

Group business review

Our business model

We are the largest Real Estate Investment Trust (REIT) in the UK by market capitalisation. We own, develop and manage commercial property through two business divisions – the Retail Portfolio and the London Portfolio. We manage our two divisions through the property market's cycles, adjusting key investment and development activities ahead of changing conditions to maximise return and minimise risk. All of our property activities take place in the UK.

Our customers

The Group's largest customer is Central Government, who account for 6% of the rental income on our combined portfolio. The Retail Portfolio's largest customer, aside from Accor hotels, is Arcadia, who account for 2.5% of the rental income on the portfolio. The London Portfolio's largest customer, aside from Central Government, is Royal Bank of Scotland who account for 2.9% of the rental income on the portfolio. Table 22 shows our top 12 occupiers.

In Retail, the level of retailer voids has decreased, but we continue to see tough commercial conditions for many occupiers. During the year we worked closely with occupiers to help them develop new and better ways to minimise costs and trade successfully. We try to maximise value for money for service charge payers, and we now enable all of our occupiers to discuss proposed charges with us during the budgeting process – an improvement we introduced in 2010. We share our plans before budgets are finalised, so retailers can query and influence final costs and related matters. We also provide a breakdown of service charges at all of our shopping centres and retail parks, so occupiers can see how their charge compares to those elsewhere.

We have further strengthened relationships with retailers by introducing a new retailer liaison role at our major shopping centres. Reporting directly to the centre director, the liaison manager helps ensure we understand and address retailers' changing needs.

On the leasing side, our Clearlet leases are helping to simplify leasing activity. Introduced in 2009, these are shorter and simpler than previous standard leases. They help to reduce the time and costs involved in a deal, for both sides.

The interactions that take place between our employees and shoppers help determine the success of a centre or park, and the retailers trading there. Our Customer Service DNA programme enables employees to develop the way they welcome people to our properties and assist them in their visit. Last year we rolled out the programme to seven shopping centres. This year it was put in place at all of our centres. We also brought in consultants On Brand Partners to further improve our training and make it as consistent as possible across the portfolio.

In London, we have continued to hone the way we support occupiers. Previously organised into three units, we now have two dedicated occupier teams covering all of our activities. The West End team is located in Portland House, SW1. The City and Mid-town team is located in New Street Square, EC4. This has simplified our operations and made us better aligned with agents and others in our industry. Both teams include individuals from financial management and property management, which ensures occupiers receive a seamless service rather than having to work with different Land Securities teams to address different requirements. Our open door policy means occupiers can come in at any time to discuss issues or make suggestions. This underlines the continuing value of face-to-face meetings and good relationships.

TOP 5 UK REITS

TABLE 19

Rank	Company name	Mkt cap £m
1	Land Securities Group PLC	5,630
2	British Land PLC	4,266
3	Hammerson plc	2,957
4	Capital Shopping Centres Group PLC	2,851
5	Derwent London plc	1,774

Source: Datastream, as at 31 March 2012.

Customer satisfaction

Once again, we carried out a Real Service survey of retailers at shopping centres to measure their perception of our service levels. The accompanying commentary from Real Service stated that 'impressive levels of overall satisfaction' were maintained in a very difficult trading environment, along with 'strong operational performance – retailers say Land Securities know how to run shopping centres'. Results – on a scale of 1 (very poor) to 5 (excellent) – included:

- Responsiveness 4.20 (4.21 last year)
- Understanding needs 4.05 (4.03 last year)
- Willingness to recommend 98% (98% last year)
- Communication 4.08 (4.07* last year)
- Overall satisfaction 4.03 (4.07 last year).

*Adjusted from 4.05 reported in last year's Annual Report.

We also built on last year's very strong improvements in customer satisfaction scores in London. Key figures included:

- Responsiveness 83.8% (80.3% last year)
- Understanding needs 93.4% (89.6% last year)
- Willingness to recommend 83.6% (80% last year)
- Communication 83.2% (84.7% last year)
- Overall satisfaction based on the four key satisfaction measures 86% (83.6% last year).

Our people

Our objective is to attract, retain and develop the brightest and best people in property. We want them to make the most of their talents and abilities, and aspire to be the best at what they do. We want our employees to be ambitious and accountable. We are continuing to build a performance culture that encourages and rewards the individuals who create value for the Company.

We are committed to equal opportunities and a diverse and inclusive workplace in which everyone is treated with respect. Our adherence to the UN Declaration of Human Rights underpins all our policies, systems and actions.

We are working to develop leadership skills at all levels of the Company, and are identifying future leaders earlier in their career. We encourage people to speak up and listen to others. We encourage open dialogue. And we support any employee who volunteers to provide additional support to local communities.

We believe our position as the UK's largest REIT provides us with advantages when attracting new talent and providing career development opportunities for our employees. There is increasing emphasis on internal promotion, with greater opportunity for employees to move up and across the business as they develop their capabilities and experience. We increasingly look to compare our employee development and culture with high-performance companies in general, rather than others in our industry.

During the year we refreshed our annual employee engagement survey, adding a stronger emphasis on engagement and performance. The overall response rate of 83% was good, and up 1% on the previous year. Key findings included:

- 92% said 'Overall, I am satisfied working for Land Securities'
- 94% of respondents said 'I am proud to work for Land Securities'
- 94% said 'I believe strongly in the goals and objectives of Land Securities'

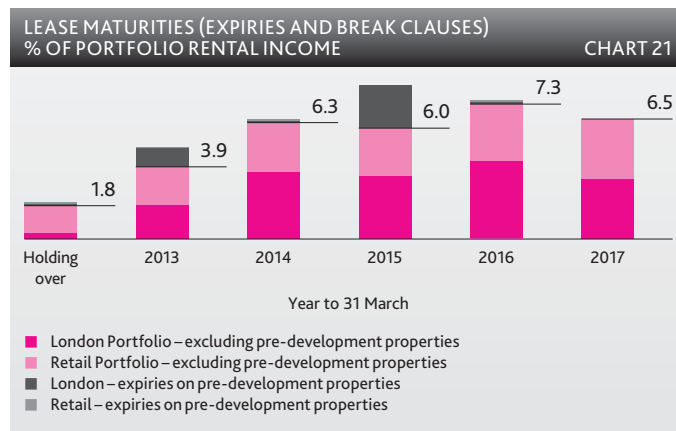
Our suppliers

Along with our own employees, we also have an effect on the performance and opportunities of individuals employed by our major suppliers and contractors. Through development, we are creating jobs and career opportunities during a difficult time in the economy. Successful development is leading to further employment opportunities when new schemes open. We are continuing to work closely with major suppliers to ensure their people are well trained, and we expect all of our partners to uphold our high standards for health and safety.

Across the Group, we have a robust tendering process to ensure we get the best value from our supplier relationships. We monitor the performance of each supplier very carefully. We always strive to form an effective partnership with a supplier, so we can work together to achieve mutual advantage.

In retail asset management, the most significant activities carried out by suppliers are cleaning, security and mechanical/electrical services. We have access to a good number of potential suppliers in all key areas, which helps to mitigate supply-related risk.

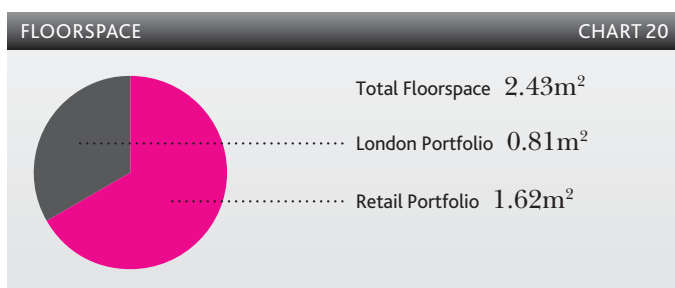
In retail development, the most significant activities carried out by suppliers are construction, construction-related trades and architectural services. In construction, we work with all of the major firms active in the UK. We look for partners who have scale, proven capabilities, a sound ownership structure, a strong track record and a commitment to meeting and setting high standards. Either directly or through our service partners, we employ a wide range of trades



companies. We place increasing importance on enabling companies local to a scheme to benefit from our investment in the area, where possible.

In London, our asset management teams monitor the performance of contractors very closely. The most significant activities carried out by suppliers include cleaning, security, engineering, waste management and concierge services. We are currently carrying out a retendering programme across a number of assets and expect this to generate significant cost savings while ensuring we continue to provide high levels of service for our occupiers. We particularly look for suppliers with a low turnover of employees, as employee satisfaction and performance are strong indicators of motivation, good management and a commitment to quality. We believe the best performance is achieved when our service partners are able to discuss issues and suggestions openly with us and other suppliers. To support this, we have established a service partner board. Chaired by one of our service partners, the board provides a valuable forum for open discussion and new ideas.

In London development, the most significant activities carried out by suppliers are construction, construction-related trades and architectural services. We generally work with service partners who have a very strong track record on previous Land Securities' schemes – companies we know and trust. Most contracts are on a design and build basis, with the balance of risk falling to the service partners. At our joint venture schemes at 20 Fenchurch Street, EC3, and Victoria Circle, SW1, the contracts are on a contractor management basis, with the balance of risk falling to Land Securities and our joint venture partner. This year saw the fourth year of decline in the UK construction sector, so there is plenty of supply in the construction market and we are gaining very competitive estimates during the tendering process. Our strategy is to benefit from lower construction costs now, while timing the completion of our schemes so we deliver space into a market with rising rents and investment values.



Our communities

We work hard to understand and meet the needs of local people. We want our buildings to be part of – not apart from – the area and community in which they are located.

With each major development or asset management initiative, we consult with all interested parties well before the first brick is laid. We work closely with Local Authorities, community agencies and voluntary groups to create employment, education and enterprise opportunities. And we link up with national and local charities, so our buildings can help to connect people with causes they care about.

Our employees involve themselves in charitable work by donating or raising money or volunteering their time. The Land Securities Foundation supports the efforts of our volunteers. It also awards bursaries and runs our Give As You Earn scheme to encourage charitable donations from employees.

Our investments in new development schemes mean we play a particularly important role in providing employment and training opportunities in some communities. We are constantly evolving our apprenticeship schemes, and we have specific initiatives to help groups who are furthest from the job market, including ex-offenders, young people with no experience and the long-term unemployed.

Our environment

Land Securities continues to lead the way on sustainability. No other property developer sets such tough targets. No other developer has pioneered so many environmental initiatives. We were the first company in our sector to have an Energy Manager and first to have an Environment Manager. We were the first to publish a standard environment report, and the only property company to take part in the Voluntary Emissions Trading Scheme. We were the first to obtain the Carbon Trust Standard, and first to qualify for Environmental Management Standard 14001. We are a Planet Positive business and were one of the first companies to sign up to the 10:10 campaign for carbon emission reductions.

We want to be regarded as a key partner to local and national government on matters related to the sustainability of commercial property. We have increased our engagement with policy makers at all levels, providing insights on issues from the commercial property industry's perspective. For example, in June 2012 we ran a conference for policy makers, businesses and property companies looking in detail at the relationship between financial value and environmental performance.

Finding better ways to incentivise investment in sustainable approaches will prove vital, as the UK works towards meeting its ambitious carbon emission reduction targets. Retrofitting commercial property in the UK will be a particularly difficult and important challenge. For Land Securities, investments made to improve environmental performance today should help to protect us from changes to regulation tomorrow, but we also hope to see a growing premium for buildings that offer high levels of environmental performance.

For more on our work with our communities, people, suppliers and the environment, please see the Corporate Responsibility section on [p62–69](#).

TOP 12 OCCUPIERS

TABLE 22

	% of Grouprent ¹
Central Government (including Queen Anne's Gate, SW1) ²	6.0
Accor	4.7
Royal Bank of Scotland	2.9
Deloitte	2.6
Arcadia Group	2.5
Sainsbury's	1.9
Bank of New York Mellon	1.5
Dixons Retail	1.5
Next	1.4
Boots	1.4
Primark	1.4
Taylor Wessing	1.4
	29.2

1. Includes share of joint ventures.

2. Rent from Central Government excluding Queen Anne's Gate, SW1 is 1.1%.