20 Eastbourne Terrace Transformed.
elivered. Nova Completed. New ideas
Capital Returned. Reality Augmente
ncubated. 20 Fenchurch Street Sold. D
Westgate Oxford Launched. White R
ties Created. Development pipeline Pr
pared. Piccadilly Lights Illuminated. C
nd Experienced. Retail outlets Acquire
Our supply partners Engaged. Sustaina
Refreshed. 21 Moorfields Committed.

Experience in Action.

Annual Report 2018

Landsec

Welcome to Landsec

What we do
We buy, sell, develop and manage real estate. That includes contemporary office, retail, leisure and residential space in London, and retail and leisure destinations across the UK.

Why we do it
Our purpose is to provide the right space for our customers and our communities – helping businesses to succeed, the economy to grow and people to thrive.

How we create value
Applying our expertise, we provide 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 shareholders. We aim to provide dependable dividend income and grow our share price by increasing revenues and asset values.

How we've performed
We work in markets shaped by big impacts and trends that generate opportunities and challenges for us. Our clear strategy has put the business in a strong position at a time of uncertainty in our markets – see our performance measures opposite.

How we report
We think about the short- and long-term effects of our actions. In this Annual Report we've further integrated content on our broader social and physical impacts, but we only include what's material to our business.

This year we published our first Economic Contribution report – you can read it at landsec.com

2018 in numbers

Largest listed real estate company in the UK by market capitalisation

£14.1bn
Combined Portfolio

24.0m sq ft
Floor space

125
Assets

615
Employees

£(251)m
(Loss)/profit before tax (2017: £112m)

1.8%
Total business return (2017: 1.4%)

£406m
Revenue profit (2017: £382m)

4.3%
Ungeared total property return (2017: 3.7%)

53.1p
Adjusted diluted earnings per share (2017: 48.3p)

153,000
People working across our workplace, retail and leisure destinations

44.2p
Dividend up 14.7%

1,149
Job opportunities created for disadvantaged people to date

1,403p
Adjusted diluted net assets per share (2017: 1,417p)

28.6%
Carbon intensity (kgCO_2/m^2) reduction compared to 2013/14 baseline

£13.2bn
Total contribution to the UK economy each year from people based at our assets

London Portfolio
pages 26-29

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

£7.8bn
of assets

6.4m sq ft
portfolio

Retail Portfolio
pages 30-33

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

£6.3bn
of assets

17.6m sq ft
portfolio

We use our experience to provide great experiences for those we rely on – our customers, communities, partners and employees.

Getting this right enables us to create long-term, sustainable value for our shareholders.

This year we've been busy letting space, delivering new assets, strengthening the portfolio and our balance sheet, enhancing our team and creating future opportunities.

Over the following pages we show our experience in action. We report on the value our activity has generated – financially, physically and socially. And we share what others say about our work.

Everything is experience.

Read more

Our market
page 14
The opportunities and challenges presented by our market environment.

Our strategy
page 16
How we're addressing our most significant opportunities and challenges.

Our performance
page 20
The results we've achieved this year financially, physically and socially.

Visit our website: landsec.com

Strategic Report

Governance

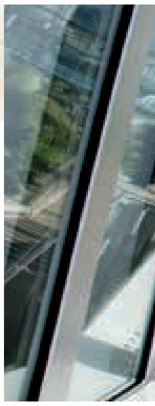
Financial statements

Additional information

20 Eastbourne Terrace Transformed.

We've turned this outdated 1950s block near Paddington station into a contemporary development with small-format creative spaces well matched to local demand. The British Council for Offices (BCO) Awards named it 'Best Refurbished/Recycled Workplace' this year. The 17-storey building is now fully let.

> The extent and quality of this clever refurbishment means 20 Eastbourne Terrace has evolved into a modern and relaxing workplace."
>
> **The British Council for Offices Awards commentary**



Nova Completed.

Nova is the largest and most complex single development project we have undertaken in London. Completed in 2017, we've created a mixed use space that's becoming the heart of a transformed Victoria. The combination of modern offices and contemporary food experiences enables resident businesses to keep attracting great talent. The scheme is 97% let.

20 Fenchurch St. Sold.

Having started construction when market confidence and construction activity were low, we completed the Walkie Talkie building in favourable market conditions in 2014. It quickly became a celebrated part of the London skyline but we've always said no asset is sacred. We sold in July 2017, crystallising a return of 25.9% per annum since we started development and setting a record price for a UK office building.

To read more go to London Portfolio review on pages 26-29

Capital Returned.

Following the sale of 20 Fenchurch Street, we returned £475m to shareholders through a capital payment and accompanied this with a share consolidation. Given that our shares were trading at a discount, this enabled investors to capture value from our successful development programme.

Westgate Oxford Launched.

For years, brands and shoppers had told us there was strong but unmet demand for a new retail experience in Oxford. In October 2017, in partnership with The Crown Estate, we opened Westgate Oxford. This 800,000 sq ft destination has transformed the retail offer in the city, bringing nearly 70 new retailers to Oxford and combining it with leisure, casual and fine dining, and incorporating two public spaces.

To see the latest news from Westgate Oxford go to westgateoxford.co.uk

> We're working with Landsec to make Westgate the perfect place to spend a day and night."
>
> **Julie Blake**
> Head of Branch, John Lewis Oxford

Job opportunities Created.

Westgate Oxford generated 566 jobs during construction and an estimated 3,400 retail jobs since opening. We've also worked closely with social enterprise Aspire Oxford to create job opportunities for the wider community in construction and customer service, helping ex-offenders, long-term unemployed and ex-homeless people get back into work. Our Community Employment activities at Westgate have pushed us even closer to our target of getting 1,200 disadvantaged people into work by 2020.

Sustainable retail Delivered.

Sustainability was built into Westgate Oxford from the beginning. We set 45 ambitious targets for the development, embedding sustainability in every decision, from boosting UK jobs through innovative offsite manufacturing techniques to local sourcing of materials and creating a low carbon heating and cooling system. It's now one of the most sustainable retail destinations in the country.

Our brand Experienced.

During the year, we launched an exciting, immersive training programme for our employees designed to enhance our customer-led culture. This is an important investment in our brand, ensuring that our 'Everything is experience' philosophy is transformed into action across the business.

To read more go to Social review on pages 46-51

White Rose
Solar-powered.

We've installed the largest solar PV system on a UK retail destination at our White Rose centre in Leeds. Roughly the size of 17 tennis courts, our system significantly lowers the centre's reliance on conventional energy sources and reduces cost for customers. We've also installed a smaller system at Trinity Leeds and we're planning another at Westgate Oxford.

Bluewater
Refreshed.

Our jewel of a destination in Kent is hugely popular. To ensure the centre continues to thrive, we constantly refresh the space, brands and experience. This year, for example, we enabled Apple to double its floor space, added more cinema screens and a trampoline park, and launched an online sales portal. We'll shortly be welcoming Primark too.

Our supply partners Engaged.

Our business relies on powerful partnerships to get things done. During the year, we launched two critical briefing documents for our partners that set a new bar for sustainability. The Sustainability Charter for partners and Sustainability Brief for developments define our ambitions and set out what we expect of those who work with us.

Balance sheet Strengthened.

To take advantage of attractive interest rates and secure long-term access to capital at competitive rates, this year we took an active approach to improving our debt position. We lowered our cost of debt from 4.2% to 2.6% while ensuring we have the financial firepower needed to make acquisitions when required.

Piccadilly Lights Illuminated.

The first illuminated advertising hoarding at Piccadilly Circus was a Perrier sign, installed in 1908. Some 100 years later – in October 2017 – we unveiled our new state-of-the-art LED digital screen. The Lights are now providing brands with spectacular creative possibilities and delighting passers-by 24/7. Our restoration work has also created a new development opportunity in neighbouring Sherwood Street.

To read more go to London Portfolio review on page 28

> We're looking forward to showcasing our brands through impactful content on such an iconic landmark."

Gayle Noah
L'Oréal UK & Ireland

21 Moorfields Committed.

The original building was vacated in 2003 but the site – which spans complex railway infrastructure and is over an entrance to Liverpool Street Crossrail station – proved difficult to develop. Since the completion of the acquisition in 2015, we've used our deep experience to design world-class office space that can work in this testing site. This year we pre-let a minimum of 469,000 sq ft to Deutsche Bank on a 25-year lease, building on our partnership with the bank. We've obtained planning consent for a revised scheme and completion is scheduled for 2021.

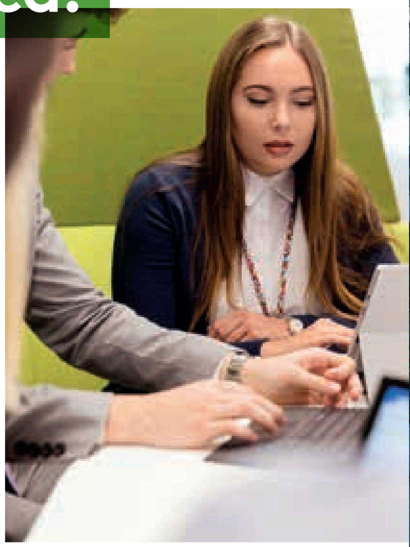
To read more go to London Portfolio review on page 28

> We are delighted to have unanimously approved the scheme for the new Deutsche Bank headquarters at 21 Moorfields. This office, located above a future station, fits in well with the City's ambitions for growth."

Christopher Hayward
City of London Corporation

New ideas Incubated.

Things are changing fast. In a Southwark warehouse, we've created a place for exploring and testing ideas. The Landsec Lab objective is to collaborate with partners and customers to innovate more inspiring, efficient and productive spaces. The lab shares the warehouse with Sustainable Workspaces, Europe's largest co-located community of innovative businesses focussed on sustainability, generating opportunities to collaborate and test ideas.



Reality Augmented.

In January 2018, we partnered with Aardman and STUDIOCANAL to bring Early Man, an animated film by Wallace & Gromit creator Nick Park, to life. Through an innovative CGI-powered 'augmented reality' trail at Bluewater and Buchanan Galleries, visitors could meet characters from the film and download exclusive content via an app. It's just one of many ways we're using technology to enrich the experience in our centres.

Retail outlets Acquired.

In May 2017, we became the leading owner-manager of outlet centres in the UK by acquiring Freeport in Braintree, Clarks Village in Somerset and Junction 32 in West Yorkshire. Using expertise gained at Gunwharf Quays, we're now enhancing the experience for visitors – creating a more exciting mix of retailers, refreshing the food offer and enhancing the buildings and landscapes.

Development pipeline Prepared.

As planned, we've brought our speculative development programme in London to a close for the time being, but that doesn't mean we've stopped designing, gaining planning for and constructing new space. Including 21 Moorfields, we have 1.4m sq ft of development opportunities in the capital. We'll progress these through pre-lets or – when we believe the time is right – speculative development. In addition, we are working on a number of mixed use destinations in suburban London.

Chief Executive's statement

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

Our results

4.3%
Ungeared total property return

–1.0%
Decrease in adjusted diluted net assets per share

9.9%
Increase in adjusted diluted earnings per share

1.8%
Total business return

Our activity

— £23m of investment lettings
— £48m of development lettings including pre-let at 21 Moorfields, EC2
— Acquisitions of £351m
— Development and refurbishment expenditure of £183m
— Disposals of £1.1bn of which £475m returned to shareholders
— £1.5bn (nominal) of bonds repurchased and £1.4bn of new issuances

Landsec has continued to execute well. During the year, we completed and let major development projects at Nova, SW1 and Westgate Oxford. We pre-let and have subsequently started a 564,000 sq ft development at 21 Moorfields. We acquired three retail outlet destinations. We sold one of our largest developments, crystallising exceptional returns, and distributed the majority of proceeds to shareholders. We further reduced our cost of debt, increased its duration and renewed our revolving credit facilities on improved terms. And we enabled the 1,000th person from a disadvantaged background to gain employment through our Community Employment Programme.

The cost of refinancing £1.5bn of bonds is behind both the loss for the year of £251m and the slight fall in adjusted diluted net asset value per share to 1,403p. Revenue profit is up 6.3% to £406m and adjusted diluted earnings per share are up 9.9% to 53.1p. Our Combined Portfolio is valued at £14.1bn. With adjusted net debt at £3.7bn, our loan-to-value is 25.8%.

The business is in good shape for the uncertain market conditions, with a portfolio well matched to customer needs and with conservative gearing. We're recommending a final dividend of 14.65p – raising the dividend for the year by 14.7%. This brings the growth in dividend per share since we restarted speculative development in 2010 to 58%, broadly in line with the growth in adjusted diluted earnings per share we've generated over that period.

Our market

Last year, I said our markets were healthy but had paused for breath. That prognosis remained accurate for the year in both the London office market and the retail sector, although demand from office occupiers was somewhat stronger than we anticipated and demand from retailers weaker. Generally, vacancy rates are continuing to rise, albeit slowly, in both our markets. However, our quality space saw good demand enabling us to achieve one of our best leasing years and reduce voids to 2.4%.

We remain confident in our view that London will continue to be a world-class city with opportunity for our customers and for Landsec. We have a growing pipeline of development opportunities in the capital and a strong balance sheet, which means we can time when we deliver new space in line with customer demand. While our current development activity is based on pre-lettings, with the UK's exit from the EU likely to lead to fewer construction commitments, speculative development will become an attractive option in due course.

The retail market continues to be affected by structural change in shopping habits and has been impacted by weaker consumer confidence as inflation outstripped growth in pay during the year. Coupled with this, retail businesses face higher costs, with business rates rising, increasing investment in multi-channel solutions and the roll-out of the National Living Wage increasing employment costs.

So, retailers are operating in tough conditions. As for retail real estate, the gap between the best space and the rest keeps growing. To thrive, an asset must be dominant in its catchment and provide convenience or experience. The successful leasing of Westgate Oxford speaks volumes for the value of experience-led destinations – delivered in the right way in the right locations. There's clearly an important role for great physical retailing in a multi-channel world, not least enabling brands and shoppers to connect in a variety of exciting ways.

Our portfolio

The foundations of the business remain strong, underpinned by our resilient portfolio and low leverage.

In London, our modern, well-let space is well matched to the evolving needs of customers. The outstanding quality of the space we create was reflected in the sale of 20 Fenchurch Street for a record City of London price, generating exceptional life-cycle returns. This year we strengthened our portfolio with the completion of 560,000 sq ft of mixed use space at Nova. And we've started construction of a pre-let London headquarters for Deutsche Bank at 21 Moorfields. We continue to work up substantial development opportunities in Victoria, Soho and Southwark, together with options to develop some of our suburban London shopping centres into mixed use destinations.

In Retail, we have transformed our portfolio of destinations in line with our focus on dominance, convenience and experience. We continued to enhance the portfolio this year, completing and letting Westgate Oxford; carrying out various asset management plans to bring in exciting brands; and acquiring three outlet destinations with good growth potential.

Our sustainability

We aim to be the best property company in the UK in the eyes of our customers, communities, employees and partners. Their experience of us determines whether they will continue to support us, and their support is vital if we're to sustain our business. In a year that saw the tragedy at Grenfell Tower and the collapse of Carillion, the importance of good governance, long-term thinking and a wider social purpose has been brought sharply into focus.

"The foundations of the business remain strong, underpinned by our resilient portfolio and low leverage."

From climate change to social inclusion, sustainability is so critical to our future that we embed it in every part of the business. Our employee engagement scores are in line with the best performing companies. We remain the only property company in the UK with an approved science-based carbon reduction target and we followed this up by signing the Task Force on Climate-related Financial Disclosures' pledge to demonstrate our commitment to sustainable business. Our Community Employment Programme created 187 new job opportunities this year, keeping us on track to meet our target of helping 1,200 disadvantaged people into employment by 2020.

Our Chairman

After 14 years on the Board and nine years as Chairman, Dame Alison Carnwath will be retiring from the Board following the AGM in July. With her broad range of skills, Alison helped steer Landsec through the financial crisis in 2008/9, our subsequent successful push into speculative development and the transformation of our Retail Portfolio. She leaves us a strong business in a very sound position. On behalf of my colleagues, I would like to record our thanks for her leadership, support and challenge. Alison will be succeeded by Cressida Hogg, a Non-executive Director who joined the Board in 2014.

Outlook

We are a long-term business and we have to manage what we do by reference to market cycles and customer trends. As the UK prepares for its exit from the EU, we are navigating uncertain waters in the near term and we expect investment and leasing volumes in the property market to be more subdued. We are prepared for this uncertainty with conservative gearing and a development exposure which we have shifted from speculative to pre-let. Looking ahead, we are working on a growing pipeline of development opportunities in London and are ready to buy when we think the time is right.

Further out, profound change in the way we work, live, shop, play and travel will be a much greater force in determining which companies are sustainable. We will continue to address and identify opportunities from the big drivers of change in our market sectors, from product innovation to sustainability, adapting our portfolio as appropriate. We are well equipped for this with a great and increasingly diverse team, alert to change, with the expertise to provide great experiences for our customers and communities – helping businesses and people to thrive.

Robert Noel
Chief Executive

Our market

Through our London and Retail portfolios we're active in the two largest sectors within the UK commercial property market.

Market during the year

London office market

13.6m sq ft

Take-up of office space in central London (2017: 11.9 million sq ft)

4.8%

Vacancy rate (Q1 2017: 4.4%)

-4.5%

Decline in prime headline office rents in the West End (2017: -8.3%)

-2.1%

Decline in prime headline office rents in the City (2017: flat)

Source: CBRE

Retail market

-2.2%

Physical retail store sales[1] (2017: -1.9%)

-0.1%

All retail sales (including online)[1] (2017: +0.3%)

-2.5%

UK footfall[2] (2017: -2.5%)

Source:
1. British Retail Consortium
2. ShopperTrak

London Portfolio

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

Dynamics

The London office market sees marked periods of over- and under-supply, and the balance can shift from one to the other quite quickly. Economic and political uncertainty continues to influence the decision-making of customers and property investors in the capital. Overall, however, the investment market remained relatively strong this year, with a weaker pound attracting overseas buyers. This generated record pricing for trophy assets. Healthy levels of leasing activity continued, leading to a pause in the rise of vacancy rates. The market continued to be shaped by the fast-evolving needs and expectations of customers. We are seeing growing demand for serviced office options.

Enduring appeal

Central London has enduring appeal for investors and occupiers. It offers:

- Attractive mix of offices, retail and leisure at street level, which appeals to employees
- Capabilities and opportunities of a global financial centre
- Deep and liquid property investment market
- International gateway
- Relatively stable tax framework
- Strong business and transport infrastructure
- Diverse community and English-speaking population
- Access to top universities.

London's strengths attract a large and varied 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 Brexit negotiations
- Potential impact of Brexit on skills and capacity in construction sector
- 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
- Political uncertainty within the UK
- Need for better/faster digital connectivity.

Outlook

We expect uncertainty to continue to affect demand for space over the short term and the market to be subdued. Further out, we expect London to remain a highly successful, dynamic global city that provides great opportunities for us and our customers.

Retail Portfolio

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

Dynamics

The retail property market is generally less volatile than the London office market and is fundamentally driven by long-term structural changes such as population trends and the impact of online retailing. But currently it's also facing cyclical challenges including weaker consumer spending and growing cost and price inflation. Across the market, retail sales in physical assets were down 2.2%. Physical stores remain the dominant sales channel, with 85% of UK spend on retail goods touching a store. The retail property market is polarised between destination centres and convenience-led assets, with space in the middle facing growing pressure.

Opportunities

Shopping destinations can achieve higher dwell time and average spend per visit by providing a great visitor experience based on a strong mix of retail, food and leisure.

The best destinations continue to drive above average performance for retailers and attract the greatest demand for space. In successful centres, the arrival of new international retailers is more than offsetting the impact of departing brands. A growing number of online brands are using physical stores to create brand experiences.

Challenges

An uncertain economic environment is putting pressure on discretionary spending. Confidence is muted as retailers deal with challenges such as higher business rates, new regulation, a higher National Living Wage and investment in multi-channel retailing. Some food and beverage operators have expanded too fast. As a result of this pressure, a small number of retailers have sought to reduce store numbers using a Company Voluntary Arrangement.

Outlook

The best performing retailers are likely to have a carefully selected footprint of physical locations and a good multi-channel offer. Destination and convenience centres will continue to outperform other types of retail asset. Success for asset owners will be driven by being in the best locations, very active asset management and smart responses to the changing needs of retailers and visitors.

Six big drivers shaping our markets

1

Evolving customer needs
Many office occupiers are placing growing importance on flexibility of layout, capacity, service levels, leases and payment terms. They're looking for efficient, attractive environments that promote productivity, wellbeing and culture – and express their brand. Physical and digital connectivity, and technical resilience, are all key. Cost per head is now more important than £ per sq ft. Artificial intelligence and other applications of technology are set to grow demand for greater flexibility and diversity of space.
In a market increasingly shaped by online, successful retailers are generally looking for fewer but larger spaces where they can showcase their range, provide an experience and connect directly with consumers. People are shopping less often but will travel further for – and stay longer in – the best destination centres. The food and leisure offer, comfort, accessibility and a healthy environment are increasingly valued by customers.

2

Balance of supply and demand
The balance between supply and demand of space in the London office market is shifting towards over-supply, but more slowly than we expected. Overall, investment values remained high, partly due to demand for trophy assets which are likely to retain value. Looking ahead, weaker investment values would present opportunities for companies with capital to buy assets. In retail, the market is generally over-supplied with space, not to the extent of some other regions such as the US and not all retail space is the same. Assets providing a great experience or convenience are performing 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 continues to affect the ability of many customers to plan and take decisions. For businesses that have to take new space, there's good choice and attractive incentives. Others are opting to sit tight, extending leases and repurposing space or taking additional space if required. The full impact of this has not yet been seen in investment values. For consumers, increased economic uncertainty – especially around interest rate rises – may lead to lower spending. The UK's vote to leave the EU has brought change and challenges but also potential for economic and financial benefits, not least for businesses and exporters looking to move into or expand in the UK. Given the uncertainties and complexities involved in Brexit, it's especially important to analyse economic, financial and business news and data carefully before drawing conclusions.

4

UK competitiveness
In the short term, ongoing negotiations with the EU create uncertainty and commercial caution. Whatever the final agreement, we fully expect London to continue as one of the world's most successful financial and cultural centres, and we are confident the UK will remain a major world economy.

5

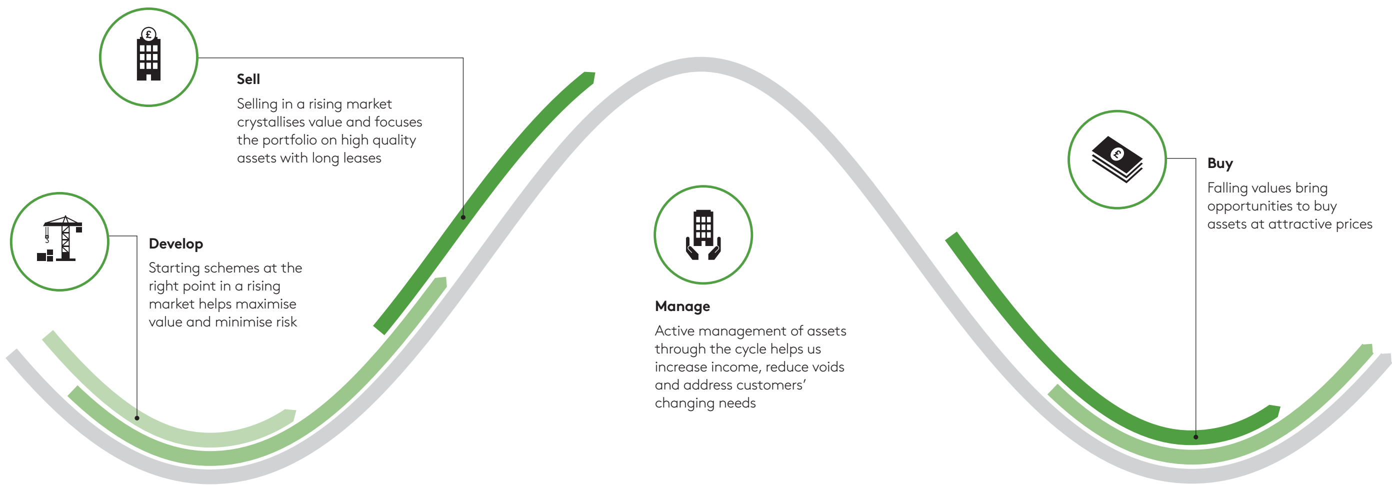
Product innovation
Technology and design innovation can change the face and functionality of buildings in exciting ways. They also impact the construction process. While investment markets can evolve at remarkable speed, the design, construction, leasing and operation of commercial property remain relatively slow and inflexible. We see opportunities to change that. Our industry can do more to reduce time-to-market, cut cost and increase flexibility, resilience, efficiency and sustainability. Our ongoing challenge is to design buildings today that will work successfully in 5-10 years' time and beyond.

6

Sustainability as advantage
Businesses, government and the public increasingly recognise the need for long-term thinking on social and environmental issues. We are seeing the impact of climate change and profound social change. And there is growing scrutiny of how companies treat a broad range of stakeholders in their supply chain. How businesses respond to these issues will determine their resilience and competitiveness over the long term. Smart, progressive thinking can help support the people and resources that companies rely on to prosper and grow – and it can bring all sorts of business benefits too. The best companies in our industry are expected to lead on areas such as diversity, local employment, community relations, responsible supply chains, the wellbeing of occupiers and visitors, climate risks, energy and biodiversity.

To see how our strategy directly addresses these market drivers go to page 17

Market cycle



Our strategy

Our strategy addresses short-term opportunities and changes in our market sectors together with the big trends likely to affect us long term.

Group strategy

Our strategy is simple: we manage our businesses through property market cycles, adjusting key investment and development activities ahead of changing conditions to maximise returns and minimise risk.

Our strategy is designed to ensure we are a sustainable business through the market cycles and changing consumer demand, creating and protecting financial, physical and social value over the long term.

We focus on two key types of assets – mixed use buildings in London, and retail and leisure destinations in vibrant UK locations. We act early in response to changes and trends in our markets. And we help lead our industry forward on critical long-term issues. Our business strategy is supported by a strong sustainability programme focused on creating jobs and opportunities, efficient use of natural resources, and sustainable design and innovation.

We aim to be the best property company in the UK in the eyes of the people we rely on – our customers, communities, partners and employees – using our experience to provide them with great experiences. For us, everything is experience.

Westgate Oxford: an extraordinary new destination in the heart of historic Oxford.

London Portfolio

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 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 is rising and supply is low. We've drawn our large speculative development programme to a close but have plenty of options for development and acquisitions.

Manage
We get to know our customers well so we understand their changing needs and can respond quickly. This helps us to retain occupiers 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.

ⓘ To read about our London Portfolio's performance this year go to pages 26-29

Work and play at Nova, SW1 – completed in April 2017.

Retail Portfolio

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 create destinations where people want to spend time and return frequently. We help retailers pursue multi-channel strategies and we use new technology to enhance the shopping experience. We de-risk developments by seeking substantial pre-lettings before we start construction. And we always contribute to the local community, which helps to make our centres busy and well regarded.

Manage
We are proactive managers, constantly looking to enhance our space in line with the changing needs of our customers and communities. We continually refresh the customer mix in our destinations and work hard to create the most compelling blend of retail, leisure, food and drink.

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

ⓘ To read about our Retail Portfolio's performance this year go to pages 30-33

We're now the UK's leading owner-manager of outlet centres.

Our strategic response to the big drivers shaping our market

1

Evolving customer needs
— Constantly looking to use our experience to create great experiences for our customers
— Focusing on well-connected locations in London and dominant retail destinations in the UK
— Prioritising customers' productivity, value generation and cost per head over cost per sq ft
— Being agile in our response to customers' changing priorities, needs and expectations
— Becoming more of a service provider who works in ever closer partnership with key customers
— Developing a more flexible approach to services and leases
— Providing more serviced office options within our portfolio
— Creating greater physical flexibility, connectivity and technical resilience in our space
— Curating the best mix of customers in each space and helping brands to thrive together
— Putting fresh air, light and other environmental elements at the heart of the experience we provide in our spaces
— Investing to ensure we understand fast-changing trends and technologies – and respond in smart, innovative ways.

2

Balance of supply and demand
— Progressing our pipeline of development opportunities in London
— Securing pre-lets on major development projects in the short term, in both London and Retail
— Monitoring buying opportunities closely and being ready to act
— Increasing asset management activity across our business to create more value from within the portfolios
— Enhancing the experience for visitors in our retail assets to ensure they remain popular and relevant
— Bringing in new customers to our retail assets, including international brands and online retailers.

3

Economic uncertainty
— Keeping operational and financial gearing at conservative levels for the time being
— Ensuring we have access to capital for acquisitions
— Continuing to grow our development opportunities and options, timing our activity carefully in line with the cycle
— Staying alert to both the challenges and the opportunities created by economic uncertainty, including the evolving space and service requirements brought by Brexit and other macro factors influencing customers' decisions.

4

UK competitiveness
— Ongoing investment in physical and social infrastructure wherever we develop and manage major assets
— Sharing our strong belief in the positive prospects of London and the UK
— Taking part in public debate and industry groups to raise standards in the UK construction and property sectors
— Creating jobs through the construction and operation of assets, including candidates supported through our Community Employment Programme
— Supporting students from disadvantaged backgrounds through our education programme.

5

Product innovation
— Strengthening our customer-led culture through our Creating Experiences employee training programme
— Working in partnership with customers to ensure we understand and respond to their deeper business priorities, opportunities and challenges
— Investing in customer insight and forecasting
— Testing and exploring new ideas with customers and partners
— Putting sustainable design and innovation at the heart of our activity
— Improving construction and asset management processes and health and wellbeing standards through our Customer Improvement Groups, which bring together teams from Landsec and key customers and partners.

6

Sustainability as advantage
— Continuing to realise value through leading our industry and the business community on sustainability
— Building on our leadership position as the first property company to have an approved science-based carbon target so we can deliver operational efficiencies for our business and our customers
— Creating social value for our partners and communities through our employment and educational programmes
— Responding to climate change in order to protect the long-term interests of our shareholders and business continuity for our customers
— Ensuring all of our employees actively think about and address sustainability by delivering our Sustainability Matters employee training programme
— Setting high standards for partners through our Sustainability Brief and Charter
— Pioneering new systems and solutions, building on our ground-breaking work with green gas and renewable electricity.

We aim to create value for the people who matter most to us: our customers, communities and partners – including shareholders – and our employees.

Our strategic objectives

Our strategic objectives are agreed by the Board. They form the starting point for our strategy and inform how we run and report on the business.

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

To see how we measure progress against our strategic objectives go to pages 20-21

Our strategic choices

To meet our objectives and respond to market conditions we make a series of strategic choices. These shape both our immediate, tactical response to opportunities and risks and our long-term positioning and priorities.

Market
We focus on two dynamic sectors of the UK real estate market – offices, retail, leisure and residential in London; and retail, leisure and residential outside London. Being active in these two sectors rather than one provides us with greater financial stability as they work to different cycles.

Timing
We apply our experience and insight so we buy, develop, manage and sell assets at the right point in the property cycle. This often means being prepared to act early when we see an opportunity.

Scale
We aim to maintain our financial and operational size and strength. This enables us to deploy our capital if we want to acquire or develop a number of major assets at the same time.

Locations
We only buy and develop in thriving locations or places with excellent potential. Good transport links coupled with first-class buildings are becoming more highly valued than fashionable postcodes.

Finance
We look to enhance returns by using debt to help finance our investments and activity, using our assets as security to drive down costs. We may increase debt when we see substantial opportunities to buy and develop. We may decrease debt through sales if we see weaker demand and lower investment levels ahead.

Risk
We 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. We act early to mitigate risks related to changes in climate, legislation and resource availability.

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

Investing through the life-cycle

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.

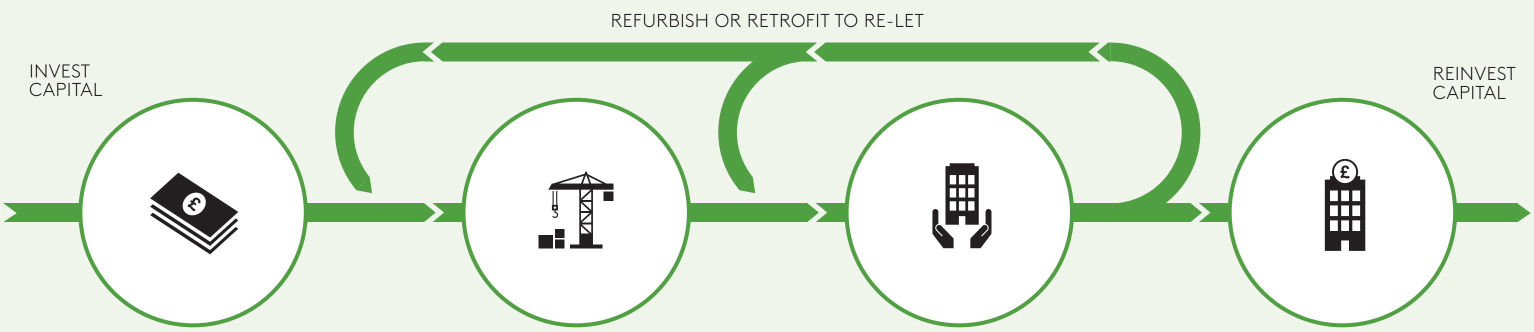
We can take decisive action to improve things for the better when we have control of assets.

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

We have a clear Stakeholder Engagement Policy that formally sets out our commitments, objectives, values and engagement process.

To see our Stakeholder Engagement Policy, Responsible Property Investment Policy and Sustainability Brief go to landsec.com

Asset 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.

Our Responsible Property Investment Policy defines the standards we set for acquisitions and guides us when making buying decisions. An asset may not fit with our priorities due to its location or environmental performance. That doesn't mean we will only acquire assets that meet our current standards; we may see an opportunity to improve the asset's performance through investment and better management.

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 support our position as a sustainability leader in our industry and the wider business community, we provide our partners with a Sustainability Brief. The brief set out our aspirations and expectations around sustainability, giving 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 from renewable sources 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 business and sustainability 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

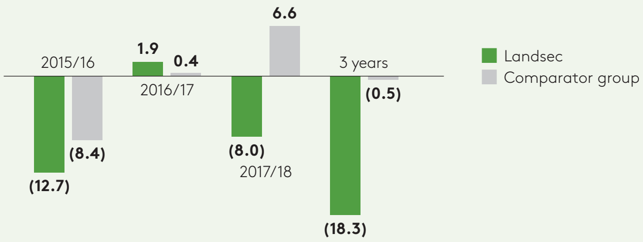
We work to turn our strategic objectives into tangible performance, using individual key performance indicators to measure our progress.

Strategic objectives

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

Three year total shareholder return (TSR) (%)

Chart 1



How we measure it

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

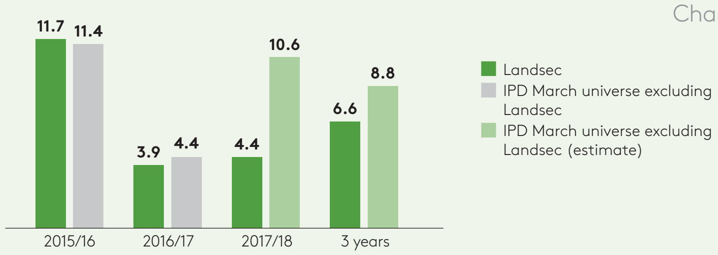
Our progress in 2018

Not achieved

TSR of -18.3% for the three year period from April 2015 did not exceed our comparator group at -0.5%

Three year total property return (TPR) (%)

Chart 2



How we measure it

Three year TPR performance compared to all March valued properties within IPD (excluding Landsec)

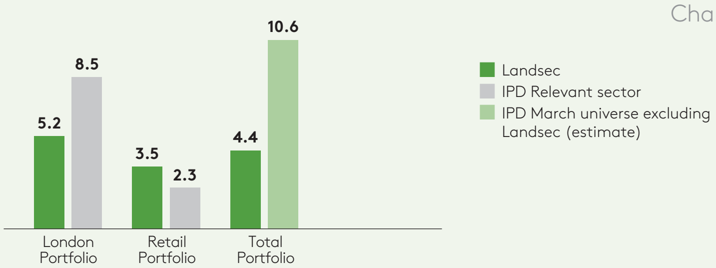
Our progress in 2018

Not achieved

TPR of 6.6% per annum for the three year period from April 2015 did not exceed the estimated IPD benchmark at 8.8% per annum

One year total property return (TPR) (%)

Chart 3



How we measure it

One year TPR compared to all March valued properties within IPD (excluding Landsec)

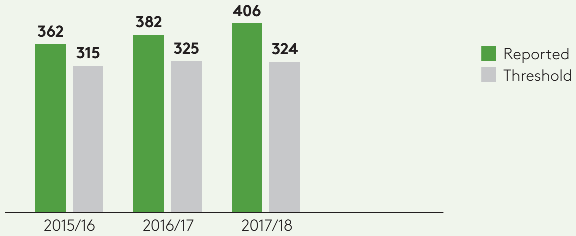
Our progress in 2018

Not achieved

One year TPR of 4.4% was below the estimated IPD benchmark of 10.6%

Revenue profit (£m)

Chart 4



How we measure it

Revenue profit adjusted for one-off items compared to an internal minimum threshold which is re-set every three years

Our progress in 2018

Achieved

Revenue profit, adjusted to remove the re-financing benefit, was above the internal threshold for 2017/18 set in April 2015, amended for the return of capital

Piccadilly Lights

How we measure it
The new replacement screen at Piccadilly Lights to be completed on time and to budget with the remaining sections of the screen let

Our progress in 2018
Partially achieved

Piccadilly Lights was opened on time and to budget. The remaining screens have been let on shorter leases reflecting the greater flexibility our customers require

Development programme

How we measure it
Open Westgate Oxford on time and to budget and achieve 95% let by March 2018

Our progress in 2018
Partially achieved

Westgate Oxford opened on time but exceeded the original budget. The scheme was 90% let at 31 March 2018

How we measure it
Complete the letting of The Zig Zag Building, 20 Eastbourne Terrace and Nova

Our progress in 2018
Progress: Achieved

Lettings exceeded the outperformance target of £9.3m. 20 Eastbourne Terrace is now fully let. Nova was 97% let and The Zig Zag Building was 95% let at 31 March 2018

Customers

How we measure it
Ensure that the new Landsec brand and associated customer-focused culture is efficiently embedded, both externally and internally through delivery of an internal Customer Experience Programme and measuring customer satisfaction

Our progress in 2018
Achieved

The new brand has been embedded across all business areas

Phase 1 of our Customer Experience Programme has been delivered

Customer satisfaction scores for Retail and Leisure achieved 93% satisfied or highly satisfied

Employees

3 out of 4

Significant progress made towards three of our four 2020 diversity commitments

How we measure it
Achieving progress on our stated 2020 diversity targets

Our progress in 2018
Achieved

The percentage of females in Leader roles has increased

Greater parity of engagement scores by ethnic group

3

Major innovation workstreams commenced

How we measure it
Innovation – extending our business capability and embedding our innovation value

Our progress in 2018
Partially achieved

Progress made on building our innovation capability but internal targets were not achieved

Communities

192

People from disadvantaged backgrounds, and/or school leavers supported into jobs

How we measure it
Extend the Landsec Community Employment Programme beyond its focus on construction with 174 people being supported into jobs across London, retail and academy trainees

Our progress in 2018
Achieved

187 people from disadvantaged backgrounds supported into jobs in both construction and hospitality and five school leavers recruited to the Landsec Academy

Environment

94%

of energy reduction measures implemented

How we measure it
Drive energy management across the portfolio in support of our 2030 corporate commitments, with a focus on higher consuming sites (>1m kW)

Our progress in 2018
Achieved

94% of agreed measures have been implemented across our portfolio, with further measures agreed for the majority of larger consuming sites for the year ahead

Our business model

To create value we buy, develop, manage and sell property, drawing on a range of financial, physical and social resources along the way.

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 act early to position the Group for the conditions we see ahead.

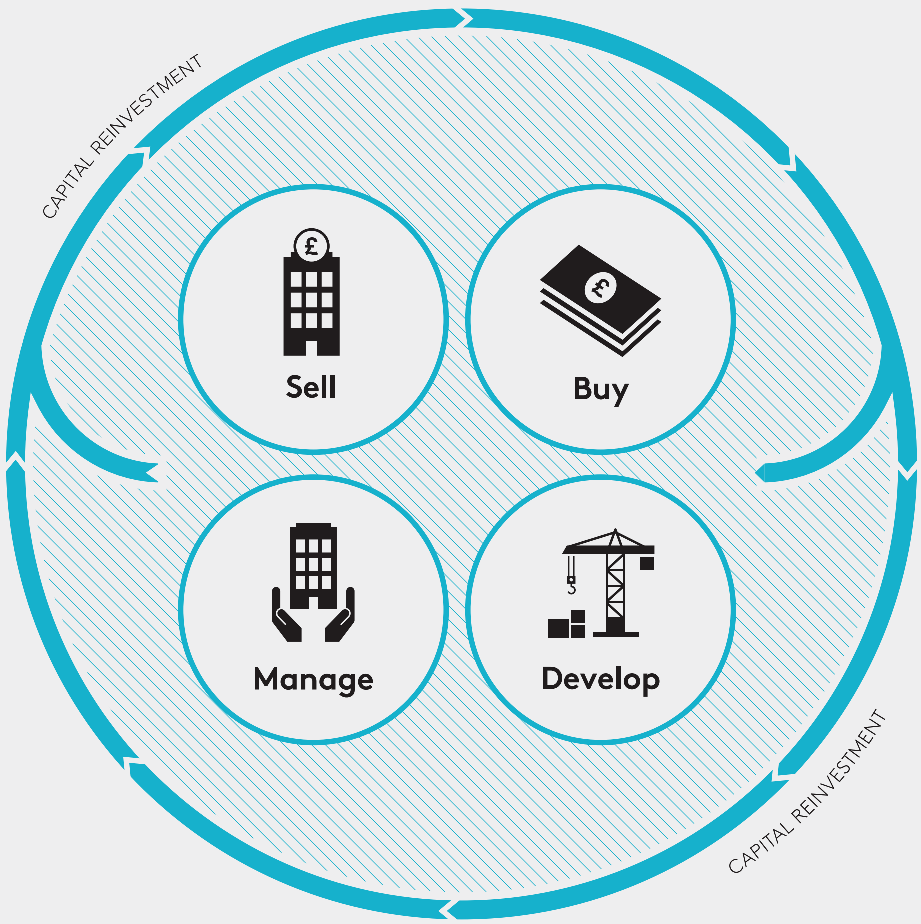
Inputs

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, it's about transforming financial, physical and social resources into financial, physical and social value for our shareholders and society. We work hard to provide our customers with a great experience, support local communities, reward investors, 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 on page 24

To read our Financial review go to pages 34-41

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 on page 25

To read our Physical review go to pages 42-45

Social

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

Further reading
Read more about our value outputs on page 25

To read our Social review go to pages 46-51

Creating sustainable long-term value

Our activity generates value financially, physically and socially. The way we manage the business reflects these three priorities.

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 and growing 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, but the retail market is not immune from cyclical change. Our asset 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

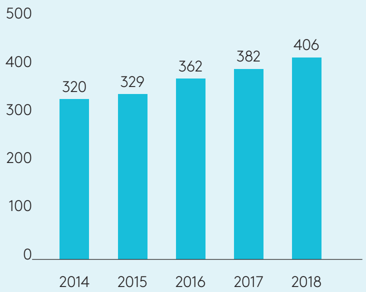
Loan-to-value (LTV) shows our debt relative to the value of our assets. While a low LTV tends to represent a strong balance sheet, at times we'll want to increase debt to multiply the impact of rising asset values and fund buying and development activity. At other times, we'll fund that activity by selling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

Dividend

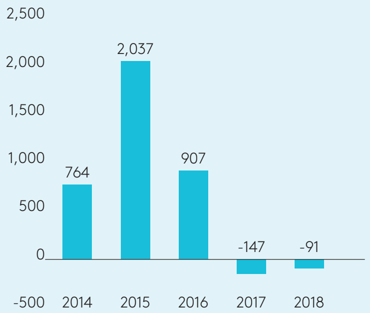
Our progressive dividend policy means we aim to increase distributions to shareholders at a sustainable rate over time. We judge the level of dividend payments carefully, paying out most of our underlying earnings, but retaining some funds so that we have flexibility around investments and disposals.

To read our Financial review go to pages 34-41

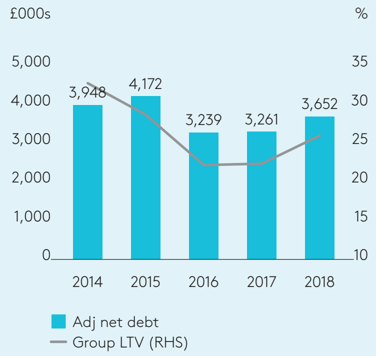
Revenue profit[1] (£m) — Chart 5



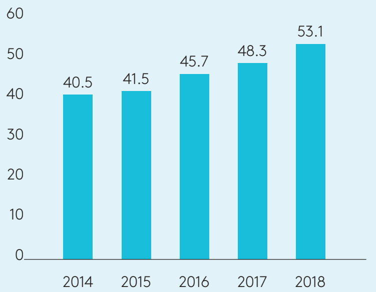
Valuation surplus/(deficit)[1, 2] (£m) — Chart 6



Adjusted net debt[1] **and loan-to-value ratio**[1] — Chart 8

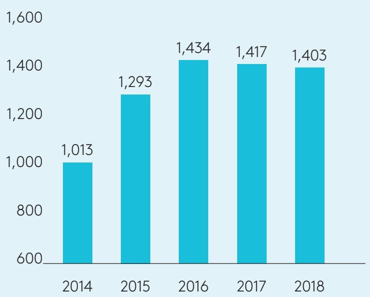


Adjusted diluted earnings[1] (pence per share) — Chart 9

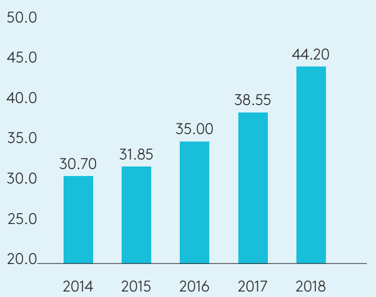


1. Includes proportionate share of joint ventures and subsidiaries as explained in the notes to the financial statements.
2. The surplus/(deficit) represents the increase/decrease in value of the Combined Portfolio over the year, adjusted for net investment.

Adjusted diluted NAV (pence per share) — Chart 7



Dividend (pence per share) — Chart 10



Physical

We've installed the largest solar photovoltaic (PV) system on a UK shopping centre at White Rose.

Portfolio quality

We constantly look to strengthen our portfolio, to ensure 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.

Climate change

We're committed to leading the transition to a low carbon economy. This helps mitigate our current and future risk and presents significant opportunities for our customers and us.

Sustainable design and innovation

Great design increases efficiency, encourages people to spend time in our spaces and enables buildings to adapt to changing customer needs. We think about the long-term appeal, impacts and resilience of our assets, designing with long-term value in mind.

Natural resources

When we buy, use and re-use resources efficiently we see big benefits. It can reduce costs for our customers, our partners and us. It helps minimise our effect on the environment. And it helps us become more resilient to climate-related challenges.

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.

To read our Physical review go to pages 42-45

Social

Our headquarters at 80-100 Victoria Street, SW1, is the UK's largest WELL Certified™ space.

Customers

We design our buildings to support wellbeing and productivity. From retailers to shoppers and diners, from office occupiers and their employees to their visitors, we aim to provide our customers with a fabulous experience.

Employees

We invest to attract and develop great people who add value to our business. We take the engagement, wellbeing, diversity and reward of our people seriously and conduct regular research within the company.

Jobs and opportunities

We believe our business should reflect and support our diverse communities. We aim to ensure that everyone who works on our behalf is treated and paid fairly. And we help disadvantaged people and young people to access job opportunities in our industry.

Health, safety, security

We work to maintain an exceptional standard of health, safety and security in all the working environments we control. We also partner 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.

To read our Social review go to pages 46-51

London Portfolio review

We have a very strong portfolio of high quality, well-let London assets and a big pipeline of opportunities.

At a glance

0.1%
Valuation surplus[1]

5.0%
Ungeared total property return

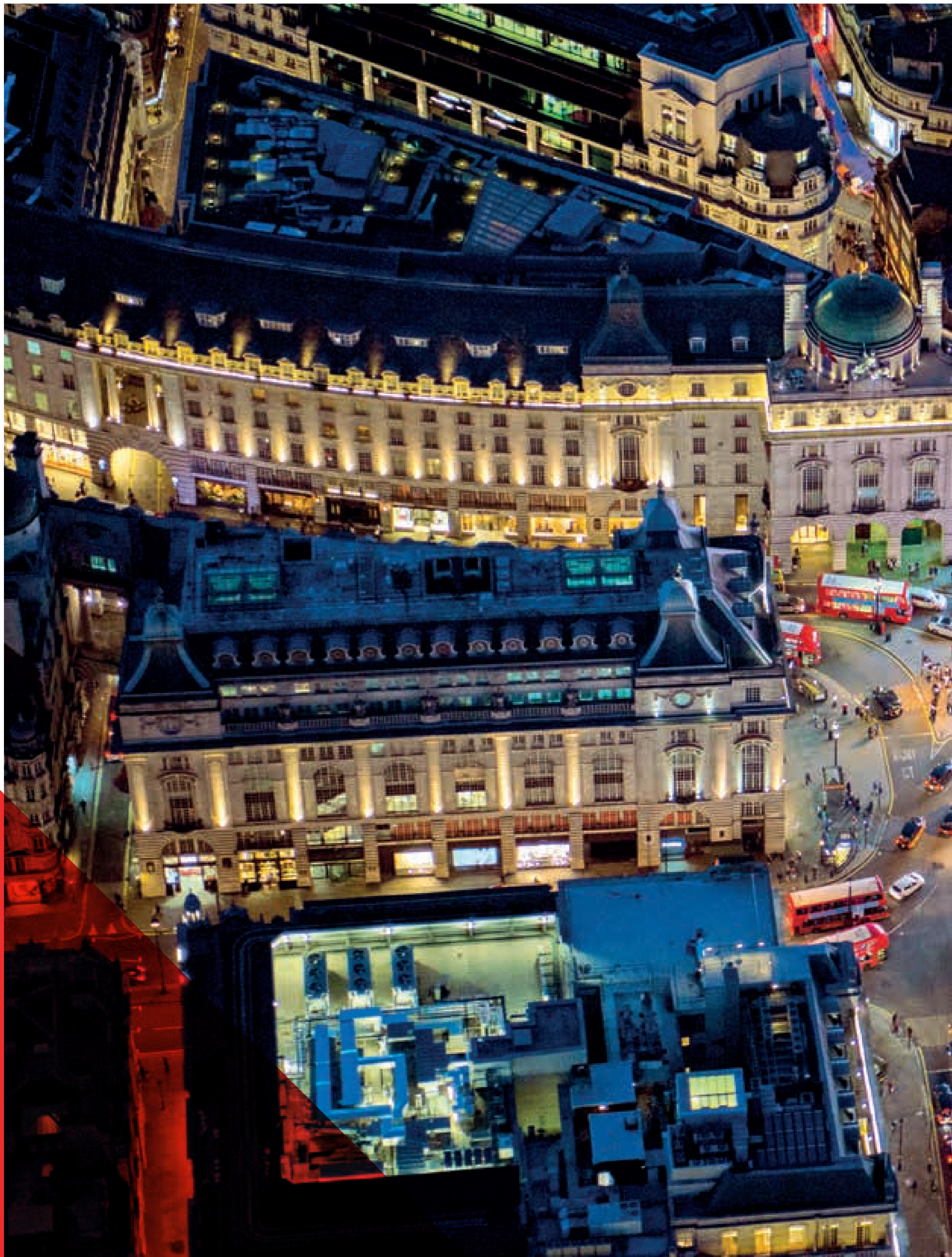
8.5%
The portfolio underperformed its IPD Quarterly Universe sector benchmark at 8.5%

£10m
of investment lettings

£45m
of development lettings including the pre-let of a minimum of 469,000 sq ft to Deutsche Bank at 21 Moorfields, EC2

2.0%
Like-for-like voids
(31 March 2017: 3.0%)

1. On a proportionate basis.



"Having sold well, let well and progressed our pipeline – we're in excellent shape."
Colette O'Shea, Managing Director, London Portfolio

Actions and outcomes

Focus for 2017/18	Progress in 2017/18	Focus for 2018/19
— Outperform IPD sector benchmark	— The total return of the London Portfolio was 5.0%, underperforming its IPD sector benchmark at 8.5%	— Growing like-for-like net rental income — Progress on time and budget at 21 Moorfields — Progress plans for all of the 0.8 million sq ft of development opportunities in the existing portfolio and seek to grow the pipeline through acquisitions and partnerships — Understanding the changing needs of our customers and ensuring our portfolio responds accordingly — Securing employment for a further 90 candidates via our Community Employment Programme — Improving energy management in support of 2030 corporate commitments
— Growing like-for-like net rental income	— Like-for-like net rental income flat	
— Complete the letting of The Zig Zag Building, SW1, 20 Eastbourne Terrace, W2 and Nova, SW1	— The Zig Zag Building 95% let, 20 Eastbourne Terrace 100% let and Nova 97% let	
— Complete the construction and letting of Piccadilly Lights, W1	— Construction of the new screen completed on time in October 2017, with space let to a range of advertisers	
— Progress build to grade on time and budget at 21 Moorfields, EC2	— Entered into agreement for lease with Deutsche Bank for a minimum of 469,000 sq ft — Resolution to grant revised planning permission received — Enabling works for piling completed and piling on programme and to budget	
— Growing future development pipeline through acquisitions and 1.4 million sq ft of existing opportunities within the portfolio	— Progressed plans for 1.4 million sq ft pipeline of development opportunities — No acquisitions in the year	
— Secure employment for a further 95 candidates via our Community Employment Programme	— Secured employment for 101 people from disadvantaged backgrounds	
— Improving energy management in support of 2030 corporate commitments	— 32 energy management initiatives delivered, across 11 sites	

London Portfolio review
continued

Over a busy 12 months, we focused on maximising income, letting the remaining space in our developments and advancing our pipeline of development opportunities.

Just 20,000 sq ft of the 3 million sq ft speculative development programme we started in 2010 remains to be let. We have a strong, diverse mix of customers and a weighted average unexpired office lease term of 9.6 years.

In our market, economic and political uncertainty continues to weigh on the decision-making of occupiers and developers. Overall, however, the investment market remained strong this year, and continued to be dominated by overseas investors helped by a weaker pound. This generated good demand and record pricing for trophy assets. Healthy levels of leasing activity, boosted by the serviced office sector, slowed the rise of the vacancy rate and led to a smaller decline in headline rents than we expected.

Customers are continuing to look for greater services, amenities and flexibility. The expansion of the serviced office and co-worker sector is in part a response to this need and something we have been accommodating in the portfolio by working in partnership with operators. 3% of the portfolio is now let to these occupiers. Customers and communities continue to set high expectations around sustainability, including environmental and social impact, and this remains central to how we design, build and manage assets.

Buy

We made no material acquisitions during the year.

Develop

Nova, SW1 completed in April 2017, helping to further establish Victoria as a high-profile business and dining destination. 97% of the space is now let. Sales of residential apartments in SW1 remain slower than we would like but we have just 12 of the 170 apartments remaining.

Nova brought our successful 3 million sq ft speculative development programme to a close as planned but we haven't stopped designing, preparing sites and building. Of our 1.4 million sq ft pipeline of development opportunities, we have begun construction on 564,000 sq ft at 21 Moorfields and made good progress with the remainder.

At 21 Moorfields, Deutsche Bank has committed to take a 25-year lease on a minimum of 469,000 sq ft of the 564,000 sq ft available. The new building will incorporate state-of-the-art office services and technologies. Built over an entrance to Liverpool Street Crossrail station, our development will help transform this part of the City. We secured a resolution to grant planning permission in February 2018 and expect to complete construction in November 2021.

Following our success at Nova, the next phase at Nova East provides us with the option to continue the regeneration of Victoria with a 14 storey 137,000 sq ft mixed use scheme and a later second building of 59,000 sq ft. We're currently working on the detailed design with a potential start on site in March 2019. In the West End, completion of the new screen at Piccadilly Lights, W1 has freed up a 142,000 sq ft development opportunity on neighbouring Sherwood Street. We have planning and listed building consent for an exciting mixed use scheme and are working on the detailed design with the potential to be on site in April 2019. In Southwark we are progressing two substantial opportunities. At Sumner Street, SE1 we've secured planning permission for a 135,000 sq ft mixed use scheme and have begun detailed design, aiming to start on site in October 2019. At Red Lion Court, SE1 we aim to submit a planning application for a mixed use scheme during the course of this financial year.

Manage

We have a portfolio of modern assets well matched to the evolving needs and expectations of customers.

In October 2017, we switched the Piccadilly Lights back on, completing our refurbishment of this London landmark to time and budget. The new state-of-the-art LED digital screen can respond quickly to brand campaigns and external factors such as weather, engaging 100 million passers-by each year. Core brands campaigning during the year included Coca-Cola, Samsung and Hyundai, and we secured short-term lettings to brands including L'Oréal, Hunter/Stella McCartney and eBay.

Net rental income[1] Table 11

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m	Change £m
Like-for-like investment properties	**222**	222	–
Proposed developments	–	–	–
Development programme	–	–	–
Completed developments	**56**	43	13
Acquisitions since 1 April 2016	–	–	–
Sales since 1 April 2016	**7**	18	(11)
Non-property related income	**4**	2	2
Net rental income	**289**	285	4

1. On a proportionate basis.

We have continued to agree lettings and secure rent reviews across the portfolio. Investment lettings were £10m, and we agreed £36m of rent reviews. At 123 Victoria Street, SW1, we settled five rent reviews (57% of the income) at an average of 10% ahead of passing rent and at 40 Strand, WC2, we reviewed £5m (76%) of the income, increasing the passing rent by 12%. At 80-100 Victoria Street, SW1, we completed the second rent review cycle, reviewing £15m (54%) of the income, increasing the office rents by 12% and the retail rents by 19% above passing rent.

Through our letting and rent review activity, we have worked closely with our customers to understand their requirements. Intuit, a growing technology company, is a good example of this partnership approach. They have taken 38,000 sq ft in 80 Victoria Street, as their expansion plans meant they were going to outgrow their existing space at 123 Victoria Street. They have increased the space they occupy by 119% and doubled their lease length to 10 years. They are also taking overflow space from the serviced office operator, London Executive Offices, at Nova until their space at 80 Victoria Street is ready.

Our like-for-like void rate was 2.0%, down from 3.0% at 31 March 2017, primarily due to the success of letting at 80-100 Victoria Street. As reported at 30 September 2017, the screen at Piccadilly Lights is excluded from our void reporting.

Sell

In August 2017, we completed the sale of our 50% interest in 20 Fenchurch Street, EC3 at a headline price of £1.3bn (100%). The sale crystallised a profit on cost of £400m (our 50% share). This development was a success story. Despite scepticism in some quarters at the time, we took the opportunity to build in an uncertain market when construction costs were low. We saw supply-constrained conditions ahead, used our experience to create space that was right for the insurance market, and executed on plan from design to construction, launch and leasing. Popular with customers and visitors, the building enabled us to take advantage of strong investor interest in trophy assets to sell at a record price in the City of London.

Trading property disposals totalled £171m and included sales of residential units at Nova and Kings Gate, both SW1, together with the disposal of Eastern Quarry, Ebbsfleet.

Net rental income

Net rental income for the London Portfolio increased by £4m to £289m, with additional income from developments more than offsetting lost income following the disposal of 20 Fenchurch Street, EC3.

Completed developments, principally 1 New Street Square, EC4 and Nova, SW1, contributed £13m. This more than offsets the £11m income lost as a result of the disposal of 20 Fenchurch Street.

Net rental income from the like-for-like portfolio was flat with additional income received from letting activity and completed rent reviews being offset by higher voids and letting costs at Piccadilly Lights, W1 and 80-100 Victoria Street, SW1 and the impact of bad debts.

Outlook

London is a successful global city with enduring appeal for businesses, talent and property investors. The capital remains at the top of the Global Financial Centres index and attracts more cross-border investment into real estate than any other global city.

We expect demand for high quality space to continue, but we must be smart in how we navigate uncertain market conditions and continue to provide the right product in the right locations. Strong take-up meant the fall in headline rents this year was lower than anticipated and we expect this shallow decline to continue. Capital values are likely to be tested and buying opportunities may emerge.

Our strategy has reduced our speculative development exposure at this point, though we have the flexibility to develop and deliver space as demand evolves. We also have the expertise and resources needed to make acquisitions when the right opportunities appear.

To read about our London Portfolio strategy go to page 16

Pipeline of development opportunities

21 Moorfields, EC2

On site

Nova East, SW1

Earliest start date: **March 2019**

Sherwood Street, W1

Earliest start date: **April 2019**

The Southwark Estate, SE1

Earliest start date: **October 2019**

Retail Portfolio review

We have a great portfolio of retail assets capable of competing and thriving in a fast-changing market.

At a glance

1.7%
Valuation deficit[1]

3.4%
Ungeared total property return

2.3%
The portfolio outperformed its IPD Quarterly Universe sector benchmark at 2.3%

£13m
of investment lettings

£3m
of development lettings

2.7%
Like-for-like voids (31 March 2017: 2.9%) and units in administration: 0.8% (31 March 2017: 0.4%)

1. On a proportionate basis.

"By repositioning, reinventing and reinvesting we've created a resilient portfolio of centres well-matched to customers' changing expectations."

Scott Parsons, Managing Director, Retail Portfolio

Actions and outcomes

Focus for 2017/18	Progress in 2017/18	Focus for 2018/19
— Outperform IPD sector benchmark	— The total return of the Retail Portfolio was 3.4% outperforming its IPD sector benchmark at 2.3%	— Progress feasibility on suburban London shopping centres — Progress planning applications for physical improvement plans for the new outlet centres — Diversify income streams through innovation in retail — Continue to develop our Community Employment Programme in construction and customer service, with the aim of supporting 70 disadvantaged people into jobs — Drive energy reduction across the portfolio in support of our 2030 corporate commitments
— Growing like-for-like net rental income	— Like-for-like net rental income down £2m	
— Progressing lettings at Westgate Oxford; Selly Oak, Birmingham; and the Plaza reconfiguration at Bluewater	— Westgate Oxford 90% let; Selly Oak 91% pre-let; and the Plaza reconfiguration at Bluewater 93% let	
— Progressing the Plaza reconfiguration at Bluewater to time and budget	— Plaza reconfiguration at Bluewater delivered to time and budget	
— Successfully launching Westgate Oxford after achieving practical completion on time and on budget	— Successfully launched Westgate Oxford on time but marginally behind budget due to slightly higher letting incentives	
— Integrating the three newly acquired outlet centres	— Three new outlet centres successfully integrated into the Retail Portfolio	
— Further developing the Community Employment Programme beyond its current focus on construction with 75 disadvantaged people being supported into jobs in retail	— Community Employment Programme expanded with programme delivered at Westgate Oxford, St David's, Cardiff and Lewisham and secured employment for 86 candidates	
— Improving energy management in support of 2030 corporate commitments	— Successfully implemented 28 energy reduction opportunities across the portfolio, which have contributed to a reduction of 4% in energy use	

Retail Portfolio review
continued

We have taken decisive steps to reposition our portfolio with a focus on vibrant, resilient assets in the best locations.

Our reinvention of the offer at our centres – creating and constantly refreshing a diverse mix of brands and experiences – means our assets are much better matched to people's changing expectations and priorities. And our reinvestment in the strongest assets helps them to remain dominant within their catchment and resilient in uncertain market conditions.

Looking at our market, physical stores remain the dominant retail sales channel, with more than 85% of spend on retail goods in the UK touching a store in some way. The retail property market is polarised between destination centres and convenience-led assets, with space caught in the middle facing growing pressure. Shopping destinations can achieve higher dwell time and average spend per visit by providing a great visitor experience based on a strong mix of retail, food and leisure.

Buy
In May 2017, we became the leading owner-manager of outlet centres in the UK when we acquired Freeport in Braintree, Clarks Village in Somerset and Junction 32 in West Yorkshire for £333m. At each centre we're strengthening the mix of retailers and enhancing the overall 'day out' experience.

Develop
In October 2017, we opened Westgate Oxford – our 800,000 sq ft retail and leisure destination in Oxford city centre, developed in joint venture with The Crown Estate. The centre is anchored by John Lewis and includes a fantastic range of 100 shops with an eclectic mix of places to eat, drink and play. The centre attracted 9 million visitors in the first six months and is now 96% let or in solicitors' hands.

The opening of Westgate Oxford was the culmination of a seven-year journey. We took on a series of complex challenges to deliver a centre deserving of its place at the heart of a very special and under-served city. We set and achieved the goal of creating one of the most sustainable retail destinations in the country. Along the way we created 566 construction jobs and 3,400 full time equivalent retail jobs, including 86 jobs created this year for people from disadvantaged backgrounds through our Community Employment Programme.

In August 2017, in joint venture with Sainsbury's, we started construction at Selly Oak on a 190,000 sq ft scheme that includes a Sainsbury's supermarket and retail and leisure units. It's 95% pre-let or in solicitors' hands, with lettings including M&S, Next and JD Sports. The development includes a student accommodation block, which we've pre-sold to Unite. We're on schedule to complete in late 2018.

Manage
This year, we secured £13m of investment lettings. Our like-for-like portfolio has voids of 2.7% and a weighted average lease term of 7.9 years.

At Bluewater, Kent, we secured planning consent and started construction of a new store for Primark. We've also unlocked value by reconfiguring space, doubling the size of the Apple store and using previously redundant space to create a new statement store for Snow & Rock. We've redeveloped the former Glow events venue too, adding four screens to provide a state-of-the-art cinema along with a 25,000 sq ft trampoline park. And we launched an online shopping portal for Bluewater that supported £5m of transactions during the year – an example of how digital and physical retailing can successfully interact.

Key indicators

–1.9%
Footfall in our shopping centres was down 1.9% (national benchmark down 2.5%)

–0.5%
Same centre non-food retail sales, taking into account new lettings and occupier changes, were down 0.5% (national benchmark down 2.2%; including online, down 0.1%)

–1.0%
Same store non-food retail sales were down 1.0% (national benchmark down 2.9%)

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 17.7% of sales

Net rental income[1]

Table 12

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m	Change £m
Like-for-like investment properties	**283**	285	**(2)**
Proposed developments	**–**	–	**–**
Development programme	**5**	–	**5**
Completed developments	**–**	–	**–**
Acquisitions since 1 April 2016	**20**	–	**20**
Sales since 1 April 2016	**5**	21	**(16)**
Non-property related income	**9**	9	**–**
Net rental income	**322**	315	**7**

1. On a proportionate basis.

At White Rose, Leeds, we opened the new extension, delivering an 11-screen IMAX cinema and six new restaurant units. We also completed the UK's largest ever installation of solar PV in a retail asset, with the new rooftop system providing up to 20% of the centre's annual communal energy requirement.

At Gunwharf Quays, Portsmouth, we negotiated the surrender of the Jamie's Italian lease to facilitate a new flagship store for Timberland. We continued to bring in aspirational outlet brands, including Kate Spade, Furla and Karl Lagerfield. And we started work on a longer-term masterplan with a vision of creating a day-out destination with the feel of a resort.

In terms of food and beverage, successful mid-market operators have saturated the market and visitors seek variety, so we have worked to keep refreshing the brand mix. At Westgate Oxford, for example, there's an exciting range of food brands at Westgate Social and fine dining with views on the roof terrace.

Cinemas can play a big role in providing an experience and we're now the largest cinema landlord in the UK. Screens attract visitors, increase dwell time and boost the turnover of restaurants. This year we worked with Cine, our largest cinema operator, to ensure that their cinemas in our centres remain dominant and attractive. That means ensuring each cinema is regularly refurbished and has either an IMAX or large 4DX screen.

We're constantly developing new ways to help brands connect with visitors and provide customers with a great time. This year we hosted pop-up experiences throughout our centres including 3D chocolate printing, the launch of Shepherd Neame's first cider and a Christmas store for sparkling wine brand Chapel Down. We took London-based brands out to our regional centres, with Sticks'n'Sushi and Pizza Pilgrims opening at Westgate Oxford, H&M sister brand Arket arriving in Bluewater and international cosmetics brand NYX choosing Trinity Leeds. Our customers now get to enjoy virtual reality experiences too, with the first 'in cinema' VR screen at Curzon, Westgate Oxford. Virgin Holidays has a VR-enabled concept store in Cardiff, and Vertigo VR is a virtual reality entertainment centre at Xscape, Milton Keynes.

Sell

Disposals totalled £200m during the year, which includes the sale of Chester Retail Park and Ibis, Euston, which was compulsorily purchased by HS2.

Net rental income

Net rental income has increased by £7m to £322m for the year. The acquisition of three outlet centres has resulted in a £20m increase to net rental income which is partly offset by a £16m reduction from assets sold. These include Ibis, Euston and Greyhound Retail Park this year, and The Cornerhouse, Nottingham and Printworks, Manchester both sold in the second half of last year. The £2m reduction in our like-for-like portfolio is mainly due to lower surrender receipts, an increase in car park rates and higher bad debt provisions.

Outlook

The outlook for retail and retail property is challenging, with the sector facing both structural and cyclical pressures. We're not immune from the challenges but, given the polarisation in our market between experience and convenience, our portfolio is well matched to the trends we see ahead. Over the next 12 months, we'll continue to be very active managers – refreshing the mix at our centres and helping brands to enhance the experiences they provide and the value they create.

To read about our Retail Portfolio strategy go to page 16

Financial review

Highlights

£406m
Revenue profit[1] (2017: £382m)

53.1p
Adjusted diluted earnings per share[1] (2017: 48.3p)

44.2p
Dividend per share (2017: 38.55p)

£14.1bn
Combined Portfolio[1] (2017: £14.4bn)

1,403p
Adjusted diluted net assets per share (2017: 1,417p)

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

Martin Greenslade,
Chief Financial Officer

"The company is in good shape and we have again delivered a robust set of results."

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

In the property markets in which we operate, valuations proved more resilient than we expected at the start of the year, despite the backdrop of political and economic uncertainty. Over the year, our assets declined in value by 0.7% or £91m (including our proportionate share of subsidiaries and joint ventures) compared with a £147m decline last year.

During the year, we continued to look for opportunities to buy back legacy bonds in a cost effective manner and issue new debt at the significantly lower interest rates which prevail today. In total, we repurchased £1,529m of bonds at a premium of £446m. This debt management activity is behind the loss per share of 32.9p and the reduction in our net assets. It is also a significant contributor to the increase in our underlying earnings as a result of lower ongoing interest costs. Revenue profit was up 6.3% from £382m to £406m and adjusted diluted earnings per share were up 9.9% at 53.1p.

Adjusted diluted earnings per share grew at a faster rate than revenue profit as we reduced the number of shares in issue in September 2017 with a 15 for 16 share consolidation. This accompanied the £475m return of capital associated with the sale of 20 Fenchurch Street, EC3 at record pricing for a building in the City.

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 finance charges related to the bond repurchases, 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

	Table	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Revenue profit	14	**406**	382
Capital and other items	17	**(657)**	(270)
(Loss)/profit before tax		**(251)**	112
Taxation		**(1)**	1
(Loss)/profit attributable to shareholders		**(252)**	113
Basic (loss)/earnings per share		**(32.9)p**	14.3p
Adjusted diluted earnings per share		**53.1p**	48.3p

Our loss before tax was £251m, compared with a profit of £112m in the prior year due to higher costs in Capital and other items. While the valuation deficit was smaller this year, we incurred higher costs associated with the redemption of some of our bonds. The loss before tax drives a 47.2p reduction in earnings per share from 14.3p in the prior year to a loss per share of 32.9p in the year ended 31 March 2018. Adjusted diluted earnings per share increased by 9.9% from 48.3p to 53.1p this year as a result of an increase in revenue profit from £382m to £406m and a reduction in the weighted average number of shares in issue.

The reasons behind the movements in revenue profit and Capital and other items are discussed in more detail overleaf.

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 £14.1bn, 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 107 in the Business analysis section.

Revenue profit

Revenue profit is our measure of underlying pre-tax profit, presented on a proportionate basis. 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 Table 14

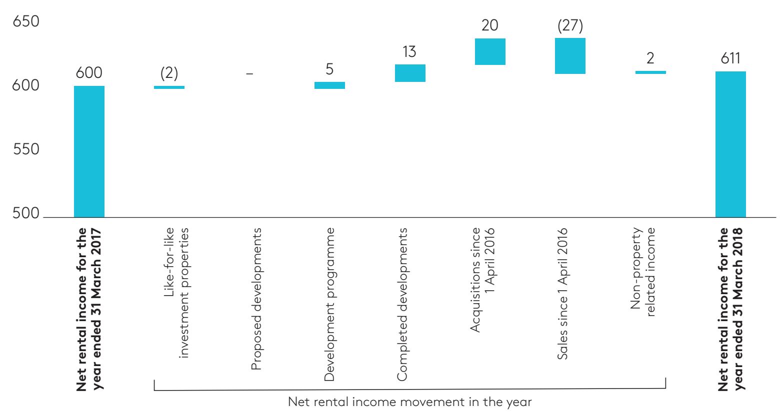
	Chart	Year ended 31 March 2018 Retail Portfolio £m	Year ended 31 March 2018 London Portfolio £m	Year ended 31 March 2018 Total £m	Year ended 31 March 2017 Retail Portfolio £m	Year ended 31 March 2017 London Portfolio £m	Year ended 31 March 2017 Total £m	Change £m
Gross rental income[1]		351	310	661	335	302	637	24
Net service charge expense		(9)	(2)	(11)	(4)	(1)	(5)	(6)
Net direct property expenditure		(20)	(19)	(39)	(16)	(16)	(32)	(7)
Net rental income	15	322	289	611	315	285	600	11
Indirect costs		(22)	(17)	(39)	(22)	(17)	(39)	–
Segment profit before finance expense		300	272	572	293	268	561	11
Net unallocated expenses				(43)			(40)	(3)
Net finance expense	16			(123)			(139)	16
Revenue profit				406			382	24

1. Includes finance lease interest, after rents payable.

Revenue profit increased by £24m to £406m for the year ended 31 March 2018 (2017: £382m). This was the result of an £11m increase in net rental income for the year and a lower net finance expense, partly offset by higher net indirect expenses. The movements are explained in more detail below.

Net rental income

Net rental income[1] (£m) Chart 15
Year ended 31 March 2018



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

Net rental income increased by £11m in the year ended 31 March 2018 as rental income growth from our development portfolio and acquisitions was only partly offset by the impact of properties sold since 1 April 2016 and a small decline in like-for-like income. Significant disposals included 20 Fenchurch Street, EC3, Greyhound Retail Park, Chester and some Accor hotels sold in the current year, as well as The Printworks, Manchester and The Cornerhouse, Nottingham, both sold in the prior year. Our developments generated £18m of additional net rental income following the completion of Nova, SW1, 20 Eastbourne Terrace, W2 and 1 New Street Square, EC4. Like-for-like net rental income declined by £2m primarily due to an increase in bad debt provisions.

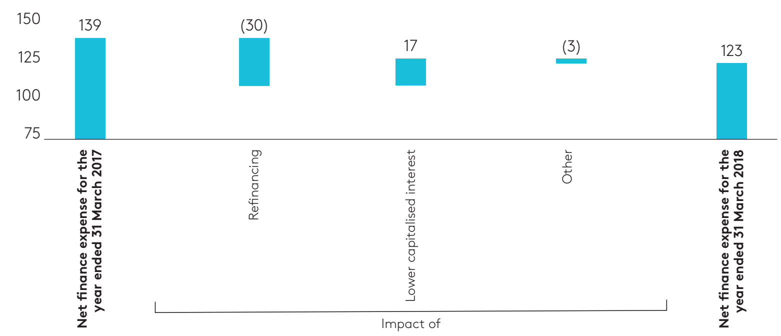
Further information on the net rental income performance of the London and Retail portfolios is given in the respective business reviews.

Net indirect expenses

The indirect costs of the London and Retail portfolios and net unallocated expenses should be considered together as collectively they represent the net indirect expenses of the Group including joint ventures. In total, net indirect expenses were £82m (2017: £79m). The £3m increase is the result of higher share-based payment charges, depreciation and administration costs.

Net finance expense (included in revenue profit)

Net finance expense[1] (£m) Chart 16
Year ended 31 March 2018



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

Our net finance expense has decreased by £16m to £123m, primarily due to interest savings following the repurchase of medium term notes in the current and prior years and the redemption of the £273m Queen Anne's Gate (QAG) Bond this year. This has been partly offset by lower capitalised interest following the completion of developments.

Capital and other items

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

Capital and other items[1]

Table 17

	Table	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Valuation and profits on disposals			
Valuation deficit	18	**(91)**	(147)
Movement in impairment of trading properties		**(4)**	12
Profit on disposal of investment properties		**3**	20
Profit on disposal of trading properties		**30**	36
Profit/(loss) on disposal of investment in joint venture		**66**	(2)
Profit on disposal of other investment		**–**	13
Net finance expense	19	**(661)**	(204)
Exceptional items			
Head office relocation		**–**	1
Other		**–**	1
Capital and other items		**(657)**	(270)

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

Valuation of investment properties

Our Combined Portfolio declined in value by 0.7% or £91m compared with a decrease in the prior year of £147m. A breakdown of valuation movements by category is shown in table 18.

Valuation analysis

Table 18

	Market value 31 March 2018 £m	Valuation movement %	Rental value change[1] %	Net initial yield %	Equivalent yield %	Movement in equivalent yield bps
Shopping centres and shops	3,558	(3.0)	0.8	4.4	4.9	10
Retail parks	786	(1.1)	(1.0)	5.4	5.6	(3)
Leisure and hotels	1,304	0.7	1.0	5.1	5.4	(5)
London offices	4,440	(1.5)	(1.6)	4.3	4.6	(4)
Central London shops	1,357	0.9	1.5	3.1	4.1	2
Other (Retail and London)	55	(11.1)	(3.5)	1.2	3.6	1
Total like-for-like portfolio	**11,500**	**(1.5)**	**(0.2)**	**4.4**	**4.8**	**1**
Proposed developments	–	–	n/a	–	n/a	n/a
Development programme	447	18.3	n/a	0.7	4.5	n/a
Completed developments	1,816	1.0	(1.9)	2.1	4.2	(5)
Acquisitions	340	(1.9)	n/a	5.7	5.9	n/a
Total Combined Portfolio	**14,103**	**(0.7)**	**(0.4)**	**4.0**	**4.7**	**6**

1. Rental value change excludes units materially altered during the year.

Over the year to 31 March 2018, we saw a small decline in values in a number of the categories within our Combined Portfolio. Overall values were down 0.7%, with the like-for-like portfolio down 1.5%. With the property sectors in which we operate experiencing limited change in rental values and equivalent yields, our valuation performance is more influenced by individual asset performance than wider market movements.

Within the like-for-like portfolio, our shopping centres fell in value by 3.0% as rental value growth was insufficient to offset a 10 basis points outward yield shift. The largest movement was at Bluewater where the value was down 11% as the valuer moved its yield out by 50 basis points based on the limited transactional evidence available. The value of our Retail parks was down 1.1% as rental values declined by a similar amount while our Leisure and hotel assets were up in value by 0.7% as rental values grew. Rental value declines and a 12% fall in the value of one of our oldest assets, Portland House, SW1 were behind the 1.5% reduction in London office values.

Outside the like-for-like portfolio, our pre-letting to Deutsche Bank at 21 Moorfields, EC2 and completion of Westgate Oxford led to the 18.3% valuation surplus on our Development programme. Completed developments were up 1.0% in value on the back of the successful letting of Nova, SW1 during the year, while the requirement to adjust for future purchaser's costs was behind the 1.9% fall in the value of our Acquisitions, partly offset by rental growth at the outlets we acquired.

Financial review
continued

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 £99m (2017: £67m). The profit on disposal of trading properties of £30m primarily relates to the sale of residential units at Nova and Kings Gate, both SW1, and the disposal of Eastern Quarry, Ebbsfleet. The £66m profit on disposal of our investment in a joint venture relates to the sale of 20 Fenchurch Street, EC3.

Net finance expense (included in Capital and other items)

This year, we incurred £661m of net finance expense which is excluded from revenue profit.

Net finance expense[1] — Table 19

	Table	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Premium and fees on redemption of medium term notes (MTNs)	24	**390**	140
Bond exchange de-recognition adjustment on redeemed MTNs	24	**189**	30
		579	170
Premium and fees on QAG Bond redemption		**62**	–
Fair value movement on interest-rate swaps		**(8)**	8
Other		**28**	26
Total		**661**	204

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

The increase this year in net finance expense in Capital and other items is due to the increased level of debt management activity.

Exceptional items

We have not classified any items as exceptional during the year. In the prior year a £1m net credit in respect of our London office relocation has been classified as exceptional. It was excluded from revenue profit by virtue of its exceptional nature, but formed part of our profit before tax.

Taxation

As a REIT, our income and capital gains from Qualifying activities are exempt from corporation tax. 90% of this income must be distributed as a Property Income Distribution, and is taxed at the shareholder level to give a similar tax position to direct property ownership. Non-qualifying activities, such as property trading or sales of companies, are subject to corporation tax.

This year, there was a tax charge of £1m (2017: credit £1m) being a current tax credit of £1m (2017: nil) and a deferred tax charge of £2m (2017: credit £1m). The gain on the disposal of the corporate structure holding the 20 Fenchurch Street property was offset by brought forward capital losses on which no deferred tax asset had previously been recognised.

Our tax strategy is published on our corporate website. The Group has a low tax risk rating from HMRC. In the year, the total taxes we incurred and collected were £193m (2017: £129m), of which £46m (2017: £41m) was directly borne by the Group including environmental taxes, business rates and stamp duty land tax.

Balance sheet

Balance sheet — Table 20

	31 March 2018 £m	31 March 2017 £m
Combined Portfolio	**14,103**	14,439
Adjusted net debt	**(3,652)**	(3,261)
Other net assets	**(71)**	28
Adjusted net assets	**10,380**	11,206
Fair value of interest-rate swaps	**6**	(4)
Bond exchange de-recognition adjustment	**106**	314
Net assets	**10,492**	11,516
Net assets per share	**1,418p**	1,458p
Adjusted diluted net assets per share	**1,403p**	1,417p

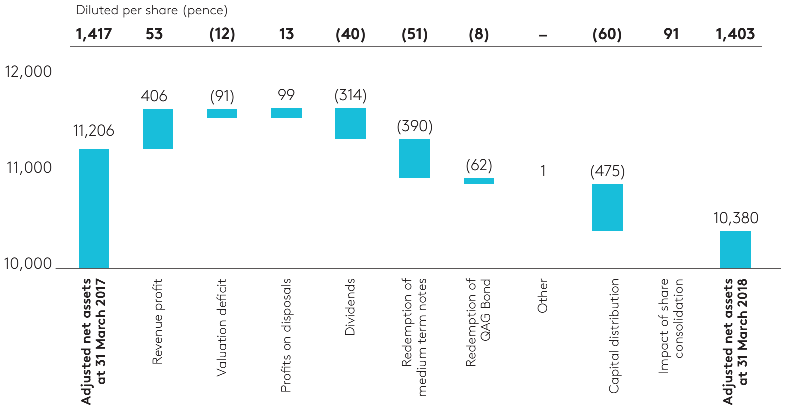
Our net assets principally comprise the Combined Portfolio less net debt. We calculate an adjusted measure of net assets, which is lower than our net assets reported under IFRS due to an adjustment to increase our net debt to its nominal value. We believe this better reflects the underlying net assets attributable to shareholders as it more accurately reflects the future cash flows associated with our debt instruments. Both our net assets and our adjusted net assets declined over the year due to the premiums paid to redeem bonds and the impact of the return of £475m to shareholders by way of a capital distribution.

At 31 March 2018, our net assets per share were 1,418p, a decrease of 40p or 2.7% from 31 March 2017. Adjusted diluted net assets per share were 1,403p, a decrease of 14p or 1.0%. These decreases were primarily driven by the debt management transactions in the year, which have a greater impact on our net assets per share as the related bond exchange adjustment is crystallised in addition to the premium payable. The bond exchange adjustment does not impact adjusted net assets as this measure already takes into account the face value of the medium term notes.

Chart 21 summarises the key components of the £826m decrease in our adjusted net assets over the year.

Movement in adjusted net assets[1] (£m) — Chart 21

Year ended 31 March 2018



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

Net debt and gearing

Net debt and gearing

Table 22

	31 March 2018	31 March 2017
Net debt	**£3,548m**	£2,905m
Adjusted net debt[1]	**£3,652m**	£3,261m
Gearing	**33.8%**	25.2%
Adjusted gearing[2]	**35.2%**	29.1%
Group LTV[1]	**25.8%**	22.2%
Security Group LTV	**27.2%**	28.3%
Weighted average cost of debt[1]	**2.6%**	4.2%

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.
2. Adjusted net debt divided by adjusted net assets.

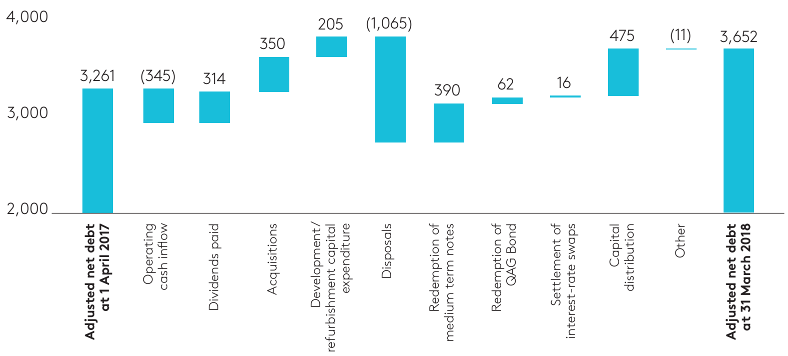
Over the year, our net debt increased by £643m to £3,548m. The main elements behind this increase are set out in our statement of cash flows and note 21 to the financial statements.

Adjusted net debt was up £391m to £3,652m. For a reconciliation of net debt to adjusted net debt, see note 20 to the financial statements. Chart 23 sets out the main movements behind the increase in our adjusted net debt.

Movement in adjusted net debt[1] (£m)

Year ended 31 March 2018

Chart 23



1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information on page 35.

Net operating cash inflow was £345m, substantially offset by dividend payments of £314m. Capital expenditure was £205m (£171m on investment properties and £34m on trading properties), largely relating to our development programme. Net cash flows from disposals totalled £1,065m; £247m from the disposal of investment properties, £185m from the disposal of trading properties and £633m from the disposal of investments in joint ventures. We incurred an additional £390m to repurchase the medium term notes and £62m for the redemption of the QAG Bond.

The most widely used gearing measure in our industry is loan-to-value (LTV). We focus most on Group LTV, presented on a proportionate basis, which increased from 22.2% at 31 March 2017 to 25.8% at 31 March 2018, primarily due to the increase in adjusted net debt explained above. Despite this increase in the adjusted net debt, our Security Group LTV decreased from 28.3% to 27.2% primarily due to a permitted change in the calculation method, which now allows bonds purchased and held within the Security Group to be offset against debt outstanding.

Financial review
continued

Financing

At 31 March 2018, our committed revolving facilities totalled £2,090m (31 March 2017: £1,940m). The pricing of our facilities which fall due in more than one year range from LIBOR +65 basis points to LIBOR +80 basis points. Borrowings under our commercial paper programme typically have a maturity of less than three months, currently carry a weighted average interest rate of LIBOR +32 basis points and are unsecured. The total amount drawn under the syndicated bank debt and commercial paper programme was £1,100m (31 March 2017: £441m).

During the year, the Group repurchased and redeemed all £273m of the outstanding QAG Bond for an additional cost of £62m. In addition, in September, December and March, we conducted tender exercises which resulted in us buying back £1,256m (nominal value) of medium term notes (MTNs). Further details are set out in table 24 and note 21 to the financial statements. In conjunction with the tender offers, in September, we issued a £500m MTN paying a coupon of 2.625% with an expected maturity of 2037 and a £500m MTN paying a coupon of 2.750% with an expected maturity of 2057 and, in March, we issued a £350m MTN paying a coupon of 2.375% with an expected maturity of 2027.

Redemption of medium term notes Table 24

	Medium term note series						
	A4 £m	A5 £m	A6 £m	A7 £m	A10 £m	A11 £m	Total £m
Nominal value purchased	2	398	233	164	15	444	1,256
Premium paid	–	90	73	57	3	162	385
Fees/unamortised finance fees written off	–	1	1	1	–	2	5
	–	91	74	58	3	164	390
Amortisation of bond exchange de-recognition adjustment	–	82	60	47	–	–	189
Redemption of medium term notes – total cost	**–**	**173**	**134**	**105**	**3**	**164**	**579**

A premium to par of £385m was paid on the MTN purchases, reflecting future gross coupon savings of £761m. Taking into account the timing and interest cost of the notes issued to fund the MTN purchases, we estimate a further net interest saving next year of £24m.

The Group's debt (on a proportionate basis) has a weighted average maturity of 13.1 years (up from 9.4 years at 31 March 2017), a weighted average cost of 2.6% (down from 4.2% at 31 March 2017) and 83% is at fixed interest rates. At 31 March 2018, we had £1.1bn of cash and available facilities. This gives the business considerable flexibility to deploy capital quickly should acquisition opportunities arise.

Changes in accounting policy

As part of the Group's review of the impact of adopting IFRS 9 on the bond exchange de-recognition adjustment (see note 21 for further details on the bond exchange de-recognition adjustment), the Group has taken the opportunity to revisit its accounting policy on determining whether an existing liability has been extinguished when carrying out a debt refinancing transaction. With effect from 1 April 2018, the Group's revised policy is:

'When debt refinancing exercises are carried out, existing liabilities will be treated as having been extinguished when the new liability is substantially different from the existing liability. In making this assessment, the Group will consider the transaction as a whole, taking into account both qualitative and quantitative characteristics.'

The revised accounting policy will result in the debt refinancing exercise completed on 3 November 2004 being treated as an extinguishment of the original debt, and therefore the bond exchange de-recognition adjustment will no longer be held on the Group's balance sheet. Further details are given in note 3.

The revised accounting policy will provide more relevant and reliable information by more accurately reflecting the Group's current net asset position and the carrying value of its borrowings. The Group currently reports this revised position using alternative performance measures which adjust net debt (see note 20) and net assets (see note 5). Under the revised accounting policy, the Group will report fewer alternative performance measures.

The change in accounting policy will be applied retrospectively and comparatives restated accordingly. Had this policy been applied at 31 March 2018, net assets would have been £106m lower at £10,386m, and the loss attributable to shareholders would have been £208m lower at £44m. Net assets per share would have been 14p lower at 1,404p, and the loss per share would have been 27.1p lower at 5.8p. The change in accounting policy will have no impact on adjusted net assets per share and adjusted earnings per share as these measures already exclude the bond exchange de-recognition adjustment and the related amortisation charge respectively.

Dividend

We're recommending a final dividend of 14.65p to be paid on 27 July 2018 entirely as a Property Income Distribution to shareholders registered at the close of business on 22 June 2018. Taken together with the three quarterly dividends of 9.85p per share already paid, our full year dividend will be up 14.7% at 44.2p per share (2017: 38.55p) or £332m (2017: £305m). The first quarterly dividend for 2018/19 will be 11.3p per share (2017: 9.85p).

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). 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.

The proposed dividend increase for this year is 14.7% compared with underlying earnings growth of 9.9%, reducing our dividend cover to 1.2x. With almost no speculative development exposure following our letting success at Nova, SW1 and Westgate Oxford, we believe it to be appropriate for our dividend cover to be at the bottom of the anticipated range.

At 31 March 2018, the Company had distributable reserves of £3.1bn which compares with the dividend payable in respect of this year of £332m. We don't anticipate that the level of distributable reserves will limit distributions for the foreseeable future.

Martin Greenslade
Chief Financial Officer

Physical review

We believe our assets and operations should create financial value while having a positive impact on the people and places we rely on.

Our top ten assets by value

1 New Street Square, EC4
Contemporary offices with retail and restaurants. Annualised net rent £35.0m

2 80-100 Victoria Street, SW1
Landmark site, home to blue-chip businesses and retailers. Annualised net rent £23.3m

3 One New Change, EC4
Office and leisure destination in an iconic building. Annualised net rent £29.1m

4 Bluewater, Kent
The dominant shopping centre in the south east of England. Annualised net rent £28.9m (Landsec share)

5 Gunwharf Quays, Portsmouth
Outlet shopping, leisure and entertainment on a waterfront location. Annualised net rent £26.2m

6 Trinity Leeds
778,000 sq ft retail destination developed by us. Annualised net rent £26.7m

7 1 & 2 New Ludgate, EC4
396,000 sq ft of modern, technically resilient office space, restaurant and retail. Annualised net rent £22.8m

8 Queen Anne's Gate, SW1
Offices built by us in 1977, refurbished in 2008. Annualised net rent £32.4m

9 White Rose, Leeds
814,500 sq ft of contemporary retail space. Annualised net rent £23.1m

10 Nova, SW1
A stunning new destination in the heart of Victoria. Annualised net rent £3.6m

This year we have included 1 New Street Square, EC4 in the total for New Street Square, which lifts the combined asset to the top of our valuation list. We have split Piccadilly Lights into two assets: the screens and a potential redevelopment scheme at neighbouring Sherwood Street, W1.

Climate change

We're clear that climate change is happening now and how we choose to respond will help determine the health of our business over the long term. Climate change is already considered a material issue within Landsec and we were the first property company with an approved science-based target.

Launched in 2017, The Task Force on Climate-related Financial Disclosures (TCFD) encourages businesses to disclose their response to climate change by discussing both the risks and opportunities. We're committed to the principles of the TCFD and they inform our reporting here.

Our priorities

Through our sustainability programme and science-based carbon target, we are determined to lead the transition towards a low carbon economy. This presents a significant opportunity for our business and our customers, and is already delivering both operational cost savings and wider stakeholder benefits.

But climate change is creating new risks. Increasing concentrations of greenhouse gases in the atmosphere are causing rising average temperatures and erratic weather patterns. These trends are manifesting in natural hazards like high winds, increasing rainfall, flooding and extreme temperatures. And these natural hazards have the potential to affect our business. So, as an organisation that relies on our physical assets for the creation of value, we need to assess how hazards could affect us.

Our risk assessment

Rising average annual temperatures could lead to higher cooling costs for our business and our customers. More erratic temperature changes could lead to strain or failure of our mechanical heating and cooling systems. Storms could lead to higher maintenance costs. And flooding, both inland and coastal, could lead to direct damage to our properties. All of these hazards can affect our customers' business continuity.

To assess these risks we have worked with Willis Towers Watson, conducting research using stochastic modelling to help determine the likelihood of potential weather patterns and natural hazards. The modelling looked at how future weather patterns are likely to impact our assets over two time horizons: up to 2030 and beyond 2030.

The likelihood of future weather events was modelled based on the four Representative Concentration Pathways (RCPs) which are used by the Intergovernmental Panel on Climate Change (IPCC) to illustrate future concentrations of greenhouse gases in the atmosphere. We focused on a best-case scenario, where global average temperature increases by two degrees, and a worst-case scenario, with a temperature increase of four degrees.

Our findings

In the period up to 2030, our analysis showed risks of natural hazards are unlikely to increase in a material way as a direct result of climate change. Natural weather variability will continue, which means storms and flooding could continue to affect our assets. We also found that an increase in average temperature is likely to affect our operational costs of cooling and heating, but not in a financially material way. Our modelling shows the requirements for more cooling, but less heating, will broadly cancel each other out when it comes to costs.

The effects beyond 2030 are likely to be different. The risk of inland flood, coastal flood and windstorm will increase. The impact of these hazards will become more relevant towards 2050, resulting in an increased negative impact on the current Landsec portfolio if our control measures remain the same.

Our response

Because the lifetime of our assets can be anything between five and 50 years, we need to take action to address risks now. Through our Responsible Property Investment Policy we're continuing to assess energy efficiency and climate risks when we buy new assets. Beyond 2030, we may need to consider selling assets with high residual risk from natural hazards.

We usually design our developments to last 60 years. Using our Sustainability Brief for developments and engineering specifications, we will continue to create resilient assets capable of withstanding extreme temperature changes. And we'll continue to include warmer temperatures in our design parameters to ensure we don't create unnecessary heating capacity. To manage our buildings effectively, we will continue to invest in controls and efficient energy systems in the period to 2030. And we'll continue to assess our insurance products to ensure we have adequate cover.

Our disclosure

Our existing processes give us confidence that our business activities, strategy and financial planning are resilient to climate-related risks and we are currently well positioned to benefit from the transition to a low carbon economy through to 2030. These processes will also help us to mitigate risk after 2030, as the effects of climate change become more severe. We're committed to the ongoing review of these risks and will reassess if there are major changes to our portfolio or unexpected changes to the trajectory of climate change.

ⓘ You can see full details on how we're responding to TCFD in our Sustainability Data Performance Report at landsec.com

Westgate – one of the UK's lowest carbon shopping centres, delivering efficiency today, and resilience for the future.

Our new Sustainability Charter and Brief

This year we introduced two new documents to help us progress our sustainability programme.

Our new Sustainability Charter clearly outlines our expectations and ambitions to all partners. We use it to support proactive conversations and it includes a pledge we require partners to take. So, when we're agreeing contracts or planning a new project together, this charter plays an important part in the conversation.

Our new Sustainability Brief clearly sets out our sustainability ambitions for developments, the role our designers and delivery partners can play in creating the best experiences, and how we measure success.

ⓘ You can find both documents at landsec.com

Climate change advocacy

We recognise we can't solve key sustainability issues on our own. That's why we actively support public policy and regulation on issues that align with our business. Some of our actions on advocacy:

— We became the first property company in the world to have its carbon emission target approved by the Science Based Targets initiative. This commits Landsec to reduce emissions in line with the requirements of the global 2 degree warming target.

— We were one of the first property companies to join the We Mean Business coalition's RE100 and EP100 campaigns, a group of influential businesses committed to procuring renewable energy and improving energy productivity.

— We are active members of the UK Green Building Council and Better Buildings Partnership, working with our peers to help the entire industry improve.

— We are working with a coalition chaired by the World Business Council on Sustainable Development to expand science-based target methodologies for the built environment, helping more companies take action.

Physical review
continued

Efficient use of natural resources

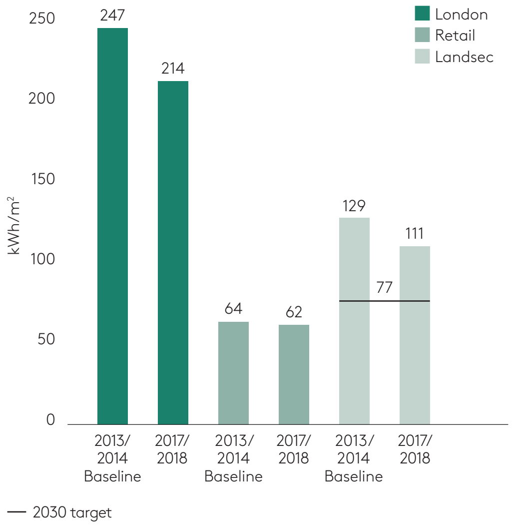
Carbon and energy
Our commitment is to reduce carbon intensity ($kgCO_2/m^2$) by 40% by 2030 compared with a 2013/14 baseline for properties under our management for at least two years, with a longer-term ambition of an 80% reduction by 2050. During the year we reduced carbon intensity further and are now down 28.6% compared with our 2013/14 baseline, which keeps us on track to achieving our 2030 and 2050 targets.

We're on track largely thanks to our active energy management programme, which is reducing the energy we use to power our offices and shopping centres and also due to the decarbonisation of the UK national grid. Our energy intensity has reduced by 14.3% since our 2013/14 baseline keeping us on track for our target of 40% by 2030. Since 2016/17, we have implemented 60 energy reduction projects across our portfolio, which will contribute further savings in years to come. We're also generating more of our own energy through renewable sources such as solar panels.

Renewables
Our commitment is to continue to procure 100% renewable electricity across our portfolio and achieve 3 MW of on-site renewable electricity capacity by 2030. Since 1 April 2016, our Group electricity contract has been 100% renewable. At least 15% of gas is now procured from green sources. We have 1.4MW of on-site renewable electricity capacity.

We are committed to increasing the amount of renewable electricity generated on our sites and pioneering low carbon technologies to improve efficiency. In August 2017, we installed the largest solar PV system on a UK shopping centre at our White Rose centre in Leeds. The system will provide 20% of our landlord electricity demands, enough to power 200 UK homes for a year. That means a reduction of 250 tonnes of carbon – the equivalent of more than half a million miles of passenger car emissions.

Landsec energy intensity Chart 25



Waste
Our commitment is to send zero waste to landfill with at least 75% recycled across all our operational and construction activities by 2020. Through smarter procurement and increased data accuracy we've achieved our commitment, diverting 100% of the waste produced from operations from landfill. At 74.9%, we continue to improve our recycling rate by engaging our customers. All waste that isn't recycled is sent to waste to energy plants.

Our focus is on creating a circular economy where, instead of throwing things away, we re-use and recycle them. We're also constantly looking for innovative ways to reduce our operational impact on the environment. For example, three of our retail assets – including Westgate Oxford – have on-site food digesters. These use aerobic digestion to break down up to one tonne of food waste a day and turn it into wastewater. This ensures no food waste is taken to landfill and CO_2 emissions are reduced by having fewer waste collections.

Good waste management practices can have significant financial impacts. For example, our active approach to recycling has enabled us to avoid over £2.5m in landfill tax this year.

Sustainable design and innovation
Great design helps create the best experience for our customers. It increases efficiency and encourages people to spend time in our spaces. This is good for our customers, communities and partners – and therefore good for us. The right design also allows buildings to be flexible across their lifespan, enabling them to adapt to changing customer needs.

Our approach
For the past ten years we've focused on building strong foundations – achieving energy and water efficiency, green building certification and low carbon emissions. But we've also been exploring how we can make our developments even better. Our approach now centres on foundations and features. Foundations are the actions that can build our credibility. They're typically not visible to our customers, but they're vitally important. They include improving diversity in our supply chain, reducing waste and sourcing materials from ethical supply chains.

The visible actions are features – things like community employment and wellbeing. These bring clear benefits to customers and the community. And because they're so tangible, they make our developments even more popular. They include the creation of new jobs, installing renewable energy generation and creating green spaces for our customers to enjoy.

Carbon in the supply chain
This year we've built on our work with the Carbon Trust to scope out and report on measurable carbon emissions associated with our business. This includes the ones we control, as in our head office or the landlord-controlled spaces within our properties, and emissions indirectly associated with our business (known as scope 3 emissions), like the carbon emissions produced by construction companies and suppliers when they work with us. We've set new targets for reducing these emissions, we're encouraging all our main contractors, through our Sustainability Charter, to set science-based targets, and we're working with our customers to help them reduce energy use.

Waste management performance

100%
of waste diverted from landfill
(2017: 99.9%)

74.9%
of used materials sent for recycling
(2017: 70.8%)

Materials

Our commitment is to source core construction products and materials from ethical and sustainable sources. In Retail, our Selly Oak scheme is on track to achieve 45% responsibly sourced materials and Westgate has achieved just over 86%. In London, we're targeting 70% responsibly sourced materials and are tracking each development as it progresses through design.

Biodiversity

Our commitment is to maximise the biodiversity potential of all our development and operational sites, and achieve a 25% biodiversity net gain across the five sites offering the greatest potential by 2030.

> Landsec's ground-breaking commitment raises the bar for its own sector and others."
>
> **Stephanie Hilborne OBE**
> Chief Executive, The Wildlife Trusts

We've developed a methodology with The Wildlife Trusts to measure biodiversity on all sites and are developing net gain plans at several sites. Our methodology enables us to determine different sites' potential for biodiversity, helping us prioritise our efforts and investment. A total of ten measures have been installed since 2016/17.

Wellbeing

Our commitment is to ensure our buildings are designed and managed to maximise wellbeing and productivity. Our assets should be great places to work and visit.

For an office, this means designing spaces to encourage physical and mental wellbeing. Our future office developments will follow the health and wellbeing criteria set by the BREEAM or WELL certifications. In retail, surveys tell us atmosphere is one of the most important reasons customers choose to visit. We need to focus on lighting, indoor air quality, heating and acoustics, creating the right conditions for comfort.

Our award-winning workplace at 80-100 Victoria Street, SW1 is designed for activity-based working and is the UK's largest WELL Certified™ space. We set out to remove all the barriers to an active, healthy and productive working day. Employee benefits promote healthy lifestyles and include discounted gym membership, on-site yoga classes, free breakfasts and healthy snacks throughout the day.

Wellbeing at our new office in Victoria

- 431 employees and 45,000 annual visitors
- 87% of our employees said their working environment enables them work productively – 40% above the Leesman Survey benchmark
- World first dual-certified space meeting both WELL Silver Certification and BREEAM Outstanding
- An LED circadian lighting system matches external light levels
- White noise machines help create a sense of privacy in the open plan environment
- Our ventilation and cleaning regime is tightly controlled to keep the air free from harmful chemicals
- There are over 700 places to work, from sit-stand and treadmill desks to quiet working booths and library spaces

Active working at 80-100 Victoria Street, SW1 – our home.

Social review

We use our experience to help people thrive, from our customers, communities and employees to those working for our partners.

Our economic contribution to the UK

This year, for the first time, we set out to measure the full impact of our assets and activities. Here are some of the key findings:

£13.2bn
Total contribution to the UK economy each year from people based at our assets

£5.7bn
Our ten-year contribution to the economy through property development

153,000
Number of people working at our assets and employed through our activities over the last decade

61,000
Jobs created in construction through our development activities over the last decade

Our employees by numbers

615
Total headcount

19.4%
Employee turnover – 14.7% resignations

47:53%
Overall male:female ratio
(female representation down 1%)

Our customers

We work with a diverse mix of businesses and organisations, from global corporations and international consumer brands to local brands and businesses, fast-growing tech companies and an array of other enterprises and organisations.

Understanding and meeting customers' needs is at the heart of everything we do. We anticipate people's evolving expectations and requirements and consider future market scenarios carefully. 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.

Our employees

Most of our people are in professional and managerial roles. Once again we've carried out an employee engagement survey to ensure we understand sentiment within the business. While the overall engagement score of 88% remained the same, we've seen an improvement in most dimensions of engagement. In particular, we saw a significant improvement in responses to "I have the tools and resources required to do my job effectively" – a great endorsement of the tools we've provided as part of our move to a new office.

Some of the other key findings from our most recent employee engagement survey in October 2017, which was sent to everyone within the business:

- Our overall engagement score remained at 88% positive – outperforming the Towers Watson national norm by 11 points and the norm for 'high performance' companies by 6 points. We continue to outperform the high performance benchmark in most areas
- 87% of respondents believe that Landsec is a better employer than others
- 91% of respondents would recommend Landsec as a good place to work
- 90% of respondents are satisfied working for Landsec
- 98% of respondents fully support our values
- 96% of respondents believe that Landsec is a responsible company and has strong sustainability performance

There was no significant difference in the scores when analysed by ethnic group. Encouragingly, responses from black and Asian colleagues were slightly more positive than the Landsec norm. There was a small but discernible difference in engagement levels between genders, with female scores marginally lower. We're exploring the reasons behind these small but important discrepancies.

As always, there were some areas highlighted for improvement. These included the performance management system, which a number of respondents feel is too narrowly focused on KPIs rather than behaviour. And some respondents feel there has been a lack of clarity in terms of career development opportunities. This may reflect where we are in the market cycle, with a number of major projects coming to an end and the possibility of job role changes for affected employees. Both of these issues will be priority areas for the HR team in the year ahead. We asked employees about their understanding of reward packages and whether our reward framework drives the right behaviours. Responses related to reward were down slightly on our last full survey in 2015, which we believe reflects the relatively high level of bonuses paid that year.

The reputation of Landsec, and the trust and confidence of those with whom we deal, is vital to the sustainability of our business. We are committed to high ethical standards in the conduct of our business and to ensuring our behaviour and practices maintain our integrity. We have a Business Ethics and Anti-corruption policy which sets out how our employees are expected to behave towards each other and all third parties including occupiers, shareholders, suppliers, advisers, agents, competitors, the government and regulators. Adherence to the policy is a condition of continuing employment with Landsec.

Creating Experiences

We have developed and delivered a training programme for all employees to help strengthen our customer experience-led culture. This is an essential part of making the business fully fit to thrive in ever-evolving markets and a fast-changing world.

Our objective was to help employees understand what our new brand means in terms of how we can enhance experience for all our customers. Our definition of customers includes our occupiers but also their employees, shoppers, visitors, local communities, partners and our colleagues.

Launched in September 2017, the first phase of the Creating Experiences programme was inspired by some simple principles:

- It should include all of our people, from all sites and all levels
- Employees should attend in mixed cohorts so they get to work outside their teams and broaden their perspective on the business
- It should showcase our new office to all employees
- It should be clearly supported and facilitated by the top 25 senior leaders within the business
- The content and design of the events should be innovative, empowering and collaborative; make good use of technology; and provide practical tools and insights

Feedback after the events has been very positive. It's clear that in general our employees know who their customers are, now work more collaboratively, and have a genuine appetite for change. The second phase of the programme, which started in April 2018, will see senior leaders and leaders deliver one-day sessions for their teams, where they agree how they will utilise the tools, skills and mindset they have learnt about to create great customer experiences. This should help to further embed our brand in what we do and how we do it.

Diversity

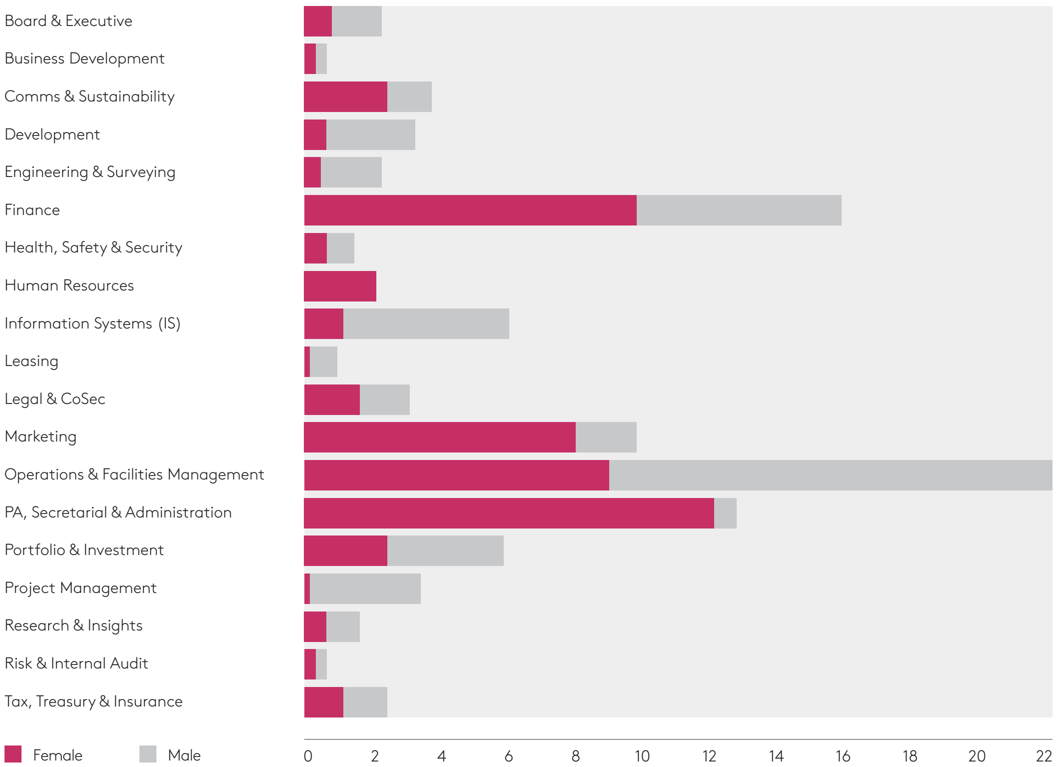
We strongly believe in the benefits of having diversity at all levels within our workforce and this is supported by our employee engagement survey results. A diverse range of people, skills and capabilities amongst our employees means that we can make better decisions for our business and have a better place in which to work. Our commitment is to make measurable improvements to the profile – in terms of gender, ethnicity and disability – of our employee mix.

This year we continued to be active supporters of Real Estate Balance, an association run by a group of female and male leaders in real estate determined to address the gender imbalance in our sector. Our Chief Executive, Robert Noel, has signed up to its CEO commitments. Our Group Human Resources Director, Diana Breeze, has been a very active member of the Talent and Development Committee, which has pooled the collective capability of the sector to provide a series of development events aimed at mid-career females.

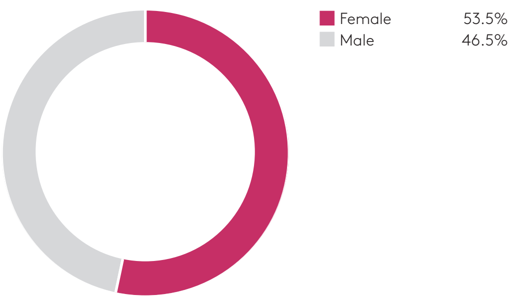
Progress against our stated diversity targets (at March 2018)

Target	Progress
Ensure that Landsec continues to meet all the voluntary targets set by the Hampton/Alexander Review (33% of Board, Executive Committee and direct reports are female)	Out of a total population of 32, 13 are female (41%). We continue to meet the voluntary target
Improve female representation at Leader level to 30% – by 2020	24.4% of our Leader-level colleagues are now female, an improvement of 1.4% since December 2016
Improve the engagement scores for Black and Asian colleagues – bringing them in line with employees overall – by 2018	Black and Asian colleagues made up less than 10% of the sample, but their responses were slightly more positive than the Landsec norm in most categories 19 colleagues identifying themselves as "other" were less positive and this requires further investigation
Improve the transparency of our reporting of all diversity data, including the accurate measurement and tracking of other specific groups – including LGBT and disabled colleagues – by 2018	We are seeing a slow increase in those who are willing to disclose disabilities and sexual orientation A significant proportion still "prefer not to say"

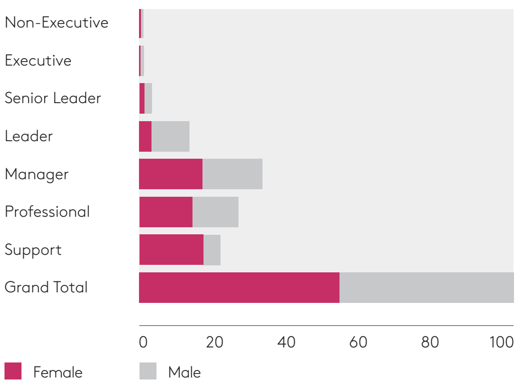
Gender by role (% of total population) Chart 26



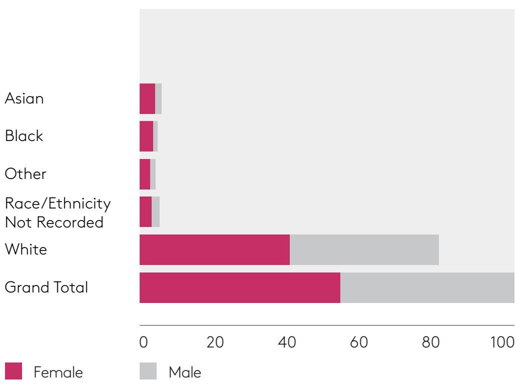
Gender split (%) Chart 27



Gender by level (%) Chart 28



Gender by ethnicity (%) Chart 29



Over the past 12 months, we further extended our Landsec female mentoring programme and now have over 20 active partnerships. Although this programme was designed to support development of women in our business, the programme is open to all our employees. As well as the mentoring itself, we've given mentees access to specific professional development activities and resources such as London Business Forum and Real Estate Balance events. Our Group-wide celebration of International Women's Day, supported by our CEO, further promoted our focus on workplace inclusivity. As part of the campaign, eight senior women across Landsec shared their experience of working in an industry that's perceived by many to be male-dominated.

In the area of disability, our focus has been on mental health. Within the business we've set up a network of mental health first aiders; enhanced our training around stress, resilience and mindfulness; and run a series of awareness-raising events.

> Huge progress has been made in the property industry, but there are still times when I attend large meetings and I'm the only woman. That's jarring in 2018. It's also evident at some networking events. Landsec, however, doesn't feel old-fashioned. I have amazing female role models in the business. More needs to be done, though, and it doesn't just sit with the women – men need to be part of the conversation."

Alex Chitty
Development Manager at Landsec

Gender pay

Last year, the UK Government introduced legislation requiring employers with 250 or more UK employees to disclose information on their gender pay gap. Landsec was one of the first companies to report on gender pay, publishing our data in last year's annual report. The data below therefore represents the second year of disclosure, based on amounts paid in April 2018.

The definition of pay shown is an hourly pay rate for each relevant employee as at 5 April 2018, reflecting base salary and certain allowances. The bonus figures shown includes total variable pay over the previous 12 months (bonus paid plus any proceeds on exercise of SAYE, ESOP or vesting of LTIP awards).

Table 30

Pay Element	Male	Female	% difference	Male	Female	% difference	Pay gap year-on-year change (% points)
	April 2018			April 2017			
Mean hourly salary	£45.52	£28.33	(37.8)	£43.26	£28.86	(33.3)	**4.5**
Median hourly salary	£34.98	£21.73	(37.9)	£33.36	£21.27	(36.3)	**1.6**
Proportion of employees receiving a bonus	83.6%	75.5%		79.0%	77.1%		
Mean bonus	£38,336	£13,838	(63.9)	£42,894	£14,282	(66.7)	**(2.8)**
Median bonus	£10,969	£4,376	(60.1)	£12,741	£12,741	(62.5)	**(2.4)**

In our relatively small sized organisation, with voluntary employee turnover sitting at around 15%, it is unsurprising that we have seen some swings in our data this year. As the table above shows, while the gap between median male and female hourly pay has remained broadly static, the gap on a mean basis has, disappointingly, broadened by 4%. Conversely, and more encouragingly, the gap in both mean and median bonus awards, although still large, has narrowed slightly.

The following table shows how the mean hourly rate and bonus awards compare by quartile. As was the case last year, the gap is much wider in the upper quartile, where we have the lowest proportion of females, indicating that the key issue is one of female representation in senior roles.

As at April 2018

Table 31

Quartile Split	Number	% Male	% Female	Male mean hourly rate	Female mean hourly rate	% difference in hourly rate
Lower	138	21.7	78.3	£16.07	£15.68	2.5
Lower middle	138	40.6	59.4	£23.33	£22.39	4.0
Upper middle	138	55.1	44.9	£34.21	£33.70	1.5
Upper	138	72.5	27.5	£75.37	£68.35	9.3

Encouraging more females into leadership roles has been a key priority for us and, as reported elsewhere, we are starting to make progress – almost 25% of our Leader roles are now occupied by women, and female representation has risen to 41% at Board, Executive Committee and the level below. Both these figures are an improvement on last year. However, it will take time for this progress to be reflected in headline pay statistics and, like others in our sector, we still find it challenging to fill our senior roles with female candidates, particularly in the core property and technical disciplines. This has been borne out by an analysis of our recruitment activity over the course of the year, although there are some notable and pleasing exceptions.

The differential in bonus awards appears stark at a headline level, although it is slightly lower than last year. However, the figures include women on maternity leave, and part-timers, whose bonus payments are pro-rated. Of our total permanent female population, 17% are part-time (compared with no part-time males).

Published data as required under The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

Jobs and opportunities

Addressing social mobility

We believe people shouldn't be defined by where they were born or live, yet we know someone from an area classified as disadvantaged has less chance of succeeding than someone else. Our goal is to offer opportunities to the people who live in the communities where we operate so that every individual has a fair chance of reaching their potential.

Our Chief Executive, Robert Noel, was recently invited to sit on the newly formed Inclusive Economy Partnership (IEP), a collaboration between government, business and civil society whose aim is to address key societal challenges facing low- and middle-income families. The IEP is focusing on three key areas: financial inclusion, mental health and transition to work.

Community employment

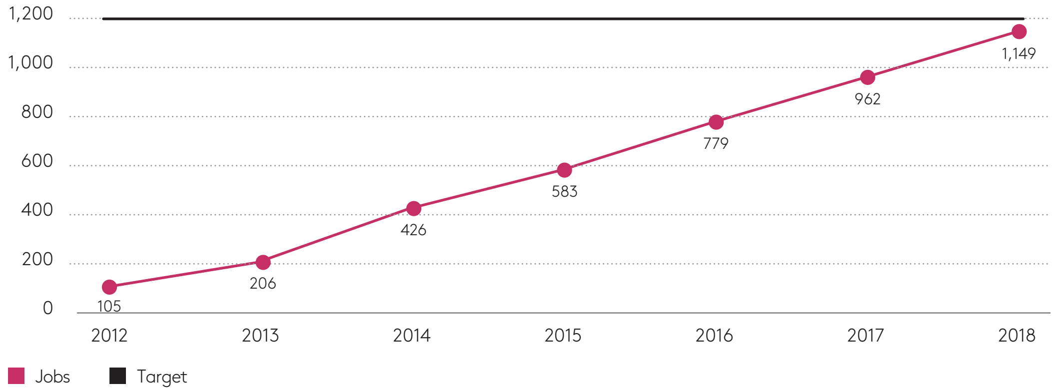
Our commitment is to help a total of 1,200 disadvantaged people secure jobs by 2020. Since 2011, 1,149 disadvantaged people have gained work through our nationwide Community Employment Programme, including 187 this year. We're now setting new ambitious targets for the business beyond 2020.

The programme targets those furthest from the job market, including homeless people, the long-term unemployed, veterans, ex-offenders and serving prisoners. Working with our partners, local authorities, charities and specialist training providers, we help people prepare for and find opportunities in construction and customer service – usually at one of our assets.

During the year, we placed particular emphasis on creating opportunities in customer service and facilities management. In our Nova, SW1 development, for example, we helped our customer D&D find employees through the programme, working with partners including Bywaters, Not Just Cleaning and Corps Security. At Westgate Oxford, we supported 15 candidates back into employment through our Community Employment Programme.

This year we also extended our work with prisons. In addition to offering a dry lining and scaffolding centre at HMP Brixton, we've launched an additional facility at HMP Isis. We will launch a vertical and aerial cleaning academy at HMP Isis in June 2018. Two of our offender charity partners, Bounce Back and The Right Course, estimate that their projects have cut reoffending rates to less than 12% compared with a national average of 60%.

Cumulative total number of jobs secured Chart 32



Education

Many young people, especially those from disadvantaged backgrounds, face barriers that stop them accessing jobs in our industry. Through our education programmes we:

— Inspire young people about career opportunities in property and construction

— Give young people the skills they need to succeed

— Enable our employees and partners to volunteer their expertise

Our work encourages more students from a wide range of backgrounds into our industry, making businesses like ours more diverse. It also ensures our assets are more representative of their local area, which in turn makes them more appealing to local people.

Since April 2017, we've engaged over 1,000 students between the ages of 12 and 18, particularly in schools where a higher than average proportion of children receive free school meals. We also grew our collaboration with Ahead Partnership, a social enterprise that connects communities with businesses through its school-specific programme Make the Grade.

We've been looking hard at how our assets can support education. That's the drive behind our 'Made in...' programme, which sets a business-related challenge for students in the context of one of our centres. This year, for example, we ran a Made in Portsmouth challenge at Gunwharf Quays that saw students challenged to design a product representing the local area. Finalists pitched their ideas to a panel of Landsec experts with the winning team due to sell their creations in the centre later in the year. We also continued to run our popular Girls Can Do It Too programme, which helps to tackle the gender gap in construction, engineering and property development by challenging young women's perceptions and making them aware of opportunities.

Students taking part in our Girls Can Do It Too education programme.

Social review
continued

Charity partnerships

We partner with local and national charities to help support people from disadvantaged backgrounds into work; support and educate young people; and respond to local issues such as rising homelessness. Our retail destinations and larger sites work with at least one local charity partnership, in addition to our national charity partner. We support charities through: fundraising, volunteering, offering pro bono support and opening our spaces up for community events.

Our current national charity partner is Barnardo's, the UK's largest children's charity, with whom we are working to support young people – particularly those not in education, employment or training. This year we raised over £100,000 for Barnardo's. We also continued our work tackling homelessness across the UK. For example, in Oxford, we've partnered with Homeless Oxfordshire. In London we continue to support the work of The Passage and Cardinal Hume Centre, this year raising just under £20,000 for the Cardinal Hume Centre and moving over 50 people, who are homeless or at risk of homelessness, back into work.

> Landsec's approach to working with charities, authorities and others to offer people from disadvantaged backgrounds work experience and job opportunities is making a real difference."

Caroline Dinenage
Minister of State for Health and Social Care

Fairness

Our commitment is to ensure the working environments we control are fair and that everyone who is working on our behalf – within an environment we control – is paid at least the Foundation Living Wage by 2020.

Fairness is partly about paying people a fair wage. It's also about upholding their human rights, celebrating their individuality and making sure they feel safe and respected in the workplace. Being fair helps us attract, motivate and retain great people.

We are an official Living Wage Employer, accredited by the Living Wage Foundation. This recognises that everyone in our business is paid at least the Foundation Living Wage (£10.20 an hour in London; £8.75 outside London), except interns and apprentices who are exempt from the Foundation rates. We ask supply chain partners to pay the Foundation Living Wage in their own supply chain and check this is happening on our behalf. In the London Portfolio, our strategic partners have confirmed 100% of those working on our behalf – within an environment we control – are paid at least the Foundation Living Wage. In Retail there's more to do but we're confident we'll meet our commitment by 2020. In future we'll require all contractors to measure and report on the percentage of their employees paid the Living Wage. And this year we'll survey our largest partners to confirm the Living Wage is being paid at our sites and in construction.

The Modern Slavery Act came into force in 2015. As part of our ongoing review, during the year we carried out a modern slavery and human trafficking risk assessment across the business. We believe the risk of slavery or human trafficking in the recruitment and engagement of our employees is low. To ensure it remains low, we have provided training on modern slavery for our HR team and taken steps to make sure our staff and supply chain partners are aware of the Act and its requirements.

In September 2017 we issued our second Slavery and Human Trafficking Statement and are working with employees and suppliers to tackle slavery-related issues across the supply chain. We also took part in the global Workforce Disclosure Initiative (WDI). This is a new programme that brings together institutional investors to request comparable workforce data from listed companies, including data covering employees in companies' direct operations and in their supply chain. WDI has recognised Landsec for good practice based on our methods of identifying risks and opportunities in our direct operations and our supply chain.

Raising funds for our national charity partner Barnardo's at White Rose.

Health, safety and security

Our commitment is to maintain an exceptional standard of health, safety and security in all the working environments we control. The effective management of health, safety and security is fundamental to the productivity, culture and reputation of our business. Our priorities in this area are:

- Health: to treat health like safety across all our activities, with both physical and mental health in mind.
- Safety: provide safe and secure places for our employees, customers, partners and communities.
- Security: to raise and maintain awareness of physical and cyber security, in our own organisation and across our industry.

This year we reported 26 incidents at our managed portfolio and construction sites under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, a decrease on the previous year. We believe our strong health and safety culture and ongoing programme of education with employees and partners are having a positive effect.

Once again we maintained our OHSAS 18001 certification, the benchmark for health and safety management systems, across 100% of our sites. Following the tragic fire at Grenfell Tower, we reviewed the cladding on every property in the current portfolio as well as those sold within the last ten years. Our review identified three properties that require some remedial work and this is in progress.

Our Health and Wellbeing Customer Improvement Group helps ensure we give health the same billing as safety, with mental health as important as physical health. As part of the Health in Construction Leadership Group, this year we actively supported Mates in Mind, a mental health programme for the construction industry. We continue to play a key role in industry initiatives, including HSE's Helping Great Britain work well strategy.

Our move into new headquarters has created a more agile working environment where people can collaborate more easily. We've supported this with enhanced health, safety and security training for employees. We continue to include our One Best Way standards in tenders and have a robust assessment process, ensuring that all partners are clear on our expectations and requirements.

Our physical and cyber security is supported by robust processes, policies and governance, together with mandatory training for employees in relevant roles. We continually prepare the business to anticipate and respond to incidents and we take part in a number of cross-industry forums. And we integrate security architecture into the way we design buildings. During the year we strengthened our team with the appointment of a Group Security Protection Manager.

Sustainability Matters

This year we continued our award-winning sustainability training programme for employees, Sustainability Matters, which was launched in 2016. This company-wide training is designed to ensure that all employees understand our sustainability commitments and their specific role in delivering these. In 2017/18 alone, we've delivered 15 workshops across the business, training 213 employees – over a third of our workforce.

Consisting of three levels – awareness, understanding and application – the training is tailored to our different teams, covering a range of topics from masterclasses on energy analysis and measurement to workshops for our Leasing and Marketing Teams on how sustainability helps create experiences and value for our customers.

Our programme was recognised at the 2018 CIBSE Building Performance Awards where we won the Learning and Development Award.

Sustainability training programme

213

Number of employees trained during 2017/18

31%

Employee knowledge increase after the training

Managing risk

We set out an overview of our risk management process explaining the key elements of our approach to risk, how we have continued to develop our process over the course of the current year, the key successes in risk management and our priorities for 2018/19.

Our key successes in 2017/18

— Board deep-dive session on principal risks, emerging risks and Group risk appetite
— Further embedded risk management processes and culture at the business unit level
— Established a business unit risk champion network
— Facilitated business unit workshops to establish risk interdependencies
— Conducted analysis to assess the physical risks of climate change to our property portfolio

Our key priorities in 2018/19

— Refine the Group risk appetite and risk monitoring dashboard
— Operationalise risk appetite at a business unit level
— Enhance the business key controls to encompass additional controls that help improve the mitigation of our principal risks
— Embed the risk champion network

Governance

The Board has overall responsibility for oversight of risk and for maintaining a robust risk management and internal control system. The Board recognises the importance of identifying and actively monitoring our strategic, reputational, financial and operational risks, and other longer-term threats, trends and challenges 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 processes during the year.

Identification of risks

Identifying risk is a continual process. We have established a network of risk champions across the business and we utilise this network, in conjunction with ongoing discussions with management, external agencies and stakeholders, to identify the risks facing our business. The London and Retail executive committees also complete a detailed review of their risks, controls and mitigation strategies four times a year as we continue to further embed the risk culture across our business. This forms the basis for the principal and emerging risks, which are challenged and validated by the Executive Committee and then the Audit Committee. In addition, an in-depth risk session is held with the Board every two years, with the latest one completed in December 2017. As input to the session, we surveyed all members of the Board, Executive Committee and senior leadership team. The session then focussed on our principal risks, emerging risks and risk appetite, with the results of the survey providing insight from across the business to inform the discussion.

Evaluation of risks

The business considers both external and internal risks from the business units through to Group level. We use a risk scoring matrix to ensure risks are evaluated consistently. Our matrix considers likelihood, financial impact to income and capital values and reputational impact. When we evaluate risk, we consider the inherent or gross risk (the level of the risk before any mitigating action) and the residual or net risk (the risk that remains after we consider the effect of mitigating actions and controls). From this, we identify principal risks (current risks with relatively high impact and certainty) and emerging risks (risks where the extent and implications are not yet fully understood). Where there is a relatively high inherent risk and relatively low residual risk, we know we have a high dependency on internal controls, which helps to focus the work of the Internal Audit function.

Management of risks

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.

As part of our risk process this year, we have also facilitated business unit workshops to explore and understand how risks are interconnected and critical risk dependencies. This allows us to understand risk movement trends and to prioritise the key mitigating controls that the business is dependent on.

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.

> Helping the business to navigate the challenges and opportunities it faces through proactive risk management."

Risk appetite

The Board is responsible for defining the level and type of risk that the Group is willing to take and ensuring it remains in line with our strategy. The Board regularly reviews the risk appetite of the business, re-assesses the information available and the risk factors that are relevant. This ensures our risk exposure remains appropriate at any point in the cycle and that risk is considered dynamic. Our risk appetite is cascaded throughout the organisation by being embedded within our policies, procedures and delegated authorities.

One of our key priorities next year is to consolidate existing risk appetite statements and tolerance ranges into a single risk monitoring dashboard for the Board and Executive Committee. This will explicitly align our risk appetite and the corresponding key risk indicators to our strategy and KPIs. It will help to ensure that risk appetite is consistently reviewed, understood and applied across the organisation. This will also allow us to articulate risk appetite more effectively at an individual business unit level.

Risk management framework

As shown in the diagram below, we have an established risk management and control framework that enables us to effectively identify, evaluate and manage our principal and emerging risks. Our approach is not to eliminate risk entirely, but to ensure we have the right structure to effectively navigate the challenges and opportunities we face.

We focus on being risk aware, clearly defining our risk appetite, responding to changes to our risk profile quickly and having a strong risk culture among employees.

The Executive Committee is responsible for the day-to-day management of risk. Senior Management also attend the Executive Committee and the Audit Committee to discuss specific risk areas, and will be accompanied by external advisers where relevant. Some of our specific risk focus areas from this year included cyber security and data privacy.

The Risk Management function, headed by the Director of Risk Management and Internal Audit, assists management with facilitating the risk discussions and provides challenge and insight where appropriate. The Risk Management function also oversees and provides support to a network of risk champions across the business.

Internal Audit provide assurance to the Audit Committee and Executive Committee in evaluating the design and operating effectiveness of the risk management and internal control processes, through independent review. On a quarterly basis, management self-certify that the key controls within their area of responsibility have been operating effectively. These results are independently validated by Internal Audit through sample testing. We continue to enhance and refine the key controls to ensure we have the most effective set of key controls to mitigate our principal risks and this is an area of focus for 2018/19.

Risk management framework

Top-down Oversight, identification, assessment and mitigation of risk at a Group level	**Risk governance**	**Board** — Set the risk culture — Approve risk appetite — Agree the risk programme — Discuss the Group 'principal' risks with executive management		
		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 and risk tolerances — Identify the principal risks — Design, implementation and evaluation of the system of internal control, and for ensuring its operational effectiveness — Identify and monitor emerging risks	**Risk Management** — Aggregate risk information — Assist management with the identification and assessment of principal and emerging risks — Monitor risks and risk response plans against risk appetite and tolerance levels — Create a common risk framework and language — Provide direction on applying framework — Provide guidance and training — Facilitate risk escalations	**Audit Committee** — Support the Board in monitoring risk exposure against risk appetite — Review the effectiveness of our risk management and internal control processes **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 a business unit and functional level	**Risk ownership**	**Business units and risk champions** — Identify and assess risks — Respond to risks — Monitor risks and risk response — Ensure operating effectiveness of key controls	**Support functions** — Provide guidance/ support to the risk team and business units	

Our principal risks and uncertainties

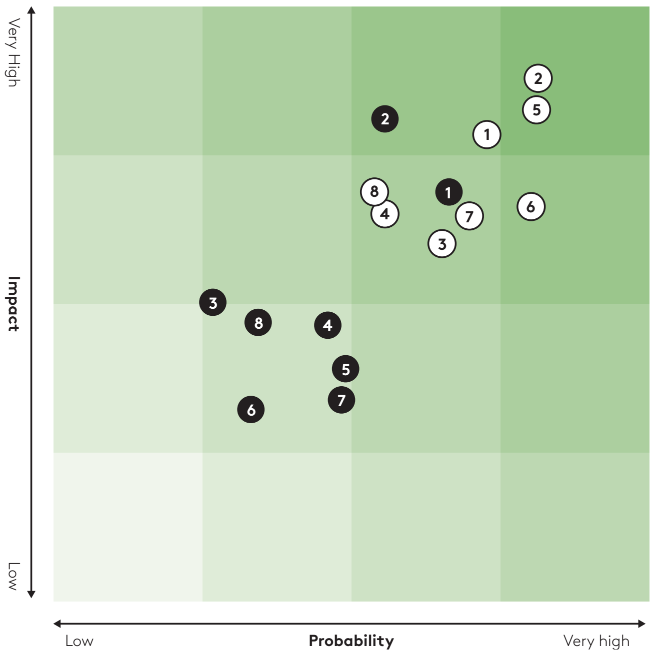
Risk heat map

The risk heat maps illustrate the relative positioning of our principal risks before and after mitigating actions. We set out further details on our principal risks below, explaining how the risks link to our strategic objectives, our risk mitigation strategies and the rationale for the risk movement in the year.

Strategic objectives

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

Principal risks before and after mitigating actions



Before mitigating actions

After mitigating actions

1. Customers
2. Market cyclicality
3. Disruption
4. People and skills
5. Major health, safety and security incident
6. Information security and cyber threat
7. Sustainability
8. Investment and development strategy

Change in the year

Increased No change Reduced

Risk	Strategic objective	Mitigation	Change in the year	Opportunity
1 Customers Structural changes in customer and consumer behaviours leading to an adverse change in demand for our space and the consequent impact on new lettings, renewals of existing leases and rental growth. Executives responsible: Colette O'Shea/Scott Parsons		— Customer relationship management processes actively monitor our customer base and performance. We are focused on establishing strategic relationships and ensuring we properly understand our customer needs and expectations. We aim to have the right discussions at the right time — Quantitative Risk Report is reviewed by the Board twice a year to monitor risk metrics against defined risk tolerances. This ensures we remain within our risk appetite. The customer risk metrics include lease expiries and breaks, and tenant counterparty credit risk — Robust credit policy and process which defines what level of credit risk we will accept — London and Retail executive committees review customers at risk and agree the best plan of action, as well as monitoring online sales trends — Monthly management review of lease expiries, breaks, re-gears and comparison of new lettings against estimated rental value. — Measure footfall and retail sales at our shopping centres to provide insight into consumer trends — 'Share Your Thoughts' programme measures customer satisfaction at our shopping centres — Complete post-occupancy surveys in London to measure customer satisfaction — All employees attended the Creating Experiences training programme focused on creating a customer-centric culture.	The residual risk shows a decrease in impact, but an increase in probability. This reflects our inability to prevent structural changes to our sectors, but an ability to reduce the impact through robust strategic planning processes.	Enhance and maintain our position as the partner of choice for our customers by better understanding their needs.

Risk	Strategic objective	Mitigation	Change in the year	Opportunity
2 Market cyclicality Market and political uncertainty leading to a reduction in demand or deferral of decisions by occupiers, impacting real estate values and the ability to buy, develop, manage and sell assets at the appropriate time in the property cycle. Executive responsible: Robert Noel		— Strategy team prepares a quarterly report for the Retail and London executive committees, which measures both macro-economic and internal risk metrics, against tolerance ranges, e.g. occupancy vacancy levels — Strategy team also produces a biannual cycle watch document, which analyses macro-economic, political and market risk factors. This drives the assumptions used in our budget and forecasting process — Complete scenario analyses as part of our annual budgeting and five-year forecasting process. Specific scenarios we have modelled include the impact of different Brexit outcomes and changes in legislation — Quantitative Risk Report is reviewed by the Board twice a year to monitor risk metrics against defined risk tolerances. The market cyclicality risk metrics include loan-to-value ratios, the debt maturity profile, analysis of available borrowing facilities, asset liquidity, asset concentration, investment lot size and average unexpired lease terms — Managing Directors prepare quarterly reports which analyse and interpret market risk for each sector — Active members of local business and community groups, as well as industry and professional bodies. This ensures we are engaged in decisions affecting our business, customers, partners and communities.	The inherent risk has increased due to greater UK economic and political uncertainty and the potential impact of Brexit.	Assets we would like to acquire may become available at a reduced price.
3 Disruption Failure to react effectively to a disruptive change in the competitive landscape resulting in asset obsolescence. Executive responsible: Robert Noel		— London and Retail executive committees completed 'pre-mortem' exercises identifying potential disruptors for further investigation which could fundamentally derail the business — Commissioned independent research into customer trends and disruptors so that we have a better understanding of the potential impact on our business — Our Workplace Director holds a monthly Future of Work forum examining disruption themes and customer needs — Actively invest in training our people to help create an innovation mindset and have established innovation roles in the business — Reviewing each element of the customer journey in Retail to identify opportunities to be more innovative through our use of technology — In London, we have established an innovation process to capture ideas and workshop with our customers their needs in a test office environment — Innovation team is actively debating and investigating ways to build more efficiently with our strategic partners.	Our residual risk has slightly decreased, reflecting the changes in management structure to incorporate innovation roles and focus.	Managing change effectively will enable us to deliver further value and growth while maintaining our competitive advantage.
4 People and skills Inability to attract, retain and develop the right people and skills required to deliver the business objectives in a culture and environment where employees can thrive. Executive responsible: Diana Breeze		— Remuneration plans are benchmarked annually to ensure they remain competitive and support us in attracting and retaining the best talent — Talent management programme identifies high potential individuals within the organisation — Robust succession plans are in place for senior and critical roles to mitigate key people risks — Clear organisation design, with clarity of job roles and individual accountabilities — Clear employee objectives and development plans to ensure alignment to business goals — Recognise the value of employee health and wellbeing through our Health and Wellbeing Statement of Practice — Specific diversity metrics to be achieved by 2020 — Flexible working policy to promote work-life balance, reduce employee stress and improve performance — Annual employee engagement survey to understand areas of strength and opportunities for improvement — High-profile, market leading developments and assets to manage, in places people want to work.	Incremental increase in both the inherent and residual risks, reflecting the level of staff turnover within the business and the challenges in finding appropriate candidates for some key roles. Refer to the section 'Our employees' on page 46.	Build further expertise, knowledge and capability in the business.

Our principal risks and uncertainties
continued

Risk	Strategic objective	Mitigation	Change in the year	Opportunity
5 Major health, safety and security incident Failure to identify or mitigate a major health, safety or security related threat and/or react effectively to an incident, leading to: — Serious injury, illness or loss of life to employees, partners, occupiers or visitors to our properties — Criminal/civil proceedings — Loss of consumer confidence — Delays to building projects and access restrictions to our properties resulting in loss of income — Reputational impact Executive responsible: Robert Noel		— Group Health, Safety & Security Committee (HS&S) is chaired by the CEO and governs the health, safety and security management systems and processes. Health, safety and security performance is reported to the Board quarterly — 'One Best Way' standards define mandatory health, safety and security compliance policies for the business, our supply chain, and construction projects — Quarterly customer improvement groups with our principal contractors and key service providers drive continuous improvement across our supply chain. All our key service providers are assessed against health, safety and security KPIs — All Landsec employees must attend health, safety and security training — All of our properties have completed fire risk assessments which are reviewed annually by a third party specialist consultant — All accidents and incidents are reported and recorded in our Accident and Incident system with analysis performed on trends and root causes of the incidents — All of our properties have completed security risk assessments, which drives the physical security measures in place at that property. Our properties have dedicated security teams, which are supported by CCTV and other physical security measures — The HS&S team completes regular property health checks at our assets to audit compliance with our policies, procedures and legislation — Our Group insurance programme protects against losses of rent and service charge due to terrorism — All our properties have business continuity and crisis management plans in place, which are tested at least annually.	The gross level of this risk has increased, which is largely driven by the UK threat level. The residual level has decreased due to the appointment of the Group Security and Protection Manager, and the subsequent progression in the maturity of physical security risk identification and management processes.	Lead the industry in health, safety and security to reduce incident levels. Enhance our reputation as a trusted and responsible partner.
6 Information security and cyber threat Data loss or disruption to the corporate systems and building management systems resulting in a negative reputational, operational or financial impact. Executive responsible: Martin Greenslade		— Dedicated information security team who monitor information security risk. Team expanded to address new and emerging risks — Robust IT security management policy sets out our standards for security and penetration testing, vulnerability and patch management, data management and access control — Quarterly management self-certification that key IT controls are operating effectively — All third party IT providers must complete an information security vendor assessment. This must be reviewed and approved by the Cyber Security Officer before the supplier can be used — Work closely with our IT service partners to manage risk and improve technical standards — Development brief clearly defines the required technical IT standards for all building systems — Well defined disaster recovery plan which is regularly reviewed and updated — Effective vulnerability management system, including an annual rolling penetration testing programme for our corporate network and at our properties — Internal Audit has conducted audits of IT general controls, corporate cyber security and cyber security at our buildings.	The gross level of this risk has increased, which reflects the trend of an increasing number of attempted cyber attacks. However the overall residual risk has remained unchanged with improved mitigations. This follows the appointment of the Cyber Security Officer and the deployment of a more robust third party information security risk assessment and monitoring process.	Enhance our reputation as a trusted and responsible partner.

Risk	Strategic objective	Mitigation	Change in the year	Opportunity
7 Sustainability Failure to properly consider and act upon the environmental and social impact of our activities, leading to negative impact on our reputation, delays in our development activities, poor relationships with our customers or erosion of shareholder value. Executive responsible: Miles Webber		— Science-based carbon target means we are reducing carbon emissions and increasing energy efficiency for our customers — Stakeholder engagement policy and practice is adopted through the property life-cycle — Sustainability charter and processes in place which ensure our partners treat their employees and sub-suppliers fairly and in an ethical manner — Sustainability brief for developments and our associated processes ensure consideration and creation of social value for communities.	The inherent risk has increased, to reflect a global increase in the risk of failure of climate change mitigation and adaptation. The net risk is unchanged reflecting a better understanding of the risk and improved mitigations. Refer to our Physical review and climate change risk disclosure for more details.	Lead our business and the property sector toward a low carbon economy, creating long-term value for our shareholders and wider stakeholder groups.
8 Investment and development strategy Unable to effectively execute our strategy of buying, developing and selling assets at the appropriate time in the property cycle. Specifically: — Investment – inappropriate sector or asset selection — Development – unable to deliver capex programme to agreed returns and/or occupiers reluctant to commit to take new space Executive responsible: Robert Noel		— Investment Appraisal Guidelines define the key investment criteria (including hurdle rates and alignment to strategic objectives), the risk assessment process, key stakeholders and the delegations of authority to approve investment decisions — Appointed a Head of Strategy to support the effective formulation and execution of our strategy — Actively considering other sector opportunities and running trials as appropriate to test our propositions and market demand and requirements — Quantitative Risk Report is reviewed by the Board twice a year to monitor risk metrics against defined risk tolerances. The risk metrics include speculative development exposure, pre-development exposure, headroom against development capex and counterparty credit risk for development suppliers — Highly experienced development team and partners with a track-record of delivery.	This risk has been expanded to include investment, as well as development.	Enhance and maintain our position as the partner of choice for our customers.

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 2018.

Viability Statement

The Directors have assessed the viability of the Group over a five-year period to March 2023, 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' and 'Investment and Development strategy'. 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; more specifically, a severe slowdown in the UK economy following failure to negotiate an agreement with the EU. In London, rental values are impacted by the expected economic slowdown and an increase in the vacancy rate over the next few years. In Retail, we assume continued downward pressure on rental values from the ongoing impact of online retail and the expected economic slowdown. In London, it is assumed that prime rents deteriorate up to March 2021 and then slowly recover in the final two years on the plan. In Retail, rental values are assumed to decline throughout the whole of our forecasting period. Where voids occur, these are expected to take longer to fill across the portfolio, reflecting the difficult market conditions.

The fall in rental values, combined with an outward yield movement, results in a significant decline in London capital values through to March 2020, before a recovery from March 2021 onwards. In Retail, it is assumed that yields expand in all sectors through to March 2020 before flattening then slowly contracting from March 2021 onwards, resulting in severe capital values declines through to March 2021 before a slow increase to March 2023.

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 or extended.

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 28% 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 or extend options for a minimum of £759m 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.

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 2023.

This Strategic Report was approved by the Board of Directors on 14 May 2018 and signed on its behalf by:

Robert Noel
Chief Executive

Governance

Contents

Highlights

Letter from the Chairman
page 60

Letter from the Chairman of the Nomination Committee
page 70

Letter from the Chairman of the Audit Committee
page 76

Directors' Remuneration Report – Chairman's Annual Statement
page 86

Letter from the Chairman

Highlights

— Sale of 20 Fenchurch Street
— 21 Moorfields pre-let
— Improved retail portfolio with the opening of Westgate Oxford
— Colette O'Shea and Scott Parsons join the Board
— Creating Experiences programme embeds our experience-led culture
— Succession planning to find a new Chairman

Dame Alison Carnwath
Chairman

Dear shareholder

I believe that this year's Annual Report provides our most comprehensive and integrated report yet, reflecting what we do and how we operate.

The year

This was very much a year of putting experience into action at Landsec. The decision to sell 20 Fenchurch Street, EC3 for £1.28bn (our share 50%) brought the life-cycle of this extraordinarily successful development to a close. The subsequent capital return of £475m was approved overwhelmingly by our shareholders. We also secured a substantial pre-let from Deutsche Bank for its new London headquarters at 21 Moorfields, EC2. We improved our portfolio of retail assets with the successful opening of the Westgate Oxford shopping centre and the acquisition of three outlets. Our debt book activity further reduced our overall cost of borrowing. And we continued to raise the bar on sustainability, from creating jobs for disadvantaged members of the community to driving new standards and expectations around environmental performance.

We have to manage our business in anticipation of market cycles and customer trends. We ended the year in a resilient position at a time of increased uncertainty in our markets and the wider world. This uncertainty is reflected in weaker rental values and flat capital values in our markets compared with last year. We have been clear in our preparation for this – the Company has conservative financial gearing, has pivoted its development exposure from speculative to pre-let, manages a truly world-class portfolio of well-let assets and is led by an experienced and ambitious team. We are pleased to recommend a 14.7% increase to the full year dividend.

Board priorities

Over the 12 months your Board spent a great deal of time discussing the wider economic, political, market and technological environment, considering the potential impact on Landsec of the short- and long-term changes we see ahead, and addressing through our strategic planning tomorrow's key opportunities and challenges.

We invited experts from outside the Company to share their insights and experience with the Board, which provided us with a broader understanding of the factors affecting our markets, assets and communities.

We gave particularly close consideration to the evolving dynamics of the retail market, emerging trends in the design and use of office space, and innovation within the construction sector. Technology informs all of these areas and we received advice on emerging themes and their potential impact.

This business needs to anticipate and respond quickly to changes in its markets. We operate in a fast-moving world and we must be agile. This Board is not afraid to tackle the biggest trends and issues in our market head on and is prepared to break away from conventional ways of doing things if required.

It is also important that our decisions as a Board are informed by long-term considerations. Actions taken today will shape the character and performance of Landsec's portfolios – and determine our impact on the world – for years to come. By understanding and engaging with long-term factors, and providing both support and challenge to management in terms of how they address material issues, your Board has acted to create ongoing opportunity for the business and to protect the interests of stakeholders in the shorter term.

> Leading the Board has been a stimulating experience for me. There have certainly been many changes and challenges over the past nine years."

Governance

We've continued to enhance Landsec's strong, experience-led culture by investing in a ground-breaking 'Creating Experiences' training programme for all employees. We are also working to positively influence our partners – including the many businesses we rely on through our supply chain – and the wider business community. For us, how we do business is as important as what we do.

Well-publicised failures in corporate culture and performance tend to dominate the headlines. It is absolutely right that businesses are held to account, but we should also recognise the strong progress being made across the business sector. Landsec is recognised for its approach and we support the promotion by the Government of high standards of governance and the oversight provided by the governance bodies. We believe the governance of corporate behaviour is an essential characteristic of how a business is run and how it reports, and we place very high expectations on ourselves. Setting the right standards on governance protects the business and the interests of stakeholders. It is also the right way for a business to behave.

Board changes

I was delighted to welcome Scott Parsons and Colette O'Shea to the Board on 1 January 2018 as Executive Directors. Both have extensive property experience they can contribute to Board discussions, and broader business and commercial knowledge that will assist us as we plan for the future.

Having joined the Board in 2004 and been appointed Chairman in 2008, this will be my last year as Chairman. I am delighted that, following a robust process led by the Board, I will be succeeded by Cressida Hogg, who joined our Board in 2014 and whose experience and expertise will prove invaluable to Landsec and the Board in the coming years.

Leading the Board has been a stimulating experience for me. There have certainly been many changes and challenges over the past nine years. I re-read and reflected on my first letter to you in the 2009 Annual Report, issued when property companies were dealing with extraordinary market conditions following the global financial crash.

We took decisive, pragmatic action back then to position the business for growth. That enabled us to take advantage of the attractive opportunities we knew would come. The actions we have taken since have transformed the resilience of Landsec and put the Company in an excellent position to capitalise on the opportunities ahead.

We have seen a considerable increase in the value of the business over the past ten years. But it's how we have achieved the change that pleases me most. The appointment of Robert Noel as Chief Executive was pivotal. A much greater diversity of people, skills and experience has come through under his tenure. We think about the customer in a way that wasn't even contemplated when I started as Chairman. And we spend so much more time and effort addressing how Landsec impacts its environment and makes a contribution to society. Our engagement with stakeholders and the transparency and clarity of our communications and reporting have developed significantly for the better, and we are recognised for our leadership in this area.

I would like to thank my fellow Directors for their support and contributions over the year, and in previous years. I would also like to thank all those who work for Landsec and with Landsec. Finally, I want to thank you – our shareholders – for the support and encouragement you have given me over the years I have worked here. This is a great Company with an extraordinary history and an exciting future. I look forward to seeing it evolve and thrive for years to come.

Dame Alison Carnwath
Chairman

Board of Directors

Executive Directors

1. Robert Noel
Chief Executive

Appointed to Board: January 2010
Appointed as Chief Executive: April 2012

Skills and experience
Robert is a chartered surveyor and 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. Prior to joining Landsec in 2010 as Managing Director of the London Portfolio, Robert was Property Director at Great Portland Estates plc and prior to that he was a director of the property services group, Nelson Bakewell.

Other current appointments
Robert is a director of the European Public Real Estate Association (EPRA). He was appointed a director of the British Property Federation in July 2016 and will become its President for 12 months in July 2018 and is also a trustee of the Natural History Museum.

Management committees
Chairman of the Group's Executive, 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

Appointed to Board: September 2005

Skills 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. Prior to joining Landsec in 2005, Martin was Group Finance Director of Alvis plc and prior to that he 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.

Other current appointments
Martin is a trustee of International Justice Mission UK.

Management committees
A member of the Group's Executive and Investment Committees. He attends Audit Committee meetings at the invitation of the Committee Chairman.

3. Colette O'Shea
Managing Director, London Portfolio

Appointed to Board: January 2018

Skills and experience
Colette has over 20 years' property experience in London, operating in investment, asset management and development. She joined Landsec in 2003 and was Head of Development, London Portfolio, before being appointed its Managing Director in April 2014. Colette led the London business through its 2010 three million sq ft speculative London development programme, including the transformation of Victoria. Prior to joining Landsec, Colette was Head of Estates at the Mercers' Company where she led the property team whilst also gaining extensive office, retail and residential experience.

Other current appointments
Colette was appointed as a Business Board Member of the Mayor of London's Local Enterprise Partnership for London (LEAP) in 2016 and is Joint Chair of the Royal Docks Enterprise Zone Programme Board.

Management committees
A member of the Group's Executive and Investment Committees. Chairman of the London Executive Committee.

4. Scott Parsons
Managing Director, Retail Portfolio

Appointed to Board: January 2018

Skills and experience
Scott has more than 20 years' of investment and finance experience in the UK real estate market. He re-joined Landsec in 2010 and was Head of Property, London Portfolio, before being appointed as Managing Director, Retail Portfolio, in April 2014. Prior to re-joining Landsec, Scott held senior positions at Brookfield Asset Management and GE Capital Real Estate.

Other current appointments
Scott was appointed a Property Committee member of the RNLI in April 2016 and is a trustee of LandAid.

Management committees
A member of the Group's Executive and Investment Committees. Chairman of the Retail Executive Committee.

Non-executive Directors

5. Dame Alison Carnwath
Chairman of the Board N R

Appointed to Board: September 2004
Appointed as Chairman: November 2008

Skills 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. Dame Alison worked in investment banking and corporate finance for 20 years before pursuing a portfolio career. During her banking career, she held senior positions at J. Henry Schroder Wagg & Co., Phoenix Securities and 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 was appointed a Dame in 2014 for her services to business.

Other current appointments
Dame Alison is currently a non-executive director of Zurich Insurance Group Limited and Chairman of its Audit Committee, a non-executive Director of Paccar Inc (a Fortune 500 company) and CICAP Limited, and a senior adviser 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.

6. Edward Bonham Carter
Senior Independent Director* N R

Appointed to Board: January 2014
Appointed as Senior Independent Director: July 2016

Skills 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 a comprehensive understanding of stock markets and investor expectations. Edward became Vice Chairman of Jupiter Fund Management plc in March 2014, having been Chief Executive Officer of the company since June 2007 where he oversaw the firm's listing on the London Stock Exchange in 2010. He started his career at Schroders as an investment analyst before moving to Electra Investment Trust where he was a fund manager.

Other current appointments
Edward is Vice Chairman of Jupiter Fund Management plc, a Board member of The Investor Forum, a trustee of the Esmeé Fairbairn Foundation, a trustee of the Orchestra of the Age of Enlightenment Trust and a member of the Strategic Advisory Board of Livingbridge.

7. Chris Bartram
Non-executive Director* A N

Appointed to Board: August 2009

Skills 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. Chris was Chairman and Partner of Orchard Street Investment Management LLP, a leading commercial property investment manager focused on the UK market and continued to act as an adviser to that firm until 31 March 2017. He has also been a Board Member of The Crown Estate and has held senior positions at Haslemere NV and Jones Lang Wootton Fund Management. He was previously President of the British Property Federation and Chairman of the Bank of England Property Forum. Chris is a chartered surveyor.

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

8. Nicholas Cadbury
Non-executive Director* A

Appointed to Board: January 2017

Skills 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. Nicholas is Group Finance Director of Whitbread PLC, a position he has held since November 2012. Before that, he was Chief Financial Officer of Premier Farnell PLC, and prior to that he worked at Dixons Retail PLC in a variety of management roles, including Chief Financial Officer. Nicholas originally qualified as an accountant with Price Waterhouse. Nicholas became Chairman of our Audit Committee in September 2017.

Other current appointments
Nicholas is Group Finance Director of Whitbread PLC.

9. Cressida Hogg
Non-executive Director* (R)

Appointed to Board: January 2014
Appointed as Chairman with effect from 12 July 2018

Skills and experience
Cressida has experience of building and developing businesses both in the UK and globally. From 2014 to April 2018, she was Global Head of Infrastructure at the $350bn Canada Pension Fund Investment Board, managing a portfolio of investments worth c.£16bn. After starting her career at JP Morgan, Cressida worked for 3i Group Plc, first in private equity and then co-founding its infrastructure business. From 2009 to 2014, as Managing Partner, she was responsible for managing 3i Infrastructure plc, a FTSE 250 investment company. She has extensive Board experience, including most recently on the Boards of Anglian Water Group and Associated British Ports.

Other current appointments
Cressida has no other current appointments.

10. Simon Palley
Non-executive Director* (R) (N)

Appointed to Board: August 2010

Skills and experience
A senior figure within the private equity industry, 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. 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 and then BC Partners 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.

Other current appointments
Simon is 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. Simon is also a trustee of the University of Pennsylvania and The Tate Foundation.

11. Stacey Rauch
Non-executive Director* (A) (N)

Appointed to Board: January 2012

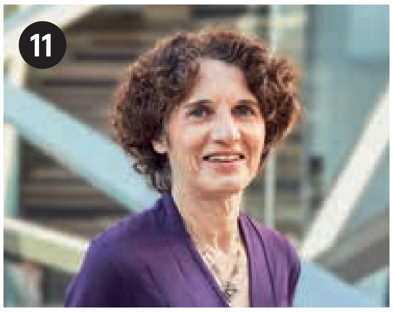
Skills and experience
Stacey brings deep analytical thought to the Board, with considerable expertise of retail trends and insights gained at a leading international management consultancy. Stacey is a Director (Senior Partner) Emeritus of McKinsey & Company where she served clients in the US and internationally 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. She has significant board level experience gained through non-executive positions held in retail and other industries.

Other current appointments
Stacey is Chairman of the Board of Fiesta Restaurant Group Inc and a director of Ascena Retail Group Inc, (both NASDAQ listed companies).

Key to symbols
(A) Audit Committee
(N) Nomination Committee
(R) Remuneration Committee

* Independent (as per the UK Corporate Governance Code). Dame Alison Carnwath was considered independent upon appointment as Chairman. Cressida Hogg will also be considered as independent upon appointment as Chairman.

Full Board biographies are available to view on our website: landsec.com/about/our-management



Executive Committee

1. Robert Noel
Chief Executive

Full biography on page 62

2. Martin Greenslade
Chief Financial Officer

Full biography on page 62

3. Colette O'Shea
Managing Director, London Portfolio

Full biography on page 62

4. Scott Parsons
Managing Director, Retail Portfolio

Full biography on page 62

5. Tim Ashby
Group General Counsel and Company Secretary

Joined Landsec in September 2015

Skills and experience
Tim is a qualified solicitor and has significant legal, compliance and commercial experience gained across a number of different sectors and businesses both in the UK and overseas. Tim leads the Legal, Company Secretarial, Real Estate Information Management and GDPR 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. Prior to joining Landsec, he was Group General Counsel and Company Secretary of Mothercare plc and previously Tim held senior roles at Yum Brands Inc. and PepsiCo Inc.

Other current appointments
Tim is on the executive committee of the GC100.

Management 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.

6. Diana Breeze
Group Human Resources Director

Joined Landsec in June 2013

Skills and experience
Diana has over 25 years' HR and organisational consulting experience. At Landsec, 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 Landsec, 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 including, most recently, the Creating Experience Programme. She has previously held a number of senior HR roles at J Sainsbury plc, and the Human Capital practice of Accenture.

Other current appointments
Diana is a non-executive board member and chair of the Remuneration Committee of HM Land Registry. She has also recently been appointed to the Board of Trustees of the UK Green Building Council where she is a member of the Personnel and Nomination Committees. In addition, she is a member of the Business Leaders' Council of TeachFirst, the educational charity.

Management 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.

7. Miles Webber
Director of Corporate Affairs and Sustainability

Joined Landsec in May 2015

Skills and experience
Miles has more than 25 years' experience in communications and public affairs. 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).

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 where roles included Vice President, Corporate Communications, followed by Director of Public Affairs, EMEA.

Other current appointments
Miles is a board director of the Inspirasia Foundation and the Westminster Forum.

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

Full Executive Committee biographies are available to view on our website: landsec.com/about/our-management

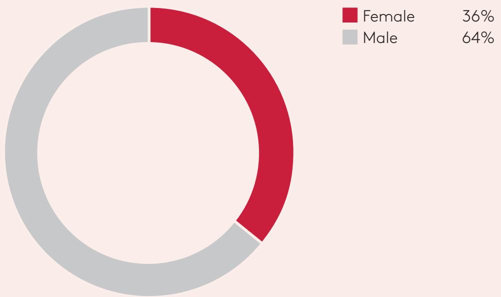
Governance at a glance

Best practice awards

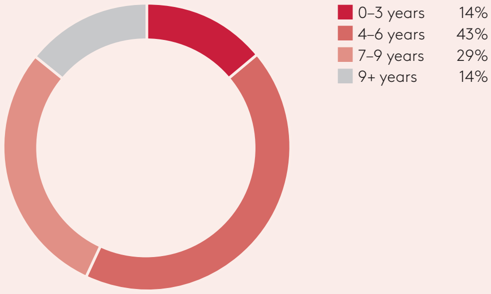
Landsec won Best Annual Report FTSE 100 at the ICSA awards in November 2017.

Landsec won Britain's Most Admired Companies Corporate Governance Award in December 2017.

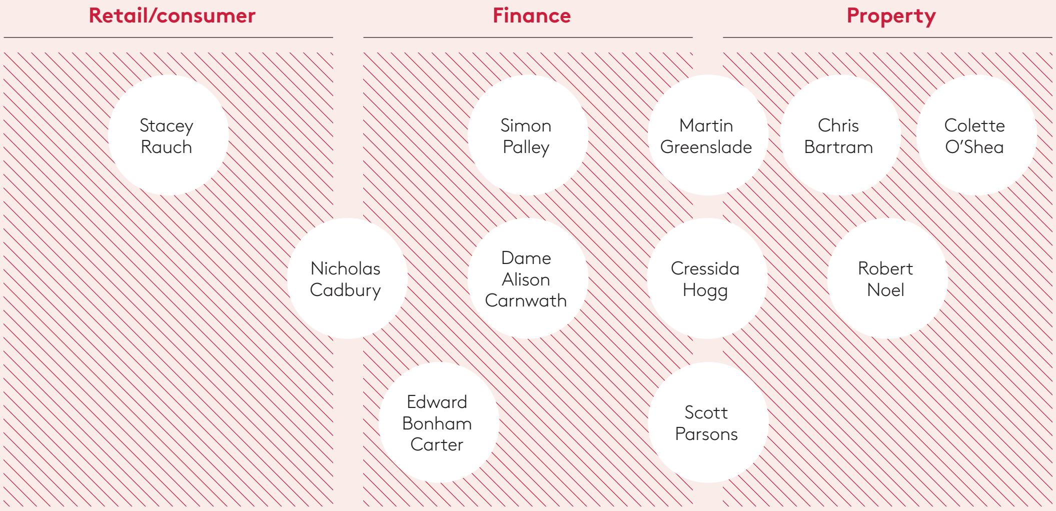
Board composition – gender Chart 33
(All Directors)



Board tenure Chart 34
(Non-executive Directors including Chairman)



Board skills and experience Table 35



Board attendance schedule

	Board[1]	Audit Committee	Nomination Committee[2]	Remuneration Committee[2]
Dame Alison Carnwath	8/8		4/4	3/3
Robert Noel	8/8			
Martin Greenslade	8/8			
Colette O'Shea[3]	2/2			
Scott Parsons[3]	2/2			
Edward Bonham Carter	8/8		4/4	3/3
Chris Bartram[4]	8/8	4/4	3/4	
Nicholas Cadbury	8/8	4/4		
Cressida Hogg	8/8			3/3
Kevin O'Byrne[5]	3/3	1/1	2/2	
Simon Palley	8/8		4/4	3/3
Stacey Rauch	8/8	4/4	4/4	

1. Time was scheduled at every Board meeting for the Non-executive Directors to meet without the Executive Directors present.
2. In addition to the meetings listed, Remuneration and Nomination Committee meetings were held in November 2017 to approve the appointment of Colette O'Shea and Scott Parsons as Directors.
3. Appointed to the Board on 1 January 2018.
4. Chris Bartram missed a Nomination Committee meeting due to a diary conflict. This meeting was scheduled at short notice to increase the number of meetings per year to spend more time on corporate governance.
5. Kevin O'Byrne retired from the Board on 27 September 2017 after serving nine years as a Director.

Leadership

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 including establishing the Group's culture, values and ethics; setting strategy and overseeing its implementation, ensuring only acceptable risks are taken, taking long-term factors into consideration; and being responsible for corporate governance and the overall financial performance of the Group.

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 and supports the Board in risk management.

See pages 76-83.

Remuneration Committee
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; and has oversight of the Group's remuneration policy for all employees.

See pages 86-111.

Nomination Committee
Reviews the structure, size and composition of the Board and its Committees, reviews and oversees the succession planning of Directors and members of the Executive Committee and leads any appointment process, and makes recommendations to the Board accordingly. Monitors and responds to developments in corporate governance.

See pages 70-75.

Matters reserved to the Board and delegated authorities
To retain control of key decisions and ensure there is a clear division of responsibilities between the running of the Board and the running of the business, the Board has identified certain 'reserved matters' that only it can approve. Other matters, responsibilities and authorities have been delegated as above.

The matters reserved to the Board and the terms of reference for each of its Committees can be found on our website: landsec.com/governance. 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. These are augmented by the London and Retail Portfolio reports that are now presented to the Board by Colette O'Shea and Scott Parsons.

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.

* Terms of reference of each Board Committee can be found on our website: landsec.com/board-committees

Chief Executive

Responsible for leadership of the Group and articulation of the Group's vision, developing and implementing strategy, managing the overall performance of the business and ensuring an effective and motivated leadership team.

He can approve transactions with a value of between £10m and £20m.

Executive Committee

An advisory committee that operates under the direction and authority of the Chief Executive.

It sets the vision for the Group and assists the Chief Executive, the Chief Financial Officer and the other Executive Directors 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, cycle watch, brand, resource allocation, succession planning, organisational development and employee remuneration.

Management committees

Investment Committee
Considers and approves significant investment transactions and commercial agreements, including the acquisition, disposal and development of assets with a value between £20m and £150m. It also reviews and recommends higher value transactions to the Board and implements the annual funding strategy approved by the Board.

Assesses 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. Also addresses the likely impact of macro-economic developments on the business.

London and Retail Executive Committees
Responsible for the financial, operational and governance performance of the London and Retail business portfolios, each of which are significant in their own right. Each Committee can approve transactions up to a value of £10m.

Sustainability Committee
Develops and implements the Group's sustainability strategy as integrated with the Group's overall corporate strategy. In doing so, it also considers environmental, social, economic and energy issues affecting the business and the impact of these issues on our customers.

Health, Safety and Security Committee
Oversees 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. Following the tragedy at Grenfell Tower, the Committee led our investigation into the cladding in place at all properties in our portfolio and agreed actions to address the three properties which were identified as having insufficient mitigation measures in place.

Board composition and roles

Chairman
Dame Alison Carnwath
Leads the Board, governance, major shareholder and other stakeholder engagement.

Chief Executive
Robert Noel
Responsible for the leadership of the Group, implementation of strategy, managing overall business performance and leading the executive team.

Chief Financial Officer
Martin Greenslade
Supports the Chief Executive in developing and implementing strategy and Group financial performance.

Managing Director, London Portfolio
Colette O'Shea
Responsible for our London Portfolio comprising offices, leisure, retail and residential space.

Managing Director, Retail Portfolio
Scott Parsons
Responsible for our Retail Portfolio of shopping and outlet destinations, retail parks and leisure and residential space.

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 and led the Board evaluation process this year.

Independent Non-executive Directors
Chris Bartram, Nicholas Cadbury, Cressida Hogg, Simon Palley and Stacey Rauch
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.

Group General Counsel and Company Secretary
Tim Ashby
Provides advice and assistance to the Board, the Chairman and other Directors, particularly in relation to formulating the agenda for Board meetings, corporate governance, 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 activity

The table shows the key areas of Board activity during the year to support our strategic objectives. The key below highlights the link between our strategic objectives and what the Board did during the year.

Strategic objectives

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

Setting strategy

— Monitored property cycle and sector trends

— Reviewed Group performance versus budget, targets, external benchmarks and peers, consideration of share price versus NAV

— Analysed portfolio liquidity and development exposure

— Approved Going Concern and Viability Statements

— Approved dividend policy, debt funding arrangements and gearing levels

— Considered the bond funding strategy including the Queen Anne's Gate Bond redemption

— Continued focus on innovation

— Approved significant acquisitions and disposals – including this year the sale of 20 Fenchurch Street and the return of capital to shareholders and the acquisition of the retail outlets at Braintree, Street and Castleford

— Approved the 21 Moorfields development and pre-let to Deutsche Bank

— Considered the performance of key schemes and assets acquired, completed or developed versus Board approval – with particular consideration of the Westgate Oxford development.

Link to Strategic objectives

Shareholders, stakeholders and governance

— Reviewed feedback from institutional shareholders, roadshows and other engagement activities

— Discussed Board evaluation and effectiveness review

— Considered the Group's 2020 sustainability strategy, including progress versus annual targets and improvements planned

— Reviewed regular health, safety and security updates, including the impact of the tragedy at Grenfell Tower and the subsequent review carried out by Landsec of all properties in its portfolio

— Reviewed developments in corporate governance and received key legal and regulatory updates

— 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

— Approved the Group's Slavery and Human Trafficking Statement

— Considered the factors set out in section 172 of the Companies Act where appropriate.

Link to Strategic objectives

Sale of 20 Fenchurch Street (the 'Walkie Talkie')

In July 2017, the Board approved the sale of 20 Fenchurch Street for a headline price of £641m for our 50% share. This crystallised an exceptional life-cycle return for our shareholders. The sale completed in August, and in September we called an Extraordinary General Meeting of our shareholders to seek approval for a capital return of £475m (or 60p per share) and accompanying share consolidation. Shareholders overwhelmingly approved both resolutions. Importantly, after completion of the sale, with our customers in mind, we continued to provide ongoing facilities management services to occupiers on behalf of the purchaser.

Further details on the share consolidation can be found on page 113.

Section 172 Companies Act 2006

The duties placed on Directors by section 172 of the Companies Act have been discussed at the Board and at the Nomination Committee during the year. We believe that the Board does take into account the factors set out in section 172 where appropriate when making decisions, and this is reinforced by the Group's focus in recent years on being the best UK property company in the eyes of its customers, partners, employees and communities. We have nevertheless reminded decision-makers throughout our business of the importance of keeping these factors in mind and this has been tabled specifically at meetings of each of the Company's management committees.

Ensuring acceptable risk

- 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
- Reviewed risk appetite which included the results of questionnaires issued to the Board, Executive Committee and Senior Leaders
- Debated significant and emerging risks, including cyber security, terrorism, the loss of key people, uncertainty arising from the Brexit process and other political risks
- Reviewed cladding throughout London and Retail portfolios
- Assessed GDPR risk.

Link to Strategic objectives

Providing leadership and direction

- Discussed the composition of the Board and its Committees, including succession planning, with a particular focus on the succession planning for the Chairman following her decision to retire in 2018
- Reviewed the development of people and potential talent in the Group, including succession planning for Senior Leaders
- Discussed new Head of Strategy and Head of Innovation roles
- Discussed feedback from 'Creating Experiences'
- Undertook development sessions on property valuations and accounting and peer company review.

Link to Strategic objectives

Financial performance

- Considered the financial performance of the business and approved the annual budget, key performance targets and discussed the 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.

Link to Strategic objectives

What it means for us to be on the Board

I'm delighted to be part of the Board and to benefit from the diverse business and leadership experience that the Board has as we discuss a wide range of issues."

Colette O'Shea

I really enjoy being part of the Board and participating in discussions about our business. The Chairman and other Directors bring a broad spectrum of expertise to the table."

Scott Parsons

Letter from the Chairman of the Nomination Committee

Committee members

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

Highlights

— Full compliance with the 2016 UK Corporate Governance Code
— Two awards in recognition of our governance and reporting
— Focus on Board composition and succession

Key responsibilities

— Structure, size and composition of the Board and its Committees
— Succession planning of the Board and Senior Management
— Monitors corporate governance, including section 172 Companies Act obligations

Dame Alison Carnwath
Chairman

Dear shareholder

I am pleased to present the Nomination Committee report which reviews our work over the past year.

Governance

I can report that we complied in full with the principles of the 2016 UK Corporate Governance Code throughout the year.

The Nomination Committee oversees the governance agenda on behalf of the Board. It considers the papers and proposals issued by Government and regulatory bodies and it agrees the scope and nature of our submissions in reply. It then ensures that decisions taken by the Board and its delegated Committees are made in the best interests of the Company and that they address any relevant wider implications.

Corporate governance received much attention during the year following the Government's consultation and Green Paper and, more recently, the consultation on the UK Corporate Governance Code led by the FRC. Added to this, some high-profile corporate failures have brought into sharp focus the wide impact such events have on employees, pensioners, partners, suppliers and the wider community. We responded to both consultations. Most importantly, we promote the spirit of good governance within the business and we are already taking measures to address some of the changes anticipated in the revised Code to be issued later this year.

I am delighted to report that we were recognised again for the standards we set, winning 'Britain's Most Admired Companies Award – corporate governance' and the ICSA 'Annual Report of the Year 2017' award. You will find more detail regarding our compliance, governance and effectiveness elsewhere in this report.

Board and Committee changes

We announced the appointment of Colette O'Shea and Scott Parsons as Executive Directors during the year. Both manage significant portfolios in their own right and their attendance has brought added property expertise to the Board. Their views enrich our discussions, especially their perspectives on the impact of changing consumer behaviour and the evolution of the workplace on the property sector. On behalf of the Committee, I am delighted that we were able to propose their nomination to the Board.

Having served nine years as Chairman, the Company announced my intention to retire during 2018. The process to find my successor, which started in late 2017, has been led by the Committee and supported by Egon Zehnder, an independent search consultancy with particular expertise in this field. Obviously, I have had no involvement in the search process. The appointment of a Chairman is a major decision for any company and I can assure you that the Committee was thorough in its approach to finding the best candidate.

I am delighted that Cressida has been appointed to succeed me as Chairman, taking over following our AGM in July. Her experience of being part of Landsec for over three years, combined with her broader business expertise, are strengths she can use at the Board in the years ahead. Cressida is also joining the Nomination Committee with effect from 15 May 2018.

Board composition and succession

With the changes made during the year, we believe that the current composition of the Board and its Committees remains appropriate for the time being. We keep this under regular review, however, and the range of skills and capabilities at Board level are assessed for their relevance to the execution of our strategy. We held a Board strategy session in February and the wide range of business experience at Director level really contributed to the breadth of that discussion.

The Committee supports the ongoing development of Directors and the Executive team to ensure that we retain and recruit the best talent for our needs. As a matter of prudence, we monitor a range of candidates who may be suitable replacements for existing Directors because it is impossible to predict when people may move on. 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, as I noted last year in my letter to you, it is important we ensure that experience gained through one property cycle is available for the next. Therefore, 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. Should this occur, we would explain our rationale to shareholders and address any governance concerns.

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. This year, the Committee considered the likely business needs of the Company, its management capability and succession plans at Executive and Senior Management level. We also recognised and supported the extensive leadership development work being undertaken with all management levels, which addresses both what we need to do and how we go about it. This cultural focus is important.

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. We were satisfied with 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 Stacey Rauch as she has been in office for more than six years. The Committee was confident that Stacey, 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 Scott and Colette, whose appointment is being ratified for the first time, and me as I am retiring from the Board, 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 internal Board performance evaluation concluded that the Nomination Committee operated well. I think the way that we debated the appointment of new Executive Directors to the Board and the manner in which the Committee has handled my succession planning has been excellent. As has the Committee's ongoing work to lead the attitude and approach to corporate governance and sustainability. We were innovative too, proposing the separation of the Board's performance review – which was led by Edward as Senior Independent Director – and the Directors' performance appraisals, which I handled. The Board accepted this proposal and I believe that our internal evaluation process this year was the better for it.

You will find more information on these topics, 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

Effectiveness

The separation of the Board evaluation and appraisal process worked well. The Board evaluation was led by the Senior Independent Director and the Directors' appraisals were led by the Chairman.

Board evaluation process 2017/18

This year's review of the Board's effectiveness was conducted internally. This year, for the first time, the effectiveness review was performed in two parts, with the Board evaluation led by the Senior Independent Director (SID), and the Director appraisal process conducted by the Chairman, both supported by the Company Secretary.

Board evaluation

The first part of the evaluation required each Director to complete an anonymous online survey and questionnaire that focused on matters such as the Board's performance and collective judgement, the performance of each of its Committees, the Board's focus on strategy, innovation and risk and the relationship between the Non-executive and Executive Directors. The evaluation addressed issues raised in last year's review and the effectiveness of some of the changes that were implemented. 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 the Board for discussion.

As SID, Edward Bonham Carter then met separately with each Director and used the output of the survey and questionnaire to explore in more detail the issues raised and obtain supplementary comments and observations.

Board appraisals

Separately, the Chairman held appraisal meetings with each Director focusing on their own performance and contribution to the Board, using a structured questionnaire to bring consistency to the approach at each interview. The SID separately evaluated the performance of the Chairman having first collated points of view and questions from the other Directors and then discussed the outcome with her.

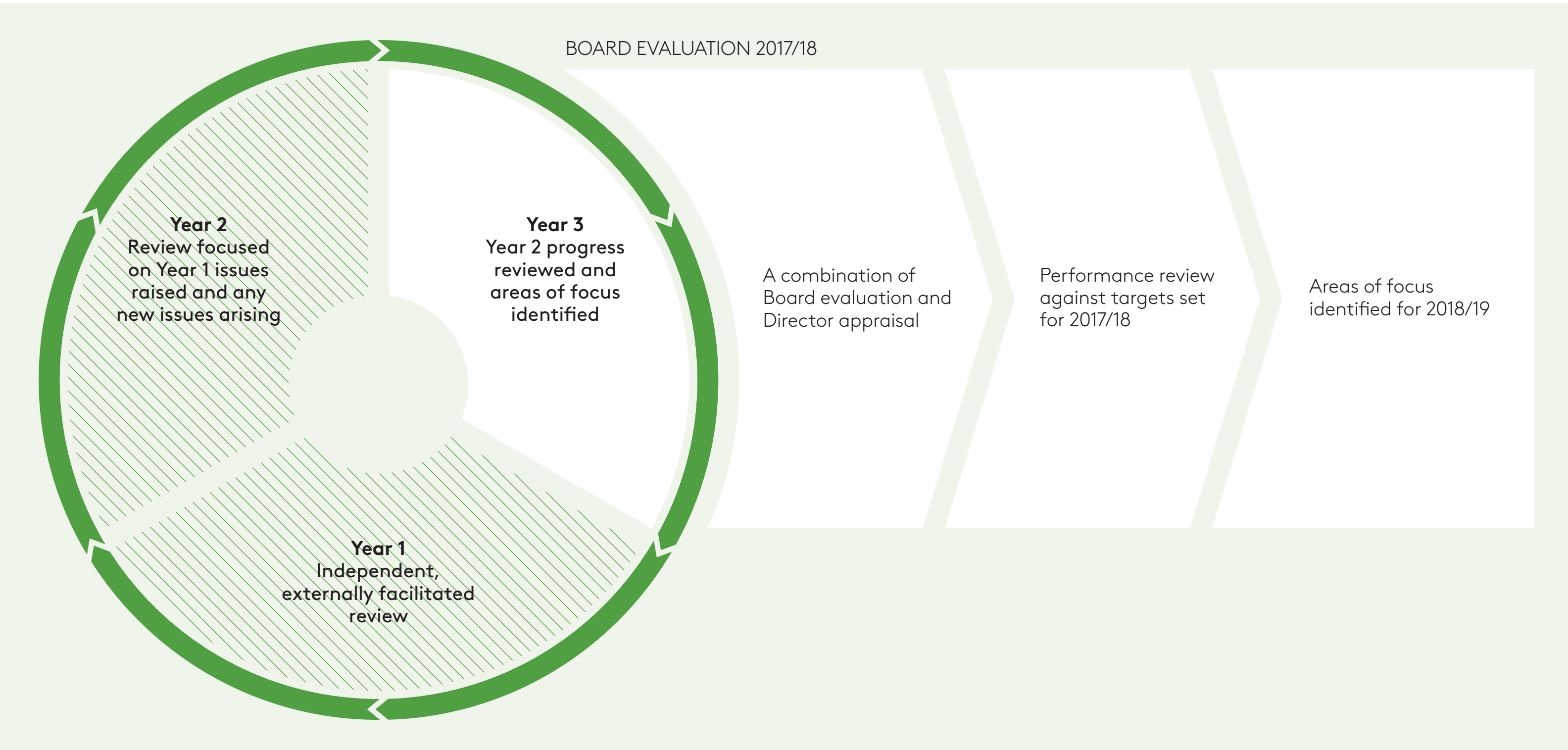
The output of this year's effectiveness review was presented at the Board meeting in March and discussed by the Directors. Separate reports were prepared for each of the Audit, Remuneration and Nomination Committees based on the feedback received, and in each case the conclusions were discussed by those Committees at their meetings in March 2018.

Conclusions from this year's Board evaluation

The conclusion from this year's Board 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 SID, or anonymously through the online survey. Strengths identified included:

- a positive atmosphere and culture;
- strong working relationships between the Executives and Non-executives;
- good collective judgement, demonstrated by decisions taken on the sale of 20 Fenchurch Street, people planning, succession and culture; and
- the quality of information provided to the Board and the level of discussion at meetings.

Board, Committee and Directors' performance evaluation cycle



As always, there are some areas that provide room for improvement. The following areas were identified:

- improve and embed the use of the Board's action plan to monitor performance;
- enhance the focus on strategy, innovation and risk at Board meetings; and
- greater exposure at Board meetings to experts in other sectors that complement and are relevant to our business.

The meetings held by Edward Bonham Carter with each Director were useful in exploring in more detail some of the themes emerging from the questionnaire responses. The overall message was that the Board agenda must remain focused on the challenges ahead and that time be allocated to them accordingly.

Other themes that emerged were:

- the Board is conscious of the need to spend time on succession planning and the value of doing so;
- the Board should keep spending time on innovation in general, and customers in particular, to match the pace of change;
- the Group should be ready to experiment – the Group is financially strong and is able to rely on its core business to pay for testing some new ideas;
- Board meetings should continue with the progress made over the past year to increase the use of external speakers, including customers and experts in other sectors, to provide diverse perspectives;
- at a time of change and market uncertainty, the Board should reassess risk on a frequent basis; and
- the Board should retain its strong focus on the success of the Company, and the recognition of its broader impact on others with its continued focus on all stakeholders.

Finally, the Board recognised its role in the oversight and governance of the business and its culture at a time of increased focus on corporate governance matters. This impacts the behaviour displayed within the Group as well as its external reputation. Pleasingly, Landsec was recognised externally during the year for the high standards it delivers and promotes in this respect.

Conclusions from this year's Directors' appraisal process

The Directors' appraisals provided the Chairman with the opportunity to assess the performance of each Director and listen to their perspective on the Board operation and dynamics. The messages support the weighting of Board time and debate to matters and topics of long-term interest to the Group and its success, supported by ongoing training and development.

Progress against targets set for 2017/18

Table 36

Objective	Performance
Strategy Board meetings to allocate sufficient time to both medium- and longer-term strategic discussion	The changes made to the Board's agenda timing, and the inclusion of more Board development sessions with external speakers, have enabled the Board to allocate more time to strategic discussions.
Innovation Appreciate the impact of rapid technological development on us and our customers	The Board has received several presentations during the year on how technology may impact the future of the business, ranging from developing new sectors, the changing way people work and live and modern methods of construction.
Risk Further develop the approach to risk, especially in the context of the wider economic and political framework in which we will be operating	The Board held an in-depth review of the Group's risks, looking at the principal risks, emerging risks and risk appetite of the business. The review was based on a risk survey of the Board and senior leadership team. The Board received briefings on risk factors that may affect the broader commercial environment, including economic, political and Brexit risk, and reports from both London and Retail on past investment decisions.
Culture and people Provide oversight and support to management as Landsec introduces its new brand framework	The Company adopted the name Landsec during the year and underpinned this by its 'Creating Experiences' cultural programme involving everyone in the organisation, all of which were supported by the Board.

Areas of focus for 2018/19

The Board challenges itself to keep improving year on year and, using the results of this year's evaluation, intends to focus on the areas listed below for 2018/19. They are similar to last year which reflects that they are not topics that can be concluded in a year.

- **Strategy and innovation** – this continues as an ongoing requirement each year, and for 2018/19 the Board intends to keep accessing diverse expertise and, where appropriate, to test and experiment as a part of the process to understand customer requirements.
- **Risk** – be willing to re-assess risk on a regular basis by reference to the changing situation. This may involve new areas of business or re-considering past decisions.
- **People and succession planning** – this is fundamental to any business, and the Board will continue to assess its own requirements, together with that of the Executive team and senior leaders within the organisation.

Next year

We believe that our internal Board evaluation process has provided a thorough review of our performance over the past year. The separate roles performed by the Chairman and SID, coupled with the combination of the questionnaire, SID interviews and individual appraisals, was comprehensive. However, in 2018/19, in line with our three-year cycle, we will be conducting an externally facilitated performance evaluation as required by the UK Corporate Governance Code.

Survey responses

"...honest and challenging debates with all Directors contributing...

...conversations more wide-ranging and less operational...

...freedom of thought is encouraged..."

Where does the Board think it has added most value in the last year?

Effectiveness
continued

Board environment and access to appropriate information
The Board environment and its culture of transparency and openness were 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. The Board is complimentary of the quality of papers it receives but has set an ongoing challenge to reduce the volume of papers it receives where it is appropriate to do so.

Choosing the new Chairman
At the Board's request, the Nomination Committee led the process to find a successor to Dame Alison after she signalled her intention to retire as Chairman after serving nine years leading the Board. The Committee was supported by Egon Zehnder, an independent search consultancy with expertise in board level appointments, and considered a wide and diverse range of internal and external candidates with different skills and business backgrounds that would be suitable for the role. Interviews were held by the Nomination Committee with selected candidates, following which the Committee recommended the appointment of Cressida Hogg as Chairman based on her complementary experience and expertise. The Board unanimously approved the appointment.

Induction
As Colette O'Shea and Scott Parsons clearly know the business well, their induction focused on the role and responsibilities of a director of a listed company. They both received training from the law firm Slaughter and May in this respect. Following his appointment to the Board in January 2017, Nicholas Cadbury's induction to the Board continued during this year and included asset visits and meeting with key advisors to the business, EY and CBRE.

> The appointment of Colette and Scott is a welcome addition to the Board and demonstrates good internal development and bench strength in Landsec. Both bring their extensive property experience and broad business and commercial knowledge to our Board discussions. They are proven leaders who live Landsec values. We are delighted to have them as Directors."
>
> **Dame Alison Carnwath, Chairman**

Professional development, support and training for Directors

The Board held an increased number of specific knowledge development sessions during the year, on such matters as property company financial and accounting metrics, political and economic risk factors that may affect the business or the wider property market in the UK and market trends. The Board also refreshed its review of risk this year and carried out an in-depth session on risk and risk appetite. This followed an internal survey on risk and risk appetite which was issued to the Board, Executive Committee and Senior Leaders.

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 business and customer trends relevant to the property market;

— possible longer-term threats and challenges to our portfolio; and

— 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 us as a business.

We continue to make good progress in terms of diversity. The addition of Colette O'Shea to the Board increased the percentage of women on the Board to 36% (from 30% last year). Diversity is more than just gender based and the Board will continue to focus on this important issue in the wider context. Further information on diversity throughout Landsec can be found on pages 47 and 48.

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.

Conflicts of interest

Table 37

Director	Potential conflict situation	Nomination Committee decision and mitigating action 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.
Edward Bonham Carter	Vice Chairman of Jupiter Fund Management plc, a fund manager which invests in listed company shares including, at times, the Company. 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 UK.	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.
Cressida Hogg	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 did not have any involvement with the development in question as this was managed by a different business unit within CPPIB. As an additional precaution, the Group did not share any sensitive information on that development with her and she agreed not to participate in any Board discussion that related to it. Ms Hogg stepped down from her role at CPPIB in April 2018.

Letter from the Chairman of the Audit Committee

Committee members

Nicholas Cadbury (Chairman)
Chris Bartram
Stacey Rauch
Kevin O'Byrne
(until 27 September 2017)

Highlights

- New Committee Chairman
- Oversight of significant property acquisitions and disposals
- In-depth review of risk and internal audit

Key responsibilities

- Monitors the integrity of the reporting process and financial management
- Oversees risk management and internal control
- Scrutinises annual and half-yearly results

Dear shareholder

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

I was delighted to become Chairman of this Committee on 28 September 2017 following Kevin O'Byrne's planned retirement as Chairman of this Committee after more than nine years as a Director of the Company. I would like to thank Kevin for his support during the transition period and for all his work leading this Committee.

The role of the Audit Committee has not changed. It monitors the integrity of the Group's reporting process and financial management. It ensures that risks are carefully identified and assessed and that robust systems of risk management and internal control are in place. It scrutinises the annual and half-yearly financial statements before proposing them to the Board for approval, and reviews in detail the work of the external auditor and external valuer and any significant financial judgement made by management. The Committee receives detailed reports from management supplemented by other conversations and meetings as appropriate during the year and ensures that it allocates sufficient time on the agenda to both financial and risk matters.

Acquisitions and disposals; liability management

The Company made a number of property acquisitions and disposals during the year in line with its strategy. The largest disposal, measured by capital value, was that of 20 Fenchurch Street for £634m (our share), following which £475m was returned to shareholders by way of capital repayment; we also acquired three outlet centres for £333m to add to our Retail Portfolio. The Committee reviewed the accounting treatment of all material transactions and ensured that it was appropriate in each case.

During the year, the Company continued its review of its debt financing and this resulted in the redemption of some bonds and the issue of new bonds as part of its liability management work. This financing activity, and its accounting treatment, was considered by the Committee.

Risk

The risk landscape evolves every year but, for Landsec, the principal risks have remained much the same over the comparative period. These are set out on pages 54-57 of this Annual Report and include market cyclicality, structural changes in customers and customer behaviours and information security. It is also appropriate that we include in our register risks relating to health, safety and security of employees, customers and partners and data protection (including General Data Protection Regulation), and the longer-term nature of sustainability risks. The Group's Executive Committee regularly reviews the risk register and this is used by the Committee as the basis of its risk assessment. Additionally, the Audit Committee reflected on changes at a macro-economic and political level as context against which it assessed risk. During the year, the Company engaged in a bottom-up risk process involving all the functions within the organisation to improve the quality and thoroughness of the review. This involved seeking views from across the business on existing, new or emerging risks. The Company also sought the views of its Directors, Executive Committee and senior leaders to inform the discussion on risk and risk appetite. The output was discussed first at the Audit Committee and subsequently by the Board at its risk session in December (including the review of risk appetite).

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, and listened to fresh ideas from the newly appointed Director of Risk Management and Internal Audit. 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 (such as IT and security) and, accordingly, the Committee considered when such advice was appropriate. We believe that the combination of internal and external advisers continues to provide us with the best insight into areas of risk and appropriate controls, and allows us to report to the Board that the system of internal processes is robust.

The internal audit function has an annual plan of work that is approved by the Committee. The plan is assessed against the risk register which is reviewed in detail twice yearly. Internal audit reports are received by the Committee and any follow up recommendations or actions are tracked until completion.

External valuations and CBRE as valuer

CBRE was appointed in 2015 to act as the Group's valuer and we remain pleased with the level of support they provide to the business, the rigorous process that they apply to their work and their broad industry expertise and knowledge. For Landsec, as a property company whose share price is influenced by the net asset value of its total portfolio, this is an important relationship and one that the Committee assesses carefully.

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. After five years in post, Eamonn McGrath will be stepping down as our audit partner following the publication of our 2017/18 results, and we welcome Kath Barrow as his replacement. Kath was appointed following a selection process led by me. The fee basis for EY's services are contained on page 80 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.

Fair, balanced and understandable

The Committee assessed and recommended to the Board that, taken as a whole, the Company's 2018 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 58. The Committee again considered whether there should be any change to the period chosen for the Statement, as it will do every year, but remained of the opinion that five years was appropriate taking into account the balance sheet and financial strength of the Company and its current exposure to development risk.

UK Corporate Governance Code/FRC Guidance on Audit Committees

The Committee considered its compliance with the 2016 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.

Committee effectiveness

The internally facilitated evaluation of the Committee's performance, conducted as part of the overall Board effectiveness review, confirmed that the Committee continued to operate at a high standard, with clear priorities, well-defined responsibilities and clarity around its workplan. I will continue this approach in 2018/19.

The year ahead

The Committee achieved a consistently high performance during a busy year, highlighted by some large and well-publicised transactions and underpinned by a robust and inclusive approach to identifying risk and assessing risk appetite. 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, it retains its focus on customers and supports the governance regime in place.

I would like to thank the other members of the Committee, together with management and EY, for their support during the year and I hope that you find this review, and the report that follows, a helpful explanation of the work of the Committee.

Nicholas Cadbury
Chairman, Audit Committee

Accountability

The new Chairman of the Committee has continued the thorough oversight of the Group's risk assessment and control, reporting process and financial management.

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. The Terms of Reference are available on our website: landsec.com/board-committees.

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

The Chairman of the Board and all 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 EY audit teams and the CBRE valuation team to ensure that open lines of communication exist in case they wish to raise any concerns outside of formal meetings.

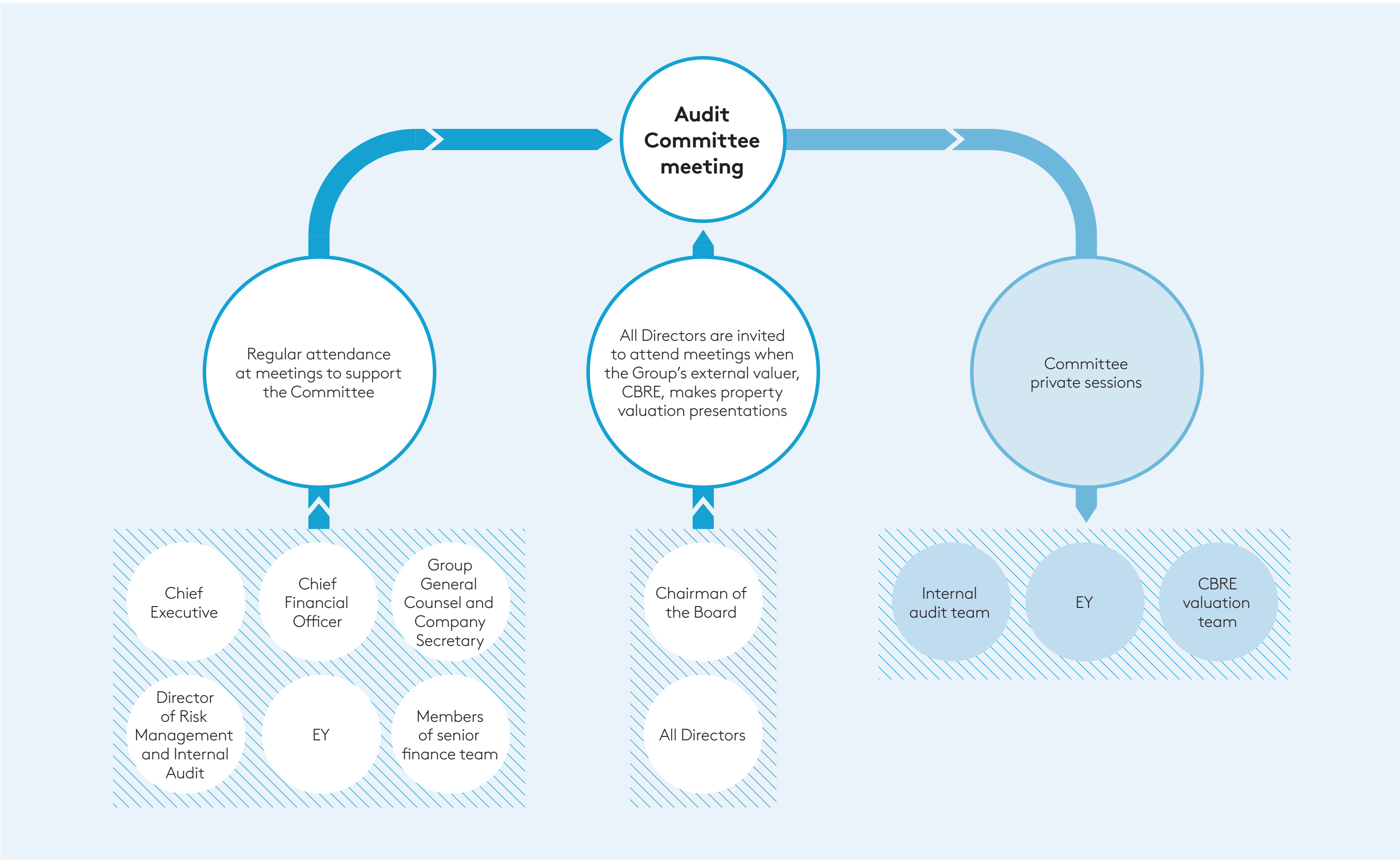
The Committee members collectively have a broad range of financial, commercial and property sector expertise that enables them to provide oversight of both financial and risk matters, and to advise the Board accordingly. Nicholas Cadbury is determined by the Board as having recent and relevant financial experience for the purposes of satisfying the UK Corporate Governance Code. Details of the experience of all members of the Committee can be found on pages 62 and 63.

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

External auditor

EY is engaged to conduct a statutory audit and express an opinion on the Company's and the Group's financial statements. Their audit includes an assessment of the systems of internal control that produce the information contained in the financial statements, and a review by EY of the property valuation process and methodology using its own chartered surveyors (more details below), in each case to the extent necessary to express an audit opinion.

Structure and operations



Audit Committee activity

The table shows the key areas of Audit Committee activity during the year.

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 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 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
- the appointment of Kath Barrow as the new EY audit engagement partner for the 2018/19 financial year
- 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 action
- quarterly reports on investigated internal control issues significant to the Group
- quarterly reports on the Group's risk register, including significant and emerging risks
- the implications, management and implementation of the new General Data Protection Regulation (GDPR)
- 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 processes.

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

- the appropriateness of significant financial matters made connection with the financial statements as set out on page 83.

Audit plan
EY presented their proposed audit plan (reviewed by Senior Management and the Director of Risk Management and Internal Audit) to the Committee for discussion. 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 we take 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). Eamonn McGrath has now completed five years as audit engagement partner following the completion of the 2017/18 Annual Report. Kath Barrow has been appointed as EY audit engagement partner for the 2018/19 financial year
— the internal performance and effectiveness review of EY referred to above.

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

Effectiveness of the external audit
Following the issue of our 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. This year's review will continue to use an audit quality assessment based on the Practice Aid guidelines issued by the Financial Reporting Council (FRC). The Committee Chairman meets privately with the audit engagement partner before the Committee considers the results of the review.

The Committee's preliminary view is that, in line with the conclusions from last year's performance review, EY have again performed their audit services effectively 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 tendering
EY were first appointed to the office of auditor, following a competitive tender process, in respect of the 2013/14 financial year.

Under current regulations, we will be required to retender the audit by no later than the 2023/24 financial year. After five years in post, Eamonn McGrath stepped down as audit engagement partner following the publication of our 2017/18 financial results, and has been replaced by Kath Barrow. The Board took the opportunity of the audit partner rotation to review the position of EY as the Group's auditor and, on the recommendation of the Audit Committee, concluded that there was no reason to consider an audit retender at this time. 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 audit fees payable to EY for the audit and half-yearly review for 2017/18 are £811,000 (2017: £836,000).

Non-audit services
To help safeguard EY's objectivity and independence, we operate a non-audit services policy that sets out the circumstances and financial limits within which EY may be permitted to provide certain non-audit services (such as assurance work) where an audit opinion is not required.

The Committee monitors compliance with the policy, including the prior approvals required for non-audit services, which are as follows:

Table 38

	Per assignment (£)	Aggregate during the year (£)
Chief Financial Officer	0 – 25,000	<100,000
Audit Committee Chairman	25,000 – 100,000	100,000 – 321,000
Committee	>100,000	>321,000

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-yearly review and other assurance-related services, amounted to £216,000. This sum represented 35% of the total Group audit fees, and 29% 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 arrangements, is undertaken by external valuers. The Group provides input, such as source data, and support to the valuation process. CBRE has been the Company's principal valuer since September 2015. The valuation helps to determine a significant part of the Group's net asset value, which has consequential implications for the Group's reported performance and the level of variable remuneration received by Senior Management through bonus and long-term incentive schemes. Accordingly, the scrutiny of each valuation and the valuer's independence, objectivity and effectiveness represent 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 full and half-year presentations. The Committee Chairman also met separately with CBRE.

Additionally, CBRE met with EY and exchanged information independently of management. EY has experienced chartered surveyors on its team who consider the 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 35 properties (comprising 67% 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 with the results reported to the Committee.

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 the table on page 83.

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-backs and new issuance, 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 and 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 Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of risk management and internal control processes during the year.

An overview of the risk management process explaining the key elements of the approach to risk, the developments in the process over the course of the current year and the key risk management priorities for 2018/19 are described on pages 52 and 53.

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.

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.

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.

Accountability

continued

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.

General Data Protection Regulation (GDPR)

With GDPR taking effect in May 2018, the Committee provided oversight of the Company's approach to data protection matters. A GDPR project team has been established, led by our Group General Counsel and Company Secretary, and we appointed a Privacy and Compliance Officer with specific GDPR experience. As part of its risk assessment process, the Committee required the Company to explain the extent to which personal data was held by the Group, the business reasons for holding such data, the protections in place to safeguard the data and process for reporting any breach should that occur. The Committee also ensured that there was sufficient communication and training across all parts of the business to emphasise the importance of data protection compliance, and to explain how GDPR would or may impact the way we do business. In addition to the training, data protection policies and processes have been revised. Following the implementation of GDPR in May, the Committee will keep GDPR compliance under review as part of ongoing oversight of information security.

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 the same due diligence approach adopted in previous years in order to assess whether the Annual Report is fair, balanced and understandable, one of the key UK Corporate Governance Code requirements. The Committee received assurance from the verification process carried out on the content of the Annual Report by the Executive Directors to ensure consistent reporting and the existence of appropriate links between key messages and relevant sections of the Annual Report.

Taking the above into account, together with the views expressed by EY, the Committee recommended, and in turn the Board confirmed, that the 2018 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 alternative 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.

Each year we run a whistleblowing awareness campaign, reminding employees of the process should they ever need to blow the whistle. The arrangements also form part of the induction programme for new employees. The whistleblowing hotline has been included in our recently introduced Sustainability Charter and is included within our procurement tender documentation.

Bribery and corruption policy

The Board has a zero tolerance policy for bribery and corruption of any sort. We give regular training to staff on the procedures, highlighting areas of vulnerability, and this year ran a programme for relevant employees on the new legislation on the facilitation of tax evasion. 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.

Significant financial matters

Table 39

Significant financial matters considered	How the Committee addressed the matters
Valuation of the Group's property portfolio (including investment properties, investment properties held in joint ventures and trading properties) 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 by an external 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 involves 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, objectively and in accordance with the valuer's professional standards.
Revenue recognition (including the timing of revenue recognition, the treatment of rents, incentives and recognition of trading property proceeds) 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 117-122 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 128.

Investor Relations

Approach to investor relations

We are committed to maintaining an open dialogue with shareholders and the Board recognises the importance of that relationship in the governance process. The Chairman, supported by the Executive Directors, has overall responsibility for ensuring that we listen to and effectively communicate with our shareholders.

We have a comprehensive investor relations programme (designed for institutional investors, private shareholders and debt investors) which aims to help our existing and potential investors understand our business, strategy and performance. Shareholder feedback is provided to the Board to ensure that it understands the objectives and views of major investors.

We approach our debt investor relations on a partnership basis, ensuring that any feedback is considered and that we take into account best practice guidance from the Investment Association.

Institutional shareholders' programme

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

— 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.

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, including Gunwharf Quays, Westgate Oxford and key properties in Victoria, SW1, and 20 Fenchurch Street, EC3.

We conducted meetings during the year with the sales teams of the major investment banks which provided the Executive Directors with the opportunity to present our strategy and performance directly and take questions.

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 and JP Morgan conferences in London, the Bank of America Merrill Lynch conference in New York, the Kempen conferences in Amsterdam and New York, The Citi conference in Miami and the HSBC conference in Cape Town.

Other initiatives

The Senior Independent Director 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 Annual General Meeting and the Extraordinary General Meeting in September.

Engaging with our investors

"We regularly review and refresh our engagement with shareholders, lenders and bondholders."

2018 investor conference

This year's investor conference focused on the Retail Portfolio and was held in Oxford. Almost 50 investors and analysts attended the day together with around 25 Landsec colleagues from every function of the Retail business.

The day started at Balliol College with a presentation about Oxford, followed by a walk through Oxford's main shopping streets before arriving at Westgate Oxford. At Westgate, a management presentation was followed by a tour of the centre to highlight particular aspects of the scheme such as design, construction and sustainability. The event finished with lunch at one of the restaurants on the roof terrace of Westgate, demonstrating the quality of food offering in this latest addition to the Landsec Retail Portfolio.

Investor relations events

2017

April	May	June	July	August	September	October
Close period	Preliminary results	Investors meetings in Zurich and Frankfurt	Annual General Meeting	Analyst meetings with the Chief Financial Officer	Real estate conference in New York	Close period
	Post-results investor meetings in London and Scotland	Fitch annual review meeting	Standard & Poor's annual review meeting		Extraordinary General Meeting	
	Real estate investor conference in The Netherlands	North American investor roadshow: Toronto, New York and Boston				
		Bond holder updates				

Listening to our shareholders

Common themes raised by our institutional and individual shareholders throughout the year included:

- Our view on the market and the positioning of the business. In particular, the short-term outlook for the London office market and the pressures facing the retail market
- Sources of rental growth in the short term
- The acquisition of the three outlets
- Share buybacks
- Bond purchases and issuance
- The pre-letting of 21 Moorfields to Deutsche Bank
- The sale of 20 Fenchurch Street
- The return of capital and share consolidation
- The serviced office market in London
- The valuation of Bluewater

Our 2017 shareholder meetings
We held both our July Annual General Meeting (AGM) and our Extraordinary General Meeting (EGM) in September at our offices in Victoria Street, SW1. Holding these meetings on-site gave our shareholders the opportunity to visit one of our buildings and also see our developments around Victoria.

Our AGM provided all shareholders with an opportunity to question the Board and the Chairmen of each Board Committee on matters put to the meeting. Shareholders who attended the AGM received a strategic progress update from the Chairman. Questions from shareholders included detail on the letting market and rents following completion of our developments, what we had done to assess our properties in light of the Grenfell Tower tragedy and our borrowing and debt activity.

Our EGM was held for shareholders to approve the return of part of the proceeds of our sale of 20 Fenchurch Street. Shareholders approved the receipt of 60p per share and a resulting share consolidation which changed the denomination of our shares to 10⅔p. It also provided our shareholders with an opportunity to ask questions about the transaction and return of capital. For more detail on our return of capital and share consolidation see page 113.

The results of voting at general meetings are published on the Company's website: landsec.com/investors.

Reuniting our shareholders with unclaimed dividends
In December 2017, together with our Registrar Equiniti and its partner ProSearch, we launched an asset reunification programme with the intention of reuniting our shareholders with uncashed dividend entitlements. To date, we have successfully returned over £70,000 to shareholders. The programme will continue until the end of June 2018.

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 a number of accounts to gather feedback on the bond tender and new issue exercises in February/April of this year.

1:1 meetings were offered to investors and analysts in September and March to support the bond tender and new issue exercises.

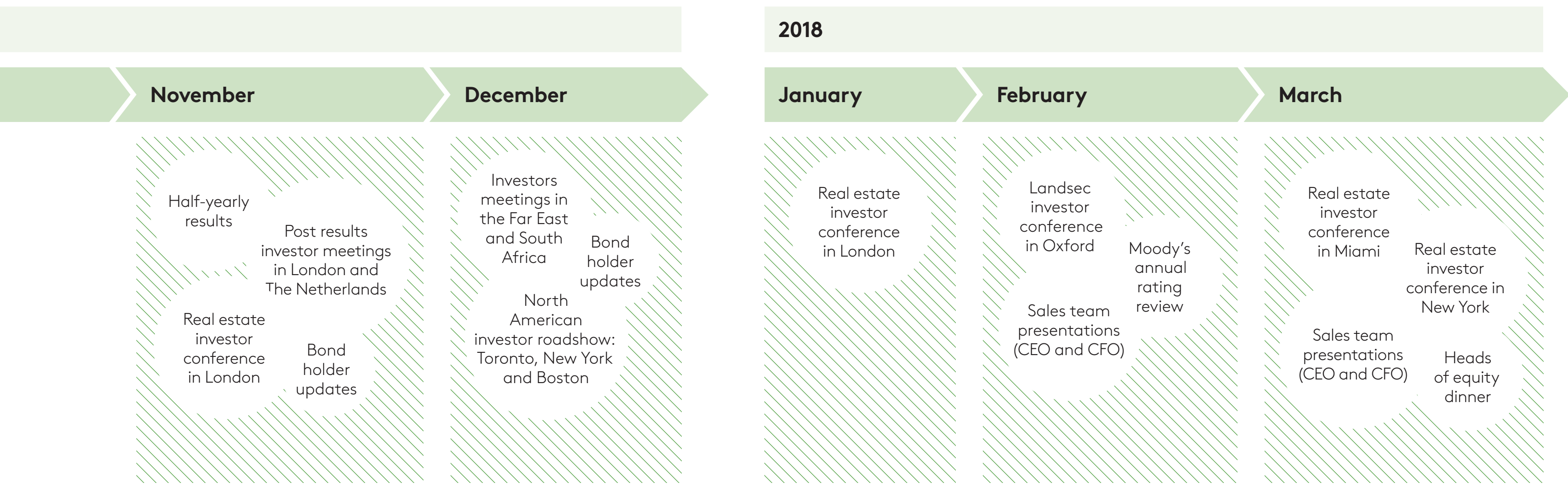
Banks
Regular dialogue is maintained with our key relationship banks, including at least bi-annual meetings with our treasury team and in-house dinners hosted by the Executive and Non-executive Directors.

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 for our debt investors can be found on our website: landsec.com/investors.

Independent feedback on investor relations
During the coming year, the Board will commission an independent adviser to conduct the biennial investor audit of investor perceptions of the Company, its management, strategy, governance and the investor relations programme. The feedback from the audit will be presented to the Board to help Directors develop their understanding of shareholders' needs and expectations.



Directors' Remuneration Report – Chairman's Annual Statement

Committee members

Simon Palley (Chairman)
Dame Alison Carnwath
Edward Bonham Carter
Cressida Hogg

Highlights

- Appointment of Colette O'Shea and Scott Parsons to the Board
- Review of all elements of our Directors' Remuneration Policy
- Annual bonus outturns broadly in line with last year
- A challenging year for the Long-Term Incentive Plan

Key responsibilities

- Ensuring the Directors' Remuneration Policy remains fit for purpose and is implemented reasonably
- Maintaining a strong link between returns to shareholders and reward for Executives
- Oversight of all key reward matters across the Group, including Gender Pay reporting
- Approving individual reward outcomes for the Executive Directors and the Executive Committee

Dear shareholder

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

In the context of continued uncertainty in our two key markets, the Board has continued to focus on ensuring that the business is in the best possible position to withstand the currents of change and take advantage of new opportunities as and when they arise. The appointment of Colette O'Shea and Scott Parsons to the Board has enabled the Non-executive Directors to spend more time with these senior executives, and the Remuneration Committee has spent time ensuring that this was a smooth transition from a reward perspective. We have also sought to incentivise the executives in their quest to identify and measure those leadership capabilities that will be critical to business performance in the years ahead – innovation and customer insight being two key examples.

In late 2017, we conducted a thorough review of our Directors' Remuneration Policy (DRP), in conjunction with our independent advisers, AON Hewitt. Our DRP was last put before shareholders in 2015, and so we are now seeking approval to cover the three-year period to 2021. We have been very aware of the level of scrutiny focused on executive pay by all stakeholder groups, and the differing opinions on the optimum construct of both short- and long-term elements of remuneration. With this in mind, we have conducted a detailed review of each element of our policy to ensure that they reflect current external sentiment, and, crucially, continue to drive the right leadership behaviour from our most senior employees. Key considerations in the review included our business strategy, the views of shareholders and other stakeholders, and the latest institutional investor guidelines and market practice. We have also reflected on whether now was the right time to radically simplify our long-term incentive arrangements, and we looked at our key performance measures (Total Property Return, Total Shareholder Return and Revenue Profit) in detail to see whether adjustments might produce more precise and meaningful measures of absolute and relative performance. Our conclusion was that, in the absence of any compelling reason to change, maintaining consistency is important, particularly when market conditions toughen and the targets become, if anything, more stretching.

We are therefore proposing only one change to our DRP – the equalisation of pension provision for the Executive Directors with the normal arrangements for the wider workforce. This policy will apply to all new Executive Directors. Outside of this, we are happy that our current DRP remains fit for purpose, in that it incentivises the leaders of the business to focus on those key capabilities that will drive relative, rather than absolute outperformance, however the market behaves. I am very grateful to those shareholders who have engaged with us in the consultation process, and provided such positive and constructive feedback.

The proposed DRP is laid out in detail in the following pages, and, as we did last year, we have also included a summary of how the DRP will be applied in the year ahead. Following positive feedback from shareholders, we have again included an "at a glance" summary of remuneration outturns for the year in a broader organisational context, including our gender pay report. This is followed by all the supporting detail on both short- and long-term incentive plans.

Remuneration outcomes for the year

The annual bonus for the year was slightly above target for Executive Directors, broadly in line with last year. The performance can be summarised as follows:

- As in prior years, our measure of Total Property Return uses a challenging unweighted IPD benchmark of all March valued properties. The benchmark was not available at the time of writing, but on the strength of the monthly and quarterly data, we expect to 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 the successful leasing of our London development programme and the acquisition of the outlet portfolio in Retail. This element of the plan paid out at near maximum level.
- Performance against the specific business objectives was more mixed. Although Westgate Oxford was a very successful launch, costs slightly exceeded the original estimate, and we fell just short of the extremely stretching leasing targets set. The same can be said for the Piccadilly Lights refurbishment in London, although the London team have done exceptionally well to all but complete the letting of the speculative development programme. The challenging objectives set around Community, Sustainability and Diversity have seen pleasing progress.

When this performance was combined with the strong performance against their individual objectives, the total bonus pay-out was 88.2% of salary for both Robert Noel and Martin Greenslade. Colette O'Shea and Scott Parsons remained on their previous bonus arrangements for the duration of the year, and their outturns were 73.5% and 63.5% of salary respectively.

Turning to the Long-Term Incentive Plan, which is for performance over the three years to 31 March 2018, I am disappointed to report that we do not anticipate any pay-out this year, based on our relative Total Property Return and Total Shareholder Return. Although the business is in strong shape, outperforming our FTSE 350 peer group is particularly challenging for a large, generalist player whose strategy has been to strengthen the balance sheet and de-risk the business. In a market downturn, it is possible that our relative performance will be much stronger than our absolute, and in this scenario the Executive Directors will be rewarded accordingly.

Looking forward

Having reviewed our DRP in detail this year, I don't anticipate any major changes in the focus of the Committee over the coming year. We will continue to support the Landsec executives in achieving the right balance between the management of short-term challenges and the identification of long-term opportunities, and believe that we have the right remuneration framework in place to enable us to do this.

As I said earlier, I am very grateful to all of our shareholders for their ongoing support and feedback, and I hope very much that you will feel able to approve the continued application of our Directors' Remuneration Policy with its one small revision.

Simon Palley
Chairman, Remuneration Committee

In this section

Remuneration at a glance

Remuneration policy and structure

Remuneration principles

We will reward competitively to attract and retain the best talent.

We will materially differentiate reward according to performance.

The breakdown of fixed and variable pay will be appropriate to each role.

Performance targets will be stretching, and will balance both long- and short-term performance, absolute and relative measures.

Our framework will be transparent with clear line of sight from Landsec's performance to individual outcomes.

Fixed

Basic salary

Benefits

Pension

Details on page 105

Variable

Short-term

Annual Bonus

Details on page 106

Long-term

Long-term incentive plan awards

Details on page 107

Linking remuneration to strategy

KPIs	Link to remuneration (% of the total maximum)	Outturn 2017/18
Three-year TSR	50%	
Three-year TPR	50%	
Total	100%	
One year TPR	26%	
Revenue profit	26%	
Piccadilly Lights refurbishment	4%	
London development programme	7%	
Westgate Oxford opening	7%	
Embedding brand and culture	5%	
Progress towards diversity targets	3%	
Creating innovation capability	3%	
Delivering sustainability targets	6%	
Individual targets	13%	
Total	100%	

To read more about our strategy, go to page 16
To read more about our KPIs, go to page 20

Remuneration across the Group

91.8%
of employees received a pay increase

2.5%
Average pay increase in the annual review

89.6%
of employees received a bonus

£14,198
Average bonus

£52m
Total spend on pay

Gender pay reporting

37.8%
Gender Pay Gap (mean hourly pay)

37.9%
Gender Pay Gap (median hourly pay)

63.9%
Mean bonus Gap

60.1%
Median bonus Gap

CEO remuneration

-37%
Total remuneration

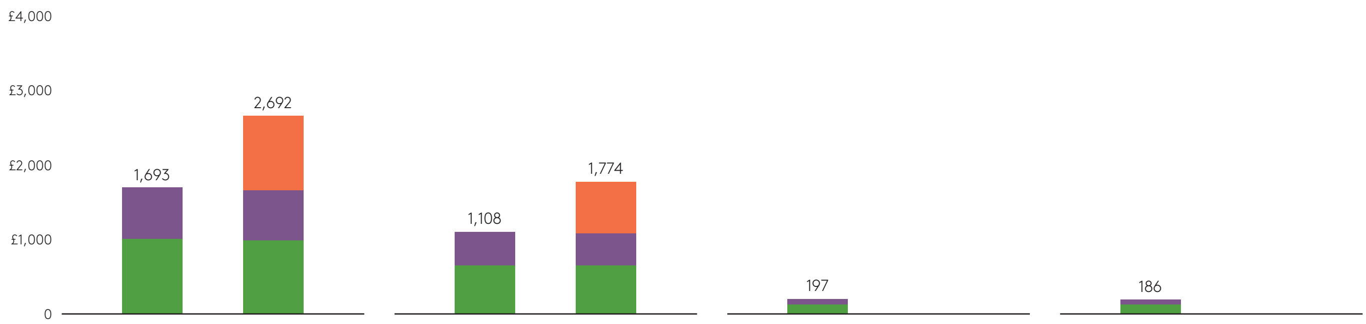
£1,693,302
CEO single figure 2018

+2.2%
Annual bonus

0%
LTIP vesting

Summary of Executive Directors' remuneration[1]

Table 40



	Robert Noel, Chief Executive (£000)		Martin Greenslade, Chief Financial Officer (£000)		Colette O'Shea, Managing Director, London Portfolio (£000)		Scott Parsons, Managing Director, Retail Portfolio (£000)	
	2017/18	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17
Basic salary	**784**	769	**510**	500	**104**	–	**104**	–
Benefits	**21**	21	**20**	19	**4**	–	**5**	–
Pension allowance	**196**	192	**128**	125	**13**	–	**11**	–
Annual bonus paid in cash	**392**	384	**255**	250	**76**	–	**66**	–
Annual bonus deferred into shares	**300**	293	**195**	181	**–**	–	**–**	–
Total emoluments	**1,693**	**1,659**	**1,108**	**1,075**	**197**	**–**	**186**	**–**
Long-term incentives vested	**–**	1,033	**–**	699	**–**	–	**–**	–

1. All the data and charts shown for Colette O'Shea and Scott Parsons reflect their appointment to the Board on 1 January 2018, and therefore represent the period from 1 January to 31 March 2018.

To read more go to page 91

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 2018. As previously stated, the policy has been reviewed in 2018 and will be put to shareholders for approval at the AGM in July.

During the course of 2017/18, the Remuneration Committee was engaged in a number of key matters, including:

— Conducting a thorough review of the existing Directors' Remuneration Policy (including evaluation of alternative models), and consulting with key shareholders and their representatives on the proposed minor revisions

— Determining the appropriate remuneration arrangements for the two new Executive Directors, Colette O'Shea and Scott Parsons.

— Overseeing the calculation and publishing of the Group's Gender Pay Report

— 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 2015

— Determining the annual level of LTIP grants to Executive Directors,and LTIP and MSP grants to 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 (Unaudited) Table 41

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
Colette O'Shea	1 January 2018	1 January 2018
Scott Parsons	1 January 2018	1 January 2018
Non-executive Directors		
Dame Alison Carnwath	1 September 2004	13 May 2015
Kevin O'Byrne[1]	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. Kevin O'Byrne stepped down from the Board on 27 September 2017.

1. Remuneration outcomes for Directors during the year

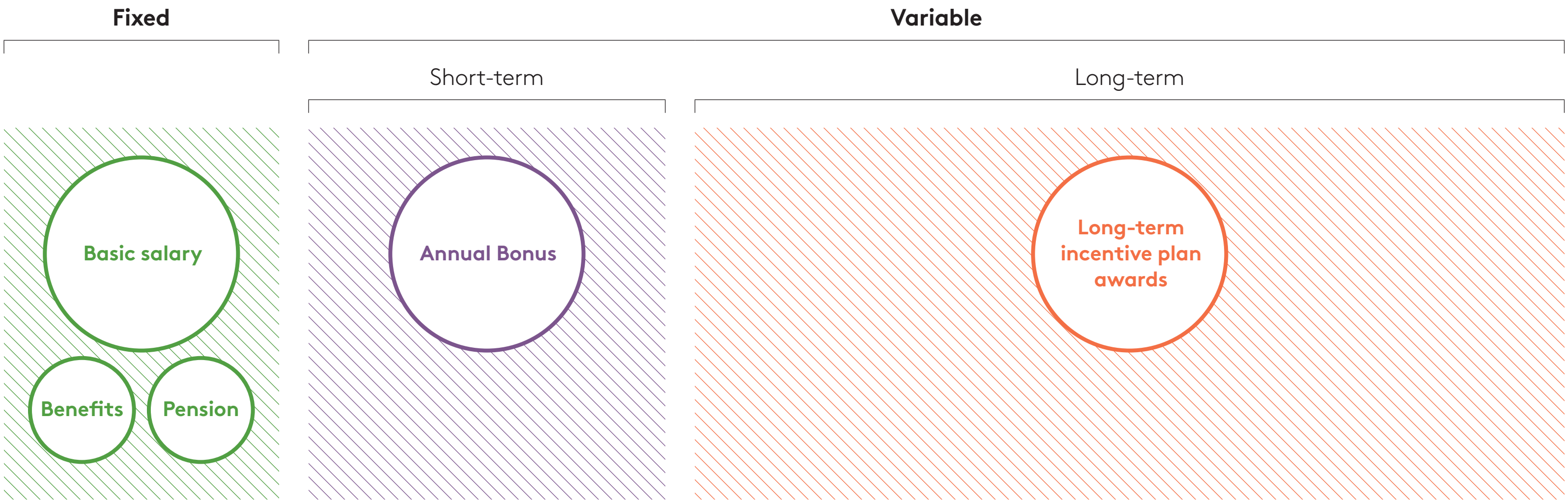
In this section, we explain the pay outcomes for Directors in relation to the financial year ended 31 March 2018. Tables 42 and 43 show the payments we expect to make and then tables 44 to 48 give more detail on how we have measured the performance outcomes with respect to the annual bonus and LTIP in the context of value created for shareholders.

1.1 Directors' emoluments (Audited)

The basis of disclosure in the table on page 91 is on an 'accruals' basis. This means that the annual bonus column includes the amount that will be paid in June 2018 in connection with performance achieved in the financial year ended 31 March 2018. 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 2015 LTIP awards for the three year performance period ended 31 March 2018 are based on estimated achievements against the performance measures. Currently we estimate the vesting level on the 2015 LTIP to be zero.

Remuneration structure



Details on page 105
Details on page 106
Details on page 107

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

(Audited) Table 42

	Basic salary[1]		Benefits[2]		Pension allowance[3]		Annual bonus paid in cash		Annual bonus deferred into shares		Total emoluments		Long-term incentives vested[4]		Total	
	2017/18	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17
Executive Directors																
Robert Noel	**784**	769	**21**	21	**196**	192	**392**	384	**300**	293	**1,693**	1,659	**–**	1,033	**1,693**	2,692
Martin Greenslade	**510**	500	**20**	19	**128**	125	**255**	250	**195**	181	**1,108**	1,075	**–**	699	**1,108**	1,774
Colette O'Shea[5]	**104**	–	**4**	–	**13**	–	**76**	–	**–**	–	**197**	–	**–**	–	**197**	–
Scott Parsons[5]	**104**	–	**5**	–	**11**	–	**66**	–	**–**	–	**186**	–	**–**	–	**186**	–

1. Basic salary is stated as a per annum figure for Robert Noel and Martin Greenslade. Actual salaries in the year were £781,479 (Robert Noel) and £508,700 (Martin Greenslade).
2. Benefits consist of a car allowance, private medical insurance, income protection and life assurance premiums.
3. The pension amount for Robert Noel and Martin Greenslade is based on a cash allowance of 25% of basic salary. The pension amounts shown for Colette O'Shea and Scott Parsons are based on the maximum employer contributions into the Group Personal Pension Plan.
4. The long-term incentives for 2017/18 did not meet the performance criteria and therefore will vest at 0%. The long-term incentives vesting in 2016/17 were estimated in last year's report, so have been adjusted to reflect actual values based on a share price of £10.06 which was the market price on 3 July 2017 (first working day post vesting date). The impact of the adjustment was a reduction of £29,765 for Robert Noel and a reduction of £20,135 for Martin Greenslade. As the values in the table above are based on the market price at vesting, the amounts may differ to the values exercised during the year.
5. All information shown for Colette O'Shea and Scott Parsons has been pro-rated to reflect their appointments to the Board on 1 January 2018, and therefore relates to the period from 1 January to 31 March 2018. Annual basic salary for both was £415,000 per annum at 31 March.

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

(Audited) Table 43

	Basic salary		Benefits		Pension allowance		Annual bonus paid in cash		Annual bonus deferred into shares		Total emoluments		Long-term incentives vested		Total	
	2017/18	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17
Non-executive Directors																
Dame Alison Carnwath	**375**	375	–	–	–	–	–	–	–	–	**375**	375	–	–	**375**	375
Kevin O'Byrne[1]	**45**	93	–	–	–	–	–	–	–	–	**45**	93	–	–	**45**	93
Chris Bartram	**70**	70	–	–	–	–	–	–	–	–	**70**	70	–	–	**70**	70
Simon Palley	**85**	85	–	–	–	–	–	–	–	–	**85**	85	–	–	**85**	85
Stacey Rauch[2]	**80**	70	–	–	–	–	–	–	–	–	**80**	70	–	–	**80**	70
Edward Bonham Carter	**80**	77	–	–	–	–	–	–	–	–	**80**	77	–	–	**80**	77
Cressida Hogg	**70**	70	–	–	–	–	–	–	–	–	**70**	70	–	–	**70**	70
Nicholas Cadbury[3]	**80**	18	–	–	–	–	–	–	–	–	**80**	18	–	–	**80**	18

1. Kevin O'Byrne stepped down from the Board on 27 September 2017.
2. Stacey Rauch received a £10,000 supplement to her fee for leading the Chairman's succession process on behalf of the Nomination Committee.
3. Nicholas Cadbury was appointed to the Board on 1 January 2017, and as Audit Committee chair on 27 September 2017.

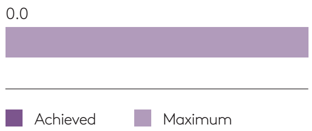
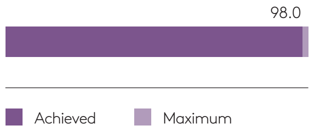
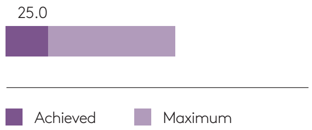
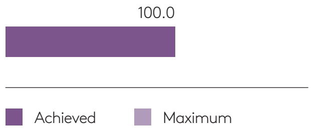
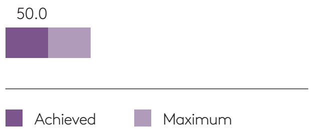
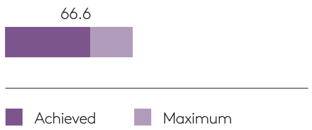
Annual Report on Remuneration
continued

1.2 Annual Bonus Outturn

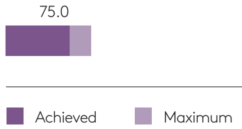
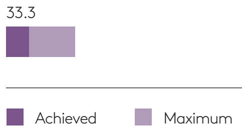
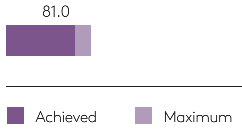
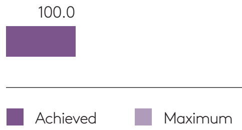
In the year under review, the Chief Executive (Robert Noel) and Chief Financial Officer (Martin Greenslade) had the potential to receive a maximum annual bonus of up to 150% of basic salary. Of this, 130% was dependent on meeting Group targets and 20% dependent on meeting personal targets. As the Managing Director, London Portfolio (Colette O'Shea), and the Managing Director, Retail Portfolio (Scott Parsons) were appointed to the Board on 1 January 2018, their bonus potential remained at the existing level (up to 125% of basic salary) for the entire year to 31 March. Of this, 95% of basic salary was dependent on meeting Group targets and 30% dependent on meeting personal targets. The proposed policy relating to maximum annual bonus opportunity (150% of basic salary in total, split as for the other two Executive Directors) will apply to Colette O'Shea and Scott Parsons from 1 April 2018.

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 for the year to 31 March 2018 was 75% of salary for Robert Noel and Martin Greenslade, and 62.5% of salary for Colette O'Shea and Scott Parsons. The numbers below show full year outturns for Ms O'Shea and Mr Parsons.

Annual bonus outturn Table 44

Target	Assessment	Proportion of total bonus opportunity and percentage of maximum 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.	— The Group's Total Property Return for the year was 4.4%, an under-performance of 6.2% versus the estimated IPD benchmark — Therefore, none of this element is likely to pay out.	
Share in long-term real growth in Group revenue profit.	— Revenue profit, adjusted to remove the re-financing benefit, significantly exceeded the inflation-adjusted threshold level set in 2015 — This element therefore paid out at 98% of the maximum.	
Key business targets		
Westgate Oxford – targets were set around the opening of the centre on time and on budget, and on achieving specific leasing targets by 31 March 2018. Net effective, rather than headline, rents were used as the key measure of performance.	— For any payment, the centre had to be open on time (target was on budget, and outperformance ahead of budget) — The target was to be 95% let with a threshold target of £24.3m and a maximum of £25.5m — The centre opened successfully on time but was slightly behind its budgeted cost and leasing targets — This element therefore paid out at 25% of the maximum.	
Completion of the London Development Programme – specific targets were set relating to the key Victoria office buildings (Nova and The ZigZag Building) and to 20 Eastbourne Terrace. Again, net effective, rather than headline, rents were used as the key measure of performance.	— Net effective rent targets were set ranging from £5.6m for threshold to £9.3m for maximum — The net effective rents achieved exceeded the outperformance target for the aforementioned buildings — This element therefore paid out in full.	
Piccadilly Lights – completion of the screen replacement programme on time and on budget with all screens let in line with budget by 31 March 2018.	— The replacement programme was completed on time and the remaining screens were let but marginally below budgeted rents — This element therefore paid out at 50% of the maximum.	
Customers – ensuring that the new Landsec brand and associated customer focused culture is embedded via the rollout of a major internal programme. An improvement to (already high) customer satisfaction scores in the Retail and Leisure portfolios was also sought.	— The internal programme was rolled out across Landsec and received very positive feedback — The aggregate consumer satisfaction scores for Retail were 93% ("highly satisfied" and "satisfied") — This element therefore paid out at 66.6% of the maximum.	

Annual bonus outturn continued

Target	Assessment	Proportion of total bonus opportunity and percentage of maximum awarded
People – make measurable progress towards our stated 2020 diversity targets: 1. Ensure that Landsec continues to meet all the voluntary targets set by the Hampton/Alexander Review (33% of Executive Committee and direct reports are female) 2. Increase female representation at Leader level to 30% – by 2020 3. Improve the engagement scores for BAME colleagues – bringing them into line with employees overall 4. 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.	— Measurable progress has been made against 3 out of 4 targets (see page 47 for more detail): — Landsec continues to meet the voluntary Hampton/Alexander target — Female representation at Leader level has increased by 1.4% — The October 2017 engagement survey showed no significant disparity of engagement levels between ethnic groups — This element therefore paid out at 75% of the maximum.	
People – build a new business capability around innovation, including establishing an Innovation team and embedding the Innovation value.	— The Innovation team is not yet established, although progress has been made — However, there are several active workstreams in operation with the objective of harnessing new opportunities (for example, via technology, or review of adjacent sub-sectors) to serve our customers more effectively — Therefore, this element paid out at 33.3% of the maximum.	
Community Employment Programme – a target was set to secure permanent employment for 174 (target) and 194 (maximum) candidates on the Community Employment Programme and Landsec Trainee Academy.	— Employment was secured for 187 candidates on the programme across the Group — This element therefore paid out at 81% of the maximum.	
Environment – larger energy-consuming sites (>1m kW) were tasked with identifying and starting to implement energy reduction opportunities.	— 88% of approved energy reduction opportunities have commenced implementation — This element therefore paid out in full.	

Bonus paid as a % of basic salary

Table 45

Target	Percentage of basic salary (maximum)	Assessment	Percentage of basic salary awarded
Total Group elements	130.0	Robert Noel	72.2
	130.0	Martin Greenslade	72.2
	95.0	Colette O'Shea	52.8
	95.0	Scott Parsons	52.8
Executive Directors' personal targets			
The Chief Executive and Chief Financial Officer received a number of personal targets, which included:	20.0		
— Personal development of succession candidates for all senior roles		— All members of the Executive Committee and 'high potential' employees have active personal development plans	
— Addressing topics from the 2017 Board effectiveness review		— Significant progress has been made on the amount of Board time allocated to Strategy, Innovation, Risk and Culture	
— Embedding new risk framework and responsibilities through the Business		— A new Head of Internal Audit and Risk Management has been appointed and a focus has been given to the embedding of the new framework	
— Leadership in Creating Experiences programme		— All Executive Directors took a leading role in the rollout of the "Creating Experiences" Programme	
— Driving innovation strategy and embedding innovation mindset through the business		— A search process is underway for a new Head of Innovation to lead a newly-created team. Clear sponsorship has been provided for a variety of Innovation workstreams (see above)	
— Ensuring Landsec's leadership position on Sustainability.		— The Chief Executive continues to lead the Group's Sustainability Committee, ensuring that the agenda remains ambitious, and integrated into all business activities.	
		Robert Noel	16.0
		Martin Greenslade	16.0
For 2017/18, the Managing Directors were assessed against a number of personal objectives using an overall ratings system, rather than a score. Their individual bonus outcomes are shown opposite:	30.0	Colette O'Shea	20.7
		Scott Parsons	10.7
Total bonus opportunity	150.0	Robert Noel	88.2
	150.0	Martin Greenslade	88.2
	125.0	Colette O'Shea	73.5
	125.0	Scott Parsons	63.5

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 2018. Awards granted in 2015 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 54 for more detail on how vesting levels are determined.

The performance calculation for awards granted in 2015 and vesting in 2018 are illustrated below:

Long-Term Incentive Plan and Matching Share Plan outturns Table 46

Target	Percentage of basic 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 6.6% per annum compared with the estimated performance of the unweighted IPD index including all March-valued properties at 8.8%. Therefore, this element does not vest.	0.0
Total Shareholder Return	75 + 75 (maximum shares pledged)	The Group's Total Shareholder Return over the three-year period was -18.3% versus that of the comparator group at 0.5%. 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.

In total, therefore, no portion of the awards made in 2015 will vest in July 2018.

For awards granted in 2016, the Group's performance over the two years to 31 March 2018 would, if sustained over the third year to 31 March 2019, result in 0% of the LTIP share awards vesting. For awards granted in 2017, performance over the one-year period to 31 March 2018 would, if sustained over the second and third years of the period to 31 March 2020, also result in 0% of the LTIP share awards vesting.

Total Shareholder Return – comparator group Table 47

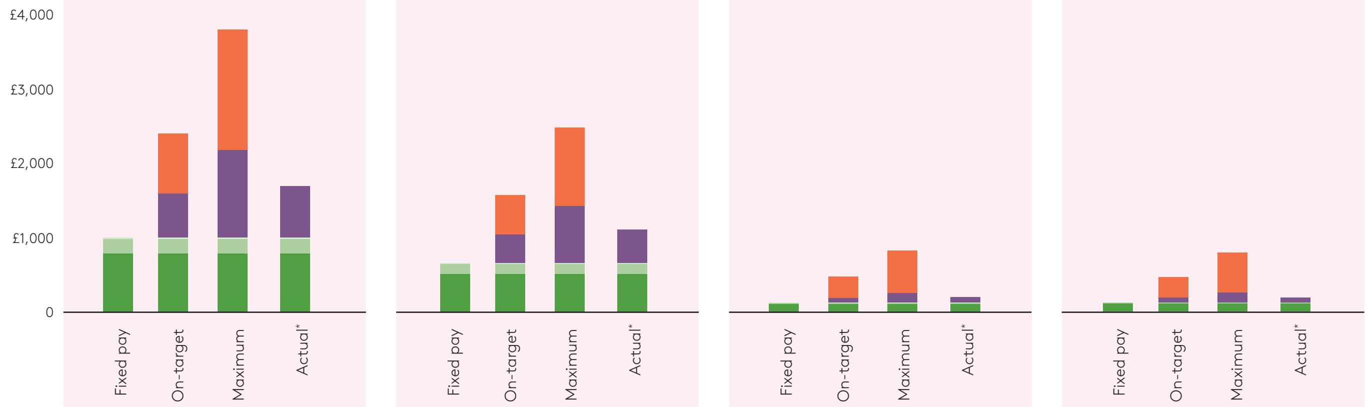
	Year of award			
Name	2015	2016	2017	2018[1]
Assura PLC		✓	✓	✓
Big Yellow Group PLC	✓	✓	✓	✓
Capital & Counties Properties PLC	✓	✓	✓	✓
CLS Holdings PLC	✓	✓	✓	✓
Daejan Holdings PLC	✓	✓	✓	✓
Derwent London PLC	✓	✓	✓	✓
F&C Commercial Property Trust Ltd	✓	✓	✓	✓
Grainger PLC	✓	✓	✓	✓
Great Portland Estates PLC	✓	✓	✓	✓
Hammerson PLC	✓	✓	✓	✓
Hansteen Holdings PLC	✓	✓	✓	
Intu Properties PLC	✓	✓	✓	✓
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

Table 48

Robert Noel, Chief Executive (£000) | **Martin Greenslade, Chief Financial Officer** (£000) | **Colette O'Shea, Managing Director, London Portfolio**[1] (£000) | **Scott Parsons, Managing Director, Retail Portfolio**[1] (£000)



Robert Noel

- Basic salary (20.6%)
- Pension (5.2%)
- Benefits (0.6%)
- Annual bonus (30.9%)
- Long-term incentives (42.7%)

* Percentages are of the maximum.

Martin Greenslade

- Basic salary (20.6%)
- Pension (5.2%)
- Benefits (0.8%)
- Annual bonus (30.8%)
- Long-term incentives (42.6%)

Colette O'Shea

- Basic salary (12.6%)
- Pension (1.6%)
- Benefits (0.5%)
- Annual bonus (15.8%)
- Long-term incentives (69.5%)

Scott Parsons

- Basic salary (13.2%)
- Pension (1.4%)
- Benefits (0.6%)
- Annual bonus (16.5%)
- Long-term incentives (68.3%)

	Robert Noel		Outturn	Martin Greenslade		Outturn	Colette O'Shea		Outturn	Scott Parsons		Outturn
Element of pay	**Maximum potential (£000)**	**Percentage of maximum achieved (%)**	**(£000)**	**Maximum potential (£000)**	**Percentage of maximum achieved (%)**	**(£000)**	**Maximum potential (£000)**	**Percentage of maximum achieved (%)**	**(£000)**	**Maximum potential (£000)**	**Percentage of maximum achieved (%)**	**(£000)**
Basic salary	784	n/a	784	510	n/a	510	104	n/a	104	104	n/a	104
Pension	196	n/a	196	128	n/a	128	13	n/a	13	11	n/a	11
Benefits	21	n/a	21	20	n/a	20	4	n/a	4	5	n/a	5
Annual bonus[2]												
— Company Performance element	1,019	55.6	566	663	55.6	369	99	55.6	55	99	55.6	55
— Individual element	157	80.0	126	102	80.0	81	31	68.0	21	31	35.0	11
Long-term incentives[3]	1,624	–	–	1,057	–	–	575	–	–	539	–	–
Total	**3,801**		**1,693**	**2,480**		**1,108**	**826**		**197**	**789**		**186**

1. The figures and charts shown here for Colette O'Shea and Scott Parsons have been pro-rated to reflect the period from 1 January (when they were appointed to the Board) to 31 March, with the exception of the maximum LTIP vesting where the whole amount applying to the three year performance period ending 31 March 2018 is shown.
2. Robert Noel – £300,000 of the annual bonus will be deferred into shares for one year. Martin Greenslade – £195,000 of the annual bonus will be deferred into shares for one year. Colette O'Shea and Scott Parsons – all paid in cash as under 75% of salary (under previous bonus arrangements).
3. Value of shares due for vesting in 2018 calculated on basis of £9.54 average share price for the three-month period to 31 March 2018.

Governance

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 49

Name	Salary/Fee (£)	Required holding value (£)	Holding (ordinary shares) 1 April 2017	Holding (ordinary shares) 31 March 2018	Deferred bonus shares under holding period	Value of holding (£)[1]
Robert Noel[2]	784,401	1,961,003	293,849	381,842	29,046	3,577,860
Martin Greenslade[3]	510,367	1,020,734	386,223	422,153	17,934	3,955,574
Colette O'Shea[3]	415,000	830,000	43,168	65,315		612,002
Scott Parsons[3]	415,000	830,000	53,490	75,914		711,314
Dame Alison Carnwath[4,5]	375,000	375,000	151,338	156,175		1,463,360
Kevin O'Byrne (until September 2017)[4]	45,000	45,000	11,552	11,552		108,242
Chris Bartram[4]	70,000	70,000	14,478	13,572		127,170
Simon Palley[4]	85,000	85,000	17,061	15,995		149,873
Stacey Rauch[4,6]	80,000	70,000	8,000	8,000		74,960
Edward Bonham Carter[4]	80,000	80,000	10,000	9,375		87,844
Cressida Hogg[4]	70,000	70,000	10,000	9,375		87,844
Nicholas Cadbury[4]	80,000	80,000	1,900	4,481		41,987

1. Using the closing share price of £9.37 on 31 March 2018.
2. Requirement for the Chief Executive to own shares with a value of 2.5x basic salary within five years of appointment.
3. Requirement for other Executive Directors to own shares with a value of 2.0x basic 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.
5. On 6 April 2018, Dame Alison Carnwath acquired an additional 1,196 shares as a result of her participation in the Dividend Reinvestment Programme in respect of the third interim dividend paid by the Company.
6. Stacey Rauch's fee includes a one-off supplement of £10,000, not included for the purposes of the shareholding guidelines.

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 50

Name		Performance period to 31 March	Award date	Market price at award date (p)	Nil-cost options awarded	Nil-cost options vested	Market price at date of vesting (p)	Vesting date
Robert Noel	LTIP Shares	2017	01/07/2014	1,039	102,638	51,319	1,006	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
		2020	26/06/2017	1,029	228,583			26/06/2020
	Matching Shares	2017	01/07/2014	1,039	102,638	51,319	1,006	01/07/2017
Martin Greenslade	LTIP Shares	2017	01/07/2014	1,039	69,431	34,715	1,006	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
		2020	26/06/2017	1,029	148,795			26/06/2020
	Matching Shares	2017	01/07/2014	1,039	69,431	34,715	1,006	01/07/2017
Colette O'Shea	LTIP Shares	2018	10/08/2015	1,335	37,650			10/08/2018
		2019	27/06/2016	1,005	50,497			27/06/2019
		2020	26/06/2017	1,029	49,908			26/06/2020
	Matching Shares	2018	10/08/2015	1,335	22,590			10/08/2018
		2019	27/06/2016	1,005	30,298			27/06/2019
		2020	26/06/2017	1,029	29,945			26/06/2020
Scott Parsons	LTIP Shares	2018	10/08/2015	1,335	35,297			10/08/2018
		2019	27/06/2016	1,005	47,574			27/06/2019
		2020	26/06/2017	1,029	47,017			26/06/2020
	Matching Shares	2018	10/08/2015	1,335	21,178			10/08/2018
		2019	27/06/2016	1,005	28,544			27/06/2019
		2020	26/06/2017	1,029	28,210			26/06/2020

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.

Outstanding Savings Related Share Options grants and those which were exercised during the year (Audited) Table 51

			Exercised/(lapsed) during year				
Name	Number of options at 1 April 2017	Exercise price per share (p)	Number of options granted in year to 31 March 2018	Number of options exercised[1]	Market price at exercise (p)	Number of options at 31 March 2018	Exercisable dates
Martin Greenslade	1,060	848.5	–	1,060	920	–	08/2017 – 02/2018
	878	1,024.0	–	–	–	878	08/2018 – 02/2019
	–	859.0	1,047	–	–	1,047	08/2020 – 02/2021
	1,938		1,047	1,060		**1,925**	
Colette O'Shea	–	859.0	1,047	–	–	1,047	08/2020 – 02/2021
	–		1,047	–		**1,047**	
Scott Parsons	1,767	848.5	–	–	–	1,767	08/2019 – 02/2020
	1,767		–	–		**1,767**	

1. During the year, Martin Greenslade exercised options with a closing share price of £9.20 resulting in a gain of £758.

3. Application of Policy for 2018/19

3.1 Executive Directors' base salaries

A formal salary benchmarking exercise was conducted this year for both the Chief Executive and Chief Financial Officer roles. The Managing Director roles were not formally benchmarked this year, as both received salary increases based on market information in 2017. The conclusion of the 2018 benchmarking exercise was that the current remuneration arrangements for the Chief Executive and Chief Financial Officer continue to be competitive. The Committee has therefore awarded all four Executive Directors a basic salary increase of 2%. This is slightly below the average increase received by employees across the Group.

Accordingly, the following salary increases will take effect from 1 June 2018:

Executive Directors Table 52

Name	Current (£000)	From 1 June 2018 (£000)	Percentage increase	Average percentage increase over five years (including 2018/19)
Robert Noel	784	800	2.0	
Martin Greenslade	510	521	2.0	
Colette O'Shea	415	423	2.0	N/A
Scott Parsons	415	423	2.0	N/A

3.2 Non-executive Directors' fees

The fees for Non-executive Directors were last increased in 2016. In November 2017, we conducted a review in conjunction with our external advisers, Aon Hewitt, to ensure that they remained broadly competitive. The conclusions from this review were that the current fees remain appropriate, and therefore no changes are necessary.

Non-executive Directors' fees Table 53

	(£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 54

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 £6.9bn, a 3% per annum outperformance over three years would generate approximately £0.6bn 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 £14.1bn, 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 (excluding Landsec). Total benchmark value c. £170bn — 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 £14.1bn, 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 (excluding Landsec). Total benchmark value c. £170bn — 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 three-year plan set in 2018 — 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 the 2019 report.

3.3 Performance targets for the coming year continued

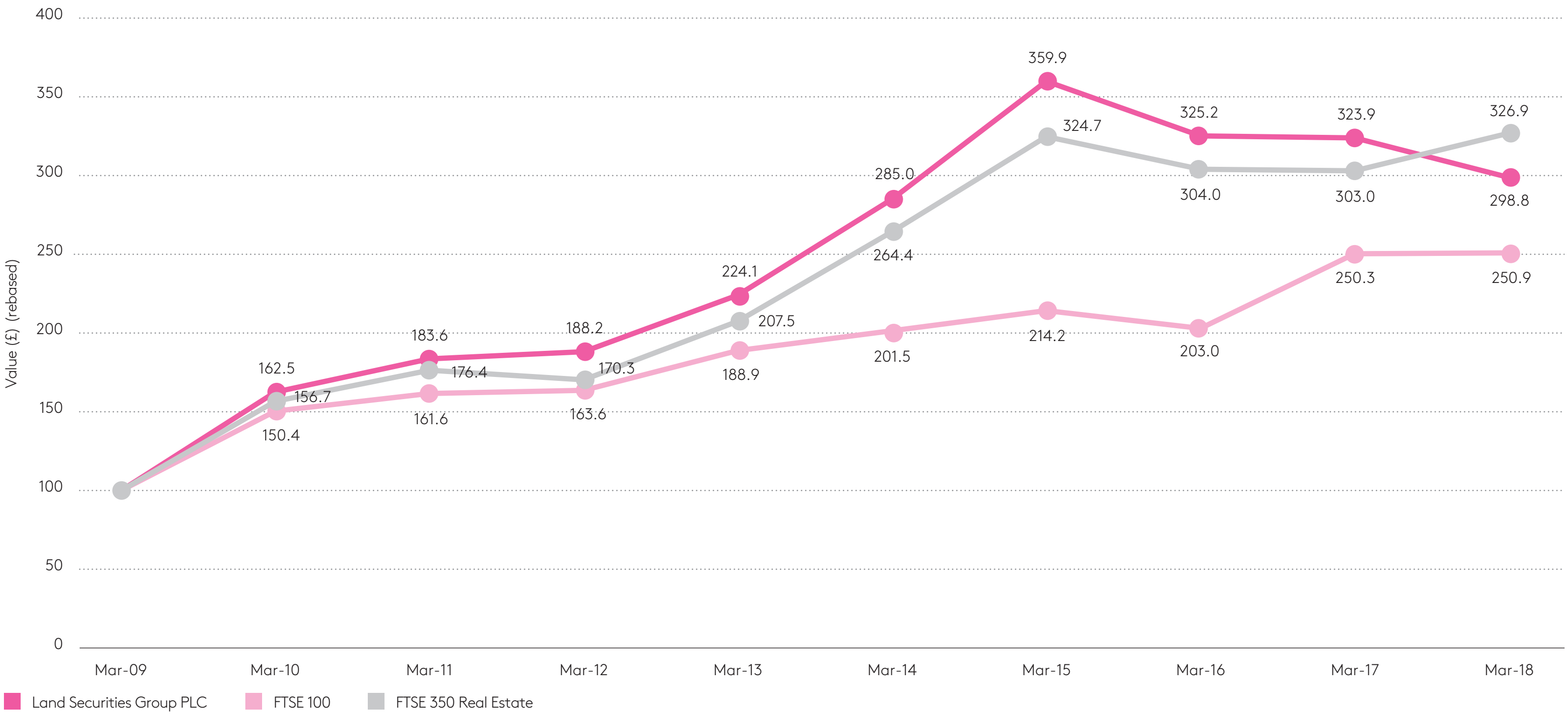
Metric	Link to strategy and value for shareholders	Performance measure	Performance range
Annual bonus – specific business targets			
— Development of 21 Moorfields, EC2 to be on programme and on budget (4.3% of award, or 6.5% of salary)	— A high-profile City development and key driver of income and revenue profit in the future — Proves the value of the development and drives capital growth.	— Specific threshold and stretch targets have been set for the 21 Moorfields development (project progress vs time and budget).	— Will be confirmed in the 2019 report.
— Feasibility work progressed on two suburban London shopping centres – O2 Finchley Road and W12 (4.3% of award, or 6.5% of salary)	— Potential driver of income, revenue profit and capital growth — Positive impact on the local communities.	— Specific targets have been set around the completion of feasibility studies and submission of planning applications.	— Will be confirmed in the 2019 report.
— Execution of improvement programmes for the three outlets acquired in 2017 (4.3% of award, or 6.5% of salary)	— Key in the delivery of projected performance targets — Driver of income, revenue profit and capital growth.	— Specific targets have been set around the completion of feasibility work and submission of planning applications.	— Will be confirmed in the 2019 report.
— Progress of Innovation workstreams (8.6% of award, or 13% of salary)	— Ensures that we are looking for innovative ways of generating value to shareholders — Fosters a culture of innovation in the business, enabling us to attract high quality people.	— Three specific workstreams have been selected for close review by the Board and the Committee.	— Significant progress is required for maximum payout.
— Embedding of a truly customer-centric culture and the Landsec brand (4.3% of award, or 6.5% 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.	— Externally-facilitated qualitative research will be carried out with all key stakeholder groups including customers and employees.	— Significant positive movement will be 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.	— Further measurable progress, by the end of March 2019, towards our stated 2020 targets around gender balance, ethnicity and data transparency.	— For maximum, progress must have been made against all four stated targets (see page 47).
— Community Employment Programme (2.7% of award, or 3.9% 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 further candidates by extending the programme beyond its current focus.	— **Threshold:** A further 143 candidates into employment — **Target:** A further 160 candidates into employment — **Maximum:** A further 180 candidates into employment.
— Environment – delivering quantifiable energy reduction targets 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 measurement of energy reduction in our highest consuming sites.	— **Threshold:** Agree to implement initiatives leading to a 1% reduction vs the 2013/14 corporate baseline — **Target:** Agree to implement initiatives leading to a 2% reduction vs the 2013/14 corporate baseline — **Maximum:** Agree to implement initiatives leading to a 3% reduction vs the 2013/14 corporate baseline.
— Individual targets for Executive Directors (13.0% of award, or 20.0% of salary)	— Ensures that each Executive Director focuses on his or her 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 the 2019 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 nine 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 nine years is also included.

Adjacent to this chart is a table showing how the ‘single number’ of total remuneration for the Chief Executive has moved over the same period. It should be noted that Robert Noel became Chief Executive in March 2012.

Total Shareholder Return Chart 55



This graph shows the value, by 31 March 2018, of £100 invested in Landsec 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.

Chief Executive remuneration over nine years Table 56

Year	Chief Executive	Single figure of total remuneration (£000)	Annual bonus award against maximum opportunity[1] (%)	Long-term incentive vesting against amount awarded (%)
2018	Robert Noel	1,693	58.8	0.0
2017	Robert Noel	2,692	58.8	50.0
2016	Robert Noel	2,011	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 14 most senior employees (excluding the Executive Directors) ranged from 36% to 64% of salary (2017: 37.6% to 74.5%). The average bonus was 52% of salary (2017: 55.6%). 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 2.5%. Including salary adjustments and promotions for employees below the Board, this rose to 2.75%. The ratio of the salary of the Chief Executive to the average salary across the Group (excluding Directors) was 14:1 (£784,041: £54,558).

Table 57

% change	Salary (%)	Benefits	Bonus (%)
Chief Executive	+2.0	No change	+2.1
Average employee	+2.5	No change	+9.0

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 58

	March 2018 (£m)	March 2017 (£m)	% change
Spend on pay[1]	52	50	4.0
Dividend paid[2]	314	289	8.7

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 1,178,179 shares at 31 March 2018.

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 2018, the total number of shares which could be allotted under this Scheme was 304,582 shares, which represents less than 0.1% 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 remuneration for roles below the Board, AON Hewitt has no other connection with the Group. For the financial year under review, it received fees of £71,035 in connection with its work for the Committee. The increase on last year can be explained by the support provided by AON Hewitt for the review of the Directors' Remuneration Policy.

8. Results of the voting on the Directors' Remuneration Report at the AGM in 2017

The votes cast on the resolutions seeking approval in respect of the Directors' Remuneration Report at the Company's 2017 AGM were as follows:

Table 59

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	98.83	1.17	590,685

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

The Directors' Remuneration Report was approved by the Board on 14 May 2018 and signed on its behalf by:

Simon Palley
Chairman of Remuneration Committee

Summary of Directors' Remuneration Policy

Approach to policy

As was highlighted last year, the three-year approval of our Remuneration Policy by shareholders expires in 2018 and we are therefore seeking a fresh mandate from our shareholders at the 2018 AGM for a new policy. Over the last three years, we have been very appreciative of the support demonstrated for our current policy, and last year's Remuneration Report received a 99% vote in favour. We do not believe that there is a compelling case for proposing a radical change to the design of our Executive Pay policy at this point, and the changes we are proposing are therefore limited.

The current and proposed Directors' Remuneration Policy (DRP) includes the following key features:

- It is based on a pay-for-performance model (fixed pay, plus annual bonus and Long-Term Incentive Plan (LTIP));
- Annual performance is assessed against a scorecard of financial and strategic key performance indicators (KPIs), with an emphasis on financial outcomes;
- Part of the annual bonus is deferred into shares;
- Long-term performance is assessed by the delivery of long-term sustainable returns to shareholders (relative total shareholder return (TSR)) and superior relative investment returns on the Company's property portfolio;
- A two-year LTIP post-vesting holding period operates; and
- There is shareholding requirement of 250% of salary for the CEO and 200% of salary for other Executive Directors.

There have been no material changes in the nature or scope of the business over the past three years, which remains focussed on the UK commercial real estate sector. We believe the current DRP provides a competitive and targeted remuneration package that will only reward the Executive Directors for delivering our collective key long-term objectives of long-term sustainable returns to shareholders and maximising investment returns on the Company's property portfolio.

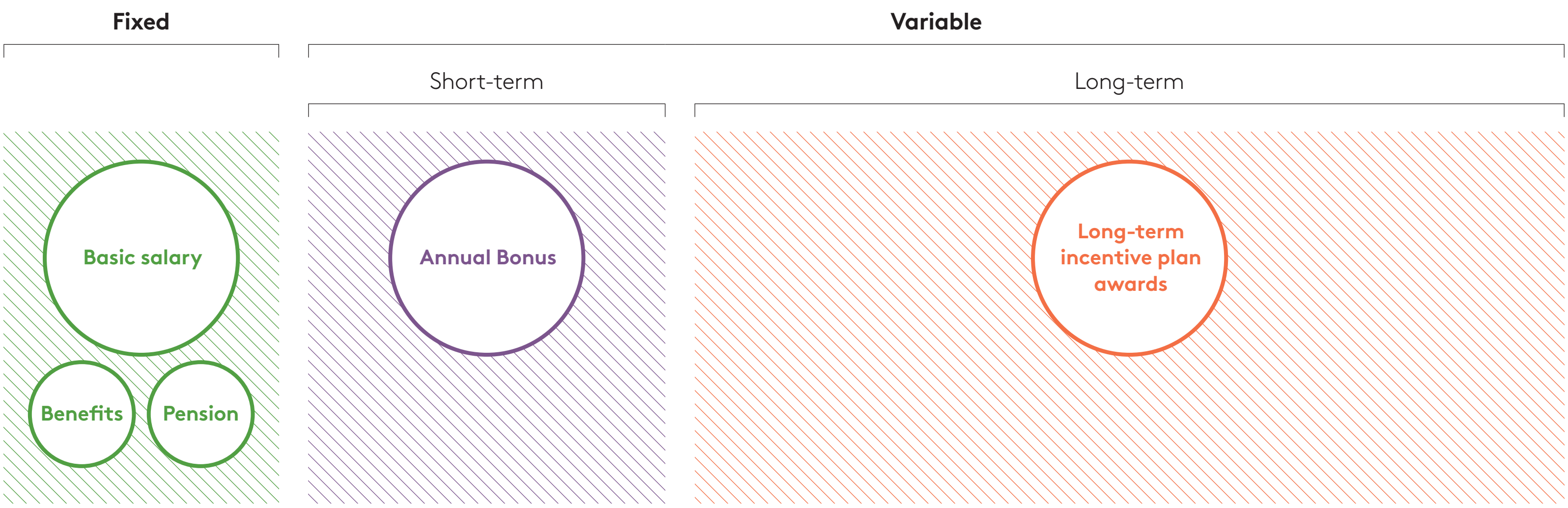
The one area we are proposing to change is our approach to pension provision for our Executive Directors. Some shareholders have expressed a desire for pension allowances to be aligned downward with the employer contribution percentages for the wider workforce. We are proposing a reduction in the pension allowance level for new Executive Director appointments from the current 25% to 10.5% of basic salary. This will bring the contribution level for new Executive Directors into line with normal maximum employee contributions for the general company workforce.

Outside of this one important change to pension arrangements, we believe that the current DRP remains fit for purpose and no other material changes are proposed. We are very grateful for the time that our key investors have given to reviewing our proposals, including those with whom we have held very helpful face-to-face meetings. The DRP as stated below will therefore be put to a formal shareholder vote at the 2018 Annual General Meeting in July.

As before, once it has been approved, the Committee will operate within the policy at all times. It will also operate 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 DRP, 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.

The diagram below shows the structure of our remuneration arrangements. More detail on the discretion reserved to the Committee for each element of the remuneration package can be found on pages 105-108.

Remuneration structure



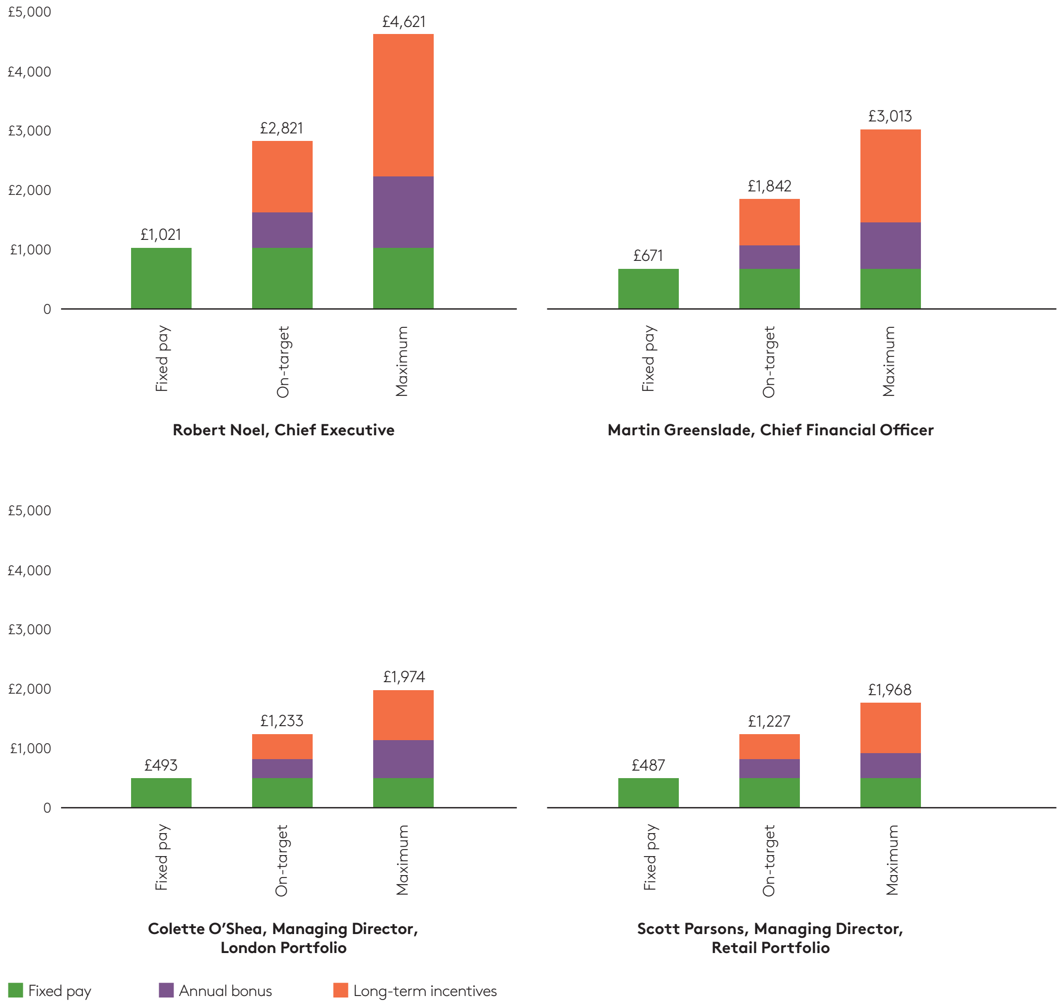
Details on page 105
Details on page 106
Details on page 107

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) Table 60



In developing the above scenarios, the following assumptions have been made:

Fixed pay

— Consists of the latest basic salary, benefits and pension allowances

— Pension allowance calculated at 25% of new basic salary for Robert Noel and Martin Greenslade, 12.5% for Colette O'Shea and 10.5% for Scott Parsons.

	Basic salary (£000)	Benefits (£000)	Pension (£000)	Total fixed (£000)
Robert Noel, Chief Executive	800	21	200	1,021
Martin Greenslade, Chief Financial Officer	521	20	130	671
Colette O'Shea, Managing Director, London Portfolio	423	17	53	493
Scott Parsons, Managing Director, Retail Portfolio	423	19	45	487

On-target award

Based on what an Executive 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

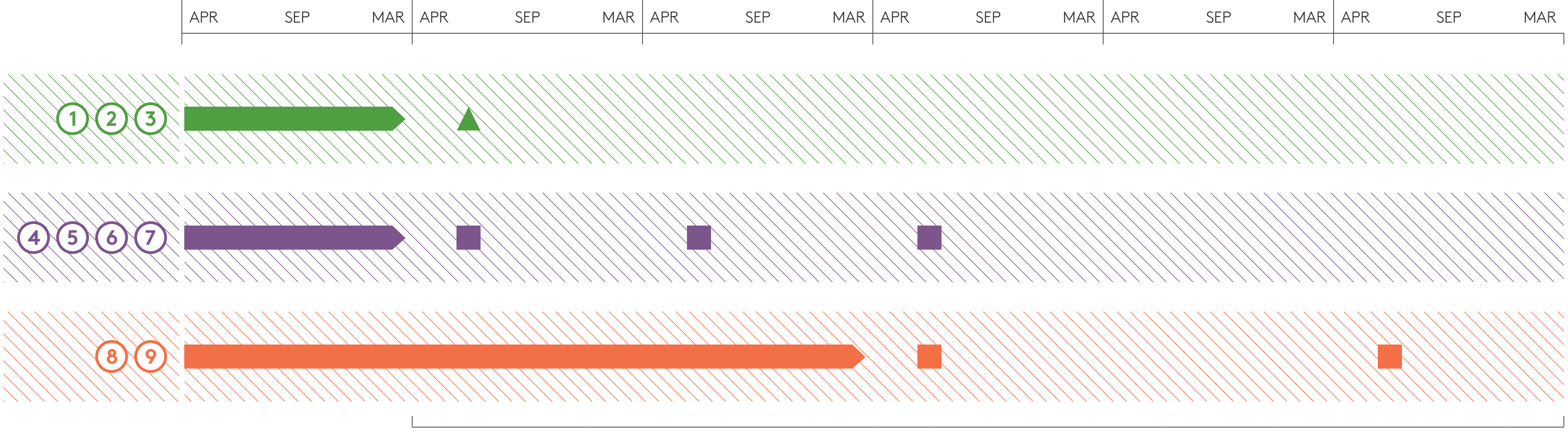
Summary of Directors' Remuneration Policy
continued

Payment schedule

The following table illustrates in which financial years the various payments in the charts are actually made or 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 Chart 61

Financial year	Base year	Base year +1	Base year +2	Base year +3	Base year +4	Base year +5
Element on remuneration received	1 Basic salary 2 Benefits 3 Pension	4 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 5 The remainder is deferred into nil-cost options	6 The first deferred portion of the annual bonus (i.e. between 50% and 100% of salary) vests	7 The final portion of the annual bonus (i.e. awards in excess of 100% of salary) vests 8 LTIP awards vest but remain subject to a two-year holding period[1]		9 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

Performance period ▲ Basic salary review ■ Payout

1. Assumes base year is year 1 of a three-year performance period.

Proposed Remuneration Policy

1. Executive Directors

Purpose and link to strategy	Operation	Opportunity	Discretion
1 Basic salary			
— To aid the recruitment, retention and motivation of high performing Executive Directors — 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 an Executive Director's role may also require a further adjustment to salary	— For 2018/19, the annual basic salaries of the Executive Directors are £799,722 (Chief Executive), £520,574 (Chief Financial Officer), and £423,300 for each of the two Managing Directors. This represents a 2% increase for each, slightly below the average increase for the workforce in general — The maximum annual salary increase will not normally exceed the average increase across the rest of the workforce (2018: 2.5%). 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 Executive Director — Where the Executive Director's salary has fallen below the market positioning	— The Committee has the discretion to determine the precise amount of basic salary within the DRP, including approving the salary for a newly-appointed Executive Director. It will also determine whether there are specific reasons to award salary increases greater than those for the wider workforce
2 Benefits			
— To provide protection and market competitive benefits to aid recruitment and retention of high performing Executive Directors	Executive 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 DRP will always apply as stated, unless there are specific individual circumstances why it should not
3 Pension			
— To help recruit and retain high performing Executive Directors — 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	— Unless they choose to take membership of the occupational pension scheme, Directors receive a pension contribution or cash allowance of 10.5% of salary, in line with the maximum employer contribution for employees in the Company's Group Personal Pension Plan. The current Chief Executive Officer and Chief Financial Officer each receives a cash contribution of 25% of salary, which was the previous policy. The Managing Director, London Portfolio receives a cash contribution of 12.5% of salary, an historic personal term of employment	— The DRP will normally apply as stated. However, the Committee has the discretion to maintain existing arrangements for current Directors

Proposed Remuneration Policy
continued

1. Executive Directors continued

Purpose and link to strategy	Operation	Opportunity	Discretion
4 5 6 7 **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 business measures and targets, for example development lettings targets, progress of new developments, and asset management initiatives, will protect the value of our properties in the short term, provide future opportunity for the business, and create long-term revenue profit performance
— The inclusion of broader KPIs – for example Sustainability and Diversity targets, ensure that these important priorities get the required focus from the executives
— 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 basic salary) of an Executive 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 individual 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
			— Although many of the outturns for the Group element of the bonus plan are calculated formulaically and therefore the Committee has no discretion to adjust these, it applies its judgement to assess progress against some of the broader measures, and in every case is able to use its discretion to adjust them down if appropriate
			— The Committee does have the discretion to award appropriate bonus payments under the individual element (maximum 20% of basic salary) to reflect the performance and contribution of an individual Executive 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 Executive Director should receive a bonus and whether and what proportion of awards should be paid at the time of leaving or at a subsequent date
			  — Whether a departing Executive 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
8 9 **Long-Term Incentive Plan (LTIP)**			

— Incentivises value creation over the long-term in excess of that created by general market increases, and equally rewards outperformance of our peer group when the overall market has declined
— Rewards execution of our strategy and the long-term outperformance of our competitors
— Aligns the long-term interests of Executive 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
	— In order to give the participants greater flexibility over the timing of exercise, the awards are given as nil-cost share options with a seven-year exercise period. Any outstanding awards also vest as nil-cost options, and dividends accrue on vested options where they are subject to a two-year holding period, but not thereafter
	— Executive Directors are required to hold vested awards 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
		— Award limit – 300% of salary	— The Committee may use its discretion to make lower grants of shares to Executive Directors if appropriate. For example the two Managing Directors will receive share awards equivalent to 200% of salary in 2018
			— 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 DRP, 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 Executive Director is treated as a "good leaver" for the purposes of the LTIP and whether and what proportion of awards vest at the time of leaving or at a subsequent vesting date
			  — How to deal with a change of control or any other corporate event which may require adjustments to awards

1. Executive Directors continued

Purpose and link to strategy	Operation	Opportunity	Discretion
Savings Related Share Option Scheme (SAYE Scheme)			
— To encourage all employees to make a long-term investment in the Company's shares, through a savings-related arrangement	— All employees, including Executive Directors, are entitled to participate in the SAYE Scheme operated by the Company in line with UK HMRC guidelines currently prevailing	— The maximum participation levels may vary in line with HMRC limits. For 2018/19, 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 DRP will apply as stated — Within the DRP, the Committee will retain the flexibility to determine whether a departing Executive Director should be treated as a 'good leaver' — The Executive Directors will be eligible to participate in any other HMRC-approved all-employee shareplans that may be implemented
Share ownership guidelines			
— To provide close alignment between the longer-term interests of Executive Directors and shareholders in terms of the Company's growth and performance	— Executive Directors are expected to build up and maintain shareholdings with a value set at a percentage of basic 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	— N/A	— The DRP will apply as stated

2. Non-executive Directors

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 on page 97 — 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. Occasionally awarded to a Non-executive Director who completes a specific additional piece of work on behalf of the Board	— 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 Non-executive 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

Purpose and link to strategy	Operation	Opportunity
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 (including any tax thereon, where applicable) — 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 Non-executive Directors and shareholders in terms of the Company's growth and performance	— The current share ownership guidelines require Non-executive Directors to achieve an ownership level of 100% of annual fees within three years of appointment	— N/A

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 Director'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 Director 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 will vest on a pro-rated 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 will be set in accordance with the terms of the Company's approved DRP in force at the time of appointment. The Committee has the flexibility to set the basic salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years (subject to performance in the role) to bring the salary to the desired positioning. Only in very exceptional circumstances will the salary of a newly appointed Executive Director exceed the market median benchmark for the role.

The annual bonus will operate in accordance with the terms of the approved DRP, 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 will also operate in accordance with the DRP. 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, but it may be lower. This limit does not include the value of any buy-out arrangements deemed appropriate (see over the page).

Proposed Remuneration Policy
continued

In addition to the elements of the remuneration package covered by the policy, the Committee may 'buy out' certain existing remuneration arrangements 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 will be based solely on remuneration lost when leaving the former employer and will 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 will 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, for a limited period only, 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.

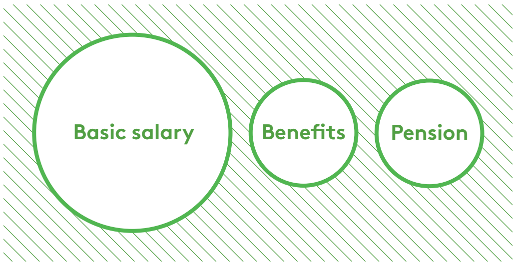
Shareholders will be informed of the remuneration package and all additional payments to newly-appointed Executive Directors at the time of their appointment. This was the case when the two Managing Directors for the London and Retail portfolios were appointed to the Board in January 2018.

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 are set in accordance with the approved remuneration policy in force at that time.

4. Application of the Policy



Policy Element	Application in 2018/19
① **Basic salary**	
Details on page 105	— The increase in current salaries for the Executive Directors will be 2%, just below the average increase to employees' pay across the Group in 2018. Therefore, the new annual gross salaries will be £799,782 for Robert Noel, £520,574 for Martin Greenslade, and £423,300 for Colette O'Shea and Scott Parsons. These will be effective from 1 June 2018
② **Benefits**	
Details on page 105	— 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
③ **Pension**	
Details on page 105	— Although the new policy will apply from 2018, the Committee has used its discretion to maintain a supplement of 25% of basic salary (gross) to Robert Noel and Martin Greenslade. Due to a historic term of her employment, Colette O'Shea will retain a cash supplement of 12.5% of her salary. The new policy of 10.5% of salary will be applied to Scott Parsons, equivalent to the previous contribution he received in respect of pension

Policy Element	Application in 2018/19
④ ⑤ ⑥ ⑦ **Annual bonus**	
Details on page 98-99	— 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

Policy Element	Application in 2018/19
8 9 Long-Term Incentive Plan awards (and Matching Share Plan awards for 2018 vesting)	
Details on page 98	— 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. Robert Noel and Martin Greenslade will each receive an award of 300% of salary. In view of their lower levels of Board experience, Colette O'Shea and Scott Parsons will each receive an award equivalent to 200% of salary for 2018. Awards are made in the form of nil-cost options with a seven-year exercise period. — Outstanding LTIP and Matching Share Plan awards granted in 2015 will vest later in 2018 subject to the performance conditions set at the time and the plan rules under which they were granted

Policy Element	Application in 2018/19
Savings Related Share Option Scheme	
Details on page 108	— 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 page 108	— The existing share ownership levels (i.e. 250% of salary for the Chief Executive and 200% of salary for other Executive Directors) will continue to apply, recognising that the two newly-appointed Directors will be given time to build up their shareholding
Executive Director Recruitment and Termination Provisions	
Details on page 109	— 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 page 109	— 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

Policy Element	Application in 2018/19
Non-executive Director fees	
Details on page 97	— As the fees for Non-executive Directors were reviewed in late 2017, 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 until July 2018, and this will be the same fee payable to Cressida Hogg upon her appointment as Chairman. 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

Directors' Report

The Directors present their report for the year ended 31 March 2018.

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 62

Likely future developments in the business	Pages 12-13
Employee engagement	Page 46
Going Concern and Viability Statement	Page 58
Governance	Pages 59-114
Capitalised interest	Page 136
Financial instruments	Page 156
Credit, market and liquidity risks	Pages 157-160
Related party transactions	Page 169
Greenhouse gas emissions	Pages 182-183

UK Corporate Governance Code

The Company has complied in full with the principles of the 2016 UK Corporate Governance Code throughout the year. The Code can be found on the FRC's website: frc.org.uk.

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.

Landsec 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.

Dividends

The results for the year are set out in the financial statements on pages 123-170.

The Company has paid three quarterly interim dividends to shareholders for the year under review, each of 9.85p per ordinary share:

Table 63

	1st Interim 2017/18	2nd Interim 2017/18	3rd Interim 2017/18	Final 2017/18 (proposed)
Property Income Distribution (PID)/Non-PID	PID	Non-PID	PID	PID
Record Date	8 September 2017	1 December 2017	9 March 2018	22 June 2018
Payment Date	6 October 2017	5 January 2018	6 April 2018	27 July 2018
Amount (per ordinary share)	9.85p	9.85p	9.85p	14.65p

The Company is proposing a final dividend of 14.65p per share. The proposed final dividend brings the total dividend for the year to 44.2p, an increase of 14.7% over the prior year. Subject to shareholders' approval at the 2018 AGM, the final dividend will be paid on 27 July 2018 to shareholders on the register at the close of business on 22 June 2018.

The Board has also declared a first quarterly dividend in respect of the 2018/19 financial year of 11.3p per ordinary share, to be paid on 5 October 2018 to shareholders on the register at the close of business on 7 September 2018.

In addition to the payment of dividends, the Company made a return of capital to shareholders, details of which can be found on page 113.

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

Events since the balance sheet date

Since 31 March 2018, there have been no material items to report.

Directors

The names and biographical details of the current Directors and the Board Committees of which they are members are set out on pages 62-63.

All the Directors held office throughout the year except Colette O'Shea and Scott Parsons, both of whom joined the Board on 1 January 2018.

Kevin O'Byrne stepped down as a Non-executive Director of the Board on 27 September 2017.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-executive Directors are available for inspection at Landsec's registered office. Brief details of these are also included in the Directors' Remuneration Report on pages 109-110.

Appointment and removal of Directors

The appointment and replacement of Directors is governed by Landsec'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 Landsec AGM. In addition to any power of removal conferred by the Act, Landsec 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 Landsec 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. The Articles can only be amended, or new Articles adopted, by a resolution passed by shareholders in general meeting and being approved 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 Landsec or any of its subsidiaries. At no time during the year ended 31 March 2018 did any Director hold a material interest, directly or indirectly, in any contract of significance with Landsec or any subsidiary undertaking other than the Executive Directors in relation to their Service Agreements.

Directors' indemnities and insurance

Landsec 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 Landsec's registered office and will be available at the 2018 AGM. Landsec has in place appropriate Directors' & Officers' Liability insurance cover in respect of potential legal action against its Directors.

Share capital

Landsec has a single class of share capital which is divided into ordinary shares of nominal value 10²⁄₃p each ranking pari passu. No other securities have been issued by the Company. At 31 March 2018, there were 751,298,964 ordinary shares in issue and fully paid, of which 9,839,179 are held in treasury. No shares were bought back during the year. Further details relating to share capital, including movements during the year, are set out in note 34 to the financial statements.

Return of capital and share consolidation

The nominal value of the Company's shares and the number of shares in issue changed during the year. On 27 September 2017, Landsec held an EGM to seek shareholder approval in relation to the return of capital to shareholders of the majority of the proceeds of the sale of 20 Fenchurch Street, EC3. The amount returned totalled £475m, equivalent to 60p per share, effected by way of a B share scheme. Shareholders were issued B shares which were immediately redeemed by the Company for 60p per share. This was followed by a 15 for every 16 share consolidation which changed the nominal value of our shares from 10p to 10²⁄₃p. The rationale for the share consolidation was to maintain comparability, so far as possible, between the historical per share financial information, for example, dividends per share, and future financial information on a per share basis without being distorted by the effect of the return of capital.

At the EGM, shareholders also refreshed the authority previously given at Landsec's AGM held on 13 July 2017 for the Company to make market purchases of ordinary shares, to allot shares and to disapply pre-emption rights within certain limits. These authorities will expire at the 2018 AGM and a renewal of each authority will be sought.

Further information on our return of capital and share consolidation, together with a worked example for shareholders of the tax calculation on the return of capital, can be found on our website: landsec.com/2017-return-capital.

Substantial shareholders

As at 31 March 2018, 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 64

Shareholder name	Number of ordinary shares	Percentage of total voting rights attaching to issued share capital[1]
BlackRock, Inc.	67,987,111	9.17
Norges Bank Investment Management	52,729,065	7.11
The Vanguard Group, Inc.	25,235,050	3.40
Legal & General Investment Management Ltd	23,930,321	3.23

1. The total number of voting rights attaching to the issued share capital of the Company on 31 March 2018 was 741,459,785.

The Company received no DTR notifications, by way of change to the above information or otherwise, during the period from 1 April to 14 May 2018, 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.

Employee Benefit Trust

ACS HR Solutions Share Plan Services (Guernsey) Limited is a shareholder who acts as the trustee (Trustee) of Landsec'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 Landsec's various employee share plans. The EBT purchased a total of 1,063,770 shares in the market during the year for an aggregate consideration of £10,886,169 (including all dealing costs). Of these shares purchased, 63,770 were purchased using the 60p per share from the return of capital. The EBT released 678,147 shares during the year to satisfy vested share plan awards. At 31 March 2018, the EBT held 1,178,179 Land Securities Group PLC shares in trust. A dividend waiver is in place from the Trustee in respect of all dividends payable by Landsec on shares which it holds in trust. Further details regarding the EBT, and of shares issued pursuant to Landsec's various employee share plans during the year, are set out in note 35 to the financial statements.

Shareholder voting rights and restrictions on transfer of shares

All the issued and outstanding ordinary shares of Landsec 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. However, at the EGM held in September 2017 we asked the EBT to vote in favour of the return of capital and share consolidation. While the EBT usually waives its right to any dividends, the EBT accepted the capital return and used the funds to purchase shares in the market to take its shareholding up to the same level as before the consolidation.

If any offer is made to all shareholders to acquire their shares in Landsec, 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.

Directors' report
continued

Landsec 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 Landsec's ordinary shares, are set out in the Articles and in the explanatory notes that accompany the Notice of the 2018 AGM. These documents are available on Landsec's website at: landsec.com/agm.

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
Landsec 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 and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work. Our Policy is built on these foundations including, without limitation, the principles of equal opportunities, collective bargaining, freedom of association and protection from forced or child labour. The Policy has been extended to take account of the new Modern Slavery Act that came into force in October 2015 and requires Landsec to report annually on its workforce and supply chain, specifically to confirm that workers are not enslaved or trafficked. Landsec's second slavery and human trafficking statement, relating to the financial year ended 31 March 2017, was approved by the Board on 28 September 2017 and posted on our website on 30 September 2017.

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. Landsec 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. Landsec 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 can be found in the Social review on pages 46-51.

Political donations
The Company did not make any political donations or expenditure in the year that requires disclosure (2016/17: 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 2018 AGM. The reappointment has been recommended to the Board by the Audit Committee and EY has indicated its willingness to remain in office.

2018 Annual General Meeting
This year's AGM will be held at 10.00 am on Thursday, 12 July 2018, 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, can be found on our website: landsec.com/agm.

The Directors' Report was approved by the Board on 14 May 2018.

By Order of the Board

Tim Ashby
Group General Counsel and Company Secretary

Land Securities Group PLC
Company number 4369054

Financial statements

Contents

Statement of Directors' Responsibilities

The Annual Report 2018 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 appear 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 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

— Colette O'Shea, Managing Director, London Portfolio

— Scott Parsons, Managing Director, Retail Portfolio

— Edward Bonham Carter, Senior Independent Director*

— Chris Bartram*

— Nicholas Cadbury*

— Cressida Hogg*

— Simon Palley*

— Stacey Rauch*

* Non-executive Directors

The Statement of Directors' Responsibilities was approved by the Board of Directors on 14 May 2018 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 2018 and of the Group's loss 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 2018	Balance sheet as at 31 March 2018
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 40 to the financial statements	Related notes 1 to 40 to the financial statements

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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Conclusions relating to principal risks, going concern and viability statement
We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:
- the disclosures in the Annual Report set out on pages 54-57 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on pages 52-53 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 58 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 Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 58 in the Annual Report as to how they have assessed the prospects of the Group, 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 Group 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.

Independent Auditor's Report

continued

Overview of our audit approach

Key audit matters	— The valuation of the property portfolio, including investment properties, investment properties held in joint ventures and trading properties — Revenue recognition, including the timing of revenue recognition, the treatment of rents and 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 £124m which represents 1% of the carrying value of investment properties line item in the Group balance sheet at 31 March 2018 — Specific materiality of £20m which represents 5% of revenue profit before tax is applied to account balances not related to investment properties (either wholly owned or held within joint ventures)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The valuation of the property portfolio, including investment properties, investment properties held in joint ventures and trading properties 2018: £12,336m in investment properties, £1,235m (the Group's share) in investment properties held in joint ventures and £24m in trading properties (2017: £12,144m in investment properties, £1,763m in investment properties held in joint ventures and £122m in trading properties). Refer to the Accountability section of the Annual Report (pages 78-83); Accounting policies (page 139-140); notes 14, 15 and 16 of the financial statements (pages 141-149). The valuation of property (including investment properties, investment properties held in joint ventures and trading properties) 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 property included: We evaluated the Group's controls over data used in the valuation of the 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 67% of the market value of investment properties (including investment properties held in joint ventures) and 95% of the carrying value of trading properties. 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 on the properties not included in the sample reviewed in detail by our Chartered Surveyors by comparing assumptions and the value of each property in the portfolio by reference to our understanding of the UK real estate market, external market data and asset specific considerations to evaluate the appropriateness of 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 also performed site visits to some investment properties which are not under development, in order to gain a better understanding of the assets.	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 and net realisable value of trading properties at 31 March 2018. 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 we did not identify evidence of undue management influence.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The valuation of the property portfolio, including investment properties, investment properties held in joint ventures and trading properties continued	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. On trading properties, we compared cost to net realisable value (actual sales prices achieved or market evidence) to identify any potential indicator of impairment. **Scope of our procedures** We performed full scope audit procedures over valuation of all properties, including investment properties, investment properties held in joint ventures and trading properties.	
Revenue recognition, including the timing of revenue recognition, the treatment of rents and incentives and recognition of trading property proceeds 2018: £612m rental income and £96m trading property sales proceeds (2017: £587m rental income and £62m trading property sales proceeds). Refer to the Accountability section of the Annual Report (pages 78-83); Accounting policy (page 133); and note 6 of the financial statements (page 133). 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 information management system, including lease incentive clauses. Detailed analytical procedures and cut off procedures were performed using data analytics tools 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 assessed the 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, we have expanded the definition of the significant risk around valuation of property to include trading properties. There have been no other changes to our assessment of the risks of material misstatement.

An overview of the scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

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.

Independent Auditor's Report
continued

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

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

	Basis	Materiality	Performance materiality	Audit differences
Overall	1% (2017: 0.5%) of carrying value of investment properties	£124m (2017: £61m)	£93m (2017: £46m)	£6m (2017: £3m)
Account balances not related to investment properties (either wholly owned or held within joint ventures)	Revenue profit before tax (2017: 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))	£20m (2017: £21m)	£15m (2017: £16m)	£1m (2017: £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 85% of the Group's total assets (2017: 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 benchmarked our basis for overall materiality against other UK listed REITs and determined that it is appropriate to increase overall planning materiality from 0.5% to 1% of investment property value so that a comparable approach is applied. Based on this, we have determined that it is appropriate to increase overall planning materiality to 1% of the carrying value of investment property (2017: 0.5%).

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 revenue profit before tax of £406m (2017: £382m). We believe that it is appropriate to use a profit based measure as profit is also a focus of users of the financial statements. The basis of materiality for other account balances not related to investment properties has changed from Adjusted PBT in 2017 to revenue profit before tax in 2018. For clarity purposes we have refined the measure to be revenue profit as it is considered to be a more appropriate measure to adopt in this regard, as it is the Group's primary measure of underlying profit.

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% (2017: 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 £6m (2017: £3m), as well as audit differences in excess of £1m (2017: £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.

Other information

The other information comprises the information included in the Annual Report, including Strategic Report and Governance other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 116 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on pages 76-83 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 116 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

In our opinion, 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; and
- 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

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 116, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax regulations in the United Kingdom, including the UK REIT regulations.
- We understood how the Company is complying with those frameworks through enquiry with management, and by identifying the Company's policies and procedures regarding compliance with laws and regulations. We also identified those members of management who have the primary responsibility for ensuring compliance with laws and regulations, and for reporting any known instances of non-compliance to those charged with governance.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by reviewing the Companies risk register, enquiry with management and the Audit Committee during the planning and execution phases of our audit.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved the following:
  - Inquire of members of Senior Management, and when appropriate, those charged with governance regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements.
  - Reading minutes of meetings of those charged with governance.
  - Obtaining and reading correspondence from legal and regulatory bodies including HMRC.

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company at the AGM on 18 July 2013 to audit the financial statements for the year ending 31 March 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering all year ends between 31 March 2014 and 31 March 2018. Our audit engagement letter was refreshed on 23 January 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Eamonn McGrath (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 May 2018

Income statement
for the year ended 31 March 2018

	Notes	2018 Revenue profit £m	2018 Capital and other items £m	2018 Total £m	2017 Revenue profit £m	2017 Capital and other items £m	2017 Total £m
Revenue	6	**753**	**99**	**852**	721	66	787
Costs	7	**(261)**	**(82)**	**(343)**	(242)	(24)	(266)
		492	**17**	**509**	479	42	521
Profit on disposal of investment properties		**–**	**1**	**1**	–	19	19
Profit/(loss) on disposal of investment in joint venture		**–**	**66**	**66**	–	(2)	(2)
Profit on disposal of other investment		**–**	**–**	**–**	–	13	13
Net deficit on revaluation of investment properties	14	**–**	**(98)**	**(98)**	–	(186)	(186)
Operating profit/(loss)		**492**	**(14)**	**478**	479	(114)	365
Share of post-tax profit from joint ventures	16	**9**	**18**	**27**	21	48	69
Finance income	10	**31**	**8**	**39**	37	–	37
Finance expense	10	**(126)**	**(669)**	**(795)**	(155)	(204)	(359)
(Loss)/profit before tax		**406**	**(657)**	**(251)**	382	(270)	112
Taxation	12	**–**	**(1)**	**(1)**	–	1	1
(Loss)/profit attributable to shareholders		**406**	**(658)**	**(252)**	382	(269)	113
Earnings per share attributable to shareholders:							
Basic (loss)/earnings per share	5			**(32.9)p**			14.3p
Diluted (loss)/earnings per share	5			**(32.9)p**			14.3p

Statement of comprehensive income
for the year ended 31 March 2018

	Notes	2018 Total £m	2017 Total £m
(Loss)/profit attributable to shareholders		**(252)**	113
Items that may be subsequently reclassified to the income statement:			
Fair value movement on cash flow hedges arising during the year		**20**	–
Revaluation of other investments		**(1)**	–
Items that will not be subsequently reclassified to the income statement:			
Net re-measurement loss on defined benefit pension scheme	32	**(2)**	(12)
Deferred tax credit on re-measurement above		**1**	2
Other comprehensive income/(loss) attributable to shareholders		**18**	(10)
Total comprehensive (loss)/income attributable to shareholders		**(234)**	103

Balance sheets

at 31 March 2018

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Investment properties	14	**12,336**	12,144	**–**	–
Intangible assets	19	**34**	36	**–**	–
Net investment in finance leases	18	**162**	165	**–**	–
Investments in joint ventures	16	**1,151**	1,734	**–**	–
Investments in subsidiary undertakings	28	**–**	–	**6,211**	6,205
Trade and other receivables	26	**165**	123	**–**	–
Other non-current assets	29	**49**	51	**–**	–
Total non-current assets		**13,897**	14,253	**6,211**	6,205
Current assets					
Trading properties	15	**24**	122	**–**	–
Trade and other receivables	26	**471**	418	**–**	17
Monies held in restricted accounts and deposits	22	**15**	21	**4**	4
Cash and cash equivalents	23	**62**	30	**–**	–
Total current assets		**572**	591	**4**	21
Total assets		**14,469**	14,844	**6,215**	6,226
Current liabilities					
Borrowings	21	**(872)**	(404)	**–**	–
Trade and other payables	27	**(294)**	(302)	**(2,258)**	(1,394)
Other current liabilities	30	**(14)**	(7)	**–**	–
Total current liabilities		**(1,180)**	(713)	**(2,258)**	(1,394)
Non-current liabilities					
Borrowings	21	**(2,752)**	(2,545)	**–**	–
Trade and other payables	27	**–**	(25)	**–**	–
Other non-current liabilities	31	**(8)**	(9)	**–**	–
Redemption liability		**(37)**	(36)	**–**	–
Total non-current liabilities		**(2,797)**	(2,615)	**–**	–
Total liabilities		**(3,977)**	(3,328)	**(2,258)**	(1,394)
Net assets		**10,492**	11,516	**3,957**	4,832
Equity					
Capital and reserves attributable to shareholders					
Ordinary shares	34	**80**	80	**80**	80
Share premium	36	**317**	791	**317**	791
Other reserves		**26**	30	**38**	39
Merger reserve		**–**	–	**374**	374
Retained earnings		**10,069**	10,615	**3,148**	3,548
Total equity		**10,492**	11,516	**3,957**	4,832

The loss for the year of the Company was £93m (2017: £68m).

The financial statements on pages 123 to 170 were approved by the Board of Directors on 14 May 2018 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 2018

			Attributable to shareholders		Group
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2016	80	790	28	10,801	11,699
Total comprehensive income for the financial year	–	–	–	103	103
Transactions with shareholders:					
Share-based payments	–	1	8	–	9
Dividends paid to shareholders	–	–	–	(289)	(289)
Acquisition of own shares	–	–	(6)	–	(6)
Total transactions with shareholders	–	1	2	(289)	(286)
At 31 March 2017	80	791	30	10,615	11,516
Total comprehensive loss for the financial year	**–**	**–**	**–**	**(234)**	**(234)**
Transactions with shareholders:					
Share-based payments	**–**	**1**	**6**	**2**	**9**
Capital distribution	**–**	**(475)**	**–**	**–**	**(475)**
Dividends paid to shareholders	**–**	**–**	**–**	**(314)**	**(314)**
Acquisition of own shares	**–**	**–**	**(10)**	**–**	**(10)**
Total transactions with shareholders	**–**	**(474)**	**(4)**	**(312)**	**(790)**
At 31 March 2018	**80**	**317**	**26**	**10,069**	**10,492**

						Company
	Ordinary shares £m	Share premium £m	Other reserves £m	Merger reserve £m	Retained earnings[1] £m	Total equity £m
At 1 April 2016	80	790	42	374	3,898	5,184
Total comprehensive loss for the financial year	–	–	–	–	(68)	(68)
Share-based payments	–	1	(3)	–	7	5
Dividends paid to shareholders	–	–	–	–	(289)	(289)
At 31 March 2017	80	791	39	374	3,548	4,832
Total comprehensive loss for the financial year	**–**	**–**	**–**	**–**	**(93)**	**(93)**
Share-based payments	**–**	**1**	**(1)**	**–**	**7**	**7**
Capital distribution	**–**	**(475)**	**–**	**–**	**–**	**(475)**
Dividends paid to shareholders	**–**	**–**	**–**	**–**	**(314)**	**(314)**
At 31 March 2018	**80**	**317**	**38**	**374**	**3,148**	**3,957**

1. Available for distribution.

Statement of cash flows

for the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Net cash generated from operations	13	**439**	464
Interest received		**29**	15
Interest paid		**(100)**	(152)
Capital expenditure on trading properties		**(24)**	(12)
Disposal of trading properties		**102**	69
Other operating cash flows		**(1)**	2
Net cash inflow from operating activities		**445**	386
Cash flows from investing activities			
Investment property development expenditure		**(33)**	(46)
Acquisition of investment properties		**(349)**	(16)
Other investment property related expenditure		**(58)**	(80)
Disposal of investment properties		**158**	245
Disposal of investment in joint venture		**633**	13
Cash contributed to joint ventures	16	**(111)**	(67)
Loan advances to joint ventures		**(72)**	(45)
Loan repayments by joint ventures	16	**–**	54
Cash distributions from joint ventures	16	**190**	44
Other investing cash flows		**–**	(19)
Net cash inflow from investing activities		**358**	83
Cash flows from financing activities			
Proceeds from new borrowings (net of finance fees)		**629**	356
Repayment of borrowings	21	**–**	(391)
Redemption of medium term notes	21	**(1,256)**	(690)
Premium paid on redemption of medium term notes	21	**(385)**	(137)
Redemption of QAG Bond	21	**(273)**	–
Premium paid on redemption of QAG Bond	21	**(61)**	–
Issue of medium term notes (net of finance fees)	21	**1,334**	698
Net cash inflow/(outflow) from derivative financial instruments		**31**	(4)
Dividends paid to shareholders	11	**(314)**	(289)
Capital distribution		**(475)**	–
Other financing cash flows		**(1)**	(7)
Net cash outflow from financing activities		**(771)**	(464)
Increase in cash and cash equivalents for the year		**32**	5
Cash and cash equivalents at the beginning of the year		**30**	25
Cash and cash equivalents at the end of the year	23	**62**	30

The Company did not hold any cash and cash equivalents balances at 31 March 2018 (2017: none) and therefore did not have any cash flows in the year then ended (2017: none).

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 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.

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. Other reserves includes the Capital redemption reserve, which represents the nominal value of cancelled shares, the Share-based payment reserve and Own shares held by the Group.

Basis of consolidation
The consolidated financial statements for the year ended 31 March 2018 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.

Judgements
— Accounting for property acquisitions and disposals (note 14).
— Compliance with the Real Estate Investment Trust (REIT) taxation regime and the recognition of deferred tax assets and liabilities (note 12).

Estimates
— Valuation of investment and trading properties (note 14).

3. Changes in accounting policies and standards

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 position or performance of the Group, but have resulted in additional disclosures. Additional disclosures included in the financial statements as a result of adopting the Amendments to IAS 7 Statement of Cash Flows, relating to changes in liabilities resulting from financing activities are included in note 21.

Change in accounting policy
As part of the Group's review of the impact of adopting IFRS 9 on the bond exchange de-recognition adjustment (see note 21 for further details on the bond exchange de-recognition adjustment), the Group has taken the opportunity to revisit its accounting policy on determining whether an existing liability has been extinguished when carrying out a debt refinancing transaction. Under the Group's current accounting policy, the result of the quantitative '10% test', as described in IAS 39, is the key criterion considered to determine whether an existing liability has been extinguished. Under the revised policy, greater weight will be given to qualitative factors when assessing the appropriate treatment. With effect from 1 April 2018, the Group's revised policy is:

'When debt refinancing exercises are carried out, existing liabilities will be treated as having been extinguished when the new liability is substantially different from the existing liability. In making this assessment, the Group will consider the transaction as a whole, taking into account both qualitative and quantitative characteristics.'

This change in accounting policy will result in the debt refinancing exercise completed on 3 November 2004 being treated as an extinguishment of the original debt, and therefore the bond exchange de-recognition adjustment will no longer be held on the Group's balance sheet.

The revised accounting policy will provide more relevant and reliable information by more accurately reflecting the Group's current net asset position and the carrying value of its borrowings. The Group currently reports this revised position using alternative performance measures which adjust net assets (see note 5) and net debt (see note 20). Under the revised accounting policy, the Group will report fewer alternative performance measures.

The change in accounting policy will be applied retrospectively and comparatives restated accordingly. Had this policy been applied at 31 March 2018, net assets would have been £106m lower at £10,386m, and the loss attributable to shareholders would have been £208m smaller at £44m. Net assets per share would have been 14p lower at 1,404p, and the loss per share would have been 27.1p smaller at 5.8p. The change in accounting policy will have no impact on adjusted net assets per share and adjusted earnings per share as these measures already exclude the bond exchange de-recognition adjustment and the related amortisation charge respectively.

Amendments to IFRS
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 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 has completed its impact assessment and does not expect IFRS 9 to have a material impact on its reported results.
— IFRS 15 Revenue from Contracts with Customers (effective 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, service charge income and expense will be presented on a net basis for those properties where the property management activities are performed by a third party, which the Group considers to be the principal delivering the service. The impact on presentation for the year ended 31 March 2018 is expected to be a £21m reduction in both service charge income and expense.
— IFRS 16 Leases (effective from 1 April 2019) – the Group continues to assess the impact of IFRS 16 Leases, effective from 1 April 2019. Based on the initial impact assessment, the Group expects to report separately service charge income for leases where a single payment is received to cover both rent and service charge. The total payment received is currently reported as rental income, but upon adoption of the standard, the service charge component will be separated and reported as service charge income in the notes to the financial statements. There will be no net impact on profit attributable to shareholders.

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 £14.1bn, 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, refinancing activity 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), hotel and leisure assets and retail parks. 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 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 70.

4. Segmental information continued

Revenue profit	Retail Portfolio £m	London Portfolio £m	2018 Total £m	Retail Portfolio £m	London Portfolio £m	2017 Total £m
Rental income	359	304	663	342	296	638
Finance lease interest	1	9	10	1	9	10
Gross rental income (before rents payable)	360	313	673	343	305	648
Rents payable[1]	(9)	(3)	(12)	(8)	(3)	(11)
Gross rental income (after rents payable)	351	310	661	335	302	637
Service charge income	60	45	105	56	45	101
Service charge expense	(69)	(47)	(116)	(60)	(46)	(106)
Net service charge expense	(9)	(2)	(11)	(4)	(1)	(5)
Other property related income	20	18	38	20	14	34
Direct property expenditure	(40)	(37)	(77)	(36)	(30)	(66)
Net rental income	322	289	611	315	285	600
Indirect property expenditure	(21)	(16)	(37)	(21)	(16)	(37)
Depreciation	(1)	(1)	(2)	(1)	(1)	(2)
Segment profit before finance expense	300	272	572	293	268	561
Joint venture finance expense	(8)	(20)	(28)	(4)	(17)	(21)
Segment profit	292	252	544	289	251	540
Group services – other income			2			2
– expense			(45)			(42)
Finance income			31			37
Finance expense			(126)			(155)
Revenue profit			406			382

1. Included within rents payable is finance lease interest payable of **£1m** (2017: £1m) and **£1m** (2017: £1m) for the Retail and London portfolios respectively.

Reconciliation of revenue profit to (loss)/profit before tax	2018 Total £m	2017 Total £m
Revenue profit	406	382
Capital and other items		
Valuation and profits on disposals		
Profit on disposal of investment properties	3	20
Profit/(loss) on disposal of investment in joint venture	66	(2)
Profit on disposal of other investment	–	13
Net deficit on revaluation of investment properties	(91)	(147)
Movement in impairment of trading properties	(4)	12
Profit on disposal of trading properties	30	36
	4	(68)
Net finance expense		
Fair value movement on interest-rate swaps	8	(8)
Amortisation of bond exchange de-recognition adjustment	(19)	(24)
Redemption of medium term notes (MTNs)[1]	(390)	(140)
Amortisation of bond exchange de-recognition adjustment on redeemed MTNs[1]	(189)	(30)
Redemption of QAG Bond	(62)	–
Other	(9)	(2)
	(661)	(204)
Exceptional items		
Head office relocation	–	1
	–	1
Other	–	1
(Loss)/profit before tax	(251)	112

1. Previously included within Exceptional items. The cost of redeeming medium term notes, and the associated amortisation of the bond exchange de-recognition adjustment have been reclassified to Net finance expense within Capital and other items in the current year as a result of the increased frequency of these types of transactions. The comparative disclosures have been restated accordingly. There is no impact on EPRA, Adjusted or IFRS earnings per share as a result of this change.

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			2018			2017
	Loss for the financial year £m	EPRA earnings £m	Adjusted earnings £m	Profit for the financial year £m	EPRA earnings £m	Adjusted earnings £m
(Loss)/profit attributable to shareholders	(252)	(252)	(252)	113	113	113
Taxation	–	1	1	–	(1)	(1)
Valuation and profits on disposal	–	(4)	(4)	–	68	68
Net finance expense[1]	–	642	661	–	180	204
Exceptional items[2]	–	–	–	–	–	(1)
Other	–	–	–	–	(1)	(1)
(Loss)/profit used in per share calculation	(252)	387	406	113	359	382

	IFRS	EPRA	Adjusted	IFRS	EPRA	Adjusted
Basic (loss)/earnings per share	(32.9)p	50.6p	53.1p	14.3p	45.4p	48.4p
Diluted (loss)/earnings per share	(32.9)p	50.6p	53.1p	14.3p	45.4p	48.3p

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. Net finance expense now includes the cost of redeeming MTNs and, for Adjusted earnings, the associated bond exchange de-recognition adjustment. These items were previously reported as exceptional items.
2. The difference in the adjustment for EPRA earnings and Adjusted earnings in 2017 relates to the head office relocation costs, which are included in EPRA earnings, but excluded from Adjusted earnings.

Net assets per share				2018				2017
	Net assets £m	EPRA net assets £m	EPRA triple net assets £m	Adjusted net assets £m	Net assets £m	EPRA net assets £m	EPRA triple net assets £m	Adjusted net assets £m
Net assets attributable to shareholders	10,492	10,492	10,492	10,492	11,516	11,516	11,516	11,516
Fair value of interest-rate swaps – Group	–	(6)	–	(6)	–	2	–	2
– Joint ventures	–	–	–	–	–	2	–	2
Bond exchange de-recognition adjustment	–	–	–	(106)	–	–	–	(314)
Deferred tax liability arising on business combination	–	4	–	4	–	4	–	4
Goodwill on deferred tax liability	–	(4)	(4)	(4)	–	(4)	(4)	(4)
Excess of fair value of debt over book value (note 21)	–	–	(323)	–	–	–	(1,010)	–
Net assets used in per share calculation	10,492	10,486	10,165	10,380	11,516	11,520	10,502	11,206
	IFRS	EPRA	EPRA triple	Adjusted	IFRS	EPRA	EPRA triple	Adjusted
Net assets per share	1,418p	n/a	n/a	1,403p	1,458p	n/a	n/a	1,418p
Diluted net assets per share	1,418p	1,417p	1,374p	1,403p	1,456p	1,456p	1,328p	1,417p

5. Performance measures continued

Number of shares	2018 Weighted average (million)	2018 31 March (million)	2017 Weighted average (million)	2017 31 March (million)
Ordinary shares	**776**	**751**	801	801
Treasury shares	**(10)**	**(10)**	(10)	(10)
Own shares	**(1)**	**(1)**	(1)	(1)
Number of shares – basic	**765**	**740**	790	790
Dilutive effect of share options	**–**	**–**	1	1
Number of shares – diluted	**765**	**740**	791	791

Total business return	2018 pence	2017 pence
Decrease in adjusted diluted net assets per share	**(14)**	(17)
Dividend paid per share in the year (note 11)	**40**	37
Total return (a)	**26**	20
Adjusted diluted net assets per share at the beginning of the year (b)	**1,417**	1,434
Total business return (a/b)	**1.8%**	1.4%

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.

Revenue on long-term development contracts is recognised over the life of the contract according to the stage of the contract reached, by reference to the value of work completed using the costs incurred to date. An appropriate estimate of the profit will be recognised as the Group satisfies its performance obligations in accordance with the contract.

All revenue is classified within the 'Revenue profit' column of the income statement, with the exception of proceeds on the sale of trading properties, income arising from long-term development contracts and the non-owned element of the Group's subsidiaries which are presented in the 'Capital and other items' column.

	2018			2017		
	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)	**581**	**2**	**583**	541	2	543
Adjustment for lease incentives	**29**	**–**	**29**	44	–	44
Rental income	**610**	**2**	**612**	585	2	587
Service charge income	**95**	**1**	**96**	92	2	94
Other property related income	**36**	**–**	**36**	32	–	32
Trading property sales proceeds	**–**	**96**	**96**	–	62	62
Finance lease interest	**10**	**–**	**10**	10	–	10
Other income	**2**	**–**	**2**	2	–	2
Revenue per the income statement	**753**	**99**	**852**	721	66	787

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

	2018				2017			
	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	**612**	**53**	**(2)**	**663**	587	53	(2)	638
Service charge income	**96**	**10**	**(1)**	**105**	94	9	(2)	101
Other property related income	**36**	**2**	**–**	**38**	32	2	–	34
Trading property sales proceeds	**96**	**86**	**–**	**182**	62	72	–	134
Finance lease interest	**10**	**–**	**–**	**10**	10	–	–	10
Long-term development contract income	**–**	**6**	**–**	**6**	–	–	–	–
Other income	**2**	**–**	**–**	**2**	2	–	–	2
Revenue in the segmental information note	**852**	**157**	**(3)**	**1,006**	787	136	(4)	919

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

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, costs arising on long-term development contracts, amortisation of intangible assets arising on business combinations, head office relocation costs, and the non-owned element of the Group's subsidiaries which are presented in the Capital and other items column.

			2018			2017
	Revenue profit £m	**Capital and other items £m**	**Total £m**	Revenue profit £m	Capital and other items £m	Total £m
Rents payable	**11**	**–**	**11**	10	–	10
Service charge expense	**104**	**1**	**105**	95	1	96
Direct property expenditure	**65**	**–**	**65**	58	–	58
Indirect property expenditure	**81**	**–**	**81**	79	–	79
Cost of trading property disposals	**–**	**79**	**79**	–	33	33
Movement in impairment of trading properties[1]	**–**	**–**	**–**	–	(12)	(12)
Head office relocation[2]	**–**	**–**	**–**	–	(1)	(1)
Amortisation of intangible asset	**–**	**2**	**2**	–	2	2
Impairment of goodwill	**–**	**–**	**–**	–	1	1
Costs per the income statement	**261**	**82**	**343**	242	24	266

1. The movement in impairment of trading properties in the year ended 31 March 2017 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 in the prior year 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, partly offset by relocation costs incurred in the year.

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

				2018				2017
	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	**11**	**1**	**–**	**12**	10	1	–	11
Service charge expense	**105**	**12**	**(1)**	**116**	96	11	(1)	106
Direct property expenditure	**65**	**12**	**–**	**77**	58	8	–	66
Indirect property expenditure	**81**	**3**	**–**	**84**	79	2	–	81
Cost of trading property disposals	**79**	**73**	**–**	**152**	33	65	–	98
Movement in impairment of trading properties	**–**	**4**	**–**	**4**	(12)	–	–	(12)
Long-term development contract expenditure	**–**	**6**	**–**	**6**	–	–	–	–
Head office relocation	**–**	**–**	**–**	**–**	(1)	–	–	(1)
Amortisation of intangible asset	**2**	**–**	**–**	**2**	2	–	–	2
Impairment of goodwill	**–**	**–**	**–**	**–**	1	–	–	1
Costs in the segmental information note	**343**	**111**	**(1)**	**453**	266	87	(1)	352

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 **£62m** (2017: £60m), of which **£6m** (2017: £7m) is within service charge expense and **£56m** (2017: £53m) is within indirect property expenditure, of which **£26m** relates to Group services (2017: £22m).

Employee costs	2018 £m	2017 £m
Salaries and wages	**46**	45
Employer payroll taxes	**6**	6
Other pension costs (note 32)	**4**	4
Share-based payments (note 33)	**6**	5
	62	60

	2018 Number	2017 Number
The average monthly number of employees during the year was:		
Indirect property or contract and administration	**422**	421
Direct property or contract services:		
Full-time	**138**	153
Part-time	**10**	9
	570	583

With the exception of two of the Executive Directors, the Company Secretary and two employees who are members of the Defined Benefit Pension scheme, who are employed by Land Securities Group PLC, all employees are employed by subsidiaries of the Group. The employee costs for Land Securities Group PLC are borne by another Group company.

During the year, **one** (2017: nil) of the Executive Directors had retirement benefits accruing under the defined contribution pension scheme. **None** (2017: nil) of the Executive Directors had retirement benefits accruing under the defined benefit scheme. Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 86 to 111.

Details of the employee costs associated with the Group's key management personnel are included in note 38.

8. Auditor remuneration

	2018 £m	2017 £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
Other assurance services	**0.1**	0.1
	0.9	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

	2018 £m	2017 £m
Services provided by the Group's external valuer		
Year end and half-yearly valuations – Group	**0.7**	0.7
– Joint ventures	**0.2**	0.2
Other consultancy and agency services	**1.6**	3.2
	2.5	4.1

CBRE Limited (CBRE) is the Group's principal valuer. The fee arrangement with CBRE for the valuation of the Group's properties is fixed, subject to an adjustment for acquisitions and disposals. 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

	Revenue profit £m	Capital and other items £m	Year ended 31 March 2018 Total £m	Revenue profit £m	Capital and other items £m	Year ended 31 March 2017 Total £m
Finance income						
Interest receivable from joint ventures	**31**	**–**	**31**	35	–	35
Fair value movement on interest-rate swaps	**–**	**8**	**8**	–	–	–
Other interest receivable	**–**	**–**	**–**	2	–	2
	31	**8**	**39**	37	–	37
Finance expense						
Bond and debenture debt	**(112)**	**–**	**(112)**	(144)	–	(144)
Bank and other short-term borrowings	**(15)**	**–**	**(15)**	(15)	–	(15)
Fair value movement on interest-rate swaps	**–**	**–**	**–**	–	(8)	(8)
Fair value movement on other derivatives	**–**	**(7)**	**(7)**	–	–	–
Amortisation of bond exchange de-recognition adjustment	**–**	**(19)**	**(19)**	–	(24)	(24)
Redemption of medium term notes[1]	**–**	**(390)**	**(390)**	–	(140)	(140)
Amortisation of bond exchange de-recognition adjustment on redemption[1]	**–**	**(189)**	**(189)**	–	(30)	(30)
Redemption of QAG Bond[1]	**–**	**(62)**	**(62)**	–	–	–
Revaluation of redemption liabilities	**–**	**(2)**	**(2)**	–	(3)	(3)
Other interest payable	**(2)**	**–**	**(2)**	(1)	1	–
	(129)	**(669)**	**(798)**	(160)	(204)	(364)
Interest capitalised in relation to properties under development	**3**	**–**	**3**	5	–	5
	(126)	**(669)**	**(795)**	(155)	(204)	(359)
Net finance expense	**(95)**	**(661)**	**(756)**	(118)	(204)	(322)
Joint venture net finance expense	**(28)**			(21)		
Net finance expense included in revenue profit	**(123)**			(139)		

1. During the year, the Group redeemed the QAG Bond in its entirety and repurchased **£1,256m** of medium term notes. Further details are given in note 21.

Finance lease interest payable of **£2m** (2017: £2m) 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		Pence per share			Year ended 31 March	
	Payment date	PID	Non-PID	Total	**2018 £m**	2017 £m
For the year ended 31 March 2016:						
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	7 January 2017	–	8.95	8.95		71
Third interim	**7 April 2017**	**8.95**	**–**	**8.95**	**71**	
Final	**27 July 2017**	**11.70**	**–**	**11.70**	**92**	
For the year ended 31 March 2018:						
First interim	**6 October 2017**	**9.85**	**–**	**9.85**	**78**	
Second interim	**5 January 2018**	**–**	**9.85**	**9.85**	**73**	
Gross dividends					**314**	289

A third quarterly interim dividend of **9.85p** per ordinary share, or **£73m** in total (2017: 8.95p or £71m in total), was paid on 6 April 2018 as a Property Income Distribution (PID). The Board has recommended a final dividend for the year ended 31 March 2018 of **14.65p** per ordinary share (2017: 11.7p) to be paid as a PID. This final dividend will result in a further estimated distribution of **£108m** (2017: £92m). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 27 July 2018 to shareholders registered at the close of business on 22 June 2018. The total dividend paid and recommended in respect of the year ended 31 March 2018 is therefore **44.2p** per ordinary share (2017: 38.55p). The first quarterly dividend for the year ending 31 March 2019 will be **11.3p**. It will be paid on 5 October 2018, to shareholders on the register at the close of business on 7 September 2018.

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 judgement

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.

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.

12. Income tax continued

The income tax charge (2017: credit) in the income statement comprises the movement in deferred tax on intangible assets and property, plant and equipment of **£2m** (2017: £1m credit) and adjustments in respect of prior financial years of **£1m** (2017: £nil). The tax for the year is lower than the standard rate of corporation tax in the UK of **19%** (2017: 20%). The differences are explained in the table below.

	2018 £m	2017 £m
(Loss)/profit before tax	**(251)**	112
Loss/(profit) before tax multiplied by the rate of corporation tax in the UK of 19% (2017: 20%)	**48**	(22)
Exempt property rental profits and revaluations in the year	**44**	45
	92	23
Effects of:		
Timing difference on repurchase of medium term notes	**(68)**	(25)
Interest rate fair value movements and other temporary differences	**(39)**	(6)
Non-allowable expenses and non-taxable items	**15**	6
Movement in unrecognised tax losses	**(2)**	3
Adjustment in respect of prior years	**1**	–
Total income tax (charge)/credit in the income statement	**(1)**	1

	2018 £m	2017 £m
The Group's deferred tax liability is analysed as follows:		
Capital allowances claimed in excess of depreciation	**2**	–
Arising on business combination	**4**	4
Arising on pension surplus	**2**	3
Total deferred tax liability	**8**	7

Deferred tax is calculated at the rate substantively enacted at the balance sheet date **17%** (2017: 17%) which comes into effect from 1 April 2020. The movement in the deferred tax liability arising on the re-measurement gain on the defined benefit pension scheme surplus is included within Other comprehensive income in the Statement of comprehensive income.

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.

	2018 £m	2017 £m
Revenue losses	**35**	2
Capital losses	**233**	589
Other unrecognised temporary differences	**484**	140
Total unrecognised items	**752**	731

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Operating profit/(loss)	**478**	365	**(32)**	(30)
Adjustments for:				
Net deficit on revaluation of investment properties	**98**	186	**–**	–
Movement in impairment of trading properties	**–**	(12)	**–**	–
Profit on disposal of trading properties	**(17)**	(29)	**–**	–
Profit on disposal of investment properties	**(1)**	(19)	**–**	–
Profit on disposal of other investment	**–**	(13)	**–**	–
(Profit)/loss on disposal of investment in joint venture	**(66)**	2	**–**	–
Share-based payment charge	**6**	5	**–**	–
Other	**8**	8	**–**	–
	506	493	**(32)**	(30)
Changes in working capital:				
Increase in receivables	**(53)**	(17)	**–**	–
(Decrease)/increase in payables and provisions	**(14)**	(12)	**32**	30
Net cash generated from operations	**439**	464	**–**	–

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 £14.1bn, 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 external 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 external 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 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 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 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. 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.

Significant accounting judgements

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

	2018 £m	2017 £m
Net book value at the beginning of the year	**12,144**	12,358
Acquisitions	**351**	14
Transfer from trading properties	**1**	–
Capital expenditure: Investment portfolio	**53**	80
Development programme	**39**	46
Capitalised interest	**3**	5
Disposals	**(157)**	(205)
Net movement in finance leases	**–**	32
Net deficit on revaluation of investment properties	**(98)**	(186)
Net book value at 31 March	**12,336**	12,144

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.

	2018				2017			
	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	**12,336**	**1,235**	**(35)**	**13,536**	12,144	1,763	(34)	13,873
Plus: tenant lease incentives	**337**	**30**	**(1)**	**366**	311	57	(1)	367
Less: head leases capitalised	**(31)**	**(8)**	**–**	**(39)**	(31)	(8)	–	(39)
Plus: properties treated as finance leases	**241**	**–**	**(1)**	**240**	238	–	–	238
Market value	**12,883**	**1,257**	**(37)**	**14,103**	12,662	1,812	(35)	14,439
Net (deficit)/surplus on revaluation of investment properties	**(98)**	**7**	**–**	**(91)**	(186)	40	(1)	(147)

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 **£2,096m** (2017: £1,169m).

Investment properties include capitalised interest of **£209m** (2017: £206m). The average rate of interest capitalisation for the year is **4.0%** (2017: 4.7%). The historical cost of investment properties is **£7,081m** (2017: £6,713m).

Valuation process

The fair value of investment properties at 31 March 2018 was determined by the Group's external 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 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 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 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 2018:

										2018
	Market value		Estimated rental value £ per sq ft			Equivalent yield %				Costs £ per sq ft
	£m	Low	Average	High	Low	Average	High	Low	Average	High
Retail Portfolio										
Shopping centres and shops	3,412	7	36	53	4.2%	5.0%	8.5%	–	7	17
Retail parks	786	11	21	28	3.5%	5.6%	10.0%	–	1	13
Leisure and hotels	1,287	6	9	20	2.0%	5.4%	8.9%	–	–	3
Other[1]	18	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Retail Portfolio (excluding developments)	5,503	6	27	53	2.0%	5.1%	10.0%	–	4	17
London Portfolio										
West End	2,845	20	62	72	2.9%	4.4%	4.9%	–	9	30
City	1,222	55	62	65	4.1%	4.5%	5.9%	–	6	20
Mid-town	1,347	31	57	64	4.3%	4.4%	4.5%	–	2	3
Inner London	324	27	35	51	4.7%	4.9%	5.5%	–	1	14
Total London offices	5,738	20	60	72	2.9%	4.5%	5.9%	–	6	30
Central London shops	1,435	17	65	179	2.9%	4.1%	6.5%	–	2	29
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)	7,214	17	60	179	2.9%	4.4%	6.5%	–	5	30
Developments: residual method	166	71	71	71	4.4%	4.4%	4.4%	–	–	–
Development programme	166	71	71	71	4.4%	4.4%	4.4%	–	–	–
Market value at 31 March 2018 – Group	12,883									

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

							2018
		Impact on valuations of 5% change in estimated rental value		Impact on valuations of 25 bps change in equivalent yield		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)	5,503	234	(221)	289	(262)	2	(4)
Total London Portfolio (excluding developments)	7,214	264	(256)	452	(401)	5	(5)
Developments: residual method	166	22	(21)	31	(28)	23	(21)
Market value at 31 March 2018 – Group	12,883						

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 £m	Estimated rental value £ per sq ft Low	Average	High	Equivalent yield % Low	Average	High	Costs £ per sq ft Low	Average	High
										2017
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	462
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

	Market value £m	Impact on valuations of 5% change in estimated rental value: Increase £m	Decrease £m	Impact on valuations of 25 bps change in equivalent yield: Decrease £m	Increase £m	Impact on valuations of 5% change in costs: Decrease £m	Increase £m
							2017
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						

Financial statements

15. Trading properties

	Development land and infrastructure £m	Residential £m	Total £m
At 1 April 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
Capital expenditure	**17**	**(2)**	**15**
Disposals	**(104)**	**(8)**	**(112)**
Transfer to investment properties	**–**	**(1)**	**(1)**
At 31 March 2018	**21**	**3**	**24**

The cumulative impairment provision at 31 March 2018 in respect of Development land and infrastructure was **£nil** (31 March 2017: £67m); and in respect of Residential was **£1m** (31 March 2017: £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 and voting rights	Business segment	Year end date[1]	Joint venture partner
Held at 31 March 2018				
Nova, Victoria[2]	50%	London	31 March	Canada Pension Plan Investment Board
Southside Limited Partnership[3]	50%	Retail	31 March	Invesco Real Estate European Fund
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, 5]	50%	London	31 March	Frogmore Real Estate Partners Limited Partnership
Harvest[5, 6]	50%	Retail	31 March	J Sainsbury plc
The Ebbsfleet Limited Partnership[5]	50%	London	31 March	Ebbsfleet Property Limited
West India Quay Unit Trust[5, 7]	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 Royal London Asset Management Aberdeen Asset Management

The following joint arrangement was liquidated in the year ended 31 March 2018:

Joint venture	Ownership interest	Business segment	Joint venture partner
Millshaw Property Co. Limited	50%	Retail	Evans Property Group Limited

The following joint arrangement was sold in the year ended 31 March 2018:

Joint venture	Ownership interest	Business segment	Joint venture partner
20 Fenchurch Street Limited Partnership[8]	50%	London	Canary Wharf Group 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 advised 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 Southside Limited Partnership.
4. On 12 April 2018, the Group purchased the remaining 50% interest in The Oriana Limited Partnership which it did not already own for consideration of £4m. The Group therefore owns 100% of the share capital as of 12 April 2018.
5. Included within Other in subsequent tables.
6. Harvest includes Harvest 2 Limited Partnership, Harvest Development Management Limited, Harvest 2 Selly Oak Limited, Harvest 2 GP Limited and Harvest GP Limited.
7. West India Quay Unit Trust is held in the X-Leisure Unit Trust (X-Leisure) in which the Group holds a 95% share.
8. On 24 August 2017, the Group disposed of its interest in 20 Fenchurch Street Limited Partnership for £633m, realising a profit of £66m, after settling outstanding interest receivable of £36m.

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.

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 Southside Limited Partnership and West India Quay Unit Trust which are registered in Jersey.

16. Joint arrangements continued

Joint ventures

Year ended 31 March 2018

Comprehensive income statement	20 Fenchurch Street Limited Partnership 100% £m	Nova, Victoria 100% £m	Southside Limited Partnership[1] 100% £m	St. David's Limited Partnership 100% £m	Westgate Oxford Alliance Partnership 100% £m	Individually material JVs (Group share) 50% £m	Other Group share £m	Total Group share £m
Revenue[2]	21	147	17	44	41	135	22	157
Gross rental income (after rents payable)	16	20	14	35	15	50	2	52
Net rental income	16	11	13	28	11	39	1	40
Segment profit before finance expense	16	9	11	26	11	36	1	37
Finance expense	(8)	(33)	(6)	–	(15)	(31)	–	(31)
Capitalised interest	–	–	–	–	5	3	–	3
Net finance expense	(8)	(33)	(6)	–	(10)	(28)	–	(28)
Revenue profit/(loss)	8	(24)	5	26	1	8	1	9
Capital and other items								
Net surplus/(deficit) on revaluation of investment properties	–	24	–	(44)	20	–	7	7
Impairment of trading properties	–	(8)	–	–	–	(4)	–	(4)
Profit on disposal of investment properties	–	–	1	–	–	1	1	2
Profit on disposal of trading properties	–	19	–	–	4	11	2	13
Profit/(loss) before tax	8	11	6	(18)	25	16	11	27
Post-tax profit/(loss)	8	11	6	(18)	25	16	11	27
Total comprehensive income/(loss)	8	11	6	(18)	25	16	11	27
	50%	50%	50%	50%	50%			
Group share of total comprehensive income/(loss)	4	6	3	(9)	12	16	11	27

1. Previously called Metro Shopping Fund Limited Partnership.
2. 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.

Joint ventures

Year ended 31 March 2017

Comprehensive income statement	20 Fenchurch Street Limited Partnership 100% £m	Nova, Victoria 100% £m	Southside Limited Partnership[1] 100% £m	St. David's Limited Partnership 100% £m	Westgate Oxford Alliance Partnership 100% £m	Individually material JVs (Group share) 50% £m	Other Group share £m	Total Group share £m
Revenue[2]	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/(loss)	14	(10)	7	27	1	20	1	21
Capital and other items								
Net surplus/(deficit) on revaluation of investment properties	43	41	–	(22)	19	40	–	40
Profit on disposal of investment properties	–	–	2	–	–	1	–	1
Profit on disposal of trading properties	–	14	–	–	–	7	–	7
Profit before tax	57	45	9	5	20	68	1	69
Post-tax profit	57	45	9	5	20	68	1	69
Total comprehensive income	57	45	9	5	20	68	1	69
	50%	50%	50%	50%	50%			
Group share of total comprehensive income	28	23	5	2	10	68	1	69

1. Previously called Metro Shopping Fund Limited Partnership.
2. 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

16. Joint arrangements continued

Joint ventures

31 March 2018

Balance sheet	20 Fenchurch Street Limited Partnership 100% £m	Nova, Victoria 100% £m	Southside Limited Partnership[1] 100% £m	St. David's Limited Partnership 100% £m	Westgate Oxford Alliance Partnership 100% £m	Individually material JVs (Group share) 50% £m	Other Group share £m	Total Group share £m
Investment properties[2]	–	845	295	664	549	1,177	58	1,235
Non-current assets	–	845	295	664	549	1,177	58	1,235
Cash and cash equivalents	–	7	2	2	10	10	6	16
Other current assets	–	101	8	18	21	74	20	94
Current assets	–	108	10	20	31	84	26	110
Total assets	–	953	305	684	580	1,261	84	1,345
Trade and other payables and provisions	–	(24)	(5)	(12)	(15)	(28)	(5)	(33)
Current liabilities	–	(24)	(5)	(12)	(15)	(28)	(5)	(33)
Non-current liabilities	–	(144)	(143)	(16)	–	(152)	(9)	(161)
Non-current liabilities	–	(144)	(143)	(16)	–	(152)	(9)	(161)
Total liabilities	–	(168)	(148)	(28)	(15)	(180)	(14)	(194)
Net assets	–	785	157	656	565	1,081	70	1,151
Market value of investment properties[2]	–	874	298	661	562	1,198	59	1,257
Net cash/(debt)	–	7	1	(15)	10	2	6	8

31 March 2017

Balance sheet	20 Fenchurch Street Limited Partnership 100% £m	Nova, Victoria 100% £m	Southside Limited Partnership[1] 100% £m	St. David's Limited Partnership 100% £m	Westgate Oxford Alliance Partnership 100% £m	Individually material JVs (Group share) 50% £m	Other Group share £m	Total Group share £m
Investment properties[2]	1,046	809	376	708	412	1,676	87	1,763
Non-current assets	1,046	809	376	708	412	1,676	87	1,763
Cash and cash equivalents	16	43	6	4	10	40	9	49
Other current assets	93	195	7	21	15	165	29	194
Current assets	109	238	13	25	25	205	38	243
Total assets	1,155	1,047	389	733	437	1,881	125	2,006
Trade and other payables and provisions	(100)	(174)	(39)	(12)	(32)	(179)	(5)	(184)
Current liabilities	(100)	(174)	(39)	(12)	(32)	(179)	(5)	(184)
Non-current liabilities	–	–	(142)	(16)	–	(79)	(9)	(88)
Non-current liabilities	–	–	(142)	(16)	–	(79)	(9)	(88)
Total liabilities	(100)	(174)	(181)	(28)	(32)	(258)	(14)	(272)
Net assets	1,055	873	208	705	405	1,623	111	1,734
Market value of investment properties[2]	1,135	815	379	707	411	1,724	88	1,812
Net cash/(debt)	16	43	(166)	(12)	10	(55)	9	(46)

1. Previously called Metro Shopping Fund Limited Partnership.
2. The difference between the book value and the market value of investment properties 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	Southside Limited Partnership[1] 50% £m	St. David's Limited Partnership 50% £m	Westgate Oxford Alliance Partnership 50% £m	Individually material JVs (Group share) 50% £m	Other Group share £m	Total Group share £m
At 1 April 2016	491	414	103	366	126	1,500	168	1,668
Total comprehensive income	28	23	5	2	10	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)	–	–	(3)	(41)	(44)
Disposal of investment	–	–	–	–	–	–	(5)	(5)
At 31 March 2017	527	437	104	352	203	1,623	111	1,734
Total comprehensive income/(loss)	**4**	**6**	**3**	**(9)**	**12**	**16**	**11**	**27**
Cash contributed	**–**	**20**	**–**	**–**	**79**	**99**	**12**	**111**
Cash distributions	**–**	**(70)**	**(29)**	**(15)**	**(12)**	**(126)**	**(64)**	**(190)**
Disposal of investment	**(531)**	**–**	**–**	**–**	**–**	**(531)**	**–**	**(531)**
At 31 March 2018	**–**	**393**	**78**	**328**	**282**	**1,081**	**70**	**1,151**

1. Previously called Metro Shopping Fund Limited Partnership.

17. Capital commitments

	2018 £m	2017 £m
Contracted capital commitments at the end of the year in respect of:		
Investment properties	**69**	48
Trading properties	**1**	3
	70	51
Joint ventures (our share)	**61**	79
Total capital commitments	**131**	130

Financial statements

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.

	2018 £m	2017 £m
Non-current		
Finance leases – gross receivables	**262**	274
Unearned finance income	**(134)**	(143)
Unguaranteed residual value	**34**	34
	162	165
Current		
Finance leases – gross receivables	**12**	12
Unearned finance income	**(9)**	(9)
	3	3
Net investment in finance leases	**165**	168
Gross receivables from finance leases due:		
No later than one year	**12**	12
Later than one year but not more than five years	**50**	49
More than five years	**212**	225
	274	286
Unearned finance income	**(143)**	(152)
Unguaranteed residual value	**34**	34
Net investment in finance leases	**165**	168

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 **2.6%** (2017: 4.2%), is **£243m** (2017: £218m).

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 three to five years.

	Goodwill £m	Software £m	Other intangible asset £m	Total intangible assets £m
At 1 April 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
Capital expenditure	**–**	**2**	**–**	**2**
Amortisation	**–**	**(2)**	**(2)**	**(4)**
At 31 March 2018	**4**	**6**	**24**	**34**

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. 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. From 1 April 2018, the Group has changed its accounting policy for debt refinancing transactions such that the bond exchange de-recognition adjustment will no longer be held on the balance sheet. See note 21 for an explanation of the bond exchange de-recognition adjustment and note 3 for further details on the change in accounting policy.

20. Capital structure

	2018 Group £m	2018 Joint ventures £m	2018 Adjustment for non-wholly owned subsidiaries[1] £m	2018 Combined £m	2017 Group £m	2017 Joint ventures £m	2017 Adjustment for non-wholly owned subsidiaries[1] £m	2017 Combined £m
Property portfolio								
Market value of investment properties	**12,883**	**1,257**	**(37)**	**14,103**	12,662	1,812	(35)	14,439
Trading properties and long-term contracts	**24**	**50**	**–**	**74**	122	126	–	248
Total property portfolio (a)	**12,907**	**1,307**	**(37)**	**14,177**	12,784	1,938	(35)	14,687
Net debt								
Borrowings	**3,624**	**8**	**–**	**3,632**	2,949	93	–	3,042
Monies held in restricted accounts and deposits	**(15)**	**–**	**–**	**(15)**	(21)	–	–	(21)
Cash and cash equivalents	**(62)**	**(16)**	**–**	**(78)**	(30)	(49)	–	(79)
Fair value of interest-rate swaps	**(6)**	**–**	**–**	**(6)**	2	2	–	4
Fair value of foreign exchange swaps and forwards	**7**	**–**	**–**	**7**	5	–	–	5
Net debt (b)	**3,548**	**(8)**	**–**	**3,540**	2,905	46	–	2,951
Less: Fair value of interest-rate swaps	**6**	**–**	**–**	**6**	(2)	(2)	–	(4)
Reverse bond exchange de-recognition (note 21)	**106**	**–**	**–**	**106**	314	–	–	314
Adjusted net debt (c)	**3,660**	**(8)**	**–**	**3,652**	3,217	44	–	3,261
Adjusted total equity								
Total equity (d)	**10,492**	**–**	**–**	**10,492**	11,516	–	–	11,516
Fair value of interest-rate swaps	**(6)**	**–**	**–**	**(6)**	2	2	–	4
Reverse bond exchange de-recognition (note 21)	**(106)**	**–**	**–**	**(106)**	(314)	–	–	(314)
Adjusted total equity (e)	**10,380**	**–**	**–**	**10,380**	11,204	2	–	11,206
Gearing (b/d)	**33.8%**			**33.7%**	25.2%			25.6%
Adjusted gearing (c/e)	**35.3%**			**35.2%**	28.7%			29.1%
Group LTV (c/a)	**28.4%**			**25.8%**	25.2%			22.2%
Security Group LTV	**27.2%**				28.3%			
Weighted average cost of debt	**2.6%**			**2.6%**	4.2%			4.2%

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.

						2018			2017
	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
Commercial paper									
Sterling	Unsecured	Floating	LIBOR + margin	**–**	**–**	**–**	3	3	3
Euro	Unsecured	Floating	LIBOR + margin	**833**	**833**	**833**	261	261	261
Swiss Franc	Unsecured	Floating	LIBOR + margin	**–**	**–**	**–**	28	28	28
US Dollar	Unsecured	Floating	LIBOR + margin	**39**	**39**	**39**	94	94	94
Total current borrowings				**872**	**872**	**872**	404	408	404
Non-current borrowings									
Sterling									
A3 5.425% MTN due 2022	Secured	Fixed	5.5	**46**	**50**	**46**	46	53	46
A10 4.875% MTN due 2025	Secured	Fixed	5.0	**14**	**16**	**14**	28	34	28
A12 1.974% MTN due 2026	Secured	Fixed	2.0	**400**	**401**	**399**	400	411	399
A4 5.391% MTN due 2026	Secured	Fixed	5.4	**25**	**30**	**25**	27	33	27
A5 5.391% MTN due 2027	Secured	Fixed	5.4	**186**	**229**	**186**	585	749	583
A6 5.376% MTN due 2029	Secured	Fixed	5.4	**84**	**107**	**84**	318	420	317
A16 2.375% MTN due 2029	Secured	Fixed	2.5	**350**	**352**	**347**	–	–	–
A13 2.399% MTN due 2031	Secured	Fixed	2.4	**300**	**300**	**299**	300	314	299
A7 5.396% MTN due 2032	Secured	Fixed	5.4	**156**	**210**	**156**	321	441	320
A11 5.125% MTN due 2036	Secured	Fixed	5.1	**56**	**78**	**56**	500	689	499
A14 2.625% MTN due 2039	Secured	Fixed	2.6	**500**	**498**	**493**	–	–	–
A15 2.750% MTN due 2059	Secured	Fixed	2.8	**500**	**512**	**494**	–	–	–
Bond exchange de-recognition adjustment						**(106)**			(314)
				2,617	**2,783**	**2,493**	2,525	3,144	2,204
5.253% QAG Bond	Secured	Fixed	5.3	**–**	**–**	**–**	255	310	255
Syndicated bank debt	Secured	Floating	LIBOR + margin	**228**	**228**	**228**	55	55	55
Amounts payable under finance leases	Unsecured	Fixed	5.7	**31**	**64**	**31**	31	42	31
Total non-current borrowings				**2,876**	**3,075**	**2,752**	2,866	3,551	2,545
Total borrowings				**3,748**	**3,947**	**3,624**	3,270	3,959	2,949

21. Borrowings continued

Reconciliation of the movement in borrowings	2018 £m	2017 £m
At the beginning of the year	**2,949**	2,873
Proceeds from new borrowings	**632**	361
Repayment of borrowings	**–**	(391)
Redemption of MTNs	**(1,256)**	(690)
Redemption of QAG Bond	**(273)**	–
Issue of MTNs (net of finance fees)	**1,334**	698
Amortisation of bond exchange de-recognition adjustment on redeemed MTNs	**189**	30
Amortisation of bond exchange de-recognition adjustment	**19**	24
Foreign exchange movement on non-Sterling borrowings	**26**	23
Other	**4**	21
At 31 March	**3,624**	2,949

Reconciliation of movements in liabilities arising from financing activities			Non-cash changes		2018
	At 1 April 2017 £m	Cash flows £m	Changes in fair values £m	Other changes £m	At 31 March 2018 £m
Borrowings	2,949	437	–	238	**3,624**
Derivative financial instruments	7	31	(53)	16	**1**
	2,956	**468**	**(53)**	**254**	**3,625**

Medium term notes

The MTNs are secured on the fixed and floating pool of assets of the Security Group (see note 25). The Security Group includes investment properties, development properties and the Group's investment in the X-Leisure fund, Westgate Oxford Alliance Limited Partnership, Nova, Victoria, St. David's Limited Partnership and Southside Limited Partnership, in total valued at **£13.7bn** at 31 March 2018 (31 March 2017: £12.9bn). 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 respectively. If these limits are exceeded, the operating environment becomes more restrictive with provisions to encourage a reduction in gearing. The interest rate of each MTN is fixed until the expected maturity, being two years before the legal maturity date of the MTN, whereupon the interest rate for the last two years may either become floating on a LIBOR basis 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.

During the year, the Group conducted tender exercises and purchased **£1,256m** of MTNs for a total premium of **£385m**, with associated costs of **£5m**. Details of the purchases and associated premium by series are as follows:

MTN purchases	31 March 2018		31 March 2017	
	Purchases £m	Premium £m	Purchases £m	Premium £m
A3 5.425% MTN due 2022	**–**	**–**	209	29
A10 4.875% MTN due 2025	**15**	**3**	272	57
A4 5.391% MTN due 2026	**2**	**–**	184	44
A5 5.391% MTN due 2027	**398**	**90**	23	6
A6 5.376% MTN due 2029	**233**	**73**	2	1
A7 5.396% MTN due 2032	**164**	**57**	–	–
A11 5.125% MTN due 2036	**444**	**162**	–	–
	1,256	**385**	690	137

In conjunction with the tender exercises, in September 2017, the Group issued a **£500m** 2.625% MTN due 2039 and a **£500m** 2.750% MTN due 2059 and, in March 2018, the Group issued a **£350m** 2.375% due 2029.

Syndicated and bilateral bank debt

	Maturity as at 31 March 2018	Authorised 2018 £m	Authorised 2017 £m	Drawn 2018 £m	Drawn 2017 £m	Undrawn 2018 £m	Undrawn 2017 £m
Syndicated debt	**2022-23**	**1,965**	1,815	**103**	55	**1,862**	1,760
Bilateral debt	**2022**	**125**	125	**125**	–	**–**	125
		2,090	1,940	**228**	55	**1,862**	1,885

At 31 March 2018, our committed revolving facilities totalled **£2,090m** (31 March 2017: £1,940m). The **£150m** increase in committed facilities is the result of an increase in the syndicated debt facility arranged on 29 March 2018.

All syndicated and bilateral facilities are committed and secured on the assets of the Security Group. During the year ended 31 March 2018, the amounts drawn under the Group's facilities increased by **£173m**.

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 2018 were **£990m** (31 March 2017: £1,499m), compared with undrawn facilities of **£1,862m** (31 March 2017: £1,885m).

Queen Anne's Gate Bond
In two tranches, on 25 April 2017 and 9 May 2017, the Group repurchased and redeemed the **£273m** QAG Bond in its entirety for a total premium to nominal value of **£61m**, with associated costs of **£1m**.

Fair values
The fair values of any floating rate financial liabilities are assumed to be equal to their nominal value. The fair values of the MTNs and the QAG Bond fall within Level 1, the syndicated and 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 **2.6%** (31 March 2017: 4.2%).

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, as part of the Capital and other items column. From 1 April 2018, the Group has changed its accounting policy for debt refinancing transactions such that the bond exchange de-recognition adjustment will no longer be held on the balance sheet. See note 3 for further details.

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 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash at bank and in hand	**7**	12	**4**	4
Short-term deposits	**8**	9	**–**	–
	15	21	**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 2018 £m	Group 2017 £m
Counterparties with external credit ratings		
A	**15**	13
BBB+	**–**	8
	15	21

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Cash at bank and in hand	**62**	21	**–**	–
Short-term deposits	**–**	9	**–**	–
	62	30	**–**	–

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	
	2018 £m	2017 £m
Counterparties with external credit ratings		
A	**62**	29
BBB+	**–**	1
	62	30

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	**2018 £m**	2017 £m
Current assets	**1**	–
Non-current assets	**6**	–
Current liabilities	**(8)**	(5)
Non-current liabilities	**–**	(2)
Total	**(1)**	(7)

Notional amount	**2018 £m**	2017 £m
Interest-rate swaps	**400**	400
Foreign exchange forward	**45**	–
Foreign exchange swaps	**878**	389
	1,323	789

25. Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in "Managing risk" and "Our principal risks and uncertainties" (pages 52 to 57). 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':

	2018 £m	2017 £m
Loans and receivables	**743**	672
Cash and cash equivalents	**62**	30
Available for sale financial instruments	**12**	13
Financial liabilities at amortised cost	**(3,775)**	(3,118)
Financial instruments at fair value through profit or loss	**(38)**	(43)
	(2,996)	(2,446)

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

The principal credit risks of the Group arise 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, if any, 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.

(ii) Liquidity risk

The Group actively maintains a mixture of notes with final maturities between 2022 and 2059, 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:

	2018 £m	2017 £m
Cash and cash equivalents	**62**	30
Available facilities	**990**	1,499
Cash and available undrawn facilities	**1,052**	1,529
As a proportion of drawn debt	**28.3%**	47.2%

The Group's core financing structure is in the Security Group, although the Non-restricted Group may also secure independent funding.

25. Financial risk management continued

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 2018, the reported LTV for the Security Group was **27.2%** (2017: 28.3%), 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 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.

					2018
	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)	**955**	**130**	**467**	**3,455**	**5,007**
Finance lease liabilities	**2**	**2**	**5**	**203**	**212**
Derivative financial instruments	**8**	**1**	**6**	**–**	**15**
Trade payables	**5**	**–**	**–**	**–**	**5**
Capital accruals	**28**	**–**	**–**	**–**	**28**
Accruals	**87**	**–**	**–**	**–**	**87**
Amounts owed to joint ventures	**3**	**–**	**–**	**–**	**3**
Other payables	**28**	**–**	**–**	**–**	**28**
Redemption liability	**–**	**–**	**37**	**–**	**37**
	1,116	**133**	**515**	**3,658**	**5,422**

					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 liability	–	–	36	–	36
	704	149	579	3,577	5,009

(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 70% 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 from time to time to fix the interest rate exposure on our debt. Where specific hedges are used to fix the interest exposure on debt, these may qualify for hedge accounting.

At 31 March 2018, the Group (including joint ventures) had pay-fixed interest-rate swaps in place with a nominal value of **£400m** (2017: £70m), and forward-starting pay-fixed interest-rate swaps of **£nil** (2017: £400m) and its net debt was **83.3%** fixed (2017: 88.9%). Based on the Group's debt balances at 31 March 2018, a 1% increase in interest rates would increase the annual net finance expense in the income statement and reduce equity by **£6m** (2017: £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's foreign exchange risk is low. The vast majority of the Group's foreign currency transactions relate to foreign currency borrowing under the Group's commercial paper programme. It is the Group's policy to hedge 100% of this exposure. At 31 March 2018, the Group had issued **€947m** (2017: €307m), **$55m** (2017: $118m) and **CHF nil** (2017: CHF35m) of commercial paper, fully hedged through foreign exchange swaps. A 10% weakening of strengthening of Sterling would therefore have **£nil** (2017: £nil) impact in the income statement and equity arising from foreign currency borrowings.

Where additional foreign exchange risk is identified (not linked to commercial paper borrowing), it is the Group's policy to assess the likelihood of the risk crystallising and if deemed appropriate use derivatives to hedge some or all of the risk. At 31 March 2018, the Group had **€50m** (2017: €nil) of foreign currency exposure, relating to a forward foreign currency contract entered into in order to economically hedge forecast foreign currency purchases. A 10% (weakening)/strengthening of Sterling would have a **(£5m)/£4m** (2017: £nil) impact on the income statement and equity.

Financial maturity analysis
The interest rate profile of the Group's undiscounted borrowings is set out below:

			2018			2017
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Sterling	**2,648**	**228**	**2,876**	2,829	58	2,887
Euro	**–**	**833**	**833**	–	261	261
US Dollar	**–**	**39**	**39**	–	94	94
Swiss Franc	**–**	**–**	**–**	–	28	28
	2,648	**1,100**	**3,748**	2,829	441	3,270

The expected maturity profiles of the Group's borrowings are as follows:

			2018			2017
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
One year or less, or on demand	**–**	**872**	**872**	18	386	404
More than one year but not more than two years	**46**	**–**	**46**	20	–	20
More than two years but not more than five years	**–**	**228**	**228**	117	55	172
More than five years	**2,602**	**–**	**2,602**	2,674	–	2,674
Borrowings	**2,648**	**1,100**	**3,748**	2,829	441	3,270
Effect of hedging	**400**	**(400)**	**–**	–	–	–
Borrowings net of interest-rate swaps	**3,048**	**700**	**3,748**	2,829	441	3,270

25. Financial risk management continued

The expected maturity profiles of the Group's derivative instruments are as follows (based on notional values):

	2018			2017	
	Foreign exchange swaps £m	**Foreign exchange forward £m**	**Interest-rate swaps £m**	Foreign exchange swaps £m	Interest-rate swaps £m
One year or less, or on demand	**878**	**45**	**–**	389	–
More than five years[1]	**–**	**–**	**400**	–	400
	878	**45**	**400**	389	400

1. Interest-rate swaps more than five years have a term commencing from October 2017.

Valuation hierarchy

Derivative financial instruments, available for sale financial instruments (other investments) and the redemption liability 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:

	2018				2017			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets	**–**	**7**	**12**	**19**	–	–	13	13
Liabilities	**–**	**(8)**	**(37)**	**(45)**	–	(7)	(36)	(43)

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 **2.6%** (2017: 4.2%), is **£64m** (2017: £42m).

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Net trade receivables	**59**	53	**–**	–
Property sales receivables	**16**	18	**–**	–
Tenant lease incentives (note 14)	**337**	311	**–**	–
Prepayments and accrued income	**26**	25	**–**	–
Amounts due from joint ventures	**4**	2	**–**	–
Other receivables	**29**	9	**–**	17
Total current trade and other receivables	**471**	418	**–**	17
Non-current amounts due from joint ventures	**143**	107	**–**	–
Non-current property sales receivables	**22**	16	**–**	–
Total trade and other receivables	**636**	541	**–**	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.

The non-current amounts due from joint ventures have maturity dates ranging from April 2022 to the dissolution of the joint venture. Interest is charged at rates ranging from **4%** to **5%** (2017: 5%).

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 2018						
Not impaired	**34**	**17**	**4**	**2**	**2**	**59**
Impaired	**–**	**–**	**2**	**1**	**6**	**9**
Gross trade receivables	**34**	**17**	**6**	**3**	**8**	**68**
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

A significant proportion 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 (2017: nil).

26. Trade and other receivables continued

Movement in allowances for doubtful accounts	2018 £m	2017 £m
At the beginning of the year	**11**	16
Increase to provision	**4**	6
Decrease to provision	**(2)**	(5)
Utilised in the year	**(4)**	(6)
At 31 March	**9**	11

Movement in tenant lease incentives	2018 £m	2017 £m
At the beginning of the year	**311**	268
Net revenue recognised	**29**	44
Capital incentives granted	**1**	1
Provision for doubtful receivables	**(1)**	–
Disposal of properties	**(3)**	(2)
At 31 March	**337**	311

27. Trade and other payables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade payables	**5**	11	**–**	–
Capital accruals	**28**	34	**–**	–
Other payables	**28**	39	**–**	–
Accruals	**87**	80	**13**	14
Deferred income	**143**	132	**–**	–
Amounts owed to joint ventures	**3**	6	**–**	–
Loans from Group undertakings	**–**	–	**2,245**	1,380
Total current trade and other payables	**294**	302	**2,258**	1,394
Non-current trading property deposits	**–**	25	**–**	–
Total trade and other payables	**294**	327	**2,258**	1,394

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.

The Loans from Group undertakings are repayable on demand with no fixed repayment date. Interest is charged at **4.3%** per annum (2017: 4.5%).

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.

	2018 £m	2017 £m
At the beginning of the year	**6,205**	6,200
Capital contributions relating to share-based payments (note 33)	**6**	5
At 31 March	**6,211**	6,205

A full list of subsidiary undertakings at 31 March 2018 is included on pages 192 to 194.

29. Other non-current assets

	2018 £m	2017 £m
Other property, plant and equipment	**19**	24
Other investments	**12**	13
Net pension surplus (note 32)	**12**	14
Derivative financial instruments	**6**	–
Total other non-current assets	**49**	51

30. Other current liabilities

	2018 £m	2017 £m
Provisions	**6**	2
Derivative financial instruments	**8**	5
Total other current liabilities	**14**	7

31. Other non-current liabilities

	2018 £m	2017 £m
Derivative financial instruments	**–**	2
Deferred tax liability	**8**	7
Total other non-current liabilities	**8**	9

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** (2017: £3m).

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 2018 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 2018, employee contributions were **8.0%** (2017: 8.0%) of monthly pensionable salary. The Group expects to make total employee and employer contributions of around **£1m** (2017: £1m) to the Scheme in the year to 31 March 2019.

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	2018 £m	2017 £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	**(6)**	(8)
Interest expense on defined benefit scheme liabilities	**6**	7
Net credit to finance income	**–**	(1)

Analysis of the amounts recognised in Other comprehensive income	2018 £m	2017 £m
Analysis of gains and losses		
Net re-measurement (losses)/gains on scheme assets	**(4)**	29
Net re-measurement gains/(losses) on scheme liabilities	**2**	(41)
Net re-measurement loss	**(2)**	(12)
Cumulative net re-measurement loss recognised in Other comprehensive income	**(41)**	(39)

The net surplus recognised in respect of the defined benefit scheme can be analysed as follows:

	2018 %	2018 £m	2017 %	2017 £m
Equities	**21**	**50**	20	49
Bonds – Government	**24**	**58**	24	59
Bonds – Corporate	**7**	**17**	7	17
Insurance contracts	**47**	**113**	49	120
Cash and cash equivalents	**1**	**3**	–	1
Fair value of scheme assets	**100**	**241**	100	246
Fair value of scheme liabilities		**(229)**		(232)
Net pension surplus		**12**		14

In the year ended 31 March 2018, **£8m** (2017: £9m) of benefits were paid to members.

During the prior 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 **£nil** (2017: £nil).

The defined benefit scheme liabilities are split **11%** (2017: 11%) in respect of active scheme participants, **25%** (2017: 25%) in respect of deferred scheme participants, and **64%** (2017: 64%) in respect of retirees. The weighted average duration of the defined benefit scheme liabilities at 31 March 2018 is **17.4 years** (2017: 17.3 years).

The assumptions agreed with the Trustees of the Scheme for the triennial valuation at 30 June 2015 have been restated to the assumptions described by IAS 19, 'Employee Benefits'. The major assumptions used in the valuation were (in nominal terms):

	2018 %	2017 %
Rate of increase in pensionable salaries	**3.40**	3.40
Rate of increase in pensions with no cap	**3.35**	3.40
Rate of increase in pensions with 5% cap	**3.25**	3.30
Discount rate	**2.65**	2.55
Inflation – Retail Price Index	**3.35**	3.40
– Consumer Price Index	**2.55**	2.60

The mortality assumptions used in this valuation were:

	2018 years	2017 years
Life expectancy at age 60 for current pensioners – Men	**31.0**	30.8
– Women	**31.3**	31.2
Life expectancy at age 60 for future pensioners (current age 40) – Men	**34.0**	33.8
– Women	**33.8**	33.7

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	Decrease by 0.5%	Increase by £21m
Rate of mortality	Increase by 1 year	Increase by £9m
Rate of inflation	Increase by 0.5%	Increase by £17m

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 2018, as opposed to a surplus of **£12m**.

In order to reduce risk within the Scheme, **47%** (2017: 48%) 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%** (2017: 72%) of the interest rate risk and **79%** (2017: 72%) of the inflation risk (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 2018 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.

	2018 Charge £m	**2018 Number (million)**	2017 Charge £m	2017 Number (million)
Long-Term Incentive Plan	**5**	**2**	2	2
Deferred bonus share plan	**1**	**–**	1	–
Share award plan	**–**	**–**	1	–
Executive share option scheme	**–**	**2**	1	2
	6	**4**	5	4

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 86 to 111.

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 **974p** (2017: 1,006p). The estimated fair value of awards granted during the year under the scheme was **£3m** (2017: £4m).

Deferred bonus share plan
The Executive 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 **941p** (2017: 887p). The estimated fair value of awards granted during the year under the scheme was **£0.5m** (2017: £0.8m).

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 ten years after the date of grant. The weighted average share price at the date of exercise for awards exercised during the year was **1,051p** (2017: 1,053p). The estimated fair value of awards granted during the year under the scheme was **£0.3m** (2017: £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 **1,032p** (2017: 1,046p). The estimated fair value of awards granted during the year under the scheme was **£0.3m** (2017: £0.2m).

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	
	2018 Number (million)	2017 Number (million)	2018 Number (million)	2017 Number (million)	2018 Pence	2017 Pence
At the beginning of the year	**2**	3	**2**	2	**1,068**	983
Granted	**1**	1	**1**	1	**970**	993
Exercised	**(1)**	(1)	**–**	(1)	**–**	805
Lapsed	**–**	(1)	**(1)**	–	**1,142**	–
At 31 March	**2**	2	**2**	2	**947**	1,068
Exercisable at the end of the year	**–**	–	**1**	1	**926**	929
	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 2018			Outstanding at 31 March 2017		
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 (million)	Years	Pence	Number (million)	Years
Nil[1]	**–**	**2**	**1**	–	2	1
400 – 599	**528**	**–**	**2**	535	–	2
600 – 799	**775**	**–**	**4**	775	–	5
800 – 999	**885**	**1**	**3**	886	1	4
1,000 – 1,199	**1,036**	**1**	**7**	1,044	1	7
1,200 – 1,399	**1,328**	**–**	**7**	1,328	–	8

1. Executive plans are granted at nil consideration.

Fair value inputs for awards with non-market performance conditions

Fair values are calculated using the Black-Scholes option pricing model for awards with non-market performance conditions. The weighted average 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	2018	2017	2018	2017	2018	2017	2018	2017
Share price at grant date	**1,032p**	1,005p	**1,029p**	1,005p	**1,029p**	1,005p	**1,074p**	1,191p
Exercise price	**n/a**	n/a	**n/a**	n/a	**1,029p**	1,005p	**859p**	953p
Expected volatility	**20%**	18%	**20%**	18%	**20%**	18%	**20%**	18%
Expected life	**3 years**	3 years	**1 year**	1 to 2 years	**3 years**	3 years	**3 to 5 years**	3 to 5 years
Risk-free rate	**0.27%**	0.21%	**0.25%**	0.15% to 0.21%	**0.27%**	0.21%	**0.27% to 0.50%**	0.35% to 0.57%
Expected dividend yield	**3.74%**	3.48%	**nil**	nil	**3.75%**	3.48%	**3.59%**	2.94%

Expected volatility is determined by calculating the historical 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 weighted average 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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Long-Term Incentive Plan	**1,032p**	1,005p	**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 sold. 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	
	2018 £m	2017 £m
Ordinary shares of 10²⁄₃p (2017: 10p) each (see note 36)	**80**	80

	Group and Company Number of shares	
	2018	2017
At the beginning of the year	**801,244,628**	801,164,497
Issued on the exercise of options	**139,446**	80,131
Share consolidation (see note 36)	**(50,085,104)**	–
Cancellation of treasury shares	**(6)**	–
At 31 March	**751,298,964**	801,244,628

The number of options over ordinary shares from Executive plans that were outstanding at 31 March 2018 was **2,105,086** (2017: 2,281,006). If all the options were exercised at that date then **2,105,086** (2017: 2,281,006) 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 2018 was **1,868,186** (2017: 1,859,031). If all the options were exercised at that date then **304,582** new ordinary shares (2017: 354,783) would be issued and **1,563,604** shares would be required to be transferred from the EBT (2017: 1,504,248).

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 years ended 31 March 2017 and 2018, there were no ordinary shares acquired to be held as treasury shares. At 31 March 2018 the Group held **9,839,179** ordinary shares (2017: 10,495,131) with a market value of **£92m** (2017: £111m) in treasury. The reduction in the number of shares held in treasury as a result of the share consolidation in the year is explained in note 36.

35. Own shares

	Group	
	2018 £m	2017 £m
At the beginning of the year	**9**	14
Acquisition of ordinary shares	**10**	6
Transfer of shares to employees on exercise of share options	**(6)**	(11)
At 31 March	**13**	9

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 2018 was **1,178,179** (2017: 792,556). The market value of these shares at 31 March 2018 was **£11m** (2017: £8m).

36. Capital distribution

On 27 September 2017, the Group's shareholders approved a return of capital to shareholders of **£475m** through the issue of new B shares, which the Group then redeemed in order to return 60p per ordinary share to shareholders, reducing the Group's share premium account. The capital distribution was paid on 13 October 2017.

Following the redemption of the B shares, there was a share consolidation in the ratio of 15 ordinary shares for every 16 existing shares. The share consolidation did not result in a change in the carrying value of the Group's share capital, but reduced the number of ordinary shares in issue by **50,085,104** of which **655,946** were held in Treasury.

37. 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.

38. Related party transactions

Subsidiaries

During the year, the Company entered into transactions, in the normal course of business, with related parties as follows:

	Company	
	2018 £m	2017 £m
Transactions with subsidiary undertakings:		
Recharge of costs	**(786)**	(294)
Interest paid	**(79)**	(55)

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 as follows:

	Group							
	Year ended and as at 31 March 2018				Year ended and as at 31 March 2017			
	Income £m	**Net investments into joint ventures £m**	**Amounts owed by joint ventures £m**	**Amounts owed to joint ventures £m**	Income £m	Net investments into joint ventures £m	Amounts owed by joint ventures £m	Amounts owed to joint ventures £m
20 Fenchurch Street Limited Partnership	**5**	**(531)**	**–**	**–**	12	8	43	(1)
Nova, Victoria	**19**	**(50)**	**72**	**–**	19	–	56	(3)
Southside Limited Partnership	**3**	**(29)**	**72**	**–**	–	(4)	–	–
St. David's Limited Partnership	**1**	**(15)**	**1**	**(1)**	1	(16)	–	–
Westgate Oxford Alliance Limited Partnership	**11**	**67**	**1**	**–**	9	67	10	–
The Oriana Limited Partnership	**–**	**(63)**	**–**	**–**	–	(37)	–	–
Harvest	**1**	**12**	**–**	**–**	–	(2)	–	–
The Ebbsfleet Limited Partnership	**–**	**–**	**–**	**–**	–	(1)	–	–
Millshaw Property Co. Limited	**–**	**–**	**–**	**–**	–	(12)	–	–
West India Quay Unit Trust	**–**	**(1)**	**–**	**(2)**	–	(1)	–	(2)
	40	**(610)**	**146**	**(3)**	41	2	109	(6)

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the applicable categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 86 to 111.

	2018 £m	2017 £m
Short-term employee benefits	**6**	5
Share-based payments	**3**	3
	9	8

39. 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:

	2018 £m	2017 £m
Not later than one year	**533**	496
Later than one year but not more than five years	**1,945**	1,962
More than five years	**3,878**	3,444
	6,356	5,902

The total of contingent rents recognised as income during the year was **£40m** (2017: £45m).

40. Events after the reporting period

There were no significant events occurring after the reporting period, but before the publication of this report.

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 2018

Table 65

	Landsec %	IPD[1] %
Retail – Shopping centres	1.9	1.5
– Retail parks	7.0	6.8[2]
Central London shops	3.4	11.5
Central London offices	5.3	8.0
Total	**4.3[3]**	**10.1**

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 2018[1]

Table 66

	Shopping centres and shops %	Retail parks %	Offices %	Hotels, leisure, residential & other %	Total %
Central, inner and outer London	14.5	0.2	44.7	3.2	62.6
South East and East	11.5	3.5	–	2.9	17.9
Midlands	–	0.8	–	0.5	1.3
Wales and South West	3.4	0.5	–	0.6	4.5
North, North West, Yorkshire and Humberside	7.8	0.5	0.1	1.7	10.1
Scotland and Northern Ireland	2.7	0.2	–	0.7	3.6
Total	**39.9**	**5.7**	**44.8**	**9.6**	**100.0**

1. % figures calculated by reference to the Combined Portfolio value of £14.1bn.

For a full list of the Group's properties please refer to the website landsec.com.

Total shareholder returns[1]

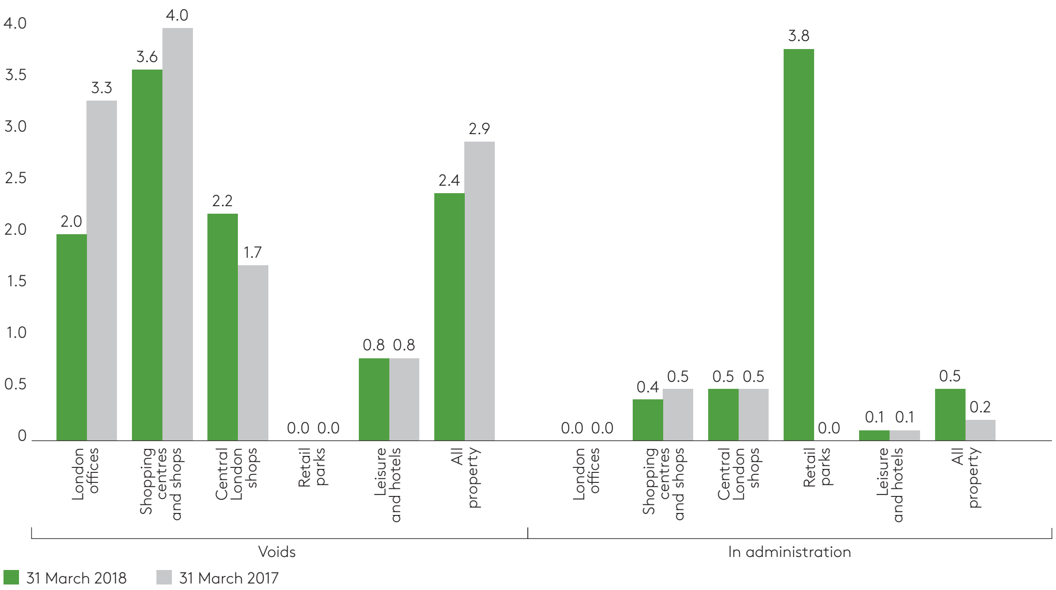
Table 67

	Period to 31 March 2018		
	5 years £	3 years £	1 year £
Land Securities Group PLC	131.9	81.7	92.0
FTSE 100	133.1	115.8	100.2
FTSE 350 Real Estate Index	154.1	98.7	107.2

1. Historical TSR performance for a hypothetical investment of £100 – source: Thomson Reuters.

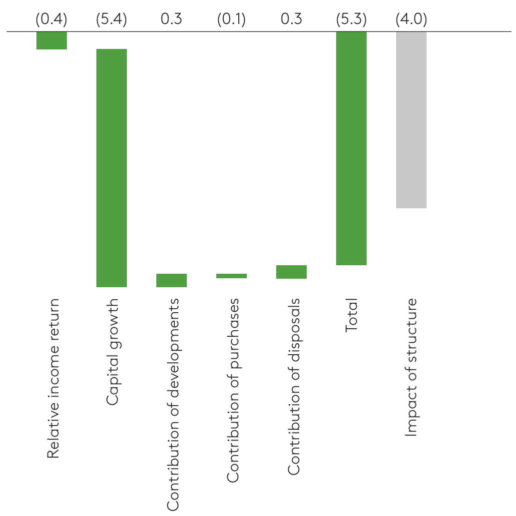
Voids and units in administration – like-for-like (%)

Chart 68



Analysis of performance relative to IPD (%)

Chart 69



Attribution analysis, ungeared total return, 12 months to 31 to March 2018, 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 70

	Group income statement £m	Joint ventures[1] £m	Proportionate share of earnings[2] £m	Total £m	Year ended 31 March 2018 Revenue profit £m	Capital and other items £m
Rental income	612	53	(2)	663	663	–
Finance lease interest	10	–	–	10	10	–
Gross rental income (before rents payable)	**622**	**53**	**(2)**	**673**	**673**	**–**
Rents payable	(11)	(1)	–	(12)	(12)	–
Gross rental income (after rents payable)	**611**	**52**	**(2)**	**661**	**661**	**–**
Service charge income	96	10	(1)	105	105	–
Service charge expense	(105)	(12)	1	(116)	(116)	–
Net service charge expense	(9)	(2)	–	(11)	(11)	–
Other property related income	36	2	–	38	38	–
Direct property expenditure	(65)	(12)	–	(77)	(77)	–
Net rental income	**573**	**40**	**(2)**	**611**	**611**	**–**
Indirect property expenditure	(81)	(3)	–	(84)	(84)	–
Other income	2	–	–	2	2	–
	494	**37**	**(2)**	**529**	**529**	**–**
Profit on disposal of investment properties	1	2	–	3	–	3
Profit on disposal of investment in joint venture	66	–	–	66	–	66
Net (deficit)/surplus on revaluation of investment properties	(98)	7	–	(91)	–	(91)
Movement in impairment of trading properties	–	(4)	–	(4)	–	(4)
Profit on disposal of trading properties	17	13	–	30	–	30
Other	(2)	–	2	–	–	–
Operating profit	**478**	**55**	**–**	**533**	**529**	**4**
Finance income	39	–	–	39	31	8
Finance expense	(795)	(28)	–	(823)	(154)	(669)
Share of post-tax profit from joint ventures	27	(27)	–	–	–	–
(Loss)/profit before tax	**(251)**	**–**	**–**	**(251)**	**406**	**(657)**
Taxation	(1)	–	–	(1)	–	(1)
(Loss)/profit attributable to shareholders	**(252)**	**–**	**–**	**(252)**	**406**	**(658)**

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:

Table 71

	For the year ended 31 March 2018			For the year ended 31 March 2017		
	Tax-exempt business	**Residual business**	**Adjusted results**	Tax-exempt business	Residual business	Adjusted results
Profit before tax (£m)[1]	**335**	**30**	**365**	185	50	235
Balance of business – 75% profits test	**91.6%**	**8.4%**		78.7%	21.3%	
Adjusted total assets (£m)[1]	**13,899**	**726**	**14,625**	14,088	991	15,079
Balance of business – 75% assets test	**95.0%**	**5.0%**		93.4%	6.6%	

1. Calculated according to REIT rules.

Cost analysis

Table 72

	£m
Gross rental income (before rents payable)	**673**
Rents payable	(12)
Gross rental income (after rents payable)	**661**
Net service charge expense	(11)
Net direct property expenditure	(39)
Net rental income	**611**
Indirect costs	(39)
Segment profit before finance expense	**572**
Net unallocated expenses	(43)
Net finance expense – Group	(95)
Net finance expense – joint ventures	(28)
Revenue profit	**406**

Direct property costs £50m

Indirect expenses[2] £82m

Total cost ratio[1] **18.5%**

	Year ended 31 March 2018 Total £m	Year ended 31 March 2018 Cost ratio %[1]	Year ended 31 March 2017 Total £m	Year ended 31 March 2017 Cost ratio %[1]
Gross rental income (before rents payable)	**673**		648	
Costs recovered through rents but not separately invoiced	(9)		(2)	
Adjusted gross rental income	**664**		646	
Rents payable	(12)		(11)	
EPRA gross rental income	**652**		635	
Managed operations	**9**	**1.4**	8	1.2
Tenant default	**5**	**0.8**	2	0.3
Void related costs	**20**	**3.0**	13	2.0
Other direct property costs	**14**	**2.1**	12	1.9
Development expenditure	**14**	**2.1**	16	2.5
Asset management, administration and compliance	**70**	**10.5**	65	10.1
Total (incl. direct vacancy costs)	**132**	**19.9**	116	18.0
Costs recovered through rents	(9)		(2)	
Adjusted total costs	**123**	**18.5**	114	17.6
Head office relocation	–		(1)	
EPRA costs (incl. direct vacancy costs)	**123**	**18.9**	113	17.8
Less: Direct vacancy costs	(20)		(13)	
EPRA (excl. direct vacancy costs)	**103**	**15.8**	100	15.7

1. Percentages represent costs divided by Adjusted gross rental income, except for EPRA measures which represent costs divided by EPRA gross rental income.
2. Indirect expenses amounting to **£1m** (2017: £1m) have been capitalised as development costs and are excluded from table 72.

EPRA performance measures

Table 73

	Definition for EPRA measure	Notes	31 March 2018 Landsec measure	EPRA measure
Adjusted earnings	Recurring earnings from core operational activity[1]	5	**£406m**	**£387m**
Adjusted earnings per share	Adjusted earnings per weighted number of ordinary shares[1]	5	**53.1p**	**50.6p**
Adjusted diluted earnings per share	Adjusted diluted earnings per weighted number of ordinary shares[1]	5	**53.1p**	**50.6p**
Adjusted net assets	Net assets adjusted to exclude fair value movements on interest-rate swaps[2]	5	**£10,380m**	**£10,486m**
Adjusted diluted net assets per share	Adjusted diluted net assets per share[2]	5	**1,403p**	**1,417p**
Triple net assets	Adjusted net assets amended to include the fair value of financial instruments and debt	5	**£10,165m**	**£10,165m**
Diluted triple net assets per share	Diluted triple net assets per share	5	**1,374p**	**1,374p**
Net initial yield (NIY)	Annualised rental income less non-recoverable costs as a percentage of market value plus assumed purchasers' costs[3]		**4.0%**	**4.4%**
Topped-up NIY	NIY adjusted for rent free periods[3]		**4.5%**	**4.6%**
Voids/vacancy rate	ERV of vacant space as a percentage of ERV of Combined Portfolio excluding the development programme[4]		**2.4%**	**2.3%**
Cost ratio	Total costs as a percentage of gross rental income (including direct vacancy costs)[5]		**18.5%**	**18.9%**
	Total costs as a percentage of gross rental income (excluding direct vacancy costs)[5]		**n/a**	**15.8%**

1. EPRA adjusted earnings and EPRA adjusted earnings per share include the amortisation of bond exchange de-recognition adjustment of £19m.
2. EPRA adjusted net assets and adjusted diluted net assets per share include the bond exchange de-recognition adjustment of £106m.
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. Topped-up NIY reflects an adjustment of £61m and £59m for rent free periods and other incentives for the Landsec measure and EPRA measure, respectively.
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 and excluding costs recovered through rents but not separately invoiced, whereas our measure is based on gross rental income before rents payable and excluding costs recovered through rents but not separately invoiced. We do not calculate a cost ratio excluding direct vacancy costs as we do not consider this to be helpful.

Business analysis – Group
continued

Top 12 occupiers at 31 March 2018
Table 74

	% of Group rent[1]
Central Government	5.0
Deloitte	5.0
Accor	4.2
Mizuho Bank	1.7
Boots	1.5
Next	1.2
Sainsbury's	1.2
Cineworld	1.2
Taylor Wessing	1.1
H&M	1.1
M&S	1.1
K&L Gates	1.1
	25.4

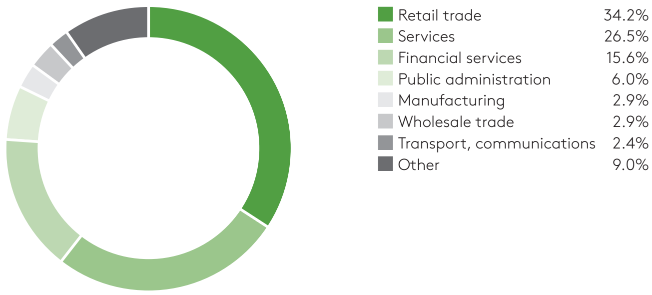
1. On a proportionate basis.

PID Table
Table 75

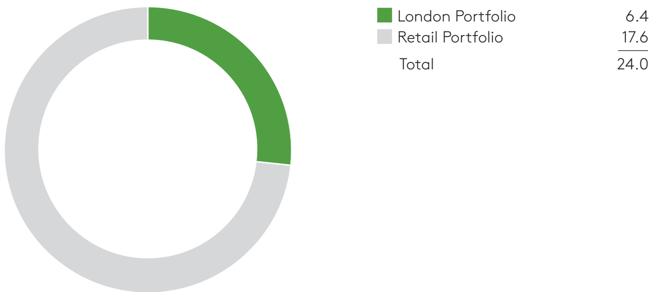
	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
(Loss)/profit before tax per accounts	**(251)**	112
Adjustments to exclude		
Valuation and profits on disposals	**(4)**	68
Interest income	**(31)**	(37)
Amortisation of bond exchange de-recognition adjustment	**19**	24
Premium payable on redemption of medium term notes	**579**	170
Fair value movement on interest-rate swaps	**(8)**	8
Revaluation of redemption liabilities	**2**	3
Impairment of goodwill	**–**	1
Amortisation of intangible asset	**2**	2
	308	351
Tax adjustments		
Capital allowances	**(66)**	(56)
Capitalised interest	**(5)**	(20)
Cumulative tax adjustments and removal of net residual tax result	**40**	2
Estimated tax exempt income for year	**277**	277
PID thereon (90%)	**250**	250
PID dividends paid in the year	**227**	218

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 76



Floor space (million sq ft)[1]
Chart 77

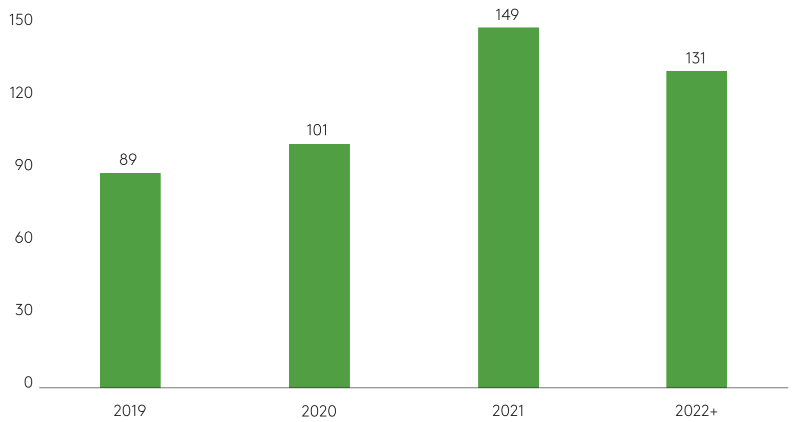


1. Joint ventures are reflected at 100% values, not Landsec share.

% portfolio by value and number of property holdings at 31 March 2018
Table 78

£m	Value %	Number of properties
0-10	0.5	23
10-25	3.0	26
25-50	3.1	13
50-100	12.3	25
100-150	9.6	11
150-200	9.8	8
200+	61.7	19
Total	**100.0**	**125**

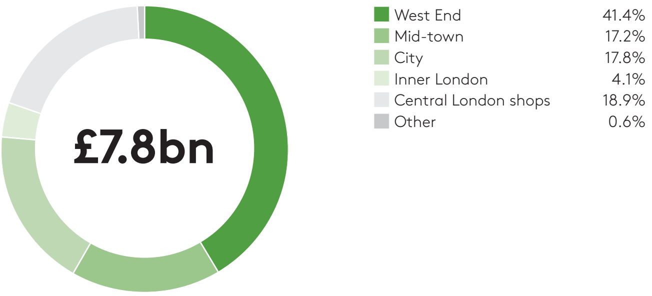
Committed development – estimated future spend (£m)
Chart 79



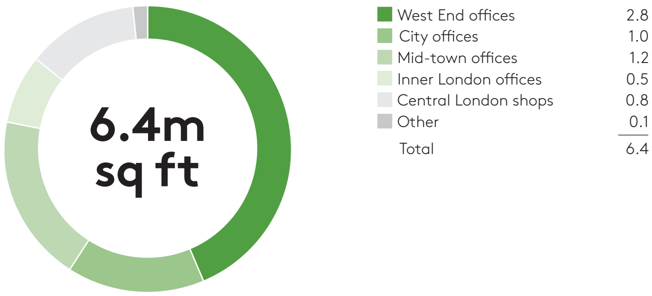
Estimated future spend includes the cost of residential space but excludes interest.

Business analysis – London

London Portfolio (%)
Chart 80



London Portfolio floor space (6.4 million sq ft)
Chart 82



West End
Our £3.2bn West End office portfolio is dominated by our Victoria assets which include Cardinal Place, Queen Anne's Gate, 62 Buckingham Gate, and the recently completed schemes at The Zig Zag Building and Nova, all SW1.

Mid-town
Positioned between the City and West End, our cluster of buildings at New Street Square, EC4 represent our major assets in Mid-town.

City
Our £1.4bn City office portfolio includes 1 & 2 New Ludgate, EC4, One New Change, EC4 and the development at 21 Moorfields, EC2.

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.

Voids and units in administration – Like-for-like London Portfolio (%)
Chart 81

Top 10 office customers
Table 83

	% of Group rent
Central Government	5.0
Deloitte	5.0
Mizuho Bank	1.7
Taylor Wessing	1.1
K&L Gates	1.1
Equinix	1.1
Deutsche Bank	1.0
Bain & Co	0.9
City of Westminster	0.7
Schlumberger Oilfield UK	0.7
	18.3
Office other	28.1
Total	**46.4**

London like-for-like – rental and capital value trends % year ended 31 March 2018
Table 84

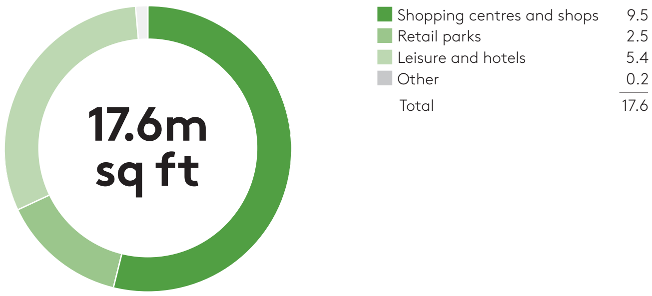
	Rental value change[1] %	Valuation change %
West End	(2.3)	(2.4)
City	(1.2)	(0.8)
Mid-town	(0.8)	(0.1)
Inner London	(0.6)	0.3
Central London shops	1.5	0.9
Total London like-for-like portfolio	**(1.1)**	**(1.0)**

1. Rental value change excludes units materially altered during the year and other non like-for-like movements.

Business analysis – Retail

Retail Portfolio (%) Chart 85

Retail Portfolio floor space (million sq ft) Chart 87



Shopping centres and shops

Comprises our portfolio of 15 shopping and outlet destinations in major retail locations across the UK including Bluewater, Kent, Trinity Leeds, Gunwharf Quays, Portsmouth and Westgate Oxford.

Retail parks

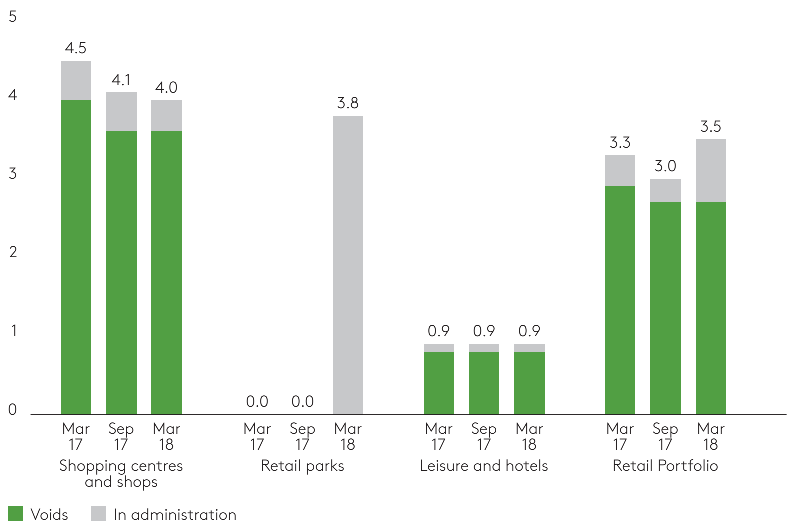
Our 12 retail parks are typically located away from town centres and offer a range of retail and leisure with parking providing convenient shopping. Assets include Westwood Cross, Thanet, Lakeside Retail Park and Bexhill Retail Park.

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 21 Accor hotels in the UK. They are leased to Accor for 74 years with a break clause in 2031 and 12 yearly thereafter.

Voids and units in administration – like-for-like Retail Portfolio (%) Chart 86



Top 10 Retail customers Table 88

	% of Group rent
Boots	1.5
Cineworld	1.3
Next	1.2
Sainsbury's	1.2
M&S	1.1
H&M	1.1
Arcadia Group	0.9
Vue	0.8
Tesco	0.7
Primark	0.6
	10.4
Retail other (excluding Accor)	39.0
Total	**49.4**

Retail like-for-like – rental and capital value trends % year ended 31 March 2018 Table 89

	Rental value change[1] %	Valuation change %
Shopping centres and shops	0.8	(3.0)
Retail parks	(1.0)	(1.1)
Leisure and hotels	1.0	0.7
Total Retail like-for-like portfolio	**0.6**	**(2.0)**

1. Rental value change excludes units materially altered during the year and other non-like-for-like movements.

Sustainability performance

For us, sustainability is about creating a lasting positive impact. We work hard to embed sustainability in everything we do. And we keep looking for new ways to make a positive impact – using our experience to create great experiences and benefits for others.

To deliver this we have set twelve long-term sustainability commitments, covering each of our priority areas of creating jobs and opportunities, efficient use of natural resources and sustainable design and innovation. This section includes a summary of our performance against those commitments and our key disclosures.

For more information please visit www.landsec.com/sustainability.

Creating jobs and opportunities

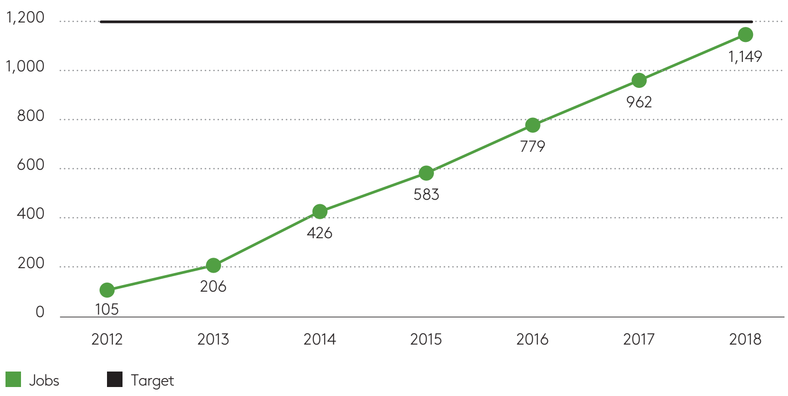
Commitment

Community employment: Help a total of 1,200 disadvantaged people to secure jobs by 2020.

Performance

Since 2011, we have secured employment for 1,149 people from disadvantaged backgrounds through our Community Employment Programme. In 2017/18 187 jobs have been secured, with 101 in London and 86 in Retail.

Cumulative total number of jobs secured Chart 90



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

We continue to be an accredited Living Wage employer, both for our employees and those working on our behalf on our sites. We participate in the Living Wage Employers Group, looking at how companies can encourage others within their supply chain to adopt the Living Wage Foundation rates. In March 2018 we launched our Sustainability Charter for partners which reinforces our Living Wage commitment and is being used as a tool to facilitate discussions with our supply partners, driving up minimum standards and increasing collaboration.

Commitment

Diversity: Make measurable improvements to the profile – in terms of gender, ethnicity and disability – of our employee mix.

Performance

With 41% of our Senior Management being female, we now significantly exceed the Hampton-Alexander recommendations for females on our Board, Executive Committee and their direct reports – a combined target of 33%. We are also delighted that the engagement scores for our colleagues who identify as Black and Asian are now as positive as for other ethnic groups.

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 our work with the Health in Construction Leadership Group and played a key role in industry health, safety and security initiatives. We have taken part in a number of cross-industry forums to share best practice and learn from others so that the business can anticipate and respond to incidents.

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

We continue to procure electricity derived from 100% renewable sources via our portfolio-wide contract with SmartestEnergy. As of 1 April 2017, at least 15% of our total gas volume is classified as green gas through our corporate contract with Corona Energy, further demonstrating our commitment to renewable and low carbon sources of energy.

Following the solar PV installations at Trinity Leeds and White Rose, our installed renewable electricity capacity has increased to 1.4 MW. Further solar feasibility studies are currently underway at Bluewater and other retail assets.

Commitment

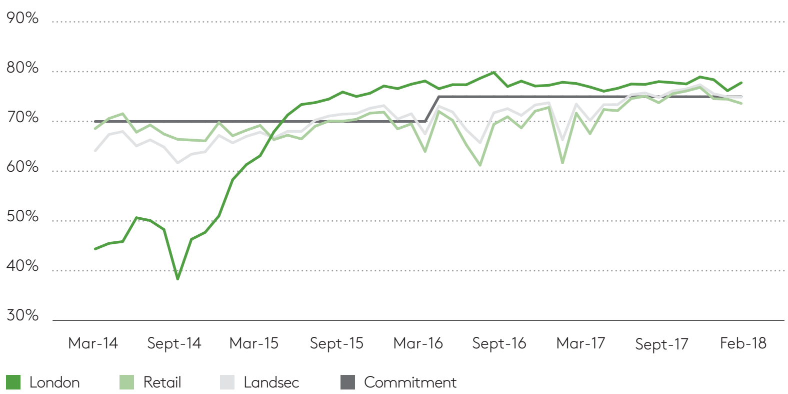
Waste: Send zero waste to landfill with at least 75% recycled across all our operational and construction activities by 2020.

Performance

We are now diverting 100% from landfill and are recycling 74.9% of waste. This is an improvement in the amount of waste diverted from landfill in 2016/17 (99.96%) and an increase in the amount recycled (70.8%) when compared with last year.

- London continues to divert 100% from landfill with 77.5% of waste recycled.
- Shopping Centres divert 100% from landfill with 79.7% of waste recycled.
- Leisure and Retail Parks (managed by Savills) divert 100% from landfill with 55.4% of waste recycled.

Landsec monthly portfolio recycling rates 2014-18 Chart 91



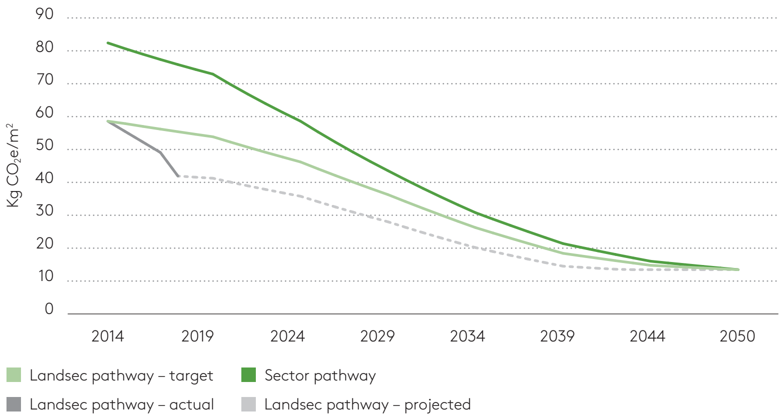
Additional information

Sustainability performance
continued

Commitment
Carbon: Reduce carbon intensity (kgCO_2e/m^2) by 40% by 2030 compared with a 2013/14 baseline, for property under our management for at least two years.

Performance
We have reduced carbon intensity by 28.6% compared with our 2013/14 baseline. This is an improvement compared with the 2016/17 reduction of 16.3%[1]. These reductions were achieved through a combination of energy efficiency projects, changes in our portfolio, and changes in emissions factors.

Landsec carbon emissions intensity pathway Chart 92

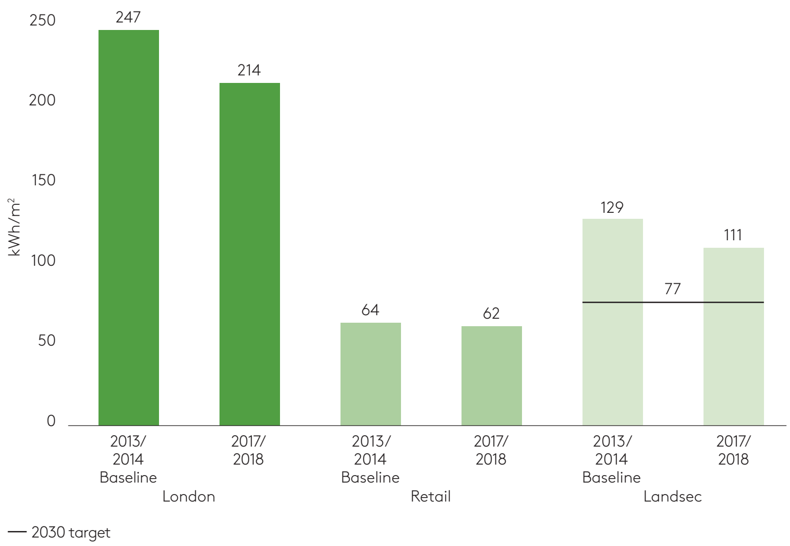


The figure above indicates our performance against the required science-based decarbonisation pathways of our portfolio and the wider sector. We are currently outperforming our target pathway and are on track for our 2030 commitment.

Commitment
Energy: Reduce energy intensity (kWh/m^2) by 40% by 2030 compared with a 2013/14 baseline, for property under our management for at least two years.

Performance
We have reduced portfolio energy intensity by 14.3% compared with our 2013/14 baseline. This is an improvement compared with the 2016/17 reduction of 13.2%. This year we implemented 60 energy reduction projects across both London and Retail portfolios, with further measures identified and agreed for the majority of our highest consuming assets. These will drive further energy reductions in support of our energy and science-based carbon targets.

Landsec energy intensity progress Chart 93



The figure above shows the energy intensity improvements we have made in our London and Retail portfolios and Landsec as a whole. Office buildings in London naturally have a much higher energy intensity than Retail assets and we have reduced portfolio intensity by 13.5% since 2013/14. Our Retail portfolio intensity has reduced by 4.1%. Overall, we have reduced our portfolio intensity by 14.3% and are on track to meet our 2030 commitment.

Sustainable design and innovation

Commitment
Resilience: Assess and mitigate physical and financial climate change adaptation risks that are material across our portfolio.

Performance
We partnered with Willis Towers Watson to research the possible effects of different climate change scenarios on our business and our assets. Using the findings from the research, we're improving our approach to investment, developments and operations, which reduces our exposure to climate related risks. For the first time this year we're disclosing our strategy and data on climate risk, in response to the Task Force for Climate-related Financial Disclosures (TCFD). You can see full details in our Sustainability Data Performance Report at landsec.com.

Commitment
Materials: Source core construction products and materials from ethical and sustainable sources.

Performance
This is a new commitment for 2018, and we are building on existing work undertaken in the design of our developments. In Retail, we delivered 86% responsibly sourced materials at Westgate, and we're on track to deliver 40% at Selly Oak. In London, we're focusing on early stages design, setting our responsible sourcing strategy using our Sustainability Brief, as well as the BREEAM and LEED methodologies.

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
In total, 63 measures across the portfolio have been identified to support our net gain commitment which are planned for installation in the next 3-5 years. A total of ten measures have been installed since 2016/17.

Commitment
Wellbeing: Ensure our buildings are designed and managed to maximise wellbeing and productivity.

Performance
We're making progress in both London and Retail, using the BREEAM health and wellbeing frameworks to deliver a consistent level of design quality in acoustics, indoor air quality and natural light. Building on these core design factors in London, we are creating best in class cycle facilities and amenity spaces, giving building occupants the opportunity to lead a healthy lifestyle at work. In Retail, we worked with over 75% of our brand partners at Westgate, using green lease clauses to support the use of healthy materials in their fit-outs.

1. This year, we have re-baselined our carbon emissions and intensity to further align with the SBTi reporting methodology. Specifically, we have removed emissions from the delivery of energy to our tenants. This has lowered our 2016/17 carbon intensity reduction against the baseline from 18.5% to 16.3%.

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, including reaching the CDP A-list for the first time and being the highest scoring UK real estate company in the Dow Jones Sustainability Index.

Benchmarking Scores

Table 94

Activity	Performance
CDP	2017: A (Leadership) 2016: A- (Leadership) 2015: disclosure 99/score B 2014: disclosure 96/ score A- 2013: disclosure 88/score B
Global Real Estate Sustainability Benchmark (GRESB)	2017: score 78% 2016: score 77% 2015: score 77% 2014: score 78% 2013: score 67%
Dow Jones Sustainability Index (DJSI)	2017: score 75/percentile ranking 92 2016: score 76/percentile ranking 92 2015: score 72/percentile ranking 89 2014: score 70/percentile ranking 87 2013: score 72/percentile ranking 87
FTSE4Good	We continue to retain our established position in the FTSE4Good Index
EPRA	Received a Gold Award from EPRA for best practice sustainability reporting
Workforce Disclosure Initiative (WDI)	Highlighted as an example of good practice in the pilot first year of the Workforce Disclosure Initiative

Community investment data 2017/18

Value of resources given	£1.9m equivalent of time, promotion and cash investment. 2,399 hours spent by employees volunteering
National Charity Partnership	Over £100,000 raised for partner Barnardo's in our first year of partnership

Recent recognition

Table 95

Award name	Category	Date
Dartford Business Awards	**Winner:** Best Community Project	September 2017
BCO National Award	**Winner:** National winner refurbished/recycled Awards – 20 Eastbourne Terrace	October 2017
Green Global Awards	**Winner:** Global Silver Award Environmental Improvement in Waste Management - Gunwharf Quays	December 2017
CIBSE Building Performance Awards	**Winner:** Learning and Development Award – for our Sustainability Matters training programme	February 2018
Better Society Awards	**Shortlisted:** Environment Award	March 2018
BusinessGreen Leaders Awards	**Shortlisted:** Sustainability Team of the Year	April 2018
BusinessGreen Leaders Awards	**Shortlisted:** Renewable Energy Project of the Year	April 2018

Green building certifications

BREEAM rated space

Table 96

Impact area	EPRA Sustainability Performance Measures EPRA codes	Units of measure	Indicator	2016/17[1]	2017/18	% change
Certification	Cert-Tot	% of total floor area (m^2)	Percentage of portfolio which is BREEAM rated	33.1%	**34.9%**	5.4%
			Outstanding	0.23%	**0.22%**	-2.6%
			Excellent	17.32%	**17.41%**	0.5%
			Very Good	8.64%	**10.18%**	17.8%
			Good/Pass	6.92%	**7.09%**	2.5%

1. 2016/17 figures have been restated due to improved accuracy in the quality of data concerning BREEAM rated areas. The table above outlines the percentage of our portfolio rated by BREEAM, and the breakdown of these ratings. BREEAM is an established assessment method and rating system for buildings, and continues to be a valuable benchmark for sustainable design.

Also in the year, our Victoria Street workplace became the UK's largest WELL Silver Certified™ space, and is the first workplace in the world to achieve both WELL Silver and BREEAM Outstanding, setting a global benchmark for healthy and sustainable space.

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 four 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. Emissions are reported as tonnes of carbon dioxide equivalent (tCO_2e).

Scope 1 emissions are direct emissions from activities controlled by us that release emissions into the atmosphere. This is comprised of emissions from natural gas, refrigerant gases and company owned vehicles.

Scope 2 emissions are indirect emissions associated with our consumption of purchased energy. This includes electricity, heating and cooling purchased for common areas and shared services.

All material sources for both scope 1 and 2 emissions are reported. As the remaining sources, such as diesel used in generator testing, represent such a small proportion of total emissions, we do not report them.

Both scope 1 and 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 2017. Since 1 April 2017, at least 15% of our gas purchases are from green sources (biogas). In line with the WRI Greenhouse Gas Protocol guidance, our market-based emissions from biogas are not reported as scope 1; the CH_4 or N_2O emissions from biogas are reported as scope 2, and the CO_2 portion of the biogas is reported outside of the scopes, as a memo line. Therefore, our scope 1 market-based emissions are based on the emissions from the remainder of our gas purchases.

Scope 2 market-based emissions are reported using the conversion factor associated with each individual electricity, heating and cooling supply, as well as the CH_4 or N_2O emissions related to biogas.

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 2016-18 — Table 97

Scope 1 and 2 mandatory reporting Emissions	2016	Location based emission factors 2017	2018
Scope 1 tCO_2e	13,648	16,477	14,755
Scope 2 tCO_2e	55,688	47,066	36,620
Scope 1 and 2 tCO_2e	69,336	63,543	51,374
Scope 1 and 2 mandatory reporting Emissions	**2016**	**Market based emission factors 2017**	**2018**
Scope 1 tCO_2e	13,648	16,477	12,550
Scope 2 tCO_2e	34,259	3,862	2,200
Scope 1 and 2 tCO_2e	47,907	20,338	14,749
Scope 1 and 2 mandatory reporting Intensity		**Location based emission factors**	
Scope 1 and 2 tCO_2e/m^2	0.041	0.038	0.028
Scope 1 and 2 mandatory reporting Intensity		**Market based emission factors**	
Scope 1 and 2 tCO_2e/m^2	0.026	0.012	0.008

Greenhouse gas emission reporting

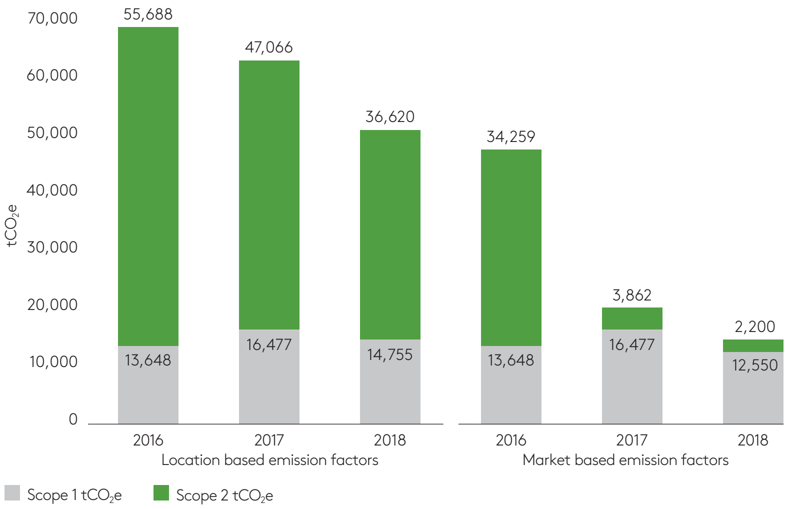
CO_2e conversion factors – location based[1] — Table 98

	2016/17	2017/18	% Change
Electricity (kWh)	0.51680	0.44572	-13.8%
Natural gas (kWh)	0.20899	0.21201	1.4%

1. Combined conversion factor including well-to-tank and transmission and distribution factors.

The above table outlines the location-based emission factors used for the 2017/18 year and how they compare to the previous year.

Landsec – Scope 1 and 2 emissions 2016-18 — Chart 99



Total scope 1 and 2 GHG emissions using location-based emission factors have dropped by 19% since the previous year. This has been driven by a reduction in electricity consumption and the drop in national emission factors due a cleaner energy mix. Additionally, with more accurate sub-metering of tenant energy consumption, we've been able to more accurately allocate scope 3 emissions associated with energy consumption to tenants and taken it out of our scope 1 and 2 emissions. In terms of market-based emissions we have seen a significant reduction of 27%. This has been due to increasing the number of sites supplied with 100% renewable electricity and by procuring at least 15% of our total gas purchase from green sources.

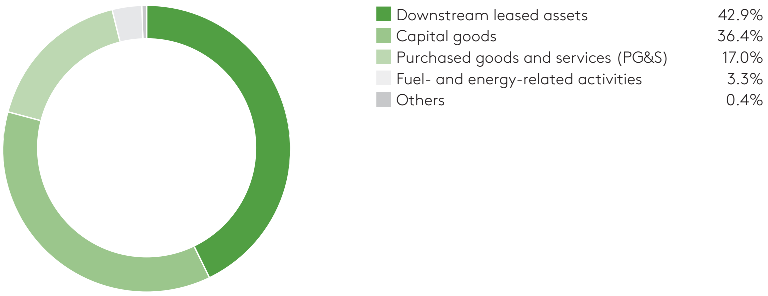
Every year we report our full carbon footprint. Table 100 on page 183 provides a breakdown of our entire emission inventory including scope 3.

Landsec – Scope 3 emissions Table 100

GHG Scope	Category	2016/17 Emissions (tCO₂e)	2016/17 % of total emissions	2017/18 Emissions (tCO₂e)	2017/18 % of total emissions
Scope 1	Scope 1	16,477	2%	14,755	4%
Scope 2	Scope 2	47,066	7%	36,620	9%
Scope 3	1. Purchased goods and services (PG&S)	61,647	9%	59,936	15%
	2. Capital goods	283,570	41%	128,551	32%
	3. Fuel- and energy-related activities	13,982	2%	11,699	3%
	4. Upstream transportation and distribution	Grouped under PG&S	0%	Grouped under PG&S	0%
	5. Waste generated in operations	740	0%	769	0%
	6. Business travel	360	0%	366	0%
	7. Employee commuting	182	0%	182	0%
	8. Upstream leased assets	n/a	0%	n/a	0%
	9. Downstream transportation and distribution	n/a	0%	n/a	0%
	10. Processing of sold products	n/a	0%	n/a	0%
	11. Use of sold products	n/a	0%	n/a	0%
	12. End-of-life treatment of sold products	n/a	0%	n/a	0%
	13. Downstream leased assets	258,428	38%	151,596	37%
	14. Franchises	n/a	0%	n/a	0%
	15. Investments	n/a	0%	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 2017/18 (%) Chart 101



The two largest contributing categories are Capital goods and Downstream leased assets, making up 69% of our total emissions. Capital goods include the emissions associated with the manufacture and transport of materials used within our development activity and Downstream leased assets are those associated with our customers within our assets. In addition to working closely with our supply partners and customers to reduce these emissions, there are additional reasons for the year on year reductions in both categories. For Capital goods, we have finished a number of buildings in development, and not brought new projects online at this stage. For Downstream leased assets, we have updated the energy Benchmark from the non-domestic National Energy Data-framework 2011 to those in the 2017 Real Estate Environmental Benchmarks.

Assurance

Landsec's auditor, EY, has once again conducted the sustainability assurance. This is part of our journey to embed sustainability across the business and enhance the integrity, quality and usefulness of the information we provide. EY performed a limited assurance engagement on selected performance data and qualitative statements in the Physical and Social sections of the Strategic Report (pages 42-51); the sustainability content in the 'Additional Information' section of the Landsec 2018 Annual Report (pages 179-183); and the online Landsec Performance Data Report 2018, which can be found at landsec.com/sustainability/reports-benchmarking. The full assurance statement is available at landsec.com/sustainability/governance-policies.

Combined Portfolio analysis

Like-for-like segmental analysis

	Market value[1]		Valuation movement[1]		Rental income[1]		Annualised rental income[2]	Annualised net rent[3]		Net estimated rental value[4]	
	31 March 2018 £m	31 March 2017 £m	**Surplus/ (deficit) £m**	**Surplus/ (deficit) %**	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 £m**	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m
Retail Portfolio											
Shopping centres and shops	**3,558**	3,635	**(110)**	**(3.0%)**	**196**	193	**186**	**180**	179	**196**	194
Retail parks	**786**	791	**(9)**	**(1.1%)**	**48**	48	**47**	**47**	47	**47**	47
Leisure and hotels	**1,304**	1,288	**8**	**0.7%**	**77**	78	**77**	**75**	76	**78**	78
Other	**16**	19	**(2)**	**(11.6%)**	**1**	1	**1**	**1**	1	**2**	2
Total Retail Portfolio	**5,664**	5,733	**(113)**	**(2.0%)**	**322**	320	**311**	**303**	303	**323**	321
London Portfolio											
West End	**2,388**	2,439	**(57)**	**(2.4%)**	**106**	105	**107**	**108**	106	**117**	117
City	**718**	726	**(6)**	**(0.8%)**	**30**	29	**30**	**32**	32	**40**	40
Mid-town	**1,010**	1,013	**(1)**	**(0.1%)**	**41**	40	**41**	**45**	42	**49**	49
Inner London	**324**	323	**1**	**0.3%**	**14**	14	**14**	**15**	15	**16**	17
Total London offices	**4,440**	4,501	**(63)**	**(1.5%)**	**191**	188	**192**	**200**	195	**222**	223
Central London shops	**1,357**	1,336	**12**	**0.9%**	**48**	47	**49**	**48**	37	**60**	60
Other	**39**	41	**(5)**	**(11.0%)**	**2**	2	**1**	**1**	1	**1**	1
Total London Portfolio	**5,836**	5,878	**(56)**	**(1.0%)**	**241**	237	**242**	**249**	233	**283**	284
Like-for-like portfolio[8]	**11,500**	11,611	**(169)**	**(1.5%)**	**563**	557	**553**	**552**	536	**606**	605
Proposed developments[1]	**–**	–	**–**	**–**	**–**	–	**–**	**–**	–	**–**	–
Development programme[9]	**447**	262	**68**	**18.3%**	**7**	–	**11**	**6**	(2)	**52**	14
Completed developments[1]	**1,816**	1,749	**17**	**1.0%**	**65**	49	**67**	**41**	5	**84**	85
Acquisitions[10]	**340**	4	**(7)**	**(1.9%)**	**25**	–	**24**	**24**	–	**24**	–
Sales[11]	**–**	813	**–**	**–**	**13**	42	**–**	**–**	31	**–**	39
Combined Portfolio	**14,103**	14,439	**(91)**	**(0.7%)**	**673**	648	**655**	**623**	570	**766**	743
Properties treated as finance leases					**(10)**	(10)					
Combined Portfolio	**14,103**	14,439	**(91)**	**(0.7%)**	**663**	638					

Total portfolio analysis

	Market value[1]		Valuation movement[1]		Rental income[1]		Annualised rental income[2]	Annualised net rent[3]		Net estimated rental value[4]	
	31 March 2018 £m	31 March 2017 £m	**Surplus/ (deficit) £m**	**Surplus/ (deficit) %**	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 £m**	**31 March 2018 £m**	31 March 2017 £m	**31 March 2018 £m**	31 March 2017 £m
Retail Portfolio											
Shopping centres and shops	**4,152**	3,860	**(105)**	**(2.5%)**	**228**	195	**221**	**210**	180	**233**	210
Retail parks	**809**	861	**(2)**	**(0.2%)**	**51**	52	**47**	**47**	51	**48**	51
Leisure and hotels	**1,309**	1,384	**8**	**0.6%**	**80**	94	**77**	**75**	80	**79**	83
Other	**16**	20	**(2)**	**(11.5%)**	**1**	2	**1**	**1**	1	**2**	2
Total Retail Portfolio	**6,286**	6,125	**(101)**	**(1.7%)**	**360**	343	**346**	**333**	312	**362**	346
London Portfolio											
West End	**3,235**	3,247	**(42)**	**(1.3%)**	**132**	123	**135**	**124**	107	**155**	157
City	**1,388**	1,853	**48**	**3.7%**	**57**	66	**49**	**52**	53	**99**	87
Mid-town	**1,347**	1,336	**–**	**–**	**55**	48	**56**	**45**	42	**66**	67
Inner London	**324**	323	**1**	**0.4%**	**14**	14	**14**	**15**	15	**17**	17
Total London offices	**6,294**	6,759	**7**	**0.1%**	**258**	251	**254**	**236**	217	**337**	328
Central London shops	**1,480**	1,514	**8**	**0.6%**	**53**	52	**54**	**53**	40	**66**	68
Other	**43**	41	**(5)**	**(9.9%)**	**2**	2	**1**	**1**	1	**1**	1
Total London Portfolio	**7,817**	8,314	**10**	**0.1%**	**313**	305	**309**	**290**	258	**404**	397
Combined Portfolio	**14,103**	14,439	**(91)**	**(0.7%)**	**673**	648	**655**	**623**	570	**766**	743
Properties treated as finance leases					**(10)**	(10)					
Combined Portfolio	**14,103**	14,439	**(91)**	**(0.7%)**	**663**	638					
Represented by:											
Investment portfolio	**12,848**	12,628	**(98)**	**(0.8%)**	**610**	585	**606**	**587**	523	**701**	650
Share of joint ventures	**1,255**	1,811	**7**	**0.6%**	**53**	53	**49**	**36**	47	**65**	93
Combined Portfolio	**14,103**	14,439	**(91)**	**(0.7%)**	**663**	638	**655**	**623**	570	**766**	743

Like-for-like segmental analysis continued

Table 102

	Gross estimated rental value[5]		Net initial yield[6]		Equivalent yield[7]		Voids (by ERV)[1]	
	31 March 2018 £m	31 March 2017 £m	**31 March 2018 %**	31 March 2017 %	**31 March 2018 %**	31 March 2017 %	**31 March 2018 %**	31 March 2017 %
Retail Portfolio								
Shopping centres and shops	**203**	201	**4.4%**	4.3%	**4.9%**	4.8%	**3.6%**	4.0%
Retail parks	**48**	48	**5.4%**	5.5%	**5.6%**	5.6%	**–**	–
Leisure and hotels	**79**	78	**5.1%**	5.2%	**5.4%**	5.5%	**0.8%**	0.8%
Other	**2**	2	**1.3%**	3.8%	**8.3%**	8.3%	**40.9%**	34.8%
Total Retail Portfolio	**332**	329	**4.7%**	4.7%	**5.1%**	5.0%	**2.7%**	2.9%
London Portfolio								
West End	**117**	117	**4.3%**	4.0%	**4.5%**	4.6%	**3.4%**	6.4%
City	**41**	41	**4.3%**	4.2%	**4.8%**	4.8%	**–**	–
Mid-town	**50**	50	**4.4%**	4.0%	**4.5%**	4.5%	**0.6%**	–
Inner London	**17**	17	**4.2%**	4.2%	**4.9%**	5.0%	**0.6%**	–
Total London offices	**225**	225	**4.3%**	4.0%	**4.6%**	4.6%	**2.0%**	3.3%
Central London shops	**60**	61	**3.1%**	2.5%	**4.1%**	4.0%	**2.2%**	1.7%
Other	**1**	1	**1.2%**	0.9%	**1.4%**	1.3%	**20.0%**	33.3%
Total London Portfolio	**286**	287	**4.0%**	3.7%	**4.4%**	4.5%	**2.0%**	3.0%
Like-for-like portfolio[8]	**618**	616	**4.4%**	4.2%	**4.8%**	4.7%	**2.4%**	2.9%
Proposed developments[1]	**–**	–	**–**	–	**n/a**	n/a	**n/a**	n/a
Development programme[9]	**54**	15	**0.7%**	–	**4.5%**	4.6%	**n/a**	n/a
Completed developments[1]	**84**	86	**2.1%**	0.2%	**4.2%**	4.3%	**n/a**	n/a
Acquisitions[10]	**24**	–	**5.7%**	5.5%	**5.9%**	n/a	**n/a**	n/a
Sales[11]	**–**	39	**–**	3.5%	**n/a**	n/a	**n/a**	n/a
Combined Portfolio	**780**	756	**4.0%**	3.6%	**4.7%**	n/a	**n/a**	n/a

Total portfolio analysis continued

	Gross estimated rental value[5]		Net initial yield[6]	
	31 March 2018 £m	31 March 2017 £m	**31 March 2018 %**	31 March 2017 %
Retail Portfolio				
Shopping centres and shops	**243**	219	**4.3%**	4.1%
Retail parks	**49**	52	**5.1%**	5.4%
Leisure and hotels	**79**	83	**5.1%**	5.2%
Other	**2**	2	**1.3%**	3.8%
Total Retail Portfolio	**373**	356	**4.6%**	4.5%
London Portfolio				
West End	**154**	156	**3.6%**	3.0%
City	**101**	89	**3.6%**	2.7%
Mid-town	**68**	68	**3.3%**	3.0%
Inner London	**17**	17	**4.2%**	4.2%
Total London offices	**340**	330	**3.6%**	3.0%
Central London shops	**66**	69	**3.1%**	2.4%
Other	**1**	1	**1.3%**	0.9%
Total London Portfolio	**407**	400	**3.5%**	2.9%
Combined Portfolio	**780**	756	**4.0%**	3.6%
Represented by:				
Investment portfolio	**714**	661	**4.1%**	3.7%
Share of joint ventures	**66**	95	**2.3%**	2.4%
Combined Portfolio	**780**	756	**4.0%**	3.6%

Notes:
1. Refer to glossary for definition.
2. 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.
3. Annualised net rent is annual cash rent, after the deduction of rent payable, as at the balance sheet date. It is calculated with the same methodology as annualised rental income but is stated net of rent payable and before SIC 15 adjustments.
4. Net estimated rental value is gross estimated rental value, as defined in the glossary, after deducting expected rent payable.
5. 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.
6. Net initial yield – refer to glossary for definition. This calculation includes all properties including those sites with no income.
7. Equivalent yield – refer to glossary for definition. Proposed developments are excluded from the calculation of equivalent yield on the Combined Portfolio.
8. 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.
9. 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.
10. Includes all properties acquired since 1 April 2016.
11. Includes all properties sold since 1 April 2016.

Lease lengths

Lease lengths

Table 103

	Weighted average unexpired lease term at 31 March 2018	
	Like-for-like portfolio Mean[1] Years	Like-for-like portfolio, completed developments and acquisitions Mean[1] Years
Retail Portfolio		
Shopping centres and shops	6.2	5.8
Retail parks	6.8	6.8
Leisure and hotels	12.5	12.5
Other	3.1	3.1
Total Retail Portfolio	**7.9**	**7.5**
London Portfolio		
West End	7.6	8.8
City	5.1	8.7
Mid-town	8.5	11.2
Inner London	14.8	14.8
Total London offices	**7.9**	**9.6**
Central London shops	6.3	6.9
Other	5.7	5.7
Total London Portfolio	**7.6**	**9.2**
Combined Portfolio	**7.8**	**8.4**

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

Financial summary

Table 104

	Cumulative movements on the development programme to 31 March 2018						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, SIC 15 rent and other adjustments £m	**Market value at 31 March 2018 £m**	Estimated total capital expenditure £m	Estimated total capitalised interest £m	Estimated total development cost[3] £m	Net Income/ ERV[4] £m	**Valuation surplus for the year ended 31 March 2018[2] £m**
Developments let and transferred or sold											
Shopping centres and shops	**–**	–	–	–	–	**–**	–	–	–	–	**–**
Retail parks	**–**	–	–	–	–	**–**	–	–	–	–	**–**
London Portfolio	**195**	381	44	387	(62)	**945**	272	44	511	43	**13**
	195	381	44	387	(62)	**945**	272	44	511	43	**13**
Developments after practical completion, approved or in progress											
Shopping centres and shops	**30**	170	11	42	6	**259**	177	11	218	14	**11**
Retail parks	**6**	10	–	6	–	**22**	28	–	34	3	**6**
London Portfolio	**73**	39	3	51	–	**166**	469	41	583	38	**51**
	109	219	14	99	6	**447**	674	52	835	55	**68**

	Movement on proposed developments for the year ended 31 March 2018						Total scheme details[1]				
Proposed developments											
Shopping centres and shops	**–**	–	–	–	–	**–**	–	–	–	–	**–**
Retail parks	**–**	–	–	–	–	**–**	–	–	–	–	**–**
London Portfolio	**–**	–	–	–	–	**–**	–	–	–	–	**–**
	–	–	–	–	–	**–**	–	–	–	–	**–**

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. 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.
4. Net headline annual rent on let units plus net ERV at 31 March 2018 on unlet units.

Development pipeline and trading property development schemes

at 31 March 2108

Development pipeline

Table 105

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									
Westgate Oxford	Retail	50	800,000	90	259	14	Oct 2017	206	218
Developments approved or in progress									
Selly Oak, Birmingham	Retail	50	190,000	91	22	3	Sep 2018	16	34
21 Moorfields, EC2	Office	100	564,000	83[1]	166	38	Nov 2021	115	583
Developments let and transferred or sold									
The Zig Zag Building, SW1[2]	Office	100	192,700	94	n/a[4]	17	Nov 2015	181	181
	Retail		38,700	100					
Nova, SW1	Office	50	481,400	98	n/a[4]	20	Apr 2017	263	263
	Retail		79,200	89					
20 Eastbourne Terrace, W2	Office	100	92,800	100	n/a[4]	6	May 2017	67	67
Oriana, W1 – Phase II[3]	Retail	50	30,700	100	n/a[4]	n/a	n/a	n/a	n/a

1. We have entered into a conditional agreement for lease with Deutsche Bank for between 469,000 and 564,000 sq ft at 21 Moorfields, EC2. The letting status of 83% represents a letting of 469,000 sq ft.
2. Includes retail within Kings Gate, SW1.
3. This represents the disposal of 28-32 Oxford Street, W1.
4. 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 percentage is measured by ERV and shows letting status at 31 March 2018. 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 2018, the only properties on which interest was capitalised on the land cost were Westgate Oxford and 21 Moorfields, EC2.

Net income/ERV

Net income/ERV represents headline annual rent on let units plus ERV at 31 March 2018 on unlet units, both after rents payable.

Trading property development schemes

Table 106

Property	Description of use	Ownership interest %	Size sq ft	Number of units	Sales exchanged by unit %	Completion date	Total development costs to date £m	Forecast total development cost £m
Kings Gate, SW1	Residential	100	108,600	100	99	Oct 2015	161	161
Nova, SW1	Residential	50	166,800	170	93	Apr 2017	147	147
Oriana, W1 – Phase II	Residential	50	20,200	18	89	Oct 2017	16	16
Westgate Oxford	Residential	50	36,700	59	90	Dec 2017	11	11

Alternative performance measures

The Group has applied the European Securities and Markets Authority (ESMA) 'Guidelines on Alternative Performance Measures' in these 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 results, where the definitions and reconciliations of these measures can be found, as well as 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 107

	Nearest IFRS measure	Reconciliation
Revenue profit	Profit before tax	Note 4
Adjusted earnings	Profit attributable to shareholders	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 shareholders	Note 5
Adjusted net assets per share	Net assets attributable to shareholders	Note 5
Adjusted diluted net assets per share	Net assets attributable to shareholders	Note 5
Total business return	n/a	Note 5
Combined Portfolio	Investment properties	Note 14
Adjusted net debt	Borrowings	Note 20
Group LTV	n/a	Note 20

Five year summary

Income statement

Table 108

				Year ended 31 March	
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	**852**	787	942	770	717
Costs	**(343)**	(266)	(410)	(334)	(249)
	509	521	532	436	468
Profit on disposal of investment properties	**1**	19	75	107	16
Profit/(loss) on disposal of investments in joint ventures	**66**	(2)	–	3	2
Profit on disposal of other investment	**–**	13	–	–	–
Net (deficit)/surplus on revaluation of investment properties	**(98)**	(186)	739	1,771	607
Operating profit	**478**	365	1,346	2,317	1,093
Net finance expense	**(756)**	(322)	(209)	(228)	(185)
Net gain on business combination	**–**	–	–	2	5
Share of post-tax profit from joint ventures	**27**	69	199	326	196
(Loss)/profit before tax	**(251)**	112	1,336	2,417	1,109
Taxation	**(1)**	1	2	–	8
(Loss)/profit attributable to shareholders	**(252)**	113	1,338	2,417	1,117
Net (deficit)/surplus on revaluation of investment properties:					
Group[1]	**(98)**	(187)	736	1,768	609
Joint ventures[1]	**7**	40	171	269	155
Total[1]	**(91)**	(147)	907	2,037	764
Revenue profit	**406**	382	362	329	320

1. Includes our non-wholly owned subsidiaries on a proportionate basis.

Five year summary
continued

Balance sheet

Table 109

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
			Year ended and as at 31 March		
Investment properties	**12,336**	12,144	12,358	12,158	9,848
Intangible assets	**34**	36	38	35	–
Net investment in finance leases	**162**	165	183	185	187
Loan investments	**–**	–	–	50	50
Investment in joint ventures	**1,151**	1,734	1,668	1,434	1,443
Trade and other receivables	**165**	123	86	53	35
Other non-current assets	**49**	51	44	29	14
Total non-current assets	**13,897**	14,253	14,377	13,944	11,577
Trading properties and long-term development contracts	**24**	122	124	222	193
Trade and other receivables	**471**	418	445	404	366
Monies held in restricted accounts and deposits	**15**	21	19	10	15
Cash and cash equivalents	**62**	30	25	14	21
Total current assets	**572**	591	613	650	595
Non-current assets held for sale	**–**	–	–	283	–
Borrowings	**(872)**	(404)	(19)	(191)	(513)
Trade and other payables	**(294)**	(302)	(289)	(367)	(320)
Other current liabilities	**(14)**	(7)	(19)	(10)	(12)
Total current liabilities	**(1,180)**	(713)	(327)	(568)	(845)
Borrowings	**(2,752)**	(2,545)	(2,854)	(3,593)	(2,849)
Trade and other payables	**–**	(25)	(28)	(30)	(23)
Other non-current liabilities	**(8)**	(9)	(47)	(45)	(4)
Redemption liability	**(37)**	(36)	(35)	(35)	(33)
Total non-current liabilities	**(2,797)**	(2,615)	(2,964)	(3,703)	(2,909)
Net assets	**10,492**	11,516	11,699	10,606	8,418
Net debt	**(3,548)**	(2,905)	(2,861)	(3,801)	(3,331)
Market value of the Combined Portfolio	**14,103**	14,439	14,471	14,031	11,859
Adjusted net debt	**(3,652)**	(3,261)	(3,239)	(4,172)	(3,948)
Results per share					
Total dividend payable in respect of the financial year	**44.2p**	38.55p	35.0p	31.85p	30.7p
Basic (loss)/earnings per share	**(32.9)p**	14.3p	169.4p	306.1p	142.3p
Diluted (loss)/earnings per share	**(32.9)p**	14.3p	168.8p	304.7p	141.8p
Adjusted earnings per share	**53.1p**	48.4p	45.9p	41.7p	40.7p
Adjusted diluted earnings per share	**53.1p**	48.3p	45.7p	41.5p	40.5p
Net assets per share	**1,418p**	1,458p	1,482p	1,343p	1,069p
Diluted net assets per share	**1,418p**	1,456p	1,476p	1,337p	1,065p
Adjusted net assets per share	**1,403p**	1,418p	1,439p	1,299p	1,017p
Adjusted diluted net assets per share	**1,403p**	1,417p	1,434p	1,293p	1,013p

Acquisitions, disposals and capital expenditure

Table 110

	Year ended 31 March 2018				Year ended 31 March 2017
	Group (excl. joint ventures) £m	Joint ventures £m	Adjustment for proportionate share[1] £m	Combined Portfolio £m	Combined Portfolio £m
Investment properties					
Net book value at the beginning of the year	**12,144**	**1,763**	**(34)**	**13,873**	13,954
Acquisitions	351	–	–	**351**	15
Transfer from/(to) trading properties	1	1	–	**2**	(5)
Capital expenditure	92	73	(1)	**164**	240
Capitalised interest	3	3	–	**6**	18
Disposals	(157)	(612)	–	**(769)**	(244)
Net movement in finance leases	–	–	–	**–**	42
Net (deficit)/surplus on revaluation of investment properties	(98)	7	–	**(91)**	(147)
Net book value at the end of the year	**12,336**	**1,235**	**(35)**	**13,536**	13,873
Profit on disposal of investment properties	**1**	**2**	**–**	**3**	20
Trading properties					
Net book value at the beginning of the year	**122**	**124**	**–**	**246**	281
Capital expenditure	15	4	–	**19**	46
Capitalised interest	–	–	–	**–**	5
Disposals	(112)	(73)	–	**(185)**	(101)
Transfer (to)/from investment properties	(1)	(1)	–	**(2)**	5
Movement in impairment	–	(4)	–	**(4)**	12
Net book value at the end of the year	**24**	**50**	**–**	**74**	248
Profit on disposal of trading properties	**17**	**13**	**–**	**30**	36
Investment in joint ventures					
Profit/(loss) on disposal of investment in joint venture	**66**	**–**	**–**	**66**	(2)
Other investments					
Profit on disposal of other investment	**–**	**–**	**–**	**–**	13

Acquisitions, development and refurbishment expenditure	**£m**	£m
Acquisitions of investment properties	**351**	15
Capital expenditure – investment properties	**58**	81
Development capital expenditure – investment properties	**106**	159
Capital expenditure – trading properties	**16**	19
Development capital expenditure – trading properties	**3**	27
Acquisitions, development and refurbishment expenditure	**534**	301

Disposals	**£m**	£m
Net book value – investment property disposals	**769**	244
Net book value – trading property disposals	**185**	101
Net book value – other net liabilities of trading property disposals	**(34)**	–
Net book value – other net assets of joint venture disposals	**46**	–
Profit on disposal – investment properties	**3**	20
Profit on disposal – trading properties	**30**	36
Profit/(loss) on disposal – investment in joint venture	**66**	(2)
Profit on disposal – other investment	**–**	13
Other	**2**	1
Total disposal proceeds	**1,067**	413

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

Analysis of capital expenditure

Analysis of capital expenditure

Table 111

Year ended 31 March 2018

	Acquisitions – investment properties £m	Development capital expenditure – investment properties £m	Capital expenditure – investment properties: Incremental lettable space £m	No incremental lettable space £m	Agent fees £m	Tenant improvements £m	Total £m	Capitalised interest £m	Total capital expenditure £m
Retail Portfolio									
Shopping centres and shops	**344**	**56**	15	9	–	3	**27**	**3**	**430**
Retail parks	**–**	**11**	–	4	–	(1)	**3**	**–**	**14**
Leisure and hotels	**6**	**–**	2	2	–	1	**5**	**–**	**11**
Other	**1**	**–**	–	2	–	–	**2**	**–**	**3**
Total Retail Portfolio	**351**	**67**	**17**	**17**	**–**	**3**	**37**	**3**	**458**
London Portfolio									
West End	**–**	**–**	–	10	2	–	**12**	**–**	**12**
City	**–**	**39**	–	(2)	–	–	**(2)**	**3**	**40**
Mid-town	**–**	**–**	–	(1)	–	–	**(1)**	**–**	**(1)**
Inner London	**–**	**–**	–	–	–	–	**–**	**–**	**–**
Central London shops	**–**	**–**	–	11	1	–	**12**	**–**	**12**
Total London Portfolio	**–**	**39**	**–**	**18**	**3**	**–**	**21**	**3**	**63**
Combined Portfolio[1]	**351**	**106**	**17**	**35**	**3**	**3**	**58**	**6**	**521**

1. On a cash basis, total capital expenditure was **£522m**, with **£440m** relating to the Group.

Additional information

Subsidiaries, joint ventures and associates

As at 31 March 2018, 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
Alan House (Nottingham) (No.1) Limited	Land Securities Trinity Limited
Alan House (Nottingham) (No.2) Limited	Landsec Limited
Arundel Great Court Development Management Limited	LC25 Limited
Blueco Limited	LS (Bracknell) Limited
Bluewater Ground Lease Limited	LS (Bridgewater Management) Limited
Bluewater Outer Area Limited	LS (Finchley Road) Limited
Cedric (New Fetter Lane) (No.1) Limited	LS (Jaguar) GP Investments Limited
Cedric (New Fetter Lane) (No.2) Limited	LS (Victoria) Nominee No.1 Limited
City & Central Shops Limited	LS (Victoria) Nominee No.2 Limited
City Centre Properties Limited	LS (Winchester) Limited
Clock Tower (Canterbury) (No.1) Limited	LS (Workington) Nominee 1 Limited
Clock Tower (Canterbury) (No.2) Limited	LS (Workington) Nominee 2 Limited
Crossways 2000 Limited	LS 1 New Street Square Developer Limited
Crossways 3065 Limited	LS 1 New Street Square Limited
Crossways 7055 Limited	LS 1 Sherwood Street Devco Limited
Dashwood House Limited	LS 1 Sherwood Street Limited
Eron Investments Limited	LS 120 Cheapside Limited
Freeport (Nominee 1) Limited	LS 130 Wood ST Limited
Freeport (Nominee 2) Limited	LS 20 Fenchurch Street (GP) Investments Limited
Gunwharf Quays Limited	LS 21 Moorfields Development Management Limited
Knollys House (No.1) Limited	LS 21 Moorfields Limited
Knollys House Limited	LS Aldersgate Limited
L & P Estates Limited	LS Arundel Nominee Limited
Land Securities (BH) Limited	LS Arundel Nominee No.1 Limited
Land Securities (Finance) Limited	LS Ashdown Limited
Land Securities (Hotels) Limited	LS Banbridge Limited
Land Securities (Insurance Services) Limited	LS Banbridge Management Limited
Land Securities (Media Services) BH Limited	LS Banbridge Phase Two Limited
Land Securities (Media Services) PQ Limited	LS Bankside Development Limited
Land Securities Buchanan Street Developments Limited	LS Bankside Limited
Land Securities Business Services Limited	LS Bexhill Limited
Land Securities Capital Markets PLC	LS Birmingham Limited
Land Securities Consulting Limited	LS Braintree and Castleford GP Limited
Land Securities Development Limited	LS Braintree Limited
Land Securities Ebbsfleet (No.2) Limited	LS Buchanan (GP) Investments Limited
Land Securities Ebbsfleet (No.3) Limited	LS Buchanan Limited
Land Securities Ebbsfleet Limited	LS Canterbury Limited
Land Securities Intermediate Limited	LS Cardiff (GP) Investments Limited
Land Securities Investment Trust Limited	LS Cardiff (Holdings) Limited
Land Securities Lakeside Limited	LS Cardiff Limited
Land Securities Management Limited	LS Cardinal Limited
Land Securities Management Services Limited	LS Castleford Limited
Land Securities Partnerships Limited	LS Chattenden Marketing Limited
Land Securities PLC	LS Chesterfield Limited
Land Securities Portfolio Management Limited	LS City & West End Limited
Land Securities Properties Limited	LS City Gate House Limited
Land Securities Property Holdings Limited	LS Clayton Square Limited
Land Securities Reserve B Limited	LS Company Secretaries Limited
Land Securities SPV'S Limited	LS Cornerhouse Limited
Land Securities Trading Limited	LS Director Limited

Name	Name	Name
LS Eastbourne Terrace Limited	LS QAM Limited	Stag Place (GP) Limited
LS Easton Park Investments Limited	LS Red Lion Court Limited	Stag Place (LP) Limited
LS Empress State Limited	LS Retail Warehouses Limited	Stag Place Limited Partnership
LS Fenchurch Development Management Limited	LS Rose Lane Limited	The City of London Real Property Company Limited
LS Galleria Limited	LS Selborne House Limited	The Imperial Hotel Hull Limited
LS Greenwich Investments Limited	LS Soho Square Limited	The Westminster Trust Limited
LS Greenwich Limited	LS Street GP Limited	Tops Estates Limited
LS Gunwharf Limited	LS Street Limited	Tops Shop Centres Limited
LS Harbour Exchange Option Limited	LS Taplow Limited	Tops Shop Estates Limited
LS Harrogate Limited	LS Taplow No.2 Limited	Trinity Quarter Developments Limited
LS Harrow Properties Limited	LS Thanet Limited	Wallace City Limited
LS Harvest (GP) Investments Limited	LS Times Square GP Limited	Watchmaker Finance Limited
LS Harvest 2 Limited	LS Times Square Limited	Whitecliff Developments Limited
LS Harvest Limited	LS Tottenham Court Road Limited	Willett Developments Limited
LS Hill House Limited	LS Victoria Circle Development Management Limited	X-Leisure (Brighton Cinema II) Limited
LS Holborn Gate Limited	LS Victoria Circle GP Investments Limited	X-Leisure (Brighton Cinema) Limited
LS Howard Centre Welwyn Limited	LS Victoria Circle LP1 Limited	X-Leisure (Edinburgh) Limited
LS Hungate Limited	LS Victoria Circle LP2 Limited	X-Leisure Limited
LS Juliet Limited	LS Victoria Properties Limited	
LS Kings Gate Residential Limited	LS Voyager Limited	
LS Kings Gate Residential No.2 Limited	LS Wellington Limited	
LS Kingsmead Limited	LS Westminster Limited	
LS Leisure Limited	LS Westminster No.2 Limited	
LS Lewisham Limited	LS White Rose Limited	
LS London Holdings One Limited	LS Whitefriars Limited	
LS London Holdings Three Limited	LS Wilton Plaza Limited	
LS Ludgate (No.1) Limited	LS Wood Lane Limited	
LS Ludgate (No.2) Limited	LS Zig Zag Limited	
LS Ludgate (No.3) Limited	LSIT (Management) Limited	
LS Ludgate Development Limited	Micadant (2001) Limited	
LS Maidstone Limited	O2 Retail & Leisure UK Partnership No.1 LLP	
LS Mark Lane Limited	Oriana LP Limited	
LS Millshaw Limited	Oxford Castle Apartments Limited	
LS Mirage Limited	QAM (2026) Limited	
LS Moorgate Limited	QAM (GP) Limited	
LS New Street Square Investments Limited	QAM (Holdings) Limited	
LS Nominees Holdings Limited	QAM (LP) Limited	
LS Occupier Limited	QAM Funding Limited Partnership	
LS ONC Holdings Limited	QAM Nominee No 1 Limited	
LS One New Change Developments Limited	QAM Nominee No 2 Limited	
LS One New Change Limited	QAM Property Trustee No 1 Limited	
LS Outlets No 1 GP Limited	QAM Property Trustee No 2 Limited	
LS Outlets No 2 GP Limited	Ravenseft Properties Limited	
LS Oxygen Limited	Ravenside Investments Limited	
LS Park House Development Management Limited	Retail Property Holdings Trust Limited	
LS Poole Retail Limited	Roebuck House (GP) Limited	
LS Portfolio Investments Limited	Roebuck House (Nominee) Limited	
LS Portland House Developer Limited	Rosefarm Leisure Limited	
LS Property Finance Company Limited	Sevington Properties Limited	
LS Property Solutions Limited	Shirec Limited	

Subsidiaries, joint ventures and associates
continued

As at 31 March 2018, 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 address for all entities included below is 100 Victoria Street, London, SW1E 5JL, except for entities with a footnote.

Name	Group share %	Country of registration
Castleford (UK) Limited	95.04%	UK
Ebbsfleet Investment (GP) Limited	50.00%	UK
Ebbsfleet Nominee No.1 Limited	50.00%	UK
Greenhithe Holdings Limited	100.00%	Jersey[1]
Greenhithe Investments Limited	100.00%	Jersey[1]
Harbour Exchange Management Company Limited	25.73%	UK[2]
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
Hermes Factory Outlets No2 Unit Trust	100.00%	Jersey[3]
Hermes Factory Outlets Unit Trust	100.00%	Jersey[3]
HFO Street No.1 Limited	100.00%	Jersey[3]
HFO Street No.2 Limited	100.00%	Jersey[3]
Kent Retail Investments Limited	100.00%	Jersey[3]
Land Securities Insurance Limited	100.00%	Guernsey[4]
Leisure II (North Finchley Two) Limited	95.04%	Jersey[3]
Leisure II (North Finchley) Limited	95.04%	Jersey[3]
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[3]
Leisure II (West India Quay) Limited	95.04%	Jersey[3]
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 Shopping Fund GP Limited	50.00%	Jersey[5]
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 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
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[3]
Southside General Partner Limited	50.00%	UK
Southside Limited Partnership	50.00%	Jersey[5]
Southside Nominees No.1 Limited	50.00%	UK
Southside Nominees No.2 Limited	50.00%	UK

Name	Group share %	Country of registration
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 Limited Partnership	50.00%	UK
St. David's Unit Trust	50.00%	Jersey[6]
The Ebbsfleet Limited Partnership	50.00%	UK
The Oriana 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[3]
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[3]
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
Wood Lane Nominee No.1 Limited	50.00%	UK
Wood Lane 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[3]
Xscape Castleford Limited Liability Partnership	95.04%	UK
Xscape Castleford No.2 Limited	95.04%	Jersey[3]
Xscape Castleford Partnership	95.04%	UK
Xscape Castleford Property Unit Trust	95.04%	Jersey[3]
Xscape Milton Keynes (Jersey) No.2 Limited	95.04%	Jersey[3]
Xscape Milton Keynes Limited	95.04%	Jersey[3]
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[3]

1. 44 Esplanade, St Helier, Jersey, JE4 9WG
2. Suite 1, 3rd Floor, 11-12 St. James's Square, London, SW1Y 4LB
3. 13 Castle Street, St Helier, Jersey, JE4 5UT
4. PO Box 384, The Albany South Esplanade, St Peter Port, Guernsey, GY1 4NF
5. 13-14 Esplanade, St Helier, Jersey, JE1 1EE
6. 47 Esplanade, St Helier, Jersey, JE1 0BD

Shareholder information

Financial calendar — Table 112

	2018
2017/18 Final dividend[1]	
Ex-dividend date	21 June
Record date	22 June
Last day for DRIP elections/receipt of DRIP application	6 July
Payment date	27 July
Annual General Meeting[2]	12 July
2018/19 First quarterly interim dividend[3]	
Record date	7 September
Payment date	5 October
2018/19 Half-yearly results announcement	13 November
2018/19 Second quarterly interim dividend[4]	
Record date	30 November
	2019
Payment date	4 January
2018/19 Third quarterly interim dividend[4]	
Record date	15 March
Payment date	12 April
2017/18 Financial year end	31 March
2018/19 Annual results announcement[4]	14 May

1. The Board has recommended a final dividend of 14.65p 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, 12 July 2018 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, can be found on the Company's website: landsec.com/investors.
3. The Board has declared a first quarterly dividend of 11.3p pence per ordinary share payable.
4. Provisional.

Share register analysis as at 31 March 2018 — Table 113

Holding range:	Number of holders	%	Number of ordinary shares	%
1–1,000	8,676	67.5	3,284,793	0.4
1,001–5,000	2,842	22.1	5,787,663	0.8
5,001–10,000	371	2.9	2,617,046	0.4
10,001–50,000	419	3.3	10,059,044	1.3
50,001–100,000	130	1.0	9,515,688	1.3
100,001–500,000	228	1.8	52,735,182	7.0
500,001–highest[1]	183	1.4	667,299,548	88.8
Total	**12,849**	**100.0**	**751,298,964**	**100.0**

Share register analysis as at 31 March 2018 — Table 114

Held by:	Number of holders	%	Number of ordinary shares	%
Private shareholders	9,870	76.8	11,489,676	1.5
Nominee and institutional investors[1]	2,979	23.2	739,809,288	98.5
Total	**12,849**	**100.0**	**751,298,964**	**100.0**

1. Including 9,839,179 shares held in Treasury by the Company.

Shareholder information

continued

Ordinary shares
The Company's ordinary shares, each of nominal value 10²⁄₃p each (following the September 2017 share consolidation), are traded on the main market for listed securities on the London Stock Exchange (LON:LAND).

Company website: landsec.com
The Company's Annual Report, results announcements and presentations are available to view and download from its website.

The website also includes information about the latest Landsec 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
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2128[1]
International dialing: +44 121 415 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 on our website: 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 them 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 our website: 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 Qualifying Activities, which are rental profits and chargeable gains relating to its property rental business.

At least 90% of income derived from Qualifying Activities must be distributed as Property Income Distributions (PIDs). For most shareholders, PIDs will be paid after deducting withholding tax at 20%. 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 Landsec website or from the Registrar.

UK individual shareholders will be taxed on PIDs received at their full marginal tax rates. The gross amount, before the 20% withholding, should be included in their tax return in 'other taxable income', with the withholding tax recorded separately. (see HMRC's Tax Return Guide, page TRG8).

A REIT may additionally pay ordinary dividends which will be treated in the same way as dividends from non-REIT companies (see www.gov.uk/tax-on-dividends).

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 on our website: 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. It's a service we can arrange in over 90 countries worldwide and it normally costs less than paying in a Sterling cheque. The dividend will be credited to your account automatically – normally just a few days after the company's dividend payment date. 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 on our website: landsec.com/investors.

They are also available from:
Dividend Reinvestment Plans
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0371 384 2268[1]
International dialling: +44 121 415 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
In September 2017, Landsec returned 60p per share to shareholders via the issue and redemption of B shares and undertook a share consolidation issuing 15 shares for every 16 held. A worked example of the impact to the tax base cost of shares is on our website: landsec.com/2017-return-capital.

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 and there were no fractional shares in the 2017 share consolidation, the adjusted price, post consolidation, for Capital Gains Tax purposes would be 229p per share.

General Data Protection Regulation (GDPR)
On 25 May 2018, the General Data Protection Regulation came into force which gives individuals improved clarity and rights over personal data. We have updated our Shareholder Privacy Notice to make it easier to understand how Landsec uses and protects shareholder information. A copy of the Shareholder Privacy Notice can be found on our website: landsec.com/mydata.

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
In the past, 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 Limited
Aspect House
Spencer Road
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West Sussex BN99 6DA

Telephone: 0371 384 2128
Textel: 0371 384 2255
International dialing: +44 121 415 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 2016.

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 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 2016, 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 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 rent payable 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 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 rent may be more or less than the ERV (see over-rented, reversionary and ERV). Passing 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 rent. Although temporary lets of less than 12 months are treated as void, income from temporary lets is included in passing rents.

Passing cash rent
Passing cash rent is passing rent excluding units that are in a rent free period at the reporting date.

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.

Glossary
continued

Real Estate Investment Trust (REIT)
A REIT must be a publicly quoted company with at least three-quarters of its profits and assets derived from a qualifying property rental business. Income and capital gains from the property rental business are exempt from tax but the REIT is required to distribute at least 90% of those profits to shareholders. Corporation tax is payable on non-qualifying activities in the normal way.

Rental value change
Increase or decrease in the current rental value, as determined by the Group's external 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.

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 adjusted for costs recovered through rents but not separately invoiced.

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
The change in market value, adjusted for net investment, plus the net rental income of our investment properties expressed as a percentage of opening market value plus the time weighted capital expenditure incurred during the year.

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 and the effect of SIC 15 under IFRS. 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. The screen at Piccadilly Lights, W1 is excluded from the void calculation as it will always carry advertising although the number and duration of our agreements with advertisers will vary. Commercialisation lettings are also excluded from the void calculation.

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.

This report has been printed on Heaven 42 – an FSC® certified paper containing 100% ECF pulp and manufactured at a mill accredited with the ISO 14001 and EMAS environmental standards.

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Completed. Our supply partners Engag

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Transformed. Development pipeline F

turned. Retail outlets Acquired. Our b

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gmented. Sustainable retail Delivered.

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