

Handwritten scribble



LandSecurities

Annual Report 2003



A38
COMPANIES HOUSE

WAUC55MBN

0588
03/07/03

01-42 Operating and financial review

- | | |
|------------------------------------|-----------------------------------|
| 02 Highlights | 30 Health, safety and environment |
| 04 Chairman's statement | 32 Board of directors |
| 08 Chief executive's review | 33 Corporate governance |
| 12 Financial review | 36 Remuneration report |
| 16 Portfolio management | 42 Directors' responsibilities |
| 20 Development | 42 Auditors' report |
| 24 Total property outsourcing | |
| 28 Corporate social responsibility | |

43-66 Financials

- 44 Consolidated profit and loss account
- 45 Balance sheets
- 46 Consolidated cash flow statement
- 47 Other primary statements
- 48 Notes to the financial statements
- 66 Five and ten year records

67-83 Business analysis

- 68 Market report and investment portfolio valuation
- 69 Performance benchmarking
- 70 Investment portfolio analysis
- 73 Total property outsourcing
- 74 Development pipeline schedule
- 76 Property by location
- 78 Major property holdings

84-88 Other

- 84 Directors' report
- 86 Investor information
- 87 Glossary
- 88 Index

Land Securities Group PLC provides commercial accommodation and property services to a wide range of occupiers across the United Kingdom. Our objective is to create long-term and sustainable returns for our shareholders through our activities, which include property investment, development and total property outsourcing.

We focus on investing in four sectors of the commercial property market: offices and shops in central London, shopping centres, out of town retail parks across the UK and south-east industrial.

Our development activities include delivering retail-led regeneration in several major UK cities, brownfield site regeneration in the south-east and new office schemes in central London.

We are leaders in the new market of total property outsourcing where we provide accommodation and property-related services to Government and major corporations.

Working together with our employees we aim to fulfil our objective of becoming the UK's recognised leader in the provision of commercial property accommodation and property-related services.

Highlights

- Adjusted diluted net asset value increased 5.2% to 1215p (2002: 1155p)
- Adjusted diluted earnings per share decreased by 0.9% to 50.36p (2002: 50.81p)
- Pre-tax revenue profit down 6.6% to £340.9m (2002: £364.8m)
- Substantially completed £541m return of capital to shareholders
- High level of activity demonstrated by:
 - £0.4bn of property sales
 - £0.5bn investment in development and investment property activities
 - 617 transactions (rent reviews, lease renewals and lettings) across the portfolio
- Strong performance in retail portfolio substantially offset impact of weak central London office market
- Development progressing well with 81,500m² completed this year, 250,600m² under development, and 52,000m² of lettings
- Strong contribution to Group returns from Land Securities Trillium
- Successful integration of Land Securities Trillium's two major new contracts during the year
- 10 million m² of commercial property owned or under management
- Proposed dividend increase of 4.4% to 35.5p (2002: 34.0p)

Financial highlights

Revenue profit (pre-tax) (£m)	
1999	292.7
2000	301.7
2001 (restated)	323.4
2002	364.8
2003	340.9

Adjusted diluted earnings per share (pence)	
1999	38.86
2000	40.63
2001 (restated)	44.89
2002	50.81
2003	50.36

Dividends per share (pence)	
1999	29.50
2000	31.00
2001	32.50
2002	34.00
2003	35.50

Diluted net assets per share (pence)	
1999	975
2000	1090
2001 (restated)	1130
2002	1132
2003	1188

Adjusted diluted net assets per share (pence)	
2001 (restated)	1152
2002	1155
2003	1215

Financial highlights			
	31 March 2003	31 March 2002	% change
Gross property income			
Property investment	£575.6m	£579.0m	-0.6%
Total property outsourcing (including 50% share of joint venture)	£660.2m	£406.2m	+62.5%
Property trading	£3.7m	£40.4m	-90.8%
Total	£1,239.5m	£1,025.6m	+20.9%
Operating profit (total)	£550.2m	£516.8m	+6.5%
Pre-tax profit	£319.6m	£363.5m	-12.1%
Add back: profit on fixed asset property sales, bid costs and exceptional items (pre-tax)	£21.3m	£1.3m	
Revenue profit (pre-tax) ¹	£340.9m	£364.8m	-6.6%
Adjusted diluted earnings per share ²	50.36p	50.81p	-0.9%
Earnings per share (basic)	46.46p	50.27p	-7.6%
Dividends per share	35.50p	34.00p	+4.4%
Interest cover (times) ³	2.42	2.98	
Adjusted diluted net assets per share ⁴	1215p	1155p	+5.2%
Diluted net assets per share	1188p	1132p	+4.9%
Carrying value of investment properties ⁵	£7,823.9m	£7,800.0m	
Net borrowings	£2,589.3m	£1,942.1m	
Equity shareholders' funds	£5,532.7m	£6,036.6m	
Gearing (net) ⁶	47.3%	32.2%	

1 Excludes results of fixed asset property sales, bid costs and exceptional items (deficit on purchase and redemption of convertible bonds, cost of cancellation/novation of interest rate swaps and the costs of reorganising the Group)

2 Excludes results of fixed asset property sales, bid costs, exceptional items and deferred tax arising from capital allowances on investment properties

3 Number of times gross interest payable (i.e. pre-capitalisation) is covered by operating profit and interest receivable but excluding the activities of Telereal, the exceptional deficit on purchase and redemption of convertible bonds and the exceptional cost of cancellation/novation of interest rate swaps

4 Excludes the additional deferred tax arising from capital allowances on investment properties

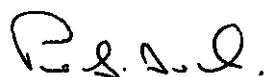
5 Market value less UITF28 adjustment; investment properties in this note refer to those properties included in the investment portfolio as defined in the Glossary (page 87)

6 Net borrowings (including bank overdrafts (less short term deposits and cash), at book value, plus non-equity B shares and preference shares as a percentage of equity shareholders' funds

Peter G. Birch
Chairman

Over the past 12 months, against a background of world instability and uncertainty in global economies and financial markets, the Group's results continue to demonstrate the fundamental benefits of a soundly financed and well managed asset-backed business. The investment portfolio valuation benefited from a strong performance by our retail assets which substantially offset the impact of the downturn in the central London office markets. Adjusted diluted net asset value per share has increased by 5.2% to 1215p. This represents good progress given the difficult market conditions.

The protection afforded to shareholders by our diversified portfolio, the quality of our occupiers and strong revenues from Land Securities Trillium underpins the Group's progressive dividend policy and we are increasing the dividend by 1.5p, maintaining our long record of year-on-year increases.



Our strategy

More than three years ago we recognised that asset accumulation alone would no longer deliver sufficient shareholder returns in a period of low inflation. To mitigate this we reviewed our business, its operations and areas of activity.

Since then our core objectives have been to:

- Focus our investment portfolio on four sectors of the UK commercial property market which we believe will benefit in the long-term from constraints on land supply.
- Increase the scale of our development activities and operate in areas which are less accessible for competitors without our scale or skills base.
- Enter into total property outsourcing which is still an immature market that we believe has strong growth prospects, as evidenced by the success we have had, since acquiring Trillium, in winning new contracts.
- Develop our people to ensure that they have the appropriate skills to deliver our objectives.
- Ensure that we have an appropriate capital structure and financial strategy.
- Promote better relationships with our occupiers and clients.

Our achievements

We are still in the process of delivering our strategy and five year business plan which aim to create long-term and sustainable returns for our shareholders.

In the period since announcing the restructuring of our business our achievements include:

- Restructuring the business into three units, which allows for the efficient allocation of capital and effective performance measurement of both our activities and our people.
- Completing £1,360m of sales and £840m of property acquisitions.
- Completing 300,000m² of development and starting over 500,000m² of new schemes.
- Winning two major new total property outsourcing contracts with the BBC and BT, through the Telereal joint venture.
- Enhancing our skills base through the recruitment of new people at all levels of the business.
- Returning more than £500m of equity to our shareholders.
- Continuing our unbroken record of growing our dividend at an average growth rate per annum of 4.6%.
- Providing a total return of nearly 11%, as compared to a FTSE 100 Index total return of negative 40% and a positive 3% for FTSE Real Estate (31 March 2000 to 31 March 2003).

Our objectives

While the achievement of our objectives is always influenced by market and economic conditions we have made good progress to date and remain on track to continue to grow the business. Our future objectives will be to:

- Focus on our customers with products that meet their needs.
- Continue to grow our total property outsourcing business by winning new contracts and expanding existing ones.
- Complete and let our development programme.
- Maximise the returns from our investment portfolio.
- Build and retain the best team in the property industry.
- Focus on earnings generation from our capital investment to drive total returns.

Chairman's statement

Results

This year's figures have been impacted by a number of exceptional factors. These include the return of capital, higher interest payments and certain costs relating to financing transactions. Pre-tax profit of £319.6m, which is posted after the exceptional costs, including those incurred on various financial transactions, decreased by £43.9m. Revenue profit (our measure of underlying pre-tax profits) also decreased by 6.6% to £340.9m, mainly as a result of £13.5m of additional interest incurred to finance the return of capital and the dilutive effect of sales in the past two years. Adjusted earnings per share (calculated on revenue profits) were 2.4% lower at 50.39p per share (2002: 51.61p per share).

Activity levels remained high. The Group realised £436.3m from the sale of properties and the release of equity from the London Hilton and received a total of £80.6m in capital repayments from Telereal. We invested £613.2m in our portfolio, development activities and total property outsourcing. The Group also completed a capital restructuring which resulted in a return of capital of £511.1m to shareholders last September. A further £18.8m of B shares were redeemed in April, 2003, leaving £11.5m outstanding.

The Board recommends a final dividend of 26p per share, making a total distribution for the year of 35.5p. The dividends paid and proposed will be covered 1.4 times by post-tax profits. The dividend will be paid on 28 July 2003 to shareholders on the register on 27 June 2003.

Investment portfolio valuation

Our total investment portfolio was valued at £7.84bn (2002: £7.81bn), representing a 0.4% increase in assets. After adjusting for sales, acquisitions and expenditure the value reduced on a like-for-like basis by 0.6% as compared to the prior year. The retail and retail warehouse portfolios performed particularly well, with 7.8% and 10.0% increases in value respectively, demonstrating the benefits of the high levels of asset management activity and the more resilient retail markets. This strong contribution to the performance of our portfolio from retail has been offset, once again this year, by a decrease in value in our central London holdings. Further details of the valuation results are contained in the business analysis section on pages 68 to 83.

Government

We have for some time been lobbying Government on our own behalf and through the British Property Federation to ensure that it understands clearly the potential damage of year-on-year increases in stamp duty. Not only does this taxation unfairly penalise property as an asset class compared to bonds and equities, but it also reduces liquidity in the market and impacts the flow of capital into major regeneration projects. We believe that Government is beginning to recognise this and were pleased that this duty was not increased again this year, but rather was reduced in some areas where Government is hoping to encourage regeneration.

We are also grateful that Government has continued to leave the way open for dialogue on issues such as stamp duty on leases and lease-code reforms. We believe that the industry has come a long way in terms of providing occupiers with a wide range of accommodation and lease terms and that undue taxation and regulation will prevent our markets from operating efficiently.

Given the Government's commitment to urban regeneration and attracting capital investment into these major, long-term and complex projects, we would encourage it to consider a more tax-efficient vehicle to encourage international and domestic investment in the UK property sector. While most other G7 countries now have tax-efficient vehicles, known as real estate investment trusts, we believe our ability to attract new equity investment to fund regeneration projects is being undermined by the tax position of the UK quoted property company.

The Board

In January 2003, the Board announced that Ian Henderson, Group chief executive, had accepted its invitation to remain in his position beyond his normal retirement date of July to oversee and implement the delivery of our plans and to allow for continuity of leadership. Francis Salway was appointed to the new role of chief operating officer, taking on a wider operational role supporting Ian Henderson, while retaining his responsibilities as chief executive of Development. Mark Collins and Ian Ellis, chief executives of Portfolio Management and Land Securities Trillium respectively, were appointed to the Board in November 2002.

We would also like to thank Giles Henderson, who stepped down from the Board as a non-executive director in November, for his contribution to the Group's progress. We are delighted that Stuart Rose has agreed to join the Board as an independent non-executive director, bringing substantial retail expertise to the Group. We are assessing the impact of the Higgs and Smith recommendations on corporate governance and audit committees. In due course, we will appoint a senior independent director and create a Board nominations committee.

People

We have a great team in place and, during the year, my colleagues throughout the organisation have continued to demonstrate enthusiasm and a positive approach to the new way in which we are conducting our business and the changes for them that this entails. I would like to thank them for their valued contribution to our progress.

Outlook

During the 12 months under review, property as an asset class continued to perform strongly, showing a total return of 9.3% as compared to 11.3% for bonds and a negative return of 30.0% for equities reflecting investors' current preference for low-risk, cash positive investments. Demand for investment property with long-term leases continues to be strong while interest rates remain low.

In our view, retail currently offers greater potential for total returns than offices in the short term. For Land Securities Trillium, market conditions are more attractive, as corporations continue to seek operational efficiencies and ways to release capital for investment in their core activities, both of which can be achieved through total property outsourcing.

While the economic outlook remains challenging, both in the UK and around the world, the diversified nature of the Group's activities, its sound financial base, strong management team and focus on customer service mean that we are on track to continue to deliver our strategy. The Board's confidence in the fundamental soundness of your business is demonstrated by the increased final dividend payment.

Ian J Henderson
Group chief executive

During these demanding times, we have been rigorous in our approach to managing the Group to ensure that we maintain our reputation for delivering consistent results in difficult economic and property market conditions.

We are not complacent and recognise that we have to work hard to increase income at a time when our business partners are facing challenging conditions. We are pleased that the results show a strong contribution from our new division, Land Securities Trillium.



From left
Ian Ellis, Francis Salway, Ian Henderson,
Andrew Macfarlane and Mark Collins

In a capital-intensive business with significant investment plans, we are mindful of the importance of providing investment returns that exceed our cost of capital. While this remains challenging given the London office market conditions, all our activities are evaluated against the target returns we have set for each business unit.

Structure of the report

We have consistently endeavoured to remain at the forefront of our industry in terms of reporting and disclosure standards. This year we have changed the format of the report to improve clarity and to present all the analysis pertinent to the Group in one place. We have included on pages 68 to 83 a business analysis section that comprises details of the valuation and its analysis, a market report and a number of statistics in respect of the investment portfolio, our development programme and our total property outsourcing activities. We hope that you find this new format helpful.

Portfolio management

The Group's investment portfolio, the majority of which is managed by Portfolio Management, underpins our activities. The total portfolio is diverse, with 254 properties, 2,000 occupiers and low property specific risk. The portfolio is now structured to provide the protection offered by diversity while, at the same time, being sufficiently focused to give us market leading positions in most of our areas of activity.

We have and will continue to recycle the capital invested in the portfolio through an active programme of sales and purchases to ensure that the properties we own provide future growth opportunities. As described in more detail in the Portfolio Management review on pages 16 to 19 we are driving the performance of our properties through intensive management.

Development

In our interim report in November we said that we believed one of our competitive advantages is our ability to maintain our development activity through market cycles. This remains the case. However, we regularly review the timing and extent of our development programme in light of market conditions to ensure that the risks involved are manageable when markets weaken.

The Group's financial strength and internal risk management controls allow us to add value by progressing aspects of the development programme in such a way that we position schemes for future construction to take best advantage of improving markets. As a result, we have scaled back our central London activities but will progress our retail development programme and the projects at Kent Thameside.

Chief executive's review

Total property outsourcing

We believe that the prevailing market conditions are positive for Land Securities Trillium, as occupiers seek to release capital and focus on their core business activities. The current contracts are performing well and making a significant contribution to Group income. Although progress has been slower than anticipated in concluding new business we are active in a greater number of negotiations than seen previously and maintain our ambitions of growing this business so that it contributes 25% of our future operating profits in four years' time.

Customer service

We are making good progress with our focus on customer service and have been active in building strong relationships across the Group with our occupiers and clients. The introduction of a Group client relationship management system has allowed us to formalise relationship management procedures across the business and help ensure that we are pro-active in responding to our customers.

To date, the results of customer surveys across Group activities have been encouraging. In an independent survey conducted with retailers in nine of our centres, 80% of those surveyed would be willing to recommend Land Securities

as a landlord. The survey highlighted some areas where we could improve our performance and, although we exceeded the benchmark on most criteria, we continue to look at how we can further enhance our service levels. We were also delighted to note the impressive customer satisfaction ratings arising from surveys among our customers in the Department for Work and Pensions ('DWP') and the BBC.

Competitive environment

Although the UK property market is relatively mature, there are numerous opportunities to create value through development, active management and the provision of efficient customer service. There are also emerging markets and sectors where we can exploit our competitive advantages of financial strength, scale and the ability to innovate. The first of these is total property outsourcing. While this market is still in its infancy and competition is fragmented, we believe that not only the strength of our balance sheet but also the infrastructure and expertise we now have in place at Land Securities Trillium should enable the Group to lead this market. The second is major regeneration projects, where we can take a long-term approach to master planning complex schemes, while realising value throughout the life of the scheme. This is

evidenced by our project at Kent Thameside. Third, we believe that continuing to drive innovation in the marketplace through products such as Landflex will keep us at the forefront of our industry in terms of anticipating future trends and meeting our customers' changing accommodation needs.

The downturn in the central London office market, particularly in the City, has adversely affected the performance of this part of the investment portfolio and our ambition to generate returns from development may, therefore, be delayed. However, the central London market comprises a series of sub-markets, all of which have different occupier characteristics. With a range of development opportunities in several of the core sub-markets, we are one of the few businesses that can satisfy occupier demand for new, large, modern office buildings across central London between now and 2008.

London is one of the main engines of the UK's growth and it is essential that we maintain its attraction to business at large as one of the foremost global financial centres. The infrastructure of the capital continues to be neglected, although the Prime Minister's recent commitment to chair the Thames Gateway Committee is encouraging. It is vital

that this commitment is translated into a real investment in both existing services and new ones such as Crossrail.

At present, the retail property environment remains stable, although it continues to be dependent on consumer demand. Any downturn will inevitably affect retailers' profitability, their growth plans and demand for retail space. However, retailers are adapting quickly to changing consumer demands and new entrants continue to seek to build their presence in the UK market. With a portfolio of dominant shopping centres, development plans for six major new schemes and a large number of retail warehouse parks, we are well placed to strengthen our relationships with retailers and satisfy their requirements.

As a result of the changes in our business, we have invested in new skills and new operations. While this has resulted in an increase in the Group's cost base, we have thoroughly reviewed costs to ensure that we are maximising efficiencies and benefiting from the economic advantages of our scale.

Financial structure and strategy

As reported in the financial review on page 13, following the review of our capital structure and financial strategy in 2002, we established that we had surplus equity capital after taking into account the capital required to execute our business plan. As a result, during the year we carried out a structured return of capital to shareholders which contributed to a rise in the Group's gearing to 47.3%. Subsequently, we also issued £600m of bonds to refinance short-term bank debt.

While continuing to invest in total property outsourcing and development, we still remain committed to pursuing a prudent financial strategy and a progressive dividend policy.

Recognising that the business has grown more complex, we completed during the year a review of the Group's finance function. This resulted in a number of changes, including the creation of a Group Tax, Treasury, and Insurance department to strengthen and integrate these functions.

Risk management and business planning

We continue to evaluate our risk management processes. As a result, we have implemented a new risk management procedure across the business and put in place a comprehensive risk management plan that has been reviewed and approved by the Board. We are satisfied that the level of risk within the organisation is commensurate with a business of our size and believe that we have the appropriate controls and procedures in place to manage this risk effectively.

We have also augmented the Group's business planning process by adopting the balanced scorecard approach, to ensure that our people and our business units are firmly focused on achieving the Group's long- and short-term goals.

Prospects

We look forward to taking advantage of the opportunities that today's markets offer and believe that our strategy, people and financial strength leave the business well-placed to make good progress across all its operations.

Financial review

Andrew Macfarlane
Group finance director

Profit before interest and tax (including joint ventures) for the year to 31 March 2003 was £591.9m (2002: £530.2m). This represents an 11.6% increase over the previous year and was driven by two main factors:

- a full year's contribution from Telereal, our 50:50 joint venture with The William Pears Group; and
- profits of £43.5m (2002: £19.2m) from the sale of operating, trading and investment properties.

At the pre-tax level, profits decreased by 12.1% from £363.5m to £319.6m largely as a result of exceptional costs related to our capital reorganisation, convertible bond redemptions and new debt issues. Revenue profits declined by 6.6% to £340.9m (2002: £364.8m), due to increased interest costs related to the return of capital in September 2002 and the dilutive effect of property sales over the last two years.

After capitalisation of interest on developments, total interest charges were some £115.0m higher than the prior year, of which nearly half can be attributed to the full year effect of Telereal and the balance to exceptional interest costs incurred in redeeming convertible bonds and cancelling surplus interest rate hedges, following our

bond issues. The Group's gross interest payable, excluding Telereal, was covered 2.4 times by operating profits compared with 3.0 times in the prior year.

During the year, we divested investment and operating properties with a book value of £539.1m (2002: £510.4m) generating an FRS3 profit of £41.7m, compared with £13.4m in the previous year. This includes our share of Telereal property disposals. Property disposals also crystallised revaluation surpluses earned in prior years of £281.2m.

Profit after tax was £229.9m (2002: £263.6m) equivalent to a 7.6% decrease in basic earnings per share; however adjusted earnings per share only fell by 2.4% and the Directors are recommending a total dividend for the year of 35.5p per share (2002: 34.0p), a 4.4% increase. If approved, this will result in a final dividend of 26.0p per share (2002: 24.95p). At this level, adjusted dividend cover is 1.5 times (2002: 1.5 times).

In absolute terms, the year end market value of the portfolio was some £33.1m higher than the previous year, an increase of 0.4%. This reflects increased development capital expenditure and the impact of property purchases and sales. However, the value of our like-for-like portfolio, and certain development schemes has declined, resulting

in a valuation deficit for the year of £56.8m, after taking into consideration the accounting movement of £9.2m on the UITF28 debtor. The valuation deficit has been offset by £62.5m of retained earnings and this, coupled with the impact of our return of capital, resulted in an adjusted diluted net asset value per share of 1215p (2002: 1155p), up 5.2% over the year.

In terms of cash flow, the Group realised £436.3m (2002: £549.2m) from property divestment and secured £80.6m from Telereal. These funds have been reinvested in the business and we returned £511.1m to shareholders during the year, spent £301.4m on investment property development expenditure and £311.8m on property acquisitions, including the costs incurred by Land Securities Trillium in constructing White City II for the BBC. Overall, there was a net cash outflow of £177.2m during the year before financing and return of capital to shareholders (2002: £219.2m). Net indebtedness increased by £647.2m in the year to £2,589.3m (2002: £1,942.1m) resulting in year-end gearing of 47.3% (2002: 32.2%).

Over the last year, the Group's pre-tax total return (that is the percentage increase in pre-tax net asset value per share, plus dividends) was 8.2% compared with our estimated cost

Tax and treasury (from left) Stephen Leung and Martin Wood	Finance (from left) Richard Bushell, David Holt and Lyndsay Smailes
---	---

of equity of 9.1%. Total returns were held back this year as a result of the difficult London office market.

During the year, we arranged to return £541m to shareholders. This was achieved by introducing a new holding company for the Group, combined with a B share issue to all shareholders. Approximately 94% of shareholders elected for an immediate redemption of their B shares in September at a cash cost to the Group of £511.1m, with a further 3.5% redeeming their B shares in April 2003 at a cash cost to the Group of £18.8m. The remaining 11.3m B shares are next redeemable in October 2003. At the same time we effected a capital reduction, which created some £3.1bn of distributable reserves in the new holding company, providing significant flexibility for the future.

The return of capital and the purchase of convertible bonds had a positive influence on earnings per share and net asset value per share, while also reducing the diluted share capital of the Group.

The Group has a defined benefit pension scheme. The scheme, which had gross liabilities of some £95m as at 31 March 2003, is now closed to new entrants. However, during the year, the Group made a special cash funding contribution of £9.0m following which the current deficit of the pension

scheme is approximately £18.6m. Cash pension costs are expected to be some £1.5m per annum higher than in previous years as a result of a recent decision to increase funding rates for the time being. New schemes will be set up to meet obligations to employees transferring to the Group under total property outsourcing contracts.

In June 2002, the European Parliament approved a regulation requiring all listed companies in the European Union to prepare consolidated financial statements under International Financial Reporting Standards (IFRS) for financial years beginning on or after 1 January 2005 and this will apply to us for the first time in the year to 31 March 2006. As currently drafted, the implementation of IFRS will have a marked impact on financial reporting for property investment companies. However, it should also be noted that there is considerable activity, both at the International Accounting Standards Board (IASB) and at the UK's Accounting Standards Board, to refine the reporting framework. The implications for the Group are under active review and we will provide an update when we report our half-year results at the end of the year.

Investment portfolio

Rental income decreased by 1.2% from £525.9m to £519.7m, reflecting the sale of mature assets over the last two years. Adjusting for the effects of property acquisitions and disposals, rental income on properties owned throughout the last two years increased by £24.8m. The main contributors to this increase were £20.8m from reviews and renewals and £10.2m from the letting of new developments, which were offset by a loss of £7.5m due to the vacation of buildings for redevelopment. Some £39.8m of rental income was lost on disposals offset by £8.8m from property acquisitions. The cost of bad and doubtful debts was some £1.6m, equivalent to approximately 0.3% of the rent roll (2002: 0.3%).

During the last 12 months, the net reversionary potential of the portfolio, excluding voids has reduced to 5.1% at 31 March 2003, compared with 9.6% at the end of the prior year. The mean weighted unexpired lease term over the portfolio as a whole is 11.2 years, assuming all lease breaks and expiries occur.

During the year we divested investment properties with a book value of £396.1m (2002: £498.1m), at an average rental yield of 7.0%, realising profits on sale of £26.5m and crystallising £234.3m of previous valuation surpluses.

Financial review

Investment portfolio activity		Year to 31 March 2003	
	Acquisitions/ developments £m	Proceeds from sales and other divestments £m	FRS3 profit £m
Retail/leisure	170.8	117.9	14.2
Offices	258.1	127.2	4.7
Warehouses and industrial properties	20.1	18.0	2.9
Hotels, leisure, residential and other	29.3	159.5	4.7
Total	478.3	422.6	26.5

Development

The projects that comprise the current development programme are listed in the development pipeline schedule on pages 76 to 77. To be included in the programme, a project must have, or be close to obtaining, final approval to proceed (although that approval may be conditional on the receipt of planning consent or obtaining an appropriate level of pre-lets). For reporting purposes we retain properties in the programme until they are 95% let.

The carrying value of development programme assets, (which excludes the BBC development at White City, trading properties, proposed developments and the project at Kent Thameside) was £967.4m at 31 March 2003 (2002: £790.8m). During the year, we spent £291.1m on the development programme, and capitalised associated finance costs of £30.8m.

The estimated future cash spend required to complete the development programme, excluding interest, will be approximately £440m. Proposed developments (excluding Kent Thameside) have a current carrying value of £180m and the estimated future cash spend required to complete these schemes, if we proceed with them, is approximately £900m, excluding interest.

Total property outsourcing

Land Securities Trillium (including our share of Telereal) generated some 53% of the Group's

gross property income (2002: 40%). This business unit is now making good progress towards achieving 25% of our operating profit in the medium term.

Revenue and profits from the PRIME contract have exceeded expectations and we also earned fees on the substantial programme of capital works that we managed on behalf of the DWP. On the BBC contract, we incurred £111.8m in the year on the construction of the White City II building with an estimated £99.3m (excluding interest) to be spent mainly over the next year. We have incurred a full year's start-up operating loss on this contract, but expect it to become profitable when the new building is occupied by the BBC later this year.

Telereal has made a good contribution to earnings, despite a reduction in unitary charge reflecting the sale of its investment properties during the year. Sale proceeds were £270m, generating a profit on disposal of £18.8m, with our share being £9.4m. This transaction and Telereal's profits enabled the joint venture to return £80.6m to us during the year. Telereal's profits are growing in line with our expectations.

Taxation

The cash tax charge, equivalent to 12.1% (2002: 25.6%) of profit on ordinary activities, reflects the benefit of capital allowances from developments, refurbishments, acquisitions and financing transactions during the year.

The financing benefit is unlikely to recur in future periods and the 2002/3 cash tax rate may not be representative of our tax position for the future. The requirement in FRS19 to make full provision for timing differences means that, in profit and loss account terms, our reported tax rate for the year is 28.1% (2002: 27.5%) and the factors causing this are explained in the notes to the accounts.

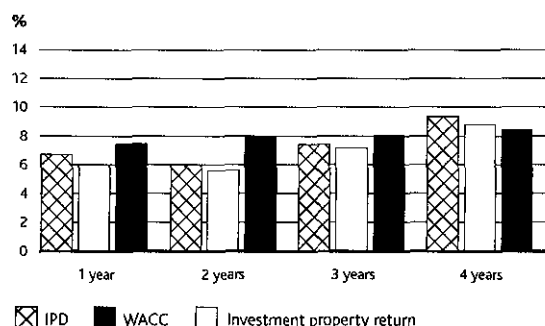
Following the latest property valuation and assuming that all properties are sold at the revalued amounts without any tax mitigation, the Group has an estimated potential capital gains tax liability in the region of £435m (2002: £535m). However, as indicated in the notes to the accounts, it is unlikely that such an amount would be payable even in the event of a sale of all investment property assets. In particular, the sale of property portfolios by means of the disposal of certain asset-owning companies would reduce this by some £110m.

Treasury management

The treasury function operates under delegated authority from the Board and maintains policies and procedures which monitor, control and report on interest rate, liquidity, credit and other financial risks. The function operates as a cost reduction centre rather than a profit centre.

The Group's finance policy is primarily based on an unsecured funding strategy which the Board believes offers the right balance

Performance measures for the four years ended 31 March 2003



Average:	For year	Over 2 yrs	Over 3 yrs	Over 4 yrs
IPD	6.6%	6.0%	7.4%	9.0%
Total investment property return	6.0%	5.6%	7.2%	8.8%
Pre-tax weighted average cost of capital	7.5%	8.0%	8.1%	8.4%

between debt capacity, flexibility and cost. In limited circumstances the Group will still consider secured funding, but only after carefully reviewing the impact on its unsecured finance sources.

The Group uses interest rate swaps to hedge the interest rate exposure on floating rate debt and to protect the cost of future borrowings. Due to the long-term nature of property investment and our expectation of increased gearing in the medium-term, we aim to take advantage of low interest rates to hedge the majority of our debt. The business has minimal direct foreign exchange exposures and consequently there are currently no foreign exchange hedging contracts in place.

To provide access to immediate liquidity and to inject additional funding flexibility, the Group has in place two committed syndicated bank facilities. At the year-end, the total committed facilities available to the Group were £1.5bn, of which £0.6bn was utilised.

At 31 March 2003, the average maturity of the Group's debt was 13.3 years (2002: 14.1 years) or 16.3 years (2002: 16.2 years) if short-term bank facilities are excluded, reflecting the long-term nature of property investment.

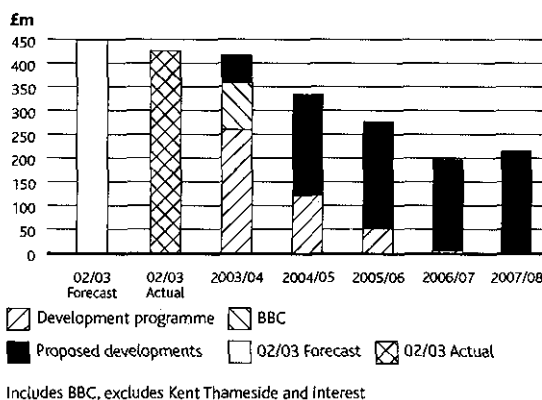
At the year-end, the fair values of the Group's financial liabilities exceeded book value by £598.5m (2002: £474.9m), mirroring the

reduction in long-term interest rates since the Group's fixed rate borrowings and interest rate hedges were originally taken out. After tax, the implied adjustment to the Group's net asset value would be to reduce reported diluted adjusted net assets per share by 90p (2002: 60p).

At the time of our return of capital in May 2002, redemption notices were issued to the holders of our convertible bonds as these bonds were beginning to convert, with bondholders taking advantage of the difference between the share and conversion prices. So, where the opportunity arose at appropriate prices, we purchased bonds in the market to pre-empt conversion and successfully acquired some 80% of the bonds outstanding at 31 March 2002. This resulted in an exceptional loss of £28.2m, which is tax deductible and is reported as an interest expense in the profit and loss account. The amount of share capital to be returned to shareholders is £541m which reflected £48m of nominal new equity capital created as a result of bond conversions.

The purchase of the convertible bonds and the return of capital to shareholders was financed by a new £1.5bn syndicated bank facility. £600m of our bank debt was subsequently refinanced by two new unsecured bonds, a 5.875% £400m bond maturing in 2013 and a 6.375% £200m bond maturing in 2024. Following this transaction, £700m of bank facilities and £300m of interest rate swaps

Forecast spend on development pipeline



Includes BBC, excludes Kent Thameside and interest

were cancelled as surplus to requirements, leading to a £23.5m exceptional interest charge in the profit and loss account.

The Group had a net cash outflow before the use of liquid resources and financing of £177.2m for the year (2002: £219.2m), primarily attributable to its return of capital, capital expenditure and investment activities.

Insurance

In common with other property owners, our insurers are applying terrorism exclusions to our policies as they become due for renewal in 2003. The Group continues to buy the most comprehensive terrorism insurance cover available from the Government-backed Pool Reinsurance Company Limited.

Going concern

After reviewing detailed profit and cash flow projections, and taking account of available bank facilities and making such further enquiries as they consider appropriate, the Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, we have continued to adopt the going concern basis when preparing the financial statements.

A. G. Hughes

managing property creatively

'We needed to change the way in which we traded at three locations in Land Securities' shopping centres. From the very beginning they were extremely co-operative and we are delighted with the solution they have provided. They really set the standard for the way in which a retailer and its landlord should work together.'

Michael Ziff, Chief Executive, Stylo PLC

'The transactions with Stylo demonstrate that if you build strong relationships with retailers, based on mutual trust, both parties can benefit. Each transaction had to be negotiated separately but Stylo are now trading more profitably and we have been able to generate additional income from new lettings.'

London Hilton

In August 2002 we entered into a venture with London and Regional Properties which allowed us to release £154.1m of equity from the London Hilton and transfer management of the property to the venture.

Clive House

Last May we agreed a lease extension and refurbishment of Clive House, the former Passport Office for the Lord Chancellor's Department, pending this Department's move to our building at Queen Anne's Gate.

During the year to 31 March 2003, the resilient performance of the investment properties in difficult market conditions demonstrated clearly the benefits of a diversified portfolio and active asset management programme. Excluding the development programme, investment properties showed a modest decrease of 0.3%. The increase in value of our retail and retail warehouse properties, which together now represent approximately 50% of our assets, offset the decline in value of our central London office properties. For full details of the investment portfolio valuation, refer to pages 68 to 83.

The high level of management activity is shown by the 617 transactions (rent reviews, lease renewals and lettings) carried out by Portfolio Management. As a direct result of this activity, annual rents payable grew by 3.4% over the past 12 months on a like-for-like basis.

Rent reviews and lease renewals have been settled at an average of 7.3 % above our valuer's assessment of estimated rental value. Excluding properties in development, voids across the investment portfolio are 1.6%, which although slightly higher than the prior

12 months, have been kept to this low level as a result of the management activities undertaken across the portfolio. This figure rises to 2.1% if all properties under refurbishment are included and to 2.3% with predevelopment voids.

Investment properties – impact of development		Capital valuation surplus/(deficit) – year to 31 March 2003	
	Investment properties excluding developments %	Investment portfolio %	Difference %
Offices	(8.9)	(9.9)	(1.0)
Shopping centres and shops	7.1	7.8	0.7
Retail warehouse	9.4	10.0	0.6
Industrial	1.4	1.9	0.5
Hotels, leisure, residential and other	2.9	3.1	0.2
Total	(0.3)	(0.6)	(0.3)

The above table illustrates how our retail and industrial properties in our development programme have contributed positively to performance, but our office development programme has impacted negatively.

Portfolio management

Going Places at Lakeside
Customer research has shown that high street and shopping centre retailers can add value to the consumer's experience in out-of-town locations. As a result we completed lettings to Marks & Spencer, Borders Books, My Travel and Next at Lakeside Retail Park, West Thurrock.

Cobbett Park, Guildford
Last August we completed a ten unit, 11,500m² industrial park in Guildford. Good quality industrial space is still in high demand in the south-east and as a result we were able to secure record rents for pre-lettings on the park. Current tenants include Big Yellow Self Storage, BOC and Colbournes.

Investment activity

Investment activity over the last 12 months remained modest. We purchased £122.0m of assets, which included entering into a forward funding agreement with Centros Miller for a 32,500m² shopping centre in Maidstone which is due for completion in 2005 and is already 70% pre-let.

Of the £122.0m invested, the most significant acquisitions included the purchase of the superior interest in the Bon Accord Centre, Aberdeen for £13.3m, and the acquisition of Newspaper House, which forms part of our New Fetter Lane, London EC4, holdings for £19.8m. Just prior to the year-end we acquired a small portfolio of properties on the South Bank in London from Sainsbury's for £39.9m. This acquisition, comprising four properties the largest two of which are leased back to Sainsbury's, continues our strategy of investing in properties that are income producing but which offer medium-term development opportunities.

The average yield on these purchases (including the cost of stamp duty and acquisition fees) was 7.4%.

To benefit from the strong central London hotel investment market and to effect a release of the equity generated during our ownership of

the London Hilton on Park Lane, W1, we entered into a venture in association with London and Regional Properties in relation to the freehold interest of this asset. This transaction returned £154.1m of equity to the Group.

We sold a further 21 investment properties for £264.4m (net of sale costs). The average yield on the properties sold and the equity release was 7.0%. The FRS3 profit was £26.5m (6.7% above book value).

Central London

The value of our central London office portfolio declined by 9.0%, reflecting the continued deterioration of market conditions and the nature of this portfolio, where we have a proportion of properties with shorter than average leases but which have medium to long-term development potential. A more detailed review of our lease expiry profile is contained on page 71.

We continue to manage our central London assets actively, having concluded 75 rent reviews, 23 renewals and agreed 48 leases in the period under review. As anticipated, as leases terminate in our portfolio, investment voids, excluding properties under refurbishment, have increased marginally, but remain at a manageable 1.8% (excluding 0.2% of property under refurbishment). The central London

portfolio management team has been working hard to renegotiate and extend leases in developments where we have rescheduled the future timing for redevelopment. Examples of this are New Fetter Lane, where we have agreed terms on 22 (out of 31) tenancies for occupiers to stay beyond their original planned termination date, and Eastbourne Terrace, where we have agreed a short lease extension with the existing office occupier and are in negotiation for new leases with some of the sub-tenants who have expressed an interest in continuing occupation.

The submarkets in central London have performed very differently with a more marked deterioration in the City where we have 12% of our assets compared with the West End where we have 19% of our assets and where values have held up much better.

Landflex

We are just beginning to market our new Landflex product which we have developed to offer office occupiers a more flexible approach to planning their accommodation requirements. The refurbishment of 7 Soho Square, W1, is now complete, and 43% of this building is now in solicitors' hands. Empress State, SW6, is on target for completion by June 2003. We are currently in negotiation with a number of occupiers in respect of

Warner Bros, Livingston
In Scotland the strength of our retail offer was demonstrated with the introduction of a host of new high street retailers. Warner Bros Studio stores opened in our centres at Livingston and East Kilbride.

Scott Parsons and Gary Sherwin
During the year we identified the need to improve our Business Development capabilities. We have appointed Scott Parsons to head up a new unit, alongside Gary Sherwin to ensure we maximise opportunities for site acquisitions and other transactions.

Landflex and, given the decline in occupier demand in central London, we are pleased with the level of interest being expressed.

Shopping centres and shops

The value of our shopping centre and retail properties increased by 7.1% demonstrating good growth from the retailer market and reflecting the excellent results we have had in our asset management activities. Across this portfolio we have achieved 111 new lettings, 25 renewals and 254 rent review settlements and voids are at 1.2%. We are continually seeking opportunities to reconfigure or redevelop new units to meet retailer requirements and have projects underway in virtually all of our centres.

The existing strength of the portfolio and low levels of voids has required the retail team to work closely with occupiers to generate opportunities to improve our centres and thereby increase rental levels. An example of this active approach is the White Rose Centre, Leeds, where, as a result of our activities, we have increased rental values over the last 12 months by 13%. We are pleased that our efforts to increase our focus on the customer have already been recognised, as demonstrated by positive results received from recently completed independent, customer research on our retail occupier base throughout the majority of our shopping centres.

We are growing the income generated from other activities such as car parking, advertising and telecoms which this year increased from £6.7m to £6.9m on a like-for-like basis. One of our core objectives is to grow this income further.

Retail warehouses

The value of the retail warehouse investment properties increased by 9.4%, demonstrating the very strong growth resulting from our active management of the portfolio. Occupier and investment demand for retail warehouses remains robust and this market continues to benefit from supply-side constraints and also the changing dynamics of the retail occupier base.

Across the portfolio we negotiated surrenders and relettings and have taken back or agreed to take back 27,320m² of which we have relet 25,520m² at an average rental increase of 69%. This includes small investments at Hendon and Christchurch, which were subsequently sold at a surplus of 34% after all costs.

At Lakeside Retail Park, West Thurrock, we have agreed to take back several stores and we have conditionally contracted with Marks & Spencer to provide them with a store of 5,810m², anticipated to open in 2005.

In addition to the 18,020m² of planning consents, available for implementation as reported in the Development Review, we have 11,200m² of consents, or 'minded to grant' consents on existing parks. This includes 5,390m² at White City Retail Park, Manchester.

South-east industrial

The sector has remained stable and lettings continue to be achieved on satisfactory terms with modest rental growth. We continue to invest in our existing holdings and improve rental levels, as demonstrated at our refurbished scheme in Coulsdon. Our refurbishment programme currently equates to 2.9% of the industrial portfolio, ensuring the sustainable long-term future of our industrial and warehouse products in an increasingly competitive market. The programme includes a major refurbishment of around 10,240m² at Heston, Heathrow, which will raise the profile of our overall holdings on the estate, totalling 28,710m².

We are still increasing our exposure to the south-east industrial sector, predominantly through development which is reported on in more detail in the Development Review.

creating dynamic spaces

'By its very nature development in a heritage city is sensitive and we wanted to work with a development partner who understood these sensitivities. We also needed a partner who could share our vision to regenerate the Whitefriars' site in a way that is more appropriate to its historic setting within the medieval walls of Canterbury. In Land Securities we found that partner.'

Alex Perkins, Leader of Canterbury City Council

'Our long-term relationship with Canterbury City Council ensured that we shared their vision for the city centre and understood the complexities of delivering urban regeneration in an historic location. We have now successfully completed the initial phases of the development, which included the creation of a new department store for Fenwick and are progressing well with the main phase of development'

Cardinal Place, Victoria.
We commenced demolition at Cardinal Place, Victoria where we will be delivering in two phases, 62,000m² of office accommodation and 9,000m² new retail space. The main phase will be complete in mid 2005.

The Bristol Alliance
obtained a resolution to grant outline planning consent in December 2002 for a 155,000m² redevelopment of Bristol Broadmead which aims to create a major new retail destination in the south-west.

We have made significant progress towards our objective of establishing the platform for delivering a range of major development schemes. We continue to evaluate projects in respect of occupier demand, and will reprogramme schemes if we believe that market conditions do not support the generation of shareholder value. However, we will progress certain aspects of development, such as planning and site assembly, so that we are in a position to implement schemes quickly as markets improve or pre-lettings are secured.

During the year we completed 81,500m² of the development programme, started 95,500m² of new schemes, received planning consent or resolutions to grant consent for 212,500m², applied for planning permission for 129,000m² and achieved 52,000m² of new lettings. In addition, we secured outline planning consent at Ebbsfleet, Kent Thameside for 395,000m² of mixed use space representing our 50% share in the project.

Seven projects with a valuation of £114.4m, which were completed and let during the 12-month period, were transferred out of the development programme. These were the Designer Outlet Shopping Centre, Livingston; Neptune Point, Cardiff; Centrapark, Welwyn Garden City; Cheetham Hill Road, Manchester; Almondvale Retail Park Phase I, Livingston; Lakeside Retail Park Phase II, Thurrock; and part of a property at Markham Road, Chesterfield. The aggregate surplus on these schemes over their full development period was £24.3m. We have added to the development programme industrial schemes in Kidlington, Oxford and Fareham, together with a small retail warehouse extension in Bexhill. We have removed from the development pipeline a small high street shopping redevelopment scheme in Plymouth, and an office scheme at 40/50 Eastbourne Terrace, W2, which is commented upon in more detail below, together with the second phase of our scheme in Hemel Hempstead, where we have sold the site.

A development pipeline schedule is set out on pages 74 to 75. Including our share of joint ventures, this equates to approximately 708,800m² of new development, of which 119,000m² is completed, 250,600m² in progress, 22,200m² authorised and 317,000m² proposed.

The development pipeline schedule lists both schemes in the development programme and proposed developments. It is only properties in the development programme which we refer to as 'development properties' in the notes to the accounts and elsewhere in this report.

Our development programme includes:

- developments which are completed but less than 95% let;
- developments on site;
- committed developments (being projects which are approved and the building contract let); and

Development

Eastern Quarry, Kent Thameside

In January 2003 we submitted for planning permission a masterplan for the 310-hectare site at Eastern Quarry in Kent, adjacent to the Bluewater Shopping Centre. The masterplan, developed by Eric Kuhne, has the potential to create 7,250 houses as well as up to 280,000m² of commercial, retail and leisure buildings. The scheme centres on the creation of five villages each of which will include homes, a school, community facilities and open spaces. At the centre of the Government's regeneration proposals for the south-east, Eastern Quarry is located close to the site for the planned new Channel Tunnel Rail Link international and domestic station at Ebbsfleet, which when completed will result in a 17-minute journey time into Central London.

Eastern Quarry forms part of our holdings at Kent Thameside which also includes 360 hectares of land at Crossways, Swanscombe Peninsula and Ebbsfleet. Over a 25-year time frame we have the potential to deliver up to 10,000 new houses and 700,000m² of commercial space demonstrating how we can use our competitive advantage of scale and development skills to realise value for our shareholders over the short, medium and long-term.

- authorised developments (those projects approved by the Land Securities Board for which the building contract has not yet been let).

Projects in the development programme are sufficiently firm to ensure that reporting from period to period provides a good basis for performance comparison and they are separately analysed in the relevant notes to the accounts.

Proposed developments are now excluded from the development programme as experience has shown that these schemes can be subject to revision. However, we give an indication of the likely size and timing of these schemes and their potential impact on cash flow when discussing our development pipeline, which combines both the development programme and proposed schemes.

Central London

The current market environment for office development in London is challenging. However, relative to the size of our portfolio, we have only a small amount of unlet space in schemes which have already been completed, totalling 14,300m² in three buildings.

Over the last year, we have taken a number of decisions which impact upon the timing of our development pipeline. At New Fetter Lane, EC4, we extended leases on the existing buildings from June 2003 to late 2004, while we seek planning consent for an alternative scheme offering a range of building sizes which will widen our marketing options. At 40-50 Eastbourne Terrace in Paddington, we have deferred development from 2003 to around 2010 to tie in with the lease expiry on our adjoining holding at 10-30 Eastbourne Terrace. This decision partially reflects current levels of occupier demand and also the results of analysis we have undertaken which shows that, by master planning the two sites together, we can maximise the developable floor area. At both New Fetter Lane and 40-50 Eastbourne Terrace, we are successfully extending income flows from the existing buildings.

At Cardinal Place (formerly known as Stag Place) in Victoria, we awarded the building contract in autumn 2002 and the main phase of the scheme is due for completion in 2005, when we anticipate improved market conditions in the West End. At Bankside 1,2,3 (formerly known as St Christopher House), which is adjacent to Tate Modern on the South Bank, we have started demolition works but do not

intend to commence construction until pre-lettings have been obtained, which has always been our policy for this site.

We have two major development schemes due for completion during 2003. Empress State in Earls Court (43,000m²) is due for completion in June of this year and 30 Gresham Street in the City (37,000m²) will be completed in December. We have recently started to market Empress State, which is being offered in small to medium sized units through our Landflex leasing product. Our marketing programme for 30 Gresham Street is well advanced, and we are encouraged by the active discussions we are having with interested parties.

Shopping centres and shops

We have shopping centre development projects under construction in Birmingham and Canterbury and, during the year, made considerable progress in advancing town planning and other issues on schemes in Bristol, Cardiff and Exeter.

The Bull Ring in Birmingham, being developed by the Birmingham Alliance Partnership, will open ahead of schedule on 4 September 2003 and is now 88% let or under offer. We are delighted with the progress on both

The Bull Ring

in Birmingham is a 110,000m² retail development which will open in September this year and is 88% let or under offer. This is the second retail development to be successfully undertaken by the Birmingham Alliance since its formation in 2000.

Caxtongate

As well as its involvement in the Birmingham Alliance, Land Securities is also making good progress at Caxtongate in Birmingham where it has now pre-let the entire commercial element of the third phase of its development.

construction and letting. At Whitefriars in Canterbury, Fenwick opened their new department store in February of this year, at the same time as we launched our initial marketing campaign. A strong response from retailers has resulted in our agreeing terms on a further three stores and we will continue marketing until the scheme's opening date in 2005.

At both Bristol and Exeter, we submitted planning applications during the period under review and obtained resolutions to grant consent. The scheme in Bristol is being undertaken in partnership with Hammerson, Henderson Global Investors and Morley Fund Management. In Cardiff, we are working in partnership with Capital Shopping Centres and submitted an outline planning application in Autumn last year for a development of approximately 70,000m² of retail accommodation together with hotel and residential space. In York, we are still awaiting the planning decision on our 27,500m² retail development proposal following the Public Inquiry in the summer of 2002.

Retail warehouses

We completed the construction of approximately 33,000m² of new retail warehouse space, 94% of which is let and the remainder in solicitors' hands.

At Dundee we completed Phase II of the scheme comprising 9,800m² with pre-lets to MFI, Carpetright, Currys and PC World and we plan to construct the final phase of 8,640m² later this year. This will create a regional shopping park of 28,775m² adjoining the 10,200m² Tesco Extra store which is now under construction.

Despite restrictive planning policies, we have 18,020m² of consents or 'minded to grant' consents across the retail warehouse portfolio, which we shall implement once we have pre-let sufficient space. This includes 9,400m² at Livingston.

Leisure

Our City Centre leisure scheme 'The Gate' in Newcastle upon Tyne opened in November of last year and is trading well, with 84% by income either let or in solicitors' hands.

South-east Industrial

We continue to expand our industrial portfolio in the south-east principally through the acquisition of development land in strategic locations with limited land supply. We successfully acquired two sites, each of 2.5 hectares, in Oxford and Fareham for speculative development which will add 23,250m² to our portfolio.

We completed 41,200m² at schemes in Basildon, Guildford, Hemel Hempstead and Welwyn Garden City and started on site on 35,500m² at Basildon, Croydon and Oxford. A further 11,600m² is planned for construction in the forthcoming year in Fareham.

Of our completed industrial developments, 55% is let with total annual rental income of £3.14m secured.

At Hemel Hempstead we took advantage of a strong land market and sold 2.9 hectares of surplus land purchased in 2001 for £4.9m for a net receipt of £7.3m.

Kent Thameside

We have made significant progress on our larger land holdings at Kent Thameside over the last year. At Ebbsfleet, in which we have a half share, we successfully obtained a flexible outline planning consent for approximately 790,000m² of mixed use space including up to 455,000m² of offices, 168,500m² of other commercial space and supporting uses and 3,300 residential units. In January of this year, we also submitted an outline planning application for 7,250 residential units and up to 150,000m² of commercial space and 130,000m² of retail, leisure and community buildings at Eastern Quarry.

providing accommodation solutions

'BBC buildings do not create a welcoming environment for either our employees or our customers. We wanted to change that and needed a property partner to help manage our property portfolio and to deliver new and exciting accommodation, accessible by all. Land Securities Trillium is such a partner'

Greg Dyke, BBC Director General

BBC White City current (main) and as at 2001 (inset)

The development of a major new facility for the BBC at White City is currently ahead of schedule, and set for completion in

4th quarter 2003. The current phase, comprising 50,400m² of office and technical space, will house the biggest studio in Europe and be occupied by some 3,000 BBC employees.

'Our partnership with the BBC demonstrates how we can add value to a business. The BBC can focus on what it does best – making great television, while we focus on what we do best – managing, servicing and developing property'

Realising value from Telereal
Jim O'Sylva transferred to Land Securities Trillium last year when we acquired the BT portfolio in our joint venture with Telereal. He and his team are responsible for disposing of properties that are surplus to BT's requirements.

Working with the client at the DWP
Sandra Cable manages six inner-city Birmingham DWP buildings. She has recently been responsible for resolving local security issues and has worked closely with the client implementing this project.

A successful year for Land Securities Trillium saw important progress on all our existing contracts. Financially, we performed ahead of expectations, with income growing by 62.1% to £658.3m and operating profit by £76.6m to £139.7m, reflecting a full year's contribution from Telereal. We supported the DWP through a period of significant business change, and the Partnership with the BBC completed an impressive first full year of operation both in terms of development activity and service delivery. The BT contract, operating through Telereal, had a strong first year delivering strategic asset management and facilities service management across BT's estate, and, in the process, we successfully realised enhanced asset values, generating financial benefits for Telereal and BT.

Department for Work and Pensions

In operational terms, the platform for delivery of services under the PRIME contract for the DWP is now well established. However, organisational changes within DWP created new revenue-generating activity for us with the creation of three new DWP businesses, namely Job Centre Plus, The Pensions Service and The Debt Management Service. As a result, we have been extremely active over the last year in estate management and the delivery of capital projects. To support these new DWP businesses we received enquiries from the client for some 250,000m² of additional accommodation, some 50,000m² of which was taken on during the year. In the same period our Capital Projects business undertook around £95m of work for DWP, creating 80 new Job Centre Plus offices and 50 pensions processing centres, together with other refurbishment work across the estate.

In the light of this growth in its requirements, the DWP did not wish to use any of its annual entitlement to vacate a proportion of its estate. However, in the latter part of the year, DWP gave notice of its intention to vacate a number of small buildings totalling 3,600m² over the next 12 months as it seeks to consolidate its accommodation following its business reorganisation. This vacation is achieved by utilising some of the flexibility which was requested by DWP at the commencement of the contract, and which was priced accordingly by Land Securities Trillium. Responsibility for seeking tenants or sub-tenants for any vacant floor space in the portfolio rests with Land Securities Trillium, and the amount of space currently vacant across the portfolio stands at its lowest level since the contract began at 12,370m², as compared to an annual average of around 70,000m².

Total property outsourcing

Sale of Telereal properties

This year Telereal has sold 49 properties at a value of £296m. This included the sale of six sale and leaseback properties to Rotch while the remainder were surplus to BT's requirements. All the parties have benefited from the cash generated by these sales.

Mobilising the BBC White City development

Caroline Finegan is responsible for the handover, mobilisation and occupation of the BBC White City development which will complete six months earlier than scheduled

In terms of the delivery of our day-to-day facilities management services to over 100,000 DWP occupants, we continue to enhance and improve our offering throughout a period of substantial business change for our client. The annual customer satisfaction survey saw an improved score for the second successive year, with an exceptional customer satisfaction rating of 90% being achieved. This reflects well on the efforts of all our people working on this contract, and is a testament to the strength of the relationship between us and our long-term service partners.

BBC

The first full year of the BBC Property Partnership has delivered a series of successes. The 300 facilities management and projects staff who joined us from the BBC at the end of 2001 are now integrated into our business, delivering services to some 25,000 BBC staff across the UK, and managing capital projects valued at some £40m during the year. Through their efforts and those of our service partners the customer surveys undertaken at the end of our first year of operation reveal the biggest year-on-year increase in satisfaction levels recorded by the BBC staff.

Land Securities Development is planning to complete later this year the first phase of the new 50,000m² development for the BBC on the White City site. One element of this scheme is some six months ahead of schedule, which will provide operational benefits for the BBC and improved financial returns for the Group. Other proposed developments across the UK are currently at various stages of discussion as we work with the BBC to plan and deliver its vision of providing accommodation capable of attracting the best people in its industry.

As we announced shortly after securing the BBC contract, we recognised that the contract would run at a loss prior to completion of the new White City development. Upon completion of the building in the autumn of 2003, income from the contract will increase by approximately £30m on an annualised basis, and the contract will move to a stabilised position, with a positive contribution to Group profits in the following financial year.

Telereal

The BT contract was secured in November 2001 by Telereal, our joint venture with The William Pears Group, with a total equity contribution by each partner of £146m. During the year under review, Telereal made a £27.2m contribution to Group pre-tax profits, largely due to our focus on working with BT to maximise asset values. Since acquiring the BT portfolio, Telereal has sold a total of 49 properties for some £296m, including the sale, in August 2002, of six properties to the Rotch Group for £270m.

During the year, we delivered over £100m of capital projects for our BT customers, and we continued to work with BT to identify the potential for broadening the scope of our operation by transferring to Telereal further facilities management activities.

Telereal is responsible for managing the vacation and subsequent subletting of vacated leasehold space on behalf of BT. BT has announced that it will be vacating parts of its leasehold office portfolio through restructuring and relocating certain activities.

Total property outsourcing

Sheffield rationalisation
We worked closely with the DWP to determine an affordable property solution capable of meeting their existing and future service delivery initiatives. It resulted in the relocation of

existing operations from a number of unsuitable buildings located around Sheffield to Hartshead Square (pictured) which is a centrally located modern office building, and the adjoining Churchill House which provides a customer facility.

This is across the country but the majority relates to its London property strategy. No liability will pass to Telereal, save on 2,360m² in two buildings in Leeds which were anticipated at the time of the BT transaction and priced accordingly.

In addition, Telereal continues to discuss with O₂ (UK) the potential for growing the relationship between the two parties through Telereal extending its existing 18 months corporate real estate advisory contract.

New business

Although no new total property outsourcing contracts were completed in the market during the year, our new business pipeline has greater depth than at any time since Land Securities Trillium started operating in 1998. In recognition of the success of the PRIME contract and in the anticipation of synergies with the PRIME estate, the DWP has entered exclusive negotiations with us, subject to being able to agree terms, for the outsourcing

of the 800,000m² former Employment Services estate. In addition, a number of attractive opportunities are being pursued in the private sector, where current economic conditions are reinforcing the need for organisations to focus on their core business. In total, we are in active discussions with regard to potential new property outsourcing contracts entailing some 2.3 million m² of accommodation.

Total property outsourcing

In 2002, a report on corporate ownership of property by Roger Bootle for the Royal Institution of Chartered Surveyors highlighted the fact that UK corporations own commercial property worth about £400bn, which represents about 34% of their total business assets. This figure excludes commercial property worth some £100bn held in Government and local authority portfolios. We are targeting all of these markets through Land Securities Trillium by providing a method for public and private organisations to procure accommodation in buildings in the same way that they purchase other goods and services.

This enables organisations to focus on their core activities while leaving the delivery of accommodation and associated services in our hands. The need for greater flexibility to meet changing accommodation needs, as well as the desire for certainty of costs, make this a viable alternative for businesses that are seeking alternative and more effective ways of fulfilling and managing their property requirements.

As market leader in property outsourcing, we have developed the capabilities to enable us to deliver a first class solution for customers, from the development of long-term strategic solutions to the delivery of service through our customer service centres and our network of service providers.

We work closely with our clients to identify their requirements and then to provide the solution. The range of services we offer combines the ownership and maintenance of property, together with the management of services provided by service partners in the areas of catering, cleaning and security. We are also able to harness extensive development expertise from within the Land Securities Group to design and build accommodation where our customers require new facilities.

Corporate social responsibility

White Rose study support centre, Leeds

The White Rose study support centre was developed in partnership with Leeds City Council and Education Leeds. We have equipped the centre with IT equipment and an area for arts and crafts sessions, and all facilities are fully accessible for people with disabilities.

During the year we continued to develop our approach to corporate social responsibility (CSR) following the formation of our CSR committee last year, which is chaired by the Group chief executive, Ian Henderson. To ensure that our activities are in line with best practice we retained external advisers who have reviewed our current activities and who will be monitoring future progress against our objectives.

Our CSR policy statement is being developed as a 'statement of intent' in relation to our activities in this area and will be closely aligned with our existing business ethics policy. This covers the Group's most significant areas of corporate responsibility and is being updated to ensure that it captures our key stakeholder groups, priority CSR issues and areas of impact. The current policy sets out the Group's operating principles and is available on our website. The table below details the key areas or stakeholder groups that this policy covers and the Board members with main responsibility for these.

Stakeholder/area of responsibility	
Customers / occupiers	Board member Mark Collins/Ian Ellis
Shareholders and other investors	Ian Henderson/Andrew Macfarlane
Employees	Ian Henderson
Suppliers, advisers, contractors and consultants	Ian Ellis/Francis Salway
Government	Ian Henderson
Community	Ian Henderson
Health, safety and environment	Francis Salway
Corporate governance, business ethics, compliance and verification	Board

We are developing a Group-wide system for managing our CSR activities while, at the same time, each business unit and certain Group support functions are developing specific objectives and targets in relation to their activities and areas of impact. These objectives and targets will form the basis upon which we will measure and report on our CSR activities in future, and, we intend publishing a full review later this year complementing the progress we have made to date on reporting our environment activities. In future, we will aim to report on CSR, to include our Environment Report, every year in the autumn.

During the review process we have examined our CSR management structure in relation to:

- policies, programmes, initiatives and case study examples addressing CSR issues;
- external standards certification systems;
- measurement and monitoring systems and performance related information; and
- organisational responsibilities for different aspects of CSR.

Left

At the Almondvale Shopping Centre, Livingston we have launched the first UK trial of a unique 'Truancy-Free Zone' initiative to build closer relationships with the local community and the police while encouraging more responsible centre management.

Below

The archaeological dig undertaken on 30 Gresham Street site and the special exhibition created to showcase the finds have both been recognised with awards from the British Archaeological Society and Interpret Britain Awards.

Below right

We believe that our employees make Land Securities, so by encouraging everyone to undertake personal development and training and to 'live' our core values, we are ensuring our future success.

The review has enabled the Group to identify gaps in our CSR activities and is proving a useful communication tool internally with regard to our commitment to CSR.

Our continued inclusion in the FTSE4Good Index as well as our leadership position in the Dow Jones Sustainability Index, where in 2002 we were named European Real Estate Market Leader, demonstrates our commitment to CSR. We are aware, however, of the need for continuous improvement and we have set out a three-year target of improving the Group's score in these indices as well as attaining membership of the BIC Sustainability Index.

Employees

We have a tradition of encouraging our site-based staff to be involved in community initiatives in the locality in which they are based. More recently all our employees have been involved in workshops to establish and communicate our values. These values, which include Integrity and Respect for the individual, underpin our behaviours and relationships with our customers, suppliers and the community, as

well as with other employees. An employee recognition and award programme helps maintain momentum and motivation.

We are also keen to encourage employees to become involved in activities outside their normal work in a wide range of activities in the community, such as schools, colleges, hospitals and other voluntary organisations.

The Group also closely monitors its employee policies and practices to ensure it maintains high standards and best practice, particularly in relation to equal opportunities in recruitment and internal career progression as well as fair and equitable remuneration.

This year the Company has also carried out a Group-wide employee opinion survey with over 80% of the employees responding to a wide range of issues on a confidential basis. The Company communicated the results and management action plans to all employees and, overall, achieved a marginally higher rating on satisfaction than an external all-industry benchmark.

HR policy

The employment policies of the Group maintain its commitment to equal opportunities. The criteria for selection and promotion are the individual's suitability for the position of employment offered and his or her skills and abilities. We maintain our policy of giving full and fair consideration to the employment of applicants who are disabled and for incorporating the needs of people who may become disabled during the course of their employment with the Group.

Our business ethics policy is circulated to all staff and provided to all new employees in their induction pack. All staff are required to abide by its provisions. Copies of our employment policies are available on our website.

making sustainability work

Environmental Panels exist in each business unit to set annual targets and ensure that the Group policy and objectives are translated into everyday actions.

We also continue to integrate environmental and health and safety considerations into the daily activities of our various teams and at the end of 2002 we formed a new department of Health, Safety and Environment.

During the year we merged existing teams to establish a new department for health, safety and environment, combining these related disciplines to provide a focused service to each business unit. Francis Salway retains Board responsibility for the department's activities, with Neale Goff, director health safety and environment, responsible for directing operational delivery.

Health and safety

We continued to make good progress in enhancing the management of health and safety across the Group. We set and achieved several key objectives in the year to 31 March 2003. These were:

- To review and update our health and safety policy and management systems and implement a programme for proactive monitoring.
- To revise our procedure for accident reporting and develop a database to capture this information more effectively. Statistical information is available to the Board and health and safety team and used as a means for evaluating the effectiveness of our safety improvement programme.
- To develop a more empirical approach to auditing compliance with internal and external health and safety requirements.

- To reduce our reliance on outsourced audit expertise, which has resulted in annual savings of nearly £300,000 and our audit processes being more closely integrated with ongoing operations.
- To develop and implement a programme to comply with the revised Control of Asbestos at Work Regulations. The new programme has been devised and work on resurveying and implementing management controls commenced in April.
- We also made a major investment in training to increase the health and safety awareness and competencies of our professional staff. Some 35 people passed the NEBOSH certificate in occupational health and safety further complimenting our IOSH Managing and Working Safely training programmes.

Environment report

In 2002 we produced our second stand-alone Environment Report outlining our impacts and communicating the 19 targets established for 2002/03. We continue working with our external partners to raise awareness of environmental matters.

Crossways Business Park

Our Crossways business park in Kent Thameside received the Millennium Marque as an excellent example of economic and environmental improvement at a former cement works in Dartford.

Environment

We developed further our programme for managing our environmental impacts, embedding these principles more firmly into our standard procedures. We published our second Environment Report, which described and quantified our achievements against a range of targets. For the year ending March 2003, we set 19 targets and, subject to external verification, successfully met them all.

We are participating in the trial UK Emissions Trading Scheme, which runs until December 2007, and are committed to an ongoing cut of about 1% per year in aggregate emissions of CO₂ across our portfolio of managed offices, which equates to more than 3,500 tonnes over five years. We comfortably beat our target for 2002, earning over £13,500 from the scheme for successful compliance, a reward we shared with our contractors who were instrumental in our success.

We won three Green Apple Awards for our environmental activities, one for our environment day which is now to be an annual event. We won a gold award for Making a Corporate Commitment (MACC²) to reduce CO₂ emissions and a bronze award for the intranet system implemented to control Land Securities Trillium's ISO14001-certified environmental management system (EMS). We became a founder member of Trucost, a system for measuring and benchmarking total environmental footprints using both direct and supply chain impacts. Land Securities Trillium encouraged and helped one major supplier to develop its own EMS to achieve certification to ISO14001.

We continue to foster our relationship with clients in order to help them develop systems and procedures to meet their own environmental objectives. We have helped the DWP achieve a recycling rate of 60% by weight, compared to the national average of around 12%, and are already up to around 22% for the BBC, where we are also developing a combined heat and power plant.

We remain committed to ensuring that our people have the tools and training to ensure that we achieve our environmental objectives. As well as specialist environmental auditor training, last year we accumulated more than 150 person-hours of targeted training for key managers across the Group.

Our successes were acknowledged in two influential surveys. In the Business in the Environment Index of corporate engagement our score rose from 67% to 78% in 2002, and in the sector-specific Property and Environment Group survey conducted by Upstream, our score increased from 69% to 76%, ranking us second overall.

We have changed our mailing envelope for the annual report to a poly-wrap enclosure this year. It is a process that saved over £4,500 and supports our commitment to environmental policies, as the plastic used to make the poly-wrap is biodegradable.

For more details on our environmental programme for 2003/4, and to see our 2002 environment report in full, please go to our website.

Board of directors

1. Ian J Henderson CBE (59)

Executive director

joined the Group in 1971. Appointed to the Board in 1987 and chief executive in December 1997. Immediate Past President of the British Property Federation, Vice-Chairman of the Board of Management of Central and Cecil Housing Trust and Chairman of the New West End Company.

2. Andrew E Macfarlane (46)

Executive director

Joined the Board as Group finance director in October 2001. Formerly partner in Ernst & Young and, prior to joining Land Securities, Chief Financial Officer of Bass (subsequently Six Continents) Hotels and Resorts division. A non-executive director of Invenso PLC.

3. Francis W Salway (45)

Executive director

Joined the Group in October 2000. Previously an investment director at Standard Life Investments. He is chief executive of the Group's Development business unit and was appointed to the Board in April 2001. Appointed chief operating officer in January 2003.

4. Ian D Ellis (47)

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 the Group's Land Securities Trillium business unit.

5. A Mark Collins (47)

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. Chief executive of the Group's Portfolio Management business unit.

6. Peter G Birch CBE (65)

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. Director of NM Rothschild & Sons Limited, Dah Sing Financial Holdings Limited and Travellers Exchange Corporation Ltd.

7. Sir Winfried Bischoff (61)

Non-executive director

Appointed to the Board in 1999, Chairman of Citigroup Europe, deputy chairman of Cable and Wireless plc and a director of the McGraw-Hill Companies, USA, Eli Lilly & Company, USA, Ifil-Finanziaria di Partecipazioni SpA Italy and Siemens Holdings Plc.

8. Peter G Freeman (47)

Non-executive director

Joined the Board as a non-executive director in January 2002. Non-executive director of the Argent Group PLC and chairman of Freeman Business Information plc.

9. David Rough (52)

Non-executive director

Joined the Board as a non-executive director in April 2002. Group Director (Investments) of Legal and General Group PLC until December 2001. A Director of Mithras Investment Trust plc, BBA Group PLC, EMAP Group PLC and Xstrata Group PLC.

10. Stuart Rose (54)

Non-executive director

Joined the Board as a non-executive director in May 2003. Previously chief executive of Arcadia Group until December 2002. Chief executive of Booker PLC from 1998 until 2000.

Corporate governance

The Combined Code – Principles of Good Governance and Code of Best Practice

The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority. The Company has complied with Section 1 with the exception of the matters set out below.

Directors

The Board meets at least eight times a year. Its principal task is to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objectives. It operates in accordance with a formal schedule of matters reserved to the Board for decision. These matters include property developments, refurbishments, acquisitions and disposals and significant transactions in excess of £50m, fund raising, loan repayments and treasury policy. They also include the appointment or removal of directors and the company secretary and the introduction of any significant changes to employee share or pension schemes. In addition, an investment committee appraises and, where appropriate, approves funding proposals taking into account key financial drivers, sensitivities, and project risk assessment. All directors have access to the company secretary who is responsible for ensuring that Board procedures are complied with and who advises the Board on corporate governance and compliance matters. The Board has resolved that directors may seek independent professional advice at the Group's expense in the furtherance of their duties as directors.

The roles of chairman and chief executive are split and there exists a strong non-executive element on the Board which currently consists of five executive and five non-executive directors. The Board considers all of the non-executive directors to be independent. The Company does not currently have a senior independent non-executive director but the Board is currently seeking to recruit additional independent non-executive directors and, upon the conclusion of this process, intends to appoint a senior independent non-executive director. Under some definitions, Sir Winfried Bischoff may not be regarded as 'independent'. However the unanimous view of his colleagues on the Board is that, by virtue of his personality, experience and knowledge of business, he is robustly independent.

The Board is supplied with comprehensive management information on a regular and timely basis, principally by means of monthly financial and management reports and detailed reviews of medium-term financial projections every six months.

At present the whole Board acts as a nomination committee and is responsible for the selection and approval of candidates for appointment to the Board. However, the Board is currently reviewing this position in the light of the Higgs Report.

In accordance with the Companies Acts and the Articles of Association of the Company, all directors are required to submit themselves to shareholders for re-election to the Board at the first Annual General Meeting following their appointment and at regular intervals thereafter. Every director is required to stand for re-election every three years. Non-executive directors are appointed for an initial period of three years which is extendable upon mutual agreement.

Directors are provided with training and induction into the responsibilities of a director prior to, or immediately following, their appointment to the Board, if that appointment is the first occasion that they have been appointed to the board of a listed company. The training needs of directors are reviewed periodically to ensure that they are kept up to date on relevant new legislation and changing commercial risks.

Directors' remuneration

The report of the Company's remuneration committee is on pages 36 to 41.

Relations with shareholders

The Company values dialogue with institutional and private shareholders, and the chief executive together with the finance director hold regular meetings with institutional shareholders to discuss strategic and other issues (within the constraints imposed to ensure the protection of price sensitive information which has not already been made available generally to the Company's shareholders). The Board welcomes moves towards a more constructive use of annual general meetings and regards the annual general meeting as the principal opportunity to meet private shareholders. In addition meetings are held periodically with the UK Shareholders Association, a body representing private shareholders in the UK. At its annual general meeting, the Company complies with the provisions of the Combined 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.

Accountability and audit

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 Operating and Financial Review.

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 key features of our system of internal control include:

- (a) **Strategic planning;** each business unit must produce and agree a business plan each year, against which the performance of the business is regularly monitored. During the year, balanced scorecards have been prepared that set out targets for a wide variety of key performance indicators. As part of the balanced scorecards, the Group and each business unit has set goals, measures, targets and actions in relation to risk management.
- (b) **Investment appraisal;** capital projects, major contracts and business and property acquisitions and disposals are reviewed in detail and approved by the investment committee and/or the Board.
- (c) **Financial monitoring;** profits, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a monthly basis.

(d) **Systems of control procedures and delegated authorities;** there are clearly defined guidelines and approval limits for capital expenditure and disposals, detailed appraisal and authorisation procedures and defined, activity-based expenditure authorisation guidelines.

(e) **Risk management;** we undertake an ongoing process of identifying, evaluating and managing the significant risks faced by the Company. The Board confirms that this process has been in place for the year under review and up to the date of approval of the Annual Report. This process is regularly reviewed by the audit committee on behalf of the Board and accords with the Turnbull guidance.

(f) **Review of controls;** an assessment based upon a compliance questionnaire is completed twice a year and signed off by senior managers, providing assurances that controls are both embedded and effective within the business.

(g) **An internal audit function;** responsible for reviewing the business processes and controls. Their findings are reported directly to the audit committee and internal audit follows up implementation of the management actions from all reviews. The internal audit function operates on a risk-based approach. The audit committee on behalf of the Board reviews the scope of work, authority and resources of the internal audit function on an annual basis.

In addition, the audit committee receives:

- (a) Reports from the head of risk management and internal audit on the work carried out during the year, including an annual summary on the operation of the system of risk management and internal control to support the Board's annual statement; and
- (b) Reports from the external auditors.

For the purposes of applying the Turnbull guidance we have not included material joint ventures and associates as part of the Land Securities Group. We do not have management control of any of these joint ventures or associates, but do ensure that appropriate corporate governance procedures are in place as part of the operating arrangements.

Audit committee

The audit committee which consists solely of non-executive directors, is chaired by David Rough and operates in accordance with written terms of reference. The committee meets at least four times a year and its functions include the following:

- seeking to ensure that appropriate accounting systems and financial controls are in operation and that the Group's financial statements comply with statutory and other requirements;
- receiving reports from and consulting with the internal and external auditors;
- reviewing the interim and annual results and considering any matters raised by the internal and external auditors; and
- monitoring the scope, cost effectiveness, independence and objectivity of the external audit.

On 20 January 2003, the Group established by the Financial Reporting Council and chaired by Sir Robert Smith published its report on the roles and responsibilities of audit committees. The Board will, in due course, give full consideration to the revised Combined Code.

Auditors

The directors of Land Securities, and our external auditors, PricewaterhouseCoopers LLP, have for many years had safeguards in place to maintain the independence and objectivity of the audit. Set out below is our policy on the provision of services by our external auditors:

- Audit related services: We will normally retain our auditors to provide 'related services'. This is work which, by the nature of the services required, the external auditors are best placed to provide, either because they are required to do so for regulatory purposes, they have a significant depth of knowledge of the particular area of our business or issue, or because the work has a strong relationship to the audit itself. It is likely that certain tax work, including support for Land Securities Trillium's bid activities and the work involved in the acquisition of new contracts, would fall within this category.
- General consulting work: significant general consulting work will normally be put out to tender. We will not generally invite the external auditor to tender for such work. The auditors may participate in such tenders with the audit committee's prior approval.
- Approval procedures: senior management approval is required in advance of significant work being undertaken by the external auditors. Such approvals will be reported periodically to the audit committee.

Valuations

The Group has for many years given the external valuers, Knight Frank and auditors access to each other. These advisers have a dialogue and exchange of information which is entirely independent of the Group. The chairman of the audit committee attends the final valuation meeting (as do the auditors) to assure themselves of the independence of the process.

In line with the Carsberg committee report, we have recently changed the previous ad valorem valuation fee arrangements to a fixed fee arrangement.

Non-executive directors

Remuneration for the chairman and non-executive directors is determined by the Board within the levels set in the Articles of Association. They do not participate in any of the Company's share incentive, bonus or pension schemes. The chairman and non-executive directors are currently appointed for an initial period of three years subject to renewal for further periods and to the rotation provisions under the Articles of Association. They do not have service contracts with the Company.

Remuneration report

Directors' remuneration

The Company complies with the requirements of the Combined Code in relation to directors' remuneration. In preparing this report, the remuneration committee has also complied with the Directors' Remuneration Report Regulations 2002, which has introduced new statutory requirements for the disclosure of directors' remuneration.

The Regulations require the auditors to report to the Company's members on the information contained in Tables 2, 4 and 5 in this remuneration 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).

1. Composition of the committee

The Board has established a remuneration committee which operates within written terms of reference. The committee consists solely of the non-executive directors:
Sir Winfried Bischoff (*Chairman of the committee*)
P G Birch
P G Freeman
D Rough
S A R Rose

All of the non-executive directors 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 Company's bankers. He does not participate in any discussions between or regarding the relationship between the parties.

2. Function of the committee

The function of the committee is to review and determine annually, within the context of the Board's remuneration policy, the individual salaries and other terms and conditions of employment of the executive directors, together with any incentive or bonus scheme in which the executive directors and other senior executives may be invited to participate. During the year the committee met five times.

The committee consults the Group chief executive in relation to proposals for the remuneration of other executive directors.

It also reviews the Group chief executive's remuneration proposals for the Group's staff other than the executive directors. During the year the human resources director, Keith Nash, also provided information and advice to the committee. Neither the Group chief executive nor any other director is involved in deciding their own remuneration.

During the year external advice was sought from New Bridge Street Consultants who were appointed by the committee to provide advice on various aspects of remuneration. In considering future remuneration levels the human resources director also makes use of various published surveys to assist in determining market appropriate remuneration levels.

3. Remuneration strategy

The Group's remuneration strategy has three key objectives:

- to allow the Company to attract and retain the talent needed to meet its business aims,
- to motivate and encourage superior performance, and
- to align rewards with the interests of shareholders.

To achieve this strategy, the committee recommends policies to the Board for the design of pay and benefits of employees at all levels and in all companies across the Group.

4. Remuneration policy

The objective of the Group's remuneration policy is to provide remuneration in a form and amount to attract, retain and motivate high quality management. The levels of remuneration are set to ensure comparability across a range of UK based companies of similar size and complexity, focusing on companies in the FTSE 100 Index but with particular emphasis on the property industry. In deciding on the appropriate level of remuneration the Board is mindful of the long-term nature of the business and the importance of aligning any performance awards with returns to shareholders. It attempts to achieve this through base annual salary and cash and share bonuses which are geared to the achievement of short-term objectives while

providing an incentive to achieve longer term success through the Group's share option schemes and performance share plan.

A significant proportion of the directors' total remuneration is comprised of performance related elements to align their interests with those of shareholders. It is the committee's aim to deliver superior reward for achieving the Company's strategic plan. The committee will keep the existing remuneration, as detailed in this report, under review during 2003/04 to ensure that Land Securities' remuneration arrangements remain competitive and provide appropriate incentive for performance.

Executive directors' emoluments consist of salary, car benefit, medical and life insurance and executive share schemes, together with pension contributions and participation in savings related share option and annual bonus schemes which are also open to all employees. Details of each director's emoluments and share options are shown on pages 40 and 41 of this report.

Base salary

Each executive director receives a salary which reflects his responsibilities, experience and performance. Salary is reviewed annually in July and the review process includes using comparator information (focusing on the companies in the FTSE 100 Index which are similar to the Company in size and complexity) and reports from specialist consultants. Our policy is to set base salary at the median. The committee is mindful of the need to treat such comparisons with caution so that they do not result in an upward ratchet of remuneration levels with no corresponding improvement in performance and it takes account of pay and employment conditions elsewhere in the Group, especially when determining annual salary increases. The current salaries of the executive directors are as follows:

Directors' base salary	
	£
I J Henderson (Group chief executive)	500,000
FW Salway (Chief executive Development and Chief operating officer)	295,000
A E Macfarlane (Group finance director)	290,000
I D Ellis (Chief executive Land Securities Trillium)	275,000
A M Collins (Chief executive Portfolio Management)	275,000

Table 1 – Criteria for directors' 2003/4 bonuses

I J Henderson	Total returns in excess of WACC*	Group profit before tax	Implementation of strategy	Performance of business units
FW Salway	Total returns in excess of WACC	Returns on development programme	Delivery of development programme – on time and within budget	Special projects
A E Macfarlane	Total returns in excess of WACC	Capital structure and funding	Management information	Development of the finance function
I D Ellis	Total returns in excess of WACC	Profitable business development	Client satisfaction	Maximising productivity
A M Collins	Total returns in excess of WACC	Investment performance	Portfolio sales and acquisitions	Product development

* estimated at 7.5% at 31 March 2003.

Annual bonus

Under the annual bonus plan executive directors will have 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 the opportunity to receive up to a maximum of 40% of salary in cash and 40% of salary in shares for exceptional results. All shares are deferred for three years and are normally forfeited if the executive leaves employment during that period. The key performance criteria are reviewed annually to ensure that individual, business unit and group targets are set as a balanced scorecard and in line with prevailing business circumstances and the group strategy. Current criteria for 2003/4 for the executive directors are set in the areas outlined in Table 1 above.

For the financial year ended 31 March 2003, the executive directors' individual bonus payments range from 35% to 43% of salary as compared with a maximum of 80%. These will be paid partly in cash in June 2003 and partly in deferred shares.

Performance share plan

At the 2002 AGM, shareholders approved an amendment to the annual bonus plan to include a long term incentive in the form of performance shares. As mentioned above, half of an executive's bonus is deferred in shares. Under the performance share plan executives can receive up to two additional shares for each deferred share depending on the extent to which the performance conditions are satisfied.

No variations have been made to the rules of the performance share plan since it was implemented.

One of the two additional performance shares will be dependent on the real increase in the Company's normalised adjusted earnings per share over the three financial years, the first financial year being the financial year current at the date of grant. The other performance share is subject to the Company's total property return compared to the Investment Property Databank All Fund Universe index (the IPD Index) over a three year rolling period. Vesting of the shares is as follows:

Increase in real earnings per share pa	
	% that vests
Less than 2.5%	–
2.5%	25
4%	100
Between these limits	Pro rata

Extent total property return exceeds the IPD Index pa	
	% that vests
Less than index	–
Equal to index	25
1%	100
Between these limits	Pro rata

Share options

In 2000 shareholders approved the Land Securities PLC 2000 executive share option scheme (the 2000 scheme). Under this scheme, over a period of ten years, executives can be granted options with a value of up to four times annual remuneration. All options granted under the scheme are subject to a performance test under which the exercise of options is

dependent on the growth in the Company's normalised adjusted earnings per share over any period of three financial years exceeding the growth in the retail price index over the corresponding period by at least 2.5% per annum. An earnings per share target was chosen as executives will only be rewarded if there has been absolute improvement in the Company's performance. Future grants under this scheme will have only two annual retesting opportunities under the performance conditions, each measured from the financial year prior to the grant of the option. No payment is made by participants in the 2000 scheme in consideration for the grant of options.

During the year options were granted under the scheme to the executive directors and also to a number of employees of the Group. The options granted to executive directors are shown on page 41. During the year, the 2000 scheme was replaced by the Land Securities Group PLC 2002 executive share option scheme (the 2002 scheme) as a consequence of the return of capital and introduction of a new holding company implemented in September 2002. The rules of the 2000 scheme and the 2002 scheme are in all material respects the same.

Shareholding guidelines

The committee believes that it is important for a significant part of the compensation of each executive director to be tied to the ownership of the Company's shares so that each executive's interest in the growth and performance of the Company is closely aligned

Remuneration report

Table 2 – Directors' accrued pensions

Defined benefit pension scheme (£)									
	Accrued pension at 1 April 2002	Increase in accrued pension (excluding inflation)	Transfer value of increase in accrued benefit (excluding inflation)	Increase in accrued pension (including inflation)	Transfer value of the increase	Accrued pension at 31 March 2003	Transfer value of pension at 31 March 2002	Transfer value of pension at 31 March 2003	Increase in transfer value less contributions made by directors
I J Henderson	294,719	31,007	498,000	36,017	578,000	330,736	4,457,000	5,307,000	850,000
M R Griffiths	156,718	686	10,000	1,348	20,000	158,068*	2,119,000	2,201,000*	82,000

* As at date of resignation (8 July 2002)

with the interests of our shareholders. The committee has established share ownership guidelines for the Company's executive directors, requiring each executive to own shares with a value equal to his base salary. An executive director must satisfy the guidelines within five years of his first grant of share options after appointment to qualify for future grants.

Pensions

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 subject to Inland Revenue regulations. Additional arrangements are in place for pension provisions in excess of the Inland Revenue regulations. Pension contributions made during the year are shown in the table on page 40.

I J Henderson participates in a non-contributory defined benefit pension scheme which was open to property management and administrative staff until 31 December 1998. This scheme provides him, at normal requirement age and subject to length of service, with a pension of up to two-thirds of final salary, subject to Inland Revenue limits and other statutory rules. The scheme also provides lump sum death-in-service benefits of four times pensionable salary and pension provision for dependants of members. Only basic salary is treated as pensionable pay. (see Table 2)

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 and includes the value of statutory revaluation on the accrued pension at the start of the year.

M R Griffiths resigned as a director on 8 July 2002, retiring on pension with effect from that date. In accordance with his options under the scheme, he elected to receive an immediate and reduced early retirement pension. The Company was contractually required to make a payment to this scheme of £410,000 as M R Griffiths started to draw his pension before his assumed retirement age of 60. The Company also made a payment of £170,000 to the pension scheme in order to secure an additional payment of £7,600 per annum for M R Griffiths. These amounts are additional to those set out above.

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 services represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits that they earned in respect of qualifying services. They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

5. Remuneration of non-executive directors

The annual remuneration of the chairman of the Board, P G Birch, is determined by the committee having regard to independent advice. The other non-executive directors each receive a fee agreed by the Board following a review of fees paid by comparable organisations. 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.

6. Directors' service contracts

	Date of contract
I J Henderson	04/06/98
FW Salway	31/05/01
A E Macfarlane	12/06/02
I D Ellis	28/01/03
A M Collins	13/03/03

The unexpired term and the notice periods (both from the Company and from the executive directors) are 12 months, except in the case of A E Macfarlane where his notice period to the Company is six months. The policy of the Company is for service contracts to provide for 12 months notice of termination by the Company, although for newly appointed directors there may be an initial contractual period of up to two years before the 12 months notice period applies.

The service contract of A M Collins provides for an initial term of two years from the date of commencement of his employment by the Group (27 May 2002) before the 12 months notice period applies. His service contract also provides for A M Collins to receive payment of £171,150 on 30 June 2003 and £208,033 on 30 June 2007, provided that 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 the grounds of ill-health or redundancy. In the event that the employment of A M Collins is terminated following a change of control of the Company, a sum of 12 months salary and benefits is payable. The service contract for I D Ellis provides for the payment of £215,000 on or before 1 July 2003 provided he continues

Table 3 – Directors' interests in ordinary shares

		Ordinary Shares 31 March 2003	B Shares	Ordinary Shares 31 March 2002
P G Birch		20,005	13,000	22,864
I J Henderson		93,102	20,879	89,440
FW Salway		11,064	2,273	8,108
A E Macfarlane		3,485		1,000
Sir Winfried Bischoff		8,750		10,000
P G Freeman		4,375		5,000
D Rough	appointed 02/04/02	5,175		—*
A M Collins	appointed 20/11/02	5,145		4,145*
I D Ellis	appointed 20/11/02	3,744		3,744*

* at dates of appointment

to be an employee of the company and has not given notice to terminate on or before 1 July 2003. The amount payable to A M Collins reflects the amount and timing of incentive arrangements which he was eligible to receive from his former employer.

The amount payable to I D Ellis reflects a payment made in respect of a change to his service contract following the acquisition of Trillium by Land Securities.

On three occasions since 2000, when directors of the Company have left office before their normal retirement age, Land Securities has made a lump sum superannuation payment into their pension fund. The Board has agreed that such payments will no longer be made. Save as disclosed above the service contracts and letters of appointment do not contain any specific arrangements for compensation for loss of office or early termination of their service agreements.

The chairman and the other non-executive directors do not have service agreements with the Company.

7. Former long-term incentive arrangements

The 1984 executive share option scheme was approved by the Inland Revenue on 24 April 1985 and permitted the remuneration committee to grant options to directors and key executives for a consideration of £1 for each grant. The scheme, which expired on 24 April 1995, complied with best practice at

the time of its introduction and included such standard terms as limitation on the aggregate value of grants to each selected executive of four times that individual's annual remuneration and a bar on the exercise of options within three years of their issue. There were no changes to this scheme during the year under review.

The Land Securities PLC 2000 executive share option scheme was introduced in July 2000. Details of this scheme are given on page 37. The remainder of the options granted to directors under the savings related schemes are exercisable at prices between 650p and 697p per share after three, five or seven years from date of grant. Non-executive directors do not participate in and hence do not hold any options under the group's share option schemes.

The long term incentive plan ('LTIP') closed to new entrants on 31 March 2000 and current performance periods will expire on 31 March 2005. I J Henderson is the sole remaining participating executive director at 31 March 2003. In summary an award of shares, up to a maximum of 55% of salary, is made if over the previous five years the total shareholder return of the Company is such that it warrants an award. No award will be paid in respect of any particular period unless the Group is ranked in the first four of the eight companies in the peer group in that period. Awards for ranking positions in the first four of the group range from 25% for fourth position to a maximum of 55% of salary for first position. Half of any

award will be payable in cash and half in shares, such shares to be released to the beneficiary on the second anniversary of the award. Performance has been such that no awards were made under the plan in respect of the year to 31 March 2003. There have been no changes to the Plan during the year under review.

8. Directors' interests in ordinary shares

The beneficial interests of the directors in the ordinary shares of the Company as at 31 March are disclosed in Table 3 above.

There have been no changes in the beneficial shareholdings or share options of the directors between the end of the financial year and 27 May 2003, save that on 17 April 2003, in accordance with elections made prior to 31 March 2003, P G Birch, I J Henderson and FW Salway redeemed their entire holdings of B shares.

No director had any other interests in securities of Land Securities Group PLC or any of its subsidiary undertakings during the year. The shareholdings above reflect the return of capital implemented in September 2002.

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

Remuneration report

9. Performance graph

As required by recent legislation regarding the directors' remuneration report, the graph on page 41 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. Given the short time that has elapsed since the listing of the new holding company, Land Securities

Group PLC, as part of the return of capital, the committee felt that it would be helpful to provide an additional graph illustrating performance compared with the FTSE 100 index and the FTSE All Share Real Estate sector over the previous five years of the Company and its predecessor.

Table 4 – Directors' emoluments

Executive	Salary £'000	Bonuses £'000	Benefits £'000	Fees £'000	Deferred bonus shares £'000	Total emoluments excluding pensions		Pension contributions	
						2003 £'000	2002 £'000	2003 £'000	2002 £'000
I J Henderson	500	125	16		107	748	619	229	213
FW Salway (appointed 02/04/01)	295	75	8		30	408	248	67	59
A E Macfarlane (appointed 01/10/01)	290	38	20		32	380	146	71	34
I D Ellis (appointed 20/11/02)	100	213	4		–	317		24	–
A M Collins (appointed 20/11/02)	100	–	4		–	104		24	–
M R Griffiths (resigned 08/07/02)	71	110	13		–	194	311	29	104
J I K Murray (retired 28/06/01)							130		702
P Walickowski (resigned 19/12/01)							517		84
M J Chande (resigned 08/02/02)							536		105
Non-Executive									
P G Birch (Chairman)				148		148	143		
P B Hardy (retired 08/07/02)				9		9	33		
Sir Winfried Bischoff				34		34	32		
G I Henderson (retired 20/11/02)				18		18	27		
D Rough (appointed 02/04/02)				35		35			
P G Freeman				30		30	7		
Total	1,356	561	65	274	169	2,425	2,749	444	1,301

Benefits consist of the provision of a company car, private medical facilities and life assurance premiums.

Deferred bonus shares represent the value ascribed to shares received under the annual bonus plan.

FW Salway received a bonus of £30,000 as part of an agreed joining fee.

The bonus received by I D Ellis amounting to £213,470 was part of an agreement relating to the Trillium acquisition.

In addition to the above emoluments M R Griffiths received £350,000 as compensation for loss of office and £12,500 in lieu of outstanding annual leave on leaving the Company.

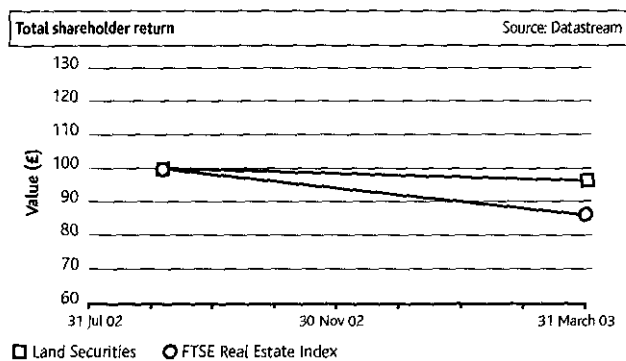
The fees of Sir Winfried Bischoff are paid to Citigroup Europe.

Pensions of £140,117 (2002 £166,000) were paid to former directors of Land Securities PLC or their dependants. No other excess retirement benefits were paid during the period.

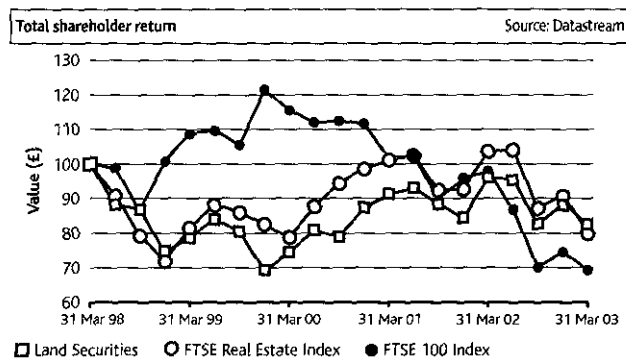
No payments were made to directors for expenses other than those incurred wholly and directly in the course of their employment as a director.

The total emoluments of the highest paid director, including gains before tax of £nil (2002 £5,800) made on the exercise of share options during the year but excluding pension contributions, amounted to £748,243 (2002 £624,900).

The accrued pension as at 31 March 2003 for the highest paid director was £330,736 (2002 £294,719)



This graph illustrates the value, at 31 March 2003, of £100 invested in Land Securities Group on 6 September 2002 compared with that of £100 invested in the FTSE Real Estate Index.



This graph illustrates the value, at 31 March 2003, of £100 invested in Land Securities on 31 March 1998 compared with that of £100 invested in the FTSE Real Estate Index and FTSE 100 Index.

Table 5 – Directors' options over ordinary shares

		No. of options at 1 April 2002	Granted during year		No. of options at 31 March 2003	Exercise price (pence)	Exercisable dates
			No.	Grant price (pence)			
Executive I J Henderson	(1)	27,000			27,000	618.6	07/97-07/04
	(2)	174,562			174,562	820.0	09/03-09/10
	(2)	27,500			27,500	869.0	07/04-07/11
	(3)	2,709	876	650.0	3,585	673.4*	07/01-07/05
F W Salway	(2)	35,000			35,000	801.0	11/03-11/10
	(2)	40,000			40,000	869.0	07/04-07/11
	(2)		30,500	812.0	30,500	812.0	07/05-07/12
A E Macfarlane	(2)	75,000			75,000	813.0	11/04-11/11
	(2)		30,500	812.0	30,500	812.0	07/05-07/12
A M Collins (appointed 20/11/02)	(2)	70,000*			70,000	812.0	07/05-07/12
I D Ellis (appointed 20/11/02)	(2)	40,500*			40,500	869.0	07/04-07/11
	(2)	40,000*			40,000	812.0	07/05-07/12
	(3)	2,546*			2,546	650.0	08/07
M R Griffiths (resigned 08/07/02)	(1)	33,500			33,500*	618.6	07/97-07/04
	(2)	50,000			50,000*	820.0	09/03-09/10
	(2)	41,000			41,000*	869.0	07/04-07/11
	(3)	3,010			3,010*	646.1*	07/02-07/05

* at date of appointment/retirement * weighted average exercise price

(1) 1984 Executive Share Option Scheme

(2) 2000 Executive Share Option Scheme

(3) 1993 Savings Related Share Option Scheme

No directors' share options were exercised or lapsed.

The range of the closing middle market prices for Land Securities shares during the year was 679.5p to 984.0p. The middle market price at 31 March 2003 was 732.5p. The options exercisable under the 1993 Savings Related Share Option Scheme are exercisable after three, five or seven years from the date of grant and are not subject to any performance condition.

Sir Winfried Bischoff

Chairman of the committee

For and on behalf of the Board

Directors' responsibilities and auditors' reports

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 judgements 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 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 financial statements on pages 44 to 65 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the 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 to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 auditable part of the directors' remuneration report. 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 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 auditable part of the directors' remuneration report 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.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 May 2003

44-66 Financials

- 44 Consolidated profit and loss account
- 45 Balance sheets
- 46 Consolidated cash flow statement
- 47 Other primary statements
- 48 Notes to the financial statements
- 66 Five and Ten year records

Consolidated profit and loss account for the year ended 31 March 2003

	Notes	Group £m	Interest in joint venture £m	Total 2003 £m	Group £m	Interest in joint venture £m	Total 2002 £m
Gross property income	3	1,071.3	168.2	1,239.5	977.1	48.5	1,025.6
Operating profit	3	462.4	87.8	550.2	497.5	19.3	516.8
Profit on sales of fixed asset properties	3	26.6	15.1	41.7	13.4	–	13.4
Profit on ordinary activities before interest and taxation	3	489.0	102.9	591.9	510.9	19.3	530.2
Interest receivable and similar income	4	12.0	2.4	14.4	4.2	0.8	5.0
Interest payable and similar charges							
Gross	4	(195.9)	(77.8)	(273.7)	(168.2)	(24.6)	(192.8)
Exceptional deficit on purchase and redemption of convertible bonds	4	(28.2)	–	(28.2)	–	–	–
Exceptional cost of cancellation/novation of interest rate swaps	4	(23.5)	(0.3)	(23.8)	–	–	–
Interest capitalised	4	39.0	–	39.0	21.1	–	21.1
		(208.6)	(78.1)	(286.7)	(147.1)	(24.6)	(171.7)
Profit/(loss) on ordinary activities before taxation		292.4	27.2	319.6	368.0	(4.5)	363.5
Taxation	7			(89.7)			(99.9)
Profit on ordinary activities after taxation				229.9			263.6
Dividends	8			(167.4)			(178.4)
Retained profit for the financial period	26			62.5			85.2
Profit/(loss) on ordinary activities before taxation		292.4	27.2	319.6	368.0	(4.5)	363.5
Profit on sales of fixed asset properties		(26.6)	(15.1)	(41.7)	(13.4)	–	(13.4)
Bid costs	3	4.7	–	4.7	6.7	8.0	14.7
Exceptional items							
Deficit on purchase and redemption of convertible bonds		28.2	–	28.2	–	–	–
Cost of cancellation/novation of interest rate swaps		23.5	0.3	23.8	–	–	–
Group reorganisation costs	3	6.3	–	6.3	–	–	–
Revenue profit before taxation		328.5	12.4	340.9	361.3	3.5	364.8
				2003		2002	
				Basic	Diluted	Basic	Diluted
Earnings per share	9			46.46p	46.44p	50.27p	49.54p
Adjusted earnings per share	9			50.39p	50.36p	51.61p	50.81p
						2003	2002
Dividends per ordinary share	8					35.50p	34.00p

All income was derived from within the United Kingdom from continuing operations. No operations were discontinued during the year.

The interest in the joint venture was acquired on 13 December 2001. Results for the year ended 31 March 2002 therefore include three and a half months trading for that business.

The notes on pages 48 to 65 form an integral part of these financial statements.

Balance sheets 31 March 2003

	Notes	Group 2003 £m	2002 (restated) £m	Company 2003 £m	2002 £m
Fixed assets					
Intangible asset					
Goodwill	11	36.7	38.9	-	-
Tangible assets					
Investment properties	12	7,823.9	7,800.0		
Operating properties	14	557.4	428.9		
Properties	15	8,381.3	8,228.9	-	-
Other tangible assets	17	41.5	45.3	-	-
Investment in joint venture					
Share of gross assets of joint venture	33	1,170.2	1,297.8		
Share of gross liabilities of joint venture	33	(1,063.4)	(1,109.0)		
		106.8	188.8	-	-
Investment in group undertaking	18			4,092.7	-
		8,566.3	8,501.9	4,092.7	-
Current assets					
Trading properties		52.6	36.9	-	-
Debtors falling due within one year	19	273.5	254.8	5.1	-
Debtors falling due after more than one year	19	15.9	5.5	-	-
Investments: short term deposits		3.4	60.9	0.9	-
Cash at bank and in hand		96.0	7.5	0.1	-
		441.4	365.6	6.1	-
Creditors falling due within one year	20	(594.9)	(690.9)	(495.6)	-
Net current liabilities		(153.5)	(325.3)	(489.5)	-
Total assets less current liabilities		8,412.8	8,176.6	3,603.2	-
Creditors falling due after more than one year					
Debtures, bonds and loans	21	(2,648.4)	(1,744.0)	-	-
Convertible bonds	22	-	(243.3)	-	-
Other creditors	23	(22.3)	(22.8)	-	-
Provision for liabilities and charges	24	(179.0)	(129.9)	-	-
		5,563.1	6,036.6	3,603.2	-
Capital and reserves					
Called up share capital	25	76.9	524.3	76.9	-
Share premium account	26	13.3	-	13.3	-
Merger reserve	26	-	-	373.6	-
Capital redemption reserve	26	0.1	-	0.1	-
Revaluation reserve	26	3,038.9	3,376.9	-	-
Other reserves	26	-	901.3	-	-
Profit and loss account	26	2,433.9	1,234.1	3,139.3	-
Shareholders' funds	26	5,563.1	6,036.6	3,603.2	-
Equity shareholders' funds	26	5,532.7	6,036.6	3,572.8	-
Non-equity shareholders' funds	26	30.4	-	30.4	-
	26	5,563.1	6,036.6	3,603.2	-
Net assets per share	10	1188p	1151p		
Diluted net assets per share	10	1188p	1132p		
Adjusted net assets per share	10	1215p	1176p		
Adjusted diluted net assets per share	10	1215p	1155p		

The combined reserves as at 31 March 2002 have been restated as required under merger accounting rules for the effects of the Scheme of Arrangement ('scheme'), described in Note 1, to reflect the introduction of Land Securities Group PLC as the new holding Company. The restatement only affected consolidated reserves as Land Securities Group PLC did not trade prior to the scheme.

I J Henderson A E Macfarlane

Directors

The financial statements on pages 44 to 65 were approved by the directors on 21 May 2003.

LAND SECURITIES ANNUAL REPORT 2003

Consolidated cash flow statement for the year ended 31 March 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	27	484.4	406.2
Returns on investments and servicing of finance			
Interest received		12.0	4.2
Interest paid		(292.0)	(166.5)
Net cash outflow from returns on investments and servicing of finance		(280.0)	(162.3)
Taxation – corporation tax paid		(95.8)	(111.3)
Net cash inflow from operating activities and investments after finance charges and taxation		108.6	132.6
Capital expenditure			
Investment property development expenditure		(301.4)	(256.4)
Acquisitions and other capital expenditure*		(311.8)	(306.1)
Additions to properties		(613.2)	(562.5)
Sales of properties		436.3	549.2
Investing in properties		(176.9)	(13.3)
Increase in other tangible assets		(12.9)	(19.6)
Net cash outflow on capital expenditure acquisitions		(189.8)	(32.9)
Acquisitions			
Investment in joint venture		–	(146.4)
Part repayment of loan capital by joint venture		80.6	–
Equity dividends paid		(176.6)	(172.5)
Cash outflow before use of liquid resources and financing		(177.2)	(219.2)
Management of liquid resources	28(a)	57.5	(38.9)
Financing			
Issues of shares	25(a)	1.2	1.1
Repayment of B shares	26(a)	(511.1)	–
Purchase and cancellation of own ordinary shares	26(a)	(5.1)	–
Increase in debt	28(b)	728.2	239.6
Net cash inflow from financing		213.2	240.7
Increase/(decrease) in cash in year		93.5	(17.4)
*Includes £105.8m on the BBC developments and £14.4m on life cycle capital expenditure.			
Reconciliation of net cash flow to movements in net debt			
Increase/(decrease) in cash in year		93.5	(17.4)
Cash (inflow)/outflow from (decrease)/increase in liquid resources	28(a)	(57.5)	38.9
Cash inflow from increase in debt	28(b)	(728.2)	(239.6)
Change in net debt resulting from cash flow	29	(692.2)	(218.1)
Non-cash changes in debt	29	45.0	3.8
Movement in net debt in year		(647.2)	(214.3)
Net debt at 1 April		(1,942.1)	(1,727.8)
Net debt at 31 March	29	(2,589.3)	(1,942.1)

Other primary statements for the year ended 31 March 2003

Statement of total recognised gains and losses	Notes	2003 £m	2002 £m
Profit on ordinary activities after taxation (page 44)		229.9	263.6
Unrealised deficit on revaluation of investment properties	26	(56.8)	(105.5)
Share of unrealised surplus on revaluation of investment properties held in joint venture	26	–	46.8
Taxation on revaluation surpluses realised on sales of investment properties	26	(25.4)	(12.0)
Total gains and losses recognised since last financial statements		147.7	192.9

Note of historical cost profits and losses	Notes	2003 £m	2002 £m
Profit on ordinary activities before taxation (page 44)		319.6	363.5
Revaluation surplus arising in previous years now realised on sales of investment properties	26	281.2	237.8
Taxation on revaluation surpluses realised on sales of investment properties	26	(25.4)	(12.0)
Historical cost profit on ordinary activities before taxation		575.4	589.3
Taxation	7	(89.7)	(99.9)
Historical cost profit on ordinary activities after taxation		485.7	489.4
Dividends	8	(167.4)	(178.4)
Retained historical cost profit for the financial year		318.3	311.0

Reconciliation of movements in shareholders' funds	Notes	2003 £m	2002 £m
Profit on ordinary activities after taxation (page 44)		229.9	263.6
Dividends	8	(167.4)	(178.4)
Retained profit for the financial year (page 44)		62.5	85.2
Unrealised deficit on revaluation of investment properties	26	(56.8)	(105.5)
Share of unrealised surplus on revaluation of properties held in joint venture	26	–	46.8
Taxation on revaluation surpluses realised on sales of investment properties	26	(25.4)	(12.0)
Issues of shares	26	62.4	4.3
Repayment of B shares	26	(511.1)	–
Purchase and cancellation of own ordinary shares	26	(5.1)	–
Net change in shareholders' funds		(473.5)	18.8
Opening shareholders' funds	26	6,036.6	6,017.8
Closing shareholders' funds	26	5,563.1	6,036.6

Notes to the financial statements for the year ended 31 March 2003

1. Basis of accounting

In July 2002, Land Securities PLC announced proposals for the return of £541m to shareholders by way of a capital reorganisation, incorporating a Scheme of Arrangement. Following approval by shareholders in August 2002 and subsequent ratification by the Court in September, shareholders have exchanged their shareholdings in Land Securities PLC for a combination of shares in a newly formed Company, Land Securities Group PLC ("the Company"). This exchange, which was made on the basis of seven ordinary shares and eight B shares in the Company for every eight ordinary shares in Land Securities PLC, had the effect of introducing the Company as the new holding company of Land Securities PLC and its subsidiaries. Holders of B shares have the right to have their shares redeemed for 102p each in cash, although shareholders were given the choice of electing for an immediate redemption of these shares in September. Approximately 94% of shareholders elected for such immediate repayment with the remaining shareholders retaining their B shares for later redemption in accordance with their terms.

The repayment of the B shares was effected by reducing the capital of the Company. This was achieved by cancelling and repaying the B shares held by those shareholders who had elected for immediate cash repayment and, in addition, the share capital of the Company was reduced by decreasing the nominal amount of each ordinary share issued pursuant to the scheme from 683p to 10p. This second reduction of capital has created distributable reserves of approximately £3.1bn which will be available to facilitate the repayment of the B shares held by shareholders who have elected for deferred repayment. The balance of the reserves will give the Company additional financial flexibility.

The Company was incorporated on 7 February 2002 as Hackpitmco (no. 104) plc and changed its name to Land Securities Group PLC on 25 June 2002. On 6 September 2002 the Company acquired 100% of the issued share capital of Land Securities PLC, following the implementation of the Scheme of Arrangement under section 425 of the Companies Act 1985, described above. In these results, the Company has accounted for its acquisition of Land Securities PLC using merger rather than acquisition accounting principles.

Schedule 4A to the Companies Act 1985 and FRS6 'Acquisitions and Mergers' requires acquisition accounting to be adopted where all the conditions laid down for merger accounting are not satisfied. Under the Scheme of Arrangement, not all of the conditions were satisfied because the fair value of the non-equity share element of the consideration (the redeemable B shares) issued by the Company for the shares in Land Securities PLC exceeded 10% of the nominal value of the equity share element of the consideration.

However, in the opinion of the directors, the Scheme of Arrangement is a group reconstruction rather than an acquisition, since the shareholders of the Company are the same as the former shareholders in Land Securities PLC and the rights of each shareholder, relative to the others, are unchanged and no minority interest in the net assets of the Group is altered. Therefore, the directors consider that to record the Scheme of Arrangement as an acquisition by the Company, requiring the attribution of fair values to the assets and liabilities of the Group and reflecting only the post Scheme of Arrangement results within these financial statements would fail to give a true and fair view of the Group's results and financial position.

Accordingly, having regard to the overriding requirement under section 227(6) of the Companies Act 1985 for the financial statements to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in drawing up these financial statements. The directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

The financial information for the year ended 31 March 2002 has been restated for the effects of the Scheme of Arrangement. The combined reserves as at 31 March 2002 have been restated to reflect the introduction of the new holding company, as required under merger accounting rules. The impact of the reduction and return of capital is shown as movements in reserves in the current period when the Scheme of Arrangement was effected. However, as Land Securities Group PLC did not trade prior to the Scheme of Arrangement and had no material assets, the restatement only affected consolidated reserves.

2. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention modified by the revaluation of investment properties. Compliance with SSAP 19 "Accounting for Investment Properties" requires a departure from the requirements of the Companies Act 1985 relating to depreciation and amortisation and an explanation of this departure is given in (h) (iii) below.

The significant accounting policies adopted by the Group are set out below.

(a) Consolidation

The consolidated financial statements of the Group include the audited financial statements of the Company and group undertakings, all of which were for the year ended 31 March 2003. Group undertakings and interests in joint ventures acquired during the year are accounted for from the date of acquisition.

The joint venture is included under the gross equity method in accordance with FRS9 "Associates and Joint Ventures". This requires the Group's share of the joint venture's profit and loss account to be shown separately in the income statement, and the Group's share of the joint venture's gross assets and liabilities to be shown on the face of the balance sheet.

The Group has interests in various partnerships which are treated as 'joint arrangements' in the Group's financial statements. The Group's share of the assets, liabilities, income and expenditure of these partnerships is included in the relevant sections of the consolidated profit and loss account and balance sheet as required by FRS9.

(b) Consolidated profit and loss account and other primary statements

The profit on ordinary activities before taxation is arrived at after taking into account income and outgoings on all properties, including those under development. In accordance with FRS3 'Reporting Financial Performance', profits and losses on properties sold during the year are calculated by comparing net sales proceeds with book values.

Surpluses and deficits relating to previous years realised on investment properties sold during the year are transferred directly from the revaluation reserve to retained profits and do not pass through the profit and loss account.

Unrealised capital surpluses and deficits, including those arising on the periodic revaluation of properties, are taken to revaluation reserve.

(c) Gross property income

The Group's gross property income comprises rental income, service charges and other recoveries from tenants of its investment properties, property services income earned by its total property outsourcing business and proceeds of sales of trading properties. Income is credited to the profit and loss account as space and other services are provided to customers. Gross property income includes costs recovered from tenants and outsourcing customers.

In accordance with the Accounting Standards Board's (ASB) Urgent Issues Task Force Abstract 28 'Operating Lease Incentives' (UITF28) the Group treats any incentive for lessees to enter into lease agreements as a revenue cost and accounts for rental income from the commencement date of any rent-free period. The cost of all lease incentives (such as rent-free periods or contributions to tenants' fitting out costs) is, therefore, offset against the total rent due and the net rental income is then spread evenly over the shorter of the period from the rent commencement date to the date of the next rent review or the lease end date.

(d) Bid costs

In accordance with the ASB's Urgent Issues Task Force Abstract 34 'Pre-contract Costs' (UITF34), bid costs incurred prior to the exchange of a contract, with no material pre-conditions to completion, and which do not comprise incidental costs associated with the acquisition of fixed assets or finance costs, are expensed.

(e) Pensions

Contributions to defined benefit pension schemes, which are based on independent actuarial advice, are charged to the profit and loss account on a basis that spreads the expected costs of benefits over the employees' working lives with the Group. Variations from regular costs are spread over the anticipated remaining working lives of employees in the schemes.

The Group has applied the transitional provisions of FRS17 'Retirement Benefits' and appropriate additional disclosures have been included in Note 5.

(f) Taxation

In accordance with FRS16 'Current Taxation', taxation arising on the sales of properties is charged to the profit and loss account in respect of the excess of net sale proceeds over book value and to the statement of total recognised gains and losses in respect of prior year revaluation surpluses realised on those sales.

No provision is made for the taxation which would become payable under present legislation if the Group's properties were sold at the amounts at which they are carried in the financial statements. However an estimate of the potential liability is shown in Note 24.

In accordance with FRS19 'Deferred Tax':

(i) deferred tax is recognised in full in respect of transactions or events that have taken place by the balance sheet date and which could give the Group an obligation to pay more or less tax in the future

(ii) deferred tax is not recognised on revaluation gains and losses where these are not taken to the profit and loss account

(iii) full provision is made for timing differences which, in the Group's case, arise primarily from capital allowances and industrial building allowances and the capitalisation and timing of recognition of certain interest payable. Following the sale or demolition of a property, any deferred tax provision not crystallised is released to the profit and loss account.

(g) Goodwill

Goodwill arising on the acquisitions of group undertakings, calculated as the excess of cost over the fair value of net assets acquired, is capitalised in the year in which it arises and amortised to the profit and loss account over 20 years or its useful life, whichever is the shorter.

(h) Investment properties

(i) Valuation

Investment properties, including those that comprise part of the development programme, are carried in the financial statements at open market values based on the latest professional valuation. A valuation was carried out by Knight Frank as at 31 March 2003. Properties are treated as acquired when the Group enters into an unconditional purchase contract and as sold when subject to an unconditional contract for sale. Additions to properties consist of costs of a capital nature and, in the case of investment properties under development, certain capitalised interest (see Note h (ii) below). Pre-commitment expenditure incurred in studying the feasibility of potential development and refurbishment schemes is written off to the profit and loss account and included in 'other direct property expenditure' if it is likely that the related project will be abortive or that the expenditure will be of no benefit to an alternative scheme that is being pursued. Other overhead costs in respect of developments and refurbishments are treated as revenue expenditure and written off as incurred.

(ii) Capitalisation of interest

Gross interest associated with direct expenditure on properties under development or undergoing major refurbishments is capitalised. The rate used is the Group's pre-tax weighted average cost of borrowings or, if appropriate, the rate on specific associated borrowings. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended, however, if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site or property if it was acquired specifically for redevelopment in the short term. Interest is not capitalised on the acquisition cost of properties previously held as investments.

(iii) Depreciation and amortisation

In accordance with SSAP 19, depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired. This is a departure from the Companies Act 1985 which requires all tangible assets to be depreciated. In the opinion of the directors, this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at open market value.

The effect of depreciation on the value is already reflected in the valuation of investment properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuers. Had the provisions of the Act been followed, net assets would not have been

affected but revenue profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have been correspondingly increased/decreased.

(i) Operating properties

These are properties owned and managed by Land Securities Trillium, the Group's total property outsourcing business unit, and which typically do not satisfy the definition of 'investment properties'. Operating properties are carried at depreciated cost and not revalued, and are subject to periodic impairment reviews. Such reviews compare forecast book values with forecast net sales proceeds at the point in the future when the assets are expected to be sold. Provisions are made if any shortfall in value is identified.

Freehold land is carried at historical cost and is not depreciated.

Freehold buildings are depreciated in equal annual instalments over 50 years. Any premiums paid to acquire leaseholds are amortised over their unexpired lease terms.

Expenditure which enhances the economic benefits of a freehold building is capitalised and depreciated over the appropriate periods up to a maximum of 50 years. Capital expenditure on leasehold properties is depreciated over the shortest of the life of the asset, the expected period of occupation of the relevant building and the remaining life of the underlying property outsourcing contract. Repair and maintenance expenditure is written off to the profit and loss account as incurred.

(j) Other tangible fixed assets

These comprise computers, motor vehicles, furniture, fixtures and fittings, improvements to Group offices and the costs of developing Landflex products and are depreciated on a straight-line basis over their estimated useful lives of between two and five years.

(k) Investments in group undertakings

The Company's investments in the shares of group undertakings are carried at cost.

Assets and liabilities of acquired entities are brought into consolidation at fair value as at the date of acquisition. Where the cost of acquisition exceeds the fair value of the net assets acquired, the difference is treated as goodwill and capitalised in the Group's balance sheet in the year of acquisition. The goodwill arising is amortised to the profit and loss account in accordance with Note (g).

The results and cashflows of acquired group undertakings are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

(l) Trading properties

Trading properties are those properties held as stock for sale and, being current assets, are carried at the lower of cost and net realisable value. Trading profits are recognised upon exchange of contracts for the unconditional sale of property. Costs of sale include direct costs plus an appropriate proportion of infrastructure costs attributable to the property.

(m) Provisions for liabilities and charges

A provision is recognised where there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation

and a reasonable estimate can be made of the amount of the obligation.

Provision is made for dilapidations that will crystallise in the future where, on the basis of the present condition of the property, an obligation already exists and can be reliably estimated. The estimate will be revised if necessary over the remaining period of the lease to reflect changes in the condition of the building or other changes in circumstances. Unless there is evidence to the contrary, it is assumed that the dilapidations obligation arises in the last five years of a lease. The estimate of the amount of the obligation takes account of relevant external advice.

(n) Financial instruments

The Group uses interest rate swaps to help manage its interest rate risk.

Where interest rate swaps are hedging existing interest rate exposures or are expected to hedge future interest rate exposures, the differences between the interest payable by the Group and the interest payable to the Group by the swap counterparties are dealt with on an accruals basis. Where interest rate swaps are not deemed likely to hedge interest rate exposures for the foreseeable future, the mark to market value of the relevant interest rate swaps is taken to the profit and loss account.

Gains and losses arising on the cancellation of swaps are taken to the profit and loss account unless the swaps had been pre-designated as hedging specific borrowings. In the latter case, the accounting treatment of the gain or loss on cancelling the swaps will typically mirror the accounting treatment of the hedged borrowing.

Notes to the financial statements

for the year ended 31 March 2003

3. Segmental information

(i) Profit and loss account	Property investment £m (Note (iii)(a))	Total property outsourcing £m	Property trading £m	Group £m	Joint venture £m	2003 Total £m	Property investment £m (Note (iii)(a))	Total property outsourcing £m	Property trading £m	Group £m	Joint venture £m	2002 Total £m
Rental income (Note (iii)(b))	519.7			519.7		519.7	525.9			525.9		525.9
Service charges and other recoveries (Note (iii)(c))	55.9			55.9		55.9	53.1			53.1		53.1
Property services income (Note (iii)(d))												
– Unitary charge		342.4						295.8				
– Capital projects and other reimbursable costs		149.6						61.9				
		492.0		492.0	166.3	658.3		357.7		357.7	48.5	406.2
Proceeds of sales of trading properties			3.7	3.7	1.9	5.6			40.4	40.4		40.4
Gross property income (page 44)	575.6	492.0	3.7	1,071.3	168.2	1,239.5	579.0	357.7	40.4	977.1	48.5	1,025.6
Rents payable	(17.0)	(97.5)	–	(114.5)	(49.9)	(164.4)	(17.4)	(92.7)	–	(110.1)	(14.4)	(124.5)
Other direct property or contract expenditure (Note (iii)(e))	(71.1)	(328.3)	–	(399.4)	–	(399.4)	(62.0)	(187.9)	–	(249.9)	–	(249.9)
Indirect property or contract expenditure (Note (iii)(f))	(33.8)	(7.7)	(1.5)	(43.0)	(14.1)	(57.1)	(29.4)	(16.7)	(1.5)	(47.6)	(3.0)	(50.6)
Bid costs	–	(4.7)	–	(4.7)	–	(4.7)	–	(6.7)	–	(6.7)	(8.0)	(14.7)
	(104.9)	(340.7)	(1.5)	(447.1)	(14.1)	(461.2)	(91.4)	(211.3)	(1.5)	(304.2)	(11.0)	(315.2)
Costs of sales of trading properties			(2.4)	(2.4)	(1.4)	(3.8)			(34.6)	(34.6)	–	(34.6)
	453.7	53.8	(0.2)	507.3	102.8	610.1	470.2	53.7	4.3	528.2	23.1	551.3
Depreciation (Note (iii)(g))	(9.8)	(14.9)	–	(24.7)	(15.0)	(39.7)	(4.0)	(10.9)	–	(14.9)	(3.8)	(18.7)
Amortisation of goodwill	–	(2.2)	–	(2.2)	–	(2.2)	–	(2.3)	–	(2.3)	–	(2.3)
	443.9	36.7	(0.2)	480.4	87.8	568.2	466.2	40.5	4.3	511.0	19.3	530.3
Profit on sales of fixed asset properties	26.5	0.1	–	26.6	15.1	41.7	10.1	3.3	–	13.4	–	13.4
Segment profit	470.4	36.8	(0.2)	507.0	102.9	609.9	476.3	43.8	4.3	524.4	19.3	543.7
Common costs (Note (iii)(h))						(11.7)						(13.5)
Group reorganisation costs						(6.3)						–
Operating profit (page 44)						550.2						516.8
Profit on sales of fixed asset properties (page 44)						41.7						13.4
Profit on ordinary activities before interest and taxation (page 44)						591.9						530.2

(ii) Net assets	Property investment £m	Total property outsourcing £m	Property trading £m	2003 Total £m	Property investment £m	Total property outsourcing £m	Property trading £m	2002 (restated) Total £m
Properties in development programme (Note 13)	967.4	–	–	967.4	790.8	–	–	790.8
Other investment properties	6,856.5	–	–	6,856.5	7,009.2	–	–	7,009.2
Operating properties	–	557.4	–	557.4	–	428.9	–	428.9
Other tangible and intangible fixed assets	12.0	66.2	–	78.2	17.7	66.5	–	84.2
Fixed assets	7,835.9	623.6	–	8,459.5	7,817.7	495.4	–	8,313.1
Investment in joint venture	–	106.8	–	106.8	–	188.8	–	188.8
Net current (liabilities)/assets (excluding financing and dividends)	(114.3)	37.9	64.1	(12.3)	(275.5)	(22.2)	43.7	(254.0)
	7,721.6	768.3	64.1	8,554.0	7,542.2	662.0	43.7	8,247.9
Financing and dividends				(2,789.6)				(2,058.6)
Long term liabilities and provisions				(201.3)				(152.7)
Net assets				5,563.1				6,036.6

(iii) Notes to the segmental information

(a) Includes the results of investment properties under development and the Group's share of the results of its development partnerships (Note 32).

(b) As a consequence of adopting UITF28, rental income includes £7.3m (2002 £3.5m) of rent receivable allocated to rent free periods falling in the respective financial years. Rental income also includes the net income from managed operations e.g. car parks, food courts, serviced offices and flats.

(c) Includes income in relation to service charges and directly recoverable expenditure together with any chargeable management fee.

(d) Property services income represents unitary charges and the recovery of other direct property or contract expenditure reimbursable by customers.

(e) Other direct property or contract expenditure are costs incurred in the direct maintenance and upkeep of properties together with the costs of rent reviews, lease renewals and relettings of properties and in providing services in compliance with outsourcing contracts together with additional costs incurred at the request of customers and reimbursable by them. Void costs, which include those relating to empty properties pending redevelopment and refurbishment costs, and costs of development schemes which are not proceeded with are also included. It includes pre-commitment costs written off of £3.1m (2002 £Nil).

Notes to the financial statements
for the year ended 31 March 2003

(f) Indirect property or contract expenditure are indirect costs of managing the portfolio. It includes the cost of staff involved in development projects and all office administration and operating costs other than common costs.

(g) Depreciation includes £5.9m (2002 £Nil) of accelerated depreciation relating to a re-assessment of the remaining useful lives of certain information systems used by the property investment business.

(h) Common costs comprise all costs associated with central Group management including Company secretarial and non-executive directors, their premises costs and non-segment related depreciation charges.

The Group total of indirect property or contract expenditure, depreciation and common costs includes:

	2003 £m	2002 £m
Auditors' remuneration:		
Audit fees (Company: £80,000; 2002 £Nil)	0.5	0.3
Non-audit fees for:		
Bids – Land Securities Trillium new business	0.2	0.2
Taxation	1.0	0.4
Other advice	0.5	0.7
	1.7	1.3
Directors' remuneration	3.2	4.2
Depreciation (including depreciation in 'common costs' in (i) above)	26.4	16.0

In addition, the auditors also received non-audit fees of £0.5m (2002 £2.6m) from Telereal. £0.4m (2002 £1.6m) of this was paid to PwC Consulting before it was sold to IBM.

4. Finance						
	Group £m	2003 Joint venture £m	Total £m	Group £m	2002 Joint venture £m	Total £m
Interest receivable:						
Short term deposits	0.9		0.9	3.3	0.8	4.1
Other interest receivable	3.4	2.4	5.8	0.9	–	0.9
Loan to joint venture	7.7		7.7	–		–
	12.0	2.4	14.4	4.2	0.8	5.0
Interest payable:						
Borrowings not wholly repayable within five years	117.2	70.1	187.3	132.6	20.0	152.6
Borrowings wholly repayable within five years	76.2		76.2	32.6	3.7	36.3
Other interest payable	2.5		2.5	3.0	0.9	3.9
	195.9	70.1	266.0	168.2	24.6	192.8
Loans from joint venture partners		7.7	7.7	–	–	–
Deficit on purchase and redemption of convertible bonds (Note 22)	28.2	–	28.2	–	–	–
Cost of cancellation/novation of interest rate swaps	23.5	0.3	23.8	–	–	–
Less: Capitalised in relation to properties under development	(39.0)	–	(39.0)	(21.1)	–	(21.1)
	208.6	78.1	286.7	147.1	24.6	171.7

Interest has been capitalised at the Group's pre-tax weighted average borrowing rate for non-specific borrowings for the year of 8.3% (2002 8.5%) as explained in Note 2(h)(ii). Non-specific borrowings exclude certain bank debt which is specific to the PRIME contract.

Interest payable on borrowings wholly repayable within five years includes £6.7m of arrangement fees out of a total of £8.4m incurred in relation to the utilised proportion of the £1.5bn of new committed bank facilities (Note 21) put in place during the year. The balance of the arrangement fees is being amortised over the remaining lives of the facilities.

5. Staff, directors and pensions				
	2003 No.	2002 No.	2003 £m	2002 £m
Employees				
The average number of employees during the year, excluding directors, and the corresponding aggregate staff costs were:				
Indirect property or contract and administration	392	329	31.6	22.9
Direct property or contract services:				
Full time	984	777	43.2	32.8
Part time	52	51	0.6	0.6
	1,428	1,157	75.4	56.3
Staff costs				
Salaries			52.3	40.1
Social Security			6.4	4.7
Other pension			9.5	4.9
Incentive schemes			7.2	6.6
			75.4	56.3

In addition to the above, 338 staff have been transferred from BT, in accordance with TUPE regulations, to Land Securities Trillium Telecom Services Limited, a wholly owned subsidiary of Land Securities PLC. These staff are made available to Telereal Services Limited to deliver services to BT. All related staff costs are reimbursed to the Group by Telereal Services Limited.

Notes to the financial statements
for the year ended 31 March 2003

5. Staff, directors and pensions (continued)

	2003 £m	2002 £m
Directors		
Aggregate emoluments excluding pensions	2.4	2.8
Aggregate gains made on the exercise of share options (2003 £Nil; 2002 £48,100)	–	–
Company contributions to pension schemes	0.5	1.3
	2.9	4.1

Four directors (2002 four) have retirement benefits accruing under money purchase pension schemes. Retirement benefits accrue to one (2002 two) director 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 Committee's Report on pages 36 to 41.

Pensions

The charge to profit and loss account for pension costs during the year is made up as follows:

	2003 £m	2002 £m
Regular pension cost	3.2	3.1
Variations from regular cost	3.2	1.0
Other schemes	3.6	2.6
Net pension cost	10.0	6.7

The amount under other schemes includes the actual contributions paid to the Group's defined contribution schemes and sums paid to the BBC and BT schemes, as required under the terms of the participation agreements in those schemes, explained below.

Defined benefit scheme

The Pension & Assurance Scheme of the Land Securities Group of Companies ('the Scheme') is the only material defined benefit pension scheme of the Group. The Scheme, which is closed to new entrants and which is non-contributory for employees, provides defined benefits based on final pensionable salary. 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.

The last formal actuarial valuation, undertaken for the purposes of setting the ongoing contribution rate, was carried out as at 6 April 2001.

	At valuation 6 April 2001 %
The key assumptions adopted for this valuation were as follows:	
Rate of increase in pensionable salaries	5.00
Rate of increase in pensions in payment	2.75
Discount rate	
– prior to retirement	6.50
– in retirement	5.50
Inflation	2.75
Actuarial value of assets (% of market value)	106.00

The valuation showed that there was a deficit of £1.2m. The market value of the Scheme's invested assets (excluding the value of annuities purchased to provide certain pensions in payment) as at 6 April 2001 was £60.8m. The actuarial value of these assets represented 99% of the value of the Scheme's liabilities at that date. However, the situation has deteriorated since April 2001 as explained below.

The actuary recommended that the employer contribution rate be increased from 25% to 30% of pensionable salaries with effect from April 2001. Employer contributions were paid at this rate during the year to 31 March 2003.

Employer contributions will continue at 30% of pensionable salaries until completion of the next formal valuation to be carried out no later than as at 1 July 2003.

The year to 31 March 2003 has been marked by further falls in the market value of equities and this has, in common with other UK pension schemes, resulted in a material deterioration of the funding position of the scheme and the deficit. The impact of this change is reflected in the additional disclosures required under FRS17 shown below.

As a result of the decline in the funding position of the scheme since the last full actuarial valuation in April 2001, in March 2003 the Group made an additional one-off cash contribution of £7.5m together with the first payment of an additional annual contribution of £1.5m recommended by the scheme's actuary. The additional annual contributions will be subject to review in the light of future market conditions and valuations. The £7.5m contribution is being amortised and charged to the profit and loss account over 10 years, the estimated remaining service life of the Scheme's active members. The pension charge for the current year reflects the amortisation and the initial £1.5m additional contribution as variations from regular cost.

Contributory money purchase scheme

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

Other schemes

As part of the PRIME Agreement, the Group is obliged to provide pension benefits under a now closed funded defined benefit scheme applicable to less than 20 employees.

During the year the Group participated in the BBC pension scheme in respect of 168 employees who were transferred from the BBC to Land Securities Trillium Media Services Limited as part of Land Securities Trillium's outsourcing contracts with the BBC. Separate pension arrangements have been set up for these employees with effect from 1 April 2003.

Land Securities Trillium Telecom Services Limited has put in place a defined benefit scheme with the same terms and conditions as the BT scheme for 333 staff who transferred from BT to the scheme from 1 May 2002. All relevant pension costs are recharged to Telereal Services Limited.

There are also certain historic unfunded pensions being paid to three former directors of Land Securities PLC or their dependants in accordance with their service contracts.

All death-in-service and benefits for incapacity arising during employment provided by the Group are wholly insured.

No post-retirement benefits other than pensions are made available to employees of the Group.

Notes to the financial statements
for the year ended 31 March 2003

Additional disclosures under FRS17 'Retirement Benefits'

As noted above, a full actuarial valuation of the Scheme was undertaken on 6 April 2001. This valuation has been updated to 31 March 2003 for the purposes of the following additional disclosures required by the transitional provisions of FRS17. The major assumptions used in this valuation, in nominal terms, were:

	2003 %	2002 %
Rate of increase in pensionable salaries	4.75	5.00
Rate of increase in pensions in payment	2.50	2.75
Discount rate	5.50	6.00
Inflation	2.50	2.75

Following the increased contributions made in March 2003, the pension fund deficit was estimated at some £18.6m in March 2003.

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

	Expected rate of return		Fair value	
	2003 %	2002 %	2003 £m	2002 £m
Equities	7.5	7.5	31.9	46.2
Bonds and insurance contracts	5.5	6.0	34.1	28.7
Other	3.75	4.0	10.4	2.7
Total market value of assets			76.4	77.6
Actuarial value of scheme liabilities			(95.0)	(87.5)
Deficit in the scheme			(18.6)	(9.9)
Related deferred tax asset			5.6	3.0
Net pension liability			(13.0)	(6.9)

Analysis of gains and losses*

	2003 £m
Actual return less expected return on pension scheme assets	(16.3)
Experience gains and losses arising on the scheme liabilities	2.7
Changes in assumptions underlying the present value of the scheme liabilities	(3.6)
Actuarial loss	(17.2)

Movement in deficit during the year

	2003 £m
Deficit in the scheme at the beginning of the year	(9.9)
Current service cost	(3.2)
Employer contributions	12.3
Other income plus any risk benefit premiums paid direct to insurer	0.3
Impact of settlements and curtailments	(0.9)
Actuarial loss	(17.2)
Deficit in the scheme at the end of the year	(18.6)

History of experience gains and losses

	2003 £m
Difference between the actual and expected return on scheme assets	(16.3)
Value of plan assets	76.4
Percentage of scheme assets	-21.3%
Experience gains on scheme liabilities	2.7
Present value of scheme liabilities	95.0
Percentage of the present value of scheme liabilities	2.8%
Actuarial loss	(17.2)
Present value of scheme liabilities	95.0
Percentage of the present value of scheme liabilities	-18.1%

Analysis of amount charged to operating profit*

	2003 £m
Current service cost	3.2
Curtailment and settlement costs	0.9
Total operating charge	4.1

Notes to the financial statements
for the year ended 31 March 2003

5. Staff, directors and pensions (continued)

	2003 £m
Analysis of amount credited to other finance income*	
Expected return on pension scheme assets	5.3
Interest on pension liabilities	(5.3)
Net return	-

*These analyses show the amounts that would have been recognised in the statement of recognised gains and losses and the profit and loss account had FRS17 been fully implemented. The consolidated balance sheet includes a net pension asset of £6.7m representing the unamortised balance of the £7.5m special contribution paid in March 2003. A full adoption of FRS17 would result in the pension asset being replaced by the net pension liability of £13.0m, giving rise to a decrease in net assets of £19.7m.

6. Executive and savings related share option schemes

		No. of options			
	Option price	2002 Executive share option scheme	2000 Executive share option scheme	1984 Executive share option scheme	1993 Savings related share option schemes
At 1 April 2002		-	2,683,562	205,750	519,900
Granted	650p 812p 756p	- - 107,500	- 1,159,000 -	- -	363,386
Exercised (Notes 25(a) & (b))		-	-	(72,750)	(101,844)
Lapsed		-	(40,000)	-	(128,242)
At 31 March 2003		107,500	3,802,562	133,000	653,200

The options outstanding under the 2002 Executive Share Option Scheme are exercisable at 756p up to 2012, provided the associated performance conditions are met, those under the 2000 scheme at prices between 801p and 869p up to 2012, and those under the 1984 scheme at 618.6p up to July 2004. The options outstanding under the savings related share option schemes are exercisable at prices between 494p and 736p, after three, five or seven years from the date of grant.

7. Taxation

	2003 £m	2002 £m
Current tax		
Corporation tax on Group profit for the year at 30% (2002 30%)	32.0	92.8
Adjustments to current taxation in respect of prior years	(7.8)	0.2
Share of joint venture's taxation	14.5	-
Current tax	38.7	93.0
Deferred tax - Group (Note 24)	51.0	6.9
Tax charge for the period (page 44)	89.7	99.9
Factors affecting the tax charge for the period		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2002 30%). The differences are explained below:		
Profit on ordinary activities before taxation (page 44)	319.6	363.5
Profit on ordinary activities multiplied by the standard rate of corporation tax at 30%	95.9	109.1
Add: Disallowable expenses/non-taxable items	1.9	2.2
Add: Telereal depreciation and goodwill amortisation	5.3	1.8
	103.1	113.1
Release of deferred tax on property disposals (Note 24)	(8.2)	(10.7)
Adjustments to current and deferred taxation in respect of prior years	(1.8)	(0.2)
Reduced rate of tax on profits on disposal of assets	(3.4)	(2.3)
Taxation charge for the period (page 44)	89.7	99.9
Add back: Depreciation	7.9	5.6
Add back: Capital allowances	(26.9)	(16.9)
Add back: Capitalised interest and other timing differences	(32.0)	4.4
Current tax	38.7	93.0

The Group's share of the joint venture's tax charge is stated after disallowing depreciation charges but without the availability of capital allowances which were retained by British Telecom plc. included in the tax charge is a net credit of £12.6m (2002 £1.2m) attributable to property sales, bid costs and the exceptional items analysed on page 44. A tax credit of £15.6m (2002 £Nil) is attributable to exceptional items.

Notes to the financial statements
for the year ended 31 March 2003

8. Dividends	Dividends per ordinary share		Profit and loss account	
	2003 pence	2002 pence	2003 £m	2002 £m
Ordinary shares – interim	9.50	9.05	44.1	47.5
– final	26.00	24.95	121.1	130.9
B shares			0.5	
Additional prior year dividends – ordinary shares			1.7	–
	35.50	34.00	167.4	178.4

B shares carry the right to a dividend of 70% of six month LIBOR paid twice yearly. The dividend rate for the first dividend period to 17 April 2003 was 2.8% of the nominal value of the shares. Additional prior year dividends relate to increases in share capital arising after the respective prior period ends but before their corresponding dividend record dates.

9. Earnings per share	Profit after taxation and preference and B share dividends		Weighted average number of ordinary shares		Earnings per share	
	2003 £m	2002 £m	2003 m	2002 m	2003 pence	2002 pence
Earnings per share	229.4	263.6	493.8	524.2	46.46	50.27
Effect of dilutive securities:						
Convertible bonds	–	10.9	–	29.7		
Share options			0.1	0.2		
Diluted earnings per share	229.4	274.5	493.9	554.1	46.44	49.54
Adjusted earnings per share						
Earnings per share	229.4	263.6	493.8	524.2	46.46	50.27
Effect of results of fixed asset property disposals, bid costs and exceptional items after taxation	16.5	1.2			3.35	0.24
Effect of deferred tax arising from capital allowances on investment properties	2.9	5.9			0.58	1.10
Adjusted earnings per share	248.8	270.7	493.8	524.2	50.39	51.61
Diluted earnings per share	229.4	274.5	493.9	554.1	46.44	49.54
Effect of results of fixed asset property disposals, bid costs and exceptional items after taxation	16.5	1.2			3.34	0.23
Effect of deferred tax arising from capital allowances on investment properties	2.9	5.9			0.58	1.04
Adjusted diluted earnings per share	248.8	281.6	493.9	554.1	50.36	50.81

As explained in Note 22, £196.8m of the nominal value of the Group's convertible bonds were purchased and redeemed during the year at a loss over book value of £28.2m. FRS14 requires the post-tax effect of all changes in income or expense that would arise from conversions into dilutive potential ordinary shares to be taken into account in deriving earnings to be used in the calculation of diluted earnings per share. For the year ended 31 March 2003, the convertible bonds have not been included in the calculation of diluted earnings per share because adjusting earnings by the loss on redemption results in the convertible bonds becoming accretive, rather than dilutive, to earnings per share.

In accordance with FRS14 'Earnings per share', the earnings per share for the prior year have not been restated for the effects of the Group's Scheme of Arrangement referred to in Note 1.

Profits on the sales of fixed asset properties, bid costs and exceptional items (comprising the deficit arising on the purchase and redemption of convertible bonds, cost of cancellation/novation of interest rate swaps and the costs of reorganising the Group) are excluded from adjusted earnings as these are non-recurring items.

The additional deferred tax arising from capital allowances on investment properties is also excluded as the Group's experience is that it is very unusual for plant allowances to be claimed back through balancing charges on the disposal of a property.

Adjusted earnings and adjusted diluted earnings per share have also been disclosed, therefore, to show measures of earnings that better reflect the principal operating activities of the Group.

10. Net assets per share	Equity shareholders' funds		Number of ordinary shares		Net assets per share	
	2003 £m	2002 £m	2003 m	2002 m	2003 pence	2002 pence
Net assets per share	5,532.7	6,036.6	465.6	524.3	1188	1151
Effect of deferred tax arising from capital allowances on investment properties	124.7	128.3			27	25
Adjusted net assets per share	5,657.4	6,164.9	465.6	524.3	1215	1176
Net assets per share	5,532.7	6,036.6	465.6	524.3	1188	1151
Adjustments for convertible bonds	–	243.3	–	29.7		
Exercise of outstanding share options			0.1	0.8		
Diluted net assets per share	5,532.7	6,279.9	465.7	554.8	1188	1132
Diluted net assets per share	5,532.7	6,279.9	465.7	554.8	1188	1132
Effect of deferred tax arising from capital allowances on investment properties	124.7	128.3			27	23
Adjusted diluted net assets per share	5,657.4	6,408.2	465.7	554.8	1215	1155

The additional deferred tax liability arising from capital allowances on investment properties is excluded from the calculations of the adjusted values as the Group's experience is that deferred tax on capital allowances in relation to such properties is unlikely to crystallise in practice.

Notes to the financial statements
for the year ended 31 March 2003

11. Goodwill	Cost	Amortisation	Net
	£m	£m	£m
At 1 April 2002	42.0	(3.1)	38.9
Amortisation for the year		(2.2)	(2.2)
At 31 March 2003	42.0	(5.3)	36.7

The goodwill arose on the acquisition of Trillium Investments GP Limited in November 2000 by Land Securities PLC when it was calculated as the excess of cost over the fair value of net assets acquired. It was capitalised in the year in which it arose and is amortised on a straight-line basis over the remaining life of the PRIME contract.

12. Investment properties (including development programme assets)				
	Freehold £m	Leasehold Over 50 years to run £m	Under 50 years to run £m	Total £m
At 1 April 2002: Net book amount	5,715.3	2,020.9	63.8	7,800.0
Additions	289.8	187.7	0.8	478.3
Reclassifications	2.4	—	(2.4)	—
Sales	(225.3)	(169.1)	(1.7)	(396.1)
	5,782.2	2,039.5	60.5	7,882.2
Depreciation	—	—	(1.5)	(1.5)
Unrealised deficit on revaluation (Note 26(a))	(22.3)	(25.6)	(8.9)	(56.8)
At 31 March 2003: Net book amount	5,759.9	2,013.9	50.1	7,823.9
Amount included in prepayments under UITF28	12.0	8.0	0.1	20.1
Market value (page 69)	5,771.9	2,021.9	50.2	7,844.0

Investment properties in this note refer to those properties included in the Investment Portfolio as defined in the Glossary (page 87).

At 31 March 2003, the cumulative interest capitalised in relation to investment properties under development amounts to **£70.5m** (2002 £39.7m).

Freeholds include **£408.9m** (2002 £366.1m) of leaseholds with unexpired terms exceeding 900 years; leaseholds under 50 years to run include **£12.1m** (2002 £10.3m) with unexpired terms of 20 years or less.

The historical cost of investment properties is **£4,577.9m** (2002 £4,261.4m).

13. Development programme	
The movements in the carrying value of investment properties forming the development programme (excluding the BBC developments and trading properties) included in Note 12, are as follows:	
	£m
At 1 April 2002: at market value – as previously reported	1,050.1
Less: Prior year adjustment to adopt revised definition of development programme	(259.3)
At 1 April 2002 as restated	790.8
Properties transferred into the development programme during the year (at 1 April 2002 valuation)	2.5
Part disposal during the year	(3.3)
Expenditure during the year including development property acquisitions	291.1
Capitalised interest	30.8
Deficit on valuation	(30.1)
	1,081.8
Developments completed, let and transferred out of development programme during the year	(114.4)
At 31 March 2003: at market value	967.4

To aid clarity, the classification of projects forming the 'development programme' was revised during the year. As a result the development programme now includes:

- Developments which are completed but less than 95% let
- Developments on site
- Committed developments (being projects which are approved and the building contract let)
- Authorised developments (Board approved projects for which the building contract has not yet been let)

Projects in these classifications are sufficiently firm to ensure that reporting from period to period provides a good basis for performance comparison.

'Proposed developments' are excluded from the 'development programme' as experience has shown that these schemes can be subject to substantial revision. However, the Group will continue to give an indication of the likely size and timing of these schemes and their potential impact on cash flow when discussing the 'development pipeline', which combines both the development programme and proposed schemes.

Developments are taken out of the development programme when physically complete and 95% let. Schemes completed during the year comprise retail parks at Cheetham Hill, Manchester, Phase 1 of Almondvale, Livingston, Designer Outlet Mall, Livingston, Lakeside Retail Park, West Thurrock, a new unit at Markham Road, Chesterfield, Neptune Point, Cardiff and Bessemer Road, Welwyn Garden City.

In addition to the development programme, investment properties include properties to the value of £180.5m in respect of proposed developments.

Notes to the financial statements
for the year ended 31 March 2003

14. Operating properties				
	Freehold land and buildings £m	Leasehold buildings		Total £m
		Over 50 years to run £m	Under 50 years to run £m	
Cost				
At 1 April 2002	341.6	45.3	50.0	436.9
Additions	129.3	0.4	17.7	147.4
Sales	(8.3)	(2.5)	—	(10.8)
At 31 March 2003	462.6	43.2	67.7	573.5
Accumulated depreciation				
At 1 April 2002	(5.9)	(1.1)	(1.0)	(8.0)
Depreciation for the year	(4.4)	(0.9)	(2.9)	(8.2)
Sales	0.1	—	—	0.1
At 31 March 2003	(10.2)	(2.0)	(3.9)	(16.1)
Net book amount*				
At 31 March 2003	452.4	41.2	63.8	557.4
At 31 March 2002	335.7	44.2	49.0	428.9

*comprises £184.7m (2002 £70.5m) relating to the BBC and the balance in respect of PRIME and other corporate assets.

At 31 March 2003, the cumulative interest capitalised in operating properties under development amounts to £9.0m (2002 £0.8m).

15. Properties						
	Freehold £m	Leasehold		Total £m	Investment properties (Note 12) £m	Operating properties (Note 14) £m
		Over 50 years to run £m	Under 50 years to run £m			
Book amount/cost						
At 1 April 2002	6,056.9	2,066.2	114.9	8,238.0	7,801.1	436.9
Additions	419.1	188.1	18.5	625.7	478.3	147.4
Reclassifications	2.4	—	(2.4)	—	—	—
Sales	(233.6)	(171.6)	(1.7)	(406.9)	(396.1)	(10.8)
	6,244.8	2,082.7	129.3	8,456.8	7,883.3	573.5
Unrealised deficit on revaluation (Note 26(a))	(22.3)	(25.6)	(8.9)	(56.8)	(56.8)	—
At 31 March 2003	6,222.5	2,057.1	120.4	8,400.0	7,826.5	573.5
Accumulated depreciation						
At 1 April 2002	(5.9)	(1.1)	(2.1)	(9.1)	(1.1)	(8.0)
Depreciation for the year	(4.4)	(0.9)	(4.4)	(9.7)	(1.5)	(8.2)
Sales	0.1	—	—	0.1	—	0.1
At 31 March 2003	(10.2)	(2.0)	(6.5)	(18.7)	(2.6)	(16.1)
Net book amount						
At 31 March 2003	6,212.3	2,055.1	113.9	8,381.3	7,823.9	557.4
At 31 March 2002	6,051.0	2,065.1	112.8	8,228.9	7,800.0	428.9

At 31 March 2003, the cumulative capitalised interest in investment and operating properties amounts to £79.5m (2002 £40.5m).

Notes to the financial statements
for the year ended 31 March 2003

16. Commitments for future expenditure on properties (in the development pipeline)	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Under contract	586.6	574.1	–	–
Board authorisations not contracted	82.2	312.1	–	–
Contracted and authorised commitments	668.8	886.2	–	–
Less: Commitments outside the development programme	(175.4)	(70.3)		
Estimated additional expenditure on the development programme and proposed schemes (excluding future interest)	897.4	918.2		
Capital creditors (included in Note 20) relating to the development programme	53.2	86.9		
Total outstanding cash outlay on the development pipeline and the BBC development	1,444.0	1,821.0		

17. Other tangible fixed assets	Cost	Depreciation	Net
	£m	£m	£m
At 1 April 2002	72.0	(26.7)	45.3
Additions	13.4		13.4
Disposals	(1.7)	1.2	(0.5)
Depreciation for the year		(16.7)	(16.7)
At 31 March 2003	83.7	(42.2)	41.5

Other tangible fixed assets include computers, motor vehicles, furniture, fixtures and fittings, improvements to Group offices and £1.0m (2002 £Nil) for Landflex product development costs.

18. Investment in group undertaking	£m
At 1 April 2002	–
On acquisition of Land Securities PLC	4,087.1
Dividend receivable from group undertaking	5.6
At 31 March 2003	4,092.7

On 6 September 2002 the Company acquired 100% of the issued share capital of Land Securities PLC, a Company incorporated and operating in the United Kingdom, under a share exchange following the implementation of the Scheme of Arrangement described in Note 1.

The cost of acquiring Land Securities PLC has been determined based on the share price of that Company on 6 September 2002 of 770 pence per share. The excess of the cost of acquisition over the nominal value of the shares issued by the Company to acquire the investment in Land Securities PLC has been credited to the merger reserve of the Company. The merger reserve does not represent a realised or distributable profit.

19. Debtors	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Falling due within one year:				
Trade debtors	112.4	96.1	–	–
Property sales debtors	24.6	27.9	–	–
Other debtors	52.0	49.6	–	–
Prepayments and accrued income	84.5	81.2	–	–
Taxation recoverable	–	–	5.1	–
	273.5	254.8	5.1	–
Falling due after more than one year:				
Other debtors	15.9	5.5	–	–
	15.9	5.5	–	–

Included within trade debtors are balances of £58.7m (2002 £49.7m) and £15.0m (2002 £10.1m) due to Land Securities Trillium from the DWP and the BBC respectively.

Notes to the financial statements
for the year ended 31 March 2003

20. Creditors falling due within one year	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Debentures and loans (Note 21)	23.5	1.4	-	-
Loans from group undertakings	-	-	374.1	-
Overdrafts	16.8	21.8	-	-
Trade creditors	58.5	28.9	-	-
Taxation and Social Security	23.9	68.4	-	-
Proposed final dividend	121.1	130.8	121.1	-
Capital creditors	69.2	108.3	-	-
Other creditors	15.4	29.6	-	-
Accruals and deferred income	266.5	301.7	0.4	-
	594.9	690.9	495.6	-

Capital creditors 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.

Debentures and loans include £0.4m (2002 £0.3m) of instalments of borrowings that mature after more than one year.

The Company's loans from group undertakings comprises £338.1m repayable on the earlier of 31 December 2005 and demand and £36.0m with no fixed repayment date.

21. Debentures, bonds and loans	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Unsecured				
10 3/4 per cent Exchange Bonds due 2004	21.2	21.2	-	-
9 1/2 per cent Bonds due 2007	200.0	200.0	-	-
£400m 5 7/8 per cent Bonds due 2013	394.0	-	-	-
£200m 9 per cent Bonds due 2020	196.8	196.6	-	-
£200m 6 3/8 per cent Bonds due 2024	197.9	-	-	-
Syndicated bank debt	600.5	265.0	-	-
	1,610.4	682.8	-	-
Secured				
6 1/4 per cent Mortgage Debenture 2000/05	8.4	8.6	-	-
6 1/2 per cent Mortgages 2000/05	8.4	8.6	-	-
7 3/4 per cent Mortgage 2008	5.5	5.5	-	-
6 3/8 per cent First Mortgage Debenture Stock 2008/13	32.3	32.3	-	-
10 per cent First Mortgage Debenture Stock 2025	400.0	400.0	-	-
10 per cent First Mortgage Debenture Stock 2027	200.0	200.0	-	-
10 per cent First Mortgage Debenture Stock 2030	200.0	200.0	-	-
Bank loan	206.9	207.6	-	-
	1,061.5	1,062.6	-	-
	2,671.9	1,745.4	-	-
Falling due within one year (Note 20)	(23.5)	(1.4)	-	-
Falling due after more than one year	2,648.4	1,744.0	-	-

The issues of £400m 5 7/8 per cent Bonds due 2013 and £200m 6 3/8 per cent Bonds due 2024 on 27 February 2003 at £98.99 per £100 and £99.69 per £100 respectively were made partly to re-finance the short term bank debt incurred in the return of capital and redemption of convertible bonds earlier in the year. In accordance with FRS4 'Capital Instruments' these bonds are included net of the discount and the issue expenses which are being amortised at a constant rate over the remaining lives of the bonds.

Notices have been issued to redeem the 6 1/4 per cent Mortgage Debenture 2000/05 and the 6 1/2 per cent Mortgages 2000/05 on 30 September 2003.

The carrying value of the secured bank loan comprises the loan amount (currently £198.4m), the fair value of the linked interest rate swap outstanding at the time of the acquisition of Trillium and the upfront arrangement fees relating to this funding. Both the swap and the upfront fees are being written off over the life of the borrowings. Either party to the swap can terminate the agreement on 15 April 2005 and every second anniversary thereafter.

The interest rate on the secured bank loan, which is variable, includes a margin which varies according to the Group's credit rating. This has been swapped into a current fixed rate of 6.85%.

Secured loans are charged on properties of group undertakings. From time to time, short term deposits are charged as temporary security until substitutions have been agreed for properties taken out of charge. The bank loan is secured on the unitary charge receivable from the DWP under the PRIME Agreement and also on most properties held by Land Securities Trillium.

In May 2002 the Group put in place £1.5bn of additional bank facilities. £600m of these facilities were cancelled at the time of the issue of the £400m 5 7/8 per cent Bonds due 2013 and the £200m 6 3/8 per cent Bonds due 2024 and a further £100m of the facilities were cancelled in May 2003 shortly before their scheduled expiry date.

Notes to the financial statements
for the year ended 31 March 2003

22. Convertible bonds	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
£210m 6 per cent Guaranteed Convertible Bonds due 2007	–	207.3	–	–
7 per cent Convertible Bonds due 2008	–	36.0	–	–
	–	243.3	–	–

Redemption notices were issued for both series of convertible bonds on 22 May 2002 informing bondholders that all the bonds outstanding as at 27 June 2002 would be redeemed at 100 per cent of the original issue price together with any accrued interest. Bondholders were entitled to exercise their rights to convert the bonds up to the close of business on 20 June 2002.

In the case of the 6 per cent Guaranteed Convertible Bonds due 2007, bondholders were entitled to convert their bonds into ordinary shares of Land Securities PLC at the exchange price of 874p per ordinary share. In the period 1 April 2002 to 20 June 2002, bonds with a nominal value of £27.8m were converted into 3.2m fully paid shares of £1 each. Bonds with a nominal value of £181.0m were purchased by Land Securities PLC in the open market and cancelled. Bonds with a nominal value of £1.2m were redeemed.

In the case of the 7 per cent Convertible Bonds due 2008, bondholders were entitled to convert their bonds into ordinary shares of Land Securities PLC at the conversion price of 640p per ordinary share. In the period 1 April 2002 to 20 June 2002, bonds with a nominal value of £20.2m were converted into 3.2m fully paid shares of £1 each. Bonds with a nominal value of £15.8m were purchased by Land Securities PLC in the open market and cancelled.

As shown in Note 4, a deficit of £28.2m arose on the purchase and redemption of the convertible bonds.

23. Other creditors falling due after more than one year	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Deferred income	16.9	16.7	–	–
Other creditors	5.4	6.1	–	–
	22.3	22.8	–	–

24. Provisions for liabilities and charges	Group		Company	
	Dilapidations £m	Deferred taxation £m	Total £m	£m
At 1 April 2002	5.3	124.6	129.9	–
Net charge for the year	0.6	59.2	59.8	–
Released in respect of property disposals during the year		(8.2)	(8.2)	–
Other movements		(2.5)	(2.5)	–
At 31 March 2003	5.9	173.1	179.0	–

The deferred taxation provision that would be released in the event of sales of investment properties on the assumption that the proceeds of qualifying assets equate for tax purposes to the tax written down value would be **£124.7m** (2002 £130.6m). On the same assumption the amount of tax on capital gains that would become payable by the Group on disposals at amounts at which they are stated in Note 12 is in the region of **£435.0m** (2002 £535.0m). If certain asset owning companies, which own portfolios of properties, were sold at underlying asset values the tax on capital gains would be in the region of **£325.0m** without taking into account any further mitigation that might be available. In addition, on the same assumption, there would be a release of deferred tax on capitalised interest, relating to investment properties, of **£21.2m** (2002 £11.9m).

Notes to the financial statements
for the year ended 31 March 2003

25. Called up share capital	Authorised		Allotted and fully paid	
	2003 No. m	2002 No. m	2003 £m	2002 £m
Land Securities PLC				
Ordinary shares of £1 each		720.0		524.3
Land Securities Group PLC				
Ordinary shares of 10p each	600.0		46.5	
Non-equity B shares of £1.02 each	540.0		30.3	
Redeemable preference shares of £1 each	0.1		0.1	
			76.9	524.3

18,439,941 B shares were redeemed at the holders' option on 17 April 2003 for £18.8m.

The sequence of events relating to the changes in the share capitals of Land Securities PLC, the former holding company of the Group, and Land Securities Group PLC, the successor holding company, respectively were as follows:

(a) Land Securities PLC

At 1 April 2002	No. of shares
Issued during the period:	524,345,045
On the exercise of options under:	
1983 and 1993 savings related share option schemes	51,499
1984 Executive Share Option Scheme	62,750
On the conversions of:	
6 per cent Guaranteed Convertible Bonds due 2007	3,176,950
7 per cent Convertible Bonds due 2008	3,155,128
To facilitate the transfer of the shares to the Company under the Scheme of Arrangement	12
At 6 September 2002	530,791,384

(b) Land Securities Group PLC

7 February 2002	The Company was incorporated with an authorised share capital of 50,000 ordinary shares of £1 each and two shares were issued.
3 July 2002	The authorised share capital was increased to £100,000 by the creation of 50,000 redeemable preference shares of £1 each which were all issued at par.
14 July 2002	The authorised share capital was increased from £100,000 to £4,648,850,000 by the creation of 409,795,000,000 additional ordinary shares of 1p each and 540,000,000 B shares of 102p each. Each issued ordinary share of £1 each was sub-divided into 100 ordinary shares of 1p each and a further 1,166 ordinary shares were issued at par. All issued and unissued ordinary shares of 1p each were consolidated into shares of £6.83 each resulting in the issued share capital being consolidated into two ordinary shares of £6.83 each.
6 September 2002	464,442,461 ordinary shares of £6.83 each and 530,791,384 B shares of £1.02p each with a total nominal value of £3,713,549,221 were issued in consideration for 100% of the issued ordinary share capital of the predecessor Company.
17 September 2002	Under a Court approved capital reduction: a) the nominal value of the ordinary shares was reduced from £6.83 each to 10p each. b) 501,057,544 of the B shares were cancelled and £511,078,695 was returned to shareholders.

The holders of B shares are not entitled to receive notification of any general meeting of Land Securities Group PLC, or to attend, speak or vote at any such meeting. B shares carry the right to a dividend of 70% of six month LIBOR paid twice yearly. In the event of the winding up of Land Securities Group PLC, the holders of B shares will be entitled to 102p in respect of each B share held together with the relevant proportion of the dividend payable.

The holders of B shares may elect to have their shares redeemed at six monthly intervals. The first redemption date (after the initial redemption of shares on 17 September 2002) was 17 April 2003 on which date 18,439,941 B shares were redeemed at the holders' option. The next redemption date will be 17 October 2003. Land Securities Group PLC may, on giving notice in writing to the holders of B shares, redeem for £1.02 per share all, but not some, of the remaining B shares.

The movements in the issued ordinary share capital of the Company from incorporation to 31 March 2003 were:

	No. of shares
Consolidation of shares issued on incorporation	2
Issued as part consideration for 530,791,384 Land Securities PLC shares under the Scheme of Arrangement	464,442,461
Issued as consideration for the purchase of a property interest	1,760,000
Shares purchased and cancelled	(700,000)
Issued on the exercise of options under:	
1993 savings related share option schemes	50,345
1984 Executive Share Option Scheme	10,000
At 31 March 2003	465,562,808

The exercise of all options outstanding at 31 March 2003, granted under the savings related and executive share option schemes, would result in the issue of a further 4,696,262 ordinary shares.

The cash considerations received on the exercise of options under the 1993 savings related share option schemes and the 1984 Executive Share Option Scheme, for shares in both the Company and the predecessor company, were £0.7m and £0.5m respectively.

Notes to the financial statements
for the year ended 31 March 2003

26. Shareholders' funds

	Called up share capital (Note 25)			Share premium account	Capital redemption reserve	Revaluation reserve	Other reserves	Profit and loss account	Total
	Ordinary shares £m	Non-equity B shares £m	Redeemable preference shares £m	£m	£m	£m	£m	£m	£m
(a) Group									
At 1 April 2002	524.3	–	–	314.9	36.0	3,376.9	550.4	1,234.1	6,036.6
Proforma restatement				(314.9)	(36.0)		350.9		
At 1 April 2002 as restated	524.3	–	–	–	–	3,376.9	901.3	1,234.1	6,036.6
Shares issued prior to capital restructure (Note 25(a))	6.5		0.1	42.3					48.9
Transfer to profit and loss account							(550.4)	550.4	–
Capital restructure	2,641.3	541.4		(42.3)			(350.9)	(2,789.5)	–
Reduction of capital and repayment of B shares	(3,125.7)	(511.1)						3,125.7	(511.1)
Purchase and cancellation of ordinary shares (Note 25(b))	(0.1)				0.1			(5.1)	(5.1)
Issue of ordinary shares (Note 25(b))	0.2			12.9					13.1
Exercise of options				0.4					0.4
Unrealised deficit on revaluation of investment properties (Note 12)						(56.8)			(56.8)
Realised on disposals of investment properties						(281.2)		281.2	
Taxation on revaluation surpluses realised on disposals of investment properties								(25.4)	(25.4)
Retained profit for the financial year (page 44)								62.5	62.5
At 31 March 2003	46.5	30.3	0.1	13.3	0.1	3,038.9	–	2,433.9	5,563.1
Comprising:									
Equity shareholders' funds	46.5			13.3	0.1	3,038.9	–	2,433.9	5,532.7
Non-equity shareholders' funds		30.3	0.1						30.4
	46.5	30.3	0.1	13.3	0.1	3,038.9	–	2,433.9	5,563.1

As explained in Note 1, the reserves at 1 April 2002 have been restated under merger accounting rules to reflect the Group reconstruction.

	Called up share capital (Note 25(b))			Share premium account	Capital redemption reserve	Merger reserve account	Profit and loss	Total
	Ordinary shares £m	Non-equity B shares £m	Redeemable preference shares £m	£m	£m	£m	£m	£m
(b) Company								
At 1 April 2002	–	–	–	–	–	–	–	–
Issue of preference shares			0.1					0.1
Issue of ordinary shares and B shares on acquisition of Land Securities PLC	3,172.1	541.4				373.6		4,087.1
Reduction of capital and repayment of B shares	(3,125.7)	(511.1)					3,125.7	(511.1)
Purchase and cancellation of ordinary shares	(0.1)				0.1		(5.1)	(5.1)
Issue of ordinary shares	0.2			12.9				13.1
Exercise of options				0.4				0.4
Retained profit for the financial year							18.7	18.7
At 31 March 2003	46.5	30.3	0.1	13.3	0.1	373.6	3,139.3	3,603.2
Comprising:								
Equity shareholders' funds	46.5			13.3	0.1	373.6	3,139.3	3,572.8
Non-equity shareholders' funds		30.3	0.1					30.4
	46.5	30.3	0.1	13.3	0.1	373.6	3,139.3	3,603.2

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 **£18.7m** (2002 **£Nil**).

27. Reconciliation of Group operating profit to net cash inflow from operating activities

	2003 £m	2002 £m
Operating profit (Group) (page 44)	462.4	497.5
Depreciation and amortisation	28.6	18.3
Increase in trading properties	(15.7)	(36.9)
Increase in debtors	(16.1)	(107.9)
Increase in creditors	25.2	35.2
Net cash inflow from operating activities	484.4	406.2

Notes to the financial statements
for the year ended 31 March 2003

28. Analysis of net cash flows

	2003 £m	2002 £m
(a) Management of liquid resources		
Net decrease/(increase) in short term deposits	57.5	(38.9)
Net cash inflow/(outflow) from management of liquid resources	57.5	(38.9)
(b) Cash movement in debt		
Debt due within one year – Repayment of secured debt	(1.4)	(0.4)
– Unsecured bank loans	–	(25.0)
Debt due after one year – Unsecured bank loans	(1.4)	(25.4)
– Issue of new bonds	335.5	265.0
– Purchase/redemption of convertible bonds	600.0	–
Expenses of new issues	(198.0)	–
	(7.9)	–
	729.6	265.0
Increase in debt	728.2	239.6

29. Analysis of net debt

	1 April 2002 £m	Movements during year Cash Flow £m	Non-cash £m	31 March 2003 £m
Net bank balance/(overdraft)	(14.3)	93.5	–	79.2
Liquid resources	60.9	(57.5)	–	3.4
Debt due within one year	(1.4)	1.4	(23.5)	(23.5)
Debt due after one year	(1,987.3)	(729.6)	68.5	(2,648.4)
Net debt	(1,942.1)	(692.2)	45.0	(2,589.3)

30. Financial assets and liabilities

This note should be read in conjunction with the comments set out in the Financial Review on page 14.
The Group has defined financial assets and liabilities as those assets and liabilities of a financial nature, namely cash, investments, borrowings and interest rate swaps.
Short term debtors/creditors, capital debtors/creditors, taxation and prepayments and accruals have been excluded.
All the Group's financial assets and liabilities are sterling based and, with the exception of the committed bank facilities, at fixed rates.
The Group's financial assets and liabilities and their fair values are:

	Book value		Fair value		Excess of fair value over book value	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Financial assets						
Short term investments and cash	102.1	72.3	102.1	72.3	–	–
Financial liabilities						
Debentures, bonds, other loans and overdrafts	(2,688.7)	(1,767.2)	(3,204.9)	(2,205.6)	(516.2)	(438.4)
Convertible bonds	–	(243.3)	–	(274.9)	–	(31.6)
Non-equity B shares	(30.3)	–	(30.3)	–	–	–
Redeemable preference shares	(0.1)	–	(0.1)	–	–	–
Financial instruments						
Interest rate swaps	–	–	(82.3)	(4.9)	(82.3)	(4.9)
	(2,617.0)	(1,938.2)	(3,215.5)	(2,413.1)	(598.5)	(474.9)

	Financial assets		Financial liabilities	
	2003	2002	2003	2002
Weighted average period of fixed interest rates	1 day	3 days	13.3 years	14.1 years
Weighted average interest rate	4.2%	3.0%	7.9%	8.3%

Fair value has been calculated by taking the market value, where one is available, or using a discounted cash flow approach for those financial assets and liabilities that do not have a published market value. The difference between book value and fair value will not result in any change to the cash outflows of the Group unless, at some stage in the future, borrowings are purchased in the market, or repaid, at a price different to the nominal value.

The Group has entered into a number of interest rate swaps in the name of Land Securities PLC to hedge current and future interest rate risk. In each case the Group pays a fixed rate of interest and receives six-month LIBOR. The total notional value of the interest rate swaps is £900m all of which are now operational. The end dates of these swaps range from March 2012 to September 2030 and the interest rates are from 5.00% to 5.58%. In the case of four swaps, which have a total notional value of £400m and end dates of June 2022 and September 2030, the counterparties have the right to terminate the swaps mid-life.

Interest rate swaps with a notional value of £500m were entered into during June 2002 with a start date of March 2003 and an end date of March 2013 and interest rates ranging from 5.46% to 5.5%. £300m of these swaps were cancelled at the time of the February 2003 bond issues, resulting in an exceptional interest cost of £23.5m.

Notes to the financial statements
for the year ended 31 March 2003

30. Financial assets and liabilities (continued)

As the intention of these swaps is to fix the interest rates on existing and new borrowings, their mark to market values have not been incorporated into the financial statements and instead net interest is accrued through the profit and loss account.

In addition there is a further swap with a notional value of £198.4m which was taken out by Trillium to hedge the secured bank loan, referred to in Note 21, which funds the PRIME contract. Either party to the transaction may terminate the swap on 15 April 2005 and every second anniversary thereafter. This swap has a maximum life of 15 years and mirrors the repayment schedule for the associated bank loan. As part of the fair value accounting exercise for the acquisition of Trillium, this swap was marked to market in November 2000 and a provision of £14.9m was established. The provision is being amortised over the life of the swap as a credit to interest payable.

	Unrecognised losses
Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:	£m
Losses on hedges as at 1 April 2002	4.9
Recognised in 2002/3 profit and loss account	(7.7)
Losses not recognised in 2002/3	
– arising before 1 April 2002	–
– arising in 2002/3	82.3
	82.3

Assuming actual and predicted short term interest rates remain at the 31 March 2003 levels, the losses expected to be included in future profit and loss accounts are:

Financial year 2003/4	15.2
Later financial years	67.1

	Financial assets		Financial liabilities		Undrawn committed borrowing facilities	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
The maturity and repayment profiles of the Group's financial assets and liabilities, excluding the non-equity B shares and redeemable preference shares, and the expiry periods of its undrawn committed borrowing facilities are:						
One year or less, or on demand	102.1	72.3	40.1	23.2	–	250.0
More than one year but no more than two years	–	–	29.8	6.7	–	–
More than two years but no more than five years	–	–	829.8	537.6	899.5	335.0
More than five years	–	–	1,789.0	1,443.0	–	–
	102.1	72.3	2,688.7	2,010.5	899.5	585.0

The amount of debt that is repayable by instalments, where any of the instalments fall due after more than five years, is not material.

The holders of the 50,000 redeemable preference shares may elect to have them redeemed by the Company on any fixed date following on or after 30 September 2003.

The Company may, on giving notice in writing to the holders of the B shares, redeem all of the B shares then in issue on the date specified in the notice.

The Company's loans from group undertakings at 31 March 2003 of £374.1m (Note 20) comprises £338.1m repayable on the earlier of 31 December 2005 and demand and £36.0m with no fixed repayment date.

31. Principal Group and associated undertakings

The principal wholly owned group undertaking of Land Securities Group PLC is Land Securities PLC.

The principal group undertakings of Land Securities PLC, all of which are wholly owned, and its associated undertakings, which are 50% owned, are:

Group operations	Ravenside Investments Limited	Associated undertakings
Land Securities Properties Limited	Ravenside Industrial Estates Limited	Telereal Services Limited
Investment property business	Total property outsourcing	Telereal Trading Property Limited
Ravenside Properties Limited	Land Securities Trillium Limited	Telereal Securitised Property Limited Partnership
The City of London Real Property Company Limited		Telereal General Property Partnership

32. Membership of certain undertakings

During the period, the Group has been a member of the following limited partnerships, all of which are registered in England. The accounts of the partnerships, drawn up to the dates indicated below, are dealt with in the Group's financial statements as 'joint arrangements' on the basis explained in Note 2(a).

Partnership	Group share %	Gross assets		Gross liabilities		Profit/(loss) before tax	
		31/03/03 £m	31/03/02 £m	31/03/03 £m	31/03/02 £m	31/03/03 £m	31/03/02 £m
Martineau Limited Partnership (31 December)*	33 1/3	132.0	125.0	(3.5)	(4.8)	5.4	3.9
Martineau Galleries Limited Partnership (31 December)*	33 1/3	112.2	114.8	(2.1)	(1.7)	4.0	5.1
Bull Ring Limited Partnership (31 December)*	33 1/3	362.9	235.9	(213.5)	(85.9)	(0.7)	(0.3)
Gunwharf Quays Limited Partnership (31 March)	50	147.9	117.0	(3.3)	(2.5)	7.7	5.2
Ebbfleet Limited Partnership (31 March)	50	35.3	26.5	(0.4)	(13.4)	–	–
		790.3	619.2	(222.8)	(108.3)	16.4	13.9

*forming The Birmingham Alliance

Advantage has been taken of the exemption conferred by Regulation 7 of The Partnership and Unlimited Companies (Accounts) Regulations 1993 in not delivering the financial statements of the partnerships to the Registrar of Companies.

The gross liabilities of these partnerships consist generally of capital and revenue accruals and also, in the case of Bull Ring Limited Partnership, £195.5m (2002 £64.9m) of loans from partners; at 31 March 2003 there was no third party debt in these partnerships (2002: Nil).

33. Joint venture

The Group has a 50% interest in the Telereal entities ('Telereal'), which draws up accounts to 31 March. Telereal, a 50:50 joint venture between Land Securities Trillium and The William Pears Group, acquired the majority of the properties of British Telecommunications ('BT') on 13 December 2001. Telereal is responsible for providing accommodation and estate management services to BT in return for a total availability and service charge under a 30-year contract. Telereal was funded with £2.5bn to meet the consideration of £2.4bn due to BT and the other costs of £112m associated with bidding for and mobilising the contract.

The funding was provided externally by way of securitisation of £1.8bn and bank debt of £400m, both secured on Telereal's properties without any recourse to the shareholders of Telereal, and an initial equity investment by the shareholders of £292.8m shared equally.

	Year ended 31/03/03 £m	13/12/01 to 31/03/02 £m
Summary financial information of Telereal (Group's share)		
Turnover	168.2	48.5
Operating profit	102.9	19.3
Depreciation	(15.0)	(3.8)
Profit on sales of fixed asset properties	15.1	-
Bid costs written off	-	(8.0)
Finance costs (net)	(75.7)	(23.8)
Profit/(loss) before tax	27.2	(4.5)
Profit/(loss) after tax	12.7	(4.5)
	31/03/03 £m	31/03/02 £m
Fixed assets – properties	1,056.9	1,193.4
Current assets	113.3	104.4
	1,170.2	1,297.8
Securitisation	(878.0)	(880.0)
Bank debt	(110.1)	(195.6)
Other liabilities	(75.3)	(33.4)
	(1,063.4)	(1,109.0)
Net assets	106.8	188.8
Financed by:		
Shareholders	65.8	146.4
Reserves	41.0	42.4
	106.8	188.8

The above shows the Group's 50% share of Telereal's results adjusted to adopt the Group's accounting policies.

The properties held by Telereal at 31 March 2003 relate to the 30-year contract with BT and are held at cost to the joint venture. During the year ended 31 March 2003, Telereal sold its investment properties for a total consideration of £270m. Part of the proceeds were used to repay debts secured on those assets and part was returned to the partners.

The Group's 50% share of the fair value of Telereal's financial liabilities as at 31 March 2003 is £1,050.8m (31 March 2002 £1,042.8m).

The Telereal entities include two partnerships, Telereal Securitised Property Limited Partnership and Telereal General Property Limited Partnership, which are registered in England and Wales and whose accounts are dealt with in the Group financial statements by way of gross equity accounting and are consolidated in the Group's financial information as set out above. Advantage has been taken of the exemption conferred by Regulation 7 of The Partnership and Unlimited Companies (Accounts) Regulations 1993 in not delivering the financial statements of the partnerships to the Registrar of Companies.

34. Related party transactions

The Group has a 50% interest in the Telereal entities ('Telereal'). The Group, principally through Land Securities Trillium Telecom Services Limited, provides staff to Telereal to deliver services to BT, for which it received £17.7m (2002 £2.5m) in the year ended 31 March 2003.

As at 31 March 2003, the Group was owed £66.0m (2002 £151.7m) by Telereal. This comprised a subordinated loan from the Group of £65.8m (2002 £149.4), including accrued interest, and an amount rechargeable to Telereal of £0.2m (2002 £2.3m) in respect of services provided by the Group.

35. Contingent liabilities

The Group has a contingent liability arising from a performance guarantee that Land Securities PLC, as the parent Company of Land Securities Trillium Limited, has given, severally with its Telereal joint venture partner, for the performance by Telereal Services Limited of its service obligations to BT together with a guarantee related to transaction issues associated with the BT outsourcing contract. The Group's maximum liability under the guarantee is £50m plus a further amount which is capped by reference to amounts either distributed or available for distribution to each shareholder by certain of the Telereal companies up to a further £50.7m. The transaction element of the guarantee is capped at £10m. The maximum potential liability which the Company could be exposed to under such arrangements is capped at £110.7m. The total maximum liability of £110.7m will, however, amortise over time in accordance with a contractual formula included and defined in the agreement with BT. At 31 March 2003, the estimated amount of the Group's exposure to the guarantee was approximately £100.7m (2002 £52.6m).

Five and ten year records
for the years ended 31 March

Five year record					
	2003 £m	2002 (restated) £m	2001 (restated) £m	2000 £m	1999 £m
Assets employed					
Goodwill	36.7	38.9	41.2	—	—
Investment properties	7,823.9	7,800.0	7,899.1	7,453.7	6,910.5
Operating properties	557.4	428.9	323.1	—	—
Other tangible fixed assets	41.5	45.3	34.1	14.7	13.1
Investment in joint venture	106.8	188.8	—	—	—
Short term deposits, corporate bonds and cash	99.4	68.4	29.3	140.1	486.6
Trading properties	52.6	36.9	—	—	—
Other assets	289.4	260.3	177.3	182.6	72.5
	9,007.7	8,867.5	8,504.1	7,791.1	7,482.7
Financed by					
Equity share capital	46.5	524.3	523.6	522.4	554.3
Non-equity share capital	30.4	—	—	—	—
Reserves	5,486.2	5,512.3	5,494.2	5,259.4	4,916.1
Shareholders' funds	5,563.1	6,036.6	6,017.8	5,781.8	5,470.4
Borrowings	2,688.7	2,010.5	1,757.1	1,556.3	1,569.3
Other liabilities	755.9	820.4	729.2	453.0	443.0
	9,007.7	8,867.5	8,504.1	7,791.1	7,482.7
Property movements and acquisitions (book value)					
Property additions	625.7	630.1	588.8	403.5	267.3
Property sales	(406.9)	(510.4)	(424.9)	(314.3)	(125.4)
Acquisitions	—	146.4	169.5	—	—
Revenue					
Gross property income	1,239.5	1,025.6	650.4	528.2	500.2
Net property income	582.1	602.2	499.7	457.2	427.5
Revenue profit	340.9	364.8	323.4	301.7	292.7
Profit/(loss) on sales of fixed asset properties/ bid costs/exceptional items	(21.3)	(1.3)	1.3	26.0	0.6
Pre-tax profit	319.6	363.5	324.7	327.7	293.3
Profit attributable to shareholders	229.4	263.6	234.6	252.0	216.4
Retained profit for the year	62.5	85.2	64.5	86.3	51.2
Cash flows					
Operating activities	484.4	406.2	462.0	432.2	409.9
Operating activities and investments less finance charges and taxation	108.6	132.6	280.5	246.5	229.1
Free cash flow (post dividend) for investing	(68.0)	(39.9)	116.4	79.7	73.5
Net cash outflow (excludes liquid resources and financing)	(177.2)	(219.2)	(95.4)	(114.9)	(61.9)

Ten year record										
	2003	2002	2001 (restated)	2000	1999	1998	1997	1996	1995	1994
Earnings per share										
Earnings per share (pence)	46.46	50.27	44.87	45.44	39.21	36.84	34.85	33.69	35.23	35.66
*Adjusted earnings per share (pence)	50.39	51.61	45.38	40.86	39.11	37.07	33.17	33.92	34.56	35.20
Diluted earnings per share (pence)	46.44	49.54	44.41	44.97	38.95	36.55	34.50	33.46	34.91	35.30
*Adjusted diluted earnings per share (pence)	50.36	50.81	44.89	40.63	38.86	36.77	32.92	33.67	34.28	34.87
Dividends										
Dividends per share (pence)	35.50	34.00	32.50	31.00	29.50	28.00	27.00	26.00	25.00	24.00
Dividend cover (times)	1.38	1.48	1.38	1.52	1.31	1.30	1.28	1.30	1.41	1.48
*Adjusted dividend cover (times)	1.49	1.52	1.39	1.37	1.31	1.31	1.22	1.30	1.38	1.46
Net assets per share										
Net assets per share (pence)	1188	1151	1149	1107	987	924	783	691	693	677
*Adjusted net assets per share (pence)	1215	1176	1172	—	—	—	—	—	—	—
Diluted net assets per share (pence)	1188	1132	1130	1090	975	910	774	688	691	676
*Adjusted diluted net assets per share (pence)	1215	1155	1152	—	—	—	—	—	—	—
Market price per share at 31 March (pence)	733	893	880	749	820	1058	773	626	594	628

*These figures exclude the results of fixed asset property sales after tax and, for 2001 and thereafter, bid costs, exceptional items and the effects of adopting FRS19.

Properties, reserves and net assets per share reflect valuations of investment properties made by Knight Frank at each year end. In 2002, however, reserves and net assets also include the Group's 50% share of Telereal's revaluation surplus arising on the revaluation of its investment properties.

With the introduction of FRS3 effective for the year ended 31 March 1994, comparatives, where appropriate, have been restated. 2001 has been restated as appropriate, for prior year adjustments arising from the adoption of FRS19 and UITF28 which became effective for the year ended 31 March 2002 and the change in accounting policy to capitalise interest effective from 1 April 2000. 2001 and 2002 also reflect the change in accounting policy introduced in 2002 in response to the treatment of bid costs under UITF34 which became effective in 2003. However, figures for 2000 and prior years have not been restated to reflect changes in accounting policies made in 2002.

68-83 Business analysis

- 68** Market report and investment
portfolio valuation
- 69** Performance benchmarking
- 70** Investment portfolio analysis
- 73** Total property outsourcing
- 74** Development pipeline schedule
- 76** Property by location
- 78** Major property holdings

Market report

Central London

The key drivers of the central London office markets are weaker occupational demand, an increase in availability and a two tier investment market. This is particularly apparent in the City where demand has fallen away as financial institutions downsize and occupiers seek to sub let surplus space. However, in comparison with former cycles the development pipeline of new accommodation is limited and rental levels are being driven predominantly by lack of tenant demand rather than over supply of space. Rental values have been decreasing and a return to rental growth in the City is not anticipated before 2006/7.

The West End markets, particularly Victoria, are more resilient predominantly as a result of constrained supply, a more diverse occupier base and continued demand from the public sector for new accommodation. It is expected that the return to positive rental growth in real terms will be experienced earlier here than in the City.

The bond like characteristics of properties let to good covenants on long unexpired lease terms continue to attract strong investor demand and values for this type of property are holding up. For properties with shorter lease terms and other development opportunities, a significant re-pricing has occurred. The exception to this is the West End where there is still investment appetite for active management scenarios.

Shopping centres and shops

The main driver behind retail rental growth is consumer spending, which has been buoyant over the past two years. There are now some signs that this is slowing, as a result of concerns over the possibility of weaker south-east housing market conditions spreading to other regions in the UK. The central London retail markets have also been adversely affected recently by special factors, notably a reduction in tourism as a result of world instability and transport issues.

Further weakening in the housing markets may continue to affect adversely consumers' disposable income along with recent increases in National Insurance contributions.

On the investment side demand has been strong and yields have hardened significantly. In future the rate of yield shift is not thought to be sustainable but allocation by investment funds still favours retail as an investment.

Retail warehouses

This asset class continues to evolve and certain parks are becoming more like the High Street as they move to open A1 consent and High Street retailers look to trade out of new formats and locations. The supply side will remain constrained in the medium term as a result of planning restrictions.

Demand, however, is particularly reliant on housing market conditions and remains strong while mortgage equity withdrawals run at today's high levels. However, these positive market conditions are at risk if either the housing market falls or interest rates increase. Investor appetite for this type of asset class remains high as evidenced by the strong interest in the Grantchester and Chartwell Land transactions.

South-east industrial

Industrial/distribution demand has slowed over the past six months and there has been little demand from general manufacturing for industrial units. However, sites with good transport links and good access to labour markets have been selling for high level values based on aggressive rental and yield forecasts.

Investment demand remains strong for development sites in the south-east and for well-let distribution centres.

Total property outsourcing

The current challenging economic conditions are leading organisations to focus on maximising returns on capital deployed, minimising costs and streamlining their business operations. This has increased interest in total property outsourcing with the number of businesses actively discussing this option or due to bring proposals to the market at an all time high.

Increased levels of interest are also coming from central and local Government as they seek to meet the demands of changing Government funding criteria and to deliver the most cost effective accommodation solutions.

Investment portfolio valuation

The portfolio was valued by Knight Frank at £7.84bn at 31 March 2003. After adjusting for sales, acquisitions and expenditure the value reduced marginally by 0.6% as compared to the year to 31 March 2002. A positive contribution from retail and industrial developments was offset by the negative impact of the revaluation of our London office holdings.

In the first half of the Company's financial year, the period to 30 September 2002, capital values for London office properties weakened due to adverse rental and yield movements. This rate of decline, driven by falling rents, was more marked in the second half of the year showing a total capital value decline of 10.1% for the twelve month period. In terms of sub sectors, the City saw a 16% decline in capital values whereas the West End, where we have 46% of our central London exposure, saw a 6.2% reduction.

Retail property, which now makes up almost 50% of our portfolio, presented a very positive picture, producing good growth in capital value for the period with retail warehouses at 10.0% and other retail (shopping centres, central London shops and in town shops) at 7.8%. The industrial sector has shown a small increase in capital value of 1.9%.

The investment market has seen high levels of investor interest in property, the attraction being the high yield on property relative to the cost of borrowing and also relative to the income yields available from other asset classes. A large part of the investment market is driven by debt backed investors and, while there is evidence in some cases that lenders are seeking higher returns, there remains a reasonably buoyant market for investment property lending amongst UK and international banks along with an increasing depth to the securitisation market. 'Bond' type investments with the benefit of long institutional leases have, in some cases, produced increases in value during the last 12 months as a result of this debt driven market and the relationship with interest rates, which are at 30 year lows.

After excluding development properties and Kent Thameside at 31 March 2003, the value of investment properties was £6.82bn. At the same date, the annual rent roll, net of ground rents and excluding the same properties, was £479.2m, producing a yield of 7.0%.

Detailed breakdowns by sector, including comprehensive analyses of the Group's valuation, rental income and yield profiles follow in the investment portfolio analysis.

The freehold, freehold and leasehold investment properties held by the Group or held by way of limited partnership arrangements (excluding Telereal), with the exception of short leasehold accommodation occupied by the Company for the purposes of its business, were valued by external valuers Knight Frank, Chartered Surveyors, as at 31 March 2003. The valuation was on the basis of market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The aggregate of market values of those properties held by the Group as at 31 March 2003 was £7,530,133,750.

The aggregate of market values of the interests in land held by the Group by way of limited partnership interests or joint venture arrangements as at 31 March 2003 was £853,690,000.

Within the tables and figures provided in the Annual Report the valuation of the Group interests in land held by limited partnerships is included as a mathematical share in proportion with the Group holding in the limited partnerships and joint ventures, thus producing a total of £7,844,043,750. This does not represent a valuation of the Group shareholding in those limited partnerships.

A more detailed extract from the external valuers' report is available on our website.

Performance benchmarking

The analysis by IPD includes properties in joint ventures and those held for development.

Table A – Long term performance relative to IPD
Ungeared total returns – periods to 31 March 2003

	Land Securities %	IPD* %	IPD* – Upper Quartile %
10 years	12.8	11.9	12.3
20 years	11.1	10.2	10.9

*IPD December Universe (extrapolated to March 2003) unfrozen
Source: IPD

Table A above compares Land Securities' ungeared total property return over the last 10 year and 20 year periods to 31 March 2003 to the IPD December Universe (extrapolated to March 2003), which comprises the same portfolios that contributed to the IPD All Fund Universe in December 2002 (many of these funds are now valued quarterly while the others were extrapolated forwards). It can be seen that Land Securities' portfolio has out-performed and produced a return which places it in the top quartile of contributing portfolios over these two time periods. The 20 year period has been selected as the longest time period over which IPD provides comparative performance figures.

Table B – One year performance relative to IPD
Ungeared total returns – 12 months to 31 March 2003

	Land Securities %	IPD* %
Offices	(3.3)	1.6
Retail	15.8	14.6
Industrial	9.4	10.6
Other Commercial	11.0	10.9
Portfolio	6.6	9.3

*IPD December Universe (extrapolated to March 2003) unfrozen
Source: IPD

Table B compares the performance of the Group's portfolio to that of IPD on a similar basis at both sector and total portfolio levels over the 12 month period to 31 March 2003. Our high exposure to London offices has had a negative impact on overall performance relative to IPD. Our London office holdings have underperformed due to the shorter lease expiries on our medium term development opportunities. Against that our retail stock, in particular shopping centres, has out-performed IPD. Our view remains that our sector focus and development activity will result in out-performance over the medium to long term.

Investment portfolio analysis

Investment portfolio analysis												
Market sector by type	Valuation			Valuation		Valuation surplus/deficit		Like-for-like rental value growth (4)	Yield on present income (2)	Rents received		Net rental income (5)
	Total (1) £m	Invest (3) £m	Invest (2) £m	Total (1) %	Invest (3) %	Total (1) %	Invest (3) %			Gross (1) £m	Invest (2) £m	Total (1) £m
Offices												
West End	1,481.8	1,286.5	1,286.5	18.9	19.2	(6.2)	(4.4)	(7.1)	7.0	98.2	92.7	94.1
City	945.7	794.3	794.3	12.0	11.8	(16.1)	(15.1)	(15.9)	9.3	80.9	80.9	73.4
Midtown	542.8	514.4	514.4	6.9	7.7	(12.1)	(11.8)	(14.4)	8.2	42.5	42.5	42.4
Inner London	264.3	164.3	164.3	3.4	2.5	(2.8)	(2.6)	(2.9)	6.6	11.1	11.1	10.8
Rest of UK	77.9	69.5	69.5	1.0	1.0	(4.1)	(4.2)	(2.7)	8.1	7.7	6.9	6.6
Sub-total	3,312.5	2,829.0	2,829.0	42.2	42.2	(9.9)	(8.9)	(11.1)	7.9	240.4	234.1	227.3
Shopping centres and shops												
Shopping centres	1,455.7	1,178.3	1,220.0	18.6	17.5	9.6	8.4	5.2	6.8	92.4	90.7	85.0
Central London shops	732.4	654.9	654.9	9.3	9.8	6.0	5.9	3.8	6.5	46.4	42.6	44.6
Other in town shops	589.1	577.3	577.3	7.5	8.6	5.8	5.8	1.6	6.6	41.8	41.6	38.0
Sub-total	2,777.2	2,410.5	2,452.2	35.4	35.9	7.8	7.1	4.0	6.7	180.6	174.9	167.6
Retail warehouses												
Parks	901.2	835.9	871.7	11.5	12.5	8.8	8.4	5.3	5.5	46.0	46.0	48.8
Other (inc. food superstore)	215.6	194.9	215.6	2.7	2.9	15.5	13.7	8.5	6.6	14.1	14.1	14.2
Sub-total	1,116.8	1,030.8	1,087.3	14.2	15.4	10.0	9.4	6.1	5.7	60.1	60.1	63.0
Industrial												
South East & Eastern	350.2	259.1	274.6	4.5	3.8	1.5	0.9	1.0	7.2	21.9	20.2	21.5
Rest of UK	35.7	32.4	35.7	0.5	0.5	5.3	5.8	1.1	8.0	4.1	4.1	2.8
Sub-total	385.9	291.5	310.3	5.0	4.3	1.9	1.4	1.0	7.3	26.0	24.3	24.3
Other	251.6	148.0	139.1	3.2	2.2	3.1	2.9	3.0	6.2	12.6	12.5	9.2
Total	7,844.0	6,709.8	6,817.9	100.0	100.0	(0.6)	(0.3)	(2.8)	7.0	519.7	505.9	491.4

Turnover rents total £5.1m and represent 1% of the total net rental income figure given above.

Notes

The valuation figures include a one-third apportionment of the valuation attributed to properties owned by the Birmingham Alliance limited partnerships, a one-half apportionment in relation to property owned by the Gunwharf Quays limited partnership, the Ebbsfleet limited partnerships, the BBC Wood Lane joint venture and a one-quarter apportionment of properties held in the Bristol Alliance joint venture.

The valuation figures exclude properties owned by Land Securities Trillium and Telereal.

1. The total figures relate to the investment portfolio business comprising all investment and development properties.
2. Represents investment properties excluding those which remain in the development programme as at 1 April 2003, the Kent Thameside development properties and forward funded acquisitions. This measure represents the portfolio which is held for investment purposes and properties proposed for development but not yet in the development programme and provides a basis for the yield calculations.
3. Includes all properties in (2) above but excludes those developments which have been completed, let and removed from the development programme during the year to 31 March 2003. The figures also include forward funded acquisitions. These figures are used for measuring the performance of investment properties.

4. The like-for-like rental value growth figures exclude properties in the development programme and units of accommodation materially altered or refurbished during the period and is the change in the 12 months to 31 March 2003.
5. Net rental income is annual rents passing at 31 March 2003 after deduction of ground rents.
6. Net ERV includes vacant space and estimated future ERVs for properties in the development programme and is calculated after deducting expected ground rents.
7. Gross ERV is calculated in the same way as net ERV before the deduction of ground rents.
8. Represents investment property voids (excluding investment properties under refurbishment and predevelopment voids) which are vacant and are available to let at 31 March 2003.
9. Calculated by gross ERV for the investment portfolio.
10. 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 number on leases subject to lease expiry/break clauses
 - (iii) Mean is rent weighted average number on leases subject to lease expiry (ignoring break clauses)

The calculation excludes authorised and committed developments and developments in progress.

Investment portfolio analysis continued (for notes see page 70)

Market sector by type (continued)	Net rental income (3)	Net ERV (5)		Gross ERV (7)		Invest voids (8)	Vacancy rates (9)	No. of properties		Lease length (10)		
	Invest (2) £m	Total (1) £m	Invest (2) £m	Total (1) £m	Invest (2) £m	£m	%	Total (1)	Invest (2)	Median (i) years	Mean (ii) years	Mean (iii) years
Offices												
West End	89.7	141.5	102.2	143.2	103.9	1.8	1.7	30	28	7.5	10.8	15.1
City	73.7	83.8	66.4	84.9	67.5	2.1	3.1	24	23	3.5	9.7	10.9
Midtown	42.4	45.1	42.3	45.9	43.1	0.1	0.2	12	11	7.3	8.8	9.7
Inner London	10.8	19.5	8.1	20.6	9.2	0.1	1.1	5	4	3.5	4.0	5.3
Rest of UK	5.6	6.1	5.2	6.2	5.4	0.3	5.6	3	3	2.5	4.5	6.0
Sub-total	222.2	296.0	224.2	300.8	229.1	4.4	1.9	74	69	6.3	9.5	11.9
Shopping centres and shops												
Shopping centres	82.9	114.1	91.3	121.0	98.3	0.6	0.6	19	16	10.0	13.8	14.5
Central London shops	42.7	51.5	48.5	52.6	49.6	0.7	1.4	10	9	8.3	9.1	9.9
Other in town shops	37.9	43.8	41.9	46.7	44.7	1.0	2.2	55	53	8.5	10.2	10.9
Sub-total	163.5	209.4	181.7	220.3	192.6	2.3	1.2	84	78	9.0	11.7	12.4
Retail warehouses												
Parks	48.1	59.9	57.4	59.9	57.4	0.9	1.6	27	26	18.3	15.9	16.1
Other (inc. food superstore)	14.2	15.6	15.6	15.6	15.6	-	-	19	17	17.5	14.8	15.2
Sub-total	62.3	75.5	73.0	75.5	73.0	0.9	1.2	46	43	17.8	15.7	15.9
Industrial												
South-east	19.7	31.2	23.1	31.2	23.1	0.9	3.9	32	25	7.8	7.8	9.3
Rest of UK	2.9	3.0	3.0	3.0	3.0	-	-	5	5	9.5	11.9	16.6
Sub-total	22.6	34.2	26.1	34.2	26.1	0.9	3.5	37	30	7.8	8.3	10.2
Other	8.6	13.3	9.8	13.4	9.8	-	-	13	11	12.3	25.6	25.9
Total	479.2	628.4	514.8	644.2	530.6	8.5	1.6	254	231	8.0	11.2	12.7

Rental income analysis (over a two year period)

	2001/02 (restated)	2002/03	Increase
Properties owned throughout period	459.4	484.2	24.8
Sales (2001/02 and 2002/03)	55.1	15.3	
Acquisitions (2001/02 and 2002/03)	11.4	20.2	
	525.9	519.7	
Increase/(decrease)			
Review and renewals			20.8
First lettings			10.2
Net relettings of voids			(3.1)
Voids for redevelopment			(7.5)
Other*			4.4
			24.8

* Other includes prior year adjustments

Average rents (excludes properties in the development programme and voids)

	Average rent £/m ²	Average ERV £/m ²
Offices		
Central and inner London	347	387
Rest of UK	86	81
Shopping centres and shops	n/a	n/a
Retail warehouses (including supermarkets)	139	150
Industrial		
London, south-east	63	66
Rest of UK	17	18
Hotels, leisure, residential and other	n/a	n/a

Note:

Average rents and ERVs have not been provided where it is considered that the figures would be potentially misleading (i.e., where there is a combination of analysis of rents on an overall and Zone A basis in the retail sector and where there is a combination of uses).

This is not a like for like analysis with the previous year

Investment portfolio analysis

Portfolio value by location % figures calculated by reference to the portfolio value of £7,844m						
	Offices %	Shopping centres and shops %	Retail warehouses %	Industrial %	Other %	Total %
Central and inner London	41.2	9.3	–	0.1	1.2	51.8
Rest of south-east and eastern	0.5	3.8	4.0	4.4	1.1	13.8
Midlands	0.1	4.8	2.3	0.2	–	7.4
Wales and south-west	0.2	5.0	1.3	0.1	–	6.6
North, north-west, Yorkshire and Humberside	0.1	7.0	4.9	0.2	0.8	13.0
Scotland and northern Ireland	0.1	5.5	1.7	–	0.1	7.4
Total	42.2	35.4	14.2	5.0	3.2	100.0

Investment property reversionary potential		
Ignoring additional income from the letting of voids	31 March 2002 % of rent roll	31 March 2003 % of rent roll
Gross reversions	11.5	10.5
Over-rented	(1.9)	(5.4)
Net reversionary potential	9.6	5.1

The reversion is calculated with reference to the gross rent roll excluding properties in the development programme and excluding current voids.

% Portfolio by value and number of properties at 31 March 2003		
£m	Value %	No. of properties
0–9.99	5.5	101
10–24.99	11.5	56
25–49.99	22.5	51
Over 50	60.5	46
		254

Portfolio tenant diversification

As the Company's investment portfolio covers four principal sectors of the UK property market, it benefits from inherent diversification in terms of both tenant credit and business sector risk.

The investment portfolio comprises over 4,000 tenancies and over 2,000 occupiers. The ten largest occupiers account for 23.8% of current rents and are: Central Government (9.6%), Allen & Overy (2.8%), Dresdner Bank (2.2%), Dixons Group (1.8%), Enterprise Oil (1.7%), J Sainsbury (1.5%), The Metropolitan Police (1.2%), Hombase Ltd (1.0%), MFI Properties Ltd (1.0%) and the Institute of London Underwriters (1.0%).

Analysis of voids		
Total investment properties – gross ERV £530.6m	Voids by gross ERV £m	%
Investment properties:		
Available to let	8.5	1.6
Under refurbishment	2.8	0.5
	11.3	2.1
Pre development properties	0.9	0.2
Total	12.2	2.3

Present income yield on valuation at 31 March 2003	
1993	9.9%
1994	8.2%
1995	8.1%
1996	8.3%
1997	7.8%
1998	6.8%
1999	6.6%
2000	6.5%
2001	6.7%
2002	6.9%
2003	7.0%

2002 is restated to account for the revised definition of the development properties excluded from the calculation.

Total property outsourcing

Unexpired contract term	years
DWP (PRIME)	15
BBC	28
Telereal (BT)	28

Property under management				
000m ²		Freehold	Leasehold	Total
Offices	DWP	524	1,147	1,671
	BBC	28	—	28
	BT	861	578	1,439
Telephone Exchanges	BT	4,009	33	4,042
BBC Under Development		54	—	54
Total		5,476	1,758	7,234
Under management but estate	DWP	n/a	n/a	77
not transferred	BBC	n/a	n/a	290
	BT	n/a	n/a	—
Total				7,601

Unitary charge income received by contract				
£m	DWP	BBC	Telereal	Total
Unitary charge income	299.0	43.4	308.8	651.2

Note: The Telereal unitary charge is the total unitary charge payable by BT

Regional breakdown by contract				
000m ²	DWP	BBC	Telereal	Total
Northern Ireland	—	—	126	126
London, south-east and west England	549	346	2,785	3,680
Northern England	670	—	1,034	1,704
Scotland	233	26	478	737
Midland and Wales	296	—	1,058	1,354
Total	1,748	372	5,481	7,601

Property transactions concluded by contract			
	DWP No. of transactions	Telereal No. of transactions	Total No. of transactions
Sales	1	49	50
New lettings	28	17	45
Rent reviews	76	39	115
Lease renewals	26	—	26
Total	131	105	236

Note: The percentages relate to the total rent receivable/payable as appropriate

Property transactions concluded by contract			
Service partner	Service element	under mgmt 000m ²	Proportion of service providers' turnover
Compass	Catering	1,999	<5%
Dalkia	Technical maintenance	1,214	10 to 15%
Group 4	Security	1,671	15 to 20%
GS Hall	Technical maintenance	786	20 to 25%
ISS	Cleaning	808	<5%
MIB	Furniture	1,999	15 to 20%
MITIE	Cleaning	887	<5%
OCS	Cleaning	305	<5%
Wilson James	Security	305	20 to 25%

Average contract tenure: 8.7 years

Average annual contract value: £9.8m

Capital spend by contract				
£m	DWP	BBC	Telereal	Total
Capital spend	125.7	42.0	105.0	272.7

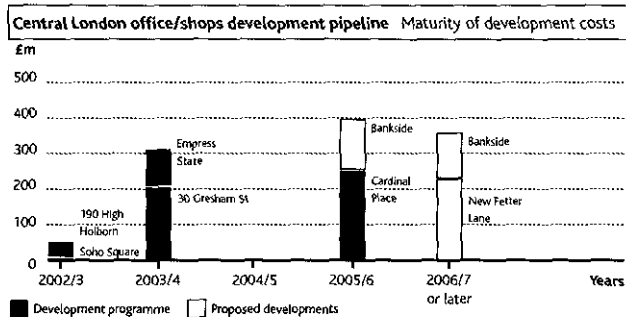
Number of people by occupation		Total
Asset management		99
Call centre		155
Capital projects		295
Quality assurance		46
Facilities management		519
HR/Finance/IS/Business development		229
Total		1,343

Note: These figures include all Telereal staff

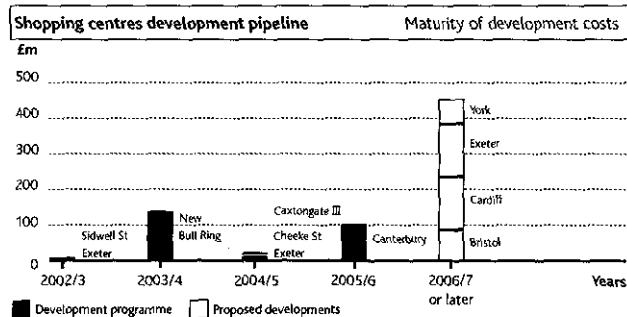
Development pipeline schedule

■ Developments completed	PR Planning received
■ Developments in progress/authorised	AS Application submitted
■ Proposed developments	MG Minded to grant
	PI Planning inquiry

Property	Description	Size	Status	Letting	Estimated/actual completion date	Cost £m
Central London						
■ Portman House, W1	Offices/retail	9,249m ² /2,521m ²		79%	Oct 2001	44
■ 7 Soho Square, W1	Offices	5,571m ²			Mar 2003	9
■ 190 High Holborn, WC1	Offices	7,793m ²			Oct 2002	41
■ 30 Gresham Street, EC2	Offices/retail	35,876m ² /1,304m ²			Dec 2003	208
■ Empress State, SW6	Offices/retail/leisure	40,410m ² /1,660m ²			June 2003	102
■ Cardinal Place, SW1	Offices/retail	50,750m ² /9,250m ²			June 2005	251
■ New Fetter Lane, EC4	Offices/retail/leisure	58,740m ² /8,400m ²	PR		2007	
■ Bankside 1,2,3, SE1	Offices/retail/leisure	73,990m ² /5,385m ² /1,589m ²	MG		2006	
Shopping centres and retail						
■ Sidwell Street	Retail	2,420m ²			Mar 2003	3
■ Bull Ring, Birmingham (100%) The Birmingham Alliance – a limited partnership with Hammerson plc and Henderson Global investors	Retail	111,484m ²		71%	Sept 2003	141
■ Whitefriars, Canterbury	Retail/residential	37,685m ²		25%	May 2005	103
■ Caxtongate Phase III, New Street, Birmingham	Retail	2,238m ²		100%	Nov 2004	5
■ Cheeke Street	Retail	5,359m ²			Dec 2004	11
■ Broadmead, Bristol (100%) The Bristol Alliance – a limited partnership with Hammerson plc, Henderson Global Investors and Morley Fund Management	Retail Leisure Offices/residential	94,229m ² / 6,491m ² / 24,973m ²	MG		2007	
■ Princesshay, Exeter	Retail/residential	37,368m ²	PR		2007	
■ Coppergate Centre, York, Phase II	Retail/leisure/offices/residential	24,247m ² /1,450m ² /1,282m ²	PI		2008	
■ St David's, Cardiff (100%) St David's Partnership – a partnership with Capital Shopping Centres	Retail/leisure/ residential	70,000m ² / 39,750m ²	AS		2008	



These charts show the maturity profile of developments by the year of anticipated practical completion and measured by development capital expenditure (excluding historic land costs and finance charges).



These charts show the maturity profile of developments by the year of anticipated practical completion and measured by development capital expenditure (excluding historic land costs and finance charges).

Development pipeline schedule

Property	Description	Size	Status Planning	Letting	Estimated/actual completion date	Cost £m
Retail warehouses						
■ Kingsway Retail Park, Dundee, Phase I	Retail warehouses	9,800m ²		78%	Jan 2003	29
■ Bexhill Retail Park	Retail warehouses	3,112m ²			Jul 2004	11
■ Almondvale Retail Park, Livingston, Phase II	Retail warehouses	9,383m ²	PR		2004	
■ Kingsway Retail Park, Dundee, Phase II	Retail warehouses	8,640m ²	PR		2004	
Industrial						
■ Juniper Phase I, Basildon refurbishment	Industrial/offices	21,823m ² /3,660m ²		84%	Nov 2001	18
■ Horizon Point, Heme Hempstead, Phase I	Industrial	10,384m ²			Mar 2002	10
■ Zenith, Basildon	Industrial	15,511m ²		30%	Jun 2002	12
■ Cobbett Park, Guildford	Industrial	11,440m ²		41%	Aug 2002	12
■ Commerce Way, Croydon	Industrial	12,777m ²			Oct 2003	12
■ Juniper, Phase II, Basildon	Industrial	11,148m ²			April 2003	8
■ Oxonian Park, Kidlington	Industrial	11,654m ²			Sept 2003	9
■ Concorde Way, Segensworth	Industrial	11,613m ²			May 2004	9
Other						
■ The Gate, Newcastle upon Tyne	Leisure	18,556m ²		67%	Nov 2002	64

Cost (£m) refers to estimated capital expenditure including the cost of third party land acquisitions and excluding finance costs. Letting % is measured by ERV and shows letting status at 31 March 2003.

Trading property development schemes and the Kent Thameside project are excluded from the development pipeline.

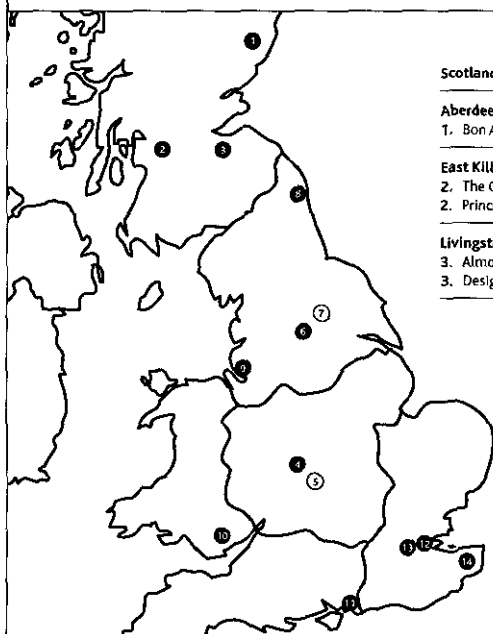
Development pipeline – financial statistics							
Project	Book value at start £m	Capital expenditure to date (1) £m	Estimated total capital expenditure (1) £m	Estimated total cost (2) £m	Valuation surplus/ (deficit) 12 months to 31/03/03 £m	Cumulative valuation surplus/ (deficit) to date £m	Net income/ERV (3) £m
Completed, let and transferred out of development programme or sold during the year ended 31/3/03	16	59	61	79	16	24	6.9
Active development programme (schemes in progress, completed but not let, committed and authorised)	262	659	1,097	1,454	(46)	(78)	116.7
Proposed schemes	180	44	950	1,179	n/a	n/a	100.1

Notes

- (1) Excludes capitalised interest.
- (2) Includes land costs/book value of land and capitalised interest, but excludes any allowances for rent free periods. Stated net of other receipts (eg sales of residential units).
- (3) Net headline annual rental payable on let units plus net ERV at 31 March 2003 on unlet units.

Property by location

Shopping centres



Scotland

Aberdeen

1. Bon Accord Centre

East Kilbride

2. The Olympia
2. Princes Mall

Livingston

3. Almondvale Centre
3. Designer Outlet Centre

Midlands

Birmingham

4. Bull Ring Δ

Coventry

5. Holdings

North, north-west, Yorkshire and Humberside

Leeds

6. White Rose Shopping Centre

York

7. Coppergate Centre

Sunderland

8. The Bridges

Liverpool

9. St John's Centre

Wales and south-west

Cardiff

10. St David's Centre

Portsmouth

11. Gunwharf Quays

Rest of south-east and Eastern

Stratford

12. Stratford Centre

Ealing

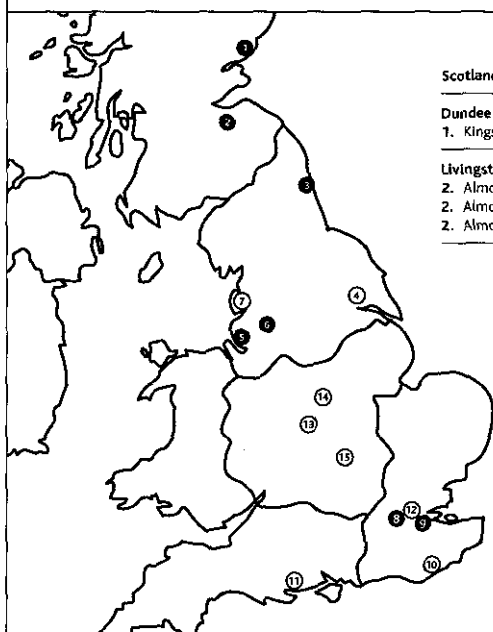
13. Broadway Centre

Canterbury

14. Whitefriars Δ

Δ In course of development or refurbishment ● £50 million and above ○ £25-50 million

Retail warehouses



Scotland

Dundee

1. Kingsway Retail Park Δ

Livingston

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

North, north-west, Yorkshire and Humberside

Gateshead

3. Team Valley Retail Park: Retail World

Hull

4. Priory Way

Liverpool

5. Aintree Retail Park

Manchester

6. White City Retail Park

Blackpool

7. Blackpool Retail Park

Wales and south-west

Slough

8. Bath Road Retail Park

Rest of south-east and eastern

West Thurrock

9. Lakeside Retail Park

Bexhill-on-Sea

10. Ravenside Retail and leisure Park

Poole

11. Commerce Centre

Edmonton

12. Ravenside Retail Park

Midlands

Erdington

13. Ravenside Retail Park, Kingsbury Road

Derby

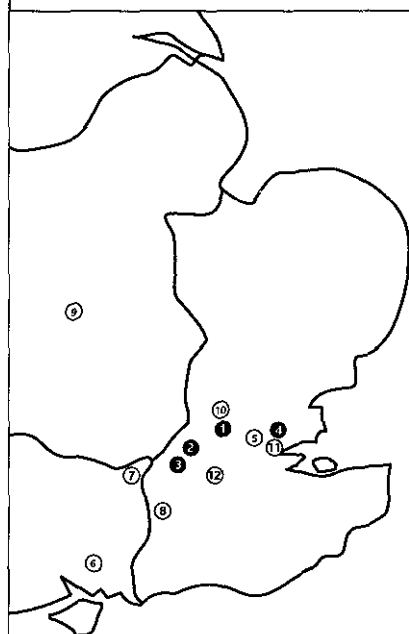
14. Wyvern Centre

Northampton

15. Nene Valley Retail Park

Δ In course of development or refurbishment ● £50 million and above ○ £25-50 million

Industrial



Hatfield

1. Welham Green

Heston

2. Heston Centre and Spitfire Trading Estate

Sunbury Cross

3. Hanworth Road (incl interchange West)

Basilston

4. Juniper Δ
4. Zenith Δ

Barking

5. New England Industrial Estate

Chandlers Ford

6. Omega Enterprise Park
6. Electron Way

Frimley

7. Albany Park

Guildford

8. Cobbett Park

Tamworth

9. Centurion Park

Welwyn Garden City

10. Bridge Road
10. Centra Park

West Thurrock

11. Motherwell Way

Wimbledon

12. Weir Road

Δ In course of development or refurbishment ● £25-50 million ○ £10-25 million

Central London

EC2

1. 30 Gresham Street Δ
2. Dashwood House
3. Moorgate Hall
4. 130 Wood Street

EC3

5. 13/23 Fenchurch Street
6. 49 Leadenhall Street
7. 6/12 Fenchurch Street and 1 Philpot Lane
8. Gracechurch House
9. 37/39 and 40 Lime Street and 4 Fenchurch Avenue
10. New London House

EC4

11. New Fetter Lane
12. 1 New Change
13. Regis House
14. 50 Ludgate Hill
15. 8 Salisbury Square
16. 26 Old Bailey
17. Cannon Street House and Martin House
18. Fleetbank House

WC1

19. Lacon House
20. 190 High Holborn
21. Warner House

WC2

22. 40 Strand
23. Grand Buildings

W1

24. 475/497 Oxford Street and Park House
25. Portman House
26. Devonshire House
27. Piccadilly Circus
28. 12/24 Oxford Street and 2/5 Tottenham Court Road
29. 6/17 Tottenham Court Road
30. Oxford House
31. 45/473 Oxford Street
32. 26/36 Oxford Street

W2

33. 10/20/30 Eastbourne Terrace
34. 40/50 Eastbourne Terrace

W11

35. Notting Hill Gate

SW1

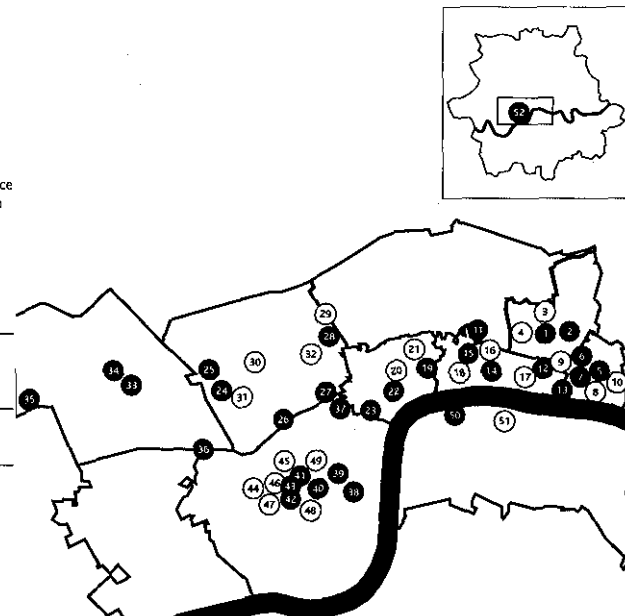
36. Bowater House
37. Haymarket House
38. 10 Broadway
39. The Home Office
40. Portland House
41. Eland House
42. Kingsgate House
43. Cardinal Place Δ
44. 49/75 Buckingham Palace Road and 29 Bressenden Place
45. Wellington House
46. Selborne House
47. Westminster City Hall
48. Allington House
49. Clive House

SE1

50. The IBM Building
51. Barkside 1, 2, 3

SW6

52. Empress State Δ



Δ In course of development or refurbishment ● £50 million and above ○ £25-50 million

Major property holdings

As at 31 March 2003 there were 254 properties within the portfolio. In the lists which follow, the valuation level for inclusion is £10m and certain of these properties have been combined for ease of description. Properties have been split into values of over £50m, £25 to £50m and £10 to £25m. Office areas are approximate net areas and generally exclude basements, storage and car parking spaces. Dates indicate initial construction or later refurbishment (r).

Location	Property name and address	Property description	Principal occupiers	Date built (b)/ last refurbished (r)	Total area m ²
City, West End, midtown, and inner London properties – £50m and above					
EC2	30 Gresham Street ☉ ✱	35,876m ² city offices with 1,304m ² of retail	Under construction	2003 (b)	37,180
	Dashwood House FH ✱ 69 Old Broad Street	City offices	ABN Amro, Pinsent Curtis and AMEX	1975 (b) / 1995 (r)	10,550
EC3	13/23 Fenchurch Street PFPL ✱	City offices and major retail unit	DKW	1968 (b) / 1984 (r)	15,620
	49 Leadenhall Street FH ✱	City offices and leisure centre	International London Underwriting Centre	1975 (b)	12,230
EC4	1 New Change ✱	City offices and 13 shops	Allen & Overy	1986 / 1990 (r)	32,650
	Regis House FH ✱ King William Street	8,140m ² city offices with public house and 530m ² retail	Sun Microsystems GE Frankona	1998 (b)	8,670
	50 Ludgate Hill FH ✱	City offices, 12 shops, 2 public houses and 4 restaurants	Secretary of State	1985 (r)	11,040
	8 Salisbury Square FH ✱	Midtown offices	KPMG	1989 (b)	10,700
WC1	Lacon House FH ✱ Theobald's Road	Midtown offices, restaurant and leisure centre	Nabarro Nathanson Reed Elsevier	1999 (b)	19,580
WC2	40 Strand FH ✱	Midtown offices and 8 shops	Bain & Co, ICL	1997 (r)	8,570
	Grand Buildings FH ✱ Trafalgar Square	14,860m ² Midtown offices and 3,220m ² shops	Shell	1991 (b)	18,080
W1	475/497 Oxford Street and Park House, Park Street	West End offices and 9 shops	Vacant offices, H&M, Dixons	1963 (b)	6,980
	Portman House ✱ 2 Portman Street	9,330m ² West End offices and 1,740m ² retail	Cluttons, Conoco, Trafigura	2001 (b)	11,070
	Devonshire House FH ✱ Piccadilly	West End offices, 9 showrooms and shops	Alliance Capital, Boston Consulting	1983 (r), part 1994 (r) and part 1996/97 (r)	14,190
	Piccadilly Circus, FH 44/48 Regent Street 1-17 Shaftesbury Avenue, Denman Street, Sherwood Street and Glasshouse Street	2 major retail trading units, 10 shops, kiosk, public house, 3 restaurants, 1,460m ² offices and 670m ² of illuminated advertising	Gap, Burger King, Boots, Signs: McDonald's, Coca-Cola	Part 1977 (r), part 1979 (redevelopment) and part 1985 (r), part 2003 (r)	4,120
	12/24 Oxford Street and FH 2/5 Tottenham Court Road	1 store 8,360m ² and 3 shops 490m ²	Virgin Megastore	Part 1995 (r) and part 1998 (r)	8,850
W2	10/20/30 Eastbourne Terrace FH	Inner London offices	John Brown	1957/58 (b)	16,780
SW1	Bowater House, Knightsbridge FH	West End offices	Lowe Lintas, Marriott Hotels	1958 (b)	24,720
	Haymarket House, FH Haymarket	7,520m ² West End offices and 3,410m ² of restaurants, Part air-conditioned	Secretary of State Curtis Brown, Tiger Tiger	1955, part 1992 (r), part 1997/98 (r) and part 2003 (r)	10,930
	10 Broadway FH ✱ New Scotland Yard	West End offices, banking space and restaurant	Metropolitan Police	1966 (b)	35,670
	The Home Office, 50 Queen Anne's Gate FH ✱	West End offices	Secretary of State	1977 (b)	28,310
	Portland House, FH Stag Place	27,610m ² West End offices and 1,510m ² basement restaurant. Part air-conditioned	AMEX, Secretary of State, Angel Trains	1959 (b) part 1992/95 (r), part 1996/99 (r) and part 2002 (r)	29,120
	Eland House, Stag Place FH ✱	West End offices	Secretary of State	1995 (b)	23,170
	Kingsgate House, Victoria Street FH ✱	West End offices and 18 shops	Secretary of State	1987 (r)	18,820
	Cardinal Place (formerly Esso House, Glen House 16 Palace Street) Victoria Street FH ✱ ☉	52,042m ² offices, 8,390m ² retail	Under construction		60,432
SE1	The IBM Building, 74-78 Upper Ground FH ✱	Inner London offices	IBM	1982 (b)	20,160
W11	Notting Hill Gate FH	Inner London offices, 52 shops, 2 stores and cinema	WHSmith, Boots, McDonald's, Crown Business Communications	1958	8,680
SW6	Empress State, FH ☉ ✱ Lillie Road, Fulham,	40,210m ² Inner London offices and 2,770m ² retail/leisure	Under construction	2003 (r)	42,980

Major property holdings

FH Freehold	✳ Air-conditioned
Leasehold	🔧 In course of development or refurbishment
PFPL Part freehold, part leasehold	🛍 Shopping centre

Properties shown as freeholds include properties held on leases for 900 years or more.

Location	Property name and address	Property description	Principal occupiers	Date built (b)/ last refurbished (r)	Total area m ²
City, West End, midtown, and Inner London properties – £25m to £50m					
EC2	Moorgate Hall, ✳ 143/171 Moorgate	6,090m ² city offices and 1,450m ² retail	Marks and Spencer, Clinton Cards, DLJ, Hamburgische Landesbank	1990 (b)	7,540
	130 Wood Street FH ✳	City offices and bar/restaurant	Allen & Overy	1999 (r)	5,380
EC3	6/12 Fenchurch Street FH ✳ and 1 Philpot Lane	City offices and shops	DKW	1985	4,780
	Gracechurch House FH ✳ 55 Gracechurch Street	5,790m ² city offices and 930m ² health club	Royal London, Vention Services, David Lloyd Leisure	1993 (b)	6,720
	37/39 and 40 Lime Street PFPL and 4 Fenchurch Avenue	City offices	Small insurance agencies	1971/72 (r), part 1988/ 1990 (r), part 1992/94 (r) and part 1998 (r)	9,380
	New London House FH ✳ 6 London Street	City offices, 2 shops, 2 restaurants and public house	ED & F Man, Faraday Underwriting and other insurance agencies	1993 (r)	6,180
EC4	26 Old Bailey FH ✳	City offices	Secretary of State	1984 (r)	6,030
	Cannon Street House and Martin House FH ✳	City offices	Nicholson Graham & Jones	1996 (r)	8,100
	Fleetbank House Salisbury Square FH ✳	Midtown offices	Secretary of State	1974 (b)	11,370
WC1	190 High Holborn FH ✳	Midtown offices	Vacant	2002 (r)	7,770
	Warner House FH ✳ Theobald's Road	Midtown offices	Warner Bros	1999 (b)	11,820
W1	6/17 Tottenham Court Road FH	5,682m ² retail and 242m ² offices	Easy Everything, Sainsbury's, Boots	1999 (b)	5,924
	Oxford House FH ✳ 70/88 Oxford Street	West End offices and 5 shops	Secretary of State, Universal Pictures	Part 1994 (r)	5,680
	455/473 Oxford Street	4 shops and restaurant	Mothercare	1963	3,021
	26/36 Oxford Street FH	Air-conditioned bank, large shop, kiosk, restaurant and 1,050m ² educational use	Lloyds Bank, Cromwells Madhouse	1983 (r)	6,050
SW1	49/75 Buckingham Palace FH Road and 29 Bressenden Place	West End offices, 136 bedroom hotel, 30 flats and 7 shops	Royal Westminster Thistle Hotel, IIR	1964 (b), offices 1994 (r)	5,150
	Wellington House FH ✳ Buckingham Gate	West End offices	Metropolitan Police	1978 (b)	4,970
	Selborne House FH ✳ Victoria Street	West End offices	Secretary of State	1966	10,032
	Westminster City Hall FH ✳ Victoria Street	West End offices	Westminster City Council	1965	15,750
SW1	Allington House FH ✳ 50 Victoria Street	3,600m ² West End offices and 930m ² retail	Rolls Royce, Sainsbury's	1997	4,530
	Clive House FH Petty France	West End offices	Secretary of State	1950 (b)	9,400
W2	40/50 Eastbourne Terrace FH	Inner London offices and 4 ground floor units	NHS Estates	1950s (b)	12,963
SE1	Bankside 1, 2, 3 PFPL 80/112 Southwark Street	Inner London offices, 8 shops	Secretary of State	1960 (b)	55,420

Major property holdings

Location	Property name and address	Property description	Principal occupiers	Date built (b)/ last refurbished (r)	Total area m ²
City, West End, midtown, and inner London properties – £10m to £25m					
EC3	23/39 Eastcheap FH	City offices, 5 shops and restaurant. Part air-conditioned	Ingenhaag & Co, Alfred Blackmore	Part 1986 (r) and part 1988 (r)	1,730
	34/36 Lime Street and 7/11 FH ✱	City offices and 6 shops	Royal Sun Alliance	1974 (b)	3,340
	14/15 Philpot Lane FH ✱	City offices	DKW	1986 (b)	3,010
	1 Seething Lane FH	City offices and restaurant	Alexander Forbes	1977 (r) and part 1988 (r)	4,250
	Tower House FH ✱ 34/40 Trinity Square	City offices	Bowring Services	1979 (r)	4,140
EC4	Newspaper House 8-16 Great New Street	Midtown offices	Secretary of State Dj Freeman	1960s (b)	5,032
	12/16 Gough Square FH ✱	Midtown offices	Lewis Silkin	1992 (b)	2,540
	Lintas House New Fetter Lane	Midtown offices	Ernst & Young, Beachcroft Wansbroughs	1958 (b) and 1999 (r)	8,180
	21 New Fetter Lane ✱	Midtown offices	Ernst & Young, Taylor Rafferty Assocs	1978 (r), 1993 (r) and 1998 (r)	6,220
	2-4 Temple Avenue ✱	Midtown offices and restaurant	Gibson Dunn & Crutcher	1999 (r)	3,317
WC1	Turnstile House FH ✱ High Holborn	192 room aparthotel, shop and 2 restaurants	Citadines	1997 (b)	
WC2	7/8 Essex Street FH	Midtown offices	Barristers' chambers	1998 (r)	2,610
W1	7 Soho Square FH ✱	West End offices and retail	Vacant offices, Tesco	2003 (r)	5,720
	1/11 Hay Hill FH	1,670m ² West End offices and 610m ² retail/showroom	Arlington Management Services	1987 (r)	
SW1	Elliot House FH Bressenden Place	2,720m ² West End offices and 710m ² retail	McAlpines	1964 (b)	3,430
	Roebuck House FH	116 flats and fitness centre	Residential flats	1960 (b)	
	1 Warwick Row FH	West End offices	BPF, WhizzKidz, Quality Hotels	1995 (r)	3,400
	Neville House FH Page Street	103 flats	Residential development	1952 (b)	4,780
	St Albans House ✱ Haymarket	4,270m ² offices and 2 restaurants	Burberry's, McDonald's	1963 (b), part 1987 and 2000 (r)	4,270
SE1	Rennie House FH 17-25 Stamford Street	Inner London offices	Sainsbury's	1960s (b)	11,610
	Bankside Industrial Estate FH	2,550m ² offices and 3,720m ² industrial space	Mobil Services, Gradesound Ltd	1980 (b)	6,270

The aggregate area of offices and retail accommodation including developments and refurbishments owned in the City, Midtown, West End and Inner London, including the properties listed in this section, amounts to some 862,562m² of offices (including office storage) and approximately 98,788m² of retail, banking and restaurants.

Towns and cities, outside central London – £50m and above					
Aberdeen	Bon Accord Centre PFPL	23,690m ² 4 stores, 54 shops, food court, 4,650m ² leisure, 2,690m ² offices and car park	Dorothy Perkins, Etam, Woolworths, Disney, Dolcis, New Look, Adams, Laura Ashley, Oasis	1990 (b)	31,030
Birmingham	Caxtongate FH	Phase I: 15 shops and 1,390m ² offices	H&M, Legends, Tower Records, JD Sports, Jane Norman	1997 (b)	9,750
Birmingham	Bull Ring	Retail space (one-third interest) under development	Selfridges, Debenhams, Next, H&M, Gap, Zara, Benetton, Borders	2003 (b)	110,000
Canterbury	Whitefriars PFPL	Department store, 2 major stores, 36 shops, library, residential and car park	Fenwicks, Boots, Tesco	To be completed 2005	37,685
Cardiff	St David's Centre PFPL	1 store, 63 shops	Bhs, Burtons, Mothercare, Peacocks, C&J Clark, Miss Selfridge, Alexon, Vision Express, Stead & Simpson, Best, Clinton Cards	1981 and 1991 (r)	32,520
	St David's Link	12 shops and library	Iceland, Greggs, Energy Centre	1986	32,520

Note shops in this section denotes number of current tenancies, rather than number of units originally constructed. Stores, supermarkets, banks and combined units are each shown as one tenancy.

Major property holdings

Location	Property name and address	Property description	Principal occupiers	Date built (b)/ last refurbished (r)	Total area m ²
Towns and cities, outside central London – £50m and above (continued)					
East Kilbride	The Olympia FH 	32,520m ² – 2 stores, 48 shops, ice rink, 9 screen cinema, library, restaurant, public house, night club, food court and 690m ² offices, car park	Safeway, Etam, Warner Bros, Littlewoods, Adams, Game, Vision Express, Clinton Cards	1989 (b)	33,210
East Kilbride	Princes Mall FH 	13,940m ² – 2 stores, 61 shops, public house and 950m ² offices	Argos, Bon Marche, Poundland, Farmfoods, Superdrug, Mark One	1994 (r)	14,890
Exeter		3 stores, 82 shops and 2,580m ² offices, residential and car park	Virgin, Dorothy Perkins, Gap, Monsoon	1952/1964 and 1971	15,000
Leeds	White Rose Shopping Centre FH 	2 anchor stores, 11 major space units, 73 shops, restaurant and food court	Sainsbury's, Top Shop, Debenhams, Clinton Cards, Argos, Bhs, Next, Woolworths, HMV, Etam, Superdrug, WHSmith, Next, River Island, Adams	1997 (b)	60,390
Liverpool	St Johns Centre FH 	4 stores, 98 shops, 2 public houses, retail market, food court, hotel, car park and Beacon	Wilkinsons, Woolworths, JD Wetherspoon, Poundland, Mark One, BabyCare, Evans	1989 (r)	33,440
Livingston	Almondvale Centre FH 	Phases I and II: 7 stores, 106 shops, public house, mall café and car parks	JJB Sports, New Look, HMV, Next, Superdrug, WHSmith, Bhs, Woolworths, Argos, Mothercare, Etam	Phase I: 1989 and 1996 (r), Phase II: 1996 (b)	48,310
Portsmouth	Gunwharf Quays FH 	17,000m ² – 87 shops, 22,060m ² leisure and restaurants, 2,230m ² offices (50% interest)	Warner Bros., Bowlplex, Gap, Marks and Spencer, Nike, C&J Clark, Suits You, French Connection	2001 (b)	41,290
Stratford E15	Stratford Centre 	27,870m ² – 6 stores, 58 shops and 2,580m ² of air-conditioned offices	Sainsbury's, WHSmith, HMV, Boots, Superdrug, Peacocks, New Look, Iceland	1976 and 1998 (r)	30,450
Sunderland	The Bridges 	Phase I: 3 stores, 69 shops and mall café, Market Hall	Tesco, Peacocks, Mark One, Boots, Etam, Clarks, Body Care, Vision Express	Phase I: 1969 and 1988 (r)	23,220
		Phase II: 2 stores, 25 shops and car park	Debenhams, H&M, Next, TK Maxx, New Look, Superdrug, Allsport, Gap	Phase II: 2000	24,620
Towns and cities, outside central London – £25m to £50m					
Belfast	Castle Lane FH	9 shops	River Island, Clinton Cards, JJB Sports	1957, part 1984 (b)	3,050
Birmingham	Martineau Place	17,420m ² retail and 6,040m ² offices (one-third interest)	Gap, First Sports, Sainsbury's, Benetton	2001 (b)	23,460
Coventry 		37 shops, public house, 1,250m ² offices and hotel	Virgin, Bay Trading, Top Shop, Adams, River Island, Clinton Cards, Foot Locker, JD Sports	1955/1961 and 1991 (b)	11,000
Ealing	Broadway Centre FH 	3,390m ² 11 shops and 2,020m ² air-conditioned offices (part)	River Island, Russell & Bromley, Clinton Cards	1984 (b)	5,410
Livingston	Designer Outlet Centre 	95 shops, leisure and food court (50% interest)	Spean Bridge, Williams Hollins, Sports Soccer, C&J Clark, Speciality Retail, East by West	2000 (b)	26,790
Newcastle upon Tyne	The Gate FH	Leisure complex including multiplex cinema	Odeon, Tiger Tiger, Frankie & Benny's, Pizza Hut	2002 (b)	17,770
Plymouth		38 shops	Next, McDonald's, Moss Bros	1952/1965 (b)	
York	Coppergate Centre PFPL 	3 stores, 18 shops, museum, 19 flats and car park	Marks and Spencer, Evans, Prestons, C&J Clark, Boots, Starbucks, Dolcis	1984 (b)	14,860

Major property holdings

Location	Property name and address	Property description	Principal occupiers	Date built (b)/ last refurbished (r)	Total area m ²
Towns and cities, outside central London – £10m to £25m					
Basildon	PFPL	39 shops	Top Shop, KFC, Burger King, Hinds	1958/60, part 1985 (r) and part 1988 (r)	6,550
Bath		7 shops	Bhs, Dolcis	1961 (b)	1,500
Birmingham	Caxtongate FH	Phase II: 6 shops and residential	Muji, Ted Baker, Jigsaw	2000 (b)	9,760
Birmingham	Priority Square	Up to 120,770m ² retail (one-third interest)	Argos, Oasis, Virgin, Olivers, Adams, Next	1965 (b) 1999 (r)	120,770
Canterbury	Longmarket	16 shops, conservatory restaurant, and museum	Gap, Ablegrand, Link, Body Shop	1992 (b)	4,650
Canterbury	Clocktower	5 shops and 1,330m ² offices, car park	QS, Burger King, JJB Sports, Evans	1993 (b)	2,100
Canterbury	Marlowe Arcade and Graylaw House PFPL	1 store, 14 shops and 710m ² offices	Bhs, Top Shop, Miss Selfridge, HMV	1985 (b)	10,400
Hull		34 shops and public house	Next, McDonald's, C&J Clark	1952/56 (b)	8,350
Leeds	Briggate	2 shops	Gap, Millets	1900s (b)	2,250
Liverpool	Lord Street and Williamson Square FH	16 shops and 370m ² offices	Home Bargains, JJB Sports, New Look	1950s and 1999 (b)	10,300
Nottingham	Alan House FH	4 shops and 1,950m ² offices	Starbucks, Thomas Cook, H Samuel	1985 (r)	3,000
Reading	Station Hill FH	8,030m ² offices and 13 shops, car park	British Rail	1966 (b)	9,400
	Hogg Robinson House	3,720m ² offices	Hogg Robinson	1979 (b)	3,720
Walsall	Park Street and Bradford Street FH	13 shops	River Island, Thomas Cook, Abbey National	1970s and 1987 (b)	3,700
Dartford	Ebbsfleet	50% ownership of 153 hectares of land with development potential			
Sunderland	Market Square	7 shops	WHSmith, Poundland	2001 (b)	3,300
Retail warehouse and food superstore properties – £50m and above					
Dundee	Kingsway Retail Park FH	10 retail warehouses and fast food restaurant. Major enlargement and reconfiguration commenced	Toys 'R' Us, Halfords, Currys, MFI	1985 (b), 1987 (b), 1988 (b), 1994 (b) and 2002 (b)	18,970
Gateshead	Team Valley Retail Park Retail World	22 retail warehouses and fast food restaurant. Being upgraded. Extension planned	Homebase, TK Maxx, Next, MFI	1987 (b) / 2000 (b)	35,220
Liverpool	Aintree Racecourse Retail Park, Aintree FH	11 retail warehouses and fast food restaurant	B&Q, Courts, Comet, Halfords, Harveys	1986 (b), 1988 (b), 1990 (b), 2001 (b)	27,100
Manchester	White City Retail Park FH	11 retail warehouses, 2 restaurants and 2 storey ten pin bowling	Homebase, Halfords, Currys, DFS	1990 (b)	17,830
Slough	Bath Road Retail Park FH	6 retail warehouses	Homebase, MFI, Wickes, DFS	1989 (b) and 1998 (b)	14,350
West Thurrock	Lakeside Retail Park FH	20 retail warehouses and fast food restaurant	Next, Borders, Currys, PC World, Toy 'R' Us	1988 (b), 1989 (b), 1997 (b) and 2002 (b)	32,940
Livingston	Almondvale West FH	5 retail warehouses Extension planned	Matalan, TK Maxx, JJB Sports, Pets at Home	1987 (b) and 2002 (r)	9,540
	Almondvale Retail Park FH	9 retail warehouses	Halfords, Currys, MFI, JJB Sports	1997 (b)	10,050
	Almondvale South FH	Phase I - 1 unit, Phase II - planning consent for 9,383 m ²	Homebase	2002 (b)	8,380
Retail warehouse and food superstore properties – £25m to £50m					
Bexhill- on-Sea	Ravenside Retail and Leisure Park FH	9 retail warehouses, food superstore, fast food restaurant, ten pin bowling alley and swimming pool. Planning consent for extension of 3,065m ²	Homebase, Currys, PC World, Tesco	1989 (b)	20,650
Blackpool	Blackpool Retail Park FH	9 retail warehouses. Extension planned	Currys, Halfords, Pets at Home	1993 (b), 1995 (b) and 1996 (b)	11,270
Dartford	Eastern Quarry	245 hectares of land with development potential		To be developed	
Derby	Wyvern Centre FH	6 retail warehouses and fast food restaurant	Currys, Homebase, Halfords, Carpetright	1990 (b) and 1996 (b)	11,290
Edmonton	Ravenside Retail Park FH	4 retail warehouses and fast food restaurant	Wickes, Courts, Mothercare	1988 (b)	12,040
Erdington	Ravenside Retail Park, Kingsbury Road FH	10 retail warehouses	MFI, Halfords, Currys	1987 (b), 1989 (b) and 1999 (r)	14,130
Hull	Priority Way FH	Food superstore and retail warehouse	Sainsbury's	1984 (b) and 2002 (b)	10,250
Northampton	Nene Valley Retail Park FH	11 retail warehouses	Currys, Staples, Comet	1987 (b), 2001 (r) and 2003 (r)	13,690
Poole	Commerce Centre FH	5 retail warehouses	Homebase, Courts, MFI	1986 (b) and 1987 (b)	13,480

Major property holdings

Location	Property name and address	Property description	Principal occupiers	Date built (b)/ last refurbished (r)	Total area m ²
Retail warehouses and food superstore properties – £10m to £25m					
Birmingham	Great Barr FH	Superstore	Asda	1998 (b)	7,750
Bolton	Manchester Road FH	6 retail warehouses	Focus, JJB Sports	1985 (b), 1989 (b) and 1997 (b)	7,630
Bristol	Longwell Green FH	2 retail warehouses	Homebase, Wickes	1985 (b) / 1986 (b)	7,200
Chadwell Heath	High Road FH	5 retail warehouses	Wickes, Currys	1988 (b) and 1999 (b)	8,520
Chesterfield	Ravenside Retail Park, Markham Road FH	6 retail warehouses. Extension planned	PCWorld, Focus, Currys	1982 (b), 1997 (b) and 2002 (b)	9,140
Derby	Meteor Centre FH	11 retail warehouses, fast food restaurant and public house	Focus, MFI, Lidl, Pets at Home	1988 (b) and 1994 (b)	17,330
Fareham	Southampton Road FH	3 retail warehouse units	MFI, Argos	1985 (b)	7,400
Gloucester	Gloucester Retail Park FH Eastern Avenue	3 retail warehouses	Focus, MFI	1989 (b)	10,450
Hatfield	Oldings Corner FH	3 retail warehouses	Homebase, Habitat, Comet	1988 (b)	5,970
High Wycombe	London Road FH	2 retail warehouses	B&Q	1988 (b)	4,360
Manchester	Cheetham Hill FH	Retail warehouse	Big W	2002 (b)	9,180
Plymouth	Friary Centre, Exeter Street FH	2 retail warehouses	Focus, Courts	1990 (b)	7,310
South-east industrial – £25m to £50m					
Basildon	Juniper FH	Phase I: 3 warehouses and 1 office building Phase II: 4 warehouse units under construction	TNT, Ford and Schenker	2001 (r) 2002 (b) and 2003 (b)	34,580
Hatfield	Welham Green FH	Regional distribution centre	Tesco Distribution Ltd	1986 (b) and extended 1988	31,300
Heston (near Heathrow)	Heston Centre and Spitfire FH	19 industrial/distribution units of differing size and specification. Currently 10,240m ² is being refurbished	Expeditors, P&O, Hays and TNT	1977 (b), 1982 (b), 1984 (b) and 2003 (r)	28,730
Sunbury Cross	Hanworth Road FH (includes Interchange West)	3 distribution warehouse units	ICI, Unigate and Johnson & Johnson	1970 (b) and 1976 (b)	29,360
South-east industrial – £10m to £25m					
Barking	New England Industrial Estate FH	6 warehouse/industrial units	Sheffield Insulations, Royal Mail	1978 (b), 1981 (b)	12,932
Basildon	Zenith FH	New development of 8 warehouse/industrial units and 1 refurbished unit	Ellis & Everard, Artisan	2002 (b)	18,300
Chandlers Ford (near Southampton)	Omega Enterprise Park FH School Lane	7 warehouse/industrial units and 2 storey research & development building	Securicor Geopost, (UK) Ltd	1988 (b) and 1989 (b)	10,790
	Electron Way FH	1 industrial/warehouse unit	APW Electronics	1988 (b) and 2001 (b)	15,060
Frimley (near Camberley)	Albany Park FH	28 industrial/warehouse units	Lucas Industries, Travelex and Siemens	1982 (b) and 1984 (b)	21,640
Guildford	Cobbett Park	10 warehouse/industrial units	Big Yellow and BOC	2002 (b)	11,440
Tarnworth	Centurion Park FH	High bay warehousing	UCI and DFDS	1996 (b) and 1999 (b)	24,430
Welwyn Garden City	Bridge Road FH	3 warehouse/industrial units	Argos	1955 (b), 1961 (b) and 1976 (b)	17,070
	Centrapark	3 warehouse buildings	WT Foods and John Lewis	2001 (b)	16,800
West Thurrock	Motherwell Way FH	37 warehouse/industrial units. Extension planned	Debenhams, Weir Pumps and Avery Automotive	1973 (b), 1975 (b) and 1979 (b)	29,060
Wimbledon	Weir Road FH	5 distribution warehouses	Odbbins	1986 (b)	9,530

Outside central London the Group has holdings which total 450,000m² of retail space, 90,500m² of office space, 454,223m² of warehouse and industrial space and 454,223m² of out of town retail and food superstore space.

Directors' report For the year ended 31 March 2003

The directors submit their report with the financial statements for the year to 31 March 2003. 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, which should be read in conjunction with this report.

1. Business of the Group

During the year the Group has continued its business of property development and portfolio management of offices, shops, retail warehouses, food superstores, leisure, warehouse and industrial premises throughout the UK together with total property outsourcing. The Group consists of three main business units, Land Securities Development, Land Securities Portfolio Management and Land Securities Trillium.

2. Results for the year and dividends

The results are set out in the consolidated profit and loss account on page 44.

An interim dividend of 9.5p per share was paid on 6 January 2003 and the directors now recommend the payment of a final dividend of 26p per share making a total of 35.5p per share for the year ended 31 March 2003, an increase of 4.4% over that for the previous year.

Subject to authorisation at the Annual General Meeting to be held on 17 July 2003, the final dividend will be paid on 28 July 2003 to shareholders registered on 27 June 2003. The shares are expected to be quoted ex-dividend from 25 June 2003.

3. Valuation and net assets

(i) Valuation

Knight Frank, external valuers, valued the Group's investment portfolio on an open market basis at £7,530.1m as at 31 March 2003. Taken with the Group's one-third holding in the Birmingham Alliance limited partnerships; the one-half holdings in the Gunwharf Quays limited partnership, the Ebbsfleet limited partnership, the BBC Wood Lane joint venture and the one-quarter holding in the Bristol Alliance, the portfolio had a value of £7,844.0m. This is an increase of £33.0m over that at the previous year end. Taking into account total expenditure on

investment properties of £478.3m and the aggregate book value of properties sold during the year of £396.1m, the deficit on valuation was £56.8m after adjusting for UITF28.

(ii) Net assets

The investment portfolio valuation has been included in the financial statements for the year ended 31 March 2003 and the net assets of the Group at that date amounted to £5,563.1m. Without adjusting for any taxation which would become payable in the event of properties being sold, the net assets attributable to each share in issue on that date were 1188p. Taking into account shares reserved for issue under the terms of the Group's employee share schemes, the diluted net asset value per share was 1188p.

The amount of tax on capital gains, which would become payable in the event of sales of the properties at the amounts at which they are included in the financial statements, is given in Note 24 on page 60. The amount, in the region of £435m (2002 £535m), represents approximately 93p per share on a fully diluted basis.

4. Directors

The directors who held office during the year were:

- * P G Birch CBE
I J Henderson CBE
M R Griffiths (retired 8/7/02)
- * P B Hardy (retired 8/7/02)
- * Sir Winfried Bischoff
- * G I Henderson CBE (retired 20/11/02)
F W Salway
A E Macfarlane
- * P G Freeman
- * D Rough (appointed 2/4/02)
A M Collins (appointed 20/11/02)
I D Ellis (appointed 20/11/02)
- * Non-executive and member of the Remuneration Committee
- + Member of the Audit Committee

In addition, S A R Rose was appointed a director on 21 May 2003.

Biographical details of the directors appear on page 32.

Since A M Collins, I D Ellis and S A R Rose were appointed subsequent to the last Annual General Meeting, they will retire from the Board and, being eligible, offer themselves for reappointment. A M Collins and I D Ellis have service contracts which provide for notice of 12 months from the Company and the director. S A R Rose does not have a service contract with the Company.

I J Henderson, F W Salway and A E Macfarlane retire from the Board by rotation and, being eligible, offer themselves for re-election; I J Henderson and F W Salway have service contracts which provide for notice of 12 months from the Company and from the director. A E Macfarlane has a service contract which provides for notice of 12 months from the Company and 6 months from the director.

Particulars of the interests of each director in the shares and debentures of the Company, as shown by the register of directors' share and debenture interests, and of their holdings of options over ordinary shares, are set out in the Report of the remuneration committee on pages 36 to 41.

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 an Extraordinary General Meeting held on 14 July 2002, prior to the Company being introduced as the holding Company for the Group, to purchase in the market ordinary shares representing up to approximately 14.9% of the issued share capital at that time with such authority to expire at the 2003 Annual General Meeting. In the year to 31 March 2003, 700,000 shares were purchased and cancelled. A resolution to renew this authority will be proposed at the Annual General Meeting.

6. Substantial shareholders

At 16 May 2003 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 Global Investors PLC	22,109,980	4.74
M&G Investment Management Ltd	21,668,586	4.65
Legal & General Investment Management	19,871,556	4.27
ABP Investments	17,685,178	3.80
Merrill Lynch Investment Managers	16,976,263	3.65

7. Employees

Details of the Group's policies on employment and on employee development are given on page 29.

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 pages 30 and 31.

8. Donations

During the year ended 31 March 2003 charitable donations amounted to £774,400. This amount included £635,800 paid to charitable trusts investigating sites of considerable archaeological importance. There were no contributions of a political nature during the year.

9. Environment

The Group's environmental policy and the Environmental Report 2002 are published on the Company's website www.landsecurities.com

10. 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 18 days' purchases.

11. 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.

12. Auditors

During the year PricewaterhouseCoopers converted to a limited liability partnership (LLP). Accordingly PricewaterhouseCoopers resigned as auditors on 23 January 2003 and the directors appointed PricewaterhouseCoopers LLP as auditors on that date. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

P M Dudgeon
Secretary
21 May 2003.



OTHER

Investor information

The report and financial statements and other information on the Group are available through the internet on www.landsecurities.com.

Registrar

All enquiries concerning holdings of ordinary shares, B shares, debentures or loan stocks in Land Securities Group PLC, including notification of change of address, queries regarding dividend/interest payments or the loss of a certificate, should be addressed to:

Lloyds TSB Registrars, The Causeway,
Worthing, West Sussex BN99 6DA.
Telephone: 0870 600 3972.
Website: www.shareview.co.uk

The Registrars provide an on-line service, enabling shareholders to access details of their Land Securities shareholdings. Shareholders wishing to view this information, together with additional information such as indicative share prices and information on recent dividends, should visit www.shareview.co.uk

Payment of dividends/interest

Shareholders who wish to have their dividends/interest paid directly into a bank or building society account 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 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: 01903 50 2541.

Low cost share dealing facility

The Company operates with Cazenove & Co. Ltd a postal share dealing facility which provides both existing and prospective shareholders with a simple, low cost way of buying and selling Land Securities Group PLC ordinary shares. For further information, or dealing forms, contact:
Cazenove & Co Ltd,
20 Moorgate, London EC2R 6DA.
Telephone: 020 7606 1768.

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 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, Leconfield
House, Curzon Street, London W1J 5JA.
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 or on the Financial Times Cityline Service: telephone: 0906 8433133 (calls charged at 60p per minute).

Registered office

5 Strand, London WC2N 5AF
Registered in England and Wales
No. 4369054

Offices

5 Strand, London WC2N 5AF
(Telephone: 020 7413 9000)
and at 140 London Wall EC2,
Glasgow and Leeds

Analysis of equity shareholdings				
At 31 March 2003				
by size of holding	Number of holdings	%	Balance at 31 March 03	%
up to 500	12,736	38.15	3,459,513	0.74
501 to 1,000	9,300	27.86	6,796,574	1.46
1,001 to 5,000	9,190	27.53	17,945,281	3.86
5,001 to 10,000	749	2.24	5,188,203	1.11
10,001 to 50,000	775	2.32	16,619,882	3.57
50,001 to 100,000	186	0.56	13,364,957	2.87
100,001 to 500,000	290	0.87	66,838,321	14.36
500,001 to 1,000,000	81	0.24	59,660,141	12.81
1,000,001 and above	79	0.23	275,679,936	59.22
	33,386	100.00	465,562,808	100.00

Adjusted figures

Reported amount adjusted to exclude the results of fixed asset property sales, bid costs, exceptional items and additional deferred tax arising from the adoption of FRS 19 'Deferred Tax'

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 1990's 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 held in the accounting records

BREEAM

Building Research Establishment Environmental Assessment Method

Credit rating

An independent assessment by Credit Rating Agencies of a borrower's overall ability to meet its financial obligations under debt and similar arrangements

Development pipeline

The Group's development programme and proposed schemes that are not yet included in the development programme but are more likely to proceed than not

Development programme

The Group's major development schemes 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

Diluted figures

Reported amount adjusted to include the effects of potential shares issuable under convertible bonds or employee share schemes

Dividend cover

Number of times equity dividend charge in the profit and loss account is covered by profit after tax attributable to ordinary shareholders

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

Estimated rental value (ERV)

The estimated market rental value of lettable space as determined biannually by the Company's valuers as opposed to the rent being paid

FRS3 profit/(loss)

Profit/(loss) on disposal of fixed asset properties calculated as the excess/(deficit) of net sale proceeds over the book value. For investment properties book value comprises the Company's valuers' annual valuation at the previous financial year end plus any additions in the period

FRS17

Financial Reporting Standards 17 (FRS17) 'Retirement Benefits'. See Accounting policy Note 2(e) and Note 5 for FRS17 disclosure of retirement benefits

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

IOSH

The Institute of Occupational Safety and Health

Interest cover

Number of times gross interest payable (i.e. pre-interest capitalisation) is covered by operating profit and interest receivable but excluding the activities of Telereal

Interest rate swap

A financial instrument where two parties agree to exchange an interest rate obligation for a pre-determined amount of time

Investment portfolio

All investment properties and development properties excluding Land Securities Trillium properties and trading properties

Investment properties

Properties held for investment purposes, excluding development programme, Kent Thameside, Land Securities Trillium properties and trading properties

IPD

Investment property databank. An independent information business which supplies market indices and portfolio benchmarks to the property industry

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

NEBOSH

The National Examining Board in Occupational Safety and Health

Net asset value (NAV) per share

Equity shareholders' funds divided by the number of Ordinary shares in issue at the period end

Open A1 planning permission

Planning permission for the retail sale of any goods other than food

Operating properties

Properties acquired and managed by Land Securities Trillium as part of its total property outsourcing contracts with third parties

Over-rented

Space that is let at a rent above its ERV

Passing rent

The annual rental income receivable which may be more or less than the ERV (see over-rented and reversionary)

Pre-let

A lease signed with an occupier prior to completion of a development

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

Revenue profit

Profit before tax, excluding the impact of exceptional costs or profits such as bid costs, FRS3 profits/(losses), interest charges on termination of financial instruments and Group reorganisation costs

Retail

Includes shops, shopping centres, central London retail and retail warehouses

Retail park

A scheme of three or more retail warehouse units aggregating over 4,650m² with shared parking

Return on shareholders' equity

Increase in diluted net asset value per share plus dividends per share for the year expressed as a percentage of diluted net asset value per share at the beginning of the year

Reversionary or under-rented

Space where the passing rent is below the ERV

South-east industrial

Includes high bay distribution and estates suitable for distribution, storage and manufacturing use

SSAP19

Statement of Standard Accounting Practice (SSAP19) 'Accounting for Investment Properties'. See Accounting Policy Note 2(h) (iii)

Stamp duty

Government tax levied on certain legal transactions including the purchase of property

Total development cost

All capital expenditure on a project including the opening book value of the property on commencement of development, together with all finance costs

Total investment property return

Valuation surplus, FRS3 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 return

The growth in value of a share holding 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. See Accounting Policy Note 2(i)

UITF28

Urgent Issue Task Force Abstract 28 (UITF28) 'Operating Lease Incentive' requires the Group to treat incentives for lessees to enter a lease to be offset against the total rent due. See Accounting Policy Note 2(c)

UITF34

Urgent Issues Task Force Abstract 34 (UITF34) 'Pre contract Costs' requires bid costs incurred prior to exchange of contract to be expensed. See Accounting Policy Note 2(d)

Unitary charge

A payment under a Private finance initiative or property partnership covering the costs of using a property or facility

Weighted average cost of capital (WACC)

Market cost of debt and cost of equity capital (equity capital cost calculated assuming equity risk premium of 4% and using Bloomberg beta factor, average for last two years 0.56%) applied to fair value of debt and equity market capitalisation and then suitably weighted

Index

A					
Aberdeen, Bon Accord Centre	18,80	Estimated rental value	71,72	N	
Accountability	34	Exeter, Princesshay	22,23,74,81	Net asset value	3,4,12,45,50,55
Accounting policies	48,49			New business	10,19,27
Achievements	5	F		O	
Analysis of net debt	63	Finance	51	Objectives	5
Auditors	35,42,85	Financial assets and liabilities	63,64	Operating properties	49,57
Audit committee	34	Financial instruments	49	Other primary statements	47
		Financial reporting	34	Other tangible fixed assets	49,58
		Financial review	12-15	Outlook	7
		Financial structure	11		
		Five year record	66		
B		G		P	
Balance sheets	45	Goodwill	49,56	Pension scheme/pensions	13,38,40,48,51-54
BBC	5,10,12,14,24-26	Government	6,7	Performance benchmarking	69
Bid costs	48	Gross property income	48	Portfolio management	9,16-19
Birmingham Alliance/Bull Ring	22,23,74,76,80	Guildford, Cobbett Park	18,75,77,83	Portfolio valuation (investment)	6,12,17,49,68-72
Birmingham, Caxtongate	23,74,80,82			Profit after tax	12,44
Board	7,32-35			Profit and loss	44,48,50
Bristol Alliance/Bristol	21-23,74			Properties	57
		H		Prospects	11
C		Health and safety	30,85	Provisions	49,60
Canterbury, Whitefriars	20-24,74,76,80	I		R	
Commitments for future expenditure	58	Insurance	15	Related party transactions	65
Capitalisation of interest	49	Investment activity	18	Remuneration committee	36
Cardiff, St David's Centre	22,23,74,76,80	Investment portfolio	6,9,12,13,17,49,56,57,68-72	Remuneration report	36-41
Cash flow	12,46,63	Investment properties	3,12-14,17-19,49,56,72,84,87	Rental income	13,70,71
Chairman's statement	4-7	Investments in group undertaking	49,58	Results	6
Chief executive's review	8-11	K		Retail	4,11,68
Competitive environment	10	Kent, Crossways Business Park	31	Retail warehouses	19,23,68-72,75,76,82,83
Consolidation	48	Kent Thameside/Eastern Quarry	10,14,22,23	Return of capital	5,6,11,13,15,40,48
Contingent liabilities	65	L		Risk management	11,34
Convertible bonds	15,60	Land Securities Trillium/Total property outsourcing	4,5,7,8,10,12,14,24-27,31,32,49,51,52,56,64,65,68,73	S	
Corporate governance	7,33,35	Landflex	10,18,22	Segmental information	50
Creditors	59,60	Leeds, White Rose Centre	19,28,76,81	Share capital	61,62
Corporate social responsibility	28,29	Leisure (The Gate Newcastle Upon Tyne)	23	Share option schemes	36,37,39,54
Customer service	10	Livingston, Almondvale Centre	19,29,76,81	Shareholders' funds	62
D		London		Shopping centres and shops	19,22,23,68-72,74,76,80-82
Debentures, bonds and loans	59	Bankside 1,2,3,	22,74,77,79	South-east industrial	19,23,68-72,75,77,83
Debtors	58	Cardinal Place	21,22,74,77,78	Strategy	5
Depreciation and amortisation	49	Central London	6,10,17,18,22,68-72,74,77,78-80	T	
Development	5,9,14,20-23,26,74-75	Eastbourne Terrace	18,21,22,77-79	Taxation	11,14,48,54
Development pipeline	14,15,21,74-75	30 Gresham Street	22,29,74,77,78	Telereal (joint venture)	5,12,14,25,26,65,73
Development programme	14,15,21,56,74-75	Hilton	6,17,18	Ten year record	66
Directors	32-42,51,52,84	New Fetter Lane	18,22,74,77,80	Thurrock, Lakeside Retail Park	18,19,21,76,82
Directors' report	84,85	White City	12,14,24,26	Total property outsourcing/Land Securities Trillium	4,5,7,8,10,12,14,24-27,31,32,49,51,52,56,64,65,68,73
Directors' responsibilities	42	M		Trading properties	49
Dividend	5,6,12,55,84	Major property holdings	78-83	Treasury management	14,15
Dundee, Kingsway Retail Park	23,75,76,82	Manchester, White City Retail Park	19,76,82	V	
DWP	10,14,25,27,31,73			Valuations	35,49,68-72
E					
Earnings per share	6,12,44,55				
Employees/HR policy	7,29,51,85				
Empress State, London	18,22,74,77,78				
Environment	31,85				

LAND SECURITIES GROUP PLC
COPYRIGHT AND TRADE MARK NOTICES
All rights reserved.
© Copyright 2003 Land Securities Group PLC.

Land Securities, LandSecurities (stylised),
the "LS" block logo, Making Property Work, and
LandFlex are trade marks of Land Securities Group PLC.

All other trade marks and registered trade marks are
the property of their respective owners.

Designed by SAS
Photography Marcus Lyon
Typeset by Asset Graphics
Printed by St Ives Westerham Press,
environmentally accredited printers ISO 14001.

This report is printed on paper that meets international
environmental standards, contains elemental chlorine
free (ECF) virgin pulp, obtained from sustainably
managed forests.

LAND SECURITIES GROUP PLC
COPYRIGHT AND TRADE MARK NOTICES
All rights reserved.
© Copyright 2003 Land Securities Group PLC.

Land Securities, LandSecurities (stylised),
the "LS" block logo, Making Property Work, and
LandFlex are trade marks of Land Securities Group
PLC.

All other trade marks and registered trade marks are
the property of their respective owners.

Designed by SAS
Photography Marcus Lyon
Typeset by Asset Graphics
Printed by St Ives Westerham Press,
environmentally accredited printers ISO 14001.

This report is printed on paper that meets interna-
tional environmental standards, contains elemental
chlorine free (ECF) virgin pulp, obtained from sustain-
ably managed forests.

making property work

Land Securities Group PLC
5 Strand London WC2N 5AF

Telephone: 020 7413 9000
e-mail: landsecurities@landsecurities.com
<http://www.landsecurities.com>