently a director of the European Public Real Estate Association (EPRA) and a member of both the Prime Minister's Business Advisory Group and the Policy Committee of the British Property Federation. He is also a trustee of LandAid, the property industry charity, and has recently been appointed as a trustee of the Natural History Museum.

**Skills, competencies and experience**
Robert has nearly 30 years' experience in a number of sectors within the property market and extensive knowledge of the London commercial property market in particular. He has substantial executive leadership and listed company experience.

**Committees** Chairman of the Group's Executive, Asset and Liability, Health, Safety and Security, Investment and Sustainability Committees. He attends the Audit, Remuneration and Nomination Committees at the invitation of the Committee Chairmen.

**Martin Greenslade**
Chief Financial Officer

Martin joined the Board as Chief Financial Officer in September 2005.

Age: 51

**Career** A chartered accountant, having trained with Coopers & Lybrand, Martin was previously Group Finance Director of Alvis plc. He has also worked in corporate finance serving as a member of the executive committee of Nordea's investment banking division and Managing Director of its UK business.

Martin is a trustee of International Justice Mission UK.

**Skills, competencies and experience**
Martin brings extensive and wide-ranging financial experience to the Group from the property, engineering and financial sectors in the UK and overseas. He also has extensive financial expertise, particularly in relation to corporate finance and investment arrangements, and significant listed company experience at board level.

His oversight responsibilities cover the Group's finance, tax, treasury, risk management and internal audit, insurance and information technology teams.

**Committees** A member of the Group's Executive, Asset and Liability and Investment Committees. He attends Audit Committee meetings at the invitation of the Committee Chairman.

## NON-EXECUTIVE DIRECTORS

**Dame Alison Carnwath**
Chairman of the Board

Dame Alison was appointed to the Board as a Non-executive Director in September 2004 and became Chairman in November 2008.

Age: 63

**Career** Dame Alison worked in investment banking and corporate finance for 20 years before pursuing a portfolio career. During her banking career, she became the first female director of J. Henry Schroder Wagg & Co. Dame Alison was also a Senior Partner at Phoenix Securities and a Managing Director at Donaldson, Lufkin & Jenrette. She has served as a non-executive director of Friends Provident plc, Gallaher Group plc, Glas Cymru Cyfyngedig (Welsh Water), Barclays plc and Man Group plc.

Dame Alison is currently a non-executive director of Zurich Insurance Group Limited, Paccar Inc (a Fortune 500 company) and CICAP Limited, and a senior advisor to Evercore Partners. She is also a member of the UK Panel on Takeovers and Mergers and a supervisory board member and audit committee chair of the Frankfurt listed chemicals company, BASF SE.

Dame Alison was appointed a Dame in 2014 for her services to business.

**Skills, competencies and experience**
Dame Alison has very significant board level experience gained across a range of industries and countries. This enables her to create the optimal Board environment and get the best out of her fellow Directors both during and outside meetings.

She has expertise in alternative asset management, banking and global manufacturing.

**Committees** Chairman of the Nomination Committee and a member of the Remuneration Committee. She also attends all Audit Committee meetings.

**Kevin O'Byrne**
Senior Independent Director*

Kevin was appointed to the Board as a Non-executive Director in April 2008 and was appointed Senior Independent Director in April 2012.

Age: 51

**Career** Kevin is a chartered accountant who trained with Arthur Andersen. He was appointed Chief Executive Designate of Poundland Group PLC on 4 April 2016 and will become Chief Executive Officer on 1 July 2016. Prior to that, he was Group Finance Director of Kingfisher plc from 2008 to 2012 following which he became CEO of its B&Q and Koçtaş businesses in China, Turkey, Germany and the UK, until he left that business in May 2015. His previous roles include Group Finance Director of Dixons Retail plc and European Finance Director of The Quaker Oats Company.

**Skills, competencies and experience**
Kevin has extensive understanding of retail trends, operations and insights gained during a number of senior financial and general management positions at large listed retailers. He is a long-standing Non-executive Director and Chairman of the Audit Committee who is able to use this experience gained across a property cycle to bring additional challenge to management.

**Committees** Chairman of the Audit Committee and a member of the Nomination Committee.

**Chris Bartram**
Non-executive Director*

Chris was appointed to the Board as a Non-executive Director in August 2009.

Age: 67

**Career** Chris is a chartered surveyor. He was Chairman and Partner of Orchard Street Investment Management LLP, a leading commercial property investment manager focused on the UK market, until 31 March 2015, and continues to act as an adviser to that firm. He was a Board Counsellor of The Crown Estate until 31 December 2015, having previously served as a Board Member. Former positions include Managing Director of Haslemere NV, Chairman of Jones Lang Wootton Fund Management, President of the British Property Federation and Chairman of the Bank of England Property Forum.

Chris is currently a Wilkins Fellow of Downing College, University of Cambridge, and an advisory board member to certain overseas entities within the Brack Capital Real Estate Group.

**Skills, competencies and experience**
Chris is a scion of the property industry, with decades of property investment, fund management and capital allocation experience gained across a range of businesses and disciplines within the real estate sector. He has significant experience of general management as a former Chief Executive and Chairman of significant businesses.

**Committees** A member of the Nomination, Remuneration (until 23 July 2015) and Audit (from 23 July 2015) Committees.

**Stacey Rauch**
Non-executive Director*

Stacey joined the Board as a Non-executive Director in January 2012.

Age: 58

**Career** Stacey is a Director Emeritus of McKinsey & Company where she served clients in the US and internationally for 24 years. Whilst there, she co-founded the New Jersey office and was the first woman to be appointed as an industry practice leader. She was a leader in the firm's Retail and Consumer Goods Practices, served as the head of the North American Retail and Apparel Practice and acted as the Global Retail Practice Convener. She retired from McKinsey & Company in September 2010 and has since then pursued a portfolio career.

Stacey is currently a non-executive director of the Fiesta Restaurant Group Inc (a NASDAQ listed company) and CEB Inc (a NYSE listed member-based advisory company) and, until August 2015, held the same office with ANN Inc (a NYSE listed woman's specialty apparel retailer).

**Skills, competencies and experience**
Stacey brings deep analytical thought to the Board, with considerable expertise of retail trends and insights gained at a leading international management consultancy. She has significant board level experience gained through non-executive positions held in retail and other industries.

**Committees** A member of the Audit Committee.

**Simon Palley**
Non-executive Director*

Simon was appointed to the Board as a Non-executive Director in August 2010.

Age: 58

**Career** A senior figure within the private equity industry, Simon has had a successful and broad ranging career in investment banking, consulting and private equity. He started his career at Chase Manhattan before moving to Bain & Company. He left there in 1988 to join Bankers Trust as a Vice President and moved to BC Partners, a private equity firm, in 1990 where he worked for 17 years, rising to the position of Managing Partner. Simon then became Chairman of the private equity firm Centerbridge Partners Europe, a post he held until 2013. He is now a non-executive director of UK Government Investments, a Senior Adviser to TowerBrook Capital Partners and an adviser to the private equity arm of GIC. He is an MBA graduate of The Wharton School, Pennsylvania.

Simon is a trustee of the University of Pennsylvania and The Tate Foundation.

**Skills, competencies and experience**
Simon has extensive understanding of portfolio management, financial metrics and the impact of interest rates on the capital markets. He has expertise in private equity and capital markets and considerable experience managing highly talented professionals.

**Committees** Chairman of the Remuneration Committee and a member of the Nomination Committee.

**Cressida Hogg CBE**
Non-executive Director*

Cressida joined the Board as a Non-executive Director in January 2014.

Age: 46

**Career** Cressida spent almost 20 years with 3i Group plc having joined them in 1995 from JP Morgan. She co-founded 3i's infrastructure business in 2005, becoming Managing Partner in 2009, and led the team which acted as Investment Adviser to 3i Infrastructure plc, a FTSE 250 investment company. She advised on all of 3i Infrastructure's transactions from its flotation in 2007 through to her leaving in 2014. Cressida was previously a member of the advisory board for Infrastructure UK, the HM Treasury unit that works on the UK's long-term infrastructure priorities. She is currently Managing Director, Head of Infrastructure, of the Canada Pension Plan Investment Board and a non-executive director of Anglian Water Group Limited and of Associated British Ports Holdings Ltd.

Cressida received a CBE in 2014 for services to infrastructure investment and policy.

**Skills, competencies and experience**
Cressida has a deep understanding of large, long-term infrastructure projects and businesses. She has considerable experience of investment returns, general management and leadership.

**Committees** A member of the Audit Committee (until 23 July 2015) and Remuneration Committee (from 23 July 2015).

**Edward Bonham Carter**
Non-executive Director*

Edward joined the Board as a Non-executive Director in January 2014.

Age: 55

**Career** Edward became Vice Chairman of Jupiter Fund Management plc in March 2014, having been Chief Executive Officer of the company since June 2007. During his time as CEO, Edward steered the company through a management buy-out from its previous owners, Commerzbank, in 2007 and oversaw the firm's listing on the London Stock Exchange in 2010.

Edward joined Jupiter in 1994 as a UK fund manager and held the position of Chief Investment Officer from 1999 to 2000. He started his career at Schroders in 1982 as an investment analyst before moving to Electra Investment Trust in 1986 where he was a fund manager.

Edward is a Board member of The Investor Forum, a member of the Investment Committee of the Esmeé Fairbairn Foundation and a trustee of the Orchestra of the Age of Enlightenment Trust.

**Skills, competencies and experience**
Edward has significant experience of general management as a former CEO of a private equity backed and a large listed company. Having been a fund manager for many years, he also has an excellent understanding of stock markets and investor expectations.

**Committees** A member of the Remuneration Committee.

* Independent (as per the UK Corporate Governance Code).

# EXECUTIVE COMMITTEE

**Robert Noel**
Chief Executive

Full biography on page 54

**Martin Greenslade**
Chief Financial Officer

Full biography on page 54

**Colette O'Shea**
Managing Director, London Portfolio

Colette joined Land Securities in 2003 and was Head of Development, London Portfolio, before being appointed its Managing Director in April 2014.

Age: 48

**Career** Colette has over 20 years' property experience in London, operating in investment, asset management and development. Prior to joining Land Securities, she was Head of Estates at the Mercers' Company where she led the property team whilst also gaining extensive office, retail and residential experience.

**Responsibilities** In her current role, Colette has responsibility for Land Securities' £8.2bn London Portfolio comprising some 6.2 million sq ft of London offices, leisure, retail and residential property both in development and asset management. She has led the London business through a major development programme in the City and West End, including the transformation of Victoria.

Colette is Immediate Past President of the British Council for Offices and a non-executive director of Genesis Housing Association.

**Committees** A member of the Group's Executive, Asset and Liability and Investment Committees. Chairman of the London Executive Committee.

**Scott Parsons**
Managing Director, Retail Portfolio

Scott re-joined Land Securities in 2010 and was Head of Property, London Portfolio, before being appointed as Managing Director, Retail Portfolio, in April 2014.

Age: 46

**Career** Scott's career to date includes three years as Managing Partner of Brookfield Asset Management, where he led their European business, more than 10 years at GE Capital Real Estate (including as Head of Business Development), and three years as Business Development Director at Land Securities in his first position with the Company.

**Responsibilities** In his current role, Scott has responsibility for Land Securities' £6.2bn Retail Portfolio of shopping centres, retail parks and leisure properties throughout the UK comprising some 17.8 million sq ft of accommodation. Previously, as Head of Property for Land Securities' London Portfolio, he led the investment, asset and property management teams for the Group's office and retail space in central London.

Until recently, Scott was a member of the Strategic Board of the New West End Company and was previously Vice President of the City Property Association. He was appointed a Property Committee member of the RNLI in April 2016.

**Committees** A member of the Group's Executive, Asset and Liability and Investment Committees. Chairman of the Retail Executive Committee.

**Diana Breeze**
Group Human Resources Director

Diana joined Land Securities in June 2013 as Group Human Resources Director.

Age: 48

**Career** Diana has over 20 years' HR and organisational consulting experience, and she has previously held a number of senior HR roles at J Sainsbury plc, where she led many people focused change initiatives. Prior to that, she was a senior manager in the Human Capital practice of Accenture.

**Responsibilities** In her current role, Diana has end-to-end responsibility for the articulation and delivery of a clear people strategy for Land Securities, including talent, reward, organisational design and engagement. Since joining the Company, Diana has led the redesign of the Land Securities organisation at both Group and business unit level, and has implemented a number of key HR initiatives, including, latterly, the launch and roll out of the Group's new purpose, vision and values.

Diana is a member of the International Advisory Board for Executive Education at the Saïd Business School, University of Oxford. She also advises the Board of Trustees, and is a member of the Personnel and Nominations Committees, of the UK Green Building Council.

**Committees** A member of the Group's Executive and Sustainability Committees. Attends Investment Committee meetings and both the Remuneration and Nomination Committee meetings at the invitation of the Committee Chairmen.

**Miles Webber**
Director of Corporate Affairs and Sustainability

Miles joined Land Securities on 6 May 2015.

Age: 47

**Career** Before joining Land Securities, Miles was Head of External Affairs, UK & Ireland, for General Electric, having previously held other senior external affairs and relations positions with them since he joined in 2005. Prior to that, he spent six years with Merrill Lynch, his first two years as Vice President, Corporate Communications, followed by four years as Director of Public Affairs, EMEA.

**Responsibilities** Miles' broad responsibilities cover sustainability, public relations (both financial and business-to-business), internal communications, public affairs, investor relations and corporate marketing (including brand and reputational management).

He is a board director of the Foreign Policy Centre and the Westminster Forum.

**Committees** A member of the Group's Executive and Sustainability Committees. Attends Investment Committee meetings.

**Tim Ashby**
Group General Counsel and Company Secretary

Tim joined Land Securities on 7 September 2015.

Age: 54

**Career** Tim is a solicitor and has more than 20 years of significant legal, compliance and commercial experience gained across a number of different sectors and businesses both in the UK and overseas. He joined Land Securities after five years as Group General Counsel and Company Secretary of Mothercare plc. Before that, he worked at Yum Brands (KFC, Pizza Hut and Taco Bell) as Region Counsel for Europe and Africa, and as a Senior International Counsel at PepsiCo working in various businesses in the UK, Eastern Europe and Africa. Tim started his career in private practice at Dentons, where he specialised in commercial law.

**Responsibilities** Tim leads the Legal, Company Secretarial and Real Estate Information Management teams and is responsible for legal, compliance and governance activity across the Group. He provides advice and support to the Board and its Committees and holds the Group's relationships with its external law firms, and investor and shareholder bodies.

**Committees** A member of the Group's Executive Committee. Attends all Board and Audit, Nomination and Remuneration Committee meetings in his capacity as Company Secretary. He also attends meetings of the Investment Committee and the Asset and Liability Committee.

# LEADERSHIP

## THE ROLE OF THE BOARD AND ITS COMMITTEES

### BOARD

**Board**
Collectively responsible for the long-term success of the Group. With due regard to the views of shareholders and other stakeholders, it sets strategy and oversees its implementation ensuring only acceptable risks are taken. It provides leadership and direction to the business as a whole, including establishing the culture, values and ethics of the organisation. It is also responsible for corporate governance and the overall financial performance of the Group.

More details on pages 58–59.

### BOARD COMMITTEES

**Audit Committee**
Reviews and is responsible for oversight of the Group's financial and narrative reporting processes and the integrity of the financial statements. It scrutinises the work of the external auditor and valuers and any significant judgements made by management. It regularly reviews the risk management framework, including the systems of risk management and internal control, and the work of internal audit.

More details on pages 63–68.

**Remuneration Committee**
Reviews and recommends to the Board the executive remuneration policy and determines the remuneration packages of the Executive Directors and other members of the Executive Committee. It also has oversight of the Group's remuneration policy for all employees.

More details on pages 72–83.

**Nomination Committee**
Reviews the structure, size and composition of the Board and its Committees and makes recommendations to the Board accordingly. It has oversight responsibility for succession planning of the Board and senior management and leads the process for new Board appointments.

More details on pages 60–62.

**Chief Executive**
Responsible for developing and implementing strategy, managing the overall performance of the business and ensuring an effective and motivated leadership team is in place.

More details below.

**Executive Committee**
An advisory committee that operates under the direction and authority of the Chief Executive and which comprises senior management from across the business (see page opposite). It assists the Chief Executive, and the Chief Financial Officer, in implementing strategy, operating plans, budgets, policies and procedures, and managing the operational and financial performance of the Group. It also addresses other key business and corporate related matters, including competitive forces, risk and reputation management, resource allocation, succession planning, organisational development and employee remuneration.

### MANAGEMENT COMMITTEES

**Asset and Liability Committee**
Responsible for considering the impact of proposed sales, purchases, developments and debt funding arrangements on the Group's balance sheet and internal control metrics over the short and medium-term. It also considers the likely impact of macro-economic developments on the business.

**Investment Committee**
Responsible for considering and approving significant investment transactions, including the acquisition, disposal and development of assets with a value of between £20m and £150m. It also reviews and recommends higher value transactions to the Board. It is responsible for implementing the annual funding strategy approved by the Board.

**London and Retail Executive Committees**
Responsible for the financial, operational and governance performance of the London and Retail business portfolios. Each Committee can also approve transactions up to a value of £10m.

**Sustainability Committee**
Responsible for developing and implementing the Group's sustainability strategy, linked to and integrated with the Group's overall corporate strategy. In doing so, it also considers environmental, social, economic and energy issues affecting the business.

**Health, Safety and Security Committee**
Responsible for overseeing the Group's health and safety policy, operations, performance against targets and progress towards goals. The remit of this Committee was extended from 1 April 2016 to include security governance, policy and procedures at all Group properties.

## MATTERS RESERVED TO THE BOARD AND DELEGATED AUTHORITIES

In order to retain control of key decisions and ensure there is a clear division of responsibilities at the head of the Company between the running of the Board and the running of the Company's business, the Board has identified certain 'reserved matters' that only it can approve. Other matters, responsibilities and authorities have been delegated to its Committees and certain Management Committees, as above.

The matters reserved to the Board and the terms of reference for each of its Committees, which are reviewed on an annual basis, can be found on the Company's website at www.landsecurities.com. Any matters outside of these fall within the Chief Executive's responsibility and authority. He reports on the activities of all Management Committees through his (and the Chief Financial Officer's) regular reports to the Board.

The Board and each Committee receive sufficient, reliable and timely information in advance of meetings and are provided with or given access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

## BOARD COMPOSITION AND ROLES

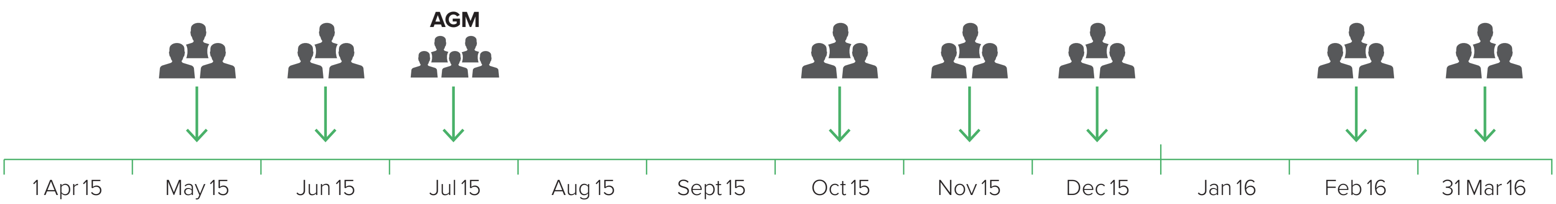
Table 18

The Board currently comprises a Non-executive Chairman (who was independent on appointment), two Executive Directors and six Independent Non-executive Directors. They are advised and supported by the Group General Counsel and Company Secretary. Their key responsibilities are as set out in the table below:

| | | |
|---|---|---|
| **Chairman** | Dame Alison Carnwath | Responsible for leading the Board, its effectiveness and governance and for monitoring and measuring progress against strategy and the performance of the Chief Executive. Ensures Board members are aware of and understand the views and objectives of major shareholders and other key stakeholders. Maintains a culture of openness and debate and helps set the tone from the top in terms of the purpose, vision and values for the whole organisation. |
| **Chief Executive** | Robert Noel | Responsible for developing the Group's strategic direction for consideration and approval by the Board, implementing the agreed strategy, running the business day-to-day and leading the executive team. Maintains a close working relationship with the Chairman. |
| **Chief Financial Officer** | Martin Greenslade | Supports the Chief Executive in developing and implementing strategy, and in relation to the financial and operational performance of the Group. |
| **Independent Non-executive Directors** | Kevin O'Byrne, Chris Bartram, Simon Palley, Stacey Rauch, Cressida Hogg CBE and Edward Bonham Carter | Responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision-making. Support and constructively challenge the Executive Directors using their broad range of experience and expertise. Monitor the delivery of the agreed strategy within the risk management framework set by the Board. |
| **Senior Independent Director** | Kevin O'Byrne | Acts as a sounding board for the Chairman and a trusted intermediary for other Directors. Available to discuss with shareholders any concerns that cannot be resolved through the normal channels of communication with the Chairman or the Executive Directors. Leads the other independent Non-executive Directors in the performance evaluation of the Chairman. |
| **Group General Counsel and Company Secretary** | Tim Ashby | Provides advice and assistance to the Board, the Chairman and other Directors, particularly in relation to corporate governance practices, induction training and development. Ensures that Board procedures are complied with, applicable rules are followed and good information flow exists to the Board and its Committees. The appointment and removal of the Company Secretary is a matter for the Board as a whole. |

## BOARD MEETINGS AND ATTENDANCE

Table 19




The number of Board and Committee meetings and their attendance by each Director during the year was as follows:

Table 20

| Director | Board | Audit Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|
| **Dame Alison Carnwath** | 8/8 | | 2/2 | 3/3 |
| **Robert Noel** | 8/8 | | | |
| **Martin Greenslade** | 8/8 | | | |
| **Kevin O'Byrne** | 8/8 | 5/5 | 2/2 | |
| **Chris Bartram** | 8/8 | 2/2* | 2/2 | 1/1* |
| **Simon Palley** | 7/8 | | 2/2 | 3/3 |
| **Stacey Rauch** | 8/8 | 5/5 | | |
| **Cressida Hogg CBE** | 8/8 | 3/3** | | 2/2** |
| **Edward Bonham Carter** | 8/8 | | | 3/3 |

* Chris Bartram stepped down from the Remuneration Committee and joined the Audit Committee on 23 July 2015, immediately post the AGM.
** Cressida Hogg stepped down from the Audit Committee and joined the Remuneration Committee on 23 July 2015, immediately post the AGM.

## BOARD ACTIVITY

Table 21

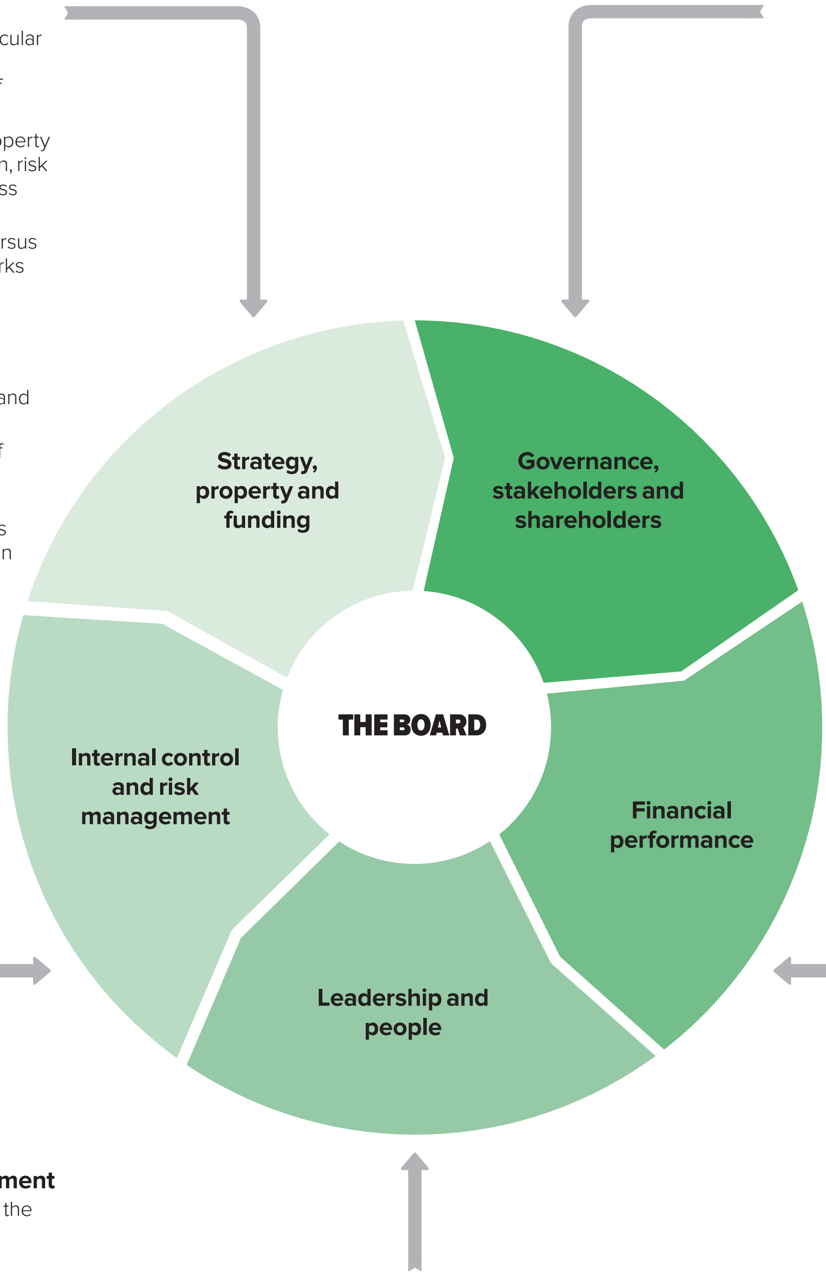
The diagram below shows the key areas of Board activity during the year.

### Strategy, property and funding

— Reviewed the Group's strategy, in particular its retail park strategy, and business development programme in the light of future property demand expectations
— Debated the changing status of the property cycle, including the Company's position, risk profile and preparations for any business impact
— Reviewed the Group's performance versus budget and targets, external benchmarks and by reference to its peers
— Reviewed performance versus Board approval for key schemes and assets completed or developed
— Considered portfolio liquidity analysis and development exposure
— Considered and approved disposals of properties with a value in excess of £150m
— Reviewed and approved the conditions around the redevelopment of Buchanan Galleries, Glasgow
— Considered and approved the Group's Going Concern and Viability Statements, dividend policy, debt funding arrangements, gearing levels and the early redemption of £400m of medium term notes
— Approved the relocation of the Company's head office to 80-100 Victoria Street, SW1.

### Governance, stakeholders and shareholders

— Discussed the outcome of the externally facilitated Board evaluation and effectiveness review, and agreed improvement opportunities
— Considered the Group's 2020 sustainability strategy, including progress versus annual targets and improvements planned
— Reviewed regular health and safety updates
— Reviewed developments in corporate governance and received key legal and regulatory updates
— Reviewed the investor relations strategy and regularly reviewed feedback from institutional shareholders, roadshows and other engagement activities
— Reviewed and approved the Group's new purpose, vision and values as part of setting culture and tone from the top
— Received regular meeting reports from the Chairman of the Audit, Remuneration and Nomination Committees
— Reviewed and approved certain annual fee increases for the Non-executive Directors.




### Internal control and risk management

— Reviewed the Group's risk register and the effectiveness of the systems of internal control and risk management
— Undertook externally facilitated catastrophic risk and reputational risk management reviews
— Debated significant and emerging risks, including cyber-security, terrorism, the loss of key people and the uncertainty arising from the imminent EU referendum.

### Leadership and people

— Discussed the composition of the Board and its Committees, including succession planning
— Appointed a new Group General Counsel and Company Secretary
— Reviewed the development of people and potential talent in the Group, including succession planning for Senior Leaders
— Discussed the results of the employee engagement survey
— Approved and adopted new employee share incentive plans.

### Financial performance

— Considered the financial performance of the business and approved the annual budget, key performance targets and five year plan
— Reviewed the half year and annual results and presentations to analysts and approved the Annual Report
— Considered the half year and full year valuation of the Group's portfolio by the external valuer
— Reviewed the Group's tax structure and insurance programme.

# LETTER FROM THE CHAIRMAN OF THE NOMINATION COMMITTEE

**"DURING THE YEAR, THE COMMITTEE DEVOTED A SIGNIFICANT PROPORTION OF ITS TIME TO SUCCESSION PLANNING AND TALENT DEVELOPMENT IN SUPPORT OF THE COMPANY'S FUTURE PLANS."**

**Dame Alison Carnwath,** Chairman, Nomination Committee

## COMMITTEE MEMBERS

- Dame Alison Carnwath (Chairman)
- Kevin O'Byrne*
- Chris Bartram*
- Simon Palley*

* Independent Non-executive Director

**Dear Shareholder,**
I am pleased to present the Nomination Committee report which summarises our work over the past year.

**Board changes**
There were no changes to the composition of the Board. However, it is important for the Board to anticipate and prepare for the future and one of the Committee's roles is to ensure that the skills, experience, knowledge and independence present at Director and senior management level reflect the changing demands of the business. In addition to detailed consideration at Committee meetings, the Board chose this as a topic for extensive discussion at one of its recent dinners.

Kevin O'Byrne joined Land Securities as a Non-executive Director in April 2008 and has acted as the Company's Senior Independent Director since 2012. Kevin will relinquish this role following the Annual General Meeting in July and I am delighted that Edward Bonham Carter has agreed to take over these responsibilites. I look forward to working with Edward in this new capacity. Kevin will remain on the Board for the time being but will step down as Chairman of the Audit Committee in the coming year (a position he has held since January 2009) and we have commenced the external search to find his successor. In addition to the technical requirements of such a role, the Nomination Committee has debated the non-financial skills and experience that a new Director could bring.

As part of the selection procedure, the Committee conducted a tender process before choosing Spencer Stuart to assist with the recruitment. Spencer Stuart is an independent search consultancy with no other connections to the Company and has not been involved in other Board level appointments for us for more than ten years. It is likely that the number of Non-executive Directors on the Board will increase to seven for a period of time before Mr O'Byrne retires so that we can provide a proper induction and handover to the new Director. We will issue an announcement in due course to confirm the successful appointment.

**Board composition**
The composition of the Board and its Committees, in its broadest sense, was a topic referenced in the externally facilitated Board evaluation carried out during the year. Property is a long-term business, and it is appropriate that Directors are appointed with an expectation to serve for at least six years, and preferably for the full term of nine years, personal circumstances permitting. Experience gained through one property cycle is invaluable background for the next. Moreover, depending on our business needs and the progress of the property cycle, it may be in the Company's best interests for some Directors to stay beyond the nine year term identified in the UK Corporate Governance Code at which point some investors or governance bodies may begin to question their independence. Any such decision will be taken by reference to the facts as they exist at the time and explained to shareholders.

The Board and the Committee undertook its annual review of the balance of skills, knowledge and experience that each Director brings to the boardroom table, with reference to the likely business demands over the coming years, as well as our ability to cope with unexpected events or opportunities that may arise. The conclusion was that the current combination remains appropriate. Further, as an exercise, we anticipated unforeseen changes to key personnel at Board, executive or senior management level and we continue to monitor a range of candidates who may be suitable replacements.

**Independence and re-election to the Board**
The independence, effectiveness and commitment of each of the Non-executive Directors has been reviewed by the Committee which satisfied itself on the contributions and time commitment of all the Non-executive Directors during the year. On behalf of the Committee, I conducted a specific review in relation to Chris Bartram as he has been in office for more than six years. The Committee was confident that Mr. Bartram, and each of the Non-executive Directors, remain independent and will be in a position to discharge their duties and responsibilities in the coming year. All the Directors will stand for re-election at the Annual General Meeting with the support of the Board.

**Committee effectiveness**
I am pleased to report that the recent external Board evaluation concluded that the Nomination Committee operated well, and the appointment of a new Company Secretary in September 2015 has provided us with an opportunity to take a fresh look at our approach.

You will find more information on these particular topics and the other work of the Committee, and more details of the Board evaluation process and its outcomes, on the following pages.

**Dame Alison Carnwath**
Chairman, Nomination Committee

Details of member appointments, skills and biographies, and full attendance at the Committee's two meetings held during the year, are set out on **pages 54–56 and 58.**

The Committee's terms of reference, which are reviewed annually, are available on the Company's website at **www.landsecurities.com**

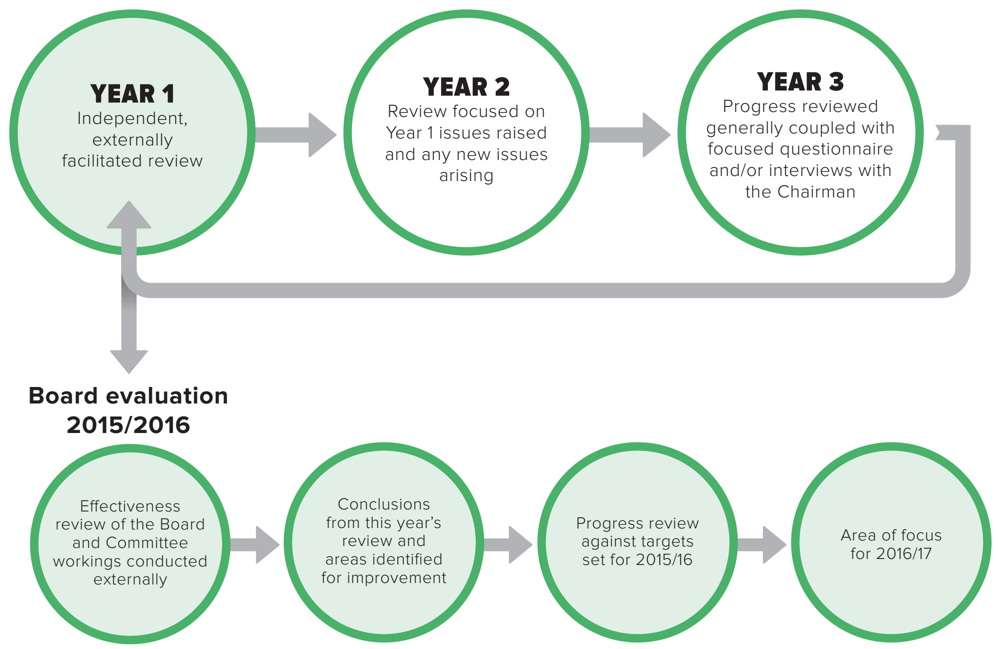
# EFFECTIVENESS

**Nomination Committee activity**

The key areas of Committee activity during the year included:

— the Board's structure, size, composition, skills and diversity
— the composition of the Board's Committees
— potential conflicts of interest of Directors
— succession planning for the Board and senior management
— talent identification and development in the Group
— the suitability of the Non-executive Directors to continue in office
— the commencement of a search for a new Non-executive Director.

**BOARD, COMMITTEES AND DIRECTORS' PERFORMANCE EVALUATION CYCLE**




### Board evaluation 2015/16

With internal evaluations having been carried out in each of the last two years, an external evaluation of the Board and its Committees was conducted this year in keeping with the guidance provided under the UK Corporate Governance Code. It was facilitated by Ffion Hague of Independent Board Evaluation (IBE), a specialist consultancy which undertakes no other business for the Company.

The Chairman, together with the Chief Executive and Company Secretary, provided a comprehensive briefing to IBE in September 2015. The evaluation included attendance and observation at Board and Committee meetings in November and December, as well access to supporting materials to enhance the evaluation team's understanding of how the Board and its Committees operate. In addition, detailed interviews were conducted with each Director against a tailored agenda, and with other members of the Executive Committee and senior managers in the business, as well as external advisers who work closely with the Board and its Committees.

A final report and recommendations were presented to the Board at its meeting in February 2016 and considered by the Directors. Separate reports were prepared for the Audit, Remuneration and Nomination Committees, and in each case the conclusions were discussed by those Committees at their meetings in March 2016. The Chairman also received a report on each Director which she subsequently reviewed with them individually. Kevin O'Byrne, as Senior Independent Director, received the report on the Chairman and reviewed it with her.

### Conclusions from this year's review

The overall conclusion from this year's evaluation was that the Board and its Committees operate to a high standard, and work well and effectively.

The Directors believe that they are able to challenge each other during Board meetings, and that the spirit of openness which exists enables everyone to participate fully in discussions. The Directors were observed to take their responsibilities seriously and be committed to their roles, and the culture of transparency that exists between them is seen as a key strength. The Board is pleased with the increasing amount of time being allocated to future issues that may affect the business, whilst at the same time maintaining rigorous oversight of ongoing performance.

As with every high performing board, the Directors continue to look for areas of improvement. The Board will devote more time to engage in strategic debate and involve core business teams in that discussion. It will also use a combination of experience gained from past investment decisions and the general approach to risks and uncertainties facing the business to contribute to its forward-looking considerations. This will be supplemented by a sequence of ongoing professional development topics and visits to some of the Company's assets. The Chairman will lead these changes with support from the Chief Executive and Company Secretary.

### Progress against targets set for 2015/16

In addition to considering the results of this year's externally facilitated evaluation, the Directors reviewed progress against the targets identified last year:

— Directors agreed that they had improved the way in which macro-economic data and forecasts were considered and debated
— More time was allocated to discussion of the property assets in both London and Retail, and to reviewing the content and strategy of the Retail Portfolio in particular
— Brexit, cyber-crime, terrorism and other geo-political events had become important agenda items that had demanded, and received, increased time from the Board during the year.

### Areas of focus for 2016/17

— Directors would like Board meetings to increase the amount of time allocated to risks and challenges that could impact the business, particularly at a time of increasing market uncertainty
— Directors are keen to allocate time to site visits, supported by ongoing professional development, in order to increase their level of business awareness and engagement
— At a time when the Company is engaged on fewer development projects, Directors intend to review the way the Board tracks progress on previously approved major projects and initiatives.

### Board environment and access to appropriate information

The topic of the Board environment and culture of transparency at its meetings came out favourably in this year's evaluation report. The attendance at Board meetings of other members of the executive team and senior managers within the business continues to be encouraged.

In addition to Board meetings, the Directors have a number of dinners each year (at least one without the Executive Directors being present) at which relevant items are identified beforehand and discussed in detail.

The Board and its Committees receive papers in a timely fashion and Directors have access to information, support and advice from the Company Secretary and members of his team throughout the year.

### Induction

A comprehensive induction programme exists for any newly appointed Directors.

### Professional development, support and training for Directors

The Board has held several specific knowledge development sessions during the year, on such matters as risk, corporate reputation and property cycle and market trends. These were found to be extremely useful to the broader discussion at Board level.

Directors also receive regular reports facilitating greater awareness and understanding of the Group's business and the legal, regulatory and industry-specific environment in which it operates. This is complemented by visits to properties owned, managed or being developed by the Group which enables a deeper insight into the operations of the business and provides Directors with the opportunity to meet with local management teams and leaders.

### Board strategy review

The Board held a two-day strategy meeting in February to consider a number of relevant topics, including:

— a retailer's perspective of consumer trends
— the workspace of the future
— macro-economic trends and risks affecting the business
— the outlook for the property market.

### Diversity policy

The Board embraces diversity in its broadest sense, believing that a wide range of experience, background, perspective, skills and knowledge combine to contribute towards a high performing, effective Board, which is better able to support and direct the Company.

Land Securities continues to make good progress in terms of greater diversity. We are pleased that we have already met the recently increased target set by Lord Davies for women to represent 33% of the Board of FTSE 350 companies by 2020. This is supported by a new mentoring programme that has been introduced specifically to assist women at all levels to reach their full potential within the Company. This programme has the backing of the Chairman who, together with the Group HR Director, hosted a launch dinner with participants to help communicate the purpose and intention of this new initiative.

Diversity is more than just gender based, and the Board will continue to focus in the coming year on this important issue in its wider context.

### Conflicts of Interest

The Board operates a policy to identify and, where appropriate, manage any potential conflicts of interest that Directors may have. The Nomination Committee monitors the situation and determines the actions necessary to address potential conflicts of interest as detailed in the table opposite.

**POTENTIAL CONFLICTS OF INTEREST** Table 22

| Director | Potential conflict situation | Nomination Committee decision and mitigating actions taken |
|---|---|---|
| **Dame Alison Carnwath** | A non-executive director of Zurich Insurance Company Limited with whom the Group places certain of its insurance policies and pension investments. | Since the Group's insurance programme and policy matters are handled by the Executive Directors outside of the Board (and in consultation with its own independent insurance brokers), the Committee concluded that in practice conflicts of interest involving Dame Alison Carnwath and Zurich Insurance were unlikely to occur. |
| **Chris Bartram** | An adviser to Orchard Street Investment Management (OSIM) and a Board Counsellor of The Crown Estate, both of which are, in some areas of operation, competitors of the Group.<br>The Crown Estate is also the Group's joint venture partner at a major development. | The Nomination Committee does not see any potential conflict situations arising from Mr. Bartram's advisory role at OSIM.<br>Mr. Bartram retired from his role at The Crown Estate on 31 December 2015 and prior to that did not take part in any discussions, or see relevant information, regarding potential new transactions with The Crown Estate. |
| **Kevin O'Byrne** | Executive Director of Kingfisher plc and, subsequently, Chief Executive Designate of Poundland Group PLC, both of which are customers of the Group. | Kingfisher and Poundland lease a number of retail properties from the Company at several of its shopping centres around the country. However, since operational matters, such as retail leasing, are unlikely to be considered at Board level, the Committee concluded that in practice conflicts of interest involving Mr. O'Byrne and his employers were unlikely to occur.<br>Mr. O'Byrne resigned his position at Kingfisher effective 15 May 2015. He took up his position at Poundland effective 4 April 2016 (and will become its Chief Executive Officer effective 1 July 2016). |
| **Cressida Hogg CBE** | Managing Director, Head of Infrastructure, of the Canada Pension Plan Investment Board (CPPIB) which is the Group's joint venture partner at a major development. | In her role, Ms. Hogg will not have any involvement with the development in question as this is managed by a different business unit within CPPIB. As an additional precaution, the Group will not share any sensitive information on that development with her and she has agreed not to participate in any Board discussion that relates to it. |
| **Edward Bonham Carter** | Vice Chairman of Jupiter Fund Management plc, a fund manager which evaluates investments that may or may not include those of the Group.<br>Jupiter is also a customer of the Group. | Mr. Bonham Carter's position is such that he is unlikely to be involved in the selection of particular investments and has agreed not to participate in any investment decisions which may involve the Group's securities.<br>Since operational matters, such as office leasing, are unlikely to be considered at Board level, the Committee concluded that in practice conflicts of interest involving Mr. Bonham Carter and his employer were unlikely to occur. |

# LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

## COMMITTEE MEMBERS

– Kevin O'Byrne (Chairman)*
– Stacey Rauch*
– Cressida Hogg CBE* (until 23 July 2015)
– Chris Bartram* (from 23 July 2015)

* Independent Non-executive Director

"THE COMMITTEE PLAYS AN IMPORTANT ROLE IN ENSURING THAT THE APPROPRIATE GOVERNANCE ENVIRONMENT, UNDERPINNED BY THE APPROPRIATE RISK MANAGEMENT, CONTROL AND ASSURANCE PROCESSES, IS EMBEDDED THROUGHOUT THE BUSINESS."

**Kevin O'Byrne,** Chairman, Audit Committee

**Dear Shareholder,**
I am pleased to report on the key activities and focus of the Audit Committee during the year.

The Committee monitors the integrity of the Group's reporting process and financial management, as well as ensuring sound systems of risk management and internal control are in place. It scrutinises the full and half year financial statements before proposing them to the Board for approval, and reviews in detail the work of the external auditor and valuers and any significant financial judgements made by management. Further, the Committee reviews the risk management framework and reports to the Board on matters of existing and emerging risk affecting the Group.

### Acquisitions and disposals

The Company has continued to improve the quality of its portfolio resulting in a number of transactions, principally disposals, during the year. The Committee ensured that all transactions were properly recognised and accounted for.

### Changing risk landscape

Throughout the year, the Committee monitored the broader market conditions and the risks and challenges relevant to the Group. In addition to the forthcoming referendum on whether to leave or remain in the EU, the Committee considered other threats such as cyber-security, as well as the broader market cycle and property and consumer trends that impact our business planning.

The Committee uses the Group's risk register (which is regularly reviewed by the Executive Committee) as the basis of its review. In particular, the Committee ensured that risks were properly categorised, the potential impact to the Group was understood, and that appropriate resources were allocated to provide assurance that agreed management plans and mitigating actions were implemented.

**Internal audit**
The Company maintains its own risk management and internal audit function. The Committee took time during the year to consider in detail the scope, skills and competencies of this function and its contribution to risk management within the business. We decided that internal audit was effective in reviewing internal controls, monitoring compliance with any audit actions and facilitating and testing the Group's business continuity planning. The Committee also considered the merits of outsourcing some or all of the risk management and internal audit activities. We concluded that the internal audit team should use more external specialist advice and knowledge to assist its understanding of the full potential impact of some risks (like cyber) as they develop at an ever increasing rate.

**External valuations and valuers**
We reported last year that we had started the competitive tender process to appoint (or reappoint) the external valuers of the Group's property portfolio. The full and half year valuation of its portfolio is central to determining the Group's overall business performance and year end results, as well as being pivotal to determining certain aspects of senior management remuneration. Although property valuations are based on consideration of third party, market and internal evidence, there is a subjective element that requires valuers to make significant judgements and assumptions based on their experience. Given the importance of external valuations to the assessment of the Group's performance, it was agreed to be in the Company's best interests, and in line with good governance practice, to conduct a thorough review.

I chaired the review and selection panel, and the outcome was that CBRE was appointed to act as the Company's external valuer, replacing Knight Frank who had provided the Company with a high standard of service and contribution for many years as the Company's principal valuer. CBRE first undertook the portfolio valuation in September 2015, and in doing so allocated sufficient resource to understanding in detail the many elements of the Group's assets. The process went extremely smoothly and I am grateful to Knight Frank for facilitating an orderly handover of data. CBRE applied its own independent judgement and experience to our properties, and I am pleased to say that, of the movement in values between our March and September 2015 valuations, our judgement was that less than 1% of the total valuation of c. £14 billion was attributable to the fact that we were using different valuers. This fact can be taken by shareholders as confirmation of the robustness of the March 2015 valuation used in last year's Annual Report and provides our shareholders with confidence in the value of our property portfolio.

**External auditor**
Ernst & Young LLP (EY) was appointed as the Company's auditor in 2013. This year's internal review of their effectiveness and performance concluded that they continued to operate to a high standard. Based on the Committee's recommendation, the Board is proposing that EY be reappointed to office at this year's AGM.

**Fair, balanced and understandable**
The Committee assessed and recommended to the Board that, taken as a whole, the Company's 2016 Annual Report is fair, balanced and understandable.

**Viability Statement**
This is the first year in which the Company has been required to issue a Viability Statement. The Committee considered in detail the elements of the Statement and the appropriate forward-looking period that should be applied. The Viability Statement, together with the rationale behind the chosen five year time horizon, is set out on page 50.

**UK Corporate Governance Code**
I referenced in my statement last year the changes introduced by the UK Corporate Governance Code in 2014, which apply to the Group for the first time this year. I believe that, in consultation with management and EY, we have addressed these changes. This is demonstrated by the more forward-looking nature of the Committee's approach to matters, the publication of the inaugural Viability Statement, and the regular in-depth review of risk and risk management.

**Committee effectiveness**
During the year, our externally facilitated Board evaluation concluded that the Committee was effective in fulfilling its duties. This confirms my personal view that the Committee plays an important role in ensuring that the appropriate governance environment, underpinned by the appropriate risk management, control and assurance processes, is embedded throughout the business.

**The year ahead**
The legislative environment and market conditions in which any business operates are constantly changing. For Land Securities, the year ahead may be affected by the outcome of the EU referendum in June. In addition, there remain many other challenges and opportunities for the Company as it anticipates future demand from customers, future consumer shopping habits and changes in economic conditions. The Committee will continue to work closely with management to ensure that it addresses these issues in a way that is consistent with the Company's culture and values.

Finally, I would like to thank the other members of the Committee, together with management and EY, for their support during the year.

I hope that you find this review, and the report that follows, useful in understanding the work of the Committee during the year.

**Kevin O'Byrne**
Chairman, Audit Committee

Details of member appointments, skills and biographies, and full attendance at the Committee's five meetings held during the year, are set out on **pages 54–56 and 58**.

The Committee's terms of reference, which are reviewed annually, are available on the Company's website at **www.landsecurities.com**

# ACCOUNTABILITY

**Structure and operations**
The Audit Committee's structure and operations, including its delegated responsibilities and authority, are governed by terms of reference which are reviewed annually and approved by the Board.

To maintain effective communication between all relevant parties, and in support of its activities, the Company Chairman, Chief Executive, Chief Financial Officer, Director of Risk Management and Internal Audit, the partner and representatives of the Company's external auditor, Ernst & Young LLP (EY), and other members of the senior finance team regularly attend Committee meetings.

All Non-executive Directors are invited to attend meetings when the Group's external valuer, CBRE, makes property valuation presentations. The Committee as a whole has private sessions with the internal and external audit teams. In addition, the Committee Chairman has private and informal sessions with them and the valuer to ensure open lines of communication exist in case they wish to raise any concerns outside of formal meetings.

Whilst the Committee members collectively have the financial, commercial and property expertise to provide oversight of both financial and risk matters, and to advise the Board accordingly, Kevin O'Byrne is the member determined by the Board as having recent and relevant financial experience for the purposes of satisfying the UK Corporate Governance Code (Code).

The Committee works to a structured programme of activities and meetings to coincide with key events around the Company's financial calendar. Following each meeting, the Committee Chairman reports on the main discussion points and findings to the Board.

**Audit Committee activity**
The key areas of Committee activity during the year included the planning, monitoring, reviewing and approving of the following:

**Financial reporting**
- the quality and appropriateness of the half-yearly and full year financial statements
- the information, underlying assumptions and stress test analysis presented in support of Going Concern and the Viability Statement
- the consistency and appropriateness of the financial control and reporting environment
- the dividend policy and the payment of dividends, with due regard to the Company's REIT status and the change in the Government's income tax treatment of dividends
- the fair, balanced and understandable assessment of the Annual Report (and half-yearly statement).

**External audit**
- the scope of the external audit plan
- the independence and objectivity of EY
- the quality and effectiveness of EY's audit services
- the level of fees paid to EY in accordance with the policy for the provision of non-audit services
- EY's reappointment to office as external auditor.

**Risk management and internal control**
- the scope of the internal control and risk management programme
- the results of internal audit reviews and the progress made against agreed management actions
- quarterly reports on investigated internal control issues significant to the Group
- quarterly reports on the Group's risk register, including significant and emerging risks
- compliance by management concerning the operation of the business for which they are responsible
- the adequacy and effectiveness of the Group's internal control and risk management systems.

**Internal audit**
- the scope of the internal audit plan
- the independence, appropriateness and effectiveness of internal audit.

**External property valuation**
- the oversight of a competitive tender process for the appointment of the external valuer of the Group's property portfolio, and the selection and appointment of CBRE, in place of the previous incumbents
- the quality and appropriateness of the half year and full year external valuation of the Group's property portfolio
- the independence and effectiveness of the external valuer.

**Other**
- the Committee's terms of reference and its performance effectiveness
- compliance with the Code and the Group's regulatory and legislative environment.

**Significant financial matters**
During the year, the Committee considered the appropriateness of significant financial matters made in connection with the financial statements as set out on pages 66 and 68.

**External auditor**
EY, as the external auditor, is engaged to conduct a statutory audit and express an opinion on the Company's and the Group's financial statements. Their audit includes a review and test of the systems of internal control and data contained in the financial statements to the extent necessary to express an audit opinion on them.

**Effectiveness of the external audit**
Following the issue of the Company's Annual Report, the Director of Risk Management and Internal Audit conducts a performance evaluation and effectiveness review of the external audit. This is conducted against structured guidelines in consultation with the Executive Directors and members of the senior finance team and with due regard to the latest Audit Quality Inspection Report on EY issued by the Financial Reporting Council (FRC). This year's review will be further extended to include an audit quality assessment based on the new Practice Aid guidelines also issued by the FRC. The Committee Chairman meets privately with the audit engagement partner before the Committee considers the results of the review.

EY successfully completed their audit for the financial year. The Committee's preliminary view is that in line with the conclusions from last year's performance review, EY had again performed their audit services effectively, efficiently and to a high quality. Areas identified for development will be shared with them for inclusion in their audit and service delivery plans going forward.

**Audit plan**
In respect of the audit for the financial year under review, EY presented their proposed audit plan (prepared in consultation with senior management and the Director of Risk Management and Internal Audit) to the Committee for consideration and approval. The objective was to further build on EY's increased understanding of the business and ensure it remained aligned to the Group's structure. The audit plan was again risk and materiality focused, challenge based and designed to provide valuable insights beyond the audit.

### Objectivity and independence

The Committee is responsible for monitoring and reviewing the objectivity and independence of the external auditor. In undertaking its annual assessment, the Committee has reviewed:

- the confirmation from EY that they maintain appropriate internal safeguards in line with applicable professional standards
- the mitigation actions taken by the Company in seeking to safeguard EY's independent status, including the operation of policies designed to regulate the amount of non-audit services provided by EY and the employment of former EY employees
- the tenure of the audit engagement partner (not being greater than five years)
- the internal performance and effectiveness review of EY referred to above.

Taking the above review into account, the Committee concluded that EY remained objective and independent in their role as external auditor.

### Audit tendering

EY were first appointed to the office of auditor, following a competitive tender process, in respect of the 2013/14 financial year. Having undertaken such a process, the Company has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 (Article 7.1), published by the CMA on 26 September 2014.

Under current regulations, the Company will be required to retender the audit by no later than in respect of the 2023/24 financial year. However, the Committee proposes to review the situation at the same time as the current audit engagement partner is due to rotate which is in respect of the 2018/19 financial year. There are no contractual restrictions in relation to the Company's choice of external auditor.

On the recommendation of the Audit Committee, the Board is proposing a resolution at this year's Annual General Meeting that EY be reappointed to office for a further year.

### Non-audit services

To help safeguard EY's objectivity and independence, the Company operates a non-audit services policy which sets out the circumstances and financial limits within which they may be permitted to provide certain non-audit services (such as assurance work) on which they will not be required to provide an audit opinion. The Committee monitors compliance with the policy and, while some minor changes were made to it during the year for clarification purposes, the £25,000 threshold limit (above which any proposed non-audit services require prior approval from the Committee Chairman) remains unchanged. Committee approval is required for proposed non-audit services over £100,000.

Details of the £0.8m audit fees and £0.2m non-audit fees charged by EY during the year can be found in note 7 to the financial statements. No non-audit fees were approved or paid on a contingent basis.

### External valuations and valuers

The valuation of the Group's property portfolio, including properties held within the development programme and in joint ventures, is undertaken by independent external valuers. In September 2015, following a competitive tender process, CBRE was selected to value all of the Group's investment properties replacing Knight Frank as the principal valuer and Jones Lang LaSalle who had valued our X-Leisure properties. The valuation helps to determine a significant part of the Group's net asset value, reported performance and senior management remuneration. This is why the scrutiny of each valuation, and the valuer's independence, objectivity and effectiveness, represents such an important part of the Committee's work.

Valuations for the full and half year were reviewed and challenged by management and the Committee, with reference to CBRE's approach, methodology, valuation basis and underlying property and market assumptions. Other Non-executive Directors attended the final presentation. The Committee Chairman also met separately with CBRE.

Additionally, CBRE met with EY and exchanged information independently of management. EY has experienced chartered surveyors on its team who consider the valuers' qualifications and assess and challenge the valuation approach, assumptions and judgements made by them. Their audit procedures are targeted at addressing the risks in respect of the valuations and the potential for any undue management influence in arriving at them. This year, 30 properties (comprising 70% of the portfolio by valuation) were chosen for particular attention by EY's valuation experts on the basis of their value, type and geography. EY also performed site visits for a sample of assets including those under development and completed analytical and substantive reviews over the input data for the valuations, comparing this to market data. The Committee reviewed their findings.

An internal evaluation of CBRE's performance and effectiveness will be conducted after the year end (and annually thereafter) with the results reported on the following year.

A fixed-fee arrangement is in place with CBRE for the valuation of the Group's properties and given the importance of their work we have disclosed the fees paid to them in note 8 to the financial statements. The total valuation fees paid by the Company to CBRE during the year represented less than 5% of their total fee income for the year.

### Significant financial matters

The Committee reviewed two significant financial matters in connection with the financial statements, namely the valuation of the Group's property portfolio and revenue recognition. Further details are set out in table 23 on page 68.

These items were considered to be significant taking into account the level of materiality and the degree of judgement exercised by management and, in respect of the valuation, the external valuer. The Committee discussed these with both parties, as well as EY. In addition, the Committee considered, took action and made onward recommendations to the Board, as appropriate, in respect of other key matters including the new Viability Statement, the Going Concern basis on which the financial statements are prepared, accounting for property acquisitions and disposals, maintenance of the Group's REIT status and other specific areas of individual property and audit focus.

The Committee was satisfied that all issues had been fully and adequately addressed, that the judgements made were reasonable and appropriate and had been reviewed and debated with the external auditor who concurred with the approach taken by management.

### Risk management framework

The Board is responsible for determining both the nature and extent of the Group's risk management framework and the risk appetite that is acceptable in seeking to achieve its strategic objectives. The framework and the ongoing process in place for identifying, evaluating and managing the principal risks faced by the Group are described on pages 46–49. These are regularly reviewed by the Board.

Primary responsibility for operation of the Company's internal control and risk management systems, which extend to include financial, operational and compliance controls (and accord with the FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'), has been delegated to management. These systems have been designed to manage, rather than eliminate, the risk of failure to achieve the Group's business goals and can provide only reasonable, not absolute, assurance against material misstatement or loss.

### Internal control

The key elements of the Group's internal control are as follows:

- an established organisation structure with clear lines of responsibility, approval levels and delegated authorities
- a disciplined management and committee structure which facilitates regular performance review and decision-making
- a comprehensive strategic review and annual planning process
- a robust budgeting, forecasting and financial reporting process
- various policies, procedures and guidelines underpinning the development, asset management, financing and main operations of the business, together with professional services support including legal, human resources, information services, tax, company secretarial and health, safety and security
- a compliance certification process from management conducted in relation to the half-yearly and full year results, and business activities generally
- a quarterly self-certification by management confirming that key internal controls within their area of responsibility have been operating effectively
- a risk management and internal audit function whose work spans the whole Group
- a focused post-acquisition review and integration programme to ensure the Group's governance, procedures, standards and control environment are implemented effectively and timely
- a financial and property information management system.

### Risk management

Under the overall supervision of the Committee, there are several sub-committees and work groups that oversee and manage day-to-day risk within the business. The Group has a Director of Risk Management and Internal Audit (with a direct reporting line to the Audit Committee Chairman) who provides regular oversight of risk matters, evaluates emerging risks that may affect the business and monitors compliance to ensure that any mitigating actions are properly managed and completed. The Committee, in consultation with management, agrees the annual work plan (including any assistance that may be required from external specialists) of the risk management and internal audit function to ensure alignment with the needs of the business and compliance with its governance charter.

Additionally, the Committee receives and discusses on a quarterly basis:

- the Group's risk register, including significant and emerging risks, and how exposures have changed during the period
- summary reports and progress against agreed actions from internal audit on their review of the effectiveness of various elements of the internal control system maintained by the Group.

### Effectiveness

The Board has undertaken a robust assessment of the principal risks faced by the Group, including those that could threaten the business model, future performance, solvency or liquidity. Assisted by the Committee, the Board also reviewed the effectiveness of the systems of internal control and risk management in place throughout the year and up to the date of this report. This took into account the valuable assurance work undertaken by the risk management and internal audit function and the relevant process, controls and testing work undertaken by EY as part of their half year review and full year audit. No weaknesses or control failures significant to the Group were identified. Where areas for improvement were identified, new procedures have been introduced to strengthen the controls and will themselves be subject to regular review as part of the ongoing assurance process.

### Fair, balanced and understandable

The Committee applied this year the same due diligence approach adopted in previous years in order to assess one of the key Code requirements in respect of the Annual Report. This included the establishment of an editorial team who were responsible for preparing, compiling and verifying the content and, through regular review meetings with the Executive Directors, ensuring that consistent reporting and appropriate links existed between key messages and sections of the Annual Report. A specific paper was presented to the Committee (and the Board) to assist in its challenge and testing of a fair, balanced and understandable assessment.

Taking the above into account, together with the views expressed by EY, the Committee recommended, and in turn the Board confirmed, that the 2016 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position, performance, business model and strategy.

### Whistleblowing policy

The Committee reviews the Group's arrangements, incorporated within a specific policy, which allow employees to report concerns about suspected impropriety or wrongdoing (whether financial or otherwise) within the Group on a confidential basis, and anonymously if preferred. These include an independent third-party reporting facility comprising a telephone hotline and an online process. Any matters reported are investigated by the Company Secretary and escalated to the Committee, as appropriate. During the year, there were no whistleblowing incidents reported.

The Company runs a whistleblowing awareness campaign every year and the arrangements also form part of the induction programme for new employees.

It is intended that the policy and facilities will be extended to cover key suppliers and the requirements of the new legislation covering slavery and human trafficking reporting.

### Bribery and corruption policy

The Board has a zero tolerance policy for bribery and corruption of any sort. The Company, in operating the policy, gives regular training to staff on the procedures, highlighting areas of vulnerability. New employees are required to complete an online training module when they join. Our principal suppliers are required to have similar policies and practices in place within their own businesses.

Table 23

| SIGNIFICANT FINANCIAL MATTERS CONSIDERED | HOW THE COMMITTEE ADDRESSED THE MATTERS |
|---|---|
| **Valuation of the Group's property portfolio (including properties held within the development programme and in joint arrangements)**<br>The valuation of the Group's property portfolio is a major determinant of the Group's performance and drives an element of the variable remuneration for senior management. Although the portfolio valuation is conducted externally by an independent valuer, the nature of the valuation estimates is inherently subjective and requires the making of significant judgements and assumptions by management and the valuer.<br>Significant assumptions and judgements made by the valuer in determining valuations may include the appropriate yield (based on recent market evidence), changes to market rents (ERVs), what will occur at the end of each lease, the level of non-recoverable costs and alternative uses. Development valuations also include assumptions around costs to complete the development, the level of letting at completion, incentives, lease terms and the length of time space remains void. | The Group uses CBRE, a leading firm in the UK property market, as its principal valuer. They replaced Knight Frank and Jones Lang LaSalle in 2015 following a competitive tender.<br>The Audit Committee adopts a formal approach by which the valuation process, methodology, assumptions and outcomes are reviewed and robustly challenged. This includes separate review and scrutiny by management, the Committee Chairman and the Committee itself. It also includes EY as the external auditor who is assisted by its own specialist team of chartered surveyors who are familiar with the valuation approach and the UK property market.<br>EY met with CBRE separately from management and their remit extends to investigating and confirming that no undue influence has been exerted by management in relation to the external valuer arriving at their valuations.<br>CBRE submits its valuation report to the Committee as part of the half year and full year results process. They were asked to attend and present to the Board and to highlight any significant judgements made or disagreements which existed between themselves and management. There were none.<br>The valuer proposed changes to the values of our properties and developments during the year, which were discussed by the Committee in detail and accepted.<br>Based on the degree of oversight and challenge applied to the valuation process, the Committee concluded that the valuations had each been conducted appropriately, independently and in accordance with the valuer's professional standards. |
| **Revenue recognition**<br>Certain transactions require management to make judgements as to whether and to what extent they should be recognised as revenue in the year.<br>Revenue recognition is significant to the Group as there is a risk of overstatement or deferral of revenue (and revenue profit) to assist in meeting current or future market expectations and senior management performance incentive targets. | The Committee and EY considered the main areas of judgement exercised by management in accounting for matters related to revenue recognition, including timing and treatment of rents, incentives, surrender premia and other property related revenue.<br>EY reviewed and tested individual transactions on a sample basis to ensure there was a contractual relationship and consistency of accounting treatment between last year and this year.<br>In its assessment, the Committee, in consultation with EY, considered all relevant facts, challenged the recoverability of occupier incentives, the options that management had in terms of accounting treatment and the appropriateness of the judgements made by management. These matters had themselves been the subject of prior discussion between EY and management.<br>The Committee, having consulted with EY, concurred with the judgements made by management and were satisfied that the revenue reported for the year had been appropriately recognised. |

The above description of the significant financial matters should be read in conjunction with the Independent Auditor's Report on pages 91–94 and the significant accounting policies disclosed in note 1 to the financial statements on page 99.

Further details on critical accounting judgements and key estimations of uncertainty can be found in note 2 to the financial statements on **page 100**.

# GOVERNANCE IN ACTION

## BUILDING SUSTAINABLE RELATIONSHIPS IN OUR COMMUNITIES: WESTGATE OXFORD

The Westgate Oxford Alliance is a joint venture between the Company and The Crown Estate. Working closely with Oxford City Council and the Oxfordshire County Council, we are creating 804,500 sq ft of new retail, restaurant and leisure space in the heart of Oxford. Due to open in Autumn 2017, delivery of this £440m scheme is managed by Land Securities who provide development and project management, leasing, marketing, finance and asset management services to the Alliance.

Our vision for Westgate Oxford is to create 'a premium retail and leisure experience in tune with modern Oxford'. From conception through construction and through to opening, our Westgate Oxford team is working to ensure that a complex and high-profile development process is managed and governed to the high standards expected by the Board, with our strategic objectives addressed throughout.

**Working to improve sustainability performance**

We share with our partners an ambition to create the UK's most sustainable shopping centre. The sustainability vision for Westgate Oxford is to 'exceed local and national policy, embrace new techniques and technologies and enable a long-term sustainable retail heart for Oxford'. A 45 point implementation plan was created to guide the team, encompassing green building certification, socio-economic targets and innovative sustainable design solutions. The implementation process is unique, with external assurance provided by Oxford Brookes University who were engaged to ensure academic rigour in the design and procurement process.

**Creating jobs and opportunities**

We are working with our customers, the community and partners to ensure that local people have access to the opportunities created by the development. In addition to construction jobs, Westgate Oxford will provide around 3,000 new retail and service jobs when it opens. Our Community Employment Programme was agreed from the beginning with our contractors to ensure delivery of training, apprenticeships and job opportunities in Oxford to people from disadvantaged backgrounds. The programme has already proved a great success with 22 new jobs secured since it started in March 2015.

**Being part of local history**

Underneath the development were the remains of a medieval friary. We have funded exploratory works with Oxford Archaeology who have been on site since January 2015. Ben Ford, Project Director for Oxford Archaeology, commented that: "These are some of the best preserved and most extensive medieval remains I have seen in Oxford". During the past year we have welcomed more than 4,000 visitors to two archaeology open days and a pop-up museum. We intend to permanently celebrate the site's archaeological significance in the landscaping and public realm.

**Structured governance**

Given the scale, complexity and sensitivity of the Westgate Oxford scheme, it is vital that our governance processes are both comprehensive and responsive. The project management team reports regularly to the Westgate Executive Committee and the Alliance board meets quarterly to review development and strategic progress.

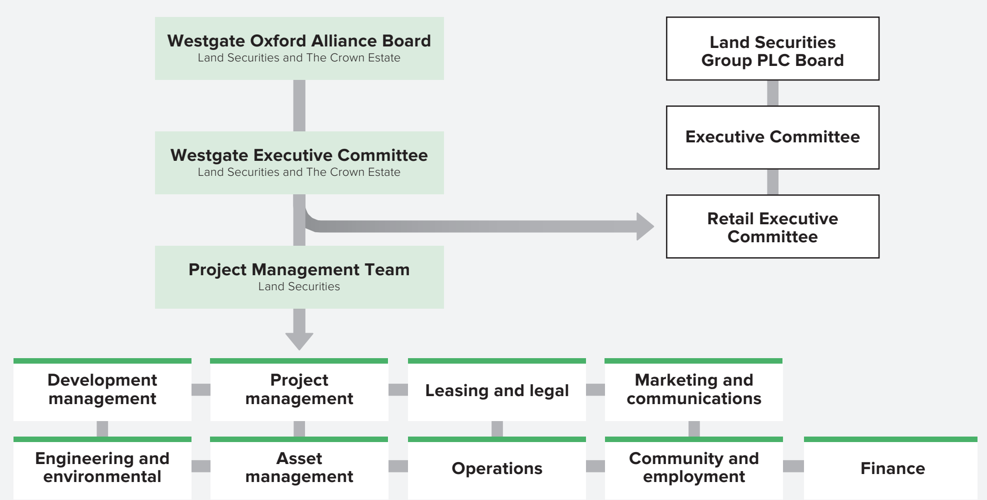
Each of the Alliance partners has its own control and governance structure for onward reporting and obtaining required authorities and approvals (see diagram below).

Recently, the Alliance acquired the neighbouring Castle Quarter site which complements the existing scheme and further reinforces our commitment to the City. The governance structure, together with the relationships established through the Westgate Oxford project, contributed to a smooth acquisition from initial prospect, through due diligence and negotiations, to the completed transaction.

**"WE HAVE FOUND THROUGHOUT THE PROJECT THAT THE LAND SECURITIES TEAM HAS ACTED IN AN OPEN AND TRANSPARENT MANNER, WORKING HARD TO ENSURE THAT THE INFORMATION WE HAVE AVAILABLE TO SUPPORT DECISION-MAKING IS OF THE HIGHEST QUALITY."**

**Hannah Milne,** Director of Regional Portfolio, The Crown Estate

### GOVERNANCE STRUCTURE



# GOVERNANCE IN ACTION

## SETTING STANDARDS: HEALTH, SAFETY AND SECURITY

The Board believes that the Company should lead the property and construction sectors on health, safety and security, and not leave it to others to define standards. The leadership team clearly sets out its high expectations, then encourages and helps employees and partners, including contractors, to achieve them. A strong governance framework underpins our approach.

The Board has delegated ongoing oversight of health, safety and security to the Chief Executive, Robert Noel. He chairs the Group Health, Safety and Security Committee, to which all sub-committees, teams and individuals report, and he includes updates in his regular reports to the Board. The Group Head of Health, Safety and Security, Clive Johnson, reports in person to the Board twice a year and quarterly to the Executive Committee and each of the London and Retail management teams. All of this work is supported by input from our continuous improvement groups, external specialists, insurance experts and an annual cycle of audits and inspections.

Getting our leaders out and about to spread the Company's message and see our policy in action is vitally important. Robert and Clive regularly attend construction sites as well as our property assets. Newly appointed Non-executive Directors must visit at least one site with Clive within six months of joining and all Non-executive Directors discuss health and safety matters on site visits.

### Health

In the UK construction industry, health has not been given the same high profile as safety, but it too is a critical area of concern and responsibility. In the 12 month period to 31 March 2015, there were 35 worker fatalities in the UK, and it is estimated that in the same period some 3,500 people who had worked in the UK construction industry died from occupational cancers. Clive chairs the industry's Construction Health Leadership Group and during the year it organised two groundbreaking events. The first brought together chief executives from across the sector with government and NHS officials to consider the main health issues which the industry faces. The second was a follow-up summit at which nominated experts from relevant businesses met to set and commit to shared health standards. We will continue to take a leadership role in this area.

### Safety

In June 2015, a construction worker for one of our contractors died whilst unpacking a glass cladding panel at our 20 Eastbourne Terrace, W2 development. We were deeply saddened by this news and our thoughts remain with the individual's family, friends and colleagues. Work was immediately suspended on site and we liaised with the construction management team, our contractors and relevant authorities to understand and address the cause of this tragic accident, which is still under investigation by the Health and Safety Executive. We have worked with our contractors to review material storage and handling on site, as a preliminary investigation found that this was a contributory factor. We have shared information and insights on the incident with all of our principal contractors and are now working with them to further enhance standards, particularly in relation to the packing of materials for transportation and site procedures.

### Security

From 1 April 2016 we have extended the remit of the Health and Safety Committee specifically to include Security. Again, we aim to take a leadership approach in tackling threats that may impact our customers, communities, partners and employees, such as terrorism, crime, cyber-crime and environmental issues. We have put in place an appropriate governance structure to help us deal with these important issues (see diagram below).

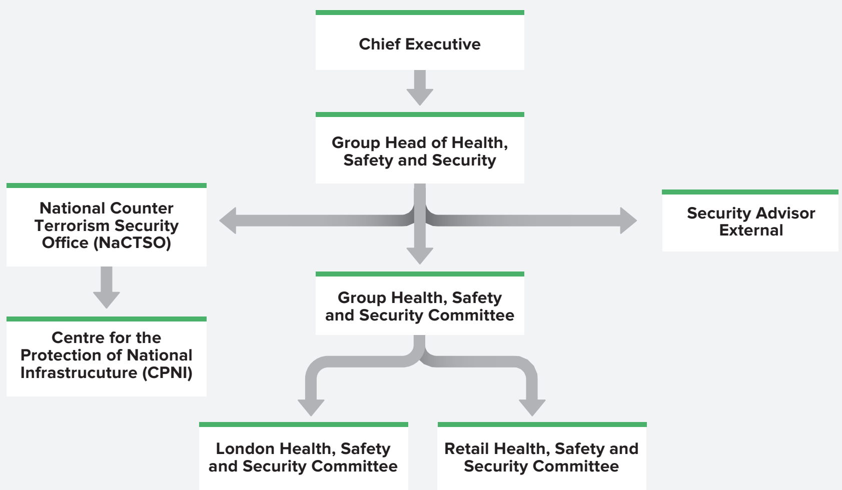
### Protection

The Modern Slavery Act came into force in October 2015. It requires all UK companies with a turnover of £36 million or more to report annually on its workforce and supply chain, specifically to confirm that workers are not enslaved or trafficked. We are carrying out due diligence to better understand the risks involved and will be setting out our compliance requirements and monitoring approach to contractors. We appreciate these issues can also affect smaller-scale but equally important partners who are not caught by the new legislation. So we will be helping them to meet our new standards and reporting requirements too – another example where leadership can enhance governance and at the same time protect reputation.

**"WHILE WORKING WITH LAND SECURITIES WE HAVE DEVELOPED AND SET NEW STANDARDS, NOT ONLY ON LAND SECURITIES' SITES BUT ACROSS OUR WHOLE BUSINESS AND THE CONSTRUCTION INDUSTRY. WE VALUE THEIR LEADERSHIP AND PARTNERING APPROACH."**

**Dylan Roberts,** Director of Health, Safety and Environment, Skanska

### SECURITY GOVERNANCE STRUCTURE



# RELATIONS WITH SHAREHOLDERS

**Approach to investor relations**
The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. The Chairman, supported by the Executive Directors, has overall responsibility for ensuring effective communication with shareholders.

The Company has a comprehensive investor relations programme (designed for institutional investors, private shareholders and debt investors) which aims to help existing and potential investors understand the Group's business strategy and performance. Shareholder feedback is provided to the Board to ensure that they understand the objectives and views of major investors.

During the year, the programme of investor events included:

**Institutional shareholders programme:**
**Meetings with principal shareholders**
— Meetings with the Executive Directors took place throughout the year
— The Chairman maintained contact with principal shareholders and kept the Board informed of their views. She will conduct her usual biennial roadshow of investor meetings in June and July this year with meetings planned for the UK and the Netherlands
— The geographic spread of the programme covered Europe, North America and the Far East
— The Senior Independent Director, and other Non-executive Directors, were available to meet with shareholders
— Institutional shareholders were invited to attend the Company's full year and half year results presentations.

**Investor conference**
— The investor conference is held annually and focuses on the Retail and London portfolios in alternate years. This year, the conference was held at Bluewater, Kent and focused on the Retail Portfolio with senior management presenting updates on all aspects of its business. This was followed by a tour of Bluewater and our neighbouring holdings at Ebbsfleet. The conference also provided an opportunity for attendees to meet the management teams in the business
— The presentations and an audio recording of the conference were made available on the corporate website to enable non-attendees to access the information provided.

**Investor tours and presentations**
— In addition to our annual investor conference, we hosted various presentations and tours of some of our major assets in the Retail and London portfolios. These tours were conducted at Bluewater, Kent, key properties in Victoria, SW1, New Street Square, EC4, New Ludgate, EC4 and 20 Fenchurch Street, EC3
— We conducted 16 sales team meetings during the year which provided the Executive Directors with the opportunity to present our strategy and performance directly to the sales teams of the major investment banks.

**Industry conferences**
— Industry conferences provide Executive Directors with a chance to meet a large number of investors on a formal and informal basis. Conferences attended this year included the UBS Global Property, JP Morgan and Bank of America, Merrill Lynch conferences in London, the Bank of America, Merrill Lynch conference in New York, the Kempen conferences in Amsterdam and New York and the EPRA Annual Conference in Berlin.

**Other initiatives**
— The Chairman and Chief Executive held a dinner for the senior heads of equities from UK institutions.

**Private shareholders' programme**
Private shareholders are encouraged to give feedback to and communicate with the Directors through the Company Secretary. During the year they were also able to meet Directors at the United Kingdom Shareholders' Association meeting, held annually at our head office, and at the Annual General Meeting.

**Debt investors programme**
**Credit side institutional investors and analysts**
— Our treasury team held meetings with credit side institutional investors and analysts after the half year and full year results.

**Banks**
— Regular dialogue is maintained with our key relationship Banks and Trustee, including at least bi-annual meetings with our treasury team and in-house dinners hosted by the Executive and Non-executive Directors
— Our treasury team also actively engaged with potential lenders.

**Credit rating agencies**
— During the year, updates and meetings were held by our treasury team and senior management with Standard & Poor's, Fitch ratings and Moody's
— Further information on our debt investors can be found at www.landsecurities.com/investors/debt-investors.

**Annual General Meeting (AGM)**
The 2015 AGM provided all shareholders with an opportunity to question the Board and the Chairmen of each Board Committee on matters put to the meeting, including the Annual Report. Shareholders who attended the AGM received a strategic progress update from the Chairman and a presentation from the Chief Executive on the business activities and performance of the Group over the preceding year. The results of voting at general meetings are published on the Company's website, www.landsecurities.com/investors/shareholder-investor-information/AGM-Annual-General-Meeting.

**Independent feedback on investor relations**
The Board usually receives independent feedback on investor relations from an external adviser on a biennial basis. The next comprehensive investor relations audit will be conducted in the 2016/17 financial year. The audit will review investor perceptions of the Company, its management, strategy, governance and the investor relations programme.

The investor relations department received feedback from analysts and investors during the year through the Group's corporate advisers. The department was recognised for its performance and service by winning a number of prestigious awards, including various Thomson Reuters Extel 2015 awards.

The Company Secretary also received feedback on governance matters directly from investors and shareholder bodies. The information was shared with the Board to help members develop their understanding of shareholders' needs and expectations.

**Other disclosures**
Other disclosures required by paragraph 7.2.6 of the Disclosure and Transparency Rules and the Companies Act 2006 are set out in the Directors' Report on pages 86–88.

The Governance report was approved by the Board on 16 May 2016.

On behalf of the Board

**Tim Ashby**
Group General Counsel and Company Secretary

# DIRECTORS' REMUNERATION REPORT – CHAIRMAN OF THE REMUNERATION COMMITTEE'S ANNUAL STATEMENT

## COMMITTEE MEMBERS

- Simon Palley (Chairman)*
- Dame Alison Carnwath
- Chris Bartram* (to 23 July 2015)
- Edward Bonham Carter*
- Cressida Hogg CBE* (from 23 July 2015)

* Independent Non-executive Director

## "THE MAIN FOCUS OF SENIOR MANAGEMENT IS ON ENSURING THAT LAND SECURITIES IS IN THE STRONGEST POSSIBLE POSITION IN THE FACE OF UNCERTAINTY."

**Simon Palley,** Chairman, Remuneration Committee

**Dear Shareholder,**
I am pleased to introduce the Directors' Remuneration Report for 2015/16.

Last year's revisions to our remuneration arrangements, most notably the changes to our Long-Term Incentive Plan (LTIP) for Executive Directors, were approved by 99% of shareholders in July following extensive consultation. Since then, the remainder of 2015/16 has been a more routine year for the Remuneration Committee. Within the business, we have seen consistently high levels of activity across all areas of the portfolio as we complete the leasing of our well timed London development programme and the transformation of our Retail Portfolio. The results for the year are strong, although our share price has been impacted by wider economic and political uncertainty.

The majority of our performance targets are relative, aiming to achieve a higher Total Shareholder Return (TSR) and Total Property Return (TPR) than both our listed peers and other investors operating in our market. This means that in a year where profits are low or losses are recorded, the outturns for variable pay can be high where outperformance has been significant. It also means that in a year when profits are high, but we have underperformed our benchmarks, the outturns from our variable pay can be low.

This was one of those years. Despite the good results and the exceptionally strong financial position of the Company, there is a low pay-out from the LTIP this year. TSR performance over three years was below the benchmark. Whilst we are confident that we are making the right decisions to deliver superior returns for shareholders through the property cycle, we believe that our prudent approach to the completion of speculative developments in London, and lower gearing, have been perceived as more defensive in nature than that of our peers. This may have had an impact on the relative performance of our share price versus others in our sector. At the property level, our TPR over three years has marginally outperformed the benchmark.

This year's bonus, which is determined by our performance against stretching targets for TPR, revenue profit and specific business objectives, reflects a good year for the Group, but is lower than last year's outturn, which followed exceptionally strong results.

You will notice that the Report is laid out slightly differently this year. The Directors' Remuneration Policy, approved by shareholders last year and not due to be revisited until 2018, is now contained in the Additional Information section at the back of the Annual Report on pages 161–164. For ease of reference, a summary of the proposed implementation of the Policy for 2016/17 is included in the Annual Report on Remuneration which follows directly on from my Statement. We have also slightly re-ordered the Annual Report on Remuneration so that the key information of most interest to shareholders (for example the 'single number' remuneration table), is immediately visible at the beginning of that Report.

### Remuneration outcomes for the year

The annual bonus for the year was above target for Executive Directors, but fell short of last year's exceptional performance. The performance can be summarised as follows:

— Our TPR measure changed this year to the new, broader and unweighted IPD benchmark of all March-valued properties. This data was not available at the time of writing, and therefore has been estimated for the purposes of this Report, using the IPD Quarterly Universe. We expect a modest outperformance of the benchmark, resulting in 36% of the maximum of this element of the bonus plan being paid. This can be regarded as a creditable performance in very competitive conditions. No payment of bonuses will be made before the final data is published, and the actual performance will be confirmed in next year's Report.

— The revenue profit performance was very strong, against an increased target. This has reflected increased rents, lower interest costs, and strong ongoing discipline around the management of costs and voids. This element of the bonus plan paid out in full.

— Performance against the specific business objectives was also strong. Again, the letting of the new office developments in London was a particular highlight, and the majority of the planning and development milestones were met, with the only key exception being a slight delay at Nova, Victoria. Residential sales were more challenging, reflecting the slowdown in this market, and the stretching pre-letting targets for Oxford were narrowly missed, despite a very healthy pipeline of commitment from retailers 18 months from opening. Our decision to review the planned extension of Buchanan Galleries in Glasgow also impacted the achievement of short-term objectives. In all, 60% of the maximum payment for this element was awarded.

— When combined with the strong performance of both Executive Directors against their individual objectives, the total estimated bonus for the year is 101.2% of base salary, or 67.5% of the maximum for both Robert Noel and Martin Greenslade.

Turning to the LTIP vesting this year (in respect of awards granted in 2013) which reflects performance over the three years to 31 March 2016, the outturn has been low:

— Our TSR of 40.8% underperformed the bespoke index of property companies (representing a range of sub-sectors), which returned 45.3% over the period. This was mainly driven by the global market uncertainty impacting the most liquid, larger stocks over the last six months of the period. Accordingly, none of this element of the awards will vest.

— Our TPR was 15.9% per annum over the period, marginally outperforming the sector weighted IPD Quarterly Universe. As a result, 26.2% of this element of the awards will vest.

— In total, 13.1% of the 2013 awards will vest.

In summary, the variable pay outcomes reflect the relative performance of the business and, specifically, its comparatively more defensive approach to market uncertainty, rather than its underlying health.

### Looking forward

Whilst the short-term impact on remuneration is clear, the main focus of senior management is on ensuring that Land Securities is in the strongest possible position in the face of uncertainty, and is able to capitalise on the opportunities that may arise. This approach is fully supported by the Board.

**Simon Palley**
Chairman, Remuneration Committee

Details of member appointments and biographies, and full attendance at Committee meetings held during the year, appear on **pages 54–56 and 58**, respectively.

The Committee's terms of reference are available on the Company's website at **www.landsecurities.com**

# ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration describes how the Directors' Remuneration Policy (the Policy), approved by shareholders at the Annual General Meeting in July 2015, has been applied in the financial year ended 31 March 2016, and how it will be applied in the financial year commenced 1 April 2016. The Policy is set out in full in the Additional Information section on pages 161–164.

During the course of the year, the Remuneration Committee was engaged in a number of key matters, including:

- Determining salary increases for the Executive Directors and Executive Committee members, together with the overall level of salary increases for employees across the Group
- Setting and subsequently reviewing the outcomes for corporate, business unit and personal targets under the annual bonus scheme for Executive Directors and Executive Committee members
- Reviewing and determining the outturns against the performance conditions, and subsequent vesting outcome, of awards granted under the Long-Term Incentive Plan (LTIP) and Matching Share Plan (MSP) in 2013
- Determining the annual level of LTIP and/or MSP grants to Executive Directors, Executive Committee members and senior management
- Monitoring Directors' compliance with the Company's share ownership guidelines.

**DATES OF APPOINTMENT FOR DIRECTORS** (Unaudited) Table 24

| Name | Date of appointment | Date of contract |
|---|---|---|
| **Executive Directors** | | |
| Robert Noel | 1 January 2010 | 23 January 2012 |
| Martin Greenslade | 1 September 2005 | 9 May 2013 |
| **Non-executive Directors** | | |
| Dame Alison Carnwath | 1 September 2004 | 13 May 2015 |
| Kevin O'Byrne | 1 April 2008 | 13 May 2015 |
| Chris Bartram | 1 August 2009 | 13 May 2015 |
| Simon Palley | 1 August 2010 | 13 May 2015 |
| Stacey Rauch | 1 January 2012 | 13 May 2015 |
| Edward Bonham Carter | 1 January 2014 | 13 May 2015 |
| Cressida Hogg CBE | 1 January 2014 | 13 May 2015 |

## 1. Remuneration outcomes for Directors during the year

In this section, we explain the pay outcomes for Directors in relation to the financial year ended 31 March 2016. Table 25 shows the payments we expect to make and then tables 27 and 28 give more detail on how we have measured the performance outcomes with respect to the annual bonus and LTIP in the context of value created for shareholders.

### 1.1 Directors' emoluments (Audited)

The basis of disclosure in the table below is on an 'accruals' basis. This means that the annual bonus column includes the amount that will be paid in June 2016 in connection with performance achieved in the financial year ended 31 March 2016.

It should be noted that the annual bonus figure has been estimated for the purposes of the tables, as final data on the Company's Total Property Return versus the peer group using the new benchmark (all March-valued properties) will not be available until after the date of this Report's publication. The estimate has been derived from the most up-to-date performance information available, and any payment made will be based on the final performance data when received and verified.

The values shown for the 2013 LTIP awards vesting for the three year performance period ended 31 March 2016 are based on achievement against the relative performance measures and calculated using the average share price for the quarter then ended. The actual share price is not known at the time of writing as the awards do not formally vest until July 2016.

**SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (£000)** (Audited) Table 25

| | Basic salary and fees[1] | | Benefits[2] | | Pension allowance[3] | | Annual bonus paid in cash | | Annual bonus deferred into shares | | Total emoluments | | Long-term incentives vested[4] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 | 2015/16 | 2014/15 |
| Robert Noel | 754 | 711 | 23 | 20 | 189 | 178 | 377 | 355 | 386 | 653 | 1,729 | 1,917 | 316 | 2,859 | 2,045 | 4,776 |
| Martin Greenslade | 491 | 481 | 20 | 19 | 123 | 120 | 245 | 241 | 251 | 441 | 1,131 | 1,302 | 214 | 1,934 | 1,344 | 3,235 |

1. Basic salary is stated as a per annum figure based on current salary. Actual salaries in the year were £746,487 (Robert Noel) and £488,946 (Martin Greenslade).
2. Benefits consist of a car allowance, private medical insurance, income protection and life assurance premiums.
3. The pension allowance shown is a cash emolument of 25% of base salary.
4. The long-term incentives for 2015/16 have been calculated using a share price of £10.67 (which is the three month average to 31 March 2016). The long-term incentives vesting in 2014/15 were estimated in last year's report, so have been adjusted to reflect actual values. The impact of the adjustment was £91,000 for Robert Noel and £61,000 for Martin Greenslade.

## SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (£000)

(Audited) Table 26

| | Basic salary and fees | | Benefits | | Pension allowance | | Annual bonus paid in cash | | Annual bonus deferred into shares | | Total emoluments | | Long-term incentives vested | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Non-executive Directors** | **2015/16** | **2014/15** | **2015/16** | **2014/15** | **2015/16** | **2014/15** | **2015/16** | **2014/15** | **2015/16** | **2014/15** | **2015/16** | **2014/15** | **2015/16** | **2014/15** | **2015/16** | **2014/15** |
| Dame Alison Carnwath | 350 | 350 | – | – | – | – | – | – | – | – | 350 | 350 | – | – | 350 | 350 |
| Kevin O'Byrne | 95 | 95 | – | – | – | – | – | – | – | – | 95 | 95 | – | – | 95 | 95 |
| Chris Bartram | 67.5 | 67.5 | – | – | – | – | – | – | – | – | 67.5 | 67.5 | – | – | 67.5 | 67.5 |
| Simon Palley | 80 | 80 | – | – | – | – | – | – | – | – | 80 | 80 | – | – | 80 | 80 |
| Stacey Rauch | 67.5 | 67.5 | – | – | – | – | – | – | – | – | 67.5 | 67.5 | – | – | 67.5 | 67.5 |
| Edward Bonham Carter | 67.5 | 67.5 | – | – | – | – | – | – | – | – | 67.5 | 67.5 | – | – | 67.5 | 67.5 |
| Cressida Hogg CBE | 67.5 | 67.5 | – | – | – | – | – | – | – | – | 67.5 | 67.5 | – | – | 67.5 | 67.5 |

### 1.2 Annual bonus outturn

In the year under review, each Executive Director had the potential to receive a maximum annual bonus of up to 150% of base salary. Of this, 130% was dependent on meeting Group targets and 20% dependent on meeting personal targets. All targets were set at the beginning of the year. The following table confirms the targets and their respective outcomes. The on-target bonus expectation is 75% of salary.

## ANNUAL BONUS OUTTURN

Table 27

| Target | Percentage of base salary (maximum) | Assessment | Percentage of base salary awarded |
|---|---|---|---|
| Total Property Return – the Group's ungeared Total Property Return (TPR) relative to an IPD benchmark comprising all March-valued properties. Total benchmark value c. £150bn. | 39.0 | — The Land Securities Total Property Return[1] for the year was 11.7%, outperforming the estimated IPD benchmark by 0.3%. Therefore, 36.0% of the maximum for this element is likely to be paid. | 14.0 |
| Share in long-term real growth in Group revenue profit. | 39.0 | — Revenue profit for the year (£362.1m) significantly exceeded both the threshold level of £315m and the cap. Therefore, this element paid out in full. | 39.0 |
| **Key business targets** | | | |
| Development lettings – specific targets were set for both the London and Retail portfolios, with a focus on the London developments and the Oxford and Glasgow shopping centres. Net effective, rather than headline, rents were used as the key measure of performance. | 23.4 | — The outturn is calculated on the basis of a threshold target of £27.4m and a maximum of £42.9m<br>— London targets were achieved in full, but Retail lettings did not achieve target, driven predominantly by the decision to put the Buchanan Galleries extension on hold<br>— This element of the bonus paid out at 56% of the maximum. | 13.0 |
| Residential sales – specific targets were set for the Victoria residential developments. | 2.6 | — The outturn is calculated on the basis of a threshold of £60m. Achievement is calculated on a straight line basis from threshold to the maximum of £110m<br>— The Group secured relevant sales of £20.6m, which was below threshold<br>— This element of the bonus therefore was not paid. | 0.0 |
| Disposals – specific London and Retail assets were identified for sale over the course of the year. The relevant book values were used as the basis for setting targets. | 5.2 | — The threshold was £500m of specific sales at 95% of book value, rising to 105% of book value for maximum achievement. Specific disposals of £583.3m at 103.5% of book value were achieved<br>— This element of the bonus therefore paid out at 85% of the maximum. | 4.4 |
| Project milestones – specific planning and delivery milestones were set for projects in both London and Retail. | 10.4 | — For the planning milestones, the threshold was four out of six, rising to six out of six for maximum payment. Five milestones were achieved<br>— For the delivery milestones, the threshold was achievement on time and on budget for all developments, with delivery ahead of time and budget necessary for maximum payment. Five out of eight milestones were achieved on time and budget, with a further two broadly on budget but with slight delays to the planned completion date<br>— This element of the bonus therefore paid out at 33% of maximum. | 3.4 |
| Management of the secured lending pool – the target was to further increase flexibility, introducing a category for Leisure assets and increasing the permitted concentration limit for Offices. | 2.6 | — This was achieved in December 2015 with the introduction of a Leisure and Hotels category and an increase of the limit for Offices<br>— This element of the bonus therefore paid out in full. | 2.6 |
| People – embed the new purpose, vision and values and take a leadership position in gender and ethnic diversity across the sector. | 2.6 | — The new purpose, vision and values were communicated in two stages between June and December 2015 and have been well received<br>— An integrated plan around diversity has been launched, including the establishment of a sector-wide working group led by Land Securities<br>— This element of the bonus therefore paid out in full. | 2.6 |
| Delivery of enhanced Health and Safety training across the Group. | 2.6 | — The threshold target was 100% of mandatory training and 80% of desirable training within six months of joining. For maximum payment, the requirement was 100% of both levels of training<br>— 100% of mandatory training, and 98% of desirable training was delivered to all existing employees and to new employees within six months of joining<br>— This element of the bonus therefore paid out in full. | 2.6 |
| Community Employment Programme – a target was set to secure permanent employment for 175 candidates on the Community Employment Programme. | 2.6 | — Employment was secured for 164 candidates on the London programme and 22 candidates on the Retail programme. A further five school leaver trainees were recruited, and 10 positions were also secured as a result of the partnership with Mencap<br>— This element of the bonus therefore paid out in full. | 2.6 |
| | **130.0** | **Total Group elements** | **84.2** |

1. The outturn is adjusted to take account of the performance of trading properties and the capital and income extracted from Queen Anne's Gate, SW1, through a bond issue in 2009.

**ANNUAL BONUS OUTTURN CONTINUED** Table 27

| Target | Percentage of base salary (maximum) | Assessment | Percentage of base salary awarded |
|---|---|---|---|
| **Executive Director's personal targets** | | | |
| Each Executive Director received a number of personal targets, which included:<br>— Improvements to the valuations process<br>— A review of Internal Audit and Risk Management<br>— Identification and development of leadership successors<br>— Embedding of the purpose, vision and values<br>— Demonstrating leadership in sustainability. | 20.0 | Each Executive Director was scored by the Remuneration Committee on the basis of objectively measurable targets set at the beginning of the year. The outturn was as follows:<br>— Robert Noel<br>— Martin Greenslade. | <br><br><br>17.0<br>17.0 |
| **Total** | **150.0** | **Robert Noel**<br>**Martin Greenslade** | **101.2**<br>**101.2** |

### 1.3 Long-Term Incentive Plan and Matching Share Plan outturns

The table below summarises how we have assessed our LTIP performance achievement over the three years to 31 March 2016. Awards granted in 2013 under the LTIP for this period are subject to performance conditions that measure and compare the Group's relative performance against its peers in terms of Total Property Return (TPR) and Total Shareholder Return (TSR), with each measure representing 50% of the total award. Please see table 39 on page 80 for more detail on how vesting levels are determined.

The performance calculation for awards granted in 2013 and vesting in 2016 are illustrated below:

**LONG-TERM INCENTIVE AND MATCHING SHARE PLAN OUTTURNS** (Unaudited) Table 28

| Target | Percentage of base salary (maximum) | Assessment | Outturn Percentage of maximum |
|---|---|---|---|
| Ungeared Total Property Return | 75 + 75 (maximum shares pledged) | Land Securities' Total Property Return[1] per annum over the three year period was 15.9%, compared with the performance of the sector-weighted IPD Quarterly Universe index of 15.8%. Therefore, 13.1% of the total award (maximum 50%) vests. | 13.1 |
| Total Shareholder Return | 75 + 75 (maximum shares pledged) | Land Securities' Total Shareholder Return over the three year period was 40.8% versus that of the comparator group (see below) which was 45.3%. As this return was below the benchmark, this portion of the total award (maximum 50%) does not vest. | 0.0 |

1. The outturn is adjusted to take account of the performance of trading properties and the capital and income extracted from Queen Anne's Gate, SW1, through a bond issued in 2009.

In total, therefore, 13.1% of the awards made in 2013, will vest in July 2016.

For awards granted in 2014, the Group's performance over the two years to 31 March 2016 would, if sustained over the three year period to 31 March 2017, result in 47.7% of the LTIP share awards vesting. For awards granted in 2015, performance over the one year period to 31 March 2016 would, if sustained over the second and third years of the period to 31 March 2018, result in 21.4% of the LTIP share awards vesting.

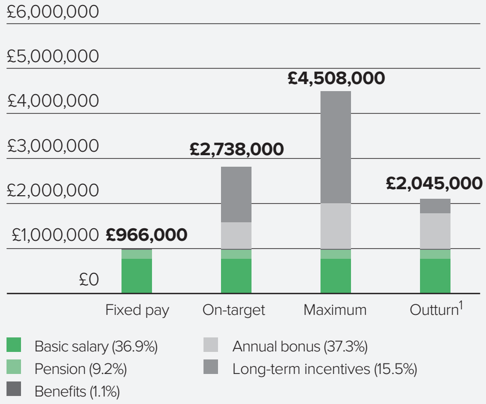
**TOTAL SHAREHOLDER RETURN – COMPARATOR GROUPS** Table 29

| Name | Year of award 2013 | 2014 | 2015 | 2016[1] |
|---|---|---|---|---|
| Assura PLC | | | | ✓ |
| Big Yellow Group PLC | ✓ | ✓ | ✓ | ✓ |
| Capital & Counties Properties PLC | ✓ | ✓ | ✓ | ✓ |
| CLS Holdings | | | ✓ | ✓ |
| Daejan Holdings PLC | ✓ | ✓ | ✓ | ✓ |
| Derwent London PLC | ✓ | ✓ | ✓ | ✓ |
| F&C Commercial Property Trust Limited | ✓ | ✓ | ✓ | ✓ |
| Grainger PLC | ✓ | ✓ | ✓ | ✓ |
| Great Portland Estates PLC | ✓ | ✓ | ✓ | ✓ |
| Hammerson PLC | ✓ | ✓ | ✓ | ✓ |
| Hansteen Holdings PLC | ✓ | ✓ | ✓ | ✓ |
| Intu Properties plc | ✓ | ✓ | ✓ | ✓ |
| Kennedy Wilson Europe PLC | | | ✓ | ✓ |
| Londonmetric Property Plc | ✓ | ✓ | ✓ | ✓ |
| Redefine International REIT PLC | | | ✓ | ✓ |
| Safestore Holdings PLC | | | | ✓ |
| Segro PLC | ✓ | ✓ | ✓ | ✓ |
| Shaftesbury PLC | ✓ | ✓ | ✓ | ✓ |
| St Modwen Properties PLC | ✓ | ✓ | ✓ | ✓ |
| The British Land Company PLC | ✓ | ✓ | ✓ | ✓ |
| Tritax Big Box REIT PLC | | | | ✓ |
| UK Commercial Property Trust Limited | ✓ | ✓ | ✓ | ✓ |
| UNITE Group PLC | ✓ | ✓ | ✓ | ✓ |
| Workspace Group PLC | ✓ | ✓ | ✓ | ✓ |

1. As proposed to apply for awards to be made this year under the LTIP.

### 1.4 Individual outcomes by Executive Director versus target and maximum

**ROBERT NOEL**
CHIEF EXECUTIVE
Chart 30



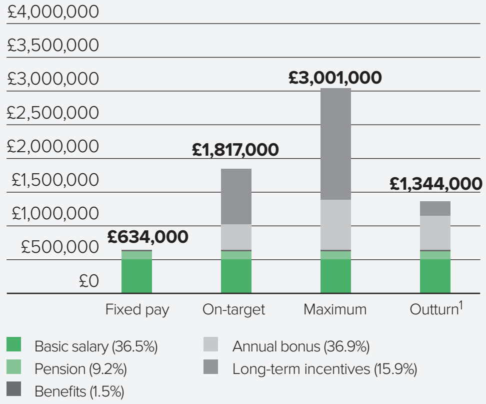

1. Percentages are of the actual.

(Unaudited) Table 31

| Element of pay | Maximum potential (£000) | Percentage of maximum achieved (%) | Outturn (£000) |
|---|---|---|---|
| Base salary | 754 | n/a | 754 |
| Pension | 189 | n/a | 189 |
| Benefits | 23 | n/a | 23 |
| Annual bonus[1] | | | |
| – Group element | 980 | 64.8 | 635 |
| – Individual element | 151 | 85.0 | 128 |
| Long-term incentives[2] | 2,411 | 13.1 | 316 |
| **Total** | **4,508** | | **2,045** |

1. £376,798 of the annual bonus will be deferred into shares for one year, and £9,345 for two years.
2. Value calculated on basis of the £10.67 average share price for the three month period to 31 March 2016.

**MARTIN GREENSLADE**
CHIEF FINANCIAL OFFICER
Chart 32




1. Percentages are of the actual.

(Unaudited) Table 33

| Element of pay | Maximum potential (£000) | Percentage of maximum achieved (%) | Outturn (£000) |
|---|---|---|---|
| Base salary | 491 | n/a | 491 |
| Pension | 123 | n/a | 123 |
| Benefits | 20 | n/a | 20 |
| Annual bonus[1] | | | |
| – Group element | 638 | 64.8 | 413 |
| – Individual element | 98 | 85.0 | 83 |
| Long-term incentives[2] | 1,631 | 13.1 | 214 |
| **Total** | **3,001** | | **1,344** |

1. £245,275 of the annual bonus will be deferred into shares for one year, and £6,083 for two years.
2. Value calculated on basis of the £10.67 average share price for the three month period to 31 March 2016.

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## 2. Directors' interests (Audited)

### 2.1 Total shareholding

Details of the Directors' interests, including those of their immediate families and connected persons, in the issued share capital of the Company at the beginning and end of the year are set out in the table below. It also shows the value of each Directors' interest compared to the required holding value under the Company's share ownership guidelines.

**DIRECTORS' SHARES** (Audited) Table 34

| Name | Salary £ | Required holding value £ | Holding (ordinary shares) 1 April 2015 | Holding (ordinary shares) 31 March 2016 | Net deferred bonus shares (after income tax and NI) | Value of holding £[1] |
|---|---|---|---|---|---|---|
| Robert Noel[2] | 753,596 | 1,883,990 | 223,167 | 260,508 | 56,505 | 2,868,193 |
| Martin Greenslade[3] | 490,549 | 981,098 | 358,228 | 386,233 | 37,767 | 4,252,425 |
| Dame Alison Carnwath[4] | 350,000 | 350,000 | 143,890 | 147,005 | | 1,619,076 |
| Kevin O'Byrne[4] | 95,000 | 95,000 | 11,552 | 11,552 | | 127,188 |
| Chris Bartram[4] | 67,500 | 67,500 | 11,478 | 14,478 | | 159,403 |
| Simon Palley[4] | 80,000 | 80,000 | 17,061 | 17,061 | | 187,842 |
| Stacey Rauch[4] | 67,500 | 67,500 | 8,000 | 8,000 | | 88,080 |
| Edward Bonham Carter[4] | 67,500 | 67,500 | 10,000 | 10,000 | | 110,100 |
| Cressida Hogg[4] | 67,500 | 67,500 | 10,000 | 10,000 | | 110,100 |

1. Using the closing share price of £11.01 on 31 March 2016. Holding excludes deferred bonus shares.
2. Requirement for the Chief Executive to own shares with a value of 2.5 x base salary within five years of appointment.
3. Requirement for other Executive Directors to own shares with a value of 2.0 x base salary within five years of appointment.
4. Requirement for Non-executive Directors to own shares with a value of 1.0 x their annual fee within three years of appointment.

### 2.2 Outstanding share awards held by Executive Directors (Audited)

The table below shows the LTIP share awards granted and the LTIP and MSP awards vested during the year to the Executive Directors, together with the outstanding and unvested LTIP and MSP share awards at the year end. From 2015, MSP awards for Executive Directors have been discontinued.

**OUTSTANDING LTIP AND SMP SHARE AWARDS AND THOSE WHICH VESTED DURING THE YEAR** (Audited) Table 35

| | | Performance Period to 31 March | Award date | Market price at award date (p) | Shares awarded | Shares vested | Market price at date of vesting (p) | Vesting date |
|---|---|---|---|---|---|---|---|---|
| Robert Noel | LTIP shares | 2015 | 27/07/2012 | 777 | 131,274 | 111,189 | 1,282 | 27/07/2015 |
| | | 2016 | 08/07/2013 | 921 | 112,964 | | | 08/07/2016 |
| | | 2017 | 01/07/2014 | 1,039 | 102,638 | | | 01/07/2017 |
| | | 2018 | 10/08/2015 | 1,335 | 170,240 | | | 10/08/2018 |
| | Matching shares | 2015 | 27/07/2012 | 781 | 130,600 | 110,618 | 1,282 | 27/07/2015 |
| | | 2016 | 08/07/2013 | 921 | 112,964 | | | 08/07/2016 |
| | | 2017 | 01/07/2014 | 1,039 | 102,638 | | | 01/07/2017 |
| Martin Greenslade | LTIP shares | 2015 | 27/07/2012 | 777 | 88,803 | 75,216 | 1,282 | 27/07/2015 |
| | | 2016 | 08/07/2013 | 921 | 76,416 | | | 08/07/2016 |
| | | 2017 | 01/07/2014 | 1,039 | 69,431 | | | 01/07/2017 |
| | | 2018 | 10/08/2015 | 1,335 | 110,816 | | | 10/08/2018 |
| | Matching shares | 2015 | 27/07/2012 | 781 | 88,348 | 74,830 | 1,282 | 27/07/2015 |
| | | 2016 | 08/07/2013 | 921 | 76,416 | | | 08/07/2016 |
| | | 2017 | 01/07/2014 | 1,039 | 69,431 | | | 01/07/2017 |

### 2.3 Directors' options over ordinary shares (Audited)

The options over shares set out below for Martin Greenslade relate to the Company's Savings Related Share Option Scheme. The Scheme is open to all qualifying employees (including Executive Directors) and under HMRC rules does not include performance conditions.

(Audited) Table 36

| | Number of shares under option at 1 April 2015 | Number of shares over which option granted in year to 31 March 2016 | Option exercise price per share | Number of shares exercised | Share price at date of exercise | (Audited) Market value at date of exercise | Number of shares under option at 31 March 2016 | Normal exercise period |
|---|---|---|---|---|---|---|---|---|
| Martin Greenslade | 1,559 | | 577p | 1,559 | 1,218p | £18,988 | – | – |
| | 1,060 | | 848.5p | – | | – | 1,060 | 01/08/2017–31/01/2018 |
| | | 878 | 1,024p | | | | 878 | 01/08/2018–31/01/2019 |

## 3. Directors' Remuneration for 2016/17

### 3.1 Executive Directors' base salaries

Last year, the Committee undertook a peer group benchmarking exercise in respect of the salaries payable to the Chief Executive and Chief Financial Officer. The benchmarking analysis was conducted in consultation with the Committee's independent remuneration advisers, New Bridge Street, and resulted in a total increase of 6% (including an inflationary increase) for Robert Noel's salary, reflecting three years of strong performance in the role. This recommendation formed part of the new remuneration arrangements upon which we consulted with shareholders in 2015. After reviewing the data for the Chief Financial Officer, the Committee concluded that no additional increase was necessary for Martin Greenslade, and that he should receive an inflationary uplift of 2% to his base salary.

As anticipated, the Committee concluded that no benchmarking exercise was necessary this year and has awarded both Executive Directors a base salary increase of 2%. This is in line with the average increase received by employees across the Group, excluding promotions and exceptional increases.

Accordingly, the following salary increases will take effect from 1 June 2016:

**EXECUTIVE DIRECTORS** (Unaudited) Table 37

| Name | Current (£000) | From 1 June 2016 (£000) | % increase | Average % increase over five years (including 2016/17) |
|---|---|---|---|---|
| Robert Noel | 754 | 769 | 2.0 | 3.3[1] |
| Martin Greenslade | 491 | 500 | 2.0 | 3.0 |

1. Average increase over four years, to reflect his tenure as Chief Executive.

### 3.2 Non-executive Directors' fees

In December 2015, and following a market benchmarking review (last conducted in September 2013), the Board increased the fees for Non-executive Directors as shown in the table below. In reaching its decision, the Board took into account data from several published surveys and insights on trends in non-executive pay provided by our independent remuneration advisors and other external providers. We believe that these market competitive rates will enable Land Securities to continue to attract Non-executive Directors of the highest calibre, and recognise the significant time commitment given. As stated in the Policy, the next review of Non-executive Director fees is likely to take place in two to three years' time.

**NON-EXECUTIVE DIRECTOR FEES** Table 38

| | Previous (£000) | From 1 April 2016 (£000) | % increase | Equivalent average annual % increase |
|---|---|---|---|---|
| Chairman | 350.0 | 375.0 | 7.1 | 2.8 |
| Non-executive Director | 67.5 | 70.0 | 3.7 | 1.5 |
| Audit Committee Chairman | 17.5 | 20.0 | 14.3 | 5.7 |
| Remuneration Committee Chairman | 12.5 | 15.0 | 20.0* | 3.1 |
| Senior Independent Director | 10.0 | 10.0 | – | – |

*The fee for the Chairman of the Remuneration Committee had not previously been increased since October 2009.

### 3.3 Performance targets for the coming year

**PERFORMANCE TARGETS FOR THE COMING YEAR** (Unaudited) Table 39

| Metric | Link to strategy and value for shareholders | Performance measure | Performance range |
|---|---|---|---|
| **Long-Term Incentive Plan (LTIP)** | | | |
| — Total Shareholder Return (50.0% of overall award). | — Rewards our outperformance of the returns generated by our listed company peers<br>— Encourages efficient use of capital through good sector allocation and appropriate gearing<br>— Based on a market capitalisation of £8.7bn, 3% per annum outperformance over three years would generate approximately £0.8bn of value for shareholders over and above that which would have been received had we performed in line with our comparator group of property companies within the FTSE 350 Real Estate Index. | Measured over a period of three financial years:<br>— The Group's total shareholder return (TSR) relative to an index based on a comparator group comprising all of the property companies within the FTSE 350 Real Estate Index weighted by market capitalisation (except Land Securities)<br>— 10% of the overall award vests for matching the index, and 50% of the overall award for outperforming it by 3% per annum. Vesting is on a straight line basis between the two. | Threshold: Matching the performance of the index<br>Target: Outperformance of the index by 1.3% per annum<br>Maximum: 3% or more per annum outperformance of the index for maximum vesting. |
| — Ungeared Total Property Return (50.0% of overall award). | — Rewards sustained outperformance by our portfolio compared with the industry's commercial property benchmark<br>— Incentivises increasing capital values and rental income<br>— Capital value growth is reflected in an increased net asset value, which is the measure with the strongest correlation to share price<br>— On the basis of a portfolio with a value of £14.5bn, 1% per annum outperformance over three years generates approximately £0.4m of value over and above that which would have been received had the portfolio performed in line with the benchmark. | Measured over a period of three financial years:<br>— The Group's ungeared Total Property Return (TPR) relative to an IPD benchmark comprising all March-valued properties. Total benchmark value c. £150bn<br>— 10% of the overall award vests for matching the benchmark and 50% of the overall award vesting where we outperform the benchmark by 1% per annum. Vesting is on a straight line basis between the two. | Threshold: Matching the performance of the benchmark<br>Target: Outperformance of the benchmark by 0.4% per annum<br>Maximum: Outperformance of the benchmark by 1% or more per annum. |
| **Annual bonus** | | | |
| — Ungeared Total Property Return (26.0% of award, or 39.0% of salary). | — Rewards annual outperformance by our portfolio compared with the industry's commercial property benchmark<br>— Incentivises increasing capital values and rental income<br>— Capital value growth is reflected in an increased net asset value, which is the measure with the strongest correlation to share price<br>— On the basis of a portfolio with a value of £14.5bn, 2% outperformance would generate approximately £0.3m of return over and above the returns of commercial property within our sectors. | — The Group's ungeared Total Property Return (TPR) relative to an IPD benchmark comprising all March-valued properties. Total benchmark value c. £150bn<br>— 6% of the overall award for matching the benchmark and 26% of the overall award for outperforming the benchmark by 2%. Payment is on a straight line basis between the two. | Threshold: Matching the performance of the benchmark<br>Target: Outperformance of the benchmark by 0.7% for the year<br>Maximum: Outperformance of the benchmark by 2% for the year for the maximum award. |
| — Absolute growth in revenue profit (26.0% of award, or 39.0% of salary). | — Encourages above inflation growth in income profits, year-on-year, on the basis of a new three year plan set in 2015<br>— Adjustment for significant net investment/disinvestment gives a like-for-like view of performance<br>— Encourages sustainable dividend growth and cover over the medium-term. | — Once the Group has met a threshold level on revenue profit, a portion (5%) of the excess is contributed to the bonus pool for the Group. This will be capped at 26% of the overall award. | Will be confirmed in 2017 Report. |

## 3.3 Performance targets for the coming year continued

**PERFORMANCE TARGETS FOR THE COMING YEAR** (Unaudited) Table 39

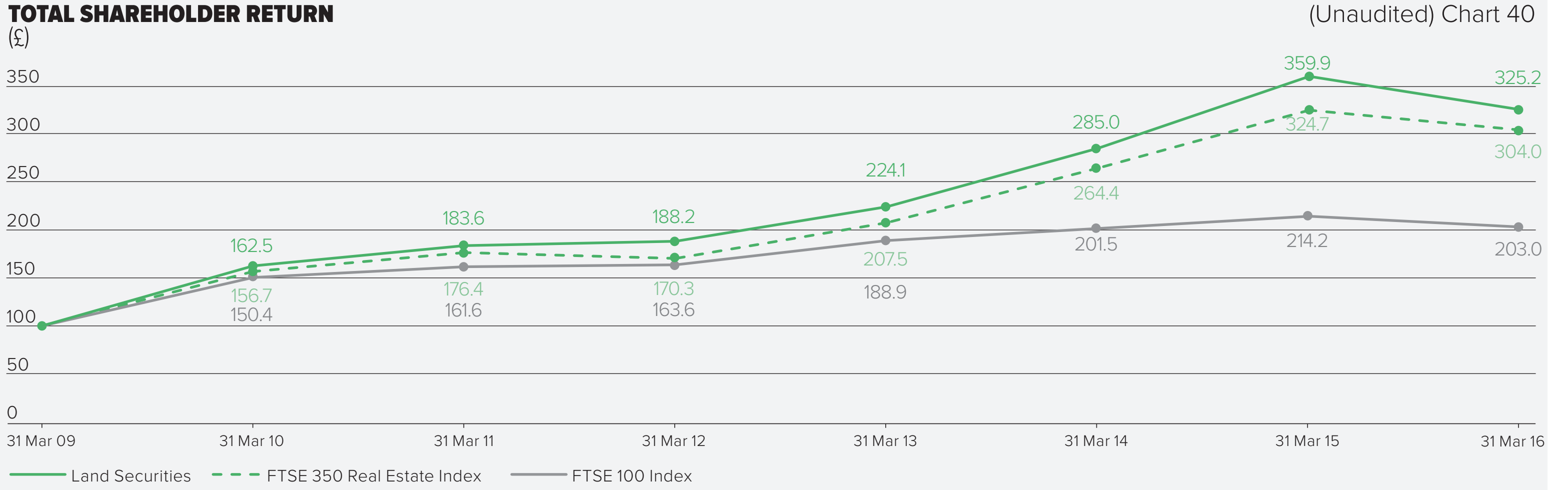
| Metric | Link to strategy and value for shareholders | Performance measure | Performance range |
|---|---|---|---|
| **Annual Bonus – specific business targets** | | | |
| — Development lettings (12.2% of award, or 18% of salary). | — A key driver of income and revenue profit in the future<br>— Proves the value of the development and drives capital growth. | — Specific threshold and stretch targets have been set for both the London and Retail business units. | Will be confirmed in 2017 Report. |
| — London residential sales (2.8% of award, or 4.3% of salary). | — Reflects the important contribution of our residential pipeline in London. | — Specific targets have been set for individual assets in London. | Will be confirmed in 2017 Report. |
| — Project budgets (4.2% of award, or 6.2% of salary). | — Ensures that momentum is maintained behind the delivery of key projects critical to the delivery of shareholder value. | — Specific budgetary targets have been set for individual assets in both London and Retail. | Will be confirmed in 2017 Report. |
| — Customer focus (5.3% of award, or 7.9% of salary). | — Ensures that the needs of customers, both current and future, are at the heart of our culture, ways of working, and decision-making. | — Delivery of a new customer focus training programme<br>— Delivery of external customer engagement programme<br>— Customer satisfaction scores in London and Retail. | Will be confirmed in 2017 Report. |
| — Further development of the culture of Land Securities by embedding new ways of working through the office move. (3.5% of award, or 5.2% of salary). | — Allows us to attract and retain the best possible talent for the future. | — Specific targets have been set around the embedding of the purpose, vision and values and the delivery of the office move to Victoria. | Improvement in specific engagement survey scores. |
| — Completion of new sustainability training programme and creation of site specific energy reduction assessments. (3.5% of award, or 5.2% of salary). | — Demonstrates a clear commitment to sustainability at corporate level, and a pragmatic approach to reducing our environmental impact at a local level. | — A specific target has been set around mandatory sustainability training for all employees<br>— Stretching targets have been put in place for the creation of plans and identification of energy reduction initiatives at our largest sites. | Threshold: 95% completion of online training and energy reduction plans in place for all sites where we have operational control<br>Target: Face to face training commenced and approval gained for energy reduction measures at 50% of our largest sites<br>Maximum: Requests for masterclass training received and approval gained for energy reduction measures at 70% of our largest sites. |
| — Community Employment Programme (3.5% of award, or 5.2% of salary). | — A key way in which Land Securities can deliver on its commitment to the communities in which it operates, and create a sustainable future by building a skilled workforce. | — A target has been set around securing permanent employment for an increased number of candidates via our Community Employment Programme and Land Securities' Trainee Academy. | Threshold: A further 156 candidates into employment<br>Target: A further 173 candidates into employment<br>Maximum: A further 191 candidates into employment. |
| — Individual targets for Executive Directors (13.0% of award, or 20.0% of salary). | — Ensures that each Director focuses on his individual contribution in the broadest sense, aligned with, but not limited to, specific business targets<br>— Encourages a focus on personal development. | — A mix of short-term individual goals set at the beginning of the year. | Will be confirmed in 2017 report. |

**4. Comparison of Chief Executive pay to Total Shareholder Return**

The following graph illustrates the performance of the Company measured by Total Shareholder Return (share price growth plus dividends paid) against a 'broad equity market index' over a period of seven years. As the Company is a constituent of the FTSE 350 Real Estate Index, this is considered to be the most appropriate benchmark for the purposes of the graph. An additional line to illustrate the Company's performance compared with the FTSE 100 Index over the previous seven years is also included.

Below this chart is a table showing how the 'single number' of total remuneration for the Chief Executive has moved over the same period. It should be noted that Robert Noel became Chief Executive in March 2012.

**TOTAL SHAREHOLDER RETURN** (Unaudited) Chart 40




This graph shows the value, by 31 March 2016, of £100 invested in Land Securities Group PLC on 31 March 2009 compared with the value of £100 invested in the FTSE 350 Real Estate Index or the FTSE 100 Index over the same period. The other points plotted are the values at intervening financial year-ends.

Source: Thomson Reuters

**CHIEF EXECUTIVE REMUNERATION OVER SEVEN YEARS** (Unaudited) Table 41

| Year | Chief Executive Officer | Single figure of total remuneration (£000) | Annual bonus award against maximum opportunity[1] (%) | Long-term incentive vesting against amount awarded (%) |
|---|---|---|---|---|
| 2016 | Robert Noel | 2,045 | 67.5 | 13.1 |
| 2015 | Robert Noel | 4,776 | 94.5 | 84.7 |
| 2014 | Robert Noel | 2,274 | 71.0 | 62.5 |
| 2013 | Robert Noel | 2,678 | 86.0 | 76.1 |
| 2012 | Francis Salway | 2,769 | 24.0 | 85.9 |
| 2011 | Francis Salway | 1,798 | 39.0 | 27.5 |
| 2010 | Francis Salway | 1,694 | 34.0 | 50.0 |

1. Under the policy covering the years 2010–2012 shown in the table, bonus arrangements for Executive Directors comprised three elements: an annual bonus with a maximum potential of 100% of basic salary, a discretionary bonus with a maximum potential of 50% of basic salary and an additional bonus with a maximum potential of 200% of salary. The first two elements were subject to an overall aggregate cap of 130% of basic salary, with the overall amount of the three elements capped at 300% of basic salary.
2012: 73.4% of the maximum opportunity was awarded under annual bonus with no awards made under the discretionary bonus or additional bonus.
2011: 94.5% of the maximum opportunity was awarded under the annual bonus, discretionary bonus of 60% of the maximum opportunity with no awards made under the additional bonus.
2010: 77% of the maximum opportunity was awarded under the annual bonus, discretionary bonus of 50% of the maximum opportunity with no awards made under the additional bonus.

## 5. The context of pay in Land Securities

### 5.1 Pay across the Group

*a. Senior Management*

During the year under review, bonuses (including discretionary bonuses) for our 18 most senior employees (excluding the Executive Directors) ranged from 40.1% to 114.2% of salary (2015: 40.0% to 166.0%). The average bonus was 67.0% of salary (2015: 71.0%). The LTIP and MSP awards made to Senior Management vested on the same basis as the awards made to Executive Directors.

*b. All other employees*

The average pay increase for all employees, including the Executive Directors, was 2.0%. Including salary adjustments and promotions for employees below the Board, this rose to 2.5%. The ratio of the salary of the Chief Executive to the average salary across the Group (excluding Directors) was 13:1 (£753,596:£58,540).

(Unaudited) Table 42

| % change | Salary % | Benefits | Bonus % |
|---|---|---|---|
| Chief Executive | +2.0 | No change | (32.1) |
| Average employee | +2.5 | No change | (19.0) |

### 5.2 The relative importance of spend on pay

The table below shows the total spend on pay for all Land Securities employees, compared with our returns to shareholders in the form of dividends:

(Unaudited) Table 43

| Metric | March 2016 (£m) | March 2015 (£m) | % change |
|---|---|---|---|
| Spend on pay[1] | **55.5** | 58.1 | (4.5) |
| Dividend paid[2] | **255.6** | 247.0 | 3.5 |

1. Including base salaries for all employees, bonus and share based payments.
2. See note 12 to the financial statements.

## 6. Dilution

Awards granted under the Company's long-term incentive arrangements, which cover those made under the LTIP, MSP, Deferred Share Bonus Plan and the Executive Share Option Plan, are satisfied through the funding of an Employee Benefit Trust (administered by an external trustee) which acquires existing Land Securities shares in the market. The Employee Benefit Trust held 1,143,892 shares at 31 March 2016.

The exercise of share options under the Savings Related Share Option Scheme, which is open to all employees who have completed more than one month's service with the Group, is satisfied by the allotment of newly issued shares. At 31 March 2016, the total number of shares which could be allotted under this Scheme was 406,021 shares, which represents significantly less than 1% of the issued share capital of the Company.

## 7. Remuneration Committee meetings

The Committee met three times over the course of the year, and all of the members attended all meetings. Simon Palley chaired the Committee, and the other members during the year were Dame Alison Carnwath, Edward Bonham Carter, Cressida Hogg CBE and Chris Bartram. Ms Hogg replaced Mr Bartram as a member of the Committee from 23 July 2015. The Committee meetings were also attended by the Group Chief Executive, the Group Human Resources Director, and the Group General Counsel and Company Secretary who acted as the Committee's Secretary.

Over the course of the year, the Committee received advice on remuneration and ancillary legal matters from New Bridge Street, a trading name of AON plc. It has also made use of various published surveys to help determine appropriate remuneration levels and relied on information and advice provided by the Group General Counsel and Company Secretary and the Group Human Resources Director. New Bridge Street has voluntarily signed up to the Remuneration Consultants Group Code of Conduct. The Committee is satisfied that the advice it receives is independent and objective. Aside from some support in benchmarking roles below the Board for pay review purposes, New Bridge Street has no other connection with the Group. For the financial year under review, New Bridge Street received fees of £64,945 in connection with its work for the Committee.

## 8. Results of the voting on the Directors' Remuneration Report at the AGM in 2015

The votes cast on the resolutions seeking approval in respect of the Directors' Remuneration Report at the Company's 2015 AGM were as follows:

Table 44

| Resolution | % of votes For | % of votes Against | Number of votes withheld[1] |
|---|---|---|---|
| To approve the Policy Report forming the first part of the Directors' Remuneration Report for the year ended 31 March 2015 | 98.8 | 1.2 | 813,574 |
| To approve the Annual Report on Remuneration forming the second and final part of the Directors' Remuneration Report for the year ended 31 March 2015 | 98.8 | 1.2 | 877,162 |

1. A vote withheld is not a vote at law.

# SUMMARY OF DIRECTORS' REMUNERATION POLICY

**1. Approach to Policy**

After extensive consultation with shareholders some revisions were made to the Company's long-term incentive arrangements last year. The Directors' Remuneration Policy (the Policy) for Executive and Non-executive Directors was then put to a binding shareholder vote at the Annual General Meeting (AGM) on 23 July 2015, and received a 99% vote in favour. It therefore took formal effect from that date, replacing the previous policy approved by shareholders at the 2014 AGM. Unless any further changes are proposed, the Policy set out in the Additional Information section of this Annual Report will remain in force for a further two years, until the 2018 AGM. A summary statement on the planned application of the Policy in 2016 is shown in table 45 below.

The Remuneration Committee's primary objective when setting the Policy is to provide competitive pay arrangements which promote the long-term success of the Company. To achieve this, the Committee takes account of the responsibilities, experience, performance and contribution of the individual, as well as levels of remuneration for individuals in comparable roles elsewhere. The Committee also takes into account the views expressed by shareholders and institutional investors' best practice expectations, and monitors developments in remuneration trends. The Policy places significant emphasis on the need to achieve stretching and rigorously applied performance targets, with a significant proportion of remuneration weighted towards performance-linked variable pay.

The Committee operates within the Policy at all times. It also operates the various incentive plans and schemes according to their respective rules and consistent with normal market practice, the UK Corporate Governance Code and, as applicable, the Listing Rules. Within the Policy, the Committee will retain the discretion to look at performance 'in the round', including withholding or deferring payments in certain circumstances where the outcomes for Directors are clearly misaligned with the outcomes for shareholders. Any specific circumstances which necessitate the use of discretion will always be explained clearly in the following year's Annual Report on Remuneration. No such discretion was exercised by the Committee during the year under review.

The Policy set out in the Additional Information section on pages 161–164 provides more detail on the discretion reserved to the Committee for each element of the remuneration package.

**2. Application of the Policy in 2016**

Table 45

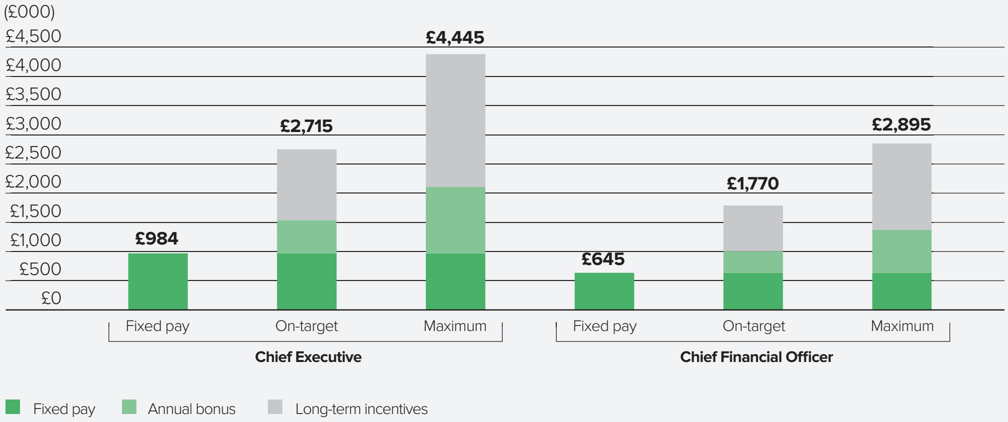
| Policy element | Application in 2016 |
|---|---|
| **Base salary**<br>Details on p79 | The increase in current salaries for the Executive Directors will be 2%, slightly below with the average pay increase for employees across the Group in 2016. Therefore, the new annual gross salaries will be £768,668 for Robert Noel, and £500,360 for Martin Greenslade. These will be effective from 1 June 2016. |
| **Benefits**<br>Details on p161 | No changes to the current benefit arrangements (which mainly covers annual holiday entitlement, car allowance, life assurance, private medical cover and income protection insurance) are proposed during the year. |
| **Pension**<br>Details on p161 | The 25% of base salary (gross) payment to each Executive Director by way of annual pension contribution will continue. |
| **Annual bonus**<br>Details on p80–81 | The maximum bonus potential for the Executive Directors will remain at 150% of salary. No changes are proposed to the weighting of the elements of the plan which remain at:<br>— 26% based on the Company's Total Property Return performance versus that of the market<br>— 26% based on the Company's revenue profit performance<br>— 35% based on delivery of specific business objectives for the year<br>— 13% based on the delivery of individual targets. |
| **Long-Term Incentive Plan awards (and Matching Share Plan awards) for 2016 vesting**<br>Details on p80 | The value of this year's Long-Term Incentive Plan (LTIP) award to the Executive Directors will not exceed the current individual limit of 300% of salary.<br>Outstanding LTIP and Matching Share Plan awards granted in 2013 will vest later in 2016 subject to the performance conditions set at the time and the plan rules under which they were granted. |
| **Savings Related Share Option Scheme**<br>Details on p163 | The Executive Directors, and all other eligible employees, will be entitled to participate in the Company's Savings Related Share Option Scheme (which is operated in line with current UK HMRC guidelines). |
| **Share Ownership Guidelines**<br>Details on p163 | The existing share ownership levels (i.e. 250% of salary for the Chief Executive and 200% of salary for the Chief Financial Officer) will continue to apply. |
| **Executive Director Recruitment and Termination Provisions**<br>Details on p164 | Recruitment and termination activity is not envisaged during the year; however should this occur, the Policy will apply as stated. |
| **Service Agreements and Letters of Appointment**<br>Details on p164 | No new Service Agreements, or variations to existing ones, are envisaged during the year; however, if this is necessary, the Policy will apply as stated.<br>Any new Non-executive Director joining the Board will be contracted under a Letter of Appointment as per the Policy. |
| **Non-executive Director fees**<br>Details on p79 | In line with the Policy, the annual fees paid to Non-executive Directors were reviewed against market benchmarks in December 2015. Prior to that, they were last reviewed in 2013. The new annual fee of £375,000 for Dame Alison Carnwath as Chairman and the new annual base fee of £70,000 for Non-executive Directors have been in effect since 1 April 2016. Additional fees also apply for Committee chairmen. |

### 3. Fixed and variable pay reward scenarios

**Total opportunity at maximum and target levels**

The charts that follows illustrate the remuneration opportunity provided to each Executive Director at different levels of performance for the coming year.

**FIXED AND VARIABLE PAY REWARDS SCENARIOS** Chart 46




Fixed pay 22%; annual bonus 26%; and long-term incentives 52% (percentages are of the maximum).
Maximum value does not include share price movement between the date of grant and any vesting of long-term incentives.

In developing the above scenarios, the following assumptions have been made:

**FIXED AND VARIABLE PAY REWARD SCENARIOS** Table 47

| | | Base (£000) | Benefits (£000) | Pension (£000) | Total fixed (£000) |
|---|---|---|---|---|---|
| **Fixed pay** | – Consists of the latest base salary, benefits and pension allowances.<br>– Pension allowance calculated at 25% of new base salary. | | | | |
| | Robert Noel, Chief Executive | 769 | 23 | 192 | 984 |
| | Martin Greenslade, Chief Financial Officer | 500 | 20 | 125 | 645 |
| **On-target Award** | — Based on what a Director would receive if performance was in line with expectations:<br>— Annual bonus pays out at 50% of the maximum<br>— LTIP is assumed to vest at 50% of the total award. | | | | |
| **Maximum Award** | — Annual bonus pays out in full<br>— LTIP vests in full. | | | | |

### 4. Payment schedule

The following table illustrates in which financial years the various payments in the charts are actually made/released to Executive Directors. For illustration only the table assumes that the annual bonus payment is equivalent to at least 100% of salary.

**PAYMENT SCHEDULE** Table 48

| Financial year | Base Year | Base Year +1 | Base Year +2 | Base Year +3 | Base Year +5 |
|---|---|---|---|---|---|
| — Element of remuneration received. | — Base salary<br>— Benefits<br>— Pension. | — The annual bonus targets are measured and the first portion of the annual bonus (i.e. up to 50% of salary) is paid in cash. The remainder is paid in shares and deferred. | — The first deferred portion of the annual bonus (i.e. between 50% and 100% of salary) is released as shares. | — The final portion of the annual bonus (i.e. awards in excess of 100% of salary) is released as shares<br>— LTIP share awards vest but remain subject to a two year holding period. | — Holding period on LTIP shares ends. |
| | | Annual bonus (cash and deferred shares) and vested and unvested LTIP shares are subject to withholding and recovery provisions. | | | |

The Directors' Remuneration Report was approved by the Board of Directors on 16 May 2016 and signed on its behalf by:

**Simon Palley**
Chairman, Remuneration Committee

# DIRECTORS' REPORT

The Directors present their report and audited accounts for the year ended 31 March 2016.

## Additional disclosures

Other information that is relevant to this report, and which is also incorporated by reference, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4R, can be located as follows:

Table 49



| | |
|---|---|
| Likely future developments in the business | pages 14–15 |
| Employee engagement | page 45 |
| Going Concern and Viability Statement | page 50 |
| Governance | pages 52–85 |
| Capitalised interest | page 107 |
| Financial instruments | page 127 |
| Credit, market and liquidity risks | pages 128–130 |
| Related party transactions | pages 138–139 |
| Greenhouse gas emissions | pages 150–153 |



## Company status

Land Securities Group PLC is a public limited liability company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:LAND) and is a constituent member of the FTSE 100 Index. The Company is a Real Estate Investment Trust (REIT). It is expected that the Company, which has no branches, will continue to operate as the holding company of the Group.

## Disclaimer

The purpose of this Annual Report is to provide information to the members of the Company and it has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors and employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

A cautionary statement in respect of forward-looking statements contained in this Annual Report appears on the inside back cover of this document.

## Results and dividends

The results for the year are set out in the financial statements on pages 95–142.

The Company has paid three quarterly interim dividends to shareholders for the year under review, each of 8.15p per ordinary share. These comprised two payments (totalling 16.30p) as a Property Income Distribution (PID) and one payment (8.15p) as a normal dividend (i.e. non-PID). The Board has recommended a final dividend for the year of 10.55p per ordinary share, payable wholly as a PID (net of withholding tax, where appropriate), making a total dividend for the year of 35.0p per share, representing an increase of 9.9% compared with the prior year. Subject to shareholders' approval, the final dividend will be paid on 28 July 2016 to shareholders on the register at the close of business on 24 June 2016.

The Board has also declared a first quarterly dividend in respect of the 2016/17 financial year of 8.95p per ordinary share, payable wholly as a PID (net of withholding tax, where appropriate), to be paid on 7 October 2016 to shareholders on the register at the close of business on 9 September 2016.

A Dividend Reinvestment Plan (DRIP) election is currently available in respect of all dividends paid by the Company.

## Events since the balance sheet date

There have been no material post-balance sheet events.

## Directors

The names and biographical details of the current Directors (all of whom held office throughout the year under review), and the Board Committees of which they are members, set out on pages 54 and 55.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-executive Directors are available for inspection at the Company's registered office. Brief details of these are also included in the Directors' Remuneration Report on pages 72–83.

### Appointment and removal of Directors

The appointment and replacement of Directors is governed by the Company's Articles of Association (Articles), the UK Corporate Governance Code (Code), the Companies Act 2006 (Act) and related legislation. The Board may appoint a Director either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the limit prescribed in the Articles. An appointed Director must retire and seek election to office at the next Annual General Meeting (AGM) of the Company. In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove any Director before the expiry of their period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act as a Director in their place. In line with the Code and the Board's policy, all Directors are required to stand for re-election at each AGM.

### Directors' powers

The Board manages the business of the Company under the powers set out in the Articles. These powers include the Directors' ability to issue or buy back shares. Shareholders' authority to empower the Directors to make market purchases of up to 10% of its own ordinary shares is sought at the AGM each year (see below). The Articles can only be amended, or new Articles adopted, by a resolution passed by shareholders in general meeting by at least three quarters of the votes cast.

### Directors' interests

Details of Directors' interests in the issued share capital of the Company (including those of their connected persons and those that derive from their employment), at the beginning and end of the year, are set out in the Directors' Remuneration Report on pages 72–83.

Save as disclosed in the Directors' Remuneration Report, none of the Directors, nor any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries. At no time during the year ended 31 March 2016 did any Director hold a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking other than the Executive Directors in relation to their Service Agreements.

### Directors' indemnities and insurance

The Company has agreed to indemnify each Director against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties. The indemnity applies only to the extent permitted by law. A copy of the deed of indemnity is available for inspection at the Company's registered office and will be available at the 2016 AGM. The Company has in place appropriate Directors & Officers Liability insurance cover in respect of potential legal action against its Directors.

### Share capital

The Company has a single class of share capital which is divided into ordinary shares of nominal value 10p each all ranking pari passu. No other securities have been issued by the Company. At 31 March 2016, there were 801,164,497 ordinary shares in issue and fully paid. Further details relating to share capital, including movements during the year, are set out in note 37 to the financial statements.

At the Company's AGM held on 23 July 2015, shareholders authorised the Company to make market purchases of ordinary shares representing up to 10% of its issued share capital at that time and to allot shares within certain limits approved by shareholders. These authorities will expire at the 2016 AGM (see below) and a renewal of that authority will be sought.

ACS HR Solutions Share Plan Services (Guernsey) Limited is a shareholder who acts as the trustee (Trustee) of the Company's off-shore discretionary Employee Benefit Trust (EBT). It is used to purchase Land Securities ordinary shares in the market from time to time for the benefit of employees, including for satisfying outstanding awards under the Company's various employee share plans. The EBT purchased a total of 1,500,009 shares in the market during the year for an aggregate consideration of £18.48m (including all dealing costs) and released 1,369,100 shares to satisfy vested share plan awards. At 31 March 2016, the EBT held 1,143,892 Land Securities shares in trust. A dividend waiver is in place from the Trustee in respect of all dividends payable by the Company on shares which it holds in trust. Further details regarding the EBT, and of shares issued pursuant to the Company's various employee share plans during the year, are set out in note 36 to the financial statements.

Save as disclosed above, the Company did not purchase any of its own shares during the year under review and no treasury shares were cancelled. Accordingly, the 10,495,131 ordinary shares held in Treasury at 31 March 2016 remained unchanged from those held at the beginning of the year.

### Substantial shareholders

As at 31 March 2016, the Company had been notified under the Disclosure and Transparency Rules (DTR 5) of the following holdings of voting rights in its issued share capital:

**SHAREHOLDERS HOLDING 3% OR MORE OF THE COMPANY'S ISSUED SHARE CAPITAL** Table 50

| Shareholder name | Number of ordinary shares | % of total voting rights attaching to issued share capital* |
|---|---|---|
| BlackRock Inc. | 72,444,546 | 9.2 |
| Norges Bank | 46,089,481 | 5.8 |
| APG Asset Management N.V. | 23,756,814 | 3.0 |

* Total voting rights attaching to the issued share capital of the Company comprised 790,671,850 ordinary shares.

The Company received no further DTR notifications, by way of change to the above information or otherwise, during the period from 1 April to 16 May 2016, being the period from the year end through to the date on which this report has been signed. Information provided to the Company under the DTR is publically available to view via the regulatory information service on the Company's website.

### Shareholder voting rights and restrictions on transfer of shares

All of the issued and outstanding ordinary shares of the Company have equal voting rights, with one vote per share. There are no special control rights attaching to them save that the control rights of ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various employee share plans. In relation to the EBT, the Trustee has agreed not to vote any shares held in the EBT at any general meeting. If any offer is made to all shareholders to acquire their shares in the Company the Trustee will not be obliged to accept or reject the offer in respect of any shares which are at the time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above, the Trustee may take such action with respect to the offer as it thinks fit.

The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or on voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company's ordinary shares, are set out in the Articles and in the explanatory notes that accompany the Notice of the 2016 AGM. These documents are available on the Company's website at www.landsecurities.com.

### Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover. None of these are considered significant. The Company's share plans contain provisions that take effect in such an event but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

### Human rights and equal opportunities

The Company operates a Human Rights Policy which aims to recognise and safeguard the human rights of all citizens in the business areas in which we operate. We support the principles set out within both the UN Universal Declaration of Human Rights (UDHR) and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. Our Policy is built on these foundations including, without limitation, the principles of equal opportunities, collective bargaining, freedom of association and protection from forced or child labour. The Policy will be extended to take account of the new Modern Slavery Act that came into force in October 2015 and which will require the Company to report annually on its workforce and supply chain, specifically to confirm that workers are not enslaved or trafficked. The Company's first slavery and human trafficking statement, relating to the financial year ended 31 March 2016, will be posted on the Company's website by no later than 30 September 2016.

Land Securities is an equal opportunities employer and our range of employment policies and guidelines reflects legal and employment requirements in the UK and safeguards the interests of employees, potential employees and other workers. We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement regardless of race, nationality, gender, age, marital status, sexual orientation, disability, religious or political beliefs. The Company recognises that it has clear obligations towards all its employees and the community at large to ensure that people with disabilities are afforded equal opportunities to enter employment and progress. The Company has therefore established procedures designed to provide fair consideration and selection of disabled applicants and to satisfy their training and career development needs. If an employee becomes disabled, wherever possible Land Securities takes steps to accommodate the disability by making adjustments to their existing employment, or by redeployment and providing appropriate retraining to enable continued employment in the Group.

Further information regarding the Company's practical safeguarding of human rights and promotion of equal opportunities is included as part of the Social review in the Strategic Report on pages 44–45.

**Political donations**
No political donations were made in the year (2014/15: nil).

**Auditor and disclosure of information to the auditor**
So far as the Directors are aware, there is no relevant audit information that has not been brought to the attention of the Company's auditor. Each Director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that such information was provided to the auditor.

A resolution to confirm the reappointment of Ernst & Young LLP as auditor of the Company will be proposed at the 2016 AGM. The confirmation has been recommended to the Board by the Audit Committee and EY has indicated its willingness to remain in office.

**2016 Annual General Meeting**
This year's AGM will be held at 11.00 am on Thursday, 21 July 2016 at the Park Plaza Victoria London, 239 Vauxhall Bridge Road, London SW1V 1EQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes in respect of the resolutions proposed, accompanies this Annual Report.

The Directors' Report was approved by the Board on 16 May 2016.

By Order of the Board

**Tim Ashby**
Group General Counsel and
Company Secretary

Land Securities Group PLC
Company No. 4369054

# FINANCIAL STATEMENTS

## INCOME STATEMENT

Earnings per share, Group revenue, costs and other important financial information.

For more information go to: **page 95**

## BALANCE SHEETS

The Group's balance sheets as at 31 March 2016.

For more information go to: **page 96**

## NOTES

Accounting policies, segmental information and other helpful guidance.

For more information go to: **pages 99–142**

**FINANCIAL STATEMENTS**

Our primary financial statements and supporting notes.

90 Statement of Directors' Responsibilities
91 Independent Auditor's Report
95 Income statement
95 Statement of comprehensive income
96 Balance sheets
97 Statements of changes in equity
98 Statement of cash flows
99 Notes to the financial statements

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors 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. Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit and loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state that the Group and Company has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and performance; and
- prepare the Group's and Company's financial statements on a Going Concern basis, unless it is inappropriate to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and to enable them to ensure that the Annual Report complies with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Directors' responsibility statement under the Disclosure and Transparency Rules**

Each of the Directors, whose names and functions are listed below, confirm that to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, performance and cash flows of the Company; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties faced by the Group and Company.

**Directors' statement under the UK Corporate Governance Code**

Each of the Directors confirm that to the best of their knowledge the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position, performance, business model and strategy.

A copy of the financial statements of the Group is placed on the Company's website. The Directors are responsible for the maintenance and integrity of statutory and audited information on the Company's website at www.landsecurities.com. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Land Securities Group PLC as at the date of this Annual Report are as set out below:

Dame Alison Carnwath, Chairman*
Robert Noel, Chief Executive
Martin Greenslade, Chief Financial Officer
Kevin O'Byrne, Senior Independent Director*
Chris Bartram*
Simon Palley*
Stacey Rauch*
Cressida Hogg CBE*
Edward Bonham Carter*

*Non-executive Directors

The Statement of Directors' Responsibilities was approved by the Board on 16 May 2016.

On behalf of the Board

**Robert Noel**
Chief Executive

**Martin Greenslade**
Chief Financial Officer

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF LAND SECURITIES GROUP PLC

### Our opinion on the financial statements

In our opinion:

- Land Securities Group PLC's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### What we have audited

Land Securities Group PLC's financial statements comprise:

| GROUP | PARENT COMPANY |
|---|---|
| Consolidated balance sheet as at 31 March 2016 | Balance sheet as at 31 March 2016 |
| Consolidated income statement for the year then ended | |
| Consolidated statement of comprehensive income for the year then ended | |
| Consolidated statement of changes in equity for the year then ended | Statement of changes in equity for the year then ended |
| Consolidated statement of cash flows for the year then ended | Statement of cash flows for the year then ended |
| Related notes 1 to 44 to the financial statements | Related notes 1 to 44 to the financial statements |

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the Parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

### Overview of our audit approach

| | |
|---|---|
| Risks of material misstatement | — The valuation of investment property (including properties within the development programme and investment properties held in joint ventures)<br>— Revenue recognition, including the timing of revenue recognition, the treatment of rents, incentives and recognition of trading property proceeds. |
| Audit scope | — The Group solely operates in the United Kingdom and operates through two segments, London and Retail, both of which were subject to the same audit scope. This included the Group audit team performing direct audit procedures on joint venture balances included within the Group financial statements. |
| Materiality | — Overall Group materiality of £62.0m which represents 0.5% of carrying value of investment properties line item in the Group balance sheet at 31 March 2016<br>— Specific materiality of £21.0m which represents 5% of adjusted profit before tax is applied to account balances not related to investment properties (either wholly owned or held within joint ventures). |

### Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

| RISK | OUR RESPONSE TO THE RISK | WHAT WE CONCLUDED TO THE AUDIT COMMITTEE |
|---|---|---|
| **The valuation of the investment property portfolio**<br>2016: £12,357.7m in investment properties and £1,629.9m (the Group's share) in investment properties held in joint ventures (2015: £12,158.0m in investment properties and £1,403.0m in investment properties held in joint ventures)<br>*Refer to the Accountability section of the Annual Report (pages 65–68); Accounting policies (pages 99–100); Note 15 of the Financial Statements (pages 113–116); and Note 16 of the Financial Statements (pages 117–121)*<br>The valuation of investment property (including properties within the development programme and investment properties held in joint ventures) requires significant judgement and estimates by management and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the income statement and balance sheet. | Our audit procedures around the valuation of investment property included:<br>We evaluated the Group's controls over data used in the valuation of the investment property portfolio and management's review of the valuations.<br>We evaluated the competence of the external valuers which included consideration of their qualifications and expertise.<br>We assessed the Group's change in external valuers during the year. We met with the new external valuer to discuss their valuation approach and the judgements they made in assessing the property valuation for the first time and we obtained an understanding of where the approach or assumptions differed from those used by the predecessor external valuers.<br>We performed testing over source documentation provided by the Group to the external valuers. This included agreeing a sample of this documentation back to underlying lease data and vouching costs incurred to date data provided in respect of development properties. We also assessed the reasonableness of the costs to complete information in respect of properties in the course of development by comparing the total forecast costs to contractual arrangements and approved budgets.<br>We included Chartered Surveyors on our audit team who reviewed and challenged the valuation approach and assumptions for a sample of properties which comprised 70% of the market value of investment properties (including investment properties held in joint ventures). Our Chartered Surveyors compared the equivalent yields applied to each property to an expected range of yields taking into account market data and asset specific considerations. They also considered whether the other assumptions applied by the external valuers, such as the estimated rental values, voids, tenant incentives and development costs to complete were supported by available data such as recent lettings and occupancy levels. | We have audited the inputs, assumptions and methodology used by the external valuers. We conclude that the methodology applied is reasonable and that the external valuations are an appropriate assessment of the market value of investment properties at 31 March 2016.<br>Our Chartered Surveyors concluded that the sample of valuations they reviewed were reasonable.<br>We conclude that management provided an appropriate level of review and challenge over the valuations but did not identify evidence of undue management influence. |

| RISK | OUR RESPONSE TO THE RISK | WHAT WE CONCLUDED TO THE AUDIT COMMITTEE |
|---|---|---|
| We also note that this risk has increased since last year given the stage of the property cycle and in light of current market conditions which have reduced the volume of transactions in some parts of the property investment market.<br><br>There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations or bonus targets. | Together with our Chartered Surveyors, we met with the external valuers to discuss the findings from our audit work described above and to seek further explanations as required. We also discussed the impact of current market conditions on the property valuations.<br><br>We conducted detailed analytical procedures by forming an expectation of the market value of each property in the portfolio by reference to our understanding of the UK real estate market, external market data and asset specific considerations to evaluate the appropriateness of all of the valuations adopted by the Group. We investigated further the valuations of those properties which were not in line with our initial expectations which included further discussions with management and the external valuers and, where appropriate, involvement of our Chartered Surveyors.<br><br>We attended meetings between management and the external valuers to assess for evidence of management influence and we obtained a confirmation from the external valuers that they had not been subject to influence from management.<br><br>We utilised our detailed analytical procedures and work of the Chartered Surveyors described above in order to assess for evidence of undue management influence.<br><br>We performed site visits accompanied by our Chartered Surveyors for a sample of properties (focusing primarily on development properties) which enabled us to assess the stage of completion of, and gain specific insights into, these developments.<br><br>We met with project managers for major properties under development and assessed project costs, progress of development and leasing status and considered the reasonableness of forecast costs to complete included in the valuations as well as identified contingencies, exposures and remaining risks. We corroborated the information provided by the project managers through valuation review, site visits and cost analysis. We also reviewed development feasibilities and monthly development spend against budget.<br><br>**Scope of our procedures**<br>We performed full scope audit procedures over valuation of the whole of investment property (including properties within the development programme and investment properties held in joint ventures). | |
| **Revenue recognition, including the timing of revenue recognition, the treatment of rents, incentives and recognition of trading property proceeds**<br><br>2016: £603.4m rental income and £194.9m trading property sales proceeds (2015: £575.7m rental income and £55.5m trading property sales proceeds)<br><br>*Refer to the Accountability section of the Annual Report (pages 65–68); Accounting policies (pages 99–100); and Note 5 of the Financial Statements (page 104)*<br><br>Our risk description differs from 31 March 2015 in that we no longer include other property income as part of our risk. We also included the recognition of trading property proceeds for the year ended 31 March 2016 given the completion of Kings Gate property.<br><br>Market expectations and revenue profit based targets may place pressure on management to distort revenue recognition. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations | Our audit procedures around revenue recognition included:<br><br>We carried out testing relating to controls over revenue recognition and the treatment of rents which have been designed by the Group to prevent and detect fraud and errors in revenue recognition. This included testing the controls governing approvals and changes to lease terms and the upload of this information to the Group's property information management system.<br><br>We also performed controls testing on the billings process.<br><br>We performed detailed testing for a sample of revenue transactions by agreeing them back to lease agreements. This included focusing upon incentives included within lease agreements and we critically assessed whether the appropriate accounting treatment had been followed.<br><br>We agreed a sample of lease agreements to the spreadsheets used to calculate straight-lining of revenue in accordance with SIC-15 Operating Leases – Incentives and corroborated the arithmetical accuracy of these spreadsheets and the resulting amounts in revenue for straight-lining of incentives.<br><br>Detailed analytical procedures were performed in connection with revenue (including rents, incentives and other property related revenue) to assess whether revenue had been recognised in the appropriate accounting period.<br><br>We challenged the assessment of recoverability of the tenant lease incentive receivable balance by evaluating the financial viability of the major tenants with related lease incentive debtors.<br><br>We assessed whether the revenue recognition policies adopted complied with IFRSs as adopted by the European Union.<br><br>We performed audit procedures specifically designed to address the risk of management override of controls including journal entry testing, which included particular focus on journal entries which impact revenue.<br><br>We tested a sample of contracts recognised as trading property proceeds during the year to verify that revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer.<br><br>**Scope of our procedures**<br>The whole Group was subject to full scope audit procedures over revenue. | We audited the timing of revenue recognition, treatment of rents and incentives and recognition of trading property proceeds and assessed the risk of management override. Based upon the audit procedures performed, we concluded that revenue has been recognised on an appropriate basis in the year. |

In the prior year, our auditor's report included a risk of material misstatement in relation to accounting for complex acquisitions and disposals and consideration of transaction arrangements. In the current year, we have not included this risk within our auditor's report as the Group did not enter into complex transactions or transactions that required a significant audit effort by the Group audit team.

**The scope of our audit**

*Tailoring the scope*

The Group solely operates in the United Kingdom and operates through two segments, London and Retail, both of which were subject to the same audit scope. The Group audit team performed all the work necessary to issue the Group and Parent company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified above.

*Changes from the prior year*

How we approached the Group audit and scoping is consistent with our strategy in the prior year.

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

*Materiality*

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

The table below sets out the materiality, performance materiality and threshold for reporting audit differences applied on our audit:

Table 51

| | Basis | Materiality | Performance materiality | Audit differences |
|---|---|---|---|---|
| Overall | 0.5% of carrying value of investment properties | £62.0m (2015: £61.0m) | £46.0m (2015: £46.0m) | £3.1m (2015: £3.0m) |
| Account balances not related to investment properties (either wholly owned or held within joint ventures) | Profit before tax, excluding the impact of the net surplus on revaluation of investment properties either wholly owned or held within joint ventures (Adjusted PBT) | £21.0m (2015: £19.0m) | £16.0m (2015: £14.0m) | £1.0m (2015: £0.9m) |

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined that the carrying value of investment property would be the most appropriate basis for determining overall materiality given that the Group's investment property balance accounts for around 82% of the Group's total assets and the fact that key users of the Group's financial statements are primarily focused on the valuation of the investment property portfolio. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We have determined that for other account balances not related to investment properties (either wholly owned or held within joint ventures) a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We have determined that materiality for these areas should be based upon profit before tax of £1,335.6m, excluding the impact of the net surplus on revaluation of investment properties either wholly owned or held within joint ventures of £909.8m ('Adjusted PBT') as overall materiality is applied to the net surplus on revaluation. We believe that it is appropriate to use a profit based measure as profit is also a focus of users of the financial statements.

During the course of our audit, we reassessed initial materiality and, as the actual carrying value of investment properties was lower than that which we had used as the initial basis for determining overall materiality due to investment property disposals, we reduced our materiality threshold to £62.0m, as noted in the table above, which represents 0.5% of the investment property balance of £12.4bn as at 31 March 2016.

**Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality and specific performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% (2015:75%) of the respective materiality. We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected. Our objective in adopting this approach is to confirm that total detected and undetected audit differences do not exceed our materiality for the financial statements as a whole.

**Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £3.1m (2015: £3.0m), as well as audit differences in excess of £1.0m (2015: £0.9m) that relate to our specific testing of the other account balances not related to investment properties which are set at 5% of their respective planning materiality. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Respective responsibilities of directors and auditor**
As explained more fully in the Directors' Responsibilities Statement set out on page 90, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Opinion on other matters prescribed by the Companies Act 2006**
In our opinion:
— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
— the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

| | | |
|---|---|---|
| **ISAs (UK and Ireland) reporting** | We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:<br>— materially inconsistent with the information in the audited financial statements; or<br>— apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or<br>— otherwise misleading.<br><br>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed. | We have no exceptions to report. |
| **Companies Act 2006 reporting** | We are required to report to you if, in our opinion:<br>— adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or<br>— the Parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or<br>— certain disclosures of Directors' remuneration specified by law are not made; or<br>— we have not received all the information and explanations we require for our audit. | We have no exceptions to report. |
| **Listing Rules review requirements** | We are required to review:<br>— the Directors' statement, set out on page 90, in relation to going concern; and<br>— the part of the Corporate Governance Statement relating to the company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review. | We have no exceptions to report. |

**Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity**

| | | |
|---|---|---|
| **ISAs (UK and Ireland) reporting** | We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:<br>— the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;<br>— the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;<br>— the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and<br>— the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw attention to. |

Ernst & Young LLP

**Eamonn McGrath (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London 16 May 2016

Notes:
1. The maintenance and integrity of the Land Securities Group PLC web site is the responsibility of the directors; 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 web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INCOME STATEMENT

for the year ended 31 March 2016

| | Notes | 2016 Revenue profit £m | 2016 Capital and other items £m | 2016 Total £m | 2015 Revenue profit £m | 2015 Capital and other items £m | 2015 Total £m |
|---|---|---|---|---|---|---|---|
| Revenue | 5 | **744.4** | **198.1** | **942.5** | 711.2 | 59.2 | 770.4 |
| Costs | 6 | **(258.7)** | **(150.7)** | **(409.4)** | (258.7) | (46.0) | (304.7) |
| | | **485.7** | **47.4** | **533.1** | 452.5 | 13.2 | 465.7 |
| Profit on disposal of investment properties | 4 | **–** | **75.1** | **75.1** | – | 107.1 | 107.1 |
| Profit on disposal of investments in joint ventures | 4 | **–** | **–** | **–** | – | 3.3 | 3.3 |
| Net surplus on revaluation of investment properties | 15 | **–** | **738.4** | **738.4** | – | 1,770.6 | 1,770.6 |
| **Operating profit** | | **485.7** | **860.9** | **1,346.6** | 452.5 | 1,894.2 | 2,346.7 |
| Share of post-tax profit from joint ventures | 16 | **19.6** | **178.8** | **198.4** | 32.0 | 293.8 | 325.8 |
| Interest income | 9 | **35.1** | **–** | **35.1** | 29.4 | – | 29.4 |
| Interest expense | 9 | **(178.3)** | **(60.7)** | **(239.0)** | (184.8) | (64.6) | (249.4) |
| Revaluation of redemption liabilities | 34 | **–** | **(4.6)** | **(4.6)** | – | (8.5) | (8.5) |
| Gain on business combination | 42 | **–** | **–** | **–** | – | 2.2 | 2.2 |
| Impairment of goodwill | 21 | **–** | **(0.9)** | **(0.9)** | – | (29.7) | (29.7) |
| **Profit before tax** | | **362.1** | **973.5** | **1,335.6** | 329.1 | 2,087.4 | 2,416.5 |
| Taxation | 13 | **–** | **2.4** | **2.4** | – | 0.3 | 0.3 |
| **Profit for the financial year attributable to owners of the parent** | | **362.1** | **975.9** | **1,338.0** | 329.1 | 2,087.7 | 2,416.8 |
| **Earnings per share attributable to owners of the parent (pence):** | | | | | | | |
| Basic earnings per share | 11 | | | **169.4** | | | 306.1 |
| Diluted earnings per share | 11 | | | **168.8** | | | 304.7 |

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| **Profit for the financial year attributable to owners of the parent** | | **1,338.0** | 2,416.8 |
| **Items that may be subsequently reclassified to the income statement:** | | | |
| Share of joint ventures' fair value movements on interest-rate swaps treated as cash flow hedges | 16 | **(0.1)** | (1.7) |
| Revaluation of other investments | | **0.4** | – |
| **Items that will not be subsequently reclassified to the income statement:** | | | |
| Re-measurement gain on defined benefit pension scheme | 35 | **18.0** | 3.7 |
| Deferred tax on re-measurement gain on defined benefit pension scheme | 13 | **(3.1)** | (1.5) |
| **Other comprehensive income for the financial year attributable to owners of the parent** | | **15.2** | 0.5 |
| **Total comprehensive income for the financial year attributable to owners of the parent** | | **1,353.2** | 2,417.3 |

# BALANCE SHEETS

at 31 March 2016

| | Notes | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investment properties | 15 | **12,357.7** | 12,158.0 | **–** | – |
| Intangible assets | 21 | **38.1** | 34.7 | **–** | – |
| Other property, plant and equipment | 20 | **5.1** | 9.6 | **–** | – |
| Net investment in finance leases | 19 | **182.6** | 185.1 | **–** | – |
| Loan investment | 32 | **–** | 49.5 | **–** | – |
| Investments in joint ventures | 16 | **1,668.2** | 1,433.5 | **–** | – |
| Investments in subsidiary undertakings | 33 | **–** | – | **6,200.1** | 6,192.2 |
| Other investments | | **13.8** | 12.8 | **–** | – |
| Trade and other receivables | 29 | **86.1** | 54.0 | **–** | – |
| Pension surplus | 35 | **25.2** | 7.0 | **–** | – |
| **Total non-current assets** | | **14,376.8** | 13,944.2 | **6,200.1** | 6,192.2 |
| **Current assets** | | | | | |
| Trading properties and long-term development contracts | 17 | **123.4** | 222.3 | **–** | – |
| Trade and other receivables | 29 | **445.4** | 402.7 | **17.1** | 14.8 |
| Monies held in restricted accounts and deposits | 24 | **19.7** | 10.4 | **3.5** | – |
| Cash and cash equivalents | 25 | **24.7** | 14.3 | **0.1** | 0.1 |
| **Total current assets** | | **613.2** | 649.7 | **20.7** | 14.9 |
| **Non-current assets held for sale** | 43 | **–** | 283.4 | **–** | – |
| **Total assets** | | **14,990.0** | 14,877.3 | **6,220.8** | 6,207.1 |
| **Current liabilities** | | | | | |
| Borrowings | 23 | **(18.7)** | (190.7) | **–** | – |
| Trade and other payables | 30 | **(289.3)** | (367.3) | **(1,036.7)** | (1,108.2) |
| Provisions | 31 | **(18.5)** | (2.6) | **–** | – |
| Derivative financial instruments | 26 | **(0.7)** | (3.8) | **–** | – |
| Current tax liabilities | | **–** | (3.7) | **–** | – |
| **Total current liabilities** | | **(327.2)** | (568.1) | **(1,036.7)** | (1,108.2) |
| **Non-current liabilities** | | | | | |
| Borrowings | 23 | **(2,854.3)** | (3,593.0) | **–** | – |
| Trade and other payables | 30 | **(28.5)** | (29.6) | **–** | – |
| Provisions | 31 | **(5.5)** | – | **–** | – |
| Derivative financial instruments | 26 | **(31.2)** | (37.7) | **–** | – |
| Redemption liabilities | 34 | **(34.9)** | (35.3) | **–** | – |
| Deferred tax | 13 | **(9.5)** | (7.3) | **–** | – |
| **Total non-current liabilities** | | **(2,963.9)** | (3,702.9) | **–** | – |
| **Total liabilities** | | **(3,291.1)** | (4,271.0) | **(1,036.7)** | (1,108.2) |
| **Net assets** | | **11,698.9** | 10,606.3 | **5,184.1** | 5,098.9 |
| **Equity** | | | | | |
| **Capital and reserves attributable to the owners of the parent** | | | | | |
| Ordinary shares | 37 | **80.1** | 80.1 | **80.1** | 80.1 |
| Share premium | | **790.2** | 789.4 | **790.2** | 789.4 |
| Capital redemption reserve | | **30.5** | 30.5 | **30.5** | 30.5 |
| Own shares | 38 | **(13.8)** | (11.1) | **–** | – |
| Merger reserve | | **–** | – | **373.6** | 373.6 |
| Share-based payments | | **11.1** | 8.7 | **11.1** | 8.7 |
| Retained earnings | | **10,800.8** | 9,708.7 | **3,898.6** | 3,816.6 |
| **Total equity** | | **11,698.9** | 10,606.3 | **5,184.1** | 5,098.9 |

The financial statements on pages 95–142 were approved by the Board of Directors on 16 May 2016 and were signed on its behalf by:

**R M Noel** **M F Greenslade**
Directors

# STATEMENT OF CHANGES IN EQUITY – GROUP

for the year ended 31 March 2016

| | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| Group | Ordinary shares £m | Share premium £m | Capital redemption reserve £m | Own shares £m | Share-based payments £m | Retained earnings £m | Total equity £m |
| At 1 April 2014 | 79.9 | 788.3 | 30.5 | (9.2) | 6.3 | 7,522.5 | 8,418.3 |
| Total comprehensive income for the financial year | – | – | – | – | – | 2,417.3 | 2,417.3 |
| **Transactions with owners:** | | | | | | | |
| Exercise of options | – | 1.3 | – | – | – | – | 1.3 |
| Dividends to owners of the parent | 0.2 | (0.2) | – | – | – | (229.8) | (229.8) |
| Fair value of share-based payments | – | – | – | – | 6.0 | – | 6.0 |
| Release on exercise of share options | – | – | – | – | (3.6) | 3.6 | – |
| Settlement and transfer of shares to employees on exercise of share options, net of proceeds | – | – | – | 9.9 | – | (4.7) | 5.2 |
| Acquisition of own shares | – | – | – | (11.8) | – | (0.2) | (12.0) |
| **Total transactions with owners of the parent** | 0.2 | 1.1 | – | (1.9) | 2.4 | (231.1) | (229.3) |
| At 31 March 2015 | 80.1 | 789.4 | 30.5 | (11.1) | 8.7 | 9,708.7 | 10,606.3 |
| Total comprehensive income for the financial year | **–** | **–** | **–** | **–** | **–** | **1,353.2** | **1,353.2** |
| **Transactions with owners:** | | | | | | | |
| Exercise of options | **–** | **0.8** | **–** | **–** | **–** | **–** | **0.8** |
| Dividends to owners of the parent | **–** | **–** | **–** | **–** | **–** | **(255.4)** | **(255.4)** |
| Fair value of share-based payments | **–** | **–** | **–** | **–** | **7.9** | **–** | **7.9** |
| Release on exercise of share options | **–** | **–** | **–** | **–** | **(5.5)** | **5.5** | **–** |
| Settlement and transfer of shares to employees on exercise of share options, net of proceeds | **–** | **–** | **–** | **15.7** | **–** | **(11.2)** | **4.5** |
| Acquisition of own shares | **–** | **–** | **–** | **(18.4)** | **–** | **–** | **(18.4)** |
| **Total transactions with owners of the parent** | **–** | **0.8** | **–** | **(2.7)** | **2.4** | **(261.1)** | **(260.6)** |
| **At 31 March 2016** | **80.1** | **790.2** | **30.5** | **(13.8)** | **11.1** | **10,800.8** | **11,698.9** |

# STATEMENT OF CHANGES IN EQUITY – COMPANY

for the year ended 31 March 2016

| Company | Ordinary shares £m | Share premium £m | Capital redemption reserve £m | Merger reserve £m | Share-based payments £m | Retained earnings[1] £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| At 1 April 2014 | 79.9 | 788.3 | 30.5 | 373.6 | 6.3 | 4,098.2 | 5,376.8 |
| Loss for the year ended 31 March 2015 | – | – | – | – | – | (55.4) | (55.4) |
| Exercise of options | – | 1.3 | – | – | – | – | 1.3 |
| Dividends paid to owners of the parent | 0.2 | (0.2) | – | – | – | (229.8) | (229.8) |
| Fair value of share-based payments | – | – | – | – | 6.0 | – | 6.0 |
| Release on exercise of share options | – | – | – | – | (3.6) | 3.6 | – |
| At 31 March 2015 | 80.1 | 789.4 | 30.5 | 373.6 | 8.7 | 3,816.6 | 5,098.9 |
| Profit for the year ended 31 March 2016 | **–** | **–** | **–** | **–** | **–** | **331.9** | **331.9** |
| Exercise of options | **–** | **0.8** | **–** | **–** | **–** | **–** | **0.8** |
| Dividends paid to owners of the parent | **–** | **–** | **–** | **–** | **–** | **(255.4)** | **(255.4)** |
| Fair value of share-based payments | **–** | **–** | **–** | **–** | **7.9** | **–** | **7.9** |
| Release on exercise of share options | **–** | **–** | **–** | **–** | **(5.5)** | **5.5** | **–** |
| **At 31 March 2016** | **80.1** | **790.2** | **30.5** | **373.6** | **11.1** | **3,898.6** | **5,184.1** |

1. Available for distribution.

# STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **Cash flows from operating activities** | | | | | |
| Net cash generated from operations | 14 | **451.0** | 447.5 | **–** | – |
| Interest received | | **21.0** | 8.1 | **–** | – |
| Interest paid | | **(196.6)** | (198.3) | **–** | – |
| Employer contributions to defined benefit pension scheme | | **(0.8)** | (1.9) | **–** | – |
| Capital expenditure on trading properties | | **(32.2)** | (50.7) | **–** | – |
| Disposal of trading properties | | **190.6** | 28.8 | **–** | – |
| Corporation tax paid | | **(0.3)** | – | **–** | – |
| **Net cash inflow from operating activities** | | **432.7** | 233.5 | **–** | – |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Investment property development expenditure | | **(118.2)** | (196.2) | **–** | – |
| Acquisition of investment properties and other investments | | **(102.5)** | (105.7) | **–** | – |
| Acquisitions treated as business combinations (net of cash acquired) | | **–** | (699.3) | **–** | – |
| Other investment property related expenditure | | **(99.8)** | (74.1) | **–** | – |
| Disposal of investment properties | | **1,220.6** | 466.7 | **–** | – |
| Expenditure on non-property related non-current assets | | **(8.1)** | (4.4) | **–** | – |
| Receipt of investments in long-term debtor | | **49.5** | – | **–** | – |
| Disposal of joint ventures | | **–** | 275.2 | **–** | – |
| Cash contributed to joint ventures | 16 | **(62.6)** | (16.7) | **–** | – |
| Loan advances to joint ventures | 16 | **(105.9)** | (153.9) | **–** | – |
| Loan repayments by joint ventures | 16 | **13.9** | 37.0 | **–** | – |
| Distributions from joint ventures | 16 | **62.5** | 59.7 | **–** | – |
| **Net cash inflow/(outflow) from investing activities** | | **849.4** | (411.7) | **–** | – |
| | | | | | |
| **Cash flows from financing activities** | | | | | |
| Cash received on issue of shares arising from exercise of share options | | **5.3** | 6.5 | **–** | – |
| Purchase of own shares and treasury shares | | **(18.4)** | (12.0) | **–** | – |
| Proceeds from new loans (net of finance fees) | | **249.2** | 419.9 | **–** | – |
| Repayment of loans | 23 | **(1,206.5)** | (13.6) | **–** | – |
| (Increase)/decrease in monies held in restricted accounts and deposits | 24 | **(9.3)** | 4.1 | **–** | – |
| Premium payable on redemption of medium term notes | | **(26.2)** | – | **–** | – |
| Decrease in finance leases payable | | **(1.0)** | (1.4) | **–** | – |
| Dividends paid to owners of the parent | 12 | **(262.0)** | (229.4) | **–** | – |
| Distributions paid by non-wholly owned subsidiaries | 34 | **(2.8)** | (2.5) | **–** | – |
| **Net cash (outflow)/inflow from financing activities** | | **(1,271.7)** | 171.6 | **–** | – |
| | | | | | |
| Increase/(decrease) in cash and cash equivalents for the year | | **10.4** | (6.6) | **–** | – |
| Cash and cash equivalents at the beginning of the year | | **14.3** | 20.9 | **0.1** | 0.1 |
| **Cash and cash equivalents at the end of the year** | 25 | **24.7** | 14.3 | **0.1** | 0.1 |

The Company cash flow statement excludes transactions, including the payment of dividends, which are settled on the Company's behalf by other Group undertakings.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016

## SECTION 1 – GENERAL

This section contains a description of the Group's significant accounting policies that relate to the financial statements as a whole. A description of accounting policies specific to individual areas (e.g. investment properties) is included within the relevant note to the financial statements.

This section also includes a summary of new European Union (EU) endorsed accounting standards, amendments and interpretations that have not yet been adopted, and their expected impact on the reported results of the Group.

### 1. BASIS OF PREPARATION AND CONSOLIDATION

**Basis of preparation**

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. The financial statements have been prepared in Pounds Sterling (rounded to the nearest hundred thousand), which is the presentation currency of the Group (Land Securities Group PLC and all of its subsidiary undertakings), and under the historical cost convention as modified by the revaluation of investment property, available-for-sale investments, derivative financial instruments and pension assets.

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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.

Land Securities Group PLC has not presented its own statement of comprehensive income (and separate income statement), as permitted by Section 408 of Companies Act 2006. The profit for the year of the Company, dealt with in its financial statements, was £331.9m (2015: loss of £55.4m). 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. The capital redemption reserve represents the nominal value of cancelled shares.

The presentation of certain items in the income statement has been reviewed during the year, and the 'Release of impairment of trading properties' is now aggregated within Costs.

**Basis of consolidation**

The consolidated financial statements for the year ended 31 March 2016 incorporate the financial statements of Land Securities Group PLC (the Company) and all its subsidiary undertakings (the Group). Subsidiary undertakings are those entities controlled by the Company. Control exists where an entity is exposed to variable returns and has the ability to affect those returns through its power over the investee.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included from the effective date of acquisition or to the effective date of disposal. Accounting policies of subsidiaries and joint ventures which differ from Group accounting policies are adjusted on consolidation.

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount received is credited to the income statement in the year of acquisition as a 'gain on business combination'. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and any gains or losses arising from such re-measurement are recognised in the income statement.

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint arrangements are accounted for as either a joint venture or a joint operation in accordance with IFRS 11 'Joint Arrangements'. A joint arrangement is accounted for as a joint venture when the Group, along with the other parties that have joint control of the arrangement, have rights to the net assets of the arrangement. Joint ventures are equity accounted in accordance with IAS 28 (revised). The equity method requires the Group's share of the joint venture's post-tax profit or loss for the year 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 with net liabilities are carried at zero value in the balance sheet where there is no commitment to fund the deficit and any distributions are included in the consolidated income statement for the year.

A joint arrangement is accounted for as a joint operation when the Group, along with the parties that have joint control of the arrangement, have rights to the assets and obligations for the liabilities relating to the arrangement. Joint operations are accounted for by including the Group's share of the assets, liabilities, income and expenses on a line-by-line basis.

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY ESTIMATIONS OF UNCERTAINTY

The preparation of financial statements in conformity with IFRSs requires management to exercise its judgement in the process of applying the Group's accounting policies. Critical accounting judgements are disclosed in the relevant note to the financial statements. The areas where the Group considers the judgements to be most significant involve assumptions or estimates in respect of future events, where actual results may differ from these estimates. These areas are as follows:

— Compliance with the Real Estate Investment Trust (REIT) taxation regime (note 13)

— Investment property valuation (note 15)

— Accounting for property acquisitions and disposals (note 15)

— Trading property valuation (note 17)

## 3. AMENDMENTS TO IFRS STANDARDS

The following accounting standards or interpretations were effective for the financial year beginning 1 April 2015 and have been applied in preparing these financial statements to the extent they are relevant to the preparation of financial information:

— IAS 19 (amendment) 'Defined Benefit Plans: Employee Contributions amendments to IAS 19'

— Annual Improvements to the IFRSs 2010-2012 Cycle (various standards)

None of the standards above have impacted the Group's reporting.

The following accounting standards and interpretations which are relevant to the Group have been issued, but are not yet effective:

— IFRS 9 'Financial Instruments'

— IFRS 11 (amendment) 'Accounting for Acquisitions of Interest in Joint Operations'

— IFRS 15 'Revenue from Contracts with Customers'

— IFRS 16 'Leases'

— IAS 1 (amendment) 'Disclosure Initiative'

— IAS 27 (amendment) 'Equity Method in Separate Financial Statements'

— IFRS 10, IFRS 12 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'

— IAS 16 and IAS 38 (amendments) 'Clarification of Acceptable Methods of Depreciation and Amortisation'

— Annual Improvements to the IFRSs 2012-2014 Cycle (various standards)

These standards and interpretations have not been early adopted by the Group. The Group is in the process of assessing the impact of these new standards and interpretations on its financial reporting.

## SECTION 2 – PERFORMANCE

This section focuses on the performance of the Group for the year, including segmental information, earnings per share and net assets per share, together with further details on specific components of the income statement and dividends paid.

The Group income statement is presented in a columnar format, split into those items that relate to revenue profit and capital and other items. The total column represents the Group's results presented in accordance with IFRSs; the other columns provide additional information. This is intended to reflect the way in which the Group's senior management review the results of the business and to aid reconciliation to the segmental reporting.

A number of the financial measures used internally by the Group to measure performance include the results of partly-owned subsidiaries and joint ventures on a proportionate basis. Measures that are described as being on a proportionate basis include the Group's share of joint ventures on a line-by-line basis and are adjusted to exclude the non-owned elements of our subsidiaries. This is in contrast to the Group's statutory financial statements, where the Group applies equity accounting to its interest in joint ventures, presenting its interest as one line on the income statement and balance sheet, and all subsidiaries are consolidated at 100% with any non-owned element being adjusted as a non-controlling interest or redemption liability as appropriate. Our joint operations are presented on a proportionate basis in all financial measures. Measures described as being prepared on a proportionate basis are non-GAAP measures and therefore not presented in accordance with IFRSs.

Revenue profit is the Group's measure of underlying pre-tax profit, which is used by senior management to assess the Group's income performance. It excludes all items of a capital nature, such as valuation movements and profits and losses on the disposal of investment properties, as well as one-off items. A full definition of revenue profit is given in the glossary. The components of revenue profit are presented on a proportionate basis in note 4. Revenue profit is a non-GAAP measure.

### 4. SEGMENTAL INFORMATION

The Group's operations are organised into two operating segments, being the Retail Portfolio and the London Portfolio. The London Portfolio includes all our London offices and central London shops and the Retail Portfolio includes all our shopping centres and shops (excluding central London shops), hotels and leisure assets and retail park properties. All of the Group's operations are in the UK.

Management has determined the Group's operating segments based on the information reviewed by senior management to make strategic decisions. During the year, the chief operating decision maker was the Executive Committee (ExecCom), which comprised the Executive Directors, the managing directors of the Retail and London portfolios, the Group General Counsel and Company Secretary, the Group HR Director and the Corporate Affairs and Sustainability Director. The information presented to ExecCom includes reports from all functions of the business as well as strategy, financial planning, succession planning, organisational development and Group-wide policies.

The Group's primary measure of underlying profit before tax is revenue profit. However, segment profit is the lowest level to which the profit arising from the on-going operations of the Group is analysed between the two segments. The Group manages its financing structure, with the exception of joint ventures, on a pooled basis and, as such, debt facilities and interest charges (other than those relating to joint ventures) are not specific to a particular segment. Unallocated income and expenses (Group services) are items incurred centrally which are neither directly attributable nor can be reasonably allocated to individual segments.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 4. SEGMENTAL INFORMATION CONTINUED

| | Retail Portfolio | | | London Portfolio | | | Year ended 31 March 2016 Total | | |
|---|---|---|---|---|---|---|---|---|---|
| Revenue profit | Group £m | Joint ventures £m | Total £m | Group £m | Joint ventures £m | Total £m | Group[1] £m | Joint ventures £m | Total £m |
| Rental income | 332.3 | 31.0 | 363.3 | 268.5 | 18.5 | 287.0 | 600.8 | 49.5 | 650.3 |
| Finance lease interest | 1.3 | – | 1.3 | 8.9 | – | 8.9 | 10.2 | – | 10.2 |
| **Gross rental income (before rents payable)** | 333.6 | 31.0 | 364.6 | 277.4 | 18.5 | 295.9 | 611.0 | 49.5 | 660.5 |
| Rents payable[2] | (7.8) | (1.1) | (8.9) | (2.9) | – | (2.9) | (10.7) | (1.1) | (11.8) |
| **Gross rental income (after rents payable)** | 325.8 | 29.9 | 355.7 | 274.5 | 18.5 | 293.0 | 600.3 | 48.4 | 648.7 |
| Service charge income | 50.7 | 5.0 | 55.7 | 42.8 | 3.5 | 46.3 | 93.5 | 8.5 | 102.0 |
| Service charge expense | (52.9) | (5.5) | (58.4) | (43.0) | (4.3) | (47.3) | (95.9) | (9.8) | (105.7) |
| Net service charge expense | (2.2) | (0.5) | (2.7) | (0.2) | (0.8) | (1.0) | (2.4) | (1.3) | (3.7) |
| Other property related income | 19.9 | 0.6 | 20.5 | 16.3 | 1.1 | 17.4 | 36.2 | 1.7 | 37.9 |
| Direct property expenditure | (40.0) | (5.0) | (45.0) | (32.0) | (2.2) | (34.2) | (72.0) | (7.2) | (79.2) |
| **Net rental income** | 303.5 | 25.0 | 328.5 | 258.6 | 16.6 | 275.2 | 562.1 | 41.6 | 603.7 |
| Indirect property expenditure | (24.2) | (1.0) | (25.2) | (17.0) | (0.9) | (17.9) | (41.2) | (1.9) | (43.1) |
| Depreciation and amortisation | (0.3) | – | (0.3) | (0.9) | – | (0.9) | (1.2) | – | (1.2) |
| **Segment profit before interest** | 279.0 | 24.0 | 303.0 | 240.7 | 15.7 | 256.4 | 519.7 | 39.7 | 559.4 |
| Joint venture net interest expense | – | (3.6) | (3.6) | – | (16.5) | (16.5) | – | (20.1) | (20.1) |
| **Segment profit/(loss)** | 279.0 | 20.4 | 299.4 | 240.7 | (0.8) | 239.9 | 519.7 | 19.6 | 539.3 |
| Group services – other income | | | | | | | 3.7 | – | 3.7 |
| – expense | | | | | | | (37.7) | – | (37.7) |
| Interest income | | | | | | | 35.1 | – | 35.1 |
| Interest expense | | | | | | | (178.3) | – | (178.3) |
| **Revenue profit** | | | | | | | 342.5 | 19.6 | 362.1 |

1. Group income figures shown in this column are included in note 5 and agree to the revenue figure included in the revenue profit column in the income statement.
2. Included within rents payable is finance lease interest payable of **£0.6m** and **£0.4m** for the Retail and London portfolios, respectively.

| Reconciliation of revenue profit to profit before tax | Group £m | Joint ventures £m | Total £m |
|---|---|---|---|
| **Revenue profit** | 342.5 | 19.6 | 362.1 |
| **Capital and other items** | | | |
| **Valuation and profits on disposals** | | | |
| Net surplus on revaluation of investment properties | 736.0 | 171.4 | 907.4 |
| Movement in impairment of trading properties[3] | 11.5 | 4.4 | 15.9 |
| Impairment of long-term development contracts | (0.1) | 0.1 | – |
| Profit on disposal of trading properties | 40.7 | – | 40.7 |
| Profit on disposal of investment properties | 75.1 | 3.6 | 78.7 |
| **Net interest expense** | | | |
| Fair value movement on foreign exchange swaps | 23.4 | – | 23.4 |
| Foreign exchange movement on borrowings | (23.4) | – | (23.4) |
| Fair value movement on interest-rate swaps | (10.7) | – | (10.7) |
| Fair value movement on long-term liabilities | 0.5 | – | 0.5 |
| Amortisation of bond exchange de-recognition adjustment | (23.4) | – | (23.4) |
| **Exceptional items** | | | |
| Head office relocation | (5.6) | – | (5.6) |
| Premium payable on redemption of medium term notes | (26.2) | – | (26.2) |
| Impairment of unamortised finance costs | (0.9) | – | (0.9) |
| **Other** | | | |
| Revaluation of redemption liabilities | (4.6) | – | (4.6) |
| Impairment of goodwill | (0.9) | – | (0.9) |
| Amortisation of intangible asset | (1.5) | – | (1.5) |
| Adjustment for non-wholly owned subsidiaries[4] | 4.8 | 0.1 | 4.9 |
| Joint venture taxation | – | (0.8) | (0.8) |
| **Profit before tax** | 1,137.2 | 198.4 | 1,335.6 |

3. The movement in impairment of trading properties of **£15.9m** relates entirely to the London Portfolio.
4. All items in the segment note are presented on a proportionate basis. This adjustment represents the non-owned element of the Group's subsidiaries which is excluded from the numbers presented in the tables above. Included within the **£4.9m** adjustment above is revenue of **£3.2m**, net surplus on revaluation of investment properties of **£2.4m**, joint venture profits in non-wholly owned subsidiaries of **£0.1m**, less costs of **£0.8m**.

## 4. SEGMENTAL INFORMATION CONTINUED

Year ended 31 March 2015

| Revenue profit | Retail Portfolio Group £m | Retail Portfolio Joint ventures £m | Retail Portfolio Total £m | London Portfolio Group £m | London Portfolio Joint ventures £m | London Portfolio Total £m | Total Group[1] £m | Total Joint ventures £m | Total Total £m |
|---|---|---|---|---|---|---|---|---|---|
| Rental income | 327.8 | 49.1 | 376.9 | 244.9 | 21.5 | 266.4 | 572.7 | 70.6 | 643.3 |
| Finance lease interest | 1.4 | 0.1 | 1.5 | 8.9 | – | 8.9 | 10.3 | 0.1 | 10.4 |
| **Gross rental income (before rents payable)** | 329.2 | 49.2 | 378.4 | 253.8 | 21.5 | 275.3 | 583.0 | 70.7 | 653.7 |
| Rents payable[2] | (9.1) | (1.6) | (10.7) | (2.2) | – | (2.2) | (11.3) | (1.6) | (12.9) |
| **Gross rental income (after rents payable)** | 320.1 | 47.6 | 367.7 | 251.6 | 21.5 | 273.1 | 571.7 | 69.1 | 640.8 |
| Service charge income | 49.6 | 7.1 | 56.7 | 40.1 | 2.6 | 42.7 | 89.7 | 9.7 | 99.4 |
| Service charge expense | (51.6) | (7.9) | (59.5) | (39.0) | (3.1) | (42.1) | (90.6) | (11.0) | (101.6) |
| Net service charge expense | (2.0) | (0.8) | (2.8) | 1.1 | (0.5) | 0.6 | (0.9) | (1.3) | (2.2) |
| Other property related income | 18.5 | 1.1 | 19.6 | 15.9 | 0.7 | 16.6 | 34.4 | 1.8 | 36.2 |
| Direct property expenditure | (37.4) | (7.5) | (44.9) | (27.3) | (3.1) | (30.4) | (64.7) | (10.6) | (75.3) |
| **Net rental income** | 299.2 | 40.4 | 339.6 | 241.3 | 18.6 | 259.9 | 540.5 | 59.0 | 599.5 |
| Indirect property expenditure | (27.6) | (1.8) | (29.4) | (19.9) | (0.9) | (20.8) | (47.5) | (2.7) | (50.2) |
| Depreciation | (0.3) | – | (0.3) | (0.8) | – | (0.8) | (1.1) | – | (1.1) |
| **Segment profit before interest** | 271.3 | 38.6 | 309.9 | 220.6 | 17.7 | 238.3 | 491.9 | 56.3 | 548.2 |
| Joint venture net interest expense | – | (6.8) | (6.8) | – | (17.5) | (17.5) | – | (24.3) | (24.3) |
| **Segment profit** | 271.3 | 31.8 | 303.1 | 220.6 | 0.2 | 220.8 | 491.9 | 32.0 | 523.9 |
| Group services – other income | | | | | | | 4.1 | – | 4.1 |
| – expense | | | | | | | (43.5) | – | (43.5) |
| Interest income | | | | | | | 29.4 | – | 29.4 |
| Interest expense | | | | | | | (184.8) | – | (184.8) |
| **Revenue profit** | | | | | | | 297.1 | 32.0 | 329.1 |

1. Group income figures shown in this column are included in note 5 and agree to the revenue figure included in the revenue profit column in the income statement.
2. Included within rents payable is finance lease interest payable of £1.2m and £0.4m for the Retail and London portfolios, respectively.

| Reconciliation of revenue profit to profit before tax | Group £m | Joint ventures £m | Total £m |
|---|---|---|---|
| **Revenue profit** | 297.1 | 32.0 | 329.1 |
| **Capital and other items** | | | |
| **Valuation and profits on disposals** | | | |
| Net surplus on revaluation of investment properties | 1,767.8 | 269.1 | 2,036.9 |
| Movement in impairment of trading properties[3] | 1.9 | (0.3) | 1.6 |
| Profit on disposal of trading properties | 29.8 | 1.7 | 31.5 |
| Profit on disposal of investment properties | 107.1 | 25.6 | 132.7 |
| Profit on disposal of investments in joint ventures | 3.3 | – | 3.3 |
| **Net interest expense** | | | |
| Fair value movement on foreign exchange swaps | (5.1) | – | (5.1) |
| Foreign exchange movement on borrowings | 4.9 | – | 4.9 |
| Fair value movement on interest-rate swaps | (34.0) | (0.8) | (34.8) |
| Fair value movement on long-term liabilities | (4.4) | – | (4.4) |
| Amortisation of bond exchange de-recognition adjustment | (21.5) | – | (21.5) |
| Impairment of unamortised finance costs | (4.5) | (1.6) | (6.1) |
| **Exceptional items** | | | |
| Impairment of long-term development contracts | (11.3) | – | (11.3) |
| Net gain on business combination | 2.2 | – | 2.2 |
| Business combination costs | (8.8) | – | (8.8) |
| Impairment of goodwill | (29.7) | – | (29.7) |
| **Other** | | | |
| Revaluation of redemption liabilities | (8.5) | – | (8.5) |
| Amortisation of intangible asset | (1.1) | – | (1.1) |
| Adjustment for non-wholly owned subsidiaries[4] | 5.5 | 0.1 | 5.6 |
| **Profit before tax** | 2,090.7 | 325.8 | 2,416.5 |

3. The movement in impairment of trading properties of £1.6m relates entirely to the London Portfolio.
4. All items in the segment note are presented on a proportionate basis. This adjustment represents the non-owned element of the Group's subsidiaries which is excluded from the numbers presented in the tables above. Included within the £5.6m adjustment above is revenue of £3.7m, a net surplus on revaluation of investment properties of £2.8m, joint venture profits in non-wholly owned subsidiaries of £0.1m, less costs of £1.0m.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 5. REVENUE

### ACCOUNTING POLICY

**Revenue**

The Group recognises revenue on an accruals basis, 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 charge income and other recoveries, proceeds from the sale of trading properties, finance lease interest and income arising on long-term development contracts. Rental income includes the income from managed operations such as car parks, food courts, serviced offices and flats. Service charge income includes income in relation to service charges together with any chargeable management fees.

Rental income, including fixed rental uplifts, 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 being offered to occupiers to enter into a lease, such as an initial rent-free period or a cash contribution to fit-out or similar costs, are an integral part of the net consideration for the use of the property and are therefore recognised on the same straight-line basis. Service charge income is recorded as income in the periods in which it is earned.

When property is let under a finance lease, the Group recognises a receivable 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 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.

Proceeds received on the sale of trading properties are recognised within Revenue when the significant risks and rewards of ownership have been transferred to the buyer. This generally occurs on unconditional exchange or on completion, particularly if this is expected to occur significantly after exchange or the Group has significant outstanding obligations between exchange and completion.

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.

All revenue is classified within the 'Revenue profit' column of the income statement, with the exception of proceeds on the sale of trading properties and income arising on long-term development contracts, which are presented in the 'Capital and other items' column. Also included in the 'Capital and other items' column is the non-owned element of the Group's subsidiaries which is excluded from revenue profit.

| Group | | | 2016 | | | 2015 |
|---|---|---|---|---|---|---|
| | **Revenue profit £m** | **Capital and other items £m** | **Total £m** | Revenue profit £m | Capital and other items £m | Total £m |
| Rental income (excluding adjustment for lease incentives) | **572.3** | **2.5** | **574.8** | 557.9 | 2.9 | 560.8 |
| Adjustment for lease incentives | **28.5** | **0.1** | **28.6** | 14.8 | 0.1 | 14.9 |
| **Rental income** | **600.8** | **2.6** | **603.4** | 572.7 | 3.0 | 575.7 |
| Service charge income | **93.5** | **0.6** | **94.1** | 89.7 | 0.7 | 90.4 |
| Other property related income | **36.2** | **–** | **36.2** | 34.4 | – | 34.4 |
| Trading property sales proceeds | **–** | **194.9** | **194.9** | – | 55.5 | 55.5 |
| Finance lease interest | **10.2** | **–** | **10.2** | 10.3 | – | 10.3 |
| Other income | **3.7** | **–** | **3.7** | 4.1 | – | 4.1 |
| | **744.4** | **198.1** | **942.5** | 711.2 | 59.2 | 770.4 |

## 6. COSTS

### ACCOUNTING POLICY

**Costs**
Property and contract expenditure is expensed as incurred with the exception of expenditure on long-term development contracts and trading property disposals (see note 5).

Rental payments made under an operating lease in which the Group is a lessee are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are an integral part of the net consideration for the use of the property and are 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 (see note 5) are charged as an expense in the periods in which they are incurred.

**Impairment**
The carrying amounts of the Group's non-financial assets, other than investment properties, 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 the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its fair value less costs to sell 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.

All costs are classified within the 'Revenue profit' column of the income statement, with the exception of the cost of sale of trading properties, costs arising on long-term development contracts, amortisation of intangible assets, business combination costs and head office relocation costs which are presented in the 'Capital and other items' column. Also included in the 'Capital and other items' column is the non-owned element of the Group's subsidiaries which is excluded from revenue profit.

| | | | **2016** | | | 2015 |
|---|---|---|---|---|---|---|
| **Group** | **Revenue profit £m** | **Capital and other items £m** | **Total £m** | Revenue profit £m | Capital and other items £m | Total £m |
| Rents payable | **10.7** | **–** | **10.7** | 11.3 | – | 11.3 |
| Service charge expense[1] | **95.9** | **0.5** | **96.4** | 90.6 | 0.6 | 91.2 |
| Direct property expenditure[1] | **72.0** | **0.3** | **72.3** | 64.7 | 0.4 | 65.1 |
| Indirect property expenditure[1] | **80.1** | **–** | **80.1** | 92.1 | – | 92.1 |
| Impairment of long-term development contracts | **–** | **0.1** | **0.1** | – | 11.3 | 11.3 |
| Trading property disposals | **–** | **154.2** | **154.2** | – | 25.7 | 25.7 |
| Movement in impairment of trading properties | **–** | **(11.5)** | **(11.5)** | – | (1.9) | (1.9) |
| Amortisation of intangible asset | **–** | **1.5** | **1.5** | – | 1.1 | 1.1 |
| Business combination costs | **–** | **–** | **–** | – | 8.8 | 8.8 |
| Head office relocation | **–** | **5.6** | **5.6** | – | – | – |
| | **258.7** | **150.7** | **409.4** | 258.7 | 46.0 | 304.7 |

1. The table above includes Group employee costs for the year of **£64.3m** (2015: £67.4m), which has been split into **£7.3m** (2015: £7.2m) within service charge expense, **£0.3m** (2015: £0.4m) within direct property expenditure and **£56.7m** (2015: £59.8m) within indirect property expenditure, of which **£19.1m** (2015: £23.4m) relates to Group services.

| **Group** | **2016 £m** | 2015 £m |
|---|---|---|
| **Employee costs** | | |
| Salaries and wages | **47.6** | 52.1 |
| Employer payroll taxes | **6.4** | 7.3 |
| Other pension costs (note 35) | **3.1** | 3.3 |
| Share-based payments (note 36) | **7.9** | 6.0 |
| | **65.0** | 68.7 |

The total employee costs above of **£65.0m** (2015: £68.7m) include the Group's share of joint venture employee costs of **£0.7m** (2015: £1.3m).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 6. COSTS CONTINUED

| | **2016 Number** | 2015 Number |
|---|---|---|
| **The average monthly number of employees during the year was:** | | |
| Indirect property or contract and administration | **459** | 460 |
| Direct property or contract services: | | |
| Full-time | **142** | 153 |
| Part-time | **8** | 12 |
| | **609** | 625 |

With the exception of the Executive Directors, the Company Secretary and two employees of the Defined Benefit Pension Scheme who are employed by Land Securities Group PLC, all employees are employed by subsidiaries of the Group.

During the year, no Executive Directors had retirement benefits accruing under either the defined contribution pension scheme or the defined benefit scheme (2015: none). Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 72–83.

Details of the employee costs associated with the Group's key management personnel are included in note 40.

## 7. AUDITOR REMUNERATION

| Group | **2016 £m** | 2015 £m |
|---|---|---|
| **Services provided by the Group's auditor** | | |
| Audit fees: | | |
| Audit of parent company and consolidated financial statements | **0.4** | 0.3 |
| Audit of subsidiary undertakings | **0.3** | 0.3 |
| Audit of joint ventures | **0.1** | 0.1 |
| | **0.8** | 0.7 |
| Non-audit fees: | | |
| Audit related assurance services | **0.2** | 0.1 |
| | **1.0** | 0.8 |

It is the Group's policy to employ the Group's auditor on assignments additional to their statutory duties where their expertise and experience with the Group are important. Where appropriate the Group seeks tenders for services. If fees are expected to be greater than £25,000 they are pre-approved by the Chairman of the Audit Committee or, if greater than £100,000, by the Audit Committee.

## 8. EXTERNAL VALUERS' REMUNERATION

| Group | **2016 £m** | 2015 £m |
|---|---|---|
| **Services provided by the Group's external valuers** | | |
| Year end and half year valuations – Group | **0.7** | 0.8 |
| – Joint ventures | **0.1** | 0.1 |
| Other consultancy and agency services | **3.9** | 5.4 |
| | **4.7** | 6.3 |

During the year, the Group conducted a tender exercise, as a result of which CBRE Limited (CBRE) was appointed as the Group's principal valuer. CBRE undertakes other consultancy and agency work on behalf of the Group. CBRE has confirmed to us that the total fees paid by the Group represented less than 5% of their total revenues in the current year.

In the prior year, Knight Frank LLP was the principal valuer and Jones Lang LaSalle Limited (JLL) performed the valuation of investment properties held by X-Leisure, and CBRE performed the valuation of Bluewater. The fees of CBRE, Knight Frank and JLL have been included in the comparative figures of the table above. In the prior year, CBRE, Knight Frank and JLL undertook other consultancy and agency work on behalf of the Group. CBRE, Knight Frank and JLL have confirmed to us that the total fees paid by the Group represented less than 5% of their total revenues in the prior year.

## 9. INTEREST

| Group | 2016 Revenue profit £m | 2016 Capital and other items £m | 2016 Total £m | 2015 Revenue profit £m | 2015 Capital and other items £m | 2015 Total £m |
|---|---|---|---|---|---|---|
| **Interest income** | | | | | | |
| Short-term deposits | **–** | **–** | **–** | 0.1 | – | 0.1 |
| Interest received on loan investments | **0.3** | **–** | **0.3** | 2.3 | – | 2.3 |
| Other interest receivable | **1.1** | **–** | **1.1** | 0.6 | – | 0.6 |
| Net interest receivable from joint ventures | **33.5** | **–** | **33.5** | 26.2 | – | 26.2 |
| Net pension interest | **0.2** | **–** | **0.2** | 0.2 | – | 0.2 |
| **Total interest income** | **35.1** | **–** | **35.1** | 29.4 | – | 29.4 |
| | | | | | | |
| **Interest expense** | | | | | | |
| Bond and debenture debt | **(168.9)** | **–** | **(168.9)** | (169.8) | – | (169.8) |
| Bank and other short-term borrowings | **(19.9)** | **–** | **(19.9)** | (29.4) | – | (29.4) |
| Fair value movement on foreign exchange swaps | **–** | **23.4** | **23.4** | – | (5.1) | (5.1) |
| Foreign exchange movement on borrowings | **–** | **(23.4)** | **(23.4)** | – | 4.9 | 4.9 |
| Fair value movement on interest-rate swaps | **–** | **(10.7)** | **(10.7)** | – | (34.0) | (34.0) |
| Fair value movement on long-term liabilities | **–** | **0.5** | **0.5** | – | (4.4) | (4.4) |
| Amortisation of bond exchange de-recognition adjustment | **–** | **(23.4)** | **(23.4)** | – | (21.5) | (21.5) |
| Premium payable on redemption of medium term notes | **–** | **(26.2)** | **(26.2)** | – | – | – |
| Impairment of unamortised finance costs | **–** | **(0.9)** | **(0.9)** | – | (4.5) | (4.5) |
| Other interest payable | **(1.0)** | **–** | **(1.0)** | (0.6) | – | (0.6) |
| | **(189.8)** | **(60.7)** | **(250.5)** | (199.8) | (64.6) | (264.4) |
| Interest capitalised in relation to properties under development | **11.5** | **–** | **11.5** | 15.0 | – | 15.0 |
| **Total interest expense** | **(178.3)** | **(60.7)** | **(239.0)** | (184.8) | (64.6) | (249.4) |
| | | | | | | |
| **Net interest expense** | **(143.2)** | **(60.7)** | **(203.9)** | (155.4) | (64.6) | (220.0) |
| Joint venture net interest expense | **(20.1)** | | | (24.3) | | |
| **Net interest expense included in revenue profit** | **(163.3)** | | | (179.7) | | |

Finance lease interest payable of **£1.0m** (2015: £1.6m) is included within rents payable as detailed in note 4.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 10. NET ASSETS PER SHARE

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Net assets attributable to the owners of the parent** | **11,698.9** | 10,606.3 |
| Fair value of interest-rate swaps – Group | **31.9** | 37.7 |
| – Joint ventures | **2.2** | 2.1 |
| Deferred tax liability arising on business combination | **4.9** | 5.8 |
| Goodwill on deferred tax liability | **(4.9)** | (5.8) |
| **EPRA adjusted net assets** | **11,733.0** | 10,646.1 |
| Reverse bond exchange de-recognition adjustment | **(368.3)** | (391.7) |
| **Adjusted net assets attributable to the owners of the parent** | **11,364.7** | 10,254.4 |
| Reinstate bond exchange de-recognition adjustment | **368.3** | 391.7 |
| Fair value of interest-rate swaps – Group | **(31.9)** | (37.7) |
| – Joint ventures | **(2.2)** | (2.1) |
| Deferred tax liability arising on business combination | **(4.9)** | (5.8) |
| Excess of fair value of debt over book value (note 23) | **(1,000.8)** | (1,161.3) |
| **EPRA triple net assets** | **10,693.2** | 9,439.2 |

| | 2016 million | 2015 million |
|---|---|---|
| Number of ordinary shares in issue | **801.2** | 801.0 |
| Number of treasury shares | **(10.5)** | (10.5) |
| Number of own shares | **(1.2)** | (1.0) |
| **Number of ordinary shares – basic net assets per share** | **789.5** | 789.5 |
| Dilutive effect of share options | **2.9** | 3.7 |
| **Number of ordinary shares – diluted net assets per share** | **792.4** | 793.2 |

| | 2016 pence | 2015 pence |
|---|---|---|
| **Net assets per share** | **1,482** | 1,343 |
| **Diluted net assets per share** | **1,476** | 1,337 |
| | | |
| **Adjusted net assets per share** | **1,439** | 1,299 |
| **Adjusted diluted net assets per share** | **1,434** | 1,293 |
| | | |
| **EPRA measure – adjusted diluted net assets per share** | **1,481** | 1,342 |
| **– diluted triple net assets per share** | **1,349** | 1,190 |

Adjusted net assets per share excludes the fair value of interest-rate swaps used for hedging purposes and the bond exchange de-recognition adjustment as management consider this better represents the expected future cash flows of the Group. EPRA measures have been included to assist comparison between European property companies. We believe our measure of adjusted net assets attributable to the owners of the parent is more indicative of underlying business performance.

## 11. EARNINGS PER SHARE

Earnings per share (EPS) is the amount of post-tax profit attributable to each share. The Group has also chosen to disclose adjusted earnings per share in order to provide an indication of the Group's underlying business performance. Adjusted earnings and adjusted earnings per share are calculated on a proportionate basis and exclude capital and one-off items. We believe our measure of adjusted diluted earnings per share is more appropriate than the EPRA measure in the context of our business.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Profit for the financial year attributable to the owners of the parent** | **1,338.0** | 2,416.8 |
| Net surplus on revaluation of investment properties | **(907.4)** | (2,036.9) |
| Movement in impairment of trading properties | **(15.9)** | (1.6) |
| Profit on disposal of trading properties | **(40.7)** | (31.5) |
| Profit on disposal of investment properties | **(78.7)** | (132.7) |
| Profit on disposal of investments in joint ventures | **–** | (3.3) |
| Fair value movement on foreign exchange swaps | **(23.4)** | 5.1 |
| Foreign exchange movement on borrowings | **23.4** | (4.9) |
| Fair value movement on interest-rate swaps | **10.7** | 34.8 |
| Fair value movement on long-term liabilities | **(0.5)** | 4.4 |
| Premium payable on redemption of medium term notes | **26.2** | – |
| Impairment of unamortised finance costs | **0.9** | 6.1 |
| Net gain on business combination | **–** | (2.2) |
| Business combination costs | **–** | 8.8 |
| Impairment of goodwill | **0.9** | 29.7 |
| Revaluation of redemption liabilities | **4.6** | 8.5 |
| Amortisation of intangible assets | **1.5** | 1.1 |
| Adjustment for non-wholly owned subsidiaries[1] | **(4.9)** | (5.6) |
| Joint venture taxation | **0.8** | – |
| Group taxation | **(2.4)** | (0.3) |
| **EPRA adjusted earnings attributable to the owners of the parent** | **333.1** | 296.3 |
| Head office relocation | **5.6** | – |
| Impairment of long-term development contracts[2] | **–** | 11.3 |
| Amortisation of bond exchange de-recognition | **23.4** | 21.5 |
| **Adjusted earnings attributable to the owners of the parent** | **362.1** | 329.1 |

1. This adjustment represents the non-owned element of the Group's subsidiaries which is excluded from adjusted earnings.
2. The impairment of long-term development contracts has been removed from our adjusted earnings due to the long-term, capital nature of these programmes.

| | 2016 million | 2015 million |
|---|---|---|
| Weighted average number of ordinary shares | **801.1** | 800.9 |
| Weighted average number of treasury shares | **(10.5)** | (10.5) |
| Weighted average number of own shares | **(0.9)** | (0.8) |
| **Weighted average number of ordinary shares – basic earnings per share** | **789.7** | 789.6 |
| Dilutive effect of share options | **3.0** | 3.5 |
| **Weighted average number of ordinary shares – diluted earnings per share** | **792.7** | 793.1 |

| | 2016 pence | 2015 pence |
|---|---|---|
| **Basic earnings per share** | **169.4** | 306.1 |
| **Diluted earnings per share** | **168.8** | 304.7 |
| | | |
| **Adjusted earnings per share** | **45.9** | 41.7 |
| **Adjusted diluted earnings per share** | **45.7** | 41.5 |
| | | |
| **EPRA adjusted earnings per share** | **42.2** | 37.5 |
| **EPRA adjusted diluted earnings per share** | **42.0** | 37.4 |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 12. DIVIDENDS

### ACCOUNTING POLICY

Interim dividend distributions to shareholders are recognised in the financial statements when paid. Final dividend distributions are recognised as a liability in the period in which they are approved by shareholders.

| | | Pence per share | | | Group and Company | |
|---|---|---|---|---|---|---|
| Ordinary dividends paid | Payment date | PID | Non-PID | Total | **2016 £m** | 2015 £m |
| For the year ended 31 March 2014: | | | | | | |
| Third interim | 11 April 2014 | 7.6 | – | 7.6 | | 59.8 |
| Final | 22 July 2014 | 7.9 | – | 7.9 | | 62.4 |
| For the year ended 31 March 2015: | | | | | | |
| First interim | 10 October 2014 | 7.9 | – | 7.9 | | 62.4 |
| Second interim | 8 January 2015 | 6.0 | 1.9 | 7.9 | | 62.4 |
| Third interim | **10 April 2015** | **7.9** | **–** | **7.9** | **62.4** | |
| Final | **24 July 2015** | **8.15** | **–** | **8.15** | **64.4** | |
| For the year ended 31 March 2016: | | | | | | |
| First interim | **9 October 2015** | **8.15** | **–** | **8.15** | **64.4** | |
| Second interim | **7 January 2016** | **–** | **8.15** | **8.15** | **64.4** | |
| **Gross dividends** | | | | | **255.6** | 247.0 |
| Dividends settled in shares | | | | | **–** | (17.2) |
| Historic unclaimed dividends refunded | | | | | **(0.2)** | – |
| **Dividends in statement of changes in equity** | | | | | **255.4** | 229.8 |
| Timing difference on payment of withholding tax | | | | | **6.6** | (0.4) |
| **Dividends in the statement of cash flows** | | | | | **262.0** | 229.4 |

A third quarterly interim dividend of **8.15p** per ordinary share, or **£64.4m** in total (2015: 7.9p or £62.4m in total), was paid on 8 April 2016 as a Property Income Distribution (PID). The Board has recommended a final dividend for the year ended 31 March 2016 of **10.55p** per ordinary share (2015: 8.15p) to be paid as a PID. This final dividend will result in a further estimated distribution of **£83.3m** (2015: £64.4m). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 28 July 2016 to shareholders registered at the close of business on 24 June 2016. The total dividend paid and recommended in respect of the year ended 31 March 2016 is therefore **35.0p** per ordinary share (2015: 31.85p).

A Dividend Reinvestment Plan (DRIP) has been available in respect of all dividends paid during the year and will be available in respect of the final dividend declared.

## 13. INCOME TAX

### ACCOUNTING POLICY

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 substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

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.

### CRITICAL ACCOUNTING JUDGEMENTS AND KEY ESTIMATIONS OF UNCERTAINTY (COMPLIANCE WITH REAL ESTATE INVESTMENT TRUST (REIT) TAXATION REGIME)

On 1 January 2007 the Group converted to a group REIT. As a result, the Group no longer pays UK corporation tax on its 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. In order to achieve and retain group REIT status, several entrance tests had to be met and certain on-going 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; and

— at least 90% of the notional taxable 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.

| Group | **2016 £m** | 2015 £m |
|---|---|---|
| **Current tax** | | |
| Income tax charge in respect of the financial year | **(0.3)** | – |
| Adjustment in respect of prior financial years | **1.8** | 0.1 |
| **Total current income tax credit in the income statement** | **1.5** | 0.1 |
| | | |
| **Deferred tax** | | |
| Deferred tax movement on intangible asset | **0.9** | 0.2 |
| **Total deferred tax credit in the income statement** | **0.9** | 0.2 |
| | | |
| **Total income tax credit in the income statement** | **2.4** | 0.3 |

The tax for the year is lower than the standard rate of corporation tax in the UK of **20%** (2015: 21%). The differences are explained below:

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Profit before tax** | **1,335.6** | 2,416.5 |
| Profit before tax multiplied by the rate of corporation tax in the UK of **20%** (2015: 21%) | **(267.1)** | (507.5) |
| Exempt property rental profits and revaluations in the year | **259.9** | 510.4 |
| | **(7.2)** | 2.9 |
| Effects of: | | |
| Interest rate fair value movements and other unrecognised temporary differences | **(3.6)** | (7.8) |
| Adjustment in respect of prior years | **1.8** | 0.1 |
| Non-allowable expenses and non-taxable items | **4.6** | 1.1 |
| Utilisation of brought forward losses | **5.8** | 3.8 |
| Amortisation of intangible asset | **0.9** | 0.2 |
| Joint venture tax adjustment | **0.1** | – |
| **Total income tax credit in the income statement (as above)** | **2.4** | 0.3 |

The Group had unrecognised unutilised revenue and capital tax losses carried forward at 31 March 2016 of **£13.0m** (2015: £43.0m) and **£643.0m** (2015: £658.0m), respectively. A deferred tax asset has not been recognised in respect of either the revenue or capital losses given the high degree of uncertainty as to their future utilisation.

During the year the Group released provisions of **£1.8m** (2015: £0.1m) to the income statement on settlement of historical issues. The total deferred tax balance of **£9.5m** at 31 March 2016 (2015: £7.3m) comprises deferred tax arising on business combinations of **£4.9m** (2015: £5.8m) (note 42) and deferred tax arising on the Defined Benefit Pension Scheme surplus of **£4.6m** (2015: £1.5m).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 14. NET CASH GENERATED FROM OPERATIONS

| | Group | | Company | |
|---|---|---|---|---|
| Reconciliation of operating profit/(loss) to net cash generated from operations: | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| **Operating profit/(loss)** | **1,346.6** | 2,346.7 | **(22.0)** | (22.0) |
| | | | | |
| **Adjustments for:** | | | | |
| Net surplus on revaluation of investment properties | **(738.4)** | (1,770.6) | **–** | – |
| Movement in impairment of trading properties | **(11.5)** | (1.9) | **–** | – |
| Impairment of long-term development contracts | **0.1** | 11.3 | **–** | – |
| Profit on disposal of trading properties | **(40.7)** | (29.8) | **–** | – |
| Profit on disposal of investment properties | **(75.1)** | (107.1) | **–** | – |
| Profit on disposal of investments in joint ventures | **–** | (3.3) | **–** | – |
| Depreciation | **0.8** | 2.1 | **–** | – |
| Amortisation of intangible assets | **3.2** | 1.1 | **–** | – |
| Share-based payment charge | **7.9** | 6.0 | **–** | – |
| Defined benefit pension scheme charge | **0.8** | 1.1 | **–** | – |
| | **493.7** | 455.6 | **(22.0)** | (22.0) |
| **Changes in working capital:** | | | | |
| Increase in long-term development contracts | **–** | (0.6) | **–** | – |
| (Increase)/decrease in receivables | **(33.1)** | 5.6 | **–** | – |
| Increase in payables and provisions | **(9.6)** | (13.1) | **(22.0)** | (22.0) |
| **Net cash generated from operations** | **451.0** | 447.5 | **–** | – |

## SECTION 3 – PROPERTIES

This section focuses on the property assets which form the core of the Group's business. It includes details of investment properties, investments in joint ventures and trading properties.

The Group's property portfolio is a combination of wholly owned investment and trading properties, and investment and trading properties held through joint ventures. Investment properties are carried at fair value and trading properties are carried at the lower of cost and net realisable value. Both of these values are determined by the Group's external valuers.

The Group's wholly owned properties are presented as either 'Investment properties' or 'Trading properties' in the Group balance sheet. The Group applies equity accounting to its investments in joint ventures, which requires the Group's share of properties held by joint ventures to be presented within 'Investments in joint ventures'. The combined value of the Group's total investment property portfolio (including the Group's share of investment properties held through joint ventures) is shown as a reconciliation in note 15.

### 15. INVESTMENT PROPERTIES

#### ACCOUNTING POLICY

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 market value determined by professional independent valuers at 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. This generally occurs on unconditional exchange or on completion, particularly if this is expected to occur significantly after exchange or the Group has significant outstanding obligations between exchange and completion. 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 surplus or deficit. The profit on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property continues to be held as an investment property. When the Group begins to redevelop an existing investment property with a view to sell, 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 the income statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

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 land or property acquired specifically for redevelopment in the short-term but only where activities necessary to prepare the asset for redevelopment are in progress.

#### CRITICAL ACCOUNTING JUDGEMENTS AND KEY ESTIMATIONS OF UNCERTAINTY (INVESTMENT PROPERTY VALUATION AND ACCOUNTING FOR PROPERTY ACQUISITIONS AND DISPOSALS)

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the property market.

The investment property valuation contains a number of assumptions upon which the Group's valuers have based their valuation of the Group's properties as at 31 March 2016. The assumptions on which the property valuation reports have been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties, the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are market standard and accord with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards 2012. However, if any assumptions made by the property valuer prove to be inaccurate, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial position.

In assessing the recognition of a property acquisition or disposal, judgement is required on whether the Group holds the risks and reward of ownership and the point at which this is obtained or relinquished. Consideration is given to the terms of the acquisition/disposal contracts and any conditions that must be satisfied before the contract is fulfilled and, in the case of an acquisition, whether the transaction represents an asset acquisition or business combination.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 15. INVESTMENT PROPERTIES CONTINUED

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Net book value at the beginning of the year** | **12,158.0** | 9,847.7 |
| Acquisitions | **156.9** | 108.9 |
| Acquired in business combination | **–** | 910.8 |
| Capital expenditure: Investment portfolio | **91.2** | 72.5 |
| Developments | **103.6** | 203.7 |
| Capitalised interest | **9.2** | 11.4 |
| Disposals | **(880.7)** | (470.6) |
| Net movement in finance leases | **(18.9)** | (13.6) |
| Transfer to non-current assets held for sale (note 43) | **–** | (283.4) |
| Valuation surplus | **738.4** | 1,770.6 |
| **Net book value at 31 March** | **12,357.7** | 12,158.0 |

The market value of the Group's investment properties, as determined by the Group's external valuers, differs from the net book value presented in the balance sheet due to the Group presenting lease incentives, tenant finance leases and head leases separately. The following table reconciles the net book value of the investment properties to the market value.

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Group (excl. joint ventures) £m** | **Joint ventures[1] £m** | **Adjustment for proportionate share[2] £m** | **Combined Portfolio £m** | Group (excl. joint ventures) £m | Joint ventures[1] £m | Adjustment for proportionate share[2] £m | Combined Portfolio £m |
| Net book value | **12,357.7** | **1,629.9** | **(33.6)** | **13,954.0** | 12,158.0 | 1,403.0 | (31.8) | 13,529.2 |
| Plus: tenant lease incentives | **267.5** | **42.8** | **(0.3)** | **310.0** | 251.0 | 26.5 | (0.2) | 277.3 |
| Less: head leases capitalised | **(13.5)** | **–** | **–** | **(13.5)** | (16.5) | – | 0.2 | (16.3) |
| Plus: properties treated as finance leases | **220.5** | **–** | **(0.5)** | **220.0** | 242.4 | – | (1.2) | 241.2 |
| **Market value** | **12,832.2** | **1,672.7** | **(34.4)** | **14,470.5** | 12,634.9 | 1,429.5 | (33.0) | 14,031.4 |

1. Refer to note 16 for a breakdown of this amount by entity.
2. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

The net book value of leasehold properties where head leases have been capitalised is **£967.9m** (2015: £911.8m).

Investment properties include capitalised interest of **£201.1m** (2015: £198.2m). The average rate of interest capitalisation for the year is **5.0%** (2015: 5.0%). The historical cost of investment properties is **£6,611.6m** (2015: £7,185.4m).

### Valuation process

The fair value of investment properties at 31 March 2016 was determined by the Group's independent valuer, CBRE. The valuations are in accordance with RICS standards and were arrived at by reference to market evidence of transactions for similar properties. The valuations performed by the independent valuer are reviewed internally by senior management and relevant people within the London and Retail business units. This process includes discussions of the assumptions used by the independent valuer, as well as a review of the resulting valuations. Discussions of the valuation process and results are held between senior management, the Audit Committee and the independent valuer on a half-yearly basis.

The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms and using appropriate valuation techniques. The fair value of investment properties is determined using the income capitalisation approach. Under this approach, forecast net cash flows, based upon current market derived estimated rental values (market rents) together with estimated costs, are discounted at market derived capitalisation rates to produce the valuer's opinion of fair value. The average discount rate, which, if applied to all cash flows, would produce the fair value, is described as the equivalent yield.

Properties in the development programme are typically valued using a residual valuation method. Under this methodology, the valuer assesses the completed development value using income and yield assumptions. Deductions are then made for estimated costs to complete, including finance and developer's profit, to arrive at the valuation. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

The Group considers all of its investment properties to fall within 'Level 3', as defined by IFRS 13 and as explained in note 27(iii). Accordingly, there have been no transfers of properties within the fair value hierarchy in the financial year. Costs include future estimated costs associated with refurbishment or development (excluding finance costs), together with an estimate of cash incentives to be paid to tenants.

## 15. INVESTMENT PROPERTIES CONTINUED

The table below summarises the key unobservable inputs used in the valuation of the Group's wholly owned investment properties at 31 March 2016:

| 2016 | Market value £m | Estimated rental value £ per sq ft Low | Average | High | Equivalent yield % Low | Average | High | Costs £ per sq ft Low | Average | High |
|---|---|---|---|---|---|---|---|---|---|---|
| **Retail Portfolio** | | | | | | | | | | |
| Shopping centres and shops | **3,133.4** | **4** | **33** | **49** | **4.0** | **4.7** | **7.7** | **–** | **9** | **35** |
| Retail parks | **886.4** | **11** | **21** | **28** | **3.5** | **5.4** | **10.0** | **–** | **2** | **30** |
| Leisure and hotels | **1,520.4** | **4** | **16** | **33** | **3.8** | **5.2** | **8.1** | **–** | **1** | **20** |
| Other[1] | **20.2** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| **Total Retail Portfolio (excluding developments)** | **5,560.4** | **4** | **26** | **49** | **3.5** | **4.9** | **10.0** | **–** | **6** | **35** |
| | | | | | | | | | | |
| **London Portfolio** | | | | | | | | | | |
| West End | **2,506.4** | **16** | **49** | **68** | **2.9** | **3.7** | **5.0** | **–** | **18** | **134** |
| City | **796.5** | **47** | **59** | **63** | **4.3** | **4.5** | **5.2** | **–** | **10** | **21** |
| Mid-town | **1,053.2** | **31** | **56** | **61** | **4.3** | **4.4** | **4.4** | **–** | **2** | **3** |
| Inner London | **320.1** | **27** | **35** | **49** | **4.8** | **4.9** | **5.5** | **–** | **–** | **8** |
| **Total London offices** | **4,676.2** | **16** | **51** | **68** | **2.9** | **4.1** | **5.5** | **–** | **12** | **134** |
| Central London shops | **1,257.9** | **23** | **72** | **140** | **2.9** | **4.1** | **5.1** | **–** | **2** | **7** |
| Other[1] | **44.5** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| **Total London Portfolio (excluding developments)** | **5,978.6** | **14** | **55** | **140** | **2.9** | **4.0** | **5.7** | **–** | **10** | **134** |
| | | | | | | | | | | |
| Developments: income capitalisation method | **1,293.2** | **17** | **67** | **79** | **4.0** | **4.1** | **4.4** | **–** | **37** | **162** |
| **Development programme** | **1,293.2** | **17** | **67** | **79** | **4.0** | **4.1** | **4.4** | **–** | **37** | **162** |
| | | | | | | | | | | |
| **Market value – Group** | **12,832.2** | | | | | | | | | |

1. The 'Other' category contains a range of low value properties of a diverse nature. As a result it is not meaningful to present assumptions used in valuing these properties.

The sensitivities illustrate the impact of changes in key unobservable inputs (in isolation) on the fair value of the Group's properties:

| Sensitivities (2016) | Market value £m | Impact on valuations of 5% change in estimated rental value: Increase £m | Decrease £m | Impact on valuations of 25 bps change in equivalent yield: Decrease £m | Increase £m | Impact on valuations of 5% change in costs: Decrease £m | Increase £m |
|---|---|---|---|---|---|---|---|
| Total Retail Portfolio (excluding developments) | **5,560.4** | **240.4** | **(236.2)** | **292.1** | **(286.9)** | **6.3** | **(6.6)** |
| Total London Portfolio (excluding developments) | **5,978.6** | **241.7** | **(240.8)** | **396.5** | **(348.9)** | **20.8** | **(21.2)** |
| Developments: income capitalisation method | **1,293.2** | **40.7** | **(40.5)** | **95.2** | **(81.2)** | **2.1** | **(2.1)** |
| **Market value – Group** | **12,832.2** | | | | | | |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 15. INVESTMENT PROPERTIES CONTINUED

The table below summarises the key unobservable inputs used in the valuation of the Group's wholly owned investment properties at 31 March 2015:

| | Market value £m | Estimated rental value £ per sq ft | | | Equivalent yield % | | | Costs £ per sq ft 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Low | Average | High | Low | Average | High | Low | Average | High |
| **Retail Portfolio** | | | | | | | | | | |
| Shopping centres and shops | 3,029.6 | 9 | 34 | 57 | 4.2 | 4.7 | 7.6 | – | 4 | 11 |
| Retail parks | 1,199.1 | 11 | 20 | 29 | 5.0 | 5.5 | 7.6 | – | 3 | 32 |
| Leisure and hotels | 1,442.3 | 5 | 13 | 57 | 3.9 | 5.9 | 9.4 | – | 1 | 19 |
| Other[1] | 22.8 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| **Total Retail Portfolio (excluding developments)** | 5,693.8 | 5 | 22 | 57 | 3.9 | 5.2 | 9.4 | – | 3 | 32 |
| | | | | | | | | | | |
| **London Portfolio** | | | | | | | | | | |
| West End | 2,052.4 | 16 | 53 | 64 | 3.7 | 4.5 | 5.5 | – | 17 | 76 |
| City | 770.6 | 41 | 51 | 56 | 4.2 | 4.4 | 5.0 | – | 2 | 17 |
| Mid-town | 1,101.4 | 32 | 49 | 59 | 4.2 | 4.3 | 5.3 | – | 13 | 83 |
| Inner London | 483.3 | 27 | 31 | 41 | 4.8 | 5.5 | 6.1 | – | 38 | 73 |
| **Total London offices** | 4,407.7 | 16 | 47 | 64 | 3.7 | 4.5 | 6.1 | – | 18 | 83 |
| Central London shops | 1,119.8 | 12 | 57 | 129 | 3.0 | 4.6 | 5.8 | – | 1 | 2 |
| Other[1] | 70.1 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| **Total London Portfolio (excluding developments)** | 5,597.6 | 12 | 48 | 129 | 3.0 | 4.5 | 6.1 | – | 16 | 83 |
| | | | | | | | | | | |
| Developments: income capitalisation method | 376.5 | 49 | 69 | 70 | 4.5 | 4.5 | 4.8 | 3 | 3 | 3 |
| Developments: residual method | 967.0 | 28 | 49 | 75 | 4.1 | 4.4 | 5.0 | 57 | 180 | 427 |
| **Development programme** | 1,343.5 | 28 | 52 | 75 | 4.1 | 4.4 | 5.0 | 3 | 148 | 427 |
| | | | | | | | | | | |
| **Market value – Group** | 12,634.9 | | | | | | | | | |

1. The 'Other' category contains a range of low value properties of a diverse nature. As a result it is not meaningful to present assumptions used in valuing these properties.

| Sensitivities | Market value £m | Impact on valuations of 5% change in estimated rental value: Increase £m | Decrease £m | Impact on valuations of 25 bps change in equivalent yield: Decrease £m | Increase £m | Impact on valuations of 5% change in costs (2015): Decrease £m | Increase £m |
|---|---|---|---|---|---|---|---|
| Total Retail Portfolio (excluding developments) | 5,693.8 | 243.8 | (221.0) | 274.2 | (248.3) | n/a | n/a |
| Total London Portfolio (excluding developments) | 5,597.6 | 244.4 | (225.6) | 343.6 | (307.8) | n/a | n/a |
| Developments: income capitalisation method | 376.5 | 17.9 | (15.2) | 24.6 | (22.0) | n/a | n/a |
| Developments: residual method | 967.0 | 36.2 | (34.9) | 97.0 | (87.1) | 21.6 | (22.4) |
| **Market value – Group** | 12,634.9 | | | | | | |

## 16. JOINT ARRANGEMENTS

### ACCOUNTING POLICY

Joint arrangements are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint arrangements are accounted for as either a joint venture or a joint operation as permitted by IFRS 11 'Joint Arrangements'. The accounting treatment for our joint arrangements requires an assessment to determine whether the Group has joint control over the arrangement and to consider whether the Group has an interest in the net assets or a direct interest in the assets and liabilities of the arrangement.

A joint arrangement is accounted for as a joint venture when the Group, along with the other parties that have joint control of the arrangement, have rights to the net assets of the arrangement. In the Group's statutory financial statements, interests in joint ventures are accounted for using the equity method of accounting. 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 with net liabilities are carried at zero value in the balance sheet where there is no commitment to fund the deficit and any distributions are included in the consolidated income statement for the year.

A joint arrangement is accounted for as a joint operation when the Group, along with the parties that have joint control of the arrangement, have rights to the assets and obligations for the liabilities relating to the arrangement. The Group's share of jointly controlled assets, related liabilities, income and expenses are combined with the equivalent items in the financial statements on a line-by-line basis. All information presented in respect of joint arrangements is consistent with the Group's reporting date.

The Group's joint arrangements are described below:

| Joint ventures | Percentage owned & voting rights | Business segment | Year end date[1] | Joint venture partners |
|---|---|---|---|---|
| **Held at 31 March 2016** | | | | |
| 20 Fenchurch Street Limited Partnership | 50.0% | London Portfolio | 31 March | Canary Wharf Group plc |
| Nova, Victoria[2] | 50.0% | London Portfolio | 31 March | Canada Pension Plan Investment Board |
| Metro Shopping Fund Limited Partnership | 50.0% | Retail Portfolio | 31 March | Delancey Real Estate Partners Limited |
| St. David's Limited Partnership | 50.0% | Retail Portfolio | 31 December | Intu Properties plc |
| Westgate Oxford Alliance Limited Partnership | 50.0% | Retail Portfolio | 31 March | The Crown Estate Commissioners |
| The Oriana Limited Partnership[3] | 50.0% | London Portfolio | 31 March | Frogmore Real Estate Partners Limited Partnership |
| Harvest[4,5] | 50.0% | Retail Portfolio | 31 March | J Sainsbury plc |
| The Ebbsfleet Limited Partnership[5] | 50.0% | London Portfolio | 31 March | Ebbsfleet Property Limited |
| Millshaw Property Co. Limited[5,6] | 50.0% | Retail Portfolio | 31 March | Evans Property Group Limited |
| Countryside Land Securities (Springhead) Limited[5] | 50.0% | London Portfolio | 30 September | Countryside Properties PLC |
| West India Quay Unit Trust[5,7] | 50.0% | Retail Portfolio | 31 December | Schroder Exempt Property Unit Trust |

| Joint operation | Ownership interest | Business segment | Joint operation partners |
|---|---|---|---|
| Bluewater, Kent | 30.0% | Retail Portfolio | M&G Real Estate and GIC<br>Lend Lease Retail Partnership<br>Hermes and Aberdeen Asset Management |

The following joint arrangements were sold or transferred to investments in subsidiaries in the year ended 31 March 2015:

| Joint ventures | Percentage owned & voting rights | Business segment | Joint venture partners |
|---|---|---|---|
| Buchanan Partnership | 50.0% | Retail Portfolio | The Henderson UK Shopping Centre Fund |
| Bristol Alliance Limited Partnership | 50.0% | Retail Portfolio | Hammerson plc |
| The Martineau Galleries Limited Partnership[5] | 33.3% | Retail Portfolio | Hammerson plc<br>Pearl Group Limited |

| Joint operations | Ownership interest | Business segment | Joint operation partners |
|---|---|---|---|
| Princesshay, Exeter | 50.0% | Retail Portfolio | The Crown Estate Commissioners |
| Thomas More Square, E1 | 50.0% | London Portfolio | The Cadillac Fairview Corporation Limited |

1. The year end date shown is the accounting reference date of the joint venture. In all cases the Group's accounting is performed using financial information for the Group's own reporting period and reporting date.
2. Nova, Victoria includes the Victoria Circle Limited Partnership, Nova Residential Limited Partnership and Victoria Circle Developer Limited.
3. On 6 August 2015, The Oriana Limited Partnership disposed of its interest in 6-17 Tottenham Court Road, W1 to a subsidiary of the Group.
4. On 31 March 2016, The Harvest Limited Partnership was dissolved after disposing of its interests in Lincoln and Thanet earlier in the year. Harvest now comprises Harvest 2 Limited Partnership and Harvest Development Management Limited.
5. Included within Other in subsequent tables.
6. On 22 July 2015, Millshaw Property Co. Limited disposed of the Millshaw Park Industrial Estate, Leeds, its only property interest.
7. West India Quay Unit Trust is held in the X-Leisure Unit Trust (X-Leisure) in which the Group holds a 95% share.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 16. JOINT ARRANGEMENTS CONTINUED

All of the Group's joint arrangements have their principal place of business in the United Kingdom. All of the Group's joint arrangements own and operate investment property with the exception of The Ebbsfleet Limited Partnership and Countryside Land Securities (Springhead) Limited, which hold development land as trading properties, and Millshaw Property Co. Limited which disposed of its only property interest during the year. The Westgate Oxford Alliance Limited Partnership, Nova, Victoria and The Oriana Limited Partnership are also engaged in the development of investment and trading properties. The activities of all the Group's joint arrangements are therefore strategically important to the business activities of the Group.

All joint ventures are registered in England and Wales with the exception of the Metro Shopping Fund Limited Partnership and West India Quay Unit Trust which are registered in Jersey.

| | | | | | | | | | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Joint ventures<br>**Income statement** | 20 Fenchurch Street Limited Partnership 100% £m | Nova, Victoria 100% £m | Metro Shopping Fund Limited Partnership 100% £m | St. David's Limited Partnership 100% £m | Westgate Oxford Alliance Partnership 100% £m | The Oriana Limited Partnership 100% £m | Individually material JVs at LS's share 50% £m | Other LS share £m | Total LS share £m |
| **Revenue[1]** | 44.8 | – | 18.8 | 44.6 | 3.4 | 1.4 | 56.5 | 3.2 | 59.7 |
| **Gross rental income (after rents payable)** | 36.0 | – | 15.2 | 36.6 | 2.6 | 1.0 | 45.7 | 2.7 | 48.4 |
| **Net rental income/(expense)** | 34.4 | (1.2) | 14.4 | 29.8 | 1.4 | 0.8 | 39.8 | 1.8 | 41.6 |
| **Segment profit/(loss) before interest** | 33.4 | (1.4) | 14.2 | 28.6 | 1.2 | 0.8 | 38.4 | 1.3 | 39.7 |
| Interest expense | (32.4) | (28.6) | (7.2) | – | (6.0) | – | (37.1) | – | (37.1) |
| Capitalised interest | – | 28.2 | 0.2 | – | 5.6 | – | 17.0 | – | 17.0 |
| **Net interest expense** | (32.4) | (0.4) | (7.0) | – | (0.4) | – | (20.1) | – | (20.1) |
| **Revenue profit** | 1.0 | (1.8) | 7.2 | 28.6 | 0.8 | 0.8 | 18.3 | 1.3 | 19.6 |
| **Capital and other items** | | | | | | | | | |
| Net surplus on revaluation of investment properties | 85.8 | 87.2 | 55.8 | 73.0 | 19.4 | 19.4 | 170.3 | 1.1 | 171.4 |
| Movement in impairment of trading properties | – | – | – | – | – | – | – | 4.4 | 4.4 |
| Impairment of long-term development contracts | – | – | – | – | – | – | – | 0.1 | 0.1 |
| Profit/(loss) on disposal of investment properties | 1.2 | – | (0.2) | – | – | 4.2 | 2.6 | 1.0 | 3.6 |
| Adjustment for non-wholly owned subsidiary[2] | – | – | – | – | – | – | – | 0.1 | 0.1 |
| **Profit before tax** | 88.0 | 85.4 | 62.8 | 101.6 | 20.2 | 24.4 | 191.2 | 8.0 | 199.2 |
| Taxation | – | – | (1.0) | – | – | (0.4) | (0.7) | (0.1) | (0.8) |
| **Post-tax profit** | 88.0 | 85.4 | 61.8 | 101.6 | 20.2 | 24.0 | 190.5 | 7.9 | 198.4 |
| Other comprehensive income | – | – | (0.2) | – | – | – | (0.1) | – | (0.1) |
| **Total comprehensive income** | 88.0 | 85.4 | 61.6 | 101.6 | 20.2 | 24.0 | 190.4 | 7.9 | 198.3 |
| | 50% | 50% | 50% | 50% | 50% | 50% | | | |
| **Land Securities' share of total comprehensive income** | 44.0 | 42.7 | 30.8 | 50.8 | 10.1 | 12.0 | 190.4 | 7.9 | 198.3 |

1. Revenue includes gross rental income (before rents payable), service charge income, other property related income, trading properties disposal proceeds and income from long-term development contracts.
2. The adjustment represents the non-owned element of a Group subsidiary's investment in a joint venture which is excluded from revenue profit and the 'Net surplus/(deficit) on revaluation of investment properties' shown in this note.

## 16. JOINT ARRANGEMENTS CONTINUED

2015

| Joint ventures<br>Income statement | 20 Fenchurch Street Limited Partnership 100% £m | Nova, Victoria 100% £m | Metro Shopping Fund Limited Partnership 100% £m | Buchanan Partnership[3] 100% £m | St. David's Limited Partnership 100% £m | Westgate Oxford Alliance Partnership 100% £m | Bristol Alliance Limited Partnership[4] 100% £m | The Oriana Limited Partnership 100% £m | Individually material JVs at LS's share 50% £m | Other LS share £m | Total LS share £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue[1]** | 37.4 | 0.2 | 17.4 | 11.6 | 42.8 | 4.2 | 25.0 | 12.4 | 75.5 | 8.8 | 84.3 |
| **Gross rental income (after rents payable)** | 31.0 | – | 14.0 | 10.4 | 33.6 | 3.2 | 21.2 | 12.0 | 62.7 | 6.4 | 69.1 |
| **Net rental income/(expense)** | 28.8 | (2.8) | 13.0 | 8.2 | 27.6 | 2.8 | 17.6 | 11.6 | 53.4 | 5.6 | 59.0 |
| **Segment profit/(loss) before interest** | 27.8 | (3.2) | 12.2 | 8.2 | 26.6 | 2.2 | 17.0 | 11.2 | 51.0 | 5.3 | 56.3 |
| | | | | | | | | | | | |
| Interest (expense)/income | (28.2) | (19.2) | (6.6) | (4.2) | (3.6) | – | – | (7.8) | (34.8) | 0.3 | (34.5) |
| Capitalised interest | 0.4 | 18.8 | 0.4 | – | – | 0.2 | – | 0.6 | 10.2 | – | 10.2 |
| **Net interest (expense)/income** | (27.8) | (0.4) | (6.2) | (4.2) | (3.6) | 0.2 | – | (7.2) | (24.6) | 0.3 | (24.3) |
| | | | | | | | | | | | |
| **Revenue profit** | – | (3.6) | 6.0 | 4.0 | 23.0 | 2.4 | 17.0 | 4.0 | 26.4 | 5.6 | 32.0 |
| | | | | | | | | | | | |
| **Capital and other items** | | | | | | | | | | | |
| Net surplus on revaluation of investment properties | 187.0 | 80.0 | 61.8 | – | 118.4 | 21.8 | – | 63.2 | 266.1 | 3.0 | 269.1 |
| Impairment of trading properties | – | – | – | – | – | – | – | – | – | (0.3) | (0.3) |
| (Loss)/profit on disposal of trading properties | – | – | – | – | (0.2) | – | – | – | (0.1) | 1.8 | 1.7 |
| Profit on disposal of investment properties | – | – | – | – | – | 0.2 | – | 42.4 | 21.3 | 4.3 | 25.6 |
| Fair value movement on interest-rate swaps | – | – | – | – | 0.6 | – | – | (2.2) | (0.8) | – | (0.8) |
| Impairment of unamortised finance costs | – | – | – | – | – | – | – | (3.3) | (1.6) | – | (1.6) |
| Adjustment for non-wholly owned subsidiary[2] | – | – | – | – | – | – | – | – | – | 0.1 | 0.1 |
| **Profit before tax** | 187.0 | 76.4 | 67.8 | 4.0 | 141.8 | 24.4 | 17.0 | 104.1 | 311.3 | 14.5 | 325.8 |
| Taxation | – | – | – | – | – | – | – | – | – | – | – |
| **Post-tax profit** | 187.0 | 76.4 | 67.8 | 4.0 | 141.8 | 24.4 | 17.0 | 104.1 | 311.3 | 14.5 | 325.8 |
| Other comprehensive income | – | – | (3.4) | – | – | – | – | – | (1.7) | – | (1.7) |
| **Total comprehensive income** | 187.0 | 76.4 | 64.4 | 4.0 | 141.8 | 24.4 | 17.0 | 104.1 | 309.6 | 14.5 | 324.1 |
| | | | | | | | | | | | |
| | 50% | 50% | 50% | 50% | 50% | 50% | 50% | 50% | | | |
| **Land Securities' share of total comprehensive income** | 93.5 | 38.2 | 32.2 | 2.0 | 70.9 | 12.2 | 8.5 | 52.1 | 309.6 | 14.5 | 324.1 |

1. Revenue includes gross rental income (before rents payable), service charge income, other property related income, trading properties disposal proceeds and income from long-term development contracts.
2. The adjustment represents the non-owned element of a Group subsidiary's investment in a joint venture which is excluded from revenue profit and the 'Net surplus/(deficit) on revaluation of investment properties' shown in this note.
3. On 31 October 2014, the Group acquired the remaining 50% interest in Buchanan Galleries, Glasgow from its joint venture partner, therefore the table above only represents the Group's share of comprehensive income up to this date.
4. On 30 October 2014, the Group disposed of its interest in the Bristol Alliance Limited Partnership, therefore the table above only represents the Group's share of comprehensive income up to this date.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 16. JOINT ARRANGEMENTS CONTINUED

| Joint ventures<br>Balance sheet at 31 March 2016 | 20 Fenchurch Street Limited Partnership 100% £m | Nova, Victoria 100% £m | Metro Shopping Fund Limited Partnership 100% £m | St. David's Limited Partnership 100% £m | Westgate Oxford Alliance Partnership 100% £m | The Oriana Limited Partnership 100% £m | Individually material JVs at LS's share 50% £m | Other LS share £m | Total LS share £m |
|---|---|---|---|---|---|---|---|---|---|
| Investment properties[1] | **1,008.0** | **680.0** | **378.4** | **716.0** | **247.4** | **158.6** | **1,594.2** | **35.7** | **1,629.9** |
| **Non-current assets** | **1,008.0** | **680.0** | **378.4** | **716.0** | **247.4** | **158.6** | **1,594.2** | **35.7** | **1,629.9** |
| Cash and cash equivalents | **12.4** | **12.4** | **7.2** | **6.8** | **9.4** | **26.2** | **37.2** | **6.0** | **43.2** |
| Other current assets | **70.6** | **258.0** | **5.8** | **21.4** | **1.2** | **33.6** | **195.3** | **39.9** | **235.2** |
| **Current assets** | **83.0** | **270.4** | **13.0** | **28.2** | **10.6** | **59.8** | **232.5** | **45.9** | **278.4** |
| **Total assets** | **1,091.0** | **950.4** | **391.4** | **744.2** | **258.0** | **218.4** | **1,826.7** | **81.6** | **1,908.3** |
| Trade and other payables and provisions | **(109.0)** | **(119.8)** | **(11.2)** | **(12.6)** | **(5.6)** | **(29.4)** | **(143.8)** | **(9.1)** | **(152.9)** |
| **Current liabilities** | **(109.0)** | **(119.8)** | **(11.2)** | **(12.6)** | **(5.6)** | **(29.4)** | **(143.8)** | **(9.1)** | **(152.9)** |
| Non-current financial liabilities | **–** | **–** | **(174.4)** | **–** | **–** | **–** | **(87.2)** | **–** | **(87.2)** |
| **Non-current liabilities** | **–** | **–** | **(174.4)** | **–** | **–** | **–** | **(87.2)** | **–** | **(87.2)** |
| **Total liabilities** | **(109.0)** | **(119.8)** | **(185.6)** | **(12.6)** | **(5.6)** | **(29.4)** | **(231.0)** | **(9.1)** | **(240.1)** |
| **Net assets** | **982.0** | **830.6** | **205.8** | **731.6** | **252.4** | **189.0** | **1,595.7** | **72.5** | **1,668.2** |
| **Market value of investment properties[1]** | **1,075.0** | **680.0** | **381.0** | **732.0** | **247.4** | **158.6** | **1,637.0** | **35.7** | **1,672.7** |
| **Net (debt)/cash** | **12.4** | **12.4** | **(167.2)** | **6.8** | **9.4** | **26.2** | **(50.0)** | **6.0** | **(44.0)** |
| **Balance sheet at 31 March 2015** | | | | | | | | | |
| Investment properties[1] | 916.4 | 453.2 | 308.6 | 641.6 | 100.0 | 242.4 | 1,331.1 | 71.9 | 1,403.0 |
| **Non-current assets** | 916.4 | 453.2 | 308.6 | 641.6 | 100.0 | 242.4 | 1,331.1 | 71.9 | 1,403.0 |
| Cash and cash equivalents | 6.6 | 4.0 | 10.2 | 6.2 | 8.6 | 62.2 | 48.9 | 9.3 | 58.2 |
| Other current assets | 35.0 | 184.8 | 6.0 | 23.2 | 1.0 | 28.2 | 139.1 | 32.5 | 171.6 |
| **Current assets** | 41.6 | 188.8 | 16.2 | 29.4 | 9.6 | 90.4 | 188.0 | 41.8 | 229.8 |
| **Total assets** | 958.0 | 642.0 | 324.8 | 671.0 | 109.6 | 332.8 | 1,519.1 | 113.7 | 1,632.8 |
| Trade and other payables and provisions | (66.0) | (97.0) | (5.9) | (13.2) | (2.6) | (41.4) | (113.0) | (4.8) | (117.8) |
| **Current liabilities** | (66.0) | (97.0) | (5.9) | (13.2) | (2.6) | (41.4) | (113.0) | (4.8) | (117.8) |
| Non-current financial liabilities | – | – | (147.0) | – | – | – | (73.5) | (8.0) | (81.5) |
| **Non-current liabilities** | – | – | (147.0) | – | – | – | (73.5) | (8.0) | (81.5) |
| **Total liabilities** | (66.0) | (97.0) | (152.9) | (13.2) | (2.6) | (41.4) | (186.5) | (12.8) | (199.3) |
| **Net assets** | 892.0 | 545.0 | 171.9 | 657.8 | 107.0 | 291.4 | 1,332.6 | 100.9 | 1,433.5 |
| **Market value of investment properties[1]** | 948.2 | 453.2 | 310.6 | 660.0 | 100.0 | 242.6 | 1,357.3 | 72.2 | 1,429.5 |
| **Net (debt)/cash** | 6.6 | 4.0 | (136.8) | 6.2 | 8.6 | 62.2 | (24.6) | 1.3 | (23.3) |

1. The difference between the book value and the market value is the amount recognised in respect of lease incentives, head leases capitalised and properties treated as finance leases, where applicable.

## 16. JOINT ARRANGEMENTS CONTINUED

| Joint ventures<br>**Net investment** | 20 Fenchurch Street Limited Partnership 50% £m | Nova, Victoria 50% £m | Metro Shopping Fund Limited Partnership 50% £m | St. David's Limited Partnership 50% £m | Westgate Oxford Alliance Partnership 50% £m | The Oriana Limited Partnership 50% £m | Individually material JVs at LS's share 50% £m | Other[1] LS share £m | Total LS share £m |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2014 | 330.4 | 181.3 | 49.7 | 195.3 | 30.7 | 118.5 | 905.9 | 537.4 | 1,443.3 |
| Total comprehensive income | 93.5 | 38.2 | 32.2 | 70.9 | 12.1 | 52.2 | 299.1 | 25.0 | 324.1 |
| Cash contributed | – | – | 4.9 | – | 10.7 | – | 15.6 | 1.1 | 16.7 |
| Loan advances | 22.0 | 53.1 | – | 78.3 | – | – | 153.4 | 0.5 | 153.9 |
| Loan repayments | – | – | – | (15.6) | – | (9.7) | (25.3) | (11.7) | (37.0) |
| Property and other contributions | 0.1 | – | – | – | – | – | 0.1 | 0.1 | 0.2 |
| Cash distributions | – | – | (0.9) | – | – | (15.3) | (16.2) | (43.5) | (59.7) |
| Disposal of investments | – | – | – | – | – | – | – | (408.0) | (408.0) |
| At 31 March 2015 | 446.0 | 272.6 | 85.9 | 328.9 | 53.5 | 145.7 | 1,332.6 | 100.9 | 1,433.5 |
| Total comprehensive income | **44.0** | **42.7** | **30.8** | **50.8** | **10.1** | **12.0** | **190.4** | **7.9** | **198.3** |
| Cash contributed | **–** | **–** | **–** | **–** | **62.6** | **–** | **62.6** | **–** | **62.6** |
| Loan advances | **1.0** | **100.0** | **0.7** | **–** | **–** | **–** | **101.7** | **4.2** | **105.9** |
| Loan repayments | **–** | **–** | **–** | **(13.9)** | **–** | **–** | **(13.9)** | **–** | **(13.9)** |
| Property and other distributions | **–** | **–** | **–** | **–** | **–** | **(55.7)** | **(55.7)** | **–** | **(55.7)** |
| Cash distributions | **–** | **–** | **(14.5)** | **–** | **–** | **(7.5)** | **(22.0)** | **(40.5)** | **(62.5)** |
| **At 31 March 2016** | **491.0** | **415.3** | **102.9** | **365.8** | **126.2** | **94.5** | **1,595.7** | **72.5** | **1,668.2** |

1. In the prior year, the Group acquired the remaining interest in Buchanan Galleries, Glasgow from its joint venture partner and disposed of its interest in the Bristol Alliance Limited Partnership. The movements in the Group's interest in these joint ventures have been included within the 'Other' column in the table above.

## 17. TRADING PROPERTIES AND LONG-TERM DEVELOPMENT CONTRACTS

### ACCOUNTING POLICY

Trading properties are those properties held for sale, or those being developed with a view to sell, and are recorded at the lower of cost and net realisable value. Proceeds received on the sale of trading properties are recognised within Revenue.

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.

### CRITICAL ACCOUNTING JUDGEMENTS AND KEY ESTIMATIONS OF UNCERTAINTY (TRADING PROPERTY VALUATION)

Trading properties are carried at the lower of cost and net realisable value. The latter is assessed by the Group having regard to valuations performed by its external valuer.

The estimation of the net realisable value of the Group's trading properties, especially the development land and infrastructure programmes, is inherently subjective due to a number of factors, including their complexity, unusually large size, the substantial expenditure required and long timescales to completion. In addition, as a result of these timescales to completion, the plans associated with these programmes could be subject to significant variation. As a result, and similar to the valuation of investment properties, the net realisable values of the Group's trading properties are subject to a degree of uncertainty and are determined on the basis of assumptions which may not prove to be accurate.

If the assumptions upon which the external valuer has based its valuation prove to be inaccurate, this may have an impact on the net realisable value of the Group's trading properties, which could in turn have an effect on the Group's financial position.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 17. TRADING PROPERTIES AND LONG-TERM DEVELOPMENT CONTRACTS CONTINUED

| Group | Development land and infrastructure £m | Residential £m | Total trading properties £m | Long-term development contracts £m | Total £m |
|---|---|---|---|---|---|
| At 1 April 2014 | 96.1 | 86.1 | 182.2 | 10.7 | 192.9 |
| Capital expenditure | 6.5 | 48.2 | 54.7 | 0.6 | 55.3 |
| Capitalised interest | 0.5 | 3.1 | 3.6 | – | 3.6 |
| Disposals | (20.1) | – | (20.1) | – | (20.1) |
| Movement in impairment | 1.9 | – | 1.9 | – | 1.9 |
| Impairment of long-term development contracts | – | – | – | (11.3) | (11.3) |
| At 31 March 2015 | 84.9 | 137.4 | 222.3 | 102.0 | 222.3 |
| Capital expenditure | **9.7** | **17.3** | **27.0** | **–** | **27.0** |
| Capitalised interest | **–** | **2.3** | **2.3** | **–** | **2.3** |
| Disposals | **(19.2)** | **(120.5)** | **(139.7)** | **–** | **(139.7)** |
| Movement in impairment | **12.2** | **(0.7)** | **11.5** | **–** | **11.5** |
| **At 31 March 2016** | **87.6** | **35.8** | **123.4** | **–** | **123.4** |

The cumulative impairment provision at 31 March 2016 in respect of Development land and infrastructure was **£79.1m** (2015: £91.3m); and in respect of Residential was **£0.7m** (2015: £nil).

## 18. CAPITAL COMMITMENTS

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Contracted capital commitments at the end of the year in respect of:** | | |
| Investment properties | **102.0** | 163.7 |
| Trading properties | **1.7** | 11.0 |
| | **103.7** | 174.7 |
| Joint ventures (our share) | **152.4** | 112.8 |
| **Total capital commitments** | **256.1** | 287.5 |

## 19. NET INVESTMENT IN FINANCE LEASES

### ACCOUNTING POLICY

Where the Group's leases transfer the significant risks and rewards of owning the asset to the tenant, the lease is accounted for as a finance lease. At the outset of the lease the fair value of the asset is de-recognised from investment property and recognised as a finance lease receivable. Lease income is recognised over the period of the lease, reflecting a constant rate of return. The difference between the gross receivable and the present value of the receivable is recognised as finance income within Revenue over the lease term.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Non-current** | | |
| Finance leases – gross receivables | **333.0** | 345.6 |
| Unearned finance income | **(184.0)** | (194.1) |
| Unguaranteed residual value | **33.6** | 33.6 |
| | **182.6** | 185.1 |
| **Current** | | |
| Finance leases – gross receivables | **12.6** | 12.0 |
| Unearned finance income | **(10.2)** | (10.2) |
| | **2.4** | 1.8 |
| **Net investment in finance leases** | **185.0** | 186.9 |
| **Gross receivables from finance leases due:** | | |
| Not later than one year | **12.6** | 12.0 |
| Later than one year but not more than five years | **51.5** | 51.2 |
| More than five years | **281.5** | 294.4 |
| | **345.6** | 357.6 |
| Unearned future finance income | **(194.2)** | (204.3) |
| Unguaranteed residual value | **33.6** | 33.6 |
| **Net investment in finance leases** | **185.0** | 186.9 |

The Group has leased out a number of investment properties under finance leases, which range from 30 to 99 years in duration from the inception of the lease. The fair value of the Group's finance lease receivables, using a discount rate of **4.9%** (2015: 4.5%), is **£225.5m** (2015: £192.8m).

## 20. OTHER PROPERTY, PLANT AND EQUIPMENT

### ACCOUNTING POLICY

Other property, plant and equipment comprise 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.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| Net book value at the beginning of the year | **9.6** | 7.3 |
| Transfer to intangible assets (note 21) | **(5.1)** | – |
| Capital expenditure | **1.4** | 4.4 |
| Depreciation | **(0.8)** | (2.1) |
| **Net book value at 31 March** | **5.1** | 9.6 |

## 21. INTANGIBLE ASSETS

### ACCOUNTING POLICY

Intangible assets comprise goodwill and other intangible assets arising on business combinations, and software used internally within the business. Intangible assets arising on business combinations are initially recognised at fair value. Goodwill is not amortised, but is tested at least annually for impairment (see note 5). Other intangible assets arising on business combinations are amortised to the income statement over their expected useful lives. Software assets are stated at cost less accumulated amortisation and are amortised on a straight-line basis over their estimated useful economic lives, normally five years.

| | Goodwill £m | Software £m | Other intangible asset £m | Total intangible assets £m |
|---|---|---|---|---|
| At 1 April 2014 | – | – | – | – |
| Arising on business combination (note 42) | 35.5 | – | 30.0 | 65.5 |
| Impairment of goodwill arising on business combination | (29.5) | – | – | (29.5) |
| Amortisation | - | – | (1.1) | (1.1) |
| Impairment of goodwill on unwind of deferred tax liability | (0.2) | – | – | (0.2) |
| At 31 March 2015 | 5.8 | – | 28.9 | 34.7 |
| Transfer from other property, plant and equipment (note 20) | **–** | **5.1** | **–** | **5.1** |
| Capital expenditure | **–** | **2.4** | **–** | **2.4** |
| Amortisation | **–** | **(1.7)** | **(1.5)** | **(3.2)** |
| Impairment of goodwill on unwind of deferred tax liability | **(0.9)** | **–** | **–** | **(0.9)** |
| **At 31 March 2016** | **4.9** | **5.8** | **27.4** | **38.1** |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## SECTION 4 – CAPITAL STRUCTURE AND FINANCING

This section focuses on the Group's financing structure, including borrowings and financial risk management.

The total capital of the Group consists of shareholders' equity and net debt. The Group's strategy is to maintain an appropriate net debt to total equity ratio (gearing) and loan-to-value ratio (LTV) to ensure that asset level performance is translated into enhanced returns for shareholders whilst maintaining an appropriate risk reward balance to accommodate changing financial and operating market cycles. As the Group came out of the last property downturn, its objective was to see rising asset values reduce gearing and LTV ratios. The table in note 22 details a number of the Group's key metrics in relation to managing its capital structure.

A key element of the Group's capital structure is that the majority of our borrowings are secured against a large pool of our assets (the Security Group). This enables us to raise long-term debt in the bond market, as well as shorter-term flexible bank facilities, both at competitive rates. In general, we follow a secured debt strategy as we believe this gives the Group better access to borrowings at a lower cost.

In addition, the Group holds a number of assets outside the Security Group structure (in the Non-restricted Group). These assets include a number of joint venture interests, our interests in X-Leisure, and other properties where we have asset specific finance. By having both the Security Group and the Non-restricted Group, and considerable flexibility to move assets between the two, we are able to raise the most appropriate finance for each specific asset or joint venture.

Under IFRS, a large part of our net debt is carried at below its final redemption amount and is increased over its life to its nominal value. We view our capital structure as if the debt were carried at its full redemption amount (see note 23 for an explanation of the bond exchange de-recognition adjustment).

## 22. CAPITAL STRUCTURE

| | | | | **2016** | | | | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Group £m** | **Joint ventures £m** | **Adjustment for non-wholly owned subsidiaries[1] £m** | **Combined £m** | Group £m | Joint ventures £m | Adjustment for non-wholly owned subsidiaries[1] £m | Combined £m |
| **Property portfolio** | | | | | | | | |
| Market value of investment properties | **12,832.2** | **1,672.7** | **(34.4)** | **14,470.5** | 12,634.9 | 1,429.5 | (33.0) | 14,031.4 |
| Trading properties and long-term contracts | **123.4** | **157.3** | **–** | **280.7** | 222.3 | 115.1 | – | 337.4 |
| Non-current assets held for sale | **–** | **–** | **–** | **–** | 283.4 | – | – | 283.4 |
| **Total property portfolio (a)** | **12,955.6** | **1,830.0** | **(34.4)** | **14,751.2** | 13,140.6 | 1,544.6 | (33.0) | 14,652.2 |
| | | | | | | | | |
| **Net debt** | | | | | | | | |
| Borrowings | **2,873.0** | **85.0** | **–** | **2,958.0** | 3,783.7 | 79.4 | (0.2) | 3,862.9 |
| Monies held in restricted accounts and deposits | **(19.7)** | **–** | **–** | **(19.7)** | (10.4) | – | – | (10.4) |
| Cash and cash equivalents | **(24.7)** | **(43.2)** | **–** | **(67.9)** | (14.3) | (58.2) | – | (72.5) |
| Fair value of interest-rate swaps | **31.9** | **2.2** | **–** | **34.1** | 37.7 | 2.1 | – | 39.8 |
| Fair value of foreign exchange swaps | **–** | **–** | **–** | **–** | 3.8 | – | – | 3.8 |
| **Net debt (b)** | **2,860.5** | **44.0** | **–** | **2,904.5** | 3,800.5 | 23.3 | (0.2) | 3,823.6 |
| Less: Fair value of interest-rate swaps | **(31.9)** | **(2.2)** | **–** | **(34.1)** | (37.7) | (2.1) | – | (39.8) |
| Less: Fair value of foreign exchange swaps | **–** | **–** | **–** | **–** | (3.8) | – | – | (3.8) |
| Reverse bond exchange de-recognition (note 23) | **368.3** | **–** | **–** | **368.3** | 391.7 | – | – | 391.7 |
| **Adjusted net debt (c)** | **3,196.9** | **41.8** | **–** | **3,238.7** | 4,150.7 | 21.2 | (0.2) | 4,171.7 |
| | | | | | | | | |
| **Adjusted total equity** | | | | | | | | |
| Total equity (d) | **11,698.9** | **–** | **–** | **11,698.9** | 10,606.3 | – | – | 10,606.3 |
| Fair value of interest-rate swaps | **31.9** | **2.2** | **–** | **34.1** | 37.7 | 2.1 | – | 39.8 |
| Fair value of foreign exchange swaps | **–** | **–** | **–** | **–** | 3.8 | – | – | 3.8 |
| Reverse bond exchange de-recognition (note 23) | **(368.3)** | **–** | **–** | **(368.3)** | (391.7) | – | – | (391.7) |
| **Adjusted total equity (e)** | **11,362.5** | **2.2** | **–** | **11,364.7** | 10,256.1 | 2.1 | – | 10,258.2 |
| | | | | | | | | |
| **Gearing (b/d)** | **24.5%** | | | **24.8%** | 35.8% | | | 36.1% |
| **Adjusted gearing (c/e)** | **28.1%** | | | **28.5%** | 40.5% | | | 40.7% |
| **Group LTV (c/a)** | **24.7%** | | | **22.0%** | 31.6% | | | 28.5% |
| **Security Group LTV** | **23.4%** | | | | 31.5% | | | |
| **Weighted average cost of debt** | **4.9%** | | | **4.9%** | 4.5% | | | 4.5% |

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

## 23. BORROWINGS

### ACCOUNTING POLICY

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 the 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 (amortisation of bond exchange de-recognition adjustment).

| | | | | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | **Secured/ unsecured** | **Fixed/ floating** | **Effective interest rate %** | **Nominal/ notional value £m** | **Fair value £m** | **Book value £m** | Nominal/ notional value £m | Fair value £m | Book value £m |
| **Current borrowings** | | | | | | | | | |
| **Sterling** | | | | | | | | | |
| 5.253% QAG Bond | Secured | Fixed | 5.3 | **16.2** | **19.4** | **16.2** | 14.6 | 17.5 | 14.6 |
| **Commercial paper** | | | | | | | | | |
| Sterling | Unsecured | Floating | LIBOR + margin | **2.5** | **2.5** | **2.5** | 30.1 | 30.1 | 30.1 |
| Euro | Unsecured | Floating | LIBOR + margin | **–** | **–** | **–** | 146.0 | 146.0 | 146.0 |
| **Total current borrowings** | | | | **18.7** | **21.9** | **18.7** | 190.7 | 193.6 | 190.7 |
| | | | | | | | | | |
| **Non-current borrowings** | | | | | | | | | |
| **Sterling** | | | | | | | | | |
| 4.875% MTN due 2019 | Secured | Fixed | 5.0 | **–** | **–** | **–** | 400.0 | 436.0 | 398.7 |
| 5.425% MTN due 2022 | Secured | Fixed | 5.5 | **255.3** | **291.4** | **254.9** | 255.3 | 298.3 | 254.9 |
| 4.875% MTN due 2025 | Secured | Fixed | 4.9 | **300.0** | **351.3** | **298.3** | 300.0 | 357.2 | 298.0 |
| 5.391% MTN due 2026 | Secured | Fixed | 5.4 | **210.7** | **253.9** | **210.1** | 210.7 | 260.1 | 210.1 |
| 5.391% MTN due 2027 | Secured | Fixed | 5.4 | **608.3** | **748.8** | **606.5** | 608.3 | 767.1 | 606.2 |
| 5.376% MTN due 2029 | Secured | Fixed | 5.4 | **317.5** | **397.5** | **316.4** | 317.6 | 410.1 | 316.2 |
| 5.396% MTN due 2032 | Secured | Fixed | 5.4 | **322.6** | **410.0** | **321.0** | 322.6 | 426.5 | 321.0 |
| 5.125% MTN due 2036 | Secured | Fixed | 5.1 | **500.0** | **624.1** | **498.7** | 500.0 | 653.5 | 498.7 |
| Bond exchange de-recognition adjustment | | | | | | **(368.3)** | | | (391.7) |
| | | | | **2,514.4** | **3,077.0** | **2,137.6** | 2,914.5 | 3,608.8 | 2,512.1 |
| | | | | | | | | | |
| 5.253% QAG Bond | Secured | Fixed | 5.3 | **273.2** | **327.1** | **273.2** | 289.4 | 347.0 | 289.4 |
| Syndicated bank debt | Secured | Floating | LIBOR + margin | **430.0** | **430.0** | **430.0** | 180.0 | 180.0 | 180.0 |
| Bilateral facilities | Secured | Floating | LIBOR + margin | **–** | **–** | **–** | 595.0 | 595.0 | 595.0 |
| Amounts payable under finance leases | Unsecured | Fixed | 7.2 | **13.5** | **17.8** | **13.5** | 16.5 | 20.7 | 16.5 |
| **Total non-current borrowings** | | | | **3,231.1** | **3,851.9** | **2,854.3** | 3,995.4 | 4,751.5 | 3,593.0 |
| | | | | | | | | | |
| **Total borrowings** | | | | **3,249.8** | **3,873.8** | **2,873.0** | 4,186.1 | 4,945.1 | 3,783.7 |

**Reconciliation of the movement on borrowings**

| **Group** | **2016 £m** | 2015 £m |
|---|---|---|
| At the beginning of the year | **3,783.7** | 3,362.2 |
| Repayment of loans | **(1,206.5)** | (13.6) |
| Proceeds from new loans | **250.0** | 431.0 |
| Foreign exchange on commercial paper | **23.4** | (4.9) |
| Amortisation of finance fees | **2.0** | 1.1 |
| Amortisation of bond exchange de-recognition adjustment | **23.4** | 21.5 |
| Net movement in finance lease obligations | **(3.0)** | (13.6) |
| **At 31 March** | **2,873.0** | 3,783.7 |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 23. BORROWINGS CONTINUED

### Medium term notes (MTNs)

The MTNs are secured on the fixed and floating pool of assets of the Security Group. Debt investors benefit from security over a pool of investment properties, development properties and the Group's investment in the Westgate Oxford Alliance Limited Partnership, Nova, Victoria and the St. David's Limited Partnership, valued at **£12.6bn** at 31 March 2016 (2015: £12.3bn). The secured debt structure has a tiered operating covenant regime which gives the Group substantial flexibility when the loan-to-value and interest cover in the Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded, the operating environment becomes more restrictive with provisions to encourage a reduction in gearing (see note 28). The interest rate is fixed until the expected maturity, being two years before the legal maturity date for each MTN, whereupon the interest rate for the last two years is LIBOR plus an increased margin. The effective interest rate includes the amortisation of issue costs. The MTNs are listed on the Irish Stock Exchange and their fair values are based on their respective market prices.

On 29 March 2016, the Group repurchased the £400m, 4.875% MTN due in 2019 for a premium of £26.2m. At 31 March 2016, the Group had **£2,514.4m** of MTNs outstanding with maturities between 2022 and 2036.

### Syndicated and bilateral bank debt

| Group | Maturity as at 31 March 2016 | Authorised 2016 £m | Authorised 2015 £m | Drawn 2016 £m | Drawn 2015 £m | Undrawn 2016 £m | Undrawn 2015 £m |
|---|---|---|---|---|---|---|---|
| Syndicated debt | 2021 | **1,380.0** | 1,255.0 | **430.0** | 180.0 | **950.0** | 1,075.0 |
| Bilateral debt | 2017-18 | **485.0** | 985.0 | **–** | 595.0 | **485.0** | 390.0 |
| | | **1,865.0** | 2,240.0 | **430.0** | 775.0 | **1,435.0** | 1,465.0 |

The terms of the Security Group funding arrangements require undrawn facilities to be reserved where syndicated and bilateral facilities mature within one year, or where commercial paper has been issued. Accordingly, the Group's available undrawn facilities at 31 March 2016 were **£1,432.5m** (2015: £1,288.9m), compared with undrawn facilities of **£1,435.0m** (2015: £1,465.0m).

All syndicated and bilateral facilities are committed and secured on the assets of the Security Group. In the year ended 31 March 2016, the amounts drawn under the Group's bilateral facilities and syndicated bank debt decreased by **£345.0m**. The £500m bank facility in place at 31 March 2015 was cancelled on 4 November 2015 and not replaced.

### Queen Anne's Gate Bond

On 29 July 2009, the Group issued a £360.3m bond secured on the rental cash flows from the commercial lease with the UK Government over Queen Anne's Gate (QAG). The QAG Bond is a fully amortising bond with a final maturity in February 2027 and a fixed interest rate of 5.253% per annum. At 31 March 2016, the bond had an amortised book value of **£289.4m** (2015: £304.0m).

### Fair values

The fair values of any floating rate financial liabilities are assumed to be equal to their nominal value, but adjusted for the effect of exit fees payable on redemption. The fair values of the MTNs and the QAG Bond fall within Level 1, the syndicated, bilateral facilities, commercial paper, interest-rate swaps and foreign exchange swaps fall within Level 2, and the amounts payable under finance leases fall within Level 3, as defined by IFRS 13 and explained in note 28 (iii).

### Bond exchange de-recognition

On 3 November 2004, a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new MTNs with higher nominal values. The new MTNs did not meet the IAS 39 requirement to be substantially different from the debt that they replaced. Consequently, the book value of the new debt is reduced to the book value of the original debt by the 'bond exchange de-recognition' adjustment which is then amortised to zero over the life of the new MTNs. The amortisation is included in interest expense in the income statement.

## 24. MONIES HELD IN RESTRICTED ACCOUNTS AND DEPOSITS

### ACCOUNTING POLICY

Monies held in restricted accounts and deposits represent cash held by the Group in accounts with conditions that restrict the use of these monies by the Group and, as such, does not meet the definition of cash and cash equivalents as defined in IAS 7 'Statement of Cash Flows'. Holding cash in restricted accounts does not prevent the Group from optimising returns by putting these monies on short-term deposit.

| | Group 2016 £m | Group 2015 £m | Company 2016 £m | Company 2015 £m |
|---|---|---|---|---|
| Cash at bank and in hand | **11.6** | 8.2 | **3.5** | – |
| Short-term deposits | **8.1** | 2.2 | **–** | – |
| | **19.7** | 10.4 | **3.5** | – |

The credit quality of monies held in restricted accounts and deposits can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| Counterparties with external credit ratings | | |
| A | **11.7** | 10.4 |
| BBB+ | **8.0** | – |
| | **19.7** | 10.4 |

## 25. CASH AND CASH EQUIVALENTS

### ACCOUNTING POLICY

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.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Cash at bank and in hand | **23.6** | 6.6 | **0.1** | 0.1 |
| Short-term deposits | **1.1** | 7.7 | **–** | – |
| | **24.7** | 14.3 | **0.1** | 0.1 |

**Short-term deposits**

The effective interest rate on short-term deposits was **0.4%** during the year ended 31 March 2016 (2015: 0.3%) and they had an average maturity of **1.4 days** (2015: 1.5 days).

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed.

| Group | **2016 £m** | 2015 £m |
|---|---|---|
| Counterparties with external credit ratings | | |
| A | **23.6** | 12.8 |
| A- | **–** | 1.5 |
| BBB+ | **1.1** | – |
| | **24.7** | 14.3 |

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

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

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The fair value of interest-rate and foreign exchange swaps is based on counterparty or market quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates for similar instruments at the measurement date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

Cash flow hedges: where a derivative is designated as a hedge of the variability of a highly probable forecast transaction (e.g. an interest payment), the element of the gain or loss on the derivative that is an effective hedge is recognised directly in other comprehensive income. The associated gains or losses that were recognised in the statement of other comprehensive income are reclassified into the income statement on termination or expiry of the hedge.

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 immediately in the income statement.

The fair values of the financial instruments have been determined by reference to relevant market prices, where available. The fair values of the Group's outstanding interest-rate swaps have been estimated by calculating the present value of future cash flows, using appropriate market discount rates. These valuation techniques fall within Level 2, as defined by IFRS 13, 'Fair Value Measurement'.

**Fair value of derivative financial instruments**

| Group | **2016 £m** | 2015 £m |
|---|---|---|
| Current liabilities | **(0.7)** | (3.8) |
| Non-current liabilities | **(31.2)** | (37.7) |
| | **(31.9)** | (41.5) |

| **Notional amount** | **2016 £m** | 2015 £m |
|---|---|---|
| Interest-rate swaps | **580.0** | 900.0 |
| Foreign exchange swaps | **–** | 146.0 |
| | **580.0** | 1,046.0 |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 27. OBLIGATIONS UNDER FINANCE LEASES

### ACCOUNTING POLICY

Where the Group is a lessee and enters into a lease that transfers substantially all the risks and rewards of ownership of the asset to the Group, the lease is accounted for as a finance lease. Finance leases are capitalised within investment properties at the commencement of the lease 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.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| The minimum lease payments under finance leases fall due as follows: | | |
| Not later than one year | **0.9** | 1.0 |
| Later than one year but not more than five years | **3.5** | 4.2 |
| More than five years | **79.3** | 97.0 |
| | **83.7** | 102.2 |
| Future finance charges on finance leases | **(70.2)** | (85.7) |
| Present value of finance lease liabilities | **13.5** | 16.5 |
| | | |
| The present value of finance lease liabilities fall due as follows: | | |
| Not later than one year | **–** | – |
| Later than one year but not more than five years | **–** | 0.1 |
| More than five years | **13.5** | 16.4 |
| | **13.5** | 16.5 |

The fair value of the Group's lease obligations, using a discount rate of **4.9%** (2015: 4.5%), is **£17.8m** (2015: £22.8m).

## 28. FINANCIAL RISK MANAGEMENT

### Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the 'Financial review' (pages 36–41) and 'Managing risk' (pages 46–49). This note provides further detail on financial risk management and includes quantitative information on specific financial risks.

The Group is exposed to a variety of financial risks: market risks (principally interest-rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects of these on the Group's financial performance and includes the use of derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by the Group's treasury function under policies approved by the Board of Directors. The following table summarises the Group's financial assets and liabilities into the categories required by IFRS 7 'Financial Instruments: Disclosures':

| Group | 2016 £m | 2015 £m |
|---|---|---|
| Loans and receivables | **684.4** | 656.6 |
| Cash and cash equivalents | **24.7** | 14.3 |
| Financial liabilities at amortised cost | **(3,047.0)** | (4,019.7) |
| Financial liabilities at fair value through profit and loss | **(66.8)** | (76.8) |
| | **(2,404.7)** | (3,425.6) |

### Financial risk factors

*(i) Credit risk*

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, finance lease receivables, amounts due from joint ventures and loan investments. Further details concerning the credit risk of counterparties is provided in the note that specifically relates to each type of asset.

### Bank and financial institutions

One of the principal credit risks of the Group arises from financial derivative instruments and deposits with banks and financial institutions. In line with the policy approved by the Board of Directors, where the Group manages the deposit, only independently rated banks and financial institutions with a minimum rating of A- are accepted. For UK banks and financial institutions with which the Group has a committed lending relationship, the minimum rating is lowered to BBB+. The Group's treasury function currently performs a weekly review of the credit ratings of all financial institution counterparties. Furthermore, the treasury function ensures that funds deposited with a single financial institution remain within the Group's policy limits.

### Trade receivables

Trade receivables are presented in the balance sheet net of allowances for doubtful receivables. 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 balance is low relative to the scale of the balance sheet and, owing to the long-term nature and diversity of the Group's tenancy arrangements, the credit risk of trade receivables is considered to be low. Furthermore, a credit report is obtained from an independent rating agency prior to the inception of a lease with a new counterparty. This report is used to determine the size of the deposit that is required from the tenant at inception. In general these deposits represent between three and six months' rent.

### Finance lease receivables

This balance relates to amounts receivable from tenants in respect of tenant finance leases. This is not considered a significant credit risk as the tenants are generally of good financial standing.

## 28. FINANCIAL RISK MANAGEMENT CONTINUED

### Loans investments

A loan maturing in 2035 was made to Semperian PPP (formerly Trillium Investment Partners LP) in 2009 as part of the disposal of the Trillium business. This loan was not considered a significant credit risk as it was repayable from dividends from investments in government infrastructure projects (see note 32). During the year, Semperian PPP completed a refinancing, resulting in the loan being fully repaid.

### *(ii) Liquidity risk*

The Group actively maintains a mixture of notes with final maturities between 2022 and 2036, commercial paper and medium-term committed bank facilities that are designed to ensure that the Group has sufficient available funds for its operations and its committed capital expenditure programme.

Management monitors the Group's available funds as follows:

| Group | 2016 £m | 2015 £m |
|---|---|---|
| Cash and cash equivalents | **24.7** | 14.3 |
| Available facilities | **1,432.5** | 1,288.9 |
| Cash and available undrawn facilities | **1,457.2** | 1,303.2 |
| As a proportion of drawn debt | **45.0%** | 31.3% |

The Group's core financing structure is in the Security Group, although the Non-restricted Group may also secure independent funding.

### Security Group

The Group's principal financing arrangements utilise the credit support of a ring-fenced group of assets (the Security Group) that comprises the majority of the Group's investment property portfolio and certain investments in joint ventures. These arrangements operate in 'tiers' determined by LTV and interest cover ratio (ICR). This structure is most flexible at lower tiers (with a lower LTV and a higher ICR) and allows property acquisitions, disposals and developments to occur with relative freedom. In higher tiers, the requirements become more prescriptive. No financial covenant default is triggered until the applicable LTV exceeds 100% or the ICR is less than 1.0x.

As at 31 March 2016, the reported LTV for the Security Group was **23.4%** (2015: 31.5%), meaning that the Group was operating in Tier 1 and benefited from maximum operational flexibility.

Management monitors the key covenants attached to the Security Group on a monthly basis, including LTV, ICR, sector and regional concentration and disposals.

### Non-restricted Group

The Non-restricted Group obtains funding when required from a combination of inter-company loans from the Security Group, equity and external bank debt. Bespoke credit facilities are established with banks when required for the Non-restricted Group projects and joint ventures, usually on a limited-recourse basis.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | | | | | **2016** |
|---|---|---|---|---|---|
| **Group** | **Less than 1 year £m** | **Between 1 and 2 years £m** | **Between 2 and 5 years £m** | **Over 5 years £m** | **Total £m** |
| Borrowings (excluding finance lease liabilities) | **171.6** | **169.9** | **1,186.0** | **3,287.9** | **4,815.4** |
| Finance lease liabilities | **0.9** | **0.9** | **2.6** | **79.3** | **83.7** |
| Derivative financial instruments | **0.7** | **3.3** | **20.5** | **9.8** | **34.3** |
| Trade payables | **6.2** | **–** | **–** | **–** | **6.2** |
| Capital accruals | **32.0** | **–** | **–** | **–** | **32.0** |
| Accruals | **78.6** | **–** | **–** | **–** | **78.6** |
| Amounts owed to joint ventures | **3.2** | **–** | **–** | **–** | **3.2** |
| Other payables | **25.5** | **–** | **–** | **–** | **25.5** |
| Non-current trade and other payables | **–** | **28.5** | **–** | **–** | **28.5** |
| Redemption liabilities | **–** | **–** | **34.9** | **–** | **34.9** |
| | **318.7** | **202.6** | **1,244.0** | **3,377.0** | **5,142.3** |

| | | | | | 2015 |
|---|---|---|---|---|---|
| **Group** | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
| Borrowings (excluding finance lease liabilities) | 369.1 | 690.0 | 1,267.0 | 3,621.6 | 5,947.7 |
| Finance lease liabilities | 1.0 | 1.0 | 3.2 | 97.0 | 102.2 |
| Derivative financial instruments | 5.7 | 0.5 | 18.0 | 19.6 | 43.8 |
| Trade payables | 15.2 | – | – | – | 15.2 |
| Capital accruals | 60.5 | – | – | – | 60.5 |
| Accruals | 78.3 | – | – | – | 78.3 |
| Amounts owed to joint ventures | 7.5 | – | – | – | 7.5 |
| Other payables | 44.9 | – | – | – | 44.9 |
| Non-current trade and other payables | – | – | 29.6 | – | 29.6 |
| Redemption liabilities | – | – | – | 35.3 | 35.3 |
| | 582.2 | 691.5 | 1,317.8 | 3,773.5 | 6,365.0 |

# NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2016 continued

## 28. FINANCIAL RISK MANAGEMENT CONTINUED

***(iii) Market risk***
The Group is exposed to market risk through interest rates, availability of credit and foreign exchange movements.

### Interest rates
The Group uses derivative products to manage its interest rate exposure, and has a hedging policy that generally requires at least 80% of its existing debt plus increases in debt associated with net committed capital expenditure to be at fixed interest rates for the coming five years. 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. Specific interest-rate hedges are also used within our joint ventures to fix the interest rate exposure on limited-recourse debt. Where specific hedges are used in geared joint ventures to fix the interest exposure on limited-recourse debt, these may qualify for hedge accounting.

At 31 March 2016, the Group (including joint ventures) had pay-fixed interest-rate swaps in place with a nominal value of **£0.7bn** (2015: £1.0bn), and its net debt was **94.9%** fixed (2015: 90.9%). Based on the Group's debt balances at 31 March 2016, a 1% increase in interest rates would increase the annual net interest payable in the income statement and reduce equity by **£2.3m** (2015: £4.3m). The sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest-rate swaps and cash and cash equivalents.

### Foreign exchange
Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency.

As it is solely UK based, the Group does not frequently enter into any foreign currency transactions other than in connection with its financing activities. Where significant committed expenditure in foreign currencies is identified, it is the Group's policy to hedge 100% of that exposure by entering into forward purchases of foreign currency to fix the Sterling value. At 31 March 2016, the Group had no non-Sterling commercial paper in issue (2015: €202.0m, fully hedged through foreign exchange swaps). A 10% weakening or strengthening of Sterling would therefore have **£nil** (2015: £nil) impact in the income statement and equity. The Group's foreign exchange risk is therefore low.

### Financial maturity analysis
The interest rate profile of the Group's undiscounted borrowings, after taking into account the effect of the interest-rate swaps, are set out below:

| Group | Fixed rate £m 2016 | Floating rate £m 2016 | Total £m 2016 | Fixed rate £m 2015 | Floating rate £m 2015 | Total £m 2015 |
|---|---|---|---|---|---|---|
| Sterling | **2,997.3** | **252.5** | **3,249.8** | 3,735.0 | 305.1 | 4,040.1 |
| Euro | **–** | **–** | **–** | – | 146.0 | 146.0 |
| | **2,997.3** | **252.5** | **3,249.8** | 3,735.0 | 451.1 | 4,186.1 |

The expected maturity profiles of the Group's borrowings are as follows:

| Group | Fixed rate £m 2016 | Floating rate £m 2016 | Total £m 2016 | Fixed rate £m 2015 | Floating rate £m 2015 | Total £m 2015 |
|---|---|---|---|---|---|---|
| One year or less, or on demand | **16.2** | **2.5** | **18.7** | 14.6 | 176.1 | 190.7 |
| More than one year but not more than two years | **17.9** | **–** | **17.9** | 16.2 | 500.0 | 516.2 |
| More than two years but not more than five years | **320.0** | **430.0** | **750.0** | 714.3 | 95.0 | 809.3 |
| More than five years | **2,463.2** | **–** | **2,463.2** | 2,489.9 | 180.0 | 2,669.9 |
| **Borrowings** | **2,817.3** | **432.5** | **3,249.8** | 3,235.0 | 951.1 | 4,186.1 |
| Effect of hedging | **180.0** | **(180.0)** | **–** | 500.0 | (500.0) | – |
| **Borrowings net of interest-rate swaps** | **2,997.3** | **252.5** | **3,249.8** | 3,735.0 | 451.1 | 4,186.1 |

The expected maturity profiles of the Group's derivative instruments are as follows (based on notional values):

| Group | Interest-rate swaps £m 2016 | Foreign exchange swaps £m 2015 | Interest-rate swaps £m 2015 |
|---|---|---|---|
| One year or less, or on demand | **180.0** | 146.0 | 70.0 |
| More than one year but not more than two years | **–** | – | 430.0 |
| More than two years but not more than five years | **–** | – | – |
| More than five years[1] | **400.0** | – | 400.0 |
| | **580.0** | 146.0 | 900.0 |

1. Interest-rate swaps more than five years have a term commencing from October 2017.

### Valuation hierarchy
Interest-rate swaps, foreign exchange swaps and redemption liabilities are the only financial instruments which are carried at fair value. For financial instruments other than borrowings disclosed in note 23, the carrying value in the balance sheet approximates their fair values. The table below shows the aggregate assets and liabilities carried at fair value by valuation method:

| Group | Level 1 £m 2016 | Level 2 £m 2016 | Level 3 £m 2016 | Total £m 2016 | Level 1 £m 2015 | Level 2 £m 2015 | Level 3 £m 2015 | Total £m 2015 |
|---|---|---|---|---|---|---|---|---|
| Assets | **–** | **–** | **–** | **–** | – | – | – | – |
| Liabilities | **–** | **(31.9)** | **(34.9)** | **(66.8)** | – | (41.5) | (35.3) | (76.8) |

Note:
Level 1: valued using unadjusted quoted prices in active markets for identical financial instruments.
Level 2: valued using techniques based on information that can be obtained from observable market data.
Level 3: valued using techniques incorporating information other than observable market data.

## SECTION 5 – WORKING CAPITAL

This section focuses on our working capital balances, including trade and other receivables, trade and other payables, and provisions.

### 29. TRADE AND OTHER RECEIVABLES

#### ACCOUNTING POLICY

Trade and other receivables are recognised initially at fair value, subsequently at amortised cost and, where relevant, adjusted for the time value of money. 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. If collection is expected in more than one year, they are classified as non-current assets.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 £m** | 2015 £m | **2016 £m** | 2015 £m |
| Trade receivables | **85.1** | 76.6 | **–** | – |
| Less: allowance for doubtful accounts | **(15.9)** | (15.1) | **–** | – |
| **Net trade receivables** | **69.2** | 61.5 | **–** | – |
| Property sales receivables | **70.0** | 46.9 | **–** | – |
| Other receivables | **3.6** | 7.2 | **–** | – |
| Tenant lease incentives (note 15) | **267.5** | 251.0 | **–** | – |
| Prepayments and accrued income | **25.1** | 24.9 | **–** | – |
| Current tax assets | **1.0** | 3.1 | **17.1** | 14.8 |
| Net investment in finance leases due within one year (note 19) | **2.4** | 1.8 | **–** | – |
| Amounts due from joint ventures | **6.6** | 6.3 | **–** | – |
| **Total current trade and other receivables** | **445.4** | 402.7 | **17.1** | 14.8 |
| Non-current trade and other receivables | **86.1** | 54.0 | **–** | – |
| **Total trade and other receivables** | **531.5** | 456.7 | **17.1** | 14.8 |

The accounting for lease incentives is set out in note 5. The value of the tenant lease incentive, included in current trade and other receivables, is spread over the non-cancellable life of the lease. At 31 March 2016, Non-current trade and other receivables all relate to amounts due from joint ventures (2015: £52.5m).

**Ageing of trade receivables**

| Group | Not past due £m | Up to 30 days past due £m | Up to 6 months past due £m | Up to 12 months past due £m | More than 12 months past due £m | Total £m |
|---|---|---|---|---|---|---|
| **As at 31 March 2016** | | | | | | |
| Not impaired | **28.6** | **32.3** | **4.3** | **2.2** | **1.8** | **69.2** |
| Impaired | **–** | **–** | **1.6** | **3.5** | **10.8** | **15.9** |
| | **28.6** | **32.3** | **5.9** | **5.7** | **12.6** | **85.1** |
| As at 31 March 2015 | | | | | | |
| Not impaired | 33.2 | 19.7 | 5.5 | 2.0 | 1.1 | 61.5 |
| Impaired | – | 0.2 | 2.0 | 4.0 | 8.9 | 15.1 |
| | 33.2 | 19.9 | 7.5 | 6.0 | 10.0 | 76.6 |

In accordance with IFRS 7, the amounts shown as past due represent the total credit exposure, not the amount actually past due. The majority of the Group's trade receivables are considered past due as they relate to rents receivable from tenants which are payable in advance. None of the Group's other receivables are past due (2015: £nil).

**Movement in allowances for doubtful accounts**

| Group | **2016 £m** | 2015 £m |
|---|---|---|
| At the beginning of the year | **15.1** | 14.0 |
| Net charge to the income statement | **4.5** | 4.8 |
| Acquired in business combination | **–** | 1.4 |
| Utilised in the year | **(3.7)** | (5.1) |
| **At 31 March** | **15.9** | 15.1 |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 29. TRADE AND OTHER RECEIVABLES CONTINUED

### Movement in tenant lease incentives

| Group | 2016 £m | 2015 £m |
|---|---|---|
| At the beginning of the year | **251.0** | 251.9 |
| Revenue recognised | **28.6** | 15.4 |
| Capital incentives received or granted | **6.8** | (0.5) |
| Provision for doubtful receivables | **(2.2)** | (1.3) |
| Disposal of properties | **(16.7)** | (14.5) |
| **At 31 March** | **267.5** | 251.0 |

## 30. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Trade payables | **6.2** | 15.2 | **–** | – |
| Capital accruals | **32.0** | 60.5 | **–** | – |
| Other payables | **25.5** | 44.9 | **–** | 6.6 |
| Accruals | **78.6** | 78.3 | **5.5** | 5.5 |
| Deferred income | **125.8** | 132.7 | **–** | – |
| Amounts owed to joint ventures | **3.2** | 7.5 | **–** | – |
| Trading property deposits | **18.0** | 28.2 | **–** | – |
| Loans from Group undertakings | **–** | – | **1,031.2** | 1,096.1 |
| **Total current trade and other payables** | **289.3** | 367.3 | **1,036.7** | 1,108.2 |
| Non-current trade and other payables | **28.5** | 29.6 | **–** | – |
| **Total trade and other payables** | **317.8** | 396.9 | **1,036.7** | 1,108.2 |

Capital accruals 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 year end. Deferred income principally relates to rents received in advance.

## 31. PROVISIONS

### ACCOUNTING POLICY

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. Where relevant, 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 an onerous contract is recognised in the balance sheet when the Group is committed to a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Onerous contract provisions are recognised and measured at the lower of the cost of fulfilling the contract and the costs or penalties incurred in cancelling the contract.

| Group | Onerous lease £m | Property disposals £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 April 2014 | – | – | 3.6 | 3.6 |
| Charged to income statement | – | – | 4.6 | 4.6 |
| Utilised | – | – | (3.8) | (3.8) |
| Released to the income statement | – | – | (1.8) | (1.8) |
| At 31 March 2015 | – | – | 2.6 | 2.6 |
| Charged to income statement | **5.6** | **13.8** | **1.5** | **20.9** |
| Utilised | **–** | **–** | **(1.0)** | **(1.0)** |
| Reclassified from accruals | **1.6** | **–** | **–** | **1.6** |
| Released to income statement | **–** | **–** | **(0.1)** | **(0.1)** |
| **At 31 March 2016** | **7.2** | **13.8** | **3.0** | **24.0** |
| | | | | |
| Included in the balance above, the following amounts are: | | | | |
| Included in Current liabilities: | **1.7** | **13.8** | **3.0** | **18.5** |
| Included in Non-current liabilities: | **5.5** | **–** | **–** | **5.5** |
| | **7.2** | **13.8** | **3.0** | **24.0** |

Provisions represent amounts in respect of an onerous lease, a payment on the disposal of a property and other property-related obligations. The onerous lease provision represents the estimated net cost associated with the Group's commitment to vacate the current head office premises before the lease expiry date. The property disposal provision represents an amount payable in respect of a sale, where the value of the liability was still subject to negotiation at 31 March 2016.

## SECTION 6 – OTHER REQUIRED DISCLOSURES

This section gives further disclosure in respect of other areas of the financial statements, together with mandatory disclosures required in accordance with IFRSs.

### 32. LOAN INVESTMENTS

#### ACCOUNTING POLICY

Loan investments are non-derivative financial assets which are initially recognised at fair value plus acquisition costs. They are subsequently carried at amortised cost using the effective interest method.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| At the beginning of the year | **49.5** | 50.0 |
| Transfer to current trade and other receivables | **–** | (0.5) |
| Repayment | **(49.5)** | – |
| **At 31 March** | **–** | 49.5 |

### 33. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

#### ACCOUNTING POLICY

Investments in subsidiary undertakings are stated at cost in the Company's balance sheet, less any provision for impairment in value.

In accordance with IFRS 2 'Share Based Payments' the equity settled share-based payment charge for the employees of the Company's subsidiaries is treated as an increase in the cost of investment in the subsidiaries, with a corresponding increase in the Company's equity.

| Company | 2016 £m | 2015 £m |
|---|---|---|
| At the beginning of the year | **6,192.2** | 6,186.2 |
| Capital contributions relating to share-based payments (note 36) | **7.9** | 6.0 |
| **At 31 March** | **6,200.1** | 6,192.2 |

A full list of subsidiary undertakings at 31 March 2016 is included in the Additional Information section on pages 165–166.

### 34. REDEMPTION LIABILITIES

#### ACCOUNTING POLICY

Where instruments held in a subsidiary by third parties are redeemable at the option of the holder, these interests are classified as a financial liability. The liability is carried at fair value; the value is reassessed at the balance sheet date and movements are recognised in the income statement.

The fair value of each component of the redemption liability is determined as the present value of the amount the Group would be required to pay to settle the liabilities (an exit price). The terms of each arrangement are different, but generally the fair value is calculated by reference to a metric within the underlying subsidiary's financial statements, typically net assets or investment property valuation. These inputs are not based on observable market data and therefore the redemption liabilities are considered to fall within Level 3 of the fair value hierarchy, as determined by IFRS 13, 'Fair Value Measurement'.

| Group | 2016 £m | 2015 £m |
|---|---|---|
| At the beginning of the year | **35.3** | 32.6 |
| Distributions paid by non-wholly owned subsidiary | **(2.8)** | (2.5) |
| Revaluation of redemption liabilities | **4.6** | 8.5 |
| Settlement of redemption liabilities | **(2.2)** | – |
| Transfer to current liabilities | **–** | (3.3) |
| **At 31 March** | **34.9** | 35.3 |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 35. NET PENSION SURPLUS

### ACCOUNTING POLICY

Contributions to defined contribution schemes are charged to the income statement as incurred.

In respect of defined benefit pension schemes, pension obligations are measured at discounted present value, while pension 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 schemes are recognised separately in the income statement. Service costs are spread using the projected unit credit method. Net financing costs are recognised in the periods in which they arise, calculated with reference to the discount rate, and are included in interest income or expense on a net basis. Re-measurement gains and losses arising from either experience differing from previous actuarial assumptions, or changes to those assumptions, are recognised immediately in other comprehensive income.

**Defined contribution schemes**

Pension costs for defined contribution schemes are as follows:

| Group | 2016 £m | 2015 £m |
|---|---|---|
| Charge to operating profit | **2.3** | 2.2 |

**Defined benefit scheme**

The Pension & Assurance Scheme of the Land Securities Group of Companies (the Scheme) is a registered defined benefit final salary scheme subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Scheme is operated under trust and, as such, the Trustees of the Scheme are responsible for operating the Scheme and they have a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including trust law). The Trustees and the Group have the joint power to set the contributions that are paid to the Scheme.

In setting contributions to the Scheme, the Trustees and the Group are guided by the advice of a qualified independent actuary on the basis of triennial valuations using the projected unit credit method. As the Scheme is closed to new members, the current service cost is expected to increase as a percentage of salary of the Scheme members, under the projected unit credit method, as members approach retirement. A full actuarial valuation of the Land Securities Scheme was undertaken on 30 June 2015 by the independent actuaries, Hymans Robertson LLP. This valuation was updated to 31 March 2016 using, where required, assumptions prescribed by IAS 19, 'Employee Benefits'. The next full actuarial valuation will be performed as at 30 June 2018.

As a result of the 30 June 2012 valuation, the Trustees and the Group agreed that, in order to address the deficit at that time, a combined employee and employer contribution rate of 44% of pensionable salary would be paid, together with additional employer contributions of £4.0m per annum, for a period of six years commencing on 1 July 2013.

In the year ended 31 March 2015, the Group and the Trustees agreed a schedule of contributions with the effect that employer deficit reduction contributions ceased from June 2014. In addition, the Group decreased the monthly contributory salary payments to 36.3% of pensionable salary from 30 September 2014.

As a result of the 30 June 2015 valuation, the employer contribution rate will increase from 1 April 2016 to 43.1% of pensionable salary to cover the costs of accruing benefits. It was agreed that no further deficit contributions are required from the Group.

Employee contributions are paid by salary sacrifice, and therefore appear as Group contributions. In the year ended 31 March 2016 employee contributions were **8.0%** (2015: 8.0%) of monthly pensionable salary. The Group expects to make total employee and employer contributions of around **£1.0m** (2015: £1.0m) to the Scheme in the year to 31 March 2017.

All death-in-service and incapacity benefits arising during employment are wholly insured. No post-retirement benefits other than pensions are made available to employees of the Group.

**Analysis of the amounts charged to the income statement**

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Analysis of the amount charged to operating profit** | | |
| Current service cost | **0.6** | 0.9 |
| Scheme administrative costs | **0.2** | 0.2 |
| **Charge to operating profit** | **0.8** | 1.1 |
| | | |
| **Analysis of amount credited to interest income** | | |
| Interest income on plan assets | **(7.0)** | (8.3) |
| Interest expense on defined benefit scheme liabilities | **6.8** | 8.1 |
| **Net credit to interest income** | **(0.2)** | (0.2) |

**Analysis of the amounts recognised in other comprehensive income**

| Group | 2016 £m | 2015 £m |
|---|---|---|
| **Analysis of gains and losses** | | |
| Net re-measurement (losses)/gains on scheme assets | **(11.7)** | 26.7 |
| Net re-measurement gains/(losses) on scheme liabilities | **29.7** | (23.0) |
| **Net re-measurement gain** | **18.0** | 3.7 |
| **Cumulative net re-measurement losses recognised in other comprehensive income** | **(26.7)** | (44.7) |

## 35. NET PENSION SURPLUS CONTINUED

The net surplus recognised in respect of the defined benefit scheme can be analysed as follows:

| Group | 2016 % | 2016 £m | 2015 % | 2015 £m |
|---|---|---|---|---|
| Equities | **18** | **38.4** | 17 | 39.8 |
| Bonds – Government | **49** | **105.5** | 47 | 106.9 |
| Bonds – Corporate | **26** | **56.2** | 26 | 58.1 |
| Insurance contracts | **6** | **12.9** | 8 | 18.9 |
| Cash and cash equivalents | **1** | **1.7** | 2 | 3.6 |
| Fair value of scheme assets | **100** | **214.7** | 100 | 227.3 |
| Fair value of scheme liabilities | | **(189.5)** | | (220.3) |
| **Net pension surplus** | | **25.2** | | 7.0 |

Insurance contracts are annuities which are unquoted assets. All other scheme assets have quoted prices in active markets. The scheme assets do not include any directly owned financial instruments issued by the Group. Indirectly owned financial instruments had a fair value of **£0.1m** (2015: £0.1m).

The defined benefit scheme liabilities are split **12%** (2015: 14%) in respect of active scheme participants, **27%** (2015: 33%) in respect of deferred scheme participants, and **61%** (2015: 53%) in respect of retirees. The weighted average duration of the defined benefit scheme liabilities at 31 March 2016 is **16.7** years (2015: 17.8 years).

The assumptions agreed with the Trustees of the Scheme for the triennial valuation at 30 June 2015 have been restated to the assumptions described by IAS 19, 'Employee Benefits'. The major assumptions used in the valuation were (in nominal terms):

| Group | 2016 % | 2015 % |
|---|---|---|
| Rate of increase in pensionable salaries | **3.15** | 3.20 |
| Rate of increase in pensions with no cap | **3.15** | 3.20 |
| Rate of increase in pensions with 5% cap | **3.05** | 3.10 |
| Discount rate | **3.50** | 3.10 |
| Inflation – Retail Price Index | **3.15** | 3.20 |
| – Consumer Price Index | **2.35** | 2.40 |

The mortality assumptions used in this valuation were:

| Group | 2016 Years | 2015 Years |
|---|---|---|
| Life expectancy at age 60 for current pensioners – Men | **29.6** | 31.3 |
| – Women | **31.0** | 32.4 |
| Life expectancy at age 60 for future pensioners (current age 40) – Men | **33.2** | 34.1 |
| – Women | **33.5** | 34.3 |

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below. These were calculated using approximate methods taking into account the duration of the Scheme's liabilities.

| Assumption | Change in assumption | Impact on scheme liabilities |
|---|---|---|
| Discount rate | Increase/decrease by 0.5% | Decrease/increase by £15.6m |
| Rate of mortality | Increase by 1 year | Increase by £6.1m |
| Rate of inflation | Increase/decrease by 0.5% | Increase/decrease by £13.3m |

As the above table demonstrates, changes in assumptions can have a significant impact on the Scheme liabilities. The assumptions agreed with the Trustees of the Scheme for the triennial valuation and subsequent interim updates differ from those prescribed by IAS 19, 'Employee Benefits'. Using the assumptions agreed with the Trustees would result in a balance sheet deficit for the Scheme of **£9.0m** at 31 March 2016, as opposed to a surplus of **£25.2m**.

In order to reduce risk within the Scheme, **7%** (2015: 8%) of the Scheme's assets are invested in annuities that match the liabilities of some pensioners. The bonds that the Scheme holds are designed to match a significant proportion of the Scheme's liabilities and the Scheme has hedged over 70% of the inflation and interest rate risks (when measured on a gilts flat discount rate) to which it is exposed.

The Company did not operate any defined contribution schemes or defined benefit schemes during the financial year ended 31 March 2016 or in the previous financial year.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 36. SHARE-BASED PAYMENTS

### ACCOUNTING POLICY

The cost of granting shares, options over shares and other share-based remuneration to employees and Executive Directors is recognised through the income statement. All awards are equity settled and therefore the fair value is measured at the grant date. Where the awards have non-market related performance criteria, the Group uses the Black-Scholes option valuation model to establish the relevant fair values. Where the awards have a Total Shareholder Return (TSR) market related performance criteria, the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values. The resulting values are amortised through the income statement over the vesting period of the awards. For awards with non-market related criteria, the charge is reversed if it appears probable that the performance or service criteria will not be met.

The total cost recognised in the income statement was **£7.9m** in the year ended 31 March 2016 (2015: £6.0m). The following table analyses the total cost between each plan, together with number of options outstanding.

| | | Outstanding at 31 March | | |
|---|---|---|---|---|
| | **2016 Charge £m** | **2016 Number (millions)** | 2015 Charge £m | 2015 Number (millions) |
| Long-Term Incentive Plan | **4.4** | **2.2** | 3.2 | 2.5 |
| Deferred bonus share plan | **1.1** | **0.1** | 0.9 | 0.1 |
| Share award plan | **1.7** | **0.3** | 1.3 | 0.3 |
| Executive share option scheme | **0.4** | **1.7** | 0.4 | 2.0 |
| Savings related share option plan | **0.3** | **0.4** | 0.2 | 0.4 |
| | **7.9** | **4.7** | 6.0 | 5.3 |

A summary of the main features of each type of plan is given below. The plans have been split into two categories: Executive plans and other plans. For further details on the Executive plans, see the Directors' Remuneration Report on pages 72–83.

**Executive plans:**

***Long-Term Incentive Plan (LTIP)***

The LTIP is open to Executive Directors and Senior Management, with awards made at the discretion of the Remuneration Committee. In addition, an award of 'matching shares' can be made where the individual acquires shares in Land Securities Group PLC and pledges to hold them for a period of three years. Awards of LTIP performance shares and matching shares are subject to the same performance criteria and normally vest after three years. Awards may be satisfied by the issue of new shares, the transfer of treasury shares or the transfer of shares other than treasury shares. The shares will be issued at nil consideration, subject to performance and vesting conditions being met. The weighted average share price at the date of vesting during the year was **1,262p** (2015: 1,044p). The estimated fair value of awards granted during the year under the scheme was **£3.5m** (2015: £3.5m).

***Deferred bonus share plan***

The Executive Directors' and Managing Directors' annual bonus is structured in two distinct parts made up of an initial payment and deferred shares. The shares are deferred for one or two years and are not subject to additional performance criteria. Awards are satisfied by the transfer of existing shares held by the Employee Benefit Trust (EBT) and are issued at nil consideration. The weighted average share price at the date of vesting during the year was **1,227p** (2015: 1,019p). The estimated fair value of awards granted during the year under the scheme was **£1.5m** (2015: £0.7m).

***Share award plan***

Discretionary share awards were made under the 2014 Land Securities Share Award Plan on 1 July 2014. The awards were granted to certain employees over ordinary shares in the Company and were determined by reference to the average of the middle market quotation three days prior to the date of grant. The awards vest after two years subject to continued employment and individual performance through to the date of vesting.

**Other plans:**

***Executive share option scheme (ESOS)***

The 2005 ESOS is open to managers not eligible to participate in the LTIP. Awards are discretionary and are granted over ordinary shares of the Company at the middle market price on the three dealing days immediately preceding the date of grant. Awards normally vest after three years and are not subject to performance conditions. Awards are satisfied by the transfer of shares from the EBT and lapse 10 years after the date of grant. The weighted average share price at the date of exercise for awards exercised during the year was **1,249p** (2015: 1,130p). The estimated fair value of awards granted during the year under the scheme was **£0.3m** (2015: £0.5m).

***Savings related share option plan***

Under the savings related share option plan, Executive Directors and other eligible employees are invited to make regular monthly contributions into a Sharesave plan operated by Equiniti. On completion of the three or five year contract period, ordinary shares in the Company may be purchased at a price based upon the market price at date of invitation less 20% discount. The weighted average share price at the date of exercise for awards exercised during the year was **1,238p** (2015: 1,067p). The estimated fair value of awards granted during the year under the scheme was **£0.3m** (2015: £0.5m).

## 36. SHARE-BASED PAYMENTS CONTINUED

The aggregate number of awards outstanding, and the weighted average exercise price of the options, are shown below:

| | Executive plans[1] | | Other plans | | | |
|---|---|---|---|---|---|---|
| | Number of awards | | Number of awards | | Weighted average exercise price | |
| | **2016 Number (millions)** | 2015 Number (millions) | **2016 Number (millions)** | 2015 Number (millions) | **2016 Pence** | 2015 Pence |
| At the beginning of the year | **3.0** | 2.3 | **2.4** | 3.1 | **860** | 834 |
| Granted | **0.7** | 1.2 | **0.4** | 0.7 | **1,229** | 710 |
| Exercised | **(0.9)** | (0.3) | **(0.6)** | (1.1) | **911** | 746 |
| Forfeited | **–** | (0.2) | **(0.1)** | (0.3) | **1,186** | 937 |
| Lapsed | **(0.2)** | – | **–** | – | **900** | 837 |
| **At 31 March** | **2.6** | 3.0 | **2.1** | 2.4 | **983** | 825 |
| **Exercisable at the end of the year** | **–** | – | **0.6** | 0.6 | **913** | 975 |
| | **Years** | Years | **Years** | Years | | |
| Weighted average remaining contractual life | **1.0** | 1.1 | **5.7** | 6.0 | | |

1. Executive plans are granted at nil consideration.

The number of share awards outstanding for the Group by range of exercise prices is shown below:

| | Outstanding at 31 March 2016 | | | Outstanding at 31 March 2015 | | |
|---|---|---|---|---|---|---|
| **Exercise price – range Pence** | **Weighted average exercise price Pence** | **Number of awards Number (millions)** | **Weighted average remaining contractual life Years** | Weighted average exercise price Pence | Number of awards Number (millions) | Weighted average remaining contractual life Years |
| Nil[1] | **–** | **2.6** | **1.0** | – | 3.0 | 1.1 |
| 400–599 | **536** | **0.1** | **3.3** | 538 | 0.3 | 3.0 |
| 600–799 | **761** | **0.2** | **4.9** | 745 | 0.6 | 6.6 |
| 800–999 | **761** | **0.7** | **4.8** | 868 | 0.8 | 6.6 |
| 1,000–1,199 | **1,058** | **0.7** | **6.2** | 1,067 | 0.6 | 7.8 |
| 1,200–1,399 | **1,328** | **0.3** | **9.4** | – | – | – |
| 1,400–1,565 | **1,563** | **0.1** | **1.0** | 1,563 | 0.1 | 2.0 |

1. Executive plans are granted at nil consideration.

### Fair value inputs for awards with non-market performance conditions

Fair values are calculated using the Black-Scholes option pricing model for awards with non-market performance conditions. Inputs into this model for the grants under each plan in the financial year are as follows:

| | Long-Term Incentive Plan | | Deferred bonus share plan | | 2005 ESOS | | Share award plan | | Savings related share option plan | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Share price at grant date | **1,325p** | 1,039p | **1,245p** | 1,021p | **1,328p** | 1,039p | **–** | 1,039p | **1,280p** | 1,061p |
| Exercise price | **n/a** | n/a | **n/a** | n/a | **1,328p** | 1,039p | **–** | n/a | **1,024p** | 849p |
| Expected volatility | **16%** | 20% | **16%** | 20% | **16%** | 20% | **–** | 20% | **16%** | 20% |
| Expected life | **3 years** | 3 years | **1 to 2 years** | 1 to 2 years | **3 years** | 3 years | **–** | 2 years | **3 to 5 years** | 3 to 5 years |
| Risk-free rate | **1.02%** | 1.29% | **0.52% to 0.67%** | 0.46% to 0.82% | **1.02%** | 1.28% | **–** | 0.90% | **1.07% to 1.58%** | 1.25% to 2.08% |
| Expected dividend yield | **2.40%** | 3.06% | **nil** | nil | **2.40%** | 3.03% | **–** | 3.06% | **2.49%** | 3.00% |

Expected volatility is 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, vesting/exercise restrictions and behavioural considerations. Risk-free rate is the yield at the date of the grant of an award on a gilt-edged stock with a redemption date equal to the anticipated vesting of that award.

### Fair value inputs for awards with market performance conditions

Fair values are calculated using the Monte Carlo simulation option pricing model for awards with market performance conditions. Awards made under the 2005 LTIP which were granted after 31 March 2009 include a TSR condition, which is a market-based condition. The inputs into this model for the scheme are as follows:

| | Share price at date of grant | | Exercise price | | Expected volatility – Group | | Expected volatility – index of comparator companies | | Correlation – Group vs. index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Long-Term Incentive Plan | **1,325p** | 1,039p | **n/a** | n/a | **20%** | 20% | **20%** | 20% | **85%** | 85% |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 37. ORDINARY SHARE CAPITAL

### ACCOUNTING POLICY

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

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

| | Allotted and fully paid | |
|---|---|---|
| **Group and Company** | **2016 £m** | 2015 £m |
| Ordinary shares of 10p each | **80.1** | 80.1 |

| | Number of shares | |
|---|---|---|
| | **2016** | 2015 |
| At the beginning of the year | **801,032,763** | 799,160,367 |
| Issued on the exercise of options | **131,734** | 224,084 |
| Issued in lieu of cash dividends | **–** | 1,648,312 |
| **At 31 March** | **801,164,497** | 801,032,763 |

The number of options over ordinary shares from Executive Schemes that were outstanding at 31 March 2016 was **2,580,225** (2015: 2,909,286). If all the options were exercised at that date then **2,580,225** (2015: 2,909,286) shares would be required to be transferred from the EBT.

The number of options over ordinary shares from Other plans that were outstanding at 31 March 2016 was **2,071,452** (2015: 2,468,691). If all the options were exercised at that date then **406,021** new ordinary shares (2015: 441,560 new ordinary shares) would be issued and **1,665,431** shares would be required to be transferred from the EBT (2015: 2,027,131).

Shareholders at the Annual General Meeting have previously authorised the acquisition of shares by the Company representing up to 10% of its share capital, to be held as treasury shares. During the year ended 31 March 2016, no ordinary shares (2015: nil) were acquired to be held as treasury shares. At 31 March 2016 the Group held **10,495,131** ordinary shares (2015: 10,495,131) with a market value of **£115.6m** (2015: £131.5m) in treasury.

## 38. OWN SHARES

| **Group** | **2016 £m** | 2015 £m |
|---|---|---|
| At the beginning of the year | **11.1** | 9.2 |
| Acquisition of ordinary shares | **18.4** | 11.8 |
| Transfer of shares to employees on exercise of share options | **(15.7)** | (9.9) |
| **At 31 March** | **13.8** | 11.1 |

Own shares consist of shares in Land Securities Group PLC held by the EBT in respect of the Group's commitment to a number of its employee share option schemes (note 36).

The number of shares held by the EBT at 31 March 2016 was **1,143,892** (2015: 1,012,983). The market value of these shares at 31 March 2016 was **£12.6m** (2015: £12.7m).

## 39. CONTINGENCIES

The Group has contingent liabilities in respect of legal claims, guarantees and warranties arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

## 40. RELATED PARTY TRANSACTIONS

### Subsidiaries

During the year, the Company entered into transactions, in the normal course of business, with other related parties as follows:

| **Company** | **2016 £m** | 2015 £m |
|---|---|---|
| Transactions with subsidiary undertakings: | | |
| Recharge of costs | **(271.8)** | (235.7) |
| Dividend received | **400.0** | – |
| Interest paid | **(63.3)** | (48.4) |

At 31 March 2016, the Company had a net outstanding balance of **£1,031.2m** (2015: £1,096.1m) due to subsidiary undertakings.

## 40. RELATED PARTY TRANSACTIONS CONTINUED

### Joint arrangements

As disclosed in note 16, the Group has investments in a number of joint arrangements. Details of transactions and balances between the Group and its joint arrangements are disclosed as follows:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Group | Income/ (expense) £m | Net investments into joint ventures £m | Amounts owed by joint ventures £m | Amounts owed to joint ventures £m | Income/ (expense) £m | Net investments into joint ventures £m | Amounts owed by joint ventures £m | Amounts owed to joint ventures £m |
| 20 Fenchurch Street Limited Partnership | **17.3** | **1.0** | **45.7** | **(0.1)** | 15.4 | 22.1 | 29.8 | (3.0) |
| Nova, Victoria[1] | **18.0** | **100.0** | **40.0** | **–** | 12.6 | 53.1 | 24.7 | (2.0) |
| Metro Shopping Fund Limited Partnership | **0.1** | **(13.8)** | **0.6** | **–** | 0.1 | 4.0 | 0.1 | – |
| Buchanan Partnership[2] | **–** | **–** | **–** | **–** | 2.6 | (0.8) | – | – |
| St. David's Limited Partnership | **1.2** | **(13.9)** | **0.3** | **(0.7)** | 1.3 | 62.7 | 0.3 | (0.1) |
| Bristol Alliance Limited Partnership[3] | **–** | **–** | **–** | **–** | 0.7 | (8.6) | – | – |
| Westgate Oxford Alliance Limited Partnership | **6.8** | **62.6** | **4.6** | **–** | 2.5 | 10.7 | 1.9 | – |
| The Oriana Limited Partnership | **–** | **(63.2)** | **0.2** | **(0.1)** | – | (25.0) | 0.1 | (0.1) |
| Harvest[4] | **0.8** | **(31.4)** | **0.2** | **–** | 1.5 | (42.3) | 1.1 | – |
| The Martineau Galleries Limited Partnership | **–** | **–** | **–** | **–** | 0.3 | (0.6) | 0.1 | – |
| The Ebbsfleet Limited Partnership | **–** | **0.1** | **–** | **(0.1)** | – | 0.3 | – | – |
| Millshaw Property Co. Limited | **(0.2)** | **(3.0)** | **–** | **(12.2)** | (0.5) | – | – | (12.0) |
| Countryside Land Securities (Springhead) Limited | **–** | **–** | **–** | **–** | – | 0.2 | – | – |
| West India Quay Unit Trust | **0.1** | **(2.0)** | **1.1** | **(2.2)** | 0.1 | (1.7) | – | 0.7 |
| | **44.1** | **36.4** | **92.7** | **(15.4)** | 36.6 | 74.1 | 58.1 | (16.5) |

1. Nova, Victoria includes the Victoria Circle Limited Partnership and Nova Residential Limited Partnership.
2. On 31 October 2014, the Group acquired the remaining 50% interest in Buchanan Galleries, Glasgow from its joint venture partner. Therefore, the table above only represents the related party transactions in the year up to this date.
3. On 30 October 2014, the Group disposed of its interest in the Bristol Alliance Limited Partnership. Therefore, the table above only represents the related party transactions in the prior year up to this date.
4. On 31 March 2016, The Harvest Limited Partnership was dissolved after disposing of its interests in Lincoln and Thanet earlier in the year. Harvest now includes Harvest 2 Limited Partnership and Harvest Development Management Limited.

### Remuneration of key management personnel

The remuneration of the Directors and Managing 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 part of the Directors' Remuneration Report on pages 72–83.

| | 2016 £m | 2015 £m |
|---|---|---|
| Short-term employee benefits | **6.0** | 4.8 |
| Share-based payments | **3.2** | 2.7 |
| | **9.2** | 7.5 |

## 41. OPERATING LEASE ARRANGEMENTS

### ACCOUNTING POLICY

The Group earns rental income by leasing its properties to tenants under non-cancellable operating leases. 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.

At the balance sheet date, the Group had contracted with tenants to receive the following future minimum lease payments:

| | 2016 £m | 2015 £m |
|---|---|---|
| Not later than one year | **464.2** | 500.6 |
| Later than one year but not more than five years | **1,913.3** | 1,953.6 |
| More than five years | **3,873.4** | 3,900.1 |
| | **6,250.9** | 6,354.3 |

The total of contingent rents recognised as income during the year was **£42.9m** (2015: £41.2m).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 42. BUSINESS COMBINATIONS

The Group has accounted for the following transactions, which occurred in the year ended 31 March 2015, in accordance with IFRS 3 'Business Combinations' and therefore applied purchase accounting. Further details on each acquisition are below:

**Bluewater, Kent**

On 24 June 2014, the Group acquired 100% of the ordinary share capital of Greenhithe Holdings Limited (GHL) for a cash consideration of £694.3m from Lend Lease Bluewater Limited. The Group incurred £2.7m of business combination costs in connection with the transaction. GHL owned, through its subsidiary undertakings, a 30% interest in Bluewater, a shopping centre in Kent, full asset management rights for the centre and 110 acres of surrounding land.

On acquisition, the Group recognised an intangible asset of £30.0m, representing the estimated fair value of the management rights for the centre, together with a corresponding deferred tax liability of £6.0m. The intangible asset is being amortised over a period of 20 years.

Goodwill of £35.5m arose on the transaction, primarily representing the difference between the value of the investment property attributed by our external valuers, and the consideration paid. The difference was largely due to prospective purchasers' costs, which were deducted by the external valuer in determining the investment property value, as well as a lower value being attributed to the 110 acres of surrounding land, where management felt it was appropriate to pay a premium for the land on the basis of its long-term potential and its adjacency to the Group's land at Ebbsfleet. The Group considered whether this element of the goodwill was recoverable, and concluded that it was not. The purchasers' costs could potentially be recovered if a future sale was structured through a corporate transaction, but the Group did not consider there to be sufficient certainty to deem this element of the goodwill to be recoverable. Similarly, the Group's longer term plans for the outer land and the potential synergies with the Group's existing holdings were at an early stage, making the recoverable amount uncertain at this time. £29.5m of goodwill was therefore written off to the income statement in the prior year.

The remaining goodwill of £6.0m represented goodwill arising on the deferred tax liability. The deferred tax liability is being released to the income statement as the intangible asset is amortised, and the corresponding element of the goodwill is being tested for impairment. At 31 March 2016, the carrying value of both the deferred tax liability and the goodwill was **£4.9m** (2015: £5.8m).

**Buchanan Galleries, Glasgow**

On 31 October 2014, the Group acquired the remaining 50% interest in Buchanan Galleries from its joint venture partner, The Henderson UK Shopping Centre Fund, for a total consideration of £137.1m. The consideration consisted of a net cash consideration of £9.2m as well as the Group's interests in certain investment properties within its Exeter joint operation, in particular Princesshay, together with associated working capital for a total acquisition date fair value of £127.9m.

The fair value of the consideration paid was less than the value of the identifiable assets and, as a result, a gain of £2.2m was recognised in the income statement on acquisition within net gain on business combinations in the year ended 31 March 2015. In addition, £6.1m of transaction related costs were included within costs. The gain on business combination of £2.2m reflects a £0.6m gain on bargain purchase and a £1.6m gain on revaluation of our existing interest at the date of acquisition. Buchanan Galleries totals 600,000 sq ft of prime retail space, with opportunity to improve the retail and leisure mix.

## 42. BUSINESS COMBINATIONS CONTINUED

The fair value of the assets and liabilities recognised at the date of acquisition is set out in the table below:

| | Bluewater 30% £m | Buchanan Galleries 100% £m | Total £m |
|---|---|---|---|
| **Assets** | | | |
| Investment property | 635.8 | 275.0 | 910.8 |
| Intangible asset | 30.0 | – | 30.0 |
| Cash | 2.8 | 1.4 | 4.2 |
| Trade receivables (Note 1) | 6.7 | 0.7 | 7.4 |
| Other receivables | 1.0 | – | 1.0 |
| **Total assets** | **676.3** | **277.1** | **953.4** |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | (4.7) | (0.1) | (4.8) |
| Accruals and deferred income | (6.8) | (1.6) | (8.4) |
| Deferred tax | (6.0) | – | (6.0) |
| **Total liabilities** | **(17.5)** | **(1.7)** | **(19.2)** |
| | | | |
| **Net assets** | **658.8** | **275.4** | **934.2** |
| | | | |
| Fair value of consideration paid | 694.3 | 137.1 | 831.4 |
| Fair value of previously held interest | – | 136.1 | 136.1 |
| | **694.3** | **273.2** | **967.5** |
| | | | |
| **Goodwill/(gain on business combination) recognised** | **35.5** | **(2.2)** | **33.3** |
| | | | |
| Goodwill impairment | 29.5 | – | 29.5 |
| Net gain on business combination | – | (2.2) | (2.2) |
| Business combination costs | 2.7 | 6.1 | 8.8 |
| **Total loss on business combination recognised in the income statement** | **32.2** | **3.9** | **36.1** |
| | | | |
| Note 1: | | | |
| Gross contractual amount for trade receivables | 7.0 | 0.7 | 7.7 |
| Less amounts expected to be irrecoverable | (0.3) | – | (0.3) |
| Trade receivables | 6.7 | 0.7 | 7.4 |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016 continued

## 42. BUSINESS COMBINATIONS CONTINUED

### Pro forma information

In the year of acquisition, the acquisitions contributed the following to the revenue of the Group and the profit after tax:

| | Bluewater £m | Buchanan Galleries £m | Total £m |
|---|---|---|---|
| Revenue | 27.2 | 9.3 | 36.5 |
| Profit after tax | 12.8 | 1.9 | 14.7 |

If the acquisitions had been made on 1 April 2014, revenue and profit after tax for the year ended 31 March 2015 would have been higher by £14.0m and £7.9m respectively.

In calculating the pro forma information, the results of the acquired entities for the period before acquisition have been adjusted to reflect Land Securities' accounting policies and any fair value adjustments made on acquisition. The information is provided for illustrative purposes only and is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the financial year, or indicative of future results of the combined Group.

## 43. NON-CURRENT ASSETS HELD FOR SALE

On 23 March 2015, the Group exchanged contracts for the sale of Times Square, EC4 for consideration of £284.6m. As at 31 March 2015, the risks and returns of ownership had not fully transferred to the buyer, therefore the property was classified as a Non-current asset held for sale with a carrying value of £283.4m. The transaction completed on 31 July 2015.

## 44. EVENTS AFTER THE REPORTING PERIOD

There are no reportable events after the reporting period.

# ADDITIONAL INFORMATION

## BUSINESS ANALYSIS

A closer look at some of our key performance indicators.

For more information go to: **pages 144–157**

## FIVE YEAR SUMMARY

The Group's financial performance since 2011.

For more information go to: **pages 158–159**

## DIRECTORS' REMUNERATION POLICY

Approved by shareholders at the Annual General Meeting in 2015.

For more information go to: **pages 161–164**

## SHAREHOLDER INFORMATION

Useful dates and contact details for shareholders.

For more information go to: **pages 167–169**

**ADDITIONAL INFORMATION**

Further analysis of our business and practical information for shareholders.

144 Business analysis – Group
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# BUSINESS ANALYSIS – GROUP

## PERFORMANCE RELATIVE TO IPD

Table 52

**Total property returns – year to 31 March 2016**

| | Land Securities % | IPD[1] % |
|---|---|---|
| Retail – Shopping centres | 8.3 | 7.4 |
| – Retail parks | 4.9 | 5.8[3] |
| Central London shops | 11.5 | 18.4 |
| Central London offices | 14.1 | 17.5 |
| **Total portfolio** | **11.5[2]** | **11.3** |

1. IPD Quarterly Universe
2. Includes leisure, hotel portfolio and other
3. IPD Retail Warehouses Quarterly Universe

## COMBINED PORTFOLIO VALUE BY LOCATION AT 31 MARCH 2016

Table 53

| | Shopping centres and shops % | Retail parks % | Offices % | Hotels, leisure, residential and other % | Total % |
|---|---|---|---|---|---|
| Central, inner and outer London | 14.2 | 0.2 | 46.4 | 3.4 | 64.2 |
| South East and East | 9.6 | 3.6 | – | 0.9 | 14.1 |
| Midlands | – | 0.7 | – | 0.9 | 1.6 |
| Wales and South West | 2.6 | 0.5 | – | 4.4 | 7.5 |
| North, North West, Yorkshire and Humberside | 7.1 | 0.9 | 0.1 | 1.2 | 9.3 |
| Scotland and Northern Ireland | 2.8 | 0.3 | – | 0.2 | 3.3 |
| **Total** | **36.3** | **6.2** | **46.5** | **11.0** | **100.0** |

% figures calculated by reference to the Combined Portfolio value of £14.5bn.

## TOTAL SHAREHOLDER RETURNS*

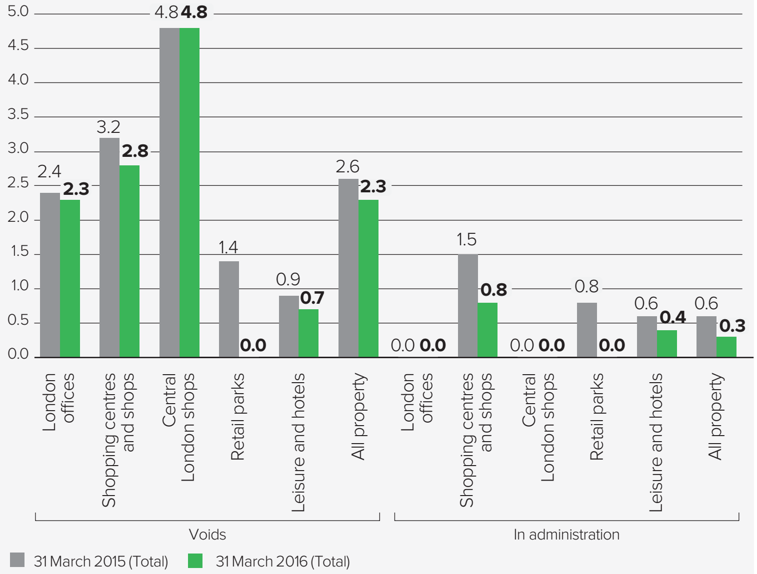
Table 54

| | Over one year to the year ended 31 March 2016 £ |
|---|---|
| Land Securities | **90.4** |
| FTSE 100 | **94.7** |
| FTSE 350 Real Estate Index | **93.6** |

* Historical TSR performance for a hypothetical investment of £100 – source: New Bridge Street

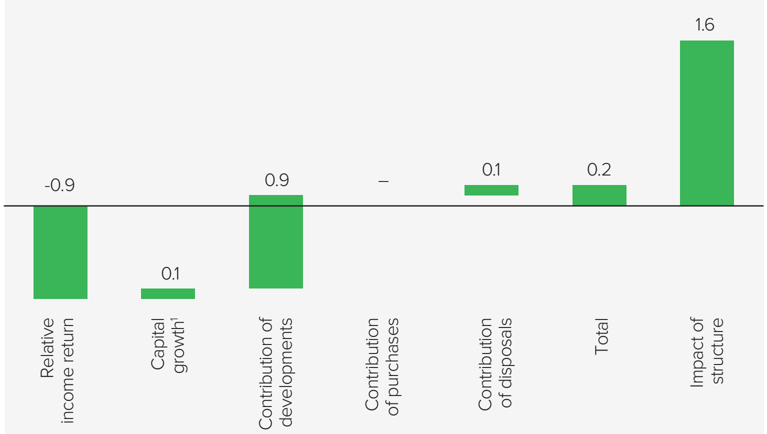
## VOIDS AND UNITS IN ADMINISTRATION LIKE-FOR-LIKE PORTFOLIO (%)

Chart 55




## ANALYSIS OF PERFORMANCE RELATIVE TO IPD (%)

Chart 56




Attribution analysis, ungeared total return, 12 months to 31 March 2016, relative to IPD Quarterly Universe. Source: IPD

The attribution of our relative outperformance to changes in the yields and rental values of standing assets has been distorted by the change in valuer and is not shown here.

## RECONCILIATION OF SEGMENT REPORTING TO STATUTORY REPORTING

Table 57

The table below reconciles the Group's income statement to the segment note (note 4 to the financial statements). The Group's income statement is prepared using the equity accounting method for joint ventures and includes 100% of the results of the Group's non-wholly owned subsidiaries. In contrast, the segment note is prepared on a proportionately consolidated basis and excludes the non-wholly owned share of the Group's subsidiaries. This is consistent with the financial information reviewed by management.

| | Year ended 31 March 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Group income statement £m | Joint ventures[1] £m | Proportionate share of earnings[2] £m | Total £m | Revenue profit £m | Capital and other items £m |
| Rental income | 603.4 | 49.5 | (2.6) | 650.3 | 650.3 | – |
| Finance lease interest | 10.2 | – | – | 10.2 | 10.2 | – |
| **Gross rental income (before rents payable)** | **613.6** | **49.5** | **(2.6)** | **660.5** | **660.5** | **–** |
| Rents payable | (10.7) | (1.1) | – | (11.8) | (11.8) | – |
| **Gross rental income (after rents payable)** | **602.9** | **48.4** | **(2.6)** | **648.7** | **648.7** | **–** |
| Service charge income | 94.1 | 8.5 | (0.6) | 102.0 | 102.0 | – |
| Service charge expense | (96.4) | (9.8) | 0.5 | (105.7) | (105.7) | – |
| Net service charge expense | (2.3) | (1.3) | (0.1) | (3.7) | (3.7) | – |
| Other property related income | 36.2 | 1.7 | – | 37.9 | 37.9 | – |
| Direct property expenditure | (72.3) | (7.2) | 0.3 | (79.2) | (79.2) | – |
| **Net rental income** | **564.5** | **41.6** | **(2.4)** | **603.7** | **603.7** | **–** |
| Indirect expenses | (80.1) | (1.9) | – | (82.0) | (82.0) | – |
| Other income | 3.7 | – | – | 3.7 | 3.7 | – |
| | **488.1** | **39.7** | **(2.4)** | **525.4** | **525.4** | **–** |
| | | | | | | |
| Impairment of long-term development contracts | (0.1) | 0.1 | – | – | – | – |
| Profit on disposal of trading properties | 40.7 | – | – | 40.7 | – | 40.7 |
| Profit on disposal of investment properties | 75.1 | 3.6 | – | 78.7 | – | 78.7 |
| Net surplus on revaluation of investment properties | 738.4 | 171.5 | (2.5) | 907.4 | – | 907.4 |
| Movement in impairment of trading properties | 11.5 | 4.4 | – | 15.9 | – | 15.9 |
| Amortisation of intangible asset | (1.5) | – | – | (1.5) | – | (1.5) |
| Head office relocation | (5.6) | – | – | (5.6) | – | (5.6) |
| **Operating profit** | **1,346.6** | **219.3** | **(4.9)** | **1,561.0** | **525.4** | **1,035.6** |
| Interest income | 35.1 | – | – | 35.1 | 35.1 | – |
| Interest expense | (239.0) | (20.1) | – | (259.1) | (198.4) | (60.7) |
| Impairment of goodwill | (0.9) | – | – | (0.9) | – | (0.9) |
| Revaluation of redemption liabilities | (4.6) | – | 4.9 | 0.3 | – | 0.3 |
| Joint venture taxation | – | (0.8) | – | (0.8) | – | (0.8) |
| Share of post-tax profit from joint ventures | 198.4 | (198.4) | – | – | – | – |
| **Profit before tax** | **1,335.6** | **–** | **–** | **1,335.6** | **362.1** | **973.5** |
| Income tax | 2.4 | – | – | 2.4 | – | 2.4 |
| **Profit for the year** | **1,338.0** | **–** | **–** | **1,338.0** | **362.1** | **975.9** |

1. Reallocation of the share of post-tax profit from joint ventures reported in the Group income statement to the individual line items reported in the segment note.
2. Removal of the non-wholly owned share of results of the Group's subsidiaries. The non-wholly owned subsidiaries are consolidated at 100% in the Group's income statement, but only the Group's share is included in revenue profit reported in the segment note.

## REIT balance of business

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. For the result of these tests for the Group for the financial year, and at the balance sheet date, see table 58 below.

### REIT BALANCE OF BUSINESS

Table 58

| | For the year ended 31 March 2016 | | | For the year ended 31 March 2015 | | |
|---|---|---|---|---|---|---|
| | **Tax-exempt business** | **Residual business** | **Adjusted results** | Tax-exempt business | Residual business | Adjusted results |
| Profit before tax (£m)[1] | **310.0** | **52.5** | **362.5** | 305.5 | 24.8 | 330.3 |
| Balance of business – 75% profits test | **85.5%** | **14.5%** | | 92.5% | 7.5% | |
| Adjusted total assets (£m)[1] | **14,255.6** | **939.0** | **15,194.6** | 14,081.2 | 960.6 | 15,041.8 |
| Balance of business – 75% assets test | **93.8%** | **6.2%** | | 93.6% | 6.4% | |

1. Calculated according to REIT rules

### COST ANALYSIS

Table 59

| | |
|---|---|
| Gross rental income (after rents payable) | 648.7 |
| Net service charge expense | (3.7) |
| Direct property expenditure (net) | (41.3) |
| **Net rental income** | **603.7** |
| Indirect costs | (44.3) |
| **Segment profit before interest** | **559.4** |
| Unallocated expenses (net) | (34.0) |
| Net interest – Group | (143.2) |
| Net interest – joint ventures | (20.1) |
| **Revenue profit** | **362.1** |

**Direct property costs £45.0m**

**Indirect expenses £78.3m**

**Total** **£123.3m**

**Total cost ratio[1]** **18.7%**

| | Year ended 31 March 2016 | | Year ended 31 March 2015 | |
|---|---|---|---|---|
| | **Total £m** | **Cost ratio %[1]** | Total £m | Cost ratio %[1] |
| Managed operations | **7.7** | **1.2** | 8.6 | 1.3 |
| Tenant default | **9.4** | **1.4** | 7.2 | 1.1 |
| Void related costs | **15.2** | **2.3** | 11.1 | 1.7 |
| Other direct property costs | **11.6** | **1.8** | 7.8 | 1.2 |
| Development expenditure | **20.1** | **3.0** | 30.9 | 4.7 |
| Asset management, administration and compliance | **59.3** | **9.0** | 66.4 | 10.2 |
| **Total** | **123.3** | **18.7** | 132.0 | 20.2 |

1. All percentages represent costs divided by gross rental income including finance leases, before rents payable.

### EPRA PERFORMANCE MEASURES

Table 60

| | | | 31 March 2016 | |
|---|---|---|---|---|
| | **Definition for EPRA measure** | **Notes** | **Land Securities measure** | **EPRA measure** |
| Adjusted earnings | Recurring earnings from core operational activity[1] | 11 | **£362.1m** | **£333.1m** |
| Adjusted earnings per share | Adjusted earnings per weighted number of ordinary shares[1] | 11 | **45.9p** | **42.2p** |
| Adjusted diluted earnings per share | Adjusted diluted earnings per weighted number of ordinary shares[1] | 11 | **45.7p** | **42.0p** |
| Adjusted net assets | Net asset value adjusted to exclude fair value movements on interest-rate swaps[2] | 10 | **£11,364.7m** | **£11,733.0m** |
| Adjusted diluted net assets per share | Adjusted diluted net assets per share[2] | 10 | **1,434p** | **1,481p** |
| Triple net assets | Adjusted net assets amended to include the fair value of financial instruments and debt | 10 | **£10,693.2m** | **£10,693.2m** |
| Diluted triple net assets per share | Diluted triple net assets per share | 10 | **1,349p** | **1,349p** |
| Net initial yield (NIY) | Annualised rental income less non-recoverable costs as a % of market value plus assumed purchasers' costs[3] | | **3.5%** | **4.2%** |
| Topped-up NIY | NIY adjusted for rent free periods[3] | | **4.1%** | **4.4%** |
| Voids/vacancy rate | ERV of vacant space as a % of ERV of Combined Portfolio excluding the development programme[4] | | **2.3%** | **2.2%** |
| Cost ratio | Total costs as a percentage of gross rental income (including direct vacancy costs)[5] | | **18.7%** | **19.9%** |
| | Total costs as a percentage of gross rental income (excluding direct vacancy costs)[5] | | **n/a** | **17.5%** |

Refer to notes 10 and 11 to the financial statements for further analysis.

1. EPRA adjusted earnings and EPRA adjusted earnings per share include the amortisation of bond exchange de-recognition of £23.4m and head office relocation costs of £5.6m.
2. EPRA adjusted net assets and adjusted diluted net assets per share include the bond exchange de-recognition adjustment of £368.3m.
3. Our NIY and Topped-up NIY relate to the Combined Portfolio, excluding properties in the development programme that have not yet reached practical completion, and are calculated by our external valuers. EPRA NIY and EPRA Topped-up NIY calculations are consistent with ours, but excludes all developments.
4. Our measure reflects voids in our like-for-like portfolio only. The EPRA measure reflects voids in the Combined Portfolio excluding only the development programme.
5. The EPRA cost ratio is calculated based on gross rental income after rents payable, whereas our measure is based on gross rental income before rents payable. We do not calculate a cost ratio excluding direct vacancy costs as we do not consider this to be helpful.

## TOP 12 OCCUPIERS AT 31 MARCH 2016

Table 61

| | % of Group rent[1] |
|---|---|
| Accor | 5.2 |
| Central Government[2] | 4.7 |
| Deloitte | 2.6 |
| Mizuho Bank | 1.7 |
| Boots | 1.5 |
| Taylor Wessing | 1.3 |
| Cineworld | 1.2 |
| Sainsbury's | 1.2 |
| K&L Gates | 1.1 |
| Deutsche Bank | 1.1 |
| M&S | 1.0 |
| Arcadia Group | 1.0 |
| | **23.6** |

1. On a proportionate basis.
2. Relates entirely to Queen Anne's Gate, SW1.

## PID TABLE

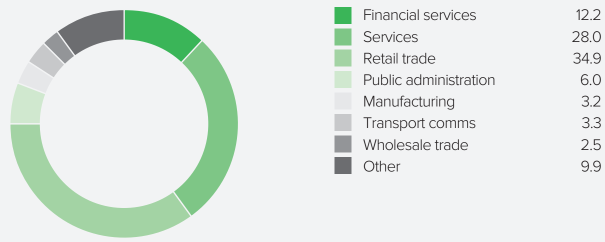
Table 64

| | **Year ended 31 March 2016 £m** | Year ended 31 March 2015 £m |
|---|---|---|
| **Profit before tax per accounts** | **1,335.6** | 2,416.5 |
| | | |
| **Adjustment to exclude** | | |
| Net surplus on revaluation of investment properties | **(907.4)** | (2,036.9) |
| Profit on disposal of investment properties | **(78.7)** | (132.7) |
| Profit on disposal of trading properties | **(40.7)** | (31.5) |
| Impairment of long-term development contracts | **–** | 11.3 |
| Movement in impairment of trading properties | **(15.9)** | (1.6) |
| Interest income | **(35.1)** | (29.4) |
| Fair value movement on interest-rate swaps and foreign exchange movements | **10.7** | 35.0 |
| Net gain on business combination | **–** | (2.2) |
| Adjustment non-wholly owned subsidiaries | **(4.9)** | (5.6) |
| Revaluation of redemption liabilities | **4.6** | 8.5 |
| Profit on disposal of investments in joint ventures | **–** | (3.3) |
| Joint venture taxation | **0.8** | – |
| Fair value movement on long-term liabilities | **(0.5)** | 4.4 |
| Impairment of goodwill | **0.9** | 29.7 |
| Amortisation of intangible asset | **1.5** | 1.1 |
| Business combination costs | **–** | 8.8 |
| | **270.9** | 272.1 |
| **Tax adjustments** | | |
| Capital allowances | **(52.9)** | (49.7) |
| Capitalised interest | **(25.6)** | (21.8) |
| Cumulative tax adjustments and removal of net residual tax result | **41.5** | 24.2 |
| **Estimated tax exempt income for year** | **233.9** | 224.8 |
| | | |
| PID thereon (90%) | **210.5** | 202.3 |
| PID dividends paid in the year | **191.2** | 214.8 |

The table provides a reconciliation of the Company's profit before tax to its estimated tax exempt income, 90% of which the Company is required to distribute as a PID to comply with REIT regulations. The Company has 12 months after the year end to make the minimum distribution. Accordingly, PID dividends paid in the year may relate to the distribution requirements of previous periods.

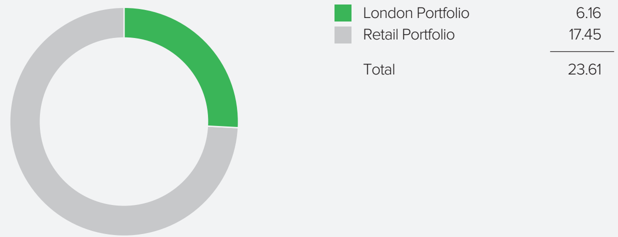
## CONTRACTED RENTAL INCOME BREAKDOWN BY OCCUPIER BUSINESS SECTOR (%)

Chart 62




## FLOOR SPACE (MILLION SQ FT)

Chart 63



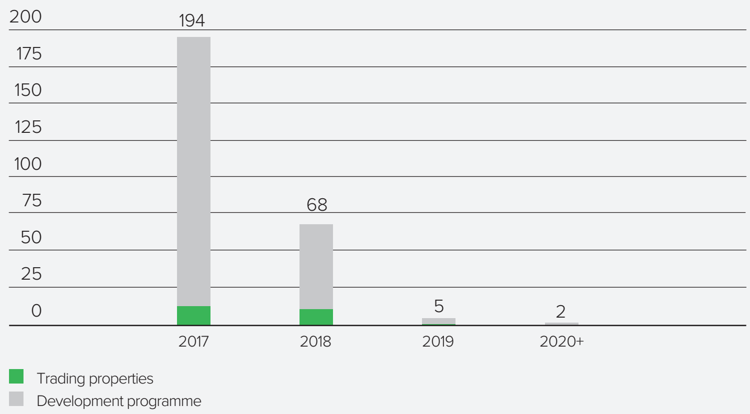

## % PORTFOLIO BY VALUE AND NUMBER OF PROPERTY HOLDINGS AT 31 MARCH 2016

Table 65

| £m | Value % | Number of properties |
|---|---|---|
| 0–9.99 | 0.8 | 25 |
| 10–24.99 | 2.3 | 21 |
| 25–49.99 | 4.3 | 17 |
| 50–99.99 | 12.3 | 25 |
| 100–149.99 | 6.3 | 8 |
| 150–199.99 | 8.9 | 8 |
| 200+ | 65.1 | 19 |
| Total | 100.0 | 123 |

## COMMITTED DEVELOPMENT – ESTIMATED FUTURE SPEND (£m)

Chart 66

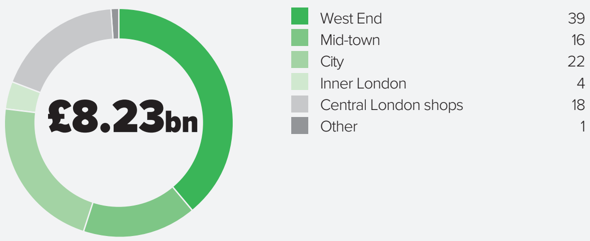



Estimated future spend includes the cost of residential space but excludes interest.

# BUSINESS ANALYSIS – LONDON

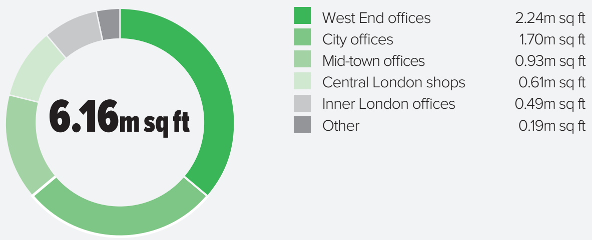
## LONDON PORTFOLIO VALUATION %

Chart 67




## LONDON PORTFOLIO FLOOR SPACE

Chart 68




### West End
Our £3.3bn West End office portfolio is dominated by our Victoria assets which include Cardinal Place, SW1, Queen Anne's Gate, SW1 and developments including 62 Buckingham Gate, SW1, The Zig Zag Building, SW1 and Nova, Victoria, SW1.

### Mid-town
Positioned between the City and West End, our cluster of buildings at New Street Square, EC4, represent our major assets and developments in Mid-town.

### City
Our £1.8bn City office portfolio includes assets such as One New Change, EC4 and the development programme schemes including 20 Fenchurch Street, EC3 and 1 & 2 New Ludgate, EC4.

### Inner London
Includes our assets at Docklands, E14 and Southwark, SE1.

### Central London shops
This segment comprises the retail space in our London Portfolio assets. The largest elements are the retail space at One New Change, EC4, Cardinal Place, SW1, and Piccadilly Lights, W1.

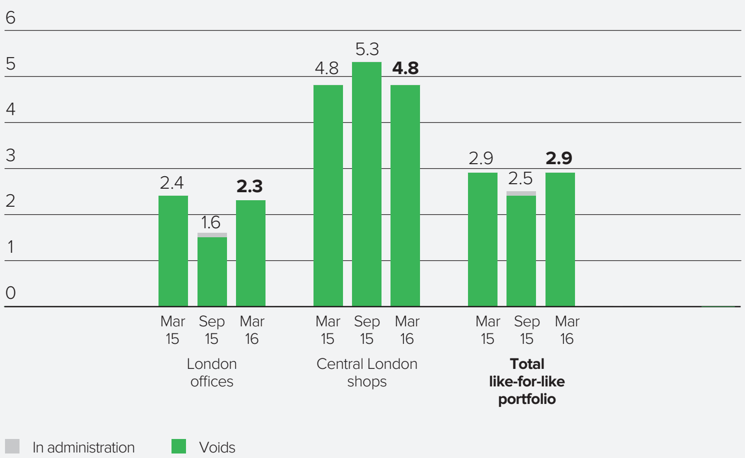
## TOP 10 OFFICE CUSTOMERS

Table 69

| | % of Group rent |
|---|---|
| Central Government (including Queen Anne's Gate, SW1) | 4.7 |
| Deloitte | 2.6 |
| Mizuho Bank | 1.7 |
| Taylor Wessing | 1.3 |
| K&L Gates | 1.1 |
| Deutsche Bank | 1.1 |
| EDF Energy | 1.0 |
| Redbus Interhouse | 0.9 |
| Bain & Co | 0.8 |
| Schlumberger Oilfield UK | 0.7 |
| | 15.9 |
| Office other | 20.8 |
| **Total** | **36.7** |

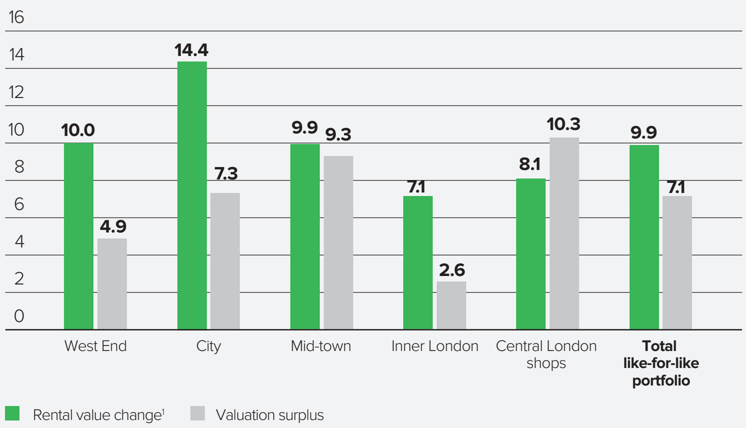
## VOIDS AND UNITS IN ADMINISTRATION
LIKE-FOR-LIKE RETAIL PORTFOLIO %
YEAR ENDED 31 MARCH 2016

Chart 70




## RENTAL AND CAPITAL VALUE MOVEMENTS
LIKE-FOR-LIKE LONDON PORTFOLIO %
YEAR ENDED 31 MARCH 2016

Chart 71




1. Rental value change excludes units materially altered during the year and Queen Anne's Gate, SW1.

# BUSINESS ANALYSIS – RETAIL

## RETAIL PORTFOLIO VALUATION % 
Chart 72


## RETAIL PORTFOLIO FLOOR SPACE
Chart 73


### Shopping centres and shops
Comprises our portfolio of 13 shopping centres in major retail locations across the UK including Trinity Leeds, Gunwharf Quays, Portsmouth and Buchanan Galleries in Glasgow.

### Retail parks
Our 13 retail parks are typically located away from town centres and offer a range of retail and leisure with parking providing convenient shopping. Assets include Westwood Cross, Lakeside Retail Park and Bexhill Retail Park.

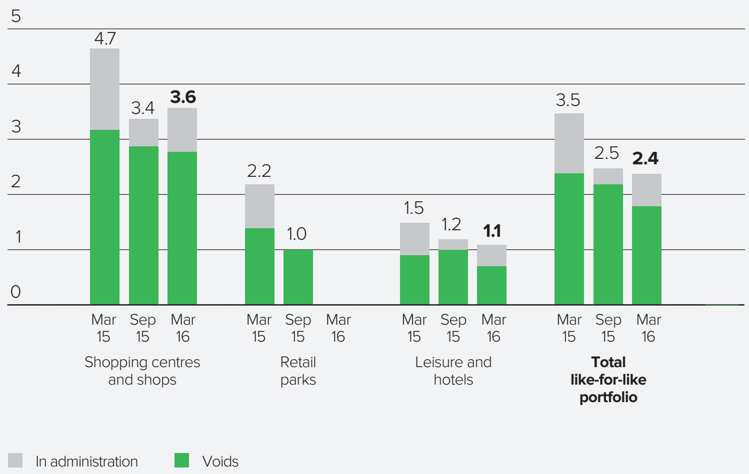
### Leisure and hotels
We own eight stand-alone leisure assets and a 95% share of the X-Leisure Fund which comprises 15 schemes of prime leisure and entertainment space.

We also own 29 Accor Group hotels in the UK. Seven (9% by income) are leased to Accor until 2019. The remaining 22 (91% by income) are leased back to Accor for 75 years with a break clause in 2031 and 12 yearly thereafter.

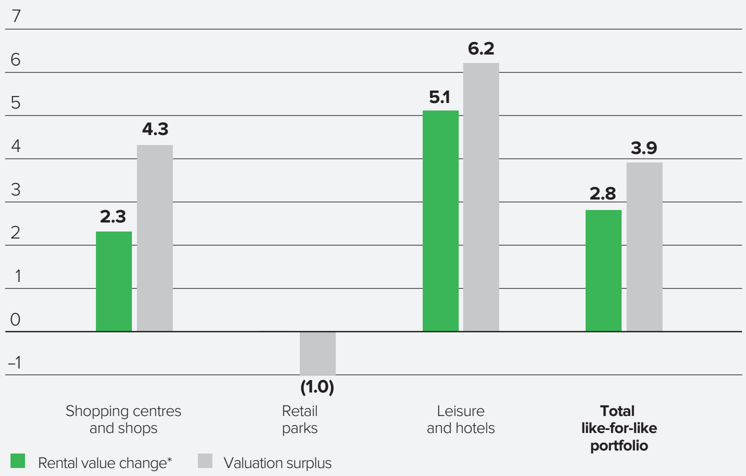
## TOP 10 RETAIL CUSTOMERS
Table 74

| | % of Group rent |
|---|---|
| Boots | 1.5 |
| Cineworld | 1.2 |
| Sainsbury's | 1.2 |
| Arcadia Group | 1.0 |
| Next | 0.9 |
| M&S | 0.9 |
| H&M | 0.8 |
| Vue | 0.8 |
| Tesco | 0.8 |
| Primark | 0.6 |
| | 9.7 |
| Retail other (excluding Accor) | 40.3 |
| **Total** | **50.0** |

## VOIDS AND UNITS IN ADMINISTRATION
LIKE-FOR-LIKE RETAIL PORTFOLIO %
YEAR ENDED 31 MARCH 2016
Chart 75




## RENTAL AND CAPITAL VALUE MOVEMENTS
LIKE-FOR-LIKE RETAIL PORTFOLIO %
YEAR ENDED 31 MARCH 2016
Chart 76



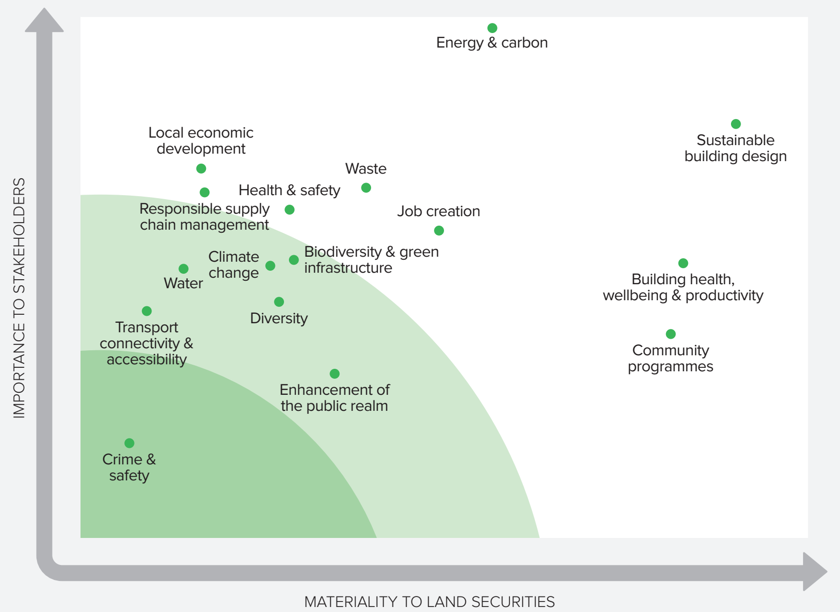

*Rental value change excludes units materially altered during the year.

# SUSTAINABILITY REPORTING

Sustainability is a top priority at Land Securities and our aim is to be the UK listed real estate leader. This year we have consolidated our approach under three thematic areas – creating jobs and opportunities, efficient use of natural resources; and sustainable design and innovation. This focus on physical and social as well as financial impacts is key to our business model and the way we operate.

During 2015, we undertook a detailed sustainability materiality assessment to identify key risks and areas for focus. This included reviewing current and forthcoming legislation, peer activity and interviews with our own people and external stakeholders, including investors, customers, supply chain partners and community groups. Chart 77 shows the outcome of this assessment and confirms that energy and carbon, and sustainable building design are our most material issues.

**2016 SUSTAINABILITY MATERIALITY MATRIX** Chart 77




This section gives a summary of our performance during the year. Please refer to our Sustainability Report for further details on our programme: www.landsecurities.com/sustainability.

**Creating jobs and opportunities**

*Commitments:*

— Help a total of 1,200 disadvantaged people secure jobs by 2020

— Ensure the working environments we control are fair and ensure that everyone who is working on our behalf – within an environment we control – is paid at least the Living Wage by 2020

— Make measurable improvements to the profile – in terms of gender, ethnicity and disability – of our employee mix

— Maintain an exceptional standard of health, safety and security in all the working environments we control

*Performance summary:*

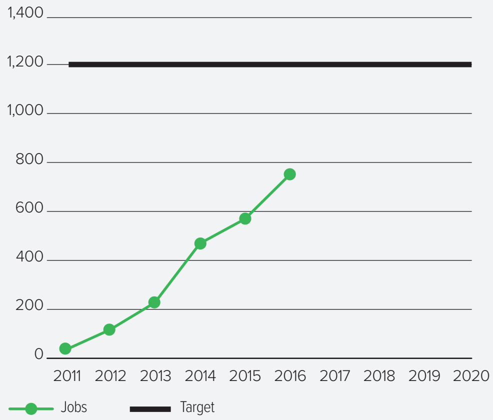
— In 2015/16, the Community Employment Programme trained 231 individuals with 196 of those entering employment. Since 2011, we have trained 1,054 people and secured employment for 779 against our 2020 commitment for 1,200 jobs. For 2016/17, we have set ourselves a Group KPI, to achieve 170 people into jobs.

— All Land Securities employees, with the exception of trainees and interns, are paid at least the Living Wage. 29 of our 33 London service partners have committed to paying the Living Wage and our Retail service partners have a staged transition plan in place to meet our 2020 commitment. All future tenders and contracts with our principal contractors on new developments will stipulate our Living Wage requirements.

— Land Securities has been assessed against both the National Equality Standard and the Royal Institute of Chartered Surveyors' Inclusive Employer Quality Mark. Introduced a mentoring programme for mid-career women, provided Unconscious Bias training for hiring managers and launched new diversity and inclusion training for Leaders and managers.

— Maintained OHSAS 18001 certification.

**CUMULATIVE TOTAL NUMBER OF JOBS SECURED** Chart 78




**Efficient use of natural resources**

*Commitments:*

— Continue to procure 100% renewable electricity across our portfolio (new commitment)

— Reduce carbon intensity ($kgCO_2/m^2$) by 40% by 2030 compared to a 2013/14 baseline, for property under our management for at least two years, with a longer term ambition of an 80% reduction by 2050 (new commitment)

— Reduce energy intensity ($kWh/m^2$) by 40% by 2030 compared to a 2013/14 baseline, for property under our management for at least two years (new commitment)

— Send zero waste to landfill with at least 75% recycled across all of our operational and construction activities by 2020 (increased commitment)

We will also be establishing an on-site energy generation target for the portfolio during the coming year.

*Performance summary:*

— As of 1 April 2016, our group electricity contract is 100% renewable with the appointment of Smartest Energy as our new provider, fully backed by REGOs (Renewable Energy Guarantees of Origin); and we have joined the RE100 collaborative initiative of influential businesses committed to 100% renewable electricity.

— We have reviewed and strengthened all of our targets in this area. In conjunction with the Carbon Trust, we have set a new 'science based' carbon reduction target to ensure we meet the level of decarbonisation required to keep global temperatures increases below two degrees compared to pre-industrial levels. Target is currently being assessed by the Science-Based Target Initiative. Please see chart 79 which maps our intensity pathway versus our sector.

— In order to meet these ambitious carbon and energy targets, for 2016/17 we have set ourselves a Group KPI to support operational efficiency by conducting site specific energy reduction assessments of the like-for-like portfolio to accelerate our existing energy management programme.

— In September 2015 we integrated our company wide Environmental and Energy Management System (EEnMS) with detailed energy requirements to become ISO 50001 certified in addition to ISO 14001.

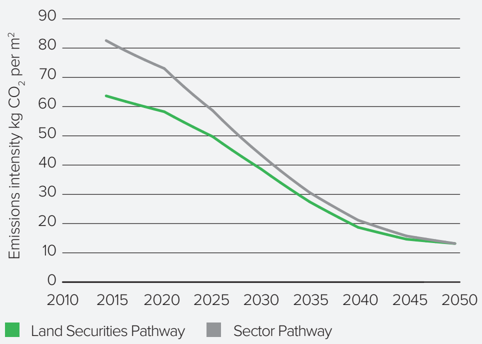
— Reduced total energy by 3% versus the previous year on a like-for-like basis. The London Portfolio has reduced energy use by 4% and Retail by 1%. For the absolute portfolio*, we have reduced consumption by 6% versus our 2013/14 baseline year. Our previous energy target focused on the five assets which consumed the most energy within the portfolio. For these assets, we reduced consumption by 15% compared to the 2013/14 baseline year.

— For this reporting period, 98.6% of waste was diverted from landfill with 72.0% recycled for the portfolio as whole.

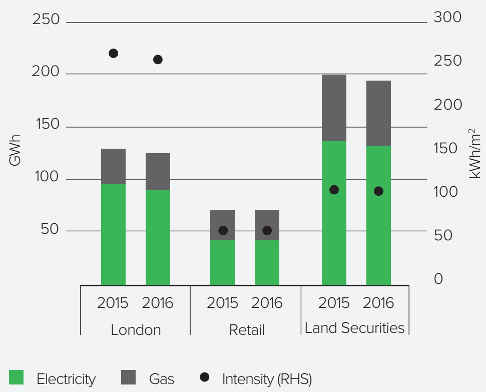
— Water consumption has increased by 6% across the portfolio due to increased footfall within our retail portfolio. For our five largest water consuming assets, where we have focused our efforts, consumption has decreased by 4%.

*The absolute portfolio includes all properties where Land Securities has 'operational control', where we purchase energy or appoint agents who control the purchase of energy.

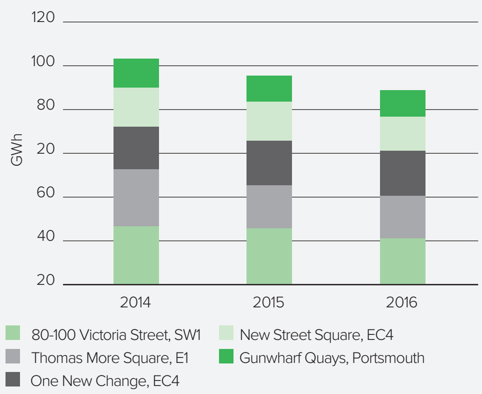
**LAND SECURITIES LOCATION BASED SCOPE 1 & 2 – INTENSITY PATHWAY** Chart 79




**TOTAL ENERGY ACROSS THE LIKE-FOR-LIKE PORTFOLIO IN 2015 AND 2016** Chart 80

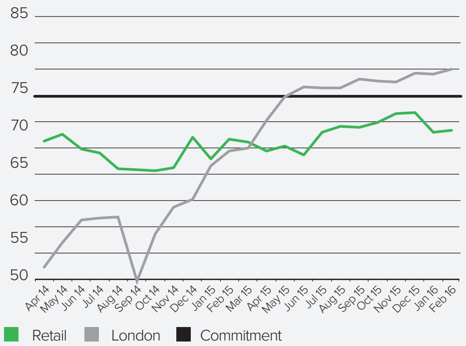



**TOP FIVE ENERGY CONSUMING BUILDINGS 2014–2016** Chart 81




**LONDON AND RETAIL (INC. LEISURE)** Chart 82

% OF TOTAL WASTE RECYCLED




## Sustainable design and innovation

*Commitments:*

— Design all our new developments to meet or exceed best practice guidelines for carbon emissions and the use of energy, water and materials. Current BREEAM targets are Very Good for retail and Excellent for offices

— Carry out embodied carbon analysis to inform the selection and procurement of building materials to reduce environmental impacts and achieve at least a 15% reduction in embodied carbon (new commitment)

— Maximise the biodiversity potential of all our development and operational sites

— Ensure our buildings are designed and managed to maximise wellbeing and productivity (new commitment)

*Performance Summary:*

— All of our new developments are being designed to meet or go beyond beyond Part L requirements, the building code for carbon emissions (where applicable). For developments already in construction, 98.3% of waste is being diverted from landfill and we are tracking our carbon emissions.

— All of our current office schemes are on track to achieve a minimum 'Excellent' rating and our retail schemes will achieve a minimum of 'Very Good'. For our new Head Office at 80-100 Victoria Street, design stage BREEAM has been awarded at 92% Outstanding under BREEAM Fit Out 2014.

— Developing the lowest whole life carbon retail destination in the UK at Westgate Oxford, with an ultra-low carbon reduction target of over 25,000 tonnes.

— Working with The Wildlife Trusts to create a strategic action plan as to how we can integrate biodiversity into our business model. This has included the creation of a simple methodology to enable the biodiversity value of our portfolio to be measured and managed. Methodology has been piloted at eight sites.

— We now have 12,900 sq ft of green walls totalling over 85,000 plants within our London Portfolio, including one of the UK's largest green walls at 20 Fenchurch Street, EC3.

— Sponsor of the World Green Building Council's campaign 'Better Place for People' which aims to raise awareness of how buildings impact upon health and wellbeing, and encourage those who design, build, own, occupy, operate or sell them, to shape buildings for the benefit of people.

**BREEAM STATISTICS** Table 83

| | sq ft |
|---|---|
| Total space with BREEAM rating | 6,285,258 |
| Total tenanted areas | 27,079,727 |
| Total common areas | 1,779,043 |
| Total common and tenanted | 28,858,770 |
| Percentage of total BREEAM rated | 22% |

| Rating | Total sq ft | % of total space |
|---|---|---|
| BREEAM Excellent | 3,636,608 | 13% |
| BREEAM Very Good | 1,268,991 | 4% |
| BREEAM Good | 1,379,660 | 5% |

## BENCHMARKING SCORES

Table 84

| Activity | Performance |
|---|---|
| Carbon Disclosure Project (CDP) | 2015: disclosure 99 / score C<br>2014: disclosure 96 / score A-<br>2013: disclosure 88 / score B<br>2012: disclosure 92 / score B<br>2011: disclosure 60 / score D |
| Global Real Estate Sustainability Benchmark (GRESB) | 2015: score 77%<br>2014: score 78%<br>2013: score 67%<br>2012: score 68% |
| Dow Jones Sustainability Index (DJSI) | 2015: score 72 / Percentile ranking 89<br>2014: score 70 / Percentile ranking 87<br>2013: score 72 / Percentile ranking 87<br>2012: score 70 / Percentile ranking 85 |
| FTSE4Good | We continue to retain our established position in the FTSE4Good Index |
| EPRA | Received a Gold Award at EPRA Sustainability Awards 2015 and 2014 for sustainability reporting |
| **Community Investment data** | |
| Value of resources given | £2.8m equivalent of time, promotion and cash investment; 6,745 hours spent by employees volunteering |
| National Charity Partnership | £126,000 raised for partner Mencap in the second year of our three year partnership. £135,500 raised in the first year |
| **Awards and membership** | |
| Business in the Community Awards 2015 | Winner: Freshfield Work Inclusion Award |
| Better Society Awards 2016 | Winner: National Commitment to the Community Award |

### Greenhouse gas reporting

Understanding our impacts is an essential step in reducing them. We see it as necessary to report on natural resource consumption and greenhouse gas (GHG) emissions consistently and transparently in order to help drive improvement.

Communicating our impacts and how we are acting to reduce them is important for our customers, communities, partners and employees.

### Reporting framework

Disclosures concerning GHG emissions became mandatory for Land Securities under the Companies Act in the 2014 financial year. As well as fulfilling these mandatory carbon reporting requirements, Land Securities is committed to EPRA Best Practice Recommendations for Sustainability reporting, and for which we have won a Gold award for two years running. We believe that such reporting improves transparency and performance. We also make further disclosures as recommended by DEFRA Environmental Reporting Guidance 2013 and the Greenhouse Gas Protocol.

We report our data using an operational control approach to define our organisational boundary. A detailed description of our methodology can be found in www.landsecurities.com/sustainability.

### Conversion factors

To convert our consumption data to report GHG emissions, we use the DEFRA recommended carbon conversion factors. These are expressed as 'local based' emission factors and have decreased compared with last year as a result of changes in the UK fuel mix.

This year we have elected also to report Scope 2 emissions from the use of purchased electricity, using 'market based' emission factors, in line with disclosure guidance from the GHG protocol (see table 89). Whereas local based conversion factors are an average of the UK's fuel mix, market based factors are unique to your electricity supplier. This year our market based Scope 2 emissions are lower than those calculated with local based emission factors. This is due to our principal supplier having a larger proportion of cleaner electricity such as nuclear and renewables in their mix compared with the UK grid average. We anticipate this will further improve over the coming year due to our 100% renewable electricity contract which started April 2016.

### Like-for-like portfolio energy consumption and greenhouse gas (GHG) emissions

The primary source of our GHG emissions is the energy consumed within our buildings. This equates to 97.4% of the total emissions reported this year. We have achieved a 3% reduction in like-for-like energy consumption this year vs 2014/15. This has contributed to a decrease in associated carbon emissions of 8.4%. Overall carbon intensity ($tCO_2/m^2$) has also dropped by 9% this year. These strong carbon reductions are a result of lower local based emission factors and energy efficiency improvements across the portfolio. Further reductions are anticipated next year as our company wide EEnMS continues to drive energy reductions.

## LIKE-FOR-LIKE PORTFOLIO – ENERGY

Table 85

| | EPRA Sustainability Performance Measures | | | | Land Securities | | |
|---|---|---|---|---|---|---|---|
| | EPRA codes | Units of measure | Indicator | | 2014/15 | 2015/16 | % change |
| Energy | Elec – LfL | kWh | Electricity | for landlord shared services | 82,948,332 | 82,379,680 | –1% |
| | | | | (sub)metered exclusively to tenants | 53,736,239 | 49,675,246 | –8% |
| | | | | Total landlord-obtained electricity | 136,684,571 | 132,054,926 | –3% |
| | Fuels – LfL | kWh | Fuels | for landlord shared services | 48,425,007 | 46,676,931 | –4% |
| | | | | (sub)metered exclusively to tenants | 13,907,138 | 14,752,083 | 6% |
| | | | | Total landlord-obtained fuels | 62,332,145 | 61,429,014 | –1% |
| | Total energy – LfL | kWh | Total energy | for landlord shared services | 131,373,340 | 129,056,611 | –2% |
| | | | | (sub)metered exclusively to tenants | 67,643,377 | 64,427,329 | –5% |
| | | | | **Total landlord-obtained energy** | **199,016,716** | **193,483,940** | **–3%** |
| | Energy-Int | $kWh/m^2/year$ | Energy intensity | Total building energy intensity | 117 | 113 | –3% |

## LIKE-FOR-LIKE PORTFOLIO – GREENHOUSE GAS (GHG) EMISSIONS

Table 86

| | EPRA Sustainability Performance Measures | | | | Land Securities | | |
|---|---|---|---|---|---|---|---|
| | EPRA codes | Units of measure | Indicator | | 2014/15 | 2015/16 | % change |
| Greenhouse Gas Emissions | GHG – Dir – LfL | Annual tonnes $CO_2e$ | Direct | Total direct GHG emissions – landlord shared services | 8,957 | 8,610 | –4% |
| | | | | Total direct GHG emissions – (sub)metered to tenants | 2,572 | 2,721 | 6% |
| | | | | **Total direct GHG emissions** | **11,530** | **11,331** | **–2%** |
| | GHG – Indir – LfL | Annual tonnes $CO_2e$ | Indirect | Total indirect GHG emissions – landlord shared services (local) | 39,691 | 37,976 | –4% |
| | | | | Total indirect GHG emissions – (sub)metered to tenants (local) | 27,636 | 22,906 | –17% |
| | | | | **Total indirect GHG emissions (local)** | **67,327** | **60,882** | **–10%** |
| | | | | Total indirect GHG emissions – landlord shared services (market) | | 22,183 | |
| | | | | Total indirect GHG emissions – (sub)metered to tenants (market) | | 13,294 | |
| | | | | **Total indirect GHG emissions (market)** | | **35,477** | |
| | GHG-Int | $tCO_2e$ /m²/year | GHG Intensity | Total building GHG emission intensity (local factors) | 0.046 | 0.042 | –9% |

For a detailed breakdown of like-for-like emissions across the portfolio and conversion factors used see www.landsecurities.com/sustainability.

## CONVERSION FACTORS

Table 87

| Overall Carbon Factors* (local based) | 2014/15 | 2015/16 | Change |
|---|---|---|---|
| Electricity | 0.61933 | 0.57492 | -7.2% |
| Natural Gas | 0.20980 | 0.20928 | -0.2% |

* Combined conversion factors including well to tank and transmission and distribution factors.

### Absolute emissions

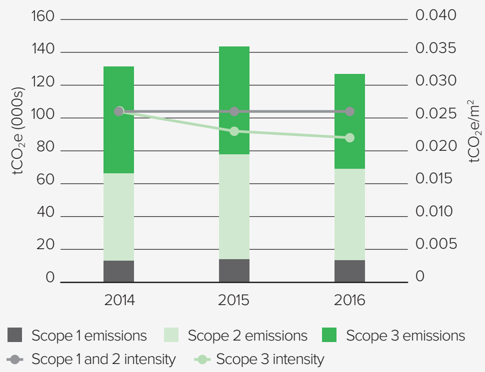
Across the absolute portfolio, we have seen energy reductions of 4% across both London and Retail. Combined with changes in the UK's carbon conversion factors, this has resulted in a substantial decrease in total carbon emissions of 12% compared with last year (scopes 1, 2 and 3). Absolute carbon emission intensity has also decreased by 8% from last year as we continue to develop and manage efficient buildings coming into our operational portfolio.

In order to satisfy the mandatory carbon reporting requirements we report our absolute Scope 1 and 2 emissions and their intensity based on floor area. We also voluntarily report the Scope 3 emissions that are material to our business and can be reliably measured, for example, where we supply energy to customers' demises.

Table 89 provides a breakdown of our Scope 1, 2 and 3 emissions with both local and market based conversion factors.

## SCOPE 1, 2 AND 3 EMISSIONS AND INTENSITY ACROSS THE ABSOLUTE PORTFOLIO 2014–2016

Chart 88




**Scope definitions:**
**Scope 1** – Covers direct GHG emissions from controlled operations such as combustion in owned boilers.
**Scope 2** – Covers indirect GHG emissions from the use of purchased electricity.
**Scope 3** – Covers other indirect emissions, such as business travel, waste management and energy used directly by our customers.

## ABSOLUTE PORTFOLIO CARBON EMISSIONS 2014 - 2016

Table 89

| | 2014 | 2015 | 2016 | 2016 |
|---|---|---|---|---|
| | (local based emission factors) | | | (market based emission factors) |
| **Scope 1 and 2 mandatory reporting** | | | | |
| **Emissions** | | | | |
| Scope 1 $tCO_2e$ | 13,047 | 13,926 | 13,443 | 13,443 |
| Scope 2 $tCO_2e$ | 53,355 | 64,095 | 55,471 | 34,146 |
| Scope 1 and 2 $tCO_2e$ | 66,402 | 78,020 | 68,914 | 47,589 |
| **Intensity** | | | | |
| Scope 1 and 2 $tCO_2e/m^2$ | 0.026 | 0.026 | 0.026 | 0.018 |
| $kgCO_2e/m^2$ | 26.25 | 25.53 | 26.30 | 18.06 |
| **Scope 3 voluntary reporting** | | | | |
| **Emissions** | | | | |
| Scope 3 $tCO_2e$ | 64,954 | 65,602 | 57,961 | 45,463 |
| **Intensity** | | | | |
| Scope 3 $tCO_2e/m^2$ | 0.026 | 0.023 | 0.022 | 0.017 |
| **Total emissions** | 131,356 | 143,622 | 126,875 | 93,052 |

For a detailed breakdown of absolute emissions across the portfolio and conversion factors used see www.landsecurities.com/sustainability.

# COMBINED PORTFOLIO ANALYSIS

## LIKE-FOR-LIKE SEGMENTAL ANALYSIS

Table 90

| | Market value[1] | | Valuation movement[2] | | Rental income[3] | | Annualised rental income[4] | Annualised net rent[5] | | Net estimated rental value[6] | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2016 £m | 31 March 2015 £m | Surplus/ (deficit) £m | Surplus/ (deficit) % | 31 March 2016 £m | 31 March 2015 £m | 31 March 2016 £m | 31 March 2016 £m | 31 March 2015 £m | 31 March 2016 £m | 31 March 2015 £m |
| **Retail Portfolio** | | | | | | | | | | | |
| Shopping centres and shops | **2,871.3** | 2,726.4 | **117.1** | **4.3%** | **156.4** | 148.7 | **146.4** | **143.2** | 138.5 | **150.7** | 146.0 |
| Retail parks | **834.3** | 835.5 | **(8.6)** | **(1.0%)** | **49.5** | 47.8 | **48.8** | **47.7** | 48.0 | **48.3** | 48.2 |
| Leisure and hotels | **1,510.9** | 1,426.4 | **87.3** | **6.2%** | **96.5** | 89.5 | **92.7** | **90.4** | 88.7 | **92.2** | 87.8 |
| Other | **20.2** | 20.8 | **(0.8)** | **(3.7%)** | **1.6** | 1.4 | **1.5** | **1.7** | 1.0 | **2.3** | 2.2 |
| **Total Retail Portfolio** | **5,236.7** | 5,009.1 | **195.0** | **3.9%** | **304.0** | 287.4 | **289.4** | **283.0** | 276.2 | **293.5** | 284.2 |
| **London Portfolio** | | | | | | | | | | | |
| West End | **2,083.9** | 1,985.8 | **93.8** | **4.9%** | **88.1** | 88.5 | **84.5** | **85.5** | 86.1 | **97.0** | 91.9 |
| City | **735.9** | 692.1 | **47.6** | **7.3%** | **27.8** | 25.0 | **29.7** | **32.4** | 29.8 | **37.1** | 32.5 |
| Mid-town | **1,053.2** | 1,002.0 | **81.4** | **9.3%** | **38.6** | 38.4 | **40.7** | **41.7** | 41.6 | **49.7** | 45.1 |
| Inner London | **320.1** | 293.8 | **4.3** | **2.6%** | **13.4** | 13.6 | **12.8** | **8.9** | 13.0 | **16.5** | 15.4 |
| **Total London offices** | **4,193.1** | 3,973.7 | **227.1** | **6.3%** | **167.9** | 165.5 | **167.7** | **168.5** | 170.5 | **200.3** | 184.9 |
| Central London shops | **1,187.4** | 1,065.4 | **111.0** | **10.3%** | **44.0** | 42.8 | **44.9** | **45.3** | 41.0 | **55.5** | 51.4 |
| Other | **45.9** | 45.7 | **0.3** | **0.5%** | **2.4** | 2.1 | **0.5** | **0.5** | 0.7 | **0.6** | 0.7 |
| **Total London Portfolio** | **5,426.4** | 5,084.8 | **338.4** | **7.1%** | **214.3** | 210.4 | **213.1** | **214.3** | 212.2 | **256.4** | 237.0 |
| **Like-for-like portfolio[10]** | **10,663.1** | 10,093.9 | **533.4** | **5.5%** | **518.3** | 497.8 | **502.5** | **497.3** | 488.4 | **549.9** | 521.2 |
| Proposed developments[3] | **3.5** | 2.5 | **(0.2)** | **(4.2%)** | **–** | – | **–** | **–** | – | **–** | – |
| Completed developments[3] | **1,038.5** | 896.0 | **109.3** | **12.4%** | **34.7** | 27.8 | **36.6** | **17.3** | 8.9 | **46.0** | 43.3 |
| Acquisitions[11] | **967.9** | 825.4 | **11.9** | **1.2%** | **41.1** | 30.6 | **41.0** | **40.8** | 37.6 | **42.3** | 40.2 |
| Sales[12] | **–** | 912.7 | **–** | **–** | **38.5** | 82.9 | **–** | **–** | 45.2 | **–** | 58.6 |
| Development programme[13] | **1,797.5** | 1,300.9 | **253.0** | **16.6%** | **24.5** | 1.8 | **30.8** | **0.6** | 1.6 | **104.1** | 87.5 |
| **Combined Portfolio** | **14,470.5** | 14,031.4 | **907.4** | **7.0%** | **657.1** | 640.9 | **610.9** | **556.0** | 581.7 | **742.3** | 750.8 |
| Non-current asset held for sale[14] | **–** | – | **–** | **–** | **3.4** | 12.8 | | | | | |
| Properties treated as finance leases | | | | | **(10.2)** | (10.4) | | | | | |
| **Combined Portfolio** | **14,470.5** | 14,031.4 | **907.4** | **7.0%** | **650.3** | 643.3 | | | | | |

## TOTAL PORTFOLIO ANALYSIS

| | Market value[1] | | Valuation movement[2] | | Rental income[3] | | Annualised rental income[4] | Annualised net rent[5] | | Net estimated rental value[6] | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2016 £m | 31 March 2015 £m | Surplus/ (deficit) £m | Surplus/ (deficit) % | 31 March 2016 £m | 31 March 2015 £m | 31 March 2016 £m | 31 March 2016 £m | 31 March 2015 £m | 31 March 2016 £m | 31 March 2015 £m |
| **Retail Portfolio** | | | | | | | | | | | |
| Shopping centres and shops | **3,790.3** | 3,564.8 | **142.2** | **3.9%** | **197.0** | 212.5 | **184.5** | **180.2** | 177.6 | **204.5** | 188.5 |
| Retail parks | **889.9** | 1,230.4 | **(9.6)** | **(1.1%)** | **68.1** | 72.3 | **51.6** | **49.8** | 70.9 | **51.0** | 72.2 |
| Leisure and hotels | **1,541.5** | 1,440.7 | **85.6** | **6.0%** | **97.7** | 91.3 | **94.0** | **91.7** | 90.2 | **93.1** | 89.0 |
| Other | **20.2** | 32.3 | **(0.8)** | **(3.7%)** | **1.8** | 2.3 | **1.5** | **1.7** | 1.6 | **2.3** | 3.1 |
| **Total Retail Portfolio** | **6,241.9** | 6,268.2 | **217.4** | **3.7%** | **364.6** | 378.4 | **331.6** | **323.4** | 340.3 | **350.9** | 352.8 |
| **London Portfolio** | | | | | | | | | | | |
| West End | **3,262.2** | 2,922.3 | **306.1** | **10.7%** | **109.0** | 101.8 | **110.7** | **97.1** | 96.6 | **157.1** | 152.2 |
| City | **1,814.0** | 1,649.3 | **139.3** | **8.8%** | **61.4** | 43.3 | **64.3** | **35.6** | 30.9 | **82.6** | 78.3 |
| Mid-town | **1,325.0** | 1,276.6 | **120.9** | **10.9%** | **41.3** | 41.5 | **40.7** | **41.5** | 43.7 | **67.2** | 68.4 |
| Inner London | **320.0** | 483.3 | **4.3** | **2.6%** | **27.5** | 21.3 | **12.8** | **8.9** | 23.5 | **16.5** | 32.3 |
| **Total London offices** | **6,721.2** | 6,331.5 | **570.6** | **10.0%** | **239.2** | 207.9 | **228.5** | **183.1** | 194.7 | **323.4** | 331.2 |
| Central London shops | **1,461.4** | 1,361.3 | **119.1** | **8.9%** | **50.9** | 52.4 | **50.2** | **48.9** | 45.8 | **67.2** | 65.9 |
| Other | **46.0** | 70.4 | **0.3** | **0.5%** | **2.4** | 2.2 | **0.6** | **0.6** | 0.9 | **0.8** | 0.9 |
| **Total London Portfolio** | **8,228.6** | 7,763.2 | **690.0** | **9.7%** | **292.5** | 262.5 | **279.3** | **232.6** | 241.4 | **391.4** | 398.0 |
| **Combined Portfolio** | **14,470.5** | 14,031.4 | **907.4** | **7.0%** | **657.1** | 640.9 | **610.9** | **556.0** | 581.7 | **742.3** | 750.8 |
| Non-current asset held for sale[14] | **–** | – | **–** | **–** | **3.4** | 12.8 | | | | | |
| Properties treated as finance leases | | | | | **(10.2)** | (10.4) | | | | | |
| **Combined Portfolio** | **14,470.5** | 14,031.4 | **907.4** | **7.0%** | **650.3** | 643.3 | | | | | |
| **Represented by:** | | | | | | | | | | | |
| Investment portfolio | **12,799.4** | 12,603.5 | **736.0** | **6.4%** | **600.8** | 572.7 | **565.4** | **526.5** | 550.1 | **650.1** | 670.0 |
| Share of joint ventures | **1,671.1** | 1,427.9 | **171.4** | **11.8%** | **49.5** | 70.6 | **45.5** | **29.5** | 31.6 | **92.2** | 80.8 |
| **Combined Portfolio** | **14,470.5** | 14,031.4 | **907.4** | **7.0%** | **650.3** | 643.3 | **610.9** | **556.0** | 581.7 | **742.3** | 750.8 |

# COMBINED PORTFOLIO ANALYSIS

## LIKE-FOR-LIKE SEGMENTAL ANALYSIS CONTINUED

Table 90

| | Gross estimated rental value[7] | | Net initial yield[8] | | Equivalent yield[9] | | Voids (by ERV)[3] | |
|---|---|---|---|---|---|---|---|---|
| | **31 March 2016 £m** | 31 March 2015 £m | **31 March 2016 %** | 31 March 2015 % | **31 March 2016 %** | 31 March 2015 % | **31 March 2016 %** | 31 March 2015 % |
| **Retail Portfolio** | | | | | | | | |
| Shopping centres and shops | **158.2** | 154.6 | **4.5%** | 4.5% | **4.7%** | 4.8% | **2.8%** | 3.2% |
| Retail parks | **48.9** | 48.9 | **5.2%** | 5.3% | **5.4%** | 5.4% | **–** | 1.4% |
| Leisure and hotels | **92.3** | 87.8 | **5.4%** | 5.6% | **5.5%** | 5.8% | **0.7%** | 0.9% |
| Other | **2.3** | 2.2 | **6.0%** | 2.3% | **8.0%** | 7.8% | **21.7%** | 22.7% |
| **Total Retail Portfolio** | **301.7** | 293.5 | **4.8%** | 4.9% | **5.1%** | 5.2% | **1.8%** | 2.4% |
| **London Portfolio** | | | | | | | | |
| West End | **97.1** | 91.9 | **3.8%** | 4.1% | **4.5%** | 4.5% | **4.6%** | 3.3% |
| City | **38.1** | 33.3 | **4.0%** | 4.0% | **4.5%** | 4.3% | **–** | – |
| Mid-town | **50.9** | 46.3 | **3.8%** | 3.9% | **4.4%** | 4.2% | **0.4%** | 3.2% |
| Inner London | **16.5** | 15.4 | **2.6%** | 4.2% | **4.9%** | 5.0% | **–** | – |
| **Total London offices** | **202.6** | 186.9 | **3.7%** | 4.1% | **4.5%** | 4.4% | **2.3%** | 2.4% |
| Central London shops | **55.9** | 51.7 | **3.5%** | 3.5% | **4.0%** | 4.4% | **4.8%** | 4.8% |
| Other | **0.6** | 0.7 | **1.3%** | 1.3% | **1.5%** | 1.4% | **16.7%** | – |
| **Total London Portfolio** | **259.1** | 239.3 | **3.7%** | 3.9% | **4.4%** | 4.4% | **2.9%** | 2.9% |
| **Like-for-like portfolio[10]** | **560.8** | 532.8 | **4.2%** | 4.4% | **4.7%** | 4.8% | **2.3%** | 2.6% |
| Proposed developments[3] | **–** | – | **–** | – | **n/a** | n/a | **n/a** | n/a |
| Completed developments[3] | **46.0** | 43.5 | **1.6%** | 0.6% | **3.8%** | 4.3% | **n/a** | n/a |
| Acquisitions[11] | **42.6** | 40.2 | **3.7%** | 3.8% | **4.3%** | n/a | **n/a** | n/a |
| Sales[12] | **–** | 58.7 | **–** | 4.1% | **n/a** | n/a | **n/a** | n/a |
| Development programme[13] | **105.6** | 87.6 | **–** | – | **4.1%** | 4.4% | **n/a** | n/a |
| **Combined Portfolio** | **755.0** | 762.8 | **3.5%** | 3.7% | **4.5%** | n/a | **n/a** | n/a |

## TOTAL PORTFOLIO ANALYSIS

| | Gross estimated rental value[7] | | Net initial yield[8] | |
|---|---|---|---|---|
| | **31 March 2016 £m** | 31 March 2015 £m | **31 March 2016 %** | 31 March 2015 % |
| **Retail Portfolio** | | | | |
| Shopping centres and shops | **213.3** | 197.2 | **4.2%** | 4.4% |
| Retail parks | **51.6** | 72.9 | **5.0%** | 5.3% |
| Leisure and hotels | **93.3** | 89.0 | **5.3%** | 5.6% |
| Other | **2.3** | 3.1 | **6.0%** | 3.3% |
| **Total Retail Portfolio** | **360.5** | 362.2 | **4.6%** | 4.8% |
| **London Portfolio** | | | | |
| West End | **157.1** | 152.3 | **2.8%** | 3.0% |
| City | **83.9** | 79.2 | **1.7%** | 1.8% |
| Mid-town | **68.6** | 69.7 | **3.0%** | 3.2% |
| Inner London | **16.5** | 32.3 | **2.6%** | 3.9% |
| **Total London offices** | **326.1** | 333.5 | **2.5%** | 2.8% |
| Central London shops | **67.6** | 66.2 | **3.2%** | 3.3% |
| Other | **0.8** | 0.9 | **0.5%** | 0.4% |
| **Total London Portfolio** | **394.5** | 400.6 | **2.6%** | 2.8% |
| **Combined Portfolio** | **755.0** | 762.8 | **3.5%** | 3.7% |
| **Represented by:** | | | | |
| Investment portfolio | **661.0** | 681.0 | **3.7%** | 3.9% |
| Share of joint ventures | **94.0** | 81.8 | **1.7%** | 1.8% |
| **Combined Portfolio** | **755.0** | 762.8 | **3.5%** | 3.7% |

Notes:
1. The market value figures are determined by the Group's external valuers.
2. The valuation movement is stated after adjusting for the effect of SIC 15 under IFRS.
3. Refer to glossary for definition.
4. Annualised rental income is annual 'rental income' (as defined in the glossary) at the balance sheet date, except that car park and commercialisation income are included on a net basis (after deduction for operational outgoings). Annualised rental income includes temporary lettings.
5. Annualised net rent is annual cash rent, after the deduction of ground rents, as at the balance sheet date. It is calculated with the same methodology as annualised rental income but is stated net of ground rent and before SIC15 adjustments.
6. Net estimated rental value is gross estimated rental value, as defined in the glossary, after deducting expected ground rents.
7. Gross estimated rental value (ERV) – refer to glossary for definition. The figure for proposed developments relates to the existing buildings and not the schemes proposed.
8. Net initial yield – refer to glossary for definition. This calculation includes all properties including those sites with no income.
9. Equivalent yield – refer to glossary for definition. Proposed developments are excluded from the calculation of equivalent yield on the Combined Portfolio.
10. The like-for-like portfolio – refer to glossary for definition. Capital expenditure on refurbishments, acquisitions of head leases and similar capital expenditure has been allocated to the like-for-like portfolio in preparing this table.
11. Includes all properties acquired since 1 April 2014.
12. Includes all properties sold since 1 April 2014.
13. The development programme – refer to glossary for definition. Net initial yield figures are only calculated for properties in the development programme that have reached practical completion.
14. As at 31 March 2015, the non-current asset held for sale was excluded from the Combined Portfolio and shown separately on the balance sheet as a 'Non-current asset held for sale'. The sale of the asset completed in the year ended 31 March 2016.

# LEASE LENGTHS

## LEASE LENGTHS

Table 91

| | Weighted average unexpired lease term at 31 March 2016 | |
|---|---|---|
| | Like-for-like portfolio Mean[1] Years | Like-for-like portfolio, completed developments and acquisitions Mean[1] Years |
| **Retail Portfolio** | | |
| Shopping centres and shops | 6.8 | 6.8 |
| Retail parks | 8.0 | 8.2 |
| Leisure and hotels | 12.8 | 13.0 |
| Other | 2.5 | 2.5 |
| **Total Retail Portfolio** | **8.8** | **8.8** |
| **London Portfolio** | | |
| West End | 8.6 | 8.7 |
| City | 6.4 | 9.7 |
| Mid-town | 10.1 | 10.1 |
| Inner London | 16.3 | 16.3 |
| **Total London offices** | **9.2** | **9.7** |
| Central London shops | 5.4 | 5.7 |
| Other | 7.7 | 7.7 |
| **Total London Portfolio** | **8.4** | **9.0** |
| | | |
| **Combined Portfolio** | **8.7** | **8.9** |

1. Mean is the rent weighted average of the unexpired lease term across all leases (excluding short-term leases). Term is defined as the earlier of tenant break or expiry.

# DEVELOPMENT PIPELINE

## DEVELOPMENT PIPELINE FINANCIAL SUMMARY

Table 92

| | Cumulative movements on the development programme to 31 March 2016 | | | | | | Total scheme details[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Market value at start of scheme £m | Capital expenditure incurred to date £m | Capitalised interest to date £m | Valuation surplus/ (deficit) to date[2] £m | Disposals, SIC15 rent and other adjustments £m | Market value at 31 March 2016 £m | Estimated total capital expenditure[3] £m | Estimated total capitalised interest £m | Estimated total development cost[4] £m | Net income/ ERV[5] £m | Valuation surplus/ (deficit) for the year ended 31 March 2016[2] £m |
| **Developments let and transferred or sold** | | | | | | | | | | | |
| Shopping centres and shops | – | – | – | – | – | – | – | – | – | – | – |
| Retail parks | – | – | – | – | – | – | – | – | – | – | – |
| London Portfolio | 110.6 | 287.3 | 17.2 | 524.7 | 46.6 | 986.4 | 287.3 | 17.2 | 415.1 | 41.1 | 110.1 |
| | 110.6 | 287.3 | 17.2 | 524.7 | 46.6 | 986.4 | 287.3 | 17.2 | 415.1 | 41.1 | 110.1 |
| **Developments after practical completion, approved or in progress** | | | | | | | | | | | |
| Shopping centres and shops | 30.0 | 43.8 | 3.1 | 21.9 | 1.6 | 100.4 | 178.5 | 11.4 | 219.9 | 13.9 | 11.0 |
| Retail parks | – | – | – | – | – | – | – | – | – | – | – |
| London Portfolio | 348.7 | 574.9 | 49.3 | 810.7 | (86.5) | 1,697.1 | 551.4 | 52.3 | 952.4 | 87.7 | 242.0 |
| | 378.7 | 618.7 | 52.4 | 832.6 | (84.9) | 1,797.5 | 729.9 | 63.7 | 1,172.3 | 101.6 | 253.0 |
| | | | | | | | | | | | |
| | Movement on proposed developments for the year ended 31 March 2016 | | | | | | | | | | |
| **Proposed developments** | | | | | | | | | | | |
| Shopping centres and shops | – | – | – | – | – | – | – | – | – | – | – |
| Retail parks | 2.5 | 1.3 | – | (0.2) | (0.1) | 3.5 | 45.3 | 0.9 | 49.7 | 2.5 | (0.2) |
| London Portfolio | – | – | – | – | – | – | – | – | – | – | – |
| | 2.5 | 1.3 | – | (0.2) | (0.1) | 3.5 | 45.3 | 0.9 | 49.7 | 2.5 | (0.2) |

1. Total scheme details exclude properties sold in the year.
2. Includes profit realised on the disposal of investment properties and any surplus or deficit on investment properties transferred to trading.
3. For proposed development properties the estimated total capital expenditure represents the outstanding costs required to complete the scheme as at 31 March 2016.
4. Includes the property at its market value 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 2016 is included in the estimated total cost. Estimated total development cost includes the cost of residential properties in the development programme (£11.0m for the Retail Portfolio). Estimated costs for proposed schemes could still be subject to material change prior to final approval.
5. Net headline annual rent on let units plus net ERV at 31 March 2016 on unlet units.

## DEVELOPMENT PIPELINE AND TRADING PROPERTY DEVELOPMENT SCHEMES AT 31 MARCH 2016

Table 93

### Development pipeline

| Property | Description of use | Ownership interest % | Size sq ft | Letting status % | Market value £m | Net income/ ERV £m | Estimated/ actual completion date | Total development costs to date £m | Forecast total development cost £m |
|---|---|---|---|---|---|---|---|---|---|
| **Developments after practical completion** | | | | | | | | | |
| 1& 2 New Ludgate, EC4 | Office | 100 | 354,800 | 93 | 513 | 24.2 | Apr 2015 | 248 | 248 |
| | Retail | | 26,800 | 100 | | | | | |
| The Zig Zag Building, SW1[1] | Office | 100 | 192,700 | 89 | 388 | 17.3 | Nov 2015 | 178 | 178 |
| | Retail | | 41,500 | 78 | | | | | |
| **Developments approved or in progress** | | | | | | | | | |
| 20 Eastbourne Terrace, W2 | Office | 100 | 92,800 | 62 | 121 | 6.4 | May 2016 | 63 | 66 |
| 1 New Street Square, EC4 | Office | 100 | 274,800 | 100 | 272 | 15.5 | Jul 2016 | 127 | 176 |
| Nova, Victoria, SW1 – Phase I | Office | 50 | 481,100 | 12 | 325 | 21.0 | Sep 2016 | 208 | 248 |
| | Retail | | 79,500 | 65 | | | | | |
| Oriana, W1 – Phase II | Retail | 50 | 72,500 | 100 | 79 | 3.3 | Jan 2017 | 30 | 36 |
| Westgate Oxford | Retail | 50 | 804,500 | 43 | 100 | 13.9 | Oct 2017 | 77 | 220 |
| | Residential | | 37,000 | – | | | | | |
| **Proposed developments** | | | | | | | | | |
| Selly Oak, Birmingham | Retail | 50 | 200,000 | n/a | n/a | n/a | 2017 | n/a | n/a |
| | Residential | | 89,000 | n/a | n/a | n/a | 2018 | n/a | n/a |
| **Developments let and transferred or sold** | | | | | | | | | |
| 62 Buckingham Gate, SW1 | Office | 100 | 259,700 | 100 | n/a[2] | 19.1 | May 2013 | 178 | 178 |
| | Retail | | 15,600 | 100 | | | | | |
| 20 Fenchurch Street, EC3 | Office | 50 | 673,700 | 100 | n/a[2] | 22.0 | Dec 2014 | 237 | 237 |
| | Retail | | 14,200 | 100 | | | | | |

1. Includes retail within Kings Gate, SW1.
2. Once properties are transferred from the development pipeline, we do not report on their individual value.

Where the property is not 100% owned, floor areas and letting status shown above represent the full scheme whereas all other figures represent our proportionate share. Letting % is measured by ERV and shows letting status at 31 March 2016. Trading property development schemes are excluded from the development pipeline.

**Total development cost**
Refer to glossary for definition. Of the properties in the development pipeline at 31 March 2016, the only properties on which interest was capitalised on the land cost were Westgate Oxford and Nova, Victoria, SW1 - Phase I. The figures for total development costs include expenditure on the residential elements of Westgate Oxford (£11.0m).

**Net income/ERV**
Net income/ERV represents headline annual rent on let units plus ERV at 31 March 2016 on unlet units, both after rents payable.

## TRADING PROPERTY DEVELOPMENT SCHEMES

Table 94

| Property | Description of use | Ownership interest % | Size sq ft | Number of units | Sales exchanged by unit % | Estimated/ actual completion date | Total development costs to date £m | Forecast total development cost £m |
|---|---|---|---|---|---|---|---|---|
| Kings Gate, SW1 | Residential | 100 | 108,600 | 100 | 86 | Oct 2015 | 160 | 160 |
| Nova, Victoria, SW1 – Phase I | Residential | 50 | 166,800 | 170 | 81 | Sep 2016 | 124 | 142 |
| Oriana, W1 – Phase II | Residential | 50 | 20,200 | 18 | 28 | Feb 2017 | 11 | 15 |

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS ADDITIONAL INFORMATION

# FIVE YEAR SUMMARY

| | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | **942.5** | 770.4 | 716.5 | 736.6 | 671.5 |
| Costs[1] | **(409.4)** | (304.7) | (248.0) | (283.6) | (241.6) |
| | **533.1** | 465.7 | 468.5 | 453.0 | 429.9 |
| Profit/(loss) on disposal of investment properties | **75.1** | 107.1 | 15.6 | (3.1) | 45.4 |
| Profit on disposal of investments in joint ventures | **–** | 3.3 | 2.5 | – | – |
| Net surplus on revaluation of investment properties | **738.4** | 1,770.6 | 606.6 | 196.7 | 169.8 |
| Profit on disposal of other investments | **–** | – | – | 1.6 | – |
| **Operating profit** | **1,346.6** | 2,346.7 | 1,093.2 | 648.2 | 645.1 |
| Net interest expense | **(203.9)** | (220.0) | (179.2) | (170.7) | (179.4) |
| Revaluation of redemption liabilities | **(4.6)** | (8.5) | (5.6) | (4.5) | – |
| Net gain on business combination | **–** | 2.2 | 5.0 | 1.4 | – |
| Impairment of goodwill | **(0.9)** | (29.7) | – | – | – |
| Share of post-tax profit from joint ventures | **198.4** | 325.8 | 195.5 | 58.6 | 52.2 |
| Impairment of investment in joint ventures | **–** | – | – | – | (2.2) |
| **Profit before tax** | **1,335.6** | 2,416.5 | 1,108.9 | 533.0 | 515.7 |
| Taxation | **2.4** | 0.3 | 7.7 | – | 8.0 |
| **Profit for the financial year** | **1,338.0** | 2,416.8 | 1,116.6 | 533.0 | 523.7 |
| | | | | | |
| **Net surplus on revaluation of investment properties** | | | | | |
| Group[2] | **736.0** | 1,767.8 | 608.5 | 197.0 | 169.8 |
| Joint ventures[2] | **171.4** | 269.1 | 155.3 | 20.5 | 21.1 |
| **Total[2]** | **907.4** | 2,036.9 | 763.8 | 217.5 | 190.9 |
| | | | | | |
| **Revenue profit** | **362.1** | 329.1 | 319.6 | 290.7 | 299.4 |

1. The presentation of certain items in the income statement has been reviewed during the year, and the 'Release of impairment of trading properties' is now aggregated within Costs.
2. Includes our non-wholly owned subsidiaries on a proportionate basis.

# FIVE YEAR SUMMARY

| | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Investment properties | **12,357.7** | 12,158.0 | 9,847.7 | 9,651.9 | 8,453.2 |
| Intangible assets | **38.1** | 34.7 | – | – | – |
| Other property, plant and equipment | **5.1** | 9.6 | 7.3 | 8.3 | 8.8 |
| Net investment in finance leases | **182.6** | 185.1 | 186.9 | 188.0 | 185.0 |
| Loan investments | **–** | 49.5 | 50.0 | 50.0 | 50.8 |
| Investment in joint ventures | **1,668.2** | 1,433.5 | 1,443.3 | 1,301.0 | 1,137.6 |
| Other investments | **13.8** | 12.8 | – | – | 32.3 |
| Trade and other receivables | **86.1** | 54.0 | 34.3 | 10.6 | – |
| Derivative financial instruments | **–** | – | 5.3 | – | – |
| Pension surplus | **25.2** | 7.0 | 2.3 | 5.9 | – |
| **Total non-current assets** | **14,376.8** | 13,944.2 | 11,577.1 | 11,215.7 | 9,867.7 |
| | | | | | |
| Trading properties and long-term development contracts | **123.4** | 222.3 | 192.9 | 152.8 | 133.1 |
| Trade and other receivables | **445.4** | 402.7 | 366.3 | 344.8 | 759.6 |
| Monies held in restricted accounts and deposits | **19.7** | 10.4 | 14.5 | 30.9 | 29.5 |
| Cash and cash equivalents | **24.7** | 14.3 | 20.9 | 41.7 | 29.7 |
| **Total current assets** | **613.2** | 649.7 | 594.6 | 570.2 | 951.9 |
| | | | | | |
| **Non-current assets held for sale** | **–** | 283.4 | – | – | – |
| | | | | | |
| Borrowings | **(18.7)** | (190.7) | (513.2) | (436.2) | (10.8) |
| Trade and other payables | **(289.3)** | (367.3) | (319.5) | (364.3) | (361.3) |
| Provisions | **(18.5)** | (2.6) | (3.6) | (6.7) | (8.3) |
| Derivative financial instruments | **(0.7)** | (3.8) | (5.5) | (9.1) | – |
| Current tax liabilities | **–** | (3.7) | (2.9) | (21.2) | (21.6) |
| **Total current liabilities** | **(327.2)** | (568.1) | (844.7) | (837.5) | (402.0) |
| | | | | | |
| Borrowings | **(2,854.3)** | (3,593.0) | (2,849.0) | (3,315.2) | (3,225.1) |
| Trade and other payables | **(28.5)** | (29.6) | (23.6) | (17.4) | (27.7) |
| Provisions | **(5.5)** | – | – | (0.3) | (0.3) |
| Derivative financial instruments | **(31.2)** | (37.7) | (3.5) | (10.7) | (6.5) |
| Redemption liabilities | **(34.9)** | (35.3) | (32.6) | (118.1) | – |
| Deferred tax | **(9.5)** | (7.3) | – | – | – |
| Pension deficit | **–** | – | – | – | (2.4) |
| **Total non-current liabilities** | **(2,963.9)** | (3,702.9) | (2,908.7) | (3,461.7) | (3,262.0) |
| | | | | | |
| **Net assets** | **11,698.9** | 10,606.3 | 8,418.3 | 7,486.7 | 7,155.6 |
| **Net debt** | **(2,860.5)** | (3,800.5) | (3,330.5) | (3,698.6) | (3,183.2) |
| | | | | | |
| **Market value of the Combined Portfolio** | **14,470.5** | 14,031.4 | 11,859.4 | 11,446.4 | 10,330.6 |
| **Adjusted net debt** | **(3,238.7)** | (4,171.7) | (3,948.3) | (4,290.2) | (3,981.4) |
| | | | | | |
| **Results per share** | | | | | |
| Total dividend payable in respect of the financial year | **35.0p** | 31.85p | 30.7p | 29.8p | 29.0p |
| Basic earnings per share | **169.4p** | 306.1p | 142.3p | 68.4p | 67.5p |
| Diluted earnings per share | **168.8p** | 304.7p | 141.8p | 68.1p | 67.4p |
| Adjusted earnings per share[1] | **45.9p** | 41.7p | 40.7p | 37.0p | 38.5p |
| Adjusted diluted earnings per share[1] | **45.7p** | 41.5p | 40.5p | 36.8p | 38.5p |
| Net assets per share | **1,482p** | 1,343p | 1,069p | 959p | 921p |
| Diluted net assets per share | **1,476p** | 1,337p | 1,065p | 955p | 918p |
| Adjusted net assets per share | **1,439p** | 1,299p | 1,017p | 907p | 866p |
| Adjusted diluted net assets per share | **1,434p** | 1,293p | 1,013p | 903p | 863p |

1. In 2012 adjusted earnings and adjusted earnings per share were restated to exclude profits on disposals of trading properties and long-term development contracts.

# ACQUISITIONS AND DISPOSALS

| | Year ended 31 March 2016 | | | | |
|---|---|---|---|---|---|
| | Group (excl joint ventures) £m | Joint ventures £m | Adjustment for proportionate share £m | Consolidation adjustments[1] £m | Combined Portfolio £m |
| **Investment properties** | | | | | |
| **Net book value at the beginning of the year** | 12,158.0 | 1,403.0 | (31.8) | – | 13,529.2 |
| Acquisitions | 156.9 | 24.7 | – | (58.2) | 123.4 |
| Capital expenditure | 194.8 | 117.3 | (0.1) | – | 312.0 |
| Capitalised interest | 9.2 | 12.8 | – | – | 22.0 |
| Disposals | (899.6) | (99.4) | 0.8 | 58.2 | (940.0) |
| Valuation surplus | 738.4 | 171.5 | (2.5) | – | 907.4 |
| **Net book value at the end of the year** | **12,357.7** | **1,629.9** | **(33.6)** | **–** | **13,954.0** |
| | | | | | |
| **Profit on disposal** | **75.1** | **3.6** | **–** | **–** | **78.7** |
| | | | | | |
| **Disposal of asset held for sale** | **(283.4)** | **–** | **–** | **–** | **(283.4)** |
| | | | | | |
| **Trading properties** | | | | | |
| **Net book value at the beginning of the year** | 222.3 | 114.9 | – | – | 337.2 |
| Capital expenditure | 27.0 | 33.6 | – | – | 60.6 |
| Capitalised interest | 2.3 | 4.2 | – | – | 6.5 |
| Disposals | (139.7) | – | – | – | (139.7) |
| Movement in impairment | 11.5 | 4.4 | – | – | 15.9 |
| **Net book value at the end of the year** | **123.4** | **157.1** | **–** | **–** | **280.5** |
| | | | | | |
| **Profit on disposal** | **40.7** | **–** | **–** | **–** | **40.7** |

| **Acquisitions, development and refurbishment expenditure** | **£m** |
|---|---|
| Acquisitions of investment properties | 123.4 |
| Capital expenditure – investment properties | 312.0 |
| Capital expenditure – trading properties | 60.6 |
| **Acquisitions, development and refurbishment expenditure** | **496.0** |

| **Disposals** | **£m** |
|---|---|
| Net book value – investment property disposals | 940.0 |
| Net book value – trading property disposals | 139.7 |
| Profit on disposal – investment properties | 78.7 |
| Profit on disposal – trading properties | 40.7 |
| Disposal of non-current asset held for sale | 283.4 |
| Other | 10.6 |
| **Total disposal proceeds** | **1,493.1** |

1. Consolidation adjustments relate to the acquisition by the Group of its partners' interests in certain assets held in joint ventures.

# DIRECTORS' REMUNERATION POLICY

**Directors' Remuneration Policy**
Summary of the individual elements of the remuneration package offered to Directors.

### 1. Executive Directors

**REMUNERATION POLICY** Table 95

| Purpose and link to strategy | Operation | Opportunity | Discretion |
|---|---|---|---|
| **Base salary** | | | |
| — To aid the recruitment, retention and motivation of high performing Executive Directors<br>— To reflect the value of their experience, skills and knowledge, and importance to the business. | — Reviewed annually, with effect from 1 June, and reflects:<br>– Increases throughout the rest of the business<br>– Market benchmarking exercise undertaken periodically to ensure salaries are set at around the median of the market competitive level for people in comparable roles with similar levels of experience, performance and contribution<br>– Changes in the scope of an Executive Director's role may also require a further adjustment to salary. | — For 2016/17, the annual base salaries of the Executive Directors are £768,668 (Chief Executive), and £500,360 (Chief Financial Officer), representing a 2% increase<br>— The maximum annual salary increase will not normally exceed the average increase across the rest of the workforce (2016/17: 2.5%). Higher increases will be exceptional, and made in specific circumstances, including:<br>– Increase in responsibilities or scope of the role<br>– To apply salary progression for a newly appointed Director<br>– Where the Executive Director's salary has fallen below the market positioning. | — The Committee has the discretion to determine the precise amount of base salary within the Policy, including approving the salary for a newly-appointed Executive Director. It will also determine whether there are specific reasons to award salary increases greater than those for the wider workforce. |
| **Benefits** | | | |
| — To provide protection and market competitive benefits to aid recruitment and retention of high performing Executive Directors. | — Directors receive a combination of:<br>– Car allowance<br>– Private medical insurance<br>– Life assurance<br>– Ill health income protection<br>– Holiday and sick pay<br>– Professional advice in connection with their directorship<br>– Travel, subsistence and accommodation as necessary<br>– Occasional gifts, for example appropriate long service or leaving gifts. | — The value of benefits may vary from year to year depending on the cost to the Company. | — The Policy will always apply as stated, unless there are specific individual circumstances why it should not. |
| **Pension** | | | |
| — To help recruit and retain high performing Executive Directors<br>— To reward continued contribution to the business by enabling Executive Directors to build retirement benefits. | — Participation into a defined contribution pension scheme or cash equivalent. | — Directors receive a pension contribution or cash allowance of 25% of salary. | — The Policy will apply as stated. |

**REMUNERATION POLICY**

Table 95

| Purpose and link to strategy | Operation | Opportunity | Discretion |
|---|---|---|---|
| **Annual bonus** | | | |
| — To incentivise the delivery of stretching, near-term business targets and personal performance objectives<br>— To reward near-term outperformance relative to industry benchmarks<br>— Specific measures and targets, for example successful planning applications and asset management initiatives, will provide future opportunity for the business and will increase the value of our properties in the short term<br>— Other KPIs, such as development lettings targets, are likely to have a significant impact on capital growth and long-term revenue profit performance<br>— The ability to recognise performance through variable remuneration enables the Group to control its cost base flexibly and react to events and market circumstances<br>— Deferral of a portion of annual bonuses into shares encourages a longer-term focus aligned to shareholders' interests and discourages excessive risk taking. | — All measures and targets are reviewed and set by the Board at the beginning of the year and payments are determined by the Committee after the year end, based on performance against the targets set<br>— Specific measures and targets will be set each year, but will always include a measure of Total Property Return versus that of the market<br>— Other measures and targets will reflect the most critical business performance indicators for the year ahead, and will be both specific and measurable. Revenue Profit performance will always feature as a key measure<br>— The achievement of on-target performance should result in a payment of 50% of the maximum opportunity ( i.e. 75% of salary)<br>— A small proportion (no more than 20% of base salary) of a Director's bonus is based on the Committee's assessment of the achievement of pre-set personal performance objectives<br>— The structure of the plan incentivises outperformance by ensuring that the threshold targets are stretching<br>— Bonuses up to 50% of salary are paid in cash<br>— Any amounts in excess of 50% of salary are deferred into shares for one year<br>— Any amounts in excess of 100% of salary are deferred into shares for two years<br>— Deferred shares are potentially forfeitable if the Executive Director leaves prior to the share release date<br>— Bonus payments are not pensionable<br>— Withholding and recovery provisions (malus and clawback) apply where any overpayment was made as a result of a material misstatement of the Company's results or a performance condition, or where there has been fraud or gross misconduct, whether or not this caused the overpayment. | — Minimum bonus payable is 0% of salary<br>— Maximum bonus potential is 150% of salary. | — The Committee has the discretion to set targets and measures each year<br>— The outturns for the Group element of the bonus plan are calculated formulaically and therefore the Committee has no discretion to adjust these, unless it feels it is necessary to adjust them down<br>— The Committee does have the discretion to award appropriate bonus payments under the individual element (maximum 20% of base salary) to reflect the performance and contribution of an individual Director<br>— Within the Policy, the Committee will retain flexibility including:<br>– When to make awards and payments<br>– How to determine the size of an award, a payment, or when and how much of an award should be payable<br>– Who receives an award or payment<br>– Whether a departing Executive Director should receive a bonus and whether and what proportion of awards should be paid at the time of leaving or at a subsequent date<br>– Whether a departing Executive Director should be treated as a "good leaver" in respect of deferred bonus shares<br>– How to deal with a change of control or any other corporate event which may require adjustments to awards<br>– To determine that no bonus or a reduced bonus is payable where the performance of the business has been poor, notwithstanding the achievement of objectives. |
| **Long-Term Incentive Plan (LTIP)** | | | |
| — Incentivises value creation over the long-term in excess of that created by general market increases<br>— Rewards execution of our strategy and the long-term outperformance of our competitors<br>— Aligns the long-term interests of Executive Directors and shareholders<br>— Promotes retention. | — The Committee may make an annual award of shares under the LTIP<br>— Vesting is determined on the basis of the Group's achievements against stretching performance targets over a fixed three year financial period and continued employment. There is no re-testing<br>— The Committee reviews the measures, their relative weightings and targets prior to each award<br>— The measures selected are relative and directly aligned to the interests of shareholders. 50% of an award is weighted to a measure of Total Property Return versus the industry benchmark over a three year period and 50% to Total Shareholder Return versus our listed comparator group over a three year period<br>— For each measure, no awards vest for performance below that of the benchmark. Only a proportion, (20%) will vest for matching the performance of the benchmark and significant outperformance is required for the maximum award to vest<br>— Awards will be satisfied by either newly issued shares or shares purchased in the market and any use of newly issued shares will be subject to the dilution limits contained in the scheme rules or approved by shareholders<br>— Executive Directors are required to hold vested shares for a further two years (including post-employment) following the three year vesting period expiry<br>— Withholding and recovery provisions (malus and clawback) apply where any overpayment was made as a result of a material misstatement of the Company's results or a performance condition or where there has been fraud or gross misconduct, whether or not this caused the overpayment. | — Normal and current award limit – 300% of salary. | — The outturns of the LTIP are calculated formulaically and therefore the Committee has no discretion to adjust these, unless it determines they should be adjusted down<br>— Within the Policy, the Committee will retain flexibility including:<br>– When to make awards and payments.<br>– How to determine the size of an award, a payment, or when and how much of an award should vest<br>– Who receives an award or payment.<br>– Whether a departing Executive Director is treated as a "good leaver" for the purposes of the LTIP and whether and what proportion of awards vest at the time of leaving or at a subsequent vesting date<br>– How to deal with a change of control or any other corporate event which may require adjustments to awards. |

**REMUNERATION POLICY** Table 95

| Purpose and link to strategy | Operation | Opportunity | Discretion |
|---|---|---|---|
| **Savings-Related Share Option Scheme (SAYE Scheme)** | | | |
| — To encourage all employees to make a long-term investment in the Company's shares, through a savings-related arrangement. | — All employees, including Executive Directors, are entitled to participate in the SAYE Scheme operated by the Company in line with UK HMRC guidelines currently prevailing. | — The maximum participation levels may vary in line with HMRC limits. For 2015/16, participants may save up to £500 per month for either three or five years, using their accumulated savings at the end of the period to purchase shares at a 20% discount to the market price at the date of grant. | — The Policy will apply as stated<br>— Within the Policy, the Committee will retain the flexibility to determine whether a departing Executive Director should be treated as a "good leaver". |
| **Share ownership guidelines** | | | |
| — To provide close alignment between the longer-term interests of Executive Directors and shareholders in terms of the Company's growth and performance. | — Executive Directors are expected to build up and maintain shareholdings with a value set at a percentage of base salary:<br>– Chief Executive - 250% of salary<br>– Other Executive Directors - 200% of salary<br>These levels are normally required to be achieved within five years of appointment in order to qualify for future long-term incentive awards. Deferred or unvested share awards not subject to performance conditions may count towards the ownership levels on a net of tax basis. | | — In exceptional circumstances, the Committee may extend the period by which share ownership levels are required to be achieved by up to two years. |

## 2. Non-executive Directors

**REMUNERATION POLICY** Table 96

| Purpose and link to strategy | Operation | Opportunity |
|---|---|---|
| **Base fee** | | |
| — To aid the recruitment, retention and motivation of high performing Non-executive Directors<br>— To reflect the time commitment given by Non-executive Directors to the business. | — The Chairman is paid a single fee for all Board duties and the other Non-executive Directors receive a basic Board fee, with supplementary fees payable for additional responsibilities<br>— Reviewed (but not necessarily changed) annually by the Board, having regard to independent advice and published surveys<br>— The Chairman's fee is also reviewed by the Board rather than the Remuneration Committee. | — The current fees for Non-executive Directors are shown in section 3 of the Annual Report on Remuneration<br>— Non-executive Director fees are typically reviewed annually but increased every two to three years<br>— Any increases reflect relevant benchmark data for Non-executive Directors in companies of a similar size and complexity, and the time commitment required. |
| **Additional fees** | | |
| — To reflect the additional time commitment required from Non-executive Directors in chairing various Board sub-committees or becoming the Board's Senior Independent Director. | — Reviewed (but not necessarily changed) annually by the Board, having regard to independent advice and published surveys. | — The opportunity depends on which, if any, additional roles are assumed by an individual Director over the course of their tenure<br>— Any increases reflect relevant benchmark data for Non-executive Directors in companies of a similar size and complexity, and the time commitment required. |
| **Other incentives and benefits** | | |
| | — Non-executive Directors do not receive any other remuneration or benefits beyond the fees noted above. Expenses in relation to Company business will be reimbursed<br>— If deemed necessary, and in the performance of their duties, Non-executive Directors may take independent professional advice at the Company's expense. | — n/a |
| **Share ownership** | | |
| — To provide close alignment between the longer-term interests of Directors and shareholders in terms of the Company's growth and performance. | — The current share ownership guidelines require Non-executive Directors to own shares with a value of 100% of annual fees within three years of appointment. | |

### 3. Directors' Service Agreements and Letters of Appointment

#### 3.1 Service Agreements – Executive Directors

The Executive Directors have Service Agreements with the Company which normally continue until the Director's agreed retirement date or such other date as the parties agree. In line with Group policy, the Executive Directors' employment can be terminated at any time by either party on giving 12 months' prior written notice.

The Company allows Executive Directors to hold external non-executive directorships, subject to the prior approval of the Board, and to retain fees from these roles.

#### 3.2 Termination Provisions – Executive Directors

An Executive Director's Service Agreement may be terminated without notice and without further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain events such as gross misconduct. The circumstances of the termination (taking into account the individual's performance) and an individual's opportunity to mitigate losses are taken into account by the Committee when determining amounts payable on termination, including pay in lieu of notice. The Group's normal approach is to stop or reduce compensatory payments to former Executive Directors when they receive remuneration from other employment during the compensation period. The Company does not make any arrangements that guarantee pensions with limited or no abatement on severance or early retirement. There are no special provisions for Executive Directors with regard to compensation in the event of loss of office.

Any share-based entitlements granted under the Company's share plans will be determined on the basis of the relevant plan rules. The default position is that any outstanding unvested awards automatically lapse on cessation of employment. However, under the rules of the LTIP, in certain prescribed circumstances, such as redundancy, disability, retirement or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure), "good leaver" status can be applied. For example, if an Executive's role has effectively been made redundant, and there are no significant performance issues, the Committee is likely to look favourably on the granting of some "good leaver" provisions. However, if an Executive has resigned for a similar role in a competitor organisation, then such provisions are extremely unlikely to apply. Where "good leaver" provisions in respect of share awards are deemed to be appropriate, a participant's awards should vest on a time pro-rata basis and subject to the satisfaction of the relevant performance criteria with the balance of the awards lapsing. The Committee retains discretion to decide not to pro-rate if it is inappropriate to do so in particular circumstances. For the avoidance of doubt, if the termination of employment is not for one of the specified reasons, and the Committee does not exercise its discretion to allow an award to vest, all outstanding awards automatically lapse.

#### 3.3 Remuneration of newly appointed Executive Directors

The remuneration package for a new externally appointed Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. At present, the Policy on base salary will apply, but the Committee has the flexibility to set the salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years (subject to performance in the role) to bring the salary to the desired positioning. Only in very exceptional circumstances will the salary of a newly appointed Executive Director exceed the market median benchmark for the role.

The annual bonus would operate in accordance with the terms of the approved policy, albeit with the opportunity pro-rated for the period of employment in the first year. Depending on the timing and responsibilities of the appointment, it may be necessary to set different performance measures and targets initially. The LTIP would also operate in accordance with the Policy. The maximum level of variable pay that may be offered to a new Executive Director is therefore at an aggregate maximum of 450% of salary. This limit does not include the value of any buy-out arrangements deemed appropriate (see below).

In addition to the elements of the remuneration package covered by the Policy, the Committee may "buy out" certain existing remuneration of an incoming Executive Director through the offer of either additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the Company. Any such payments would be based solely on remuneration lost when leaving the former employer and would take into account the existing delivery mechanism (i.e. cash, shares, options), time horizons and performance conditions.

In the case of an internally appointed Executive Director, any variable pay element awarded in respect of the prior role would be paid out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue, provided that they are put to shareholders for approval at the earliest opportunity.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses, on a one time basis, as appropriate. Where an Executive Director is recruited from overseas, flexibility is retained to provide benefits that take account of market practice in their country of residence. The Company may offer a cash amount on recruitment, payment of which may be staggered over a period of up to two years, to reflect the value of benefits a new recruit may have received from a former employer.

Shareholders will be informed of the remuneration package and all additional payments to newly-appointed Executive Directors at the time of their appointment.

#### 3.4 Chairman and Non-executive Directors' Letters of Appointment

The Chairman and the Non-executive Directors do not have Service Agreements with the Company. Instead, each of them has a Letter of Appointment which sets out the terms of their appointment, including the three months' prior written notice on which their appointment can be terminated by either party at any time. The dates of the current Letters of Appointment are shown in the Annual Report on Remuneration and these, together with the Executive Directors' Service Agreements, are available for inspection at the Company's registered office.

On appointment, the fee arrangements for a new Non-executive Director would be set in accordance with the approved remuneration policy in force at that time.

# SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

As at 31 March 2016, the Company had a 100% interest, direct or indirect, in the ordinary share capital of the following subsidiaries, all of which are registered in the UK:

20 Gillingham Street Limited
20 Gillingham Street Management Limited
57-60 Haymarket (No. 1) Limited
57-60 Haymarket (No. 2) Limited
59-60 Grosvenor Street (No. 1) Limited
59-60 Grosvenor Street (No. 2) Limited
Alan House (Nottingham) (No. 1) Limited
Alan House (Nottingham) (No. 2) Limited
Albany Park (Frimley) (No. 1) Limited
Arundel Great Court Development Management Limited
Blueco Limited
Bluewater Ground Lease Limited
Bluewater Outer Area Limited
Brand Empire Limited
Brand Empire SPV 1 Limited
Brand Empire SPV 2 Limited
Brand Empire SPV 3 Limited
Brand Empire SPV 4 Limited
Castleford (UK) Limited
Cedric (New Fetter Lane) (No. 1) Limited
Cedric (New Fetter Lane) (No. 2) Limited
City & Central Shops Limited
City Centre Properties Limited
Clock Tower (Canterbury) (No. 1) Limited
Clock Tower (Canterbury) (No. 2) Limited
Crossways 2000 Limited
Crossways 3065 Limited
Crossways 7055 Limited
Dashwood House Limited
DVD Box Limited
Ebbsfleet Valley Estate Company Limited
Ebbsfleet Valley Property Services Limited
Eron Investments Limited
Five Fields Limited
GEP16 Limited
Gunwharf Quays Limited
Knollys House (No. 1) Limited
Knollys House Limited
L & P Estates Limited
Land Securities (BH) Limited
Land Securities (Finance) Limited
Land Securities (Hotels) Limited
Land Securities (Insurance Services) Limited
Land Securities (Media Services) BH Limited
Land Securities (Media Services) PQ Limited
Land Securities Buchanan Street Developments Limited
Land Securities Business Services Limited
Land Securities Capital Markets PLC
Land Securities Consulting Limited
Land Securities Corporate Services Limited
Land Securities Development Limited
Land Securities Ebbsfleet (No.2) Limited
Land Securities Ebbsfleet (No.3) Limited
Land Securities Ebbsfleet Limited
Land Securities Intermediate Limited
Land Securities Investment Trust Limited
Land Securities Management Limited
Land Securities Management Services Limited
Land Securities MPPS Trustee Company Limited
Land Securities Partnerships Limited
Land Securities PLC
Land Securities Portfolio Management Limited
Land Securities Properties Limited
Land Securities Property Holdings Limited
Land Securities Reserve A Limited
Land Securities Reserve B Limited
Land Securities SPV'S Limited
Land Securities Trading Limited
Land Securities Trinity Limited
LC25 Limited
Leisure Parks (General Partner II) Limited
LS (Bracknell) Limited
LS (Bridgewater Management) Limited
LS (Finchley Road) Limited
LS (Jaguar) GP Investments Limited
LS (Milford Haven) Limited
LS (Stamford Street) Limited
LS (Victoria) Nominee No.1 Limited
LS (Victoria) Nominee No.2 Limited
LS (Winchester) Limited
LS (Workington) Nominee 1 Limited
LS (Workington) Nominee 2 Limited
LS 1 New Street Square Developer Limited
LS 1 New Street Square Limited
LS 120 Cheapside Limited
LS 130 Wood ST Limited
LS 20 Fenchurch Street (GP) Investments Limited
LS 20 Fenchurch Street Limited
LS 21 Moorfields Development Management Limited
LS 21 Moorfields Limited
LS Aldersgate Limited
LS Arundel (North) Limited
LS Arundel Nominee Limited
LS Arundel Nominee No. 1 Limited
LS Ashdown Limited
LS Banbridge Limited
LS Banbridge Management Limited
LS Banbridge Phase Two Limited
LS Bankside Developments Limited
LS Bankside Limited
LS Birmingham Limited
LS Bon Accord Limited
LS Buchanan (GP) Investments Limited
LS Buchanan Limited
LS Canterbury Limited
LS Cardiff (GP) Investment Limited
LS Cardiff (Holdings) Limited
LS Cardiff Limited
LS Cardinal Limited
LS Centre Properties Limited
LS Chattenden Marketing Limited
LS City & West End Limited
LS City Gate House Limited
LS Clayton Square Limited
LS Company Secretaries Limited
LS Director Limited
LS Ealing Leisure Limited
LS Eastern Quarry Limited
LS Easton Park Investments Limited
LS Empress State Limited
LS Fenchurch Development Management Limited
LS Fort Limited
LS Galleria Limited
LS Greenwich Investment Limited
LS Greenwich Limited
LS Greyhound Limited
LS Guildford Limited
LS Gunwharf Limited
LS Harbour Exchange Option Limited
LS Harlow North Limited
LS Harrogate (Leasehold) Limited
LS Harrogate Limited
LS Harrow Properties Limited
LS Harvest (GP) Investments Limited
LS Harvest 2 Limited
LS Harvest Limited
LS Hill House Limited
LS Holborn Gate Limited
LS Howard Centre Welwyn Limited
LS Hungate Limited
LS Juliet Limited
LS Kings Gate Residential Limited
LS Kings Gate Residential No.2 Limited
LS Kingsmead Limited
LS Leisure Limited
LS Lewisham Limited
LS London Holdings One Limited
LS London Holdings Three Limited
LS London Intermediate Limited
LS London Management Limited
LS Ludgate (No.1) Limited
LS Ludgate (No.2) Limited
LS Ludgate (No.3) Limited
LS Ludgate Development Limited
LS Maidstone Limited
LS Mark Lane Limited
LS Martineau Limited
LS Millshaw Limited
LS Mirage Limited
LS Nominees Holdings Limited
LS Occupier Limited
LS ONC Holdings Limited
LS One New Change Developments Limited
LS One New Change Limited
LS Overgate Limited
LS Oxygen Limited
LS Park House Development Management Limited
LS Portfolio Investments Limited
LS Portland House Developer Limited
LS Property Finance Company Limited
LS Property Solutions Limited
LS Red Lion Court Limited
LS Retail Director Limited
LS Retail Warehouses Limited
LS Roebuck House (LP) Limited
LS Rose Lane Limited
LS Samuel House Limited
LS Selborne House Limited
LS Taplow Limited
LS Taplow No.2 Limited
LS Thanet Limited
LS Times Square GP Limited
LS Times Square Investments Limited
LS Times Square Limited
LS Times Square Nominee Limited
LS TMS Nominee 1 Limited
LS TMS Nominee 2 Limited
LS Tottenham Court Road Limited
LS Victoria Circle Development Management Limited
LS Victoria Circle GP Investments Limited
LS Victoria Circle LP1 Limited
LS Victoria Circle LP2 Limited
LS Victoria Properties Limited
LS Voyager Limited
LS Wellington Limited
LS Westminster Limited
LS Westminster No.2 Limited
LS Whitefriars Limited
LS Wilton Plaza Limited
LS Wilton Private Limited
LS Wood Lane Limited
LS Zig Zag Limited
LSIT (Management) Limited
Markham Rd (Chesterfield) (No. 2) Limited
Micadant (2001) Limited
O2 (General Partner) Limited
Oriana LP Limited
Oxford Castle Apartments Limited
QAM (2026) Limited
QAM (GP) Limited
QAM (Holdings) Limited
QAM (LP) Limited
QAM Funding Limited Partnership
QAM Nominee No 1 Limited
QAM Nominee No 2 Limited
QAM Property Trustee No 1 Limited
QAM Property Trustee No 2 Limited
Ravenseft Industrial Estates Limited
Ravenseft Properties Limited
Ravenside Investments Limited
Retail Property Holdings Trust Limited
Roebuck House (GP) Limited
Roebuck House (Nominee) Limited
Rosefarm Leisure Limited
SBR Investments Limited
Sevington Properties Limited
Shirec Limited
Stag Place (GP) Limited
Stag Place (LP) Limited
Stag Place (No.2) Limited
Stag Place Limited Partnership
The City of London Real Property Company Limited
The Imperial Hotel Hull Limited
The Westminster Trust Limited
The X-Leisure (General Partner) Limited
Tops Estates Limited
Tops Shop Centres Limited
Tops Shop Estates Limited
Trinity Quarter Developments Limited
Wallace City Limited
Watchmaker Finance Limited
West India Quay Limited
West India Quay Management Company Limited
Whitecliff Developments Limited
Willett Developments Limited
Wood Lane Nominee No. 2 Limited
Wood Lane Nominee No.1 Limited

As at 31 March 2016, the Company had an interest (as shown), direct or indirect, in the ordinary share capital of the following subsidiaries, joint ventures and associates, each of which is registered in the country indicated:

| Name | LS share % | Country of registration |
|---|---|---|
| 20 Fenchurch Street (GP) Limited | 50.0 | UK |
| 20 Fenchurch Street Developer Limited | 50.0 | UK |
| 20 Fenchurch Street Limited Partnership | 50.0 | UK |
| 20 Fenchurch Street Nominee No.1 Limited | 50.0 | UK |
| 20 Fenchurch Street Nominee No.2 Limited | 50.0 | UK |
| Countryside Land Securities (Springhead) Limited | 50.0 | UK |
| Ebbsfleet Investment (GP) Limited | 50.0 | UK |
| Ebbsfleet Nominee No.1 Limited | 50.0 | UK |
| Greenhithe Holding Limited | 100.0 | Jersey |
| Greenhithe Investments Limited | 100.0 | Jersey |
| Harbour Exchange Management Company Limited | 25.7 | UK |
| Harvest 2 GP Limited | 50.0 | UK |
| Harvest 2 Limited Partnership | 50.0 | UK |
| Harvest 2 Selly Oak Limited | 50.0 | UK |
| Harvest Development Management Limited | 50.0 | UK |
| Harvest GP Limited | 50.0 | UK |
| Harvest Nominee No. 1 Limited | 50.0 | UK |
| Harvest Nominee No.2 Limited | 50.0 | UK |
| Kent Retail Investment Limited | 100.0 | Jersey |
| Land Securities Insurance Limited | 100.0 | Guernsey |
| LS (Eureka) Limited | 95.4 | UK |
| LS (Eureka Two) Limited | 95.4 | UK |
| LS (Fountain Park Two) Limited | 95.4 | UK |
| LS (Fountain Park) Limited | 95.4 | UK |
| LS (Parrswood) Limited | 95.4 | UK |
| LS (Parrswood Two) Limited | 95.4 | UK |
| LS (Riverside) Limited | 95.4 | UK |
| LS (Riverside Two) Limited | 95.4 | UK |
| Leisure I (Edinburgh Two) Limited | 95.4 | Jersey |
| Leisure I (Edinburgh) Limited | 95.4 | Jersey |
| Leisure II (Ashford Two) Limited | 95.4 | Jersey |
| Leisure II (Ashford) Limited | 95.4 | Jersey |
| Leisure II (Manchester Two) Limited | 95.4 | Jersey |
| Leisure II (Manchester) Limited | 95.4 | Jersey |
| Leisure II (North Finchley Two) Limited | 95.4 | Jersey |
| Leisure II (North Finchley) Limited | 95.4 | Jersey |
| Leisure II (Norwich Two) Limited | 95.4 | Jersey |
| Leisure II (Norwich) Limited | 95.4 | Jersey |
| Leisure II (O2 LP) Shareholder Limited | 95.4 | UK |
| Leisure II (O2 Manager) Shareholder Limited | 95.4 | UK |
| Leisure II (O2 TWO) Limited | 95.4 | Jersey |
| Leisure II (O2) Limited | 95.4 | Jersey |
| Leisure II (West India Quay LP) Shareholder Limited | 95.4 | UK |
| Leisure II (West India Quay Two) Limited | 95.4 | Jersey |
| Leisure II (West India Quay) Limited | 95.4 | Jersey |
| Leisure Parks (General Partners) Limited | 95.4 | UK |
| Metro Nominees (Clapham) Limited | 50.0 | UK |
| Metro Nominees (Islington No.1) Limited | 50.0 | UK |
| Metro Nominees (Islington No.2) Limited | 50.0 | UK |
| Metro Nominees (Notting Hill No.1) Limited | 50.0 | UK |
| Metro Nominees (Notting Hill No.2) Limited | 50.0 | UK |
| Metro Nominees (Victoria Place) Limited | 50.0 | UK |
| Metro Nominees (Wandsworth) (No.1) Limited | 50.0 | UK |
| Metro Nominees (Wandsworth) (No.2) Limited | 50.0 | UK |
| Metro Shopping Fund GP Limited | 50.0 | Jersey |
| Metro Shopping Fund LP | 50.0 | Jersey |
| Metro Shopping Fund Management Limited | 50.0 | UK |
| Millshaw No.2 Limited | 50.0 | UK |
| Millshaw Property Co. Limited | 50.0 | UK |
| NOVA Residential (GP) Limited | 50.0 | UK |
| NOVA Residential Intermediate Limited | 50.0 | UK |

| Name | LS share % | Country of registration |
|---|---|---|
| NOVA Residential Limited Partnership | 50.0 | UK |
| O2 Retail & Leisure UK Partnership No.1 LLP | 95.4 | UK |
| Oriana (Hanway St) Limited | 50.0 | UK |
| Oriana GP Limited | 50.0 | UK |
| Oriana Nominee No.1 Limited | 50.0 | UK |
| Oriana Nominee No.2 Limited | 50.0 | UK |
| Oriana Residential Nominee No.1 Limited | 50.0 | UK |
| Oriana Residential Nominee No.2 Limited | 50.0 | UK |
| Oriana Residential Nominee No.3 Limited | 50.0 | UK |
| Oriana Residential Nominee No.4 Limited | 50.0 | UK |
| Queens Links Unit Trust | 95.4 | UK |
| St David's (Cardiff Residential) Limited | 50.0 | UK |
| St David's (General Partner) Limited | 50.0 | UK |
| St David's Dewi Sant Merchant's Association Limited | Limited by guarantee | UK |
| St. David's (No.1) Limited | 50.0 | UK |
| St. David's (No.2) Limited | 50.0 | UK |
| St. David's Unit Trust | 50.0 | Jersey |
| Tael S.a.r.l. | 100.0 | Luxembourg |
| The Ebbsfleet Limited Partnership | 50.0 | UK |
| The Oriana Limited Partnership | 50.0 | UK |
| The St. David's Limited Partnership | 50.0 | UK |
| The X-Leisure Limited Partnership | 95.4 | UK |
| The X-Leisure Unit Trust | 95.4 | UK |
| Victoria Circle Business Manager Limited | 50.0 | UK |
| Victoria Circle Developer Limited | 50.0 | UK |
| Victoria Circle GP Limited | 50.0 | UK |
| Victoria Circle Limited Partnership | 50.0 | UK |
| Victoria Circle Nominee 1 Limited | 50.0 | UK |
| Victoria Circle Nominee 2 Limited | 50.0 | UK |
| West India Quay Unit Trust | 50.0 | UK |
| Westgate Oxford Alliance GP Limited | 50.0 | UK |
| Westgate Oxford Alliance Limited Partnership | 50.0 | UK |
| Westgate Oxford Alliance Nominee No.1 Limited | 50.0 | UK |
| Westgate Oxford Alliance Nominee No.2 Limited | 50.0 | UK |
| X-Leisure (Bentley Bridge) Limited | 95.4 | UK |
| X-Leisure (Boldon) Limited | 95.4 | UK |
| X-Leisure (Brighton Cinema II) Limited | 95.4 | UK |
| X-Leisure (Brighton Cinema) Limited | 95.4 | UK |
| X-Leisure (Brighton I) Limited | 95.4 | UK |
| X-Leisure (Brighton II) Limited | 95.4 | UK |
| X-Leisure (Cambridge I) Limited | 95.4 | UK |
| X-Leisure (Cambridge II) Limited | 95.4 | UK |
| X-Leisure (Edinburgh) Limited | 95.4 | UK |
| X-Leisure (Leeds I) Limited | 95.4 | UK |
| X-Leisure (Leeds II) Limited | 95.4 | UK |
| X-Leisure (Maidstone II) Limited | 95.4 | UK |
| X-Leisure (Maidstone) Limited | 95.4 | UK |
| X-Leisure (Poole) Limited | 95.4 | UK |
| X-Leisure Limited | 95.4 | UK |
| X-Leisure Management Limited | 95.4 | UK |
| Xscape Castleford Limited | 95.4 | Jersey |
| Xscape Castleford Limited Liability Partnership | 95.4 | UK |
| Xscape Castleford No.2 Limited | 95.4 | Jersey |
| Xscape Castleford Partnership | 95.4 | UK |
| Xscape Castleford Property Unit Trust | 95.4 | UK |
| Xscape Milton Keynes (Jersey) No.2 Limited | 95.4 | Jersey |
| Xscape Milton Keynes Limited | 95.4 | Jersey |
| Xscape Milton Keynes Limited Liability Partnership | 95.4 | UK |
| Xscape Milton Keynes Partnership | 95.4 | UK |
| Xscape Milton Keynes Property Unit Trust | 95.4 | UK |

# SHAREHOLDER INFORMATION

## FINANCIAL CALENDAR

Table 97

| | 2016 |
|---|---|
| **2015/16 Final dividend[1]** | |
| Ex-dividend date | 23 June |
| Record date | 24 June |
| Last day for DRIP elections/receipt of DRIP application | 7 July |
| Payment date | 28 July |
| **Annual General Meeting[2]** | 21 July |
| **2016/17 First quarterly interim dividend[3]** | |
| Record date | 9 September |
| Payment date | 7 October |
| **2016/17 Half-yearly results announcement** | 15 November |
| **2016/17 Second quarterly interim dividend[4]** | |
| Record date | 2 December |
| | **2017** |
| Payment date | 6 January |
| **2016/17 Third quarterly interim dividend[4]** | |
| Record date | 10 March |
| Payment date | 7 April |
| **2016/17 Financial year end** | 31 March |
| **2016/17 Annual results announcement[4]** | 16 May |

1. The Board has recommended a final dividend of 10.55p per ordinary share, payable wholly as a Property Income Distribution, subject to shareholders approval at the Annual General Meeting
2. The Annual General Meeting will be held at 11.00 am on Thursday, 21 July 2016 at the Park Plaza Victoria London, 239 Vauxhall Bridge Road, London SW1V 1EQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes in respect of the resolutions proposed, accompanies this Annual Report. Copies of this document can also be found on the Company's website at www.landsecurities.com/investors
3. The Board has declared a first quarterly dividend of 8.95p pence per ordinary share, payable wholly as a Property Income Distribution
4. Provisional

## SHARE REGISTER ANALYSIS AS AT 31 MARCH 2016

Table 98

| Holding range: | Number of holders | % | Number of ordinary shares | % |
|---|---|---|---|---|
| 1–1,000 | 11,196 | 65.2 | 4,592,262 | 0.6 |
| 1,001–5,000 | 4,402 | 25.6 | 9,083,350 | 1.1 |
| 5,001–10,000 | 514 | 3.0 | 3,597,865 | 0.5 |
| 10,001–50,000 | 499 | 2.9 | 11,721,160 | 1.5 |
| 50,001–100,000 | 147 | 0.9 | 10,279,355 | 1.3 |
| 100,001–500,000 | 228 | 1.3 | 53,141,720 | 6.6 |
| 500,001–highest * | 187 | 1.1 | 708,748,785 | 88.4 |
| **Total** | **17,173** | **100.0** | **801,164,497** | **100.0** |

## SHARE REGISTER ANALYSIS AS AT 31 MARCH 2016

Table 99

| Held by: | Number of holders | % | Number of ordinary shares | % |
|---|---|---|---|---|
| Private shareholders | 11,284 | 65.7 | 13,942,103 | 1.7 |
| Nominee and institutional investors * | 5,889 | 34.3 | 787,222,394 | 98.3 |
| **Total** | **17,173** | **100.0** | **801,164,497** | **100.0** |

* Including 10,495,131 shares held in Treasury by the Company

**Ordinary shares**
The Company's ordinary shares, each of nominal value 10p each, are traded on the main market for listed securities on the London Stock Exchange (LON:LAND).

**Company website: www.landsecurities.com**
The Company's Annual Report, results announcements and presentations are available to view and download from its website. Information can also be found there about the latest Land Securities share price and dividend information, news about the Company, its properties and operations, and how to obtain further information.

**Discontinuation of Interim Management Statements**
Following changes to EU regulation on financial disclosure, the Financial Conduct Authority last year removed its requirement for UK companies to publish Interim Management Statements. After due consideration, and reflecting the long-term nature of Land Securities' business, the Board has taken the decision to cease publication of Interim Management Statements in July and January. The Group remains committed to full and transparent disclosure and will continue with full year and half-yearly announcements as well as comprehensive capital markets events during the year.

**Registrar: Equiniti**
For assistance with queries about administration of shareholdings, such as lost share certificates, change of address or personal details, amalgamation of accounts and dividend payments, please contact the Company's Registrar:

Equiniti Group PLC
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2128*
International dialing: +44 (0) 121 415 7049*
www.shareview.co.uk

An online share management service is available which enables shareholders to access details of their Land Securities shareholdings electronically. This is available at http://www.landsecurities.com/investors/shareholder-investor-information/dividend-information or www.shareview.co.uk

**e-Communication**
We encourage shareholders to consider receiving their communications from the Company electronically as this will enable you to receive it more quickly and securely. It also allows Land Securities to communicate in a more environmentally friendly and cost-effective manner. To register for this service, you should go to http://www.landsecurities.com/investors/shareholder-investor-information/manage-your-shares or www.shareview.co.uk

**UK Real Estate Investment Trust (REIT) taxation and status on payment of dividends**
As a UK REIT, Land Securities does not pay corporation tax on rental profit and chargeable gains relating to property rental business. However, it is required to distribute at least 90% of its qualifying income as Property Income Distributions (PIDs). A REIT may in addition pay ordinary dividends and this will be treated in the same way as dividends from non-REIT companies.

UK shareholders will be taxed on PIDs received at their full marginal tax rates and on ordinary dividends received in line with the new dividend tax regime introduced by the Government on 6 April 2016 – see www.gov.uk/government/publications/dividend-allowance-factsheet/dividend-allowance-factsheet for more information.

For most shareholders, PIDs will be paid after deducting withholding tax at the basic rate. However, certain categories of shareholder may be able to receive PIDs gross (i.e. without deduction of withholding tax). These categories are principally UK companies, charities, local authorities, UK pension schemes and managers of ISAs, PEPs and Child Trust Funds.

Further information on UK REITs and the forms for completion to apply for PIDs to be paid gross are available on the Company's website or from the Registrar.

**Payment of dividends to UK resident shareholders**
Shareholders whose dividends are currently sent to their registered address may wish to consider having their dividends paid directly into their personal bank or building society account. This has a number of advantages, including the crediting of cleared funds on the actual dividend payment date. If you would like your future dividends paid in this way, you should contact the Registrar or complete a mandate instruction available from http://www.landsecurities.com/investors/shareholder-investor-information/dividend-information and return it to the Registrar. Under this arrangement, dividend confirmations are still sent to your registered address.

**Payment of dividends to non-UK resident shareholders**
Instead of waiting for a sterling cheque to arrive by post, shareholders can request that their dividends be paid direct to a personal bank account overseas. This is a service which the Registrar can arrange in over 30 different countries worldwide, and in local currencies, and it normally costs less than paying in a sterling cheque. For more information, you should contact the Registrar on +44 (0)121 415 7049 or download an application form online at www.shareview.co.uk. Alternatively, you can contact the Registrar at the address given above.

**Dividend Reinvestment Plan (DRIP)**
The DRIP gives shareholders the opportunity to use cash dividends to increase their shareholding in Land Securities. It is a convenient and cost-effective facility provided by Equiniti Financial Services Limited. Under the DRIP, cash dividends are used to buy shares in the market as soon as possible after the dividend payment, with any residual cash being carried forward to the next dividend payment. Details of the DRIP, including terms and conditions and participation election forms, are available at www.landsecurities.com/investors/shareholderinvestor-information/dividend-reinvestment-plan.

They are also available from:

Dividend Reinvestment Plans
Equiniti Group PLC
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2268*
International dialing: +44 (0) 121 415 7173*

**Share dealing facilities**
Equiniti provides both existing and prospective UK shareholders with an easy-to access and simple-to-use share dealing facility for buying and selling shares in Land Securities by telephone, online or post. The telephone and online dealing service allows shareholders to trade 'real-time' at a known price that will be given to them at the time they give their instruction.

For telephone dealing, call 0345 603 7037 between 8.00am and 4.30pm, Monday to Friday (excluding public holidays in England and Wales). Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. For online dealing, log on to www.shareview.co.uk/dealing. For postal dealing, call 0371 384 2248* for full details and a dealing instruction form. Existing shareholders will need to provide the account/shareholder reference number shown on their share certificate. Other brokers, banks and building societies also offer similar share dealing facilities.

**ShareGift**
Shareholders with only a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to the charity through ShareGift, a registered charity (No. 1052686) which specialises in using such holdings for charitable benefit. A ShareGift donation form can be obtained from the Registrar and further information about ShareGift is available at www.sharegift.org.uk or by writing to:

ShareGift
The Orr Mackintosh Foundation Limited
17 Carlton House Terrace
London SW1Y 5AH
Telephone: +44 (0)20 7930 3737

**Corporate Individual Savings Account (ISA)**
The Company has in place a Corporate ISA which is managed by:

Equiniti Financial Services Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2244*

**Capital Gains Tax**
For the purpose of capital gains tax, the price of a Land Securities share at 31 March 1982, adjusted for the capitalisation issue in November 1983 and the Scheme of Arrangement in September 2002, was 203p. On the assumption that the 5 for 8 Rights Issue in March 2009 was taken up in full, the adjusted price for Capital Gains Tax purposes would be 229p per share.

**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
PO Box 9501
Nottingham NG80 1WD
Telephone: 0844 481 8180
www.uar.co.uk

**Unsolicited mail and shareholder security**
The Company is obliged by law to make its share register available on request to other organisations and this may result in shareholders receiving unsolicited mail. To limit the receipt of unsolicited mail, shareholders may register with the Mailing Preference Service, an independent organisation whose services are free, by visiting www.mpsonline.org.uk.

Shareholders are advised to be vigilant of share fraud which includes telephone calls offering free investment advice or offers to buy and sell shares at discounted or highly inflated prices. For more information visit www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

* Lines are open 8.30am to 5.30pm (UK Time), Monday to Friday, excluding public holidays. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate.

# KEY CONTACTS AND ADVISERS

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Group General Counsel and Company Secretary

**Investor relations**
Edward Thacker
Head of Investor Relations

Tel: +44 (0) 20 7413 9000
Email: investor.relations@landsecurities.com
www.landsecurities.com

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Aspect House
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West Sussex BN99 6DA

Telephone: 0371 384 2128
Textel: 0371 384 2255
International dialing: +44 (0) 121 415 7049
www.shareview.co.uk

**Auditor**
Ernst & Young LLP
1 More London Place
London SE1 2AF
Telephone: +44 (0) 20 7951 2000
www.ey.com

**External advisers**
Principal valuer: CBRE
Financial adviser: Citigroup
Joint brokers: JP Morgan Cazenove and UBS
Solicitors: Slaughter and May

# GLOSSARY

**Adjusted earnings per share (Adjusted EPS)**
Earnings per share based on revenue profit after related tax.

**Adjusted net asset value (Adjusted NAV) per share**
NAV per share adjusted to remove the effect of the de-recognition of the 2004 bond exchange and cumulative fair value movements on interest-rate swaps and similar instruments.

**Adjusted net debt**
Net debt excluding cumulative fair value movements on interest-rate swaps, the adjustment arising from the de-recognition of the bond exchange and amounts payable under finance leases. It generally includes the net debt of subsidiaries and joint ventures on a proportionate basis.

**Book value**
The amount at which assets and liabilities are reported in the financial statements.

**BREEAM**
Building Research Establishment's Environmental Assessment Method.

**Combined Portfolio**
The Combined Portfolio comprises the investment properties of the Group's subsidiaries, on a proportionately consolidated basis when not wholly owned, together with our share of investment properties held in our joint ventures. Unless stated otherwise, references are to the Combined Portfolio when the investment property business is discussed.

**Completed developments**
Completed developments consist of those properties previously included in the development programme, which have been transferred from the development programme since 1 April 2014.

**Development pipeline**
The development programme together with proposed developments.

**Development programme**
The development programme consists of committed developments (Board approved projects with the building contract let), authorised developments (Board approved), projects under construction and developments which have reached practical completion within the last two years but are not yet 95% let.

**Diluted figures**
Reported results adjusted to include the effects of potentially dilutive shares issuable under employee share schemes.

**Dividend Reinvestment Plan (DRIP)**
The DRIP provides shareholders with the opportunity to use cash dividends received to purchase additional ordinary shares in the Company immediately after the relevant dividend payment date. Full details appear on the Company's website.

**Earnings per share (EPS)**
Profit after taxation attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the period.

**EPRA**
European Public Real Estate Association.

**EPRA net initial yield**
EPRA net initial yield is defined within EPRA's Best Practice Recommendations as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market value of the property. It is consistent with the net initial yield calculated by the Group's external valuers.

**Equivalent yield**
Calculated by the Group's external valuers, equivalent yield is 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 non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.

**ERV – Gross estimated rental value**
The estimated market rental value of lettable space as determined biannually by the Group's external valuers. For investment properties in the development programme, which have not yet reached practical completion, the ERV represents management's view of market rents.

**Fair value movement**
An accounting adjustment to change the book value of an asset or liability to its market value (see also mark-to-market adjustment).

**Finance lease**
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

**Gearing**
Total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus cumulative fair value movements on financial derivatives as a percentage of total equity.
For adjusted gearing, see note 22.

**Gross market value**
Market value plus assumed usual purchaser's costs at the reporting date.

**Head lease**
A lease under which the Group holds an investment property.

**Interest Cover Ratio (ICR)**
A calculation of a company's ability to meet its interest payments on outstanding debt. It is calculated using revenue profit before interest, divided by net interest (excluding the mark-to-market movement on interest-rate swaps, foreign exchange swaps, bond exchange de-recognition, capitalised interest and interest on the pension scheme assets and liabilities). The calculation excludes joint ventures.

**Interest-rate swap**
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating-rate debt or investments to fixed rates.

**Investment portfolio**
The investment portfolio comprises the investment properties of the Group's subsidiaries, on a proportionately consolidated basis where not wholly owned.

**Joint venture**
An entity in which the Group holds an interest and is jointly controlled by the Group and one or more partners under a contractual arrangement. Decisions on financial and operating policies essential to the operation, performance and financial position of the venture require each partner's consent.

**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 the value of the incentive 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, often used as a reference rate in bank facilities.

**Like-for-like portfolio**
The like-for-like portfolio includes all properties which have been in the portfolio since 1 April 2014, but excluding those which are acquired, sold or included in the development pipeline at any time since that date.

**Like-for-like managed properties**
Properties in the like-for-like portfolio other than those in our joint ventures which we do not manage operationally.

**Loan-to-value (LTV)**
Group LTV is the ratio of adjusted net debt, including subsidiaries and joint ventures, to the sum of the market value of investment properties and the book value of trading properties of the Group, its subsidiaries and joint ventures, all on a proportionate basis, expressed as a percentage. For the Security Group, LTV is the ratio of net debt lent to the Security Group divided by the value of secured assets.

**Market value**
Market value is determined by the Group's external valuers, in accordance with the RICS Valuation Standards, as an opinion of the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing.

**Mark-to-market adjustment**
An accounting adjustment to change the book value of an asset or liability to its market value (see also fair value movement).

**Net asset value (NAV) per share**
Equity attributable to owners of the parent divided by the number of ordinary shares in issue at the period end.

**Net initial yield**
Net initial yield is a calculation by the Group's external valuers of the yield that would be received by a purchaser, based on the Estimated Net Rental Income expressed as a percentage of the acquisition cost, being the market value plus assumed usual purchasers' costs at the reporting date. The calculation is in line with EPRA guidance. Estimated Net Rental Income is determined by the valuer and is based on the passing cash rent less ground rent at the balance sheet date, estimated non-recoverable outgoings and void costs including service charges, insurance costs and void rates.

**Net rental income**
Net rental income is the net operational income arising from properties, on an accruals basis, including rental income, finance lease interest, rents payable, service charge income and expense, other property related income, direct property expenditure and bad debts. Net rental income is presented on a proportionate basis.

**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 'reserved matters approval', including detailed layout, scale, appearance, access and landscaping, before a project can proceed. An outline planning permission will lapse if the submission of 'reserved matters' has not been made within three years, or if it has not been implemented within three years or within two years of the final approval of 'reserved matters', unless otherwise expressly stated within conditions attached to the permission itself or, for any permissions granted on or before 1 October 2009, a successful application has been made to extend the time within which 'reserved matters' application can be submitted, or the overall limit for commencement of development.

**Over-rented**
Space where the passing rent is above the ERV.

**Passing cash rent**
The estimated annual rent receivable as at the reporting date which includes estimates of turnover rent and estimates of rent to be agreed in respect of outstanding rent review or lease renewal negotiations. Passing cash rent may be more or less than the ERV (see over-rented, reversionary and ERV). Passing cash rent excludes annual rent receivable from units in administration save to the extent that rents are expected to be received. Void units and units that are in a rent-free period at the reporting date are deemed to have no passing cash rent. Although temporary lets of less than 12 months are treated as void, income from temporary lets is included in passing cash rents.

**Pre-let**
A lease signed with an occupier prior to completion of a development.

**Pre-development properties**
Pre-development properties are those properties within the like-for-like portfolio which are being managed to align vacant possession within a three year horizon with a view to redevelopment.

**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.

**Proposed developments**
Proposed developments are properties which have not yet received final Board approval or are still subject to main planning conditions being satisfied, but which are more likely to proceed than not.

**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 change**
Increase or decrease in the current rental value, as determined by the Group's external valuers, over the reporting period on a like-for-like basis.

**Rental income**
Rental income is as reported in the income statement, on an accruals basis, and adjusted for the spreading of lease incentives over the term certain of the lease in accordance with SIC 15. It is stated gross, prior to the deduction of ground rents and without deduction for operational outgoings on car park and commercialisation activities.

**Return on average capital employed**
Group profit before interest, plus joint venture profit before interest, divided by the average capital employed (defined as shareholders' funds plus adjusted 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 assets and trading properties, profits on long-term development contracts, valuation movements, fair value movements 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 adjustment, debt restructuring charges, and any other items of an exceptional nature.

**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 (or fall) once the rent reaches the ERV.

**Scrip dividend**
A scrip dividend is when shareholders are offered the opportunity to receive dividends in the form of shares instead of cash.

**Security Group**
Security Group is the principal funding vehicle for Land Securities and properties held in the Security Group are mortgaged for the benefit of lenders. It has the flexibility to raise a variety of different forms of finance.

**Temporary lettings**
Lettings for a period of one year or less. These are included within voids.

**Topped-up net initial yield**
Topped-up net initial yield is a calculation by the Group's external valuers. It is calculated by making an adjustment to net initial yield in respect of the annualised cash rent foregone through unexpired rent-free periods and other lease incentives. The calculation is consistent with EPRA guidance.

**Total business return**
Dividend paid per share, plus the change in adjusted diluted net asset value per share, divided by the adjusted diluted net asset value per share at the beginning of the year.

**Total cost ratio**
Total cost ratio represents all costs included within revenue profit, other than rents payable and financing costs, expressed as a percentage of gross rental income before rents payable.

**Total development cost (TDC)**
Total development cost refers to the book value of the site at the commencement of the project, 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, together with capitalised interest, being the Group's borrowing costs associated with direct expenditure on the property under development. Interest is also capitalised on the purchase cost of land or property where it is acquired specifically for redevelopment. The TDC for trading property development schemes excludes any estimated tax on disposal.

**Total property return**
Valuation movement, profit/loss on property sales and net rental income in respect of investment properties expressed as a percentage of opening book value, together with the time weighted value for capital expenditure incurred during the current year, on the combined property portfolio.

**Total Shareholder Return (TSR)**
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.

**Voids**
Voids are expressed as a percentage of ERV and represent all unlet space, including voids where refurbishment work is being carried out and voids in respect of pre-development properties. Temporary lettings for a period of one year or less are also treated as voids.

**Weighted average cost of capital (WACC)**
Weighted average cost of debt and notional cost of equity, used as a benchmark to assess investment returns.

**Weighted average unexpired lease term**
The weighted average of the unexpired term of all leases other than short-term lettings such as car parks and advertising hoardings, temporary lettings of less than one year, residential leases and long ground leases.

**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.

# CAUTIONARY STATEMENT

This Annual Report and the Land Securities website may contain certain 'forward-looking statements' with respect to Land Securities Group PLC ("Company") and the Group's financial condition, results of its operations and business, and certain plans, strategy, objectives, goals and expectations with respect to these items and the economies and markets in which the Group operates.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'will', 'would', 'expects', 'believes', 'intends', 'plans', 'targets', 'goal' or 'estimates' or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many of these assumptions, risks and uncertainties relate to factors that are beyond the Group's ability to control or estimate precisely. There are a number of such factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the legal, regulatory and competition frameworks in which the Group operates; changes in the markets from which the Group raises finance; the impact of legal or other proceedings against or which affect the Group; changes in accounting practices and interpretation of accounting standards under IFRS, and changes in interest and exchange rates.

Any forward-looking statements made in this Annual Report or the Land Securities website, or made subsequently, which are attributable to the Company or any other member of the Group, or persons acting on their behalf, are expressly qualified in their entirety by the factors referred to above. Each forward-looking statement speaks only as of the date it is made. Except as required by its legal or statutory obligations, the Company does not intend to update any forward-looking statements.

Nothing in this Annual Report or the Land Securities website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

**Land Securities Group PLC**

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