Annual Report ’06

LandSecurities

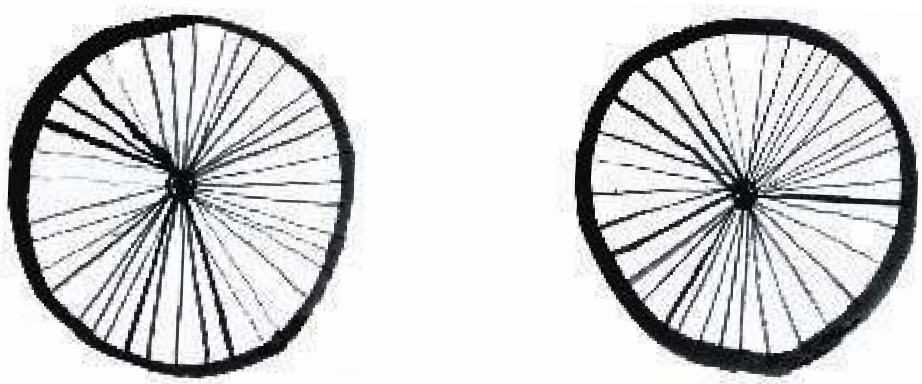
Annual Report '06

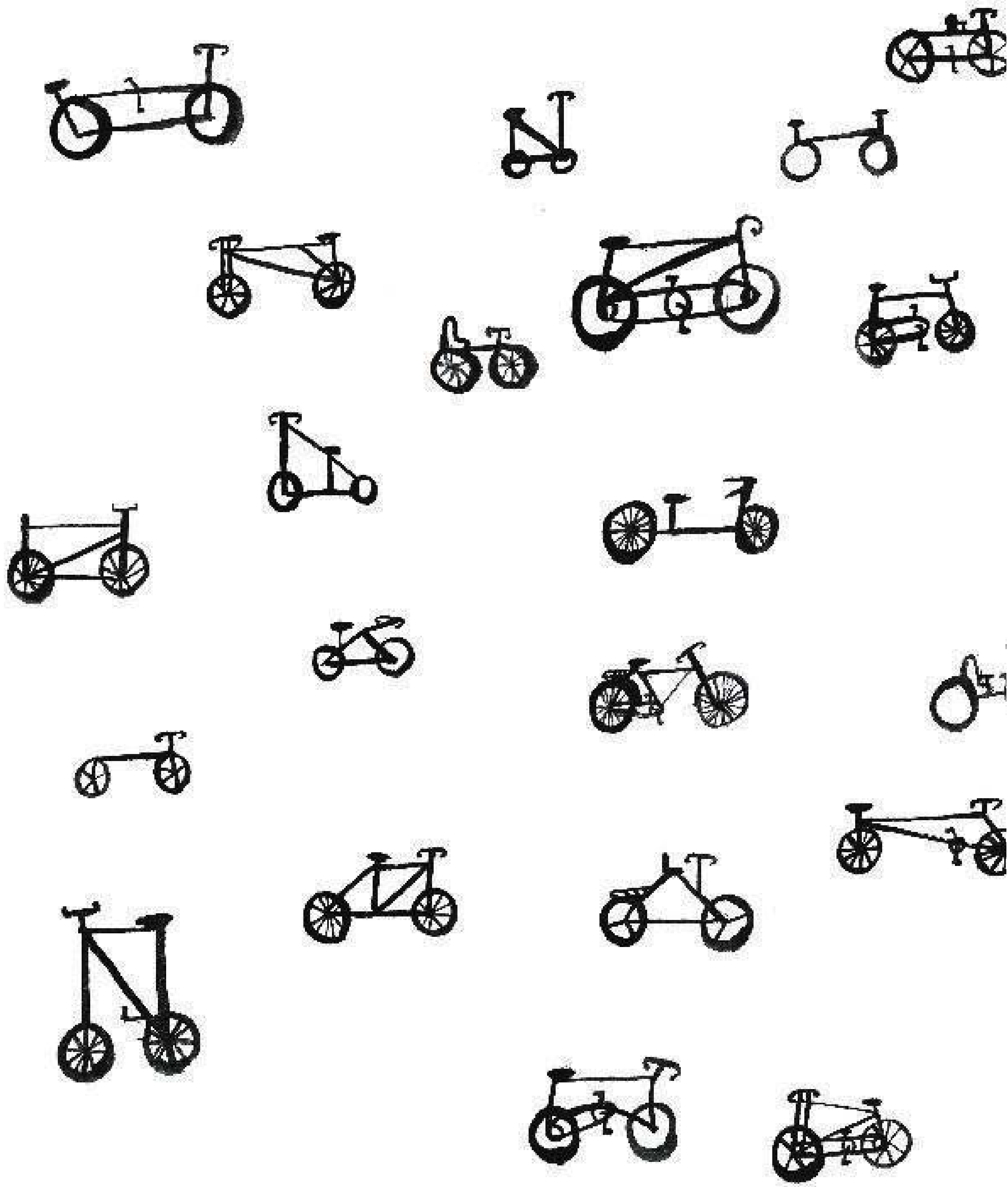
Financial Statements

Business Analysis

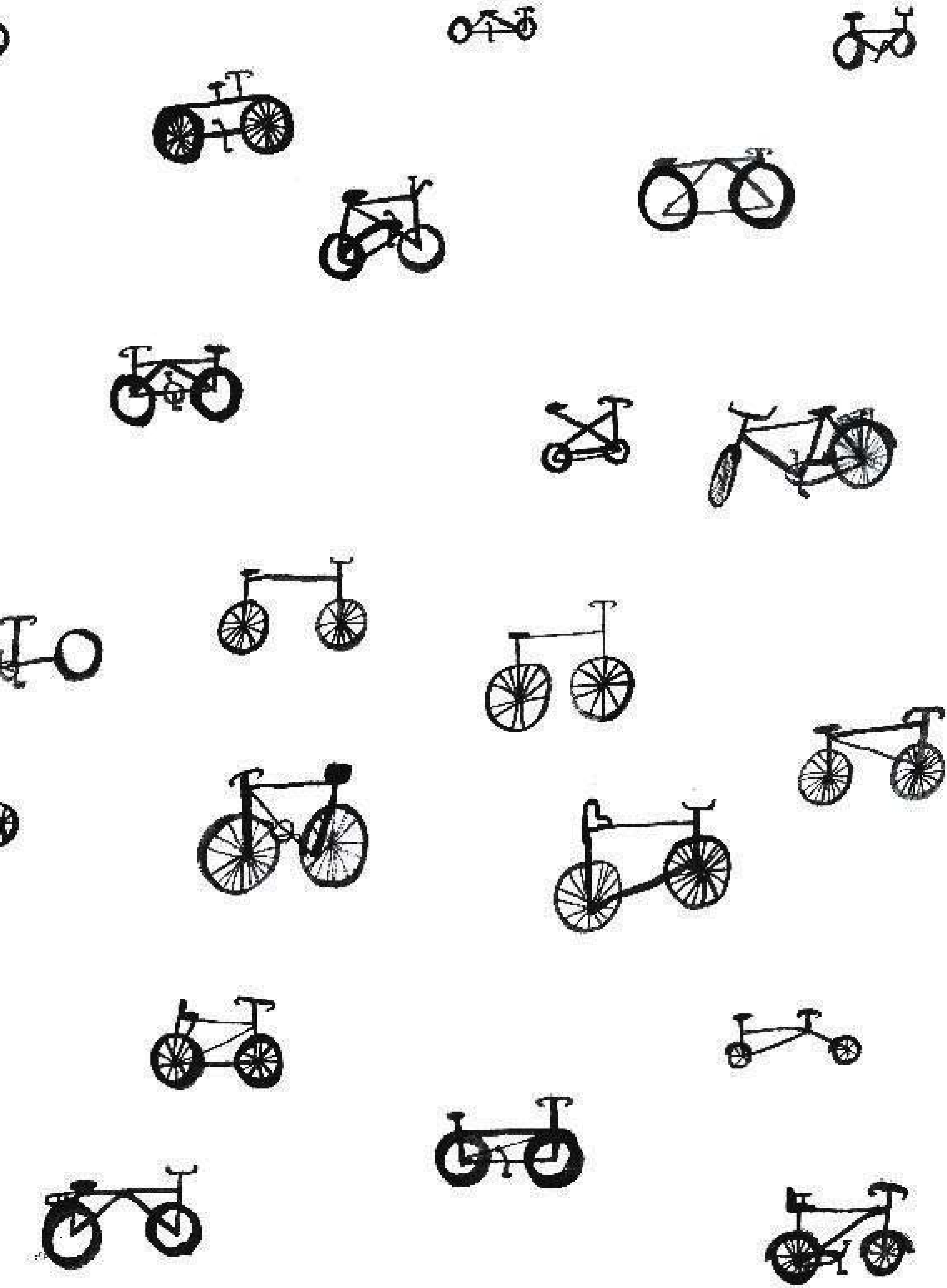
“Everyone knows what a bicycle looks like.

“So draw one, from memory.
We’ll even give you a head start...



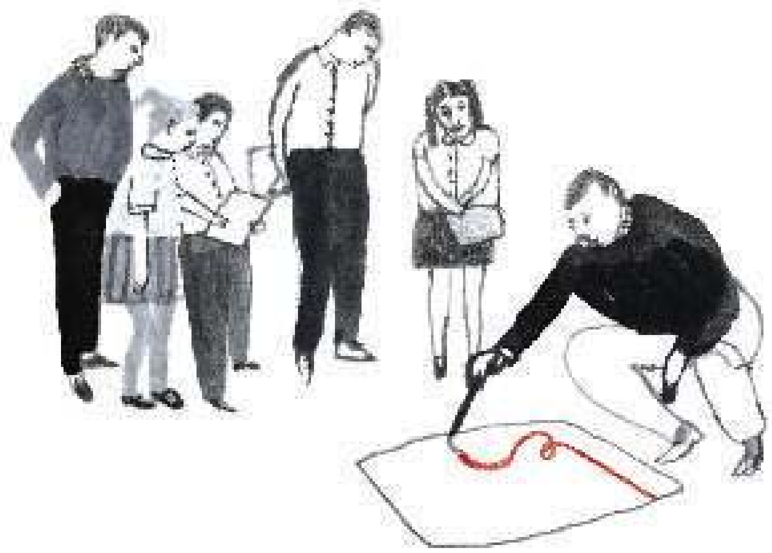


“Hard isn’t it?
Don’t worry if you got it wrong – 80% of people do.



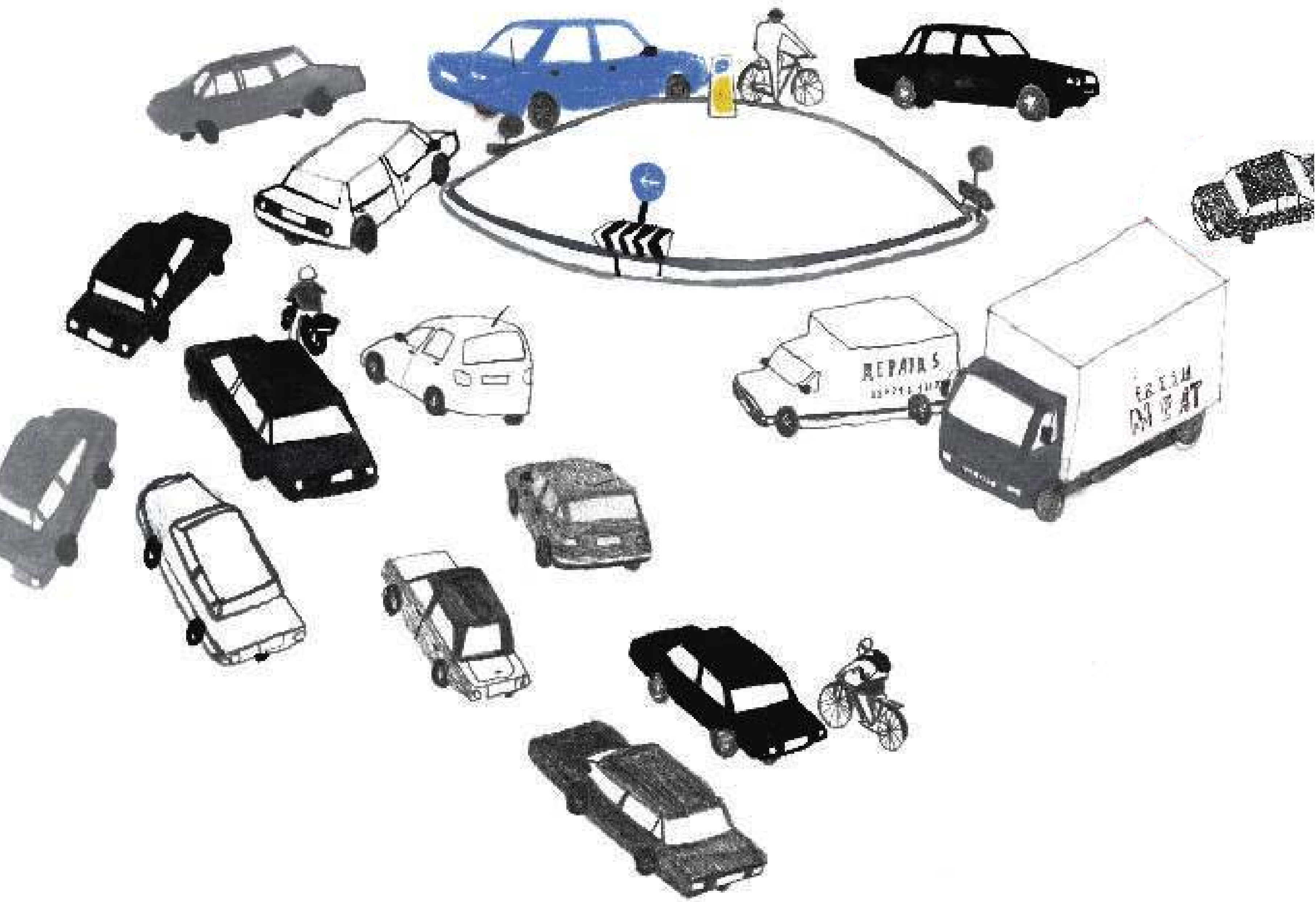
“To draw a bicycle correctly, you have to look at one, to understand how it works.

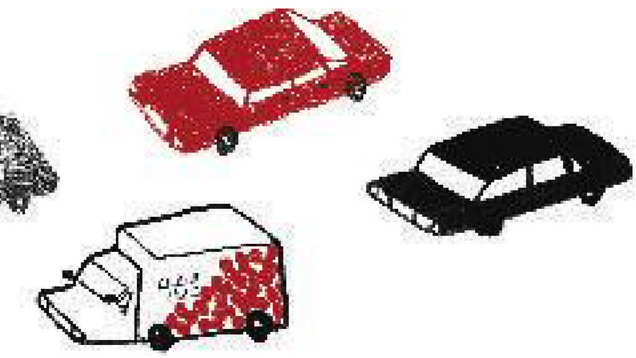
“As you can see, the pedals don’t drive both wheels.



"In Autumn last year we sent six hundred children from 14 towns across Britain into their local surroundings to draw...

"Working with professional illustrators, they learned to look at their worlds, to understand their environments, and how they could be a creative part of them.


REPAIRS
MEAT



“It’s a process we understand.
We are a creative part of those environments too.

“Take the Bullring in Birmingham. Where others saw a roundabout, we saw an opportunity. And with our partners we created a new retail heart for Birmingham, moving the city to the number two spot in the retail hierarchy rankings.

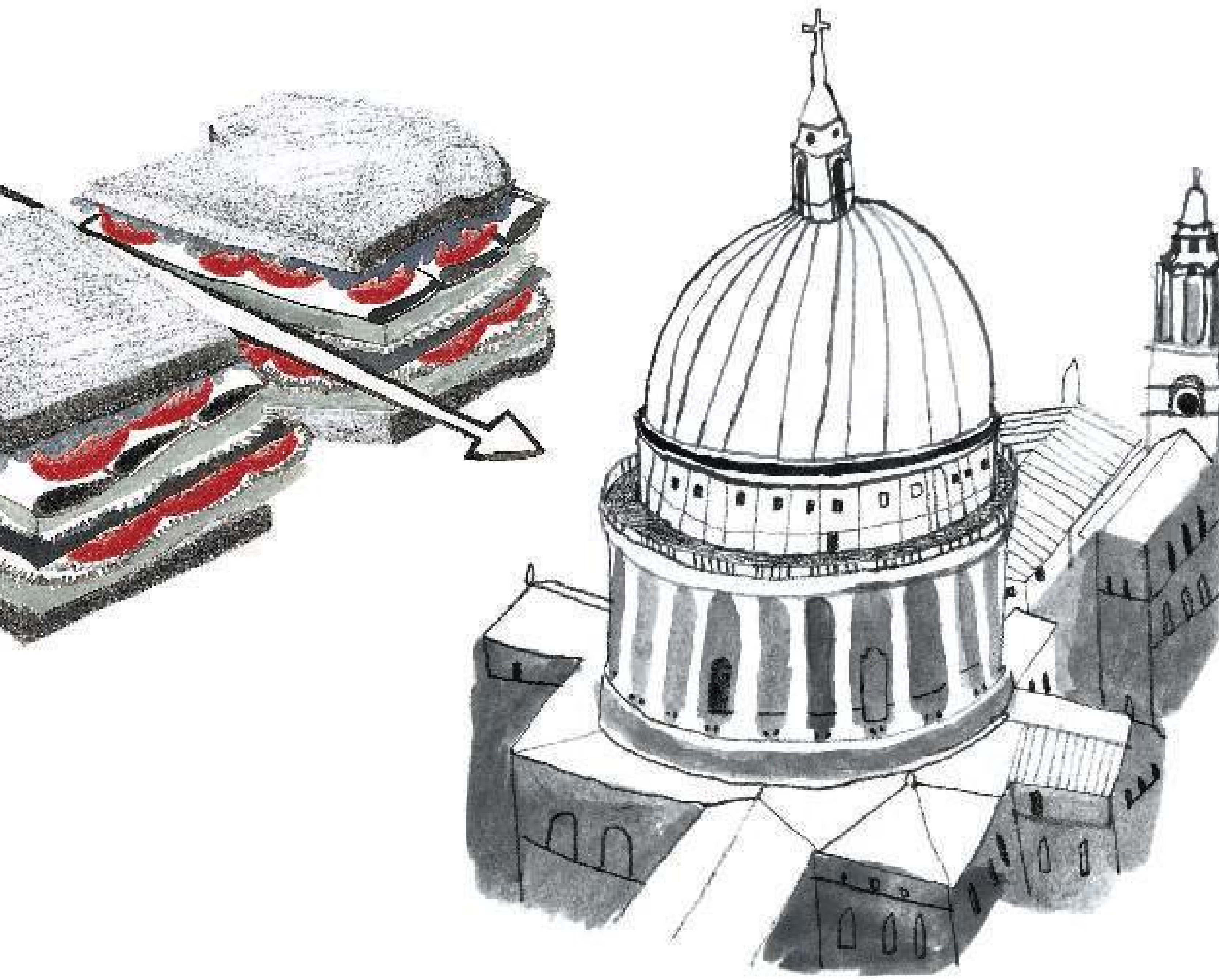
“Sometimes it’s about identifying basic human needs.

“At lunchtime, St Paul’s, London is one of the most densely populated areas of Britain...but there are no shops (unless you live on sandwiches). It’s amazing what gets overlooked.

“So, we are going to develop One New Change into the largest office and retail site the City of London has ever seen.

"And because we don't want to miss out on the view of St Paul's Cathedral, we've cut our development in half to ensure those inside can experience the breathtaking views.

"Would you like a gherkin with that?



“Remaining the number one property company in the UK means thinking creatively, spotting new opportunities and keeping an open mind. Recent developments like Cardinal Place, Whitefriars Canterbury and the project for Norwich Union are testament to our expertise in making property work.”

Annual Report ’06

Performance overview

Pre-tax profit up 80.4%

£2,359.2m

Includes revaluation surplus as well as exceptional items including profit of £293.0m on sale of Telereal joint venture

Revenue profit up 8.2%

£391.3m

Our measure of the underlying pre-tax profit

Total dividend up 8.0%

46.70p

Final proposed dividend of 28.55p together with the paid interim dividend of 18.15p. Over two years the dividend has increased by 25% reflecting confidence in the business

Net assets per share up 23.5%

1597p

Net assets with full provision for deferred tax on revaluation surpluses

Adjusted diluted net assets per share up 28.5%

1912p

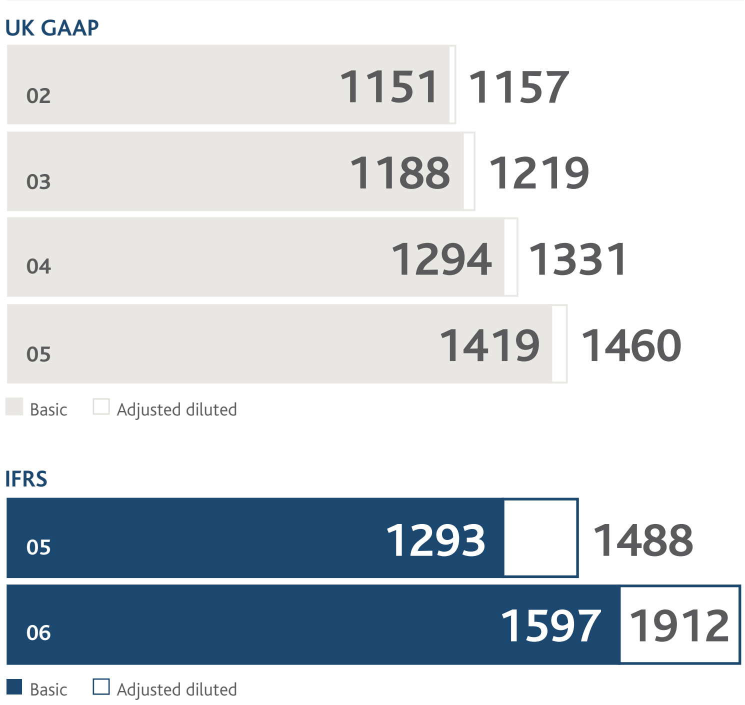
Impressive portfolio valuation surplus combined with exceptional profit from sale of Telereal joint venture

Combined portfolio valuation surplus 15.3%

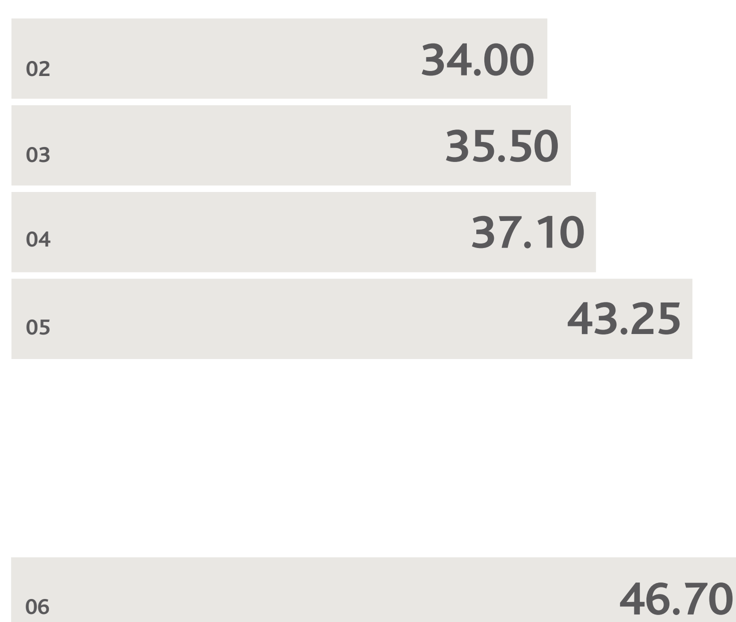
£12.9bn

Strong contribution from development activities as well as rental growth and continued yield shift

Net assets per share (p)



Dividends per share (p)



Welcome. We've had an excellent year and we hope that you enjoy reading the 2006 Annual Report to discover more about our achievements.

Our accounts explained
To help you understand our accounts we detail here some of the key terms we use and conventions we have adopted, with an explanation of their meaning:

Financial highlights

	31/03/06	31/03/05	% change
Gross property income (including joint ventures)			
Retail	**£371.8m**	£298.1m	+24.7%
London Portfolio	**£514.0m**	£358.1m	+43.5%
Other investment portfolio	**£88.8m**	£165.2m	-46.2%
Property outsourcing	**£1,013.6m**	£1,054.8m	-3.9%
Total	**£1,988.2m**	£1,876.2m	+6.0%
Operating profit	**£2,443.4m**	£1,404.8m	+73.9%
Pre-tax profit	**£2,359.2m**	£1,307.5m	+80.4%
Revenue profit	**£391.3m**	£361.8m	+8.2%
Earnings per share	**357.95p**	227.32p	+57.5%
Adjusted diluted earnings per share	**70.47p**	66.87p	+5.4%
Dividends per share	**46.70p**	43.25p	+8.0%
Diluted net assets per share	**1590p**	1289p	+23.4%
Adjusted diluted net assets per share	**1912p**	1488p	+28.5%
Combined portfolio valuation	**£12,892.9m**	£9,365.8m	+37.7%
Net borrowings	**£3,685.9m**	£2,438.1m	+51.2%
Equity shareholders' funds	**£7,493.9m**	£6,050.3m	+23.9%
Gearing (net)	**49.2%**	40.3%	

- **Revenue profit:** Profit before tax, excluding profits on the sale of fixed asset and trading properties, profits on long-term development contracts, revaluation surpluses, mark-to-market adjustments on interest rate swaps and similar instruments used for hedging purposes, the adjustment to interest payable resulting from the amortisation of the bond exchange de-recognition, the one-off pension credit and any exceptional items

- **Adjusted diluted earnings per share:** These are based on revenue profits plus profits on trading properties and long-term development contracts after tax

- **Adjusted diluted net assets per share:** This is often used to evaluate the performance of a property company and is calculated by dividing equity shareholders' funds, adjusted primarily for deferred tax arising on revaluation surpluses and capital allowances and the bond exchange de-recognition, by the number of shares in issue

- **Combined portfolio:** The combined portfolio, see page 150, is our wholly-owned investment portfolio combined with our share of the value of properties held in joint ventures. Unless stated these are the pro-forma numbers we use when discussing the investment property business

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

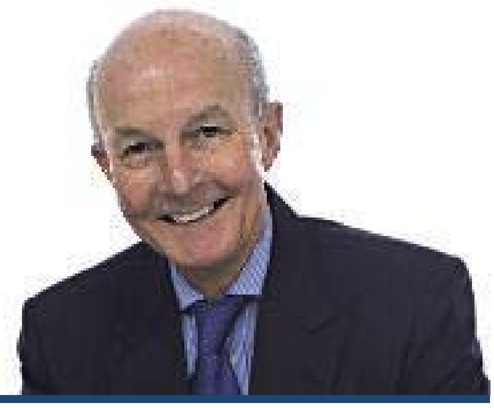
- **London Portfolio:** This business unit includes all London offices and London retail, but excludes those assets held in the Metro Shopping Fund LP

- **Other investment portfolio:** This comprises all other investment properties not included in Retail or London Portfolio

Chairman's Statement

"We've delivered a total business return of 32.4%, demonstrating a strong performance from all areas of the business."

Peter Birch
Chairman



The outstanding performance of Land Securities over the past 12 months can be summed up by the 28.5% growth in adjusted diluted net assets per share, driven largely by the 15.3% valuation surplus on our investment portfolio and the £293.0m profit on the sale of Telereal. Growth in net assets is one of the leading financial measures against which we are benchmarked and I am delighted with this result in a year which was exceptional for both Land Securities and the property industry. Under International Financial Reporting Standards ('IFRS') our pre-tax profit was £2,359.2m and now includes revaluation surpluses as well as exceptional items, providing a simple measure of the value we have created for shareholders. Revenue profit, our measure of underlying pre-tax income, was up 8.2% to £391.3m and we are recommending a final dividend of 28.55p per share. Over the year we have delivered a total business return of 32.4%.

Benchmarking

We have reported against key benchmarks for three years now, allowing you to evaluate our performance against our major competitors and the underlying commercial property market. Once again this year the Group outperformed all its key benchmarks and, given the important role benchmarks play, I hope you will not mind if I expand a little on these here.

Total shareholder return

- Total shareholder return is the most widely recognised way to compare returns from one publicly quoted company against another. As a constituent of the FTSE100 we compare our performance against both this and the FTSE Real Estate Index, over the 12 month period under review and since 1 April 2000 when we embarked upon the reinvigoration of the business. This year we produced a total shareholder return of 54.3% compared to 25.5% for the FTSE100 and 48.6% for FTSE Real Estate Index. The returns over the six years since 1 April 2000 are even more impressive recording 224.4% for Land Securities compared to 9.8% for the FTSE100 and 210.9% for FTSE Real Estate.

Total shareholder returns

	% return for year to 31/03/06	% return for six years to 31/03/06
Land Securities	54.3	224.4
FTSE100	25.5	9.8
FTSE Real Estate	48.6	210.9

Source: Datastream

Investment Property Databank

- The next benchmark we employ is an external commercial property benchmark, known as the Investment Property Databank ('IPD'). By participating in this benchmark, which is the industry standard, we are able to compare the performance of our underlying property portfolios against the commercial property industry average. It also enables us to set key performance indicators for our Retail and London Portfolio business units. Our ungeared total investment portfolio return was 23.3% as compared to 20.6% for the IPD quarterly benchmark.

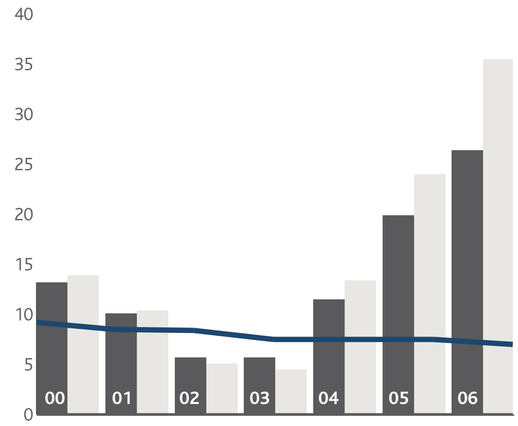
Total property returns

Year to 31/03/06	LS%[i]	IPD%[i]	Relative return %[ii]
Total portfolio	23.3	20.6	2.2

Source: IPD quarterly benchmark to March 2006
(i) includes acquisitions, sales and developments
(ii) Relative return relates to the geometric (not arithmetic) difference between Land Securities and IPD

Land Securities' returns (%)

Years ended 31 March



Return on average equity
Return on average capital employed
Weighted average cost of capital (all figures are pre-tax)
* Excludes exceptional charge
Note: 2002/03 weak London office market

Weighted average cost of capital ('WACC')

- We also compare our return on average capital employed against our WACC which reflects the cost of the Group's equity and debt capital. As well as providing a minimum hurdle rate for our investment decisions this also provides a sharp focus on the returns we make from our property investment, development and outsourcing activities. This is essential in a capital intensive industry. Over the past year our pre-tax WACC moved to 7%, which is half a percent lower than it was a year ago as a result of a lower cost of debt. Our returns significantly exceeded our cost of capital with a return on average capital employed of 26.4% and a return on average equity of 35.5%.

Performance highlights

In a year of high activity, I find it extremely hard to pick key highlights to demonstrate to you why I believe that this business is truly different to the organisation I joined when I became Chairman some eight years ago. I have, therefore, chosen three examples which not only demonstrate links to our sources of competitive advantage of scale, financial strength and skills but also ones which link clearly to our values.

The first is our acquisition of Tops Estates PLC which was the first acquisition of a publicly-quoted company made by us for over 35 years. The fact that we could purchase a business for over £0.5bn (including debt) and finance this out of existing resources is testament to our financial strength, particularly as we also invested a further £1.8bn across our business in the same year. We now own 30 shopping centres, which receive some 300 million visits per annum and provide some 5.8% of the retail accommodation across our core markets. This represents scale in a fragmented industry and can only be of benefit to our customers, the retailers. However, the reason that this acquisition so manifestly fulfils our values criteria is because the founder Chairman and majority shareholder of Tops Estates, Everard Goodman, had sufficient confidence in our Company values that he recommended the sale to us of a business that he had spent a lifetime creating.

Second on my list is the completion of two of our substantial developments, namely the mixed-use development at Cardinal Place, London SW1 and Whitefriars retail scheme in Canterbury. To date, we have invested a total of £369.8m in developing these two schemes and our development and project management teams delivered 46,580m^2 of retail space and 51,130m^2 of office space. The return on our investment, including acquisition costs, was 46.3%. Cardinal and the Whitefriars Quarter are now in the top ten properties in our £12.9bn combined portfolio. These schemes created 2,400 retail jobs and, at Cardinal Place, we will provide new accommodation for some 4,000 office workers. The link here with our values? Our values underpin our approach to development enabling us, in complex and difficult circumstances, to create attractive and economically thriving environments.

The third example is the sale of Telereal, which generated £293.0m of profit for shareholders. While it is always difficult to sell out of successful ventures, we made this decision in anticipation of future reinvestment opportunities. The profit generated speaks volumes about the value Land Securities Trillium has created for the Group, leaving it poised for further growth from new business, the winning of which is supported by the excellent reputation for customer service that this business has developed.

The Board

We are fortunate to identify and recruit individuals to the Board with wide-ranging and complementary skills, who provide clear strategic direction, strong guidance and leadership to the Group. It is our primary responsibility to support and challenge executive management as they pursue our strategic objective of creating long-term sustainable returns for shareholders as well as ensuring the governance of the business on your behalf.

I would like to welcome our new finance director, Martin Greenslade (41) who joined the Board earlier this year from BAE Systems and has supported the organisation through the transition to IFRS.

Our values

Integrity
Respect for the individual
Excellence
Customer service
Innovation

Strategic direction

Six years ago we set out a new strategic direction and embarked upon a series of business initiatives aimed at the transformation of the Land Securities Group. The ambition was to create a modern, dynamic property business with a strategic focus on the customer and on income as well as asset value growth. We have been very successful in our ambitions. We have re-invigorated the investment property business, through an active sales and acquisitions programme, creating two highly-focused business units which, through scale, are now meaningful providers of accommodation to retail and London-based office occupiers. We have also invested in our property outsourcing business, Land Securities Trillium, creating the market-leading property solutions provider. This represents real innovation in an industry which can be slow to accept change. We have also become a more demanding employer, focusing our people with stretching performance-based reward schemes and challenging many to adopt new ways of working and new skills.

Outlook

We have made considerable progress on all fronts this year and, in particular, have positioned our London Portfolio business to benefit from the strong growth that the London office market is enjoying and which, we believe, it will continue to enjoy. Our Retail business has a scale and quality of assets positioning it to generate ongoing income growth in a more challenging retail environment, and Land Securities Trillium is now pursuing a wider range of new business opportunities than at any time in the past.

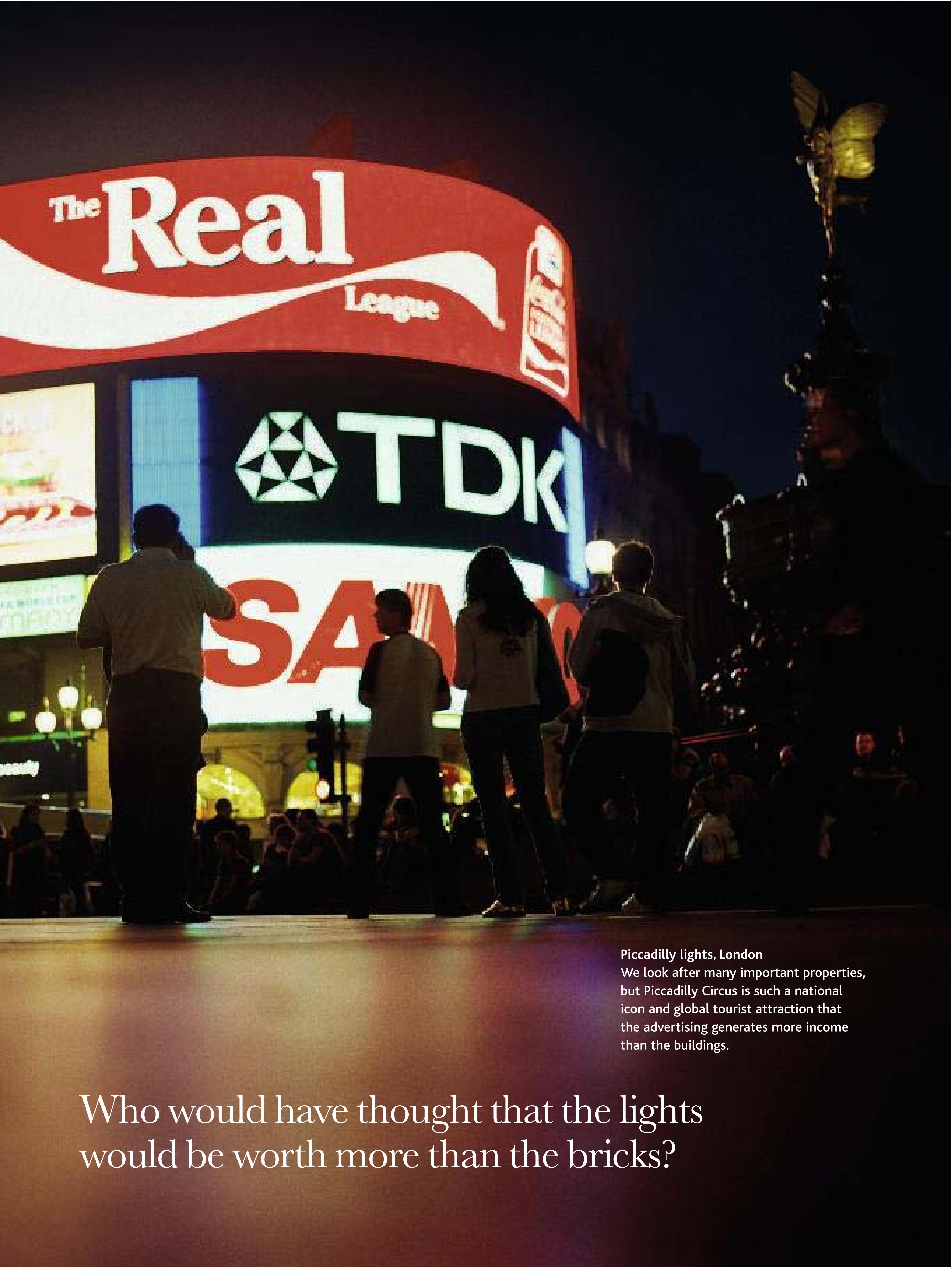
However, over the next 12 months we expect certain aspects of our environment to be more challenging. The Department for Work and Pensions, the largest of our property outsourcing customers, has started to use its flexible accommodation allowance, so, as expected, income from that contract will decrease over the next few years. We also do not believe that the unprecedented levels of growth in property values will continue at the same rate or necessarily be sustainable across all property types, particularly more secondary buildings. This growth occurred against a background of low interest rates which have increased recently in both Europe and America and it is for this reason that I sound a note of caution. At this time in the cycle we need to be particularly astute when purchasing standing investments and also take the opportunity to capture value through selective sales. However, if growth should slow or stall, we are in a strong financial position to be acquisitive once more while at the same time continuing to use our skills to create value from within our portfolio. We can also invest more in development and property outsourcing, which rely more heavily on our skills to deliver value to shareholders rather than the forces of investment markets.

We now also have the prospect of a thriving Real Estate Investment Trust ('REIT') sector in the UK and we are enthusiastic about the opportunities this will present to us. Our preliminary assessment is that the regulations being introduced with REITs will not adversely inhibit flexibility and we believe that our existing strategy and mix of business can be accommodated within them. While we will not announce any final decision on REITs in advance of enacted legislation, our view at present is that we are ideally positioned to benefit from this status. I would hope to announce our intentions and the implications for shareholders in the coming months and, subject to any unforeseen obstacles, am of the view that it will be in shareholders' interests to convert as soon as is practical after 1 January 2007.

Land Securities has enjoyed a year of strong growth helped by continuing low interest rates. The outlook is positive for the business with a strong development pipeline, a high quality investment portfolio and an outsourcing business which has growth potential. I would like to congratulate everyone who has made this possible, most especially our people.

Communicating

We launched our new occupier portal, a property management tool, which has been well-received by retailers, further evidence of the importance we place on making life easy for our customers.



Piccadilly lights, London
We look after many important properties, but Piccadilly Circus is such a national icon and global tourist attraction that the advertising generates more income than the buildings.

Who would have thought that the lights would be worth more than the bricks?

Operating and Financial Review

"An increase in the adjusted net assets of the Group of just under 30% in a year is of some significance. This value creation was founded upon an exceptionally high level of activity with over £3.5 billion of capital turnover in the year."

Francis Salway
Group Chief Executive

Twelve months ago we reported that there was a real sense of achievement across the Land Securities Group as we delivered a very strong performance. This remains the case as we continue to deliver across all areas of the business. Our combined portfolio outperformed the IPD quarterly benchmark by 2.2%, we completed 161,000m² of new development and Land Securities Trillium made a substantial contribution to Group profit.

So what is different? We are about to enter into a new environment for the quoted property sector with the introduction of REITs, which are widely expected to benefit both us and the industry. In addition, we believe that the property yield shift is almost complete, and therefore, the creation of value will come from development and asset management activity rather than market-determined valuation movements. One of our most important groups of customers, retailers, are facing more difficult trading conditions and we will need to continue to work assiduously to ensure that we provide them with the best possible trading environment. After an outstanding year in terms of profit performance, Land Securities Trillium expects profits to decline as the Department for Work and Pensions ('DWP') uses part of its flexible accommodation allowance and as we invest in new business.

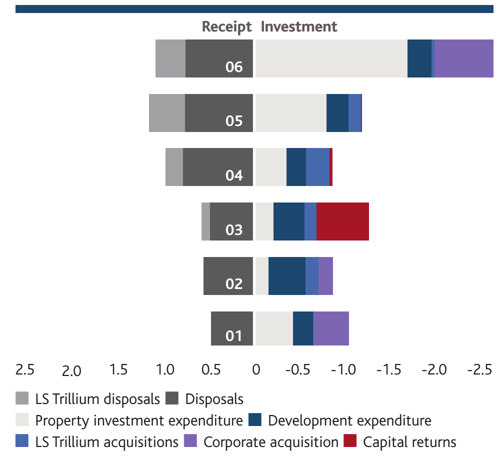
We also report our numbers differently this year; so we have tried to communicate clearly the principal changes under IFRS so that you understand fully the Group's financial position. We endeavour to be at the forefront of reporting and this year we have also officially adopted the principles of the Operating and Financial Review ('OFR') which we have been anticipating for the past two years. We are delighted to report that our efforts on this front were recognised by the award for the second consecutive year of the EPRA ('European Public Real Estate Association') Annual Report Trophy for best annual report in the European quoted property sector. The demands of IFRS and the OFR have this year resulted in a longer report so, in order to minimise our impact on the environment, we are encouraging investors to sign up for online shareholder services, including online reports, further details of which are on page 158.

Core purpose and strategy

At Land Securities our core purpose is making property work. This simple statement masks the enormous influence we have on the day-to-day lives of thousands of people across the UK. For occupiers and clients it means providing buildings and services which help them to operate successfully every day. For communities, it means providing the buildings and places where people live, work and relax. For our people, it is the satisfaction of the positive impact we have on communities. For shareholders it is the superior investment returns that we have generated.

Our strategy is pragmatic. It is to invest in commercial property in sectors where we have expertise and operational skills which give us competitive advantage. In these sectors we will apply our risk management skills and actively recycle capital in order to deliver total returns in excess of our cost of equity. To deliver this strategy, the business is focused on three core sectors of the UK property market: retail property, London offices and property outsourcing.

Active capital management (£bn)



Making property work

Mark Collins (left)
Chief Operating Officer

Martin Greenslade (right)
Group Finance Director

We discuss the financial strategy for our business later on in the review, but it is worth noting here that we operate in a capital intensive industry and our performance, therefore, is linked closely to the investment decisions taken by management. One of the key decisions we made on this front was to invest more into development and property outsourcing activities and we are pleased to note that this strategic shift of focus has resulted in enhanced returns for shareholders.

Our investment property business comprises two business units operating in the retail and London property markets. Combined, these businesses produced £469.7m of our underlying operating profit, representing approximately 85% of the total. Their activities include property investment, development and management and, in our core markets of retail property and London offices, we provide about 5.8% and 4% respectively of the market floorspace. Land Securities Trillium, our property outsourcing business which provides bespoke property solutions incorporating the provision of property accommodation and related property services, produced £96.6m of our operating profit. This relatively young business has a proven track record for returns and profit growth, having met its target of contributing 25% of Group operating profits in 2005, two years ahead of plan. Last financial year we took capital out of the BBC contract through the sale of White City and this financial year we disposed of our interest in Telereal. These actions have left us well positioned to invest in the new opportunities Land Securities Trillium is currently pursuing.

The property outsourcing business offers the Group opportunities for growth in a market which is not exposed to the property cycle or the economy in the same way as our traditional investment property business. It is also a market which offers significant growth opportunities through Government outsourcing and Public Private Partnerships ('PPP') procurement. With this growth opportunity and diversification in mind, we apportion capital between our investment property business and property outsourcing. In addition, following publication of the proposed REIT legislation, we believe that the Land Securities Trillium business is capable of being included, with the rest of our business, in a REIT.

Our markets

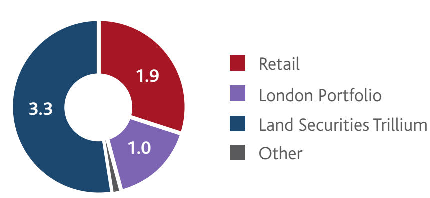
Regulatory

The Government published its proposed legislation for the introduction of REITs in the UK in April 2006. The legislation is likely to be enacted in the Finance Act in July 2006 allowing REITs to be formed from 1 January 2007. UK-REITs will be publicly listed, limited liability companies resulting in no change in the corporate status for quoted property companies such as Land Securities. Conversion to a REIT will involve a change in tax status, and is the means by which the Government intends to create a level playing field in terms of taxation between owning shares in a quoted property company and direct ownership of property. In return for paying a conversion charge, equal to 2% of the gross value of qualifying property assets, REITs will then be exempt from both corporation and capital gains tax on their qualifying property activities. Dividends paid by REITs will be subject to withholding tax.

Developing property

We have the potential to deliver some 880,000m² of new commercial accommodation across the UK by 2010.

Floorspace – million m²



As detailed in the Chairman's Statement we are waiting for final legislation to be enacted, following which we will announce whether the Board believes conversion to a REIT will be in the interest of our shareholders. At present, we consider it likely to be so. Should the Board decide to make a positive recommendation we will need to alter our Memorandum and Articles of Association which will need the approval of our shareholders at an Extraordinary General Meeting.

Competitive landscape

Land Securities operates wholly in the UK commercial property market. We are the largest quoted property company in Europe measured by market capitalisation, which at £8.4bn represents 21% of the UK quoted property sector. We have a diversified business model, focused on retail property, London offices and property outsourcing. Within these core sectors, our activities include property management, investment, development and the provision of property related services. We are one of only two quoted property companies which operate on a significant scale in the property outsourcing market.

In the past year the investment property market has become even more competitive, with enormous domestic and overseas investor appetite for UK property. This has been driven by the low cost of finance, economic and political stability and the UK's long-term lease structure (described in more detail in the 'Owning property' section of this review). Our response has been to pursue more opportunities in development and property outsourcing where we see prospects to achieve higher returns, and to acquire property not openly available on the investment market. While we are selective in our acquisitions, we have also been able to acquire portfolios of property through corporate acquisitions, benefiting from our financial strength and the cost efficiencies of corporate as opposed to asset specific acquisitions.

We believe that the scale of our business will continue to be a source of competitive advantage, as evidenced by our ability to finance large scale development and investment projects at a lower cost of debt than many others in the industry. We also have a relatively large market share of the sectors in which we invest, providing competitive advantage in terms of relationship management with key customers. Over time we plan to capitalise on this to increase further our market share in each of our core markets.

In 1988, at its peak, the property sector represented 5.65% of the FTSE Index. Today it represents only 2.25% as a result of the growth in the size of other sectors together with a number of quoted property companies becoming private. However, with the expected removal of the tax inefficiencies of holding property in a quoted vehicle through the introduction of UK-REITs, we are anticipating growth in the quoted property sector. We expect to see, over time, the emergence of substantial new quoted companies as owner-occupiers and pension funds use this opportunity to reduce their direct property holdings in exchange for UK-REIT shares which will be more liquid and less management intensive.

Last year we reported that the UK commercial property market had a total value of nearly £500bn, excluding Government-owned property, with 50% of this market held by owner occupiers. Of the balance, which comprises the property investment market, only 14% is held by the quoted sector. Experience in other countries following the introduction of REIT structures suggests that it is reasonable to anticipate a doubling of the size of the quoted sector in the medium-term even if, as we expect, only a small proportion of pension funds and other property investors take advantage of the UK-REIT opportunity.

Land Securities combined portfolio value at 31/03/06

£12.9bn

Commercial property market value

£500bn

Source IPF: The size of the UK commercial property markets 2003

Business

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

Buchanan Galleries
Glasgow is the third biggest retail destination in the UK, and Buchanan Galleries is its premier retail development. We were keen to establish a major presence, so through a complex joint-venture transaction, we swapped a portfolio of industrial assets for shopping centre assets.

Others might see competition. We saw a partnership.

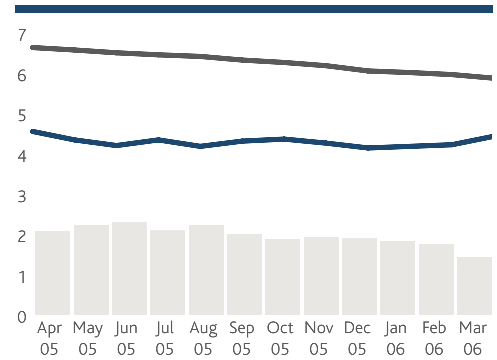
While it is easier to predict the supply side for the property market by examining trends on new floorspace under construction, it is our experience that the demand side, whether it be business expansion or consumer expenditure trends, is a more important factor in determining growth in rental values.

Consumer trends are influenced by earnings growth, unemployment levels and interest rates. Trends in consumer expenditure also impact growth prospects for an increasing proportion of business in the UK. While macro-economic conditions have remained reasonably stable over the past year, there is evidence of a weakness in consumer spending as the impact of tax increases, higher energy costs, personal debt and, in some regions, concerns about job security impact on the retail sector's prospects. With continued growth in average earnings and unemployment still at relatively low levels, we do not expect severe weaknesses in the retail property sector, but rental growth prospects are likely to moderate.

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

There is also a correlation between property and interest rates or bond yields. Last year we felt there was little scope for further yield shift. The past twelve months have proven us wrong as bond yields continued to fall during the 2005 calendar year. We benefited from the buoyancy of the property investment market both in terms of the underlying value growth of our portfolio and through our sales programme. In 2006, however, property yields have continued to fall whereas bond yields have risen. These contrasting trends make it unlikely that we will see sustained ongoing capital growth in property purely through yield shift, although the weight of money still looking to be invested in the sector means that yield shift may continue for a few more months.

Investment portfolio outlook (%) yield pricing



Property equivalent yield 10 year gilt yield
Difference between above yields
Source: IPF and Reuters

Our business model

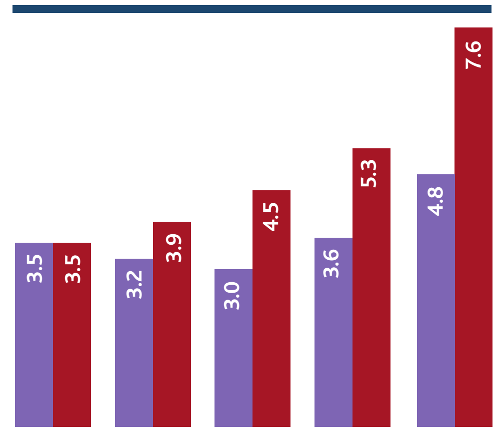
Later in the operating and financial review we examine in detail each of our separate business units but we thought it would be useful to review here some of the common activities undertaken by our business.

Owning property

At the core of our activities is the ownership of commercial property. One of the fundamental changes over the past few years is that we have concentrated our portfolio on larger assets which provide better opportunities for us to benefit from our scale and asset and property management skills. We now own 220 investment properties across the country with an average property value of £58.6m compared to £24.5m five years ago. The combined portfolio, which includes our share of the value of assets held in joint ventures, was valued at £12.9bn at 31 March 2006 by Knight Frank, our external valuers. In addition, through Land Securities Trillium, we manage or own over 2,500 buildings. Those we own are held as operating properties on our balance sheet at £0.6bn. One of the differences between our investment and operating properties is that, with the former, we are free to sell the buildings when we like, whereas with the latter we can only sell when they are surplus to our clients' requirements. We hold the operating properties on our balance sheet at depreciated book cost and do not revalue them in the balance sheet, unlike the investment property portfolio which is independently valued twice each year.

Efficiently financed and actively managed, investment in well-let property is reasonably low risk and the vast majority of our portfolio is just that. This is particularly true if the property benefits from the traditional UK lease structure which has two unique attributes from an international perspective. The first is the long-term nature of the leases which usually last more than 10 years and in many instances can be as long as 25 years. The second is that most leases include an upward-only

Combined portfolio valuations £bn as at 31 March



Total retail property London offices

rent review clause. This has and continues to create controversy between the owners of property and occupiers and we explain later in the review what we have been doing to address this particular issue.

We expect our activities to generate investment returns in excess of our cost of capital with target returns of 8-9% on investment property, before taking borrowing into account, and slightly higher returns from our property outsourcing and development activities reflecting the higher degree of risk in these activities. In Table 1 we list some of the key risks we believe are involved in property investment.

Table 1: Property investment risk management

Risk Description	Impact	Mitigation
Market cycles		
■ Property markets are cyclical	■ Underperformance of investment portfolio impacting on financial performance	■ Diversified business model – outsourcing is less impacted by market cycles ■ Secure income flows under UK lease structure ■ Annual investment appraisals
Property risk		
■ Asset value concentration	■ Poor performance of a single asset having material impact on overall performance	■ Diversified portfolio ■ Largest property represents only 4.6% of combined portfolio ■ Average investment property lot size of £58.6m
Tenant risk		
■ Tenant concentration	■ Impact on revenue if a major occupier fails	■ Diversified tenant base ■ Government largest single customer representing 9.4% of gross rents, the next largest represents only 2.1% ■ Of our income 74% is derived from tenants which make less than a 1% contribution to rent roll
Health, safety and environment risk		
■ Responsibility for the safety of visitors to our properties and our environmental performance	■ Impact on reputation or potential criminal proceedings resulting in financial impact	■ Annual cycle of health and safety audits ■ Quarterly Board reporting ■ Dedicated specialist personnel for environment and health and safety ■ Established policy and procedures including award-winning health and safety system and BS8555 certified environmental system ■ Active environment programme addressing key areas of impact (energy and waste)

Developing property

One of Land Securities' key differentiators is our ability to deliver large, complex, mixed-use developments both on our own behalf and for third party clients. We are one of only a handful of UK companies today which has these capabilities. Our target investment return for development activities is between 11% and 14% depending upon whether the project is started with or without any lettings in place.

Through development we continue to renew our portfolio and create assets of a quality seldom available on the open investment market. It is an activity where our achievements demonstrate real competitive advantage, especially if you consider that negotiating the labyrinthine planning system in the UK is but one element of an enormously complex regeneration process.

Table 2 shows all the development currently being planned by us. In the year under review we spent £488.7m on development activity and we expect this level of spend will continue at similar levels as compared to an average annual spend of some £250m in the previous five years.

Table 2: Group development activity

	No of projects	Floorspace m^2	TDC £m	ERV £m
Retail				
Programme	8	221,070	620	43
Proposed development	4	143,110	456	32
Total pipeline	12	364,180	1,076	75
London Portfolio				
Programme	5	211,250	1,172	101
Proposed development	3	89,820	883	61
Total pipeline	8	301,070	2,055	162
Land Securities				
Third party	3	157,610	n/a	n/a
Land Securities Trillium				
Third party	2	55,360	n/a	n/a

TDC: Total development cost
ERV: Estimated rental value

Our ability to deliver complex development projects relies upon a range of skills built up over a number of years which incorporate site assembly, design, project management, public consultation and change management capabilities. We now have a team of 80 people involved in the delivery of development projects addressing the numerous requirements of our stakeholder groups.

Development is one way to create additional value for shareholders with our ongoing developments contributing £317.6m (32.9% valuation surplus) this year to the uplift in our valuation. However we have to manage the risks inherent in this activity as described in Table 3.

Table 3: Development risk management

Risk Description	Impact	Mitigation
Site assembly risk		
■ Third party interests in part of site cannot be acquired	■ Unable to progress development either at all or within budget for site assembly	■ Policy of buying into all or part of future development sites early as income-producing investments ■ Experience of Compulsory Purchase Order procedures
Planning risk		
■ Development proposals fail to gain sufficient support and therefore planning consent	■ Unable to progress developments in a timely manner	Development expertise including: ■ Skilled development management teams ■ Public consultation and change management capabilities ■ Long-standing relationships with key development stakeholders ■ Reputation
Construction risk		
■ Construction cost over-runs or poor management of construction	■ Returns are eroded by cost overruns or project completion is delayed	■ Transfer of risk to specialist contractors ■ Skilled project management teams
Letting risk		
■ Development remains unlet after completion or fails to meet lettings target	■ Impact on profit	■ Experienced and skilled in-house leasing teams ■ Risk evaluation model to ensure that dividend remains covered by forecast earnings in the unlikely situation that all our London developments remain 100% vacant and retail schemes are only 65% let
Health, safety and environment risk		
■ Construction is a high risk activity in terms of health and safety; and the environmental performance of a building is increasingly important	■ Impact on reputation or potential criminal proceedings resulting in financial impact	■ Advanced health and safety training programme in place, working in conjunction with our contractors ■ All our office development schemes are subject to BREEAM (energy performance) ratings with a target rating of Very Good ■ Implementation of sustainable development process checklist (see below)

Sustainable development

We are very aware of the long-term impact of development activities, both economically and environmentally, on the communities these developments support. We address this issue in greater detail in both our recently published 2006 Corporate Responsibility Report and our sustainable development brochure which are available on our website and which detail the key aspects we consider when planning a major new project as described below:

Significant environmental aspects

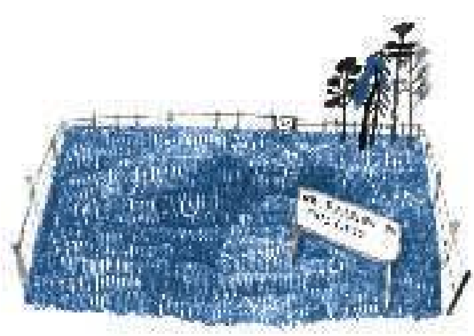
- Mitigation of local environmental import
- Re-use and recycling of demolition waste and use of recycled materials in construction
- Habitat enhancement to promote biodiversity
- Reduction of carbon emissions of developments through design, energy efficient technology and use of renewable energy sources
- Inclusion of facilities for the storage and collection of waste to facilitate recycling
- Transport surveys and integration of developments with public transport systems

Other sustainability issues

- Economic regeneration and attracting inward investment
- Community/stakeholder involvement in decision-making process
- Design and integration into existing communities, including uses and housing
- Building an effective social infrastructure
- Employment creation and skills training
- Crime prevention – through better design of public spaces
- Use of local labour, suppliers and materials

Stakeholder groups

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



Regenerating

With restrictive planning policies in the UK, the majority of our activities are on brownfield sites helping to drive the regeneration of our towns and cities.

New Street Square, London
We recycled 93% of the waste that was created when we demolished the original building and gave 180 tonnes of carpet tiles to social projects.

When it comes to recycling we don't just stop at paper

Property outsourcing

Property outsourcing is probably the largest transformation our industry has seen in the past 10 years. Land Securities Trillium, the market leader in property outsourcing, is now responsible for providing business accommodation across 3.32 million m^2 of property as well as a wide range of property related services, including:

- Release of capital through sale of freehold properties
- Transfer of leasehold property risks
- Estate and asset planning
- Facilities management
- Maintenance and life-cycle capital investment
- Property development

Property outsourcing differs from property investment in that it offers a tailor-made solution to a client in terms of their commercial accommodation requirements. In the past an occupier has had to purchase or lease its business accommodation, procure separately all the services that it needs to maintain, manage and run that accommodation and retain a property team to manage its activities. Through property outsourcing, an occupier can transfer the entire responsibility for this to the property outsourcing company, releasing it from the responsibility of running a property business. The client will receive a capital sum for any freehold properties that are transferred while the property outsourcing provider will receive an annual index-linked all inclusive payment (called the unitary charge). This provides our clients with predictability of pricing. We also offer clients flexibility with the ability to vacate a proportion of their accommodation on a pre-priced basis and at a timing of their choice. Land Securities Trillium has a different risk profile to the investment property business and detailed in Table 4 are its principal risks together with our mitigating activities.

Table 4: Property outsourcing risk management

Risk Description	Impact	Mitigation
New business risk ■ Winning attractive new deals	■ Unable to establish new business pipeline and close deals impacts on growth strategy	■ Dedicated new business team ■ Established bid process framework ■ Regular Investment Committee review
Service partners risk ■ Performance of service partners	■ Impact on reputation and potential financial penalties should service partners not deliver to agreed standards	■ Regular assessment of service partners' performance ■ Ongoing suppliers performance reviews ■ Contingency plan set up with alternative suppliers where appropriate
Vacation of space risk ■ Clients space remains unlet after vacation	■ Impact on income as a result of shortfall of rental income	■ Specialist national disposals team manages surplus space
Head rent growth risk ■ Inflation on head rents payable higher than increases in unitary charge	■ Growth of head rent on leasehold properties with negative effect on income statement	■ Budgetary forecasts to asset level ■ Lease restructuring/rent review processes ■ Freehold buy-ins ■ Hedging income from freehold against leasehold properties
Health, safety and environment risk ■ Responsibility for the health and safety and environmental risks on behalf of clients and their employees	■ Impact on reputation or potential criminal proceedings resulting in financial impact	■ Annual cycle of health and safety audits ■ Quarterly and annual board reporting ■ Dedicated specialist personnel for environment and health and safety ■ Established policy and procedures including Award winning health and safety system and ISO14001 certified environmental system ■ Active environment programme addressing key areas of impact (energy and waste)

Property outsourcing m^2

3.32 million

Commercial accommodation under management

Our customers

We are responsible for providing business accommodation to over 2,000 organisations across our three million m² investment property business and have a total of 5,000 separate leases with occupiers as well as six property outsourcing clients. The majority of our relationships are long-term, with an average lease length of 8.7 years and an average property outsourcing contract length of 15.2 years.

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

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

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

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

New business

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

Much of this activity is conducted at business unit level. For example, our Retail and London Portfolio businesses have leasing, asset and investment professionals who are focused on securing lettings across the development programme as well as ensuring that we minimise the levels of vacancy across the portfolio. This year we have let 83,600m² of new developments, attracting seven new occupiers to the portfolio. This represents future annual income of £31.7m.

Three years ago we created a Group business development team to assist with more complex corporate or portfolio transactions and to examine opportunities for expansion into new non-core activities. Since formation it has been instrumental in the completion of some £2.3bn of transactions, including the property swap with Slough Estates, the corporate acquisitions of Tops Estates and LxB and the creation of our joint ventures with British Land and Delancey.

We report on Land Securities Trillium's new business activities later on in this review, since these are carried out by a dedicated team within this business unit.

Landflex

At the forefront of innovation we introduced Landflex. This offers occupiers lease flexibility, service guarantee and price certainty.

Our people

The Chairman remarked that we were becoming "a more demanding employer" which has resulted in a period of sustained change for our 1,800 employees. In response to this, the past year has seen the Group make considerable progress in terms of the way in which it delivers its human resources strategy which has now been structured into four core areas:

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

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

Over the next few months we will be facing the challenge of transferring our Media Services employees to the BBC's new facilities management partner. We have implemented change in the DWP contract as we consolidate the expanded contract and in the investment property business we have introduced new ways of working, including the implementation of a new accounting system. We are very pleased by the way in which all our employees have embraced these new circumstances.

Communication and engagement

We have a mobile workforce, with about half our employees located outside our headquarters or regional offices and we are keen to engage with these employees as well as their office-based colleagues. We also want to ensure that all employees see communication as a two-way process. To achieve this we have introduced business exchange forums in advance of legislative requirements. These forums, which meet every three months, comprise an elected representative group of employees who meet with senior management. Last year we also took the opportunity to change our employee survey to provide more scope for employees to comment on business issues and increase the focus on employee engagement rather than just opinions. We also have a wide range of communication tools in place, such as newsletters, intranet and videos.

Reward and recognition

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

We previously received approval from shareholders for a revised bonus and long-term incentive scheme which was introduced to managers last year. This enables managers at all levels to be rewarded for their contribution at a personal, business unit and Group level.

In keeping with many companies we have reviewed our final salary pension scheme following extensive consultation with participating employees. Having received Trustee approval, we have introduced some changes to this scheme which we describe on page 42 of this review.

Employee satisfaction

81%

of employees feel positive about their jobs

Land Securities as an employer

87%

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

Work/life balance

74%

of employees believe they have a reasonable work/life balance

Engagement

Business exchange forums allow elected representatives to meet and engage with senior management.

Eastbourne Terrace, London
While renovating this 1970s block into highly desirable offices, we drilled down into London's water table, and now pump up grey water for all the heating and cooling requirements.

You don't add to a drought problem if you have your own borehole

Business planning

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

Business plan

Our business plan is produced annually and updated after six months. It is based on inputs from our five-year asset based forecast, which reflect the current structure of our business together with our predictions for market conditions. We then overlay assumptions on target gearing levels and capital allocation across our core sectors and between investment acquisitions and sales, development and outsourcing. The objective is to ensure a balance between maximising growth in net asset value and ensuring ongoing growth in earnings.

Balanced scorecard

We are strong advocates of balanced scorecards which look at quantitative performance measures across the full spectrum of finance, customer, employee, process and innovation. We have had a balanced scorecard in place for two years and it has particularly helped us to focus on customer service and the interaction between our people and customers. We see the results of the non-financial elements of the balanced scorecard as a lead indicator for the health of the business and include selected key performance indicators in 'Our performance' section below.

Our performance

Before moving on to comment in more detail on our financial performance for the year to 31 March 2006 as well as examining more closely the activities of our individual business units, we thought it opportune to discuss here the Group's core business objectives, our key performance indicators (extracted from the balanced scorecard) and our performance against these as set out in Table 5.

Table 5: Key performance indicators

Business objective Key performance indicators	Progress
To create sustainable, long-term returns for shareholders	
■ Sustained real growth in earnings per share to be at least 3% per annum over rolling three-year periods	■ Normalised adjusted earnings per share growth over three years to 31 March 2006 exceeded RPI by 7.5% per annum
■ Annual revenue profit to exceed budget target	■ Achieved for this financial year
To maximise the returns from the investment portfolio	
■ IPD outperformance in each core sector and on an overall portfolio basis by 1%	■ Outperformed all three criteria, but Retail was below our target performance range (see right)
To complete and let our development programme	
■ >£11m retail development lettings to be completed	■ Just under £11m of retail lettings achieved with a further £3m in solicitors' hands
■ >£30m of office development lettings to be completed	■ >£12m of lettings achieved with a further £8m agreed after year end
■ Development to be completed on budget and time	■ Slight delay in achieving practical completion at Cardinal Place, otherwise schemes completed on schedule
To grow our property outsourcing business by winning new contracts and expanding existing ones	
■ Secure two new business contracts, one with a new client	■ Barclays and Norwich Union extensions and Mill Group joint venture
Introduce new products and services which meet the need of our customers	
■ Acquire additional 15,000m² of accommodation for Landflex	■ Acquired 8,720m² of new accommodation in one building
■ Develop and introduce occupier portal	■ Developed during year, introduced shortly after year end
Ensure high levels of customer satisfaction	
■ Overall customer satisfaction in retail and London to exceed targets	■ Achieved in year
■ 90% satisfaction ratings from outsourcing clients	■ Achieved in year
Attract, develop, retain and motivate high performance teams and individuals	
■ Employee engagement to exceed ETS industry benchmark	■ Grand mean score of 2.96 compared to benchmark of 2.86 – this is on a scale of 1 to 4 with over 3 being considered excellent

Total property returns year to 31 March 2006

	Land Securities % pa	IPD %pa
■ All property	23.3	20.6
■ Retail[1]	19.3	19.1
■ London Portfolio[1]	28.3	24.6

Source: IPD Quarterly benchmark to March 2006

(1) Based on Land Securities business unit structure as defined on page 19.

Understanding our numbers under IFRS

Since this is the first time that we report our full year's results under IFRS, we have reproduced our guide "Understanding our numbers under IFRS" which we provided at the half year.

What is IFRS?

From 1 January 2005, all groups in the European Union that are listed on a regulated stock exchange are required to report their financial figures using IFRS.

What impact has this had on Land Securities?

The most important point is that IFRS affects accounting only. There is no impact on the underlying business or its cash flows. The main numerical impacts on the financial statements are that:

a. The surpluses and deficits arising on the revaluation of the investment property portfolio will now appear in the income statement (the IFRS term for the profit and loss account) and not as a movement on the revaluation reserve.
b. Revaluation surplus on those properties held for the long-term and at an appropriate rate for those held for disposal, and the tax related to the suplus period appears in the income statement. There will be no change to the amounts of tax we actually have to pay.
c. There is no longer a distinction between joint ventures and JANEs ('joint arrangements that are not entities') and both are now reported under one line in the income statement and balance sheet.
d. We have had to restate how we accounted for the bond refinancing, described as the bond exchange de-recognition adjustment, which took place in November 2004. We originally presented this as a repayment of the existing bonds and the issue of new bonds, but, under IFRS, we need to reinstate the value of our old bonds and gradually increase our liability up to the nominal value of our new bonds. This gradual increase occurs over the life of the bonds and is charged through the interest line in the income statement. There will be no change to the amounts of interest we actually pay.
e. IFRS requires that we only recognise dividends once they are approved at the Annual General Meeting for the final dividend or by the Board for the interim. Therefore proposed dividends are no longer shown as a liability in the Group balance sheet, and the change recognised in equity represents the dividends approved in the year.

How have the numbers changed?

The following summary picks out the significant changes from how our results would have been presented under UK GAAP to how they are now presented under IFRS. The reference to Notes a to e refer to the items listed above.

Key financial impacts of IFRS

UK GAAP Description	UK GAAP £m	Revaluation surplus Note a £m	Deferred tax Note b £m	Change of accounting for JVs & Janes Note c £m	Goodwill impairment £m	Amortisation of bond exchange derecognition Note d £m	Dividend Note e £m	Other £m	IFRS £m	IFRS Description
Gross property income	1,982.5	–	–	(159.5)	–	–	–	5.7	1,828.7	Group revenue
Profit before interest and taxation	1,063.3	1,579.5	–	(158.9)	(64.5)	–	–	24.0	2,443.4	Operating profit
Profit before taxation	844.4	1,579.5	–	8.5	(64.5)	(28.1)	–	19.4	2,359.2	Profit before tax
Profit after taxation	658.5	1,579.5	(473.9)	14.1	(64.5)	(19.7)	–	(18.1)	1,675.9	Profit for the financial period
Basic earnings per share (p)	140.65	337.34	(101.21)	3.01	(13.78)	(4.21)	–	(3.85)	357.95	Basic earnings per share
Shareholders' funds	8,750.2	–	(1,664.2)	(79.7)	–	375.3	134.0	(21.7)	7,493.9	Total shareholders' equity

This represents the valuation surplus over the 12 months to 31 March 2006.

In profit after tax, the deferred tax principally represents the charge for the valuation surplus in the year, while under shareholders' equity it represents the cumulative charge for all revaluations.

Our acquisition of Tops Estates PLC gave rise to goodwill because of the requirement to provide deferred tax on all historic valuations. This charge represents our decision to provide against this goodwill.

This charge shows the effect before and after tax of gradually increasing the value of our old bonds to the nominal value of our new bonds.

Represents the final dividend payable in July 2006.

We also include a more detailed reconciliation of equity and profit in note 35 to the financial statements.

Financial Review

Headline results

Profit before tax increased by 80.4% to £2,359.2m as compared to £1,307.5m for 2005. Revenue profit, our measure of underlying profit before tax, increased by 8.2% from £361.8m to £391.3m. Earnings per share were 357.95p, up 57.5% (2005: 227.32p) with adjusted, diluted earnings per share at 70.47p showing a 5.4% increase on the prior year (2005: 66.87p).

The combined portfolio rose in value from £9.4bn to £12.9bn, which included a valuation surplus of £1,683.1m or 15.3%. More detail of this performance is contained in the Investment Property Business review. Net assets per share rose by 23.5% to 1597p from 1293p, with adjusted diluted net assets per share rising by 28.5% to 1912p (2005: 1488p).

Profit before tax

Under IFRS, profit before tax effectively represents the total pre-tax return to shareholders for the year, including both realised and unrealised gains and losses on the value of our investment properties. Previously, unrealised gains and losses were taken directly to reserves without being recognised in the income statement. In 2006, profit before tax increased by 80.4% to £2,359.2m, representing a pre-tax return of 39.0% on shareholders' equity at the beginning of the year. The principal drivers behind the increase in profit before tax are detailed in Table 6.

Table 6: Profit before tax and revenue profit

Principal changes	Profit before tax £m	Revenue profit £m
Year ended 31 March 2005	1,307.5	361.8
Valuation surplus (A)	787.6	–
Profit on disposal of Telereal (B)	293.0	–
Distributions received from Telereal (C)	(53.7)	–
Impact of Telereal sale 30 September 2005	–	(17.4)
Profit on disposal of fixed asset properties	(35.8)	–
Profit on sale of trading properties	7.2	–
Debt restructuring interest saving (D)	14.7	14.7
Increase in capitalised interest (E)	9.4	9.4
Amortisation of bond de-recognition (F)	(16.9)	–
Long-term contract profits (G)	10.3	–
Goodwill impairment (H)	(51.8)	–
Property outsourcing profit (I)	2.8	2.8
Net rental income (J)	50.7	50.7
Exceptional costs relating to debt restructuring (K)	64.6	–
Interest on increased debt	(30.7)	(30.7)
Other	0.3	–
Year ended 31 March 2006	2,359.2	391.3

(A) The valuation surplus was £787.6m higher than last year as described in the Investment Property Business section.

(B) The disposal of our interest in the Telereal joint venture was completed on 30 September 2005.

(C) Distributions from Telereal were significantly higher in 2005, reflecting a full year and higher levels of property sales.

(D) This represents a full year's reduction in interest charges compared to a part year in the prior period resulting from the debt restructuring in November 2004.

(E) Capitalised interest is higher than last year due to greater levels of investment in developments, principally at Cardinal Place and Bankside 2 and 3.

(F) The debt instruments issued as part of the refinancing in November 2004 do not meet the requirements of IAS 39 as they are not deemed to be substantially different from the debt they replaced. As a result, the book value of the new instruments is reduced to the book value of the debt it replaced and the difference is amortised over the life of the new instruments. This year's charge was for the full year compared to five months in the prior period.

(G) Higher levels of activity, primarily the recognition of profits from the development contract to build Bankside 1 for IPC.

(H) Goodwill arising on the acquisition of Tops Estates PLC in June 2005, against which full provision has been made, is principally attributable to deferred tax on the revaluation of its investment properties.

(I) Better performance on DWP contract, largely offset by the lower unitary charge from the BBC contract.

(J) Largely driven by acquisitions and developments coming on-stream.

(K) Costs incurred last year related to the debt refinancing and not repeated in the current year.

Revenue profit

Revenue profit is our measure of the underlying pre-tax income of the Group. It is a financial measure we use internally to report our results and includes the pre-tax results of our joint ventures but excludes capital and other one-off items such as the valuation surplus and gains on disposals. For this year end, we have amended our definition of revenue profit to exclude trading profits and long-term contract income as both of these are considered more capital in nature than revenue. Furthermore, unlike the majority of our revenue profit, trading profits and long-term contract income will remain taxable even if we convert to REIT status.

Revenue profit for the year grew by 8.2% from £361.8m to £391.3m. The main reasons for this increase are detailed in Table 6. Under our old definition, revenue profit including trading profits and long-term contract income increased by 8.4% from £401.3m to £434.9m.

A reconciliation between profit before tax and revenue profit is shown in Table 7.

Earnings per share

Basic earnings per share grew by 57.5% to 357.95p (2005: 227.32p), the increase being mainly attributable to the same reasons as set out for profit before tax in Table 6. The growth in earnings per share, however, has also been impacted by a rise in the tax rate. Reasons for the change in tax rate are set out in the section on taxation.

In the same way that we adjust profit before tax to remove capital and one-off items to give revenue profit, we also report an adjusted earnings per share figure, although this includes some additional adjustments to revenue profit. The adjustments to earnings per share are set out in note 11 to the financial statements and are based on the guidance given by EPRA with a limited number of further adjustments to reflect better our underlying earnings. Adjusted diluted earnings per share rose from 66.87p per share in 2005 to 70.47p per share in 2006, a 5.4% increase. The growth in adjusted diluted earnings per share is largely due to the items related to changes in revenue profit as well as the lower profits on sale of trading properties and higher long-term contract income. Adjusted diluted earnings per share has not grown as strongly as revenue profit because of the higher current tax rate discussed below.

Dividend

We are recommending a final dividend of 28.55p per share this year, compared to 32.85p in 2005. Taken together with the interim dividend of 18.15p (2005: 10.40p), the total dividend of 46.70p represents an increase of 8% over last year's total of 43.25p. The lower proposed final dividend is more than offset by this year's higher interim dividend, which reflected our move to pay approximately 40% of our total dividend at the interim stage.

This dividend for 2006 is covered 1.5 times by adjusted earnings (2005: 1.6 times). Subject to approval by shareholders at the Annual General Meeting to be held on 19 July 2006, the final dividend will be paid on 24 July 2006 to shareholders on the register on 23 June 2006.

The decision to increase our dividend by 8% is both a reflection of the growth in revenue profit and our view that the introduction of REITs will increase the focus of listed property companies on dividend payout ratios, irrespective of whether or not they convert to REIT status. Our aim will continue to be to deliver steady dividend growth, although we recognise the quantum of future dividends will be influenced by whether or not we choose to become a REIT.

Table 7: Reconciliation of profit before tax to revenue profit

	2006 £m	2005 £m
Profit before tax	**2,359.2**	1,307.5
Revaluation surpluses – Group	**(1,579.5)**	(827.9)
– joint ventures	**(105.5)**	(69.5)
Fixed asset property disposals	**(75.3)**	(122.5)
Goodwill impairment	**64.5**	12.7
Exceptional costs of debt restructuring	**–**	64.6
Mark-to-market adjustment on interest rate swaps	**2.2**	2.7
Eliminate effect of bond exchange de-recognition	**28.1**	11.2
Credit arising from change in pension scheme benefits	**(8.3)**	–
Profit on disposal of Telereal joint venture	**(293.0)**	–
Adjustment to restate the Group's share of Telereal earnings from a distribution basis to an equity basis	**5.0**	(23.2)
Joint venture tax adjustment	**37.5**	45.7
Revenue profit (old definition)	**434.9**	401.3
Profit on sale of trading properties	**(21.7)**	(27.9)
Long-term development contract income	**(21.9)**	(11.6)
Revenue profit (new definition)	**391.3**	361.8

Net assets

At the financial year end, net asset value per share was 1597p, an increase of 304p. In common with other property companies, we also calculate an adjusted measure of net assets, which we believe reflects better the underlying net assets attributable to shareholders. IFRS has increased the number and value of these adjustments, the largest of which is to reverse out the requirement under IFRS to provide deferred tax on valuation surpluses. The adjustments required to arrive at our adjusted net assets are listed in Table 8.

The adjusted diluted net assets per share were 1912p at 31 March 2006, an increase of 424p or 28.5% over the previous year end.

Cash flow and net debt

During the year cash receipts totalled £972.6m from property disposals (including the disposal of our 50% share in the Telereal joint venture). In total we invested £2,353.4m in our properties including £1,429.2m on direct acquisitions and £579.1m on corporate acquisitions. From our joint ventures, we received a net £133.8m, largely as a result of new financing that was put in place during the year. At 31 March 2006, the Group's net debt was £3,685.9m, some £1,247.8m higher than 2005 (£2,438.1m). The factors contributing to this increase in net debt are shown in Table 9.

Table 9: Cash flow and net debt

	Year ended 31/03/06 £m	Year ended 31/03/05 £m
Operating cash inflow after interest and tax	**375.9**	216.6
Dividends paid	**(238.9)**	(175.5)
Property acquisitions (including Tops Estates)	**(2,008.3)**	(315.2)
Development and refurbishment capital expenditure	**(345.1)**	(378.4)
Investment in properties	**(2,353.4)**	(693.6)
Other capital expenditure	**(26.9)**	(19.3)
Total capital expenditure	**(2,380.3)**	(712.9)
Disposals (including Telereal)	**972.6**	690.4
Joint ventures	**133.8**	157.0
Other movements	**(110.9)**	(125.0)
(Increase)/decrease in net debt	**(1,247.8)**	50.6
Opening net debt	**(2,438.1)**	(2,488.7)
Closing net debt	**(3,685.9)**	(2,438.1)

Although we have continued to invest substantially during the year, increasing net debt by over 50%, gearing levels have only increased modestly. The main reason for this is that the large valuation uplift has resulted in increased net assets which have largely offset the growth in net debt. Details of the Group's gearing are set out in Table 10, which includes the effects of our share of joint venture debt, although the lenders to our joint ventures have no recourse to the wider Group for repayment.

Financing strategy and financial structure

Our finance strategy is to maintain an appropriate net debt to equity ratio (gearing) to ensure that asset-level performance is translated into good returns for shareholders as well as optimising our cost of capital. It has been our stated intention over the last 12 months to increase gearing through investment in our development programme and suitable investment properties.

As noted above, we have successfully invested in the business but strong growth in the valuation of our portfolio has limited the increase in gearing. It is important, however, to put our gearing ratio into context. The gearing ratio only reflects our year end net debt position and not the average net debt during the period, which was £3.1bn (2005: £2.7bn). Furthermore, the increase in value of our

Table 8: Net assets

	Year ended 31/03/06 £m	Year ended 31/03/05 £m
Net assets at beginning of year	**6,050.3**	5,152.2
Profit after tax	**1,675.9**	1,060.9
Dividends paid	**(238.9)**	(175.5)
Other	**6.6**	12.7
Net assets at end of year	**7,493.9**	6,050.3
Deferred tax on investment properties	**145.0**	145.0
Deferred tax on net revaluation surpluses	**1,739.7**	1,180.7
Mark-to-market on interest rate hedges	**8.6**	3.6
Debt adjusted to nominal value	**(375.3)**	(395.0)
Adjusted net assets at end of year	**9,011.9**	6,984.6

Table 10: Gearing

	At 31/03/06 %	At 31/03/05 %
Gearing – on book value of balance sheet debt	**49.2**	40.3
Adjusted gearing[1]	**46.9**	43.0
Adjusted gearing[1] – as above plus notional share of joint venture debt (excluding Telereal)	**51.1**	44.2

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

properties is largely driven by yield shift as opposed to increased rental income. The gearing ratio is not the key measure of our ability to service the increase in debt. The more appropriate measure is interest cover.

Despite the increase in our year end net debt, our interest cover ratio, excluding our share of joint ventures, has improved from 2.39 times in 2005 to 2.65 times in 2006. This reflects our higher earnings, a full year of lower interest costs due to our debt refinancing and a smaller difference in the average net debt between 2005 and 2006 than the respective year end positions might suggest.

While Land Securities may have lower financial gearing than some other listed property companies, it has significant operational gearing through its exposure to a large development pipeline. Developments tend to provide a greater percentage valuation change than conventional investment properties, with this being magnified by any change in yields or in occupier demand. Developments also carry a higher risk around timing, cost to completion and subsequent letting.

On the basis of our interest cover ratio and the significant amount of funds available to us we would be prepared to see our financial gearing rise modestly from its current position. However, given the recent strong rise in property valuations and our caution about future growth prospects from investment properties, it may prove difficult for us to find suitable investment properties to acquire at this stage in the cycle. It is also becoming increasingly difficult to acquire investment properties with good medium-term prospects which yield above the marginal cost of our debt although we continue to invest heavily in development and outsourcing activities.

As well as having the right level of debt in the business, we also need to ensure that we have a financing structure that is both flexible and cost effective. Both of these issues were addressed in the last financial year with the introduction of a new funding structure as illustrated in Figure 1. Operational flexibility is afforded through provisions which allow us to buy and sell assets easily as well as maintain our development programme.

A committed revolving credit facility as part of the funding structure provides us with the financial flexibility to draw and repay loans at will, and react swiftly to investment opportunities. The cost effectiveness of the structure is achieved by providing lenders with security over a large proportion of our investment properties, resulting in lower interest margins than an unsecured structure.

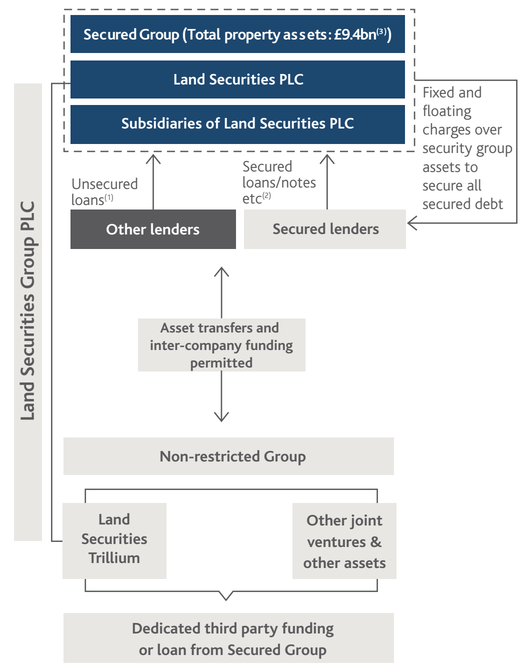
During the course of the year, we issued our first two new sterling bonds within the secured structure through our £4bn Note programme. The first was an issue of £400m with a fixed coupon of 4.875% and an expected maturity of 2017. The second was a £300m 4.625% fixed rate bond with an expected maturity of 2011. To illustrate the efficiency and flexibility of our funding structure, the more recent of the two bond issues took four working days from Board approval to pricing at an effective spread to the prevailing LIBOR of 0.09%.

As at 31 March 2006 Land Securities' total borrowing amounted to £3,701.5m, of which £750.0m was drawn under our £2.0bn secured bank facility, and £74.6m related to finance leases. Committed but undrawn facilities amounted to £1,252.0m. The Group also has £123.5m of uncommitted facilities. The maturity profile of the Group's debt is shown in Figure 2. The majority of debt in less than one year relates to drawings under the committed facility which has a final maturity in November 2009.

Hedging

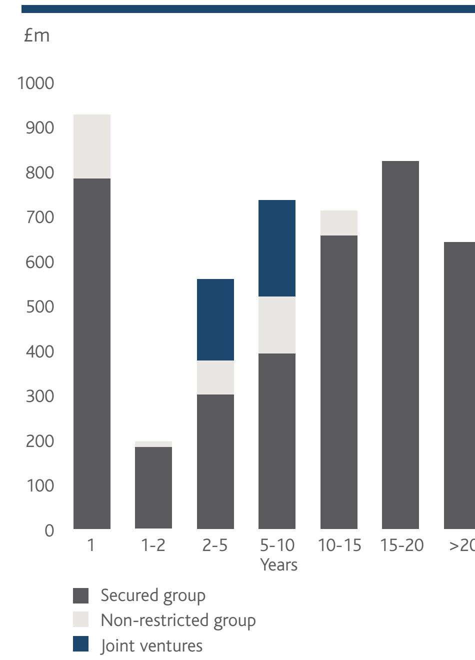
We use derivative products to manage our interest rate exposure and have a hedging policy which requires at least 80% of our existing debt plus our net committed capital expenditure to be at fixed interest rates for the coming five years. Specific hedges are also used in geared joint ventures to fix

Figure 1: Funding structure



(1) Limited to the higher of £150m or 2% of total collateral value.
(2) The borrower under the Secured Bank facility is LS Property Finance Company Limited. Notes are issued from Land Securities Capital Markets PLC.
(3) Source: Knight Frank Valuation Report for 31 March 2006.

Figure 2: Expected debt maturities (nominal)



the interest exposure on limited recourse debt. At the year end we had £858.2m of hedges in place, and our debt was 92% fixed. Consequently, based on year end debt levels, a 1% rise in interest rates would increase full year interest charges by only £3.2m.

Future funding

The Group's modest gearing levels and interest cover provide significant debt capacity to meet its projected capital requirements. Market capacity remains in Sterling and the Group has the flexibility if necessary to tap other markets such as the Euro. With £1.25bn of committed but undrawn facilities, the Group is confident that it will be able to finance its planned capital commitments.

Taxation

The tax charge for the year is £683.3m, giving an effective rate of 29.0% (2005: 18.9%). The lower tax rate in 2005 was primarily due to higher prior year adjustments and a lower effective rate of tax on property disposals. The tax rate on profit before exceptional items is lower at 27.8% (2005: 19.2%). The tax rate on exceptional items is higher than the standard rate largely due to the impact of the Tops Estates' goodwill impairment, which cannot be offset against taxable profits.

Table 11: Taxation

Effective tax rate	Ordinary	Exceptional	Total
Profit before tax	2,130.7	228.5	2,359.2
Tax charge	593.3	90.0	683.3
Effective tax rate	27.8%	39.4%	29.0%

IFRS requires that full provision is made for the deferred tax liability associated with the revaluation of investment properties. Accordingly, the tax charge includes deferred tax of £473.9m on revaluation gains arising in the period (2005: £248.3m).

The current or 'cash' tax charge for the year, before tax on exceptional items and property disposals, is £76.9m. If we adjust this for tax related to prior years and the IFRS bond amortisation which is not tax deductible, we have an effective rate of 23.2%. This rate reflects the benefits of approximately £80m of gross capital allowances on developments as well as tax deductions available for capitalised interest. The equivalent rate for 2005 is not comparable due to the losses generated by the Group refinancing in the period.

Pension schemes

The Group operates a number of defined benefit pension schemes which are closed to new members. At 31 March 2006 the schemes had a combined deficit, net of deferred tax of £4.5m (2005: £7.6m). During the year we made a further special contribution of £1.5m (2005: £11.5m) to the principal defined benefit pension scheme and we are maintaining our enhanced contribution rate to address the relatively small deficit. During the year we introduced amendments to the main scheme which were adopted by the Trustees for active members who have given their consent. As a result, active members will have their accrued entitlement at 31 March 2006 linked to inflation, with future benefits accruing according to annual earnings. The effect of this has been a reduction of approximately £8.3m (£5.8m net of tax) in the Group's pension liability associated with funding future anticipated salary increases.

Key financial risks

Table 12 outlines the main tax, treasury and accounting risks facing the business. The first three risks are discussed elsewhere in the report as indicated in the table. The risk around IFRS mainly relates to uncertainty within the accounting community on how the new standards should be applied to specific circumstances. An example of this is our treatment of the goodwill arising on the acquisition of Tops Estates, where an alternative view of the relevant accounting standard may require us, initially at least, to retain the goodwill arising on the acquisition as opposed to impairing it immediately. The potential for uncertainty in accounting treatment, however, is more likely to occur in Land Securities Trillium where the complicated nature and interaction of the risks being borne under each contract can result in different views on accounting treatment. On potential new contracts, differences in interpretation of, or future amendments to, IFRS present some risk to profit recognition. However, the primary consideration for all new contracts is cashflow which is unaffected by accounting treatment.

Table 12: Financial risk management

Risk Description	Impact	Mitigation
Funding		
■ Lack of available funds	■ Unable to progress investment opportunities	■ Flexible funding structure. Sizeable committed, undrawn facilities – see page 42
Interest rates		
■ Exposure to prevailing market rates	■ Increased borrowing costs following interest rate rise	■ Hedging policy – see page 41
Taxation		
■ Inefficiencies due to poor tax reporting and insufficient planning	■ Higher tax rate and uncertain liability position	■ Internal tax specialists and appropriate use of external advisers ■ Prudent approach to tax provisions – see note 9 to the financial statements
IFRS		
■ Insufficient clarity on new accounting standards	■ Unexpected impact on income statement and balance sheet. No impact on cash flows	■ Internal and external review of IFRS treatment for all proposed investments

Investor relations

The aim of our communication programme with the investment community is to encourage two-way dialogue with existing and potential debt and equity investors. We maintain an investor relations programme which extends beyond legislative requirements and believe that our approach results in a better understanding of our activities and a more open relationship.

We hold regular financial presentations, site visits and meetings with key audiences, including institutions, private shareholders, private client intermediaries and both equity and debt analysts. Our aim is to provide a clear, balanced picture of the Group within the constraints of protecting price-sensitive information from selective disclosure.

Our objective is to ensure a diversified share register, both in terms of type and geographic location of holdings. We have placed particular emphasis on helping investors to improve their understanding of Land Securities Trillium and on increasing the geographic diversity of our share register. One region which was substantially under-represented on our share register is the USA, although through our efforts this has improved by 1.35% over the 12 months to 6.85%.

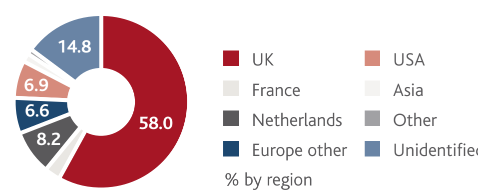
We monitor the effectiveness of our communication programme through feedback to the Company and independent perception audits, which are commissioned bi-annually. A bond and equity shareholder audit was conducted by Makinson Cowell in July 2005, which concluded that there were no material issues of concern to investors in relation to strategy, performance, management or governance and that the programme conducted over the previous 15 months "represented a high level of contact by any standard". The Makinson Cowell audit was presented to the Board, which also receives quarterly reports and conducts an annual Board review of investor relations.

We re-launched the investor section of the Group website this year and promoted e-communications via a 'plant-a-tree' campaign, where we donate £5 towards tree planting for each investor signing up for electronic communications.

Legal proceedings

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

Geographical spread of equity shareholders



Analysis of equity shareholdings by size of holding — At 31 March 2006

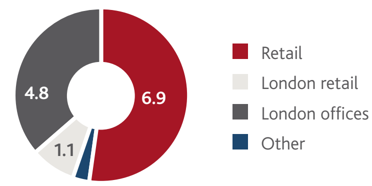
	Number of holdings	%	Balance at 31/03/06	%
Up to 500	11,453	44.60	3,002,738	0.64
501 to 1,000	6,591	25.67	4,853,892	1.03
1,001 to 5,000	6,005	23.39	11,856,169	2.53
5,001 to 10,000	533	2.08	3,805,805	0.81
10,001 to 50,000	555	2.16	12,490,529	2.66
50,001 to 100,000	134	0.52	9,460,426	2.02
100,001 to 500,000	250	0.97	60,419,807	12.87
500,000 to 1,000,000	73	0.28	51,244,379	10.92
1,000,001 and above	85	0.33	312,150,037	66.52
	25,679	100.00	469,283,782	100.00

Investment Property Business

The performance of our £12.9bn combined portfolio is the responsibility of our Retail and London Portfolio businesses, with property management and project management skills being provided to them by the professional services departments headed up by our Chief Operating Officer. The day-to-day responsibility for the performance of the London retail properties, with the exception of £234.5m of retail and £14.5m of office assets held in the Metro Shopping Fund, is with the London Portfolio business.

However, to assist comparison with our performance against the Investment Property Databank ('IPD'), we include the performance of our London retail properties under Retail in order to disclose our portfolio valuation statistics according to the IPD categories.

Combined portfolio **£12.9bn**



Performance

The strong performance over the year of the combined portfolio, which includes our share of the value of joint ventures, reflects not only the continued yield shift but also the value we have created through our development and asset management activities, with a particularly strong contribution from development. We revalue our investment portfolio every six months. It was valued at £9.4bn at 31 March 2005, £11.4bn at 30 September 2005 and £12.9bn at 31 March 2006. Part of the 37.7% increase in the size of the portfolio over the year is attributable to our expenditure on acquisitions and developments, net of disposals. The like-for-like valuation surplus for the year was £1,047m or 15.9% of which £573.9m or 8.7% occurred in the six months since 30 September 2005.

	Open market value 31/03/06 £m	Open market value 31/03/05 £m	Valuation surplus(1) %	Rental income year to 31/03/06 £m	Rental income year to 31/03/05 £m	Rental income change %
Shopping centres and shops	**2,335.1**	1,996.3	14.2	**140.7**	133.6	5.3
Retail warehouses	**1,494.1**	1,254.6	18.3	**61.7**	56.6	9.0
London retail	**865.6**	752.4	14.7	**41.8**	44.7	(6.5)
London offices	**2,710.4**	2,310.1	16.9	**167.3**	172.3	(2.9)
Other	**292.9**	264.8	11.7	**13.1**	11.2	17.0
Like-for-like investment portfolio (2)	**7,698.1**	6,578.2	15.9	**424.6**	418.4	1.5
Completed developments	**565.3**	437.6	21.4	**26.1**	12.5	–
Purchases	**3,337.6**	970.4	7.6	**123.0**	22.5	–
Disposals and restructured interests	**–**	627.5	–	**20.8**	56.9	–
Development programme (3)	**1,291.9**	752.1	32.9	**19.5**	16.8	–
Combined portfolio	**12,892.9**	9,365.8	15.3	**614.0**	527.1	16.5
Adjustment for finance leases	**–**	–	–	**(13.2)**	(10.9)	n/a
Combined portfolio	**–**	–	–	**600.8**	516.2	16.4

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

As we have previously commented, continued yield shift was one of the factors behind the strong performance of the investment portfolio this year, which also benefited from 4.8% like-for-like rental growth.

On the like-for-like portfolio we have seen the strongest total return from our London Portfolio, which has delivered 24.2%, followed closely by retail warehousing with 21.9% and shopping centres and shops with a 19.8% total return over the period.

Returns are boosted further when the £565.3m of completed developments are included. These comprise Empress State, SW6; Whitefriars, Canterbury; 40 Eastbourne Terrace, W2 and the Ravenside Retail Park, Bexhill. In addition, our ongoing extensive development programme, currently valued at £1.3bn, has delivered a 32.9% valuation surplus, with the largest contribution from Cardinal Place, SW1. The overall total return from our combined portfolio over the last 12 months, including acquisitions and developments, was 23.3%.

Our contribution to performance

In terms of ungeared total property return, our combined portfolio outperformed the UK commercial property market, as represented by the IPD Quarterly benchmark, by 2.2%. Our London offices outperformed the equivalent sector benchmark by the substantial margin of 4.8% largely as a result of development profits. Retail delivered a total return slightly ahead of its sector benchmark, up by 0.2%. While a combination of factors, including yield shift, contributed to the overall portfolio performance, we illustrate below how the application of skills can drive the creation of value. Table 13 details the top six performing properties in each sector by revaluation surplus together with an explanation of the key drivers of that performance. It is clear that yield shift played only a part in the creation of shareholder value. This also demonstrates clearly the strong contribution from London developments.

Table 13: Key drivers of valuation change

Retail	% valuation surplus	Description	London	% valuation surplus	Description
Meteor Centre, Derby	34.5	Lettings, rental value growth and yield shift	Cardinal Place, SW1	44.1	Development
Ravenside Retail Park, Bexhill	31.3	Completed development and new lettings driving rental growth	New Street Square, EC4	43.7	Development
Lakeside Retail Park, West Thurrock	26.0	New lettings driving rental growth	1 Theobald's Court, WC1	36.7	Rental value growth and yield shift
White Rose Centre, Leeds	25.5	Reconfiguration and new lettings	Devonshire House, W1	31.1	Reconfiguration, new letting and yield shift
Retail World, Team Valley, Gateshead	24.3	Reconfiguration and new lettings	1 Wood Street, EC2	30.1	Development
N1 Shopping Centre, Islington	23.1	Rental value growth and yield shift	Fenchurch Street Estate, EC3	26.4	Potential development

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

At the year end the net reversionary potential of the like-for-like portfolio was 6.5% compared to 3.9% 12 months ago. This improvement has arisen from a reduction in the over-rented element of London offices, which are now only slightly over-rented, and from continued rental growth on retail assets, which now have a net reversionary potential of 12.2%. Set against this positive news on rental growth, voids on the like-for-like portfolio have increased from their historically low levels to 3.1%, although a proportion are strategic voids where we are keeping units vacant prior to redevelopment.

Long-term performance relative to IPD
Ungeared total returns – periods to 31 March 2006

	Land Securities % pa	IPD % pa	IPD upper quartile % pa
10 years	13.8	12.8	13.4
20 years	12.1	11.1	12.1

Source: IPD quarterly and monthly valued funds at March 2006.
Land Securities' ungeared total property return compared over the last 10 and 20 year periods to 31 March 2006 to the IPD. It can be seen that Land Securities' portfolio has outperformed and produced a return which places it in the top quartile of contributing portfolios over the last 10 and 20 year time periods.

One year performance relative to IPD
Ungeared total returns – period to 31 March 2006

	Land Securities % pa	IPD % pa
Retail – Shopping centres	19.1	17.6
Retail warehouses	20.4	22.1
Shops	18.4	20.3
Central London offices*	30.0	24.1
Total portfolio	23.3	20.6

Source: IPD Quarterly benchmark to March 2006.
* Central London defined as West End, City, Mid-town and Inner London regions.

The performance of the Group's portfolio compared to that of IPD on a similar basis at sector, sub-sector and total portfolio levels over the 12 month period to 31 March 2006. A key driver of outperformance was the strong performance from our Central London office holdings, particularly developments. Shopping centres also recorded higher returns than IPD. Retail warehouses performed in line with IPD when the impact of purchases is excluded.

Table 14: Investment and development portfolio movements

	Investment £m	Development £m	Total £m
Net book value at 31/03/05	7,484.5	755.6	**8,240.1**
Purchases	2,006.7	24.7	**2,031.4**
Disposals	(655.8)	(7.8)	**(663.6)**
Transfers into development	(102.4)	102.4	**–**
Transfers out of development	271.6	(271.6)	**–**
Transfers to trading properties and surrender premiums received	(84.7)	–	**(84.7)**
Capital expenditure	78.8	239.3	**318.1**
Valuation surplus	1,215.4	362.2	**1,577.6**
Capitalised interest	–	24.5	**24.5**
Depreciation	(2.9)	–	**(2.9)**
Net book value at 31/03/06	10,211.2	1,229.3	**11,440.5**
Combined portfolio valuation at 31/03/06	11,601.0	1,291.9	**12,892.9**

Investment

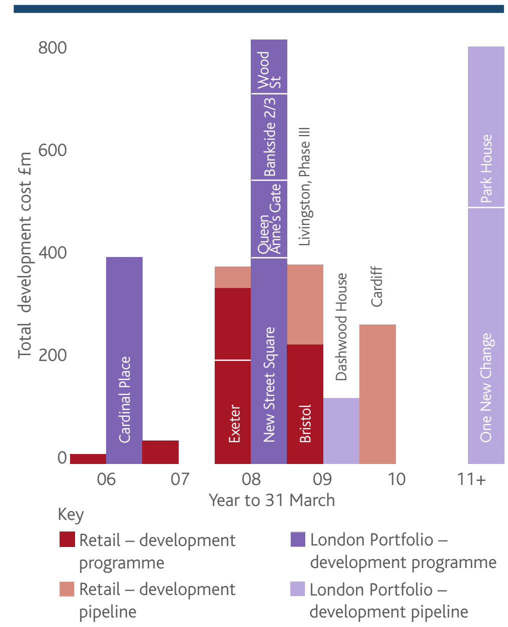
During the year we sold a total of £735.9m of property out of the combined portfolio (including joint ventures and net of sale costs), generating a profit of £73.4m (11% above book value). We also had our most active year ever in terms of acquisitions with the purchase of £2.2bn of investment properties (including assets bought by way of corporate acquisitions and joint ventures), which have shown a valuation surplus of 5.7% over the period since acquisition. The average yield on the properties sold was 3.3% (the low figure being explained by the rent free period on 30 Gresham Street) and the average initial yield on the assets acquired was 5.2% or 5.4% excluding properties acquired vacant. The purchase activity was principally accounted for by the acquisitions of Tops Estates, the LxB portfolio, and 15 London office investments.

Development

Our development programme, including our share of joint ventures and those properties completed and let in the year, produced a valuation surplus of £364.7m of which £181.3m occurred in the second half of the year. Four schemes were transferred into the investment portfolio from the development programme. These were 99% let and generated rents of £9.4m in the year under review. In a full year these will contribute £14.4m of rental income.

Including our share of joint ventures and land acquisitions we spent £313.6m (excluding capitalised interest) on the development pipeline on projects including Cardinal Place, New Street Square, Bankside 2 and 3 in London and shopping centre developments in Bristol and Exeter. Cardinal Place has now reached practical completion and we have therefore stopped capitalising interest on this project. However, during the year interest of £11.5m on Cardinal Place was capitalised (2005: £9.0m). We have an estimated further spend of £821m on the projects underway currently which, when complete and fully let, will produce £144.2m of annual income (at today's ERV). Capital expenditure on proposed developments could total £973m if we proceed with these schemes, which are held as part of the investment portfolio and have a current carrying value of £383.8m.

Timing of completion of development pipeline



The figures given on page 46 for capital expenditure represent the Group's actual or forecast cash outlays on developments. Including land values and capitalised interest, the total development cost for the full development pipeline is £3.1bn, of which £1.8bn relates to our current development programme.

We are currently developing two projects on behalf of the BBC, Pacific Quay, Glasgow and Broadcasting House, W1. The BBC's new headquarters in Glasgow is on programme for completion by the target date of mid-July and within budget. Broadcasting House has shown some slippage, however, the first phase has now been completed and preliminary works have started on the second and final phase. We, the BBC and Bovis Lend Lease, our building contractor have agreed in principle the construction programme and costs for Phase 2 and we have also reached agreement on the final account on Phase I.

Property management

We are also responsible for the provision of property management services across the communal areas of buildings in our investment portfolio. These include:

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

We procure and manage these and charge the related costs back to our occupiers through an annual service charge. This is potentially an area of contention between an occupier and the property owner and we have worked hard over the past few years to provide transparent communication on service charges to our occupiers.

Unlike many of our peer group, we do not outsource the property management of our investment portfolio. Instead we have developed a strong in-house capability which we believe improves dialogue and lines of communication with our occupiers and is increasingly a differentiator as we seek to consolidate those relationships. In the past year we have looked closely at the way in which we deliver services across our portfolios and the way in which we manage the relationship with our occupiers. As a result we have restructured the teams responsible for the day-to-day management of our London multi-let premises and are in the process of introducing changes to the structure of our retail property management teams.

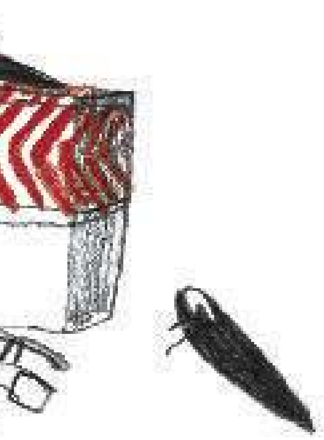
At the same time we have recently announced the introduction of a new occupier portal, an online system which will give occupiers direct access to our internal systems to view property lease and service charge information. Not only will this improve the availability of data to our occupiers but we also hope that it will make our organisation more accessible to our customers by providing details of the individual people an occupier might need to contact about their property needs.

We conduct annual customer satisfaction surveys across our business and believe that willingness to recommend Land Securities as a landlord is a key measure of our performance. In the last year we were pleased to note a greater than 94% willingness to recommend us as a landlord by those customers surveyed.

We believe our approach to property management differentiates Land Securities from other providers of commercial property accommodation, strengthening our ability to attract new and retain existing customers and enhancing our market leading reputation.

Managing

Through our in-house team and our service partners we are responsible for providing a range of property management services across both our investment portfolio and property outsourcing contracts.



Retail Every year we receive 300 million customer visits to our 1.9 million m^2 retail portfolio. That's a lot of footfall – which might explain why every four seconds one of those customers will walk away with a pair of new shoes from one of our 100 specialist shoe shops.

Retail Achievements

Retail share of operating profit £243.7m

Like-for-like valuation surplus of 15.6%

£1.5bn of acquisitions, including the purchase of Tops Estates and the LxB portfolio

£0.3bn of disposals

Current development programme to provide 221,070m² of new accommodation

Proposed developments to create 143,110m² of floorspace


GLITZ

"Following a year of unprecedented activity we have now assembled a retail property portfolio of substantial scale, providing 5.8% of the retail floorspace in our core markets. This provides real competitive advantage in a fragmented market place."

Richard Akers
Managing Director, Retail

Our retail business represents 53.3% of the combined portfolio and produced £193.2m of the Group's operating profit together with £50.5m of joint venture profit. We own 1.9 million m² of retail accommodation including 30 shopping centres and 30 retail parks which represent a core market share of 5.8%. We have over 1,600 occupiers across this portfolio. Many of our retail properties form the central shopping districts of major cities and towns across the UK and over a year, we estimate that some 300 million visits are made by consumers to our locations. We are also investing £1bn to create the next generation of retail locations through a 64,000m² development pipeline.

Retail portfolio by value **£6.9bn**

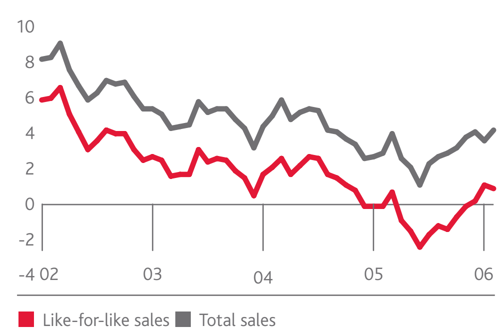
The retail market

The past year was noticeably tougher for retailers as retail sales growth slowed and rising costs, price deflation and increasing competition made trading conditions considerably more difficult than in previous years. The impact of this on like-for-like retail sales has been widely reported. While like-for-like performance is an important indicator of the underlying health of the retail market the most important trend indicator for us, as a retail property owner, is absolute sales performance. The reason is that to grow absolute sales in the face of flat or declining like-for-like sales, a retailer needs to take on new or improved floor space. The trend here remains positive and our experience to date, especially when it comes to letting our retail developments, is satisfactory.

There has also been an increasing polarisation of spend away from the traditional high street towards supermarket and large format stores which provide consumers with more choice and perceived value for money while providing retailers with more cost effective trading formats. The internet, which is, for the most part, focused on specific market segments is growing its market share but still has some way to go in terms of overall impact on retail sales. Recent research from Verdict showed that in 2005 the internet represented almost half of retail sales growth but that it still only accounted for around 3% of total retail sales.

Although the long-term economic outlook at present is still reasonably benign, market conditions remain difficult for retailers. A further indicator of consumer confidence is the housing market and, while Government statistics show that house price inflation has slowed, the market has not gone into a period of decline and has recently picked up in London and parts of the south-east.

UK retail sales growth



Source: British Retail Consortium/KPMG

The UK retail property market

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

Certain retail market sectors are also highly constrained in terms of supply side growth, as a result of planning restrictions aimed at preventing new development on greenfield sites and the huge

Retail property – floorspace

Type of retail property	Market million m²	LS million m²	% market share
Shopping centres	14.9	1.2	8.0
Retail parks	14.5	0.5	3.4
Total core markets	29.4	1.7	5.8
Other retail markets	85.5	0.2	n/a
Total	114.9	1.9	n/a

Source: Property Market Analysis/Office of the Deputy Prime Minister complexity of developing town and city centre sites in multiple ownerships. This effectively prevents the development of new out-of-town retail parks and major regional shopping centres and slows down in-town development, resulting in a highly competitive investment and development market for existing assets and development opportunities.

Against this background it is hardly surprising that retailers can experience frustration with the difficulties of procuring and occupying retail property. It is here that major retail property owners like Land Securities can benefit both from the way we manage our relationship with retailers as well as our considerable expertise in urban regeneration.

Our strategy

Over the last year we have continued to strengthen our position as a leading owner of retail property through:

- Investment in dominant retail assets
- Regeneration and renewal of the portfolio
- Provision of market leading levels of customer service and property management

In pursuit of the above we had an extremely active year. We made a further £1,543.3m of acquisitions, and sold £336.8m of properties. We invested £76.9m in the development programme including the redevelopment of Exeter and starting on site at Bristol. We carried out further customer satisfaction surveys and, as described earlier in the review, developed a new occupier portal and reviewed the way in which we provide property management services across the portfolio.

Our performance

In terms of valuation the retail portfolio continued to perform well. On a like-for-like basis this portfolio increased in value to £4.0bn with a 15.6% valuation surplus over the year. The retail park portfolio again demonstrated the strongest absolute growth, driven by strong investment demand for this type of asset and continued supply side constraints. While the continued yield shift was a factor in the performance of the retail portfolio, rental value growth of 4.0% also made a contribution. In addition, our skills are also making a difference with the valuation increases of the five top performing properties being driven by development or asset management activity.

The portfolio is 12.8% net reversionary and void levels remain low at 3.4% on a like-for-like basis.

Our contribution to performance

Over the past few years we have focused our retail portfolio in response to the longer-term trends in the retail markets, particularly retailers' desire for more efficient retail units. We have been successful in executing this strategy as we discuss in more detail in the sections below.

Investment in dominant retail assets

We have substantially restructured the portfolio which now predominantly comprises larger and more dominant retail assets. The drivers behind this approach is our belief that these properties will perform better over the long term and are more likely to benefit from changing consumer trends. Our research shows that shopping is now the third most popular way that a family will spend time together, with over 40% of respondents seeing shopping as a way in which they spend quality time together. It is our view that a great proportion of that time is spent in shopping destinations similar to those that we own – dominant shopping centres.

Retail

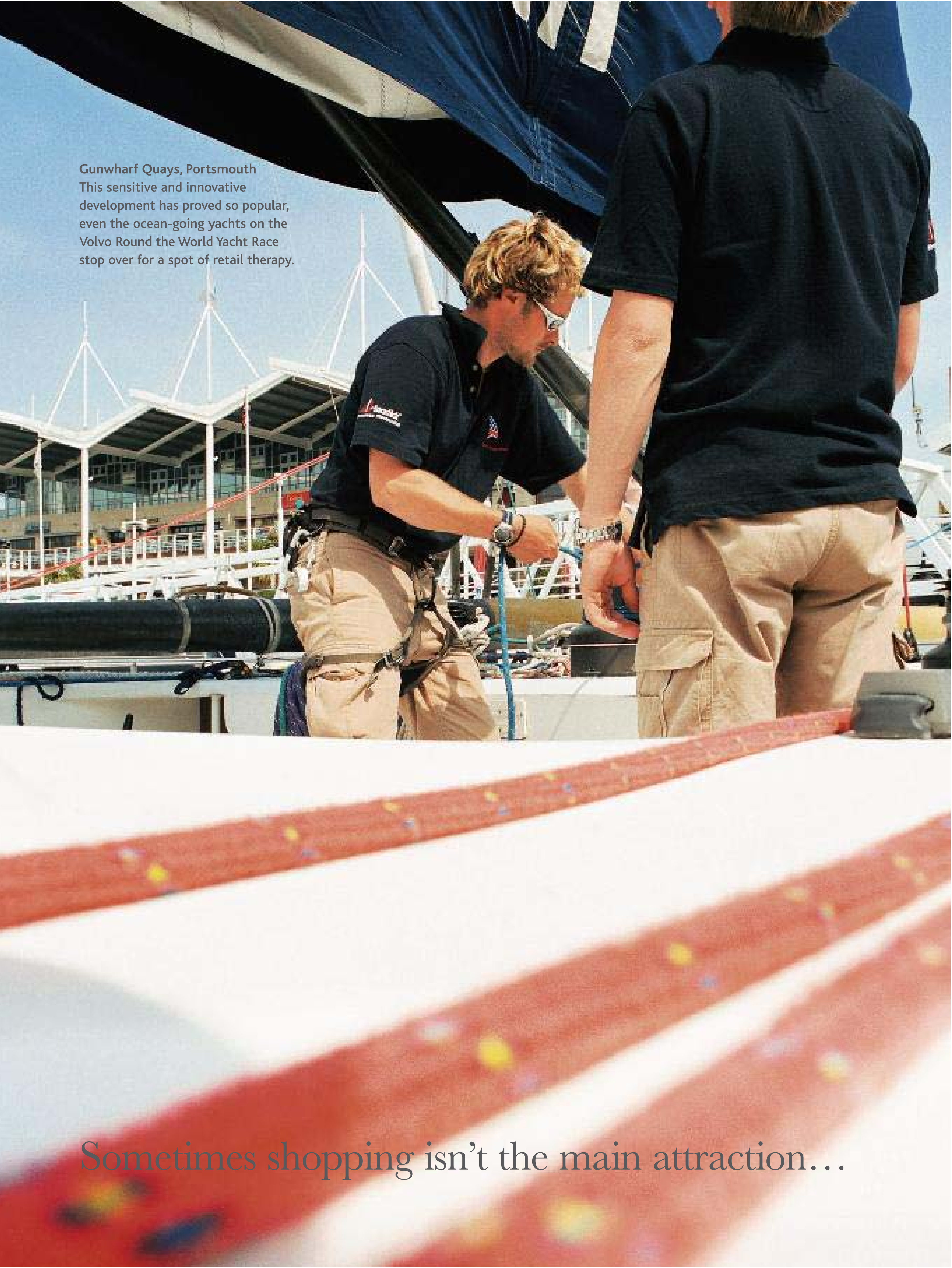
	31/03/06	31/03/05
Combined portfolio valuation	£6,877.8m	£4,750.4m
Like-for-like investment portfolio valuation	£3,978.5m	£3,388.9m
Rental income	£207.4m	£193.1m
Gross estimated rental value	£236.7m	£223.8m
Voids by estimated rental value	£8.1m	£4.9m
Gross income yield	4.9%	5.6%

Combined portfolio extracted from Business Analysis and by reference to the combined portfolio reconciliation tables on page 150.

Top five retail destinations
Land Securities ownership

London West End	Oxford Street and Tottenham Court Road
Birmingham	Bullring
Glasgow	Buchanan Galleries
Leeds	Leeds Plaza and White Rose
Nottingham	No major ownership

Source: Experian Retail Ranking 2004



Gunwharf Quays, Portsmouth
This sensitive and innovative development has proved so popular, even the ocean-going yachts on the Volvo Round the World Yacht Race stop over for a spot of retail therapy.

Sometimes shopping isn't the main attraction…

A dominant shopping centre is one which has a large local population ('catchment' area) for whom it is their primary shopping destination. All but one of our shopping centres are located in central in-town shopping districts, many providing the prime retail accommodation and main consumer shopping experience. As a result of our portfolio restructuring efforts, we no longer have any substantial exposure to high street retail in smaller towns, the segment which we believe in the longer term will be most impacted by the changing retail environment. Over the year we invested further in shopping centre assets with the acquisition of Tops Estates with a portfolio valued at £566.7m. This added a further six properties to our shopping centre portfolio after the profitable disposal of one of the centres. Since acquisition, the Tops Estates properties have shown a combined increase in underlying value of £43.0m, an uplift of 8%.

A further manifestation of the changed nature of our shopping centre portfolio is our greater exposure to the leading retail destinations in the UK, which we believe perform better in a less buoyant retail environment.

We are also keen to create strategic joint ventures to provide enhanced asset management or development opportunities or to increase our exposure to specific market segments. The Scottish Retail Property Limited Partnership is an example of the former while the Metro Shopping Fund LP demonstrates the latter.

In terms of changing consumer trends, consumers have more choice and are more mobile so it is important to provide an exceptional experience to attract them and encourage longer stays and repeat visits. At Gunwharf Quays, Portsmouth, for example, the unique environment and mix of uses has resulted in a 16% increase in net income over the year. In the period under review we acquired a further designer outlet centre, The Galleria, Hatfield and agreed to forward purchase a development at Banbridge in Northern Ireland.

Another trend is for convenience, accessibility and good car parking. Here we have invested significantly in retail parks and supermarkets. Bulky goods retailers have found trade to be more difficult but high street retailers have been keen to expand into this larger format with lower rents and operating costs. During the year we acquired the LxB retail park and supermarket portfolio, comprising 14 properties, all of which benefit from open A1 planning consent. As a result of this acquisition, together with £108.6m of selective disposals, our retail park portfolio is now 70% open consent.

Changing demand for retail park accommodation has helped us improve the average passing rent on this portfolio from £162 per m^2 to £177 per m^2 and combined with supply side constraints, make this segment one of the most attractive property investments. This is evidenced by the 14.1% valuation surplus of this portfolio driven partially by yield shift but also by our asset management activities.

Regeneration and renewal of the portfolio

In a competitive investment market, we are able to use our skills to develop new retail shopping centres of a calibre seldom available to purchase on the open market. We are fortunate to benefit here from the development opportunities inherent within the portfolio as well as our approach to developing in partnership with other leading retail property owners.

Our current development programme will provide 221,070m^2 of new retail and leisure accommodation with a further 143,110m^2 of proposed developments in the pipeline.

Shopping

We measure the number of visits to our shopping centre portfolio and benchmark this against a national footfall indicator. In 2005 the number of visitors to our portfolio increased by 1.3% whereas overall the national footfall indicator registered a modest decline.

Schemes in progress today include Exeter, a 44,600m² scheme scheduled to open next year. Our lettings programme is on target here, with 56% of the retail accommodation already let or in solicitors' hands. At Bristol, a 140,000m² partnership development with Hammerson plc, due to complete in Autumn 2008, 36% of the retail accommodation is let or in solicitors' hands.

Christ's Lane, Cambridge started around 15 months later than originally planned due to delays in obtaining freeholders' consent to redevelop. The 7,150m² mixed-use scheme, comprising eight shops, a café overlooking Christ's Piece and 15 residential apartments, has already secured lettings with H&M, Zara, Bank and Giraffe café ahead of its scheduled completion in Autumn 2007.

We also have three further proposed developments which we are planning to start this year. The St David's 2 development, undertaken in partnership with Capital Shopping Centres, will bring the first John Lewis department store to Wales, anchoring the 103,600m² retail-led scheme in Cardiff's city centre. New retail, cafés, restaurants and 300 homes will be created as well as new public spaces and amenities which include a state-of-the-art public library.

At Livingston, our proposals will create an additional 32,000m² of new retail space, 5,670m² of leisure space, 28 one and two-bedroom flats, including affordable housing, an 84-bed hotel and new public spaces in the town centre. At Corby our proposals for Willow Place comprise 16,260m² of retail accommodation in 27 units, the first phase of our regeneration activity in this high-growth town.

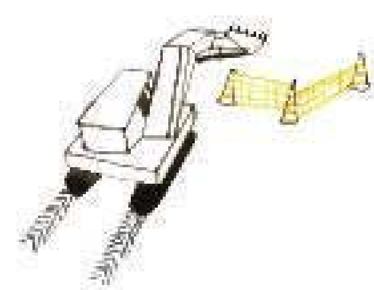
We are also in the process of carrying out development appraisals in Leeds, Liverpool and Glasgow which could offer a further 100,000m² of development over the next five years. These and other schemes at the feasibility stage should provide a continued stream of future development opportunities, even though, due to the complexities of the UK planning system, it may be several years until we actually start on site.

In addition to our major new development schemes we carry out smaller scale development activities across our retail park and shopping centre portfolio to reconfigure and improve these properties. Such activities covered 26,300m² of accommodation in the past year. Two prime examples are:

- White Rose, Leeds: we agreed a reduction in the size of the existing Sainsbury's store from which an additional 6,720m² was created in five new units with lettings to Next, River Island, Zara and Schuh
- Ravenside Retail Park, Bexhill: this 24,710m² park, comprising 14 units, has recently undergone a 2,720m² extension and facilities upgrade. These significant improvements attracted fashion retailer Next to a 930m² unit. In addition, the main anchor, Tesco, has occupied a 1,115m² extension. This activity has improved ERV's by 30%

Provision of market-leading levels of customer service and property management

The final strand of our strategy is our desire to provide market leading levels of customer service and property management. In addition to the obvious benefits this provides in terms of relationship management with our direct customer, the retailer, there are also a number of benefits to our indirect customer, the visitor to our retail assets.



Building

We are already building in Exeter and Bristol and this year plan to start on further retail-led development schemes in Cardiff, Livingston and Corby.

Customer satisfaction surveys

Each year we conduct surveys across the occupiers of our shopping centre and retail park portfolios to establish how we are performing as a landlord. We publish the most pertinent key performance indicators annually.

In the shopping centre survey we are very pleased to note that our efforts have resulted in improved performance across all our key indicators as detailed below. This is our fourth year of conducting this survey and we are enthusiastic about the benefits to us and our customers.

It is only the second year of surveying our retail park customer. In terms of management, these are very different as historically they do not benefit from an on-site management presence. We believe that this is one of the factors explaining the lower level of customer satisfaction across this portfolio. We are currently addressing this through a trial using Land Securities Trillium Building Services Managers to visit a sample of retail parks regularly to provide support and a communication channel for the retail managers.

We have also conducted a trial whereby retail park occupiers use our customer service centre to notify us of any problems on site, especially maintenance and security issues. These initiatives are, we believe, unique to Land Securities and demonstrate the way in which we are benefiting from Group synergies in terms of service provision.

Evaluating our own performance improves the delivery of services to our customers but it does not provide an opportunity for us to compare how we perform against our competitors. Last year saw the introduction of a new benchmark for shopping centre customer service of which we are a founder member. We hope that as this benchmark becomes established we will also be able to publish our performance as compared to our peers.

Environment management

We take the impact of our retail activities on the environment seriously and seek to progress incremental improvements across our retail portfolio each year. To this end we are currently progressing two projects:

- Evaluating how we can benchmark our shopping centres' carbon footprint and exploring various avenues to offset this impact
- Progressing an MSc research project with Imperial College, to provide a cost benefit analysis of introducing environmentally friendly cleaning at our shopping centres following our success on this front at Sunderland, where we have replaced all our cleaning products with 'green' products

We are also pleased to have successfully reduced the amount of waste we are sending to landfill by increasing our recycling ratio across the shopping centre portfolio to 25.8%.

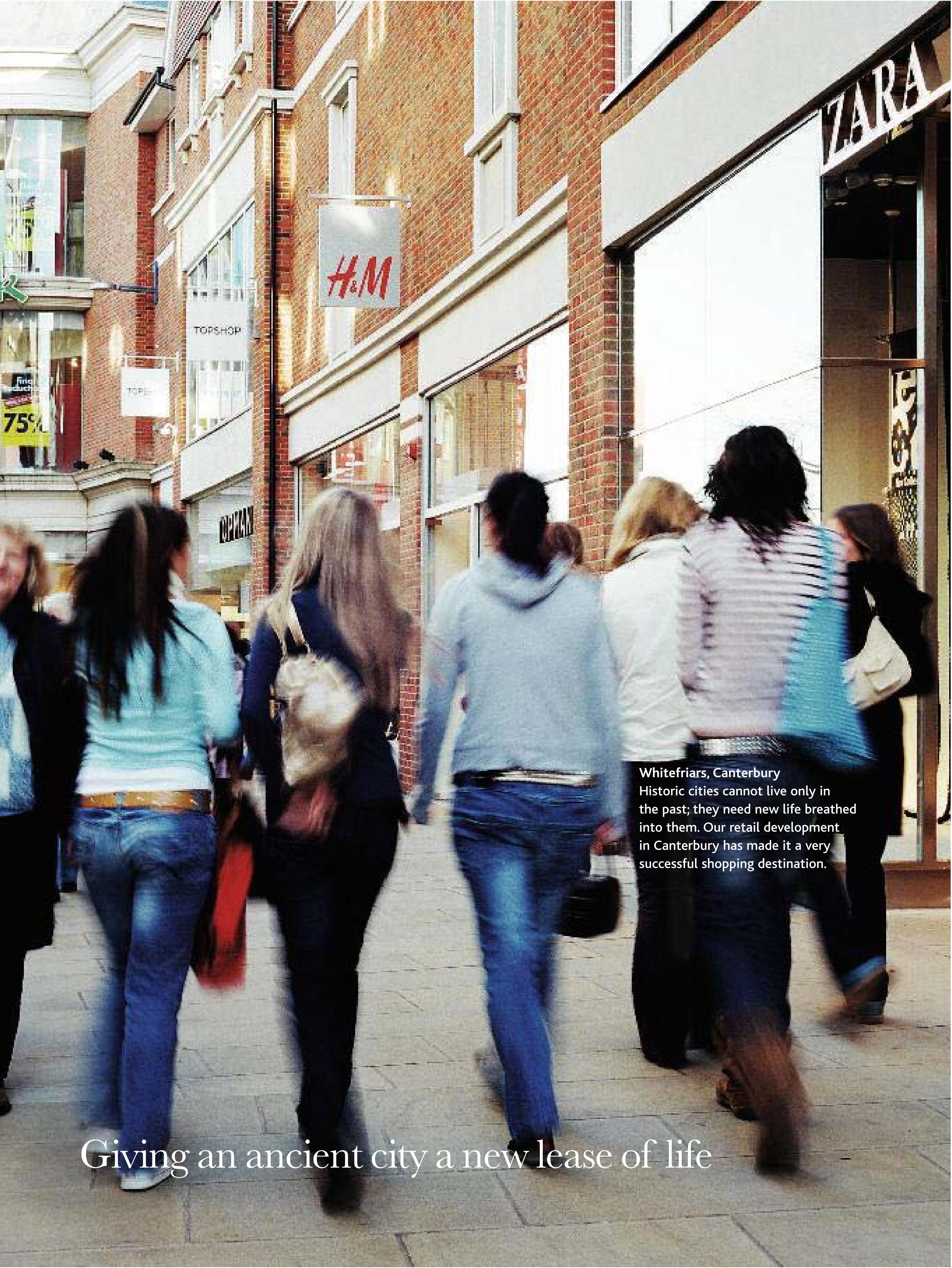
Shopping centres

Objective	2004 Actual	2005 Target	2005 Actual
Understanding needs	3.59	3.80	3.66
Communication	3.84	3.90	3.87
Willingness to recommend us	94%	92%	94%
Responsiveness	3.93	3.80	3.85
Overall satisfaction	3.97	3.75	3.97

Retail parks

Objective	2004 Actual	2005 Target	2005 Actual
Understanding needs	2.98	2.95	3.03
Communication	2.74	2.69	3.21
Willingness to recommend us	84%	n/a	89%
Responsiveness	3.24	n/a	3.25
Overall satisfaction	3.27	n/a	3.33

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



Whitefriars, Canterbury
Historic cities cannot live only in the past; they need new life breathed into them. Our retail development in Canterbury has made it a very successful shopping destination.

Giving an ancient city a new lease of life

London Portfolio Our development schemes neighbour cultural and historic sites as well as transport and pedestrian links, like London's Millennium Bridge which has joined our Bankside scheme behind Tate Modern to the City. We're well connected.

London Portfolio Achievements

London share of operating profit £276.5m

Development valuation surplus of 42.4%

£0.6bn of acquisitions

£0.4bn of disposals

Current development programme to provide 211,250m² of new accommodation

Proposed developments to create 60,210m² of office accommodation and 29,610m² of retail floorspace

"London development made a substantial contribution to our returns this year and we have positioned our portfolio to benefit from the rental growth predicted for our core markets."

Mike Hussey
Managing Director, London Portfolio

Our London business represents 46.0% of the combined portfolio and produced £276.5m of the Group's underlying operating profit. We own 940,000m² of office accommodation and 90,000m² of retail floorspace. Our office portfolio represents approximately 4% of the total central London office floorspace with over 650 occupiers accommodating more than 50,000 people. We are also investing £1.5bn on development, responding to our customers' needs with innovative, relevant buildings and top quality customer service.

London economy

It is worthwhile considering what it is that makes London so different to the rest of the UK in terms of its economy. It is undoubtedly one of the world's leading financial centres but it is also the heart of Government and a major tourist destination with outstanding cultural, arts and retail experiences. More than that, it is home to some seven million people as well as numerous businesses and benefits from a highly-skilled and flexible workforce.

London's economy is also growing at a faster rate than that of the rest of the UK, being forecast to grow by 2.7% per annum over the next four years compared to UK growth of 2.4%. As London grows it will need continued investment in new buildings, homes and infrastructure. We have been investing in London's commercial landscape since 1944 and predict that over the next few years we will invest more in our capital city than at any time previously, timing our investment to benefit from London's forecast growth.

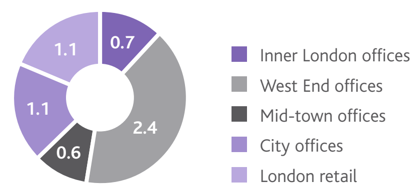
London office markets

The London office market extends to some 19.8 million m² across several geographic locations. The West End, Mid-town, City, South Bank and Docklands form the core of a highly diversified market. The majority of our portfolio is located in three of these markets: the West End, Mid-town and the City, but we have also expanded away from our traditional market place and invested in the South Bank, on the edge of the City and, more recently, in Docklands.

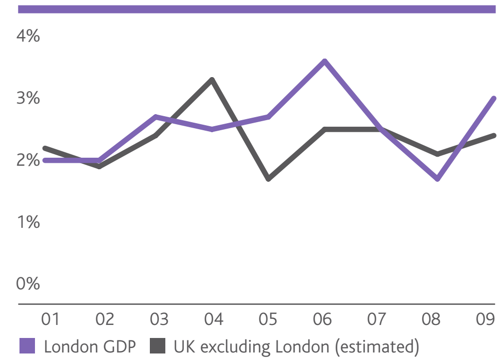
While the London market is very fragmented in terms of ownership and type of property, it has the added complexity of a highly diversified occupier base. It provides commercial accommodation to numerous international and domestic organisations typically located in clusters of similar businesses across its core markets.

The London office market has been historically more volatile than the retail market. This reflects general economic conditions and the health of the occupier markets, particularly that of the financial services industry. It is also affected by the supply of new development stock and vacant space. In terms of market conditions today, they are much improved compared to the past few years, particularly 2002 and 2003. As we predicted last year, the West End market now has low levels of vacancy and positive rental growth is well established. In the City, vacancy levels have dropped to 10.5% overall, with Grade A stock at 3% or less and there is evidence of emerging rental growth for good quality accommodation.

London Portfolio valuation breakdown £5.9bn

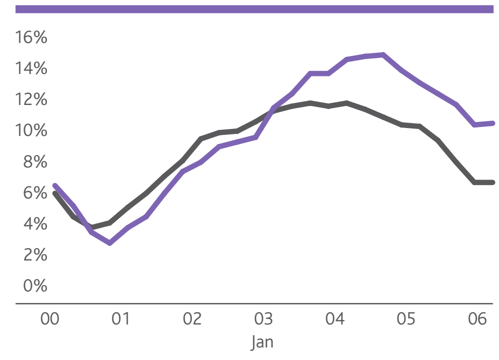


Gross domestic product forecast growth



Source: Centre for Economics and Business Research Limited

West End and City vacancy rates



Source: Knight Frank

Office floorspace by market and type of occupiers

Market	Market current floorspace m²	Land Securities current floorspace (Note 2) m²	Market vacancy 31/03/06 %	Market development m²	Land Securities development m²	Type of occupiers
West End	8,247,100	285,600	6.7	258,400	88,960	■ Government and NGOs, media technology, telecoms, HQs, consulting
South Bank	(Note 1)	46,500		(Note 1)	35,550	■ Media, HQs, consulting
Mid-town	(Note 1)	77,800		(Note 1)	62,340	■ Legal, accountancy and consulting practices
City	10,253,200	263,500	10.5	478,400	15,020	
Sub-total	10,253,200	387,800	10.5	478,400	112,910	■ International and domestic financial institutions, related support services
Docklands	1,253,200	24,300	7.1	n/a	–	■ As City
Total	19,753,500	697,700	8.7	736,800	201,870	

Source of market data – Knight Frank
Note 1 – No separate market data is available analysing the areas and vacancy rates between South Bank, Mid-town, Inner London and City.
Note 2 – Empress State Building, SW6, 41,290m², is not included within the above analysis.

London retail

We have discussed in detail the market conditions facing retailers at present. It is worth noting, however, that in London, retail is also dependent on tourism and trends in overseas visitors. So, for example we expect London retail to benefit from the Olympic Games in 2012 as well as in the preceding and following years.

Our strategy

Against a background of more volatile markets in London we are seeking to:

- Redeploy capital to maximise portfolio growth prospects while realising value as it is created
- Enhance returns through development activities
- Create strong relationships with occupiers in the London office and retail markets

We have acquired £643.4m and sold £396.3m of property, including the £272.5m sale of our recently completed development in Gresham Street. We have also made substantial progress on our development programme; we spent £185.2m over the year on development, started 107,330m² of new projects, achieved 38,100m² of lettings (including those secured after our financial year end) and submitted planning applications for a further 118,480m² of commercial accommodation.

Our performance

We were very pleased with the performance of the London Portfolio this year which, on a like-for-like basis, increased in value to £3,658.2bn representing a 16.3% valuation surplus over the year.

Specific properties within the London office portfolio remain over-rented but the amount of over-rented income has reduced from 14.0% to 9.3%. Taking into account reversionary income, the net position is that the like-for-like London office portfolio is now 1.2% over-rented. Void levels have reduced over the year and stand at 4.5% for London offices on a like-for-like basis. London retail is 10% reversionary and retail voids in London remain low at 3.1% on a like-for-like basis.

Our contribution to performance

We recognised some time ago that the London occupational markets would be returning to a period of growth and have targeted our activities to benefit from this. This is evidenced by the restructuring of our portfolio together with our development activities where we were especially pleased to note that we created a 42.4% valuation surplus over the year.

London Portfolio

	31/03/06	31/03/05
Combined portfolio valuation	£5,932.4m	£4,486.8m
Like-for-like investment portfolio valuation	£3,658.2m	£3,131.9m
Rental income	£213.0m	£221.3m
Gross estimated rental value	£228.8m	£217.8m
Voids by estimated rental value	£9.5m	£9.9m
Gross income yield	5.8%	6.7%

Combined portfolio extracted from Business Analysis and by reference to the combined portfolio reconciliation tables on page 150.

Cardinal Place, London
We create buildings that appeal to the people who live and work in and around them, by providing beautiful gardens, clean environments, places to meet and spaces for public art.

Communities welcome new developments if you invite them to get involved

Redeploy capital to maximise future growth prospects while realising value as it is created

An idiosyncracy of the institutional lease is that, in a market downturn, such that we experienced in London in 2002/03, the investment value of a property is partially protected by the security of the underlying rental income, especially where this is higher than the current market rent. As occupational markets improve, this over-renting creates a drag on future income growth resulting in lower levels of capital value growth. In anticipation of a return to market growth and particularly given the very high levels of demand for well-let London office investments, we have made and will continue to consider selective disposals from the portfolio to enable the redeployment of capital in properties with better medium-term growth prospects. Examples of this type of capital redeployment are purchases such as:

- Ashdown House, SW1 acquired for £166.9m on a net initial yield of 5.8% and a passing rent on the offices of £380 per m^2
- Holborn Gate, WC1 acquired for £85.8m on a net initial yield of 6.2% at an average passing rent of £360 per m^2
- 6/7 Harbour Exchange and 8/9 Harbour Exchange, E14. These properties were acquired for £82.6m at a combined net initial yield of 5.9% at an average passing rent of £200 per m^2

In total our acquisitions during the year have been at an average initial yield of 5.6% and have low average rents of only £307 per m^2 with good prospects for future rental income growth and asset management opportunities.

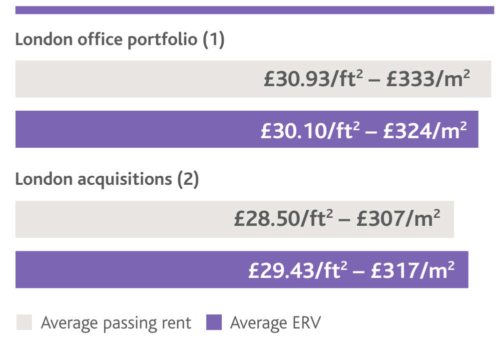
A further strand to our investment approach is our desire to acquire or develop 'clusters' of properties in key locations enabling us to provide managed environments and an enhanced experience for our occupiers. In Victoria, for example, Ashdown House is strategically located directly opposite our Cardinal Place development. Not only will the office element of this property benefit from the rental growth now emerging in this market, but we have the opportunity to improve the retail element of this scheme taking advantage of the renewed enthusiasm from retailers for this location as a result of the success of Cardinal Place's retail offer.

A further example is at New Street Square in Mid-town where we have recently acquired two properties, IPC Tower and Hill House, that will benefit from our expenditure on the adjacent development and the subsequent regeneration of this location.

The final strand to our investment approach in London is to ensure that we crystallise value as it is created. This is demonstrated by Gresham Street where, following the successful letting to Dresdner Kleinwort Wasserstein, we sold this property to GIC Real Estate.

Enhance returns through development activities

At this stage in the cycle it is also opportune that we have expanded our London development activities. Over the year, developments underway in London contributed just under a third of the valuation surplus but represented only 16.4% of the capital employed with a particularly strong performance from Cardinal Place which has now reached practical completion. Developments currently on site will provide 143,050m^2 of new office accommodation together with some 7,650m^2 of retail floorspace. At Cardinal Place, the retail element which opened earlier this year is virtually fully let with only one unit available. Of the office accommodation, 52% is let or in solicitors' hands at an average rent of £600 per m^2. This is now the only large Grade A newly-developed office accommodation available in the West End. It is interesting to note that we have attracted a new and diverse range of occupiers to Victoria including Wellington Asset Management, P&O, 3i and KCCI and we expect this trend to continue.



(1) Excluding voids and properties in the current development programme
(2) Acquisitions completed between 1 April and 31 March 2006 ignoring the vacant property acquired at 140 Aldersgate Street, EC1 and the trading property at Wilton Plaza

At New Street Square, we initially started construction of three buildings totalling 43,370m², two of which have been pre-let to Deloittes and are due for occupation in Spring 2008. To capitalise further on improving market conditions, we have also started the fourth and final building comprising 21,950m² of offices. On the South Bank, we completed Bankside 1 which we forward sold to IPC and are making good progress with Bankside 2 and 3, where we are creating some 35,550m² of speculative office accommodation together with 3,170m² of retail accommodation in two buildings.

The third development project we started during the year was One Wood Street which we pre-let in its entirety to Eversheds just after the financial year end. This global law firm has taken an 18-year lease on all of the 15,020m² office accommodation and will occupy all eight floors, with an option to lease back 1,860m² to Land Securities. In addition to the office space, the building incorporates 1,500m² of ground floor retail which is being let separately.

As a result of our success to date in terms of both the timing and letting of development, we have decided to proceed with our development at One New Change, close to St Paul's Cathedral, a Jean Nouvel designed scheme which will provide 30,790m² of office accommodation and 20,550m² of retail floorspace. Given the sensitive location of the site and our innovative proposals we were very pleased to achieve a resolution to grant planning consent for this project.

As we progress our development programme, we are also looking to secure a pipeline of future projects so that we are in a position to respond to occupier requirements as appropriate. To this end we are advancing a further 109,000m² of schemes, in Oxford Street and Fenchurch Street, through the planning system. At Oxford Street, we have made a planning application for a 30,000m² mixed-used scheme incorporating retail, office and residential accommodation. At Fenchurch Street, the City Corporation is currently considering our application for a 79,000m² office tower, designed by Raphael Vinoly. We have also contributed to the Victoria Station Area Planning Brief proposals for a large site to the north of Victoria Station (Bressenden Place) where we have significant holdings.

We are delighted with our progress to date on development and the level of interest in our current schemes. As with One New Change, we will only bring a scheme forward if we feel comfortable with the timing and fundamentals of the project in the context of the market. Securing planning does not necessarily mean we will develop.

We have described the complexity of developing across the UK. This is particularly pertinent to London where, as well as the significant planning and consultation issues, sustainability brings a number of challenges. Many of these can be turned to our advantage, since we believe that the environmental credentials of buildings will become a more important factor for occupiers, particularly in relation to energy usage and costs. We report fully on this in our Corporate Responsibility Report 2006 but highlight here a number of achievements:

- We have used borehole technology at Eastbourne Terrace to provide heating and cooling to the building reducing the need for non-renewable sources of energy
- We introduced a Sustainability Charter at New Street Square with external evaluation of our performance against the Charter provided by Element 4, a specialist construction consultant. The impact of this has been significant in terms of waste management and procurement

Designing

We develop alongside London's iconic architecture, which requires vision and creativity. As a result we have sought the world's leading architects enabling us to plan a new generation of iconic buildings.

- We have a dedicated London Community Liaison Manager to manage relationships with the communities surrounding our London projects
- We included £1.0m of specially commissioned public art at Cardinal Place and opened the SW1 Art Gallery
- All of our schemes are rated by BREEAM with a target of Very Good. Of those rated, many of which are still under construction, seven out of nine achieved this target, with five achieving a rating of Excellent

Create strong relationships with occupiers in the London office and retail market

The London occupier market is highly competitive. To differentiate Land Securities from other property owners we have sought to strengthen our relationship with existing occupiers and more actively target new occupiers through an innovative marketing campaign, Capital Commitment. We have also introduced new lease terms and new ways for occupiers to procure property services, most distinctly through Landflex, which offers lease flexibility, service guarantee and price certainty.

Landflex

Our Landflex portfolio now incorporates 65,500m² of business accommodation across four buildings and we are actively seeking to acquire more property as we expand this over time to 150,000m² of accommodation. The size of letting across this portfolio varies between 250m² to 43,000m², with an average inclusive rent of £400 per m².

During the year under review we introduced two new Landflex buildings. The first is 140 Aldersgate Street, an 8,270m² newly developed, vacant building which we acquired for £40.3m. This building is now 62% let and provides accommodation to three companies, on a variety of lease lengths ranging from 10 to 12 years at an average inclusive charge of £520 per m².

The second is our newly developed building at 40 Eastbourne Terrace, W2, which we completed and let during the financial year. The letting we achieved here for the entire building demonstrates how our new approach to occupier management is benefiting the Group. CB&I Limited, a leading international engineering contractor, are existing occupiers of our neighbouring property at 10-30 Eastbourne Terrace where they occupy about 50% of the available accommodation. CB&I had expressed a desire for new accommodation in response to which we agreed a new 15-year lease at a rent of £377 per m² for the whole of 40 Eastbourne Terrace. We have also agreed to provide a range of Landflex property services through a separate agreement and to take back the existing accommodation. This solution to their property requirements has secured the income on the recently completed building while enabling us to evaluate the possibility of refurbishing 10-30 Eastbourne Terrace as a possible additional Landflex facility.

Customer service

More than 70% of our London Portfolio is multi-let and we provide a full range of management services to these buildings. The property management restructuring carried out recently has been implemented to improve the way in which we provide those services.

In addition to the customer service initiatives across the London Portfolio, we are also responsible for the provision of energy and waste management to our managed properties. This is an area where we can influence positively the environmental impacts of our portfolio. On the energy front, our managed office portfolio participates in the carbon trading emissions scheme where, for the fourth calendar year running, we have beaten our energy reduction target. Given the nature of our occupier base, it is more difficult to introduce waste management schemes similar to those at the shopping centres. However, we persevere on this front and have introduced waste recycling schemes at three of our managed office properties.

Working

At the end of a working day in London some 50,000 people will head home having spent the day in a Land Securities owned office.

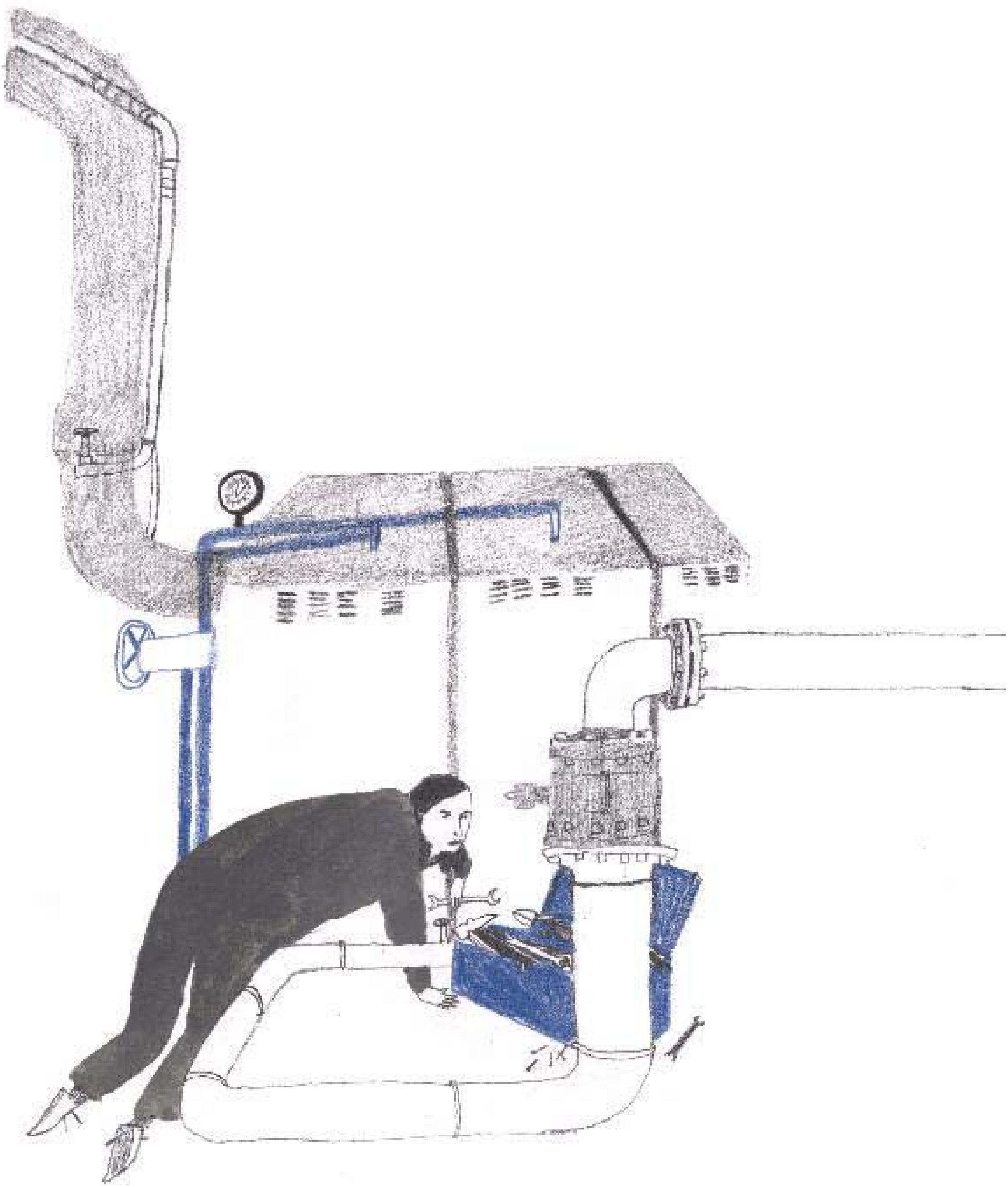
Customer satisfaction surveys – London offices

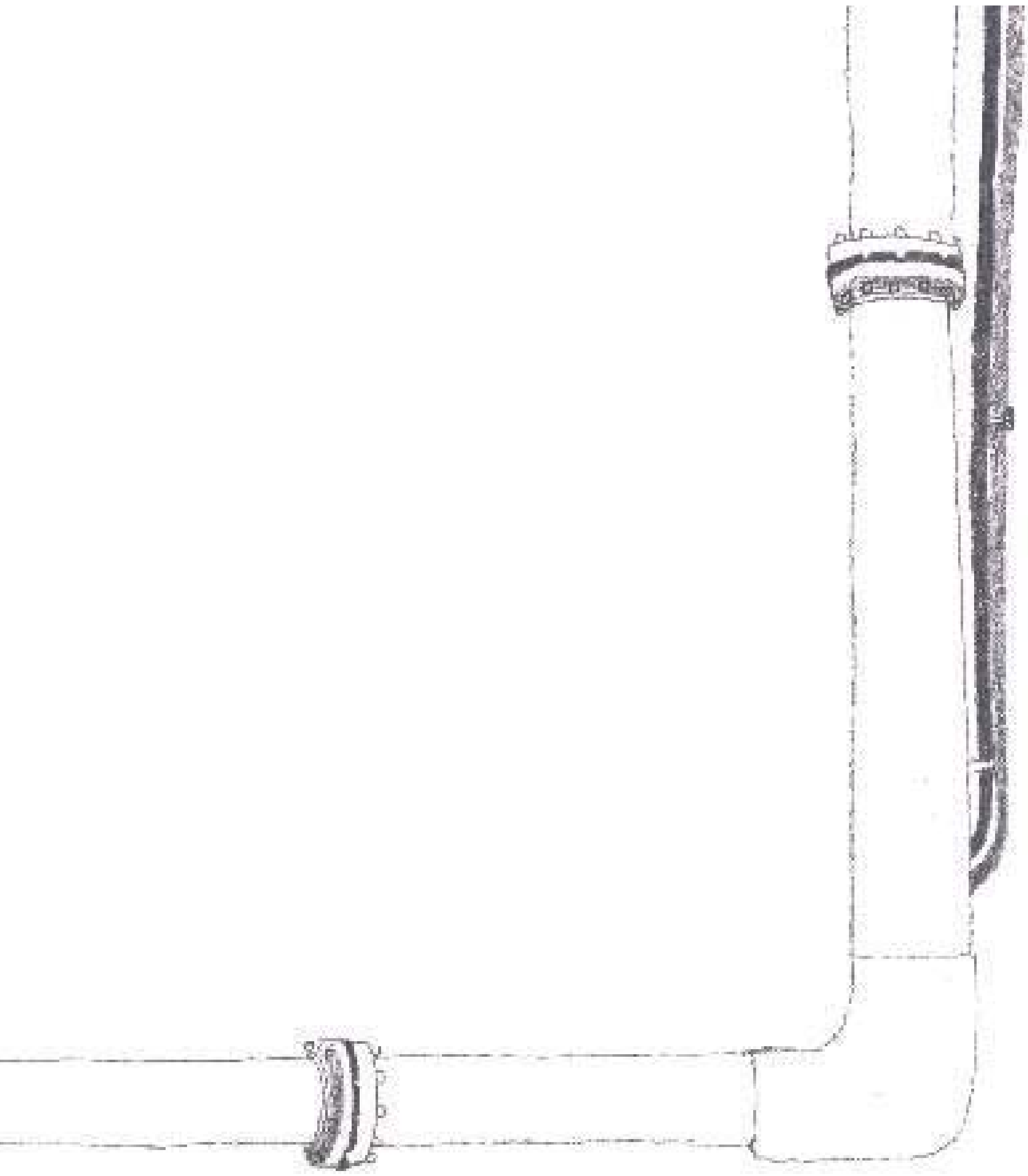
Objective	2004 Actual	2005 Target	2005 Actual
Understanding needs	3.74	3.50	3.67
Communication	3.77	3.65	3.75
Willingness to recommend us	94%	92%	94%
Responsiveness	3.77	3.80	3.88
Overall satisfaction	3.70	3.75	3.79

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

Devonshire House, London
This is on the market demonstrating our commitment to recycling capital to reinvest in higher growth activities.

We don’t keep all our trophies in the cabinet forever





Property Outsourcing We think warmly about customers at Land Securities Trillium, not surprising when we look after nearly 3,000 boilers across 3.3 million m² of accommodation, taking pressure off our customers so they can focus on what is important to them.

Property Outsourcing Achievements

Land Securities Trillium share of Group operating profit £96.6m

Exceptional profit of £293.0m from our sale of Telereal

DWP contract performed ahead of our expectations

Customer satisfaction of 90% across the DWP contract

55,360m² of development underway for clients

"We generated substantial profits for the Group this year through the sale of Telereal, leaving Land Securities Trillium poised to grow its business through new contracts in new markets."

Ian Ellis
Chief Executive, Land Securities Trillium

Land Securities Trillium produced 17% (£96.6m) of the Group's operating profit. This was a small decline on last year despite the disposal of Media Village, White City in March 2005 and the sale of the Telereal joint venture in September 2005. This business has a commercial portfolio totalling 3.32 million m^2 and six clients for whom we provide business accommodation services to 175,000 people.

Land Securities Trillium provides innovative property outsourcing solutions offering a more efficient approach to owning and managing property by eliminating the complexity of property management and provision of services while reducing the cost. Also known as property partnerships, we provide property outsourcing solutions to the corporate and the public sector.

Property outsourcing and its markets

Property outsourcing is the transfer of an organisation's risks and management on some or all of its property to an expert property partner, converting its property assets and liabilities into an integrated property contract. This allows organisations to align their property requirements with their business strategy, so that their accommodation supports their needs.

The target market for property outsourcing is corporate and public sector organisations which are seeking to optimise their accommodation efficiency and transfer the responsibility and risk of procuring and running their property estates to a third party. Typically these are organisations who are seeking to introduce change, either to the way in which they procure, occupy and manage property or to their business model. While it is not easy to identify the addressable market, commercial organisations hold more than £250bn of assets while Local Government owns some £100bn and Central Government owns approximately £70bn. These figures exclude any leasehold property which may also be included in a property outsourcing contract.

Full property outsourcing has been undertaken by a small number of major public sector organisations and Land Securities Trillium has won three of the four public sector contracts let to date. Property outsourcing is also a significant element of many PPP/PFI projects. It is for this reason that we have increasingly focused on this area and in particular on defence, education and community assets. Because these are new markets, with non-property activities procured alongside property, we have used joint ventures to address a number of these opportunities (with QinetiQ on the Defence Training Review and through Investors in the Community in education and community assets).

In the corporate sector, there is a wider variety of outsourcing models. Some contracts are relatively wide-ranging from day one but others have typically included a smaller number of elements with the potential for the relationship to grow and evolve over time. We expect this to remain the norm in this sector, with the focus on providing differentiated products and solutions tailored to the particular needs of the individual client at the time.

Table 15: Contract features

	Barclays	BBC	DVLA	DWP	NU	Telereal II
Freehold transfer	•			•	•	
Leasehold transfer	•		•	•	•	•
Estates strategy consultancy		•	•	•	•	
New building and workplace services		•	•		•	
Asset management implementation			•	•	•	
Portfolio flexibility				•	•	
Facilities management		•	•	•		
Management/ provision of capital works		•		•	•	
Price predictability	•	•	•	•	•	•

Table 15 illustrates how this business differs from Land Securities' investment property business. It demonstrates the unique features of each of the contracts we currently have under management and the way in which we tailor our product offering to meet the clients' individual requirements.

Our strategy

Land Securities Trillium has been pursuing a growth strategy and achieved its target of contributing 25% of the Group operating profit in 2005 ahead of plan. It has firmly established itself as the market leader in property outsourcing in terms of the number of contracts it has won to date and is seeking to maintain this position by continuing to invest in the development of new property outsourcing models as well as developing market leading technological and customer service solutions. Following this year's sale of our share of the Telereal joint venture, we are now positioned to continue to grow our business by:

- Accessing new opportunities for outsourcing contracts in existing and new markets
- Growing our business with existing clients
- Leading innovation in the outsourcing industry

Our performance

The financial performance of Land Securities Trillium is measured differently to that of the investment property business, focusing more on income growth since its operating properties are not revalued. Once again this business had an excellent year, driven by the sale of its share of the Telereal joint venture together with a strong performance from the DWP contract.

Land Securities Trillium made a segment profit of £392.5m compared to £128.2m for the year to 31 March 2005. Excluding profit on the sale of fixed assets, net surplus on revaluation and profit on disposal of Telereal segment profit was £96.6m (2005: £97.7m). This profit level was maintained despite the anticipated reduction in the BBC profit following the disposal of White City which generated capital receipts of £321.5m. We achieved a stronger than expected performance from the Department for Work and Pensions ('DWP') contract together with positive contributions from DVLA, Norwich Union and Barclays in line with our expectations. Following our exit from the Telereal joint venture, which generated an exceptional profit of £293.0m, after costs, we entered into new agreements maintaining our relationship with Telereal. These new agreements are called Telereal II and, over the last six months, have contributed £6.9m to operating profit.

Operating profit from the BBC reduced to £0.5m as a consequence of the sale of Media Village White City and the subsequent reduction in the unitary charge paid to us by the BBC. As this left no real estate in the partnership, we agreed with the BBC that it would be better to re-tender the remaining facilities management services, reflecting the BBC desire for a shorter duration contract. We did not bid for that business and following a procurement exercise will be transferring our facilities management responsibilities to a new provider at the end of June 2006. The projects at Broadcasting House and Pacific Quays are unaffected by this change.

The increase in bid costs reflects the considerable amount of activity on new bids, the largest of which, the Defence Training Review ('DTR'), is still in progress.

The DWP has not utilised as much of its vacation allowance as we anticipated 12 months ago and additional services have also been contracted giving rise to an increase in the unitary charge. While this delay in using its flexible accommodation allowance has had a positive effect on our results to date, the impact of this is to create a bigger future allowance which will decrease our income and profit more steeply as it is used. The DWP has indicated that it intends vacating some 150,000m^2 of free flexible space over the next two years and has given notice on 94,000m^2 as compared to 26,000m^2 this time last year.

Our contribution to performance

When Land Securities acquired Land Securities Trillium, it had one contract as compared to the six and the Investors in the Community joint venture today. Over the course of the past six years, Land

Land Securities Trillium financial results

	31/03/06 £m	31/03/05 £m
Contract level operating profit		
– Barclays	**2.5**	–
– BBC	**0.5**	20.6
– DVLA	**1.0**	–
– DWP	**97.7**	81.4
– Norwich Union	**5.0**	6.1
– Telereal II	**6.9**	–
Bid costs	**(7.4)**	(2.6)
Central costs	**(9.6)**	(7.8)
	96.6	97.7
Profit on sale of fixed asset properties	**1.0**	30.5
Net surplus on revaluation of investment property	**1.9**	–
Profit on disposal of joint venture (Telereal)	**293.0**	–
Segment profit	**392.5**	128.2
Distribution received from Telereal	**11.7**	65.4

Norwich Union, Norwich
We integrated a group of disparate buildings under one huge glass atrium, and built cafés, bars and informal meeting spaces, that are a magnet for staff and flooded with natural light.

How do you help staff to be happy and more productive? Create an inspirational environment.

Securities Trillium's performance has exceeded our expectations and delivered early on the Group's growth ambitions for this part of the business. We believe that this can be attributed to the way in which Land Securities Trillium pursues its strategic objectives as detailed above.

Accessing new opportunities for outsourcing contracts in existing and new markets

We have developed substantial expertise in the Government outsourcing markets and are now using that experience to bid for new contracts, examples of which are:

Northern Ireland Civil Service ('NICS') Workplace 2010 – a 20 year partnership to transform the NICS office estate, improve the working environment for staff and facilitate new ways of working to enhance the delivery of services to the citizens of Northern Ireland. This opportunity is likely to be delivered through a PFI solution.

Building Schools for the Future ('BSF') – the Government intends to invest £40bn in the BSF programme which is the largest ever Government schools investment initiative. The programme aims to rebuild or renew every secondary school in England over the next 15 years. To support this initiative, Land Securities Trillium has made an initial investment of about £20m into a 50/50 joint venture with the Mill Group called Investors in the Community ('IIC'). IIC is the preferred bidder for the Peterborough schools PFI and Bristol BSF projects and is shortlisted on the Leeds and Waltham Forest BSF projects. In addition, IIC is progressing several further local government and health sector bids.

Defence Training Review ('DTR') – DTR is a PPP programme developed to modernise the delivery of professional and trade training in the military and the continued professional development of the armed forces. The DTR is being procured by the MoD in two packages, with a combined estimated total value of about £13bn over a 25-year term. Package 1 is primarily technical training, including aeronautical engineering and communications and information systems. Package 2 incorporates logistics, joint personnel administration, security, languages, intelligence and photography as well as supply training. We are bidding as part of the Metrix consortium, which is a special purpose 50/50 joint venture company between ourselves and QinetiQ. Metrix is the only provider shortlisted in both packages. The MoD's timetable currently envisages an announcement of Preferred Bidder in late 2006.

During the year we were one of two shortlisted parties bidding for MoDEL, a £200m MoD project to rationalise land holdings in West London. Although unsuccessful in this bid we believe that the experience gained will assist us in appraising future opportunities arising around surplus land holdings.

Growing our business with existing clients

We have worked with our existing clients to deliver extensions to their contracts to meet their changing needs. During the year we agreed three contract extensions, the largest of which was the Telereal II agreement which involves the continued management of leasehold risk on part of BT's estate and the provision of other services. The leasehold estate agreement runs until the end of 2031 (although Telereal and Land Securities have the option to terminate the agreement at any time on or after 31 March 2010 with not less than three months' notice). Under these new agreements we will receive annual revenues of approximately £50m leading to anticipated pre-tax profits of some £14m per annum.

We also extended our relationship with Barclays Bank, where we assumed responsibility for an additional 16 properties located across the UK, totalling 6,350m^2 of accommodation. These are short-leasehold properties that are surplus to Barclays' requirements and are largely vacant as a result of its property rationalisation. Barclays made a capped payment to reflect the letting risk and we have assumed responsibility for all future benefits and liabilities relating to the transferred interests.

During the year we agreed an extension to our current Norwich Union operations to include a project delivering a new working environment and comfort cooling scheme at their Colegate facility in Norwich. Our contract with Norwich Union is now completing its second year, and we are working with them to explore how we might extend further our partnership and service provision.

Leading innovation in the property outsourcing industry

Competitive advantage comes from our ability to deliver a wide range of diverse services across property portfolios in an efficient and cost-effective manner. Since inception we have built up internal and external competencies allowing us to do this. We also believe we are unique in the way that we have structured our model into one integrated business. We discuss below some of these elements.

Corporate Real Estate Group

The role of our Corporate Real Estate Group is to work in partnership with our clients to develop and then implement an estate strategy suited to the clients' business needs. In addition to ongoing asset management activity, this also extends to the acquisition of new space, the refurbishment of existing space, and, where appropriate, the disposal of space no longer required. In the past year we acquired 14,000m^2 of new space, while disposing of 49,000m^2 and subletting 6,800m^2.

Customer service

Our Service Centres are available 24 hours a day throughout the year to receive calls from our customers, the 175,000 client staff who occupy our buildings. In the past year we responded to over 500,000 customer calls, the majority from our DWP client whose customer satisfaction survey recorded a 90% overall satisfaction level with our service delivery performance.

Customer satisfaction survey

DWP	
03	89.6%
04	93.0%
05	90.0%

Strong levels of customer satisfaction continue across expanded portfolio

Service delivery

Our ability to deliver facilities management services and capital works extends across the UK, enabling us to respond 24 hours a day to our clients' property needs. Through our well-established supply chain we delivered £223m of capital projects during the year, and responded to some 500,000 customer work requests, ranging from setting up meeting rooms or providing additional security services to the provision of a comprehensive maintenance service.

Health, safety and environment

We are responsible for providing health, safety and environment services to certain of our clients, most notably the DWP. On this contract we have introduced online interactive health and safety ('H&S') training for all DWP staff. Also in the H&S field, we secured certification under Occupational Health & Safety Assessment Series 18001 for the DWP contract. This challenging standard, which is the industry benchmark for H&S Management systems, provides external verification that our policies, procedures and systems are robust and being effectively applied.

Environment

We focus strongly on the environmental aspects of our business, with our operations on the DWP contract being certified to ISO14001. In this context we have been instrumental in helping the DWP achieve its sustainable development targets with 47% of all waste across DWP being recycled (Government target 40%) and 30% of energy being procured from renewable sources (Government target 10%).

All our other contracts are run under the scope of our Environmental Management System which is certified to BS8555. This requires all significant environmental aspects in our business to be identified, and for each major project we compile an Environmental Compliance Register through which we audit the project and our supply chain. On our construction project at Norwich Union's headquarters we require that all timber is sourced from Forestry Stewardship Council-approved forests, and we have followed this timber trail through our supply chain back to its sources in Bavaria.

Urban Community Development

Our Urban Community Development activities represent long-term investment by Land Securities in non-core markets which will, we believe, deliver above average returns for shareholders. It is also an area where we can benefit from our balance sheet strength and development skills. Our activities here have progressed from a predominantly strategic planning focus to a focus on delivery on the ground. This is set against a background of lower growth but a stable residential housing market in the south east.

Kent Thameside

Our efforts have been focused on concluding negotiations with Dartford Borough Council on the planning gain package for our proposed development in Eastern Quarry, where a resolution to grant planning permission was awarded in July 2005.

We have also made slow but steady progress in resolving outstanding issues with the Highways Agency regarding their objections to our application and remain confident that an acceptable solution will be found. We therefore committed to a £8.6m earth-moving contract which will see the creation of the new landscape needed for the development of the eastern end of the Quarry.

We also completed the construction of and occupied our new 860m^2 marketing and management centre creating the hub for our future activities in Kent Thameside.

At Ebbsfleet, where we have a 48.5% interest in the land surrounding the new Channel Tunnel Rail Link station opening in 2007, we have been working towards securing masterplan approval for part of the site. This will provide the framework against which our development partners, Countryside Properties, can make a detailed application for the first phase of development of over 300 new homes at Springhead.

Our other joint venture with Countryside Properties at Waterstone Park continues with the development of the latest phase of new homes and apartments, which are selling well and achieving premium values for the location. This supports our commitment to work with partners who share our aspirations to invest in and deliver innovative and quality design.

We agreed terms for the sale of our remaining interests at Crossways Business Park to Legal & General enabling a phased handover of the remaining development plots (approx 15% of the overall area of the park) to take place this year.

Stansted

As part of the review of the Regional Spatial Strategy for the East of England (RSS 14), we have promoted our 650 hectare (1,625 acre) site at Stansted for a range of uses to serve the future expansion of Stansted Airport and the growth in housing being forecast by the Government in respect of the M11 Corridor. We have also entered into a new option agreement with Aggregate Industries PLC for the rights to extract some four million tonnes of sand and gravel reserves on the site.

Eastern Quarry, Kent Thameside
This is regeneration on a visionary scale. On a 1,450-acre site we plan to deliver 13,000 new homes, 580,000m² of commercial space and 300,000m² retail, leisure and community space.

Some developments are worth taking time over…

Board of Directors

Peter G Birch CBE (68)
Chairman and Non-Executive Director
Appointed a Director in 1997 and Chairman in July 1998. Chief Executive of Abbey National plc until March 1998. Chairman of Kensington Group plc. Senior Independent Director at Trinity Mirror plc. Non-Executive Director of Travelex, Sainsbury's Bank, Dah Sing Financial Holdings Limited and an advisor at N M Rothschild & Sons Limited.

Francis W Salway (48)
Executive Director
Joined the Group in October 2000. Previously an Investment Director at Standard Life Investments. He was appointed to the Board in April 2001. Appointed Chief Operating Officer in January 2003 and Group Chief Executive in July 2004.

Martin F Greenslade (41)
Executive Director
Joined the Board from BAE Systems as Group Finance Director in September 2005. Previously Group Finance Director of Alvis PLC and a member of the executive committee of Nordea's investment banking division and Managing Director of its UK business.

A Mark Collins (49)
Executive Director
Appointed to the Board in November 2002 after joining the Group in May 2002. Previously Senior Managing Director at GE Capital Real Estate. Appointed Chief Operating Officer in July 2004.

Ian D Ellis (50)
Executive Director
Joined the Board in November 2002. An original member of the management team which set up Trillium. Previously Chief Executive of the investment management division of Insignia Richard Ellis. Chief Executive of Land Securities Trillium. Non-Executive Director of Rok plc.

Michael R Hussey (40)
Executive Director
Appointed to the Board in September 2004 after joining the Group as Development Director in 2002. Previously Head of Leasing and Marketing at Canary Wharf Group. Appointed Managing Director, London Portfolio in July 2004.

Richard J Akers (44)
Executive Director
Joined the Board in May 2005, following his appointment as Managing Director, Retail in July 2004. Joined the Group in 1995 and previously held the position of Head of Retail Portfolio Management.

David Rough (55)
Non-Executive Director
Joined the Board as a Non-Executive Director in April 2002 and appointed Senior Independent Director in November 2003. Group Director (Investments) of Legal and General Group PLC until December 2001. A Non-Executive Director of Mithras, BBA Group PLC, EMAP Group PLC and Xstrata Group PLC.

Sir Winfried Bischoff (64)
Non-Executive Director
Appointed to the Board in November 1999. Chairman of Citigroup Europe, and a Non-Executive Director of The McGraw-Hill Companies, USA and Eli Lilly & Company, USA.

Stuart A R Rose (57)
Non-Executive Director
Joined the Board as a Non-Executive Director in May 2003. Chief Executive of Marks & Spencer Group plc. Previously Chief Executive of Arcadia Group until December 2002. Chief Executive of Booker PLC from 1998 until 2000.

Bo Lerenius CBE (59)
Non-Executive Director
Appointed to the Board as a Non-Executive Director in June 2004. Group Chief Executive of Associated British Ports Holdings PLC. Previously Chief Executive Officer and Vice Chairman of Stena Line AB until 1999. A Non-Executive Director of Group 4 Securicor plc.

Alison J Carnwath (53)
Non-Executive Director
Appointed to the Board as a Non-Executive Director in September 2004. Chairman of The Vitec Group until December 2004. A Non-Executive Director of Friends Provident plc, Gallaher Group plc, Glas Cymru and Man Group plc.

Corporate Responsibility

We see Corporate Responsibility ('CR') as the driver for our business to achieve the balance between its environmental, social and economic responsibilities and we recently published our third CR report which is available on our website.

In part, the focus on CR issues over recent years has been driven by Government regulation, but equally there has been a growing level of shareholder and other stakeholder interest in the non-financial aspects of a company's performance. We also recognise that an effective CR programme can help to identify and manage business risks, generate operational competitiveness through resource efficiencies, and contribute towards enhancing our reputation and achieving differentiation in the market place. The nature of Land Securities' business is such that we are closely aligned with the communities within which we operate. In designing, specifying and managing our developments and property portfolio, be they retail or offices, we need to have regard to their impact on the local environment. We want to create spaces the public enjoy using and employees are delighted to work in. We want to contribute to our local communities, notably in the areas of education and local enterprise, and we want our 1,800 staff across the country to be proud to work for Land Securities. We therefore want to achieve our vision and objectives within a framework of high standards that takes account of the needs of all of our stakeholders and our impact on the environment and communities in which we operate.

Stakeholder engagement

The CR Committee also establishes and publishes annual targets for each of the seven streams of activity we have identified as being key to Land Securities CR performance:

- Customers
- Community
- Employees
- Environment
- Health and safety
- Suppliers
- Investors

Our response to CR is organised by these seven work streams as we believe this stakeholder/interest group structure best reflects the range of issues for a property business and how Land Securities is structured. It also allows us to place clear responsibility for each group at Senior Management level.

We encourage active and consistent communication with each stakeholder group which we achieve through satisfaction surveys, benchmarking exercises, audits, conferences, one to one meetings, participation in industry working groups, the corporate website, and reporting. Our inclusion in various indices eg Dow Jones, FTSE4Good and Global 100 Most Sustainable Companies; demonstrates that we continue to lead the property industry with our CR practices and activities.

Social, ethical and environmental ('SEE') risks

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

We report on our approach to health and safety on page 83. In respect to the environment and in particular climate change we report on our activities on page 84 as well as in the business unit reviews in the OFR.

Employees

The Group has in place a number of policies and procedures including diversity and equal opportunities (including equal opportunities for disabled employees) as well as the business ethics policy described on page 82, all of which are published on the Group's website. We comment in detail upon our people and our people strategy on page 34.

CR Committee

Committee Chair	Chief Operating Officer of Land Securities Trillium
Board representative	Group Chief Executive
Customers	Head of Property and Occupier Services
Community	Retail Operations Manager and Community Liaison Officer
Employees	Group HR Director
Environment	Assistant Director of Environment
Health and safety	Director of Health and Safety and Environment
Suppliers	Head of Group Procurement
Investors and Communication	Director of Corporate Communication
Risk Management and Internal Audit	Business Standards Manager

To help achieve our objectives we have established a representative Group-wide CR Committee, which seeks to support and provide a framework for the range of CR initiatives undertaken nationally by all parts of our business. The CR Committee comprises senior representatives from each area of the business and is chaired by the Chief Operating Officer of Land Securities Trillium. The Group Chief Executive is a member of the Committee.

The Bridges, Sunderland
This invigorating development has given Sunderland a new lease of life and attracts over 450,000 shoppers a week. It is cleaned every day with environmentally friendly products.

450,000 visits a week…that's a lot of people to clean up after

The Group has in place a statement of business principles and a business ethics policy, which can be found on our website. It also has a 'whistle-blowing' procedure which incorporates a telephone hotline and e-mail facility. Employees are provided with the business ethics policy on appointment together with guidance as to raising any concerns in respect to the business. Every six months managers across the business are audited as to compliance with the Group's policies in this area and in the 12 months under review there were no notified infringements. To ensure that employees remain aware of the policies and procedures in the area from time to time we specifically communicate to them using the intranet, staff notice e-mail and weekly news update communication channels.

Community

Land Securities makes grants and donations to charities and community groups through third party managed charitable funds and its Group charity committee which together have donated over £600,000. We estimate that through our 30 shopping centres we contribute over £500,000 of free floor space to charities and other organisations to promote their activities.

Performance highlights

The following examples of performance highlights capture our achievements against 2004/05 targets and further progress in the period 2005/06. They also serve to illustrate the breadth and range of activities addressed under our CR programme.

- We achieved second place ranking in the 2005 Property Environment Group benchmark and were listed in the FTSE4Good and SAM Dow Jones Indices
- Environmental Impact Assessments were produced on all major development projects
- A biodiversity survey was undertaken across the entire DWP estate (no other property company has achieved this across its portfolio)
- Recycling improved by 21% against a target of 10%
- A process was established to trace back to source all timber used on major developments and DWP projects
- Minimum CR standards were introduced into all supplier selection and evaluation documentation
- Community Liaison Managers were appointed on development projects
- There was a major increase in the provision of homeworking facilities to Land Securities staff
- We became an active member of the Employers' Forum on Disability

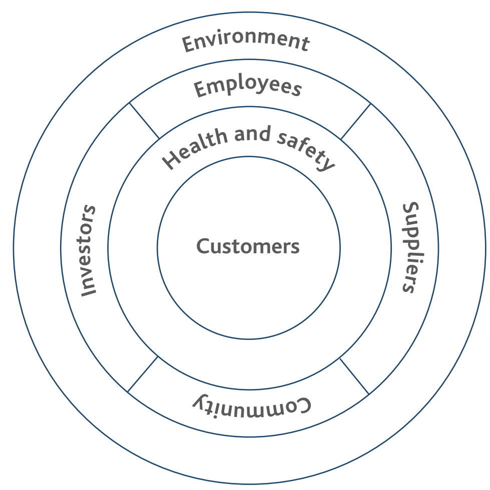
Future outlook – key challenges

All businesses face the inevitable challenge of seeking continuous improvement across their activities. Land Securities is no different. It has, however, gained invaluable experience from its focus on the environment where, over the years, through a process of incremental steps and target setting, it now leads the property sector in environmental management.

This approach has now been adopted across all the CR work streams, where each work stream manager has been empowered to agree and set targets which will provide the opportunity for further improvements across our business. And we have learnt from experience. The first targets set were, with the benefit of hindsight, over-ambitious and for that reason we needed to extend the timeframe in which to achieve them. Our new targets for the year to 31 March 2007 are different in two ways. While fewer in number, they are more focused in output and therefore more 'measurable'. We look forward to being able to report positively on our achievements next year.

While we can demonstrate that we are making good progress across many areas of our business activities we still struggle with elements of supply chain management. As a business we have to balance shareholder value against the economic and practical aspects of supply chain management. In our CR Report we report on the progress we are making in the major impact areas of construction, procurement and Land Securities Trillium key supplier chain management. We are looking at how

CR Group model



Customers
Client and occupier satisfaction

Health and safety
Health and safety training
Accident reporting
Risk assessment and audits

Employees
Communication and engagement
Rewards and recognition
Learning and development
Succession planning and talent management
Diversity

Suppliers
Investing in suppliers
Sharing knowledge
Health and safety and the environment
Monitoring supplier performance

Community
Learning and development
Charitable funds
Employee volunteering
Community consultation
Community communication

Investors
Awards
Shareholder analysis
Analysis of investors meetings
CR governance structures

Environment
External benchmarking
Environmental assessments
Recycling and waste management
Energy use, CO_2 emissions
Water use, environmental innovation

and when we should apply similar supply chain evaluation criteria more widely across our investment portfolio.

We have continued our focus on the customer, which brings the challenge of providing new and better customer focused services and products. It is our people who have anticipated and responded to this on-going challenge. And in return, we continue and will continue to seek to provide career and personal development opportunities to ensure that we attract and retain the best people in the industry, who in turn contribute to our continued success.

Health and safety

The Group's health and safety policy is published on our intranet and website. We produce a health and safety plan every year containing measurable objectives and report progress against these objectives to the Board every month. Health and safety performance is included in the Group's 'balanced scorecard' measurement approach. We increased the number of full-time employees in the health, safety and environment team from 23 to 28. The team now has 16 health and safety managers, two environmental managers and 10 health and safety trainers. We achieved Stage One of the occupational health and safety management system OHSAS 18001 for the DWP estate and are seeking full accreditation. The Health and Safety Executive asked to feature our approach to health and safety as a best-practice case study, recognising Land Securities as a leader. We have also been recognised in the Top 10 FTSE100 companies for reporting health and safety in Annual Reports and for achieving targets.

There were 295 notifiable incidents under the RIDDOR regulations (2005: 187). This was a significant increase over the previous year due to new accident reporting processes, the introduction of a company-wide accident reporting database, additional property outsourcing contracts and expansion of our investment portfolio.

Key performance indicator

The key performance indicator for health and safety is to ensure that we receive less than five health and safety improvement and prohibition notices a year. We have received none in the 2006 reporting period. During 2006, health and safety will be introduced as a personal key performance indicator for all related managers.

Health and safety training

Occupational health and safety training to NEBOSH and IOSH standard was provided to 78 employees. In addition, we trained 1,163 managers and staff, making a total of 1,241 employees receiving health and safety training. We revised the health and safety induction programme for new starters and plan to provide this training via an interactive platform in 2006.

Accident reporting

We introduced a new system, SOLAR ('Safety On-line Accident and Reporting database'), to record all health and safety incidents, improving reporting and management. SOLAR has been trialled successfully in the DWP estate and will be extended to the rest of the business during 2006. We received a Royal Society for the Prevention of Accidents Gold Award for our health and safety management systems and for the development of SOLAR.

Risk assessment and audits

In 2005, we carried out 340 risk assessments and health and safety audits across our investment and development portfolios. These assess compliance with legislation – scores across the portfolio were between 97–100%. We also conducted health and safety audits across Land Securities Trillium's contracts in line with contractual requirements.

Construction skills certification scheme

In 2005, we set out to ensure all staff involved in construction related activities were accredited under the Construction Skills Certification Scheme ('CSCS'). Approximately 40% are now certified. We hope that this scheme will improve the competence of the construction industry, make it possible to measure the competence of site-based staff and make comparisons between contractors. After 2008 we will only work with CSCS certified contractors.

Environment

Environmental management systems

The Group environment policy is published on its intranet and website. We introduced an upgraded environmental management system ('EMS'), across the entire Group. In September 2005 this was certified to Phase IV of the British Standard BS8555, which helped us win the 2005 Liveable City award for environmental management. We are now seeking accreditation to ISO14001, which is the standard we have achieved across the DWP contract (at around 1,800 sites one of the largest global certifications to date).

Asbestos

We have established an in-house asbestos management team which conducted 2,256 surveys across our property management and property outsourcing portfolios in 2006 (2005: 1,200).

Energy and waste management

We have a comprehensive energy management system in place which we use to identify opportunities to reduce energy across our managed portfolios. We gather and report our energy usage across nearly 2,000 buildings, the results of which are published annually in the autumn on our website.

CO_2 emissions

- We are the only property company participating in the voluntary UK Emissions Trading Scheme with a multi-site portfolio and beat our reductions target for the fourth consecutive year and in 2005 reduced the emissions covered by the scheme by 17%
- We participated in a programme of energy audits subsidised by the Carbon Trust, and implemented many of the recommendations in a year long trial at Regis House, one of our London managed properties. This scheme was second in the European Energy Trophy and reduced emission at Regis House by 29% saving £44,000 on the energy bill at that site

Waste management

We have continued to target waste management and overall have made good progress across the portfolio. At our head offices in London paper consumption has decreased for the third year running, assisted by the introduction of double sided printers/copiers in 2005. We report further on waste and energy management throughout the business unit reviews in the OFR.

Biodiversity

We retained our accreditation under the Business and Biodiversity Benchmark scheme run by The UK Wildlife Trusts. The Stage II survey programme has identified several locations with potential to enhance the local biodiversity and we are investing £10,000 on these initiatives across the DWP estate and our retail portfolio.

Climate change

Climate change is one of the challenges facing us and we have established a working group with a long-term remit to consider the potential impacts of climate change predictions on our business and how we might mitigate adverse effects or take advantage of new opportunities.

Electric car

Our G-Wiz electric car will replace courier runs between our London offices, thereby reducing our overall emissions.

Corporate Governance

Introduction

The Board is responsible for providing leadership for the Group and for ensuring that the right strategy and controls are in place in order to deliver value not only to shareholders but also to a wider community of individuals and organisations which benefit from the Group's activities. Land Securities is committed to high standards of Corporate Governance and supports the Combined Code on Corporate Governance (the 'Code') published in July 2003. Further details of how Land Securities complies with the Code can be found in the Corporate Governance section of the Company's website, together with the terms of reference of the Audit, Nomination and Remuneration Committees.

The role of the Board

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

- authorisation of significant transactions in excess of £100m
- dividend policy
- internal controls (via the Audit Committee)
- remuneration policy (via the Remuneration Committee)
- shareholder circulars and listing particulars
- matters relating to share capital such as share buy backs
- treasury policy and significant fundraising
- appointment/removal of directors and Company Secretary

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

- Strategy – the Board held an annual off-site meeting at which the Company's strategy was reviewed in the context of the macro- and micro-economic environment, potential legislative changes, competitor strategies and the need for the Company to create and exploit competitive advantage.
- Business plans – the Board reviewed at six-monthly intervals five year forecasts, the annual budget and business plan and the balanced scorecard, all of which are designed to support the Company's strategy, further details of which are on page 36.
- Progress reporting – at Board meetings a detailed monthly Board report was reviewed and the heads of business units provided an update on progress within their areas of responsibility. In addition, the interim and final results, together with a comparison of investment portfolio performance to IPD on a six-monthly basis, were reviewed in detail.
- Compliance and external relationships – at least annually the Board reviewed investor relations, HR policy, corporate governance, health and safety (with quarterly updates), environmental performance, Board performance evaluation and corporate responsibility matters.

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

Board balance and independence

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

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

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

Throughout the majority of the year the Board was non-compliant with the provision of the Code which provides that at least half of the

Attendance at Board and Committee meetings

The number of principal Board and Committee meetings attended by each director during the financial year was as follows:

	Board (9 meetings)	Audit Committee (4 meetings)	Nominations Committee (3 meetings)	Remuneration Committee (5 meetings)
Peter Birch (Chairman)	9	–	3	–
Francis Salway (Group Chief Executive)	9	–	3	–
Mark Collins	9	–	–	–
Martin Greenslade (appointed 01/09/05)	*6/6	–	–	–
Ian Ellis	8	–	–	–
Mike Hussey	9	–	–	–
Richard Akers (appointed 17/05/05)	*5/7	–	–	–
David Rough (Senior Independent Director)	9	4	3	5
Sir Winfried Bischoff	9	4	–	4
Stuart Rose	9	4	–	5
Bo Lerenius	8	3	–	4
Alison Carnwath	9	4	–	5
Andrew Macfarlane (resigned 05/08/05)	*3/3	–	–	–

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

Board, excluding the Chairman, should comprise independent non-Executive Directors. However, the Board considers that the experience and independent judgement of its non-Executive Directors are more important than absolute numbers. It is therefore satisfied that no individual or group of directors has unfettered powers of discretion and that an appropriate balance exists between the executive and non-executive members of the Board.

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

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters and for ensuring good information flows within the Board. All directors have access to the advice and services of the Company Secretary, as well as access to external advice, if required, at the expense of the Group.

Director induction and training

Directors were provided with training on a number of subjects, including the impact of International Financial Reporting Standards on the Group's accounts and in the new listing and disclosure rules regime. In the case of newly appointed directors, an induction programme, which includes training on the responsibilities of a director, occurred prior to or immediately following their appointment to the Board, if that appointment was the first occasion that they have been appointed to the Board of a listed company. A tailored induction programme is now provided for non-Executive Directors on appointment, co-ordinated by the Company Secretary in accordance with guidelines issued by the Institute of Chartered Secretaries and Administrators.

Board appraisal

The formal annual appraisal of the performance of the Board, its Committees and individual directors was undertaken in early 2006. This process was led by the Chairman with the assistance of the Company Secretary. The wide-ranging appraisal questionnaire was based on the process and questions outlined in the Code and the results were reviewed by the Board in March 2006. The process covered both Board and Committee performance and the output from the appraisal was reviewed at a subsequent Board meeting. Overall the appraisal process revealed a high level of satisfaction with the functioning of the Board and its Committees. In addition, individual performance as Board directors was appraised, based on one-to-one interviews with the Chairman or, where appropriate, the Senior Independent Director.

Nominations Committee

The Nominations Committee, which comprised Peter Birch (Chairman), David Rough and Francis Salway met on three occasions to review Board structure, size, composition and succession needs, keeping under review the balance of membership and the required blend of skills, knowledge and experience of the Board. While the membership of the Nominations Committee was non-compliant with the Code, all key decisions relating to appointments and membership of Board Committees are considered by the full Board which includes a strong representation of experienced independent non-Executive Directors. The Committee reviewed the time required from non-Executive Directors and the annual performance evaluation was used to assess whether non-Executive Directors were spending sufficient time to fulfil their duties. The Committee also reviewed succession plans for Executive Directors and senior managers and made recommendations to the Board on the reappointment of non-Executive Directors at the conclusion of their specified terms of office.

Remuneration Committee

The Committee's activity is described in the Remuneration Committee Report on pages 90 to 96.

Investor relations

Land Securities has a comprehensive Investor Relations programme which aims to provide existing and potential equity and bond investors with a means of developing their understanding of the Group and raising any concerns or issues they may have. Further detail on the Group's Investor Relations activity is provided in the OFR on page 43.

The Senior Independent Director attended the preliminary and interim results meetings to which investors are invited and his attendance was notified to investors in advance. In addition, the Chairman wrote to principal shareholders offering a clear line of contact with either him or the Senior Independent Director as recommended by the code. The Annual General Meeting provided all shareholders with an opportunity to question the Company on matters put to the meeting including the Annual Report. The results of proxy voting at general meetings were published on the Company's website as requested by the Code.

Annual General Meeting

The Board welcomes the move towards a more constructive use of Annual General Meetings and regards the Annual General Meeting as the principal opportunity to meet private shareholders. At its Annual General Meeting, the Company complies with the provisions of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of Committee Chairmen. The Company arranges for the Annual Report and related papers to be posted to shareholders so as to allow at least 20 working days for consideration prior to the Annual General Meeting.

Audit committee

The Audit Committee consists of all the independent non-Executive Directors and is chaired by David Rough. Although all of the Committee members are considered as appropriately experienced to fulfil their role, Alison Carnwarth is considered as having significant, recent and relevant financial experience in line with the Code. Further details of each of the independent directors are set out on pages 78 and 79.

The Audit Committee's written terms of reference are available on the Group's website and its principal oversight responsibilities cover:

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

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

The Committee undertook the following activities at these meetings:

- reviewed the interim and annual results and considered any matters raised by management and the external auditors
- reviewed and approved the Company's approach to implementing IFRS
- reviewed and approved the audit plans for the external and internal auditors
- monitored the scope, effectiveness, independence and objectivity of the external audit
- discussed the results of internal audit reviews, significant findings, management's action plans and the timeliness of resolution
- reviewed the Group's 'Turnbull Report' to support the Board's sign-off on the system of internal control (see below for more details)
- reviewed reports on the Group's risk management measures and actions
- reviewed progress on the project to replace key finance IT systems
- reviewed the plans in place to manage risks associated with the termination of the BBC contract
- reviewed the approach to periodic valuation of Land Securities Trillium's operating properties using Independent Valuers
- reviewed the Group's approach to developing a 'best practice' OFR, including considering the advice of external consultants
- in conjunction with the Board appraisal detailed on page 86, the Committee reviewed its own effectiveness and concluded that it had continued to operate as an effective Audit Committee

External auditors

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

The Company has procedures in place to monitor and maintain the objectivity and independence of the external auditors, PricewaterhouseCoopers LLP ('PwC'). The procedures include guidance on the non-audit services that PwC can provide after proper approval. On a six-monthly basis, the Audit Committee reviewed a summary of all non-audit work. In addition to the audit related services, PwC provided the following services during the year:

- accounting advice relating to the debt restructuring
- accounting advice associated with acquisition of Tops Estates
- taxation advice, including planning and compliance
- advice on IFRS accounting
- pension fund audit
- advice on a number of Land Securities Trillium bids
- advice on the accounting for the disposal of the Group's share in Telereal

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

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

Valuers

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

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

Financial reporting

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

Going concern

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

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that this system is designed to be in accordance with the Turnbull guidance and has been in place for the year under review and up to the date of approval of the Annual Report.

The key features of our system of internal control include:

(a) Strategic and business planning: the Group and each business unit produce and agree a business plan each year, against which the performance of the business is regularly monitored. Balanced scorecards are prepared that set out targets for a wide variety of key performance indicators, including risk management

(b) Investment appraisal: capital projects, major contracts and business and property acquisitions are reviewed in detail and approved by the Investment Committee and/or the Board, in accordance with delegated authority limits

(c) Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a monthly basis, including explanations of variances between actual and budgeted performance

(d) Systems of control procedures and delegated authorities: there are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions. Operational and financial procedures and controls are maintained on the Group's intranet

(e) Risk management: we have an ongoing process to identify, evaluate and manage the risks faced by the Group. Further details of our risk management process and our principal business risks are set out in the OFR as well as on page 89

(f) Six-monthly assessments: a compliance questionnaire is completed twice a year (before external reports are issued), which is signed off by senior managers, providing assurances that controls are both embedded and effective within the business

(g) Internal audit: responsible for reviewing key business processes and controls, including following up the implementation of management actions

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

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

The Audit Committee on behalf of the Board has reviewed the effectiveness of the systems of internal control and risk management.

The review covered all material areas of the business including financial, operational and compliance controls and risk management.

In performing its review of effectiveness, the Audit Committee took into account the following reports and activities:

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

Risk Management

All organisations face risks as they conduct their operations and Land Securities is no different. We need to understand and evaluate the risks in order to achieve our objective of creating long-term, sustainable returns for shareholders. This will allow us to minimise the adverse potential that measured risk taking presents rather than prevent us from taking measured risk. Risk management is an important part of our system of internal controls and has linkages with each of the other elements of this business planning process, particularly the investment appraisal and financial forecasting processes.

We have in place a six step risk management process:

1. Contextualise risk in terms of the Group's business goals and objectives
2. Identify material risks
3. Assess and quantify the risks identified
4. Develop action plans to manage risks
5. Reassess risks after mitigating actions have been taken
6. Report to the Board on risks, extent of mitigation and status of action plans

At both Group and business unit level we categorise risks across the four areas of external, organisational, property and operational. We rate each of these in terms of probability of occurrence, its impact on our performance and we identify mitigating actions, risk control measures and management responsibility.

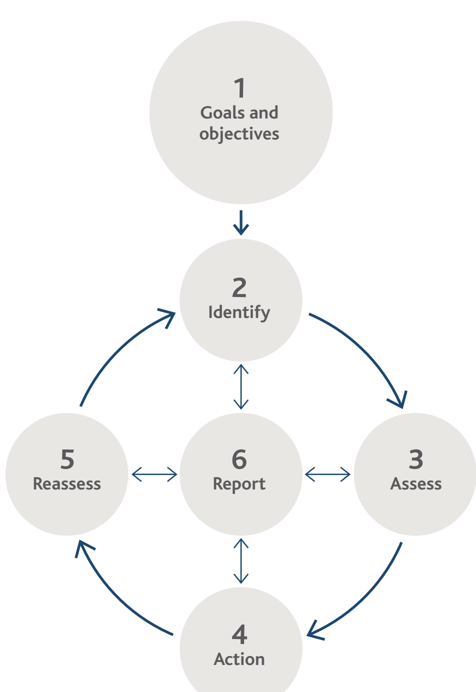
This year throughout the OFR we provide detailed disclosure in respect to certain of these risks particularly those in respect to owning property; developing property and property outsourcing as well as our key financial risks. This disclosure includes commentary on type of risk, risk impact and mitigating activity.

We believe that these risks have the greatest potential impact on the organisation should they occur and for this reason merit comment.

There are also other risks that we face as an organisation many of which are inherent to all businesses and which we believe have a lesser impact on us as an organisation which we refer to in a less structured fashion throughout the Annual Report. In respect to Social Ethical and Environmental risks, our key risks are outlined in the CR section.

In the table below we list our business risks and provide a cross reference to the relevant section of the OFR and to other sources of information such as our 2006 CR Report. If the risk is not covered elsewhere we provide a brief explanation as to mitigating activities.

Risk management process



Business risks

Risk group	Type of risk	Explained in
External factors	■ Economic	■ Business environment
	■ Regulatory	■ Chairman's statement and competitive environment
	■ Market	■ Business environment, Retail, London Portfolio and property outsourcing
	■ Planning	■ Developing property
	■ Customer	■ Owning property, Retail, London Portfolio, property outsourcing and customer section
Organisational	■ People	■ Our people, corporate responsibility, 2006 CR Report
	■ Succession planning and talent management	■ We review succession plans on at least an annual basis. We also have in place a learning and development programme to nurture talent across the organisation
Property	■ Asset management	■ Owning property
	■ Investment	■ Owning property
	■ Development	■ Developing property
	■ Construction management	■ Developing property
	■ Supplier management	■ Property outsourcing
	■ Service delivery	■ Property management, property outsourcing
	■ Contract mobilisation	■ Property outsourcing
Operational	■ Finance	■ Finance review and notes to financial statements
	■ Customer satisfaction	■ Retail, London Portfolio and property outsourcing
	■ Health and safety	■ Owning property, developing property, corporate responsibility
	■ Environment	■ Corporate responsibility and 2006 CR Report
	■ Information technology	■ To protect the integrity of our IT system from external threats, we have in place stringent security controls. In the event of system failures we have an off-site back-up facility which can be fully operational in 24 hours
	■ Disaster planning	■ We have in place comprehensive disaster recovery plans which include the use of off-site facilities. These plans are regularly updated and rehearsed
	■ Ethics	■ Corporate responsibility

Remuneration Report

1. Introduction and Compliance

In preparing this Remuneration Report, the Remuneration Committee ('the Committee') has followed the requirements of Section 1 of the Combined Code on Corporate Governance, the Companies Act 1985, as amended by the Directors' Remuneration Report Regulations 2002, and the Listing Rules of the Financial Services Authority. This report will be submitted to shareholders for approval at the Annual General Meeting to be held on 19 July 2006. The Regulations require the auditors to report to the Company's shareholders on the information in tables 3, 4, 5 and 6 of this report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

2. The Committee

The Committee is chaired by Sir Winfried Bischoff, with the other members being David Rough, Stuart Rose, Bo Lerenius and Alison Carnwath. All members of the Committee are considered to be independent by the Company. Sir Winfried Bischoff is a member of the Management Committee of the Holding Company of one of the Group's principal relationship banks. However, since he does not participate in any discussions between or regarding the relationship between these two parties, the Company does not consider this relationship to compromise his independence.

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

The Committee recommends to the Board the remuneration framework to attract and retain its Executive Directors. In line with the Combined Code, it also monitors and makes recommendations on remuneration for senior managers across the Group.

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

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

3. Remuneration policy and philosophy

The Group's remuneration policy which applies to the year under review and is intended to apply in all future years seeks to provide remuneration in a form and amount to attract, retain and motivate high quality management, with an emphasis on delivering superior reward for achieving and exceeding the Group's strategic plan. A substantial proportion of the Executive Directors' remuneration is delivered through performance related pay.

The principal components of Executive Directors' remuneration are as follows:

- Salary

The Committee seeks to set salaries at mid-market levels compared to a range of UK based companies of similar size and complexity but with particular emphasis on the property and financial sectors.

- Short-term incentives

The Group's incentive plans include annual cash and share bonuses, geared to the achievement of short-term objectives.

- Long-term incentives

These are designed to emphasise and support the long-term success of the business and comprise incentives which are measured over a three year timescale.

- Other benefits

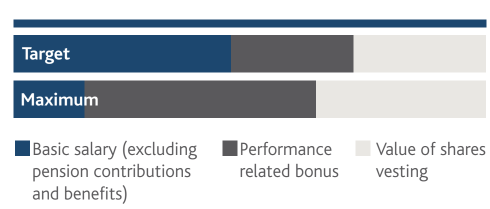
These include pension, car, life and medical insurance cover

4. 2005/06 Directors' remuneration

During the year, the Group implemented a number of changes to directors' remuneration which were introduced following consultation and dialogue with major shareholders. The key elements of these changes were:

- An increase in annual bonus potential for meeting stretching performance targets
- The opportunity to earn substantially higher bonus payouts for performance above the annual bonus targets set at the start of the 2005/06 financial year
- Shareholders approved a new long-term incentive plan ('LTIP') at the 2005 AGM to replace the executive share option arrangements for Executive Directors in the year under review. The LTIP will also replace the Performance Share Matching plan from 2006/07 onwards through its facility to make awards of Matching Shares to encourage investment by senior executives in the Company's shares
- An increase in the level of performance required for long-term incentives for earnings per share growth and the introduction of a more focused property index benchmark
- Higher shareholding requirements for Executive Directors

The chart below illustrates the balance between 'fixed' and 'variable' pay at the target and maximum performance levels assuming maximum participation in the new LTIP in 2006/07.



Notes
- Target performance delivers a bonus award of 50% of base salary and 25% vesting under the LTIP
- Maximum performance delivers a bonus award of 300% of base salary (based on the changes to the annual bonus arrangements set out below) and full vesting under the LTIP
- 5% per annum share price growth is assumed for target performance and 10% per annum for maximum performance
- Deferred shares (and any shares invested in the LTIP) benefit from share price growth

The individual components of Executive Directors' remuneration are set out below:

Base salary

Executive Directors receive a salary which reflects their responsibilities, experience and performance. Salaries are reviewed annually in July and the review process includes the use of comparator information and reports from the Group's remuneration consultants. The Group's policy is to set salary around the mid-market rate but the Committee is mindful of the need to treat pay comparisons with caution to avoid an upward ratchet of remuneration levels with no corresponding improvement in performance. It also takes account of pay and employment conditions across the Group, especially when determining annual salary increases. The current salaries of the Executive Directors (and in brackets, revised salaries to take effect from July 2006) are as follows:

Francis Salway	£575,000	(£600,000)
Mark Collins	£350,000	(£390,000)
Martin Greenslade	£325,000	(£340,000)
Ian Ellis	£350,000	(£390,000)
Mike Hussey	£340,000	(£390,000)
Richard Akers	£285,000	(£340,000)

The above inflationary salary increase provided to Richard Akers reflects the increase in his Group level responsibilities and performance in post since his promotion to the Board in May 2005. The salary increases awarded to Mark Collins, Ian Ellis and Mike Hussey reflect the need to maintain market competitive salary levels at a time of high performance.

Annual bonuses

The maximum potential bonus opportunity was set at 100% of base salary for 2005/06 with 25% of any bonus being payable in shares deferred for three years.

During the year, the Committee approved an increase in the annual bonus opportunity for Executive Directors from 100% to 300% of base salary for the delivery of exceptional financial returns over and above the levels of financial performance covered under previous bonus and LTIP plans. The additional bonus opportunity is being introduced after dialogue with our major shareholders. The additional bonus opportunity is structured to permit significant reward for significant financial out-performance in a manner consistent with remuneration packages now being offered to executives of high calibre in the sector. No additional bonus is payable unless financial performance targets in excess of those set at the start of the financial year to achieve a payout of 100% of salary are met. Half of any additional bonus is payable in shares and deferred for three years. Any bonus deferral is normally forfeited on leaving the Group within the deferral period. In the first year only following the introduction of the additional bonus opportunity, a recipient of a cash payment will be required to repay the net amount of any such payment if they leave the Group within 12 months.

Executive Directors are also eligible to participate in a discretionary bonus pool for all employees which can amount to up to 30% of salary.

The criteria for Executive Directors' annual bonuses are shown in Table 1. For 2005/06 annual bonuses, including bonuses payable under the additional bonus opportunity and the discretionary bonus pool described above, ranged from 59% to 300% of annual salary.

Long-term incentives

Shareholders approved the new LTIP at the 2005 AGM. The LTIP replaced the share option scheme approved in 2002 for the year under review and will replace the Performance Share Matching Plan, also approved in 2002, from 2006/07.

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

LTIP Performance Shares

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

LTIP Matching Shares

Executive Directors were not eligible to receive a Matching Award of shares under the LTIP in 2005/06 since this year is a transitional year in which, for the final time, Executive Directors participated in the Performance Matching Share Plan approved in 2002. In future years Executive Directors will be eligible to receive awards of Matching Shares under the LTIP which will be made at a ratio of up to 2 for 1 on a gross to net tax basis (up to 100 shares for every 30 purchased out of net income). The maximum Matching Share award per annum will be over shares with a value of 100% of salary.

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

EPS target

- Growth of RPI + 3% per annum – 12.5% of the award vests
- Growth of RPI + 5% per annum – 50.0% of the award vests
- Straight line vesting occurs between these points

Table 1: Criteria for directors' 2005/06 bonuses

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

TPR

- Performance equal to the weighted index – 12.5% of the award vests
- Performance equal to the weighted index plus 1% per annum – 50.0% of the initial award vests, and
- Straight line vesting occurs between these points

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

As set out above, Executive Directors were eligible to receive awards under the Performance Share Matching Plan approved in 2002 during the year. Under this plan, executives can receive up to two performance shares for each deferred share, depending on the extent to which performance conditions are satisfied. Similarly to the LTIP, half of these Matching Performance Shares depend on achieving a real increase in EPS (defined to be normalised adjusted diluted EPS ('NADEPS')) measured over a three year period, with the other half depending on the Company's TPR equalling, or exceeding, the IPD All Fund Universe Index over a rolling three year period. The same sliding scale applies to these performance conditions as the LTIP with the only difference being that the NADEPS element has a threshold vesting level of RPI + 2.5% with full vesting at RPI + 4% per annum.

The maximum amount of performance shares which could potentially vest is shown in Table 2. The Committee determined that the performance shares linked to NADEPS growth for the period 1 April 2003 to 31 March 2006 vested in full while the performance shares linked to IPD return for this period vested to the extent of 89.5%.

Share options

Land Securities has historically operated share option arrangements for Executive Directors. Following the adoption of the LTIP, no further awards of share options will be made to the Executive Directors. During the year, a new share option scheme has been introduced, using market purchased shares only, for more junior managers.

For grants made over the period 2000 to 2003, the Committee has determined that the required level of increase in NADEPS over the three years to 31 March 2006 was achieved.

Table 2: Performance shares*

	Cycle ending	Award date	Market price at award date (p)	Shares awarded	Shares/ value vested	Vesting date
F W Salway	2005	11/07/02	854	7,142	3,571	11/07/05
	2006	01/07/03	787	13,190	–	01/07/06
	2007	12/07/04	1159	12,794	–	12/07/07
	2008	04/07/05	1405	21,234	–	04/07/05
A E Macfarlane	2005	11/07/02	854	9,050	4,525	11/07/05
	2006	01/07/03	787	13,962	–	01/07/06
	2007	12/07/04	1159	13,034	–	12/07/07
I D Ellis	2005	11/07/02	854	11,472	5,736	11/07/05
	2006	01/07/03	787	10,798	–	01/07/06
	2007	12/07/04	1159	28,290	–	12/07/07
	2008	04/07/05	1405	17,536	–	04/07/08
A M Collins	2006	01/07/03	787	8,090	–	01/07/06
	2007	12/07/04	1159	14,174	–	12/07/07
	2008	04/07/05	1405	15,988	–	04/07/08
M R Hussey	2007	31/03/04	1090	20,000	–	31/03/07
	2008	04/07/05	1405	14,600	–	04/07/08
R J Akers	2005	11/07/02	854	5,262	2,631	11/07/05
	2006	01/07/03	787	3,946	–	01/07/06
	2007	12/07/04	1159	2,506	–	12/07/07
	2008	04/07/05	1405	8,228	–	04/07/08

*Subject to performance tests (see above).

Table 3: Directors' emoluments (£'000 – amounts received by directors in the respective periods) (audited)

	Basic salary and fees	Bonuses	Benefits[1]	Total emoluments excluding pensions 2006	Total emoluments excluding pensions 2005	Pension contributions 2006	Pension contributions 2005	Deferred bonus shares[2] 2006	Deferred bonus shares[2] 2005	Performance shares vested 2006	Performance shares vested 2005	Gain on exercise of share options 2006	Gain on exercise of share options 2005
Executive:													
F W Salway	537	268	13	818	560	134	98	149	74	50	–	250	280
A M Collins[3]	342	201	14	557	486	85	76	112	82	–	–	425	–
I D Ellis[4]	342	212	11	565	650	96	69	123	164	81	–	310	151
M R Hussey (appointed 30/09/04)	323	279	12	614	282	80	58	102	–	–	–	319	–
R J Akers[5] (appointed 17/05/05)	272	109	13	394	–	66	–	57	–	37	–	200	–
M F Greenslade (appointed 01/09/05)	189	–	6	195	–	47	–	–	–	–	–	–	–
A E Macfarlane[6] (resigned 05/08/05)	127	213	1	341	502	30	83	–	76	64	–	242	357
	2,132	1,282	70	3,484	2,480	538	384	543	396	232	–	1,746	788
Non-Executive:													
P G Birch (Chairman)	202	–	–	202	168								
D Rough	60	–	–	60	51								
Sir Winfried Bischoff	50	–	–	50	44								
S A R Rose	45	–	–	45	40								
B A Lerenius (appointed 01/06/04)	45	–	–	45	38								
A J Carnwath (appointed 01/09/04)	45	–	–	45	26								
Total	2,579	1,282	70	3,931	2,847								

1. Benefits consist of the provision of a company car or car allowance, private medical facilities and life assurance premiums.
2. Deferred bonus shares represent the value ascribed to shares awarded in respect of 2004/05 and 2003/04 financial performance under the deferred bonus plan.
3. In accordance with his service contract and to reflect partially the amount and timing of incentive arrangements which he was eligible to receive from his former employer, A M Collins is due to receive an amount of £208,033 on 30 June 2007 provided he has not left the Group of his own volition or his contract has not been terminated or he has not been given notice of termination other than on grounds of ill-health or redundancy.
4. I D Ellis received fees of £4,936 from Rok plc in respect of his non-Executive Directorship of that company.
5. R J Akers' capped DB pension contributions are taken at Group average employee DB cost (30%) rather than using specific actuarial assumptions as an individual executive.
6. A E Macfarlane also received fees of £4,500 from Invensys plc in respect of his non-Executive Directorship of that company.
7. When M F Greenslade joined the Company, the Company undertook to award him LTIP shares to the value of 100% of annual salary and, as a consequence, an award of 22,679 LTIP shares was granted in September 2005. In addition, subject to the purchase and retention by M F Greenslade of shares with a value of 30% of salary, the Company undertook to make an award of matching shares to the value of 100% of salary. An award of 16,666 Matching Shares was made in September 2005 following an initial purchase of shares by M F Greenslade.
8. Pensions of £90,738 (2005: £130,280) were paid to former directors or their dependants.
9. P G Freeman served as a director of the Company until 14 July 2004 and thereafter served as a consultant advising on matters relating to development projects. Fees paid to P G Freeman amounted to £25,330 in 2004/05 and £27,565 in 2005/06.

Table 4: Directors' options over ordinary shares (audited)

		No of options at 01.04.05	Granted during year No.	Granted during year Grant price (pence)	Exercised during year No.	Exercised during year Exercise price (pence)	Exercised during year Market price on exercise (pence)	Outstanding share options No. of options at 31/03/06	Outstanding share options Exercise price (pence)	Outstanding share options Exercisable dates
F W Salway	(1)	30,500			30,500	812	1632			
	(3)	41,250						41,250	788	07/2006-07/2013
	(3)	43,065						43,065	1159	07/2007-07/2014
A M Collins	(1)	70,000			66,306	812	1420			
					3,694	812	1415			
	(3)	34,375						34,375	788	07/2006-07/2013
	(3)	34,695						34,695	1159	07/2007-07/2014
	(4)	2,477						2,477	677	09/2010-03/2011
I D Ellis	(1)	40,000			40,000	812	1587			
	(3)	34,375						34,375	788	07/2006-07/2013
	(3)	41,759						41,759	1159	07/2007-07/2014
	(4)	2,546						2,546	650	08/2007-02/2008
M R Hussey	(1)	51,500			40,000	812	1415			
					7,806	812	1455			
					3,694	812	1581			
	(3)							40,000	788	07/2006-07/2013
	(3)							23,727	1159	07/2007-07/2014
	(4)							1,726	957	10/2009-04/2010
R J Akers		20,000			20,000	820	1434			
		20,500			10,000	869	1650	10,500	869	07/2004-07/2011
	(1)	6,000						6,000	812	07/2005-07/2012
	(3)	7,750						7,750	788	07/2006-07/2013
	(3)	11,500						11,500	1159	07/2007-07/2014
	(2)	1,420						1,420	713	07/2001-07/2006
	(4)	747						747	957	07/2004-10/2011

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

The range of the closing middle market prices for Land Securities' shares during the year was 1292p to 2080p. The middle market price at 31 March 2006 was 1928p.

Options over 73,976 shares held by a former director lapsed during the year under review.

Table 5: Directors' interests in shares (audited)

			Deferred shares		LTIP performance shares**	
	2006	2005	2006	2005	2006	2005
P G Birch	20,005	20,005	–	–	–	–
F W Salway	36,286	11,986	24,506	13,214	40,464	–
A M Collins	15,877	5,145	19,825	11,268	24,631	–
I D Ellis	17,080	7,196	29,425	19,725	24,631	–
M R Hussey	500	500	18,048	10,000	23,927	–
D Rough	7,675	7,675	–	–	–	–
Sir Winfried Bischoff	8,750	8,750	–	–	–	–
S A Rose	10,000	10,000	–	–	–	–
B A Lerenius	12,000	8,000	–	–	–	–
A J Carnwath	6,365	875	–	–	–	–
R J Akers (appointed 17/05/05)	6,670	4,228*	7,589	3,315*	20,056	–*
M F Greenslade (appointed 01/09/2005)	5,000	–*	–	–*	22,679	–*

* At date of appointment

** Subject to performance conditions (see page 91)

The options granted to, and exercised by, Executive Directors are shown in Table 4.

The Committee ensures that EPS is calculated on a consistent basis where there are accounting standard changes (such as the introduction of IFRS) over the performance period for incentives.

Shareholding guidelines

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

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

Pensions

During the year the Committee reviewed the pension arrangements applicable to Executive Directors and senior executives in preparation for the Government's tax simplification changes which came into effect on 6 April 2006. It concluded, as a general principle, that the Company would not provide additional compensation to executives who may be adversely affected by the tax changes.

With effect from 1 January 1999 a contributory money purchase pension scheme was introduced for all staff joining the Group from that date. Directors may participate in the scheme. Additional arrangements have been in place for pension provisions in excess of the HM Revenue & Customs regulations. Pension contributions made during the year are shown on page 93.

Richard Akers participates in a non-contributory defined benefit ('DB') pension scheme which was open to property management and administration staff until 31 December 1998. The pension benefits under this scheme are described below. The scheme also provides lump sum death-in-service benefits on death before normal retirement age of four times Pensionable Salary and pension provision for dependants of members. Only basic salary is treated as Pensionable Salary. The benefits provided to Richard Akers have been based on a Pensionable Salary which is subject to the statutory earnings cap.

The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement in respect of qualifying service represents the value of assets that the pension scheme would need to transfer to another pension provider on transferring the liability in respect of the directors' pension benefits that they earned in respect of qualifying service. They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

"A day" changes

Following the changes in pension tax legislation from April 2006 the Company made the commitment that while providing information to affected executives there would be no tax advantage given thus ensuring a cost neutral position for the Company.

The Committee decided that from 1 April 2006:

- A scheme specific cap would be introduced into the Land Securities and Land Securities Trillium DB schemes commencing at the current rate of £108,600 and that both caps will be increased by Inland Revenue recommendations until 2010 and then by RPI.
- The existing cap will be removed for the Land Securities Defined Contribution ('DC') schemes and all employees, excluding those affected by the Life Time Allowance, will be able to increase their contributions to their full salary
- A separate pension arrangement solely for 'top up' pensions for the Executive Directors should not be introduced
- The Executive Directors continue to be entitled to a benefit that is equivalent to 25% of their total salary and that this could be invested as individuals are independently advised and may include:
  - pension contributions into the DC scheme up to the personal level that is advised plus a cash contribution on the balance
  - pension contributions into the DB scheme up to capped level of £108,600 plus a cash balance on the remaining amount when this DB contribution cost is deducted from 25% of total salary. This cash balance can be paid as a lump sum or into the DC

pension arrangement as employer contributions. This arrangement applies to Richard Akers only (see below)
- 25% cash payment on total salary to invest outside Land Securities pension arrangements

Presentations were made by the Company's pension advisers to Executive Directors and senior executives and a contribution made to the provision of independent financial advice for individuals.

With Richard Akers' appointment to the Board in May 2005 he became eligible under his new service agreement, and in line with other Executive Directors, to a pension benefit equivalent to 25% of his base salary. Under the DB pension arrangement his pension benefits were restricted based on a capped salary of £105,600 p.a. As the DB cap remains in place after April 2006 Richard Akers' DB pension benefits will remain calculated on the capped amount increased in line with the Government sponsored notional cap published until 2010 (then at RPI thereafter). The remainder of his Executive Director's pension allowance of 25% is made available for investment either in the DC pension scheme or outside Land Securities' pension arrangements.

In addition with effect from 1 April 2006 the DB pension scheme has moved to future accrual on a "CARE" (Career Averaged Revalued Earnings) basis and either on 1/80th accrual or on 1/60th accrual subject to an employee contribution. Richard Akers has chosen to accrue future benefits on a 1/60th basis with employee contributions in accordance with the new scheme provisions of 1% of base salary in 2006, 3% of base salary in 2007 and 5% of base salary thereafter.

The "Increase in transfer value less contributions made by directors" differs from the "Transfer value of increase in accrued benefit" in that it reflects changes in market conditions over the year.

Table 6: Defined benefit pension scheme (audited)

Name of director	R J Akers £
Accrued benefit at 31 March 2006	19,653
Increase in accrued benefits excluding inflation	1,193
Increase in accrued benefits including inflation	1,466
Transfer value of increase in accrued benefit excluding inflation	12,200
Transfer value of accrued benefits at 1 April 2005	158,600
Transfer value of accrued benefits at 31 March 2006	201,100
Increase in transfer value	42,500

5. Non-Executive Directors

The annual fees of the Chairman of the Board, Peter G Birch, are determined by the Board having regard to independent advice. The other non-Executive Directors each receive a fee agreed by the Board following a review of fees paid by comparable organisations. The Board also takes into account the time commitments of the non-Executive Directors, which is reviewed annually as part of the Board appraisal process. Neither the Chairman nor the other non-Executive Directors receive any pension benefits from the Company, nor do they participate in any bonus or incentive schemes. Non-Executive Directors are appointed under letters of appointment which provide for an initial term of service of three years. A specimen letter of appointment is available on the Group's website at www.landsecurities.com.

6. Service agreements

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

The dates of appointment and the dates of the service agreements of the Executive Directors are as follows:

Name	Date of appointment	Date of contract
F W Salway	5 July 2002	31 May 2001
A M Collins	20 November 2002	13 March 2003
M F Greenslade	1 September 2005	1 September 2005
I D Ellis	20 November 2002	28 January 2003
M R Hussey	30 September 2004	1 January 2006
R J Akers	17 May 2005	19 April 1999

In May 2005, an amendment was made to the service agreements of the Executive Directors to provide for phased payments of amounts payable on termination, in order to mitigate amounts potentially payable by the Company.

The Chairman and the other non-Executive Directors do not have service agreements with the Company.

7. Directors' interests in shares

The interests of the directors in the shares of the Company as at 31 March are shown in Table 5.

There have been no changes in the shareholdings of the directors between the end of the financial year and 23 May 2006 save that on 18 May 2006 Martin Greenslade purchased 1,600 shares in the Company.

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

The registers of directors' share interests and holdings of options, which are open to inspection at the Company's registered office, contain full details of directors' interests.

8. Information regarding senior managers below Board level

The Group currently employs 36 senior managers in positions below Board level. None of these senior managers is paid at a rate higher than the Executive Directors and the structure of their remuneration package, including bonuses, is broadly consistent with that of Executive Directors. The senior managers are not eligible to participate in the additional bonus opportunity for the delivery of exceptional financial returns described in section 4 of this report. During the year under review, bonuses for this group of employees ranged from 33% to 73% of salary, with an average bonus of 65% of salary.

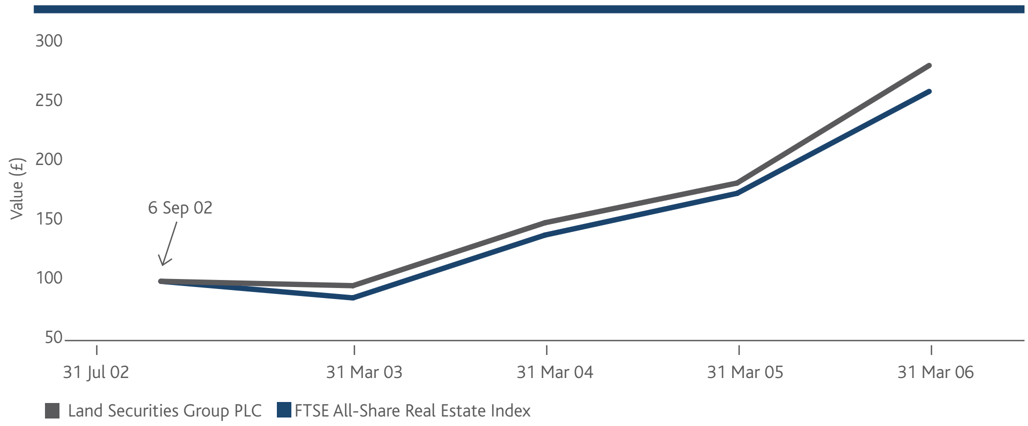
9. Performance graph

As required by legislation regarding the directors' remuneration report, this graph illustrates the performance of the Company measured by total shareholder return (share price growth plus dividends reinvested) against a 'broad equity market index' over the period since the 6 September 2002 return of capital. As the Company is a constituent of the FTSE All-Share Real Estate sector this index is considered to be the most appropriate benchmark for the purposes of the graph. The Committee also considered that it would be helpful to provide an additional graph illustrating performance going back before the return of capital compared with the FTSE100 index and the FTSE All-Share Real Estate sector over the previous five years of the Company and its predecessor company, Land Securities PLC.

Signed for and on behalf of the Board by

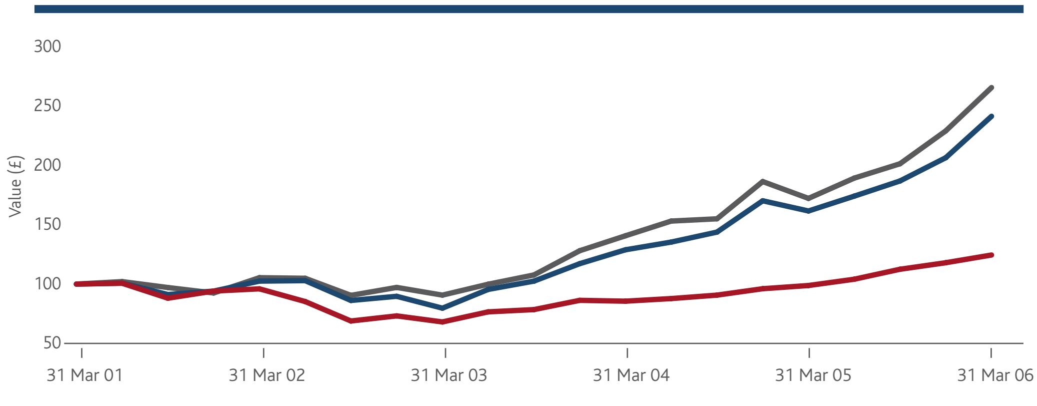
Sir Winfried Bischoff
Chairman of the Committee

Total shareholder return
Source: Thomson Financial



This graph illustrates the value, by 31 March 2006, of £100 invested in Land Securities Group PLC on 6 September 2002 compared with that of £100 invested in the FTSE All-Share Real Estate Index. The other points plotted are the values at intervening financial year ends.

Total shareholder return
Source: Thomson Financial



This graph illustrates the value, by 31 March 2006, of £100 invested in Land Securities Group PLC on 6 September 2002 compared with that of £100 invested in the FTSE All-Share Real Estate Index and in the FTSE100 Index. The other points plotted are the values at intervening financial year ends.

Directors' Responsibilities

The directors are required by company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of their profit or loss for that period and comply with the Companies Act 1985.

The directors are responsible for ensuring that applicable accounting standards have been followed and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, have been used in the preparation of the financial statements.

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

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

The directors are also responsible for maintaining proper accounting records so as to enable them to comply with company law. The directors have general responsibilities for safeguarding the assets of the Company and of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors Report

to the members of Land Securities Group PLC

We have audited the Group and parent company financial statements (the 'financial statements') of Land Securities Group PLC for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether, in our opinion, the information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross-referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2006 and cash flows for the year then ended
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
23 May 2006

Financial Statements

Business Analysis

Five Year Summary

	2006 IFRS £m	2005 IFRS £m	2004 UK GAAP* £m	2003 UK GAAP* £m	2002 UK GAAP* £m
Income statement					
Before exceptional items					
Group revenue	**1,828.7**	1,627.1	1,285.8	1,071.3	977.1
Costs	**(1,267.8)**	(1,134.7)	(821.1)	(608.9)	(479.6)
	560.9	492.4	464.7	462.4	497.5
Profit on disposal of fixed asset properties	**74.5**	112.0	52.0	26.6	13.4
Net surplus on revaluation of investment properties	**1,579.5**	827.9	–	–	–
Operating profit	**2,214.9**	1,432.3	516.7	489.0	510.9
Net finance expenses	**(194.5)**	(189.0)	(174.4)	(144.9)	(142.9)
	2,020.4	1,243.3	342.3	344.1	368.0
Income from joint ventures (post-tax)	**110.3**	141.5	17.7	13.0	(4.5)
Profit before tax	**2,130.7**	1,384.8	360.0	357.1	363.5
Income tax expense	**(593.3)**	(265.8)	(71.7)	(90.8)	(99.9)
Profit after tax	**1,537.4**	1,119.0	288.3	266.3	263.6
Exceptional items					
Goodwill impairment	**(64.5)**	(12.7)	–	–	–
Profit on disposal of joint venture (Telereal)	**293.0**	–	–	–	–
Debt restructuring costs	–	(64.6)	–	(52.0)	–
Total exceptional items	**228.5**	(77.3)	–	(52.0)	–
Tax on exceptional items	**(90.0)**	19.2	–	15.6	–
Exceptional items post tax	**138.5**	(58.1)	–	(36.4)	–
Profit for the financial year	**1,675.9**	1,060.9	288.3	229.9	263.6
Revaluation surplus/(deficit) for the year					
Group	**1,579.5**	827.9	400.7	(56.8)	(105.5)
Joint ventures	**105.5**	69.5	6.2	–	46.8
Total	**1,685.0**	897.4	406.9	(56.8)	(58.7)
Revenue profit (old definition)	**434.9**	401.3	309.2	336.2	350.1
Less: trading properties	**(21.7)**	(27.9)	(7.3)	(1.8)	(5.8)
Less: long-term contracts	**(21.9)**	(11.6)	–	–	–
Revenue profit (new definition)	**391.3**	361.8	301.9	334.4	344.3
Balance sheet					
Investment properties	**11,440.5**	8,240.1	7,880.9	7,823.9	7,800.0
Property outsourcing properties	**563.2**	546.3	769.2	557.4	428.9
Net investment in finance leases	**233.9**	163.4	–	–	–
Goodwill	**34.3**	34.3	34.3	36.7	38.9
Investment in joint ventures	**829.5**	854.9	204.2	106.8	188.8
Other fixed assets	**73.6**	57.9	51.0	41.5	45.3
Total non-current assets	**13,175.0**	9,896.9	8,939.6	8,566.3	8,501.9
Trading properties and long-term development contracts	**255.9**	164.0	85.0	52.6	36.9
Cash and cash equivalents less short-term borrowings and overdrafts	**(31.1)**	(45.8)	(439.9)	59.1	45.2
Other current assets and liabilities	**(218.6)**	(101.6)	(365.3)	(287.5)	(430.2)
Total current assets and liabilities	**6.2**	16.6	(720.2)	(175.8)	(348.1)
Provisions	**(58.2)**	(42.0)	(11.7)	(5.9)	(5.3)
Borrowings	**(3,654.8)**	(2,392.3)	(1,995.9)	(2,648.4)	(1,987.3)
Pension benefits	**(6.5)**	(10.9)	–	–	–
Deferred tax liabilities	**(1,967.8)**	(1,418.0)	(173.3)	(173.1)	(124.6)
Total non-current liabilities	**(5,687.3)**	(3,863.2)	(2,180.9)	(2,827.4)	(2,117.2)
Net assets	**7,493.9**	6,050.3	6,038.5	5,563.1	6,036.6
Net debt	**(3,685.9)**	(2,438.1)	(2,435.8)	(2,589.3)	(1,942.1)
Results per share					
Total dividend per share#	**46.70p**	43.25p	37.10p	35.50p	34.00p
Basic earnings per share	**357.95p**	227.32p	61.84p	46.46p	50.27p
Diluted earnings per share	**356.50p**	226.45p	61.76p	46.44p	49.54p
Adjusted earnings per share	**70.76p**	67.13p	47.86p	50.89p	49.18p
Adjusted diluted earnings per share	**70.47p**	66.87p	47.80p	50.88p	48.49p
Net assets per share	**1597p**	1293p	1294p	1188p	1151p
Diluted net assets per share	**1590p**	1289p	1293p	1188p	1132p
Adjusted net assets per share	**1920p**	1493p	1333p	1220p	1178p
Adjusted diluted net assets per share	**1912p**	1488p	1331p	1219p	1157p

* note 35 indicates the IFRS adjustments (and their magnitude) that would be required to be made to restate the UK GAAP results for 2002, 2003 and 2004 under IFRS.

\# all amounts represent the interim dividend paid and final proposed dividend.

Financial Statements

Income statement for the year ended 31 March 2006

Group	Notes	2006 Before exceptional items £m	2006 Exceptional items £m	2006 Total £m	2005 Before exceptional items £m	2005 Exceptional items £m	2005 Total £m
Income: Group and share of joint ventures		**1,988.2**	**–**	**1,988.2**	1,876.2	–	1,876.2
Less: share of joint ventures income	17	**(159.5)**	**–**	**(159.5)**	(249.1)	–	(249.1)
Group revenue	4	**1,828.7**	**–**	**1,828.7**	1,627.1	–	1,627.1
Costs	4	**(1,267.8)**	**–**	**(1,267.8)**	(1,134.7)	(14.8)	(1,149.5)
		560.9	**–**	**560.9**	492.4	(14.8)	477.6
Profit on disposal of fixed asset properties	4	**74.5**	**–**	**74.5**	112.0	–	112.0
Net surplus on revaluation of investment properties	4	**1,579.5**	**–**	**1,579.5**	827.9	–	827.9
Goodwill impairment	4, 8	**–**	**(64.5)**	**(64.5)**	–	(12.7)	(12.7)
Profit on disposal of joint venture (Telereal)	4, 8	**–**	**293.0**	**293.0**	–	–	–
Operating profit		**2,214.9**	**228.5**	**2,443.4**	1,432.3	(27.5)	1,404.8
Interest expense	6	**(201.8)**	**–**	**(201.8)**	(198.8)	(49.8)	(248.6)
Interest income	6	**7.3**	**–**	**7.3**	9.8	–	9.8
		2,020.4	**228.5**	**2,248.9**	1,243.3	(77.3)	1,166.0
Share of the profit of joint ventures (post-tax)	17	**98.6**	**–**	**98.6**	76.1	–	76.1
Distribution received from joint venture (Telereal)	17	**11.7**	**–**	**11.7**	65.4	–	65.4
Profit/(loss) before tax	4	**2,130.7**	**228.5**	**2,359.2**	1,384.8	(77.3)	1,307.5
Income tax (expense)/credit	9	**(593.3)**	**(90.0)**	**(683.3)**	(265.8)	19.2	(246.6)
Profit/(loss) for the financial year	30	**1,537.4**	**138.5**	**1,675.9**	1,119.0	(58.1)	1,060.9
Earnings per share							
Basic earnings per share*	11			**357.95p**			227.32p
Diluted earnings per share*	11			**356.50p**			226.45p

*adjusted earnings per share is given in note 11

Statement of recognised income and expense for the year ended 31 March 2006

Group	2006 £m	2005 £m
Profit for the financial year	**1,675.9**	1,060.9
Actuarial losses on defined benefit pension schemes	**(5.0)**	(4.9)
Deferred tax on actuarial losses on defined benefit pension schemes	**1.5**	1.5
Fair value movement on cash flow hedges taken to equity – Group	**(2.2)**	–
– joint ventures	**(2.7)**	–
Deferred tax on fair value movement on cash flow hedges taken to equity – Group	**0.6**	–
– joint ventures	**0.8**	–
Net losses recognised directly in equity	**(7.0)**	(3.4)
Total recognised income and expense	**1,668.9**	1,057.5

Company

The Company has no other recognised income or expense other than that recognised in the income statement.

Balance sheets at 31 March 2006

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current assets					
Investment properties	13	**11,440.5**	8,240.1	**–**	–
Property, plant and equipment					
Property outsourcing properties	13	**563.2**	546.3	**–**	–
Other property, plant and equipment	13	**73.6**	57.9	**–**	–
	13	**12,077.3**	8,844.3	**–**	–
Net investment in finance leases	14	**233.9**	163.4	**–**	–
Goodwill	15	**34.3**	34.3	**–**	–
Investment in subsidiary undertakings	16	**–**	–	**5,037.1**	5,037.1
Investment in joint ventures	17	**829.5**	854.9	**–**	–
Total non-current assets		**13,175.0**	9,896.9	**5,037.1**	5,037.1
Current assets					
Trading properties and long-term development contracts	18	**255.9**	164.0	**–**	–
Trade and other receivables	19	**578.9**	513.5	**142.7**	325.5
Cash and cash equivalents	20	**15.6**	5.0	**5.0**	0.3
Total current assets		**850.4**	682.5	**147.7**	325.8
Total assets		**14,025.4**	10,579.4	**5,184.8**	5,362.9
Current liabilities					
Short-term borrowings and overdrafts	21	**(46.7)**	(50.8)	**(34.0)**	–
Trade and other payables	22	**(585.0)**	(577.2)	**–**	–
Current tax liabilities		**(212.5)**	(37.9)	**(3.6)**	–
Total current liabilities		**(844.2)**	(665.9)	**(37.6)**	–
Non-current liabilities					
Provisions	23	**(58.2)**	(42.0)	**–**	–
Borrowings	24	**(3,654.8)**	(2,392.3)	**–**	–
Pension benefits	25	**(6.5)**	(10.9)	**–**	–
Deferred tax liabilities	26	**(1,967.8)**	(1,418.0)	**–**	–
Total non-current liabilities		**(5,687.3)**	(3,863.2)	**–**	–
Total liabilities		**(6,531.5)**	(4,529.1)	**(37.6)**	–
Net assets		**7,493.9**	6,050.3	**5,147.2**	5,362.9
Equity					
Ordinary shares	28, 30	**46.9**	46.8	**46.9**	46.8
Treasury shares	30	**(3.4)**	(2.1)	**–**	–
Share-based payments	30	**6.3**	3.3	**–**	–
Share premium	30	**43.2**	31.4	**43.2**	31.4
Capital redemption reserve	30	**30.5**	30.5	**30.5**	30.5
Merger reserve	30	**–**	–	**373.6**	373.6
Retained earnings	30	**7,370.4**	5,940.4	**4,653.0**	4,880.6
Total shareholders' equity		**7,493.9**	6,050.3	**5,147.2**	5,362.9

The financial statements on pages 101 to 136 were approved by the Board of Directors on 23 May 2006 and were signed on its behalf by:

F W Salway **M F Greenslade**

Directors

Cash flow statements for the year ended 31 March 2006

Group	Notes	2006 £m	2006 £m	2005 £m	2005 £m
Net cash generated from operations					
Cash generated from operations	31		**591.5**		523.4
Interest paid			**(187.7)**		(313.5)
Interest received			**7.3**		18.3
Funding pension scheme deficit			**(4.9)**		(15.2)
Taxation (corporation tax received)			**(30.3)**		3.6
Net cash inflow from operations			**375.9**		216.6
Cash flows from investing activities					
Investment property development expenditure		**(236.6)**		(215.3)	
Acquisition of investment properties		**(1,429.2)**		(309.8)	
Other investment property related expenditure		**(78.8)**		(40.6)	
Capital expenditure associated with property outsourcing		**(29.7)**		(122.5)	
Capital expenditure on properties		**(1,774.3)**		(688.2)	
Disposal of fixed asset investment properties		**675.5**		335.1	
Disposal of fixed asset operating properties		**4.1**		355.3	
Net expenditure on properties		**(1,094.7)**		2.2	
Net expenditure on non-property related fixed assets		**(26.9)**		(19.3)	
Net cash outflow from capital expenditure		**(1,121.6)**		(17.1)	
Receivable finance leases acquired		**(84.8)**		(92.6)	
Receipts in respect of receivable finance leases		**2.3**		2.3	
Net loans made to joint ventures		**(72.8)**		(88.8)	
Distributions from joint ventures		**206.6**		245.8	
Proceeds from disposal of joint venture (Telereal)		**293.0**		–	
Acquisitions of Group undertakings (net of cash acquired)		**(321.2)**		(5.4)	
Net cash (used in)/from investing activities			**(1,098.5)**		44.2
Cash flows from financing activities					
Issue of shares		**11.9**		15.7	
Purchase of own share capital		**(1.9)**		(2.1)	
Increase/(decrease) in debt		**1,221.2**		(322.2)	
Debt repaid on acquisition of Tops Estates		**(257.9)**		–	
Decrease in finance leases payable		**(1.2)**		(1.0)	
Repayment of B shares		**–**		(8.4)	
Dividend paid to ordinary shareholders		**(238.9)**		(175.5)	
Net cash from/(used in) financing activities			**733.2**		(493.5)
Increase/(decrease) in cash and cash equivalents at end of the year			**10.6**		(232.7)

Company	Notes	2006 £m	2006 £m	2005 £m	2005 £m
Net cash generated from operations					
Cash generated from operations	31		**182.8**		165.0
Interest paid			**(5.4)**		(17.9)
Interest received			**17.5**		8.4
Taxation (corporation tax received)			**2.8**		7.8
Net cash inflow from operations			**197.7**		163.3
Cash flows from financing activities					
Issue of shares		**11.9**		15.7	
Repayment of B shares		**–**		(8.4)	
Dividend paid to ordinary shareholders		**(238.9)**		(175.5)	
Net cash used in financing activities			**(227.0)**		(168.2)
Decrease in cash and cash equivalents at end of the year			**(29.3)**		(4.9)

Notes to the financial statements

for the year ended 31 March 2006

1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS as adopted by the European Union ('EU') and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, financial assets and liabilities held for trading. A summary of the more important group accounting policies is set out in note 2 below.

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

The disclosures required by IFRS 1 'First time adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in note 35.

2. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of Land Securities Group PLC ('the Company') and its subsidiaries up to 31 March 2006. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

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

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

(b) Acquisitions and business combinations

Where properties are acquired through corporate acquisitions and there are no significant assets or liabilities other than property, the acquisition is treated as an asset acquisition. In all other cases the acquisition is accounted for as a business combination, in which case, the assets and liabilities of a subsidiary or joint venture are measured at their estimated fair value at the date of acquisition.

(c) Segment reporting

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

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

(d) Investment properties

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

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

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

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

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

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

(e) Property, plant and equipment

Operating properties

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

2. Significant accounting policies continued

over the estimated useful lives of the properties concerned.

The estimated useful lives are as follows:

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

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

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

(f) Goodwill
At the date of the Group's transition to IFRS, 1 April 2004, the goodwill in the Group balance sheet represented that arising on the acquisition of Trillium less amortisation to that date. In accordance with IFRS 1 'First-time adoption of IFRS', this amount has been adopted as the carrying amount of the goodwill for IFRS accounting purposes and the goodwill was reviewed for impairment at 31 March 2004 and at each subsequent year end. In accordance with IFRS 3 'Business combinations', the goodwill is not amortised but is reviewed for impairment at each reporting date. The Group's policy on impairment is set out in (t) below.

(g) Investment in subsidiary undertakings
Investments in subsidiaries are stated at cost less any provision for permanent impairment in value.

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

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

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

(k) Trade and other payables
Trade and other payables are stated at cost.

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

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

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

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

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

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

Contributions to defined contribution schemes are expensed as incurred.

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

The consideration paid, including any directly attributable incremental costs, by any Group entity to acquire the Company's equity share capital (treasury shares), is deducted from equity until the shares are cancelled, reissued or disposed of. Where treasury shares are sold or reissued, the net consideration received is included in equity.

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

(q) Revenue
Revenue comprises rental income, service charges and other recoveries from tenants of the Group's investment and trading properties, property services income earned by its property outsourcing business, proceeds of sales of its trading properties and income arising on long-term contracts. Rental income includes the income from managed operations such as car parks, food courts, serviced offices and flats. Service charges and other recoveries include income in relation to services charges and directly recoverable expenditure together with any chargeable management fees. Property services income

2. Significant accounting policies continued

represents unitary charges and the recovery of other direct property or contract expenditure reimbursable by customers. Where revenue is obtained from the rendering of services, it is recognised by reference to the stage of completion of the relevant transactions at the reporting date. The Group discloses its joint venture revenue on a gross basis as this is considered to be a more meaningful presentation.

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

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

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

(r) Expenses

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

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

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

(s) Exceptional items

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

(t) Impairment

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

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

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

(u) Derivative financial instruments ('derivatives')

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

Derivatives are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss unless the derivatives qualify for hedge accounting, in which case recognition depends on the nature of the item being hedged.

Where a derivative is designated as a hedge of the variability of a highly probable forecasted transaction, i.e. an interest payment, the element of the gain or loss on the derivative that is an effective hedge is recognised directly in equity. When the hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised. The gain or loss on any ineffective element of any hedge is recognised in the income statement immediately.

(v) Income tax

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

In particular, deferred tax is provided on the full difference between the original cost of investment properties and their carrying amounts at the reporting date without taking into account deductions and allowances which would only apply if the properties concerned were to be sold, except where such properties are classified as held for disposal.

No provision is made for temporary differences (i) arising on the initial recognition of assets or liabilities 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.

(w) Leases

A Group company is the lessee

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

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

2. Significant accounting policies continued

a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are subsequently carried at their fair value.

A Group company is the lessor

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

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

(x) Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Significant judgements, key assumptions and estimates

(a) Goodwill

Goodwill arising from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations has been judged not to be an asset and is accordingly impaired on completion of the relevant acquisition.

(b) Distinction between operating properties and investment properties

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

(c) Finance lease calculations

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

(d) Trading properties

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

(e) Trade receivables

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

(f) Exceptional items

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

(g) Investment property valuation

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

(h) Unagreed rent reviews

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

4. Segmental information

Group	Retail £m	London Portfolio £m	Other Investment Portfolio £m	Property Outsourcing £m	2006 Total £m	Retail £m	London Portfolio £m	Other Investment Portfolio £m	Property Outsourcing £m	2005 Total £m
Income statements										
Rental income	**255.9**	**278.5**	**4.3**	**–**	**538.7**	204.0	252.1	15.8	–	471.9
Service charge income	**38.3**	**40.0**	**0.2**	**–**	**78.5**	33.9	34.2	1.3	–	69.4
Property services income	**–**	**–**	**–**	**924.8**	**924.8**	–	–	–	763.6	763.6
Trading property sale proceeds	**–**	**93.8**	**5.9**	**–**	**99.7**	–	1.0	21.3	100.2	122.5
Long-term development contract income	**–**	**95.7**	**78.4**	**–**	**174.1**	–	64.4	126.8	–	191.2
Finance lease interest	**4.4**	**6.0**	**–**	**2.5**	**12.9**	2.1	6.4	–	–	8.5
Revenue	**298.6**	**514.0**	**88.8**	**927.3**	**1,828.7**	240.0	358.1	165.2	863.8	1,627.1
Rents payable	**(12.0)**	**(4.1)**	**–**	**(183.9)**	**(200.0)**	(9.7)	(3.8)	–	(183.6)	(197.1)
Other direct property or contract expenditure	**(59.7)**	**(47.9)**	**(0.9)**	**(610.1)**	**(718.6)**	(41.6)	(46.1)	(3.8)	(446.5)	(538.0)
Indirect property or contract expenditure	**(32.7)**	**(28.7)**	**(4.8)**	**(8.8)**	**(75.0)**	(22.7)	(22.0)	(1.7)	(8.1)	(54.5)
Long-term development contract expenditure	**–**	**(74.7)**	**(77.5)**	**–**	**(152.2)**	–	(53.2)	(126.4)	–	(179.6)
Bid costs	**–**	**–**	**–**	**(7.4)**	**(7.4)**	–	–	–	(2.6)	(2.6)
Cost of sales of trading properties	**–**	**(78.0)**	**(4.2)**	**–**	**(82.2)**	–	(0.8)	(15.1)	(96.3)	(112.2)
Depreciation	**(1.0)**	**(4.1)**	**(0.1)**	**(20.5)**	**(25.7)**	(1.9)	(4.5)	(0.2)	(29.0)	(35.6)
	193.2	**276.5**	**1.3**	**96.6**	**567.6**	164.1	227.7	18.0	97.7	507.5
Profit on disposal of fixed asset properties	**40.1**	**33.2**	**0.2**	**1.0**	**74.5**	14.1	29.8	37.6	30.5	112.0
Net surplus on revaluation of investment properties	**636.9**	**935.5**	**5.2**	**1.9**	**1,579.5**	397.4	412.1	18.4	–	827.9
Goodwill impairment	**(64.5)**	**–**	**–**	**–**	**(64.5)**	(12.7)	–	–	–	(12.7)
Profit on disposal of joint venture (Telereal)	**–**	**–**	**–**	**293.0**	**293.0**	–	–	–	–	–
Segment result	**805.7**	**1,245.2**	**6.7**	**392.5**	**2,450.1**	562.9	669.6	74.0	128.2	1,434.7
Credit arising from change in pension scheme benefits					**8.3**					–
Unallocated expenses					**(15.0)**					(15.1)
Exceptional costs					**–**					(14.8)
Operating profit					**2,443.4**					1,404.8
Net financing costs – ordinary					**(194.5)**					(189.0)
– exceptional					**–**					(49.8)
					2,248.9					1,166.0
Share of the profit of joint ventures (post-tax)					**98.6**					76.1
Distribution received from joint venture (Telereal)					**11.7**					65.4
Profit before tax					**2,359.2**					1,307.5

Included within rents payable is finance lease interest payable of **£1.8m** (2005: £2.0m) and **£2.8m** (2005: £2.4m) respectively for Retail and London Portfolio.

The share of the profit of joint ventures (post-tax) of **£98.6m** (2005: £76.1m) is attributable to Retail.

The distribution received from the joint venture (Telereal) of **£11.7m** (2005: £65.4m) is attributable to Property Outsourcing.

4. Segmental information continued

Group	Retail 2006 £m	London Portfolio 2006 £m	Other Investment Portfolio 2006 £m	Property Outsourcing 2006 £m	Total 2006 £m	Retail 2005 £m	London Portfolio 2005 £m	Other Investment Portfolio 2005 £m	Property Outsourcing 2005 £m	Total 2005 £m
Balance sheets										
Investment properties	**5,514.6**	**5,856.5**	**69.4**	**–**	**11,440.5**	3,678.3	4,418.3	143.5	–	8,240.1
Operating properties	**–**	**–**	**–**	**563.2**	**563.2**	–	–	–	546.3	546.3
Other property, plant and equipment	**7.3**	**6.5**	**4.7**	**55.1**	**73.6**	4.8	4.3	0.5	48.3	57.9
Net investment in finance leases	**73.8**	**107.1**	**–**	**53.0**	**233.9**	39.7	108.9	–	14.8	163.4
Goodwill	**–**	**–**	**–**	**34.3**	**34.3**	–	–	–	34.3	34.3
Investment in equity accounted joint ventures	**768.5**	**–**	**41.2**	**19.8**	**829.5**	841.9	–	13.0	–	854.9
Trading properties and long-term development contracts	**–**	**150.5**	**104.3**	**1.1**	**255.9**	–	125.3	36.9	1.8	164.0
Trade and other receivables	**158.7**	**207.5**	**9.7**	**202.7**	**578.6**	181.4	53.8	11.2	267.1	513.5
Segment assets	**6,522.9**	**6,328.1**	**229.3**	**929.2**	**14,009.5**	4,746.1	4,710.6	205.1	912.6	10,574.4
Unallocated assets					**15.9**					5.0
Total assets					**14,025.4**					10,579.4
Trade and other payables	**(153.4)**	**(135.0)**	**(31.5)**	**(235.6)**	**(555.5)**	(135.4)	(143.3)	(19.6)	(256.9)	(555.2)
Non-current payables	**–**	**–**	**–**	**(58.2)**	**(58.2)**	–	–	–	(42.0)	(42.0)
Segment liabilities	**(153.4)**	**(135.0)**	**(31.5)**	**(293.8)**	**(613.7)**	(135.4)	(143.3)	(19.6)	(298.9)	(597.2)
Unallocated liabilities					**(5,917.8)**					(3,931.9)
Total liabilities					**(6,531.5)**					(4,529.1)
Other segment items										
Capital expenditure	**121.3**	**207.8**	**0.6**	**45.5**	**375.2**	89.7	160.2	5.8	33.7	289.4

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

Company

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

5. Employee costs

Group	2006 No.	2005 No.	2006 £m	2005 £m
The average number of employees during the year, excluding directors, and the corresponding aggregate employee costs were:				
Indirect property or contract and administration	**499**	453	**44.9**	38.7
Direct property or contract services:				
Full time	**1,258**	1,218	**52.0**	48.2
Part time	**85**	63	**1.5**	1.1
	1,842	1,734	**98.4**	88.0
Employee costs				
Salaries			**74.3**	67.2
Social Security			**13.6**	8.0
Other pension			**8.2**	11.6
Share-based payments			**2.3**	1.2
			98.4	88.0
Directors				
Aggregate emoluments excluding pensions			**4.2**	3.7
Company contributions to pension schemes			**0.8**	0.4
			5.0	4.1

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

Five directors (2005: five) have retirement benefits accruing under money purchase pension schemes. Retirement benefits accrue to **one** director (2005: one) under the Group's defined benefit pension scheme. Information on directors' emoluments, share options and interests in the Company's shares is given in the Remuneration Report on pages 90 to 96.

6. Net finance costs

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Interest expense				
Bond and debenture debt	**(143.1)**	(149.9)	**–**	–
Bank borrowings	**(56.8)**	(55.5)	**–**	–
Other interest payable	**(1.3)**	(0.9)	**(5.4)**	(17.8)
Loans from joint ventures	**–**	(0.3)	**–**	–
Fair value losses on interest rate swaps	**(2.2)**	(0.8)	**–**	–
Amortisation of bond exchange de-recognition (note 24)	**(26.6)**	(11.2)	**–**	–
Bond exchange de-recognition adjustment written off on redemption of bonds (note 24)	**(1.5)**	–	**–**	–
Expected return on pension scheme assets	**7.3**	6.4	**–**	–
Interest on pension scheme liabilities	**(7.2)**	(6.7)	**–**	–
Net financing income/(expense) on pension scheme	**0.1**	(0.3)	**–**	–
B share dividends	**–**	(0.1)	**–**	(0.1)
	(231.4)	(219.0)	**(5.4)**	(17.9)
Interest capitalised in relation to properties under development	**29.6**	20.2	**–**	–
Total interest and similar charges payable – ordinary	**(201.8)**	(198.8)	**(5.4)**	(17.9)
Cost of purchase and redemption of bonds and debenture debt	**–**	(49.8)	**–**	–
Total interest and similar charges payable – exceptional	**–**	(49.8)	**–**	–
Interest income				
Short-term deposits	**1.0**	7.1	**–**	0.2
Other interest receivable	**1.7**	2.7	**17.5**	8.2
Interest receivable from joint ventures	**4.6**	–	**–**	–
Total interest receivable	**7.3**	9.8	**17.5**	8.4
Net finance costs	**(194.5)**	(238.8)	**12.1**	(9.5)

Included within rents payable (note 4) is finance lease interest payable of **£4.6m** (2005: £4.4m).

7. Profit before taxation

	2006 £m	2005 £m
The following items have been charged or (credited) in arriving at profit before taxation:		
Employee costs (note 5)	**98.4**	88.0
Depreciation of property, plant and equipment (note 13):		
Investment properties	**2.9**	2.6
Operating properties	**11.6**	20.6
Other property, plant and equipment	**11.2**	12.4
Impairment of goodwill (note 15)	**64.5**	12.7
Profit on disposal of fixed asset properties	**(74.5)**	(112.0)
Profit on disposal of joint venture (Telereal)	**(293.0)**	–
Bad debts written off and provision for doubtful debts	**13.1**	5.3
Services provided by the Group's auditor		
During the year the Group obtained the following services from the Group's auditor at costs as detailed below:		
Audit services		
Statutory audit (Company: 2006: £0.1m; 2005: £0.1m)	**0.8**	0.6
Further assurance services	**0.5**	0.4
Tax services		
Compliance services	**0.2**	0.2
Advisory services	**0.3**	–
	1.8	1.2

8. Exceptional items

	2006 £m	2005 £m
Profit on disposal of joint venture (Telereal)	**(293.0)**	–
Goodwill impairment	**64.5**	12.7
Debt restructuring – charged to costs	**–**	14.8
– charged to interest	**–**	49.8

On 30 September 2005 the Group sold its interest in the Telereal joint venture for £293.0m (net of costs), resulting in an exceptional profit of £293.0m, as the book value of the joint venture was £nil. The tax charge arising on the disposal was £90.0m. Where goodwill arises as a result of recognising deferred tax on a business combination, the goodwill is written off immediately to the income statement. The goodwill impaired arose on the acquisition of Tops Estates PLC on 10 June 2005 and on the assets acquired from Slough Estates PLC on 15 December 2004. On 3 November 2004, the Group completed a debt exchange whereby a predominately secured funding strategy was established. The costs of this debt restructuring have been treated as exceptional.

9. Income tax expense

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Current tax				
Corporation tax charge/(credit) for the year	**181.6**	(66.8)	**3.6**	–
Adjustment in respect of prior years	**(14.7)**	(26.0)	**(2.8)**	–
Corporation tax in respect of property disposals	**38.0**	46.7	**–**	–
Total current tax charge/(credit)	**204.9**	(46.1)	**0.8**	–
Deferred tax				
Origination and reversal of timing differences	**34.6**	149.4	**–**	–
Released in respect of property disposals	**(30.1)**	(105.0)	**–**	–
On valuation surplus	**473.9**	248.3	**–**	–
Total deferred tax charge	**478.4**	292.7	**–**	–
Total income tax charge in the income statement	**683.3**	246.6	**0.8**	–
The tax for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:				
Profit on activities before taxation	**2,359.2**	1,307.5	**12.1**	1,890.5
Profit on activities multiplied by rate of corporation tax in the UK of 30%	**707.8**	392.2	**3.6**	567.1
Effects of:				
Deferred tax released in respect of property disposals	**(34.7)**	(105.0)	**–**	–
Corporation tax on disposal of fixed assets	**23.0**	13.6	**–**	–
Goodwill impairment	**19.4**	3.8	**–**	–
Joint venture accounting adjustments	**(26.5)**	(37.7)	**–**	–
Prior year corporation tax adjustments	**(14.7)**	(26.0)	**(2.8)**	–
Prior year deferred tax adjustments	**0.8**	(3.4)	**–**	–
Non-allowable expenses and non-taxable items	**8.2**	9.1	**–**	(567.1)
Total income tax expense in the income statement (as above)	**683.3**	246.6	**0.8**	–

The calculation of the Group's tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. In such cases the Group has reserved on the basis that these provisions will be required. If all such issues are resolved in the Group's favour, provisions of up to £225.0m could be released in the future.

10. Dividends

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Ordinary dividends paid				
Final dividend for the year ended 31 March 2005 (32.85p per share)	**153.8**	–	**153.8**	–
Final dividend for the year ended 31 March 2004 (27.20p per share)	**–**	126.9	**–**	126.9
Interim dividend for the year ended 31 March 2006 (18.15p per share)	**85.1**	–	**85.1**	–
Interim dividend for the year ended 31 March 2005 (10.40p per share)	**–**	48.6	**–**	48.6
	238.9	175.5	**238.9**	175.5

The Board has proposed a final dividend of **28.55p** per share (final dividend for the year ended 31 March 2005: 32.85p) which will result in a further distribution of **£134.0m**. It will be paid on 24 July 2006 to shareholders who are on the register of members on 23 June 2006.

11. Earnings per share

Earnings	2006 £m	2005 £m
Profit for the financial year	**1,675.9**	1,060.9
Revaluation surpluses net of deferred taxation – Group	**(1,105.6)**	(579.6)
– joint ventures	**(73.8)**	(48.7)
Fixed asset property disposals after current and deferred tax	**(66.5)**	(178.4)
Goodwill impairment	**64.5**	12.7
Deferred tax arising from capital allowances on investment properties	**12.2**	9.3
Mark-to-market adjustment on interest rate swaps (net of deferred tax)	**1.5**	1.9
Eliminate effect of bond exchange de-recognition (net of deferred tax)	**19.7**	7.8
Deferred tax arising from capitalised interest on investment properties	**7.2**	5.2
Exceptional costs of debt restructuring	**–**	45.4
Credit arising from change in pension scheme benefits (net of deferred tax)	**(5.8)**	–
Profit on disposal of joint venture (net of taxation)	**(203.0)**	–
Adjustment to restate the Group's share of Telereal's earnings from a distribution to an equity basis	**5.0**	(23.2)
Adjusted earnings	**331.3**	313.3

Weighted average number of ordinary shares	No. m	No. m
Weighted average number of ordinary shares	**468.5**	466.9
Effect of own shares	**(0.3)**	(0.2)
Weighted average number of ordinary shares after adjusting for own shares	**468.2**	466.7
Effect of dilutive share options	**1.9**	1.8
Weighted average number of ordinary shares adjusted for dilutive instruments	**470.1**	468.5

Earnings per share	pence	pence
Basic earnings per share	**357.95**	227.32
Diluted earnings per share	**356.50**	226.45
Adjusted earnings per share	**70.76**	67.13
Adjusted diluted earnings per share	**70.47**	66.87

Management have chosen to disclose adjusted earnings per share in order to provide a better indication of the Group's underlying business performance. Accordingly, it excludes the effect of all exceptional items, the one-off benefit from the pension scheme changes and other items of a capital nature (excluding trading properties and long-term contract profits) as indicated above. In addition, the deferred tax arising on capital allowances in respect of investment properties has been eliminated as experience has shown that these allowances are not in practice repayable. Deferred tax on capitalised interest is also added back as this is effectively a permanent timing difference.

12. Net assets per share

Shareholders' equity	2006 £m	2005 £m
Net assets attributable to equity shareholders	**7,493.9**	6,050.3
Deferred tax arising on revaluation surpluses – Group	**1,580.9**	1,117.9
– joint ventures	**75.5**	43.8
– acquired	**83.3**	19.0
Cumulative mark-to-market adjustment on interest rate swaps (net of deferred tax) – Group	**5.4**	2.3
– joint ventures	**3.2**	1.3
Deferred tax arising from capital allowances on investment properties	**116.8**	112.7
Deferred tax arising from capitalised interest on investment properties	**28.2**	32.3
Reverse bond exchange de-recognition adjustment (net of deferred tax)	**(375.3)**	(395.0)
Adjusted net assets attributable to equity shareholders	**9,011.9**	6,984.6

12. Net assets per share continued

Number of ordinary shares	2006 No. m	2005 No. m
Number of ordinary shares	**469.3**	467.8
Effect of dilutive share options	**2.1**	1.7
Number of ordinary shares adjusted for dilutive instruments	**471.4**	469.5

Net assets per share	pence	pence
Net assets per share	**1597**	1293
Diluted net assets per share	**1590**	1289
Adjusted net assets per share	**1920**	1493
Adjusted diluted net assets per share	**1912**	1488

Adjusted net assets per share excludes the deferred tax arising on revaluation surpluses, mark-to-market adjustments on financial instruments used for hedging purposes and the bond exchange de-recognition adjustment as management consider that this better represents the expected future cash flows of the Group. In addition, the deferred tax arising on capital allowances in respect of investment properties is excluded as experience has shown that these allowances do not in practice crystallise. Deferred tax on capitalised interest is also added back as this is effectively a permanent timing difference. The adjusted net assets per share does not take into account management's estimate of the tax on property disposals as referred to in note 26.

13. Non-current assets

	Property investment			Property Outsourcing	Other	
	Investment properties				Other	
	Portfolio management £m	Development programme £m	Total £m	Operating and investment properties £m	Other property, plant and equipment £m	Total £m
Net book value at 1 April 2004	**6,763.1**	**731.1**	**7,494.2**	**769.2**	**51.0**	**8,314.4**
Properties transferred from portfolio management into the development programme during the year (at 1 April 2004 valuation)	(151.0)	151.0	–	–	–	–
Developments completed, let and transferred from the development programme into portfolio management during the year	485.4	(485.4)	–	–	–	–
Property acquisitions	311.9	–	311.9	103.6	–	415.5
Acquisitions through business combinations	197.0	–	197.0	–	–	197.0
Capital expenditure	40.6	205.4	246.0	18.9	24.5	289.4
Transfer from finance leases	29.1	–	29.1	–	–	29.1
Capitalised interest	–	17.5	17.5	–	–	17.5
Disposals	(558.6)	(95.7)	(654.3)	(324.8)	(5.2)	(984.3)
Transfer to trading properties	(30.0)	–	(30.0)	–	–	(30.0)
Surrender premiums received	(20.7)	–	(20.7)	–	–	(20.7)
Properties contributed to the Metro Shopping Fund LP and the Bristol Alliance	(175.9)	–	(175.9)	–	–	(175.9)
Depreciation	(2.6)	–	(2.6)	(20.6)	(12.4)	(35.6)
	6,888.3	523.9	7,412.2	546.3	57.9	8,016.4
Surplus on revaluation	596.2	231.7	827.9	–	–	827.9
Net book value at 31 March 2005	**7,484.5**	**755.6**	**8,240.1**	**546.3**	**57.9**	**8,844.3**
Properties transferred from portfolio management into the development programme during the year (at 1 April 2005 valuation)	(102.4)	102.4	–	–	–	–
Developments completed, let and transferred from the development programme into portfolio management during the year	271.6	(271.6)	–	–	–	–
Property acquisitions	1,414.1	24.7	1,438.8	–	–	1,438.8
Acquisitions through business combinations	592.6	–	592.6	–	–	592.6
Capital expenditure	78.8	239.3	318.1	29.7	27.4	375.2
Capitalised interest	–	24.5	24.5	–	–	24.5
Disposals	(641.8)	(7.8)	(649.6)	(3.1)	(0.5)	(653.2)
Transfer to trading properties	(84.7)	–	(84.7)	–	–	(84.7)
Surrender premiums received	(14.0)	–	(14.0)	–	–	(14.0)
Depreciation	(2.9)	–	(2.9)	(11.6)	(11.2)	(25.7)
	8,995.8	867.1	9,862.9	561.3	73.6	10,497.8
Surplus on revaluation	1,215.4	362.2	1,577.6	1.9	–	1,579.5
Net book value at 31 March 2006	**10,211.2**	**1,229.3**	**11,440.5**	**563.2**	**73.6**	**12,077.3**

13. Non-current assets continued

The following table reconciles the net book value of the investment properties to the market value. The components of the reconciliation are included within their relevant balance sheet headings.

	Investment properties Portfolio management £m	Investment properties Development programme £m	Total £m
Net book value at 31 March 2005	7,484.5	755.6	8,240.1
Plus: amount included in prepayments in respect of lease incentives	59.1	3.7	62.8
Less: head leases capitalised (note 27)	(58.2)	(11.7)	(69.9)
Plus: properties treated as finance leases	138.9	–	138.9
Market value at 31 March 2005 – Group	7,624.3	747.6	8,371.9
– plus: share of joint ventures (note 17)			993.9
Market value at 31 March 2005 – Group and share of joint ventures			**9,365.8**
Net book value at 31 March 2006	10,211.2	1,229.3	11,440.5
Plus: amount included in prepayments in respect of lease incentives	76.8	4.6	81.4
Less: head leases capitalised (note 27)	(66.1)	(8.5)	(74.6)
Plus: properties treated as finance leases	171.7	–	171.7
Market value at 31 March 2006 – Group	10,393.6	1,225.4	11,619.0
– plus: share of joint ventures (note 17)			1,273.9
Market value at 31 March 2006 – Group and share of joint ventures			**12,892.9**

Included in investment properties are leasehold properties with a net book value of **£1,419.8m** (2005: £1,283.2m).

In accordance with IFRS1 'First time adoption of International Reporting Standards' and IAS 17 'Leases', the Group has reviewed the classification of all leases at the opening balance sheet date of 1 April 2004. In reviewing leases of land and buildings in accordance with IAS 17 the land and buildings elements of the lease need to be considered separately. On this basis, leases on 43 properties entered into between 1923 and 2003 were reclassified as finance leases in these accounts. This resulted in an increase in fixed assets of £77.2m and a finance lease creditor of the same amount at first time adoption on 1 April 2004. At 31 March 2006 leases on 34 properties entered into between 1936 and 2005 were classified as finance leases. The corresponding increase in fixed assets and finance lease creditor was **£74.6m** (2005: £69.6m). Operating lease expense has reduced by **£5.8m** (2005: £5.4m).

The fair value of the Group's investment properties at 31 March 2006 has been arrived at on the basis of a valuation carried out at that date by Knight Frank LLP, independent valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. Included within the property outsourcing operating and investment properties are investment properties with a market value of **£27.1m** (2005: £24.4m). Fixed asset properties include capitalised interest of **£115.8m** (2005: £120.9m). The average rate of capitalisation is **5.5%** (2005: 6.8%). The historical cost of investment properties is **£6,265.5m** (2005: £4,594.7m). The current value of investment properties in respect of proposed developments is **£383.8m** (2005: £189.2m). Developments are transferred out of the development programme when physically complete and 95% let. Schemes completed during the year were Bexhill Retail Park; Whitefriars, Canterbury; Eastbourne Terrace, W2; and Summerland Gate, Exeter. The property rental income earned by the Group from its investment properties amounted to **£537.2m** (2005: £471.2m).

Capital commitments	2006 £m	2005 £m
Development contracts	**689.8**	522.5

14. Net investment in finance leases

	2006 £m	2005 £m
Non-current		
Finance leases – gross receivables	**595.6**	372.1
Unearned finance income	**(391.1)**	(241.9)
Unguaranteed residual value	**29.4**	33.2
	233.9	163.4
Current		
Finance leases – gross receivables	**14.8**	11.2
Unearned finance income	**(10.6)**	(8.7)
	4.2	2.5
Total net investment in finance leases	**238.1**	165.9

14. Net investment in finance leases continued

	2006 £m	2005 £m
Gross receivables from finance leases:		
Not later than one year	**14.8**	11.2
Later than one year but not more than five	**72.5**	81.8
More than five years	**523.1**	290.3
	610.4	383.3
Unearned future finance income	**(401.7)**	(250.6)
Unguaranteed residual value	**29.4**	33.2
Net investment in finance leases	**238.1**	165.9

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

15. Goodwill

	2006 £m	2005 £m
At beginning of year	**34.3**	34.3
Arising on acquisitions during the year (note 32)	**64.5**	12.7
Impaired during the year	**(64.5)**	(12.7)
At end of year	**34.3**	34.3
Represented by:		
Gross goodwill recognised	**119.2**	54.7
Total accumulated impairment losses	**(84.9)**	(20.4)
	34.3	34.3

The goodwill carried in the Group balance sheet relates entirely to the Group's property outsourcing business, Land Securities Trillium, which is a cash-generating unit as defined in IAS 36 'Impairment of Assets'. This goodwill is tested annually for impairment or more frequently if there are indications that the goodwill might be impaired. Impairment is tested by comparing the carrying amount of the business' assets and liabilities with its recoverable amount, being its value in use. The latter is calculated by reference to the cash flow projections prepared annually by the business for its major contracts and covering the entire term of the contracts concerned but without assuming any renewals. The main assumptions underlying the forecasts are the relative inflation rates applying to costs and revenues and the amount of expenditure required for the business to fulfil its service level commitments. The cash flows are discounted at a rate reflecting market assessments of the time value of money and the risks specific to the business. The discount rate used for the 2006 test was 8.5%.

During the year, the Group acquired 100% of Tops Estates PLC. The fair value exercise gave rise to goodwill of £64.5m. Similarly, during the prior year the Group acquired a retail property portfolio from Slough Estates plc. The fair value exercise gave rise to goodwill of £12.7m. The goodwill arises primarily from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations. The former is based on the difference between the values of the assets and liabilities concerned for accounts purposes and those applying for taxation. The latter is based on tax payments likely to be made. In the Group's opinion, the carrying amount of this goodwill cannot be justified by reference to future cash flows and it has accordingly been impaired.

16. Investment in Group undertakings

Company	2006 £m	2005 £m
At beginning of year	**5,037.1**	4,092.7
Additions	**–**	944.4
At end of year	**5,037.1**	5,037.1

Certain subsidiaries and joint ventures have non-coterminous year ends. In these circumstances management accounts prepared at 31 March 2006 are used for the purposes of the Group consolidation. The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The principal Group undertakings, all of which are wholly owned, either directly by the Company or through a fellow subsidiary undertaking, and its joint ventures, which are 50% owned (with the exception of the Bullring Limited Partnership which is 33% owned), are:

Wholly owned Group undertakings		**Joint ventures**
Group operations	**Investment property business**	
Land Securities Properties Limited	Land Securities Intermediate Limited	Scottish Retail Property Limited Partnership
Property Outsourcing	Land Securities Property Holdings Limited	Metro Shopping Fund LP
Land Securities Trillium Limited	Ravenseft Properties Limited	Buchanan Galleries Limited Partnership
	The City of London Real Property Company Limited	Bullring Limited Partnership
	Ravenside Investments Limited	

All principal Group undertakings are incorporated in England and Wales. A full list of subsidiary undertakings at 31 March 2006 will be annexed to the Company's next annual return.

17. Investment in joint ventures

Year ended 31/03/06 and at 31/03/06

Summary financial information of Group's share of joint ventures	Scottish Retail Property Limited Partnership £m	Metro Shopping Fund LP £m	Buchanan Galleries Limited Partnership £m	Parc Tawe £m	Martineau Galleries Limited Partnership £m	Bullring Limited Partnership £m	Bristol Alliance £m	Other* £m	Telereal £m	Total £m
Income statement										
Rental income	20.8	11.8	9.1	0.5	1.3	14.6	3.5	0.5	–	62.1
Service charges income	4.8	2.3	1.5	–	0.4	2.1	–	–	–	11.1
Property services income	–	–	–	–	–	–	–	–	80.8	80.8
Trading property sale proceeds	–	–	–	–	–	–	–	–	5.5	5.5
Revenue	25.6	14.1	10.6	0.5	1.7	16.7	3.5	0.5	86.3	159.5
Rents payable	–	–	–	–	(0.1)	–	–	–	(17.1)	(17.2)
Other direct property expenditure	(8.8)	(3.2)	(2.5)	(0.1)	(1.2)	(4.0)	(0.5)	–	–	(20.3)
Indirect property expenditure	(1.0)	(0.6)	(0.1)	–	–	(0.3)	(0.3)	–	(7.6)	(9.9)
Cost of sales of trading properties	–	–	–	–	–	–	–	–	(1.3)	(1.3)
Depreciation	–	–	–	–	–	–	–	–	(7.1)	(7.1)
	15.8	10.3	8.0	0.4	0.4	12.4	2.7	0.5	53.2	103.7
Profit on disposal of fixed asset properties	–	–	–	–	–	(0.2)	–	0.1	0.9	0.8
Net surplus/(deficit) on revaluation of investment properties	20.7	23.2	14.4	0.1	(0.3)	31.3	15.7	0.4	–	105.5
Operating profit	36.5	33.5	22.4	0.5	0.1	43.5	18.4	1.0	54.1	210.0
Net finance costs	(10.8)	(9.4)	(4.3)	–	0.1	0.1	0.3	(0.3)	(32.9)	(57.2)
Profit before tax	25.7	24.1	18.1	0.5	0.2	43.6	18.7	0.7	21.2	152.8
Income tax (expense)/credit	(6.5)	(7.8)	(4.3)	–	0.1	(9.7)	(4.7)	(0.1)	(4.5)	(37.5)
Profit after tax	19.2	16.3	13.8	0.5	0.3	33.9	14.0	0.6	16.7	115.3
Adjustment due to net liabilities	–	–	–	–	–	–	–	–	(16.7)	(16.7)
Share of profits of joint ventures after tax	**19.2**	**16.3**	**13.8**	**0.5**	**0.3**	**33.9**	**14.0**	**0.6**	**–**	**98.6**
Distribution received from Telereal									11.7	11.7
Balance sheet										
Investment properties**	345.3	275.9	173.9	21.4	22.8	297.2	120.7	11.2	–	1,268.4
Operating properties	–	–	–	–	–	–	–	–	–	–
Current assets	12.0	7.8	6.6	3.9	2.0	10.6	16.3	39.0	–	98.2
	357.3	283.7	180.5	25.3	24.8	307.8	137.0	50.2	–	1,366.6
Current liabilities	(17.7)	(8.5)	(4.2)	(0.4)	(0.4)	(4.9)	(9.2)	(5.6)	–	(50.9)
Non-current liabilities	(221.2)	(184.0)	–	–	–	–	(2.4)	–	–	(407.6)
Deferred tax	(13.2)	(10.2)	(3.3)	–	(1.3)	(43.6)	(6.9)	(0.1)	–	(78.6)
	(252.1)	(202.7)	(7.5)	(0.4)	(1.7)	(48.5)	(18.5)	(5.7)	–	(537.1)
Adjustment due to net liabilities	–	–	–	–	–	–	–	–	–	–
Net assets	**105.2**	**81.0**	**173.0**	**24.9**	**23.1**	**259.3**	**118.5**	**44.5**	**–**	**829.5**
Capital commitments	**–**	**–**	**–**	**–**	**–**	**–**	**153.2**	**–**	**–**	**153.2**
Market value of investment properties**	**339.2**	**274.1**	**177.5**	**21.4**	**23.8**	**303.0**	**123.7**	**11.2**	**–**	**1,273.9**
Net investment										
At 1 April 2005	293.6	39.6	163.5	–	23.5	238.2	82.0	14.5	–	854.9
Properties contributed	–	–	–	–	–	–	–	6.4	–	6.4
Cash contributed	–	24.7	–	24.8	–	–	–	0.8	–	50.3
Cost of acquisition	–	–	–	–	–	–	–	26.5	–	26.5
Share of post-tax results	19.2	16.3	13.8	0.5	0.3	33.9	14.0	0.6	16.7	115.3
Adjustment to restate the Group's share of Telereal's earnings from an equity to a distribution basis	–	–	–	–	–	–	–	–	(5.0)	(5.0)
Distributions	(185.9)	(1.5)	(4.3)	(0.4)	(1.5)	–	–	(1.3)	(11.7)	(206.6)
Fair value movement on cash flow hedges taken to equity	(1.8)	(0.1)	–	–	–	–	–	–	–	(1.9)
Loan advances	–	2.0	–	–	0.8	–	27.5	–	–	30.3
Loan repayments	(19.9)	–	–	–	–	(12.8)	(5.0)	(3.0)	–	(40.7)
At 31 March 2006	**105.2**	**81.0**	**173.0**	**24.9**	**23.1**	**259.3**	**118.5**	**44.5**	**–**	**829.5**

* Other principally includes the Martineau Limited Partnership, the Ebbsfleet Limited Partnership, the A2 Limited Partnership and the Mill Group.
**The difference between the book value and the market value is the amount included in prepayments in respect of lease incentives, head leases capitalised and properties treated as finance leases.

17. Investment in joint ventures continued

Year ended 31/03/05 and at 31/03/05

Summary financial information of Group's share of joint ventures	Scottish Retail Property Limited Partnership £m	Metro Shopping Fund LP £m	Buchanan Galleries Limited Partnership £m	Parc Tawe £m	Martineau Galleries Limited Partnership £m	Bullring Limited Partnership £m	Bristol Alliance £m	Other* £m	Telereal £m	Total £m
Income statement										
Rental income	16.3	7.2	2.4	–	1.6	12.8	3.1	0.9	–	44.3
Service charges income	5.6	1.3	0.6	–	0.6	5.5	–	0.2	–	13.8
Property services income	–	–	–	–	–	–	–	–	165.3	165.3
Trading property sale proceeds	–	–	–	–	–	–	–	–	25.7	25.7
Revenue	21.9	8.5	3.0	–	2.2	18.3	3.1	1.1	191.0	249.1
Rents payable	(0.2)	–	–	–	(0.1)	–	–	(0.3)	(35.9)	(36.5)
Other direct property expenditure	(6.4)	(1.7)	(0.7)	–	(0.9)	(6.1)	(0.1)	–	–	(15.9)
Indirect property expenditure	(1.1)	(0.6)	–	–	–	(0.2)	–	–	(15.7)	(17.6)
Cost of sales of trading properties	–	–	–	–	–	–	–	–	(8.1)	(8.1)
Depreciation	–	–	–	–	–	–	–	–	(13.8)	(13.8)
	14.2	6.2	2.3	–	1.2	12.0	3.0	0.8	117.5	157.2
Profit on disposal of fixed asset properties	–	–	–	–	–	–	–	(1.8)	12.3	10.5
Net surplus/(deficit) on revaluation of investment properties	19.7	12.8	(3.2)	–	0.9	31.9	7.4	–	–	69.5
Operating profit/(loss)	33.9	19.0	(0.9)	–	2.1	43.9	10.4	(1.0)	129.8	237.2
Net finance costs	(0.3)	(6.7)	–	–	–	0.1	–	0.1	(66.4)	(73.2)
Profit/(loss) before tax	33.6	12.3	(0.9)	–	2.1	44.0	10.4	(0.9)	63.4	164.0
Income tax (expense)/credit	(10.1)	(3.6)	0.3	–	(0.3)	(9.6)	(2.2)	1.0	(21.2)	(45.7)
Profit/(loss) after tax	23.5	8.7	(0.6)	–	1.8	34.4	8.2	0.1	42.2	118.3
Adjustment due to net liabilities	–	–	–	–	–	–	–	–	(42.2)	(42.2)
Share of profits/(losses) of joint ventures after tax	**23.5**	**8.7**	**(0.6)**	**–**	**1.8**	**34.4**	**8.2**	**0.1**	**–**	**76.1**
Distribution received from Telereal									65.4	65.4
Balance sheet										
Investment properties**	311.1	151.7	159.3	–	22.6	264.8	81.2	13.0	–	1,003.7
Operating properties	–	–	–	–	–	–	–	–	1,015.4	1,015.4
Current assets	10.9	4.4	7.7	–	2.5	11.0	8.0	2.7	50.5	97.7
	322.0	156.1	167.0	–	25.1	275.8	89.2	15.7	1,065.9	2,116.8
Current liabilities	(12.2)	(4.8)	(4.5)	–	(0.2)	(3.7)	(5.0)	(1.2)	(50.6)	(82.2)
Non-current liabilities	(8.4)	(108.4)	–	–	–	–	–	–	(1,086.4)	(1,203.2)
Deferred tax	(7.8)	(3.3)	1.0	–	(1.4)	(33.9)	(2.2)	–	–	(47.6)
	(28.4)	(116.5)	(3.5)	–	(1.6)	(37.6)	(7.2)	(1.2)	(1,137.0)	(1,333.0)
Adjustment due to net liabilities	–	–	–	–	–	–	–	–	71.1	71.1
Net assets	**293.6**	**39.6**	**163.5**	**–**	**23.5**	**238.2**	**82.0**	**14.5**	**–**	**854.9**
Capital commitments	**0.2**	**–**	**–**	**–**	**–**	**3.4**	**0.7**	**–**	**–**	**4.3**
Market value of investment properties**	**302.7**	**149.8**	**162.8**	**–**	**23.7**	**271.0**	**83.9**	**–**	**–**	**993.9**
Net investment										
At 1 April 2004	250.2	–	–	–	21.7	209.9	–	44.4	–	526.2
Properties contributed	–	92.1	–	–	–	–	85.6	–	–	177.7
Cash contributed	31.7	87.1	–	–	–	–	–	–	–	118.8
Cost of acquisition	–	–	166.5	–	–	–	–	–	–	166.5
Share of post-tax results	23.5	8.7	(0.6)	–	1.8	34.4	8.2	0.1	42.2	118.3
Adjustment to restate the Group's share of Telereal's earnings from an equity to a distribution basis	–	–	–	–	–	–	–	–	23.2	23.2
Distributions	–	(146.3)	(2.4)	–	–	–	(1.7)	(30.0)	(65.4)	(245.8)
Loan advances	–	86.2	–	–	–	5.8	14.9	–	–	106.9
Loan repayments	(11.8)	(88.2)	–	–	–	(11.9)	(25.0)	–	–	(136.9)
At 31 March 2005	**293.6**	**39.6**	**163.5**	**–**	**23.5**	**238.2**	**82.0**	**14.5**	**–**	**854.9**

* Other includes the Martineau Limited Partnership and the Ebbsfleet Limited Partnership.
**The difference between the book value and the market value is the amount included in prepayments in respect of lease incentives, head leases capitalised and properties treated as finance leases.

18. Trading properties and long-term development contracts

	2006 £m	2005 £m
Trading properties	**163.5**	108.9
Amount recoverable under long-term development contracts less payments on account	**92.4**	55.1
	255.9	164.0
The amounts for contracts in progress at the balance sheet date are as follows:		
Contract revenue recognised as revenue in the year	**174.1**	191.2
Contract costs incurred and recognised profits (less recognised losses) to date	**414.0**	262.9
Advances received	**(339.0)**	(214.8)
	75.0	48.1
Plus: gross amount due to customers for contract work (included in accruals and deferred income)	**17.4**	7.0
Gross amount due from customers for contract work	**92.4**	55.1

19. Trade and other receivables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Trade receivables – property investment	**27.1**	18.4	**–**	–
– property outsourcing	**107.4**	186.8	**–**	–
Property sales receivables	**145.2**	77.0	**–**	–
Other receivables	**61.4**	49.2	**–**	–
Prepayments and accrued income	**233.6**	179.6	**–**	–
Finance leases receivable within one year (note 14)	**4.2**	2.5	**–**	–
Loans to Group undertakings	**–**	–	**142.7**	325.5
	578.9	513.5	**142.7**	325.5

Trade receivables are net of provisions for doubtful debts of **£12.6m** (2005: £6.5m).

20. Cash and cash equivalents

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash at bank and in hand	**5.1**	5.0	**5.0**	0.3
Short-term deposits	**10.5**	–	**–**	–
	15.6	5.0	**5.0**	0.3

The effective interest rate on short-term deposits was **4.6%** (2005: 4.2%) and the deposits have an average maturity of **2 days** (2005: 6 days).

21. Short-term borrowings and overdrafts

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Borrowings falling due within one year (note 24)	**59.2**	76.3	**–**	–
Overdrafts	**–**	–	**34.0**	–
Bond exchange de-recognition adjustment falling due within one year (note 24)	**(15.6)**	(26.5)	**–**	–
Amounts payable under finance leases falling due within one year (notes 24 and 27)	**3.1**	1.0	**–**	–
	46.7	50.8	**34.0**	–

Where the Group operates a notional cash pooling arrangement the cash and overdraft balances are netted off.

22. Trade and other payables

	2006 £m	2005 £m
Trade payables	**42.9**	42.7
Capital payables	**85.2**	82.5
Other payables	**28.2**	34.7
Accruals and deferred income	**428.7**	417.3
	585.0	577.2

Capital payables represent amounts due under contracts to purchase properties, which were unconditionally exchanged at the year end, and for work completed on investment properties but not paid for at the financial year end. Deferred income principally relates to rents received in advance.

23. Provisions

	Dilapidations £m	Barclays surplus leases £m	Other £m	Total £m
At 1 April 2004	11.7	–	7.9	19.6
Charged to income statement for year	12.0	–	14.7	26.7
Utilised in year	(1.0)	–	(3.3)	(4.3)
At 31 March 2005	**22.7**	**–**	**19.3**	**42.0**
Charged to income statement for year	1.9	25.0	8.9	35.8
Utilised in year	(1.5)	(5.2)	(12.9)	(19.6)
At 31 March 2006	**23.1**	**19.8**	**15.3**	**58.2**

24. Borrowings

	Nominal value 2006 £m	Nominal value 2005 £m	Unamortised discount and issue costs 2006 £m	Unamortised discount and issue costs 2005 £m	Book value 2006 £m	Book value 2005 £m
Unsecured						
Amounts payable under finance leases (note 27)	**74.6**	69.9	**–**	–	**74.6**	69.9
Acquisition loan notes 2015	**122.8**	–	**–**	–	**122.8**	–
Money market borrowings	**43.6**	73.0	**–**	–	**43.6**	73.0
	241.0	142.9	**–**	–	**241.0**	142.9
Secured						
5.016 per cent Notes due 2007	**181.7**	181.7	**(0.1)**	(0.1)	**181.6**	181.6
4.625 per cent Notes due 2013	**300.0**	–	**(0.5)**	–	**299.5**	–
5.292 per cent Notes due 2015	**391.5**	393.3	**(0.9)**	(0.9)	**390.6**	392.4
4.875 per cent Notes due 2019	**400.0**	–	**(4.6)**	–	**395.4**	–
5.425 per cent Notes due 2022	**255.3**	257.3	**(1.0)**	(1.0)	**254.3**	256.3
5.391 per cent Notes due 2026	**210.7**	210.7	**(1.0)**	(1.1)	**209.7**	209.6
5.391 per cent Notes due 2027	**611.3**	613.9	**(3.1)**	(3.2)	**608.2**	610.7
5.376 per cent Notes due 2029	**317.9**	318.0	**(1.7)**	(1.9)	**316.2**	316.1
5.396 per cent Notes due 2032	**322.9**	323.4	**(2.0)**	(2.1)	**320.9**	321.3
Bank facility due 2010	**15.5**	–	**(0.1)**	–	**15.4**	–
Syndicated bank debt	**750.0**	320.0	**(1.6)**	(2.0)	**748.4**	318.0
DWP term loan	**260.0**	268.1	**(11.2)**	(12.9)	**248.8**	255.2
	4,016.8	2,886.4	**(27.8)**	(25.2)	**3,989.0**	2,861.2
	4,257.8	3,029.3	**(27.8)**	(25.2)	**4,230.0**	3,004.1
Bond exchange de-recognition adjustment	**(527.6)**	(554.9)	**(8.6)**	(9.4)	**(536.2)**	(564.3)
Fair value of interest rate swaps – qualifying hedges	**4.3**	2.1	**–**	–	**4.3**	2.1
– non-qualifying hedges	**3.4**	1.2	**–**	–	**3.4**	1.2
Total borrowings	**3,737.9**	2,477.7	**(36.4)**	(34.6)	**3,701.5**	2,443.1
Less: borrowings falling due within one year (note 21)	**(62.3)**	(79.0)	**3.1**	2.7	**(59.2)**	(76.3)
Plus: bond exchange de-recognition falling due within one year (note 21)	**14.8**	25.7	**0.8**	0.8	**15.6**	26.5
Less: amounts payable under finance leases falling due within one year (notes 21 and 27)	**(3.1)**	(1.0)	**–**	–	**(3.1)**	(1.0)
Falling due after one year	**3,687.3**	2,423.4	**(32.5)**	(31.1)	**3,654.8**	2,392.3

24. Borrowings continued

All borrowings are denominated in Sterling.

On 3 November 2004 a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new Notes. The new Notes do not meet the IAS 39 requirement to be substantially different from the debt that it replaced. Consequently the book value of the new Notes is reduced to the book value of the original debt ('the bond exchange de-recognition adjustment'). The adjustment will be amortised to zero over the life of the new Notes.

The Notes and the committed bank facilities are secured on a fixed and floating pool of assets ("the Security Group"). This grants the Group's investors security over a pool of investment properties valued at **£9.4bn** at 31 March 2006 (2005: £7.4bn). The secured debt structure has a tiered covenant regime which gives the Group substantial operational flexibility when the loan to value and interest rate cover in the Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded, operational restrictions increase significantly and could act as an incentive to reduce gearing.

The acquisition loan notes were issued by Retail Property Holdings Trust Limited, a subsidiary of the Group, as partial consideration for the purchase of Tops Estates PLC and the LxB portfolio. The notes are unsecured, however, they have the benefit of a commercial bank guarantee. Interest is calculated with reference to six month LIBOR.

The DWP term loan is a syndicated term loan due to expire in December 2017 and is secured on the freehold and long leasehold properties acquired from the Department of Work and Pensions. The carrying amount of the properties concerned was **£388.1m** at 31 March 2006 (2005: £389.4m).

The Group had interest rate swaps outstanding with a notional principal of **£615.0m** (2005: £250.0m) which do not qualify for hedge accounting and which terminate over the period 2007 to 2011. The contracts have fixed interest payments at an average rate of **4.9%** and have floating interest receipts at LIBOR. In addition, there were interest rate swaps outstanding with a notional principal of **£243.2m** (2005: £245.9m) which qualify for hedge accounting and which terminate over the period 2009 to 2017. The contracts have fixed interest payments at an average rate of **5.1%** and have floating interest receipts at LIBOR.

The fair value of interest rate swaps is based on the market price of comparable instruments at the balance sheet date. The fair values of short-term deposits, loans and overdrafts are assumed to approximate to their book values, as are the values of longer-term, floating rate bank loans. The Group's Notes are listed on the Irish Stock Exchange and their fair values are based on their respective market prices.

	Borrowings		Undrawn committed facilities	
	2006 £m	**2005 £m**	**2006 £m**	**2005 £m**
The maturity profiles of the Group's borrowings and the expiry periods of its undrawn committed borrowing facilities are:				
One year or less, or on demand	**46.7**	50.8	**–**	–
More than one year but no more than two years	**185.7**	–	**–**	–
More than two years but no more than five years	**780.8**	505.9	**1,252.0**	1,680.0
More than five years	**2,688.3**	1,886.4	**–**	–
	3,701.5	2,443.1	**1,252.0**	1,680.0

	2006 £m	**2005 £m**
The fair value of the Group's borrowings are:		
Book value	**3,701.5**	2,443.1
Fair value	**4,426.0**	3,074.1
Excess of fair value over book value	**(724.5)**	(631.0)

Of the excess of fair value over book value **£536.2m** (2005: £564.3m) is the bond exchange de-recognition adjustment.

Financial risk management

Financial risk factors

The Group's operations and debt financing expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity and interest rates.

Interest rate risk

The Group uses interest rate swaps and similar instruments (forward rate agreements, forward starting swaps, etc) to manage its interest rate exposure. With property and interest rate cycles typically of four to seven years duration, the Group's target is to have a minimum of 80% of anticipated debt at fixed rates of interest and 20% floating over this timeframe. Due to a combination of factors, principally the high level of certainty required under IAS 39 'Financial Instruments: Recognition and Measurement', hedging instruments used in this context do not qualify for hedge accounting.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, finance lease receivables and short-term investments. The Group's credit risk is primarily attributable to its trade and finance lease receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned. The credit risk on liquid funds and derivative financial instruments is limited due to the Group's policy of monitoring counterparty exposures. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties.

Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the Group has sufficient available funds for operations and planned future investments.

Accounting for derivative financial instruments and hedging activities

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on remeasurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

In order for a derivative to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be effective on an ongoing basis. The effectiveness testing is re-performed at each year end to ensure that the hedge remains highly effective.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecasted transaction results in a financial asset or liability only, gains or losses previously recognised in equity are reclassified to profit or loss in the same period as the asset or liability affects profit or loss. Where the forecasted transaction results in a non-financial asset or liability, gains or losses previously recognised in equity are included in the cost of the related asset or liability. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. Ineffective portions of the gain or loss on the hedging instrument are recognised in profit or loss as they arise.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting, any change in assets or liabilities is recognised immediately in the income statement. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the income statement when the forecasted or committed transaction is recognised in the income statement. However, where cash flow hedge accounting has been applied for a forecasted or committed transaction that is no longer expected to occur, then the cumulative gain or loss recorded in equity is transferred to the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted hedged transaction itself is ultimately recognised in the income statement.

25. Pension benefits

Defined benefit schemes

Land Securities Scheme

The Pension & Assurance Scheme of the Land Securities Group of Companies ('the Scheme') is the most significant defined benefit pension scheme of the Group. The Scheme is a wholly funded scheme, and the assets of the Scheme are held in a self-administered trust fund which is separate from the Group's assets.

Contributions to the Scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. As the Scheme is closed to new members, the current service cost will be expected to increase as a percentage of salary, under the projected unit method, as members approach retirement.

Contributory money purchase scheme

A contributory money purchase scheme was introduced on 1 January 1999 for all new administrative and senior property based employees, subject to eligibility, together with a separate similar scheme, effective 1 April 1998, for other property based employees. A further separate similar scheme, previously set up by Trillium, is also in operation for Land Securities Trillium employees.

Pension costs for defined contribution schemes are as follows:

	2006 £m	2005 £m
Defined contribution schemes	**1.7**	0.9

All death-in-service and benefits for incapacity arising during employment are wholly insured. No post retirement benefits other than pensions are made available to employees of the Group.

25. Pension benefits continued

A full actuarial valuation of the Land Securities Scheme was undertaken on 1 July 2005 by the independent actuaries, Hymans Robertson Consultants & Actuaries. This valuation, and the latest formal valuation of the Trillium Plan, were updated to 31 March 2006. The major assumptions used in this valuation, were (in nominal terms):

	2006 %	2005 %
Rate of increase in pensionable salaries	**3.25**#	4.25*
Rate of increase in pensions in payment	**3.00**	3.00
Discount rate	**4.90**	5.40
Inflation	**3.00**	3.00
Expected return on plan assets	**5.90**	5.90

plus an allowance of 1.25% per annum for promotional salary increases in respect of employee members of the Trillium Plan
* plus an allowance of 1% per annum for promotional salary increases in respect of employee members of the Land Securities Scheme

The expected return on plan assets is based on expectations for bonds and equities. At the year end, the expected return on bonds is based on market yields of long dated bonds at that date. The estimated expected return on equities includes an additional equity risk premium.

The mortality assumptions used in this valuation were:

	2006 years	2005 years
Life expectancy at age 60 for current pensioners – Men	**26.6**	23.2
– Women	**29.5**	26.2
Life expectancy at age 60 for future pensioners (current age 40) – Men	**27.8**	26.5
– Women	**30.6**	29.4

The fair value of the assets in the Schemes (including annuities purchased to provide certain pensions in payment) and the expected rate of return (net of investment management expenses) were:

	2006 %	2005 %	2004 %	2006 £m	2005 £m	2004 £m
Equities	**7.50**	7.50	7.50	**64.1**	48.7	42.9
Bonds and insurance contracts	**4.60**	5.00	5.00	**82.9**	62.3	58.8
Other	**4.50**	4.75	4.00	**3.0**	14.7	2.9
Fair value of schemes assets				**150.0**	125.7	104.6
Present value of schemes liabilities				**(156.5)**	(136.6)	(121.8)
Deficit in the schemes				**(6.5)**	(10.9)	(17.2)
Related deferred tax asset				**2.0**	3.3	5.2
Net pension liability				**(4.5)**	(7.6)	(12.0)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2006 %	2005 %
Equities	**43**	39
Bonds and insurance contracts	**55**	50
Other	**2**	11

The plan assets do not include any directly owned financial instruments issued by Land Securities Group PLC. Indirectly owned financial instruments had a fair value of less than £0.2m.

25. Pension benefits continued

Analysis of the amounts (credited)/charged to the income statement	2006 £m	2005 £m
Analysis of the amount (credited)/charged to operating profit		
Current service cost	**3.9**	3.7
Losses on curtailments and settlements	**–**	0.2
Past service cost	**(8.3)**	–
(Credit)/charge to operating profit	**(4.4)**	3.9
Analysis of amount (credited)/charged to interest expense		
Expected return on plan assets	**(7.3)**	(6.4)
Interest on schemes liabilities	**7.2**	6.7
Net (return)/charge	**(0.1)**	0.3

During the year, the Group introduced amendments to the main scheme, which were adopted by the Trustees for active members who had given their consent. As a result, active members will have their accrued entitlement at 31 March 2006 linked to inflation, with future benefits according to annual earnings. The effect of this has been a reduction of £8.3m in the Group's pension liability associated with funding future anticipated salary increases.

Changes in the present value of the defined benefit obligation	2006 £m	2005 £m
At beginning of year	**136.6**	121.8
Current service cost	**3.9**	3.7
Past service cost	**(8.3)**	–
Interest cost	**7.2**	6.7
Actuarial losses	**20.5**	8.0
Benefits paid	**(3.6)**	(4.0)
Losses on curtailments	**–**	0.2
Contributions by plan participants	**0.2**	0.2
At end of year	**156.5**	136.6

Changes in the fair value of plan assets	2006 £m	2005 £m
At beginning of year	**125.7**	104.6
Expected return on plan assets	**7.3**	6.4
Employer contributions	**4.9**	15.4
Actuarial gains	**15.5**	3.1
Benefits paid	**(3.6)**	(4.0)
Contributions by plan participants	**0.2**	0.2
At end of year	**150.0**	125.7

Analysis of the movement in the balance sheet deficit	2006 £m	2005 £m
At beginning of year	**10.9**	17.2
(Credit)/charge to operating profit	**(4.4)**	3.9
Expected return on plan assets	**(7.3)**	(6.4)
Interest on schemes liabilities	**7.2**	6.7
Employer contributions	**(4.9)**	(15.4)
Actuarial losses	**5.0**	4.9
At end of year	**6.5**	10.9

25. Pension benefits continued

Analysis of the amounts recognised in the statement of recognised income and expense	2006 £m	2005 £m
Analysis of gains and losses		
Actual return less expected return on schemes assets	**15.5**	3.1
Experience gains and losses arising on schemes liabilities	**(20.5)**	(7.8)
Actuarial losses	**(5.0)**	(4.7)

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense.

History of experience gains and losses	2006 £m	2005 £m	2004 £m	2003 £m
Experience adjustments arising on schemes assets				
Amount	**15.5**	3.1	13.7	(16.3)
Percentage of schemes assets	**10.3%**	2.5%	13.1%	–21.3%
Experience adjustments arising on schemes liabilities				
Amount	**20.5**	7.8	0.2	2.7
Percentage of the present value of funded obligations	**13.1%**	5.7%	0.1%	2.8%
Present value of schemes liabilities	**(156.5)**	(136.6)	(121.8)	(95.0)
Fair value of schemes assets	**150.0**	125.7	104.6	76.4
Deficit	**(6.5)**	(10.9)	(17.2)	(18.6)

The contributions expected to be paid in respect of the defined benefit schemes during the financial year ending 31 March 2007 amount to £5.0m. The Company did not operate any defined contribution schemes or defined benefit schemes during the financial year ended 31 March 2006 or in the previous financial year.

26. Deferred taxation

Deferred tax liabilities	Accelerated tax depreciation £m	Capitalised interest £m	Revaluation surplus £m	Other £m	Total £m
At 1 April 2004	(136.2)	(30.1)	(953.5)	(4.3)	(1,124.1)
Net charge to income statement for year	(11.9)	(5.2)	(248.3)	(154.3)	(419.7)
Released in respect of property disposals during the year	15.4	5.8	83.9	(0.1)	105.0
Disposal of a company	3.5	0.6	–	–	4.1
Deferred tax on acquisition of a company	(6.4)	–	(19.0)	–	(25.4)
At 1 April 2005	(135.6)	(28.9)	(1,136.9)	(158.7)	(1,460.1)
Net charge to income statement for year	(20.4)	(8.9)	(473.9)	8.1	(495.1)
Released in respect of property disposals during the year	17.8	11.3	10.9	(4.6)	35.4
Deferred tax on acquisition of a company	(9.7)	–	(64.3)	0.5	(73.5)
At 31 March 2006	**(147.9)**	**(26.5)**	**(1,664.2)**	**(154.7)**	**(1,993.3)**

Deferred tax assets	Tax losses £m	Hedges £m	Pension deficit £m	Other £m	Total £m
At 1 April 2004	–	13.4	5.2	–	18.6
Net charge to income statement for year	37.8	(12.4)	(3.4)	–	22.0
Charged to equity	–	–	1.5	–	1.5
At 1 April 2005	37.8	1.0	3.3	–	42.1
Net charge to income statement for year	(20.3)	0.7	(2.8)	9.0	(13.4)
Released in respect of property disposals during the year	(5.3)	–	–	–	(5.3)
Charged to equity	–	0.6	1.5	–	2.1
At 31 March 2006	**12.2**	**2.3**	**2.0**	**9.0**	**25.5**

26. Deferred taxation continued

Deferred tax is provided as follows:	2006 £m	2005 £m
Excess of capital allowances over depreciation – investment properties	**116.8**	112.7
– operating properties	**31.1**	22.9
Capitalised interest – investment properties	**23.9**	28.0
– operating properties	**2.6**	0.9
Revaluation surpluses – own	**1,580.9**	1,117.9
– acquired	**83.3**	19.0
Tax losses	**(12.2)**	(37.8)
Other temporary timing differences	**141.4**	154.4
Total deferred tax	**1,967.8**	1,418.0
Tax on capital gains that would become payable by the Group if it were to dispose of all of its investment properties at the amount stated in the balance sheet	**991.2**	586.5
Potential reduction in tax on contingent capital gains if properties were sold within their owning companies	**(28.3)**	(90.4)
Tax on contingent capital gains assuming no further mitigation	**962.9**	496.1

It has not been possible to determine the amounts that will crystallise within one year as required by IFRS as it is not possible to determine which properties, if any, will be sold in the next financial year.

It is the current intention of the Group to hold investment assets for the long-term and the deferred tax provision has been calculated on this basis.

27. Obligations under finance leases

	2006 £m	2005 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	**7.2**	5.1
Later than one year but not more than five	**27.7**	19.1
More than five years	**438.4**	436.7
	473.3	460.9
Future finance charges on finance leases	**(398.7)**	(391.0)
Present value of finance lease liabilities (notes 13 and 24)	**74.6**	69.9
The present value of finance lease liabilities is as follows:		
Not later than one year (notes 21 and 24)	**3.1**	1.0
Later than one year but not more than five	**5.6**	2.9
More than five years	**65.9**	66.0
	74.6	69.9

The fair value of the Group's lease obligations, using a discounting rate of 5.5%, is **£85.2m** (2005: £75.6m).

28. Called up share capital

	Authorised		Allotted and fully paid	
	2006 No. m	2005 No. m	2006 £m	2005 £m
Ordinary shares of 10p each	**600.0**	600.0	**46.9**	46.8
Non-equity B shares of £1.02 each	**38.9**	38.9	**–**	–
Redeemable preference shares of £1 each	**0.1**	0.1	**–**	–
			46.9	46.8

Movements in the share capital of the Company were	Number of shares 2006	2005
At beginning of year	**467,803,066**	465,924,545
Issued on the exercise of options under:		
1993 Savings Related Share Option Schemes	**174,715**	114,522
1984 Executive Share Option Scheme	**–**	35,500
2000 Executive Share Option Scheme	**1,176,464**	1,686,498
2002 Executive Share Option Scheme	**129,537**	42,001
At end of year	**469,283,782**	467,803,066

The number of ordinary shares that would be issued if all options were exercised at 31 March 2006 is **4,217,859** (2005: 5,440,682).

29. Share-based payments

The Group's share-based payments are all equity-settled and comprise the Savings Related Share Option Schemes (Sharesave), various Executive Share Option Schemes (ESOS), Performance and Deferred Bonus share schemes related to the annual bonus scheme, and the Long-Term Incentive Plan. In accordance with IFRS 2 'Share-based Payment' the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. Fair value is calculated using a Black-Scholes pricing model.

Savings Related Share Option Schemes

Under the 2003 Savings Related Share Option Scheme all staff who have been with the Group for a continuous period of not less than six months are eligible to make regular monthly contributions into a Sharesave scheme operated by Lloyds TSB Bank Plc. On completion of the three, five or seven year contract period ordinary shares in Land Securities Group PLC may be purchased at a price based upon the current market price at date of invitation less 20% discount. Options are satisfied by the issue of new shares. Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within six months of the bonus date. In certain circumstances leavers may exercise their options early based upon current savings. Alternatively, they may continue saving to receive the tax-free bonus at the end of the contract or withdraw their cash immediately. Fair value calculations assume a lapse rate, based upon historic values, of approximately 20% for employees leaving the Group before vesting.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2006	2005	2006 pence	2005 pence
At beginning of year	**797,944**	773,326	**725**	667
Granted	**171,233**	170,119	**1146**	957
Exercised	**(174,715)**	(114,522)	**652**	686
Forfeited	**(24,923)**	(22,933)	**742**	690
Lapsed	**(21,722)**	(8,046)	**855**	728
At end of year	**747,817**	797,944	**834**	725
Exercisable at end of year	**14,406**	25,580	**724**	688

	Years	Years
Weighted average remaining contractual life (years)	**2.22**	2.39

The options outstanding under the scheme are exercisable at prices between 628p and 1146p after three, five or seven years from the date of grant. 428,143 of the options outstanding are exercisable at prices between 628p and 713p during the period 2004 to 2010. Of the remaining options, 153,482 are exercisable at 957p, and 166,192 at 1146p during the periods 2007 to 2011 and 2008 to 2012 respectively. The weighted average share price at the date of exercise during the year was **1468p** (2005: 1234p). During the year, options were granted on 30 September 2005 (2005: 1 October 2004). The estimated fair value of the options granted on that date was **£0.6m** (2005: £0.5m).

During the year, the Group recognised total expenses of **£0.2m** (2005: £0.1m) relating to Savings Related Share Option.

1984 Executive Share Option Scheme

The contract period for the 1984 Executive Share Option Scheme expired during 2005. The scheme was not subject to performance conditions. The weighted average share price at the date of exercise for share options exercised during 2005 was 1163p. No expense was recognised by the Group during the year, or during the corresponding year as the grants preceded the date relevant for IFRS 2 'Share-based Payment'.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2006	2005	2006 pence	2005 pence
At beginning of year	–	35,500	–	619
Exercised	–	(35,500)	–	619
At end of year	–	–	–	–
Exercisable at end of year	–	–	–	–

	Years	Years
Weighted average remaining contractual life (years)	–	–

2000 Executive Share Option Scheme

No new grants to directors and senior management of the Group have been made under this scheme since 19 July 2002. These options have fully vested as the growth in the Group's normalised adjusted diluted earnings per share exceeded the growth in the Retail Prices Index by 2.5% per annum over the vesting period. Options are satisfied by the issue of new shares. Options are forfeited, in most circumstances, when an employee leaves the Group before vesting or lapse if they are not exercised within 10 years of the date of grant.

29. Share-based payments continued

Details of the share options outstanding during the year are as follows:

	Number of options 2006	Number of options 2005	Weighted average exercise price 2006 pence	Weighted average exercise price 2005 pence
At beginning of year	**1,513,564**	3,458,062	**827**	838
Exercised	**(1,176,464)**	(1,686,498)	**824**	850
Forfeited	**(24,500)**	(258,000)	**849**	818
At end of year	**312,600**	1,513,564	**836**	827
Exercisable at end of year	**312,600**	478,564	**836**	860

	Years	Years
Weighted average remaining contractual life (years)	**5.73**	6.94

The options outstanding under the scheme are exercisable at prices between 812p and 869p up to 2012. The weighted average share price at the date of exercise for share options exercised during the year was **1516p** (2005: 1222p).

No expense was recognised by the Group during the year, or during the corresponding year as the grants preceded the date relevant for IFRS 2 'Share-based Payment'.

2002 Executive Share Option Scheme

The final grants to directors and senior management of the Group under this scheme were made on 12 July 2004. Vesting is subject to growth in the Group's normalised adjusted diluted earnings per share exceeding the growth in the Retail Prices Index by 2.5% per annum over the three year vesting period. For options granted in the year ended 31 March 2004 there are a maximum of two re-tests for performance criteria in years 4 and 5. For options granted in the year ended 31 March 2005 there is no re-testing of performance criteria. Options are satisfied by the issue of new shares.

Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within 10 years of the date of grant. Fair value calculations assume a lapse rate, based upon historic values, of between 2% and 5% per annum for employees leaving the Group before vesting.

Details of the share options outstanding during the year are as follows:

	Number of options 2006	Number of options 2005	Weighted average exercise price 2006 pence	Weighted average exercise price 2005 pence
At beginning of year	**3,129,174**	1,764,867	**965**	786
Granted	**–**	1,547,853	**–**	1159
Exercised	**(129,537)**	(42,001)	**852**	788
Forfeited	**(181,063)**	(141,545)	**978**	900
At end of year	**2,818,574**	3,129,174	**970**	965
Exercisable at end of year	**26,200**	–	**–**	–

	Years	Years
Weighted average remaining contractual life (years)	**7.76**	8.74

26,200, 1,409,359 and 1,383,015 of the options outstanding under the 2002 Executive Share Option Scheme are exercisable at 756p, 788p and 1159p respectively up to 2014, provided the associated performance conditions are met. The weighted average share price at the date of exercise for share options exercised during the year was **1653p** (2005: 1182p). In 2005, options were granted on 12 July 2004. The estimated fair value of the options granted on that date is **£2.6m**.

During the year, the Group recognised an expense of **£0.8m** (2005: £1.2m) relating to 2002 Executive Share Option Scheme.

29. Share-based payments continued

2005 Executive Share Option Scheme

The 2005 Executive Share Option Scheme is open to executives and management staff not eligible to participate in the Land Securities 2005 Long-Term Incentive Plan for senior executives. Options are granted in the ordinary shares of Land Securities Group PLC at the middle market price on the three dealing days immediately preceding the date of grant. The 3 year vesting period is not subject to performance conditions. Options are satisfied by the transfer of shares.

Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within 10 years of the date of grant. Fair value calculations assume a lapse rate, based upon historic values, of 2% per annum for employees leaving the Group before vesting.

Details of the share options outstanding during the year are as follows:

	Number of options 2006	Number of options 2005	Weighted average exercise price 2006 pence	Weighted average exercise price 2005 pence
At beginning of year	**–**	–	**–**	–
Granted	**350,737**	–	**1421**	–
Exercised	**(898)**	–	**1421**	–
Lapsed	**(10,971)**	–	**1421**	–
At end of year	**338,868**	–	**1421**	–
Exercisable at end of year	**–**	–	**–**	–

	Years	Years
Weighted average remaining contractual life (years)	**9.33**	–

The options outstanding under the scheme are exercisable at 1421p up to 2015. The weighted average share price at the date of exercise for share options exercised during the year was **1696p**. During the year, options were granted on 29 July 2005. The estimated fair value of the options granted on that date is **£0.7m**.

During the year, the Group recognised an expense of **£0.1m** (2005: £nil) relating to the 2005 Executive Share Option Scheme.

Performance Shares

Under the performance share plan approved by shareholders in 2002, senior executives of the Group receive up to two shares for each deferred share received under the separate management bonus scheme depending on the extent to which performance criteria are satisfied. Half of these performance shares are dependent on the real increase in the Group's normalised adjusted diluted earnings per share over three financial years. The other half of the performance shares are subject to the Group's total property return equalling or exceeding the Investment Property Databank All Fund Universe Index over a three year rolling period. The final grant under the scheme was made in July 2005. Awards under the plan are satisfied by transfer of existing shares. Fair value calculations have been adjusted for participants who have left the Group but no adjustment has been made for future anticipated lapses.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares 2006	Number of shares 2005
At beginning of year	**311,834**	185,078
Granted	**171,940**	126,756
Exercised	**(31,528)**	–
Forfeited	**(9,072)**	–
Lapsed	**(31,528)**	–
At end of year	**411,646**	311,834
Exercisable at end of year	**–**	–

	Years	Years
Weighted average remaining contractual life (years)	**1.45**	1.65

The performance shares outstanding under the scheme are to be issued at £nil consideration provided that performance conditions are met.

29. Share-based payments continued

The mid-market share price at the date of exercise for performance shares exercised during the year was 1416p. During the year, shares were granted on 4 July 2005 (2005: 12 July 2004). The estimated fair value of the shares granted on that date is **£1.1m** (2005: £1.5m).

During the year, the Group recognised an expense of **£1.0m** (2005: £0.7m) relating to Performance Shares.

Deferred Bonus Shares

Under the Executive Directors' and senior management bonus plan participants are eligible for awards in cash and deferred shares. The underlying performance criteria are earnings per share and increase in net asset value over the previous year. In previous years Executive Directors have had the opportunity to earn a bonus of up to 20% of salary in cash and 20% of salary in shares for meeting rigorous targets and up to a maximum of 40% of salary in cash and 40% of salary in shares for superior results. Following a review of the reward structure by the Remuneration Committee, Executive Directors are in future eligible for awards of up to 100% of salary, 25% of which must be taken in deferred shares. Other management grades must now take their entire bonus in cash. Awards under the plan are satisfied by transfers of existing shares.

The shares are deferred for three years and normally forfeited if the executive leaves employment during the period. Fair value has been adjusted for participants who have left the Group, but no adjustment has been made for future anticipated lapses.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2006	**2005**
At beginning of year	**195,095**	147,848
Granted	**103,246**	82,801
Capitalisation of dividends	**6,551**	2,809
Exercised	**(8,895)**	(33,368)
Forfeited	**(25,370)**	(4,995)
At end of year	**270,627**	195,095
Exercisable at end of year	**–**	–

	Years	**Years**
Weighted average remaining contractual life (years)	**1.36**	1.83

The deferred shares outstanding under the scheme are to be to be issued at nil consideration subject to vesting conditions being met.
The mid-market share price at the date of exercise for shares exercised during the year was **1483p** (2005: 1396p). During the year, rights were granted over deferred shares on 4 July 2005 (2005: 12 July 2004). The estimated fair value of the rights over shares granted on that date is **£1.3m** (2005: £1.2m).

During the year, the Group recognised an expense of **£0.7m** (2005: £0.5m) relating to Deferred Bonus Shares.

2005 Long-Term Incentive Plan

The new Long-Term Incentive Plan ('LTIP') for Executive Directors and senior executives authorises the Remuneration Committee to make grants of LTIP shares with a face value of up to 100% of salary for Executive Directors and up to 75% of salary for senior executives. In addition, an award of matching shares can be made, linked to co-investment in shares by participants. The employee's investment can be made through deferral of an annual bonus award and/or through optional pledging of shares purchased in the market. The maximum level of matching is shares with a face value of 50% of salary for Executive Directors and 25% of salary for senior executives. Performance conditions are similarly structured to those applying to the Performance Share Plan except that the EPS targets are increased and the IPD index measure is more closely targeted to the Group's asset classes. Awards may be satisfied by the issue of new shares and/or transfer of treasury shares and/or transfer of shares other than treasury shares.

Fair value calculations include the assumption that LTIP and matching shares will be awarded at 50% of the maximum possible under the scheme and have been adjusted for participants who have left the scheme but no adjustment has been made for future anticipated lapses.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2006	**2005**
At beginning of year	**–**	–
Granted	**359,870**	–
Forfeited	**(8,445)**	–
At end of year	**351,425**	–
Exercisable at end of year	**–**	–

	Years	**Years**
Weighted average remaining contractual life (years)	**2.35**	–

The shares outstanding under the scheme are to be issued at £nil consideration provided performance conditions are met.

29. Share-based payments continued

No shares vested during the year. Rights to receive 320,525 performance shares were granted on 29 July 2005, and 22,679 on 30 September 2005. Rights to receive 16,666 matching shares were granted on 30 September 2005. The estimated fair value of the rights over the shares granted on those dates is **£4.4m**.

During the year, the Group recognised an expense of **£0.8m** (2005: £nil) relating to the 2005 Long-Term Incentive Plan.

Fair values are calculated using the Black-Scholes option pricing model. Inputs into this model for each scheme are as follows:

	1993 Savings Related Share Option Schemes	2002 Executive Share Option Scheme	2005 Executive Share Option Scheme	Performance Share Plan	Deferred Bonus Shares	2005 Long-Term Incentive Plan
Range of share prices at grant date	846p to 1433p	756p to 1159p	1421p	787p to 1405p	787p to 1392p	1421p to 1478p
Range of exercise prices	677p to 1146p	756p to 1159p	1421p	nil	nil	nil
Expected volatility	19%	19%	19%	19%	19%	19%
Expected life	3 to 7 years	3 to 5 years	3 to 5 years	3 years	3 to 5 years	3 to 5 years
Risk free rate	4.17% to 4.84%	3.60% to 5.10%	4.17% to 4.22%	3.60% to 5.03%	4.08% to 5.03%	4.17% to 4.22%
Expected dividend yield	3.81% to 4.37%	4.11% to 4.34%	3.81%	3.81% to 4.34%	3.81% to 4.34%	3.81%

Expected volatility was determined by calculating the historic volatility of the Group's share price over the previous 10 years. The expected life used in the model has been determined, based upon management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Risk free rate is the yield, at the date of the grant of an option, on a gilt-edged stock with a redemption date equal to the anticipated exercise of that option.

30. Total shareholders' equity

Group	Ordinary shares £m	Treasury shares £m	Share-based payments £m	Share premium £m	Capital redemption reserve £m	Retained earnings* £m	Total £m
At 1 April 2004	46.6	–	0.8	15.9	22.1	5,066.8	5,152.2
Repayment of B shares	–	–	–	–	8.4	(8.4)	–
Exercise of options	0.2	–	–	15.5	–	–	15.7
Fair value of share-based payments	–	–	2.5	–	–	–	2.5
Treasury shares acquired	–	(2.1)	–	–	–	–	(2.1)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(3.4)	(3.4)
Dividend paid (note 10)	–	–	–	–	–	(175.5)	(175.5)
Profit for the financial year	–	–	–	–	–	1,060.9	1,060.9
At 31 March 2005	**46.8**	**(2.1)**	**3.3**	**31.4**	**30.5**	**5,940.4**	**6,050.3**
Exercise of options	0.1	–	–	11.8	–	–	11.9
Fair value movement on cash flow hedges – Group	–	–	–	–	–	(1.6)	(1.6)
– joint ventures	–	–	–	–	–	(1.9)	(1.9)
Fair value of share-based payments	–	–	3.6	–	–	–	3.6
Treasury shares acquired	–	(1.9)	–	–	–	–	(1.9)
Cost of shares awarded to employees	–	0.6	(0.6)	–	–	–	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(3.5)	(3.5)
Dividend paid (note 10)	–	–	–	–	–	(238.9)	(238.9)
Profit for the financial year	–	–	–	–	–	1,675.9	1,675.9
At 31 March 2006	**46.9**	**(3.4)**	**6.3**	**43.2**	**30.5**	**7,370.4**	**7,493.9**

*Included within retained earnings is **£3.5m** (2005: £nil; 2004: £nil) of losses in respect of cash flow hedges.

30. Total shareholders' equity continued

Treasury shares represent the cost of shares purchased in Land Securities Group PLC by the Employee Share Ownership Plan ('ESOP') which is operated by the Group in respect of its commitment to the Deferred Bonus scheme (note 29). The number of shares held by the ESOP at 31 March 2006 was **292,703** (2005: 194,139).

Company	Ordinary shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings* £m	Total £m
At 1 April 2004	46.6	15.9	22.1	373.6	3,174.0	3,632.2
Repayment of B shares	–	–	8.4	–	(8.4)	–
Exercise of options	0.2	15.5	–	–	–	15.7
Dividend paid (note 10)	–	–	–	–	(175.5)	(175.5)
Profit for the financial year	–	–	–	–	1,890.5	1,890.5
At 31 March 2005	**46.8**	**31.4**	**30.5**	**373.6**	**4,880.6**	**5,362.9**
Exercise of options	0.1	11.8	–	–	–	11.9
Dividend paid (note 10)	–	–	–	–	(238.9)	(238.9)
Profit for the financial year	–	–	–	–	11.3	11.3
At 31 March 2006	**46.9**	**43.2**	**30.5**	**373.6**	**4,653.0**	**5,147.2**

*Available for distribution

Land Securities Group PLC has not presented its own profit and loss account, as permitted by Section 230 (1)(b) Companies Act 1985. The retained profit for the year of the Company, dealt within its financial statements, was **£11.3m** (2005: £1,890.5m). 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.

31. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash generated from operations				
Profit for the financial year	**1,675.9**	1,060.9	**11.3**	1,890.5
Income tax expense	**683.3**	246.6	**0.8**	–
Profit before tax	**2,359.2**	1,307.5	**12.1**	1,890.5
Distribution received from joint venture (Telereal)	**(11.7)**	(65.4)	**–**	–
Share of the profits of joint ventures (post-tax)	**(98.6)**	(76.1)	**–**	–
	2,248.9	1,166.0	**12.1**	1,890.5
Interest income	**(7.3)**	(18.3)	**(17.5)**	(8.4)
Interest expense	**201.8**	248.6	**5.4**	17.9
Operating profit	**2,443.4**	1,396.3	**–**	1,900.0
Adjustments for:				
Depreciation	**25.7**	35.7	**–**	–
Profit on disposal of fixed asset properties	**(74.5)**	(112.0)	**–**	–
Profit on disposal of joint venture	**(293.0)**	–	**–**	–
Net surplus on revaluation of investment properties	**(1,579.5)**	(827.9)	**–**	–
Goodwill impairment	**64.5**	12.7	**–**	–
Pension scheme (credit)/charge	**(4.4)**	3.7	**–**	–
Changes in working capital:				
Decrease in trading properties and long-term development contracts	**(2.1)**	(31.2)	**–**	–
Decrease/(increase) in receivables	**23.0**	(49.1)	**182.8**	(1,735.0)
(Decrease)/increase in payables	**(11.6)**	95.2	**–**	–
Net cash generated from operations	**591.5**	523.4	**182.8**	165.0

32. Acquisition of Tops Estates PLC

The Group acquired 100% of the voting rights of Tops Estates PLC on 10 June 2005 for a consideration of £334.1m, including costs. This has been accounted for as a business combination.

	Book value at acquisition £m	Fair value adjustments £m	Fair value acquired £m
Fair value of assets acquired			
Investment properties	573.0	19.6	592.6
Debtors	21.9	(7.0)	14.9
Cash and cash equivalents	12.9	–	12.9
Current liabilities	(19.4)	–	(19.4)
Non-current liabilities	(230.6)	(27.3)	(257.9)
Deferred taxation	(9.2)	(64.3)	(73.5)
Net assets acquired	348.6	(79.0)	269.6
Fair value of consideration			
Cash			325.3
Costs			8.8
			334.1
Goodwill (note 15)			(64.5)
			269.6

Set out below are the results of Tops Estates PLC from the date of acquisition (10 June 2005) to 31 March 2006 and for the period from 1 April 2005 to the date of acquisition:

	Results for Tops Estates PLC from 10 June 2005 to 31 March 2006 £m	Results for the Group excluding Tops Estates PLC £m	Results for the Group for the year ended 31 March 2006 £m	Results for Tops Estates PLC from 1 April 2005 to 9 June 2005 £m	Results for the Group as if Tops Estates PLC had been acquired on 1 April 2005 £m
Revenue	27.6	1,801.1	1,828.7	7.5	1,836.2
Profit before tax	11.2	2,348.0	2,359.2	5.4	2,364.6
Taxation expense	(3.3)	(680.0)	(683.3)	(0.4)	(683.7)
Profit after tax	7.9	1,668.0	1,675.9	5.0	1,680.9

There were no recognised gains or losses in the year other than the profit attributable to shareholders.

33. Related party transactions

During the year ended 31 March 2005 the Group had a 50% interest in the Telereal partnerships and joint ventures ('Telereal'). The Group, principally through Land Securities Trillium Telecom Services Limited, provided staff to Telereal to deliver services to BT, for which it received £16.1m. The interests in the Telereal partnerships and joint ventures were sold on 30 September 2005.

The Group has a 50% interest in the Metro Shopping Fund LP. During the year ended 31 March 2005 the Group made sales of investment properties to the Partnership for consideration of £91.8m.

The Group has a 50% interest in the Bristol Alliance. During the year ended 31 March 2005 the Group made net sales of investment properties to the Partnership for net consideration of £10.8m.

The Group receives fees in respect of accounting and asset management services and development services from its joint ventures. These fees are calculated on an arms length basis.

The Group receives interest income from the Buchanan Galleries Limited Partnership.

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 Remuneration Report on pages 90 to 96.

	2006 £m	2005 £m
Short-term employee benefits	**3.9**	3.5
Post-employment benefits	**0.8**	0.4
Share-based payments	**0.7**	0.6
	5.4	4.5

34. Operating lease arrangements

The Group earns non-rental income by leasing its investment and operating properties to tenants under non-cancellable operating leases.

At the balance sheet date, the Group had contracted with tenants to receive the following future minimum lease payments:

	2006 £m	2005 £m
Not later than one year	**496.7**	592.7
Later than one year but not more than five	**1,927.3**	1,956.1
More than five years	**3,724.5**	3,836.8
	6,148.5	6,385.6

The total of contingent rents recognised as income during the year was **£7.4m** (2005: £6.7m).

35. Reconciliation of UK GAAP to IFRS

The Group's transition date for the adoption of IFRS is 1 April 2004. This transition date has been selected in accordance with IFRS 1 'First-time adoption of International Financial Reporting Standards'. The Group has also adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 April 2004.

The principal differences for the Group between reporting under IFRS as compared to UK GAAP as at 31 March 2005 are:

(i) Recognising revaluation surpluses and deficits in the income statement
(ii) Providing in full for deferred tax on revaluations and charging movements on this provision through the income statement
(iii) Restating the financial effects of the November 2004 debt refinancing
(iv) Showing the Group's share of the profit after tax and net assets of all its joint ventures and joint arrangements as single lines in the income statement and balance sheet respectively
(v) Ceasing to amortise goodwill but instead testing for impairment
(vi) No longer recognising dividends payable to shareholders prior to their approval by the Annual General Meeting in the case of the final dividend and by the Board in the case of the interim dividend

The application of IFRS has also changed the presentation of the cash flow statement which now shows cash flows derived from three types of activities – operating, investing and financing. In addition, under IFRS, the cash flow statement includes all cash flows in respect of cash and cash equivalents. This is a broader definition of cash than under UK GAAP.

As a general rule, the Group is required to establish its IFRS accounting policies for the year ended 31 March 2006 and apply these retrospectively to determine its opening IFRS balance sheet at the transition date of 1 April 2004 and the comparative information for the year ended 31 March 2005. However, advantage has been taken of certain exemptions afforded by IFRS 1 'First-time adoption of International Financial Reporting Standards' as follows:

- Business combinations prior to 1 April 2004
- The Group has applied IFRS 2 'Share-based Payment' retrospectively only to awards made after 7 November 2002 that had not vested at 1 January 2005
- Presentation of a five year history of experience gains and losses as required by IAS 19 'Employee Benefits'. A four year history has been presented

35. Reconciliation of UK GAAP to IFRS continued

In preparing the IFRS accounts, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with UK GAAP. An explanation of how the transition has affected the Group's financial performance and position is set out in the following tables and accompanying narrative.

Group Reconciliation of equity	Notes	2006 £m	2005 £m	2004 £m
Equity shareholders' funds under UK GAAP*		**8,750.2**	6,636.6	6,030.1
IFRS adjustments				
Deferred tax on revaluations – Group	(i)	**(1,580.9)**	(1,117.9)	(953.5)
– joint ventures	(i)	**(75.5)**	(43.8)	(24.0)
– on acquisitions	(i)	**(83.3)**	(19.0)	–
Dividend**	(ii)	**134.0**	153.7	126.8
Finance leases – Group	(iv)	**4.3**	8.5	(9.2)
– joint ventures	(iv)	**(0.2)**	(0.3)	(0.2)
Pension benefit (net of deferred tax)**	(iii)	**(13.6)**	(17.7)	(16.2)
Tenant lease incentives	(v)	**(23.0)**	(16.5)	(13.6)
Fair value of interest rate swaps – Group (net of deferred tax)	(vi)	**(5.4)**	(2.3)	(31.1)
– joint ventures (net of deferred tax)	(vi)	**(3.2)**	(1.3)	–
Non-amortisation of goodwill (Land Securities Trillium)	(vii)	**4.8**	2.4	–
Share-based payments	(viii)	**4.1**	3.0	1.4
Write off negative goodwill arising		**6.3**	6.3	–
Adjustment to restate the Group's share of Telereal's earnings from an equity to a distribution basis – investment	(ix)	**–**	71.1	47.9
– taxation	(ix)	**–**	(10.6)	(10.6)
Bond exchange de-recognition (net of deferred tax)	(x)	**375.3**	395.0	–
Other		**–**	3.1	4.4
Equity shareholders' funds under IFRS		**7,493.9**	6,050.3	5,152.2

Company Reconciliation of equity	Notes	2006 £m	2005 £m	2004 £m
Equity shareholders' funds under UK GAAP *		**5,013.2**	5,209.2	3,505.4
IFRS adjustments				
Dividend	(ii)	**134.0**	153.7	126.8
Equity shareholders' funds under IFRS		**5,147.2**	5,362.9	3,632.2

* UK GAAP referred to in these reconciliations is that existing as at 31 March 2005.

**Adjustment to UK GAAP as at 31 March 2005, most of which would no longer be required under UK GAAP following the adoption of FRS 17 'Retirement benefits' and FRS 21 'Events after the balance sheet date'.

Notes

(i) Deferred tax is required to be provided in full on all differences between carrying values for accounts purposes and those for taxation. In particular, deferred tax is now provided on revaluation surpluses.
(ii) Dividends are now only provided when finally approved, either by the Annual General Meeting in the case of final dividends or by the Board for interim dividends.
(iii) The actuarial deficit in the Group's defined benefit pension schemes is now recognised as a liability in the consolidated balance sheet.
(iv) Tenant leases which transfer substantially all of the risks and rewards of ownership to the tenant are treated as finance leases. The property is de-recognised from the balance sheet and a receivable recognised in its place.
(v) The cost of tenant lease incentives, such as rent free periods, are now amortised over the term of the leases concerned rather than over the period to the first review to market rents.
(vi) The fair value of all derivatives such as interest rate swaps is now recognised in the Group balance sheet at each reporting date.
(vii) Goodwill arising on acquisition is no longer amortised but kept on the balance sheet and reviewed regularly for impairment.
(viii) The cost of share based payments is now recognised through the income statement.
(ix) Joint ventures cease to be consolidated once their net assets become negative. This is the case with Telereal during the year under review.
(x) The bond exchange which took place in November 2004 qualified as an extinguishment of the existing debt and an issue of new debt under UK GAAP. Under IFRS, this is not the case and the existing debt is reinstated with the difference in redemption amounts being amortised over the life of the new debt.

35. Reconciliation of UK GAAP to IFRS continued

Group Reconciliation of profit	Notes	2006 £m	2005 £m
Profit/(loss) attributable to ordinary shareholders under UK GAAP*		**658.5**	(35.8)
IFRS adjustments			
Revaluation surplus on investment properties – Group	(xi)	**1,579.5**	827.9
– joint ventures	(xi)	**105.5**	69.5
Deferred tax on revaluations – Group	(xii)	**(463.0)**	(164.4)
– joint ventures	(xii)	**(31.7)**	(19.8)
Taxation on revaluation surpluses realised on disposal of investment properties	(xiii)	**(43.3)**	(40.3)
Finance leases – Group	(iv)	**9.1**	(9.4)
– joint ventures	(iv)	**0.1**	(0.1)
Pension benefit (net of deferred tax)**	(iii)	**7.6**	1.9
Tenant lease incentives	(v)	**(0.1)**	(3.0)
Fair value of non-qualifying interest rate swaps (net of deferred tax)	(vi)	**(1.5)**	27.5
Non-amortisation of goodwill (Land Securities Trillium)	(vii)	**2.4**	2.4
Share-based payments	(viii)	**(2.5)**	(0.9)
Goodwill impairment on the acquisition of businesses		**(64.5)**	(12.7)
Adjustment to restate the Group's share of Telereal's earnings from an equity to a distribution basis	(ix)	**(60.5)**	23.2
B share dividends		**–**	(0.1)
Bond exchange de-recognition – originating adjustment (net of deferred tax)		**–**	402.8
– adjustment in year (net of deferred tax)		**(19.7)**	(7.8)
Profit attributable to ordinary shareholders under IFRS		**1,675.9**	1,060.9

Company Reconciliation of profit	Notes	2006 £m	2005 £m
Profit attributable to ordinary shareholders under UK GAAP*		**11.3**	1,890.6
IFRS adjustments			
B share dividends		**–**	(0.1)
Profit attributable to ordinary shareholders under IFRS		**11.3**	1,890.5

*UK GAAP referred to in these reconciliations is that existing as at 31 March 2005.

**Adjustment to UK GAAP as at 31 March 2005, most of which would no longer be required under UK GAAP following the adoption of FRS 17 'Retirement benefits' and FRS 21 'Events after the balance sheet date'.

(xi) The surpluses and deficits arising on the periodic revaluation of the investment property portfolio are now taken through the income statement.
(xii) Deferred tax is provided in full on the revaluation surpluses and deficits and taken through the income statement.
(xiii) Deferred tax provided on revaluation surpluses does not become payable on disposal of the properties concerned and so has to be written back through the income statement.

Directors' Report

The directors submit their report with the audited financial statements for the year to 31 March 2006. A review of the Group's business and results for the year is contained in the Chairman's statement and the Operating and Financial Review ('OFR'), which should be read in conjunction with this report.

1. Business of the Group

Land Securities Group PLC is the Group holding company, and during the year the principal activity of its operating subsidiaries continued to be the business of property development and portfolio management of offices, shops, retail warehouses, food superstores and leisure throughout the UK together with property outsourcing. The Group consists of three main business units, Retail, London Portfolio and Property Outsourcing.

2. Business review, results for the year and dividends

The information that fulfils the requirements of the business review can be found in the OFR on pages 24 to 77, which are incorporated in this report by reference.

The results are set out in the income statement on page 101.

An interim dividend of 18.15p per share was paid on 9 January 2006 and the directors now recommend the payment of a final dividend of 28.55p per share making a total of 46.70p per share for the year ended 31 March 2006, an increase of 8.0% over that for the previous year.

Subject to authorisation at the Annual General Meeting to be held on 19 July 2006, the final dividend will be paid on 24 July 2006 to shareholders registered at the close of business on 23 June 2006. It is expected that the shares will be quoted ex-dividend from 21 June 2006.

3. Valuation and net assets

(i) Valuation

Knight Frank LLP valued the Group's investment properties at £11,619.0m as at 31 March 2006.

(ii) Net assets

The investment portfolio valuation has been included in the financial statements for the year ended 31 March 2006 and the net assets of the Group at that date amounted to £7,493.9m.

4. Directors

The directors who held office during the year were:

Peter G Birch CBE [1,4]
Francis Salway [4]
Martin Greenslade (appointed 01/09/05)
Mark Collins
Ian Ellis
Mike Hussey
Richard Akers (appointed 17/05/05)
David Rough [1,2,3,4]
Sir Winfried Bischoff [1,2,3]
Stuart Rose [1,2,3]
Bo Lerenius CBE [1,2,3]
Alison Carnwath [1,2,3]
Andrew Macfarlane (resigned 05/08/05)

1 Non-executive
2 Member of the Audit Committee
3 Member of the Remuneration Committee
4 Member of the Nominations Committee

Biographical details of the directors appear on pages 78 and 79. Since Martin Greenslade was appointed as a director after the last Annual General Meeting, he will retire from the Board, and, being eligible, offers himself for re-election. He has a service agreement which is terminable on one year's notice from either the Company or the director.

Peter Birch, David Rough, Sir Winfried Bischoff and Ian Ellis will retire from the Board by rotation and, being eligible, offer themselves for re-election. Peter Birch, David Rough and Sir Winfried Bischoff do not have a service agreement with the Company; Ian Ellis has a service contract which is terminable on one year's notice from either the Company or the director.

Particulars of the interests of each director in the shares of the Company, and of their holdings of options over ordinary shares and other long-term incentive arrangements, are shown in the Remuneration Report.

Apart from share options, no contract subsisted during or at the end of the financial year in which a director of the Company is or was materially interested and which is or was significant in relation to the Group's business.

5. Share capital

The Company was authorised at the Annual General Meeting held on 12 July 2005 to repurchase in the market ordinary shares representing up to approximately 10% of the issued share capital at that time with such authority to expire at the 2006 Annual General Meeting. No shares were repurchased in the year to 31 March 2006. A resolution to renew this authority in respect of up to approximately 10% of the issued share capital will be proposed at the 2006 Annual General Meeting.

6. Substantial shareholders

At 19 May 2006 the following interests in issued share capital had been notified to the Company under Part VI of the Companies Act 1985.

	Number of shares	%
Barclays plc	28,199,037	6.01
M&G Investments	18,933,720	4.03
Legal & General Investment Management	15,329,367	3.27
Merrill Lynch Investment Managers	15,129,595	3.22

7. Employees
Details of the Group's policies on employment and on employee development are given on pages 34 and 80. The Group is committed to achieving a high standard of health and safety and continually reviews its policies and practices to ensure that those standards are maintained. Further details are given on page 83.

8. Donations
During the year ended 31 March 2006 charitable donations amounted to £559,000. This amount included £50,000 paid to charitable trusts investigating sites of considerable archaeological importance. There were no contributions of a political nature during the year.

9. Environment
We report on our environmental activities on page 84. The Group's environmental policy is published on the Company's website www.landsecurities.com

10. Corporate responsibility
We report on corporate responsibility including employees, health, safety and the environment both in this Annual Report and our recently published 2006 Corporate Responsibility Report.

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

The effect of the Group's payment policy is that its trade creditors at the financial year end represented 11 days' purchases.

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

13. Treasury operations and financial instruments
The Group's policy in relation to financial risk management and use of financial instruments is set out in notes 2(u) and 24 to the financial statements.

14. Auditors and disclosure of information to auditors
So far as the directors are aware, there is no relevant audit information of which the auditors are unaware and each director has taken all reasonable steps to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

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

By order of the Board
P M Dudgeon
Secretary
23 May 2006

Business Analysis

In this section we provide more detailed information about our major investment properties and facts and figures about the development programme and property outsourcing contracts to help you understand more about our business activities.

Introduction

Land Securities owns 220 investment properties across the UK and is delivering an extensive development programme as well as managing the property portfolios for six major occupiers, so we have tried to bring all of this activity to life in the following pages.

The images, key facts, occupier data, graphs and maps will hopefully give you a feel for what is important in our business and what we are doing that is different to others in the property industry. We have split the portfolio into market sectors to assist with analysis and presented the information in different formats, by region for example, to make detailed analysis easier. Land Securities sees itself as an industry leader and has provided examples of property activity which demonstrates how we are achieving this position.

The detailed list of major property holdings is no longer included in this section but you will find it on our website www.landsecurities.com

Portfolio valuation

The value of the property interests in the combined portfolio, including a pro-rata share of our property joint ventures totalled £12,892.9m at 31 March 2006 (31 March 2005: £9,365.8m). Detailed breakdowns by sector, including comprehensive analyses of the Group's valuation, rental income and yield profiles follow in the investment portfolio analysis. The aggregate of the Market Values of those properties held by the Group, excluding joint ventures, as at 31 March 2006 was £11,619.0m (31 March 2005: £8,371.9m).

The valuation of the freehold and leasehold properties at 31 March 2006 was undertaken by Knight Frank LLP as External Valuer. The valuations were in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, subject to the assumptions that investment properties would be sold subject to any existing leases and that properties held for development would be sold with vacant possession in existing condition. The Valuer's opinion of Market Value was primarily derived using comparable recent market transactions on arm's length terms.

Retail

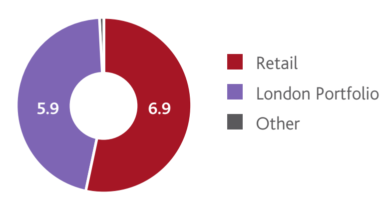
This business unit includes our shopping centres, retail warehouses, shops outside London, shops held through the Metro Shopping Fund LP, regional offices and sundry other regional properties.

London Portfolio

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

Combined portfolio valuation

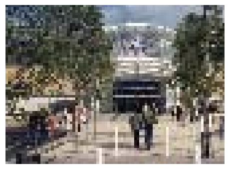
£12.9bn



Investment property business – combined portfolio

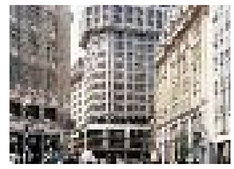
Top twelve properties

Cardinal Place, SW1
A trio of office buildings has created a new focal point for Victoria with shopping and cafés, art gallery and improved public spaces. Completed in January 2006.



White Rose Centre, Leeds
An award winning 60,390m² shopping centre on the edge of Leeds. White Rose is anchored by a Debenhams department store.

Bullring, Birmingham
Opened in 2003, the 110,000m² shopping centre transformed retail in Birmingham's city centre (one-third ownership).

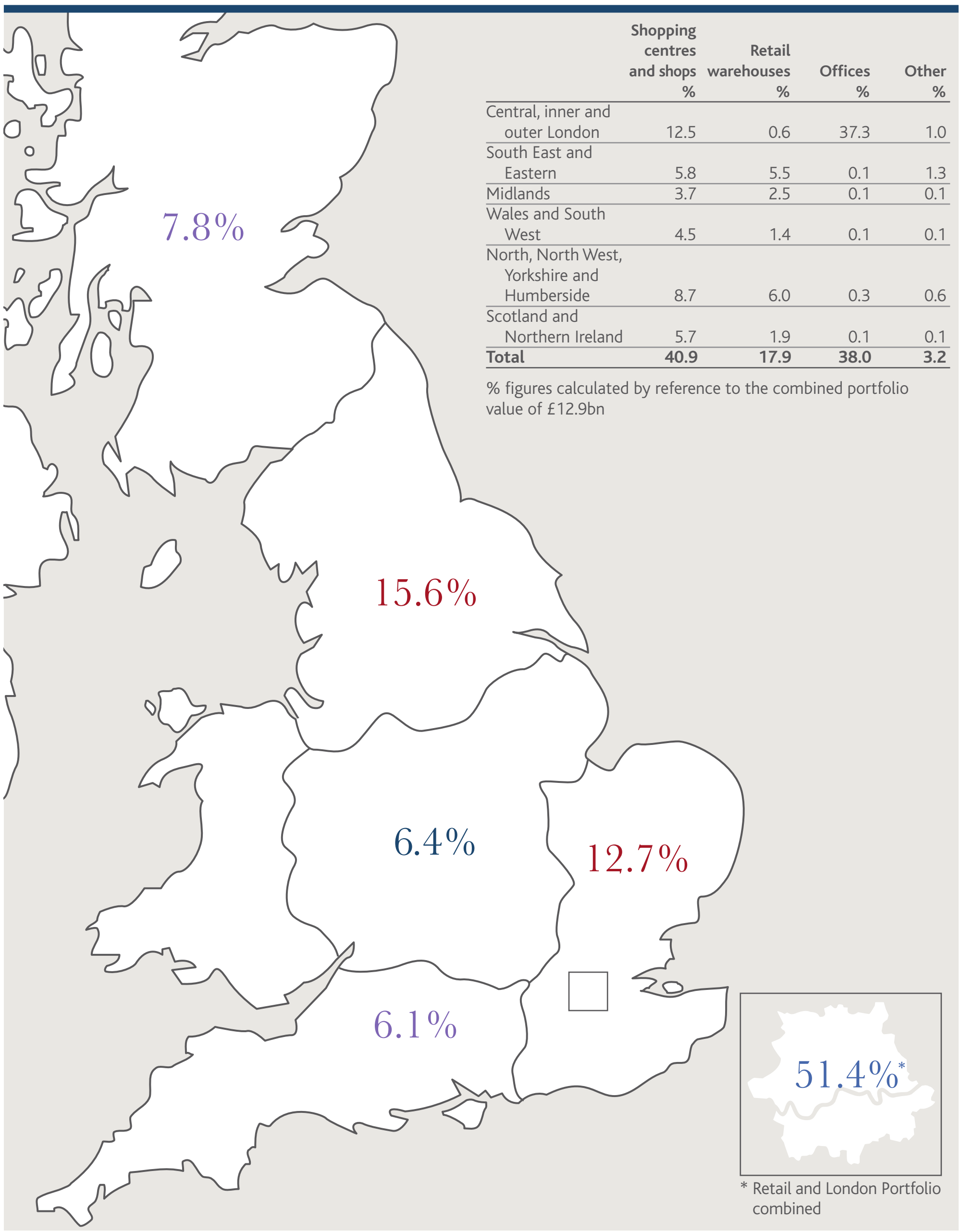


50 Queen Anne's Gate, SW1
This iconic 30,140m² building is undergoing a major refurbishment and will be occupied by the Department for Constitutional Affairs when completed in 2007.

St David's Centre, Cardiff
The principal covered shopping centre in Cardiff provides 39,735m² of floorspace. The centre will benefit from the 103,620m² St David's 2 mixed-use development planned for completion in 2009.

Almondvale shopping centre and designer outlet mall, (50% ownership), Livingston
Forming the heart of the retail offer in Livingston these two adjacent properties total 75,000m² of retail space. Principal tenants include JJB Sports, New Look, Gap and Marks & Spencer.

Combined portfolio value by location



	Shopping centres and shops %	Retail warehouses %	Offices %	Other %
Central, inner and outer London	12.5	0.6	37.3	1.0
South East and Eastern	5.8	5.5	0.1	1.3
Midlands	3.7	2.5	0.1	0.1
Wales and South West	4.5	1.4	0.1	0.1
North, North West, Yorkshire and Humberside	8.7	6.0	0.3	0.6
Scotland and Northern Ireland	5.7	1.9	0.1	0.1
Total	**40.9**	**17.9**	**38.0**	**3.2**

% figures calculated by reference to the combined portfolio value of £12.9bn

* Retail and London Portfolio combined

Total Retail

£6.9bn

Total London Portfolio

£5.9bn

% Portfolio by value and number of property holdings at 31 March 2006

£m	Value %	No. of properties
0 – 9.99	2.0	64
10 – 24.99	3.6	27
25 – 49.99	15.0	51
50 – 99.99	17.2	33
100 – 149.99	20.2	22
150 – 199.99	12.4	9
Over 200	29.6	14
Total	**100.0**	**220**

Notes:
Includes Land Securities' share of joint venture properties.

Average rents – excluding properties in the development programme and voids

	Average rent £/m²	Average ERV £/m²
Retail		
Shopping centres and shops	n/a	n/a
Retail warehouses (including supermarkets)	177	208
Offices		
Central and inner London	333	324
Rest of UK	149	163

Notes:
Average rent and estimated rental value have not been provided where it is considered that the figures would be potentially misleading (ie where there is a combination of analysis of rents on an overall and Zone A basis in the retail sector; or where there is a combination of uses; or small sample sizes).
This is not a like-for-like analysis with the previous year. It excludes properties in the development programme and voids.

Gunwharf Quays, Portsmouth
This 41,290m^2 mixed-use waterfront destination includes an outlet centre of 87 shops, cinema, Bowlplex, comedy club, night club, hotel, 22 restaurants, fitness club and marina.

Retail World, Team Valley, Gateshead
The retail park was acquired in 1996 and comprises 26 units totalling 35,240m^2. Following a major refurbishment we have introduced key retailers such as Next, Boots and Borders.

Devonshire House, W1
14,190m^2 of air-conditioned offices on Piccadilly with nine showrooms and shops at ground floor. Occupiers include Alliance Capital and Boston Consulting.

The Bridges, Sunderland
Extended in 2000, the shopping centre now offers over 100 retailers and is anchored by Debenhams. It receives over 26 million shopper visits each year.

Whitefriars Quarter, Canterbury
Whitefriars Quarter includes our award winning retail-led scheme which opened in 2005. This has regenerated the city centre with new fashion retailers, restaurants, public spaces and residential apartments.

Eland House, SW1
A key property within the Victoria portfolio, the 23,170m^2 office building is occupied by the Government.

Major occupiers

Dresdner Kleinwort Wasserstein

MARKS & SPENCER

Boots

Lloyds TSB

Argos

HOMEBASE

Arcadia Group Limited

Sainsbury's

City of Westminster

Virgin

METROPOLITAN POLICE
Working together for a safer London

ALLEN & OVERY

Top 12 occupiers

	Current gross rent roll %
1 Central Government	9.4
2 J Sainsbury plc	2.1
3 Dixons Group	2.1
4 Allen & Overy	2.0
5 Dresdner Kleinwort Wasserstein	1.8
6 Arcadia Group	1.6
7 The Boots Company PLC	1.5
8 Argos and Homebase	1.3
9 Metropolitan Police Authority	1.1
10 Marks & Spencer Group PLC	1.1
11 Lloyds TSB Group plc	1.1
12 Virgin Group	1.0
Total	**26.1**

Like-for-like reversionary potential at 31 March 2006

Reversionary potential (ignoring additional income from the letting of voids)	31/03/06 % of rent roll	31/03/05 % of rent roll
Gross reversions	10.9	11.0
Over-rented	4.4	5.5
Net reversionary potential	6.5	5.5

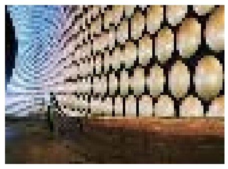
Notes:
The reversion is calculated with reference to the gross secure rent roll after the expiry of rent free periods on those properties which fall under the like-for-like definition as set out in the notes to combined portfolio analysis on page 150.

Of the over-rented income 78.3% is subject to a lease expiry or break clause in the next five years.

Investment property business – Retail

Top twelve properties

White Rose Centre, Leeds
This prime shopping centre includes a Debenhams department store, 12 large space users, over 70 shops and a food court.



Bullring, Birmingham
This award-winning shopping centre is anchored by Selfridges and Debenhams and offers over 130 shops and restaurants (one-third ownership).
.

St David's Centre, Cardiff
St David's occupies the prime retail position in Cardiff city centre. The centre is anchored by Debenhams and provides over 70 shops including Bhs, Mothercare and Miss Selfridge.

Almondvale shopping centre and designer outlet mall (50% ownership), Livingston
This destination acts as a major attraction for the whole of the central belt of Scotland. Planning has been received for Phase III of development.

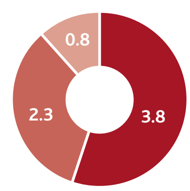
Gunwharf Quays, Portsmouth
In 2003, Land Securities acquired 100% ownership of this unique designer outlet centre. The waterfront location makes this a leading south-east shopping and leisure destination.

Team Valley, Gateshead
Acquired in 1996 and refurbished in 2003 this leading retail park comprises 26 units totalling 35,240m². Key retailers include TKMaxx and Arcadia.

Retail occupiers

Retail portfolio value

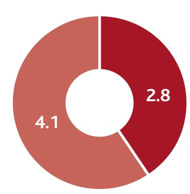
£6.9bn



- Shopping centres
- Retail parks
- Other

Top 12 properties

£bn



- Top 12
- Other

Retail accommodation

m²

1.9 million

Total retail occupiers

1,600

The Bridges, Sunderland
This shopping centre includes Debenhams as its anchor department store together with Tesco, Peacocks, Mark One, Boots, H&M, Next, TK Maxx, New Look and Superdrug.

Whitefriars Quarter, Canterbury
Together with our award-winning Whitefriars scheme, the Clocktower and Marlowe Arcade form the retail heart of Canterbury.

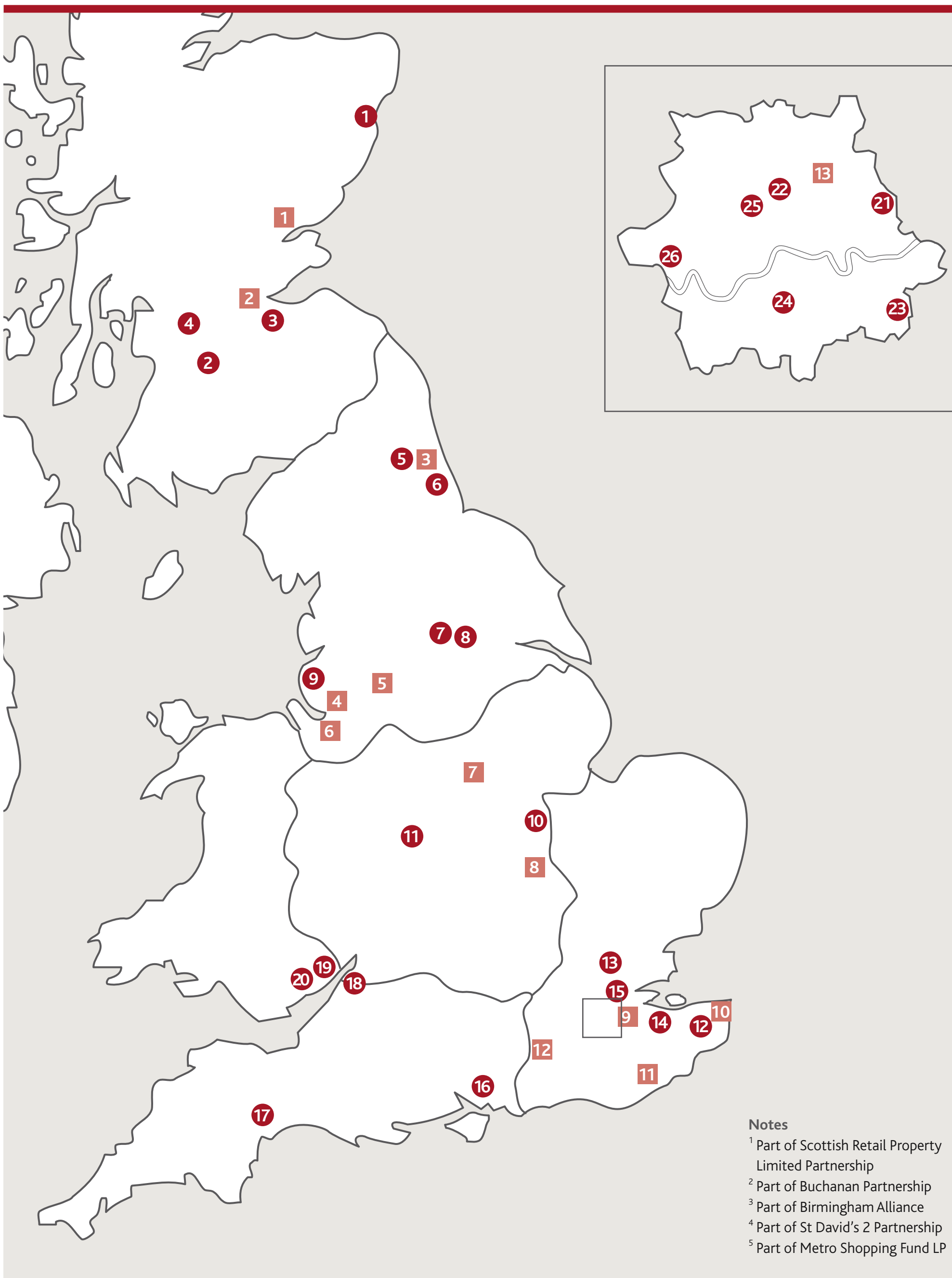
Lakeside Retail Park, Thurrock
Currently undergoing refurbishment, the leading retail park in Essex offers 33,890m² of retail space including Blacks, Mothercare, Argos and Habitat.

East Kilbride
Part of the Scottish Retail Property Limited Partnership (50% ownership), East Kilbride combines four malls to create the biggest shopping centre in Scotland offering over 230 shops and a Debenhams department store.

Buchanan Galleries, Glasgow
Prime positioned shopping centre comprising John Lewis department store, 4 major stores, over 75 shops and a food court (50% ownership).

The Fort, Westwood Cross, Thanet
Acquired in 2005, the new fashion park offers 31,413m² of retail space including Marks & Spencer, Debenhams, Next and a further 38 shops and health and fitness facilities.

Top retail properties over £50m by location



● Shopping centres

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

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

Livingston
3. Almondvale Centre ✱ ●

Glasgow
4. Buchanan Galleries[2] ✱

North, north-west, Yorkshire and Humberside
Newcastle
5. The Gate △

Sunderland
6. The Bridges ✱

Leeds
7. White Rose Shopping Centre ✱
8. Leeds Plaza & Albion St ✱

Liverpool
9. St Johns Centre & Williamson Sq, Clayton Sq ✱

Midlands
Corby
10. Corby Town Centre △ ●

Birmingham
11. Bullring[3] ✱

South and south-east
Canterbury
12. Whitefriars Quarter ✱

Welwyn Garden City
13. Howard Centre △

Maidstone
14. Fremlin Walk ✱

Hatfield
15. The Galleria ✱

Portsmouth
16. Gunwharf Quays ✱

Wales and south-west
Exeter
17. Princesshay ✱ ●

Bristol
18. Broadmead △ ●

Cardiff
19. St David's 2[4] ●
20. St David's Centre ✱

London
21. Stratford Centre, Stratford △
22. N1, Islington[5] △
23. Lewisham Centre ✱
24. Southside, Wandsworth[5] △
25. Notting Hill Gate, W11[5] △
26. W12 Centre, Shepherds Bush △

■ Retail warehouses

Scotland
Dundee
1. Kingsway Retail Park ✱ ●

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

North, north-west, Yorkshire and Humberside
Gateshead
3. Retail World, Team Valley Retail Park ✱

Liverpool
4. Aintree Retail Park ✱

Manchester
5. White City Retail Park △

Midlands
Chester
6. Chester Retail Park △
Greyhound Retail Park △

Derby
7. The Meteor Centre △

Northampton
8. Nene Valley Retail Park △

South and south-east
West Thurrock
9. Lakeside Retail Park ✱

Thanet
10. The Fort, Westwood Cross ✱

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

Bracknell
12. The Peel Centre △

London
13. Ravenside Retail Park, Edmonton △

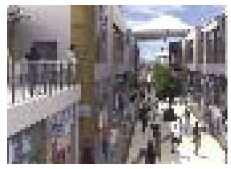
£100m and above ✱
£50m–£100m △
In the development pipeline ●

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

Development timeline

| 2007

Princesshay, Exeter
44,560m^2 – Opening 2007
This mixed-use development is planned around a series of pedestrian streets and public spaces and will provide a vibrant new retail and leisure destination for the south west.



Willow Place, Corby
16,260m^2 – Opening 2007
Willow Place reflects the aspirations of Corby, a town rapidly expanding and set to double its population by 2021. The scheme will provide modern retail units for quality multiple retailers, and is the first step in the rejuvenation of the town centre.

Christ's Lane, Cambridge
7,150m^2 – Opening 2007
This retail and residential scheme is located within the city centre conservation area and will re-establish the historic street, Christ's Lane, to create a new retail thoroughfare in the city.

Feature property

Princesshay, Exeter

Situated in the heart of historic Exeter, Princesshay, a mixed-use retail development, will create 60 new shops, cafés and restaurants as well as 120 apartments. Using innovative design, the architecture, finish and landscaping will reflect the beauty of the Cathedral, the surrounding countryside and the dramatic Devon coastline.

The regeneration of the city centre, led by the Princesshay scheme, will re-affirm Exeter as the regional capital and is one of the most long-awaited and significant developments in the South West this decade.

Architects for the scheme are Panter Hudspith, Wilkinson Eyre and Chapman Taylor while the public realm has been designed by Livingston Eyre.

The scheme will be anchored by a Debenhams 2010 department store and has already attracted a wide range of retailers including Next, Zara, Quicksilver and Top Shop/Top Man. We are also targeting independent retailers to ensure a vibrant retail mix.

Exeter's primary catchment population totals 345,000 with a total catchment population of 642,000 with an estimated total comparison goods spend of over £1bn(1).

(1) Source The Retail Group – Retail Strategy Study June 2004

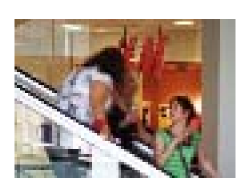
Key facts

Anchored by Debenhams
60 new shops
120 city centre apartments
Restaurants and cafés
New public spaces

Major retail joint ventures

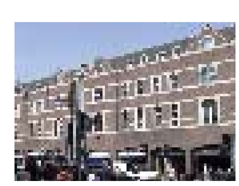
Birmingham Alliance
Land Securities, Hammerson plc and Henderson Global Investors Ltd formed a partnership which has regenerated 40 acres in Birmingham city centre. The first phase was Martineau Place (sold in 2004), the Bullring followed in 2003 and the third and final phase will be Martineau Galleries, a mixed-use development linking the city with the East side.

The Buchanan Partnership
Through the swap with Slough Estates in 2004 we entered a partnership with Henderson Global Investors for the ownership of Buchanan Galleries. The shopping centre is located in Glasgow's prime retail area and we are currently assessing the property's further development potential.



Bristol Alliance
In Bristol, Land Securities and Hammerson plc have formed a partnership to invest £400 million to regenerate the city and provide a new urban centre with retail, leisure facilities, residential apartments, offices and public spaces. The development is set to propel the south west's capital city into a top ten retail position.

The Metro Shopping Fund LP
Land Securities and Delancey created The Metro Shopping Fund LP to combine a selection of central London retail assets to enable more effective management. The portfolio includes properties in Victoria, Notting Hill, Islington and Clapham and the recent purchase of Southside Shopping Centre, Wandsworth.



| 2008

Broadmead, Bristol
50% ownership
139,350m² – Opening 2008
This mixed-use development will create a new retail core and leisure facilities in a regenerated historic quarter, bringing activity to the city centre day and night.

Phase III, Livingston
37,670m² – Opening 2008
Plans have been approved for the next phase of expansion of Livingston town centre, providing new shops and apartments alongside new public spaces including a winter garden.

| 2009

St David's 2, Cardiff
50% ownership
103,620m² – Opening 2009
This mixed-use development set within new public spaces, arcades and treelined boulevards, will help establish Cardiff as one of the top retail destinations in Europe.

Development pipeline

Retail	Description	Size m²	Planning	Letting %	Estimated/actual completion date	Cost £m
Shopping centres and shops						
Whitefriars, Canterbury	Retail/residential	37,160m²/3,260		99	July 2005	113
Summerland Gate, Exeter	Retail and leisure/residential	5,380m²/1,390		100	Apr 2005	14
Broadmead, Bristol The Bristol Alliance – a limited partnership with Hammerson plc	Retail Leisure Offices Residential	83,610 9,000 28,000 18,740		26	Sept 2008	200
Christ's Lane (formerly Bradwell's Court), Cambridge	Retail/leisure Residential	5,800 1,350		76	Dec 2007	26
Princesshay, Exeter	Retail/residential	37,360/7,200		48	Sept 2007	150
St David's Cardiff – St David's Partnership – a partnership with Capital Shopping Centres	Retail/leisure Residential	85,000 18,620	PR	2	2009	
Willow Place, Corby	Retail	16,260	PR	13	2007	
Almondvale Centre Phase III, Livingston	Retail/leisure	32,000/5,670	RG		2008	

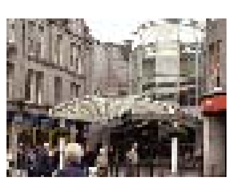
Retail warehouses						
Bexhill Retail Park, extension	Retail warehouses	2,720		100	June 2005	11
Kingsway Retail Park, Dundee, Phase II	Retail warehouses	8,650		64	May 2004	15
Maskew Avenue, Peterborough	Retail warehouses	13,380		91	Sept 2007	32
Commerce Centre, Poole (part)	Retail warehouses	6,040		54	Sept 2006	22
Friary Retail Park, Plymouth	Retail warehouses	7,200			Dec 2007	8
Thanet Leisure, Thanet	Retail warehouses	8,970		32	Apr 2007	22
Almondvale South, Livingston, Phase IIb	Retail warehouses	4,180	PR		2007	

Key
Developments let and transferred or sold
Developments completed
Developments approved and in progress
Proposed developments

Planning status
PR Planning received
AS Application submitted
RG Resolution to grant
PI Planning inquiry
OPR Outline planning received

Major retail joint ventures continued

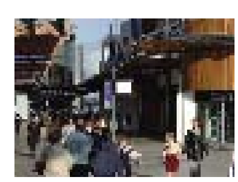
Scottish Retail Property Limited Partnership
A joint venture was created with British Land to combine our retail assets in Aberdeen and East Kilbride. This provided benefits of scale and the ability to maximise the long-term value of the centres through development and other property activity.



The St David's 2 Partnership
As substantial landowners in Cardiff city centre, Land Securities and Capital Shopping Centres created the St David's Partnership to deliver a new heart for the Welsh capital. St David's 2 will breathe new life and vibrancy into Cardiff and consolidate it as a major national and international capital city.

Retail park developments

Thanet Leisure, Thanet
We have acquired an 8.5 acre site adjacent to Westwood Cross fashion park, Thanet, which has planning consent for a leisure and entertainment scheme including a hotel, multi-screen cinema, casino, bingo, restaurants and car spaces.



Maskew Avenue, Peterborough
We shall shortly be building three new superstores on Maskew Avenue, next to the existing Boulevard Retail Park, to house retailers B&Q and Matalan. Their relocation from Peterborough's South Bank will free up land in Peterborough's town centre to help facilitate their ambitious regeneration programme.

Investment property business – London Portfolio

Top twelve properties

Cardinal Place, SW1
The 60,550m² scheme provides modern office accommodation and ground floor retail, anchored by Marks & Spencer. New retailers to Victoria include Molton Brown, Hobbs and Zara.

50 Queen Anne's Gate, SW1
Formerly occupied by the Home Office, a major refurbishment will be completed in 2007.

Devonshire House, W1
After many years of ownership this property is now being marketed for sale.

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

Portland House, SW1
Refurbished in 2002, the 29,120m² office building is located in the heart of the Victoria portfolio. It is multi-let to occupiers such as American Express and the Government.

Portman House, W1
A 12,810m² office building located adjacent to Oxford Street incorporating 3,540m² of prime retail space.

London occupiers

Lloyds TSB

Mellon

DSG international plc

Metropolitan Police
Working together for a safer London

Virgin megastores

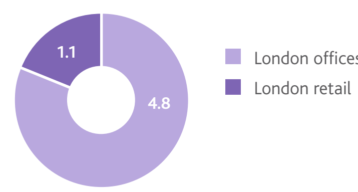
Deloitte.

TimeWarner

Dresdner Kleinwort Wasserstein

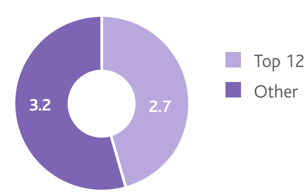
London Portfolio value

£5.9bn



Top 12 properties

£bn



Total accommodation

940,000m²

Total London occupiers

650

Empress State Building, SW6
Following a major refurbishment in 2003, as part of the Landflex portfolio, the 43,330m² building is let to the Metropolitan Police and incorporates 2,040m² of retail and leisure space.

New Street Square, EC4
Contemporary office buildings arranged around a new public square will replace a series of post war office blocks. One-third of the office accommodation has been pre-let to Deloitte. Ground floor retail and restaurant space will complete the scheme.

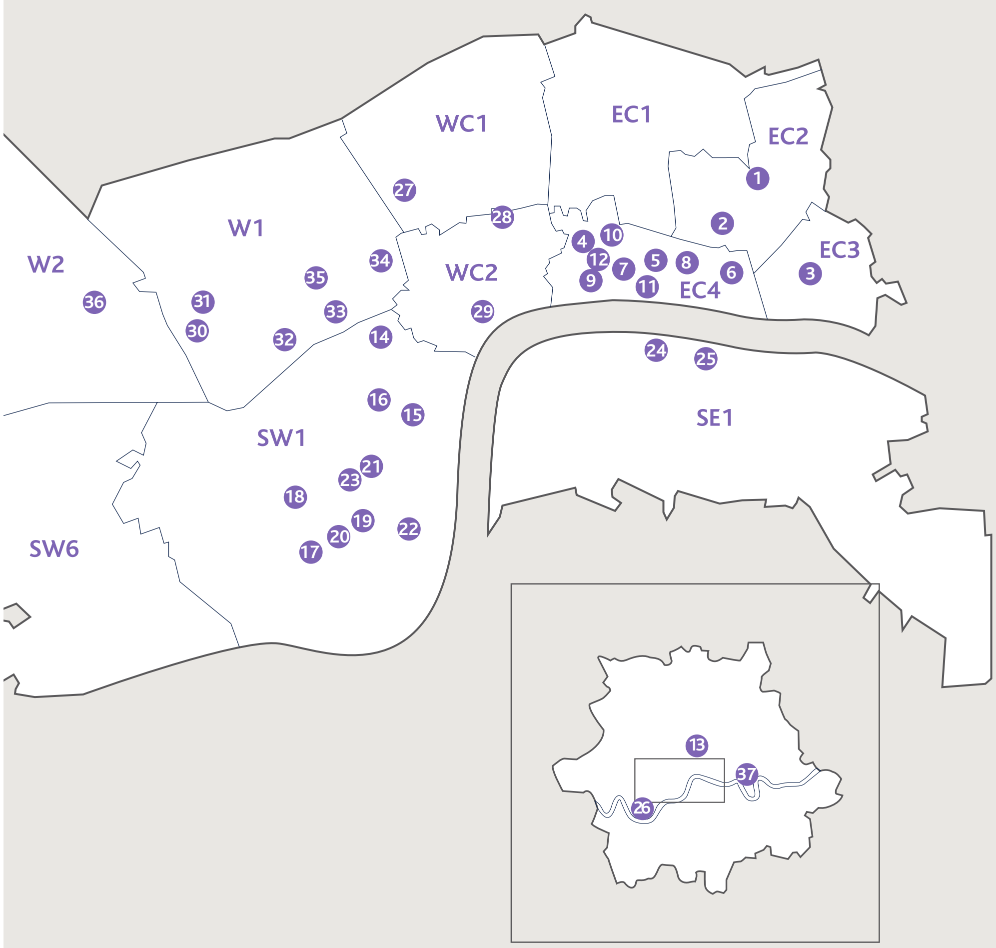
Ashdown House, SW1
The 21,000m² office and retail property holds a prominent position in Victoria and is fully let to the Government (DEFRA HQ). The ground floor retail includes various tenants including Dixons and Boots.

Kingsgate House, SW1
The 18,640m² office building on Victoria Street is let to the Secretary of State and has 18 shops at ground level.

Piccadilly Circus, W1
Iconic illuminated advertising in the heart of the West End. The site includes 1,460m² of offices and 3,690m² of ground floor retail, restaurants and a public house.

One New Change, EC4
The current building opposite St Paul's is occupied by Allen & Overy until 2006, following which the site will be redeveloped to create new office and retail accommodation and unique public spaces.

Top London properties over £50m by location



EC2
1. Moorgate Hall △
2. One Wood Street △ ●

EC3
3. 13/23 Fenchurch Street △

EC4
4. New Street Square ✻ ●
5. One New Change ✻●
6. Regis House △
7. 50 Ludgate Hill and 26 Old Bailey ✻
8. Cannon Street House and Martin House △
9. Fleetbank House △
10. Hill House ✻
11. Times Square ✻
12. IPC Tower, Shoe Lane △

NW1
13. Greater London House ✻

SW1
14. Haymarket House △
15. New Scotland Yard ✻
16. 50 Queen Anne's Gate ✻ ●
17. Portland House ✻
18. Eland House ✻
19. Kingsgate House ✻
20. Cardinal Place ✻ ●
21. Westminster City Hall △
22. Clive House △
23. Ashdown House ✻

SE1
24. Bankside 2 & 3 △ ●
25. Red Lion Court △

SW6
26. Empress State ✻L

WC1
27. 1 Theobald's Court △
28. Holborn Gate, 330 High Holborn △

WC2
29. 40 Strand ✻

W1
30. 455/475 and 475/497 Oxford Street and Park House ✻●
31. Portman House ✻
32. Devonshire House ✻
33. Piccadilly Circus ✻
34. 12/24 Oxford Street and 2/5 Tottenham Court Road △
35. Oxford House 70/80 Oxford Street △

W2
36. 40 Eastbourne Terrace △ ● L

E14
37. 6/7 and 8/9 Harbour Exchange △

✻ £100m and above
△ £50-100m
● In the development pipeline
L Landflex building

Development timeline | 2007

Bankside 123, SE1
This major mixed-use scheme will create a focal point for the area's expanding business community, providing office and retail accommodation in three stunning buildings. Building 1 has been completed and sold to IPC Media.

One Wood Street, EC2
The delivery of this high quality office space and much needed modern retail accommodation is the first step in the transformation of the Cheapside area. Global law firm, Eversheds, has pre-let the office accommodation.

50 Queen Anne's Gate, SW1
This iconic building is undergoing a major refurbishment, both externally and internally, to create high specification offices for occupation by the Department for Constitutional Affairs in 2007.

Feature property

Cardinal Place – case study

Cardinal Place, located on Victoria Street, SW1 has literally transformed the heart of Victoria. New office accommodation has been created in three modern buildings, one with a distinctive curving glass entry, to replace a series of outdated 1960s offices. New ground floor retail, anchored by Marks & Spencer and including fashion brands such as Zara and Hobbs, has provided much needed high street retail, while the café and restaurants have given the residents and people working in the area a much needed place to meet, eat and socialise.

Designed by EPR Architects Limited, the 60,550m^2 contemporary scheme has opened up new views of Westminster Cathedral and provided new pedestrian passages connecting Victoria Street with Bressenden Place. In addition to the new public piazza and walkways, an art gallery is centred within the scheme, drawing tourists, locals and office workers to view the regularly changing exhibitions.

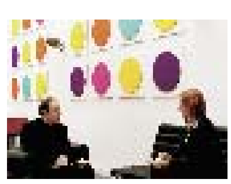
Completed in January 2006, it is estimated that the 51,130m^2 office accommodation will house up to 4,000 people when fully let and that the 9,420m^2 retail space has created 400 new retail jobs.

Key facts

51,130m^2 of offices in 3 buildings
14 shops anchored by Marks & Spencer
9,420m^2 of retail floorspace
7 restaurants and cafés
Art gallery
New public spaces

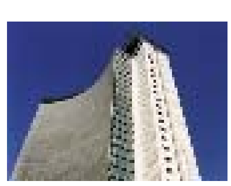
Landflex **is an integrated accommodation package which provides occupiers with lease flexibility, service guarantee and price certainty.**

7 Soho Square, W1
The first property in the Landflex portfolio is located within a vibrant and creative business community in the heart of London's West End. The 3,760m^2 property offers flexible space in one of London's best known squares and is home to Expedia.co.uk and Ryder HKS.

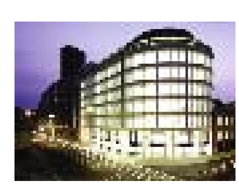


40 Eastbourne Terrace, W2
The recently refurbished building now with striking glass and terracotta finishes is centrally located in Paddington. The 7,690m^2 property is let to CB&I and is fully serviced under the Landflex solution.

Empress State, SW6
Located in Earl's Court, SW6, the Metropolitan Police Authority occupies the property under a single building property outsourcing Landflex solution.



140 Aldersgate Street, EC1
The most recent addition to the portfolio, the Sidell Gibson designed building is Landflex's first exposure to the City of London market. Occupiers include Vibrant Media and Flightbookers.

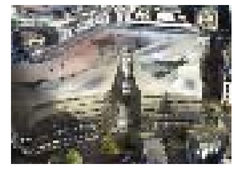


| 2008

New Street Square, EC4
Replacing a jumble of post war office blocks, four contemporary buildings will create workspaces and a striking public square surrounded by retail and restaurant space, furthering the regeneration of Mid-town.

| 2010

Park House, W1
On Oxford Street, close to Marble Arch, we are looking to redevelop the whole block to provide a mix of offices, prime retail and residential apartments.



| 2010

One New Change, EC4
Adjacent to St Paul's Cathedral, the Jean Nouvel designed One New Change development represents a rare opportunity for comprehensive redevelopment in the heart of the City and to create new amenities and seven day retail trading.

Development pipeline

London portfolio	Description	Size m²	Planning	Letting %	Estimated/actual completion date	Cost £m
Central and Inner London properties						
40 Eastbourne Terrace, W2	Offices	7,690		100%	Dec 2005	12
Cardinal Place, SW1	Offices/retail	51,130/9,420		34/98%	Jan 2006	256
Bankside 2&3, SE1	Offices Retail/leisure	35,550 3,170			Aug 2007	121
1 Wood Street, EC2	Offices/retail	15,020/1,500		100%(*)	Sep 2007	102
New Street Square, EC4	Offices Retail/leisure	62,340 2,980		35%	Mar 2008	312
50 Queen Anne's Gate, SW1	Offices	30,140		100%	Dec 2007	126
Dashwood House, EC2	Offices Retail	13,870 590	AS		2009	
One New Change, EC4	Offices/retail	30,790/20,550	RG		2010	
Park House, W1	Offices/retail Residential	15,550/8,470 5,950	AS		2010	

Notes:
(*) The letting was achieved after 31 March 2006.
Cost (£m) refers to the estimated capital expenditure required to develop the scheme from the start of the financial year in which the property is added to our Development Programme. Finance charges are excluded from cost. Floor areas shown above represent the full scheme whereas the cost represents our share of costs. Letting % is measured by ERV and shows letting status at 31 March 2006. Trading Property development schemes and the Kent Thameside project are excluded from the development pipeline.

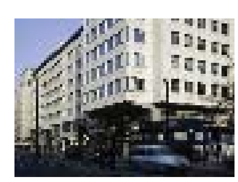
Key
- Developments let and transferred or sold
- Developments completed
- Developments approved and in progress
- Proposed developments

Planning status
PR Planning received
AS Application submitted
RG Resolution to grant
PI Planning inquiry
OPR Outline planning received

London clusters – areas of London on which we are focusing our investment and development activities:

South Bank
The pace of development here on the South Bank has been astonishing, with new art galleries and theatres and high-tech office space. We realise that many major companies are choosing to locate themselves here to benefit from the regenerated surroundings with easy access to the City, and we are providing more opportunities with our major mixed-use scheme, Bankside 123, adjacent to Tate Modern.

Mid-town
Traditionally the home to journalism and law, the area between Holborn and the City is undergoing a major transformation driven by the New Street Square development on New Fetter Lane. This major scheme will replace an assortment of post-war office blocks with contemporary office buildings and create a new urban square with retail, cafés, and public spaces.



Victoria
Politics, art, churches, iconic squares, parks and royalty all reside in SW1 and our properties and their occupiers reflect this exciting mix. The creation of Cardinal Place has given the area a focus, and further plans for development around Bressenden Place will continue the regeneration of the area.

Oxford Street
As the world renowned shopping heart of London, Oxford Street offers some of the best retail in the UK. Our portfolio in the area includes modern retail accommodation, offices, the Park House development at the west end and longer-term development opportunities at the east end of the street.

Combined portfolio analysis

The like-for-like portfolio[2]

	Open Market Value[7]		Valuation Surplus[1]		Gross Rental Income[1]		Annual net rent[8]		Annual net estimated rental value[9]	
	31/03/06 £m	31/03/05 £m	Surp/(def) £m	Surp/(def) %	12 mths to 31/03/06 £m	12 mths to 31/03/05 £m	31/03/06 £m	31/03/05 £m	31/03/06 £m	31/03/05 £m
Shopping centres and shops										
Shopping centres	2,128.8	1,816.4	267.9	14.5	129.9	122.5	115.4	112.2	130.9	123.6
Central London shops	865.6	752.4	110.6	14.7	41.8	44.7	41.7	43.5	46.8	46.4
Other in-town shops	206.3	179.9	19.7	10.6	10.8	11.1	9.2	9.7	12.2	11.7
	3,200.7	2,748.7	398.2	14.3	182.5	178.3	166.3	165.4	189.9	181.7
Retail warehouses										
Retail parks	1,308.7	1,094.6	203.7	18.6	51.7	47.3	53.3	50.4	64.6	60.5
Other	185.4	160.0	25.8	16.2	10.0	9.3	8.6	8.6	9.9	9.5
	1,494.1	1,254.6	229.5	18.3	61.7	56.6	61.9	59.0	74.5	70.0
Total retail	4,694.8	4,003.3	627.7	15.5	244.2	234.9	228.2	224.4	264.4	251.7
London offices										
West End	1,696.5	1,436.1	247.3	17.2	92.5	93.2	90.4	87.1	101.9	93.0
City	737.2	647.1	91.9	14.3	58.1	62.6	58.0	57.2	53.7	53.4
Mid-town	225.5	185.2	40.8	22.6	13.4	12.8	13.2	13.3	12.8	12.1
Inner London	51.2	41.7	8.8	20.8	3.3	3.7	3.2	3.7	4.9	4.8
Total London offices	2,710.4	2,310.1	388.8	16.9	167.3	172.3	164.8	161.3	173.3	163.3
Rest of UK	52.3	45.5	5.8	12.8	1.7	1.7	3.7	4.0	4.7	5.1
Total offices	2,762.7	2,355.6	394.6	16.8	169.0	174.0	168.5	165.3	178.0	168.4
Other	240.6	219.3	24.7	11.5	11.4	9.5	11.4	13.9	13.1	13.2
Like-for-like portfolio[2]	**7,698.1**	**6,578.2**	**1.047.0**	**15.9**	**424.6**	**418.4**	**408.1**	**403.6**	**455.5**	**433.3**
Completed developments[3]	565.3	437.6	95.7	21.4	26.1	12.5	15.4	10.7	32.0	33.2
Total	**8,263.4**	**7,015.8**	**1,142.7**	**16.2**	**450.7**	**430.9**	**423.5**	**414.3**	**487.5**	**466.5**
Acquisitions[4]	3,337.6	970.4	236.6	7.6	123.0	22.5	164.2	57.4	196.0	61.1
Sales and restructured interests[5]	–	627.5	–	–	20.8	56.9	–	22.1	–	41.2
Total development programme[6]	1,291.9	752.1	317.6	32.9	19.5	16.8	10.4	9.0	144.7	99.0
Combined portfolio	**12,892.9**	**9,365.8**	**1,696.9**	**15.3**	**614.0**	**527.1**	**598.1**	**502.8**	**828.2**	**667.8**
Properties treated as finance leases			(13.8)	n/a	(13.2)	(10.9)				
Combined portfolio			**1,683.1**	**15.3**	**600.8**	**516.2**				

Total portfolio analysis

Shopping centres and shops										
Shopping centres	3,816.5	2,553.8	405.5	12.0	194.5	139.5	194.4	145.1	256.0	179.6
Central London shops	1,101.5	860.1	153.9	16.3	58.9	46.3	51.3	46.3	58.9	56.6
Other in-town shops	357.5	445.6	27.5	8.4	20.7	30.8	17.0	24.4	23.1	28.3
	5,275.5	3,859.5	586.9	12.6	274.1	216.6	262.7	215.8	338.0	264.5
Retail warehouses										
Retail parks	1,904.9	1,256.2	227.7	13.7	69.1	55.2	75.4	58.5	95.7	70.7
Other	409.8	225.5	56.7	16.1	18.5	15.3	17.6	11.4	23.9	13.6
	2,314.7	1,481.7	284.4	14.1	87.6	70.5	93.0	69.9	119.6	84.3
Total retail	7,590.2	5,341.2	871.3	13.0	361.7	287.1	355.7	285.7	457.6	348.8
London offices										
West End	2,416.4	1,737.2	453.3	23.3	102.8	97.7	101.3	87.0	160.9	125.5
City	1,059.7	1,085.5	135.9	14.8	88.7	82.2	80.8	77.1	84.3	97.4
Mid-town	654.8	352.1	121.4	22.9	13.5	15.8	13.4	13.0	42.7	41.3
Inner London	675.6	423.0	73.8	12.6	30.2	16.1	23.2	17.6	49.8	29.3
Total London offices	4,806.5	3,597.8	784.4	19.7	235.2	211.8	218.7	194.7	337.7	293.5
Rest of UK	88.0	53.4	8.7	11.1	1.7	3.7	6.4	4.1	7.9	5.4
Total offices	4,894.5	3,651.2	793.1	19.6	236.9	215.5	225.1	198.8	345.6	298.9
Other	408.2	373.4	32.5	8.7	15.4	24.5	17.3	18.3	25.0	20.1
Combined portfolio	**12,892.9**	**9,365.8**	**1,696.9**	**15.3**	**614.0**	**527.1**	**598.1**	**502.8**	**828.2**	**667.8**
Properties treated as finance leases			(13.8)	n/a	(13.2)	(10.9)				
Combined portfolio			**1,683.1**	**15.3**	**600.8**	**516.2**				
Represented by:										
Investment portfolio	11,619.0	8,371.9	1,577.5	16.0	538.7	471.9	533.6	445.1	739.0	604.3
Share of joint ventures	1,273.9	993.9	105.6	9.1	62.1	44.3	64.5	57.7	89.2	63.5
Combined portfolio	**12,892.9**	**9,365.8**	**1,683.1**	**15.3**	**600.8**	**516.2**	**598.1**	**502.8**	**828.2**	**667.8**

The like-for-like portfolio[2]

	Gross income yield[10]		Equivalent yield[11]		Annual gross estimated rental value[12]		Voids (by ERV)[13]		Lease length as at 31/03/06[14]	
	31/03/06 %	31/03/05 %	31/03/06 %	31/03/05 £m	31/03/06 £m	31/03/05 £m	31/03/06 %	31/03/05 %	Median years[i]	Mean years[ii]
Shopping centres and shops										
Shopping centres	5.4	6.2	5.3	5.9	139.5	131.0	3.0	2.4	8.5	7.1
Central London shops	4.8	5.8	5.1	5.8	48.0	47.6	3.1	0.4	6.0	7.7
Other in-town shops	4.5	5.4	5.1	5.7	13.7	13.4	6.6	0.7	7.5	13.0
	5.2	6.0	5.2	5.9	201.2	192.0	3.3	1.8	7.5	7.7
Retail warehouses										
Retail parks	4.1	4.6	4.7	5.3	64.6	60.5	2.9	2.0	13.3	13.0
Other	4.6	5.4	5.0	5.6	9.9	9.5	0.0	0.0	14.5	12.7
	4.1	4.7	4.7	5.3	74.5	70.0	2.6	1.7	13.3	12.9
Total retail	4.9	5.6	5.1	5.7	275.7	262.0	3.1	1.8	9.0	9.1
London offices										
West End	5.3	6.1	5.5	6.3	103.3	94.5	3.0	7.0	5.5	8.0
City	7.9	8.8	5.9	6.5	54.5	54.0	8.8	5.6	0.5	1.8
Mid-town	5.9	7.2	5.4	6.1	13.2	12.1	0.0	0.0	3.3	4.8
Inner London	6.3	8.9	6.2	6.8	4.9	4.8	2.0	0.0	0.5	0.7
Total London offices	6.1	7.0	5.6	6.4	175.9	165.4	4.5	5.8	3.3	5.4
Rest of UK	7.1	8.8	7.7	8.8	4.8	5.1	20.8	9.8	2.8	6.9
Total offices	6.1	7.0	5.6	6.4	180.7	170.5	5.0	5.9	3.3	5.5
Other	4.7	6.3	6.1	6.5	13.3	13.3	2.3	2.3	6.3	13.2
Like-for-like portfolio[2]	**5.3**	**6.1**	**5.3**	**6.0**	**469.7**	**445.8**	**3.8**	**3.4**	**5.8**	**7.7**
Completed developments[3]	2.7	2.4	5.3	6.0	33.0	33.2	1.5	9.9	13.0	13.9
Total	**5.1**	**5.9**	**5.3**	**6.0**	**502.7**	**479.0**	**3.6**	**3.8**	**6.0**	**7.9**
Acquisitions[4]	4.9	5.9	5.4	6.0	197.7	61.3	5.1	1.1	8.8	10.7
Sales and restructured interests[5]	n/a	3.5	n/a	5.9	n/a	n/a	n/a	n/a	n/a	n/a
Total development programme[6]	0.8	1.2	5.3	5.5	n/a	n/a	n/a	n/a	n/a	n/a
Combined portfolio	**4.6**	**5.4**	**5.3**	**6.0**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

Total portfolio analysis

Shopping centres and shops				
Shopping centres	5.1	5.7	5.3	5.9
Central London shops	4.7	5.4	5.1	5.8
Other in-town shops	4.8	5.5	5.2	5.8
	5.0	5.6	5.3	5.9
Retail warehouses				
Retail parks	4.0	4.7	4.8	5.4
Other	4.3	5.1	4.9	5.6
	4.0	4.7	4.8	5.4
Total retail	4.7	5.3	5.1	5.7
London offices				
West End	4.2	5.0	5.5	6.3
City	7.6	7.1	5.6	6.2
Mid-town	2.0	3.7	5.4	6.0
Inner London	3.4	4.2	5.8	6.4
Total London offices	4.6	5.4	5.5	6.2
Rest of UK	7.3	7.7	7.4	8.6
Total offices	4.6	5.4	5.6	6.3
Other	4.2	4.9	5.9	6.4
Combined portfolio	**4.6**	**5.4**	**5.3**	**6.0**

Represented by:				
Investment portfolio	4.6	5.3	5.3	6.0
Share of joint ventures	5.1	5.8	5.2	5.8
Combined portfolio	**4.6**	**5.4**	**5.3**	**6.0**

Notes

1 The valuation surplus and rental income values are stated after adjusting for the effect of SIC 15 under IFRS, but before restating for finance leases.

2 The like-for-like portfolio includes all properties which have been in the portfolio since 1 April 2004 but excluding those which were acquired, sold or included in the development programme at any time during that period. Capital expenditure on refurbishments, acquisition of headleases and similar capital expenditure has been allocated to the like-for-like portfolio in preparing this table. Changes in valuation from period-to-period reflect this capital expenditure as well as the disclosed valuation surpluses.

3 Completed developments represent those properties previously included in the development programme, which have been completed, let and removed from the development programme in the period since 1 April 2004.

4 Includes all properties acquired in the period since 1 April 2004, other than those included in the development programme.

5 Includes all properties sold (other than directly out of the development programme), or where the ownership interest has been restructured, in the period since 1 April 2004.

6 Ongoing developments are properties in the development programme. They exclude completed developments as defined in note (3) above.

7 The open market value figures include the Group share of the various joint ventures and exclude properties owned by Land Securities Trillium and Telereal.

8 Annual net rent is annual rents in payment at 31 March 2006 after deduction of ground rents. It excludes the value of voids and current rent free periods.

9 Annual net estimated rental value includes vacant space, rent frees and future estimated rental values for properties in the development programme and is calculated after deducting expected ground rents.

10 The gross income yield represents the annual net rent expressed as a percentage of the market value ignoring costs of purchase or sale.

11 The net nominal equivalent yield has been calculated on the gross outlays for a purchase of the property (including purchase costs) and assuming that rent is received annually in arrears.

12 Annual gross estimated rental value is calculated in the same way as net estimated rental value before the deduction of ground rents.

13 Voids represent all unlet space in the properties, including voids where refurbishment work is being carried out and voids in respect of pre-development properties. Voids are calculated based on their gross estimated rental value as defined in (12) above.

14 The definition for the figures in each column is:
(i) Median is the number of years until half of income is subject to lease expiry/break clauses.
(ii) Mean is rent-weighted average remaining term on leases subject to lease expiry/break clauses.

Combined portfolio reconciliation

	Retail £m	London Portfolio £m	Other Investment Portfolio £m	Year ended 31/03/06 £m	Retail £m	London Portfolio £m	Other Investment Portfolio £m	Year ended 31/03/05 £m
Investment statement – gross rental income reconciliation								
Combined portfolio	361.7	235.2	15.4	612.3	287.1	211.8	24.5	523.4
Central London shops (excluding Metro Shopping Fund LP)	(47.0)	47.0	–	–	(45.2)	45.2	–	–
Inner London offices in Metro Shopping Fund LP	–	–	–	–	0.5	(0.5)	–	–
Rest of UK offices	1.5	0.1	0.1	1.7	3.3	–	0.4	3.7
Allocation of other	6.9	4.3	(11.2)	–	4.3	4.7	(9.0)	–
	323.1	**286.6**	**4.3**	**614.0**	**250.0**	**261.2**	**15.9**	**527.1**
Less: finance lease adjustment	(5.1)	(8.1)	–	(13.2)	(2.6)	(8.3)	–	(10.9)
Total rental income	**318.0**	**278.5**	**4.3**	**600.8**	**247.4**	**252.9**	**15.9**	**516.2**
Open market value reconciliation								
Combined portfolio	7,590.2	4,806.5	408.2	12,804.9	5,341.2	3,597.8	373.4	9,312.4
Central London shops (excl. Metro Shopping Fund LP)	(1,053.7)	1,053.7	–	–	(820.8)	820.8	–	–
Inner London offices in Metro Shopping Fund LP	18.3	(18.3)	–	–	12.5	(12.5)	–	–
Rest of UK offices	87.4	–	0.6	88.0	53.4	–	–	53.4
Allocation of other	235.6	90.5	(326.1)	–	164.1	80.7	(244.8)	–
Combined portfolio	**6,877.8**	**5,932.4**	**82.7**	**12,892.9**	**4,750.4**	**4,486.8**	**128.6**	**9,365.8**
Rental value reconciliation								
Combined portfolio	457.6	337.7	25.0	820.3	348.8	293.5	20.1	662.4
Central London shops (excl. Metro Shopping Fund LP)	(56.0)	56.0	–	–	(53.7)	53.7	–	–
Inner London offices in Metro Shopping Fund LP	0.9	(0.9)	–	–	1.0	(1.0)	–	–
Rest of UK offices	4.9	2.9	0.1	7.9	5.3	–	0.1	5.4
Allocation of other	13.3	6.5	(19.8)	–	8.9	6.8	(15.7)	–
Combined portfolio	**420.7**	**402.2**	**5.3**	**828.2**	**310.3**	**353.0**	**4.5**	**667.8**

Development pipeline financial summary

	Cumulative movements on the development programme to 31/03/06						Total scheme details				
	Market value at start of scheme £m	Capital expenditure incurred to date £m	Capitalised interest to date £m	Revaluation surplus to date[1] £m	Disposals SIC15 rent and other adjustments £m	Market value at 31/03/06 £m	Estimated total capital expenditure[4] £m	Estimated total capitalised interest £m	Estimated total cost less proceeds[2] £m	Net income/ ERV[3] £m	Valuation surplus for 12 months to 31/03/06[1] £m
Development programme let, transferred or sold											
Shopping centres and shops	27	126	11	45	(7)	202	127	11	154	11	22
Retail warehouses	–	11	–	3	1	15	11	–	11	1	3
London Portfolio	14	12	–	28	–	54	12	–	26	3	24
	41	**149**	**11**	**76**	**(6)**	**271**	**150**	**11**	**191**	**15**	**49**
Development programme completed, approved or in progress											
Shopping centres and shops	83	91	5	20	–	199	376	31	451	32	23
Retail warehouses	66	42	1	18	–	127	100	3	169	11	8
London Portfolio	188	439	35	299	5	966	917	67	1,172	101	285
	337	**572**	**41**	**337**	**5**	**1,292**	**1,393**	**101**	**1,792**	**144**	**316**
	Movement on proposed developments for the year to 31/03/06										
Proposed developments											
Shopping centres and shops	11	16	–	–	–	27	415	34	446	31	–
Retail warehouses	5	–	–	1	–	6	4	–	10	1	1
London Portfolio	321	1	–	29	–	351	554	58	883	61	29
	337	**17**	**–**	**30**	**–**	**384**	**973**	**92**	**1,339**	**93**	**30**

Notes:

(1) Includes profit realised on the disposal of property.

(2) Includes the property at the market valuation at the start of the financial year in which the property was added to the Development Programme together with estimated capitalised interest. For Proposed Development properties, the market value of the property at 31 March 2006 is included in the estimated total cost. Estimated total cost is stated net of residential proceeds for Shopping Centres and shops of £11m, £39m and £30m for developments transferred or sold, completed or in progress and proposed developments respectively. The London Portfolio proposed developments are stated net of residential proceeds of £80m. Allowances for rent free periods are excluded from cost.

(3) Net headline annual rental payable on let units plus net ERV at 31 March 2006 on unlet units.

(4) For those schemes transferred or sold, completed or in progress the cost for each scheme is shown on the preceding pages. The costs of the Proposed Development properties are not shown on a scheme by scheme basis as the schemes have not yet been finalised and could still be subject to material change. For Proposed Development properties the estimated total capital expenditure represents the outstanding costs required to complete the scheme as at 31 March 2006.

Property Outsourcing - Land Securities Trillium

Barclays
Barclays transferred 50,100m² of property to Land Securities Trillium and is free from property responsibility and risks on that portfolio.

BBC
After five years, and the sale of Media Village White City, the BBC and Land Securities Trillium property partnership will end in July 2006 when the facilities management services of the contract will handover to new providers.

DVLA
Land Securities Trillium is undertaking a £30m refurbishment of DVLA's headquarters and provides full services to the DVLA's 94,133m² estate supporting new work practices.

DWP
Our 20 year partnership with DWP has delivered an improved, integrated service and major cost savings to the department.

Norwich Union
We are investing £90m in the refurbishment of Norwich Union's headquarters and provide full maintenance and repair services to 115,000m² of its accommodation.

Telereal
Following the sale of our Telereal stake, we retain leasehold risk on 50 properties and provide Telereal with IT and Helpdesk services.

Clients

NORWICH UNION
BBC
DWP Department for Work and Pensions
DVLA
telereal
BARCLAYS

Total income

£927.3m

Total accommodation under management m²

3.3 million

Customer service contacts per annum

600,000

Customer service centre

Land Securities Trillium's award winning Customer Service Centre is at the heart of the business. It is a fully resilient function managed across two sites 24 hours a day, seven days a week, 365 days a year. It currently manages seven contracts resulting in 600,000 customer contacts per year. Service levels are met consistently while customer satisfaction remains very high.

DVLA refurbishment, Swansea
We have enabled DVLA to implement cultural, operational and organisational change across the Agency by delivering cost effective upgrades to modernise its headquarters and implement new working practices.

Norwich Union Headquarters
The new atrium for Norwich Union, designed and delivered by Land Securities Trillium, offers new facilities and a vibrant working environment for Norwich Union staff.

Job Centre Plus
We continue to support transformation in the way that DWP serves the public through delivery of Job Centre Plus.

Feature contract

DWP

In 1998, DWP transferred the ownership and management of its estate to us for 20 years. The original portfolio included 650 buildings covering a floor area of over 1.6 million m².

Known as PRIME, the agreement included the purchase of all the freehold premises, responsibility for rental costs, dilapidation liabilities on leased buildings and the cost of maintaining the buildings as well as the provision of building-related facilities management services. All surplus space was transferred to us for disposal. We paid £250m for the freehold portfolio and received annual revenue of £250m, for full services across the freehold and leasehold portfolios.

Unlike a conventional sale and leaseback arrangement, the contract provides the flexibility to vacate buildings as necessary to match DWP's changing business requirements. The contract also offers life cycle risk transfer.

In 2003, the contract was expanded to include an additional 1,100 properties covering 900,000m². We paid a further £100m for the freehold properties.

Key facts

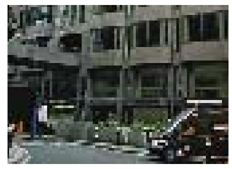
Overall customer satisfaction – 90%
Portfolio of 1,639 properties covering 2.5 million m²
Accommodating 115,000 staff

New business opportunities

Mill Group joint venture
Investors in the Community Group Ltd ('IIC') is a joint venture between Land Securities Trillium and Mill Group which aims to achieve a leading position in the Building Schools for the Future ('BSF') and community Public Private Partnership markets through investment in new socially responsible projects. IIC is short-listed for Leeds BSF.

Metrix
Metrix is a 50:50 joint venture between Land Securities Trillium and QinetiQ to bid for the Defence Training Review ('DTR'), the largest PFI contract ever with a £13bn training and accommodation package covering over 600,000m². DTR aims to modernise the delivery of professional and trade training throughout the armed forces, including provision of new and refurbished accommodation and full range estates services.

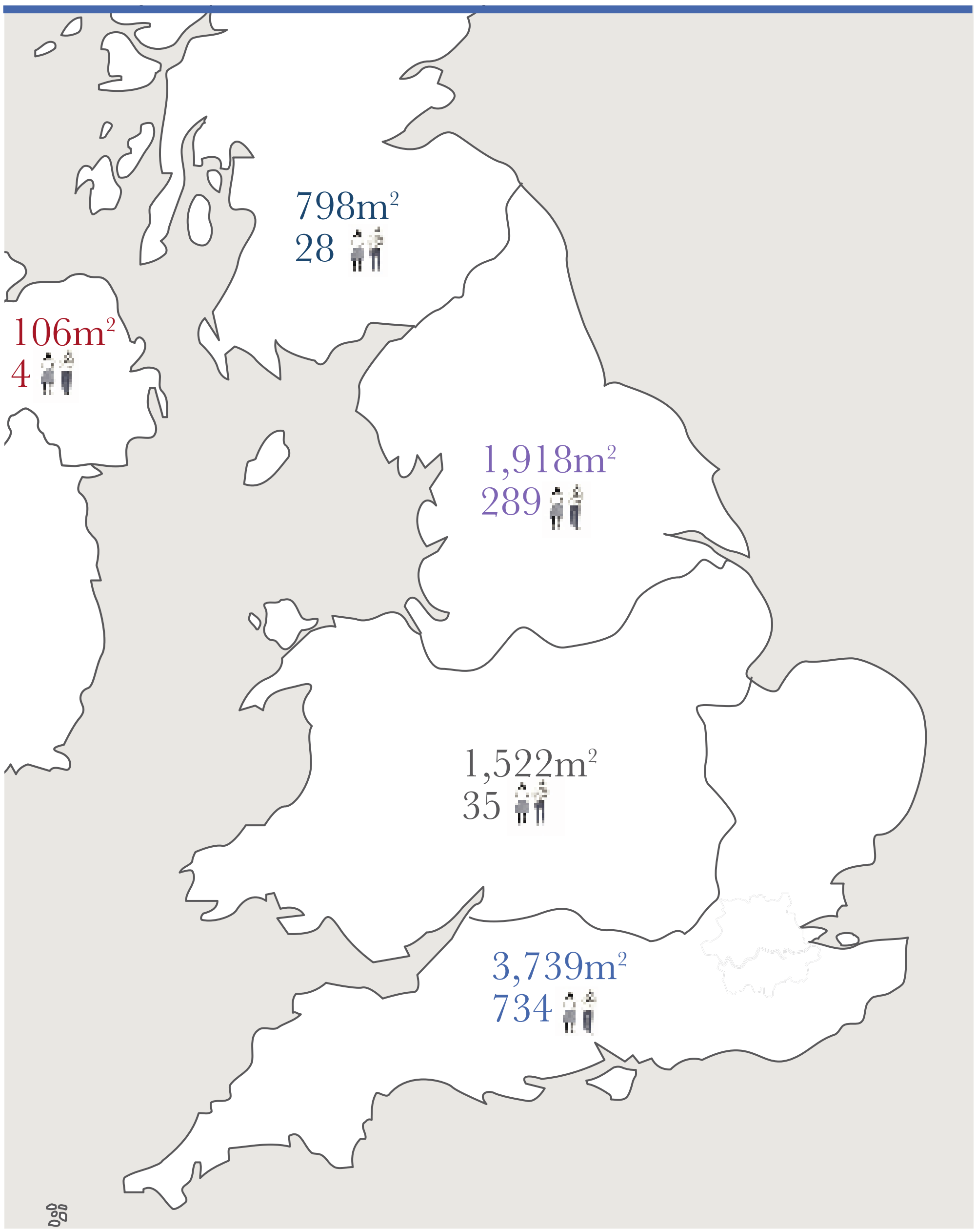
DWP, Hinchley Wood
Residential consent for part of DWP's Hinchley Wood site shows value generated by innovative thinking for both Land Securities Trillium and our customer.



Barclays leasehold property
We have achieved 100% sub-letting of all five floors at 8 Angel Court since taking on the lease in 2005.

Telereal leasehold property
Telephone House, Brighton one of the 50 Telereal properties where rent review risk has been transferred to us.

Regional breakdown by contract (000m²) and number of employees



Average length of contract

15.2 years

Number of people by occupation

as at 31/03/06	Total
Asset management	42
Call centre	95
Capital projects	214
Quality assurance	36
Facilities management	585
HR/finance/business development	118
Total	**1,090**

Note:
These figures exclude all Telereal staff

Service partner agreements at 31/03/06

Service partner	Service element	Estimate of proportion of service providers' turnover
Compass	Catering	<5%
Dalkia	Building maintenance	<5%
Group 4	Security	<5%
GS Hall	Building maintenance	20-25%
ISS	Cleaning	<5%
Amaryllis/MiB	Furniture	15-20%
MITIE	Cleaning	<5%
Norland	Facilities Management	<5%
OCS	Cleaning	<5%
Securitas	Security	<5%
Wilson James	Security	20-25%

Average contract length of above service partners: 11 years
Average contract time remaining of above service partners: 7 years
Average annual contract value of above service partners: £18m

Contract analysis

Year ended 31/03/06				Contract					
	DWP	BBC	Norwich Union	DVLA	Barclays	Telereal II	Other	Total	Telereal (50%)
Contract length									
Term[1]	20 yrs	5 yrs	25 yrs	20 yrs	20 yrs	4.5 yrs			
Expiry date	Mar 2018	Jun 2006	Jun 2029	Mar 2025	Dec 2024	Mar 2010			
Income	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Unitary charge	553.0	66.6	13.7	8.2	0.5	–	–	**642.0**	67.5
Third party (sublet) income	9.0	–	1.0	–	1.7	–	1.4	**13.1**	–
Capital projects	198.0	20.6	0.3	3.8	–	–	–	**222.7**	–
Other revenue	9.0	16.2	–	0.7	–	21.1	–	**47.0**	13.3
Proceeds of sales of trading properties	–	–	–	–	–	–	–	**–**	5.5
Finance lease income	–	–	2.4	0.1	–	–	–	**2.5**	–
Gross property income	769.0	103.4	17.4	12.8	2.2	21.1	1.4	**927.3**	86.3
Costs									
Rent payable	(178.1)	–	(3.4)	(1.7)	–	–	(0.7)	**(183.9)**	(17.1)
Service partners (maintenance, facilities etc)	(169.0)	(52.6)	(2.7)	(3.8)	–	–	(1.2)	**(229.3)**	–
Life cycle maintenance costs	(21.9)	(0.5)	(3.2)	(0.5)	–	–	–	**(26.1)**	–
Capital projects	(194.5)	(17.3)	(0.3)	(3.6)	–	–	–	**(215.7)**	–
Cost of sales of trading properties	–	–	–	–	–	–	–	**–**	(1.3)
Other costs, including overheads	(88.8)	(32.5)	(1.9)	(2.1)	0.3	(14.2)	(8.6)	**(147.8)**	(7.6)
Bid costs	–	–	–	–	–	–	(7.4)	**(7.4)**	–
Depreciation	(19.0)	–	(0.9)	(0.1)	–	–	(0.5)	**(20.5)**	(7.1)
Contract level operating profit	97.7	0.5	5.0	1.0	2.5	6.9	(17.0)	**96.6**	53.2
Profit on sale of fixed assets	1.0	–	–	–	–	–	–	**1.0**	0.9
Net surplus on revaluation of investment property	–	–	–	–	1.9	–	–	**1.9**	–
Profit on disposal of investment in joint venture (Telereal)	–	–	–	–	–	–	293.0	**293.0**	–
Segment profit	98.7	0.5	5.0	1.0	4.4	6.9	276.0	**392.5**	54.1
Capital expenditures									
Life cycle maintenance costs capitalised	(14.6)	–	(2.9)	–	–	–	–	**(17.5)**	–
Estates capitalised	(1.2)	–	–	–	–	–	(0.2)	**(1.4)**	–
Book value of assets at 31 March 2006									
Investment in joint venture	–	–	–	–	–	–	19.8	**19.8**	–
Investment properties	–	–	–	–	27.1	–	–	**27.1**	–
Operating properties	492.4	–	43.7	–	–	–	–	**536.2**	–

(1) For Barclays contract, this is the sale and leaseback term.

Contract analysis

Floorspace	DWP 000m²	BBC 000m²	Norwich Union 000m²	DVLA 000m²	Barclays 000m²	Telereal II 000m²	Other 000m²	Total 000m²
Client occupied	2,216.2	–	107.0	13.3	11.4	–	–	**2,347.9**
Third party (sublet)	66.4	–	5.2	–	14.8	–	–	**86.4**
Vacant	163.5	–	2.8	–	23.9	–	–	**190.2**
Total	2,446.1	–	115.0	13.3	50.1	–	–	**2,624.5**
Freeholds/ valuable leaseholds	861.5	–	40.0	–	11.3	–	–	**912.8**
Leaseholds	1,584.6	–	75.0	13.3	38.8	–	–	**1,711.7**
Total	2,446.1	–	115.0	13.3	50.1	–	–	**2,624.5**
Estate managed but not transferred	93.1	364.2	8.7	81.4	–	150.0	–	**697.4**

Vacation allowance and portfolio activity – DWP

000m²	31/03/05	Acquisitions	Vacations	Lettings	Disposals	31/03/06
Client occupied*	2,331.5	19.4	(134.7)	–	–	**2, 216.2**
Third party (sublet)	65.2	–	(5.6)	6.8	–	**66.4**
Vacant	79.2	–	140.3	(6.8)	(49.2)	**163.5**
Total	2,475.9	19.4	–	–	(49.2)	**2,446.1**
Freeholds/valuable leaseholds	866.4	1.3	–	–	(6.2)	**861.5**
Leaseholds	1,609.5	18.1	–	–	(43.0)	**1,584.6**
Total	2,475.9	19.4	–	–	(49.2)	**2,446.1**
Estate managed but not transferred	100.5	–	(7.4)	–	–	**93.1**
Vacation allowance used to date	120.2	–	–	–	–	**234.1**
Available allowance	322.9	–	–	–	–	**289.1**
Future allowance	278.2	–	–	–	–	**198.2**

*Includes core vacations

Vacation allowance and portfolio activity – Barclays

000m²	31/03/05	Acquisitions	Vacations	Lettings	Disposals	31/03/06
Client occupied	11.3	0.1	–	–	–	**11.4**
Third party (sublet)	10.2	0.2	–	4.4	–	**14.8**
Vacant	10.0	18.3	–	(4.4)	–	**23.9**
Total	31.5	18.6	–	–	–	**50.1**
Freeholds/valuable leaseholds	11.3	–	–	–	–	**11.3**
Leaseholds	20.2	18.6	–	–	–	**38.8**
Total	31.5	18.6	–	–	–	**50.1**
Estate managed but not transferred	–	–	–	–	–	**–**

Note: The 'Disposals' column includes – lease surrenders, lease expiries and disposals.

Regional breakdown by contract at 31/03/06

000m²	DWP	BBC	NU	DVLA	Barclays	Telereal	Total
London, South East and West England	856	340	63	10	39	150	**1,458**
Northern England	890	–	32	6	–	–	**928**
Scotland	298	24	29	2	–	–	**353**
Midlands and Wales	495	–	–	77	11	–	**583**
Total	2,539	364	124	95	50	150	**3,322**

Investor Information

The report and financial statements, share price information, company presentations, primary financial statements as excel downloads, the financial calendar, corporate governance, contact details and other debt and equity investor information on the Group are available through the internet on www.landsecurities.com/investorrelations.

Registrar

All general enquiries concerning holdings of ordinary shares in Land Securities Group PLC, should be addressed to:
Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.
Telephone: 0870 600 3972
Textphone: 0870 600 3950
Website: www.shareview.co.uk

An online share management service is available, enabling shareholders to access details of their Land Securities shareholdings electronically. Shareholders wishing to view this information, together with additional information such as indicative share prices and information on recent dividends, should visit the online shareholder centre at www.landsecurities.com/investorrelations or www.shareview.co.uk.

E-communication

UK shareholders may elect to receive communications electronically. Shareholders who opt to receive electronic communications can also submit their proxy votes electronically. To register for this service, shareholders should visit the online shareholder centre at www.landsecurities.com/investorrelations or www.shareview.co.uk.

Payment of dividends

Shareholders whose dividends are not currently paid to mandated accounts may wish to consider having their dividends paid directly into their bank or building society account. This has a number of advantages, including the crediting of cleared funds into the nominated account on the dividend payment date. If shareholders would like their future dividends to be paid in this way, they should complete a mandate instruction available from the registrars. Under this arrangement tax vouchers are sent to the shareholder's registered address.

Dividend reinvestment plan (DRIP)

The Company offers shareholders the option to participate in a DRIP. This enables shareholders to reinvest their cash dividends in Land Securities Group PLC shares.

For further details, contact:
The Share Dividend Team, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA
Telephone: 0870 241 3018
International dialling: +44 121 415 7049.

For participants in the plan, key dates can be found in the online financial calendar at www.landsecurities.com/investorrelations.

Low cost share dealing facilities

Shareview provides both existing and prospective UK shareholders with simple, low cost ways of buying and selling Land Securities Group PLC ordinary shares by telephone, internet or post.

For telephone dealing, call 0870 850 0852 between 8.30am and 4.30pm Monday to Friday.
For internet dealing, log on to www.shareview.co.uk/dealing
For postal dealing, call 0870 242 4244 for full details and a form.

Existing shareholders will need to provide the account/shareholder reference number, shown on the share certificate.

Sharegift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to the charity ShareGift, (registered charity 1052686) which specialises in using such holdings for charitable benefit. A ShareGift Donation form can be obtained from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.

Further information about ShareGift is available at www.sharegift.org or by writing to:
ShareGift, 46 Grosvenor Street, London W1K 3HN
Telephone: 020 7828 1151.

Corporate Individual Savings Accounts (ISAs)

The Company has arranged for a Corporate ISA to be managed by Lloyds TSB Registrars, who can be contacted at:
The Causeway, Worthing, West Sussex BN99 6UY.
Telephone: 0870 242 4244.

Capital gains tax

For the purpose of capital gains tax, the price of the Company's ordinary shares at 31 March 1982, adjusted for the capitalisation issue in November 1983, was 205p.

The appropriate values to be used as base costs in respect of shares in Land Securities Group PLC issued under the Scheme of Arrangement in September 2002 are:
Ordinary shares – 769p
B shares – 101p
so that the new ordinary shares and the B shares received in respect of the old ordinary shares in Land Securities PLC will attract 86.99% and 13.01% respectively of the base cost in those old ordinary shares.

Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register, which provides a search facility for financial assets which may have been forgotten. For further information, contact:
The Unclaimed Assets Register, Bain House, 16 Connaught Place, London W2 2ES.
Telephone: 0870 241 1713
Website: www.uar.co.uk

Share price information

The latest information on Land Securities Group PLC share price is available on our website www.landsecurities.com.

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5 Strand, London WC2N 5AF
Registered in England and Wales
No. 4369054

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5 Strand, London WC2N 5AF
and at
140 London Wall, London EC2Y 5DN
1 City Walk, Leeds S11 9DX
120 Bath Street, Glasgow G2 2EN

Glossary

Adjusted earnings per share ('EPS')
Earnings per share based on revenue profit plus profits on trading properties and long-term development contracts.

Adjusted net asset value ('NAV') per share
NAV per share adjusted to add back deferred tax associated with investment properties and capitalised interest, the adjustment arising from the de-recognition of the bond exchange, together with cumulative mark-to-market adjustment arising on interest swaps and similar instruments used for hedging purposes.

Average unexpired lease term
Excludes short-term lettings such as car parks and advertising hoardings, residential leases and long ground leases.

Balanced scorecard
An approach to strategic management developed in the early 1990s by Drs. Robert Kaplan and David Norton to translate an organisation's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth.

Book value
The amount at which assets and liabilities are reported in the financial statements.

CABE
Commission for Architecture and the Built Environment ('CABE').

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

Development pipeline
The Group's development programme together with any proposed schemes that are not yet included in the development programme but which are more likely to proceed than not.

Development programme
The Group's development programme comprises projects which are completed but less than 95% let; developments on site; committed developments (being projects which are approved and the building contract let); and authorised developments (those projects approved by the Board for which the building contract has not yet been let). For reporting purposes we retain properties in the programme until they are 95% let.

Development surplus
Excess of latest valuation over the total development cost ('TDC').

Diluted figures
Reported amount adjusted to include the effects of potential shares issuable under employee share schemes.

Earnings per share ('EPS')
Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

Equivalent yield
The internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent, and such items as voids and expenditures but disregarding potential changes in market rents and reflecting the actual cash flow rents.

Estimated rental value ('ERV')
The estimated market rental value of lettable space as determined biannually by the Company's valuers. This will normally be different to the rent being paid.

Exceptional item
An item of income or expense that is deemed to be sufficiently material to require separate disclosure.

Finance lease
A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Flexible accommodation allowance
Allowance agreed between a property outsourcing client and Land Securities Trillium, to vacate a given amount of floor space or to expand over the life of the contract.

Gearing (net)
Total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus non-equity shareholders' funds as a percentage of equity shareholders' funds.

Gross income yield
The annual net rent on investment properties expressed as a percentage of the valuation ignoring costs of purchase or sale.

Head lease
A lease under which the Group holds an investment property.

Initial yield
Annualised net rents on investment properties expressed as a percentage of the valuation.

Interest rate swap
A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are used by the Group to convert floating rate debt to fixed rates.

Investment portfolio
The investment portfolio comprises our wholly-owned investment properties together with the properties held for development but excludes Land Securities Trillium properties.

Joint venture
An entity in which the Group holds an interest on a long-term basis and is jointly controlled by the Group and one or more venturers under a contractual arrangement whereby decisions on financial and operating policies essential to the operation, performance and financial position of the venture require each venturer's consent.

LIBOR
The London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

Like-for-like portfolio
Properties that have been in the investment or combined portfolio for the whole of the current and previous financial year.

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

Mark-to-market adjustment
An accounting adjustment to change the book value of an asset or liability to its market value.

Net asset value ('NAV') per share
Total equity divided by the number of ordinary shares in issue at the period end.

Open A1 planning consent
Planning permission for the retail sale of any goods.

Open market value
Open market value is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers). In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agent and legal fees.

Operating properties
Properties acquired and managed by Land Securities Trillium as part of its property outsourcing contracts with third parties and which do not meet the accounting definition of investment property.

Other investment portfolio
This comprises all other investment properties not included in Retail or London Portfolio.

Outline planning consent
This gives consent in principle for a development, and covers matters such as use and building mass. Full details of the development scheme must be provided in an application for full planning consent, including detailed design, external appearance and landscaping before a project can proceed. An outline planning permission will lapse if full planning permission is not granted within three years.

Over-rented
Space that is let at a rent above its ERV.

Passing rent
The annual rental income receivable which may be more or less than the ERV (see over-rented and reversionary).

Public Private Partnership ('PPP')
A partnership that brings together, for mutual benefit, a public body and a private company in a long-term joint venture for the purpose of delivering public projects or services.

Pre-let
A lease signed with an occupier prior to completion of a development.

Private Finance Initiative ('PFI')
A particular form of PPP, that is a government or public authority initiative to acquire private financing for public sector infrastructure.

Real Estate Investment Trust ('REIT')
In the context of the draft legislation for the introduction of REITs in the UK, a REIT must be a publicly quoted company with at least three quarters of its profits derived from a qualifying property rental business. Income and capital gains from the property rental business will be exempt from tax but the REIT will be required to distribute a significant proportion of those profits to shareholders. Corporation tax will be payable on non-qualifying activities in the normal way.

Rental value growth
Increase in the current rental value, as determined by the Company's valuers, over the 12 month period on a like-for-like basis.

Resolution to grant planning consent
The formal resolution by a local planning authority to grant planning permission, usually conditional upon the completion of a section 106 or other legal agreement.

Retail
This business includes our shopping centres, shops, retail warehouse properties and assets held in retail joint ventures but not London retail.

Retail park
A scheme of three or more retail warehouse units aggregating over 4,650m^2 with shared parking.

Return on average capital employed
Group profit before interest, plus joint venture profit before tax, divided by the average capital employed (defined as shareholder's funds plus net debt).

Return on average equity
Group profit before tax plus joint venture tax divided by the average equity shareholder's funds.

Revenue profit
Profit before tax, excluding profits on the sale of fixed asset and trading properties, profits on long-term development contracts, revaluation surpluses, mark-to-market adjustments on interest rate swaps and similar instruments used for hedging purposes, the adjustment to interest payable resulting from the amortisation of the bond exchange de-recognition and any exceptional items.

Reversionary or under-rented
Space where the passing rent is below the ERV.

Reversionary yield
The anticipated yield to which the initial yield will rise once the rent reaches the ERV.

Section 106 agreement
An agreement, under the Town and Country Planning Act 1990, between a local planning authority and a developer negotiated in the context of granting planning permission. It provides a means of ensuring that developers contribute towards infrastructure and services that the local authority believes to be necessary to facilitate the proposed development. Contributions may either be in cash or in kind.

Total business return
Dividend per share, plus the increase in adjusted diluted net asset value per share, divided by the adjusted diluted net asset value per share at the beginning of the period.

Total development cost ('TDC')
All capital expenditure on a project including the opening book value of the property on commencement of development, together with all finance costs less residential proceeds.

Total property return
Valuation surplus, profit/(loss) on property sales and net rental income in respect of investment properties expressed as a percentage of opening book value of the investment property portfolio.

Total shareholder return
The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Trading properties
Properties held for trading purposes and shown as current assets in the balance sheet.

Turnover rent
Rental income which is related to an occupier's turnover.

Unitary charge
The basic payment received by Land Securities Trillium under a property outsourcing contract.

Voids
The area in a property or portfolio, excluding developments, which is currently available for letting.

Weighted average cost of capital ('WACC')
Weighted average of cost of debt and notional cost of equity, used as a benchmark to assess investment returns.

Yield shift
A movement (negative or positive) in the equivalent yield of a property asset.

Zone A
A means of analysing and comparing the rental value of retail space by dividing it into zones parallel with the main frontage. The most valuable zone, Zone A, is at the front of the unit. Each successive zone is valued at half the rate of the zone in front of it.

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Contact details

If you have any comments in respect to this year's Annual Report please write to:

Investor Relations Department
Land Securities Group PLC
5 Strand, London WC2N 5AF

T: +44(0)20 7413 9000
E: investor.relations@landsecurities.com
www.landsecurities.com

If you have any other comments or queries on any aspect of our business, please do not hesitate to contact us as above and we will pass your enquiry on to the relevant individual.

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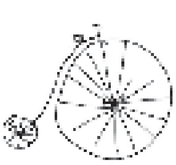
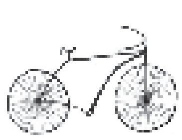
This report is printed on paper that meets international environmental standards, contains total chlorine free virgin pulp, obtained from sustainably managed forests.

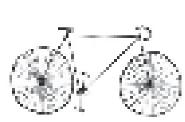
We couldn't let our Chairman and Executive Directors get away without trying to draw a bicycle – here's how they did.



Peter Birch
Chairman

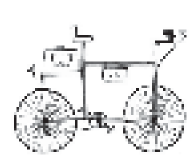


Francis Salway
Group Chief Executive

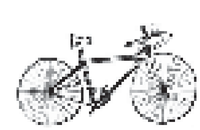


Mark Collins
Chief Operating Officer

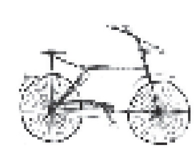
Martin Greenslade
Group Finance Director



Mike Hussey
Managing Director – London Portfolio



Richard Akers
Managing Director – Retail



Ian Ellis
Chief Executive – Land Securities Trillium

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