

Corporate governance

The Board is responsible for providing leadership for the Group. It ensures that the right strategy and controls, together with appropriate financial and human resources, are in place in order to deliver value – to shareholders and to the wider community. It also sets standards for ethical behaviour and for monitoring environmental and health and safety performance.

Introduction

The Directors consider that the Company has complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code) as updated in June 2006 throughout the year ended 31 March 2008, with the exception of the provisions relating to independence of Non-executive Directors and membership of the Nominations Committee. As explained in this report, these departures from the Code have now been addressed and the Board considers that the Company is now fully compliant with the Code. Further details of how Land Securities complies with the Code can be found in this report and in the Corporate Governance section of the Company's website, which also contains the terms of reference of the Audit, Nominations and Remuneration Committees.

The role of the Board

The Board formulates strategy and monitors the operating and financial performance of the Group. It operates in accordance with a written schedule of matters reserved to the Board, a copy of which is available on the Company's website. This schedule is backed by clearly defined written limits of delegated authority across the Group.

Key matters reserved to the Board include:

- authorisation of significant transactions in excess of £250m
- dividend policy
- internal controls and risk management (via the Audit Committee)
- remuneration policy (via the Remuneration Committee)
- shareholder circulars and listing particulars
- matters relating to share capital such as share buy backs
- treasury policy and significant fundraising
- appointment/removal of Directors and Company Secretary

The Board uses an annual process timetable to ensure that relevant matters are given due consideration.

The Board held nine principal Board meetings at which the following subjects were discussed:

- *Strategy* – the Board held an annual off-site meeting at which the Company strategy was reviewed in the context of the macro- and micro-economic environment, potential legislative changes, competitor strategies and the need for the Company to create and exploit competitive advantage.
- *Business plans* – the Board reviewed at six-monthly intervals the five-year forecasts, the annual budget and business plan and the balanced scorecard, all of which are designed to support the Company's strategy.

- *Progress reporting* – a detailed monthly Board report was circulated to the Board and at each regular Board meeting the heads of business units provided an update on progress within their areas of responsibility. In addition, the interim and final results, together with a comparison of investment property performance to IPD indices on a six-monthly basis, were reviewed in detail.
- *Compliance and external relationships* – the Board reviewed Investor Relations, HR and Pensions, Corporate Governance, Health and Safety (with quarterly updates), Environmental performance, Board performance evaluation and Corporate and Social Responsibility matters.

During 2007/08, in addition to the matters outlined above, the Board considered and agreed plans to demerge the Group into three separate businesses. Following recommendations from the Nominations Committee, the Board also reviewed its composition, taking into account the requirement to create effective Boards and Board Committees for three separate quoted entities.

Board balance and independence

The roles of the Chairman and Chief Executive are split, with clear written guidance to support the division of responsibility. The Chairman is primarily responsible for the effective working of the Board, ensuring that all Directors are able to play a full part in its activities. He is also responsible for ensuring effective communication with shareholders and making sure that all Board members are aware of the views of major investors.

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

There exists a strong Non-executive element on the Board which currently consists of the Chairman, five Executive Directors and seven Non-executive Directors. David Rough is the Senior Independent Director. The Board regards each of the seven Non-executive Directors as being independent and the Chairman was independent at the time of his appointment to that position. During the year under review, Sir Winfried Bischoff served as a Non-executive Director, retiring from the Board on 1 April 2008. His principal employer was Citigroup, for whom he served in a number of roles including acting Chief Executive and Chairman of Citigroup Inc. Citigroup provides investment banking services to the Group and, as a consequence, he did not fully meet the independence criteria set out in the Code. However, the unanimous view of his colleagues on the Board was that, by virtue of his character and experience, he was robustly independent.

The Board is satisfied that no individual or group of Directors has unfettered powers of discretion and that an appropriate balance exists between the Executive and Non-executive members of the Board, while not being so large as to be unwieldy.

Details of the roles, backgrounds and other commitments of the Directors are shown in the Directors' biographies on pages 52 and 53.

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

The Company Secretary, through the Chairman, is responsible for advising the Board on governance matters and for ensuring good information flows within the Board. All Directors have access to the advice and services of the Company Secretary, as well as access to external advice, if required, at the expense of the Group (the procedure for Directors wishing to seek such external advice is published on the Group's website). No such external advice was sought by any Director during the year.

Information and professional development

The Board is supplied with information in a form and quality to enable it to take informed decisions and to discharge its duties. All Directors are encouraged to make further enquiries as they consider appropriate of the Executive Directors or management. Directors are provided with detailed briefings on the Group's businesses, the markets in which they operate and the overall economic and competitive environment. Other areas addressed include legal issues and responsibilities of directors, the Group's governance arrangements and its investor relations programme.

In the case of newly appointed Directors, an induction programme, which includes training on the responsibilities of a Director, occurred prior to or immediately following their appointment to the Board, if that appointment was the first occasion that they have been appointed to the Board of a listed company. A tailored induction programme is provided for Non-executive Directors on appointment, co-ordinated by the Company Secretary in accordance with guidelines issued by the Institute of Chartered Secretaries and Administrators. Non-executive Directors are encouraged to visit the Group's major properties to enable them to gain a greater understanding of the

Group's activities. In addition, one Board meeting each year is held at an 'off-site' location which incorporates a visit to one of the Group's principal properties or developments.

The Board supports Executive Directors taking up Non-executive Directorships as part of their continuing development which will ultimately benefit the Company. As a matter of policy such appointments are normally limited to one Non-executive Directorship.

Board performance evaluation

The formal annual evaluation of the performance of the Board, its Committees and individual Directors was undertaken in early 2008. This consisted of an internally run exercise led by the Chairman with the assistance of the Company Secretary, although the Board will consider using external facilitation from time to time in the future. The appraisal questionnaire was wide-ranging and based on the process and questions outlined in the Code, covering Board and Committee performance.

The appraisal output is used to highlight strengths and weaknesses and revealed that the Board and its Committees were judged to be operating effectively. It identified a number of opportunities to develop Board processes in the future. In addition, individual performance as Board Directors is appraised each year, based on one-to-one interviews with the Chairman, or in the case of the Chairman, with the Senior Independent Director.

Nominations Committee

The Nominations Committee, which, until 30 April 2008, comprised the Chairman, David Rough and Bo Lerenius, met twice during the year under review to consider Board structure, size, composition and succession needs, keeping under review the balance of membership and the required blend of skills, knowledge and experience of the Board.

While the membership of the Nominations Committee was until May 2007 non-compliant with the Code, all key outputs and decisions relating to appointments and membership of Board Committees were relayed to and considered by the full Board which includes a strong representation of experienced independent Non-executive Directors. In May 2007 Bo Lerenius was appointed to this Committee and Francis Salway stood down from the Committee so that its membership satisfied the requirements of the Code. The Committee reviewed the time required from Non-executive Directors and the annual performance evaluation was used to assess whether Non-executive Directors were spending sufficient time to fulfil their duties.

Table 46

Attendance at Board and Committee meetings

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

	Board (9 meetings)	Audit Committee (5 meetings)	Nominations Committee (2 meetings)	Remuneration Committee (3 meetings)
Paul Myners (Chairman)	9/9	–	2/2	3/3
Francis Salway (Group Chief Executive)	9/9	–	–	–
Martin Greenslade	9/9	–	–	–
Ian Ellis	9/9	–	–	–
Mike Hussey	9/9	–	–	–
Richard Akers	9/9	–	–	–
David Rough (Senior Independent Director)	9/9	5/5	2/2	3/3
Sir Winfried Bischoff	7/9	2/5	–	2/3
Sir Stuart Rose	8/9	4/5	–	2/3
Bo Lerenius	9/9	5/5	2/2	3/3
Alison Carnwath	8/9	3/5	–	3/3

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

The Committee reviewed succession plans for Executive Directors and senior managers. It also made recommendations to the Board on the reappointment of Non-executive Directors at the conclusion of their specified terms of office, after first considering the effectiveness and commitment of those Non-executive Directors. Where Non-executive Directors are proposed for reappointment after having served on the Board for more than six years, a particularly rigorous review is undertaken by the Committee.

During the year under review the Committee initiated a process to identify additional Non-executive Directors. A firm of executive search consultants was used to identify and help assess potential external candidates for these positions. As a result of this process, Sir Christopher Bland, Rick Haythornthwaite and Kevin O'Byrne were appointed to the Board on 1 April 2008.

When considering candidates the Committee uses objective criteria and all appointments are made on merit.

On 30 April 2008, the Board agreed that Sir Christopher Bland, Rick Haythornthwaite and Sir Stuart Rose should join the Committee and that David Rough should step down from the Committee. Paul Myners continues to chair this Committee, with Bo Lerenius remaining as a member of the Committee.

Remuneration Committee

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, which comprised solely of Non-executive Directors, determined the remuneration and conditions of employment of the Executive Directors and senior employees. The Committee's activity is described in detail in the Directors' remuneration report on pages 66 to 76.

Investor Relations

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

The Senior Independent Director normally attends the preliminary and interim results meetings to which investors were invited and his attendance is notified to investors in advance. The Senior Independent Director was available to shareholders should they have had any concerns which could not be resolved through the normal channels of communication with the Chairman or Chief Executive. No such concerns were raised by shareholders during the year ended 31 March 2008.

In relation to private shareholders, we actively encourage feedback and communication, both on the Annual Report (page 132), at the Annual General Meeting and through regular meetings with the United Kingdom Shareholders' Association.

The Annual General Meeting provided all shareholders with an opportunity to question the Company on matters put to the meeting including the Annual Report. Shareholders attending the Annual General Meeting were given a detailed presentation by the Chief Executive on the activities and performance of the Group over the preceding year. From the 2007 Annual General Meeting onwards, voting has been conducted by poll instead of by show of hands, since the result is more democratic because all shares represented at the meeting are voted and added to the proxy vote lodged in advance of the meeting. The results of proxy voting at general meetings were published on the Company's website as required by the Code.

Audit Committee

The Audit Committee was chaired by David Rough with the other members of the Committee being Sir Winfried Bischoff, Sir Stuart Rose, Bo Lerenius and Alison Carnwath. Although all of the Committee members are considered to be appropriately experienced to fulfil their role, Alison Carnwath is considered as having significant, recent and relevant financial experience in line with the Code. Further details of each of the independent Directors are set out on pages 52 and 53. On 30 April 2008, the Board agreed that Kevin O'Byrne and Rick Haythornthwaite should join and that Sir Stuart Rose should step down from this Committee. The Audit Committee's written terms of reference are available on the Company's website. Its principal oversight responsibilities cover:

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

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

The Committee undertook the following activities at these meetings:

- reviewed the interim and annual results and considered any matters raised by management and the external auditors
- reviewed and approved the audit plans for the external and internal auditors
- monitored the scope, effectiveness, independence and objectivity of the external audit
- discussed the results of internal audit reviews, significant findings, management action plans and the timeliness of resolution
- reviewed the Group's 'Turnbull Report' to support the Board's sign-off on the system of internal control (see page 65 for more details)
- reviewed reports on the Group's risk management measures and actions
- in conjunction with the Board appraisal detailed on page 63, the Committee reviewed its own effectiveness and concluded that it had continued to operate as an effective Audit Committee.

External auditors

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

The Company had a policy and procedures in place to monitor and maintain the objectivity and independence of the external auditors, PwC. The policy requires prior approval by the Audit Committee of non-audit work above a de minimis threshold level. On a six monthly basis, the Audit Committee reviewed a summary of all non-audit work. In addition to the audit related services, PwC provided the following services during the year:

- taxation advice, including planning and compliance
- advice on IFRS accounting
- pension fund audit
- advice on a number of Trillium bids
- due diligence and related advice in relation to the proposed demerger
- due diligence work in relation to the disposal of the Trillium Investment Partners fund

PwC were appointed to work on the demerger process after a tender process with another accountancy firm. This appointment was approved by the Audit Committee.

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

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

Valuers

The Committee had a policy in place to monitor the objectivity of the external valuers, Knight Frank. The Group gives the valuers and external auditors access to each other. These advisers have a dialogue and exchange of information which is entirely independent of the Group. The Audit Committee Chairman attends key valuation meetings (as do the external auditors) to be assured of the independence of the process. In addition, Knight Frank presented to the Audit Committee following completion of their 2007/08 valuation process.

In line with the Carsberg Committee report we have a fixed fee arrangement with our Valuers, Knight Frank LLP. The proportion of total fees paid by the Company to the total fee income of Knight Frank LLP was less than 5%. The Audit Committee regularly reviews the total fees which the Company pays to Knight Frank as a proportion of the total fees paid to all its property advisers. The Committee is satisfied it represents only a small proportion of the total.

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 Report of the Directors.

Going concern

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

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to meet business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that this system is designed to be in accordance with the 2005 version of the Turnbull guidance and has been in place for the year under review and up to the date of approval of the Report and Financial statements.

The key features of our system of internal control include:

- Strategic and business planning: the Group and each business unit produce and agree a business plan each year, against which the performance of the business is regularly monitored. Balanced scorecards are prepared that set out targets for a wide variety of key performance indicators, including risk management and internal audit actions.
- Investment appraisal: capital projects, major contracts and business and property acquisitions are reviewed in detail and approved by the Investment Committee and/or the Board where appropriate, in accordance with delegated authority limits.
- Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board on a monthly basis, including explanations of variances between actual and budgeted performance.
- Systems of control procedures and delegated authorities: there are clearly defined guidelines and approval limits for capital and operating expenditure and other key business transactions and decisions. Operational and financial procedures and controls are maintained on the Group's intranet.
- Risk management: we have an ongoing process to identify, evaluate and manage the risks faced by the Group. The risk management process is set out in *Chart 47*. We rate each risk in terms of probability of occurrence and potential impact on performance, and we identify mitigating actions, control effectiveness and management responsibility. Our approach is supported by an oversight structure. This includes the Audit Committee, which reviews on behalf of the Board the effectiveness of our risk management process.

Risk management process

Six monthly assessments: a compliance questionnaire is completed twice a year (before external reports are issued), which is signed off by senior managers, providing assurances that controls are both embedded and effective within the business (a similar questionnaire is completed annually in respect of joint ventures).

Internal audit: responsible for reviewing and testing key business processes and controls, including following up the implementation of management actions and reporting any overdue actions to the Audit Committee.

Chart 47
Risk management process



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

The Company has established a whistleblowing policy and hotline to enable employees to raise public interest issues on a confidential basis.

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

The Audit Committee on behalf of the Board has reviewed the effectiveness of the systems of internal control and risk management. The review covered all material areas of the business including financial, operational and compliance controls and risk management and no significant failings in control were found. In performing its review of effectiveness, the Audit Committee took into account the following reports and activities:

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

The Board confirms that no significant failings or weaknesses have been identified from that review.