

Business review

In this Group business review we outline the Company's approach to a number of key areas, from our business model to our customers, risk, employees and sustainability.

Our business model

We are the sixth largest Real Estate Investment Trust in the world and the largest in the UK. We own, develop and manage commercial property through three main businesses:

- Our Retail business provides customers with access to retail units in shopping centres and retail parks and manages these assets to maximise their value. Our development projects help to regenerate town and city centres throughout the UK, incorporating a vibrant mix of retail, leisure and, where appropriate, residential accommodation.
- Our London business provides customers with access to high quality offices and creates large office developments supporting complementary uses such as retail, public space and residential. Our UCD business operates within the London Portfolio and will develop new communities, the most significant of which is in Ebbsfleet, Kent.
- Our property partnerships business, Trillium, enables customers to outsource the construction and maintenance of buildings and, in some cases, the risks and costs associated with expanding or contracting the accommodation they occupy. Our activities include leasing, developing, managing, refurbishing, repairing and maintaining properties, facilities and land. We are increasingly active in the area of Public Private Partnership in sectors such as education, waste, defence training and local government infrastructure.

Our businesses are overseen and given strategic direction by the Group but are run with a high degree of autonomy.

Our customers

Our businesses work with a wide range of organisations and you will find more coverage of key customers and current market trends in the three business review sections that follow.

Across the Group:

We provide office space for many types of business and organisation, and every day thousands of people work in a building owned or managed by us.

We provide shopping and leisure facilities throughout the UK and receive millions of visits to our shopping centres, retail parks and other properties each year.

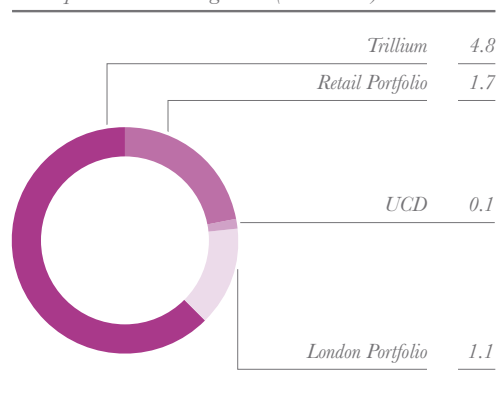
Table 19
Group development activity

	Number of projects	Floorspace m ²	TDC ¹ £m	Net income/ ERV ² £m
Retail Portfolio				
Programme	6	184,160	768	48
Proposed development	2	99,070	502	31
Total Retail Portfolio pipeline	8	283,230	1,270	79
London Portfolio				
Programme	7	201,580	1,600	119
Proposed development	3	154,830	1,075	84
Total London Portfolio pipeline	10	356,410	2,675	203
Trillium Portfolio				
Programme	1	17,650	n/a	n/a
Proposed development	–	–	–	–
Total Trillium pipeline	1	17,650	–	–
LS Third Party				
Programme	1	83,000	n/a	n/a
Proposed development	–	–	–	–
Total third party pipeline	1	83,000	–	–

1. TDC: Total Development Cost – land, capital expenditure and capitalised interest.

2. The net income/ERV represents net headline annual rental payable on let units plus Estimated Rental Value (ERV) at 31 March 2008 on unlet units.

Chart 20
Floorspace under management (million m²)



77%

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

Source: LSG PLC Employee Engagement Survey 2007

Table 21
Top 10 global REITs

Rank	Company	Mkt cap £m
1	Westfield Group	15,878
2	Unibail-Rodamco	10,627
3	Simon Property Group	10,426
4	Prologis	7,647
5	Public Storage	7,607
6	Land Securities Group	7,017
7	Vornado Realty Trust	6,653
8	Equity Residential Trust Properties SHBI	5,629
9	Boston Properties	5,535
10	Kimco Realty	4,983

Source: Datastream, as at 31 March 2008

Risk description	Impact	Mitigation
<i>Property development risks continued</i>		
Letting risk <ul style="list-style-type: none"> Development remains unlet after completion or fails to meet lettings target 	<ul style="list-style-type: none"> Impact on profit 	<ul style="list-style-type: none"> Experienced and skilled in-house leasing teams Risk evaluation model to ensure that dividend remains covered by forecast earnings in the unlikely situation that all our London developments remain 100% vacant and retail schemes are only 65% let
Health, safety and environmental risk <ul style="list-style-type: none"> Construction is a high risk activity in terms of health and safety The environmental performance of a building is increasingly important 	<ul style="list-style-type: none"> Impact on reputation Potential criminal proceedings Financial impact of above Corporate reputation 	<ul style="list-style-type: none"> Advanced health and safety training programme in place, working in conjunction with our contractors Maintaining H&S awareness and training as a priority Project Managers toolkit 'Blueprint' has and will assist in reducing or mitigating risk All our office development schemes are subject to Breeam (energy performance) ratings with a target rating of Good/Very Good. Implementation of sustainable development process checklist
<i>Trillium risks</i>		
New business risk <ul style="list-style-type: none"> Unable to originate and win attractive new business 	<ul style="list-style-type: none"> Market pressure pushes down returns on new business opportunities creating a potential mismatch with investors' return expectations 	<ul style="list-style-type: none"> Dedicated new business team Established bid process framework Regular Investment Committee review
Service partners risk <ul style="list-style-type: none"> Performance of service partners 	<ul style="list-style-type: none"> Impact on reputation and potential financial penalties should service partners not deliver to agreed standards 	<ul style="list-style-type: none"> Regular assessment of service partners' performance On-going suppliers performance reviews Contingency plan set up with alternative suppliers where appropriate
Vacation of space risk <ul style="list-style-type: none"> Client space remains unlet after vacation 	<ul style="list-style-type: none"> Impact on income as a result of shortfall in rental income and on-going holding costs 	<ul style="list-style-type: none"> Specialist national disposals team manages surplus space
Head rent growth risk <ul style="list-style-type: none"> Inflation on head rents payable higher than increases in unitary charge 	<ul style="list-style-type: none"> Growth of head rent on leasehold properties with negative effect on income statement 	<ul style="list-style-type: none"> Budgetary forecasts to asset level Lease restructuring/rent review processes Freehold buy-ins Hedging income from freehold against leasehold properties
Health, safety and environmental risk <ul style="list-style-type: none"> Responsibility for the health and safety and environmental risks on behalf of clients and their employees 	<ul style="list-style-type: none"> Impact on reputation or potential criminal proceedings resulting in financial impact 	<ul style="list-style-type: none"> Annual cycle of health and safety audits Quarterly and annual Board reporting Dedicated specialist personnel for environment and health and safety Established policy and procedures including award-winning health and safety system and ISO 14001 certified environmental system Active environment programme addressing key areas of impact (energy and waste)

We employ dedicated environment and health and safety experts

Our people

We set out to attract, retain and develop the brightest and best people in our industry and to maximise the contribution they make to the Company. We are very proud of the expertise, ambition and sheer energy of the people in Land Securities and believe that the quality of our employees is an enormous source of competitive advantage for our businesses. For us, key areas within employee development include:

- **Communication and engagement**

Progress here is best measured by our annual employee engagement survey. This year we saw a good response rate of 82%, high levels of satisfaction and very positive responses around important issues such as leadership, clarity on objectives and having the right tools to do the job.

Areas that require more attention from us over the next year include providing employees with greater opportunities to contribute to decision making and greater opportunities to develop careers further. Overall we are pleased with the results, particularly as the survey took place soon after we announced plans for demerger.

- **Reward and recognition**

To make sure we stay competitive in terms of remuneration we benchmark our packages against a range of comparable organisations and professions. We believe our current levels of reward and recognition are competitive and serve us well in terms of recruiting and retaining excellent employees.

Along with a base salary, most of our employees are also included in a performance-related bonus scheme and are eligible for a range of benefits such as pension and insurance schemes.

For information on pay and rewards for our Executive Directors and Non-executive Directors please see page 66.

- **Employment policies**

Our policy is to ensure there is equal opportunities access for all. We always give full and fair consideration to applications from all parts of the communities in which we work. Our focus is on developing a diverse workforce, all of whom have access to learning and career development opportunities.

Our approach to sustainability

We have a long history of addressing environmental issues and improving the way we operate to support sustainability. This has been important to the business for many years, and it is increasingly important to those we work with and rely upon – customers, local authorities, central government, business partners, suppliers and the public.

You can find coverage of our approach to sustainability on pages 54 to 61 of this annual report and in our Corporate Responsibility Reports, which are available at www.landsecurities.com.

Table 22

Development stakeholder groups

Stage	Stakeholder
Site assembly	<ul style="list-style-type: none"> ■ Adjacent owners ■ Local authorities
Design	<ul style="list-style-type: none"> ■ CABE ■ Energy consultants and Breeam ■ Heritage bodies ■ Local authorities
Public consultation	<ul style="list-style-type: none"> ■ Businesses ■ Local authorities ■ Residents ■ Schools and other community organisations ■ Transport
Planning	<ul style="list-style-type: none"> ■ Department for Communities and Local Government ■ Local authorities ■ Local communities
Construction	<ul style="list-style-type: none"> ■ Contractors ■ Design team ■ Local communities
Letting	<ul style="list-style-type: none"> ■ Agents ■ Occupiers

90%

Ninety per cent of our employees say they are satisfied working for the Land Securities Group

Chart 23

Retail and London offices valuations at 31 March (£bn)



Our risks and how we manage them

The tables below show the principal risks we face. The risks facing our London and Retail businesses are broadly the same and relate to property investment and development risks. The risks facing Trillium are different and are stated separately.

UK Government is our largest single customer

Risk description	Impact	Mitigation
<i>Property investment risks</i>		
Market conditions <ul style="list-style-type: none"> ■ Prolonged downturn in tenant demand in the City market ■ Reduced consumer spending leading to lower retail sales 	<ul style="list-style-type: none"> ■ Threat of voids in the development portfolio ■ Threat of cutbacks in retailer opening programme 	<ul style="list-style-type: none"> ■ Committed development exposure limited to remaining space in One New Change (due to complete in 2010) and Dashwood House (due to complete in Q4 2008). 20 Fenchurch Street is not committed yet and will only start when market conditions are favourable or a prelet of part is in place ■ Pre-letting of key units before committing to development. Sales programme has already divested schemes and locations most likely to suffer adverse impact
Market cycles <ul style="list-style-type: none"> ■ Property markets are cyclical 	<ul style="list-style-type: none"> ■ Underperformance of investment portfolio impacting on financial performance 	<ul style="list-style-type: none"> ■ Good quality covenants ■ Secure income flows under UK lease structure ■ Annual investment appraisals
Property risk <ul style="list-style-type: none"> ■ Asset value concentration 	<ul style="list-style-type: none"> ■ Poor performance of a single asset having material impact on overall performance 	<ul style="list-style-type: none"> ■ Large multi-asset portfolio ■ Largest property represents only 5.5% of combined portfolio ■ Average investment property lot size of £71.5m ■ Retail assets combine a range of diversified income streams
Tenant risk <ul style="list-style-type: none"> ■ Tenant concentration 	<ul style="list-style-type: none"> ■ Impact on revenue if a major occupier fails 	<ul style="list-style-type: none"> ■ Diversified tenant base ■ Government largest single customer representing 9.7% gross rents, the next largest represents 4.1% ■ Of our income, 65.1% is derived from tenants which make less than a 1% contribution to rent roll
Health, safety and environmental risk <ul style="list-style-type: none"> ■ Responsibility for the safety of visitors to our properties and our environmental performance 	<ul style="list-style-type: none"> ■ Impact on reputation or potential criminal proceedings resulting in financial impact 	<ul style="list-style-type: none"> ■ Annual cycle of health and safety audits ■ Quarterly Board reporting ■ Dedicated specialist personnel for environment and health and safety ■ Established policy and procedures including award-winning health and safety system and ISO 14001 certified environmental system ■ Active environment programme addressing key areas of impact (energy and waste) ■ Residual carbon footprint from common parts of retail shopping centres and our Head Offices are offset with Carbon Neutral Company
<i>Property development risks</i>		
Site assembly risk <ul style="list-style-type: none"> ■ Third-party interests in part of site cannot be acquired 	<ul style="list-style-type: none"> ■ Unable to progress development either in time, at all, or within budget 	<ul style="list-style-type: none"> ■ Policy of buying into all or part of future development sites early as income-producing investments ■ Experience of Compulsory Purchase Order procedures
Planning risk <ul style="list-style-type: none"> ■ Development proposals fail to gain sufficient support and therefore planning consent 	<ul style="list-style-type: none"> ■ Unable to progress developments in a timely manner 	Development expertise including: <ul style="list-style-type: none"> ■ Skilled development management teams ■ Public consultation and change management capabilities ■ Long-standing relationships with key development stakeholders ■ Reputation
Construction risk <ul style="list-style-type: none"> ■ Construction cost overruns or poor management of construction ■ New and different procurement methodologies and contract forms for London and UCD ■ Construction cost inflation ■ Supplier capacity and capability 	<ul style="list-style-type: none"> ■ Returns are eroded by cost overruns or project completion is delayed ■ Different risk profiles and unfamiliar terms and conditions ■ Cost in excess of assumptions in appraisal ■ Lack of competitive tension ■ Poor performance by suppliers 	<ul style="list-style-type: none"> ■ Transfer of risk to specialist contractors ■ Skilled project management teams ■ Use of specialist advisers and growing in-house familiarity ■ Adequate provision in appraisals ■ Forward purchase of high inflation risk items ■ Closer, more open relationship with the supply chain

All development schemes completed on budget and on time, subject to one project delayed by three weeks