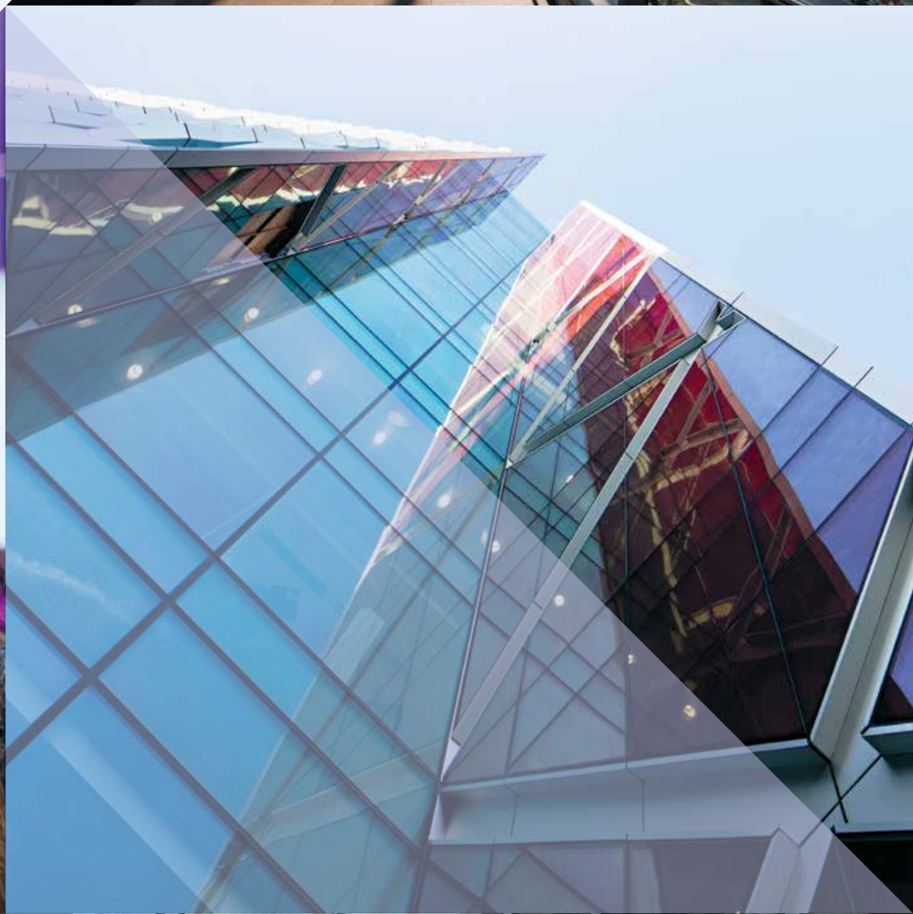
Annual Report 2017

The A–Z of experience



Landsec

Landsec at a glance

Welcome to Landsec. We buy, sell, develop and manage commercial property in the UK.

Our aim is to create a great experience for everyone we rely on, from our customers to our communities, partners and employees. We believe that's the best way to create long-term sustainable value for our shareholders and everyone else we affect.

With the background of geopolitical and economic uncertainty affecting the UK, our markets lost momentum during the year. However, by having a clear strategy and acting early, we've been able to achieve a good relative performance this year. We consider both the short and long-term effects of our actions. And in this Annual Report, we've further integrated important content about our broader social and environmental impacts.

Performance measures:

£112m
Profit before tax (2016: £1,336m)

1.4%
Total business return (2016: 13.4%)

3.7%
Total property return (2016: 11.5%)

38.55p
Dividend up 10.1%

4.3 out of 5
Customer satisfaction, both London and Retail

18.5%
Reduced carbon intensity (kgCO_2/m^2) by 18.5% compared to 2013/14 baseline

962
Employment created for 962 disadvantaged people to date

£14.4bn portfolio
or 23.2 million sq ft

120
assets

638 employees
Number of staff

Est
Founded
1944

Largest commercial property company in UK by market capitalisation

London Portfolio

6.5
million sq ft portfolio

3.1
million sq ft development programme completed

£8.3
billion of assets

Retail Portfolio

16.7
million sq ft portfolio

13
shopping centres

13
retail parks

20
leisure destinations

Everything we do starts with understanding the changing needs and expectations of the people who matter most to us – our customers, communities, partners and employees.

We then draw on our experience to create the very best experiences for them. By getting that right we're able to create long-term value for our shareholders.

Put simply, for us "Everything is experience".

Over the following pages we explore 26 stories that capture our approach in action, from A to Z. And we report on what our approach achieved this year – financially, socially and physically.

Visit our new website **www.landsec.com**

Contents

A breath of fresh air

We design our buildings to be healthy, efficient and productive spaces. Which is why our ventilation system at The Zig Zag Building supplies air as fresh as you'd find at the coast. At Bluewater, our upgraded system is so effective we've turned off the air conditioning. That's cut costs and energy use, and helps make the place even more inviting for visitors.

Our year

This year brought political, social and economic uncertainty. That affected our markets, weakening demand for space. Put simply, our markets don't know what's next.

In London, the office market reached a turning point. Supply-constrained conditions eased and the vacancy rate rose, with the Brexit vote a catalyst for change.

In the retail sector, a range of factors impacted retailers' confidence, from the threat of cost inflation to online sales growth.

But we also saw opportunities. Successful businesses continued to look for innovative, technically resilient space in London. And in retail, there remained continued demand from dynamic brands for new and repurposed space in the best locations.

We also saw the continuation of four long-term trends – each driven by expectation, each creating opportunities for us:

Smart office occupiers expect their work environment to deliver business benefits. That includes operational efficiency, but it's also about attracting, inspiring and enabling talent.

People expect more from their shopping experience. Destination centres must go way beyond convenience and choice and provide a truly memorable day (and night) out.

People also expect the best businesses to lead on creating better environmental and social outcomes. That means recognising the deeper, long-term effects of decisions and actions.

And talented employees expect a great career experience. Which is why a compelling employer brand is an increasingly valuable asset.

Designed with care

We work to create memorable customer experiences while minimising our impact. For example, at 1 New Street Square smart design choices saved 200 tonnes of carbon and reduced material costs by more than £600,000.

Employer brand

We aim to provide employees with a great career experience, so we're delighted to be one of Property Week's 'Best Places to Work in Property' list – the only listed REIT included in their list.

Community impact

We've launched the UK's first scaffolding academy inside a prison, helping offenders at HMP Brixton get the skills and experience they need to find employment outside – reducing the risk of re-offending.

Blend of experience

It's vital our team has the right blend of experience, skills and knowledge – including at the top. This year, Nicholas Cadbury joined the Board, further enhancing our financial and consumer expertise.

Film stars

Destination centres give people plenty of reasons to spend time as well as money. Which is why you'll now find 28 boutique and multiplex cinemas within our Retail Portfolio.

Knowing our market

From smart technologies embedded in buildings to more flexible leases, we're using our experience to prepare now for what our customers will need tomorrow.

Lighting up London

At Piccadilly Lights we're creating Europe's most technically advanced digital screen, giving customers extraordinary new ways to interact with two million people each week.

Healthy HQ

From collaborative working spaces and smart acoustics to a healthy food bar, our new HQ in Victoria has transformed the workplace experience for our employees.

Insights drive relationships

By working to understand the business, we've helped TripAdvisor grow. Their customer experience has inspired them to triple space with us at Soho Square and commit through to 2023.

Multi-channel opportunities

Fashionista Missguided opens at Bluewater this summer, part of the trend for online retailers to provide a deeper brand experience through physical stores.

Jobs change lives

At our Lewisham shopping centre we're supporting an innovative approach to work experience, helping young people gain skills, develop self-discipline and find jobs.

Girls Can Do It Too

The proportion of female workers in UK construction is just 11%. To give young women an experience of working in construction, our Girls Can Do It Too project invited students at two girls' schools to plan, design and model a development, pitching their ideas to a panel of 'dragons'.

Nova shines bright

We've created a stunning new destination in the heart of SW1, with landmark office space and an array of eateries making this a stylish and delicious place to work, visit and play. 17 new restaurants and three pop-up kiosks are set to open this summer, together with hundreds of alfresco dining seats. Pedestrianisation, public art and striking architecture complete the transformation of this area between Victoria Station and the Royal Parks.

So how did we address our opportunities this year?

We drew our speculative London development programme to a close and sharpened our focus on letting space, actively managing assets and patiently tracking potential acquisitions.

We worked to improve further our Retail Portfolio, finding new ways to help retailers and restaurateurs delight customers.

We became the first property company in the world to have its science-based carbon targets formally approved. We also helped take our industry forward on community employment and wellbeing.

And we enhanced the career experience we offer, moving to a new headquarters designed for collaborative working and developing new ways to strengthen our culture.

Our resilient results this year are down to the actions we have taken over the past few years to upgrade our assets and strengthen our balance sheet.

In March 2010 when we restarted development, our Combined Portfolio was valued at £9.5bn and debt was £4.2bn. Today, our portfolio is valued at £14.4bn and we've reduced debt to £3.3bn.

Our net assets have increased by £4.9bn over seven years. And at the same time, we have increased revenue profit by 52%.

Our balance sheet is in robust health, with low levels of gearing and development. That gives us the firepower to buy when the time is right.

Our high quality assets are well matched to the changing needs of our customers and communities – a vital advantage in uncertain times.

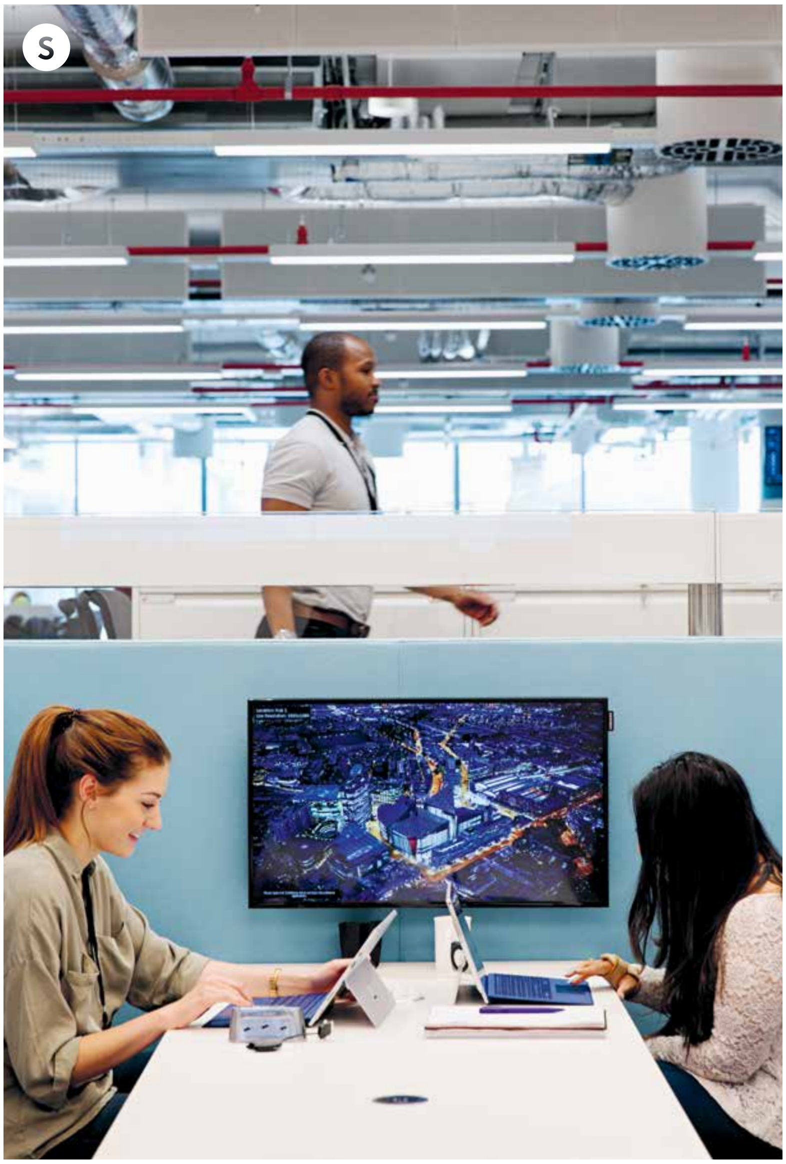
We've recommended a full year dividend of 38.55p per share, up 10.1%.

Queuing around the block

Our student lock-ins promise discounts, freebies and a top night out. They really draw the crowds, with over 27,700 students at our event this year at St David's.

Oxford welcomes Westgate

Opening in October, Westgate will provide everything from global brands to a boutique cinema, from street food to rooftop dining. Developed with The Crown Estate – and the strong support of local people – it's a place set to inspire and delight.



Sustainability Matters

All employees are taking part in Sustainability Matters, a training experience designed to embed sustainable thinking in decision-making across the Company.

Re-imagining space

By taking a fresh approach to design at 20 Eastbourne Terrace – a 1960s office tower in Paddington – we've been able to raise ceiling heights, bring in more daylight and introduce a planted roof terrace. The asset was fully let within a year of completion.

Pride at work

Inspired by our support for Pride – the biggest lesbian, gay, bisexual and transgender parade in the UK – this year employees launched the Company's first LGBT network.

Tastes change

Food is a vital ingredient in the shopping centre experience; that's why we're constantly refreshing our restaurant mix – like bringing Indian street food brand Mowgli to Trinity Leeds this year.

Understanding shoppers' needs

We now measure customer satisfaction across every one of our retail destinations, using online surveys to track feedback on events and the overall customer experience.

Young talent

In an industry lagging on diversity, our Trainee Academy provides opportunities for school leavers from a broad range of backgrounds to develop a career here.

Validated carbon targets

We are the first property company in the world to have its science-based emissions target formally approved – clear evidence we're serious about sustainability and the environment.

Working together

Through our Customer Improvement Groups we bring supply partners together regularly – so they understand our priorities, we hear their views and customers are assured of terrific service.

X marks the spot

We focus our activity where businesses and people want to spend their time and money, from regional cities to London's most dynamic and well-connected centres.

Zig Zag – truly world-class

Research tell us that enriching the work environment makes employees happier, healthier and much more productive. The Zig Zag Building combines high-end office space with retail, restaurants and re-imagined public realm in SW1. The offices feature outdoor terraces, shower rooms, filtered air, stunning views and exceptional natural light – just some of the reasons it was named 'Best office scheme in the world' at the World Architecture Festival.

Uncertainty will continue to shape our markets, but we go forward in great shape – with clear priorities:

In London, we'll focus on active asset management and preparations for future acquisitions and developments.

In Retail, we'll continue to enhance our destination assets and strengthen our portfolio.

We will do even more to sustain the success of our Company, customers and communities, further embedding sustainability in our approach.

And we'll keep developing our people, enhancing the know-how we need to compete, thrive and lead our industry.

Above all else, we'll work to understand and address people's changing needs, using our experience to create great experiences for others. Because – ultimately – Everything is experience.

Chief Executive's statement

Robert Noel reports on our performance during the year and shares his outlook for the next 12 months.

Robert Noel
Chief Executive

Landsec is in a great position. We have a portfolio of first-class assets combined with historically low levels of operational and financial gearing at a time of geopolitical and economic uncertainty.

We've largely completed and let our speculative development programme. Despite being net sellers in the previous year, revenue profit is up 5.5% to £382m and adjusted diluted earnings per share are up 5.7% to 48.3p. Our adjusted diluted net asset value per share is down marginally to 1,417p. Our Combined Portfolio is valued at £14.4bn and, with adjusted net debt broadly unchanged over the year at £3.3bn, our loan-to-value is 22.2%. We've reduced our cost of debt and have access to the funds needed to buy when opportunities appear.

Despite uncertainty in the outside world, we remain confident of our core strengths inside the Company and we're recommending a final dividend of 11.7p – raising the dividend for the year by 10.1%.

Market environment

Put simply, our markets remain in good health but they've paused for breath.

In the London office market, we expected the occupational balance to shift from demand to supply during the course of 2017. The Brexit vote brought that inflexion point forward. In last year's report, I said a vote to leave the EU would create business uncertainty, leading to lower occupational demand, falling rental values and a reduction in construction commitments. This is happening, though less than we expected. Overall, the UK economy continued to perform well during the year.

In the retail market, the effect of the referendum was less clear-cut although, faced with pressure on disposable income, shoppers have started to show more caution. Retailers were a little slower to take up new space during the year but we continued to see opportunities to meet the ever-evolving needs of the most successful brands.

We won't be sure of the long-term effect of Brexit on our markets for some time. Negotiations with the EU can only begin in earnest after the general election. Although the business community remains in uncharted territory, that doesn't mean we should wait for change to happen to us. We're taking this time to prepare the business for the opportunities and challenges we see ahead.

We hope the new government can give businesses as much certainty as possible on areas including tax, regulation, access to skilled labour and public spending such as investment in infrastructure – including desperately needed homes. A clear and ambitious strategy for improving digital connectivity would have a particularly powerful impact.

First class portfolio

The foundations of the business are rock solid, underpinned by our resilient portfolio and low leverage.

In London, our modern, well-located assets are well let, with a weighted average unexpired lease term on offices of 10.3 years. Having already scaled back speculative development activity before the year started, the last 12 months saw us put the finishing touches on over 1 million sq ft of space, including high-profile developments at 1 New Street Square, EC4; 20 Eastbourne Terrace, W2; and Nova, Victoria, SW1, which completed shortly after the year end. Of the 3.1 million sq ft programme we started in 2010, we have let or sold all but 283,000 sq ft.

Our Retail Portfolio is a collection of vibrant destinations that attract dynamic brands and are well-matched to consumer trends. During the year, we built and let a leisure extension at White Rose, Leeds. Our newest destination, Westgate Oxford, is on schedule to open in October and is 80% spoken for. Since the year end, we've acquired a portfolio of three outlet centres, establishing our position as the leading owner-manager of outlets in the UK.

Strong relationships

Throughout the year, we pursued our vision of being the best property company in the UK in the eyes of our customers, communities, partners and employees. Ultimately, their experience drives our performance. We're responsible for ensuring that Landsec can thrive for many years to come. That's why we set ourselves even higher expectations this year on issues we share with our customers and communities, such as local employment and place-making. We've also improved the way we address our climate impacts and risks.

> We go forward in excellent shape, ready to make acquisitions when the time is right."

Great people

In January, we completed the move into new headquarters at 100 Victoria Street, SW1. This is one of our buildings and it expresses the best of who we are and what we do. We're on one floor of open-plan workspace supported by innovative technology. Thought has gone into everything from the way we collaborate to how we minimise energy and waste. It's the UK's highest rated office fit-out according to sustainability assessment scheme BREEAM.

Evolving market conditions require role changes in our teams as our emphasis shifts from selling and development to management and buying. Our people relish these challenges. We are also enriching our culture, recruiting more from outside our industry so we gain fresh perspectives and new capabilities. During the year, we introduced stretching targets on gender and ethnic diversity and fairness.

Outlook

We've achieved our plan to have minimal development exposure and longer lease terms in London offices, a transformed Retail Portfolio and low gearing at this point. Over the next 12 months, we're unlikely to see rental values grow in London unless we have more certainty on movement of people and the UK's terms of trade with the EU and the rest of the world. In the retail sector, the extent to which higher supply chain costs are passed on to customers remains to be seen. Whatever the outcome, higher costs tend to reduce take up of space.

In the short term, with significantly reduced risk and a portfolio of first-class assets, we go forward in excellent shape, ready to make acquisitions when the time is right. Longer-term, we remain confident in our market and our ability to deliver sustainable growth. We'll continue to address the trends that shape our business in coming years. For example, the combination of an ageing population and technological progress will have a huge effect on the way we live, work, shop, play, travel and are cared for. In turn, this will affect the way we design, construct and manage buildings, and how we attract the best talent.

The importance of thinking ahead and acting early was brought home to me by our completion of Nova in April. Design on this project started in 2003, when the iPhone was still an idea in Steve Jobs' head. We must continue to anticipate change so that we can keep providing the right space for our customers and communities whatever their future demands – helping businesses and people to thrive.

Robert Noel
Chief Executive

Our results

3.7%
Ungeared total property return

1.2%
Decrease in adjusted diluted net assets per share

1.4%
Total business return

Our activity

£28m
of investment lettings

£13m
of development lettings

£15m
of acquisitions

£286m
of development and refurbishment expenditure

£413m
of disposals

Our market

Six big drivers of opportunities and challenges

6 market drivers

1

Evolving customer needs

For many London office occupiers, location is no longer the only consideration. Flexibility of layout and lease terms; efficient, attractive space; technical resilience; and physical and digital connectivity are now just as important. And cost per head is more important than £ per sq ft. In retail, successful operators are generally looking for fewer but larger spaces where they can showcase their entire online range and provide a brand experience. People are shopping less often but will travel further for – and stay longer in – the most successful destination centres.

2

Balance of supply and demand

We anticipated that the balance between occupational supply and demand in the London office market would shift during 2017. Since Brexit, we have seen lower levels of demand. As a result, the vacancy rate is rising, headline rents have stalled and net effective rents have weakened. If investment values fall further, this may present opportunities for companies with capital to buy assets. In retail, the market is over-supplied with space but assets providing a great experience or convenience will do better than those caught between the two. As catchments evolve, shopping destinations must ensure they can compete against others further afield.

3

Economic uncertainty

Wider uncertainty has affected the ability of many customers to plan and take decisions. For consumers, increased economic uncertainty may lead to lower spending. For businesses that have to take new space, there's generally a combination of good choice and attractive incentives available. Others are opting to sit tight, extending leases and taking additional space if required. The impact of this has not yet been seen in investment values. Brexit brings potential for economic and financial benefits as well as challenges, not least for exporters and businesses looking to move into or expand in the UK.

4

UK competitiveness

In the short term, ongoing Brexit negotiations are likely to fuel uncertainty and commercial caution. Looking further out, we see the potential for the UK to emerge from this period in good shape. We fully expect London to continue as one of the world's most successful financial and cultural centres.

5

Product innovation

Technology and design innovation have the potential to change the face and functionality of buildings in exciting ways. They will also impact the construction process. While markets evolve at remarkable speed, the design, construction, leasing and operational processes for commercial property remain relatively slow and inflexible. Our industry must do more to reduce time-to-market, cut cost and increase flexibility, resilience, efficiency and sustainability. And we will have to continue designing buildings today that will appeal to and work well for a new generation tomorrow.

6

Sustainability as an advantage

Businesses, government and the public increasingly recognise the need for long-term thinking on social and environmental issues. The best companies in our industry are expected to take a lead on diversity, local employment, community, responsible supply chains, the wellbeing of occupiers and visitors, climate risks, energy and biodiversity. Smart, progressive thinking can help to support the people and resources companies rely on to prosper and grow – and bring all sorts of business benefits.

See how we're responding to these opportunities and challenges on page 21

London Portfolio's market in 2017

We buy, develop, manage and sell office, retail, leisure and residential space in central London.

Dynamics

This year we moved from supply-constrained conditions into a market with more supply and weaker occupational demand. The UK's vote to leave the EU triggered a weakening in demand for London office space, stalling growth in rental values and asset prices. The market is also driven by the evolving needs and expectations of customers and communities.

Enduring appeal

Central London has enduring appeal for investors and occupiers offering:

— Capabilities and opportunities of a global financial centre
— Deep and liquid property investment market
— International gateway
— Reasonable and relatively stable tax rates
— Strong business and transport infrastructure
— Diverse community and English-speaking population
— Access to top universities

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:

— Uncertainty over the outcome of the Brexit negotiations
— Limitations on economic growth due to restrictions on immigration
— Lack of housing at affordable or attractive prices
— Pressure on an ageing infrastructure
— Continued lack of clarity around airport expansion
— High levels of stamp duty
— Demand for better/faster digital connectivity

Outlook

We expect current uncertainty will continue to impact demand for space. Headline rents have started to fall and we expect incentives to increase and average lease terms to shorten further. London is an increasingly polycentric city and location is no longer the only consideration for occupiers. This may result in buying opportunities outside traditional core areas.

Market during the year

11.7m sq ft

Take-up of office space in central London (2016: 14.7 million sq ft)

4.7%

Vacancy rate (2016: 2.7%)

8.3%

Decline of the prime headline office rents in the West End

Prime headline office rents in the City were flat

Source: CBRE

Retail Portfolio's market in 2017

We buy, develop, manage and sell retail and leisure space in the best locations.

Dynamics

We're continuing to see the market polarised between destination centres and convenience. The growth of online shopping is driving the rationalisation of store estates, with only the strongest locations holding ground. Some online brands are moving into physical stores as convergence drives efficiency and they see opportunities to create great brand experiences. Stores are the best place to see, touch, feel and buy and they remain at the heart of most transactions.

Opportunities

The best destinations continue to drive above average performance for retailers and attract the greatest demand for space from the broadest range of retailers. A retreat from the UK by some international retailers has been balanced by the expansion plans of others. Successful shopping destinations deliver higher dwell time and average spend per visit by providing consumers with a great experience and an appropriate mix of retail, food and beverage and leisure.

Challenges

An uncertain economic environment is putting pressure on discretionary spending. At the same time, retailer confidence is muted as they deal with the challenges of increased business rates, increases to the living wage and the requirement to continue investment in multi-channel offers and fulfilment.

Outlook

We expect to see consumer caution led by concern about higher cost of living combined with lower wage growth. Destination and convenience centres will continue to outperform compared with those centres that fail to meet consumers' needs and respond to online retailing: and the gap in performance is likely to widen further.

Market during the year

-1.9%

Physical retail store sales[1]

+0.3%

All retail sales (including online)[1]

-2.5%

UK footfall[2]

Source:
1. British Retail Consortium
2. ShopperTrak

Our strategy

Our strategy is designed to ensure we are a sustainable business through the market cycles, creating and protecting value over the long-term.

Our strategy helps us pursue our vision of being the best property company in the UK in the eyes of our customers, communities, partners and employees.

We make understanding and meeting people's needs our top priority, always looking to use our experience to provide them with great experiences. We act early in response to changes and trends in our markets. And we aim to lead our industry forward on critical long-term issues, from diversity to community employment, carbon and climate resilience.

We buy assets and start development early in the cycle; manage assets actively to ensure they generate strong income; and sell at the appropriate time and recycle capital. We aim to make sound, long-term investments so our assets keep their appeal, meet changing regulations and generate returns for years to come.

Our strategic objectives

— Deliver sustainable long-term shareholder value

— 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

Go to page 24 for more information

Nova: our strategy in action
Completed in April 2017, Nova's extraordinary office, residential and restaurant spaces reflect the changing expectations of our customers.

Our strategic choices

Relationships
Develop close relationships with our customers, communities, partners and employees, so we understand their evolving needs and they trust us to meet their expectations.

Market
Focus on two dynamic sectors of the UK commercial property market – offices, retail and leisure in 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
Apply our experience and insight so we buy, develop, manage and sell assets at the appropriate time in the property cycle.

Scale
Maintain our size and strength so when we judge the timing is right we can deploy our capital and acquire or develop a number of major assets at the same time.

Locations
Buy and develop in thriving locations or places with excellent potential. Good transport links are becoming more highly valued than fashionable postcodes.

Finance
Enhance returns through appropriate levels of debt using our assets as security to drive down costs.

Risk
Address the risk that space will be left unlet – or let at low rents – if supply outstrips demand by owning assets with strong appeal, developing early in the cycle and managing actively. Act early to mitigate risks related to changes in climate, legislation and resource availability.

How we're addressing our biggest opportunities and challenges

6 opportunities

1

Evolving customer needs

— Strategic focus on creating great experiences
— Designing in greater flexibility, connectivity and technical resilience
— Focus on well-connected locations in London and dominant retail destinations
— Prioritising cost per head over cost per sq ft

2

Balance of supply and demand

— Speculative development programme brought to a close in London
— Monitoring buying opportunities closely
— Significant asset management activity across the business
— Delivering the largest current retail development in the UK this year in a city with a significant shortage of contemporary retail space

3

Economic uncertainty

— Operational and financial gearing at historic low
— Access to capital for acquisitions
— Preparing now for the next cycle

4

UK competitiveness

— Strong belief in prospects of London and the UK
— Ongoing investment in London's physical and social infrastructure
— Company well represented in public debate and industry groups

5

Product innovation

— Investment in customer insight and forecasting
— Strengthening our customer-led culture
— Leadership on sustainable design and innovation
— Working groups with partners to improve industry processes

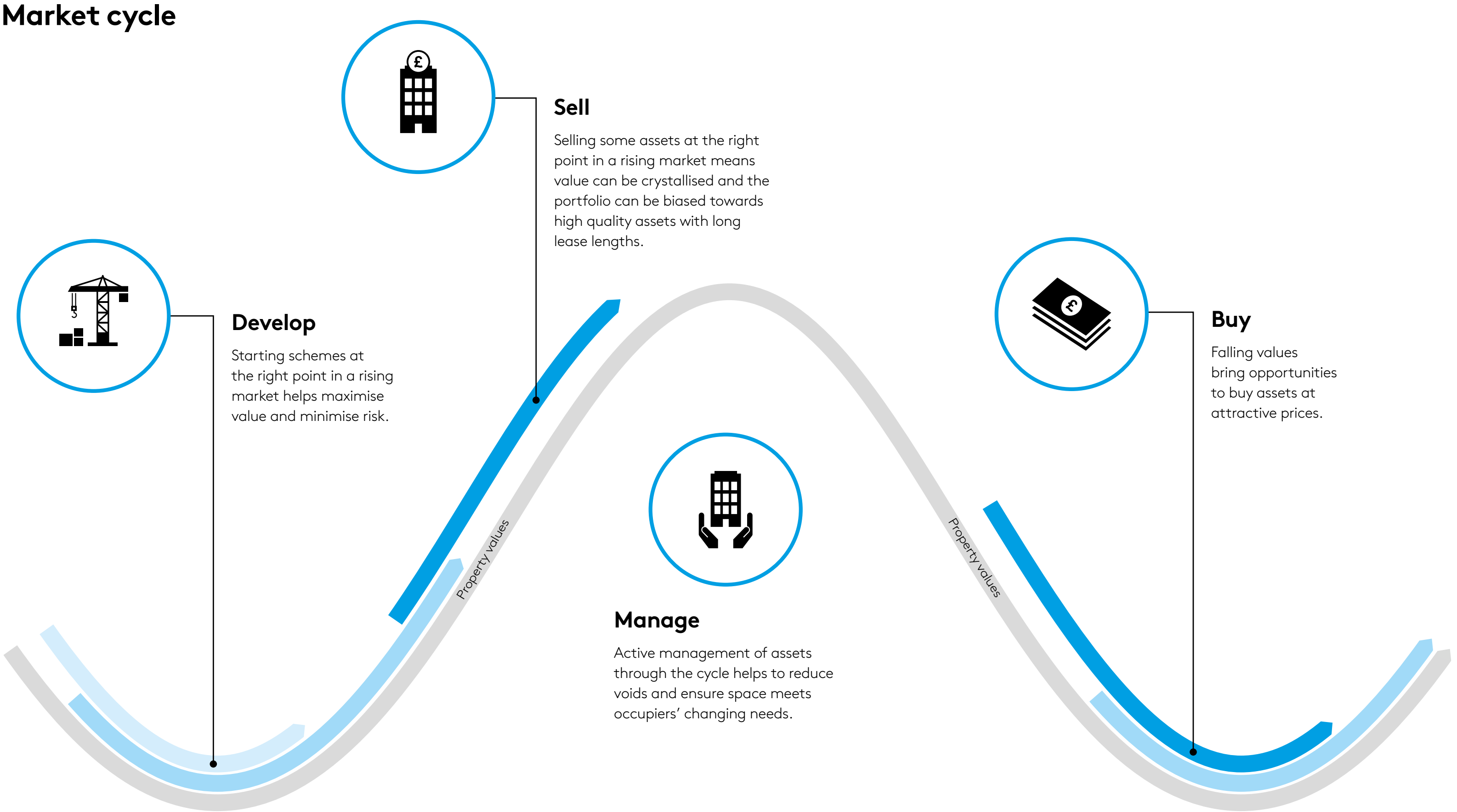
6

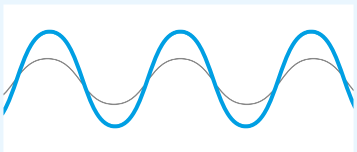
Sustainability as advantage

— Vision is to lead UK listed real estate sector in sustainability
— Innovative collaboration on community employment
— First property company to have an approved science-based carbon target
— Pioneering use of green gas and renewable electricity

i Get an overview of these opportunities and challenges on page 18

Market cycle





London

The London office market sees marked periods of over- and under-supply, and the balance can shift from one to the other quite quickly.

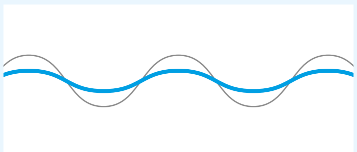
Buy
We aim to buy assets when values are falling or low, or when we see a long-term opportunity to enhance value. We're currently watching the market carefully, monitoring around £2 billion of potential acquisitions. Our strong balance sheet and access to capital mean we can buy when we spot the right opportunity.

Develop
We start to develop early in the cycle so we benefit from lower construction costs, aiming to deliver completed schemes when demand from customers is rising and levels of available space are low. We've drawn our large speculative development programme to a close for this cycle. We have plenty of options for development within our portfolio and the financial capacity to acquire new development sites.

Manage
We talk to our customers regularly so we understand their changing needs and can respond quickly. This helps us to retain customers and improve rental values, keeping our portfolio attractive and resilient.

Sell
We sell assets when we see better ways to use the capital. We aim to sell when there's strong demand for the space and ahead of a turn in the cycle from demand to supply. We look to add value through asset management or refurbishment ahead of selling an asset.

For more on our London Portfolio see pages 46-49



Retail

The retail property market is less volatile than London offices and is fundamentally driven by long-term structural changes such as consumer spending, population trends or the impact of online retailing. We are focused on London 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 put strong emphasis on creating attractive, well considered space where people 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 destinations and work hard to create the most compelling blend of retail and leisure.

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

For more on our Retail Portfolio see pages 50-53

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

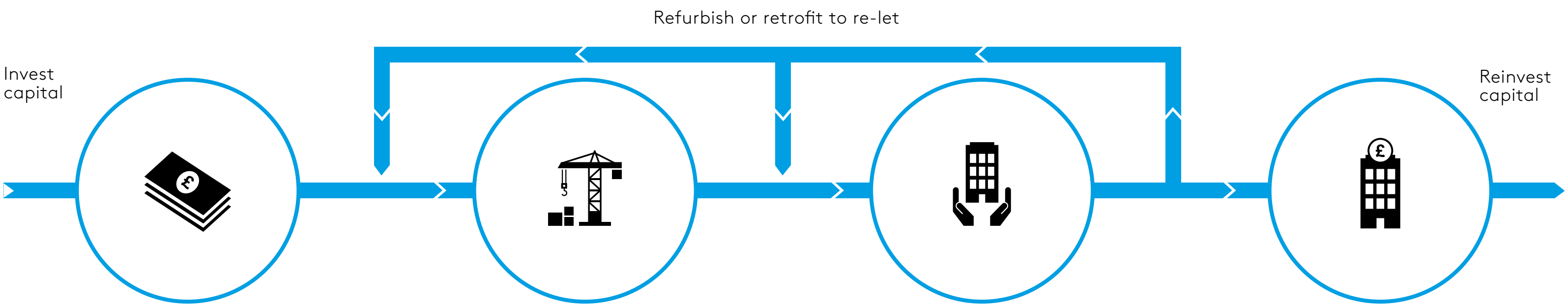
We believe that responding to people's needs, and giving careful consideration to the environment, economy and community, helps us to create enduring financial, social and physical value over the long term.

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 (by value) which means we get to see how people interact with them and hear their views.

When we have control of assets we can take decisive action to improve things for the better.

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 disadvantaged groups who are furthest from employment.

Investing through the life-cycle



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 create financial value for us over time.

Published this year, our Responsible Property Investment Policy sets out the standards for acquisitions.

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. We also design for efficiency and productivity. And we design to improve the public realm around our buildings, including connectivity and wider infrastructure. Our development activity creates job opportunities, both during construction and when the development opens.

To help us pursue our aim of being a sustainability leader in our industry, by the end of this year we had enhanced the Sustainable Development Brief we give to partners. Going forward, we will set tougher targets and higher expectation levels around innovation. The brief gives equal weight to social and environmental issues.

Manage

We work with customers, communities and partners to ensure our buildings operate efficiently and to help increase local prosperity.

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. 100% of the electricity we buy for our managed portfolio is now renewable and we collaborate with customers to reduce energy consumption. Thinking about sustainability helps us to protect the building from external risks such as price volatility, changing regulation, supply issues and premature obsolescence. And it enables us and them to meet our commitments.

Sell

We sell an asset when we see an opportunity to deploy our capital more effectively elsewhere. Through 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.

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

Key performance indicators

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

Strategic objectives

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 motivated high performance individuals
7. Continually improve sustainability performance

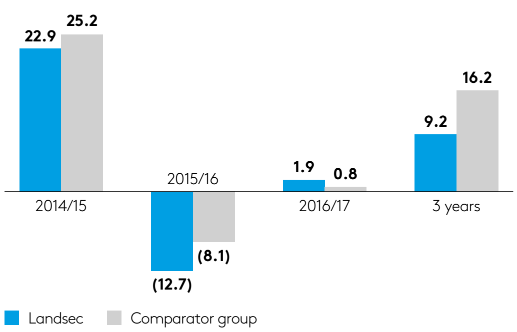
Three year total shareholder return (TSR) (%) ①

Progress: Not Achieved

Three year TSR performance compared to the TSR performance of a comparator group (weighted by market capitalisation) of property companies within the FTSE 350 Real Estate Index

TSR of 9.2% for the three year period from April 2014 did not exceed our comparator group at 16.2%

Chart 1



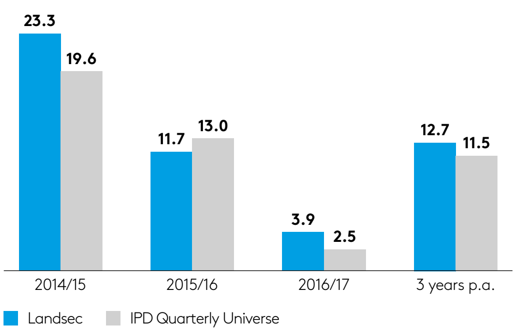
Three year total property return (TPR) (%) ②

Progress: Achieved

Three year TPR performance compared to the IPD Quarterly Universe, weighted to the sectors in which the Group is invested

TPR of 12.7% per annum for the three year period from April 2014 exceeded our benchmark at 11.5% per annum

Chart 2



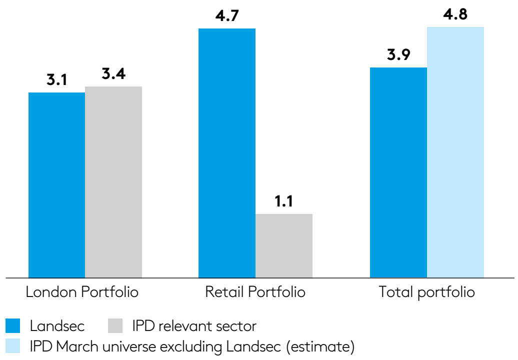
One year total property return (TPR) (%) ②

Progress: Not Achieved

One year TPR compared to all March valued properties within IPD

One year TPR of 3.9% was below the estimated IPD benchmark of 4.8%

Chart 3



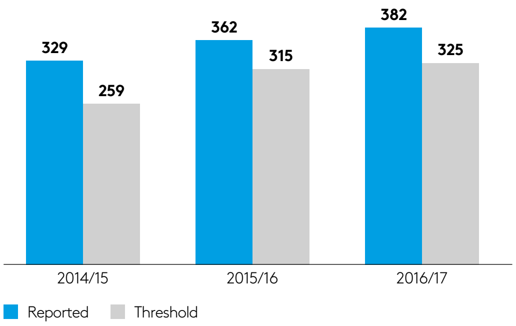
Revenue profit (£m) ②

Progress: Achieved

Revenue profit compared to an internal minimum threshold which is re-set every three years

Revenue profit of £382m was above the internal threshold for 2016/17 set in April 2015

Chart 4



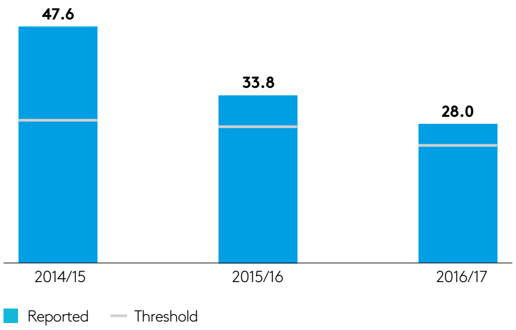
Development lettings (£m) ④

Progress: Partially Achieved

Progress development lettings and residential sales within our development programme

£28.0m of lettings achieved against a threshold of £23.4m

Chart 5



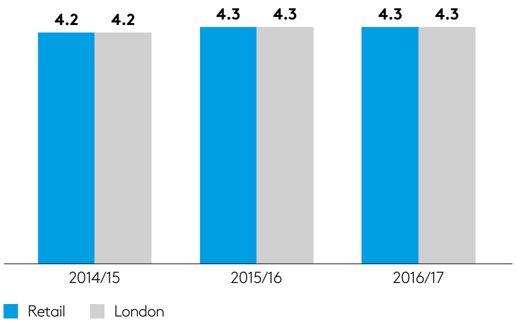
Customer satisfaction ⑤

Progress: Achieved

Maintain overall customer satisfaction rates in Retail and London customer surveys

London and Retail both achieved 4.3 out of 5

Chart 6



Strategy | Delivery | Reward

Strategic objectives → Performance vs KPIs / Management of risk → Remuneration

Read more on page 42

Read more on pages 81-82

Internal customer focus programme
5

Progress: Not Achieved

Deliver an internal customer focus programme

Not achieved as the programme was delayed to coincide with the launch of the new Landsec brand in June 2017

External customer focus programme
5

Progress: Achieved

Deliver an external customer focus programme

A programme of external customer engagement activities has been delivered

New ways of working
6

Progress: Achieved

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

The office move to Victoria embedded the purpose, vision and values and created a step change in a more collaborative and innovative culture

35%

increase in Leesman employee survey score versus 2016

Sustainability Matters
7

Progress: Achieved

Deliver an impactful "Sustainability Matters" awareness raising and training programme

Sustainability Matters level 1 and level 2 modules delivered to employees

95%

of employees completed the Sustainability Matters programme during the year

Operational efficiency
7

Progress: Achieved

Support operational efficiency by conducting site-specific energy reduction assessments of the like-for-like portfolio to accelerate our existing energy management programme

Initiatives selected from the assessments will be implemented in at least two-thirds of our most energy-intensive sites

89%

of our most energy-intensive sites have initiatives selected for implementation

Community Employment Programme
7

Progress: Achieved

A further 173 people into jobs via our Community Employment Programme and Trainee Academy

186

Our programmes placed 186 people into jobs this year

Our business model

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

Creating and protecting value
We aim to be a sustainable business through the market cycles by anticipating and responding to the changing needs of our customers, communities, partners and employees. We always try to act early to position the Group for the conditions we see ahead.

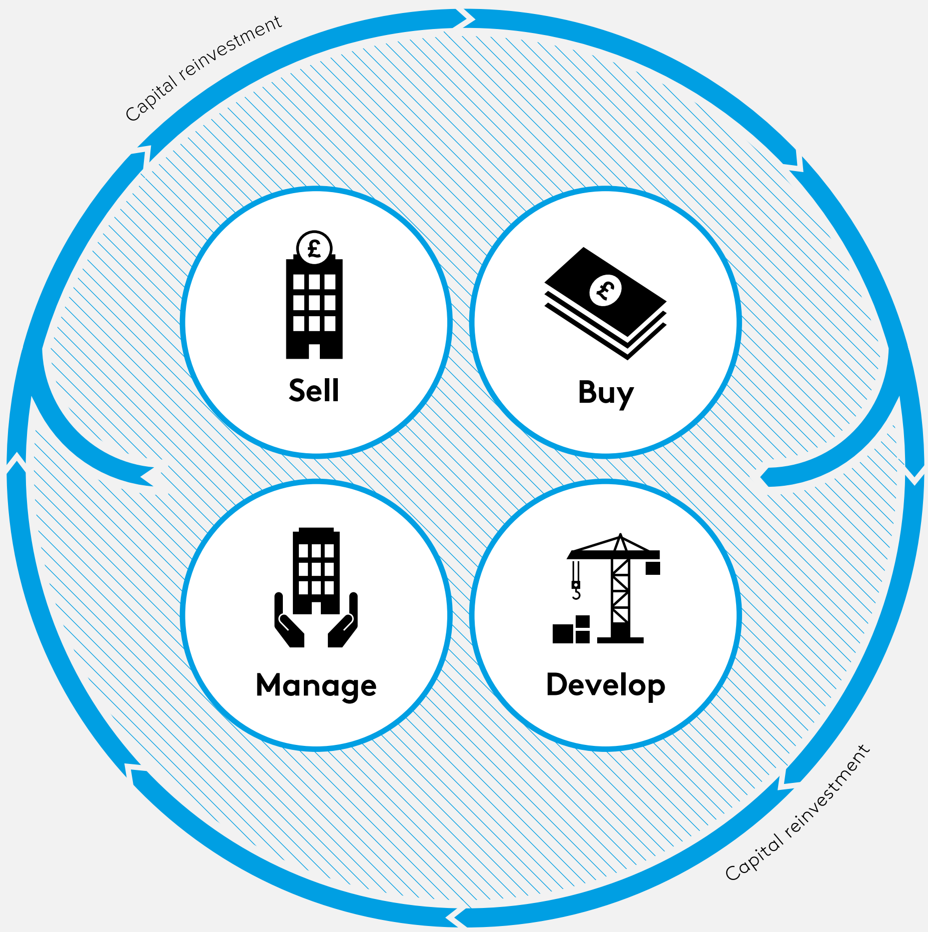
Inputs

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



We take a long-term view of value creation. For us, that's about returning financial value to our shareholders while making a positive contribution to society. We work hard to provide our customers with a great experience, support local communities, recruit and develop great people, enhance the built environment and minimise our impact.

Outputs

Financial

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

Further reading
Read more about our value outputs over the page on page 28

Physical

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

Further reading
Read more about our value outputs over the page on page 29

Social

Our ability to help businesses and people to thrive – including our own employees.

Further reading
Read more about our value outputs over the page on page 29

Creating sustainable long-term value

Here's some more insight on the breadth of outputs our activities can generate and how we work to both create and protect value.

Financial

Profit

We aim to grow our long-term underlying profit. We manage the business for the long term and growth in underlying profit ensures we can provide a sustainable dividend for shareholders. Revenue profit and earnings per share are particularly helpful indications of how we're doing.

Asset value

Our markets are cyclical. The London office market tends to have greater swings between rising and falling values. Our valuations reflect where we're at in the cycle and how we're doing in relative terms to our peers. Our strategy is to act early, reshaping our portfolios so we can be resilient through the downturns and ready for opportunities to buy and develop as the cycle evolves.

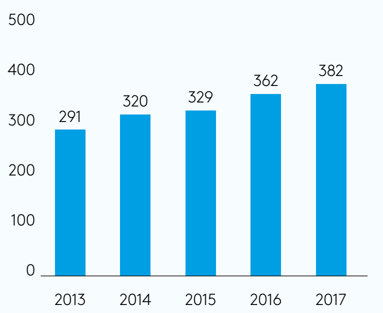
Balance sheet

Loan-to-value (LTV) shows the amount of our debt relative to the value of our assets. While a low LTV tends to represent a strong balance sheet, at times we will want to increase debt so we can fund buying and development activity. At other times, we will fund that activity by selling assets. Our adjusted diluted net assets per share measure is important because it enables shareholders to monitor the movement in the value of the net assets of the business and to compare this with the share price.

Dividend

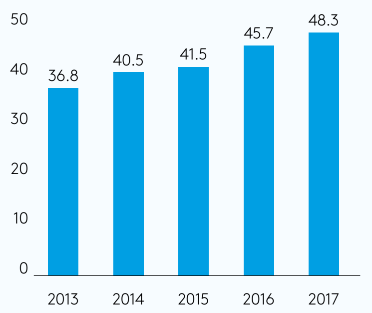
We judge the level of dividend payments carefully, paying out most of our underlying earnings, but retaining some funds so that we have maximum flexibility around investments and disposals. Our progressive dividend policy means we aim to increase returns to shareholders at a sustainable level over time.

Revenue profit[1] (£m) Chart 7

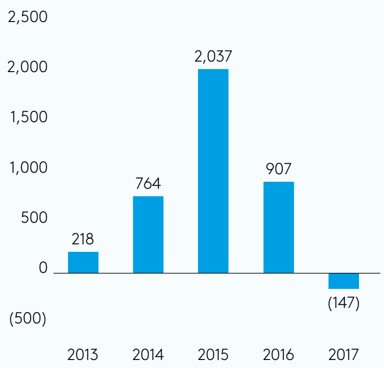


1. Includes proportionate share of joint ventures and subsidiaries as explained in the notes to the financial statements.

Adjusted diluted earnings (pence per share) Chart 8

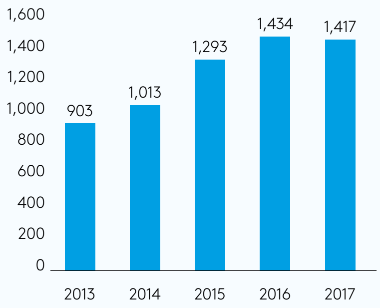


Valuation surplus/ (deficit)[1, 2] (£m) Chart 9

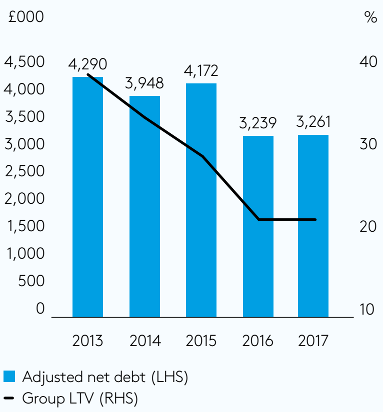


1. Includes proportionate share of joint ventures and subsidiaries as explained in the notes to the financial statements.
2. The surplus/(deficit) represents the increase/decrease in value of the Combined Portfolio over the year, adjusted for net investment.

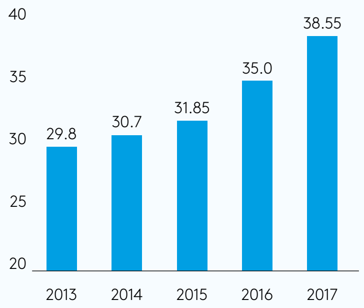
Adjusted diluted net assets (pence per share) Chart 10



Adjusted net debt and loan-to-value ratio Chart 11



Dividend (pence per share) Chart 12



Physical

Portfolio quality

We constantly look to strengthen our portfolio, ensuring it meets the changing needs of our customers and communities. We always aim to bring social, economic and environmental benefits to the areas where we operate.

New HQ
Our new headquarters is designed to promote productivity and enrich our employees' time at work.

Living wall
Featuring 52,000 plants, 20 Fenchurch Street's living wall enriches both the visitor experience and urban biodiversity.

Sustainable design and innovation

We think about the long-term appeal, impacts and resilience of our assets, designing with long-term value in mind. We look to enhance biodiversity and support the wellbeing of those who use our buildings. And we work closely with our partners to minimise environmental impacts.

Natural resources

Being efficient helps us to mitigate our impacts and reduce cost. Our aim is to reduce carbon intensity, energy and waste while maximising the benefits of the space we create and manage. We always look to be thoughtful and smart in the way we buy, use, re-use and dispose of resources.

Target

— To reduce carbon intensity ($kgCO_2/m^2$) by 40% by 2030 compared with 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

— To continue to procure 100% renewable electricity across our portfolio and achieve 3 MW of renewable electricity capacity by 2030

— To send zero waste to landfill with at least 75% recycled across all our operational and construction activities by 2020.

Social

Customers

From retailers to shoppers and diners, from office occupiers and their employees who work in our spaces to their visitors, we aim to provide our customers with a fabulous experience. We design our buildings to support the wellbeing and productivity of those who visit and work in them.

Jobs and opportunities

We create income for our employees and those of our many suppliers. We aim to ensure that everyone who works on our behalf is treated and paid fairly and promptly. We believe our business should reflect the diversity of the communities we serve. And we help disadvantaged people and young people to access job opportunities in our industry.

Diversity
A broad range of backgrounds and perspectives make us a stronger business.

Health, safety and security

We work to maintain an exceptional standard of health, safety and security in all the working environments we control. We also partner and collaborate with others to help raise standards in our industry

Target

— To help a total of 1,200 disadvantaged people secure jobs by 2020

— To 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.

Financial review

Highlights

£382m
Revenue profit[1]
(2016: £362m)

48.3p
Adjusted diluted earnings per share[1]
(2016: 45.7p)

38.55p
Dividend per share
(2016: 35.0p)

£14.4bn
Combined Portfolio[1]
(2016: £14.5bn)

1,417p
Adjusted diluted net assets per share
(2016: 1,434p)

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 31.

Martin Greenslade
Chief Financial Officer

Martin Greenslade reports on our financial performance in detail and explains the movements in our key financial measures.

In my financial review last year, I explained how the quality and resilience of our assets had been enhanced this decade through investment in developments and acquisitions, funded by the sale of weaker assets.

Our balance sheet had also been strengthened by rising values leading to lower gearing, with the additional disposals in the second half of last year reinforcing the position. This year, as the property market lost direction following the EU referendum, our high quality assets and low gearing have helped limit the impact of declining values in our core markets.

Over the year, our assets fell in value by 1.0% or £147m (including our proportionate share of subsidiaries and joint ventures) compared with an increase last year of £907m. The decline in asset values is behind both the fall in earnings per share (14.3p compared with 169.4p last year) and the reductions in basic and adjusted diluted net assets per share. In contrast, the Group has delivered strong underlying earnings growth despite the impact of disposals we made last year. Both revenue profit and adjusted diluted earnings per share increased this year; revenue profit was up 5.5% from £362m to £382m and adjusted diluted earnings per share were up 5.7% at 48.3p.

Presentation of financial information

Our property portfolio is a combination of properties that are wholly owned by the Group, part owned through joint arrangements and those owned by the Group but where a third party holds a non-controlling interest. Internally, management review the results of the Group on a basis that adjusts for these forms of ownership to present a proportionate share. The Combined Portfolio, with assets totalling £14.4bn, is an example of this approach, reflecting the economic interest we have in our properties regardless of our ownership structure. We consider this presentation provides a better explanation to stakeholders of the activities and performance of the Group, as it aggregates the results of all of the Group's property interests which under IFRS are required to be presented across a number of line items in the statutory financial statements.

The same principle is applied to many of the other measures we discuss and, accordingly, 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, but 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.

Most of the measures discussed in this financial review are presented on a proportionate basis. Measures presented on a proportionate basis are alternative performance measures as they are not defined under IFRS. For further details see table 119 on page 172.

Income statement

Our income statement has two key components: the income we generate from leasing our investment properties net of associated costs (including finance expense), which we refer to as revenue profit, and items not directly related to the underlying rental business, principally valuation changes, profits or losses on the disposal of properties and exceptional items, which we refer to as capital and other items.

We present two measures of earnings per share; the IFRS measure of earnings per share is based on the total profit for the year attributable to owners of the parent, while adjusted diluted earnings per share is based on tax-adjusted revenue profit, referred to as adjusted earnings.

Income statement Table 13

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Revenue profit (see table 14)	**382**	362
Capital and other items (see table 17)	**(270)**	974
Profit before tax	**112**	1,336
Taxation	**1**	2
Profit attributable to owners of the parent	**113**	1,338
Basic earnings per share	**14.3p**	169.4p
Adjusted diluted earnings per share	**48.3p**	45.7p

Profit before tax was £112m, £1,224m lower than last year principally due to the valuation deficit this year compared with a valuation surplus last year. The same movement drives a 155.1p reduction in earnings per share from 169.4p last year to 14.3p this year. Adjusted diluted earnings per share increased by 5.7% from 45.7p last year to 48.3p this year as a result of an increase in revenue profit from £362m to £382m.

The reasons behind the movements in each component of our income statement are discussed in more detail below.

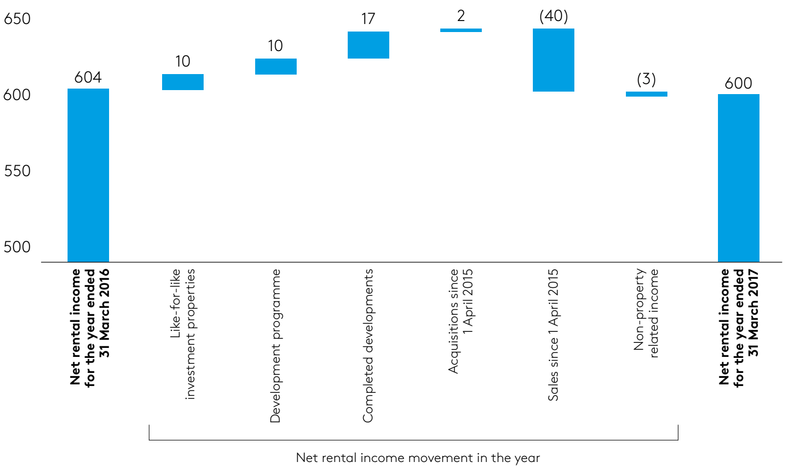
Revenue profit

Revenue profit is our measure of underlying pre-tax profit. It excludes all capital items, such as valuation movements and profits and losses on disposals, as well as items of an exceptional nature. Revenue profit is presented on a proportionate basis. We believe revenue profit better represents the results of the Group's operational performance to stakeholders as it focuses on the rental income performance of the business and excludes capital and other items which can vary significantly from year to year. 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 in the table below.

Revenue profit increased by £20m from £362m last year to £382m for the year ended 31 March 2017. Following asset disposals we made last year, net rental income declined. However, this was more than offset by lower net interest expense as explained further below.

Net rental income

Net rental income[1] (£m) Chart 15



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Net rental income decreased by £4m this year as rental income growth from our developments and like-for-like portfolio was more than offset by the impact of properties sold since 1 April 2015. Significant disposals included The Printworks, Manchester and The Cornerhouse, Nottingham, both sold this year, and Thomas More Square, E1, Holborn Gate, WC1 and Times Square, EC4 in London and three retail parks in Gateshead, Dundee and Derby, all sold last year. The impact of this year's disposals will continue to be felt in the coming year as they contributed £9m of net rental income to this year's results. Our developments generated £27m of additional rent following completion of 20 Eastbourne Terrace, W2 and 1 New Street Square, EC4, alongside a full year's income at The Zig Zag Building and 62 Buckingham Gate, both SW1 and 1 & 2 New Ludgate, EC4. Like-for-like net rental income growth was £10m due to rent reviews and higher turnover related rents, together with a reduction in bad debts.

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

Revenue profit Table 14

	Year ended 31 March 2017			Year ended 31 March 2016			
	Retail Portfolio £m	**London Portfolio £m**	**Total £m**	Retail Portfolio £m	London Portfolio £m	Total £m	**Change £m**
Gross rental income[1]	**335**	**302**	**637**	355	293	648	**(11)**
Net service charge expense	**(4)**	**(1)**	**(5)**	(2)	(1)	(3)	**(2)**
Net direct property expenditure	**(16)**	**(16)**	**(32)**	(24)	(17)	(41)	**9**
Net rental income	**315**	**285**	**600**	329	275	604	**(4)**
Indirect costs	**(22)**	**(17)**	**(39)**	(25)	(19)	(44)	**5**
Segment profit before finance expense	**293**	**268**	**561**	304	256	560	**1**
Net unallocated expenses			**(40)**			(34)	**(6)**
Net finance expense			**(139)**			(164)	**25**
Revenue profit			**382**			362	**20**

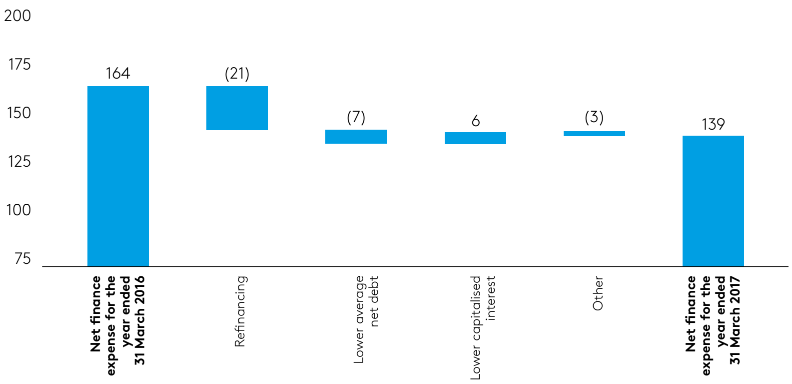
1. Includes finance lease interest, after rents payable.

Net indirect expenses

The indirect costs of the London and Retail portfolios and net unallocated expenses should be considered together as collectively they represent the net indirect expenses of the Group including joint ventures. In total, net indirect expenses were £79m compared with £78m last year. The £1m increase is largely the result of higher IT and corporate communication and sustainability costs, largely offset by lower staff costs due to decreased headcount and reduced share-based payment costs.

Our net finance expense has decreased by £25m to £139m, primarily due to interest savings following the redemption of the £400m A8 bond in March 2016 and other refinancing undertaken this year, together with lower average drawings under our bank facilities. This has been partly offset by lower capitalised interest following completion of developments.

Net finance expense (included in revenue profit)[1] (£m) Chart 16



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Capital and other items

An explanation of the main capital and other items is given below.

Capital and other items[1] Table 17

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Valuation and profits on disposal		
Valuation (deficit)/surplus	**(147)**	907
Movement in impairment of trading properties	**12**	16
Profit on disposal of investment properties	**20**	79
Profit on disposal of trading properties	**36**	41
Other profits on disposal	**11**	–
Net finance expense	**34**	(39)
Exceptional items		
Head office relocation	**1**	(6)
Redemption of medium term notes	**(170)**	(27)
Other	**1**	3
Capital and other items	**(270)**	974

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Valuation of investment properties

Our Combined Portfolio declined in value by 1.0% or £147m compared with an increase last year of £907m. A breakdown of valuation movements by category is shown in table 18.

Valuation analysis Table 18

	Market value 31 March 2017 £m	Valuation movement %	Rental value change[1] %	Net initial yield %	Equivalent yield %	Movement in equivalent yield bps
Shopping centres and shops	3,663	(1.3)	1.6	4.3	4.8	9
Retail parks	855	(4.2)	0.6	5.5	5.6	24
Leisure and hotels	1,361	2.3	0.2	5.2	5.4	(6)
London offices	4,153	(4.4)	2.5	4.0	4.7	18
Central London shops	1,267	6.9	4.7	2.5	4.1	7
Other (Retail and London)	61	(6.0)	3.4	1.9	3.6	2
Total like-for-like portfolio	**11,360**	**(1.4)**	**1.9**	**4.2**	**4.8**	**11**
Proposed developments	6	(33.2)	n/a	–	n/a	n/a
Development programme	1,138	1.3	n/a	0.1	4.2	n/a
Completed developments	1,841	(0.4)	1.9	2.0	4.2	10
Acquisitions	94	0.4	n/a	3.7	3.8	n/a
Total Combined Portfolio	**14,439**	**(1.0)**	**1.9**	**3.6**	**4.7**	**9**

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

Over the year to 31 March 2017, we have seen values fall in most categories of our Combined Portfolio, largely due to outward yield movements.

Within the like-for-like portfolio, our shopping centres fell in value by 1.3% as rental value growth was insufficient to offset a 9 basis points increase in yields. The value of our retail parks was down 4.2% as lower investor appetite led to yields increasing by 24 basis points. In contrast, leisure and hotels saw yields reduce by 6 basis points with little change in rental values. In London, our offices saw values decline 4.4% as yields increased. The 2.5% rental value increase in London offices is distorted by the valuer moving from net effective to headline rents on a number of assets. On a consistent basis, net effective rents in London offices were virtually unchanged over the year. The 6.9% valuation uplift in central London shops is largely due to Piccadilly Lights where a replacement screen is being installed. Outside the like-for-like portfolio, the development programme saw values increase as construction risk reduced at Nova, Victoria, SW1 and Westgate Oxford. Completed developments, which largely comprises our recent London office schemes, proved more resilient than our like-for-like London office assets, falling in value by 0.4%.

Movement in impairment of trading properties

The movement in impairment of trading properties of £12m (2016: £16m) relates to the reversal of previous impairment charges related to residential land at Ebbsfleet, Kent, where the valuer's assessment of net realisable value has increased over the year.

Profits on disposals

Profits on disposals relate to the sale of investment properties, trading properties, joint ventures and other investments. We made a total profit on disposals of £67m, compared with £120m last year. The profit on disposal of investment properties of £20m includes the disposal of The Printworks, Manchester and Ealing Filmworks. The profit on disposal of trading properties of £36m includes a profit on the settlement of our remaining interest in the Kodak land at Harrow, together with the sale of residential units at Nova and Kings Gate, both SW1. Other profits on disposal amounted to £11m.

Net finance expense (included in capital and other items)

This largely comprises the amortisation of the bond exchange de-recognition adjustment (as explained in the notes to the financial statements) and the fair value movement on interest-rate swaps.

Exceptional items

This year we've classified two items totalling £169m as exceptional. They're excluded from revenue profit by virtue of their exceptional nature, but form part of our pre-tax profits.

During the year, we purchased some of our bonds with a nominal value of £690m, paying a premium of £137m. The redemption premium and £30m of the bond exchange de-recognition adjustment associated with the redeemed bonds, £2m of unamortised issue costs and £1m of associated fees (£170m in total) have been charged to the income statement as a finance expense. Further details are given in the financing section below.

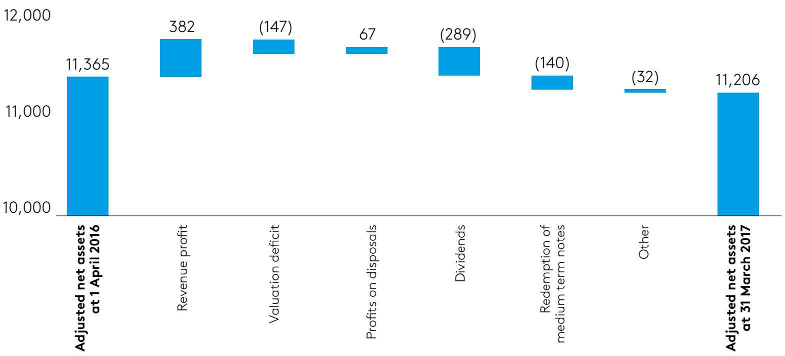
At 31 March 2016, we provided for the onerous lease on our head office at 5 Strand, which arose following our commitment to move to 100 Victoria Street, SW1. During the year, we agreed to assign the lease on 5 Strand to a third party at a lower net cost than originally estimated and we've therefore released the balance of the provision of £2m. Partly offsetting this release is £1m of relocation costs incurred during the year.

Our net assets principally comprise the Combined Portfolio less net debt. We calculate an adjusted measure of net assets, which is lower than our net assets reported under IFRS due to an adjustment to increase our net debt to its nominal value. We believe this better reflects the underlying net assets attributable to shareholders as it more accurately reflects the future cash flows associated with our debt instruments.

At 31 March 2017, our net assets per share were 1,458p, a decrease of 24p or 1.6% from 31 March 2016. At 31 March 2017, adjusted diluted net assets per share were 1,417p, a decrease of 17p or 1.2% from 31 March 2016, driven by the reduction in the valuation of the Combined Portfolio.

Chart 20 summarises the key components of the £159m decrease in our adjusted net assets over the year.

Movement in adjusted net assets[1] (£m) Chart 20



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Taxation

As a consequence of the Group's REIT status, income and capital gains from the qualifying property rental business are exempt from corporation tax. A property income distribution of at least 90% of this qualifying income must be made, and this distribution is taxed as property income at the shareholder level to give a similar tax position to direct property ownership. Profits on non-qualifying activities, such as residential sales, are subject to corporation tax and can be distributed as ordinary dividends. This year, we were able to offset taxable gains on non-qualifying activities with brought forward losses. In the year, there was a tax credit of £1m (2016: £2m) being a current tax credit of £nil (2016: £1m) and a deferred tax credit of £1m (2016: £1m).

The Group fully complies with tax regulations and HMRC confirmed the Group's low risk rating. In the year, total taxes borne and collected by the Group were £129m (2016: £109m), of which we directly incurred £41m (2016: £32m), including environmental taxes, business rates and stamp duty land tax.

Balance sheet

Balance sheet Table 19

	31 March 2017 £m	31 March 2016 £m
Combined Portfolio	**14,439**	14,471
Adjusted net debt	**(3,261)**	(3,239)
Other net assets	**28**	133
Adjusted net assets	**11,206**	11,365
Fair value of interest-rate swaps	**(4)**	(34)
Bond exchange de-recognition adjustment	**314**	368
Net assets	**11,516**	11,699
Net assets per share	**1,458p**	1,482p
Adjusted diluted net assets per share	**1,417p**	1,434p

Net debt and gearing

Net debt and gearing Table 21

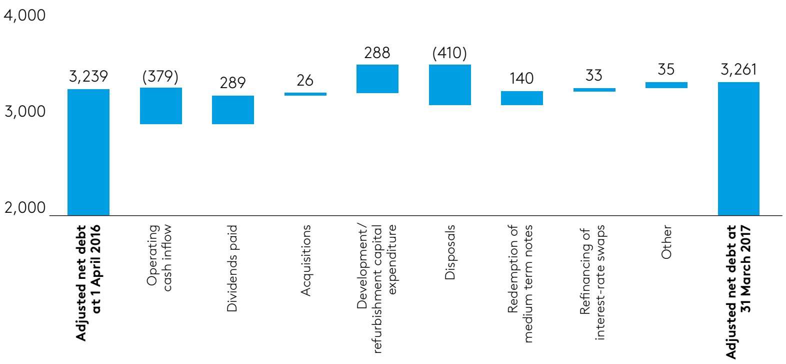
	31 March 2017	31 March 2016
Net debt	**£2,905m**	£2,861m
Adjusted net debt	**£3,261m**	£3,239m
Gearing	**25.2%**	24.5%
Adjusted gearing[1]	**29.1%**	28.5%
Group LTV[2]	**22.2%**	22.0%
Security Group LTV	**28.3%**	23.4%
Weighted average cost of debt[2]	**4.2%**	4.9%

1. Adjusted net debt divided by adjusted net assets.
2. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Over the year, our net debt increased by £44m to £2,905m. The main elements behind this increase are set out in our statement of cash flows and note 21 to the consolidated financial statements.

Adjusted net debt was up £22m to £3,261m. For a reconciliation of net debt to adjusted net debt, see note 20 to the financial statements. Chart 22 sets out the main movements behind the small increase in our adjusted net debt.

Adjusted net debt[1] **(£m)** Chart 22



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information above.

Net operating cash inflow was £379m, largely offset by dividend payments of £289m. Capital expenditure was £288m (£258m on investment properties and £30m on trading properties), largely relating to our development programme. Net cash flows from the disposal of investment properties were £297m, from the disposal of trading properties £110m and the disposal of investments in joint ventures £3m. The premium payable for the purchase of the medium term notes was £137m.

Most of our gearing measures have increased marginally since 31 March 2016 due to the decrease in the value of our assets and the small increase 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 increased marginally from 22.0% at 31 March 2016 to 22.2% at 31 March 2017. The increase in our Security Group LTV from 23.4% to 28.3% relates to the medium term notes we purchased this year. These are held in a different entity to the issuing company and, for the purposes of calculating this measure, cannot be offset.

Financing

At 31 March 2017, our committed revolving facilities totalled £1,940m (31 March 2016: £1,865m). The £75m increase in committed facilities is the result of two new debt facilities totalling £560m, offset by the cancellation of two existing facilities. The pricing of our facilities which fall due in more than one year are between LIBOR +75 basis points and LIBOR +80 basis points. Borrowings under our commercial paper programme typically have a maturity of less than three months, carry a weighted average interest rate of approximately LIBOR +29 basis points and are unsecured. Overall, the amounts drawn under the syndicated bank debt and commercial paper programme totalled £441m (31 March 2016: £432m).

During the year, we purchased £690m (nominal value) of our medium term notes (MTNs). On 8 February 2017, we conducted a tender exercise which resulted in us buying back £635m (nominal value) of MTNs in three series. In addition during the year, we bought back £55m (nominal value) of MTNs in a number of ad hoc purchases, following enquiries by bondholders. Further details are set out in the table below and note 21 to the financial statements. In conjunction with the tender offer, we issued a new £400m MTN with an expected maturity of 2024 and a £300m MTN with an expected maturity of 2029.

A premium to par of £137m was paid across all of the MTN purchases, reflecting future coupon savings of £206m. Taking into account the interest cost of the facilities used for the purchases, we estimate the Group's net interest saving next year will be a further £16m.

The Group's debt (on a proportionate basis) has a weighted average maturity of 9.4 years, a weighted average cost of 4.2% and 89% is at fixed interest rates. At 31 March 2017, we had £1.6bn of cash and available facilities. This gives the business considerable flexibility to deploy capital quickly should acquisition opportunities arise.

Since the end of the year, we have redeemed the Queen Anne's Gate bond in its entirety. The nominal value amounted to £273m at 31 March 2017 and the premium paid was £63m. The redemption was funded by our existing short term facilities and is expected to result in an interest saving of £8m in the year to 31 March 2018. Our pro forma cost of debt at 31 March 2017, taking into account this transaction, is 3.7%.

Purchase of medium term notes Table 23

	Medium term note series					
	A3 £m	**A10 £m**	**A4 £m**	**A5 £m**	**A7 £m**	**Total £m**
Nominal value purchased						
– Tender offer	206	265	164	–	–	635
– Ad hoc purchases	3	7	20	23	2	55
	209	**272**	**184**	**23**	**2**	**690**
Premium paid						
– Tender offer	28	56	40	–	–	124
– Ad hoc purchases	1	1	4	6	1	13
	29	57	44	6	1	137
Fees/unamortised finance fees written off	–	2	1	–	–	3
	29	59	45	6	1	140
Amortisation of bond exchange de-recognition adjustment	19	–	6	5	–	30
Redemption of medium term notes – total cost	**48**	**59**	**51**	**11**	**1**	**170**

Dividend

We're recommending a final dividend of 11.7p to be paid on 27 July 2017 entirely as a Property Income Distribution to shareholders registered at the close of business on 23 June 2017. Taken together with the three quarterly dividends of 8.95p per share already paid, our full year dividend will be up 10.1% at 38.55p per share (2016: 35.0p) or £305m (2016: £276m). The first quarterly dividend for 2017/18 will be 9.85p per share (2016: 8.95p).

Landsec has a progressive dividend policy, which aims to deliver sustainable growth in dividends over time, broadly in line with our underlying earnings growth as measured by our adjusted earnings per share. The reason we use underlying earnings is that it excludes capital and other items such as valuation movements and non-recurring income or costs.

We don't pay out a fixed percentage of adjusted earnings each year, due to the earnings volatility that can come from our investment decisions. For example, when we empty a building in advance of development, we lose rent which isn't recovered until after the new building has been built and let. Similarly, selling assets in the current low interest rate environment is likely to be earnings dilutive. Our dividend policy aims to smooth out that earnings volatility with a more consistent dividend progression.

The degree to which our adjusted earnings per share exceeds the dividend per share (known as our dividend cover) will vary for the reasons described above. In addition, when setting our dividend, we're mindful of the earnings risks we have in the business (for example, from unlet speculative developments) and the degree of flexibility we believe we require (for example, if we intend to sell properties despite the negative impact on earnings).

Last year, we raised our dividend by almost 10% as earnings rose due to our successful development programme. This year, we've increased the dividend above our underlying earnings growth as we've now completed our disposal programme, our speculative development risk is lower than for many years and we're unlikely to add to that risk in the short term. In addition to our focus on risk and flexibility when setting the dividend, we also consider underlying cash flows, recognising that these are generally lower than underlying earnings due to the lease incentives we give our customers and refurbishment capital expenditure. Taking all these factors together, we anticipate that dividend cover will be in the range of 1.2x to 1.3x. This range is indicative only although it's unlikely that we would consistently pay a dividend per share in excess of our adjusted earnings per share and, as a minimum, we will satisfy our dividend obligation under the REIT legislation.

At 31 March, the Company had distributable reserves of £3.5bn which compares to the dividend payable in respect of this year of £305m. We don't anticipate that the level of distributable reserves will limit distributions for the foreseeable future.

Martin Greenslade
Chief Financial Officer

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 portfolio

Top ten assets by value

01 New Street Square, EC4
Contemporary offices with retail and restaurants. Annualised net rent £33.1m

02 Cardinal Place, SW1[1]
Landmark site, home to blue-chip businesses and retailers. Annualised net rent £22.7m

03 Bluewater, Kent
The dominant shopping centre in the south east of England. Annualised net rent £28.6m (Landsec share)

04 One New Change, EC4
Office and leisure destination in an iconic building. Annualised net rent £28.3m

05 1 Sherwood Street/Piccadilly Lights, W1
Offices, retail, leisure and a world famous advertising landmark. Annualised net rent £7.3m

06 20 Fenchurch Street, EC3
688,000 sq ft of offices and a unique public Sky Garden. Annualised net rent £20.3m (Landsec share)

07 Trinity Leeds
778,000 sq ft retail destination developed by us. Annualised net rent £28.0m

08 Gunwharf Quays, Portsmouth
Outlet shopping, leisure and entertainment on a waterfront location. Annualised net rent £27.1m

09 1 & 2 New Ludgate, EC4
396,000 sq ft of modern, technically resilient office space, restaurant and retail. Annualised net rent £3.1m

10 Queen Anne's Gate, SW1
BREEAM 'Excellent' offices: built by us in 1977, refurbished in 2008. Annualised net rent £31.6m

1. Cardinal Place, SW1 now excludes 16 Palace Street, SW1.

Natural resources

When we buy, use, re-use and dispose of resources efficiently we see big benefits. We minimise our impact on the environment. We reduce costs, both for us and for our customers and partners. And we give our assets and our business greater resilience in the face of climate change challenges, from scarcity of resources to new regulation.

Carbon

Last year we set a science-based target for reducing emissions. This target helps companies determine how much they must cut emissions to prevent the worst impacts of climate change and stay in line with the Paris Agreement. This year the Science-based Targets initiative approved our target, making us the first real estate company in the world to achieve this.

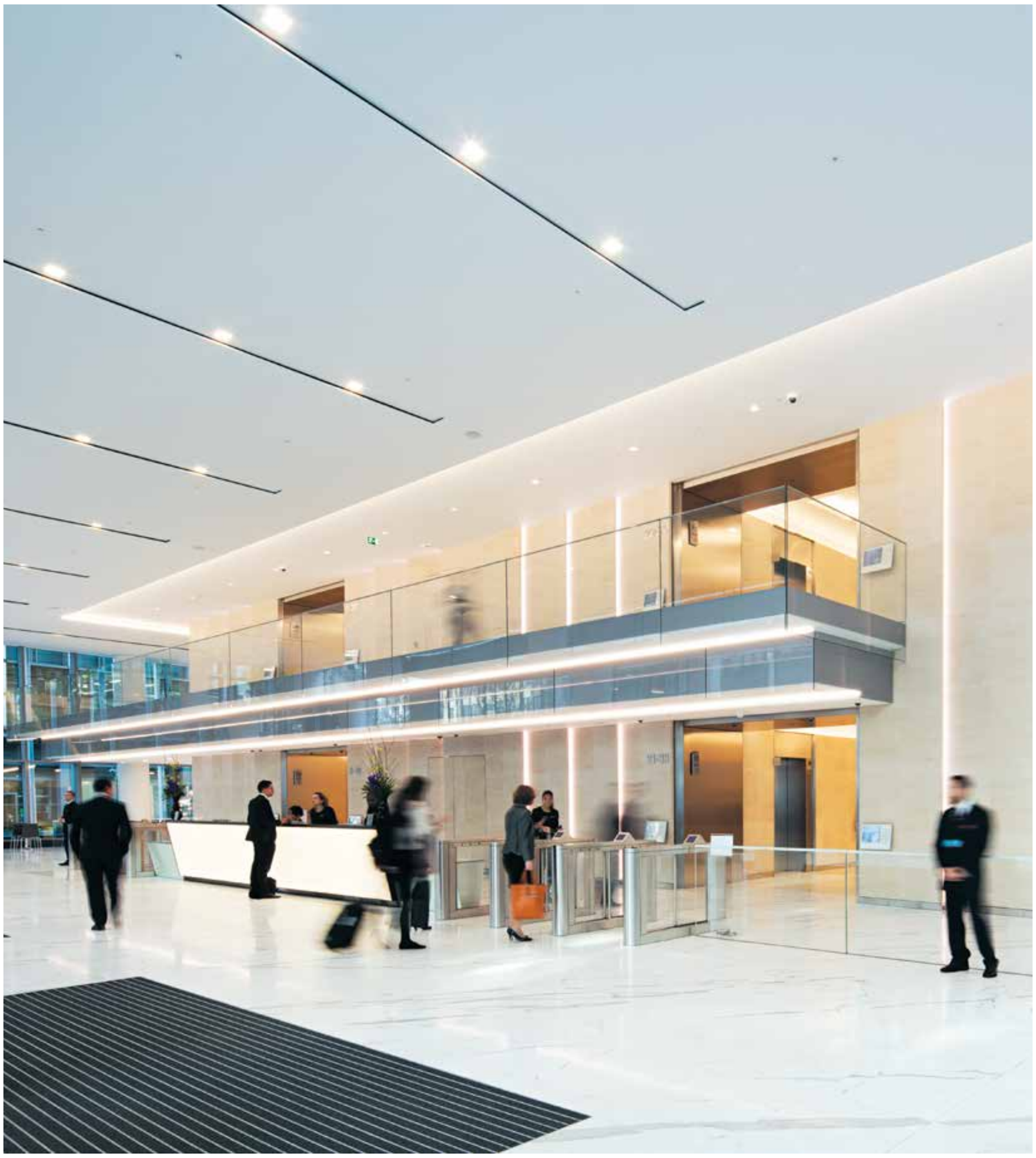
During the year we reduced our carbon intensity by 18.5% compared to our 2013/14 baseline, which puts us well on track to achieving our target for 2030 of a 40% reduction and our 2050 ambition of an 80% reduction.

Energy

This year's carbon intensity performance is largely due to our active energy management programme, which is reducing the energy we use to power our offices and shopping centres. This year we set our first Group KPI for energy. This required us to create detailed energy reduction plans for each of our properties and approve energy reduction measures at those consuming the most energy.

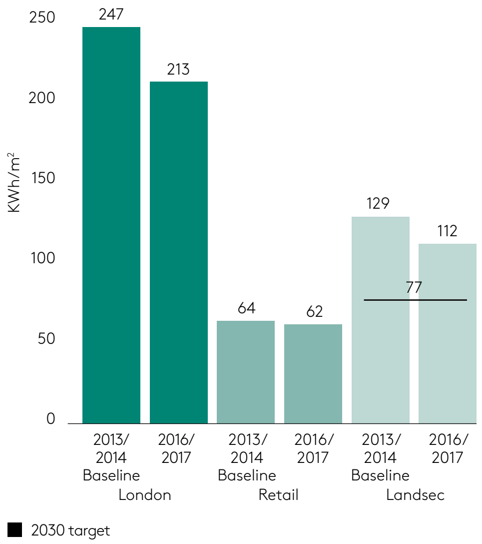
We're now generating more of our own electricity through on-site renewable sources such as solar panels on our properties. We set ourselves a new target this year to achieve 3 megawatts (MW) capacity of renewable electricity by 2030. Currently we have a renewable electricity capacity of 0.6 MW across eight assets. The solar installation schemes in progress at White Rose and Trinity Leeds will add an additional 0.8 MW this coming year, taking us to a total of 1.4 MW.

As of 1 April 2016, all the sites we manage are supplied by SmartestEnergy, the UK's first officially certified 100% renewable electricity producer. We are also helping to pioneer the use of green gas, a low-carbon substitute for mined or fracked gas. Green gas made up 15% of our forward gas purchases for the coming year.



Thanks to our scale and the amount of green gas we buy, we can drive demand, boost the renewables industry and increase the proportion of green gas in the UK's energy mix. This makes the whole industry greener – and in turn helps us hit our carbon targets.

Landsec energy intensity Chart 24



Waste

Waste can have a significant effect on the environment. It also has financial impacts. For example, our proactive approach to waste management over the past three years has enabled us to avoid over £8m in landfill tax. This year, our London business sent over 77% of used materials for recycling – an improvement on last year's rate of 74%; and we continued to divert 100% of waste from landfill. In Retail, we diverted 99.9% of waste from landfill, up from 99.0% the previous year. We also sent 68.4% of used materials for recycling – a slight decrease on last year's 69.3%. We are now investigating circular economy principles for further waste reduction across the portfolio.

Sustainable design and innovation

The way we design buildings has a huge impact on how people use them. Great design increases efficiency and encourages people to spend time in our spaces, improving wellbeing. This is good for our customers, communities and partners – and good for us.

Climate resilience

Climate change is affecting our business today. Warmer temperatures, higher rainfall and more variable weather are putting new pressures on our buildings. This year we introduced a new resilience commitment – 'assess and mitigate site-specific climate change adaptation risks which are material across our portfolio'. Our new assets will be designed to resist the onset of climate change and we'll also focus on how we can upgrade existing assets to meet climate challenges.

Scope 3 emissions and embodied carbon

Scope 3 emissions are those outside our direct control. They include the emissions involved in constructing our properties, including the manufacture and transportation of materials, and they represent 91% of our total emissions. Since embodied carbon makes up such a big part of our carbon footprint, we need to find ways to reduce it.

We're already hard at work on this. For example, our approach to sustainable design at Westgate has enabled us to avoid as many carbon emissions during construction as the centre is expected to generate in operation over the next 30 years, putting us well ahead of Oxford City Council's environmental requirements. This year we worked with the Carbon Trust to develop a consistent and transparent way of reporting Scope 3 emissions across our business. With better data, we can focus on identifying and implementing the measures that will make the most difference.

Biodiversity

This year we continued our work with The Wildlife Trusts, exploring ways to increase biodiversity across our Retail Portfolio. Together, we've developed a methodology that enables us to determine each site's potential for biodiversity and to measure biodiversity at a local and Company-wide level.

We've now identified the properties with the greatest potential for biodiversity gain and will focus our activity there, giving particularly close attention to how our sites connect with the wider landscape.

Wellbeing

Whenever we design a new development we think hard about the experience of the people who will use and visit it – everyone from office workers and their clients to shoppers and retail staff, local neighbours and tourists. This year we developed two stretching metrics on wellbeing for new developments:

- To assess and design optimum air quality, daylight, lighting and noise factors
- Where appropriate, to design and construct new developments to be prepared for certification by the WELL Building Institute, which recognises buildings that maximise positive effects on people.

We're now pursuing these across our developments. This year we also continued to sponsor the Better Places for People Campaign, an initiative from the World Green Building Council that aims to inspire companies to think about the effects of property on people.

The table below shows the key actions we took to reduce embodied carbon at Westgate Oxford:

Actions	Carbon Savings (TCO_2)
Earthworks and excavation – local disposal	10,700
96% recycled content steel reinforcement	9,000
Replacing cement with industrial waste products	9,850
100% recycled content sheet piling	1,000
Total savings to date	**30,550**

Social review

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

Customers

We aim to use our experience to ensure we give our customers a great experience. We work with a diverse mix of businesses and organisations, from global corporations and international consumer brands to trend operators, fast-growing tech companies and dynamic local businesses. Understanding and meeting customers' changing needs is at the heart of everything we do. We work hard to understand future market dynamics and anticipate evolving expectations and 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 46-53.

Landsec's customer engagement survey

85.7%

"Landsec is acting responsibly and making tangible improvements to the management of Energy, Water and Waste"
(2015: 82.9%, 2.8% increase)

84.5%

"We feel that Landsec is acting responsibly and is having a positive effect on the local community"
(2015: 82.2%, 2.5% increase)

Jobs and opportunities

Community employment

Our Community Employment Programme is a collection of employment initiatives involving training providers, charities and partners from our supply chain. It targets those furthest from the job market, including homeless people, the long-term unemployed, people with learning disabilities, ex-offenders and serving prisoners. The programme plays a real part in the planning process and beyond, showing local authorities how our work can benefit an area. In 2016/17, 183 people found work through our Community Employment Programme. During the year we extended our prison work, launching a scaffolding training centre in HMP Brixton – a UK first.

When we started the programme in 2011, we focused on helping candidates in London find work on construction sites. In 2015, we launched the programme at our Westgate development in Oxford. This year we expanded the programme geographically, from Portsmouth to Leeds. We're now offering more opportunities in customer service – a reflection of our strategic shift from development activity towards asset management. So far we have helped 962 people from disadvantaged backgrounds.

Education

Our education programmes help us engage the wider community, including students, schools and families. The programmes raise awareness of our developments, start conversations, and develop our local relationships. In many of the areas where we work there's a degree of social inequality – so we particularly want to reach out to those pockets of disadvantage and support our ambitions to improve diversity in our sector. This year we worked with over 400 students between the ages of 12 and 18. Projects included Girls Can Do It Too, an inspiring partnership with two girls' schools that challenged students to design, model and pitch a new property development. And we're supporting The Sir Simon Milton Westminster University Technical College: a new kind of college for students wishing to pursue a career in construction, engineering and other roles that require both academic and technical ability.

Charity partnerships

This was the third and final year of our national partnership with Mencap, the UK's leading learning disability charity. Across our business we raised over £360,000 over the three years. This year we asked employees to nominate charities that could help us achieve our goal of creating jobs and opportunities, and we put our final shortlist to a Company vote – 70% of respondents chose Barnardo's. They will become our national partner from 2017.

During the year our teams in London continued to help tackle homelessness. We also expanded our work in homelessness across the UK. We're particularly focusing on Oxford, where homelessness is rising.

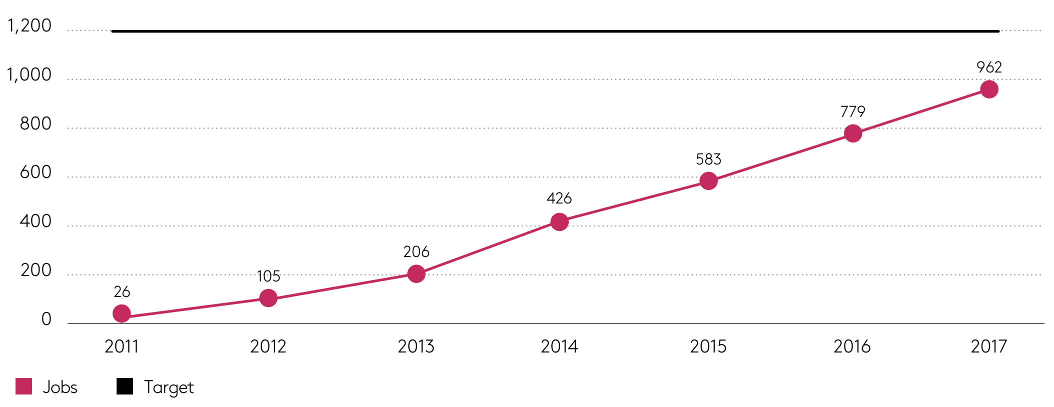
Fairness

We were delighted this year when we became an accredited Living Wage Employer by The Living Wage Foundation. All of our own employees are paid at least the Living Wage. In our London business, 100% of those working on our behalf – within an environment we control – are paid at least the Foundation Living Wage (£9.75 an hour in London; £8.45 outside London). In Retail, we're confident we'll meet our commitment that everyone working on our behalf is paid at least the Foundation Living Wage by 2020.

In 2015 we asked construction supply chain partners to pay the Foundation Living Wage in their own supply chain. This year we started to check whether this is being achieved across our developments. Moving forward, we'll also include a formal commitment in every contract.

The Modern Slavery Act came into force in 2015. We've taken steps to make sure our staff and supply chain partners are aware of the Act and its requirements. In 2016 we issued our first statement explaining how we're addressing the risk of slavery and human trafficking in our business. We then examined our recruitment processes, and trained teams to help them spot the risks of modern slavery.

Cumulative total number of jobs secured Chart 25



Health, safety and security

Our priorities are:

- Health: to make sure every worker has a transferable occupational health record, and to make sure all our maintenance and construction partners have a wellbeing policy
- Safety: to have zero reportable health and safety incidents
- Security: to raise awareness of physical and cyber security, in our own organisation and across our industry

Despite our efforts, incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDORs) increased this year. This is partly because our system for logging and reporting of incidents is better, and partly because we worked on several complex developments – including Nova, which had over 2,000 people on site at one time. The good news is that, by bringing our many partners together in Customer Improvement Groups, we've created a more transparent culture. Partners are more likely to tell us about safety incidents instead of hiding them.

Clive Johnson, our Group Head of Health, Safety and Security, continued to chair the Health in Construction Leadership Group (HCLG). This aims to make sure health gets as much attention as safety in our industry. In January 2017, HCLG held its second summit, drawing over 300 industry leaders. This saw the launch of Mates in Mind, a programme that shows people how to support colleagues with mental ill health. In future, we'll require all contractors to sign up.

For the coming year, we have set new objectives to train all our people in physical and cyber security. The training will help with everything from protecting data when working remotely to staying safe during terrorist incidents.

Our partnership with Mencap helped:

21
people to get a job

52
people to get work placements

1,000+
Over 1,000 people took part in Mencap events

Property Week Best Places to Work Survey 2016

- We were the only listed REIT to make the published list of 32 Best Places to Work
- Overall engagement – 86%
- Proud to work for Landsec – 93%
- Willing to give extra effort to help this organisation succeed – 92%

National Equality Standard assessment

- At the first assessment, we fully met 27 out of 49 criteria, and partially met the remaining 22
- Key positives: leadership; training and external partnerships; diversity aspects of new HQ
- Improvements needed: setting of clear targets; measurement of the impact of our diversity initiatives

RICS Inclusive Employer Quality Mark

- Seen as a role model against all six criteria – leadership, recruitment, staff development, staff retention, staff engagement and continuous improvement

Our employees

Diversity

Getting greater diversity into the Company – including gender, ethnicity, social mobility, disability and sexuality – is very important for us. It means we better reflect the character of our customers and communities and are more likely to understand their changing needs. This year we've set out these very specific objectives for the business, to be achieved by 2020:

- Ensure that Landsec continues to meet all the voluntary targets set by the Hampton-Alexander Review. Currently 36% of senior management (including the Executive Committee) are female
- Improve female representation at Leader level to 30%
- Improve the Engagement scores for Black, Asian and Minority Ethnic colleagues – bringing them into parity with employee scores overall
- Improve the transparency of our reporting of all diversity data, including the accurate measurement, and tracking of engagement of other specific groups – including LGBT and disabled colleagues.

Investment in our people

2016 has been another year of significant investment in our people. We continued to roll out our established management and leadership programmes, Positive Impact and Positive Influence. Almost 150 managers and leaders have now taken part, and the feedback continues to be positive. We have also invested in our senior executives, who have been given access to a bespoke development offer including one-to-one coaching, business school programmes, and peer-to-peer networking and mentoring. In all, 67% of our people have undergone some form of training.

In line with the focus from the Health, Safety and Security team, improving our wellbeing offer has been a key priority, and we have taken advantage of the move to Victoria to re-design the way all our people (including those based outside London) can access high quality medical care, including detailed health assessments. This has been supported by a new, healthier catering provision, and a range of wellbeing initiatives including stress awareness, mindfulness and yoga.

We are proud that our investment in people has been recognised externally. In November 2016, we were the only listed REIT to be named in the Property Week "Best Places to Work" survey. 93% of our people said that they were proud to work for Landsec.

Key employee figures:

638
Total headcount

20.4%
Employee turnover – 12% resignations (stable year-on-year)

50%
Percentage of Senior Leader and Leader roles filled by internal people

46:54%
Overall male:female ratio (female representation up 1%)

Gender pay

The UK Government has introduced legislation that will require employers with 250 or more UK employees to disclose information on their gender pay gap. The first disclosures will be based on amounts paid in April 2017 and must be published by 4 April 2018.

Improving all aspects of the diversity of our workforce is a key people priority for Landsec, as is being a leader in promoting change across our sector. We have therefore chosen to publish our data in this year's Annual Report.

The table below shows the gender pay picture for Landsec, calculated in accordance with the published requirements. The definition of pay shown is an hourly pay rate for each relevant employee as at 5 April 2017, reflecting base salary and certain allowances. The bonus figures shown include total variable pay over the previous 12 months (bonus paid plus any proceeds on exercise of SAYE, ESOP or vesting of LTIP awards).

Pay element	Male	Female	% difference
Mean hourly salary	£43.26	£28.86	(33.3)
Median hourly salary	£33.36	£21.27	(36.3)
Proportion of employees receiving a bonus	79.0%	77.1%	
Mean bonus	£42,894	£14,282	(66.7)
Median bonus	£12,741	£4,780	(62.5)

While at a headline level, the figures would suggest a significant pay gap between males and females in our business, we are satisfied that the issue is one of female representation in higher-paying roles, rather than of equal pay for equivalent roles. The analysis below, which includes additional data on hourly rate and mean bonus levels by pay quartile, illustrates this more fully:

Quartile split	Number	% Male	% Female	Male mean hourly rate	Female mean hourly rate	% difference in hourly rate	% difference in mean bonus
Lower	138	23.9	76.1	£14.15	£15.00	6.0	(17.4)
Lower middle	138	40.6	59.4	£21.98	£22.13	0.7	(18.3)
Upper middle	138	58.0	42.0	£33.17	£32.95	(0.7)	(25.9)
Upper	138	69.6	30.4	£74.08	£71.03	(4.1)	(20.7)

Like other companies across our industry, we have a lower proportion of females in senior roles than we would like. As we have said elsewhere in the Annual Report, we have seen encouraging progress at the most senior levels, and we already exceed the Hampton-Alexander review target of 33% female representation at Executive Committee and the level below (the top 28 executives). However, the majority of our upper quartile roles (encompassing our Executive, Senior Leader and Leader levels) are still occupied by males.

In the pay quartiles where there is a greater prevalence of females, their hourly pay matches, or even exceeds, that of their male counterparts. Given this, the differential in mean bonus payments at the lower levels of pay may seem surprising. However, this can partly be explained by the relatively high proportion in these groups of part-time females, whose bonus payments are pro-rated. For example, in the lower quartile, 14.2% of our employees are part-time and they are all female.

Encouraging more females into senior roles has become a key priority for us, which is why we have committed to a specific target of improving our female representation at Leader level (broadly the lower end of upper quartile) from 20% to 30% by 2020. This is underpinned by some specific initiatives such as the female mentoring programme and a new set of industry-wide recruitment guidelines which we have developed in collaboration with our peers.

Managing risk

By being both risk-agile and risk-resilient, we will be in a stronger position to embrace opportunities, deliver sustained success and enhance shareholder value.

Our key focus areas in 2016/17

— Third party review of our risk management processes
— Crisis management exercises for the Executive Committee and senior management
— Third party review of our crisis management processes
— Cyber threats and other security risks, including building management systems
— Disruptors to our key target markets

Our key priorities for 2017/18

— Continue to enhance the risk management framework and further embed the risk management culture amongst all employees
— Deep dive reviews into specific areas of risk
— Enhanced reporting for the Board and executive management
— Continue to enhance our approach to crisis management
— Construct scenarios to determine the impact of climate change on our existing portfolio and our future developments

Governance

The Board has overall responsibility for oversight of risk and for maintaining a robust risk management and internal control system. It recognises the importance of identifying and actively monitoring the full range of financial and non-financial risks, and other longer-term threats or challenges potentially facing the business. The Audit Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of the risk management and internal control systems during the year. The Executive Committee is responsible for the day-to-day management of risk, which includes the ongoing identification, assessment and mitigation of risk as well as the design, implementation and evaluation of the system of internal control, and for ensuring its operational effectiveness. The Company's Risk Management and Internal Audit function supports the Audit Committee and Executive Committee in evaluating the design and operating effectiveness of the risk mitigation strategies and internal controls implemented by management.

The Board undertakes an annual assessment of the principal risks, taking account of those that would threaten our business model, future performance, solvency or liquidity as well as the Group's strategic objectives.

Risk appetite

The Board is responsible for the level and type of risk that the Group is willing to take and ensuring that it remains in line with our strategy. By regularly reviewing the risk appetite of the business and re-assessing the latest risk related information, the Board seeks to ensure risk exposure remains appropriate at any point in the cycle. Our risk appetite is cascaded throughout the organisation by being embedded within our policies and delegated authorities.

Risk management framework

We have an established risk management and control framework that enables us to identify, evaluate and manage our principal risks. This is supported by a strong risk management culture amongst our employees. Our approach is not intended to eliminate risk entirely but to provide a structure by which we're risk aware and able to respond effectively and appropriately to create value for our shareholders.

Identification, evaluation and management of risk

The identification of risk is a continual process through discussion with management, external agencies and stakeholders. A full and detailed review of the risks, the controls and the mitigation strategies is undertaken with the executive committees of the London and Retail businesses four times a year. These form the basis for the principal risks and uncertainties, as well as emerging risks, which are challenged and validated by the Executive Committee. These are then presented to the Audit Committee to ensure representatives of the Board are aware of, and contribute to, the latest position. In addition, a wholesale and in-depth risk session is held with the Board every two years to ensure full Board participation in our risk management process. Such a session is next due to be undertaken in 2017/18.

Senior management from across the business will also attend the Executive Committee and the Audit Committee to discuss specific risk areas, such as a continuing focus on cyber risk, accompanied by external advisers where relevant.

The Risk Management function, headed by the Director of Risk Management and Internal Audit, assists management by facilitating the risk discussions and providing challenge and insight where appropriate.

We evaluate 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 considered). From this 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 risk, including strategic, operational, people and technology. A risk scoring matrix is used to ensure a consistent approach is followed.

Ownership and management of the risks are assigned to members of the Executive Committee. They are responsible for ensuring the operating effectiveness of the internal control systems and for implementing key risk mitigation plans.

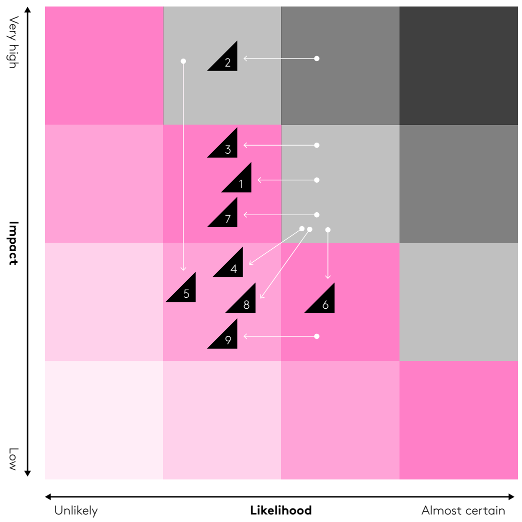
Internal Audit independently reviews the internal control systems using a risk based approach and, on a quarterly basis, management self-certify that the key controls within their area of responsibility have been operating effectively.

Risk management framework

Top-down Oversight, identification, assessment and mitigation of risk at a Group level	**Risk governance**	**Board** — Oversight of risk — Set the risk culture — Approve risk appetite — Annual assessment of the principal risks.		
		1st line of defence	2nd line of defence	3rd line of defence
	Risk management	**Executive Committee:** — Define the risk appetite — Evaluate proposed strategies against risk appetite — Identify the principal risks — Design, implementation and evaluation of the system of internal control, and for ensuring its operational effectiveness.	**Risk Management:** — Assist management with the identification and assessment of principal risks — Aggregate risk information — Monitor risks and risk response plans — Create a common risk framework and language — Provide direction on applying framework — Provide guidance and training — Facilitate risk escalations.	**Audit Committee** — Supports the Board in monitoring risk exposure against risk appetite — Review the effectiveness of our risk management and internal control systems. **Internal Audit:** — Provide assurance on effectiveness of the risk programme, testing of key controls and risk response plans for significant risks.
Bottom-up Identification, assessment and mitigation of risk at business unit and functional level	**Risk ownership**	**Business units:** — Identify and assess risks — Respond to risks — Monitor risks and risk response — Ensure operational effectiveness of key controls.	**Support functions:** — Provide guidance/ support to the risk team and business units.	

Risk heat map

The risk heat map illustrates the relative positioning of our principal risks before and after mitigating actions.



Key

movement of risk after mitigating actions

01 **Customers** — Structural changes in customer and consumer behaviours.

02 **Market cyclicality** — Market and political uncertainty or change in legislation.

03 **Disruption** — Failure to react effectively to new disruptors within our sectors, including technological advances.

04 **People and skills** — Inability to attract, retain and develop the right people and skills.

05 **Major health and safety incident** — Accident causing injury or loss of life to employees, contractors, occupiers or visitors to our properties.

06 **Security threat or attack** — Failure to identify or prevent a major physical security related threat or attack or react immediately and effectively.

07 **Cyber threat or attack** — External and internal intrusion to corporate and building management systems and data.

08 **Sustainability** — Increasing environment pressure and/or properties do not comply with legislation, or meet customer expectations or are unable to withstand the expected challenges of climate change.

09 **Development** — Unable to deliver capex programme to agreed returns and/or occupiers reluctant to commit to take new space in our developments.

Our principal risks and uncertainties

Change in the year

Increased | Reduced | No change | New

Risk	Mitigation	Opportunity	Strategic objective	Change in the year
Customers Structural changes in customer and consumer behaviours leading to an adverse change in demand for office and retail space and the consequent impact on rental growth. Executives responsible: Colette O'Shea/Scott Parsons	— Large and diversified customer base (no single customer represents more than 5.2% of rents) — Of our total income, 68.0% is derived from occupiers who individually make less than a 1% contribution to rent roll — Clear retail strategy focused on "Everything is experience" — Development programme has delivered a modern office portfolio well suited to occupier requirements — Experienced asset management team — Strong relationships with occupiers.	Enhance and maintain our position as the partner of choice for our customers.	— Shareholder value — Investment portfolio — Customer satisfaction **KPI** — Total shareholder return — Total property return — Customer satisfaction rates	No change
Market cyclicality Market and political uncertainty or change in legislation leading to a reduction in demand or deferral of decisions by occupiers, impacting real estate values, the ability to sell assets and to raise further funding. Executive responsible: Robert Noel	— Large multi-asset portfolio — Monitor asset concentration (our largest asset is 5.5% of the total portfolio) — Average investment property lot size of £120m — Average unexpired lease term of 9.1 years with a maximum of 10.4% of gross rental income expiring or subject to break clauses in any single year.	Acquisition or development opportunities could arise out of the uncertainty.	— Shareholder value — Investment portfolio **KPI** — Total shareholder return — Total property return	No change
Disruption Failure to react effectively to new disruptors within our sectors, including technological advances, innovation, resulting in asset obsolescence and loss of competitive advantage. Executive responsible: Robert Noel	— Regular Board and Executive Committee discussion item — Dedicated resources focused on innovation.	Recognising and managing change effectively will enable us to maintain our competitive advantage and increase the attractiveness of our assets to customers.	— Shareholder value — Investment portfolio — Development — Customer satisfaction — High performance individuals **KPI** — Total shareholder return — Total property return — Lettings and sales — Customer satisfaction rates — New ways of working	New Advances in emerging technologies, such as the merging of the virtual and physical environments, threaten to disrupt organisations' core business assumptions. New entrants focused on disrupting existing business models are likely to impact most sectors, including ours and those of our customers.

Risk	Mitigation	Opportunity	Strategic objective	Change in the year
People and skills Inability to attract, retain and develop the right people and skills required to deliver the business objectives. Executive responsible: Diana Breeze	— Strong employee brand and dynamic, proactive resourcing strategy — Competitive remuneration plans — Appropriate mix of insourcing and outsourcing — Clear employee objectives and development plans — Clear organisation and individual accountabilities — Annual employee engagement survey to identify issues early — Succession planning and talent management — High profile, market leading developments and assets to manage.	Build further expertise, knowledge and capability in the business.	— Shareholder value — High performance individuals **KPI** — Total shareholder return — New ways of working	
Major health and safety incident Accident causing injury or loss of life to employees, contractors, occupiers or visitors to our properties, leading to: — criminal/civil proceedings and resultant reputational damage — delays to building projects and access restrictions to shopping centres. Executive responsible: Robert Noel	— CEO chairs Group Health, Safety and Security Committee — Regular Board reporting — Dedicated specialist personnel — Sharing of best practice across the business and industry through our "One Best Way" approach — Annual cycle of health and safety audits across the portfolio — Established policy and procedures including ISO 18001 certification — Engagement with the enforcing authorities	Lead the industry in health and safety to reduce incident levels.	— Customer satisfaction **KPI** — Customer satisfaction rates	
Security threat or attack Failure to identify or prevent a major security related threat or attack or react immediately and effectively, resulting in injury, loss of life, damage to buildings and a loss of consumer confidence and the consequent impact on rental growth and loss of income. Executive responsible: Robert Noel	— Dedicated property security teams, supported by CCTV and other physical security measures — Experienced property management teams — Regular on-site and national security training — Group insurance programme protects against losses of rent and service charge due to terrorism — Business continuity and crisis management practice — Sharing of best practice with our external customers through our Customer Improvement Groups — Engagement with the National Counter Terrorism Security Office (NaCTSO).	Enhance our reputation as a trusted and responsible partner.	— Customer satisfaction **KPI** — Customer satisfaction rates	
Cyber threat or attack External and internal threat to corporate and building management systems and data resulting in a negative reputational impact and adverse operational and financial impact. Executive responsible: Martin Greenslade	— Dedicated Information Security team, which monitors information security risk — Regular review of Information Security policy — Independent information security audit and penetration testing — Employee awareness training.	Enhance our reputation as a trusted and responsible partner.	— Customer satisfaction **KPI** — Customer satisfaction rates	
Sustainability Increasing environmental pressure and/or properties that do not comply with legislation, meet customer expectations or are unable to withstand the expected challenges of climate change resulting in an increased cost base; an inability to attract or retain occupiers, premature obsolescence and loss of asset value. Executive responsible: Miles Webber	— ISO accredited environmental and energy management systems — Active involvement in legislative working parties — Active environmental programme addressing key areas of carbon, energy, waste and biodiversity — Energy reduction plan for every key asset — Scenarios to determine how climate change will affect the existing portfolio and future developments.	Consolidate our position as a leader in sustainability and an environmentally responsible partner.	— Customer satisfaction — Sustainability performance **KPI** — Customer satisfaction rates — Sustainability matters — Energy reduction plans	Refer to our sustainability report for more details.
Development Unable to deliver capex programme to agreed returns and/or occupiers reluctant to commit to take new space in our developments leading to negative valuation movements and a reduction in income. Executives responsible: Colette O'Shea/Scott Parsons	— 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 — 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% — Monitor market cycle and likely occupier demand before committing to new developments and secure pre-lets where appropriate — Assessment of developments against hurdle rates — Pre-let targets set for Retail developments.	Maximise returns by delivering developments at the right point in the cycle. Enhance and maintain our position as the partner of choice for our customers.	— Shareholder value — Development performance **KPI** — Total shareholder return — Lettings and sales	As we have less capital invested our risk is considered to be lower.

"As a result of our actions, the portfolio is in great shape. It's occupied by a broad customer base and we now have our longest ever weighted average lease term."

—

Colette O'Shea
Managing Director, London Portfolio

London Portfolio review

Actions and outcomes

Focus for 2016/17	Progress in 2016/17
— Outperform IPD sector benchmark	— The total return of the London Portfolio was 3.1% underperforming its IPD sector benchmark at 3.4%
— Complete the letting of 1 & 2 New Ludgate, EC4; The Zig Zag Building, SW1; and 20 Eastbourne Terrace, W2	— 1 & 2 New Ludgate fully let; The Zig Zag Building 89% let; and 20 Eastbourne Terrace 90% let
— Progress development lettings at Nova, Victoria, SW1	— Nova, Victoria 47% let
— Submit a planning application at Southwark Street, SE1 and secure planning consent for new screens at Piccadilly Lights, W1	— Planning resolution granted at Southwark Street and planning consent secured for new screens at Piccadilly Lights
— Progress to revised time and to budget at our committed developments	— All achieved except Nova, Victoria over budget and delayed
— Secure employment for a further 129 candidates via our Community Employment Programme	— Secured employment for 134 candidates

Focus for 2017/18

- Outperforming IPD sector benchmark
- Growing like-for-like net rental income
- Completing the letting of The Zig Zag Building, 20 Eastbourne Terrace and Nova, Victoria
- Completing the construction and letting of Piccadilly Lights
- Progressing build to grade to time and budget at 21 Moorfields, EC2
- Growing future development pipeline through acquisitions and 1.4 million sq ft of existing opportunities within portfolio
- Securing employment for a further 95 candidates via our Community Employment Programme
- Improving energy management in support of 2030 corporate commitments

Our results

1.3%[1]
Valuation deficit

3.1%
Ungeared total property return underperformed its IPD Quarterly Universe sector benchmark at 3.4%

£13m
of investment lettings

£9m
of development lettings

7.0%[2]
Like-for-like voids (31 March 2016: 2.9%)

1. On a proportionate basis.
2. Reduces to 3.3% when Piccadilly Lights, SW1, which remains in like-for-like during the screen replacement, is excluded.

This year supply-constrained conditions in the occupational market gave way to weaker demand.

However, we've been positioning the business for these conditions, and so are well-placed. Over the past 12 months, we've completed our speculative development programme, focused on letting the remaining space, worked to maximise income and lease length through proactive asset management and readied the business to start buying when conditions are right.

In addition, we've increased our emphasis on anticipating change to ensure our buildings and our service meet our customers' needs, while at the same time enhancing the environment for our communities. This approach will deliver long-term value for us.

As a result of our actions, the portfolio is in great shape. It's occupied by a broad customer base spanning sectors from finance to fashion and we now have our longest ever weighted average unexpired lease term of 10.3 years.

Buy

We made no material acquisitions this year. We have the firepower needed for when the right opportunities appear, but we will be patient and disciplined.

Develop

At 20 Eastbourne Terrace, W2, we completed a major refurbishment during the year, creating 93,000 sq ft of contemporary space in an 18-storey tower overlooking Paddington Crossrail station. The building offers 6,000 sq ft floorplates and a stunning communal rooftop garden. All of the space is now let, on an average lease length of more than ten years at record rents.

In the City, we completed 1 New Street Square, EC4. This 275,000 sq ft scheme was pre-let in its entirety to Deloitte on a 20 year lease.

Nova, Victoria, SW1 completed just after the year end in April – a high point in our long-term regeneration of Victoria. The scheme features two exceptional office buildings, 170 apartments and a fantastic line-up of restaurants, creating London's newest food destination. 49% of the 480,000 sq ft office space and 93% of the retail and food-related space is now let. 148 of the apartments have now been sold, 10 of them during the year.

The complexities of construction – together with competition for labour in a busy sector – delayed final completion and impacted costs. However, the scheme is proving very popular and we're confident we'll let the remaining space in good time. At Nova East, the second phase of Nova, Victoria, we're finalising statutory approvals ready to start on site when the time is right.

We secured planning consent for 798,000 sq ft of space in three London boroughs. In the City at 21 Moorfields, EC2, we've completed demolition and will shortly commence piling and construction of a raft that will sit above the eastern entrance to Liverpool Street Crossrail station, ready for building 522,000 sq ft in two buildings. Completing the raft in July 2018 will mean we can complete construction of the buildings in 24 months, providing an excellent prospect for the pre-letting market.

In Westminster at 1 Sherwood Street, W1 behind Piccadilly Lights, we secured planning consent for a 142,000 sq ft mixed use scheme and in Southwark, at Sumner Street, SE1, resolution to grant planning consent for 134,000 sq ft.

We have a further 360,000 sq ft in feasibility at Red Lion Court, SE1.

Manage

We were very active asset managers this year, moving early to address lease expiries and rent reviews, as well as securing reversions ahead of expectation.

At Dashwood House, EC2, we completed rent reviews on £6m (86%) of the income, increasing the rent by 26%. At One New Change, EC4, we reviewed £19m (65%) of the rent increasing the offices by 3% and the retail by 18%. At Cardinal Place, SW1, we reviewed £11m (48%) of rent increasing the offices by 14% and the retail by 23%, as well as letting 113,000 sq ft of available space. At 140 Aldersgate Street, EC1, we reviewed £1m (44%) of the rent and achieved a 33% uplift, as well as letting 25,000 sq ft of available space.

At Piccadilly Lights, W1, we obtained planning consent to replace the six screens with Europe's most technically advanced digital screen, maintaining the heritage of the site while giving advertisers innovative ways to interact with more than 100 million passers-by each year. Coca-Cola committed to continuing its 60 year residence and will be joined by Samsung and Hyundai. We have three remaining advertising opportunities and are in discussion with other major brands to complete the line-up. We'll be launching the new screen at this major tourist attraction in November.

Sell

In 2015, to reduce risk, we started a disposal programme of weaker assets after we had completed asset management plans to maximise value. The majority of these sales were executed last year and we successfully completed the programme this year with disposals totalling £46m. Trading property disposals of £135m include sales at Nova, Victoria, SW1 following completion of residential units, further disposals at Kings Gate, SW1 and the disposal of our remaining interest in the Kodak land at Harrow. Sales of other investments totalled £13m.

Net rental income

Net rental income in the London Portfolio has increased by £10m from £275m to £285m, with additional income from recently completed developments largely offset by lost income from properties sold last year.

Income from our developments contributed an additional £28m this year, principally at 1 New Street Square, EC4, 20 Eastbourne Terrace, W2 and Nova, Victoria, SW1. We also benefited from a full year's income at The Zig Zag Building, SW1, 1 & 2 New Ludgate, EC4 and 62 Buckingham Gate, SW1. The increase in the like-for-like portfolio of £4m reflects new lettings and settled rent reviews, partly offset by reduced income at Piccadilly Lights following the start of refurbishment. Overall, these increases are largely offset by a £21m reduction in net rental income from disposals since 1 April 2015, most notably Thomas More Square, E1, Times Square, EC4 and Haymarket House, SW1.

Outlook

In the current uncertain environment, investment demand is likely to be lower for all but the very best assets. In the occupational market, we expect net effective rental values to weaken but demand from dynamic businesses to continue for high quality, resilient space. We're well prepared for these conditions with a portfolio of assets designed to meet the needs of these customers.

We're ready to add to our portfolio when the time is right. Our team is tracking around £2bn of opportunities, building up our intelligence network ready for a future investment phase. In addition, we're preparing 1.4 million sq ft of future development opportunities for when conditions are right to proceed.

Net rental income[1] Table 26

	31 March 2017 £m	31 March 2016 £m	Change £m
Like-for-like investment properties	**203**	199	**4**
Proposed developments	**–**	–	**–**
Development programme	**16**	5	**11**
Completed developments	**62**	45	**17**
Acquisitions since 1 April 2015	**2**	1	**1**
Sales since 1 April 2015	**–**	21	**(21)**
Non-property related income	**2**	4	**(2)**
Net rental income	**285**	275	**10**

1. On a proportionate basis.

Retail Portfolio review

Our results

0.8%[1]
Valuation deficit

4.7%
Ungeared total property return outperformed its IPD Quarterly Universe sector benchmark at 1.1%

£15m
Investment lettings

£4m
Development lettings

2.8%
Like-for-like voids (31 March 2016: 2.0%)

0.4%
Units in administration: (31 March 2016: 0.5%)

1. On a proportionate basis.

Actions and outcomes

Focus for 2016/17	Progress in 2016/17
— Outperform IPD sector benchmark	— The total return of the Retail Portfolio was 4.7% outperforming its IPD sector benchmark at 1.1%
— Progress lettings at Westgate Oxford; Selly Oak, Birmingham; and the White Rose, Leeds leisure extension	— Westgate Oxford 68% pre-let; Selly Oak 73% pre-let; and White Rose leisure extension 100% let
— Resolution to grant planning consent at Worcester Woods	— Planning consent at Worcester Woods rejected
— Achieve planning consent and progress lettings for Glow space at Bluewater, Kent	— Planning consent for Glow space at Bluewater achieved. Space 69% pre-let
— Progress to time and budget at our committed developments	— Westgate Oxford on time and budget
— Expand the Community Employment Programme to other retail sites	— Expanded the Community Employment Programme to St David's, Cardiff; White Rose; and Gunwharf Quays, Portsmouth and secured employment for 49 candidates

Focus for 2017/18

— Outperforming IPD sector benchmark

— Growing like-for-like net rental income

— Progressing lettings at Westgate Oxford; Selly Oak, Birmingham; and the Plaza reconfiguration at Bluewater

— Progressing the Plaza reconfiguration at Bluewater to time and budget

— Successfully launching Westgate Oxford after achieving practical completion on time and on budget

— Integrating the three newly acquired outlet centres

— Further developing the Community Employment Programme beyond its current focus on construction with 75 people being supported into jobs in retail

— Improving energy management in support of 2030 corporate commitments

"It's been a productive year in our Retail business. In a challenging retail and economic environment, we've delivered a good set of results."

—

Scott Parsons
Managing Director, Retail Portfolio

We went into the year with a portfolio well matched to the evolving needs and expectations of our customers.

Despite uncertainty in the wider market, retail destinations that provide consumers with a great experience held up well.

Retailers' and consumers' use of online retailing continues to influence demand for physical space, and inflation is now putting pressure on consumer spending. However, we've continued to see good demand for the best space in the right locations.

Buy

Our acquisitions during the year were limited to a small number of properties adjacent to space we own. Since the year end, we've acquired a portfolio of three outlet centres for £333m, which, alongside our existing outlet centres at Gunwharf Quays, Portsmouth, and The Galleria, Hatfield, establishes our position as the leading owner-manager of outlets in the UK.

Develop

Our Westgate Oxford development with The Crown Estate is on time and on budget for opening in October 2017. We've made good progress on lettings with 80% of the scheme now pre-let or in solicitors' hands. The latest brands to sign up include Uniqlo, Cath Kidston, Levis and Molton Brown. We've also invested to ensure the sustainability of the development, including extending our Community Employment Programme so local disadvantaged people will continue to benefit from job opportunities after the centre opens.

At Selly Oak, Birmingham, 91% of the retail is either pre-let or in solicitors' hands, demonstrating occupier support for this potential retail and student housing scheme.

Manage

This year we've secured £15m of investment lettings. Our like-for-like portfolio is virtually full, with voids of just 2.8% and a weighted average lease term of 8.2 years. We have strong relationships with vibrant customers, from groundbreaking start-ups to global brands.

Trinity Leeds continues to be the beating heart of the city and we've brought new brands to the centre including Lindt, Côte Brasserie and Indian street food operator Mowgli. We're also creating an upsized unit for New Look and expanding the centre's vibrant leisure offer with two new operators.

At White Rose, Leeds, the demise of BHS enabled us to deliver a 55,000 sq ft Next store, doubling its previous space. We also upsized space for JD Sports, Pandora, Schuh and Holland & Barrett. Construction of our leisure extension is now complete and fully let, with the six new restaurants and IMAX cinema units being fitted out to open later this year.

At Gunwharf Quays, Portsmouth, we introduced Armani and Coach to build on the centre's strong aspirational offer. We also opened one of the first Under Armour 'athleisure' outlet stores in the UK.

At Bluewater, Kent, we delivered a 40,000 sq ft flagship for H&M, who had outgrown their existing unit. We've continued to broaden the wide range of retail brands on offer, with eight new openings including Mint Velvet and Michael Kors, and upgraded stores for LK Bennett and Jigsaw. Online retailer Missguided also committed to Bluewater. We started construction of the Plaza leisure reconfiguration this year and expect to complete by December. The project enables us to bring new leisure operators to Bluewater and the scheme is 80% pre-let or in solicitors' hands, with Showcase taking a lease for a four screen extension. We've also continued to invest in the Learning Shop, which connects retailers and local unemployed people.

Throughout the year, we developed new relationships and ideas to keep the customer experience fresh and exciting. For example, we attracted on trend operators out of central London and into regional locations, including Dirty Bones and Sticks'n'Sushi at Westgate. We brought Mercedes into St David's, Cardiff, and Buchanan Galleries, Glasgow. Cycle brand Ribble's pop-up at St David's was so successful they're looking at more sites. In total, we brought 150 pop-up stores and kiosk operators into our assets this year.

Our retail parks are well matched to customers' needs and remain 100% let. Our leisure parks are 99% let and are all anchored by the dominant cinema for their catchment, providing a broad, family-friendly entertainment and food offer.

Sell

Disposals totalled £219m during the year. We sold the Ealing Filmworks development site to a residential developer, crystallising an element of the development profit up front, without risk. As we continue our focus on family-orientated leisure assets, we sold our two drinks-led city centre leisure schemes, The Printworks, Manchester, and The Cornerhouse, Nottingham. And since the year end, we've sold our 50% interest in Clapham Shopstop, SW11 to our former joint venture partner.

In February 2016, Accor exercised its right to break the leases on seven of their 29 hotels. All seven hotels have since been sold at a premium to their investment values and the remaining Accor leases, where breaks weren't exercised, now extend to 2031.

Net rental income

Net rental income reduced by £14m from £329m to £315m. This was largely due to disposals since 1 April 2015. These include The Cornerhouse, Nottingham and The Printworks, Manchester both sold in the current year and retail parks in Gateshead, Dundee and Derby, a leisure park in Maidstone and a supermarket in Crawley, all sold in the second half of last year. The increase in our like-for-like portfolio of £6m is due to a combination of new lettings, improved turnover performance and a reduction in bad debt provisions compared to last year.

Outlook

Current uncertainty and rising costs will continue to affect consumer confidence and retailers' readiness to invest and expand. As a result, we expect letting activity to larger occupiers of retail space and leisure operators to slow in the year ahead. However, we believe that the best physical stores will play a critical role for retailers, not least in enabling them to create memorable brand experiences and to engage with their customers. Internet sales provide competition to physical space, but we're also seeing opportunities to help brands develop their multi-channel offer. We'll remain alert to buying opportunities over the next 12 months, but our focus will be on enhancing the space and offer at our most successful destinations, launching Westgate Oxford in October and successfully integrating the three new outlet centres into the portfolio.

Key indicators

↓1.6%
Footfall in our shopping centres was down 1.6% (national benchmark down 2.5%)

↑1.7%
Same centre non-food retail sales, taking into account new lettings and occupier changes, were up 1.7% (national benchmark for same centre physical store non-food retail sales down 1.9%; national benchmark for all retail sales, including online, up 0.3%)

↓1.1%
Same store non-food retail sales were down 1.1% (national benchmark for same store physical store non-food retail sales down 2.2%)

10.3%
Retailers' rent to sales ratio in our portfolio was 10.3%, with total occupancy costs (including rent, rates, service charges and insurance) representing 17.6% of sales

Net rental income[1] Table 27

	31 March 2017 £m	31 March 2016 £m	**Change £m**
Like-for-like investment properties	**295**	289	**6**
Proposed developments	**–**	–	**–**
Development programme	**–**	1	**(1)**
Completed developments	**–**	–	**–**
Acquisitions since 1 April 2015	**2**	1	**1**
Sales since 1 April 2015	**9**	28	**(19)**
Non-property related income	**9**	10	**(1)**
Net rental income	**315**	329	**(14)**

1. On a proportionate basis.

Going Concern

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 2017.

Viability Statement

The Directors have assessed the viability of the Group over a five year period to March 2022, taking account of the Group's current position and the potential impact of our principal risks.

The Directors have determined five years to be the most appropriate period for the viability assessment as it 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. Our 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 financial planning process considers the Group's profitability, capital values, gearing, cash flows and other key financial metrics over the plan 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 structural changes to the business in light of varying economic conditions, such as significant additional sales and acquisitions or refinancing.

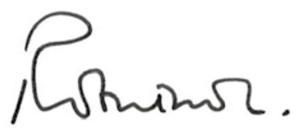
The Directors consider the key principal risks that could impact the viability of the Group to be 'Customers', Market cyclicality', 'Development', 'Liability structure' and 'Financing'. We have considered the potential impact of these on the Group's ability to remain in operation and meet its liabilities as they fall due through a 'viability scenario'.

The viability scenario assesses the impact of considerably worse macro-economic conditions than are currently expected. In London, it is assumed that rental values are impacted by an excess of available space in the market, while, in Retail, inflationary pressure on consumer spending, together with a faster migration to on-line sales, maintain downward pressure on rental values. In London, rental values are assumed to fall for three financial years before starting to recover in the final two years of the plan. In Retail, rental values are assumed to fall for the next four financial years, and only start to recover slowly in the final year. Where voids occur, these are expected to take longer to fill across the portfolio. The fall in rental values, together with an outward movement on yields, results in lower rental income and a significant fall in capital values over the next two financial years. In this viability scenario, we assume that any uncommitted forecast acquisitions, disposals or developments do not take place. Similarly, we assume no uncommitted debt refinancing takes place, and no new debt or bank facilities are raised.

We have assessed the impact of these assumptions on the Group's key financial metrics over the period, including profitability, net debt, loan-to-value ratios and available financial headroom. The scenario represents a significant contraction in the size of the business over the five year period considered, with net asset value falling by around 35% at the lowest point. However, our assessment is that such a scenario would not threaten the viability of the Group. The Group would be required to renew a minimum of £1bn of its debt facilities at the end of the period considered, but the Directors consider this would be possible considering the Group's expected loan-to-value ratio, and the range of alternative financing options if bank facilities were not available.

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 2022.

This Strategic Report was approved by the Board of Directors on 17 May 2017 and signed on its behalf by:



Robert Noel
Chief Executive

Governance

Contents

Letter from the Chairman

Highlights

- More time allocated to risk in an unpredictable year
- Nicholas Cadbury joined the Board
- Strong supportive relationships with shareholders and stakeholders
- Sector leadership in Health, Safety and Security.

Dear Shareholder,

Overview

During the year, Landsec continued to deliver against its business objectives. Our retail assets focus on thriving shopping destinations and our teams work in partnership with our occupiers to deliver a great experience to our consumers. Our London assets are prime and our regeneration in Victoria has been hugely successful. Landsec is in a strong financial position, with historically low levels of financial and operational gearing and a portfolio of first class, enduring assets.

Board priorities

Given the political events we are witnessing, the Board has spent considerable time assessing the possible effects on the property market of various economic outcomes flowing from decisions which might be taken. We continue to believe in the sustainability of our business model and the deliverability of superior relative returns. Our revenue profit is up 5.5% and we are confident in the underlying strength and prospects for the Group. Consequently, we are recommending a 10.1% increase in the full year dividend.

We expect a continuation of a wide range of technological innovations in the near future and we are discussing the speed at which they will affect the way we work and the requirements for our business and our customers' businesses. Examples of anticipated change range from different construction techniques and materials, more sophisticated building management systems, greater use of pre-fabrication, the use of customer data and

the seamless digital environment which envelops us today. The diverse experience of our Directors has informed and expanded our debates on these matters.

The Board recognises and, by its own example, promotes the importance of a strong culture within the organisation and the benefits which such a culture brings to the Company and its employees. Our recent office move puts our people at the centre of our business by providing a modern workplace with a cross-functional and collaborative atmosphere. I believe we will be a more efficient and effective business as a result of this move. Furthermore, during the year, Rob and his executive team focused on refreshing the Company's brand to ensure that it reflects the values of our people and the aspirations of our customers.

We continue to embrace the benefits of workforce diversity and the need to prioritise the growth of leadership and development skills within our teams. Women represent 30% of the Board and 36% of the Senior Management (including the Executive Committee) but we still have work to do on embracing ethnic minorities and disabled people. The Board allocates significant time on its agenda to succession planning and talent development. In all these ways, Landsec is and will be better placed to address the pace of change.

Shareholders and stakeholders

We are proud of the strength of our investor relations programme and during the year I was pleased to meet shareholders representing a significant percentage of our register in the UK and the Netherlands to discuss the business and its strategy and answer Board composition and succession planning questions. The meetings were timely with most being held the week following the Brexit vote. We are grateful for the time that shareholders set aside for these meetings and their feedback is always welcome. There were other occasions, at Investor Days and results presentations, at which shareholders could meet me and our Non-executive Directors.

We have recently completed a detailed third party feedback survey of our shareholders and were reassured by the positive results. In particular, our Senior Management and execution capabilities are highly valued. Shareholders contributed widely to the survey and provided some constructive suggestions which we are including in our Board agendas and discussions to the extent that they were not already part of our normal business. Shareholder engagement remains a high priority for me and the management team.

We appreciate the impact which a company like Landsec can have on a wider group of stakeholders. This is reinforced by our vision to be the best in the eyes of our customers, communities, employees and partners, but it goes beyond that. The expectations being placed on companies, and the ways in which they are being judged, are changing rapidly. The Board debates these issues when considering specific investments and more broadly when looking at future opportunities and the role that Landsec can play in a wider sense. You will see in other parts of this Annual Report examples of how this is put into practice throughout the business. In our separate Sustainability Report you will see how we are building the business for the future so that we leave a strong legacy for those following us. As part of our contribution to the wider issues of governance currently under consideration, we responded to the Government's Corporate Governance Green Paper and await the outcome of that review and other governance initiatives.

Health, safety and security

The health, safety and security of our customers, employees, contractors and visitors remains a top priority for us. We work closely with our partners and maintain a safety record that is well ahead of industry benchmarks. Our leadership position over the last year on mental health in the construction industry saw us recognised with the visit in December to our Nova site in Victoria by the Minister of State for Disabled People, Health and Work. Reflecting the ever-changing threats, we remain vigilant on matters of both physical and cyber security.

Board changes and effectiveness

I am delighted to welcome Nicholas Cadbury to our Board. Nicholas joined on 1 January and brings a wealth of commercial experience that will inform our Board discussions. As I said in my letter to you last year, Kevin O'Byrne will be retiring from the Board later this year and, when he does, Nicholas will take over as Chairman of the Audit Committee having had the benefit of Kevin's oversight of this year's results. I would like to convey my special thanks to Kevin for his nine years on the Board and his leadership of the Audit Committee.

We conducted an internal evaluation of our Board's effectiveness during the year. The process followed and outcome of this review and its results are set out on page 66.

Looking ahead

At Landsec, we are fortunate to have a Board and Senior Management who are very experienced and exceptionally well qualified. We are engaged with providing shareholders with attractive returns whilst giving customers a top-class property experience. All our employees work hard and share our enthusiasm for the business and I thank them for their commitment.

Dame Alison Carnwath
Chairman

Nicholas Cadbury joins Landsec

I was delighted to be appointed to Landsec's Board and have been impressed by the deep knowledge throughout the Company. My induction programme has enabled me to understand the business quickly, to get to know my fellow Directors, Senior Management and key advisers right from the outset and to get a good understanding of the opportunities ahead."

—

Nicholas Cadbury
Non-executive Director

Board of Directors

Executive Directors

1. 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.

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 a director of the European Public Real Estate Association (EPRA). On 5 July 2016, he was appointed a Director of the British Property Federation. He is also a trustee of the Natural History Museum.

Skills, competencies and experience
Robert has over 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 & Security, Investment and Sustainability Committees. He attends the Audit, Remuneration and Nomination Committees at the invitation of the Committee Chairmen.

2. Martin Greenslade
Chief Financial Officer

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

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

3. 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.

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.

4. Edward Bonham Carter
Senior Independent Director*

Edward joined the Board as a Non-executive Director in January 2014. He was appointed Senior Independent Director on 21 July 2016.

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 trustee 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 and, from 29 September 2016, a member of the Nomination Committee.

5. Kevin O'Byrne
Non-executive Director*

Kevin was appointed to the Board as a Non-executive Director in April 2008 and held the position of Senior Independent Director from April 2012 to 21 July 2016.

Career Kevin is a chartered accountant who trained with Arthur Andersen. He was appointed Chief Financial Officer of J Sainsbury PLC on 9 January 2017, joining them from Poundland Group PLC where he had been Chief Executive Officer from 1 July 2016 until 31 December 2016. Formerly, he was Group Finance Director of Kingfisher plc from 2008 to 2012 following which he became CEO of its B&Q and Koçtas 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 his 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.

6. Chris Bartram
Non-executive Director*

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

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 continued to act as an adviser to that firm until 31 March 2017. 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 Audit and Nomination Committees.

7. Stacey Rauch
Non-executive Director*

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

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 has served as Chairman of the Board of Fiesta Restaurant Group Inc (a NASDAQ listed company) since February 2017 and as a non-executive director since 2012. Former positions include non-executive director of CEB Inc (a NYSE listed member-based advisory company), ANN Inc (a NYSE listed woman's specialty apparel retailer) and Tops Holding Corporation.

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 and, from 1 April 2017, a member of the Nomination Committee.

8. Simon Palley
Non-executive Director*

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

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 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.

9. Cressida Hogg CBE
Non-executive Director*

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

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 Remuneration Committee.

10. Nicholas Cadbury
Non-executive Director*

Nicholas joined the Board as a Non-executive Director on 1 January 2017.

Career Nicholas is Group Finance Director of Whitbread PLC, a position he has held since November 2012.

Before that, he held the position of Chief Financial Officer of Premier Farnell PLC, which he joined in 2011, and prior to that he worked at Dixons Retail PLC in a variety of management roles, including as Chief Financial Officer from 2008 to 2011. Nicholas originally qualified as an accountant with Price Waterhouse.

Skills, competencies and experience
Nicholas brings wide-ranging and international financial and general management experience to the Group gained from working in consumer facing businesses, particularly in the retail, leisure and hospitality sectors. He also has extensive commercial and operational knowledge and skills in relation to strategy and IT development.

Committees A member of the Audit Committee. He will become Chairman of that Committee, in succession to Kevin O'Byrne, at a date to be confirmed in 2017.

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

Executive Committee

1. Robert Noel
Chief Executive

Full biography on page 58

2. Martin Greenslade
Chief Financial Officer

Full biography on page 58

3. Colette O'Shea
Managing Director, London Portfolio

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

Career Colette has over 20 years' property experience in London, operating in investment, asset management and development. Prior to joining Landsec, 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 Landsec's £8.3bn London Portfolio comprising some 6.5 million sq ft of London offices, leisure, retail and residential property both in development and asset management. She has led the London business through its 2010 three million sq ft speculative development programme in the City and West End, including the transformation of Victoria.

Colette was appointed as a Business Board Member of the Mayor of London's London Local Enterprise Partnership for London (LEAP) in 2016.

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

4. Scott Parsons
Managing Director, Retail Portfolio

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

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

Responsibilities In his current role, Scott has responsibility for Landsec's £6.1bn Retail Portfolio of shopping centres, retail parks and leisure properties throughout the UK comprising some 16.7 million sq ft of accommodation. Previously, as Head of Property for Landsec's London Portfolio, he led the investment, asset and property management teams for the Group's office and retail space in central London.

Scott was previously 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.

5. Diana Breeze
Group Human Resources Director

Diana joined Landsec in June 2013 as Group Human Resources Director.

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 Landsec, including talent, reward, organisational design and engagement. Since joining the Company, Diana has focused upon the key areas of talent and leadership, and has implemented a number of initiatives to evolve the culture of the business.

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.

6. Miles Webber
Director of Corporate Affairs and Sustainability

Miles joined Landsec in May 2015 as Director of Corporate Affairs and Sustainability.

Career Before joining Landsec, 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).

Miles 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.

7. Tim Ashby
Group General Counsel and Company Secretary

Tim joined Landsec in September 2015 as Group General Counsel and Company Secretary.

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 Landsec 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 (including its customers, communities, employees and partners), it provides leadership and direction to the business as a whole. This includes establishing the culture, values and ethics of the organisation; setting strategy and overseeing its implementation ensuring only acceptable risks are taken; and responsibility for corporate governance and the overall financial performance of the Group.

More details on pages 62-63.

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 valuer 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 68-74.

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 76-91.

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. It monitors developments in corporate governance and advises the Board accordingly.

More details on pages 64-67.

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 sets the Vision for the Group and determines the strategy and culture of the Group in support of the Vision. It assists the Chief Executive and the Chief Financial Officer in preparing and agreeing 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, branding, resource allocation, succession planning, organisational development and employee remuneration.

Chief Executive
Responsible for leadership of the Group and articulation of the Group's Vision, together with developing and implementing strategy, managing the overall performance of the business and ensuring an effective and motivated leadership team is in place. He can approve transactions with a value between £10m and £20m. More details below.

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. From 1 April 2017, this Committee will be subsumed into the Investment Committee.

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 and operations, security governance, policy and procedures at all Group properties, performance against targets and progress towards goals.

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.landsec.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

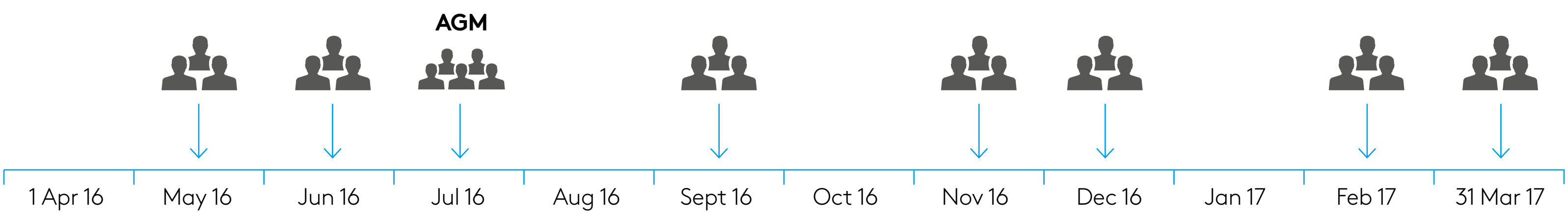
Table 28

The Board currently comprises a Non-executive Chairman (who was independent on appointment), two Executive Directors and seven 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	Edward Bonham Carter, Kevin O'Byrne, Chris Bartram, Simon Palley, Stacey Rauch, Cressida Hogg CBE and Nicholas Cadbury.	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	Edward Bonham Carter	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 29



Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
Dame Alison Carnwath	8/8		3/3	3/3
Robert Noel	8/8			
Martin Greenslade	6/8*			
Kevin O'Byrne	7/8	4/4	3/3	
Chris Bartram	8/8	4/4	3/3	
Simon Palley	8/8		3/3	3/3
Stacey Rauch	8/8	4/4		
Cressida Hogg CBE	8/8			3/3
Edward Bonham Carter	8/8		1/1***	3/3
Nicholas Cadbury	2/2**	1/1**		
Tim Ashby	8/8			

* Martin Greenslade attended an executive management course in Stanford, California in June and July 2016.
** Nicholas Cadbury joined the Board and the Audit Committee on 1 January 2017.
*** WEF 29 September 2016.

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

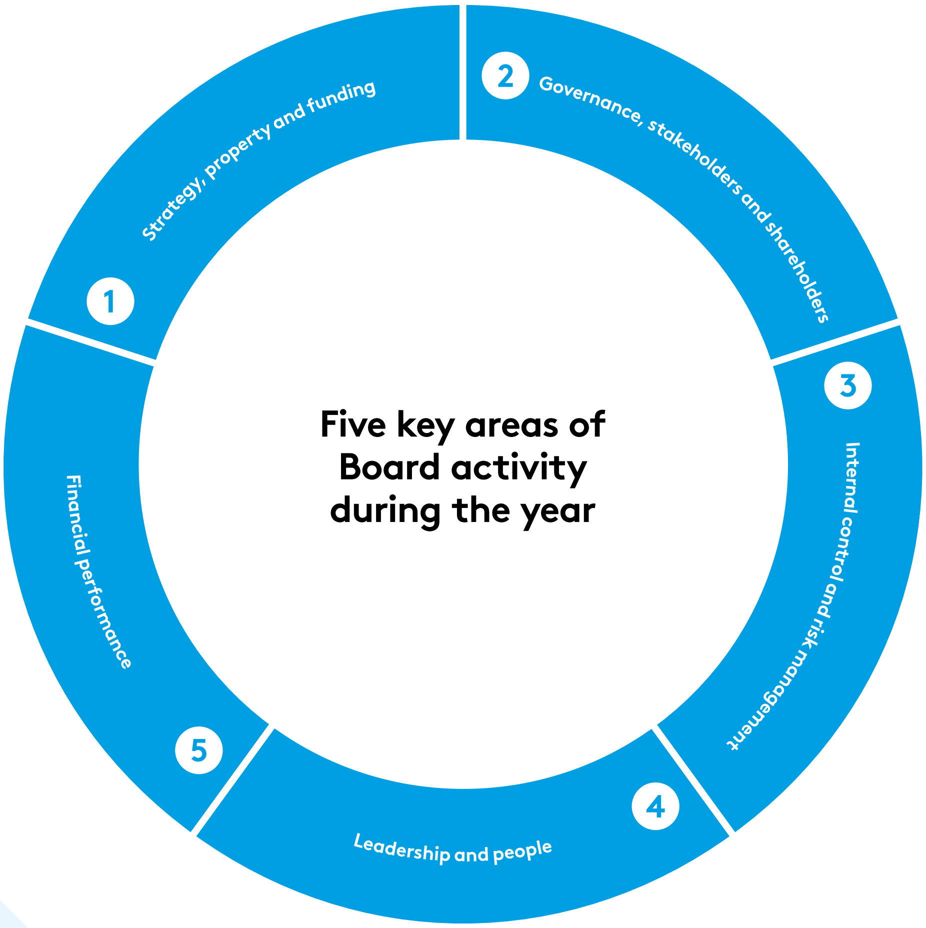
1. Strategy, property and funding
- Reviewed the Group's strategy, in particular an in-depth review of both the London and Retail businesses
- Debated the changing status of the property cycle, including the Company's position, risk profile and preparations for any business impact
- Considered Brexit and other political risks
- 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 acquired, completed or developed
- Considered portfolio liquidity analysis and development exposure
- Considered and approved acquisitions and disposals of properties with a value in excess of £150m
- Considered and approved the Group's Going Concern and Viability Statements, dividend policy, debt funding arrangement and gearing levels
- Considered and approved the bond funding strategy, including the bond tender and new issuance.

2. Governance, stakeholders and shareholders
- Discussed the outcome of the 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, safety and security updates
- Reviewed developments in corporate governance and received key legal and regulatory updates
- Reviewed the investor relations strategy and considered in depth the independent report carried out which followed a consultation with our institutional investors; regularly reviewed feedback from institutional shareholders, roadshows and other engagement activities
- Reviewed the new Landsec brand proposition
- Received regular meeting reports from the Chairman of the Audit, Remuneration and Nomination Committees
- Reviewed and approved no change to the annual fees for Non-executive Directors
- Considered the Market Abuse Regulations and approved an updated Securities Dealing Code
- Approved the Group's Slavery and Human Trafficking statement for publication on its website
- Considered and agreed to continue with Defined Benefit Pension scheme
- Agreed the closure of the American Depositary Receipt programme.

3. Internal control and risk management
- Reviewed the Group's risk register and the effectiveness of the systems of internal control and risk management
- Reviewed the risk framework and reporting structure
- Debated significant and emerging risks, including cyber security, terrorism, the loss of key people, uncertainty arising from the Brexit process and other political risks.

4. Leadership and people
- Discussed the composition of the Board and its Committees, including succession planning
- Agreed appointment of Edward Bonham Carter as new Senior Independent Director
- Considered and approved appointment of new Non-executive Director and Audit Committee Chairman
- Reviewed the development of people and potential talent in the Group, including succession planning for Senior Leaders.

5. Financial performance
- Considered the financial performance of the business and approved the annual budget, key performance targets and five year plan
- Reviewed the half-yearly and annual results and presentations to analysts and approved the Annual Report
- Considered the half-yearly 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

Committee members

Dame Alison Carnwath (Chairman)
Chris Bartram*
Simon Palley*
Stacey Rauch*
Edward Bonham Carter*

*Independent Non-executive Director

Highlights

— Successful and thorough appointment process to find Nicholas Cadbury
— Increased focus on changes to the governance landscape affecting the Company
— Thorough assessment of succession plans.

Key responsibilities

— Reviews the structure, size and composition of the Board and its Committees and makes recommendations to the Board accordingly
— Oversight responsibility for succession planning of the Board and Senior Management and leads the process for new Board appointments
— Monitors developments in corporate governance and advises the Board accordingly.

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

Governance

I can report that we complied in full with the principles of the 2014 UK Corporate Governance Code throughout the year. You will find more detail regarding our compliance, governance and effectiveness elsewhere in this report.

Board and Committee changes

Last year, I explained that Kevin O'Byrne, who joined our Board as a Non-executive Director in April 2008, would be standing down as Senior Independent Director in July 2016, and would retire from the Board in 2017. We started the external search to find Kevin's successor in early 2016, appointing Spencer Stuart (an independent search consultancy appointed following a tender process) to assist with the recruitment.

I am delighted to say that Edward Bonham Carter became the Company's Senior Independent Director in July 2016, and that the search for a new Non-executive Director was successful with Nicholas Cadbury joining our Board on 1 January 2017. Nicholas will succeed Kevin O'Byrne as Chairman of the Audit Committee later this year. We will issue an announcement in due course to confirm the date of Kevin's retirement.

Nicholas is CFO at Whitbread PLC and therefore has all the technical skills required to become Chairman of the Audit Committee. However, it was important to the Committee that any new Director could bring complementary non-financial skills and experience, and Nicholas' role at a consumer-facing business like Whitbread – and previously at companies such as Dixons – will be a true asset to our Board discussions. On behalf of the Committee, I extend my warm welcome to Nicholas as a member of the Board.

Also, Stacey Rauch joined the Nomination Committee on 1 April 2017 to broaden her perspective of and contribution to the Company.

Board composition and succession

We believe that the current composition of the Board and its Committees remains appropriate for the time being but this is kept under regular review.

The Committee supports the ongoing development of Directors. It agreed the scope of a comprehensive induction programme for Nicholas Cadbury that started when he joined the Board and was pleased to support the ongoing professional development of Martin Greenslade who attended a six-week world-class Executive Program at Stanford University, USA, last summer.

Board succession is a very live topic at Committee meetings. In particular, we discuss executive talent and leadership in the wider property industry. Our goal is to retain and recruit the best at Board and senior leadership levels. As a matter of prudence, we monitor a range of candidates who may be suitable replacements for existing Directors. We believe that Non-executive Directors should generally stay for nine years, with the appointment of new Directors providing an opportunity to add diverse perspectives and skills. However, it is important to ensure that the experience gained through one property cycle is available for the next, and that we have a mixture of real estate, financial, retail and general expertise to hand. As such, the Committee may determine occasionally that it is in the Company's best interests for a Non-executive Director with particular skills 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. Should this occur, we will explain the decision and the rationale to shareholders.

Finally, the Committee supports the Board in its work to secure the long-term health of the Company, and its strategy for success in a fast-changing world. This can only be achieved with the right people in the organisation, and the Committee has considered the likely business needs of the Company and its management capability – and succession plans – at executive and senior management level. We also recognise and support the extensive leadership development work that is being undertaken with all management levels within the Group.

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 Simon Palley as he has been in office for more than six years. The Committee was confident that Simon, and each of the other Non-executive Directors, remains independent and will be in a position to discharge their duties and responsibilities in the coming year. With the exception of Nicholas Cadbury whose appointment is being ratified for the first time, 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 Board performance evaluation concluded that the Nomination Committee operated very well. The Committee has decided to increase the number of meetings held during the year from two to four. Partly this is in response to the ongoing internal and external succession planning work, but also it is a response to the expected increase in the number and scope of governance changes.

You will find more information on these 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

Dame Alison Carnwath
Chairman

Effectiveness

Board evaluation 2016/17

Following the external evaluation of the Board and its Committees last year, this year's review of the Board's effectiveness was conducted internally and was led by the Chairman with the support of the Company Secretary. In accordance with the Board evaluation cycle, the evaluation this year focused on any issues raised in last year's externally facilitated review and any new issues arising from this year's process.

The first part of the evaluation required each Director to complete anonymously an online survey and questionnaire that focused on matters such as the Board's performance, the performance of each of its Committees, the nature and content of Board meetings and the relationship between the Non-executive and Executive Directors. The survey included open questions that encouraged Directors to provide comments or enabled them to raise any concerns. The output of this survey was collated and provided to each Director.

The Chairman then met separately with each Director and used the output of the survey and questionnaire, together with a tailored set of questions, to conduct a detailed interview. These meetings were helpful in that they allowed the Chairman to explore in more detail some of the themes arising from the questionnaire and to obtain supplementary comments and observations.

Mr Bonham Carter, as the Senior Independent Director, separately evaluated the performance of the Chairman having first collated points of view and questions from the other Directors and then discussing the outcome with her.

A final report and recommendations was prepared based on the collective comments from all the Directors and this was discussed by the Board. Separate reports were prepared for each of the Audit, Remuneration and Nomination Committees based on the feedback received, and in each case the conclusions were discussed by those Committees at their meetings in March 2017.

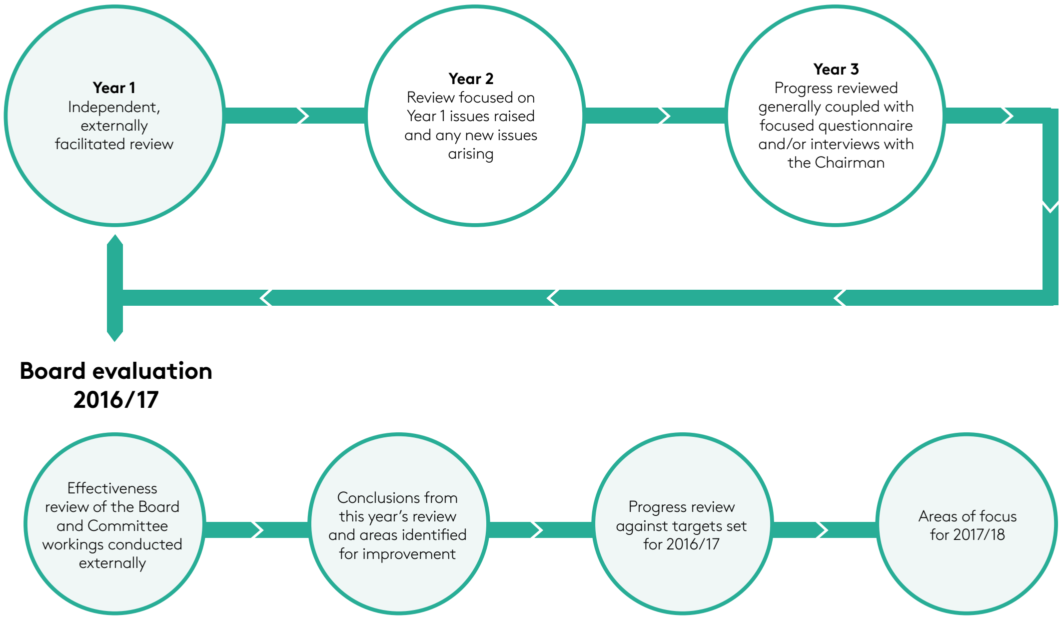
Conclusions from this year's review

The conclusion from this year's evaluation was that the Board and its Committees continue to operate to a high standard, and work well and effectively. The results overall ranged from positive to very positive, and there were no specific concerns raised by any of the Directors to the Chairman or anonymously through the online survey. Areas that were assessed as being particularly strong included the culture and relationships in the Boardroom, the Board's collective judgement and overall performance, Board information and the involvement of Directors in succession planning.

As with every high performing board, the Directors continue to look for areas of improvement. The Board will devote more time to engage in "blue sky" strategy discussion to supplement its existing programme (and to identify the enablers that will facilitate the execution of the strategy). The Board will ensure that its meeting agendas are forward looking in terms of the cycle and the business opportunities, and retain oversight over execution of the five year plan. Also, the Board will ensure that, at a time when the risk profile faced by businesses is changing rapidly, its assessment of risk remains dynamic (being revisited and adjusted as facts or scenarios change). Finally, regarding succession planning, the overall level of skills and expertise will remain a matter of priority, with particular importance attached to maintaining real estate expertise at Board level.

The Chairman will continue to lead the process of building on current strengths of the Board and innovating further to build on the points outlined above, with support from the Chief Executive and Company Secretary.

Board, Committee and Directors' performance evaluation cycle



Progress against targets set for 2016/17

In addition to considering the results of this year's externally facilitated evaluation, the Directors reviewed progress against the targets identified last year as set out in the table below:

Objective	Performance
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	This is being achieved, helped by the time allocated in meetings to assess some of the unexpected events during the year, and will continue this year. Examples include external advisers addressing the Board in June and July 2016 (shortly before, and immediately following, the EU referendum); further analysis of political and economic risk at the December Board meeting; and a Strategy Day agenda that was largely devoted to risks and challenges affecting (or which may affect) the business.
Time to be allocated to site visits, supported by ongoing professional development, in order to increase their level of business awareness and engagement	Site visits were arranged for Directors and Directors have attended results presentations and investor days.
Review the way the Board tracks progress on previously approved major projects and initiatives, using experience gained from past investment decisions	We held an in-depth review of each of the London and Retail operating businesses, assessing past decisions, current performance and future strategy.

Areas of focus for 2017/18

- **Strategy** – Board meetings to allocate sufficient time to both medium and longer-term strategic discussion
- **Innovation** – appreciate the impact of rapid technological development on us and our customers
- **Risk** – further develop the approach to risk, especially in the context of the wider economic and political framework in which we will be operating
- **Culture and people** – provide oversight and support to management as Landsec introduces its new brand framework.

Board environment and access to appropriate information

The Board environment and its culture of transparency and openness was again rated favourably in this year's effectiveness review. In addition to the Board meetings, and the private sessions scheduled at each Board meeting held by the Chairman and the Non-executive Directors, there are other opportunities arranged during the year when Directors meet and at which relevant items can be 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 and was used when Mr Cadbury joined the Board during the year. The priorities of the induction were to provide Nicholas Cadbury with an understanding of the Group's history, culture, business, strategy and financial position. This included early meetings with the Chairman and the Executive Directors, together with other Non-executive Directors and Senior Management. There were also meetings with external advisers to the Audit Committee, of which Mr Cadbury will become Chairman later in 2017.

Professional development, support and training for Directors

The Board held several specific knowledge development sessions during the year, on such matters as Brexit and other political and economic risk factors that may affect the business or the wider property market in the UK.

Directors continued to 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 enable a deeper insight into the operations of the business and provide Directors with the opportunity to meet with senior and local management teams.

Board strategy

The Board considers strategy throughout the year, encompassing topics such as funding and capital allocation, competition and emerging sectors. Additionally, the Board held its regular two-day strategy meeting in February that enabled it to explore and debate in detail a wide range of items such as:

— the rapidly developing technology that may affect the business and its customers

— possible longer-term threats and challenges to the commercial property market

— geopolitical and macro-economic trends.

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.

Landsec continues to make good progress in terms of greater diversity. The addition of Mr Cadbury to the Board has meant that the percentage of women on the Board has reduced to 30% (from 33% last year). However, this will reverse later in 2017 when Kevin O'Byrne retires and we will again be meeting the voluntary targets set by the Hampton-Alexander review for women on the Board of FTSE 350 companies. Further, we are pleased to report that 36% of Senior Management in Landsec (comprising the Executive Committee and Senior Leaders) are women, again in line with this voluntary target identified in the Hampton-Alexander review.

Our mentoring programme, introduced last year specifically to assist women at all levels to reach their full potential within the Company, continues to operate well.

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. Landsec has set specific objectives to be achieved by 2020, including improvements in the engagement scores of its Black, Asian and Minority Ethnic and LGBT employees, and these objectives are supported by the Board.

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 below.

Potential conflicts of interest Table 31

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) until 31 March 2017 which is, in some areas of operation, a competitor of the Group.	The Committee did not see any potential conflict of interest situations arising from Mr. Bartram's advisory role at OSIM.
Kevin O'Byrne	Chief Executive of Poundland Group PLC and Chief Financial Officer of J Sainsbury PLC, both of which lease a number of retail properties from the Company around the country.	As 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. Mr O'Byrne resigned his position at Poundland on 30 December 2016 and took up his position at J Sainsbury on 9 January 2017.
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. 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. 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.
Nicholas Cadbury	Group Finance Director of Whitbread PLC which, through its Costa Coffee operations, leases a number of retail properties from the Company around the country.	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 Cadbury and his employer were unlikely to occur. Nicholas Cadbury was appointed a Non-executive Director of the Board on 1 January 2017.

Letter from the Chairman of the Audit Committee

Committee members

Kevin O'Byrne (Chairman)*

Stacey Rauch*

Chris Bartram*

Nicholas Cadbury*

*Independent Non-executive Director

Highlights

— Reviewed changing risk factors and reporting matrix

— Assessment of skills and competencies of internal audit

— Quality and appropriateness of property valuation process.

Key responsibilities

— Monitors the integrity of the Group's reporting process and financial management

— Ensures that risks are carefully identified and assessed, and that sound systems of risk management and internal control are in place

— Scrutinises the full and half-yearly financial statements

— Reviews in detail the work of the external auditor and valuer and any significant financial judgement made by management

— Reviews the risk management framework.

Dear Shareholder,

I am pleased to report on the key activities and focus of the Audit Committee during the year. This will be my last report to you as Chairman of the Committee as I intend to step down later this year after nine years on the Board. Nicholas Cadbury, who joined the Board in January, will take over as the Chairman of the Committee.

The Committee monitors the integrity of the Group's reporting process and financial management. It ensures that risks are carefully identified and assessed, and that sound systems of risk management and internal control are in place. It scrutinises the full and half-yearly financial statements before proposing them to the Board for approval, and reviews in detail the work of the external auditor and valuer and any significant financial judgement made by management. The Committee reviews the risk management framework and reports to the Board on matters of existing and emerging risk affecting the Group. The Committee receives detailed reports from management, supplemented by other conversations and meetings as appropriate during the year.

Acquisitions and disposals

The Company made a number of property acquisitions and disposals during the year as it continued to execute its strategy. The Committee ensured that the accounting treatment of all transactions was scrutinised and appropriate.

Changing risk landscape

The risk landscape has evolved during the year. We reviewed changes at a macro-economic and political level and a range of other risks affecting the business including cyber security and rapid technological change. Also, we considered other factors such as the market cycle, the Brexit negotiation process, and property and consumer trends that are relevant to our business planning in the medium to long term.

The Group's Executive Committee regularly reviews the risk register and this is used by the Committee as the basis of its risk assessment. During the year, we refreshed the risk reporting matrix within the business to provide more scope for emerging threats to be identified before they are considered as potential risks affecting the business. We have also revised the way that risks are reported to the Board with more regular updates through the Chief Financial Officer's Board report.

Internal audit

The Company maintains its own risk management and internal audit function. The Committee again reviewed the scope, skills and competencies of this function, and the level of resource available to it. We decided that the knowledge, skills and resources of our internal audit team, and their understanding of the business, were appropriate. However, there are occasions when we require and benefit from the expertise that can be offered by specialist external advice and, accordingly, the Committee considered when such advice was appropriate. We believe that the combination of internal and external advisers provides us with the best insight into areas of risk and appropriate controls, and allows us to provide assurance to the Board that the system of internal processes is robust.

External valuations and valuer

CBRE was appointed in 2015 to act as the Group's valuer following a tender process. We are pleased with the level of support provided by CBRE, the rigorous process that they apply to their work and their broad industry expertise and knowledge.

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 continue to operate at a high standard. We have agreed a new fee basis for EY's services for this year and through to 2018/19, details of which are contained on page 71 in the Accountability section. Based on the Committee's recommendation, the Board is proposing that EY be reappointed to office at this year's AGM.

AQRT

During the year, an Audit Quality Review Team (AQRT) from the FRC undertook an inspection of EY's audit of the Group's financial statements for the year ended 31 March 2016. As part of that process I spoke with the AQRT to share my (and the Audit Committee's) perspectives on the quality of EY's audit and its delivery on commitments made by the audit firm as part of the audit tender process. On completion of the review, the Audit Committee received and considered the AQRT's final report on its inspection and discussed it with Eamonn McGrath, the audit partner at EY. The report does not give the Committee any concerns over the quality, objectivity or independence of the audit.

Fair, balanced and understandable

The Committee assessed and recommended to the Board that, taken as a whole, the Company's 2017 Annual Report is fair, balanced and understandable.

Viability Statement

The Viability Statement, together with the rationale behind the chosen five year time horizon, is set out on page 54. The Committee considered whether there should be any change to the period chosen for the Statement, particularly in the context of any implications resulting from the UK's decision to leave the EU, but was of the opinion that five years remained appropriate.

UK Corporate Governance Code/FRC Guidance on Audit Committees

The Committee considered its compliance with the 2014 UK Corporate Governance Code and the FRC Guidance on Audit Committees. We believe that we have addressed both the spirit and the requirements of both; this conclusion is supported by our external auditor.

Kevin O'Byrne
Chairman, Audit Committee

Committee effectiveness

During the year, the Board carried out an internally facilitated evaluation of its performance and that of its Committees. This evaluation confirmed that the Committee continued to operate at a high standard, with clear priorities, well-defined responsibilities and clarity around its workplan.

The year ahead

I have referred already to the rapidly changing environment in which the Company operates, with important political and economic changes to follow from the decision to leave the EU. The increasing pace of technological change is both a threat and opportunity that we assess on a regular basis. The Committee will continue to work with management, and provide clear reports to the Board, to ensure that it addresses these issues in a way that is consistent with the Company's culture and values.

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

Audit Committee – new Chairman

As I mentioned earlier, this is my last year as Chairman of the Audit Committee. I have thoroughly enjoyed my time at Landsec, and would like to thank the Chairman, my fellow Directors and the Company's management, external advisers and shareholders for the support that I have received throughout my tenure.

A rigorous process was followed by the Nomination Committee in appointing my successor, Nicholas Cadbury. Nicholas will be replacing me later this year as Chairman of this Committee. As the CFO of Whitbread PLC, a highly-regarded customer-facing company in the FTSE 100 with an extensive property portfolio, Nicholas has the knowledge and technical skills (and recent and relevant financial experience) to lead this Committee. Nicholas will have the benefit of having been a member of the Audit Committee through the year-end process and, supported by his induction programme, I am confident this continuity will ensure a smooth transition.

I hope that you find this review, and the report that follows, a helpful explanation of the work of the Committee during the year.

Kevin O'Byrne
Chairman, Audit Committee

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 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.

The Company Chairman and all Non-executive Directors are invited to attend meetings when the Group's external valuer, CBRE, makes property valuation presentations.

The Committee has private sessions with the internal and external audit teams. In addition, the Committee Chairman has private and informal sessions with the audit teams and the valuer to ensure that open lines of communication exist in case they wish to raise any concerns outside of formal meetings. Nicholas Cadbury has participated in these meeting following his appointment as a Director in January 2017.

The Committee members collectively have a broad range of financial, commercial and property sector expertise that enables them to provide oversight of both financial and risk matters, and to advise the Board accordingly. Kevin O'Byrne and Nicholas Cadbury are the members determined by the Board as having recent and relevant financial experience for the purposes of satisfying the UK Corporate Governance 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.

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 which produce the information contained in the financial statements, and a review by EY of the asset valuation process and methodology using its own chartered surveyors (more details below), in each case to the extent necessary to express an audit opinion.

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, appropriateness and integrity 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

— the fair, balanced and understandable assessment of the Annual Report (and any other financial statements such as the 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 and resourcing requirements

— the independence, appropriateness and effectiveness of internal audit.

External property valuation

— the quality and appropriateness of the half-yearly and full year external valuation of the Group's property portfolio, together with an assessment of the methodology applied

— the independence and effectiveness of the external valuer.

Other

— the Committee's terms of reference and 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 72 and 74.

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 again 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.

During the year, an Audit Quality Review Team (AQRT) from the FRC undertook an inspection of EY's audit of the Group's financial statements for the year ended 31 March 2016. The report did not give the Committee any concerns over the quality, objectivity or independence of the audit.

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 standard. 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 ensure that their work remained aligned to the Group's structure and strategy. 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
- the outcome of the independent AQRT review 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 the 2023/24 financial year. However, the Committee proposes to review the situation at the same time as the current audit engagement partner, Eamonn McGrath, is due to rotate. Mr McGrath has held the role of the Company's audit engagement partner for four years and will relinquish this position during the 2018/19 financial year and following completion of the 2017/18 financial statements. 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.

Audit fee

The Committee reviewed the level of fees payable to EY for audit services as the terms agreed for the original engagement had expired. It was agreed that the audit fees payable to EY for the audit and half year review for 2016/17 would be £800,000 (up from £793,000 in 2015/16), with an increase of £25,000 in each of the two following financial years subject to business and audit requirements remaining consistent year on 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 including the prior approvals required for non-audit services which are as follows:

Table 32

	Per assignment £	Aggregate during the year £
CFO	0 – 25,000	<100,000
Audit Committee Chairman	25,000 – 100,000	100,000 – 290,000
Committee	>100,000	>290,000

Details of the fees charged by EY during the year can be found in note 8 to the financial statements. Total fees for non-audit services, including the half year review and other assurance related services, amounted to £248,000. This sum represented 42% of the total Group audit fees, and 34% of the total audit fees payable by the Group to EY during the year (including the audit of its joint ventures). 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. The Group provides input, such as source data, and support to the valuation process. CBRE have been the Company's principal valuer since September 2015. The valuation helps to determine a significant part of the Group's net asset value, reported performance and Senior Management remuneration. Accordingly, 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 presented to the Committee by CBRE. These 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 and Nicholas Cadbury 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 valuer's 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, EY identified 36 properties (comprising 69% of the portfolio by valuation) for substantive review by its valuation experts primarily on the basis of their value, type, risk profile and location. EY performed site visits for a sample of assets and completed analytical 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 results are finalised (and annually thereafter) with the results reported on the following year.

A fixed-fee arrangement (subject to adjustment for acquisitions and disposals) 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 9 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 33 on page 74.

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 Viability Statement, the Going Concern basis on which the financial statements are prepared, accounting for property acquisitions and disposals, bond buy-back and new issue, 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 42-45. 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.

During the year, the Committee commissioned an external report to be carried out on the Company's risk management framework and the approach to risk. No major weaknesses were identified but a number of recommendations were suggested and considered by the Committee. These will be implemented in the coming year.

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 on time

— 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 (which is supplemented by external specialist resource as necessary) and the relevant process, controls and testing work undertaken by EY as part of their half-yearly 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 2017 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. The policy and facilities have been 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 33

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) 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. 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 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. The Group uses CBRE, a leading firm in the UK property market, as its principal valuer. It also includes EY as the external auditor which is assisted by its own specialist team of chartered surveyors who are familiar with the valuation approach and the UK property market. 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 its valuations. CBRE submits its valuation report to the Committee as part of the half-yearly and full year results process. They were asked to attend and present their report to the Board and to highlight any significant judgements made or disagreements which existed between themselves and management. There were none.	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. 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 Certain transactions require management to make judgements as to whether and to what extent they should be recognised as revenue in the year. 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.	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. 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. It performed data analytics over the whole population of leases in the Group's portfolio, analysing data held in the Group's document and property management system.	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. 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 97-102 and the significant accounting policies disclosed in the notes to the financial statements.

Further details on significant accounting judgements and key estimations of uncertainty can be found in note 2 to the financial statements on page 108.

Investor relations

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.

The Company approaches its debt investor relations on a partnership basis, ensuring that any feedback is considered and the Company takes into account best practice guidance from the Investment Association.

During the year, the programme of investor events included:

Institutional shareholders' programme

Meetings with principal shareholders

— The Executive Directors had meetings with shareholders representing more than half the register by value during the year

— The Chairman maintained contact with principal shareholders and undertook her usual biennial investor roadshows in the UK and the Netherlands

— The geographic spread of the programme covered Europe, North America, South Africa 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-yearly 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 in Victoria, SW1, and focused on the London Portfolio with senior management presenting updates on all aspects of its business. The day included tours of five of our buildings in Victoria including a visit to Nova. 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, Trinity Leeds, White Rose, Leeds, Westgate Oxford, key properties in Victoria, SW1, and 20 Fenchurch Street, EC3

— We conducted 12 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 Citi Conference in Miami.

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 and at the Annual General Meeting.

Debt investors' programme

Credit side institutional investors and analysts

— Our treasury team held non-deal specific meetings with credit side institutional investors and analysts after the half year and full year results

— In addition, the team met with around 40 accounts as part of the deal roadshow for the bond tender and new issue exercise in January/February of this year.

Banks

— Regular dialogue is maintained with our key relationship banks, 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, business and financial updates were provided by our treasury team and senior management to Standard & Poor's, Fitch Ratings and Moody's

— Further information on our debt investors can be found at: www.landsec.com/investors.

Annual General Meeting (AGM)

The 2016 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.landsec.com/investors.

Independent feedback on investor relations

During the year, the Board commissioned Rivel, an independent adviser, to conduct an investor audit of investor perceptions of the Company, its management, strategy, governance and the investor relations programme. An investor relations audit usually takes place every two years.

Rivel interviewed over 50 investors based in the UK, Europe and North America to obtain their views on management and business performance. The results were presented to the Board with suggestions and improvements being taken forward by management. The perception study found that investors have a very high degree of confidence in management and there was broad support for the Company's strategy.

The investor relations department also received feedback from analysts and investors during the year through the Group's corporate advisers. 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 92-94.

The Governance report was approved by the Board on 17 May 2017.

On behalf of the Board

Tim Ashby
Group General Counsel and Company Secretary

Directors' Remuneration Report – Chairman's Annual Statement

Committee members

Simon Palley (Chairman)*

Dame Alison Carnwath

Edward Bonham Carter*

Cressida Hogg CBE*

*Independent Non-executive Director

Highlights

— Reviewed and approved the remuneration outcomes for 2016/17 for Executive Directors and the Executive Committee

— Gathered insight on the sentiment of shareholders and other key stakeholders as context for planning the review of the remuneration policy in 2018

— Oversaw the approach to the reporting of gender pay.

Key responsibilities

— Reviews and recommends to the Board the executive remuneration policy

— Determines the remuneration packages of the Executive Directors and other members of the Executive Committee

— Oversight of the Group's remuneration policy for all employees.

Dear Shareholder,
I am pleased to introduce the Directors' Remuneration Report for the year.

The political and economic uncertainty to which I alluded last year has certainly accelerated in some unexpected ways, beginning with the UK's decision to leave the European Union. Although the UK economy has continued to perform well overall, the property industry has been impacted by wavering consumer and business confidence. We believe our decision to complete speculative development earlier than others remains the right one. The priorities over the past year have been to lengthen lease terms in London offices, and to lease up our development programme, including Westgate Oxford, due to open in October. Behind the scenes, we have also been active in ensuring that the business is in the best possible position – financially, culturally, reputationally and capability-wise – to take advantage of new opportunities to deliver shareholder value.

As I have highlighted previously, the remuneration outcomes for the executives at Landsec are largely driven by outperformance versus our peers and do not always reflect our absolute performance. For Total Property Return, our performance is compared to IPD, a widely-used industry benchmark over both a one year and three year period, for the calculation of bonus and LTIP outturns respectively. Over one year, we estimate that we will have slightly underperformed the benchmark which now encompasses all March-valued properties within IPD. Over a three year period, where we are still measured against a sector weighted index of the IPD Quarterly Universe, I am pleased to say we have outperformed the benchmark. To have achieved this while putting the business on such a strong financial footing is a very good performance. In terms of Total Shareholder Return, we are measured over a three year period and were disappointed not to outperform our peer group.

Simon Palley
Chairman, Remuneration Committee

Our relative share price has been impacted by a number of factors including sentiment towards our market sectors, particularly London, and no exposure to continental Europe at a time of sterling devaluation.

Following positive feedback from shareholders, we have chosen to lay out the report in a very similar way to last year. The full details of the Remuneration Policy, approved by shareholders in 2015, are contained in the back section of the Annual Report, on pages 175 to 179. For ease of reference, a summary of the proposed implementation of the policy for 2017/18 is included within the Directors' Remuneration Report on page 90. We have included the key information, including an "at a glance" summary of the outturns for the year, immediately following my statement.

More detail on remuneration outcomes for the year

The annual bonus for the year was slightly above target for Executive Directors, but below last year's outturn. The performance can be summarised as follows:

- As I mentioned above, our measure of Total Property Return now uses a broader and unweighted IPD benchmark of all March-valued properties. The benchmark was not available at the time of writing, but we expect to slightly underperform, resulting in no payment from this element of the bonus.
- The revenue profit performance was again very strong, significantly above our threshold set in 2015. This reflects increased rents from our successful development programme and lower interest costs, more than outweighing rent lost through disposals last year. There has also been strong ongoing discipline around the management of costs. This element of the plan paid out in full.
- Performance against the specific business objectives was more mixed. Retail had a strong performance, with high demand for space at Westgate Oxford, and the successful pre-letting of the extension to White Rose, Leeds as particular highlights. In London, where the impact of current political and economic uncertainty on demand has been more keenly felt, the ambitious development letting targets have been challenging to meet. Other corporate objectives have focused on evolving the culture through the office move and pressing ahead with our ambitious sustainability agenda, and these have largely been met.

When this performance was combined with the strong performance against their individual objectives, the total bonus pay-out was 88.1% of salary for Robert Noel (58.7% of maximum) and 86.1% for Martin Greenslade (57.4% of maximum), both lower than last year.

Turning to the Long-Term Incentive Plan, which is for performance over the three years to 31 March 2017, the outturn is as follows:

- Our Total Property Return of 12.7% per annum over the three years outperformed that of our benchmark, the sector-weighted IPD Quarterly Universe, which was 11.5% per annum. As a result, this element vests in full.
- However, our Total Shareholder Return over the same period was 9.2%, versus 16.2% for the comparator group. This element of the LTIP, therefore, does not vest.

Therefore, in total, 50% of the 2014 awards will vest.

Looking forward

Later this year we will be consulting with shareholder representatives on our Remuneration Policy, in preparation for the binding vote at next year's AGM. Executive pay is an area that is attracting a great deal of focus from many quarters, including government. As ever, we are very keen to work within the spirit of stakeholder sentiment, while ensuring that any proposals continue to drive the right behaviours from our executives, who remain completely focused on the delivery of our stated goal – "To outperform our peer group in terms of total shareholder return through the property cycles".

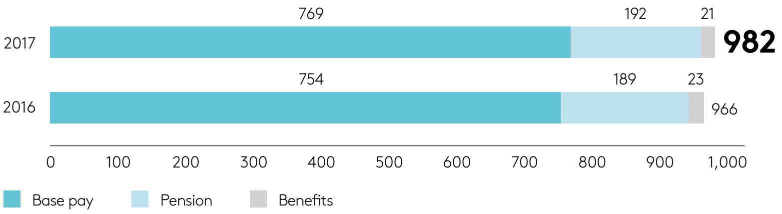
I look forward to discussions with some of you in the coming year.

Simon Palley
Chairman, Remuneration Committee

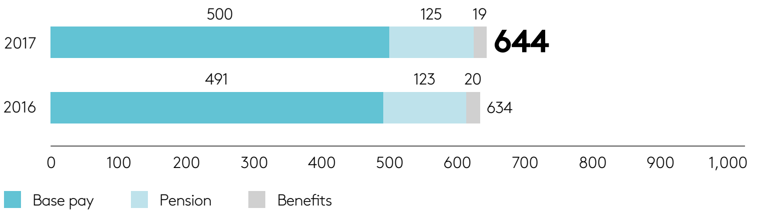
Remuneration at a glance

Fixed pay

Robert Noel (£000) Chart 34

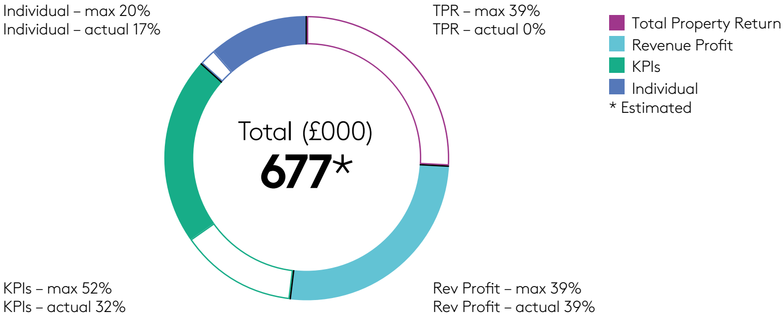


Martin Greenslade (£000) Chart 35

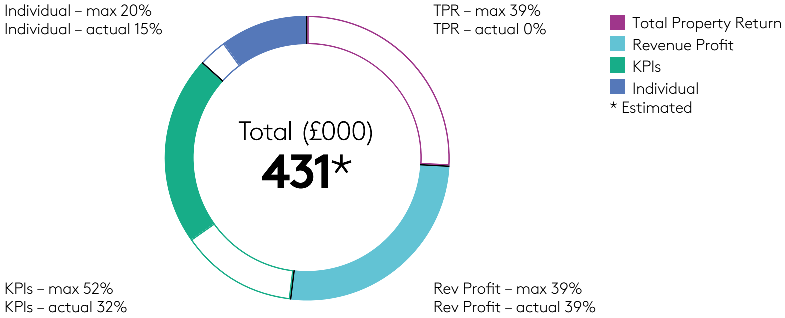


Annual bonus outturns

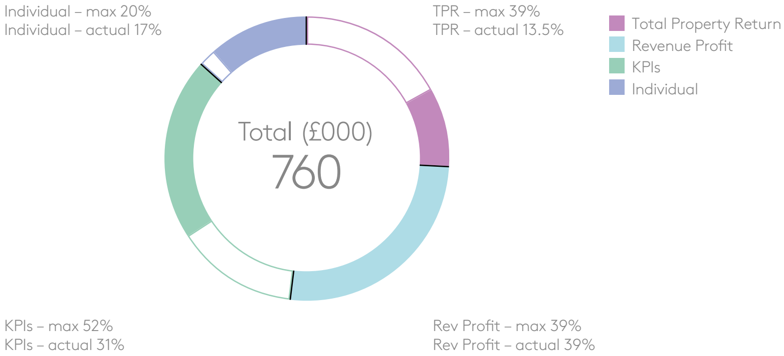
Robert Noel 2017 Chart 36



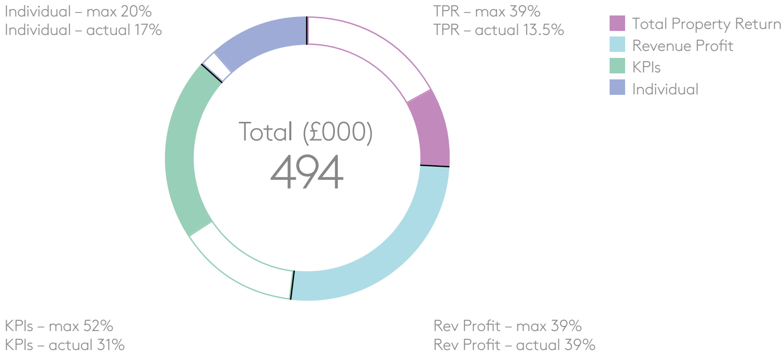
Martin Greenslade 2017 Chart 37



Robert Noel 2016 Chart 38



Martin Greenslade 2016 Chart 39



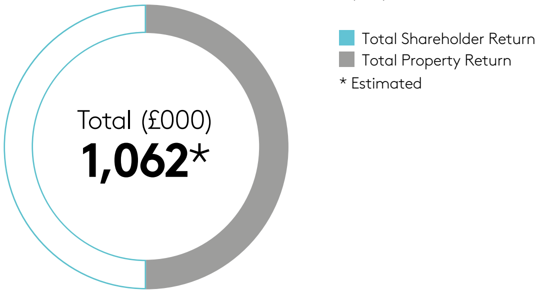
Long Term Incentive Plan outturns

Robert Noel 2017

Chart 40

Total Shareholder Return – max 50%
Total Shareholder Return – actual 0%

Total Property Return – max 50%
Total Property Return – actual 50%

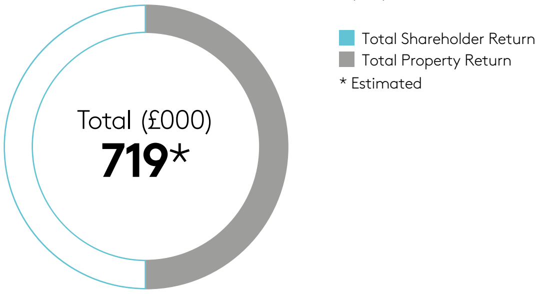


Martin Greenslade 2017

Chart 41

Total Shareholder Return – max 50%
Total Shareholder Return – actual 0%

Total Property Return – max 50%
Total Property Return – actual 50%

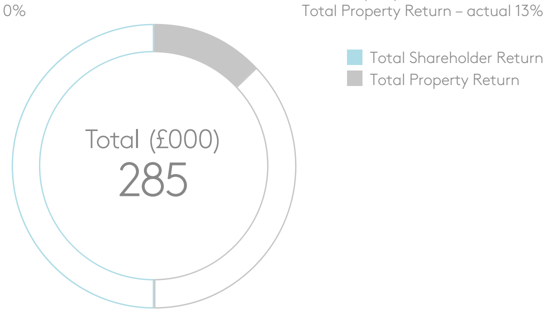


Robert Noel 2016

Chart 42

Total Shareholder Return – max 50%
Total Shareholder Return – actual 0%

Total Property Return – max 50%
Total Property Return – actual 13%

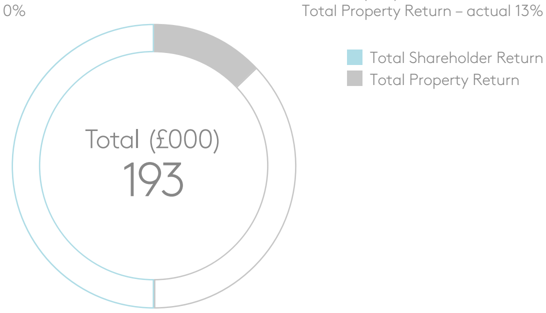


Martin Greenslade 2016

Chart 43

Total Shareholder Return – max 50%
Total Shareholder Return – actual 0%

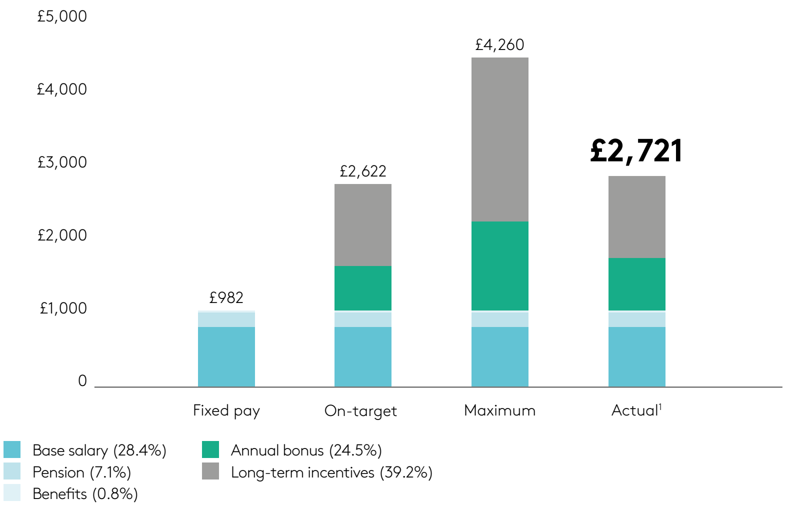
Total Property Return – max 50%
Total Property Return – actual 13%



Summary of Remuneration outturns versus target and actual

Robert Noel (£000)

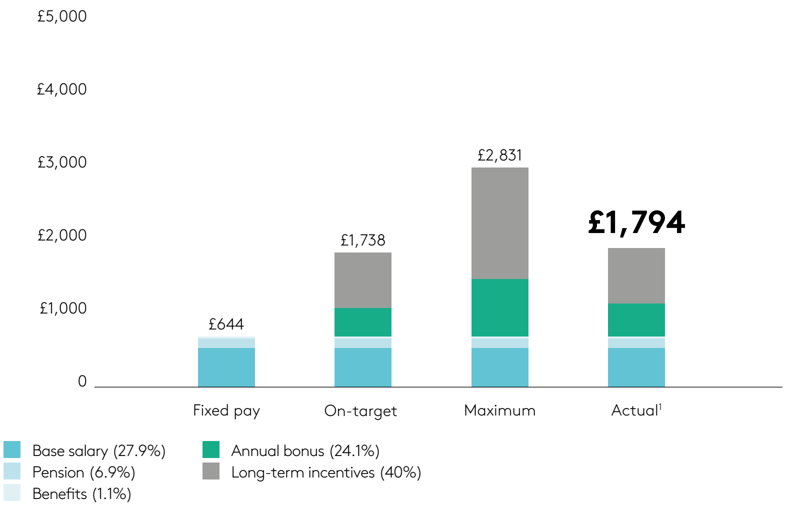
Chart 44



1. Percentages are of the actual.

Martin Greenslade (£000)

Chart 45



1. Percentages are of the actual.

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 2017, and how it will be applied in the financial year commenced 1 April 2017.

During the course of 2016/17, 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
— Monitoring developments in stakeholder sentiment on executive pay and corporate governance more generally, including participating in consultation exercises where appropriate.

Unless otherwise stated, narrative and tables are unaudited.

Dates of appointment for Directors Table 46

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	1 January 2014	13 May 2015
Nicholas Cadbury	1 January 2017	1 January 2017

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 2017. Table 47 shows the payments we expect to make and then tables 49 and 50 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 2017 in connection with performance achieved in the financial year ended 31 March 2017. It should be noted that the annual bonus figure has been estimated for the purposes of the table, as final data on the Company's Total Property Return versus the peer group using the benchmark (i.e. 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 2014 LTIP awards vesting for the three year performance period ended 31 March 2017 are based on estimated achievements against the 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 2017.

Single total figure of remuneration for each Director (£000) (Audited) Table 47

	Basic salary[1]		Benefits[2]		Pension allowance[3]		Annual bonus paid in cash		Annual bonus deferred into shares[4]		Total emoluments		Long-term incentives vested[5]		Total	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Executive Directors																
Robert Noel	769	754	21	23	192	189	384	377	293	383	1,659	1,726	1,062	285	2,721	2,011
Martin Greenslade	500	491	19	20	125	123	250	245	181	249	1,075	1,128	719	193	1,794	1,321

1. Basic salary is stated as a per annum figure based on current annual salary at the end of 2016/17. Actual salaries paid in the year were £766,156 (Robert Noel) and £498,724 (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 annual bonus for 2015/16 was estimated in last year's report and therefore the amounts for the bonus deferred into shares have been adjusted to reflect actual values. The impact of the adjustment was a reduction of £3,527 for Robert Noel and a reduction of £2,296 for Martin Greenslade.
5. The long-term incentives for 2016/17 have been calculated using a share price of £10.35 (which is the three-month average to 31 March 2017). The long-term incentives vesting in 2015/16 were estimated in last year's report, so have been adjusted to reflect actual values. The impact of the adjustment was a reduction of £31,076 for Robert Noel and a reduction of £21,021 for Martin Greenslade.

Single total figure of remuneration for each Director (£000)

(Audited) Table 48

	Fees		Benefits		Pension allowance		Annual bonus paid in cash		Annual bonus deferred into shares		Total emoluments		Long-term incentives vested		Total	
	2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
Non-executive Directors																
Dame Alison Carnwath	375	350	–	–	–	–	–	–	–	–	**375**	350	–	–	**375**	350
Kevin O'Byrne	92.8	95	–	–	–	–	–	–	–	–	**92.8**	95	–	–	**92.8**	95
Chris Bartram	70	67.5	–	–	–	–	–	–	–	–	**70**	67.5	–	–	**70**	67.5
Simon Palley	85	80	–	–	–	–	–	–	–	–	**85**	80	–	–	**85**	80
Stacey Rauch	70	67.5	–	–	–	–	–	–	–	–	**70**	67.5	–	–	**70**	67.5
Edward Bonham Carter	76.8	67.5	–	–	–	–	–	–	–	–	**76.8**	67.5	–	–	**76.8**	67.5
Cressida Hogg	70	67.5	–	–	–	–	–	–	–	–	**70**	67.5	–	–	**70**	67.5
Nicholas Cadbury	17.4	–	–	–	–	–	–	–	–	–	**17.4**	–	–	–	**17.4**	–

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 49

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 (excluding Landsec). Total benchmark value c. £170bn.	39.0	— The Group's Total Property Return[1] for the year was 3.9%, an under-performance of 0.7% versus the estimated IPD benchmark — Therefore, none of this element is likely to pay out.	0.0
Share in long-term real growth in Group revenue profit.	39.0	— Revenue profit for the year (£382m) significantly exceeded the threshold level set in 2015 — This element therefore 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 Westgate Oxford (opening in 2017) and the extension of White Rose, Leeds. Net effective, rather than headline, rents were used as the key measure of performance.	18.2	— The outturn is calculated on the basis of a threshold of £23.4m, and a maximum of £34.0m — Both the Retail lettings targets, at Oxford and Leeds, were exceeded, while London lettings achieved threshold levels. £28m was achieved in total. — This element of the bonus therefore paid out at 66.4% of the maximum.	12.1
Residential sales – specific targets were set for the Victoria residential developments.	4.2	— The outturn is calculated on the basis of a threshold of £65m. Achievement is calculated on a straight-line basis from threshold to the maximum of £102m — The Group secured relevant sales of £51m, which was below threshold — This element of the bonus therefore was not paid.	0.0
Project budgets – specific aggregate and individual budget targets were set for projects in both London and Retail (Nova, New Street Square, 20 Eastbourne Terrace and White Rose).	6.2	— Although three out of four of the named developments were completed to target budgets, one (Nova) was not — This element of the bonus therefore was not paid.	0.0
Customers – recognising the importance of creating a truly customer-focused culture, specific targets were set around the rollout of internal and external customer excellence programmes. An improvement to (already high) customer satisfaction scores was also sought.	7.8	— The proposed rollout of the internal customer excellence programme was delayed to coincide with the launch of the new Landsec brand in June — However, a programme of external customer engagement activities has been delivered, and customer satisfaction scores in London and Retail were maintained — This element of the bonus therefore paid out at 66.6% of the maximum.	5.2
People – ensuring that the office move to Victoria was maximised as an opportunity to embed the purpose, vision and values and create a step change in a more collaborative and innovative culture, to be measured through movement in "before" and "after" employee surveys versus a recognised external benchmark.	5.2	— The relevant survey scores improved by 35% — This element of the bonus therefore paid out in full.	5.2

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

Target	Percentage of base salary (maximum)	Assessment	Percentage of base salary awarded
Sustainability – clear progress in delivery of the agenda, via the rollout of internal training programmes, and the commencement of measurable energy reduction initiatives in the most energy-intensive sites.	5.2	— In order to achieve maximum payout, three levels of sustainability training, including a core mandatory module completed by at least 95% of employees, needed to be delivered. In addition, quantifiable energy reduction initiatives should be identified for implementation in two thirds of our most energy-intensive sites — The target on training was achieved in full, and energy reduction initiatives were identified in 88% of energy-intensive sites — This element of the bonus therefore paid out in full.	5.2
Community Employment Programme – a target was set to secure permanent employment for 170 (target) and 188 (maximum) candidates on the Community Employment Programme.	5.2	— Employment was secured for 186 candidates on the programme across the Group — This element of the bonus therefore paid out at 85% of maximum.	4.4
	130.0	**Total Group elements**	**71.1**
Executive Directors' personal targets			
Each Executive Director received a number of personal targets, which included: — Creating and embedding a new public affairs agenda — Creating and activating a new corporate brand — Ensuring that Landsec's culture is further developed through a successful office move — Positive feedback from the annual shareholder survey — Continued focus on talent, development and succession — Review of the funding strategy in preparation for increased investment activity.	20.0	Each Executive Director was scored against objectively measurable targets set at the beginning of the year. The outturn was as follows: — Robert Noel — Martin Greenslade	 17.0 15.0
Total	**150.0**	**Robert Noel** **Martin Greenslade**	**88.1** **86.1**

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 2017. Awards granted in 2014 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 61 for more detail on how vesting levels are determined.

The performance calculation for awards granted in 2014 and vesting in 2017 are illustrated below:

Long-Term Incentive Plan and Matching Share Plan outturns Table 50

Target	Percentage of base salary (maximum	Assessment	Outturn Percentage of maximum
Ungeared Total Property Return	75 + 75 (maximum shares pledged)	The Group's Total Property Return[1] over the three year period was 12.7% per annum compared with the performance of the sector-weighted IPD Quarterly Universe of 11.5% per annum. Therefore, this element vests in full.	50.0
Total Shareholder Return	75 + 75 (maximum shares pledged)	The Group's Total Shareholder Return over the three year period was 9.2% versus that of the comparator group at 16.2%. As this return was below the benchmark, this element of the total award 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, 50% of the awards made in 2014 will vest in July 2017.

For awards granted in 2015, the Group's performance over the two years to 31 March 2017 would, if sustained over the three year period to 31 March 2018, result in 0% of the LTIP share awards vesting. For awards granted in 2016, performance over the one year period to 31 March 2017 would, if sustained over the second and third years of the period to 31 March 2019, result in 22.4% of the LTIP share awards vesting.

Total Shareholder Return – comparator groups

Table 51

Name	2014	2015	2016	2017[1]
				Year of award
Assura PLC			✓	✓
Big Yellow Group PLC	✓	✓	✓	✓
Capital & Counties Properties PLC	✓	✓	✓	✓
CLS Holdings PLC		✓	✓	✓
Daejan Holdings PLC	✓	✓	✓	✓
Derwent London PLC	✓	✓	✓	✓
F&C Commercial Property Trust Ltd	✓	✓	✓	✓
Grainger PLC	✓	✓	✓	✓
Great Portland Estates PLC	✓	✓	✓	✓
Hammerson PLC	✓	✓	✓	✓
Hansteen Holdings PLC	✓	✓	✓	✓
Intu Properties PLC	✓	✓	✓	✓
Kennedy Wilson Europe PLC		✓	✓	✓
Londonmetric Property PLC	✓	✓	✓	✓
NewRiver REIT 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	✓	✓	✓	✓
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 (£000) Chart 52
Chief Executive

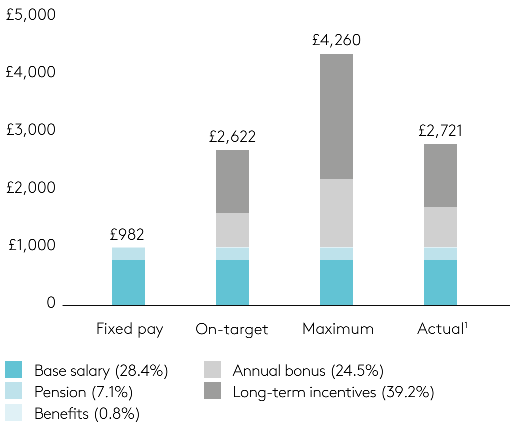
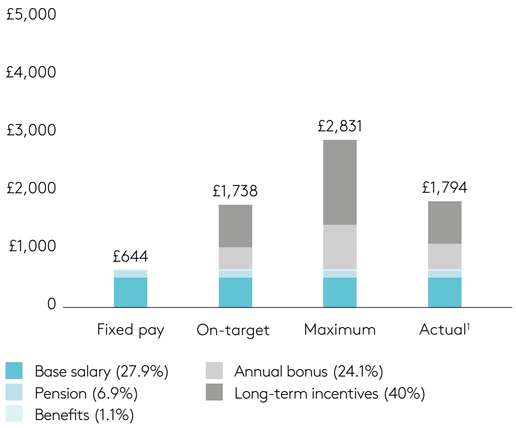


Table 53

Element of pay	Maximum potential (£000)	Percentage of maximum achieved (%)	Outturn (£000)
Base salary	769	n/a	769
Pension	192	n/a	192
Benefits	21	n/a	21
Annual bonus[1]			
— Company Performance element	999	54.7	546
— Individual element	154	85.0	131
Long-term incentives[2]	2,125	50.0	1,062
Total	**4,260**		**2,721**

1. £292,939 of the annual bonus will be deferred into shares for one year.
2. Value of shares vesting in 2017 calculated on basis of the £10.35 average share price for the three month period to 31 March 2017.

Martin Greenslade (£000) Chart 54
Chief Financial Officer



1. Percentages are of the actual.

(Unaudited) Table 55

Element of pay	Maximum potential (£000)	Percentage of maximum achieved (%)	Outturn (£000)
Base salary	500	n/a	500
Pension	125	n/a	125
Benefits	19	n/a	19
Annual bonus[1]			
— Company Performance element	650	54.7	356
— Individual element	100	75.0	75
Long-term incentives[2]	1,437	50.0	719
Total	**2,831**		**1,794**

1. £180,680 of the annual bonus will be deferred into shares for one year.
2. Value of shares vesting in 2017 calculated on basis of the £10.35 average share price for the three month period to 31 March 2017.

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 Director's interest compared to the required holding value under the Company's share ownership guidelines.

Directors' shares

(Audited) Table 56

Name	Salary/Fee (£)	Required holding value (£)	Holding (ordinary shares) 1 April 2016	Holding (ordinary shares) 31 March 2017	Deferred bonus shares under holding period	Value of holding (£)[1]
Robert Noel[2]	766,156	1,915,390	260,508	293,849	61,939	3,111,861
Martin Greenslade[3]	498,724	997,448	386,223	386,233	40,927	4,090,207
Dame Alison Carnwath[4]	375,000	375,000	147,005	151,338		1,602,669
Kevin O'Byrne[4]	92,807	92,807	11,552	11,552		122,336
Chris Bartram[4]	70,000	70,000	14,478	14,478		153,322
Simon Palley[4]	85,000	85,000	17,061	17,061		180,676
Stacey Rauch[4]	70,000	70,000	8,000	8,000		84,720
Edward Bonham Carter[4]	76,756	76,756	10,000	10,000		105,900
Cressida Hogg[4]	70,000	70,000	10,000	10,000		105,900
Nicholas Cadbury[4]	70,000	70,000	–	1,900		20,121

1. Using the closing share price of £10.59 on 31 March 2017.
2. Requirement for the Chief Executive to own shares with a value of 2.5x base salary within five years of appointment.
3. Requirement for other Executive Directors to own shares with a value of 2.0x base salary within five years of appointment.
4. Requirement for Non-executive Directors to own shares with a value of 1.0x 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 MSP share awards and those which vested during the year

(Audited) Table 57

		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	2016	08/07/2013	921	112,964	14,798	962	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
		2019	27/06/2016	1,005	229,453			27/06/2019
	Matching shares	2016	08/07/2013	921	112,964	14,798	962	08/07/2016
		2017	01/07/2014	1,039	102,638			01/07/2017
Martin Greenslade	LTIP shares	2016	08/07/2013	921	76,416	10,010	962	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
		2019	27/06/2016	1,005	149,361			27/06/2019
	Matching shares	2016	08/07/2013	921	76,416	10,010	962	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 58

	Number of options at 1 April	Exercise price per share (p)	Number of options granted in year to 31 March 2017	Exercised/(lapsed) during year: Exercise price per share (p)	Exercised/(lapsed) during year: Number exercised	Exercised/(lapsed) during year: Market price at exercise (£)	Number of options at 31 March 2017	Exercisable dates
Martin Greenslade	1,060	848.5	–	–	–	–	1,060	08/2017 – 02/2018
	878	1,024.0	–	–	–	–	878	08/2018 – 02/2019
	1,938						1,938	

3. Application of Policy for 2016/17

3.1 Executive Directors' base salaries

Having conducted a detailed benchmarking exercise of both the Chief Executive Officer and Chief Financial Officer roles in 2015, the Committee concluded that no formal exercise was necessary this year, in line with emerging best practice. It has therefore 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 2017:

Executive Directors Table 59

	Current (£000)	From 1 June 2017 (£000)	% increase	Average % increase over five years (including 2017/18)
Robert Noel	769	784	2.0	3.1
Martin Greenslade	500	510	2.0	2.2

3.2 Non-executive Directors' fees

The fees for Non-executive Directors were reviewed In December 2015 following a market benchmarking exercise, and took effect from 1 April 2016. They have remained unchanged for 2016/17. When Nicholas Cadbury was appointed to the Board on 1 January 2017, he received the published base fee of £70,000 per annum.

Non-executive Director's fees Table 60

	(£000)
Chairman	375.0
Non-executive Director	70.0
Audit Committee Chairman	20.0
Remuneration Committee Chairman	15.0
Senior Independent Director	10.0

3.3 Performance targets for the coming year

Table 61

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 — Encourages efficient use of capital through good sector allocation and appropriate gearing — Based on a market capitalisation of £8.4bn, a 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: — 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 (excludes Landsec) — 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 — **Target:** Outperformance of the index by 1.3% per annum — **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 — Incentivises increasing capital values and rental income — Capital value growth is reflected in an increased net asset value, which is the measure with the strongest correlation to share price — On the basis of a portfolio with a value of £14.4bn, 1% per annum outperformance over three years generates approximately £0.4bn 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: — The Group's ungeared Total Property Return (TPR) relative to an IPD benchmark comprising all March-valued properties. Total benchmark value c. £170bn (excluding Landsec) — 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 — **Target:** Outperformance of the benchmark by 0.4% per annum — **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 — Incentivises increasing capital values and rental income — Capital value growth is reflected in an increased net asset value, which is the measure with the strongest correlation to share price — On the basis of a portfolio with a value of £14.4bn, 2% outperformance would generate approximately £0.3bn 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. £170bn (excluding Landsec) — 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 — **Target:** Outperformance of the benchmark by 0.7% for the year — **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 — Adjustment for significant net investment/disinvestment gives a like-for-like view of performance — 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 2018 report.

3.3 Performance targets for the coming year
continued

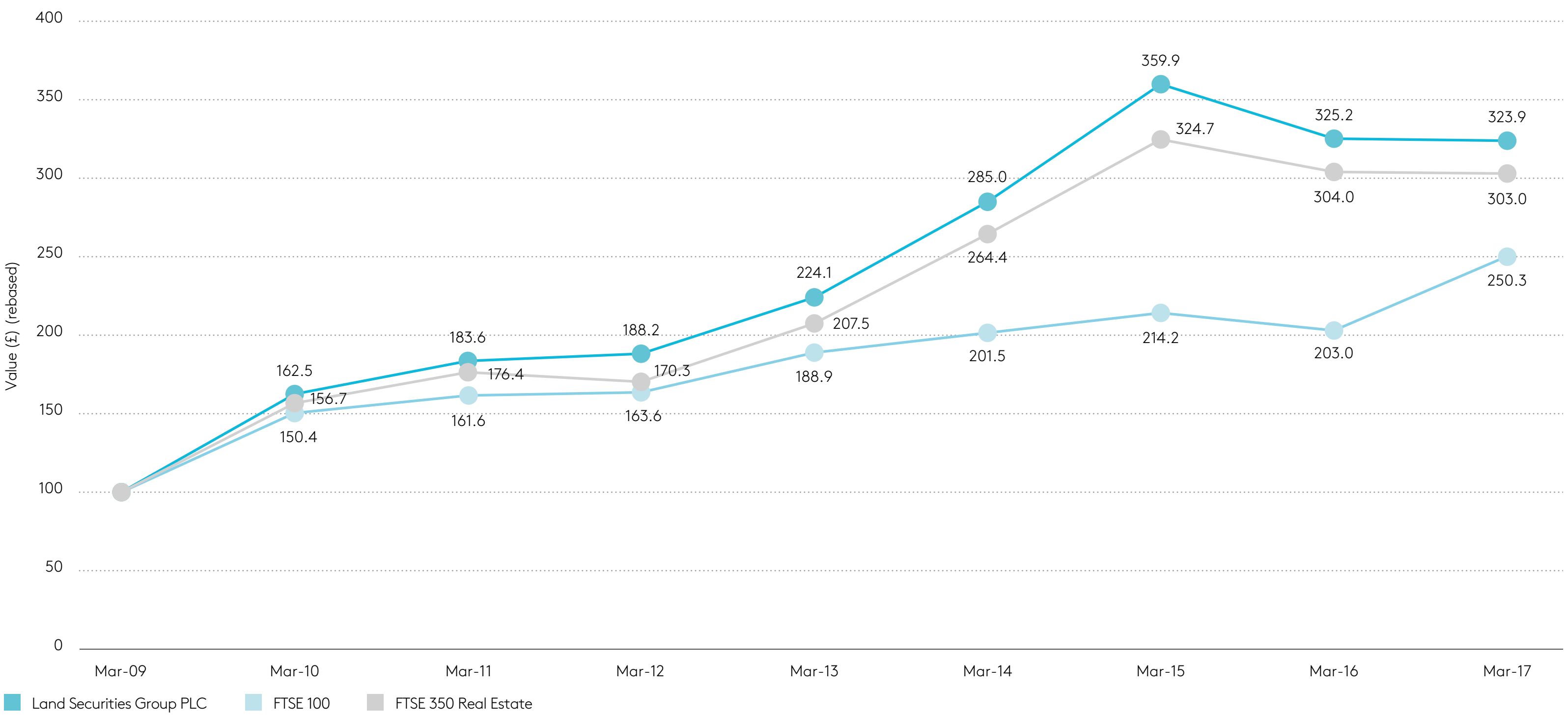
Metric	Link to strategy and value for shareholders	Performance measure	Performance range
Annual bonus – specific business targets			
— Completion and letting of Westgate Oxford (6.9% of award, or 10.4% of salary).	— A high profile new opening and key driver of income and revenue profit in the future — Proves the value of the development and drives capital growth.	— Specific threshold and stretch targets have been set for the Oxford development (leasing and project completion on time and on budget).	— Will be confirmed in 2018 report.
— Completion of leasing of the London Development Programme (6.9% of award, or 10.4% of salary).	— Key driver of income, revenue profit and capital growth.	— Specific leasing targets have been set for individual assets in London, with the broad objective of fully letting the new developments.	— Will be confirmed in 2018 report.
— Replacement and leasing of the Piccadilly Lights screens (3.5% of award, or 5.2% of salary).	— Ensures that momentum is maintained behind the delivery of a key iconic project.	— Specific threshold, target and outperformance objectives have been set aiming at replacing and fully letting all screens.	— Will be confirmed in 2018 report.
— Customer-centricity — (5.3% of award, or 7.8% 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.	— Completion of major internal programme to fully embed customer-centric behaviours — Internal activation of the new brand — Measurement of the impact of the programme by an independent third party — Consumer satisfaction scores.	— Significant improvement in both internal and consumer satisfaction scores is required for maximum payout.
— Diversity – achieving real progress on our stated 2020 targets (3.5% of award, or 5.2% of salary).	— Allows us to attract and retain the diverse talent (in terms of gender, ethnicity and background) necessary to fully anticipate the changing needs of our customers.	— Measurable progress, by the end of March 2018, towards our stated 2020 targets around gender balance, ethnicity and data transparency.	— For maximum, two out of four targets achieved by 2018, with measurable progress towards the other two.
— Innovation – extending our business capability and embedding the innovation value (2.7% of award, or 3.9% of salary).	— Ensures that we remain sufficiently future-facing in our strategic focus, ensuring the long-term sustainability of the business.	— Evidence will be sought to demonstrate clear outputs from the innovation capability.	— Tangible examples of innovation will be required and will be stated in 2018 report.
— Community Employment Programme (3.5% of award, or 5.2% of salary).	— A key way in which Landsec 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 by extending the programme beyond its current focus on Construction.	— **Threshold**: A further 156 candidates into employment — **Target**: A further 174 candidates into employment — **Maximum**: A further 194 candidates into employment.
— Environment – driving energy management initiatives across the portfolio (2.7% of award or 3.9% of salary).	— Key to our long-term sustainability and reputation as a responsible business.	— Clear targets have been set around the implementation of energy reduction initiatives in a high proportion of our highest consuming sites.	— **Threshold**: Commence implementation in 40% of identified sites — **Target**: Commence implementation in 60% of identified sites — **Maximum**: Commence implementation in 80% of identified sites and identify further opportunities.
— Individual targets for Executive Directors (13.0% of award, or 20.0% of salary).	— Ensures that each Executive Director focuses on his individual contribution in the broadest sense, aligned with, but not limited to, specific business targets — Encourages a focus on personal development.	— A mix of short-term individual goals set at the beginning of the year.	— Will be confirmed in 2018 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 eight 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 eight years is also included.

Adjacent to this chart is a table showing how the 'single figure' 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 62



This graph shows the value to March 2017 of £100 invested in Land Securities Group PLC on 31 March 2009, compared with the value of £100 invested in the FTSE 100 and FTSE 350 Real Estate Indices on the same date. Source: Datastream (Thomson Reuters).

Chief Executive remuneration over eight years Table 63

Year	Chief Executive	Single figure of total remuneration (£000)	Annual bonus award against maximum opportunity[1] (%)	Long-term incentive vesting against amount awarded (%)
2017	Robert Noel	2,721	58.8	50.0
2016	Robert Noel	2,014	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 Landsec

5.1 Pay across the Group

a. Senior Management

During the year under review, bonuses (including discretionary bonuses) for our 16 most senior employees (excluding the Executive Directors) ranged from 37.6% to 74.5% of salary (2016: 40.1% to 114.2%). The average bonus was 55.6% of salary (2016: 67.0%). 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 2.4%. The ratio of the salary of the Chief Executive to the average salary across the Group (excluding Directors) was 13:1 (£768,668:£58,683).

Table 64

% change	Salary %	Benefits	Bonus %
Chief Executive	+2.0	No change	**(10.9)**
Average employee	+2.4	No change	**(5.7)**

Governance

5.2 The relative importance of spend on pay

The chart below shows the total spend on pay for all Landsec employees, compared with our returns to shareholders in the form of dividends:

Table 65

Metric	March 2017 (£m)	March 2016 (£m)	% change
Spend on pay[1]	50	55	(9.1)
Dividend paid[2]	289	255	13.3

1. Including base salaries for all employees, bonus and share-based payments.
2. See note 11 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 Group PLC shares in the market. The Employee Benefit Trust held 792,556 shares at 31 March 2017.

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, can be satisfied by the allotment of newly issued shares. At 31 March 2017, the total number of shares which could be allotted under this Scheme was 354,783 shares, which represents significantly less than 1% of the issued share capital of the Company.

7. Remuneration Committee meetings

The Committee met four 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 and Cressida Hogg. The Committee meetings were also attended by the 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 Aon Hewitt. 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. Aon Hewitt 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, Aon Hewitt has no other connection with the Group. For the financial year under review, it received fees of £76,290 in connection with its work for the Committee.

8. Results of the voting on the Directors' Remuneration Report at the AGM in 2016

The votes cast on the resolutions seeking approval in respect of the Directors' Remuneration Report at the Company's 2016 AGM were as follows:

Table 66

Resolution	% of votes For	% of votes Against	Number of votes withheld[1]
To approve the Annual Report on Remuneration for the year ended 31 March 2017	99.37	0.63	133,717

1. A vote withheld is not a vote at law.

The Directors' Remuneration Report was approved by the Board on 17 May 2017 and signed on its behalf by:

Simon Palley
Chairman of Remuneration Committee

Summary of Directors' Remuneration Policy

1. Approach to Policy

As stated in last year's report, some revisions were made to the Company's long-term incentive arrangements in 2015. The Directors' Remuneration Policy (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 98.8% vote in favour. It therefore took formal effect from that date, replacing the previous policy approved by shareholders at the 2014 AGM, and intended to remain in place for three years. The Policy set out in the Additional Information section of this Report therefore remains in force until 2018, when any proposed revisions will be discussed with shareholders, and their views sought, well in advance of the AGM. A summary statement on the planned application of the Policy in 2017 is shown in table 67 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 table on pages 175-179 provides more detail on the discretion reserved to the Committee for each element of the remuneration package.

2. Application of the Policy in 2017/18

Table 67

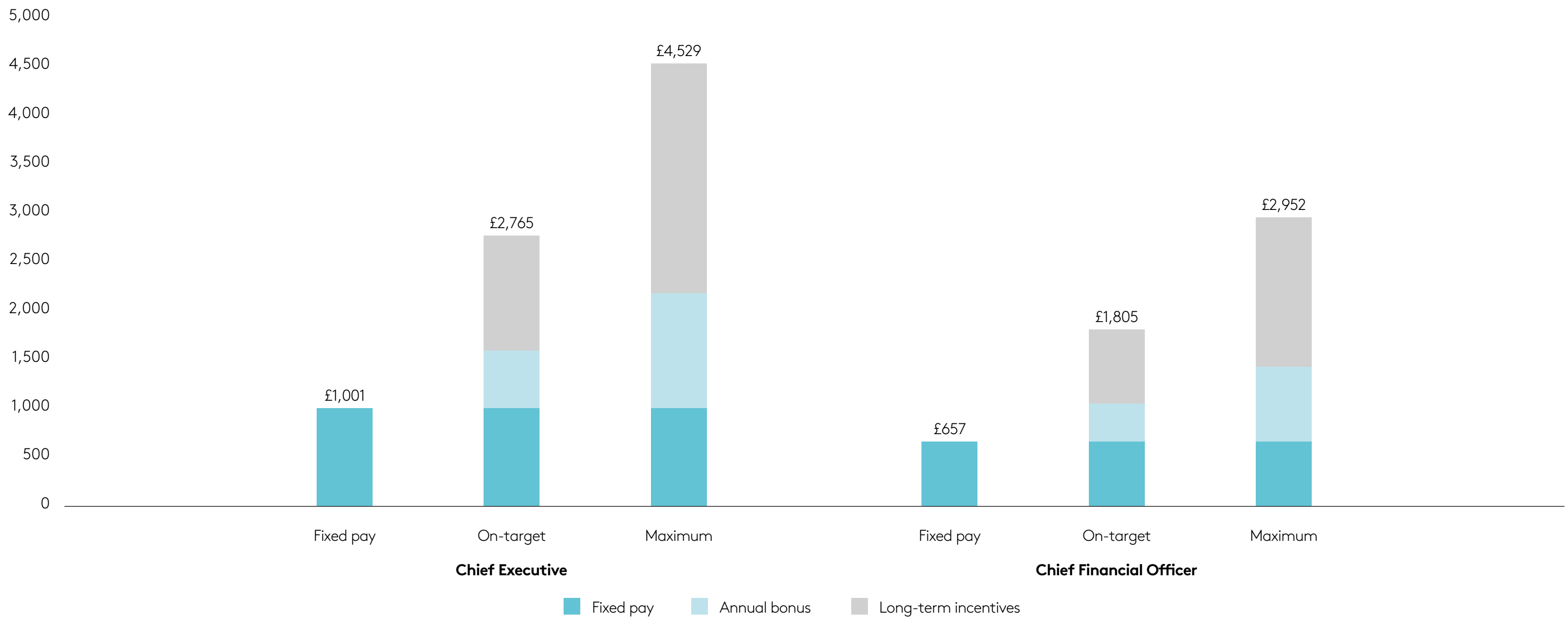
Policy element	Application in 2017/18
Base salary Details on p175	The increase in current salaries for the Executive Directors will be 2%, in line with the increase to overall employee pay across the Group in 2017. Therefore, the new annual gross salaries will be £784,041 for Robert Noel and £510,367 for Martin Greenslade. These will be effective from 1 June 2017.
Benefits Details on p175	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 Details on p175	The 25% of base salary (gross) payment to each Executive Director by way of annual pension contribution will continue.
Annual bonus Details on p176	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: — 26% based on the Company's Total Property Return performance versus that of the market — 26% based on the Company's Revenue Profit performance — 35% based on delivery of specific business objectives for the year — 13% based on the delivery of individual targets.
Long-Term Incentive Plan awards (and Matching Share Plan awards for 2017 vesting) Details on p177	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. Outstanding LTIP and Matching Share Plan awards granted in 2014 will vest later in 2017 subject to the performance conditions set at the time and the plan rules under which they were granted. In September 2016, in common with many other companies and primarily to give the participants greater flexibility over the timing of exercise, the Committee approved the granting of LTIP awards, from 2017 onwards, as nil-cost share options with a seven year exercise period. It also agreed that outstanding awards should also vest as nil-cost options, and that dividends could be accrued on vested options where they are subject to a two year holding period, but not thereafter.
Savings Related Share Option Scheme Details on p177	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 Details on p177	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 Details on p179	External recruitment and termination activity during the year is currently not envisaged; however should this occur, the Policy will apply as stated.
Service Agreements and Letters of Appointment Details on p179	If new Service Agreements, or variations to existing ones, are required over the course of the year, the Policy will apply as stated. Any new Non-executive Director joining the Board will be contracted under a Letter of Appointment as per the Policy.
Non-executive Directors' fees Details on p178	As the fees for Non-executive Directors were reviewed in late 2015, no further revisions will take place over the course of the year. The annual fee for Dame Alison Carnwath as Chairman remains at £375,000 and the annual base fee for all other Non-executive Directors remains at £70,000. These have been in effect since 1 April 2016. Additional fees also apply for Committee chairmen, and these remain unchanged.

3. Fixed and variable pay reward scenarios

Total opportunity at maximum and target levels

The charts that follow illustrate the remuneration opportunity provided to each Executive Director at different levels of performance for the coming year.

Fixed and variable pay reward scenarios (£000) Chart 68



Fixed pay 22%; Annual bonus 26%; 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 69

		Base (£000)	Benefits (£000)	Pension (£000)	Total fixed (£000)
Fixed pay	— Consists of the latest base salary, benefits and pension allowances — Pension allowance calculated at 25% of new base salary				
	Robert Noel, Chief Executive	784	21	196	1,001
	Martin Greenslade, Chief Financial Officer	510	19	128	657
On-target award	Based on what a Director would receive if performance was in line with expectations: — Annual bonus pays out at 50% of the maximum — LTIP is assumed to vest at 50% of the total award.				
Maximum award	— Annual bonus pays out in full — 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 purposes only, the table assumes that the annual bonus payment is equivalent to at least 100% of salary.

Payment schedule Table 70

Financial year	Base year	Base year +1	Base year +2	Base year +3	Base year +5
— Element of remuneration received.	— Base salary — Benefits — 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 deferred into nil-cost options.	— The first deferred portion of the annual bonus (i.e. between 50% and 100% of salary) vests.	— The final portion of the annual bonus (i.e. awards in excess of 100% of salary) vests — LTIP awards vest but remain subject to a two year holding period.	— Holding period on LTIP awards ends.
		Annual bonus (cash and deferred shares) and vested and unvested LTIP awards are subject to withholding and recovery provisions.			

Directors' Report

The Directors present their report and audited accounts for the year ended 31 March 2017.

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 71

Likely future developments in the business	Pages 16-17
Employee engagement	Page 40
Going Concern and Viability Statement	Page 54
Governance	Pages 55-94
Capitalised interest	Page 116
Financial instruments	Page 138
Credit, market and liquidity risks	Pages 139-142
Related party transactions	Page 153
Greenhouse gas emissions	Page 166

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 103-154.

The Company has paid three quarterly interim dividends to shareholders for the year under review, each of 8.95p per ordinary share. These comprised two payments (totalling 17.90p) as a Property Income Distribution (PID) and one payment (8.95p) as a normal dividend (i.e. non-PID). The Board has recommended a final dividend for the year of 11.7p per ordinary share, payable wholly as a PID (net of withholding tax, where appropriate), making a total dividend for the year of 38.55p per share, representing an increase of 10.1% compared with the prior year. Subject to shareholders' approval, the final dividend will be paid on 27 July 2017 to shareholders on the register at the close of business on 23 June 2017.

The Board has also declared a first quarterly dividend in respect of the 2017/18 financial year of 9.85p per ordinary share, payable wholly as a PID (net of withholding tax, where appropriate), to be paid on 6 October 2017 to shareholders on the register at the close of business on 8 September 2017.

A Dividend Reinvestment Plan (DRIP) election is currently available in respect of all dividends paid by the Company.

Events since the balance sheet date

Since 31 March 2017, the Group has redeemed the £273m Queen Anne's Gate bond in its entirety at a premium of £63m. The redemption was financed through existing Group facilities.

On 13 April 2017, the Group's joint arrangement, the Metro Shopping Fund Limited Partnership (Metro), completed the sale of ShopStop (Clapham Junction) LLP to DV4 (a fund owned by Delancey Real Estate Asset Management Limited (Delancey)). On the same date, Delancey sold its stake in Metro to Invesco Real Estate European Fund. The partnership was subsequently renamed The Southside Limited Partnership and the £85m third-party debt in the fund was repaid in full.

On 15 May 2017, the Group acquired three retail outlet centres from Britel Fund Trustees Limited (as trustee of the BT Pension Scheme). The three assets, Freeport, Braintree, Clarks Village, Street and Junction 32, were acquired for a total consideration of £333m.

Directors

The names and biographical details of the current Directors (all of whom held office throughout the year except for Nicholas Cadbury – see below), and the Board Committees of which they are members, are set out on pages 58 and 59. Kevin O'Byrne ceased to act as the Company's Senior Independent Director following the Company's Annual General Meeting (AGM) on 21 July 2016. Edward Bonham Carter was appointed to that position as his immediate successor.

Nicholas Cadbury was appointed an independent Non-executive Director of the Board on 1 January 2017 and joined the Audit Committee with effect from that same date. He will become Chairman of the Audit Committee in succession to Kevin O'Byrne who is expected to step down from the Board at some point during 2017.

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 76-91.

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 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

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 2017 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 2017 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 2017, there were 801,244,628 ordinary shares in issue and fully paid. Further details relating to share capital, including movements during the year, are set out in note 34 to the financial statements.

At the Company's AGM held on 21 July 2016, 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 2017 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 offshore discretionary Employee Benefit Trust (EBT). It is used to purchase Land Securities Group PLC 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 500,000 shares in the market during the year for an aggregate consideration of £4.92m (including all dealing costs) and released 851,336 shares to satisfy vested share plan awards. At 31 March 2017, the EBT held 792,556 Land Securities Group PLC 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 35 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 2017 remained unchanged from those held at the beginning of the year.

Substantial shareholders
As at 31 March 2017, 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 72

Shareholder name	Number of ordinary shares	Percentage of total voting rights attaching to issued share capital[1]
BlackRock, Inc.	70,396,617	8.91
Norges Bank Investment Management	50,911,003	6.44
State Street Global Advisors Ltd	34,475,813	4.37
Legal & General Investment Management Ltd	26,891,758	3.40
The Vanguard Group, Inc.	26,387,704	3.33

1. The total number of voting rights attaching to the issued share capital of the Company on 31 March 2017 is 790,749,497.

The Company received no further DTR notifications, by way of change to the above information or otherwise, during the period from 1 April to 17 May 2017, 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 publicly available to view via the regulatory information service on the Company's website.

Shareholder voting rights and restrictions on transfer of shares
All 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 2017 AGM. These documents are available on the Company's website at: www.landsec.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 Organization'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 has been extended to take account of the new Modern Slavery Act that came into force in October 2015 and requires 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, was approved by the Board on 29 September 2016 and posted on the Company's website on 30 September 2016.

Landsec 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 Landsec takes steps to accommodate the disability by making adjustments to their existing employment arrangements, 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 page 38.

Political donations

No political donations were made in the year (2015/16: 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 2017 AGM. The confirmation has been recommended to the Board by the Audit Committee and EY has indicated its willingness to remain in office.

2017 Annual General Meeting

This year's AGM will be held at the earlier time of 10.00 am on Thursday, 13 July 2017, at 80 Victoria Street, London SW1E 5JL. 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 17 May 2017.

By Order of the Board

Tim Ashby
Group General Counsel and Company Secretary

Land Securities Group PLC
Company number 436904

Financial statements

Contents

Statement of Directors' Responsibilities

The Annual Report 2017 contains the following statements regarding responsibility for the financial statements and business reviews included therein.

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 (IFRS) 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 IFRS 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 IFRS 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 IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

— the Company financial statements, prepared in accordance with IFRS 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.landsec.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

— Edward Bonham Carter, Senior Independent Director*

— Kevin O'Byrne*

— Chris Bartram*

— Simon Palley*

— Stacey Rauch*

— Cressida Hogg CBE*

— Nicholas Cadbury*

* Non-executive Directors

The Statement of Directors' Responsibilities was approved by the Board of Directors on 17 May 2017 and is signed on its behalf by:

Robert Noel	**Martin Greenslade**
Chief Executive	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 2017 and of the Group's profit for the year then ended;

— The Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;

— The Parent company financial statements have been properly prepared in accordance with IFRS 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 2017	Balance sheet as at 31 March 2017
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 39 to the financial statements	Related notes 1 to 39 to the financial statements

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) — 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 £61m which represents 0.5% of the carrying value of investment properties line item in the Group balance sheet at 31 March 2017 — Specific materiality of £21m 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).

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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.

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	Key observations communicated to the Audit Committee
The valuation of the investment property portfolio, including properties within the development programme and investment properties held in joint ventures 2017: £12,144m in investment properties and £1,763m (the Group's share) in investment properties held in joint ventures (2016: £12,358m in investment properties and £1,630m in investment properties held in joint ventures) Refer to the Accountability section of the Annual Report (pages 70-74); Accounting policies (page 119-120); Note 14 of the Financial Statements (pages 121-123) and Note 16 of the Financial Statements (pages 124-129) 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 valuer. 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. 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.	Our audit procedures around the valuation of investment property included: We evaluated the Group's controls over data used in the valuation of the investment property portfolio and management's review of the valuations. We evaluated the competence of the external valuer which included consideration of their qualifications and expertise. We met with the Group's external valuer to discuss their valuation approach and the judgements they made in assessing the property valuation such as estimated rental value, yield profile and other assumptions that impact the value. For a sample of properties, we performed testing over source documentation provided by the Group to the external valuer. This included agreeing a sample of this documentation back to underlying lease data and vouching costs incurred to date 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. We included Chartered Surveyors on our audit team who reviewed and challenged the valuation approach and assumptions for a sample of properties which comprised 69% 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 valuer, 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. Together with our Chartered Surveyors, we met with the external valuer 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, including Brexit, on the property valuations. We conducted analytical procedures by comparing assumptions and the value of each property in the portfolio on a year-on-year basis, by reference to our understanding of the UK real estate market, external market data and asset specific considerations to evaluate the appropriateness of the valuations adopted by the Group. We investigated further the valuations of some properties which included further discussions with management and, where appropriate, obtaining evidence to support the movement in values and involvement of our Chartered Surveyors. We attended meetings between management and the external valuer to assess for evidence of undue management influence and we obtained a confirmation from the external valuer that they had not been subject to undue influence from management. We utilised our analytical procedures and work of the Chartered Surveyors described above in order to assess for evidence of undue management influence. We performed site visits accompanied by our Chartered Surveyors for a sample of properties in the development programme, which enabled us to assess the stage of completion of, and gain specific insights into, these developments. We met with development directors and project managers for major properties in the development programme and assessed project costs, progress of development and leasing status and considered the reasonableness of the forecast costs to complete included in the valuations as well as identified contingencies, exposures and remaining risks. We corroborated the information provided by the development directors and the project managers through valuation review, site visits and cost analysis. We also reviewed development feasibilities and monthly development reporting against budget. **Scope of our procedures** 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.	We have audited the inputs, assumptions and methodology used by the external valuer. 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 2017. Our Chartered Surveyors concluded that the sample of valuations they reviewed were within a reasonable range. 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	Key observations communicated to the Audit Committee
Revenue recognition, including the timing of revenue recognition, the treatment of rents, incentives and recognition of trading property proceeds 2017: £587m rental income and £62m trading property sales proceeds (2016: £603m rental income and £195m trading property sales proceeds) Refer to the Accountability section of the Annual Report (pages 70-74); Accounting policies (page 113); and Note 6 of the Financial Statements (page 113) 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 over revenue recognition included: 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. We also performed controls testing on the billings process. We selected a sample of new or amended lease agreements in the year and agreed the data input into PIMS, the property management information system, including lease incentive clauses. 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. Detailed analytical procedures were performed on the recognition of revenue, including rents, incentives and other property related revenue to assess whether revenue had been recognised in the appropriate accounting period. We agreed a sample of lease agreements to the schedules used to calculate straight-lining of revenue in accordance with SIC 15 Operating Leases – Incentives and corroborated the arithmetical accuracy of these schedules and the resulting amounts in revenue for straight-lining of tenant lease incentives. We challenged the assessment of recoverability of 'tenant lease incentives' receivable balance by evaluating the financial viability of the major tenants with related lease incentive debtors. We assessed whether the revenue recognition policies adopted complied with IFRS as adopted by the European Union. 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. We tested a sample of trading property proceeds recognised during the year through agreement to contracts and cash to bank in order to verify that revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. **Scope of our procedures** 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.

Compared to the prior year, there have been no changes to our assessment of the risks of material misstatement.

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.

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.

Independent Auditor's Report
continued

The table below sets out the materiality, performance materiality and threshold for reporting audit differences applied on our audit:

	Basis	Materiality	Performance materiality	Audit differences
Overall	0.5% of carrying value of investment properties	£61m (2016: £62m)	£46m (2016: £46m)	£3m (2016: £3m)
Account balances not related to investment properties (either wholly owned or held within joint ventures)	Profit before tax, excluding the impact of the net deficit on revaluation of investment properties either wholly owned or held within joint ventures and the impact of the redemption of medium term notes (Adjusted PBT)	£21m (2016: £21m)	£16m (2016: £16m)	£1m (2016: £1m)

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 (2016: 82%) 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 £112m, excluding the impact of the net deficit on revaluation of investment properties either wholly owned or held within joint ventures of £146m and the impact of the redemption of medium term notes of £170m ('Adjusted PBT') as overall materiality is applied to the net deficit 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. This year the calculation of Adjusted PBT excludes the impact of the redemption of medium term notes, given this is expected to be a non-recurring item.

During the course of our audit, we reassessed initial materiality and, as the actual carrying value of investment properties was in line with that which we had used as the initial basis for determining overall materiality, our final materiality was consistent with the materiality we calculated initially.

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% (2016: 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 £3m (2016: £3m), as well as audit differences in excess of £1m (2016: £1m) 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 96, 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

— Based on the work undertaken in the course of the audit:

  — 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;

  — The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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: — Materially inconsistent with the information in the audited financial statements; or — Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or — Otherwise misleading. 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	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or the Directors' Report. We are required to report to you if, in our opinion: — 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 — 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 — Certain disclosures of Directors' remuneration specified by law are not made; or — 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: — The Directors' statement in relation to going concern and longer-term viability, set out on page 54; and — 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: — 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; — The disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; — 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 — 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
17 May 2017

Income statement
for the year ended 31 March 2017

	Notes	2017 Revenue profit £m	2017 Capital and other items £m	2017 Total £m	2016 Revenue profit £m	2016 Capital and other items £m	2016 Total £m
Revenue	6	**721**	**66**	**787**	744	198	942
Costs	7	**(242)**	**(24)**	**(266)**	(259)	(151)	(410)
		479	**42**	**521**	485	47	532
Profit on disposal of investment properties		**–**	**19**	**19**	–	75	75
Loss on disposal of investment in joint venture		**–**	**(2)**	**(2)**	–	–	–
Profit on disposal of other investment		**–**	**13**	**13**	–	–	–
Net (deficit)/surplus on revaluation of investment properties	14	**–**	**(186)**	**(186)**	–	739	739
Operating profit		**479**	**(114)**	**365**	485	861	1,346
Share of post-tax profit from joint ventures	16	**21**	**48**	**69**	20	179	199
Finance income	10	**37**	**–**	**37**	35	–	35
Finance expense	10	**(155)**	**(204)**	**(359)**	(178)	(66)	(244)
Profit before tax		**382**	**(270)**	**112**	362	974	1,336
Taxation	12	**–**	**1**	**1**	–	2	2
Profit attributable to owners of the parent		**382**	**(269)**	**113**	362	976	1,338

	Notes	2017	2016
Earnings per share attributable to owners of the parent:			
Basic earnings per share	5	**14.3p**	169.4p
Diluted earnings per share	5	**14.3p**	168.8p

Statement of comprehensive income
for the year ended 31 March 2017

	Notes	2017 Total £m	2016 Total £m
Profit attributable to owners of the parent		**113**	1,338
Items that will not be subsequently reclassified to the income statement:			
Net re-measurement (loss)/gain on defined benefit pension scheme	32	**(12)**	18
Deferred tax credit/(charge) on re-measurement above		**2**	(3)
Other comprehensive (loss)/income attributable to owners of the parent		**(10)**	15
Total comprehensive income attributable to owners of the parent		**103**	1,353

Balance sheets
at 31 March 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Investment properties	14	**12,144**	12,358	**–**	–
Intangible assets	19	**36**	38	**–**	–
Net investment in finance leases	18	**165**	183	**–**	–
Investments in joint ventures	16	**1,734**	1,668	**–**	–
Investments in subsidiary undertakings	28	**–**	–	**6,205**	6,200
Trade and other receivables	26	**123**	86	**–**	–
Other non-current assets	29	**51**	44	**–**	–
Total non-current assets		**14,253**	14,377	**6,205**	6,200
Current assets					
Trading properties	15	**122**	124	**–**	–
Trade and other receivables	26	**418**	445	**17**	17
Monies held in restricted accounts and deposits	22	**21**	19	**4**	4
Cash and cash equivalents	23	**30**	25	**–**	–
Total current assets		**591**	613	**21**	21
Total assets		**14,844**	14,990	**6,226**	6,221
Current liabilities					
Borrowings	21	**(404)**	(19)	**–**	–
Trade and other payables	27	**(302)**	(289)	**(1,394)**	(1,037)
Other current liabilities	30	**(7)**	(19)	**–**	–
Total current liabilities		**(713)**	(327)	**(1,394)**	(1,037)
Non-current liabilities					
Borrowings	21	**(2,545)**	(2,854)	**–**	–
Trade and other payables	27	**(25)**	(28)	**–**	–
Other non-current liabilities	31	**(9)**	(47)	**–**	–
Redemption liability		**(36)**	(35)	**–**	–
Total non-current liabilities		**(2,615)**	(2,964)	**–**	–
Total liabilities		**(3,328)**	(3,291)	**(1,394)**	(1,037)
Net assets		**11,516**	11,699	**4,832**	5,184
Equity					
Capital and reserves attributable to owners of the parent					
Ordinary shares	34	**80**	80	**80**	80
Share premium		**791**	790	**791**	790
Capital redemption reserve		**31**	31	**31**	31
Own shares		**(9)**	(14)	**–**	–
Share-based payments		**8**	11	**8**	11
Merger reserve		**–**	–	**374**	374
Retained earnings		**10,615**	10,801	**3,548**	3,898
Total equity		**11,516**	11,699	**4,832**	5,184

The loss for the year of the Company was **£68m** (2016: profit of £331m).

The financial statements on pages 103 to 154 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

R M Noel **M F Greenslade**
Directors

Statement of changes in equity
for the year ended 31 March 2017

	Ordinary shares £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Share-based payments £m	Retained earnings £m	Group Total equity £m
				Attributable to owners of the parent			
At 1 April 2015	80	789	31	(12)	9	9,709	10,606
Total comprehensive income for the financial year	–	–	–	–	–	1,353	1,353
Transactions with owners:							
Share-based payments	–	1	–	16	2	(6)	13
Dividends paid to owners of the parent	–	–	–	–	–	(255)	(255)
Acquisition of own shares	–	–	–	(18)	–	–	(18)
Total transactions with owners of the parent	–	1	–	(2)	2	(261)	(260)
At 31 March 2016	**80**	**790**	**31**	**(14)**	**11**	**10,801**	**11,699**
Total comprehensive income for the financial year	**–**	**–**	**–**	**–**	**–**	**103**	**103**
Transactions with owners:							
Share-based payments	**–**	**1**	**–**	**11**	**(3)**	**–**	**9**
Dividends paid to owners of the parent	**–**	**–**	**–**	**–**	**–**	**(289)**	**(289)**
Acquisition of own shares	**–**	**–**	**–**	**(6)**	**–**	**–**	**(6)**
Total transactions with owners of the parent	**–**	**1**	**–**	**5**	**(3)**	**(289)**	**(286)**
At 31 March 2017	**80**	**791**	**31**	**(9)**	**8**	**10,615**	**11,516**

	Ordinary shares £m	Share premium £m	Capital redemption reserve £m	Share-based payments £m	Merger reserve £m	Retained earnings[1] £m	Company Total equity £m
At 1 April 2015	80	789	31	9	374	3,816	5,099
Profit for the year ended 31 March 2016	–	–	–	–	–	331	331
Share-based payments	–	1	–	2	–	6	9
Dividends paid to owners of the parent	–	–	–	–	–	(255)	(255)
At 31 March 2016	80	790	31	11	374	3,898	5,184
Loss for the year ended 31 March 2017	**–**	**–**	**–**	**–**	**–**	**(68)**	**(68)**
Share-based payments	**–**	**1**	**–**	**(3)**	**–**	**7**	**5**
Dividends paid to owners of the parent	**–**	**–**	**–**	**–**	**–**	**(289)**	**(289)**
At 31 March 2017	**80**	**791**	**31**	**8**	**374**	**3,548**	**4,832**

1. Available for distribution.

Financial Statements

Statement of cash flows

for the year ended 31 March 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities					
Net cash generated from operations	13	**464**	451	**–**	–
Interest received		**15**	21	**–**	–
Interest paid		**(152)**	(197)	**–**	–
Capital expenditure on trading properties		**(12)**	(32)	**–**	–
Disposal of trading properties		**69**	190	**–**	–
Other operating cash flows		**2**	(1)	**–**	–
Net cash inflow from operating activities		**386**	432	**–**	–
Cash flows from investing activities					
Investment property development expenditure		**(46)**	(118)	**–**	–
Acquisition of investment properties		**(16)**	(103)	**–**	–
Other investment property related expenditure		**(80)**	(100)	**–**	–
Disposal of investment properties		**245**	1,221	**–**	–
Disposal of other investment		**13**	–	**–**	–
Cash contributed to joint ventures	16	**(67)**	(62)	**–**	–
Net loan advances to joint ventures	16	**(45)**	(106)	**–**	–
Loan repayments by joint ventures	16	**54**	14	**–**	–
Distributions from joint ventures	16	**44**	63	**–**	–
Other investing cash flows		**(19)**	40	**–**	–
Net cash inflow from investing activities		**83**	849	**–**	–
Cash flows from financing activities					
Proceeds from new borrowings (net of finance fees)		**356**	249	**–**	–
Repayment of borrowings	21	**(391)**	(806)	**–**	–
Issue of medium term notes (net of finance fees)	21	**698**	–	**–**	–
Redemption of medium term notes	21	**(690)**	(400)	**–**	–
Premium payable on redemption of medium term notes	21	**(137)**	(26)	**–**	–
Refinancing of derivative financial instruments		**(4)**	–	**–**	–
Dividends paid to owners of the parent	11	**(289)**	(262)	**–**	–
Other financing cash flows		**(7)**	(26)	**–**	–
Net cash outflow from financing activities		**(464)**	(1,271)	**–**	–
Increase in cash and cash equivalents for the year		**5**	10	**–**	–
Cash and cash equivalents at the beginning of the year		**25**	15	**–**	–
Cash and cash equivalents at the end of the year	23	**30**	25	**–**	–

Notes to the financial statements

for the year ended 31 March 2017

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 (IFRS), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared in Pounds Sterling (rounded to the nearest one million), which is the presentation currency of the Group (Land Securities Group PLC and all 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.

During the year, the Group has reviewed the presentation of the financial statements and has made some changes with the intention of simplifying the way in which the Group's results are presented. One of the main changes is from reporting to the nearest hundred thousand pounds, to reporting to the nearest million pounds. Additionally, certain insignificant line items that were previously presented separately in the financial statements have been aggregated. Where line items have been aggregated in the primary statements, explanatory notes providing a breakdown of the aggregated balances are included in the notes to the financial statements.

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. Further details on the Group's significant accounting judgements and estimates are included in note 2.

Land Securities Group PLC (the Company) has not presented its own statement of comprehensive income (and separate income statement), as permitted by Section 408 of Companies Act 2006. 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.

Basis of consolidation

The consolidated financial statements for the year ended 31 March 2017 incorporate the financial statements of the Company and all its subsidiary undertakings. 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.

Where instruments in a subsidiary held by third parties are redeemable at the option of the holder, these interests are classified as a financial liability, called the redemption 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.

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. 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. Interests in joint ventures are equity accounted. 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. 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.

2. Significant accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in applying the Group's accounting policies. 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:

— Valuation of investment and trading properties (page 120)
— Accounting for property acquisitions and disposals (page 120)
— Compliance with the Real Estate Investment Trust (REIT) taxation regime and the recognition of deferred tax assets and liabilities (page 117)

3. Amendments to IFRS

The accounting policies used in these financial statements are consistent with those applied in the last annual financial statements, as amended where relevant to reflect the adoption of new standards, amendments and interpretations which became effective in the year. These amendments have not had an impact on the financial statements.

A number of new standards and amendments to standards have been issued but are not yet effective for the Group. The most significant of these, and their potential impact on the Group's accounting, are set out below:

— IFRS 15 Revenue from Contracts with Customers (effective from 1 April 2018) – the standard will be applicable to service charge income, other property related income, trading property sales proceeds and proceeds from the sale of investment properties, but not rental income arising from the Group's leases with tenants. Based on the transactions impacting the current financial year and future known transactions, the Group does not expect the adoption of IFRS 15 to have a material impact on the Group's reported results. However, we will continue to assess new transactions as they arise to the date of adoption.
— IFRS 9 Financial Instruments (effective from 1 April 2018) – the standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group is in the process of assessing the impact of IFRS 9, but adoption of the new standard may impact the measurement and presentation of the Group's financial liabilities.
— IFRS 16 Leases (effective from 1 April 2019) – the adoption of this standard is not expected to significantly impact the recognition of rental income earned under the Group's leases with tenants. The Group holds a small number of operating leases as a lessee which are affected by this standard, however, these are not material to the financial statements.

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.

Our property portfolio is a combination of properties that are wholly owned by the Group, part owned through joint arrangements and properties owned by the Group but where a third party holds a non-controlling interest. Internally, management review the results of the Group on a basis that adjusts for these different forms of ownership to present a proportionate share. The Combined Portfolio, with assets totalling £14.4bn, is an example of this approach, reflecting the economic interest we have in our properties regardless of our ownership structure. We consider this presentation provides a better explanation to stakeholders of the activities and performance of the Group, as it aggregates the results of all of the Group's property interests which under IFRS are required to be presented across a number of line items in the statutory financial statements.

The same principle is applied to many of the other measures we discuss and accordingly, 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.

Our income statement has two key components: the income we generate from leasing our investment properties net of associated costs (including interest expense), which we refer to as revenue profit, and items not directly related to the underlying rental business, principally valuation changes, profits or losses on the disposal of properties and exceptional items, which we refer to as capital and other items. Our 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 IFRS; the other columns provide additional information. We believe revenue profit better represents the results of the Group's operational performance to stakeholders as it focuses on the rental income performance of the business and excludes capital and other items which can vary significantly from year to year. 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.

4. Segmental information

The Group's operations are organised into two operating segments, being the London Portfolio and the Retail 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 ongoing 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 finance expenses (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.

All items in the segmental information note are presented on a proportionate basis. A reconciliation from the Group income statement to the information presented in the segmental information note is included in table 78.

4. Segmental information continued

Revenue profit

	2017 Retail £m	2017 London £m	2017 Total £m	2016 Retail £m	2016 London £m	2016 Total £m
Rental income	**342**	**296**	**638**	363	287	650
Finance lease interest	**1**	**9**	**10**	1	9	10
Gross rental income (before rents payable)	**343**	**305**	**648**	364	296	660
Rents payable[1]	**(8)**	**(3)**	**(11)**	(9)	(3)	(12)
Gross rental income (after rents payable)	**335**	**302**	**637**	355	293	648
Service charge income	**56**	**45**	**101**	56	46	102
Service charge expense	**(60)**	**(46)**	**(106)**	(58)	(47)	(105)
Net service charge expense	**(4)**	**(1)**	**(5)**	(2)	(1)	(3)
Other property related income	**20**	**14**	**34**	21	17	38
Direct property expenditure	**(36)**	**(30)**	**(66)**	(45)	(34)	(79)
Net rental income	**315**	**285**	**600**	329	275	604
Indirect property expenditure	**(21)**	**(16)**	**(37)**	(25)	(18)	(43)
Depreciation	**(1)**	**(1)**	**(2)**	–	(1)	(1)
Segment profit before finance expense	**293**	**268**	**561**	304	256	560
Joint venture finance expense	**(4)**	**(17)**	**(21)**	(4)	(17)	(21)
Segment profit	**289**	**251**	**540**	300	239	539
Group services – other income			**2**			4
– expense			**(42)**			(38)
Finance income			**37**			35
Finance expense			**(155)**			(178)
Revenue profit			**382**			362

1. Included within rents payable is finance lease interest payable of **£1m** (2016: £1m) and **£1m** (2016: £nil), for the Retail and London portfolios, respectively.

Reconciliation of revenue profit to profit before tax

	2017 Total £m	2016 Total £m
Revenue profit	**382**	362
Capital and other items		
Valuation and profits on disposals		
Profit on disposal of investment properties	**20**	79
Loss on disposal of investment in joint venture	**(2)**	–
Profit on disposal of other investment	**13**	–
Net (deficit)/surplus on revaluation of investment properties	**(147)**	907
Movement in impairment of trading properties	**12**	16
Profit on disposal of trading properties	**36**	41
	(68)	1,043
Net finance expense		
Fair value movement on interest-rate swaps	**(8)**	(11)
Amortisation of bond-exchange de-recognition adjustment	**(24)**	(23)
Other	**(2)**	(5)
	(34)	(39)
Exceptional items		
Head office relocation	**1**	(6)
Premium payable on redemption of medium term notes	**(170)**	(27)
	(169)	(33)
Other	**1**	3
Profit before tax	**112**	1,336

5. Performance measures

Three of the Group's key financial performance measures are adjusted diluted earnings per share, adjusted diluted net assets per share and total business return. In the tables below we present earnings per share and net assets per share calculated in accordance with IFRS, together with our own adjusted measures and certain measures required by EPRA. We also present the calculation of total business return.

Adjusted earnings, which is a tax adjusted measure of revenue profit, is the basis for the calculation of adjusted earnings per share. We believe adjusted earnings and adjusted earnings per share better represent the results of the Group's operational performance to stakeholders as they focus on the rental income performance of the business and exclude capital and other items which can vary significantly from year to year.

Adjusted net assets excludes the fair value of interest-rate swaps used for hedging purposes and the bond exchange de-recognition adjustment. We believe this better reflects the underlying net assets attributable to shareholders as it more accurately reflects the future cash flows associated with our debt instruments.

Total business return is calculated as the cash dividends paid in the year plus the change in adjusted diluted net assets per share, divided by the opening adjusted diluted net assets per share. We consider this to be a useful measure for shareholders as it gives an indication of the total return on investment over the year.

EPRA measures for both earnings per share and net assets per share have been included to assist comparison between European property companies.

Earnings per share

			2017			2016
	Profit for the financial year £m	**EPRA earnings £m**	**Adjusted earnings £m**	Profit for the financial year £m	EPRA earnings £m	Adjusted earnings £m
Profit attributable to owners of the parent	**113**	**113**	**113**	1,338	1,338	1,338
Taxation	**–**	**(1)**	**(1)**	–	(2)	(2)
Valuation and profits on disposal	**–**	**68**	**68**	–	(1,043)	(1,043)
Net finance expense[1]	**–**	**10**	**34**	–	16	39
Exceptional items[2]	**–**	**170**	**169**	–	27	33
Other	**–**	**(1)**	**(1)**	–	(3)	(3)
Profit used in per share calculation	**113**	**359**	**382**	1,338	333	362

	IFRS	**EPRA**	**Adjusted**	IFRS	EPRA	Adjusted
Basic earnings per share	**14.3p**	**45.4p**	**48.4p**	169.4p	42.2p	45.9p
Diluted earnings per share	**14.3p**	**45.4p**	**48.3p**	168.8p	42.0p	45.7p

1. The difference in the adjustment for EPRA earnings and adjusted earnings relates to the amortisation of the bond exchange de-recognition adjustment, which is included in EPRA earnings, but excluded from adjusted earnings.
2. The difference in the adjustment for EPRA earnings and adjusted earnings relates to the head office relocation costs, which are included in EPRA earnings, but excluded from adjusted earnings.

Net assets per share

			2017			2016
	Net assets £m	**EPRA net assets[1] £m**	**Adjusted net assets £m**	Net assets £m	EPRA net assets[1] £m	Adjusted net assets £m
Net assets attributable to owners of the parent	**11,516**	**11,516**	**11,516**	11,699	11,699	11,699
Fair value of interest-rate swaps – Group	**–**	**2**	**2**	–	32	32
– Joint ventures	**–**	**2**	**2**	–	2	2
Bond exchange de-recognition adjustment	**–**	**–**	**(314)**	–	–	(368)
Deferred tax liability arising on business combination	**–**	**4**	**4**	–	5	5
Goodwill on deferred tax liability	**–**	**(4)**	**(4)**	–	(5)	(5)
Net assets used in per share calculation	**11,516**	**11,520**	**11,206**	11,699	11,733	11,365

	IFRS	**EPRA**	**Adjusted**	IFRS	EPRA	Adjusted
Net assets per share	**1,458p**	**n/a**	**1,418p**	1,482p	n/a	1,439p
Diluted net assets per share	**1,456p**	**1,456p**	**1,417p**	1,476p	1,481p	1,434p

1. For EPRA triple net assets, see table 81.

5. Performance measures continued

Number of shares

	2017		2016	
	Weighted average million	**31 March million**	Weighted average million	31 March million
Ordinary shares	**801**	**801**	801	801
Treasury shares	**(10)**	**(10)**	(10)	(10)
Own shares	**(1)**	**(1)**	(1)	(1)
Number of shares – basic	**790**	**790**	790	790
Dilutive effect of share options	**1**	**1**	3	3
Number of shares – diluted	**791**	**791**	793	793

Total business return

	2017 pence	2016 pence
(Decrease)/increase in adjusted diluted net assets per share	**(17)**	141
Dividend paid per share in the year (note 11)	**37**	32
Total return (a)	**20**	173
Adjusted diluted net assets per share at the beginning of the year (b)	**1,434**	1,293
Total business return (a/b)	**1.4%**	13.4%

6. Revenue

Accounting policy

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.

Rental income, including fixed rental uplifts, 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. 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.

Service charge income and management fees are recorded as income in the period in which they are 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 and is recognised within revenue.

Proceeds received on the sale of trading properties are recognised when the significant risks and rewards of ownership transfer to the buyer. This generally occurs on unconditional exchange or on completion, particularly if completion is expected to occur significantly after exchange or if the Group has significant outstanding obligations between exchange and completion.

All revenue is classified within the 'Revenue profit' column of the income statement, with the exception of proceeds on the sale of trading properties which is 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
			2017			2016
	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)	**541**	**2**	**543**	571	3	574
Adjustment for lease incentives	**44**	**–**	**44**	29	–	29
Rental income	**585**	**2**	**587**	600	3	603
Service charge income	**92**	**2**	**94**	94	–	94
Other property related income	**32**	**–**	**32**	36	–	36
Trading property sales proceeds	**–**	**62**	**62**	–	195	195
Finance lease interest	**10**	**–**	**10**	10	–	10
Other income	**2**	**–**	**2**	4	–	4
Revenue per the income statement	**721**	**66**	**787**	744	198	942

The following table reconciles revenue per the income statement to the individual components of revenue presented in note 4.

								Group
				2017				2016
	Group £m	**Joint ventures £m**	**Adjustment for non-wholly owned subsidiaries[1] £m**	**Total £m**	Group £m	Joint ventures £m	Adjustment for non-wholly owned subsidiaries[1] £m	Total £m
Rental income	**587**	**53**	**(2)**	**638**	603	50	(3)	650
Service charge income	**94**	**9**	**(2)**	**101**	94	8	–	102
Other property related income	**32**	**2**	**–**	**34**	36	2	–	38
Trading property sales proceeds	**62**	**72**	**–**	**134**	195	–	–	195
Finance lease interest	**10**	**–**	**–**	**10**	10	–	–	10
Other income	**2**	**–**	**–**	**2**	4	–	–	4
Revenue in the segmental information note	**787**	**136**	**(4)**	**919**	942	60	(3)	999

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

Financial Statements

7. Costs

Accounting policy

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. 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, amortisation of intangible assets 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.

						Group
			2017			2016
	Revenue profit £m	**Capital and other items £m**	**Total £m**	Revenue profit £m	Capital and other items £m	Total £m
Rents payable	**10**	**–**	**10**	11	–	11
Service charge expense	**95**	**1**	**96**	96	–	96
Direct property expenditure	**58**	**–**	**58**	72	–	72
Indirect property expenditure	**79**	**–**	**79**	80	–	80
Cost of trading property disposals	**–**	**33**	**33**	–	154	154
Movement in impairment of trading properties[1]	**–**	**(12)**	**(12)**	–	(11)	(11)
Head office relocation[2]	**–**	**(1)**	**(1)**	–	6	6
Amortisation of intangible assets	**–**	**2**	**2**	–	1	1
Impairment of goodwill	**–**	**1**	**1**	–	1	1
Costs per the income statement	**242**	**24**	**266**	259	151	410

1. The movement in impairment of trading properties in the years ended 31 March 2017 and 2016 relates to the reversal of previous impairment charges related to residential land, where the valuer's assessment of net realisable value increased over the year.
2. The net credit of £1m in respect of the head office relocation comprises the £2m release of an onerous lease provision following the assignment of the lease on the Group's previous head office at lower net cost than originally anticipated, together with relocation costs of £1m. The cost of £6m in the prior year reflects the creation of the provision in respect of the onerous lease and relocation costs committed to at that time.

The following table reconciles costs per the income statement to the individual components of costs presented in note 4.

								Group
				2017				2016
	Group £m	**Joint ventures £m**	**Adjustment for non-wholly owned subsidiaries[1] £m**	**Total £m**	Group £m	Joint ventures £m	Adjustment for non-wholly owned subsidiaries[1] £m	Total £m
Rents payable	**10**	**1**	**–**	**11**	11	1	–	12
Service charge expense	**96**	**11**	**(1)**	**106**	96	9	–	105
Direct property expenditure	**58**	**8**	**–**	**66**	72	7	–	79
Indirect property expenditure	**79**	**2**	**–**	**81**	80	2	–	82
Trading property disposals	**33**	**65**	**–**	**98**	154	–	–	154
Movement in impairment of trading properties	**(12)**	**–**	**–**	**(12)**	(11)	(5)	–	(16)
Head office relocation	**(1)**	**–**	**–**	**(1)**	6	–	–	6
Amortisation of intangible asset	**2**	**–**	**–**	**2**	1	–	–	1
Impairment of goodwill	**1**	**–**	**–**	**1**	1	–	–	1
Costs in the segmental information note	**266**	**87**	**(1)**	**352**	410	14	–	424

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

The Group's costs include employee costs for the year of **£60m** (2016: £64m), of which **£7m** (2016: £7m) is within service charge expense and **£53m** (2016: £57m) is within indirect property expenditure, of which **£22m** relates to Group services (2016: £19m).

Employee costs		**Group**
	2017 £m	2016 £m
Salaries and wages	**45**	47
Employer payroll taxes	**6**	6
Other pension costs (note 32)	**4**	3
Share-based payments (note 33)	**5**	8
	60	64

		Group
	2017 Number	2016 Number
The average monthly number of employees during the year was:		
Indirect property or contract and administration	**421**	459
Direct property or contract services:		
Full-time	**153**	142
Part-time	**9**	8
	583	609

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 (2016: nil). Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 76 to 91.

Details of the employee costs associated with the Group's key management personnel are included in note 37.

8. Auditor remuneration

		Group
	2017 £m	2016 £m
Services provided by the Group's auditor		
Audit fees:		
Audit of parent company and consolidated financial statements	**0.4**	0.4
Audit of subsidiary undertakings	**0.3**	0.3
Audit of joint ventures	**0.1**	0.1
	0.8	0.8
Non-audit fees:		
Audit related assurance services	**0.1**	0.2
Other assurance services	**0.1**	–
	1.0	1.0

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 Audit Committee.

9. External valuer's remuneration

	2017 £m	Group 2016 £m
Services provided by the Group's external valuer		
Year end and half year valuations – Group	**0.7**	0.7
– Joint ventures	**0.2**	0.1
Other consultancy and agency services	**3.2**	3.9
	4.1	4.7

CBRE Limited (CBRE) is the Group's 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 its total revenues in the current year.

10. Net finance expense

	2017 Revenue profit £m	2017 Capital and other items £m	2017 Total £m	Group 2016 Revenue profit £m	Group 2016 Capital and other items £m	Group 2016 Total £m
Finance income						
Other interest receivable	**2**	**–**	**2**	1	–	1
Interest receivable from joint ventures	**35**	**–**	**35**	34	–	34
	37	**–**	**37**	35	–	35
Finance expense						
Bond and debenture debt	**(144)**	**–**	**(144)**	(169)	–	(169)
Bank and other short-term borrowings	**(15)**	**–**	**(15)**	(20)	–	(20)
Fair value movement on interest-rate swaps	**–**	**(8)**	**(8)**	–	(11)	(11)
Amortisation of bond exchange de-recognition adjustment	**–**	**(24)**	**(24)**	–	(23)	(23)
Redemption of medium term notes	**–**	**(170)**	**(170)**	–	(27)	(27)
Revaluation of redemption liabilities	**–**	**(3)**	**(3)**	–	(5)	(5)
Other interest payable	**(1)**	**1**	**-**	–	–	–
	(160)	**(204)**	**(364)**	(189)	(66)	(255)
Interest capitalised in relation to properties under development	**5**	**–**	**5**	11	–	11
	(155)	**(204)**	**(359)**	(178)	(66)	(244)
Net finance expense	**(118)**	**(204)**	**(322)**	(143)	(66)	(209)
Joint venture net finance expense	**(21)**			(21)		
Net finance expense included in revenue profit	**(139)**			(164)		

During the year, the Group purchased medium term notes (MTNs) with a nominal value of **£690m** (2016: £400m) for a premium of **£137m** (2016: £26m). The redemption premium and **£30m** (2016: £nil) of the bond exchange de-recognition adjustment associated with the purchased bonds have been expensed to the income statement in the year, as an exceptional item, along with **£1m** (2016: £nil) of bank tender fees and the **£2m** (2016: £1m) write-off of unamortised issue costs. Further details are given in note 21.

Finance lease interest payable of **£2m** (2016: £1m) is included within rents payable as detailed in note 4.

11. 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.

Ordinary dividends paid

	Payment date	Pence per share PID	Pence per share Non-PID	Pence per share Total	Group and Company 2017 £m	Group and Company 2016 £m
For the year ended 31 March 2015:						
Third interim	10 April 2015	7.9	–	7.9		63
Final	24 July 2015	8.15	–	8.15		64
For the year ended 31 March 2016:						
First interim	9 October 2015	8.15	–	8.15		64
Second interim	7 January 2016	–	8.15	8.15		64
Third interim	**8 April 2016**	**8.15**	**–**	**8.15**	**64**	
Final	**28 July 2016**	**10.55**	**–**	**10.55**	**83**	
For the year ended 31 March 2017:						
First interim	**7 October 2016**	**8.95**	**–**	**8.95**	**71**	
Second interim	**6 January 2017**	**–**	**8.95**	**8.95**	**71**	
Gross dividends					**289**	255
Dividends in statement of changes in equity					**289**	255
Timing difference on payment of withholding tax					**–**	7
Dividends in the statement of cash flows					**289**	262

A third quarterly interim dividend of **8.95p** per ordinary share, or **£71m** in total (2016: 8.15p or £64m in total), was paid on 7 April 2017 as a Property Income Distribution (PID). The Board has recommended a final dividend for the year ended 31 March 2017 of **11.7p** per ordinary share (2016: 10.55p) to be paid as a PID. This final dividend will result in a further estimated distribution of **£92m** (2016: £83m). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 27 July 2017 to shareholders registered at the close of business on 23 June 2017. The total dividend paid and recommended in respect of the year ended 31 March 2017 is therefore **38.55p** per ordinary share (2016: 35.0p).

A Dividend Reinvestment Plan (DRIP) has been available in respect of all dividends paid during the year.

12. 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.

Significant accounting judgements and estimates

The Group is a Real Estate Investment Trust (REIT). As a result, the Group does not pay UK corporation tax on its profits and gains from the qualifying rental business in the UK. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal. In order to maintain group REIT status, certain ongoing criteria must be met. 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.

12. Income tax continued

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

Deferred tax assets and liabilities require management judgement in determining the amounts, if any, to be recognised. In particular, judgement is required when assessing the extent to which deferred tax assets should be recognised, taking into account the expected timing and level of future taxable income. Deferred tax assets are only recognised when management believe they will be recovered against future taxable profits.

The income tax credit in the income statement comprises the movement in deferred tax on intangible assets of **£1m** (2016: £1m credit) and adjustments in respect of prior financial years of **£nil** (2016: £1m credit). The tax for the year is lower than the standard rate of corporation tax in the UK of **20%** (2016: 20%). The differences are explained in the table below.

		Group
	2017 £m	2016 £m
Profit before tax	**112**	1,336
Profit before tax multiplied by the rate of corporation tax in the UK of 20% (2016: 20%)	**(22)**	(267)
Exempt property rental profits and revaluations in the year	**45**	261
	23	(6)
Effects of:		
Interest rate fair value movements and other unrecognised temporary differences	**(31)**	(4)
Adjustment in respect of prior years	**–**	2
Non-allowable expenses and non-taxable items	**6**	4
Utilisation of brought forward losses	**3**	6
Total income tax credit in the income statement	**1**	2

		Group
	2017 £m	2016 £m
The Group's deferred tax liability is analysed as follows:		
Arising on business combination	**4**	5
Arising on pension surplus (note 32)	**3**	5
Total deferred tax	**7**	10

Deferred tax is calculated at the rate substantially enacted at the balance sheet date **17%** (2016: 18%) which comes into effect from 1 April 2020.

There are unrecognised deferred tax assets on the following items due to the high degree of uncertainty as to their future utilisation by non-REIT qualifying activities.

		Group
	2017 £m	2016 £m
Revenue losses	**2**	13
Capital losses	**589**	643
Other unrecognised temporary differences	**140**	–
Total unrecognised deferred tax	**731**	656

The other unrecognised temporary differences relate to the premium paid on the redemption of the Group's medium term notes. For further details see note 21.

13. Net cash generated from operations

Reconciliation of operating profit/(loss) to net cash generated from operations

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Operating profit/(loss)	**365**	1,346	**(30)**	(22)
Adjustments for:				
Net deficit/(surplus) on revaluation of investment properties	**186**	(739)	**–**	–
Movement in impairment of trading properties	**(12)**	(11)	**–**	–
Profit on disposal of trading properties	**(29)**	(41)	**–**	–
Profit on disposal of investment properties	**(19)**	(75)	**–**	–
Profit on disposal of other investment	**(13)**	–	**–**	–
Loss on disposal of investment in joint venture	**2**	–	**–**	–
Share-based payment charge	**5**	8	**–**	–
Other	**8**	6	**–**	–
	493	494	**(30)**	(22)
Changes in working capital:				
Increase in receivables	**(17)**	(33)	**–**	–
(Decrease)/increase in payables and provisions	**(12)**	(10)	**30**	22
Net cash generated from operations	**464**	451	**–**	–

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.

Our property portfolio is a combination of properties that are wholly owned by the Group, part owned through joint arrangements and properties owned by the Group but where a third party holds a non-controlling interest. In the Group's IFRS balance sheet, wholly owned properties are presented as either 'Investment properties' or 'Trading properties'. 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'.

Internally, management review the results of the Group on a basis that adjusts for these forms of ownership to present a proportionate share. The Combined Portfolio, with assets totalling £14.4bn, is an example of this proportionate share, reflecting the economic interest we have in our properties regardless of our ownership structure. We consider this presentation to better explain to stakeholders the activities and performance of the Group, as it aggregates the results of all of the Group's property interests which under IFRS are required to be presented across a number of line items in the statutory financial statements.

The Group's 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 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 14.

Accounting policy

Investment properties

Investment properties are properties, either owned or leased by the Group, that are held either to earn rental income or for capital appreciation, or both. Investment properties are measured initially at cost including related transaction costs, and subsequently at fair value. Fair value is based on market value, as determined by a professional independent valuer at each reporting date. 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. Investment properties are presented on the balance sheet within non-current assets.

Some of the Group's investment properties are owned through long-leasehold arrangements, as opposed to the Group owning the freehold. Where the Group is a lessee and the lease 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, and a corresponding liability is recorded within borrowings. Each lease payment is allocated between repayment of the liability and a finance charge to achieve a constant rate on the outstanding liability. The investment properties held under finance leases are subsequently carried at their fair value.

Trading properties
Trading properties are those properties held for sale, or those being developed with a view to sell. Trading properties are recorded at the lower of cost and net realisable value. The net realisable value of a trading property is determined by a professional independent valuer at each reporting date. If the net realisable value of a trading property is lower than its carrying value, an impairment loss is recorded in the income statement. If, in subsequent periods, the net realisable value of a trading property that was previously impaired increases above its carrying value, the impairment is reversed to align the carrying value of the property with the net realisable value. Trading properties are presented on the balance sheet within current assets.

Acquisition of properties
Properties are treated as acquired when the Group assumes the significant risks and returns of ownership.

Capital expenditure and capitalisation of borrowing costs
Capital expenditure on properties consists of costs of a capital nature, including costs associated with developments and refurbishments. Where a property is being developed or undergoing major refurbishment, interest costs associated with direct expenditure on the property are capitalised. The interest capitalised is calculated using the Group's weighted average cost of borrowings. Interest is capitalised as from the commencement of the development work until the date of practical completion. Certain internal staff and associated costs directly attributable to the management of major schemes during the construction phase are also capitalised.

Transfers between investment properties and trading properties
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.

Disposal of properties
Properties are treated as disposed when the significant risks and rewards of ownership are transferred to the buyer. Typically, this will either occur on unconditional exchange or on completion. Where completion is expected to occur significantly after exchange, or where the Group continues to have significant outstanding obligations after exchange, the risks and rewards will not usually transfer to the buyer until completion.

The profit on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the beginning of the accounting period plus capital expenditure to the date of disposal. The profit on disposal of investment properties is presented separately on the face of the income statement. Proceeds received on the sale of trading properties are recognised within Revenue, and the carrying value at the date of disposal is recognised within Costs.

Significant accounting judgements and estimates

Valuation of the Group's properties
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 valuer has based its valuation of the Group's properties as at 31 March 2017. 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 UK 2014 (revised April 2015).

The estimation of the net realisable value of the Group's trading properties, in particular 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 valuations prove to be inaccurate, this may have an impact on the value of the Group's investment and trading properties, which could in turn have an effect on the Group's financial position and results.

Acquisition and disposal of properties
Property transactions can be complex in nature and material to the financial statements. To determine when an acquisition or disposal should be recognised, management consider whether the Group holds the risks and rewards of ownership, and the point at which this is obtained or relinquished. Consideration is given to the terms of the acquisition or disposal contracts and any conditions that must be satisfied before the contract is fulfilled. In the case of an acquisition, management must also consider whether the transaction represents an asset acquisition or business combination.

14. Investment properties

	Group 2017 £m	2016 £m
Net book value at the beginning of the year	**12,358**	12,158
Acquisitions	**14**	157
Capital expenditure: Investment portfolio	**80**	91
Developments	**46**	104
Capitalised interest	**5**	9
Disposals	**(205)**	(900)
Net movement in finance leases	**32**	–
Net (deficit)/surplus on revaluation of investment properties	**(186)**	739
Net book value at 31 March	**12,144**	12,358

The market value of the Group's investment properties, as determined by the Group's external valuer, 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.

	2017				Group 2016			
	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	**12,144**	**1,763**	**(34)**	**13,873**	12,358	1,630	(34)	13,954
Plus: tenant lease incentives	**311**	**57**	**(1)**	**367**	268	43	–	311
Less: head leases capitalised	**(31)**	**(8)**	**–**	**(39)**	(14)	–	–	(14)
Plus: properties treated as finance leases	**238**	**–**	**–**	**238**	220	–	–	220
Market value	**12,662**	**1,812**	**(35)**	**14,439**	12,832	1,673	(34)	14,471
Net (deficit)/surplus on revaluation of investment properties	**(186)**	**40**	**(1)**	**(147)**	739	171	(3)	907

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 **£1,169m** (2016: £968m).

Investment properties include capitalised interest of **£206m** (2016: £201m). The average rate of interest capitalisation for the year is **4.7%** (2016: 5.0%). The historical cost of investment properties is **£6,713m** (2016: £6,720m).

Valuation process

The fair value of investment properties at 31 March 2017 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.

14. Investment properties continued

The Group considers all of its investment properties to fall within 'Level 3', as defined by IFRS 13 and as explained in note 25(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.

The table below summarises the key unobservable inputs used in the valuation of the Group's wholly owned investment properties at 31 March 2017:

	Market value	Estimated rental value £ per sq ft			Equivalent yield %			2017 Costs £ per sq ft		
	£m	Low	Average	High	Low	Average	High	Low	Average	High
Retail Portfolio										
Shopping centres and shops	**3,134**	**4**	**34**	**51**	**4.1%**	**4.8%**	**7.7%**	**–**	**5**	**14**
Retail parks	**855**	**11**	**21**	**28**	**3.5%**	**5.6%**	**10.0%**	**–**	**2**	**16**
Leisure and hotels	**1,361**	**5**	**16**	**31**	**3.8%**	**5.3%**	**8.6%**	**–**	**2**	**28**
Other[1]	**20**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Total Retail Portfolio (excluding developments)	**5,370**	**4**	**27**	**51**	**3.5%**	**5.0%**	**10.0%**	**–**	**4**	**28**
London Portfolio										
West End	**2,423**	**19**	**62**	**72**	**2.9%**	**4.6%**	**5.0%**	**–**	**1**	**24**
City	**1,291**	**56**	**63**	**66**	**4.1%**	**4.6%**	**5.8%**	**–**	**31**	**462**
Mid-town	**1,336**	**31**	**57**	**64**	**4.3%**	**4.5%**	**4.6%**	**–**	**1**	**2**
Inner London	**323**	**27**	**35**	**50**	**4.7%**	**5.0%**	**5.5%**	**–**	**–**	**–**
Total London offices	**5,373**	**19**	**59**	**72**	**2.9%**	**4.6%**	**5.8%**	**-**	**8**	**462**
Central London shops	**1,364**	**14**	**79**	**130**	**2.9%**	**3.9%**	**5.8%**	**-**	**-**	**1**
Other[1]	**41**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Total London Portfolio (excluding developments)	**6,778**	**14**	**63**	**130**	**2.9%**	**4.4%**	**5.8%**	**–**	**6**	**1**
Developments: income capitalisation method	**514**	**45**	**73**	**76**	**4.1%**	**4.2%**	**4.5%**	**–**	**–**	**–**
Development programme	**514**	**45**	**73**	**76**	**4.1%**	**4.2%**	**4.5%**	**–**	**–**	**–**
Market value at 31 March 2017 – Group	**12,662**									

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

		Impact on valuations of 5% change in estimated rental value		Impact on valuations of 25 bps change in equivalent yield		2017 Impact on valuations of 5% change in costs	
	Market value £m	Increase £m	Decrease £m	Decrease £m	Increase £m	Decrease £m	Increase £m
Total Retail Portfolio (excluding developments)	**5,370**	**229**	**(216)**	**288**	**(263)**	**2**	**(2)**
Total London Portfolio (excluding developments)	**6,778**	**264**	**(256)**	**428**	**(381)**	**19**	**(20)**
Developments: income capitalisation method	**514**	**16**	**(16)**	**33**	**(30)**	**–**	**(17)**
Market value at 31 March 2017 – Group	**12,662**						

The table below summarises the key unobservable inputs used in the valuation of the Group's wholly owned investment properties at 31 March 2016:

	Market value	Estimated rental value £ per sq ft			Equivalent yield %			2016 Costs £ per sq ft		
	£m	Low	Average	High	Low	Average	High	Low	Average	High
Retail Portfolio										
Shopping centres and shops	3,133	4	33	49	4.0%	4.7%	7.7%	–	9	35
Retail parks	887	11	21	28	3.5%	5.4%	10.0%	–	2	30
Leisure and hotels	1,520	4	16	33	3.8%	5.2%	8.1%	–	1	20
Other[1]	20	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	26	49	3.5%	4.9%	10.0%	–	6	35
London Portfolio										
West End	2,506	16	49	68	2.9%	3.7%	5.0%	–	18	134
City	797	47	59	63	4.3%	4.5%	5.2%	–	10	21
Mid-town	1,053	31	56	61	4.3%	4.4%	4.4%	–	2	3
Inner London	320	27	35	49	4.8%	4.9%	5.5%	–	–	8
Total London offices	4,676	16	51	68	2.9%	4.1%	5.5%	–	12	134
Central London shops	1,258	23	72	140	2.9%	4.1%	5.1%	–	2	7
Other[1]	45	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total London Portfolio (excluding developments)	5,979	14	55	140	2.9%	4.0%	5.7%	–	10	134
Developments: income capitalisation method	1,293	17	67	79	4.0%	4.1%	4.4%	–	37	162
Development programme	1,293	17	67	79	4.0%	4.1%	4.4%	–	37	162
Market value at 31 March 2016 – Group	12,832									

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

		Impact on valuations of 5% change in estimated rental value		Impact on valuations of 25 bps change in equivalent yield		2016 Impact on valuations of 5% change in costs	
	Market value £m	Increase £m	Decrease £m	Decrease £m	Increase £m	Decrease £m	Increase £m
Total Retail Portfolio (excluding developments)	5,560	240	(236)	292	(287)	6	(7)
Total London Portfolio (excluding developments)	5,979	242	(241)	397	(349)	21	(21)
Developments: income capitalisation method	1,293	41	(41)	95	(81)	2	(2)
Market value at 31 March 2016 – Group	12,832						

Financial Statements

15. Trading properties

	Development land and infrastructure £m	Residential £m	Total £m
At 1 April 2015	85	137	222
Capital expenditure	10	17	27
Capitalised interest	–	2	2
Disposals	(19)	(119)	(138)
Movement in impairment	12	(1)	11
At 31 March 2016	88	36	124
Capital expenditure	**17**	**2**	**19**
Disposals	**(9)**	**(24)**	**(33)**
Movement in impairment	**12**	**–**	**12**
At 31 March 2017	**108**	**14**	**122**

The cumulative impairment provision at 31 March 2017 in respect of Development land and infrastructure was **£67m** (31 March 2016: £79m); and in respect of Residential was **£1m** (31 March 2016: £1m).

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. The treatment as either a joint venture or a joint operation will depend on whether the Group has rights to 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, has rights to the net assets of the arrangement. 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 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.

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.

The Group's joint arrangements are described below:

Joint ventures

	Percentage owned & voting rights	Business segment	Year end date[1]	Joint venture partner
Held at 31 March 2017				
20 Fenchurch Street Limited Partnership	50%	London	31 March	Canary Wharf Group plc
Nova, Victoria[2]	50%	London	31 March	Canada Pension Plan Investment Board
Metro Shopping Fund Limited Partnership[3]	50%	Retail	31 March	Delancey Real Estate Partners Limited
St. David's Limited Partnership	50%	Retail	31 December	Intu Properties plc
Westgate Oxford Alliance Limited Partnership	50%	Retail	31 March	The Crown Estate Commissioners
The Oriana Limited Partnership[4]	50%	London	31 March	Frogmore Real Estate Partners Limited Partnership
Harvest[5, 6]	50%	Retail	31 March	J Sainsbury plc
The Ebbsfleet Limited Partnership[6]	50%	London	31 March	Ebbsfleet Property Limited
Millshaw Property Co. Limited[6, 7]	50%	Retail	31 March	Evans Property Group Limited
West India Quay Unit Trust[6, 8]	50%	Retail	31 March	Schroder Exempt Property Unit Trust

Joint operation

	Ownership interest	Business segment	Joint operation partners
Bluewater, Kent	30%	Retail	M&G Real Estate and GIC Lend Lease Retail Partnership Hermes and Aberdeen Asset Management

The following joint arrangement was sold in the year ended 31 March 2017:

Joint venture

	Ownership interest	Business segment	Joint venture partner
Countryside Land Securities (Springhead) Limited	50%	London	Countryside Properties PLC

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 13 April 2017, Metro Shopping Fund Limited Partnership (Metro) completed the sale of one of its assets to DV4 (a fund owned by Delancey Real Estate Asset Management Limited (Delancey)). On the same date Delancey sold its stake in Metro to Invesco Real Estate European Fund. The partnership was subsequently renamed The Southside Limited Partnership.
4. On 23 September 2016, The Oriana Limited Partnership disposed of its interest in 26-32 Oxford Street, W1.
5. Harvest includes Harvest 2 Limited Partnership, Harvest Development Management Limited, Harvest 2 Selly Oak Limited, Harvest 2 GP Limited and Harvest GP Limited.
6. Included within Other in subsequent tables.
7. At 31 March 2017, the Millshaw Property Co. Limited was in the process of being liquidated.
8. West India Quay Unit Trust is held in the X-Leisure Unit Trust (X-Leisure) in which the Group holds a 95% share.

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 which holds development land as trading properties, and Millshaw Property Co. Limited which disposed of its only property interest in the prior 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.

16. Joint arrangements continued

Joint ventures

Comprehensive 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 (Group share) 50% £m	Other Group share £m	Group 2017 Total Group share £m
Revenue[1]	48	147	21	43	3	–	131	5	136
Gross rental income (after rents payable)	39	7	17	35	3	–	50	2	52
Net rental income	37	2	15	29	2	–	43	1	44
Segment profit before finance expense	36	1	15	27	2	–	41	1	42
Finance expense	(22)	(36)	(8)	–	(11)	–	(39)	–	(39)
Capitalised interest	–	25	–	–	10	–	18	–	18
Net finance expense	(22)	(11)	(8)	–	(1)	–	(21)	–	(21)
Revenue profit	14	(10)	7	27	1	–	20	1	21
Capital and other items									
Net surplus/(deficit) on revaluation of investment properties	43	41	–	(22)	19	(1)	40	–	40
Profit on disposal of investment properties	–	–	2	–	–	–	1	–	1
Profit on disposal of trading properties	–	14	–	–	–	–	7	–	7
Profit/(loss) before tax	57	45	9	5	20	(1)	68	1	69
Taxation	–	–	–	–	–	–	–	–	–
Post-tax profit/(loss)	57	45	9	5	20	(1)	68	1	69
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income	57	45	9	5	20	(1)	68	1	69
	50%	50%	50%	50%	50%	50%	–	–	–
Group share of total comprehensive income	28	23	5	3	10	(1)	68	1	69

1. Revenue includes gross rental income (before rents payable), service charge income, other property related income and trading properties disposal proceeds.

Joint ventures

Comprehensive 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 (Group share) 100% £m	Other Group share £m	Group 2016 Total Group share £m
Revenue[1]	45	–	19	45	3	1	57	3	60
Gross rental income (after rents payable)	36	–	15	37	3	1	46	3	49
Net rental income/(expense)	35	(1)	15	30	1	1	41	2	43
Segment profit/(loss) before finance expense	33	(1)	14	29	1	1	39	2	41
Finance expense	(33)	(29)	(7)	–	(6)	–	(38)	–	(38)
Capitalised interest	–	28	–	–	6	–	17	–	17
Net finance expense	(33)	(1)	(7)	–	–	–	(21)	–	(21)
Revenue profit	–	(2)	7	29	1	1	18	2	20
Capital and other items									
Net surplus on revaluation of investment properties	86	87	56	73	19	19	170	1	171
Movement in impairment of trading properties	–	–	–	–	–	–	–	5	5
Profit on disposal of investment properties	1	–	–	–	–	4	3	1	4
Profit before tax	87	85	63	102	20	24	191	9	200
Taxation	–	–	(1)	–	–	–	(1)	–	(1)
Post-tax profit	87	85	62	102	20	24	190	9	199
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income	87	85	62	102	20	24	190	9	199
	50%	50%	50%	50%	50%	50%			
Group share of total comprehensive income	44	42	31	51	10	12	190	9	199

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.

Financial Statements

Notes to the financial statements

for the year ended 31 March 2017 continued

16. Joint arrangements continued

Joint ventures

Balance sheet	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 (Group share) 50% £m	Other Group share £m	Group 2017 Total Group share £m
Investment properties[1]	**1,046**	**809**	**376**	**708**	**412**	**93**	**1,722**	**41**	**1,763**
Non-current assets	**1,046**	**809**	**376**	**708**	**412**	**93**	**1,722**	**41**	**1,763**
Cash and cash equivalents	**16**	**43**	**6**	**4**	**10**	**13**	**46**	**3**	**49**
Other current assets	**93**	**195**	**7**	**21**	**15**	**28**	**180**	**14**	**194**
Current assets	**109**	**238**	**13**	**25**	**25**	**41**	**226**	**17**	**243**
Total assets	**1,155**	**1,047**	**389**	**733**	**437**	**134**	**1,948**	**58**	**2,006**
Trade and other payables and provisions	**(100)**	**(173)**	**(39)**	**(12)**	**(32)**	**(2)**	**(179)**	**(5)**	**(184)**
Current liabilities	**(100)**	**(173)**	**(39)**	**(12)**	**(32)**	**(2)**	**(179)**	**(5)**	**(184)**
Non-current liabilities	**–**	**–**	**(142)**	**(16)**	**–**	**(17)**	**(88)**	**–**	**(88)**
Non-current liabilities	**–**	**–**	**(142)**	**(16)**	**–**	**(17)**	**(88)**	**–**	**(88)**
Total liabilities	**(100)**	**(173)**	**(181)**	**(28)**	**(32)**	**(19)**	**(267)**	**(5)**	**(272)**
Net assets	**1,055**	**874**	**208**	**705**	**405**	**115**	**1,681**	**53**	**1,734**
Market value of investment properties[1]	**1,135**	**815**	**379**	**707**	**411**	**93**	**1,770**	**42**	**1,812**
Net (debt)/cash	**16**	**43**	**(166)**	**(12)**	**10**	**13**	**(48)**	**2**	**(46)**

Balance sheet									2016
Investment properties[1]	1,008	680	378	716	248	159	1,594	36	1,630
Non-current assets	1,008	680	378	716	248	159	1,594	36	1,630
Cash and cash equivalents	12	12	7	7	9	26	37	6	43
Other current assets	71	259	6	21	1	34	196	40	236
Current assets	83	271	13	28	10	60	233	46	279
Total assets	1,091	951	391	744	258	219	1,827	82	1,909
Trade and other payables and provisions	(109)	(122)	(11)	(13)	(6)	(29)	(145)	(9)	(154)
Current liabilities	(109)	(122)	(11)	(13)	(6)	(29)	(145)	(9)	(154)
Non-current financial liabilities	–	–	(174)	–	–	–	(87)	–	(87)
Non-current liabilities	–	–	(174)	–	–	–	(87)	–	(87)
Total liabilities	(109)	(122)	(185)	(13)	(6)	(29)	(232)	(9)	(241)
Net assets	982	829	206	731	252	190	1,595	73	1,668
Market value of investment properties[1]	1,075	680	381	732	247	159	1,637	36	1,673
Net (debt)/cash	12	12	(167)	7	9	26	(50)	6	(44)

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.

Joint ventures

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 (Group share) 50% £m	Other Group share £m	Group Total Group share £m
At 1 April 2015	446	272	86	329	54	146	1,333	101	1,434
Total comprehensive income	44	42	31	51	10	12	190	9	199
Cash contributed	–	–	–	–	62	–	62	–	62
Loan advances	1	100	1	–	–	–	102	4	106
Loan repayments	–	–	–	(14)	–	–	(14)	–	(14)
Property and other distributions	–	–	–	–	–	(56)	(56)	–	(56)
Cash distributions	–	–	(15)	–	–	(7)	(22)	(41)	(63)
At 31 March 2016	491	414	103	366	126	95	1,595	73	1,668
Total comprehensive income	**28**	**23**	**5**	**3**	**10**	**(1)**	**68**	**1**	**69**
Cash contributed	**–**	**–**	**–**	**–**	**67**	**–**	**67**	**–**	**67**
Loan advances	**8**	**37**	**–**	**–**	**–**	**–**	**45**	**–**	**45**
Loan repayments	**–**	**(37)**	**(1)**	**(16)**	**–**	**–**	**(54)**	**–**	**(54)**
Other distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Cash distributions	**–**	**–**	**(3)**	**–**	**–**	**(37)**	**(40)**	**(4)**	**(44)**
Disposal of investment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
At 31 March 2017	**527**	**437**	**104**	**353**	**203**	**57**	**1,681**	**53**	**1,734**

17. Capital commitments

	2017 £m	Group 2016 £m
Contracted capital commitments at the end of the year in respect of:		
Investment properties	**48**	102
Trading properties	**3**	2
	51	104
Joint ventures (our share)	**79**	152
Total capital commitments	**130**	256

18. 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
	2017 £m	2016 £m
Non-current		
Finance leases – gross receivables	**274**	333
Unearned finance income	**(143)**	(184)
Unguaranteed residual value	**34**	34
	165	183
Current		
Finance leases – gross receivables	**12**	12
Unearned finance income	**(9)**	(10)
	3	2
Net investment in finance leases	**168**	185
Gross receivables from finance leases due:		
Not later than one year	**12**	12
Later than one year but not more than five years	**49**	52
More than five years	**225**	281
	286	345
Unearned finance income	**(152)**	(194)
Unguaranteed residual value	**34**	34
Net investment in finance leases	**168**	185

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 **4.2%** (2016: 4.9%), is **£218m** (2016: £226m).

19. 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. 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.

				Group
	Goodwill £m	Software £m	Other intangible asset £m	Total intangible assets £m
At 1 April 2015	6	–	29	35
Transfer from other property, plant and equipment	–	5	–	5
Capital expenditure	–	2	–	2
Amortisation	–	(2)	(1)	(3)
Impairment of goodwill on unwind of deferred tax liability	(1)	–	–	(1)
At 31 March 2016	5	5	28	38
Capital expenditure	**–**	**2**	**–**	**2**
Amortisation	**–**	**(1)**	**(2)**	**(3)**
Impairment of goodwill on unwind of deferred tax liability	**(1)**	**–**	**–**	**(1)**
At 31 March 2017	**4**	**6**	**26**	**36**

The other intangible asset relates to the Group's acquisition of its interest in Bluewater, Kent in 2014 and represents the estimated fair value of the management rights for the centre. The fair value at the date of acquisition was £30m and the asset is being amortised over a period of 20 years. On recognition of the intangible asset, the Group recognised a deferred tax liability of £6m, and corresponding goodwill of the same amount. 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.

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. The table in note 20 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 21 for an explanation of the bond exchange de-recognition adjustment).

20. Capital structure

	2017				Group 2016			
	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	**12,662**	**1,812**	**(35)**	**14,439**	12,832	1,673	(34)	14,471
Trading properties	**122**	**126**	**–**	**248**	124	156	–	280
Total property portfolio (a)	**12,784**	**1,938**	**(35)**	**14,687**	12,956	1,829	(34)	14,751
Net debt								
Borrowings	**2,949**	**93**	**–**	**3,042**	2,873	85	–	2,958
Monies held in restricted accounts and deposits	**(21)**	**–**	**–**	**(21)**	(19)	–	–	(19)
Cash and cash equivalents	**(30)**	**(49)**	**–**	**(79)**	(25)	(43)	–	(68)
Fair value of interest-rate swaps	**2**	**2**	**–**	**4**	32	2	–	34
Fair value of foreign exchange swaps	**5**	**–**	**–**	**5**	–	–	–	–
Net debt (b)	**2,905**	**46**	**–**	**2,951**	2,861	44	–	2,905
Less: Fair value of interest-rate swaps	**(2)**	**(2)**	**–**	**(4)**	(32)	(2)	–	(34)
Reverse bond exchange de-recognition (note 21)	**314**	**–**	**–**	**314**	368	–	–	368
Adjusted net debt (c)	**3,217**	**44**	**–**	**3,261**	3,197	42	–	3,239
Adjusted total equity								
Total equity (d)	**11,516**	**–**	**–**	**11,516**	11,699	–	–	11,699
Fair value of interest-rate swaps	**2**	**2**	**–**	**4**	32	2	–	34
Reverse bond exchange de-recognition (note 21)	**(314)**	**–**	**–**	**(314)**	(368)	–	–	(368)
Adjusted total equity (e)	**11,204**	**2**	**–**	**11,206**	11,363	2	–	11,365
Gearing (b/d)	**25.2%**			**25.6%**	24.5%			24.8%
Adjusted gearing (c/e)	**28.7%**			**29.1%**	28.1%			28.5%
Group LTV (c/a)	**25.2%**			**22.2%**	24.7%			22.0%
Security Group LTV	**28.3%**				23.4%			
Weighted average cost of debt	**4.2%**			**4.2%**	4.9%			4.9%

1. This represents the interest in X-Leisure which we do not own, but which is consolidated in the Group numbers.

21. 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, 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.

									Group
					31 March 2017				31 March 2016
	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	**18**	**22**	**18**	17	20	17
Commercial paper									
Sterling	Unsecured	Floating	LIBOR + margin	**3**	**3**	**3**	2	2	2
Euro	Unsecured	Floating	LIBOR + margin	**261**	**261**	**261**	–	–	–
Swiss Franc	Unsecured	Floating	LIBOR + margin	**28**	**28**	**28**	–	–	–
US Dollar	Unsecured	Floating	LIBOR + margin	**94**	**94**	**94**	–	–	–
Total current borrowings				**404**	**408**	**404**	19	22	19
Non-current borrowings									
Sterling									
A3 5.425% MTN due 2022	Secured	Fixed	5.5	**46**	**53**	**46**	255	291	255
A10 4.875% MTN due 2025	Secured	Fixed	5.0	**28**	**34**	**28**	300	351	298
A12 1.974% MTN due 2026	Secured	Fixed	2.0	**400**	**411**	**399**	–	–	–
A4 5.391% MTN due 2026	Secured	Fixed	5.4	**27**	**33**	**27**	211	254	210
A5 5.391% MTN due 2027	Secured	Fixed	5.4	**585**	**749**	**583**	608	749	606
A6 5.376% MTN due 2029	Secured	Fixed	5.4	**318**	**420**	**317**	318	398	317
A13 2.399% MTN due 2031	Secured	Fixed	2.4	**300**	**314**	**299**	–	–	–
A7 5.396% MTN due 2032	Secured	Fixed	5.4	**321**	**441**	**320**	323	410	321
A11 5.125% MTN due 2036	Secured	Fixed	5.1	**500**	**689**	**499**	500	624	499
Bond exchange de-recognition adjustment						**(314)**			(368)
				2,525	**3,144**	**2,204**	2,515	3,077	2,138
5.253% QAG Bond	Secured	Fixed	5.3	**255**	**310**	**255**	272	327	272
Syndicated bank debt	Secured	Floating	LIBOR + margin	**55**	**55**	**55**	430	430	430
Amounts payable under finance leases	Unsecured	Fixed	5.7	**31**	**42**	**31**	14	18	14
Total non-current borrowings				**2,866**	**3,551**	**2,545**	3,231	3,852	2,854
Total borrowings				**3,270**	**3,959**	**2,949**	3,250	3,874	2,873

Reconciliation of the movement in borrowings

	Group 2017 £m	2016 £m
At the beginning of the year	**2,873**	3,784
Proceeds from new borrowings	**361**	249
Repayment of borrowings	**(391)**	(806)
Redemption of medium term notes	**(690)**	(400)
Issue of medium term notes (net of finance fees)	**698**	–
Amortisation of bond exchange de-recognition adjustment	**24**	23
Bond exchange de-recognition adjustment on redemption of medium term notes	**30**	–
Foreign exchange movement on non-GBP borrowings	**23**	23
Other	**21**	–
At 31 March	**2,949**	2,873

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 Westgate Oxford Alliance Limited Partnership, Nova, Victoria, the St. David's Limited Partnership and 20 Fenchurch Street Limited Partnership, in total valued at **£12.9bn** at 31 March 2017 (31 March 2016: £12.6bn). 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. 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 may either become LIBOR plus an increased margin (relative to that at the time of issue), or subject to a fixed coupon uplift, depending on the terms and conditions of the specific notes.

The effective interest rate is based on the coupon paid and 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 8 February 2017, the Group purchased **£635m** of MTNs for a premium of **£124m**. The Group purchased **£206m** of its A3 MTN due in 2022, **£265m** of its A10 MTN due in 2025 and **£164m** of its A4 MTN due in 2026. On the same date, the Group issued a **£400m** 1.974% MTN due in 2026 and a **£300m** 2.399% MTN due in 2031. Costs associated with the issues of the new MTNs of **£2m** have been capitalised within non-current borrowings.

Earlier in the year, the Group also purchased a further **£55m** of MTNs for a premium of **£13m**. The Group purchased **£3m** of its A3 MTN due in 2022, **£7m** of its A10 MTN due in 2025, **£20m** of its A4 MTN due in 2026, **£23m** of its A5 MTN due in 2027 and **£2m** of its A7 MTN due in 2032. The table below summarises the aggregate purchases, together with the premiums paid.

MTN purchases

		Group 31 March 2017 Purchases £m	31 March 2017 Premium £m	31 March 2016 Purchases £m	31 March 2016 Premium £m
A8	4.875% MTN due 2019	**–**	**–**	400	26
A3	5.425% MTN due 2022	**209**	**29**	–	–
A10	4.875% MTN due 2025	**272**	**57**	–	–
A4	5.391% MTN due 2026	**184**	**44**	–	–
A5	5.391% MTN due 2027	**23**	**6**	–	–
A7	5.396% MTN due 2032	**2**	**1**	–	–
		690	**137**	400	26

Syndicated and bilateral bank debt

	Maturity as at 31 March 2017	Authorised 2017 £m	Authorised 2016 £m	Drawn 2017 £m	Drawn 2016 £m	Undrawn 2017 £m	Undrawn 2016 £m
Syndicated debt	**2021-22**	**1,815**	1,380	**55**	430	**1,760**	950
Bilateral debt	**2021**	**125**	485	**–**	–	**125**	485
		1,940	1,865	**55**	430	**1,885**	1,435

Financial Statements

21. Borrowings continued

At 31 March 2017, our committed revolving facilities totalled **£1,940m** (31 March 2016: £1,865m). The £75m increase in committed facilities is the result of a £435m syndicated debt facility being arranged on 14 June 2016, and a £125m bilateral debt facility being arranged on 31 January 2017, offset by the cancellation of £350m of bilateral facilities on 14 June 2016 and the cancellation of a £135m bilateral facility on 24 November 2016.

All syndicated and bilateral facilities are committed and secured on the assets of the Security Group. In the year ended 31 March 2017, the amounts drawn under the Group's bilateral facilities and syndicated bank debt decreased by £375m.

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 2017 were **£1,499m** (31 March 2016: £1,433m), compared with undrawn facilities of **£1,885m** (31 March 2016: £1,435m).

Queen Anne's Gate Bond
On 29 July 2009, the Group issued a £360m 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 2017, the bond had an amortised book value of **£273m** (31 March 2016: £289m). Since 31 March 2017, the Group has redeemed the QAG bond in its entirety, for a premium to nominal value of £63m.

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. The fair value of the amounts payable under finance leases is determined using a discount rate of **4.2%** (31 March 2016: 4.9%).

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 conditions to be considered 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 finance expense in the income statement.

22. 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. Holding cash in restricted accounts does not prevent the Group from optimising returns by putting these monies on short-term deposit.

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Cash at bank and in hand	**12**	11	**4**	4
Short-term deposits	**9**	8	**–**	–
	21	19	**4**	4

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	
	2017 £m	2016 £m
Counterparties with external credit ratings		
A	**13**	11
BBB+	**8**	8
	21	19

23. 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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Cash at bank and in hand	**21**	24	**–**	–
Short-term deposits	**9**	1	**–**	–
	30	25	**–**	–

Short-term deposits

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	
	2017 £m	2016 £m
Counterparties with external credit ratings		
A	**29**	24
BBB+	**1**	1
	30	25

24. 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 recognised on the balance sheet 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 gain or loss on derivatives are recognised immediately in the income statement, within net finance expense.

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 of derivative financial instruments

		Group
	2017 £m	2016 £m
Current liabilities	**5**	1
Non-current liabilities	**2**	31
	7	32

Notional amount

		Group
	2017 £m	2016 £m
Interest-rate swaps	**400**	580
Foreign exchange swaps	**389**	–
	789	580

25. Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing risk is set out in "Managing risk" and "Our principal risks and uncertainties" (pages 42 to 45). 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
	2017 £m	2016 £m
Loans and receivables	**672**	684
Cash and cash equivalents	**30**	25
Other investments	**13**	14
Financial liabilities at amortised cost	**(3,118)**	(3,047)
Financial liabilities at fair value through profit and loss	**(43)**	(67)
	(2,446)	(2,391)

Financial risk factors

(i) Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, finance lease receivables and amounts due from joint ventures. 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.

25. Financial risk management continued

(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
	2017 £m	2016 £m
Cash and cash equivalents	**30**	25
Available facilities	**1,499**	1,433
Cash and available undrawn facilities	**1,529**	1,458
As a proportion of drawn debt	**47.2%**	45.0%

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 2017, the reported LTV for the Security Group was **28.3%** (2016: 23.4%), 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.

					Group
					2017
	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)	**531**	**145**	**537**	**3,374**	**4,587**
Finance lease liabilities	**2**	**2**	**5**	**205**	**214**
Derivative financial instruments	**1**	**2**	**1**	**(2)**	**2**
Trade payables	**11**	**–**	**–**	**–**	**11**
Capital accruals	**34**	**–**	**–**	**–**	**34**
Accruals	**80**	**–**	**–**	**–**	**80**
Amounts owed to joint ventures	**6**	**–**	**–**	**–**	**6**
Other payables	**39**	**–**	**–**	**–**	**39**
Redemption liabilities	**–**	**–**	**36**	**–**	**36**
	704	**149**	**579**	**3,577**	**5,009**

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Group 2016 Total £m
Borrowings (excluding finance lease liabilities)	171	170	1,186	3,288	4,815
Finance lease liabilities	1	1	3	79	84
Derivative financial instruments	1	4	20	10	35
Trade payables	6	–	–	–	6
Capital accruals	32	–	–	–	32
Accruals	79	–	–	–	79
Amounts owed to joint ventures	3	–	–	–	3
Other payables	25	–	–	–	25
Non-current trade and other payables	–	28	–	–	28
Redemption liabilities	–	–	35	–	35
	318	203	1,244	3,377	5,142

(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 2017, the Group (including joint ventures) had pay-fixed interest-rate swaps in place with a nominal value of **£0.5bn** (2016: £0.7bn), and its net debt was **88.9%** fixed (2016: 94.9%). Based on the Group's debt balances at 31 March 2017, a 1% increase in interest rates would increase the annual net finance expense in the income statement and reduce equity by **£2m** (2016: £2m). 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 2017, the Group had issued €307m, $118m and CHF35m of commercial paper, fully hedged through foreign exchange swaps. At 31 March 2016, the Group had no foreign currency exchange exposure. A 10% weakening or strengthening of Sterling would therefore have **£nil** (2016: £nil) impact on the Group's 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:

	2017			Group 2016		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Sterling	**2,829**	**58**	**2,887**	2,997	253	3,250
Euro	**–**	**261**	**261**	–	–	–
US Dollar	**–**	**94**	**94**	–	–	–
Swiss Franc	**–**	**28**	**28**	–	–	–
	2,829	**441**	**3,270**	2,997	253	3,250

Financial Statements

25. Financial risk management continued

The expected maturity profiles of the Group's borrowings are as follows:

						Group
			2017			2016
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
One year or less, or on demand	**18**	**386**	**404**	16	3	19
More than one year but not more than two years	**20**	**–**	**20**	18	–	18
More than two years but not more than five years	**117**	**55**	**172**	320	430	750
More than five years	**2,674**	**–**	**2,674**	2,463	–	2,463
Borrowings	**2,829**	**441**	**3,270**	2,817	433	3,250
Effect of hedging	**–**	**–**	**–**	180	(180)	–
Borrowings net of interest-rate swaps	**2,829**	**441**	**3,270**	2,997	253	3,250

The expected maturity profiles of the Group's derivative instruments are as follows (based on notional values):

				Group
		2017		2016
	Foreign exchange swaps £m	**Interest-rate swaps £m**	Foreign exchange swaps £m	Interest-rate swaps £m
One year or less, or on demand	**389**	**–**	–	180
More than five years[1]	**–**	**400**	–	400
	389	**400**	–	580

1. Interest-rate swaps more than five years have a term commencing from October 2017.

Valuation hierarchy

Interest-rate swaps, foreign exchange swaps, the redemption liability and other investments are the only financial instruments which are carried at fair value. For financial instruments other than borrowings disclosed in note 21, 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
				2017				2016
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets	**–**	**–**	**13**	**13**	–	–	14	14
Liabilities	**–**	**(7)**	**(36)**	**(43)**	–	(32)	(35)	(67)

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.

The fair value of the Group's finance lease obligations, using a discount rate of **4.2%** (2016: 4.9%), is **£42m** (2016: £18m).

The fair value of the redemption liability is determined as the present value of the amount the Group would be required to pay to settle the liability (an exit price). The fair value is calculated by reference to the net assets of the underlying subsidiary. The valuation is not based on observable market data and therefore the redemption liability is considered to fall within Level 3 of the fair value hierarchy.

The fair value of the other investments is calculated by reference to the net assets of the underlying entity. The valuation is not based on observable market data and therefore the other investments are considered to fall within Level 3 of the fair value hierarchy.

Section 5 – Working capital

This section focuses on our working capital balances, including trade and other receivables, trade and other payables, and provisions.

26. 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 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. If collection is expected in more than one year, the balance is presented within non-current assets.

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Net trade receivables	**53**	69	**–**	–
Property sales receivables	**18**	70	**–**	–
Tenant lease incentives (note 14)	**311**	268	**–**	–
Prepayments and accrued income	**25**	25	**–**	–
Amounts due from joint ventures	**2**	7	**–**	–
Other receivables	**9**	6	**17**	17
Total current trade and other receivables	**418**	445	**17**	17
Non-current amounts due from joint ventures	**107**	86	**–**	–
Non-current property sales receivables	**16**	–	**–**	–
Total trade and other receivables	**541**	531	**17**	17

The accounting for lease incentives is set out in note 6. The value of the tenant lease incentive, included in current trade and other receivables, is spread over the non-cancellable life of the lease.

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 2017						
Not impaired	**17**	**30**	**3**	**1**	**2**	**53**
Impaired	**–**	**–**	**1**	**1**	**9**	**11**
Gross trade receivables	**17**	**30**	**4**	**2**	**11**	**64**
As at 31 March 2016						
Not impaired	29	32	4	2	2	69
Impaired	–	–	2	4	10	16
Gross trade receivables	29	32	6	6	12	85

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 (2016: £nil).

26. Trade and other receivables continued

Movement in allowances for doubtful accounts

	Group	
	2017 £m	2016 £m
At the beginning of the year	**16**	15
Increase to provision	**6**	10
Decrease to provision	**(5)**	(5)
Utilised in the year	**(6)**	(4)
At 31 March	**11**	16

Movement in tenant lease incentives

	Group	
	2017 £m	2016 £m
At the beginning of the year	**268**	251
Revenue recognised	**44**	29
Capital incentives granted	**1**	7
Provision for doubtful receivables	**–**	(2)
Disposal of properties	**(2)**	(17)
At 31 March	**311**	268

27. Trade and other payables

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Trade payables	**11**	6	**–**	–
Capital accruals	**34**	32	**–**	–
Other payables	**39**	25	**–**	–
Accruals	**80**	79	**14**	6
Deferred income	**132**	126	**–**	–
Amounts owed to joint ventures	**6**	3	**–**	–
Trading property deposits	**–**	18	**–**	–
Loans from Group undertakings	**–**	–	**1,380**	1,031
Total current trade and other payables	**302**	289	**1,394**	1,037
Non-current amounts owed to joint ventures	**–**	12	**–**	–
Non-current other payables	**–**	16	**–**	–
Non-current trading property deposits	**25**	–	**–**	–
Total trade and other payables	**327**	317	**1,394**	1,037

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.

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 IFRS.

28. 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
	2017 £m	2016 £m
At the beginning of the year	**6,200**	6,192
Capital contributions relating to share-based payments (note 33)	**5**	8
At 31 March	**6,205**	6,200

A full list of subsidiary undertakings at 31 March 2017 is included on page 180.

29. Other non-current assets

		Group
	2017 £m	2016 £m
Other property, plant and equipment	**24**	5
Other investments	**13**	14
Pension surplus (note 32)	**14**	25
Total other non-current assets	**51**	44

30. Other current liabilities

		Group
	2017 £m	2016 £m
Provisions	**2**	18
Derivative financial instruments	**5**	1
Total other current liabilities	**7**	19

31. Other non-current liabilities

	Group 2017 £m	2016 £m
Provisions	–	6
Derivative financial instruments	2	31
Deferred tax liability	7	10
Total other non-current liabilities	**9**	47

32. Net pension surplus

Accounting policy

Contributions to defined contribution schemes are charged to the income statement as incurred.

The pension obligations arising under the Group's defined benefit pension scheme are measured at discounted present value. The scheme assets are measured at fair value, except annuities, which are valued to match the liability or benefit value. The operating and financing costs of the scheme are recognised separately in the income statement. Service costs are spread using the projected unit credit method. Net financing costs are recognised in the period in which they arise, calculated with reference to the discount rate, and are included in finance 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

The charge to operating profit for the year in respect of the defined contribution scheme was **£3m** (2016: £2m).

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 Scheme was undertaken on 30 June 2015 by the independent actuaries, Hymans Robertson LLP. This valuation was updated to 31 March 2017 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 2015 valuation, the employer contribution rate increased from 1 April 2016 to **43.1%** (from 36.1%) of pensionable salary to cover the costs of accruing benefits. It was agreed that no further deficit contributions were required from the Group. Employee contributions are paid by salary sacrifice, and therefore appear as Group contributions. In the year ended 31 March 2017, employee contributions were **8.0%** (2016: 8.0%) of monthly pensionable salary. The Group expects to make total employee and employer contributions of around **£1m** (2016: £1m) to the Scheme in the year to 31 March 2018.

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

	2017 £m	Group 2016 £m
Analysis of the amount charged to operating profit		
Current service cost	**1**	1
Charge to operating profit	**1**	1
Analysis of amount credited to net finance expense		
Interest income on plan assets	**(8)**	(7)
Interest expense on defined benefit scheme liabilities	**7**	7
Net credit to finance income	**(1)**	–

Analysis of the amounts recognised in other comprehensive income

	2017 £m	Group 2016 £m
Analysis of gains and losses		
Net re-measurement gains/(losses) on scheme assets	**29**	(12)
Net re-measurement (losses)/gains on scheme liabilities	**(41)**	30
Net re-measurement (loss)/gain	**(12)**	18
Cumulative net re-measurement loss recognised in other comprehensive income	**(39)**	(27)

The net surplus recognised in respect of the defined benefit scheme can be analysed as follows:

	2017 %	2017 £m	2016 %	Group 2016 £m
Equities	**20**	**49**	18	38
Bonds – Government	**24**	**59**	49	106
Bonds – Corporate	**7**	**17**	26	56
Insurance contracts	**49**	**120**	6	13
Cash and cash equivalents	**–**	**1**	1	2
Fair value of scheme assets	**100**	**246**	100	215
Fair value of scheme liabilities		**(232)**		(190)
Net pension surplus		**14**		25

During the year, the Scheme sold some corporate bonds and gilts to purchase a buy-in policy with Just Retirement for £111m. This insurance contract is valued as an asset using the same IAS 19 assumptions. 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** (2016: £0.1m).

The defined benefit scheme liabilities are split **11%** (2016: 12%) in respect of active scheme participants, **25%** (2016: 27%) in respect of deferred scheme participants, and **64%** (2016: 61%) in respect of retirees. The weighted average duration of the defined benefit scheme liabilities at 31 March 2017 is **17.3 years** (2016: 16.7 years).

32. Net pension surplus continued

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
	2017 %	2016 %
Rate of increase in pensionable salaries	**3.40**	3.15
Rate of increase in pensions with no cap	**3.40**	3.15
Rate of increase in pensions with 5% cap	**3.30**	3.05
Discount rate	**2.55**	3.50
Inflation – Retail Price Index	**3.40**	3.15
– Consumer Price Index	**2.60**	2.35

The mortality assumptions used in this valuation were:

		Group
	2017 Years	2016 Years
Life expectancy at age 60 for current pensioners – Men	**30.8**	29.6
– Women	**31.2**	31.0
Life expectancy at age 60 for future pensioners (current age 40) – Men	**33.8**	33.2
– Women	**33.7**	33.5

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 liabilities.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by £21m
Rate of mortality	Increase by 1 year	Increase by £9m
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by £18m

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 **£8m** at 31 March 2017, as opposed to a surplus of **£14m**.

In order to reduce risk within the Scheme, **48%** (2016: 7%) of the Scheme assets are invested in annuities that match the liabilities of some pensioners. The assets that the Scheme holds are designed to match a significant proportion of the Scheme liabilities and the Scheme has hedged over **72%** (2016: 75%) 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 2017 or in the previous financial year.

33. 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 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 following table analyses the total cost recognised in the income statement for the year between each plan, together with number of options outstanding.

	2017		2016	
	Charge £m	**Number (millions)**	Charge £m	Number (millions)
Long-Term Incentive Plan	**2**	**2**	4	3
Deferred bonus share plan	**1**	**–**	1	–
Share award plan	**1**	**–**	2	–
Executive share option scheme	**1**	**2**	1	2
	5	**4**	8	5

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 76 to 91.

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, other than for Executive Directors, 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 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, other shares or nil cost options. The awards 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 **1,006p** (2016: 1,262p). The estimated fair value of awards granted during the year under the scheme was **£4m** (2016: £4m).

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) at nil consideration, or by nil cost options. The weighted average share price at the date of vesting during the year was **887p** (2016: 1,227p). The estimated fair value of awards granted during the year under the scheme was **£0.8m** (2016: £1.5m).

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 **1,053p** (2016: 1,249p). The estimated fair value of awards granted during the year under the scheme was **£0.3m** (2016: £0.3m).

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 **1,046p** (2016: 1,238p). The estimated fair value of awards granted during the year under the scheme was **£0.2m** (2016: £0.3m).

33. Share-based payments continued

The aggregate number of awards outstanding, and the weighted average exercise price, are shown below:

	Executive plans[1]				Other plans	
	Number of awards		Number of awards		Weighted average exercise price	
	2017 Number (millions)	2016 Number (millions)	**2017 Number (millions)**	2016 Number (millions)	**2017 Pence**	2016 Pence
At the beginning of the year	**3**	3	**2**	2	**983**	860
Granted	**1**	1	**1**	–	**993**	1,229
Exercised	**(1)**	(1)	**(1)**	–	**805**	911
Lapsed	**(1)**	–	**–**	–	**–**	900
At 31 March	**2**	3	**2**	2	**1,068**	983
Exercisable at the end of the year	**–**	–	**1**	1	**929**	913
	Years	Years	**Years**	Years		
Weighted average remaining contractual life	**1**	1	**6**	6		

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 2017			Outstanding at 31 March 2016		
Exercise price – range	**Weighted average exercise price**	**Number of awards**	**Weighted average remaining contractual life**	Weighted average exercise price	Number of awards	Weighted average remaining contractual life
Pence	**Pence**	**Number (millions)**	**Years**	Pence	Number (millions)	Years
Nil[2]	**–**	**2**	**1**	–	3	1
400–599	**535**	**–**	**2**	536	–	3
600–799	**775**	**–**	**5**	761	–	5
800–999	**886**	**1**	**4**	761	1	5
1,000–1,199	**1,044**	**1**	**7**	1,058	1	6
1,200–1,399	**1,328**	**–**	**8**	1,328	–	9
1,400–1,565	**–**	**–**	**–**	1,563	–	1

2. 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		Savings related share option plan	
Year ended 31 March	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Share price at grant date	**1,005p**	1,325p	**1,005p**	1,245p	**1,005p**	1,328p	**1,191p**	1,280p
Exercise price	**n/a**	n/a	**n/a**	n/a	**1,005p**	1,328p	**953p**	1,024p
Expected volatility	**18%**	16%	**18%**	16%	**18%**	16%	**18%**	16%
Expected life	**3 years**	3 years	**1 to 2 years**	1 to 2 years	**3 years**	3 years	**3 to 5 years**	3 to 5 years
Risk-free rate	**0.21%**	1.02%	**0.15% to 0.21%**	0.52% to 0.67%	**0.21%**	1.02%	**0.35% to 0.57%**	1.07% to 1.58%
Expected dividend yield	**3.48%**	2.40%	**nil**	nil	**3.48%**	2.40%	**2.94%**	2.49%

Expected volatility is determined by calculating the historic volatility of the Group's share price over the previous ten 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	
Year ended 31 March	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Long-Term Incentive Plan	**1,005p**	1,325p	**n/a**	n/a	**20%**	20%	**20%**	20%	**85%**	85%

Financial Statements

34. 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.

	Group and Company Allotted and fully paid	
	2017 £m	2016 £m
Ordinary shares of 10p each	**80**	80

	Group and Company Number of shares	
	2017	2016
At the beginning of the year	**801,164,497**	801,032,763
Issued on the exercise of options	**80,131**	131,734
At 31 March	**801,244,628**	801,164,497

The number of options over ordinary shares from Executive Schemes that were outstanding at 31 March 2017 was **2,281,006** (2016: 2,580,225). If all the options were exercised at that date then **2,281,006** (2016: 2,580,225) 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 2017 was **1,859,031** (2016: 2,071,452). If all the options were exercised at that date then **354,783** new ordinary shares (2016: 406,021) would be issued and **1,504,248** shares would be required to be transferred from the EBT (2016: 1,665,431).

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 2017, no ordinary shares (2016: nil) were acquired to be held as treasury shares. At 31 March 2017 the Group held **10,495,131** ordinary shares (2016: 10,495,131) with a market value of **£111m** (2016: £116m) in treasury.

35. Own shares

	Group	
	2017 £m	2016 £m
At the beginning of the year	**14**	11
Acquisition of ordinary shares	**6**	19
Transfer of shares to employees on exercise of share options	**(11)**	(16)
At 31 March	**9**	14

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 33).

The number of shares held by the EBT at 31 March 2017 was **792,556** (2016: 1,143,892). The market value of these shares at 31 March 2017 was **£8m** (2016: £13m).

36. 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.

37. 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	
	2017 £m	2016 £m
Transactions with subsidiary undertakings:		
Recharge of costs	**(294)**	(272)
Dividend received	**–**	400
Interest paid	**(55)**	(63)

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:

	Group							
	Year ended and as at 31 March 2017				Year ended and as at 31 March 2016			
	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	**12**	**8**	**43**	**(1)**	17	1	46	–
Nova, Victoria	**19**	**–**	**56**	**(3)**	18	100	40	–
Metro Shopping Fund Limited Partnership	**–**	**(4)**	**–**	**–**	–	(14)	1	–
St. David's Limited Partnership	**1**	**(16)**	**–**	**–**	1	(14)	–	(1)
Westgate Oxford Alliance Limited Partnership	**9**	**67**	**10**	**–**	7	62	5	–
The Oriana Limited Partnership	**–**	**(37)**	**–**	**–**	–	(63)	–	–
Harvest	**–**	**(2)**	**–**	**–**	1	(32)	–	–
The Ebbsfleet Limited Partnership	**–**	**(1)**	**–**	**–**	–	–	–	–
Millshaw Property Co. Limited	**–**	**(12)**	**–**	**–**	–	(3)	–	(12)
West India Quay Unit Trust	**–**	**(1)**	**–**	**(2)**	–	(2)	1	(2)
	41	**2**	**109**	**(6)**	44	35	93	(15)

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 76 to 91.

	2017 £m	2016 £m
Short-term employee benefits	**5**	6
Share-based payments	**3**	3
	8	9

38. 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:

	2017 £m	2016 £m
Not later than one year	**496**	464
Later than one year but not more than five years	**1,962**	1,913
More than five years	**3,444**	3,874
	5,902	6,251

The total of contingent rents recognised as income during the year was **£45m** (2016: £43m).

39. Events after the reporting period

On 13 April 2017, the Group's joint arrangement, The Metro Shopping Fund Limited Partnership (Metro), completed the sale of ShopStop, Clapham Junction to DV4 (a fund owned by Delancey Real Estate Asset Management Limited (Delancey)). On the same date Delancey sold its stake in Metro to Invesco Real Estate European Fund. The partnership was subsequently renamed The Southside Limited Partnership and the £85m third-party debt in the fund was repaid in full.

Since 31 March 2017, the Group has redeemed the £273m Queen Anne's Gate bond in its entirety at a premium of £63m. The redemption was financed through existing Group facilities.

On 15 May 2017, the Group acquired three retail outlet centres from Britel Fund Trustees Limited (as trustee of the BT Pension Scheme). The three assets, Freeport, Braintree, Clarks Village, Street and Junction 32, Castleford, were acquired for a total consideration of £333m.

Additional information

Contents

Further analysis of our business and practical information for shareholders.

Business Analysis – Group

Combined Portfolio performance relative to IPD
Total property returns – year ended 31 March 2017

Table 73

	Landsec %	IPD[1] %
Retail – Shopping centres	3.6	1.1
– Retail parks	1.3	1.3[2]
Central London shops	9.8	8.6
Central London offices	2.0	2.6
Total	**3.7[3]**	**4.6**

1. IPD Quarterly Universe
2. IPD Retail Warehouses Quarterly Universe
3. Includes leisure, hotel portfolio and other

Combined Portfolio value by location at 31 March 2017

Table 74

	Shopping centres and shops %	Retail parks %	Offices %	Hotels, leisure, residential & other %	Total %
Central, inner and outer London	14.6	0.2	46.7	3.4	64.9
South East and East	10.4	3.5	–	0.9	14.8
Midlands	–	0.6	–	0.4	1.0
Wales and South West	2.5	0.5	–	4.5	7.5
North, North West, Yorkshire and Humberside	7.1	0.9	0.1	0.5	8.6
Scotland and Northern Ireland	2.7	0.3	–	0.2	3.2
Total	**37.3**	**6.0**	**46.8**	**9.9**	**100.0**

% figures calculated by reference to the Combined Portfolio value of £14.4bn.

Total shareholder returns[1]

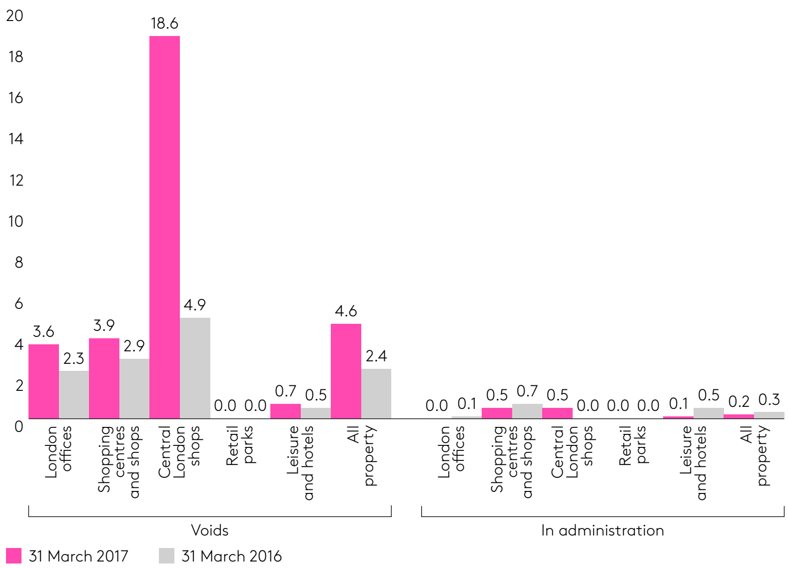
Table 75

	Period to 31 March 2017		
	5 years £	3 years £	1 year £
Land Securities Group PLC	172.2	109.2	101.9
FTSE 100	151.0	124.3	124.4
FTSE 350 Real Estate Index	175.2	112.2	101.1

1. Historical TSR performance for a hypothetical investment of £100 – source: Thomson Reuters.

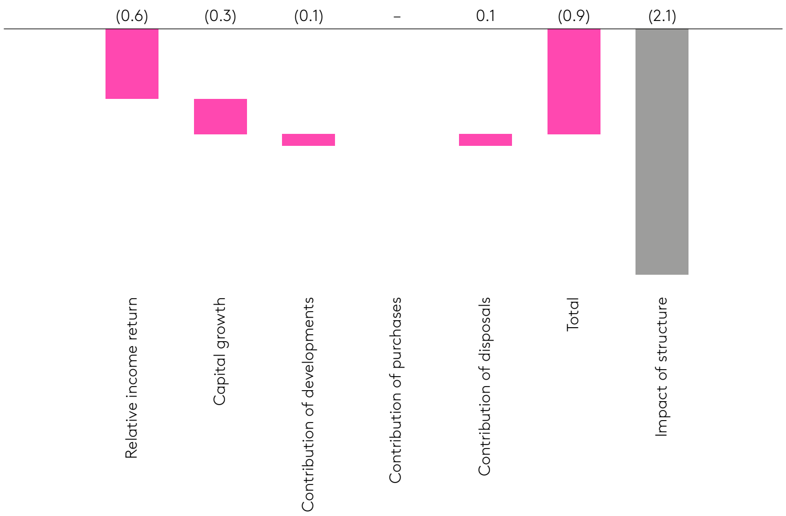
Voids and units in administration – like-for-like (%)

Chart 76



Analysis of performance relative to IPD (%)

Chart 77



Attribution analysis, ungeared total return, 12 months to 31 March 2017, relative to IPD Quarterly Universe. Source: IPD.

Reconciliation of segmental information note to statutory reporting

The table below reconciles the Group's income statement to the segmental information 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 segmental information 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.

Table 78

					Year ended 31 March 2017	
	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	587	53	(2)	638	638	–
Finance lease interest	10	–	–	10	10	–
Gross rental income (before rents payable)	**597**	**53**	**(2)**	**648**	**648**	–
Rents payable	(10)	(1)	–	(11)	(11)	–
Gross rental income (after rents payable)	**587**	**52**	**(2)**	**637**	**637**	–
Service charge income	94	9	(2)	101	101	–
Service charge expense	(96)	(11)	1	(106)	(106)	–
Net service charge expense	(2)	(2)	(1)	(5)	(5)	–
Other property related income	32	2	–	34	34	–
Direct property expenditure	(58)	(8)	–	(66)	(66)	–
Net rental income	**559**	**44**	**(3)**	**600**	**600**	–
Indirect property expenditure	(79)	(2)	–	(81)	(81)	–
Other income	2	–	–	2	2	–
	482	**42**	**(3)**	**521**	**521**	–
Profit on disposal of investment properties	19	1	–	20	–	20
Loss on disposal of investment in joint venture	(2)	–	–	(2)	–	(2)
Profit on disposal of other investment	13	–	–	13	–	13
Net (deficit)/surplus on revaluation of investment properties	(186)	40	(1)	(147)	–	(147)
Movement in impairment of trading properties	12	–	–	12	–	12
Profit on disposal of trading properties	29	7	–	36	–	36
Head office relocation	1	–	–	1	–	1
Other	(3)	–	4	1	–	1
Operating profit	**365**	**90**	–	**455**	**521**	**(66)**
Finance income	37	–	–	37	37	–
Finance expense	(359)	(21)	–	(380)	(176)	(204)
Share of post-tax profit from joint ventures	69	(69)	–	–	–	–
Profit before tax	**112**	**–**	**–**	**112**	**382**	**(270)**
Taxation	1	–	–	1	–	1
Profit attributable to owners of the parent	**113**	**–**	**–**	**113**	**382**	**(269)**

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 segmental information 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 segmental information note.

REIT balance of business

To retain the Group's REIT status it must meet conditions from the REIT legislation. At least 75% of the Group's assets and 75% of the Group's income must relate to qualifying activities. The results of these tests at the balance sheet date are below:

REIT balance of business Table 79

	For the year ended 31 March 2017			For the year ended 31 March 2016		
	Tax-exempt business	Residual business	Adjusted results	Tax-exempt business	Residual business	Adjusted results
Profit before tax (£m)[1]	**185**	**50**	**235**	310	52	362
Balance of business – 75% profits test	**78.7%**	**21.3%**		85.6%	14.4%	
Adjusted total assets (£m)[1]	**14,088**	**991**	**15,079**	14,256	939	15,195
Balance of business – 75% assets test	**93.4%**	**6.6%**		93.8%	6.2%	

1. Calculated according to REIT rules.

Business Analysis – Group
continued

Cost analysis

Table 80

	£m
Gross rental income (before rents payable)	648
Gross rental income (after rents payable)	637
Net service charge expense	(5)
Net direct property expenditure	(32)
Net rental income	**600**
Indirect costs	(39)
Segment profit before finance expense	**561**
Net unallocated expenses	(40)
Net finance expense – Group	(118)
Net finance expense – joint ventures	(21)
Revenue profit	**382**

Direct property costs £37m

Indirect expenses £79m

Total	**£116m**
Total cost ratio[1]	**17.9%**

	Year ended 31 March 2017 Total £m	Year ended 31 March 2017 Cost ratio %[1]	Year ended 31 March 2016 Total £m	Year ended 31 March 2016 Cost ratio %[1]
Managed operations	**8**	**1.2**	8	1.2
Tenant default	**2**	**0.3**	9	1.4
Void related costs	**13**	**2.0**	15	2.3
Other direct property costs	**12**	**1.9**	12	1.8
Development expenditure	**16**	**2.5**	20	3.0
Asset management, administration and compliance	**65**	**10.0**	59	9.0
Total (incl. direct vacancy costs)	**116**	**17.9**	123	18.7
Head office relocation	**(1)**		6	
EPRA costs (incl. direct vacancy costs)	**115**	**18.1**	129	19.9
Less: Direct vacancy costs	**(12)**		(15)	
EPRA (excl. direct vacancy costs)	**103**	**16.2**	114	17.5

1. Percentages represent costs divided by gross rental income including finance leases, before rents payable. This is with the exception of EPRA measures which represent costs divided by gross rental income including finance leases, after rents payable.

EPRA performance measures

Table 81

	Definition for EPRA measure	Notes	31 March 2017 Landsec measure	31 March 2017 EPRA measure
Adjusted earnings	Recurring earnings from core operational activity[1]	5	**£382m**	**£359m**
Adjusted earnings per share	Adjusted earnings per weighted number of ordinary shares[1]	5	**48.4p**	**45.4p**
Adjusted diluted earnings per share	Adjusted diluted earnings per weighted number of ordinary shares[1]	5	**48.3p**	**45.4p**
Adjusted net assets	Net assets adjusted to exclude fair value movements on interest-rate swaps[2]	5	**£11,206m**	**£11,520m**
Adjusted diluted net assets per share	Adjusted diluted net assets per share[2]	5	**1,417p**	**1,456p**
Triple net assets	Adjusted net assets amended to include the fair value of financial instruments and debt		**n/a**	**£10,502m**
Diluted triple net assets per share	Diluted triple net assets per share		**n/a**	**1,328p**
Net initial yield (NIY)	Annualised rental income less non-recoverable costs as a % of market value plus assumed purchasers' costs[3]		**3.6%**	**4.2%**
Topped-up NIY	NIY adjusted for rent free periods[3]		**4.2%**	**4.4%**
Voids/vacancy rate	ERV of vacant space as a % of ERV of Combined Portfolio excluding the development programme[4]		**4.6%**	**4.0%**
Cost ratio	Total costs as a percentage of gross rental income (including direct vacancy costs)[5]		**17.9%**	**18.1%**
	Total costs as a percentage of gross rental income (excluding direct vacancy costs)[5]		**n/a**	**16.2%**

1. EPRA adjusted earnings and EPRA adjusted earnings per share include the amortisation of bond exchange de-recognition of £24m and the net head office relocation credit of £1m.
2. EPRA adjusted net assets and adjusted diluted net assets per share include the bond exchange de-recognition adjustment of £314m.
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 valuer. EPRA NIY and EPRA Topped-up NIY calculations are consistent with ours, but exclude 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 2017

Table 82

	% of Group rent[1]
Deloitte	5.2
Accor	5.1
Central Government	5.1
Mizuho Bank	1.7
Boots	1.5
Sainsbury's	1.3
Taylor Wessing	1.2
H&M	1.2
K&L Gates	1.2
M&S	1.1
Cineworld	1.1
Telecity Group	1.1
	26.8

1. On a proportionate basis.

PID Table

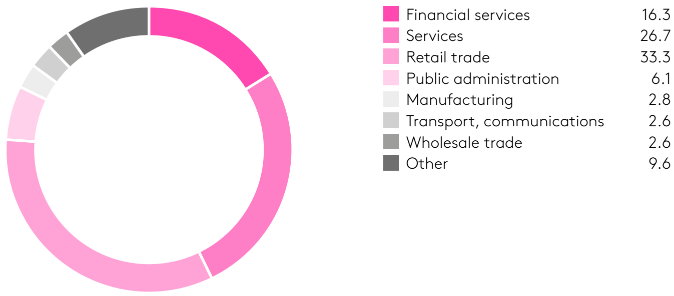
Table 83

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m
Profit before tax per accounts	**112**	1,336
Adjustment to exclude		
Valuation and profits on disposals	**68**	(1,043)
Interest income	**(37)**	(35)
Amortisation of bond exchange de-recognition adjustment	**24**	23
Redemption of medium term notes	**170**	26
Fair value movement on interest rate-swaps	**8**	11
Revaluation of redemption liabilities	**3**	5
Impairment of goodwill	**1**	1
Amortisation of intangible asset	**2**	2
	351	326
Tax adjustments		
Capital allowances	**(56)**	(53)
Capitalised interest	**(20)**	(26)
Cumulative tax adjustments and removal of net residual tax result	**2**	(13)
Estimated tax exempt income for year	**277**	234
PID thereon (90%)	**250**	211
PID dividends paid in the year	**218**	191

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.

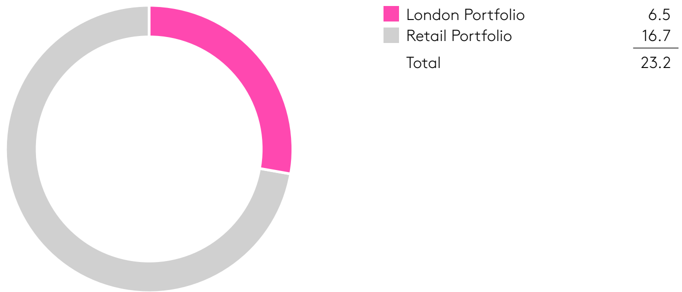
Annual net rent breakdown by occupier business sector (%)

Chart 84



Floor space (million sq ft)

Chart 85



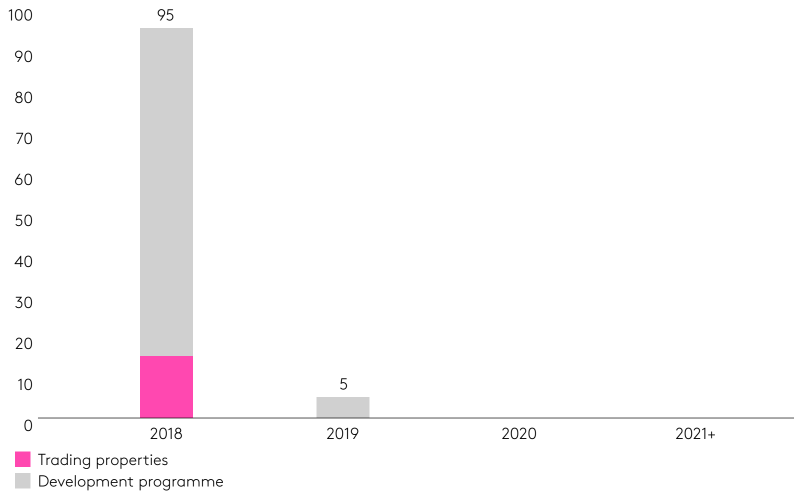
% portfolio by value and number of property holdings at 31 March 2017

Table 86

£m	Value %	Number of Properties
0–9.99	0.5	21
10–24.99	2.8	24
25–49.99	3.8	15
50–99.99	11.4	24
100–149.99	8.4	10
150–199.99	8.5	7
200+	64.6	19
Total	100.0	120

Committed development – estimated future spend (£m)

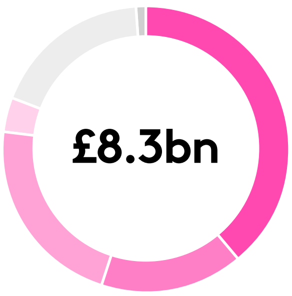
Chart 87



Estimated future spend includes the cost of residential space but excludes interest.

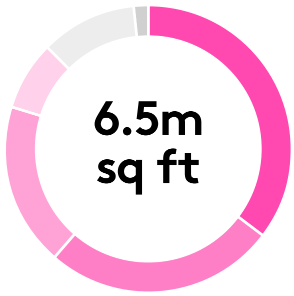
Business Analysis – London

London Portfolio valuation (%) Chart 88



West End	39
Mid-town	16
City	22
Inner London	4
Central London shops	18
Other	1

London Portfolio floor space (sq ft) Chart 90



West End offices	2.3
City offices	1.7
Mid-town offices	1.2
Inner London offices	0.5
Central London shops	0.7
Other	0.1
Total	**6.5**

West End
Our £3.2bn West End office portfolio is dominated by our Victoria assets which include Cardinal Place, SW1, Queen Anne's Gate, SW1, 62 Buckingham Gate, SW1, and developments including 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 £1.9bn City office portfolio includes assets such as One New Change, EC4 and the now completed schemes at 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 Piccadilly Lights, W1 and the retail space at One New Change, EC4, and Cardinal Place, SW1.

Top 10 office customers Table 91

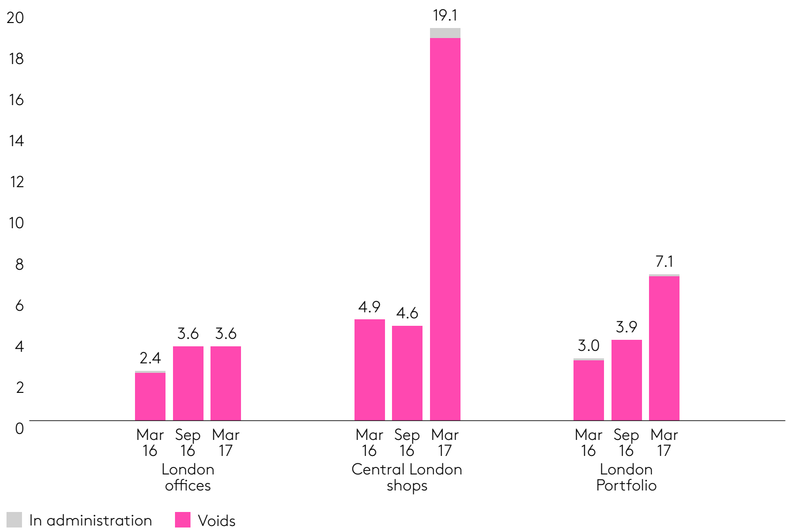
	% of Group rent
Deloitte	5.2
Central Government (including Queen Anne's Gate, SW1)	5.1
Mizuho Bank	1.7
Taylor Wessing	1.2
K&L Gates	1.2
Telecity Group	1.1
Deutsche Bank	1.1
Bain & Co	0.8
Schlumberger Oilfield UK	0.7
Wellington Management	0.7
	18.8
Office other	20.0
Total	**38.8**

London like-for-like — rental and capital value trends % year ended 31 March 2017 Table 92

	Rental value change[1] %	Valuation change %
West End	2.5	(4.3)
City	8.1	(3.1)
Mid-town	(1.0)	(5.1)
Inner London	0.6	(7.8)
Central London shops	4.7	6.9
Total London like-for-like portfolio	**3.0**	**(1.8)**

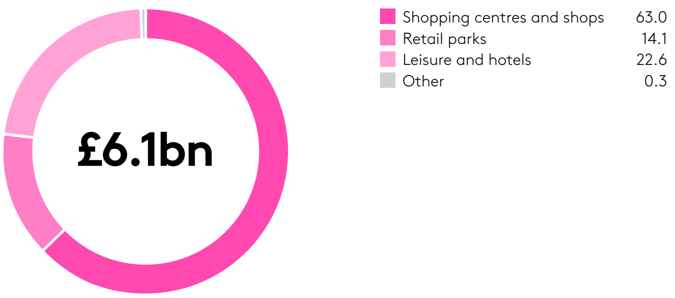
1. Rental value change excludes units materially altered during the year and Queen Anne's Gate, SW1.

Voids and units in administration – like-for-like London Portfolio (%) Chart 89

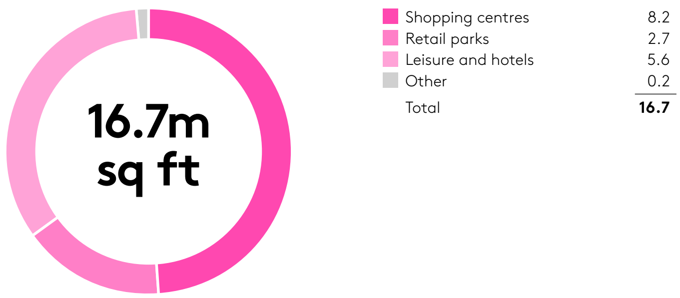


Business Analysis – Retail

Retail Portfolio valuation (%) Chart 93



Retail Portfolio floor space (sq ft) Chart 95



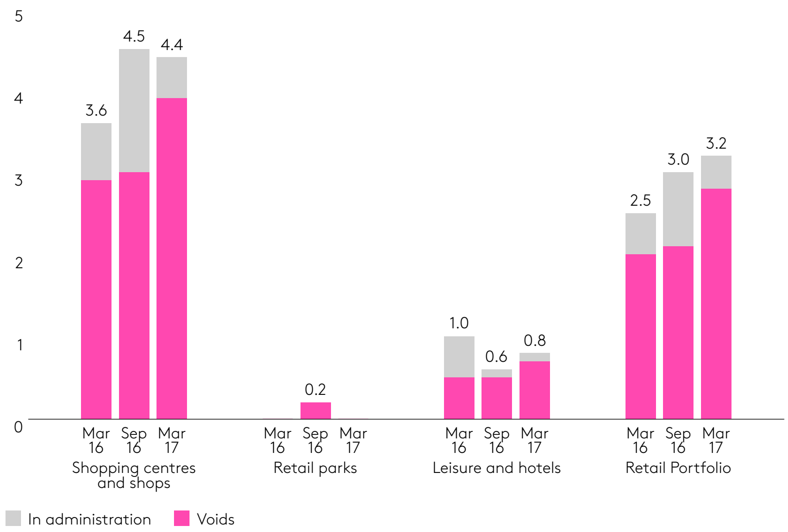
Shopping centres and shops
Comprises our portfolio of 13 shopping centres in major retail locations across the UK including Bluewater, Kent, Trinity Leeds, Gunwharf Quays, Portsmouth and Buchanan Galleries in Glasgow.

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 Thanet, Lakeside Retail Park and Bexhill Retail Park.

Leisure and hotels
We own five 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 25 Accor Group hotels in the UK. Three hotels were sold after 31 March 2017. The remaining 22 are leased to Accor for 75 years with a break clause in 2031 and 12 yearly thereafter.

Voids and units in administration – like-for-like Retail Portfolio (%) Chart 94



Top 10 retail customers Table 96

	% of Group rent
Boots	1.5
Sainsbury's	1.3
H&M	1.2
Cineworld	1.1
Next	1.1
Arcadia Group	1.0
M&S	0.9
Vue	0.8
Tesco	0.8
Currys & PC World	0.6
	10.3
Retail other (excluding Accor)	37.5
Total	**47.8**

Retail like-for-like — rental and capital value trends % year ended 31 March 2017 Table 97

	Rental value change[1] %	Valuation change %
Shopping centres and shops	1.6	(1.3)
Retail parks	0.6	(4.2)
Leisure and hotels	0.2	2.3
Total Retail like-for-like portfolio	**1.1**	**(0.9)**

1. Rental value change excludes units materially altered during the year.

Sustainability reporting

We see sustainability as a business advantage and are seeking to embed sustainable practices into everything we do. We have a vision to lead the UK listed real estate sector and demonstrate best practice. This section includes a summary of our performance against our corporate commitments and our key disclosures. For more information please visit www.landsec.com/sustainability

Creating jobs and opportunities

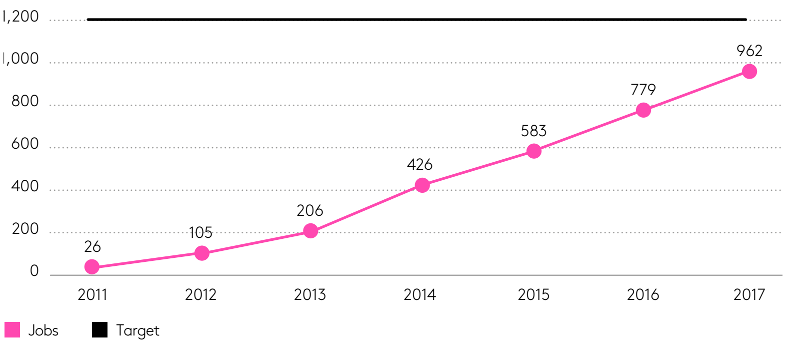
Commitment

Employment: Help a total of 1,200 disadvantaged people to secure jobs by 2020.

Performance

Since 2011 we have secured employment for 962 people from disadvantaged backgrounds. In 2016/17, 183 jobs have been secured (134 in London and 49 in Retail).

Cumulative total number of jobs secured Table 98



Commitment

Fairness: 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 Foundation Living Wage by 2020.

Performance

Landsec received accreditation from the Living Wage Foundation in March 2017. We have a milestone programme now in place so that we can meet our 2020 commitment.

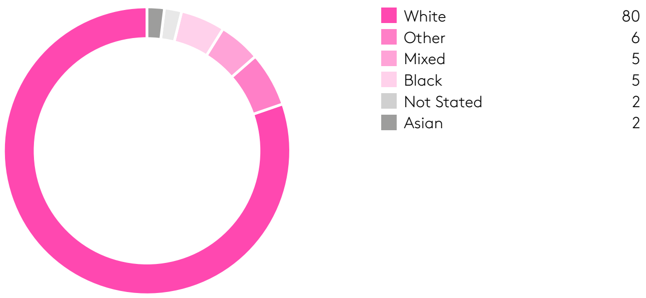
Commitment

Diversity: Make measurable improvements to the profile – in terms of gender, ethnicity and disability – of our employee mix.

Performance

With 36% of our management being female, we already exceed the recent Hampton-Alexander recommendations for females at our Executive Committee and senior leader level (combined percentage of 33%) and female representation has increased by 1% overall. We've also seen an increase of 3% in employees identified as black, asian or mixed ethnicity.

Ethnicity (%) Chart 99



Commitment

Health, safety and security: Maintain an exceptional standard of health, safety and security in all the working environments we control.

Performance

This year we continued sharing best practice through our 'One Best Way' guidelines and our Health and Safety pledge, which new starters and external customers signed up to. We also maintained our OHSAS 18001 certification, the benchmark for health and safety management systems.

Efficient use of natural resources

Commitment

Renewables: Continue to procure 100% renewable electricity across our portfolio and achieve 3 MW of renewable electricity capacity by 2030.

Performance

Our contract with SmartestEnergy has been in place since 1 April 2016; all electricity is from 100% renewable sources. We have agreed our new gas contract with Corona Energy which has taken effect from 1 April 2017. We are now procuring 15% of our total volume as green gas derived from 100% waste streams.

We have set a new metric to achieve 3 MW of renewable electricity capacity by 2030. Our current capacity is 0.6 MW, following the completion of our installations at Trinity Leeds and White Rose this will rise to 1.4 MW.

Commitment

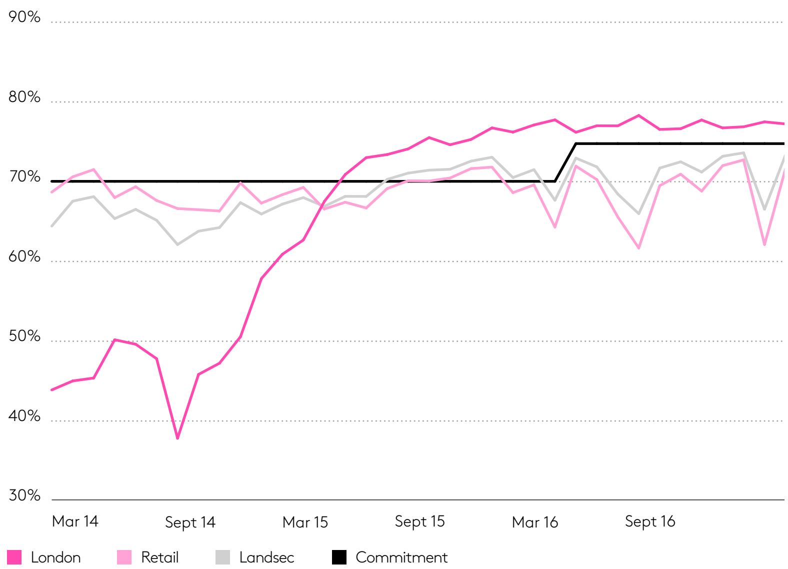
Waste: Send zero waste to landfill with at least 75% recycled across all our operational and construction activities by 2020.

Performance

In 2016/17 we diverted 99.9% of waste from landfill and recycled 70.8%. This is an improvement from the year before which was 99.3% and 70.3%. Our London Portfolio continues to divert 100% from landfill with 77% of waste recycled. In our Retail Portfolio, we are diverting 99.9% from landfill and recycling 68.4%.

In construction activities for 2016/17, a total of 7,571 tonnes of construction waste was generated. Over 98% was recycled, with less than 2% being sent to landfill.

Landsec monthly portfolio recycling rates 2014-16 Table 100



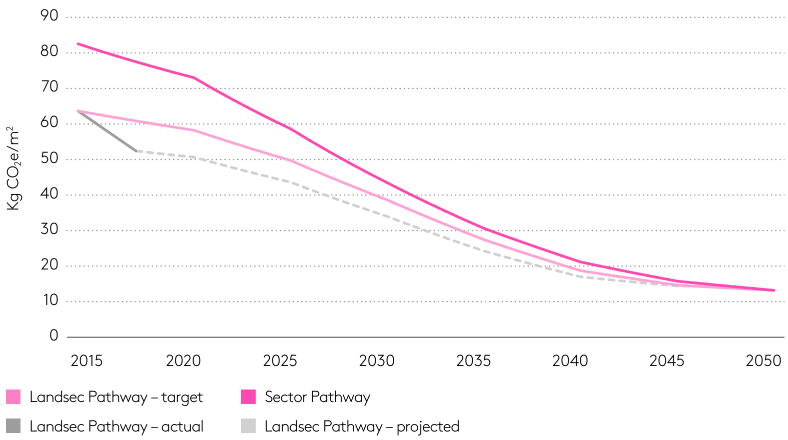
Commitment

Carbon: 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.

Performance

We have reduced portfolio carbon intensity by 18.5% compared to our 2013/14 baseline. This has been achieved via reductions in energy consumption and assisted by favourable changes in the UK's energy generation mix.

Landsec carbon emissions intensity pathway Table 101



The above figure indicates our performance against the required decarbonisation pathways of our portfolio and the wider sector. We are currently outperforming our target pathway and are on track for our 2030 commitment.

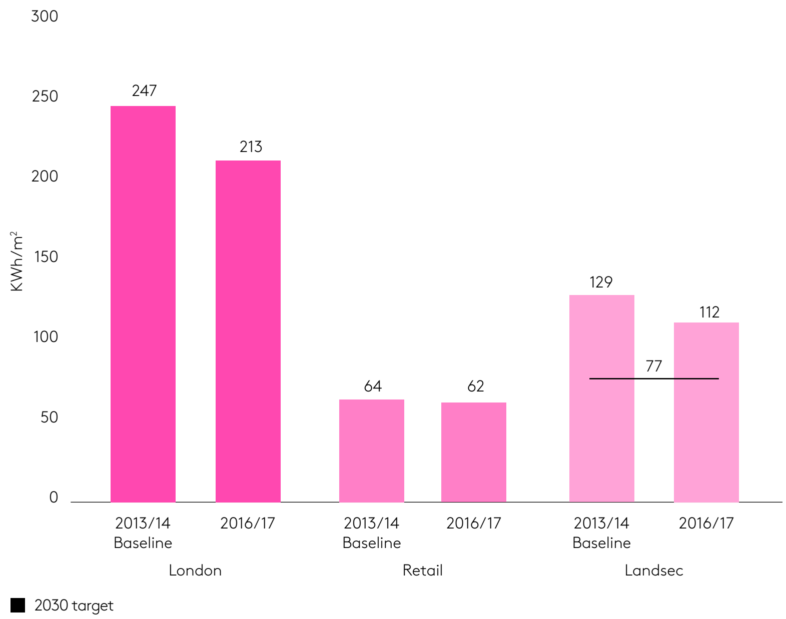
Commitment

Energy: 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.

Performance

We have reduced portfolio energy intensity by 13% compared to our 2013/14 baseline. This has been achieved by savings realised from our active energy management programme.

Landsec energy intensity Table 102



The above chart shows the energy intensity improvements we have made in our London and Retail portfolios and Landsec as whole. Office buildings in London naturally have a much higher energy intensity than Retail assets and we have reduced London Portfolio intensity by 14% since 2013/14. Our Retail Portfolio intensity has reduced by 3%. Overall we have reduced Combined Portfolio intensity by 13% and are on track to meet our 2030 commitment.

Sustainable design and innovation

Commitment

Resilience: Assess and mitigate site-specific climate change adaptation risks that are material across our portfolio.

Performance

This is a new commitment for 2017 and work is in progress to assess our climate risks and determine opportunities for mitigation. This work will be undertaken in collaboration with our Group Research and Insurance teams.

Commitment

Embodied carbon: Carry out embodied carbon analysis to inform the selection and procurement of building materials to reduce environmental impacts. Achieve at least a 15% reduction in embodied carbon.

Performance

Our Westgate Oxford development set an ultra-low carbon target requiring the reduction of embodied carbon by 25,777 tonnes. We're delighted to report that we've met this target, avoiding over 30,000 tonnes of embodied carbon emissions. This equates to an 18% saving, exceeding our corporate commitment. These are the emissions that would have been created if we'd used the initial design, which we've avoided through design development. This means the building has avoided as many emissions as it will generate over the next 30 years.

Commitment

Biodiversity: Maximise the biodiversity potential of all our development and operational sites and achieve a 25% biodiversity net gain across our five sites currently offering the greatest potential, by 2030.

Performance

We are focussing our work on the five sites that offer the greatest biodiversity potential. These are: Bluewater, Kent; Gunwharf Quays, Portsmouth; St David's, Cardiff; The Galleria, Hatfield and White Rose, Leeds. We have identified opportunities to enhance biodiversity at each of these sites and expect to begin implementation next year.

The table below lists the five sites and rating classifications

Table 103

Sites	Current rating	Targeted rating
Bluewater, Kent	A	A+
Gunwharf Quays, Portsmouth	B	B+
St David's, Cardiff	C	B+
The Galleria, Hatfield	C	B+
White Rose, Leeds	B+	A

Commitment

Wellbeing: Ensure our buildings are designed and managed to maximise wellbeing and productivity.

Progress

We have conducted a trial of WELL certification on the fit out of our new headquarters at 80-100 Victoria Street, SW1 to learn more about the process. The design incorporated many wellbeing features, and was recognised by staff in the Leesman® Workplace Survey, which ranked Landsec in the top 3% of companies surveyed. This performance will enable us to help our customers deliver WELL projects for their employees in the future.

Benchmarking and awards

Taking part in rigorous external benchmarking of our performance helps us to track and assess our progress. It also provides stakeholders with confidence that we're turning our commitments and targets into action. And it underlines our ambition to be a sustainability leader in our industry. This year we received high scores from our key benchmarking schemes:

Benchmarking scores Table 104

Activity	Performance
Carbon Disclosure Project (CDP)	2016: A- (Leadership) 2015: disclosure 99/score B 2014: disclosure 96/score A- 2013: disclosure 88/score B 2012: disclosure 92/score B
Global Real Estate Sustainability Benchmark (GRESB)	2016: score 77% 2015: score 77% 2014: score 78% 2013: score 67% 2012: score 68%
Dow Jones Sustainability Index (DJSI)	2016: score 76/percentile ranking 92 2015: score 72/percentile ranking 89 2014: score 70/percentile ranking 87 2013: score 72/percentile ranking 87 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 2016 for Sustainability Reporting
REEB	Offices — 2016: 13th out of 22 in performance league table — 2015: 22nd out of 23 in performance league table Retail — 2016: 4th out of 13 in performance league table — 2015: 10th out of 13 in performance league table

Community investment data

Value of resources given	Over £2m equivalent of time, promotion and cash investment. 2,678[1] hours spent by employees volunteering
National Charity Partnership	Over £360,000 raised for partner Mencap in our three-year partnership

1. This year we launched a new community investment activity tool. We anticipate that with continued employee engagement on how to use the new tool we will see increased investment statistics for the 2017/18 financial year.

Awards and membership Table 105

Award name	Award category	Date
Better Society Awards 2016	**Winner:** National Commitment to the Community Award	May 2016
City of London Building of the Year Awards 2016	**Winner:** Building of the Year Award, 1&2 New Ludgate, EC4	July 2016
RICS Awards 2016	**Winner:** Best Commercial Building, 1&2 New Ludgate, EC4	October 2016
Leading European Architects Forum (LEAF) Awards 2016	**Winner:** Developer and Development Project of the Year, 1&2 New Ludgate, EC4	October 2016
EMA Energy Management Awards 2016	**Winner:** EMA Most Inspiring Energy Reduction Project 2016 – NG Bailey in Collaboration with Landsec	November 2016
World Architectural Festival	**Winner:** World's Best Office, The Zig Zag Building, SW1	November 2016
The City of London Clean City Awards Scheme 2017	**Winner:** — New Street Square, EC4, Premier Award for Facilities Management and Chairman's Cup — 20 Fenchurch Street, EC3, Platinum Award	January 2017
BREEAM Awards 2017	**Winner:** BREEAM Offices Refurbishment & Fit-Out award	March 2017
National Recycling Awards 2017	**Shortlisted:** Team of the Year Award	March 2017
National CSR Awards 2017	**Shortlisted:** Clean and Green Award	March 2017
Better Society Awards 2017	**Shortlisted:** Partnership with a National Charity	March 2017
Business Charity Awards 2017	**Shortlisted:** Charity partnership – property & construction	March 2017
BITC Responsible Business Awards 2017	**Shortlisted:** Environmental Leadership Award **Reaccreditation:** Work Inclusion Award	April 2017

Sustainability reporting
continued

Green building certifications

Our BREEAM rated space — Table 106

	Feb 16	**Feb 17**
Total common and tenanted space (m²)	2,681,066	3,021,432
Total space with BREEAM rating (m²)	583,919	996,585
Percentage of total which is BREEAM rated	22%	33%

BREEAM rating — Table 107

	Area m²	% of our total space
Outstanding	4,864	0.2%
Excellent	534,490	17.7%
Very Good	218,959	7.2%
Good/Pass	238,272	7.9%

The tables above outline the percentage of our portfolio rated by BREEAM and the breakdown of these ratings. BREEAM is a well-established assessment method and ratings system for buildings and continues to be a valuable indicator of quality and sustainability. It looks at a building's performance and rates it on a scale which includes Pass, Good, Very Good, Excellent or Outstanding.

Greenhouse gas reporting

We report our full greenhouse gas (GHG) emissions annually in accordance to the World Resources Institute's Greenhouse Gas Protocol. Landsec is also committed to EPRA Best Practice Recommendations for Sustainability reporting, for which we have won a Gold award for three years running. We believe that such reporting improves transparency and performance. We report our data using an operational control approach to define our organisational boundary. A detailed description of our reporting methodology and data, including our EPRA figures, can be found at www.landsec.com/sustainability

GHG emissions are broken down into three scopes, Scope 1,2 and 3.

Scope 1 emissions are direct emissions from activities controlled by us that release emissions into the atmosphere, whereas Scope 2 emissions are indirect emissions associated with our consumption of purchased energy. Scope 2 emissions are reported using both the 'location-based' and 'market-based' accounting methods. Location-based emissions are reported using UK Government Greenhouse gas reporting – Conversion factors 2016. Market-based emissions are reported using the conversion factor associated with each individual electricity supply as per the supplier's guidance. Scope 1 emissions are currently reported using only the location-based method.

Scope 3 emissions are those that are a consequence of our actions, but which occur at sources we do not own or control and which are not classed as Scope 2 emissions. The GHG Protocol identifies 15 categories of which eight are directly relevant for Landsec.

Landsec – Scope 1 and 2 emissions 2015-17 — Table 108

Scope 1 and 2 mandatory reporting	**Location-based emission factors**			**Market-based emission factors**		
Emissions	**2015**	**2016**	**2017**		**2016**	**2017**
Scope 1 tCO_2e	13,711	13,648	16,477	Scope 1 tCO_2e	13,648	16,477
Scope 2 tCO_2e	64,114	55,688	47,066	Scope 2 tCO_2e	34,259	3,862
Scope 1 and 2 tCO_2e	77,825	69,336	63,543	Scope 1 and 2 tCO_2e	47,907	20,338
Intensity						
Scope 1 and 2 tCO_2e/m^2	0.041	0.038	0.038	Scope 1 and 2 tCO_2e/m^2	0.026	0.012

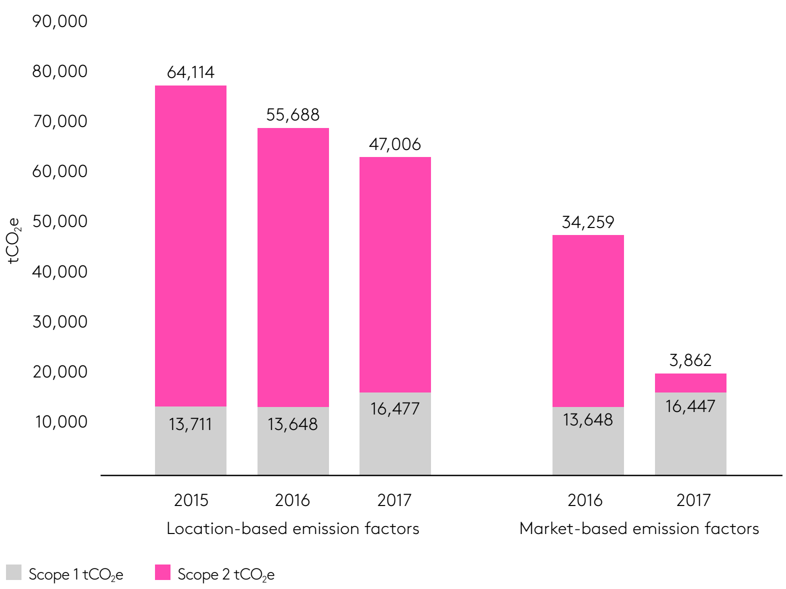
CO_2e Conversion Factors – Location-based[1] — Table 109

	2015/16	2016/17	% Change
Electricity	0.57492	0.51680	-10.1%
Natural gas	0.20928	0.20899	-0.1%

1. Combined conversion factor including well-to-tank and transmission and distribution factors.

The table below outlines the location-based emission factors used for the 2016/17 year and how they compare to the previous year.

Landsec – Scope 1 and 2 emissions 2015-17 — Table 110



Total GHG emissions using location-based emission factors have dropped by 8% since the previous year. This has been driven by a reduction in electricity consumption and the drop in national emission factors due to a cleaner energy mix. In terms of market-based emissions we have seen a significant reduction of 58%. This has been due to our move to 100% renewable electricity via our contract with SmartestEnergy.

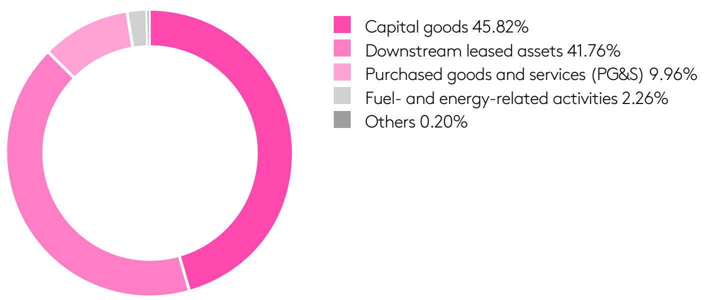
This is the first year where we have fully reported our Scope 3 emissions having worked with the Carbon Trust to establish an accurate and repeatable methodology. We believe it was important to do so to fully understand and disclose the total emissions associated with our business. The table below provides a breakdown of our entire emission inventory including Scope 3.

Landsec – Scope 1, 2 and 3 emissions 2016/17 Table 111

GHG Scope	Category	Emissions (tCO_2e)	% of total emissions
Scope 1	Scope 1	16,477	2%
Scope 2	Scope 2	47,066	7%
Scope 3	1. Purchased goods and services (PG&S)	61,647	9%
	2. Capital goods	283,570	42%
	3. Fuel- and energy-related activities	13,982	2%
	4. Upstream transportation and distribution	Grouped under PG&S	0%
	5. Waste generated in operations	703	0%
	6. Business travel	360	0%
	7. Employee commuting	182	0%
	8. Upstream leased assets	n/a	0%
	9. Downstream transportation and distribution	n/a	0%
	10. Processing of sold products	n/a	0%
	11. Use of sold products	n/a	0%
	12. End-of-life treatment of sold products	n/a	0%
	13. Downstream leased assets	258,428	38%
	14. Franchises	n/a	0%
	15. Investments	n/a	0%

The GHG Protocol splits Scope 3 emissions into 15 categories. We assessed each one individually and decided which ones were applicable to our business. For the categories that are applicable we have obvious hot spots which are highlighted below:

Landsec – Scope 3 GHG emissions 2016/17 (%) Table 112



The two largest contributing categories are Capital goods and Downstream leased assets, making up 80% of our entire emissions. Capital goods include the emissions associated with the manufacture and transport of materials used within our construction activity and Downstream leased assets are those associated with our customers within our assets. We are working to reduce our impacts in these categories by working closer with our supply chain partners and customers on reduction strategies.

Combined Portfolio analysis

Like-for-like segmental analysis

Table 113

	Market value[1]		Valuation movement[2]		Rental income[3]		Annualised rental income[4]	Annualised net rent[5]		Net estimated rental value[6]	
	31 March 2017 £m	31 March 2016 £m	**Surplus/ (deficit) £m**	**Surplus/ (deficit) %**	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Retail Portfolio											
Shopping centres and shops	**3,663**	3,677	**(47)**	**(1.3%)**	**194**	195	**184**	**179**	180	**195**	190
Retail parks	**855**	886	**(37)**	**(4.2%)**	**52**	52	**52**	**51**	50	**51**	51
Leisure and hotels	**1,361**	1,323	**30**	**2.3%**	**82**	84	**81**	**79**	78	**82**	81
Other	**20**	20	**-**	**(2.0%)**	**2**	2	**1**	**2**	2	**2**	2
Total Retail Portfolio	**5,899**	5,906	**(54)**	**(0.9%)**	**330**	333	**318**	**311**	310	**330**	324
London Portfolio											
West End	**2,020**	2,084	**(87)**	**(4.3%)**	**89**	88	**91**	**89**	84	**98**	96
City	**797**	797	**(25)**	**(3.1%)**	**29**	28	**29**	**32**	32	**40**	37
Mid-town	**1,013**	1,053	**(50)**	**(5.1%)**	**40**	39	**40**	**43**	42	**49**	49
Inner London	**323**	320	**(13)**	**(7.8%)**	**14**	13	**14**	**15**	9	**17**	17
Total London offices	**4,153**	4,254	**(175)**	**(4.4%)**	**172**	168	**174**	**179**	167	**204**	199
Central London shops	**1,267**	1,181	**82**	**6.9%**	**45**	44	**34**	**34**	45	**58**	55
Other	**41**	45	**(4)**	**(7.8%)**	**2**	2	**1**	**1**	1	**1**	1
Total London Portfolio	**5,461**	5,480	**(97)**	**(1.8%)**	**219**	214	**209**	**214**	213	**263**	255
Like-for-like portfolio[10]	**11,360**	11,386	**(151)**	**(1.4%)**	**549**	547	**527**	**525**	523	**593**	579
Proposed developments[3]	**6**	4	**(3)**	**(33.2%)**	**–**	–	**–**	**–**	–	**–**	–
Development programme[11]	**1,138**	1,013	**14**	**1.3%**	**21**	8	**25**	**1**	–	**60**	63
Completed developments[3]	**1,841**	1,771	**(7)**	**(0.4%)**	**63**	47	**70**	**40**	16	**86**	85
Acquisitions[12]	**94**	90	**–**	**0.4%**	**4**	2	**4**	**4**	4	**4**	3
Sales[13]	**–**	207	**–**	**–**	**11**	56	**–**	**–**	13	**–**	12
Combined Portfolio	**14,439**	14,471	**(147)**	**(1.0%)**	**648**	660	**626**	**570**	556	**743**	742
Properties treated as finance leases					**(10)**	(10)					
Combined Portfolio	**14,439**	14,471	**(147)**	**(1.0%)**	**638**	650					

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 2017 £m	31 March 2016 £m	**Surplus/ (deficit) £m**	**Surplus/ (deficit) %**	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Retail Portfolio											
Shopping centres and shops	**3,860**	3,790	**(37)**	**(0.9%)**	**195**	196	**185**	**179**	180	**210**	205
Retail parks	**861**	890	**(40)**	**(4.5%)**	**52**	68	**52**	**51**	50	**51**	51
Leisure and hotels	**1,384**	1,542	**30**	**2.2%**	**94**	98	**82**	**80**	91	**83**	93
Other	**20**	20	**-**	**(1.9%)**	**2**	2	**1**	**2**	2	**2**	2
Total Retail Portfolio	**6,125**	6,242	**(47)**	**(0.8%)**	**343**	364	**320**	**312**	323	**346**	351
London Portfolio											
West End	**3,247**	3,262	**(103)**	**(3.2%)**	**123**	109	**127**	**107**	97	**156**	156
City	**1,853**	1,814	**(14)**	**(0.8%)**	**66**	65	**67**	**53**	36	**88**	83
Mid-town	**1,336**	1,325	**(48)**	**(3.7%)**	**48**	41	**55**	**42**	41	**67**	67
Inner London	**323**	320	**(13)**	**(7.8%)**	**14**	28	**14**	**15**	9	**17**	17
Total London offices	**6,759**	6,721	**(178)**	**(2.8%)**	**251**	243	**263**	**217**	183	**328**	323
Central London shops	**1,514**	1,462	**82**	**5.7%**	**52**	51	**42**	**40**	49	**68**	67
Other	**41**	46	**(4)**	**(7.9%)**	**2**	2	**1**	**1**	1	**1**	1
Total London Portfolio	**8,314**	8,229	**(100)**	**(1.3%)**	**305**	296	**306**	**258**	233	**397**	391
Combined Portfolio	**14,439**	14,471	**(147)**	**(1.0%)**	**648**	660	**626**	**570**	556	**743**	742
Properties treated as finance leases					**(10)**	(10)					
Combined Portfolio	**14,439**	14,471	**(147)**	**(1.0%)**	**638**	650					
Represented by:											
Investment portfolio	**12,628**	12,800	**(187)**	**(1.5%)**	**585**	600	**571**	**523**	527	**650**	650
Share of joint ventures	**1,811**	1,671	**40**	**2.3%**	**53**	50	**55**	**47**	29	**93**	92
Combined Portfolio	**14,439**	14,471	**(147)**	**(1.0%)**	**638**	650	**626**	**570**	556	**743**	742

Like-for-like segmental analysis continued

Table 114

	Gross estimated rental value[7]		Net initial yield[8]		Equivalent yield[9]		Voids (by ERV)[5]	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 %**	31 March 2016 %	**31 March 2017 %**	31 March 2016 %	**31 March 2017 %**	31 March 2016 %
Retail Portfolio								
Shopping centres and shops	**203**	197	**4.3%**	4.4%	**4.8%**	4.7%	**3.9%**	2.9%
Retail parks	**52**	52	**5.5%**	5.1%	**5.6%**	5.4%	**–**	–
Leisure and hotels	**82**	81	**5.2%**	5.3%	**5.4%**	5.5%	**0.7%**	0.5%
Other	**2**	2	**3.8%**	6.3%	**8.3%**	8.2%	**33.3%**	21.7%
Total Retail Portfolio	**339**	332	**4.7%**	4.7%	**5.0%**	5.0%	**2.8%**	2.0%
London Portfolio								
West End	**98**	96	**4.0%**	3.8%	**4.6%**	4.5%	**7.6%**	4.7%
City	**41**	38	**3.8%**	3.7%	**4.8%**	4.5%	**–**	–
Mid-town	**50**	51	**4.0%**	3.8%	**4.5%**	4.4%	**–**	0.4%
Inner London	**17**	17	**4.2%**	2.6%	**5.0%**	4.9%	**–**	–
Total London offices	**206**	202	**4.0%**	3.7%	**4.7%**	4.5%	**3.6%**	2.3%
Central London shops	**58**	56	**2.5%**	3.5%	**4.1%**	4.0%	**18.6%**	4.9%
Other	**1**	1	**0.9%**	1.0%	**1.3%**	1.5%	**33.3%**	16.7%
Total London Portfolio	**265**	259	**3.6%**	3.6%	**4.5%**	4.4%	**7.0%**	2.9%
Like-for-like portfolio[10]	**604**	591	**4.2%**	4.2%	**4.8%**	4.7%	**4.6%**	2.4%
Proposed developments[3]	**–**	–	**–**	–	**n/a**	n/a	**n/a**	n/a
Development programme[11]	**61**	64	**0.1%**	–	**4.2%**	4.0%	**n/a**	n/a
Completed developments[3]	**87**	85	**2.0%**	0.8%	**4.2%**	4.1%	**n/a**	n/a
Acquisitions[12]	**4**	3	**3.7%**	3.6%	**3.8%**	n/a	**n/a**	n/a
Sales[13]	**–**	12	**–**	5.5%	**n/a**	n/a	**n/a**	n/a
Combined Portfolio	**756**	755	**3.6%**	3.5%	**4.7%**	n/a	**n/a**	n/a

Total portfolio analysis continued

	Gross estimated rental value[7]		Net initial yield[8]	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 %**	31 March 2016 %
Retail Portfolio				
Shopping centres and shops	**219**	213	**4.1%**	4.2%
Retail parks	**52**	52	**5.4%**	5.1%
Leisure and hotels	**83**	93	**5.2%**	5.3%
Other	**2**	2	**3.8%**	6.3%
Total Retail Portfolio	**356**	360	**4.5%**	4.6%
London Portfolio				
West End	**156**	156	**3.0%**	2.8%
City	**89**	84	**2.7%**	1.7%
Mid-town	**68**	69	**3.0%**	3.0%
Inner London	**17**	17	**4.2%**	2.6%
Total London offices	**330**	326	**3.0%**	2.5%
Central London shops	**69**	68	**2.4%**	3.1%
Other	**1**	1	**0.9%**	1.1%
Total London Portfolio	**400**	395	**2.9%**	2.6%
Combined Portfolio	**756**	755	**3.6%**	3.5%
Represented by:				
Investment portfolio	**661**	661	**3.7%**	3.7%
Share of joint ventures	**95**	94	**2.4%**	1.7%
Combined Portfolio	**756**	755	**3.6%**	3.5%

Notes:
1. The market value figures are determined by the Group's external valuer.
2. The valuation movement is stated after adjusting for the effect of SIC15 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. 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.
12. Includes all properties acquired since 1 April 2015.
13. Includes all properties sold since 1 April 2015.

Lease lengths

Lease lengths

Table 115

	Weighted average unexpired lease term at 31 March 2017	
	Like-for-like portfolio Mean[1] Years	Like-for-like portfolio, completed developments and acquisitions Mean[1] Years
Retail Portfolio		
Shopping centres and shops	6.5	6.5
Retail parks	7.6	7.6
Leisure and hotels	12.4	12.5
Other	1.9	1.9
Total Retail Portfolio	**8.2**	**8.2**
London Portfolio		
West End	8.0	8.0
City	6.1	10.9
Mid-town	9.5	12.2
Inner London	15.8	15.8
Total London offices	**8.6**	**10.3**
Central London shops	6.8	7.2
Other	6.7	6.7
Total London Portfolio	**8.3**	**9.9**
Combined Portfolio	**8.2**	**9.1**

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 116

	Cumulative movements on the development programme to 31 March 2017						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 2017 £m	Estimated total capital expenditure[3] £m	Estimated total capitalised interest £m	Estimated total development cost[4] £m	Net income/ ERV[5] £m	Valuation (deficit)/ surplus for the year ended 31 March 2017[2] £m
Developments let and transferred or sold											
Shopping centres and shops	**–**	–	–	–	–	**–**	–	–	–	–	**–**
Retail parks	**–**	–	–	–	–	**–**	–	–	–	–	**–**
London Portfolio	**137**	283	16	405	4	**845**	277	15	416	40	**(9)**
	137	283	16	405	4	**845**	277	15	416	40	**(9)**
Developments after practical completion, approved or in progress											
Shopping centres and shops	**30**	115	8	32	(2)	**183**	171	10	211	14	**10**
Retail parks	**–**	–	–	–	–	**–**	–	–	–	–	**–**
London Portfolio	**212**	385	44	401	(87)	**955**	272	44	528	46	**4**
	242	500	52	433	(89)	**1,138**	443	54	739	60	**14**
	Movement on proposed developments for the year ended 31 March 2017										
Proposed developments											
Shopping centres and shops	**–**	–	–	–	–	**–**	–	–	–	–	**–**
Retail parks	**4**	2	–	(3)	3	**6**	44	1	51	3	**(3)**
London Portfolio	**–**	–	–	–	–	**–**	–	–	–	–	**–**
	4	2	–	(3)	3	**6**	44	1	51	3	**(3)**

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 2017.
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 2017 is included in the estimated total cost. 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 2017 on unlet units.

Development pipeline and trading property development schemes

at 31 March 2017

Development pipeline

Table 117

Property	Description of use	Ownership interest %	Size sq ft	Letting status %	Market value £m	Net income/ ERV £m	Actual/ estimated completion date	Total development costs to date £m	Forecast total development cost £m
Developments after practical completion									
The Zig Zag Building, SW1[1]	Office	100	192,700	89	382	17	Nov 2015	182	182
	Retail		38,700	89					
20 Eastbourne Terrace, W2	Office	100	92,800	90	130	6	May 2016	67	67
Developments approved or in progress									
Nova, Victoria, SW1	Office	50	481,400	42	396	21	Apr 2017	259	259
	Retail		79,200	93					
Oriana, W1 – Phase II	Retail	50	30,700	100	47	2	Jul 2017	19	20
Westgate Oxford	Retail	50	793,000	68	183	14	Oct 2017	148	211
Proposed developments									
Selly Oak, Birmingham	Retail	50	200,000	n/a	n/a	n/a	2019	n/a	n/a
	Residential		89,000	n/a	n/a	n/a	2019	n/a	n/a
Developments let and transferred or sold									
1 New Street Square, EC4	Office	100	274,800	100	n/a[3]	16	Oct 2016	168	168
1 & 2 New Ludgate, EC4	Office	100	355,300	100	n/a[3]	24	Apr 2015	248	248
	Retail		26,700	100					
Oriana, W1 – Phase II[2]	Retail	50	41,800	100	n/a[3]	n/a	n/a	n/a	n/a

1. Includes retail within Kings Gate, SW1.
2. This represents the disposal of 28-32 Oxford Street, W1.
3. 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 2017. 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 2017, the only properties on which interest was capitalised on the land cost were Westgate Oxford and Nova, Victoria, SW1.

Net income/ERV

Net income/ERV represents headline annual rent on let units plus ERV at 31 March 2017 on unlet units, both after rents payable.

Trading property development schemes

Table 118

Property	Description of use	Ownership interest %	Size sq ft	Number of units	Sales exchanged by unit %	Actual/ estimated completion date	Total development costs to date £m	Forecast total development cost £m
Kings Gate, SW1	Residential	100	108,600	100	95	Oct 2015	163	163
Nova, Victoria, SW1	Residential	50	166,800	170	87	Apr 2017	146	146
Oriana, W1 – Phase II	Residential	50	20,200	18	22	Jul 2017	14	15
Westgate Oxford	Residential	50	36,700	59	–	Jul 2017	7	10

Alternative performance measures

The Group has applied the European Securities and Markets Authority (ESMA) 'Guidelines on Alternative Performance Measures' in these annual results. In the context of these results, an alternative performance measure (APM) is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

The table below summarises the APMs included in these annual results, where the definitions and reconciliations of these measures can be found, as well where further discussion is included. The definitions of all APMs are included in the Glossary and further discussion of these measures can be found in the financial review.

Table 119

	Nearest IFRS measure	Reconciliation
Revenue profit	Profit before tax	Note 4
Adjusted earnings	Profit attributable to owners of the parent	Note 5
Adjusted earnings per share	Basic earnings per share	Note 5
Adjusted diluted earnings per share	Diluted earnings per share	Note 5
Adjusted net assets	Net assets attributable to owners of the parent	Note 5
Adjusted net assets per share	Net assets attributable to owners of the parent	Note 5
Adjusted diluted net assets per share	Net assets attributable to owners of the parent	Note 5
Total business return	n/a	Note 5
Combined Portfolio	Investment properties	Note 14
Valuation surplus/deficit	Net surplus/deficit on revaluation of investment properties	Note 14
Adjusted net debt	Borrowings	Note 20
Group LTV	n/a	Note 20

Five year summary

Table 120

Income statement	**2017 £m**	2016 £m	2015 £m	2014 £m	2013 £m
Revenue	**787**	942	770	717	737
Costs	**(266)**	(410)	(334)	(249)	(284)
	521	532	436	468	453
Profit/(loss) on disposal of investment properties	**19**	75	107	16	(3)
(Loss)/profit on disposal of investments in joint ventures	**(2)**	–	3	2	–
Profit on disposal of other investment	**13**	–	–	–	1
Net (deficit)/surplus on revaluation of investment properties	**(186)**	739	1,771	607	197
Operating profit	**365**	1,346	2,317	1,093	648
Net finance expense	**(322)**	(209)	(228)	(185)	(175)
Net gain on business combination	**–**	–	2	5	1
Share of post-tax profit from joint ventures	**69**	199	326	196	59
Profit before tax	**112**	1,336	2,417	1,109	533
Taxation	**1**	2	–	8	–
Profit for the financial year	**113**	1,338	2,417	1,117	533
Net (deficit)/surplus on revaluation of investment properties:					
Group[1]	**(187)**	736	1,768	609	197
Joint ventures[1]	**40**	171	269	155	21
Total[1]	**(147)**	907	2,037	764	218
Revenue profit	**382**	362	329	320	291

1. Includes our non-wholly owned subsidiaries on a proportionate basis.

Five year summary

Balance sheet

Table 121

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Investment properties	**12,144**	12,358	12,158	9,848	9,652
Intangible assets	**36**	38	35	–	–
Net investment in finance leases	**165**	183	185	187	188
Loan investments	**–**	–	50	50	50
Investment in joint ventures	**1,734**	1,668	1,434	1,443	1,301
Trade and other receivables	**123**	86	53	35	11
Other non-current assets	**51**	44	29	14	14
Total non-current assets	**14,253**	14,377	13,944	11,577	11,216
Trading properties and long-term development contracts	**122**	124	222	193	152
Trade and other receivables	**418**	445	404	366	345
Monies held in restricted accounts and deposits	**21**	19	10	15	31
Cash and cash equivalents	**30**	25	14	21	42
Total current assets	**591**	613	650	595	570
Non-current assets held for sale	**–**	–	283	–	–
Borrowings	**(404)**	(19)	(191)	(513)	(436)
Trade and other payables	**(302)**	(289)	(367)	(320)	(364)
Other current liabilities	**(7)**	(19)	(10)	(12)	(37)
Total current liabilities	**(713)**	(327)	(568)	(845)	(837)
Borrowings	**(2,545)**	(2,854)	(3,593)	(2,849)	(3,315)
Trade and other payables	**(25)**	(28)	(30)	(23)	(18)
Other non-current liabilities	**(9)**	(47)	(45)	(4)	(11)
Redemption liability	**(36)**	(35)	(35)	(33)	(118)
Total non-current liabilities	**(2,615)**	(2,964)	(3,703)	(2,909)	(3,462)
Net assets	**11,516**	11,699	10,606	8,418	7,487
Net debt	**(2,905)**	(2,861)	(3,801)	(3,331)	(3,699)
Market value of the Combined Portfolio	**14,439**	14,471	14,031	11,859	11,446
Adjusted net debt	**(3,261)**	(3,239)	(4,172)	(3,948)	(4,290)
Results per share					
Total dividend payable in respect of the financial year	**38.55p**	35.0p	31.85p	30.7p	29.8p
Basic earnings per share	**14.3p**	169.4p	306.1p	142.3p	68.4p
Diluted earnings per share	**14.3p**	168.8p	304.7p	141.8p	68.1p
Adjusted earnings per share	**48.4p**	45.9p	41.7p	40.7p	37.0p
Adjusted diluted earnings per share	**48.3p**	45.7p	41.5p	40.5p	36.8p
Net assets per share	**1,458p**	1,482p	1,343p	1,069p	959p
Diluted net assets per share	**1,456p**	1,476p	1,337p	1,065p	955p
Adjusted net assets per share	**1,418p**	1,439p	1,299p	1,017p	907p
Adjusted diluted net assets per share	**1,417p**	1,434p	1,293p	1,013p	903p

Acquisitions, disposals and capital expenditure

Table 122

	Year ended 31 March 2017				Year ended 31 March 2016
	Group (excl. joint ventures) £m	Joint ventures £m	Adjustment for proportionate share £m	Combined Portfolio £m	Combined Portfolio £m
Investment properties					
Net book value at the beginning of the year	**12,358**	**1,630**	**(34)**	**13,954**	13,529
Acquisitions	14	1	–	**15**	123
Capital expenditure	126	114	–	**240**	312
Capitalised interest	5	13	–	**18**	23
Disposals	(205)	(39)	–	**(244)**	(940)
Net movement in finance leases	32	9	1	**42**	–
Transfer to trading properties	–	(5)	–	**(5)**	–
Net (deficit)/surplus on revaluation of investment properties	(186)	40	(1)	**(147)**	907
Net book value at the end of the year	**12,144**	**1,763**	**(34)**	**13,873**	13,954
Profit on disposal of investment properties	**19**	**1**	**–**	**20**	79
Trading properties					
Net book value at the beginning of the year	**124**	**157**	**–**	**281**	337
Capital expenditure	19	27	**–**	**46**	61
Capitalised interest	–	5	**–**	**5**	6
Disposals	(33)	(68)	**–**	**(101)**	(140)
Transfer from investment properties	–	5	**–**	**5**	–
Movement in impairment	12	–	**–**	**12**	16
Net book value at the end of the year	**122**	**126**	**–**	**248**	280
Profit on disposal of trading properties	**29**	**7**	**–**	**36**	41
Investment in joint ventures					
Loss on disposal of investment in joint venture	**(2)**	**–**	**–**	**(2)**	–
Other investments					
Profit on disposal of other investment	**13**	**–**	**–**	**13**	–
Acquisitions, development and refurbishment expenditure				**£m**	£m
Acquisitions of investment property				**15**	123
Capital expenditure – investment property				**81**	160
Development capital expenditure – investment properties				**159**	152
Capital expenditure – trading properties				**19**	51
Development capital expenditure – trading property				**27**	10
Acquisitions, development and refurbishment expenditure				**301**	496
Disposals				**£m**	£m
Net book value – investment property disposals				**244**	940
Net book value – trading property disposals				**101**	140
Profit on disposal – investment property				**20**	79
Profit on disposal – trading property				**36**	41
Loss on disposal – investment in joint venture				**(2)**	–
Profit on disposal – other investment				**13**	–
Disposal of asset held for sale				**–**	283
Other				**1**	10
Total disposal proceeds				**413**	1,493

Remuneration policy

1. Executive Directors

Table 123

Purpose and link to strategy	Operation	Opportunity	Discretion
Base salary			
— To aid the recruitment, retention and motivation of high performing executives — To reflect the value of their experience, skills and knowledge, and importance to the business.	— Reviewed annually, with effect from 1 June, and reflects: — Increases throughout the rest of the business — 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 — Changes in the scope of a Director's role may also require a further adjustment to salary.	— For 2017/18, the annual base salaries of the Executive Directors are £784,041 (Chief Executive), and £510,367 (Chief Financial Officer), representing a 2% increase — The maximum annual salary increase will not normally exceed the average increase across the rest of the workforce (2017/18: 2%). Higher increases will be exceptional, and made in specific circumstances, including: — Increase in responsibilities or scope of the role — To apply salary progression for a newly appointed Director — Where the 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 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 executives.	— Directors receive a combination of: — Car allowance — Private medical insurance — Life assurance — Ill health income protection — Holiday and sick pay — Professional advice in connection with their directorship — Travel, subsistence and accommodation as necessary — 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 executives — 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
continued

Purpose and link to strategy	Operation	Opportunity	Discretion
Annual bonus			

— To incentivise the delivery of stretching, near-term business targets and personal performance objectives
— To reward near-term outperformance relative to industry benchmarks
— 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
— Other KPIs, such as development lettings targets, are likely to have a significant impact on capital growth and long-term revenue profit performance
— The ability to recognise performance through variable remuneration enables the Group to control its cost base flexibly and react to events and market circumstances
— 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
	— Specific measures and targets will be set each year, but will always include a measure of Total Property Return versus that of the market
	— 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
	— The achievement of on-target performance should result in a payment of 50% of the maximum opportunity (i.e. 75% of salary)
	— 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
	— The structure of the plan incentivises outperformance by ensuring that the threshold targets are stretching
	— Bonuses up to 50% of salary are paid in cash
	— Any amounts in excess of 50% of salary are deferred into shares for one year
	— Any amounts in excess of 100% of salary are deferred into shares for two years
	— Deferred shares are potentially forfeitable if the executive leaves prior to the share release date
	— Bonus payments are not pensionable
	— 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
		— Maximum bonus potential is 150% of salary.
			— The Committee has the discretion to set targets and measures each year
			— 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
			— 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
			— Within the Policy, the Committee will retain flexibility including:
			  — When to make awards and payments
			  — How to determine the size of an award, a payment, or when and how much of an award should be payable
			  — Who receives an award or payment
			  — Whether a departing 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
			  — Whether a departing Director should be treated as a "good leaver" in respect of deferred bonus shares
			  — How to deal with a change of control or any other corporate event which may require adjustments to awards
			  — 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.

Purpose and link to strategy	Operation	Opportunity	Discretion
Long-Term Incentive Plan (LTIP)			
— Incentivises value creation over the long-term in excess of that created by general market increases — Rewards execution of our strategy and the long-term outperformance of our competitors — Aligns the long-term interests of Directors and shareholders — Promotes retention.	— The Committee may make an annual award of shares under the LTIP — 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 — The Committee reviews the measures, their relative weightings and targets prior to each award — 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 — 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 — 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 — Executive Directors are required to hold vested shares for a further two years (including post-employment) following the three year vesting period expiry — 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 — Within the Policy, the Committee will retain flexibility including: — When to make awards and payments — How to determine the size of an award, a payment, or when and how much of an award should vest — Who receives an award or payment — Whether a departing 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 — How to deal with a change of control or any other corporate event which may require adjustments to awards.
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 2017/18, 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. — 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 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: — Chief Executive – 250% of salary — Other Executive Directors – 200% of salary 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

Table 124

Purpose and link to strategy	Operation	Opportunity
Base fee		
— To aid the recruitment, retention and motivation of high performing Non-executive Directors — 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 — Reviewed (but not necessarily changed) annually by the Board, having regard to independent advice and published surveys — 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 the Annual Report on Remuneration in section 3.2 — Non-executive Director fees are typically reviewed annually but increased every two to three years — 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 — 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 — 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 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 a 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 2017, 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 at 100 Victoria Street, London, SW1E 5JL.

Name	Name
59-60 Grosvenor Street (No. 1) Limited	Land Securities Management Limited
59-60 Grosvenor Street (No. 2) Limited	Land Securities Management Services Limited
Alan House (Nottingham) (No. 1) Limited	Land Securities MPPS Trustee Company Limited
Alan House (Nottingham) (No. 2) Limited	Land Securities Partnerships Limited
Albany Park (Frimley) (No. 1) Limited	Land Securities PLC
Arundel Great Court Development Management Limited	Land Securities Portfolio Management Limited
Blueco Limited	Land Securities Properties Limited
Bluewater Ground Lease Limited	Land Securities Property Holdings Limited
Bluewater Outer Area Limited	Land Securities Reserve A Limited
Brand Empire SPV 4 Limited	Land Securities Reserve B Limited
Cedric (New Fetter Lane) (No. 1) Limited	Land Securities SPV'S Limited
Cedric (New Fetter Lane) (No. 2) Limited	Land Securities Trading Limited
City & Central Shops Limited	Land Securities Trinity Limited
City Centre Properties Limited	LC25 Limited
Clock Tower (Canterbury) (No. 1) Limited	LS (Bracknell) Limited
Clock Tower (Canterbury) (No. 2) Limited	LS (Bridgewater Management) Limited
Crossways 2000 Limited	LS (Finchley Road) Limited
Crossways 3065 Limited	LS (Jaguar) GP Investments Limited
Crossways 7055 Limited	LS (Milford Haven) Limited
Dashwood House Limited	LS (Victoria) Nominee No.1 Limited
DVD Box Limited	LS (Victoria) Nominee No.2 Limited
Ebbsfleet Valley Estate Company Limited	LS (Winchester) Limited
Ebbsfleet Valley Property Services Limited	LS (Workington) Nominee 1 Limited
Eron Investments Limited	LS (Workington) Nominee 2 Limited
GEP16 Limited	LS 1 New Street Square Developer Limited
Gunwharf Quays Limited	LS 1 New Street Square Limited
Knollys House (No.1) Limited	LS 1 Sherwood Street Limited
Knollys House Limited	LS 120 Cheapside Limited
L & P Estates Limited	LS 130 Wood ST Limited
Land Securities (BH) Limited	LS 20 Fenchurch Street (GP) Investments Limited
Land Securities (Finance) Limited	LS 20 Fenchurch Street Limited
Land Securities (Hotels) Limited	LS 21 Moorfields Development Management Limited
Land Securities (Insurance Services) Limited	LS 21 Moorfields Limited
Land Securities (Media Services) BH Limited	LS Aldersgate Limited
Land Securities (Media Services) PQ Limited	LS Arundel Nominee Limited
Land Securities Buchanan Street Developments Limited	LS Arundel Nominee No. 1 Limited
Land Securities Business Services Limited	LS Ashdown Limited
Land Securities Capital Markets PLC	LS Banbridge Limited
Land Securities Consulting Limited	LS Banbridge Management Limited
Land Securities Corporate Services Limited	LS Banbridge Phase Two Limited
Land Securities Development Limited	LS Bankside Development Limited
Land Securities Ebbsfleet (No.2) Limited	LS Bankside Limited
Land Securities Ebbsfleet (No.3) Limited	LS Bexhill Limited
Land Securities Ebbsfleet Limited	LS Birmingham Limited
Land Securities Intermediate Limited	LS Bon Accord Limited
Land Securities Investment Trust Limited	LS Buchanan (GP) Investments Limited
Land Securities Lakeside Limited	LS Buchanan Limited

Name	Name	Name
LS Canterbury Limited	LS Maidstone Limited	LSIT (Management) Limited
LS Cardiff (GP) Investments Limited	LS Mark Lane Limited	Metro Nominees (Notting Hill No.1) Limited
LS Cardiff (Holdings) Limited	LS Millshaw Limited	Metro Nominees (Notting Hill No.2) Limited
LS Cardiff Limited	LS Mirage Limited	Metro Nominees (Victoria Place) Limited
LS Cardinal Limited	LS Moorgate Limited	Micadant (2001) Limited
LS Centre Properties Limited	LS New Street Square Investments Limited	O2 Retail & Leisure UK Partnership No.1 LLP
LS Chattenden Marketing Limited	LS Nominees Holdings Limited	Oriana LP Limited
LS Chesterfield Limited	LS Occupier Limited	Oxford Castle Apartments Limited
LS City & West End Limited	LS ONC Holdings Limited	QAM (2026) Limited
LS City Gate House Limited	LS One New Change Developments Limited	QAM (GP) Limited
LS Clayton Square Limited	LS One New Change Limited	QAM (Holdings) Limited
LS Company Secretaries Limited	LS Oxygen Limited	QAM (LP) Limited
LS Cornerhouse Limited	LS Park House Development Management Limited	QAM Funding Limited Partnership
LS Director Limited	LS Poole Retail Limited	QAM Nominee No 1 Limited
LS Eastbourne Terrace Limited	LS Portfolio Investments Limited	QAM Nominee No 2 Limited
LS Eastern Quarry Limited	LS Portland House Developer Limited	QAM Property Trustee No 1 Limited
LS Easton Park Investments Limited	LS Property Finance Company Limited	QAM Property Trustee No 2 Limited
LS Empress State Limited	LS Property Solutions Limited	Ravenseft Industrial Estates Limited
LS Fenchurch Development Management Limited	LS Red Lion Court Limited	Ravenseft Properties Limited
LS Galleria Limited	LS Retail Warehouses Limited	Ravenside Investments Limited
LS Greenwich Investments Limited	LS Roebuck House (LP) Limited	Retail Property Holdings Trust Limited
LS Greenwich Limited	LS Rose Lane Limited	Roebuck House (GP) Limited
LS Greyhound Limited	LS Selborne House Limited	Roebuck House (Nominee) Limited
LS Gunwharf Limited	LS Soho Square Limited	Rosefarm Leisure Limited
LS Harbour Exchange Option Limited	LS Taplow Limited	Sevington Properties Limited
LS Harrogate (Leasehold) Limited	LS Taplow No.2 Limited	Shirec Limited
LS Harrogate Limited	LS Thanet Limited	Southside General Partner Limited
LS Harrow Properties Limited	LS Times Square GP Limited	Stag Place (GP) Limited
LS Harvest (GP) Investments Limited	LS Times Square Limited	Stag Place (LP) Limited
LS Harvest 2 Limited	LS TMS Nominee 1 Limited	Stag Place Limited Partnership
LS Harvest Limited	LS TMS Nominee 2 Limited	The City of London Real Property Company Limited
LS Hill House Limited	LS Tottenham Court Road Limited	The Imperial Hotel Hull Limited
LS Holborn Gate Limited	LS Victoria Circle Development Management Limited	The Westminster Trust Limited
LS Howard Centre Welwyn Limited	LS Victoria Circle GP Investments Limited	Tops Estates Limited
LS Hungate Limited	LS Victoria Circle LP1 Limited	Tops Shop Centres Limited
LS Juliet Limited	LS Victoria Circle LP2 Limited	Tops Shop Estates Limited
LS Kings Gate Residential Limited	LS Victoria Properties Limited	Trinity Quarter Developments Limited
LS Kings Gate Residential No.2 Limited	LS Voyager Limited	Wallace City Limited
LS Kingsmead Limited	LS Wellington Limited	Watchmaker Finance Limited
LS Leisure Limited	LS Westminster Limited	Whitecliff Developments Limited
LS Lewisham Limited	LS Westminster No.2 Limited	Willett Developments Limited
LS London Holdings One Limited	LS White Rose Limited	Wood Lane Nominee No. 1 Limited
LS London Holdings Three Limited	LS Whitefriars Limited	Wood Lane Nominee No. 2 Limited
LS Ludgate (No.1) Limited	LS Wilton Plaza Limited	X-Leisure (Brighton Cinema) Limited
LS Ludgate (No.2) Limited	LS Wood Lane Limited	X-Leisure (Brighton Cinema II) Limited
LS Ludgate (No.3) Limited	LS Zig Zag Limited	X-Leisure (Edinburgh) Limited
LS Ludgate Development Limited		X-Leisure Limited

Subsidiaries, joint ventures and associates
continued

As at 31 March 2017, 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. The registered address of all the entities is 100 Victoria Street, London, SW1E 5JL, except where indicated by a footnote.

Name	Group share %	Country of registration
20 Fenchurch Street (GP) Limited	50.00%	UK
20 Fenchurch Street Developer Limited	50.00%	UK
20 Fenchurch Street Limited Partnership	50.00%	UK
20 Fenchurch Street Nominee No.1 Limited	50.00%	UK
20 Fenchurch Street Nominee No.2 Limited	50.00%	UK
Castleford (UK) Limited	95.04%	UK
Ebbsfleet Investment (GP) Limited	50.00%	UK
Ebbsfleet Nominee No.1 Limited	50.00%	UK
Five Fields Limited	50.00%	UK
Greenhithe Holding Limited	100.00%	Jersey[1]
Greenhithe Investments Limited	100.00%	Jersey[1]
Harbour Exchange Management Company Limited	25.70%	UK
Harvest 2 GP Limited	50.00%	UK
Harvest 2 Limited Partnership	50.00%	UK
Harvest 2 Selly Oak Limited	50.00%	UK
Harvest Development Management Limited	50.00%	UK
Harvest GP Limited	50.00%	UK
Harvest Nominee No. 1 Limited	50.00%	UK
Harvest Nominee No. 2 Limited	50.00%	UK
Kent Retail Investments Limited	100.00%	Jersey[2]
Land Securities Insurance Limited	100.00%	Guernsey[3]
Leisure II (North Finchley Two) Limited	95.04%	Jersey[2]
Leisure II (North Finchley) Limited	95.04%	Jersey[2]
Leisure II (O2 LP) Shareholder Limited	95.04%	UK
Leisure II (O2 Manager) Shareholder Limited	95.04%	UK
Leisure II (West India Quay LP) Shareholder Limited	95.04%	UK
Leisure II (West India Quay Two) Limited	95.04%	Jersey[2]
Leisure II (West India Quay) Limited	95.04%	Jersey[2]
Leisure Parks I Limited	95.04%	UK
Leisure Parks II Limited	95.04%	UK
LS (Eureka Two) Limited	95.04%	UK
LS (Eureka) Limited	95.04%	UK
LS (Fountain Park Two) Limited	95.04%	UK
LS (Fountain Park) Limited	95.04%	UK
LS (Parrswood Two) Limited	95.04%	UK
LS (Parrswood) Limited	95.04%	UK
LS (Riverside Two) Limited	95.04%	UK
LS (Riverside) Limited	95.04%	UK
LS Fort Limited	Limited by guarantee	UK
Metro Nominees (Clapham) Limited	50.00%	UK
Metro Nominees (Wandsworth) (No.1) Limited	50.00%	UK
Metro Nominees (Wandsworth) (No.2) Limited	50.00%	UK
Metro Shopping Fund GP Limited	50.00%	Jersey[4]
Metro Shopping Fund LP	50.00%	Jersey[4]
Metro Shopping Fund Management Limited	50.00%	UK
NOVA Residential (GP) Limited	50.00%	UK
NOVA Residential Intermediate Limited	50.00%	UK
NOVA Residential Limited Partnership	50.00%	UK
O2 (General Partner) Limited	95.04%	UK
Oriana (Hanway St) Limited	50.00%	UK
Oriana GP Limited	50.00%	UK
Oriana Nominee No.1 Limited	50.00%	UK
Oriana Nominee No.2 Limited	50.00%	UK
Oriana Residential Nominee No.1 Limited	50.00%	UK
Oriana Residential Nominee No.2 Limited	50.00%	UK

Name	Group share %	Country of registration
Oriana Residential Nominee No.3 Limited	50.00%	UK
Oriana Residential Nominee No.4 Limited	50.00%	UK
Queens Links Unit Trust	95.04%	Jersey[4]
St David's (Cardiff Residential) Limited	50.00%	UK
St David's (General Partner) Limited	50.00%	UK
St David's Dewi Sant Merchant's Association Limited	Limited by guarantee	UK
St. David's (No.1) Limited	50.00%	UK
St. David's (No.2) Limited	50.00%	UK
St. David's Unit Trust	100.00%	Jersey[5]
The Ebbsfleet Limited Partnership	50.00%	UK
The Oriana Limited Partnership	50.00%	UK
The St. David's Limited Partnership	50.00%	UK
The X-Leisure (General Partner) Limited	95.04%	UK
The X-Leisure Limited Partnership	95.04%	UK
The X-Leisure Unit Trust	95.04%	Jersey[2]
Victoria Circle Business Manager Limited	50.00%	UK
Victoria Circle Developer Limited	50.00%	UK
Victoria Circle GP Limited	50.00%	UK
Victoria Circle Limited Partnership	50.00%	UK
Victoria Circle Nominee 1 Limited	50.00%	UK
Victoria Circle Nominee 2 Limited	50.00%	UK
West India Quay Limited	47.52%	UK
West India Quay Management Company Limited	29.93%	UK
West India Quay Unit Trust	47.52%	Jersey[2]
Westgate Oxford Alliance GP Limited	50.00%	UK
Westgate Oxford Alliance Limited Partnership	50.00%	UK
Westgate Oxford Alliance Nominee No.1 Limited	50.00%	UK
Westgate Oxford Alliance Nominee No.2 Limited	50.00%	UK
X-Leisure (Bentley Bridge) Limited	95.04%	UK
X-Leisure (Boldon) Limited	95.04%	UK
X-Leisure (Brighton I) Limited	95.04%	UK
X-Leisure (Brighton II) Limited	95.04%	UK
X-Leisure (Cambridge I) Limited	95.04%	UK
X-Leisure (Cambridge II) Limited	95.04%	UK
X-Leisure (Leeds I) Limited	95.04%	UK
X-Leisure (Leeds II) Limited	95.04%	UK
X-Leisure (Maidstone II) Limited	95.04%	UK
X-Leisure (Maidstone) Limited	95.04%	UK
X-Leisure (Poole) Limited	95.04%	UK
X-Leisure Management Limited	95.04%	UK
Xscape Castleford Limited	95.04%	Jersey[2]
Xscape Castleford Limited Liability Partnership	95.04%	UK
Xscape Castleford No.2 Limited	95.04%	Jersey[2]
Xscape Castleford Partnership	95.04%	UK
Xscape Castleford Property Unit Trust	95.04%	Jersey[2]
Xscape Milton Keynes (Jersey) No.2 Limited	95.04%	Jersey[2]
Xscape Milton Keynes Limited	95.04%	Jersey[2]
Xscape Milton Keynes Limited Liability Partnership	95.04%	UK
Xscape Milton Keynes Partnership	95.04%	UK
Xscape Milton Keynes Property Unit Trust	95.04%	Jersey[2]

1. 44 Esplanade, St Helier, Jersey, JE4 9WG
2. 13 Castle Street, St Helier, Jersey, JE4 5UT
3. PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET
4. 13-14 Esplanade, St Helier, Jersey, JE1 1EE
5. 47 Esplanade, St Helier, Jersey, JE1 0BD

Shareholder information

Financial calendar

Table 125

	2017
2016/17 Final dividend[1]	
Ex-dividend date	22 June
Record date	23 June
Last day for DRIP elections/receipt of DRIP application	6 July
Payment date	27 July
Annual General Meeting[2]	13 July
2017/18 First quarterly interim dividend[3]	
Record date	8 September
Payment date	6 October
2017/18 Half-yearly results announcement	14 November
2017/18 Second quarterly interim dividend[4]	
Record date	1 December

	2018
Payment date	5 January
2017/18 Third quarterly interim dividend[4]	
Record date	9 March
Payment date	6 April
2017/18 Financial year end	31 March
2017/18 Annual results announcement[4]	15 May

1. The Board has recommended a final dividend of 11.7p per ordinary share, payable wholly as a Property Income Distribution, subject to shareholders' approval at the forthcoming Annual General Meeting.
2. The Annual General Meeting will be held at 10.00 am on Thursday, 13 July 2017 at 80 Victoria Street, London SW1E 5JL. 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.landsec.com/investors
3. The Board has declared a first quarterly dividend of 9.85p pence per ordinary share payable wholly as a Property Income Distribution.
4. Provisional.

Share register analysis as at 31 March 2017

Table 126

Holding range:	Number of holders	%	Number of ordinary shares	%
1–1,000	9,004	66.5	3,496,457	0.4
1,001–5,000	3,175	23.4	6,519,740	0.8
5,001–10,000	389	2.9	2,749,364	0.3
10,001–50,000	420	3.1	10,227,100	1.3
50,001–100,000	136	1.0	9,898,684	1.2
100,001–500,000	224	1.7	51,641,904	6.5
500,001–highest[1]	184	1.4	716,711,379	89.5
Total	**13,532**	**100.0**	**801,244,628**	**100.0**

Share register analysis as at 31 March 2017

Table 127

Held by:	Number of holders	%	Number of ordinary shares	%
Private shareholders	10,475	77.4	13,025,459	1.6
Nominee and institutional investors[1]	3,057	22.6	788,219,169	98.4
Total	**13,532**	**100.0**	**801,244,628**	**100.0**

1. Including 10,495,131 shares held in Treasury by the Company.

Shareholder information
continued

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).

The Company's American Depositary Receipt Programme was terminated on 1 September 2016.

Company website: www.landsec.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.

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[1]
International dialing: +44 (0) 121 415 7049[1]
www.shareview.co.uk

An online share management service is available which enables shareholders to access details of their Land Securities Group PLC shareholdings electronically. This is available at www.landsec.com/investors 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 Landsec to communicate in a more environmentally friendly and cost-effective manner. To register for this service, you should go to www.landsec.com/investors or www.shareview.co.uk

UK Real Estate Investment Trust (REIT) taxation and status on payment of dividends
As a UK REIT, Landsec 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 dividend tax regime introduced by the Government on 6 April 2016 – for more information see www.gov.uk/tax-on-dividends.

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 required to be completed 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 www.landsec.com/investors 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 directly 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 Group PLC. 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.landsec.com/investors.

They are also available from:
Dividend Reinvestment Plans
Equiniti Group PLC
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0371 384 2268[1]
International dialling: +44 (0) 121 415 7173[1]

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 Group PLC 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[1] 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[1]

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
Telephone: +44 (0)333 000 0182
email: uarenquiries@uk.experian.com
www.uar.co.uk

Unsolicited mail

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.

Shareholder security

Over the past few months, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported 'brokers' who offer to buy shares at a price often far in excess of their market value. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or free reports into the Company. If you receive any such unsolicited calls, correspondence or investment advice:

— ensure you get the correct name of the person and firm;
— check that the firm is on the Financial Conduct Authority (FCA) Register to ensure they are authorised at www.register.fsa.org.uk;
— use the details on the FCA Register to contact the firm;
— call the FCA Consumer Helpline (0800 111 6768) if there are no contact details in the Register or you are told they are out of date; and
— **if you feel uncomfortable with the call or the calls persist, simply hang up.**

Additionally, feel free to report and/or discuss any shareholder security matters with the Company. To do this, please call +44 (0)20 7413 9000 and ask to be put through to a member of the Company Secretarial department.

1. 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 from outside the UK will be charged at the applicable international rate.

Key contacts and advisers

Registered office and principal UK address

Land Securities Group PLC
100 Victoria Street,
London SW1E 5JL
Registered in England and Wales No. 4369054

Company Secretary

Tim Ashby
Group General Counsel and
Company Secretary

Investor relations

Edward Thacker
Head of Investor Relations

Telephone: +44 (0)20 7413 9000
Email: investor.relations@landsec.com
www.landsec.com

Registrar

Equiniti Group PLC
Aspect House
Spencer Road
Lancing
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

Valuer: CBRE
Financial adviser: Citigroup
Solicitors: Slaughter and May
Joint brokers: JP Morgan Cazenove and UBS

Glossary

Adjusted earnings per share (Adjusted EPS)
Earnings per share based on revenue profit after related tax.

Adjusted net assets per share
Net assets 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.

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 2015.

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
Profit after taxation attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the year.

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 valuer.

Equivalent yield
Calculated by the Group's external valuer, 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 valuer. 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 20.

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.

IPD
Refers to the MSCI IPD Direct Property indexes which measure the property level investment returns in the UK.

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 arrangement in which the Group holds an interest and which is jointly controlled by the Group and one or more partners under a contractual arrangement. Decisions on the activities of the joint venture that significantly affect the joint venture's returns, including decisions on financial and operating policies and the performance and financial position of the operation, require the unanimous consent of the partners sharing control.

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 2015, but excluding those which are acquired, sold or included in the development pipeline at any time since that date.

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 valuer, 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 assets per share
Equity attributable to owners of the parent divided by the number of ordinary shares in issue at the year end. Net assets per share is also commonly known as net asset value per share (NAV per share).

Net initial yield
Net initial yield is a calculation by the Group's external valuer 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.

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.

Planning permission
There are two common types of planning permission: full planning permission and outline planning permission. A full planning permission results in a decision on the detailed proposals on how the site can be developed. The grant of a full planning permission will, subject to satisfaction of any conditions, mean no further engagement with the local planning authority will be required to build the consented development. An outline planning permission approves general principles of how a site can be developed. Outline planning permission is granted subject to conditions known as 'reserved matters'. Consent must be sought and achieved for discharge of all reserved matters within a specified time-limit, normally three years from the date outline planning permission was granted, before building can begin. In both the case of full and outline planning permission, the local planning authority will 'resolve to grant permission'. At this stage, the planning permission is granted subject to agreement of legal documents, in particular the s106 agreement. On execution of the s106 agreement, the planning permission will be issued. Work can begin on satisfaction of any 'pre-commencement' planning conditions.

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.

Glossary
continued

Rental value change
Increase or decrease in the current rental value, as determined by the Group's external valuer, 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 net finance expense, plus joint venture profit before net finance expense, 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 finance expense 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 the Group 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 valuer. 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 in the year plus the change in adjusted diluted net assets per share, divided by adjusted diluted net assets 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 period, 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.

Valuation surplus/deficit
The valuation surplus/deficit represents the increase or decrease in the market value of the Combined Portfolio, adjusted for net investment. The market value of the Combined Portfolio is determined by the Group's external valuer.

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 Landsec's 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 political conditions, economies and markets in which the Group operates (including the outcome of the negotiations to leave the EU); 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 Landsec's 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 Landsec's website should be construed as a profit forecast or an invitation to deal in the securities of the Company.

Produced by Brightsource Limited, a Cello Signal company.

Printed by CPI Colour.

Cover and text printed on Munken Design Kristall Smooth which is produced from FSC and PEFC certified wood pulps and manufactured at a paper mill which has ISO 14001, EU Ecolabel and EMAS certification for environmental standards.

Independently certified on behalf of the Forest Stewardship Council (FSC®).

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C016486

Design:
mslgroup.co.uk

Words:
Tim Rich and Landsec

Photography:
Philippa Langley
Luke Hayes
David Hares
Joseph Fox

Land Securities Group PLC
100 Victoria Street London SW1E 5JL
+44 (0)20 7413 9000
www.landsec.com

www.landsec.com