

Notes to the financial statements

—for the year ended 31 March 2009

1. Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared in Sterling (rounded to the nearest hundred thousand), which is the presentation currency of the Group, and under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, derivative financial instruments and financial assets and liabilities held for trading. A summary of the more important Group accounting policies which have been applied consistently across the Group is set out in note 2 below.

The accounting policies are consistent with those applied in the year ended 31 March 2008, as amended to reflect the adoption of the new Standards, Amendments to Standards and Interpretations which are mandatory for the year ended 31 March 2009. In most cases, these new requirements are not relevant for the Group. This is the case for IFRIC12 'Service Concession Arrangements', IFRIC14 'IAS19 The limit on a defined benefit asset, minimum funding requirements and their interaction' and IFRIC13, 'Customer loyalty programmes'.

The following new Standards and Interpretations have been issued but are not effective for the year ended 31 March 2009, and have not been adopted early, IAS23 (amendment) (effective from 1 January 2009), 'Borrowing costs', IAS1 (revised) (effective from 1 January 2009) 'Presentation of financial statements', IFRS2 (amendment), 'Share-based payment' (effective from 1 January 2009), IAS32 (amendment), 'Financial instruments: Presentation', and IAS1 (amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009), IFRS1 (amendment), 'First time adoption of IFRS', and IAS27, 'Consolidated and separate financial statements', (effective from 1 January 2009), IFRS8 'Operating Segments' and IFRS3 (revised) 'Business Combinations' (effective from 1 July 2009). It is anticipated that the adoption of these new Standards and Interpretations in future periods will not have a material impact on the measurement of assets and liabilities included in the financial statements or the Group's income and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates and are disclosed in note 3.

As a result of the disposal of Trillium on 12 January 2009, and in compliance with IFRS5 'Non-current assets held for sale and discontinued operations', the 2008 comparatives, where relevant, have been restated to classify the disposed Trillium operations as 'Discontinued Operations'. In addition, the Accor hotel portfolio, which was previously reported as part of the Trillium business segment and has been retained by the Group, has been classified as 'Retail Portfolio' and the 2008 segmental comparatives have been restated to reflect this reclassification.

Land Securities Group PLC has not presented its own income statement, as permitted by Section 230 (1)(b) Companies Act 1985. The loss for the year of the Company, dealt with in its financial statements, was £273.6m (2008: loss of £15.3m).

2. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements for the year ended 31 March 2009 incorporate the financial statements of Land Securities Group PLC (the Company) and all its subsidiary undertakings (the Group). Subsidiary undertakings are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences and until the date control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Associates are those entities over which the Group has significant influence, but which are neither subsidiaries nor joint ventures. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IAS31 'Interests in joint ventures' and following the procedures for this method set out in IAS28 'Investments in associates'. Associates are also accounted for using the equity method. The equity method requires the Group's share of the joint venture's and associate's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's and associate's net assets to be presented separately in the balance sheet. Joint ventures with net liabilities are carried at zero value in the balance sheet where there is no commitment to fund the deficit and any distributions are included in the consolidated income statement for the year.

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

The majority of subsidiaries and joint ventures have the same year end as the Company; however, a small number of subsidiaries and joint ventures have non-coterminous year ends. In these circumstances, management accounts prepared to 31 March are used for the purpose of the Group consolidation.

(b) Segment reporting

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

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

(c) Investment properties

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

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

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included in the income statement as a valuation gain or loss.

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

Notes to the financial statements

—for the year ended 31 March 2009 continued

2. Significant accounting policies continued

(c) Investment properties continued

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

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

(d) Property, plant and equipment

Operating properties

These were properties owned and managed by Trillium, which do not satisfy the definition of an investment property. Operating properties were stated at cost less accumulated depreciation. Depreciation was charged to the income statement on a straight-line basis over the estimated useful lives of the properties concerned.

The estimated useful lives were as follows:

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

Other property, plant and equipment

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

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

(e) Goodwill

Goodwill arising on acquisition of businesses is capitalised as an asset, and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of the acquisition. In accordance with IFRS3 'Business combinations', the goodwill is not amortised but is reviewed for impairment at each reporting date.

(f) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the Company's balance sheet less any provision for permanent impairment in value.

(g) Trading properties and long-term development contracts

Trading properties are those properties held for sale and are shown at the lower of cost and net realisable value.

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

(h) Trade and finance lease receivables

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

(i) Cash and cash equivalents

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

(j) Non-current assets held for sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are categorised as non-current assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this

purpose, a sale is highly probable if management are committed to a plan to achieve the sale; there is an active programme to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and; it is unlikely there will be changes to the plan.

Where an asset or disposal group is acquired with a view to resale, it is classified as a non-current asset held for sale if the disposal is expected to take place within one year of the acquisition, and it is highly likely that the other conditions referred to above will be met within a short period of the acquisition. The profit or loss arising on sale of a disposal group will be recognised as discontinued operations.

(k) Trade and other payables

Trade and other payables are stated at cost; cost equates to fair value.

(l) Provisions

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

(m) Borrowings

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

Where existing borrowings are exchanged for new borrowings and the terms of the existing and new borrowings are not substantially different (as defined by IAS39), the new borrowings are recognised initially at the carrying amount of the existing borrowings. The difference between the amount initially recognised and the redemption value of the new borrowings is recognised in the income statement over the period of the new borrowings, using the effective interest method.

(n) Pension benefits

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

Notes to the financial statements

—for the year ended 31 March 2009 continued

are recognised immediately in the statement of recognised income and expense.

Contributions to defined contribution schemes are charged to the income statement as incurred.

(o) Share capital

Ordinary shares are classed as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

The consideration paid, including any directly attributable incremental costs, by any Group entity to acquire the Company's equity share capital, is deducted from equity until the shares are cancelled, reissued or disposed of. Where own shares are sold or reissued, the net consideration received is included in equity. Shares acquired by the Employee Share Ownership Plan (ESOP) are presented on the balance sheet as 'own shares'. Purchases of treasury shares are deducted from retained earnings.

(p) Share-based payments

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

(q) Revenue

The Group recognises revenue on an accruals basis when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. Revenue comprises rental income, service charges and other recoveries from tenants of the Group's investment and trading properties, proceeds of sales of its trading properties and income arising on long-term contracts. Rental income includes the income from managed operations such as car parks, food courts, serviced offices and flats. Service charges and other recoveries include income in relation to service charges and directly recoverable expenditure together with any chargeable management fees.

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

When property is let out under a finance lease, the Group recognises a receivable at an amount equal to the net investment in the lease at inception of the lease. Rentals received are accounted for as repayments of principal and finance income as appropriate. Finance income is allocated to each period during the lease

term so as to produce a constant periodic rate of interest on the remaining net investment in the finance lease. Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded as income in the periods in which they are earned.

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

(r) Expenses

Property and contract expenditure is expensed as incurred with the exception of expenditure on long-term development contracts (see (g) above).

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

Minimum lease payments payable on finance leases and operating leases accounted for as finance leases under IAS40 are apportioned between finance expense and reduction of the outstanding liability. Finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining liability. Contingent rents (as defined in (q) above) are charged as an expense in the periods in which they are incurred.

(s) Impairment

The carrying amounts of the Group's non-financial assets, other than investment properties (see (c) above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

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

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

(t) Derivative financial instruments (derivatives) and hedge accounting

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

Where hedge accounting is applied the Group documents, at the inception of the transaction, the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The fair value of interest-rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

- Cash flow hedges: where a derivative is designated as a hedge of the variability of a highly probable forecast transaction (i.e. an interest payment) the element of the gain or loss on the derivative that is an effective hedge is recognised directly in equity. Where the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (i.e. when interest income or expense is recognised).
- Derivatives that do not qualify for hedge accounting: the gain or loss on derivatives that do not qualify for hedge accounting, and the non-qualifying element of derivatives that do qualify for hedge accounting, are recognised in the income statement immediately.

(u) Income tax

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled.

Notes to the financial statements

—for the year ended 31 March 2009 continued

2. Significant accounting policies continued

(u) Income tax continued

No provision is made for temporary differences

- (i) arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit; and
- (ii) relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

(v) Leases

A Group company is the lessee:

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

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

A Group company is the lessor:

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

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

(w) Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim and quarterly dividends are recognised when paid.

3. Significant judgements, key assumptions and estimates

The Group's significant accounting policies are stated in note 2 above. Not all of these significant accounting

policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

(a) Investment property valuation

The Group uses the valuation performed by its external valuers, Knight Frank LLP, as the fair value of its investment properties.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental revenues from that particular property. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market, as has recently been the case.

The investment property valuation contains a number of assumptions upon which Knight Frank LLP has based its valuation of the Group's properties as at 31 March 2009. The assumptions on which the Property Valuation Report has been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties and the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are market standard and accord with the RICS Valuation Standards. However, if any assumptions made by the property valuer prove to be false, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial condition.

Investor sentiment towards property investment weakened during 2008 and so far in 2009, and there were relatively fewer property acquisitions and disposals than in 2007. Assessing property valuations is therefore inherently more uncertain in current market conditions as there is a more limited number of comparable transactions against which to assess the value of a particular property. Therefore, it is likely that, in the current environment, commercial property prices and values may continue to be subject to heightened volatility.

(b) Finance lease calculations

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

(c) Trading properties

Trading properties are carried at the lower of cost and net realisable value. The latter is assessed by the Group having regard to suitable valuations performed by its external valuer, Knight Frank LLP.

The estimation of the net realisable value of the Group's trading properties, especially the development land and infrastructure programmes, is inherently subjective due to a number of factors, including their complexity, unusually large size, the substantial expenditure required and long timescales to completion. In addition, as a result of these timescales to completion, the plans associated with these programmes could be subject to significant variation. As a result, and similar to the valuation of investment properties, the net realisable values of the Group's trading properties are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate.

If the assumptions upon which the external valuer has based their valuation prove to be false, this may have an impact on the net realisable value of the Group's properties, which would in turn have an effect on the Group's financial condition.

(d) Trade receivables

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

(e) Valuation of interest-rate swaps

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date.

(f) Compliance with the Real Estate Investment Trust (REIT) taxation regime

On 1 January 2007 the Group converted to a group REIT. In order to achieve and retain group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax exempt business; and
- at least 90% of the profit of the property rental business must be distributed.

The Directors intend that the Group should continue as a group REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business.

Notes to the financial statements

—for the year ended 31 March 2009 continued

4. Segmental information

Group	2009			2008 (restated) ¹		
	Retail Portfolio £m	London Portfolio £m	Total £m	Retail Portfolio £m	London Portfolio £m	Total £m
Income statements						
Rental income	302.8	338.9	641.7	302.9	335.2	638.1
Service charge income	48.6	64.8	113.4	47.5	53.7	101.2
Trading property sale proceeds	8.8	0.4	9.2	1.3	42.3	43.6
Long-term development contract income	—	48.9	48.9	—	26.3	26.3
Finance lease interest	2.7	5.3	8.0	2.9	5.9	8.8
Revenue	362.9	458.3	821.2	354.6	463.4	818.0
Rents payable	(11.6)	(4.6)	(16.2)	(11.0)	(5.3)	(16.3)
Other direct property or contract expenditure	(79.9)	(83.2)	(163.1)	(65.9)	(73.5)	(139.4)
Indirect property or contract expenditure	(33.8)	(30.4)	(64.2)	(35.7)	(30.3)	(66.0)
Long-term development contract expenditure	—	(45.1)	(45.1)	—	(24.3)	(24.3)
Cost of sales of trading properties	(6.6)	(0.1)	(6.7)	(0.9)	(39.9)	(40.8)
Depreciation	(1.9)	(4.8)	(6.7)	(2.3)	(5.5)	(7.8)
Underlying segment operating profit	229.1	290.1	519.2	238.8	284.6	523.4
(Loss)/profit on disposal of non-current properties	(54.8)	(76.0)	(130.8)	16.4	40.9	57.3
Net deficit on revaluation of investment properties	(1,923.1)	(2,190.3)	(4,113.4)	(693.7)	(464.7)	(1,158.4)
Impairment of trading properties	—	(92.3)	(92.3)	—	—	—
Segment result	(1,748.8)	(2,068.5)	(3,817.3)	(438.5)	(139.2)	(577.7)
Demerger costs			(10.2)			(9.8)
Unallocated expenses			(14.2)			(13.0)
Operating loss			(3,841.7)			(600.5)
Net interest expense (note 8)			(332.5)			(286.4)
			(4,174.2)			(886.9)
Share of the loss of joint ventures (post-tax)						
– Retail Portfolio			(554.7)			(86.7)
– London Portfolio			(44.3)			(14.4)
			(599.0)			(101.1)
Loss before tax from continuing activities			(4,773.2)			(988.0)

1. In compliance with IFRS5, the 2008 Group comparatives have been restated as the Trillium discontinued operations have been removed from continuing activities and the operations of the Accor hotels contract has been included within Retail Portfolio. In addition, following a review of the Group's management structure the 'Other Investment Portfolio' segment has been reallocated to 'Retail Portfolio' and 'London Portfolio' on the basis of how they are managed.

Included within rents payable is finance lease interest payable of **£2.5m** (2008: £2.0m) and **£1.8m** (2008: £2.8m) respectively for Retail Portfolio and London Portfolio.

Notes to the financial statements

—for the year ended 31 March 2009 continued

4. Segmental information continued

Group	2009			2008 (restated) ²			
	Retail Portfolio £m	London Portfolio £m	Total £m	Retail Portfolio £m	London Portfolio £m	Discontinued operations £m	Total £m
Balance sheets							
Investment properties	3,205.4	4,724.0	7,929.4	5,100.6	7,069.6	126.5	12,296.7
Operating properties	—	—	—	—	—	544.8	544.8
Other property, plant and equipment	4.7	9.6	14.3	8.0	11.7	53.9	73.6
Net investment in finance leases	48.5	67.8	116.3	53.2	104.8	175.7	333.7
Goodwill	—	—	—	—	—	148.6	148.6
Investments in Public Private Partnerships	—	—	—	—	—	25.4	25.4
Investment in an associate undertaking	—	—	—	—	—	42.9	42.9
Investments in joint ventures	906.9	23.9	930.8	1,377.4	28.1	5.1	1,410.6
Trading properties and long-term development contracts	10.0	84.9	94.9	16.5	152.5	4.0	173.0
Trade and other receivables	201.4	190.7	392.1	215.0	411.2	211.5	837.7
Non-current assets classified as held for sale	—	—	—	—	—	664.1	664.1
Segment assets	4,376.9	5,100.9	9,477.8	6,770.7	7,777.9	2,002.5	16,551.1
Unallocated assets			1,693.9				64.9
Total assets			11,171.7				16,616.0
Trade and other payables	(335.9)	(241.3)	(577.2)	(286.7)	(243.9)	(334.1)	(864.7)
Provisions	—	—	—	—	—	(77.6)	(77.6)
Liabilities directly associated with non-current assets classified as held for sale	—	—	—	—	—	(427.7)	(427.7)
Segment liabilities	(335.9)	(241.3)	(577.2)	(286.7)	(243.9)	(839.4)	(1,370.0)
Unallocated liabilities			(5,774.3)				(5,663.1)
Total liabilities			(6,351.5)				(7,033.1)
Other segment items							
Capital expenditure	147.6	272.0	419.6	220.1	368.5	51.7	640.3

2. The 2008 Group comparatives have been restated to include the Accor hotels contract within the Retail Portfolio following the disposal of the Trillium discontinued operations.

All the Group's operations are in the UK and, following the disposal of Trillium on 12 January 2009, are organised into two main business segments against which the Group reports its primary segmental information, being Retail Portfolio and London Portfolio.

Company

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

5. Operating loss

Group	2009 £m	2008 (restated) ¹ £m
The following items have been charged or (credited) in arriving at operating loss from continuing activities:		
Depreciation:		
Investment properties (note 13)	2.1	2.9
Other property, plant and equipment (note 15)	4.6	4.9
Impairment of trading properties (note 23)	92.3	—
Loss/(profit) on disposal of non-current properties	130.8	(57.3)
Bad debts written off and provision for doubtful debts (note 24)	10.5	3.6
Employee costs – continuing activities (note 6)	59.9	56.8
Auditor remuneration (note 7)	1.4	3.1

1. In compliance with IFRS5, the 2008 Group comparatives have been restated to remove the items charged/(credited) in relation to the Trillium discontinued operations.

Notes to the financial statements

—for the year ended 31 March 2009 continued

6. Employee costs

Group	2009			2008		
	Continuing activities Number	Discontinued operations Number	Total Number	Continuing activities Number	Discontinued operations Number	Total Number
The average monthly number of employees during the year, excluding Directors were:						
Indirect property or contract and administration	471	165	636	461	154	615
Direct property or contract services:						
Full-time	173	780	953	193	772	965
Part-time	51	20	71	49	18	67
	695	965	1,660	703	944	1,647

Group	2009			2008		
	Continuing activities £m	Discontinued operations ¹ £m	Total £m	Continuing activities £m	Discontinued operations £m	Total £m
Employee costs						
Salaries	46.3	43.4	89.7	45.1	46.0	91.1
Social security	5.2	4.9	10.1	5.0	5.3	10.3
Other pension (note 33)	3.6	—	3.6	3.9	0.2	4.1
Share-based payments (note 35)	4.8	3.8	8.6	2.8	2.2	5.0
	59.9	52.1	112.0	56.8	53.7	110.5

1. The employee costs for discontinued operations relates to the employee costs of Trillium for the period from 1 April 2008 to 12 January 2009, the date of disposal.

Group	2009 £m	2008 £m
Directors		
Aggregate emoluments excluding pensions	3.2	10.9
Company contributions to pension schemes	0.6	0.6
	3.8	11.5

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

Four Directors (2008: five) have retirement benefits accruing under money purchase pension schemes. Retirement benefits accrue to one Director (2008: one) under the Group's defined benefit pension scheme. Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' remuneration report on pages 76 to 79.

7. Auditor remuneration

Group	2009 £m	2008 £m
Services provided by the Group's auditor		
During the year the Group obtained the following services from the Group's auditor at costs as detailed below:		
Audit fees in respect of the accounts of the Company	0.4	0.6
Audit fees in respect of the audit of subsidiary undertakings and associates	0.3	0.4
Fees for services supplied pursuant to legislation	0.1	0.1
Services relating to taxation	0.1	0.2
Other services in relation to the demerger	0.5	1.1
Other services in relation to the disposal of Trillium ¹	0.6	—
Other services in relation to the sale of Trillium Investment Partners LP	—	0.7
Other services in relation to the Rights Issue ²	0.3	—
	1.4	1.8
	2.3	3.1

1. Included within discontinued operations.

2. Charged directly to equity.

It is the Group's policy to employ PricewaterhouseCoopers LLP on assignments additional to their statutory duties where their expertise and experience with the Group are important. Where appropriate, the Group seeks tenders for services and if fees are expected to be greater than £25,000 they are pre-approved by the Chairman of the Audit Committee.

Notes to the financial statements

—for the year ended 31 March 2009 continued

8. Net interest expense

	Group		Company	
	2009 £m	2008 (restated) ¹ £m	2009 £m	2008 £m
Interest expense				
Bond and debenture debt	(191.1)	(195.1)	—	—
Bank borrowings	(95.4)	(127.1)	—	—
Other interest payable	(0.9)	(2.0)	(53.9)	(26.6)
Fair value losses on interest-rate swaps	(102.1)	(21.9)	—	—
Amortisation of bond exchange de-recognition	(11.7)	(7.6)	—	—
Interest on pension scheme liabilities	(7.5)	(7.1)	—	—
	(408.7)	(360.8)	(53.9)	(26.6)
Interest capitalised in relation to properties under development	43.7	48.5	—	—
Total interest expense	(365.0)	(312.3)	(53.9)	(26.6)
Interest income				
Short-term deposits	2.7	1.6	0.5	—
Long-term investment loans	0.7	—	—	—
Gain on disposal of foreign-exchange contract	2.7	—	—	—
Other interest receivable	1.5	1.3	19.5	14.7
Interest receivable from joint ventures	16.8	15.0	—	—
Expected return on pension scheme assets	8.1	8.0	—	—
Total interest income	32.5	25.9	20.0	14.7
Net interest expense	(332.5)	(286.4)	(33.9)	(11.9)

1. In compliance with IFRS5, the 2008 Group comparatives have been restated to remove the net interest expense in relation to the Trillium discontinued operations.

Included within rents payable (note 4) is finance lease interest payable of **£4.3m** (2008: £4.8m).

9. Dividends

Group and Company	Payment date	Restated ¹ per share pence	Actual per share pence	2009 £m	2008 £m
Ordinary dividends paid					
For the year ended 31 March 2007:					
Final dividend	23 July 2007	30.6	34.0	—	159.5
For the year ended 31 March 2008:					
First quarter	26 October 2007	14.4	16.0	—	74.5
Second quarter	7 January 2008	14.4	16.0	—	74.4
Third quarter	25 April 2008	14.4	16.0	74.4	—
Final quarter	28 July 2008	14.4	16.0	74.4	—
For the year ended 31 March 2009:					
First quarter	24 October 2008	14.9	16.5	76.8	—
Second quarter	12 January 2009	14.9	16.5	76.8	—
				302.4	308.4

1. The restated dividend per share represents the theoretical dividend per share that would have been paid had the bonus shares inherent in the Rights Issue been in existence at the relevant dividend dates.

The Board has proposed a final quarterly dividend for the year ended 31 March 2009 of **7.0p** per share (2008: 16.0p) which will result in a further distribution of **£53.3m** (2008: £74.4m). It will be paid on 24 July 2009 to shareholders who are on the Register of Members on 19 June 2009. The final dividend is in addition to the third quarterly dividend of **16.5p** or **£76.8m** paid on 24 April 2009 (2008: 16.0p or £74.4m). The total dividend paid and proposed in respect of the year ended 31 March 2009 is **56.5p** (2008: 64.0p). All numbers relate to actual dividends paid or proposed as opposed to restated dividends.

Notes to the financial statements

—for the year ended 31 March 2009 continued

10. Income tax

	Group		Company	
	2009 £m	2008 (restated) ¹ £m	2009 £m	2008 £m
Current tax				
Corporation tax credit for the year	–	(14.9)	(15.2)	(6.6)
Adjustment in respect of prior years	0.3	(0.6)	–	–
Corporation tax in respect of property disposals	–	0.5	–	–
Total current tax expense/(credit)	0.3	(15.0)	(15.2)	(6.6)
Deferred tax				
Origination and reversal of timing differences	0.2	(0.1)	–	–
Total deferred tax expense/(credit)	0.2	(0.1)	–	–
Total income tax expense/(credit) in the income statement	0.5	(15.1)	(15.2)	(6.6)

1. In compliance with IFRS5, the 2008 Group comparatives have been restated to remove the taxes which related to the Trillium discontinued operations.

The tax for the year is lower than the standard rate of corporation tax in the UK of **28%** (2008: 30%). The differences are explained below:

	Group		Company	
	2009 £m	2008 (restated) ¹ £m	2009 £m	2008 £m
Loss on activities before taxation	(4,773.2)	(988.0)	(288.8)	(21.9)
Loss on activities multiplied by the rate of corporation tax in the UK of 28% (2008: 30%)	(1,336.5)	(296.4)	(80.9)	(6.6)
Effects of:				
Corporation tax on disposal of non-current assets	–	5.1	–	–
Joint venture accounting adjustments	–	0.9	–	–
Prior year corporation tax adjustments	0.3	(0.6)	–	–
Prior year deferred tax adjustments	(1.1)	(0.4)	–	–
Non-allowable expenses and non-taxable items	4.5	12.0	65.7	–
Losses carried forward	25.7	–	–	–
Exempt property rental profits and revaluations in the year	1,343.1	283.5	–	–
Exempt property gains in the year	(35.5)	(19.2)	–	–
Total income tax expense/(credit) in the income statement (as above)	0.5	(15.1)	(15.2)	(6.6)

1. In compliance with IFRS5, the 2008 Group comparatives have been restated to remove the taxes which related to the Trillium discontinued operations.

Land Securities Group PLC elected for group Real Estate Investment Trust (REIT) status with effect from 1 January 2007. As a result the Group no longer pays UK corporation tax on the profits and gains from qualifying rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal.

The calculation of the Group's tax expense and liability necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authorities. If all such issues are resolved in the Group's favour, provisions established in previous periods of up to **£211.0m** (2008: £216.0m) could be released in the future.

11. (Loss)/earnings per share

Group	2009 £m	2008 (restated) ¹ £m
(Loss)/profit for the financial year attributable to the equity holders of the Company	(5,191.3)	(830.8)
of which from: continuing activities attributable to the equity holders of the Company	(4,770.4)	(972.9)
of which from: discontinued operations attributable to the equity holders of the Company	(420.9)	142.1

1. In compliance with IFRS5, the 2008 Group comparatives have been restated to reclassify the profit arising from the Trillium discontinued operations from continuing activities to discontinued operations.

Notes to the financial statements

—for the year ended 31 March 2009 continued

11. (Loss)/earnings per share continued

Management has chosen to disclose adjusted earnings per share from continuing activities in order to provide an indication of the Group's underlying business performance. Accordingly, it excludes the effect of all exceptional items, debt and other restructuring charges, and other items of a capital nature (other than trading properties and long-term contract profits) as indicated above. An EPRA measure has been included to assist comparison between European property companies. We believe our measure of adjusted diluted earnings per share is more appropriate than the EPRA measure in the context of our business.

	2009 £m	2008 (restated) ² £m
Loss for the financial year from continuing activities attributable to equity holders of the Company	(4,770.4)	(972.9)
Revaluation deficits – Group	4,113.4	1,158.4
– joint ventures	630.3	134.2
Loss/(profit) on non-current property disposals after current and deferred tax	127.9	(49.7)
Impairment of development land and infrastructure ³ – Group (note 23)	92.0	–
– joint ventures	12.3	–
Mark-to-market adjustment on interest-rate swaps – Group	102.1	21.9
– joint ventures	15.4	7.2
Adjustment due to net liabilities on joint ventures ⁴	(17.7)	–
Demerger costs (net of taxation)	7.2	6.9
EPRA adjusted earnings from continuing activities attributable to equity holders of the Company	312.5	306.0
Eliminate effect of debt restructuring charges (net of taxation)	0.8	1.0
Eliminate effect of bond exchange de-recognition	11.7	7.6
Adjusted earnings from continuing activities attributable to equity holders of the Company	325.0	314.6

2. In compliance with IFRSS, the 2008 Group comparatives have been restated to remove the elements arising from the Trillium discontinued operations from continuing activities.

3. The impairment in relation to the development land and infrastructure programmes within trading properties has been removed from both our and the EPRA adjusted earnings due to the long-term nature of these programmes.

4. The adjustment to net liabilities on joint ventures is the result of valuation deficits and as such restricts the recognition of the full valuation deficit. Hence, this adjustment is required to reflect that the valuation deficit has not been fully recognised in the Group's income statement.

	2009 Number million	2008 (restated) ⁵ Number million
Weighted average number of ordinary shares	526.7	521.8
Effect of weighted average number of treasury shares	(5.9)	(4.1)
Effect of weighted average number of own shares	(1.2)	(1.4)
Weighted average number of ordinary shares for calculating basic earnings per share	519.6	516.3
Effect of share options which are dilutive for diluted earnings per share	–	–
Weighted average number of ordinary shares for calculating diluted earnings per share	519.6	516.3
Effect of share options which are dilutive for adjusted diluted earnings per share	0.3	1.2
Weighted average number of ordinary shares for calculating adjusted diluted earnings per share	519.9	517.5

5. The weighted average number of ordinary shares for the year ended 31 March 2008 has been adjusted for the bonus element inherent in the Rights Issue that was approved on 9 March 2009 in compliance with IAS33 'Earnings per Share'.

	2009 Pence	2008 (restated) ⁶ Pence
Basic (loss)/earnings per share	(999.04)	(160.90)
of which from: continuing activities	(918.04)	(188.43)
of which from: discontinued operations	(81.00)	27.53
Diluted (loss)/earnings per share	(999.04)	(160.90)
of which from: continuing activities	(918.04)	(188.43)
of which from: discontinued operations	(81.00)	27.53
Adjusted earnings per share from continuing activities	62.60	60.93
Adjusted diluted earnings per share from continuing activities	62.57	60.79
EPRA adjusted earnings per share from continuing activities	60.20	59.26

6. The loss per share for the year ended 31 March 2008 has been adjusted for the bonus element inherent in the Rights Issue that was approved on 9 March 2009 and for the reclassification of the Trillium discontinued operations from continuing activities to discontinued operations.

Notes to the financial statements

—for the year ended 31 March 2009 continued

12. Net assets per share

Group	2009 £m	2008 £m
Net assets attributable to equity holders of the Company	4,823.5	9,582.9
Cumulative mark-to-market adjustment on interest-rate swaps – Group	112.0	10.7
– joint ventures	38.2	1.5
– an associate undertaking	–	0.5
EPRA adjusted net assets	4,973.7	9,595.6
Reverse bond exchange de-recognition adjustment	(499.8)	(511.5)
Adjusted net assets attributable to equity holders of the Company	4,473.9	9,084.1
Reinstate bond exchange de-recognition adjustment	499.8	511.5
Cumulative mark-to-market adjustment on interest-rate swaps – Group	(112.0)	(10.7)
– joint ventures	(38.2)	(1.5)
– an associate undertaking	–	(0.5)
Excess of fair value of debt over book value (note 30)	(13.4)	(208.7)
EPRA triple net assets	4,810.1	9,374.2

	2009 Number million	2008 (restated) ¹ Number million
Number of ordinary shares in issue	761.9	470.9
Bonus share element inherent in the Rights Issue that was approved on 9 March 2009	–	51.1
Number of ordinary shares in issue adjusted for bonus shares	761.9	522.0
Number of treasury shares	(5.9)	(5.9)
Number of own shares ¹	(0.9)	(1.5)
Number of ordinary shares used for calculating basic net assets per share	755.1	514.6
Dilutive effect of share options ¹	–	0.8
Number of ordinary shares used for calculating diluted net assets per share	755.1	515.4

1. The number of own shares and dilutive effect of share options for the year ended 31 March 2008 have been restated to reflect the bonus element inherent in the Rights Issue that was approved on 9 March 2009.

	2009 Pence	2008 (restated) ² Pence
Net assets per share	639	1862
Diluted net assets per share	639	1859
Adjusted net assets per share	593	1765
Adjusted diluted net assets per share	593	1763
EPRA measure – adjusted diluted net assets per share	659	1862
– diluted triple net assets per share	637	1819

2. The net assets per share as at 31 March 2008 has been adjusted to reflect the bonus element inherent in the Rights Issue that was approved on 9 March 2009.

Adjusted net assets per share excludes mark-to-market adjustments on financial instruments used for hedging purposes and the bond exchange de-recognition adjustment as management consider that this better represents the expected future cash flows of the Group. EPRA measures have been included to assist comparison between European property companies. We believe our measure of adjusted net assets attributable to equity holders of the Company is more indicative of underlying performance.

Notes to the financial statements

—for the year ended 31 March 2009 continued

13. Investment properties

Group	Portfolio management £m	Development programme £m	Trillium £m	Total £m
Net book value at 1 April 2007	10,607.4	2,284.3	427.6	13,319.3
Properties transferred from portfolio management into the development programme	(218.7)	218.7	—	—
Developments transferred from the development programme into portfolio management	1,491.5	(1,491.5)	—	—
Property acquisitions	714.2	0.2	149.4	863.8
Capital expenditure	117.5	467.3	6.8	591.6
Capitalised interest	1.4	43.7	—	45.1
Disposals	(1,099.4)	(2.2)	(0.6)	(1,102.2)
Transfers to joint ventures	(228.2)	—	—	(228.2)
Transfers to trading properties	—	(17.4)	—	(17.4)
Transfer from operating properties	—	—	4.1	4.1
Surrender premiums received	(6.2)	—	—	(6.2)
Depreciation	(2.9)	—	—	(2.9)
Deficit on revaluation – continuing activities	(1,038.3)	(107.1)	(13.0)	(1,158.4)
– discontinued operations	—	—	(11.9)	(11.9)
Net book value at 31 March 2008	10,338.3	1,396.0	562.4	12,296.7
Developments transferred from the development programme into portfolio management	410.3	(410.3)	—	—
Accor hotel properties transferred from Trillium to portfolio management	435.9	—	(435.9)	—
Property acquisitions	101.9	1.3	—	103.2
Capital expenditure	174.1	245.5	6.0	425.6
Capitalised interest	14.0	23.1	—	37.1
Disposals	(681.9)	(1.3)	(41.4)	(724.6)
Transfer from operating properties	—	—	11.9	11.9
Surrender premiums received	(2.0)	—	—	(2.0)
Depreciation	(2.1)	—	—	(2.1)
Deficit on revaluation – continuing activities	(3,573.1)	(540.3)	—	(4,113.4)
– discontinued operations	—	—	(10.0)	(10.0)
Disposals included as part of the disposal of Trillium	—	—	(93.0)	(93.0)
Net book value at 31 March 2009	7,215.4	714.0	—	7,929.4

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

	Portfolio management £m	Development programme £m	Trillium £m	Total investment properties £m
Net book value at 31 March 2008	10,338.3	1,396.0	562.4	12,296.7
Plus: amount included in prepayments in respect of lease incentives	156.3	24.3	—	180.6
Less: head leases capitalised (note 32)	(65.3)	(2.0)	—	(67.3)
Plus: properties treated as finance leases	149.2	—	—	149.2
Market value at 31 March 2008 – Group	10,578.5	1,418.3	562.4	12,559.2
– plus: share of joint ventures (note 20)	1,216.5	373.4	—	1,589.9
Market value at 31 March 2008 – Group and share of joint ventures	11,795.0	1,791.7	562.4	14,149.1
Net book value at 31 March 2009	7,215.4	714.0	—	7,929.4
Plus: amount included in prepayments in respect of lease incentives	148.8	40.5	—	189.3
Less: head leases capitalised (note 32)	(56.5)	(1.4)	—	(57.9)
Plus: properties treated as finance leases	104.7	—	—	104.7
Market value at 31 March 2009 – Group	7,412.4	753.1	—	8,165.5
– plus: share of joint ventures (note 20)	950.0	291.5	—	1,241.5
Market value at 31 March 2009 – Group and share of joint ventures	8,362.4	1,044.6	—	9,407.0

Notes to the financial statements

—for the year ended 31 March 2009 continued

13. Investment properties continued

Included in investment properties are leasehold properties with a net book value of **£994.0m** (2008: £1,368.1m).

The fair value of the Group's investment properties at 31 March 2009 has been arrived at on the basis of a valuation carried out at that date by Knight Frank LLP, external valuers. The valuation by Knight Frank LLP, which conforms to Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors and with IVA 1 of the International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. Fixed asset properties include capitalised interest of **£181.1m** (2008: £211.7m). The average rate of capitalisation is **5.5%** (2008: 5.5%). The historical cost of investment properties is **£7,721.8m** (2008: £7,813.2m).

The current value of investment properties in respect of proposed developments is **£524.8m** (2008: £639.6m). Developments are transferred out of the development programme when physically complete and 95% let. The schemes completed during the year were Queen Anne's Gate, London SW1, 10 Eastbourne Terrace, London W2 and Angel Road, Edmonton N18.

The Group has outstanding capital commitments of **£280.5m** at 31 March 2009 (2008: £234.5m).

14. Operating properties

Group	2009 £m	2008 £m
Book value at the beginning of the year	544.8	551.5
Property acquisitions	0.8	8.9
Capital expenditure	18.1	32.4
Disposals	(13.5)	(16.9)
Transfers to trading properties	–	(4.1)
Transfer to investment properties (Trillium)	(11.9)	(4.1)
Depreciation – discontinued operations	(16.7)	(22.9)
Disposals included as part of the disposal of Trillium	(521.6)	–
Book value at the end of the year	–	544.8

15. Other property, plant and equipment

Group	2009 £m	2008 £m
Book value at the beginning of the year	73.6	78.2
Capital expenditure	8.4	16.1
Disposals	(7.8)	(0.7)
Depreciation – continuing activities	(4.6)	(4.9)
– discontinued operations	(0.9)	(15.1)
Disposals included as part of the disposal of Trillium	(54.4)	–
Book value at the end of the year	14.3	73.6

Notes to the financial statements

—for the year ended 31 March 2009 continued

16. Net investment in finance leases

Group	2009 £m	2008 £m
Non-current		
Finance leases – gross receivables	277.7	692.8
Unearned finance income	(187.1)	(385.6)
Unguaranteed residual value	25.7	26.5
	116.3	333.7
Current		
Finance leases – gross receivables	7.0	27.4
Unearned finance income	(6.2)	(20.3)
	0.8	7.1
Total net investment in finance leases	117.1	340.8
Gross receivables from finance leases:		
Not later than one year	7.0	27.4
Later than one year but not more than five years	34.9	129.3
More than five years	242.8	563.5
	284.7	720.2
Unearned future finance income	(193.3)	(405.9)
Unguaranteed residual value	25.7	26.5
Net investment in finance leases	117.1	340.8

The Group has leased out a number of investment properties under finance leases, which ranged from 35 to 100 years in duration from the inception of the lease. These are accounted for as finance lease receivables rather than investment properties.

The fair value of the Group's finance lease receivables approximates to the carrying amount.

17. Goodwill

Group	2009 £m	2008 £m
At the beginning of the year	148.6	129.6
Arising on acquisitions during the year	–	13.5
Arising on acquisitions in prior years	–	5.5
Impaired in the year ¹	(148.6)	–
At the end of the year	–	148.6
Represented by:		
Gross goodwill recognised	–	233.5
Total accumulated impairment losses	–	(84.9)
	–	148.6

1. The impairment charge in the year is included within the post-tax loss of Trillium within discontinued operations as the goodwill relates to the Trillium operations that were disposed of on 12 January 2009.

As a result of adverse economic conditions impacting Trillium's new business prospects, particularly the reduced availability of long-term debt funding at a reasonable cost, an impairment review was undertaken in compliance with IAS36 'Impairment of Assets' to assess whether the goodwill carried in the Group's balance sheet was impaired. As a result of this review, an impairment loss of £148.6m was recognised in the first half of the year. This impairment is included within discontinued operations (note 42).

The carrying value was tested by comparing the carrying amount of the business' assets and liabilities with their recoverable amount. The latter was calculated by reference to the cash flow projections for the entire term of each of Trillium's contracts. The cash flow projections had been prepared on the basis of strategic plans, knowledge of the market and management's views on achievable new business gains over the longer term. The main assumptions underlying the forecasts were the relative inflation rates applying to costs and revenues, the amount of expenditure required to fulfil the service level commitments, the vacation rate under the DWP contract and the value of new business from Property Partnerships and PPP. The cash flows were discounted using Trillium's weighted average cost of capital of 9.0% (31 March 2008: 7.5%).

Notes to the financial statements

—for the year ended 31 March 2009 continued

18. Investment in an associate undertaking

Group	2009 £m	2008 £m
At the beginning of the year	42.9	—
Transferred from non-current assets classified as held for sale	—	43.4
Share of post-tax results ¹	(16.6)	(0.5)
Disposals included as part of the disposal of Trillium	(26.3)	—
At the end of the year	—	42.9

1. The Group's share of post-tax results from an associate undertaking is included within the post-tax loss of Trillium within discontinued operations as it relates to Trillium Investment Partners LP that was disposed of as part of the disposal of Trillium on 12 January 2009.

The Group's share of the assets and liabilities of Trillium Investment Partners LP is as follows:

Group	2009 £m	2008 £m
Assets	—	257.7
Liabilities	—	(214.8)
Group's share of net assets	—	42.9

19. Loans to third parties

Group	2009 £m	2008 £m
At the beginning of the year	—	—
Additions	50.0	—
At the end of the year	50.0	—

In conjunction with the disposal of Trillium, the Group has made an unsecured loan to Semperian PPP (formerly Trillium Investment Partners LP), which is repayable by instalments between 2015 and 2035.

20. Investments in joint ventures

The Group's significant joint ventures are described below:

Name of joint venture	Percentage owned	Business segment	Year end date	Joint venture partners
The Scottish Retail Property Limited Partnership	50.0%	Retail Portfolio	31 March	The British Land Company PLC
Metro Shopping Fund Limited Partnership	50.0%	Retail Portfolio	31 March	Delancey Real Estate Partners Limited
Buchanan Partnership	50.0%	Retail Portfolio	31 December	The Henderson UK Shopping Centre Fund
St. David's Limited Partnership	50.0%	Retail Portfolio	31 December	Liberty International PLC
The Bull Ring Limited Partnership	33.3%	Retail Portfolio	31 December	The Henderson UK Shopping Centre Fund Hammerson plc
Bristol Alliance Limited Partnership	50.0%	Retail Portfolio	31 December	Hammerson plc
The Harvest Limited Partnership	50.0%	Retail Portfolio	31 March	J Sainsbury plc
The Oriana Limited Partnership	50.0%	London Portfolio	31 March	Frogmore Real Estate Partners Limited Partnership

Notes to the financial statements

—for the year ended 31 March 2009 continued

20. Investments in joint ventures continued

	Year ended 31 March 2009 and at 31 March 2009									
Summary financial information of Group's share of joint ventures	The Scottish Retail Property Limited Partnership £m	Metro Shopping Fund Limited Partnership £m	Buchanan Partnership £m	St. David's Limited Partnership £m	The Bull Ring Limited Partnership £m	Bristol Alliance Limited Partnership £m	The Harvest Limited Partnership £m	The Oriana Limited Partnership £m	Other ¹ £m	Total £m
Income statement										
Rental income	9.1	12.9	9.2	5.0	15.5	10.8	4.4	4.3	6.5	77.7
Service charge income	1.5	2.5	1.8	0.7	2.5	–	0.2	0.3	0.1	9.6
Property services income	–	–	–	–	–	–	–	–	–	–
Trading property sale proceeds	–	–	–	–	–	–	–	–	16.0	16.0
Revenue	10.6	15.4	11.0	5.7	18.0	10.8	4.6	4.6	22.6	103.3
Rents payable	(0.2)	–	–	–	–	(0.2)	–	–	(0.1)	(0.5)
Other direct property expenditure	(3.6)	(4.0)	(2.9)	(1.2)	(5.1)	(3.8)	(0.3)	(0.5)	(1.1)	(22.5)
Indirect property expenditure	(0.4)	(1.2)	(0.1)	(0.3)	(0.3)	(0.1)	(0.4)	(0.6)	(0.4)	(3.8)
Impairment of trading properties	–	–	–	–	–	–	–	–	(12.3)	(12.3)
Cost of sales of trading properties	–	–	–	–	–	–	–	–	(10.5)	(10.5)
	6.4	10.2	8.0	4.2	12.6	6.7	3.9	3.5	(1.8)	53.7
(Loss)/profit on disposal of non-current properties	(0.1)	0.2	–	–	0.4	1.7	–	–	0.7	2.9
Net deficit on revaluation of investment properties	(54.0)	(78.1)	(66.5)	(184.6)	(87.8)	(106.3)	(11.5)	(4.8)	(36.7)	(630.3)
Operating loss	(47.7)	(67.7)	(58.5)	(180.4)	(74.8)	(97.9)	(7.6)	(1.3)	(37.8)	(573.7)
Net interest (expense)/income	(3.2)	(10.6)	(3.8)	0.3	–	0.3	(1.4)	(11.7)	(11.6)	(41.7)
Loss before tax	(50.9)	(78.3)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(49.4)	(615.4)
Income tax	(0.2)	(0.8)	–	–	–	–	–	–	(0.3)	(1.3)
	(51.1)	(79.1)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(49.7)	(616.7)
Net liabilities adjustment ³	–	16.5	–	–	–	–	–	–	1.2	17.7
Share of losses of joint ventures after tax	(51.1)	(62.6)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(48.5)	(599.0)
Balance sheet										
Investment properties ²	82.3	171.5	112.3	147.6	200.0	230.8	69.5	83.9	110.1	1,208.0
Current assets	6.4	7.5	6.0	119.0	12.2	33.6	44.3	3.1	55.7	287.8
	88.7	179.0	118.3	266.6	212.2	264.4	113.8	87.0	165.8	1,495.8
Current liabilities	(3.1)	(5.6)	(3.9)	(25.6)	(9.4)	(17.3)	(1.0)	(4.3)	(29.0)	(99.2)
Non-current liabilities	(68.1)	(189.9)	–	(0.4)	–	(2.9)	(46.9)	(75.6)	(99.7)	(483.5)
	(71.2)	(195.5)	(3.9)	(26.0)	(9.4)	(20.2)	(47.9)	(79.9)	(128.7)	(582.7)
Net liabilities adjustment ³	–	16.5	–	–	–	–	–	–	1.2	17.7
Net assets	17.5	–	114.4	240.6	202.8	244.2	65.9	7.1	38.3	930.8
Capital commitments	1.6	0.7	0.4	53.1	–	12.9	–	–	1.9	70.6
Market value of investment properties²	83.8	172.6	115.0	147.5	205.0	253.4	70.0	84.0	110.2	1,241.5
Net (debt)/cash	(63.3)	(185.1)	1.9	2.7	2.8	1.9	(46.1)	(74.8)	(99.4)	(459.4)
Net investment										
At 1 April 2008	73.0	69.9	179.6	346.7	289.3	284.4	64.5	9.0	94.2	1,410.6
Properties contributed	–	–	–	–	–	–	–	–	27.3	27.3
Cash contributed	0.4	5.8	1.4	–	–	–	17.6	11.2	4.1	40.5
Distributions	–	(1.1)	(4.3)	–	–	–	(3.0)	(0.1)	(13.1)	(21.6)
Fair value movement on cash flow hedges	(4.8)	(12.0)	–	–	–	–	(4.2)	–	(0.3)	(21.3)
Disposals	–	–	–	–	–	–	–	–	(17.9)	(17.9)
Loan advances	–	–	–	74.0	0.3	61.1	–	–	0.2	135.6
Loan repayments	–	–	–	–	(12.0)	(3.7)	–	–	(2.4)	(18.1)
Disposal of Trillium	–	–	–	–	–	–	–	–	(5.3)	(5.3)
Share of losses of joint ventures after tax	(51.1)	(62.6)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(48.5)	(599.0)
At 31 March 2009	17.5	–	114.4	240.6	202.8	244.2	65.9	7.1	38.3	930.8

1. Other principally includes The Martineau Galleries Limited Partnership, The Ebbsfleet Limited Partnership and Millshaw Property Co. Limited.

2. The difference between the book value and the market value is the amount included in prepayments in respect of lease incentives, head leases capitalised and properties treated as finance leases.

3. Joint ventures with net liabilities are carried at zero value in the balance sheet where there is no commitment to fund the deficit and any distributions are included in the consolidated income statement for the year.

Notes to the financial statements

—for the year ended 31 March 2009 continued

20. Investments in joint ventures continued

Summary financial information of Group's share of joint ventures	Year ended 31 March 2008 and at 31 March 2008									
	The Scottish Retail Property Limited Partnership £m	Metro Shopping Fund Limited Partnership £m	Buchanan Partnership £m	St. David's Limited Partnership £m	The Bull Ring Limited Partnership £m	Bristol Alliance Limited Partnership £m	The Harvest Limited Partnership £m	The Oriana Limited Partnership £m	Other £m	Total £m
Income statement										
Rental income	12.5	14.0	9.9	5.4	14.7	3.4	1.4	1.4	3.4	66.1
Service charge income	2.5	3.0	0.7	0.7	2.7	—	—	—	0.7	10.3
Property services income	—	—	—	—	—	—	—	—	0.1	0.1
Trading property sale proceeds	—	—	—	—	—	—	—	—	35.1	35.1
Revenue	15.0	17.0	10.6	6.1	17.4	3.4	1.4	1.4	39.3	111.6
Rents payable	(0.2)	—	—	—	—	—	—	—	(0.1)	(0.3)
Other direct property expenditure	(4.6)	(3.8)	(1.9)	(1.2)	(4.1)	(0.2)	—	—	(1.4)	(17.2)
Indirect property expenditure	(0.6)	(1.1)	(0.1)	(0.3)	(0.2)	(0.2)	(0.1)	(0.2)	(0.1)	(2.9)
Cost of sales of trading properties	—	—	—	—	—	—	—	—	(26.8)	(26.8)
	9.6	12.1	8.6	4.6	13.1	3.0	1.3	1.2	10.9	64.4
(Loss)/profit on disposal of non-current properties	(7.6)	0.6	—	—	—	—	—	—	(0.1)	(7.1)
Net (deficit)/surplus on revaluation of investment properties	(28.4)	(12.1)	(11.5)	(21.8)	(31.5)	6.3	(9.7)	(15.6)	(9.9)	(134.2)
Operating (loss)/profit	(26.4)	0.6	(2.9)	(17.2)	(18.4)	9.3	(8.4)	(14.4)	0.9	(76.9)
Net interest (expense)/income	(5.6)	(12.5)	(3.5)	0.4	0.1	0.4	—	—	(0.3)	(21.0)
(Loss)/profit before tax	(32.0)	(11.9)	(6.4)	(16.8)	(18.3)	9.7	(8.4)	(14.4)	0.6	(97.9)
Income tax	(0.1)	(0.6)	—	—	—	—	—	—	(2.4)	(3.1)
Share of (losses)/profits of joint ventures after tax										
– continuing activities	(32.1)	(12.5)	(6.4)	(16.8)	(18.3)	9.7	(8.4)	(14.4)	(1.9)	(101.1)
– discontinued operations	—	—	—	—	—	—	—	—	0.1	0.1
Balance sheet										
Investment properties	126.7	246.4	176.0	244.1	288.4	291.5	62.7	87.3	55.9	1,579.0
Current assets	11.2	38.3	6.1	118.7	9.1	12.4	2.3	1.5	73.7	273.3
	137.9	284.7	182.1	362.8	297.5	303.9	65.0	88.8	129.6	1,852.3
Current liabilities	(2.9)	(4.9)	(2.5)	(15.7)	(8.2)	(17.2)	(0.5)	(79.7)	(10.7)	(142.3)
Non-current liabilities	(62.0)	(209.9)	—	(0.4)	—	(2.3)	—	(0.1)	(24.7)	(299.4)
	(64.9)	(214.8)	(2.5)	(16.1)	(8.2)	(19.5)	(0.5)	(79.8)	(35.4)	(441.7)
Net assets	73.0	69.9	179.6	346.7	289.3	284.4	64.5	9.0	94.2	1,410.6
Capital commitments	2.9	0.6	2.9	127.4	—	27.7	—	—	8.3	169.8
Market value of investment properties	125.9	246.6	180.0	244.0	293.3	294.5	62.8	87.3	55.5	1,589.9
Net (debt)/cash	(53.1)	(205.6)	0.7	5.3	3.1	(0.3)	1.5	1.4	(6.5)	(253.5)
Net investment										
At 1 April 2007	145.8	95.3	188.6	308.1	321.1	198.6	—	—	81.3	1,338.8
Properties contributed	—	—	—	—	—	—	39.7	205.8	—	245.5
Cash contributed	—	6.6	3.4	—	—	—	33.2	—	26.3	69.5
Distributions	(42.5)	(14.2)	(6.0)	—	—	—	—	(0.8)	(11.6)	(75.1)
Fair value movement on cash flow hedges taken to equity	1.8	(5.3)	—	—	—	—	—	—	—	(3.5)
Loan advances	—	—	—	55.4	—	79.5	—	—	—	134.9
Loan repayments	—	—	—	—	(13.5)	(3.4)	—	(181.6)	—	(198.5)
Share of post-tax results:										
– continuing activities	(32.1)	(12.5)	(6.4)	(16.8)	(18.3)	9.7	(8.4)	(14.4)	(1.9)	(101.1)
– discontinued operations	—	—	—	—	—	—	—	—	0.1	0.1
At 31 March 2008	73.0	69.9	179.6	346.7	289.3	284.4	64.5	9.0	94.2	1,410.6

Notes to the financial statements

—for the year ended 31 March 2009 continued

21. Investments in Public Private Partnerships

Group	2009 £m	2008 £m
At the beginning of the year	25.4	–
Arising on acquisitions during the year	–	17.2
Additions	–	8.2
Transferred to non-current assets classified as held for sale	(17.2)	–
Disposals included as part of the disposal of Trillium	(8.2)	–
At the end of the year	–	25.4

The Group's share of the assets and liabilities of the PPP investments is as follows:

Group	2009 £m	2008 £m
Assets	–	216.4
Liabilities	–	(191.0)
Group's share of net assets	–	25.4

22. Investments in subsidiary undertakings

Company	2009 £m	2008 £m
At the beginning of the year	5,054.6	5,049.6
Capital contributions relating to share-based payments (note 35)	8.6	5.0
Impairment to reduce net assets of the Company to net assets of the Group attributable to equity shareholders	(234.7)	–
At the end of the year	4,828.5	5,054.6

In accordance with IFRIC11 'IFRS2 – Group and Treasury Transactions' the equity settled share-based charge for the employees of the Company's subsidiaries are treated as an increase in the cost of investment in the subsidiaries and a corresponding increase in the Company's equity.

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The principal Group undertakings, all of which are wholly owned, either directly by the Company or through a fellow subsidiary undertaking are:

Wholly owned subsidiary undertakings

Group operations

Land Securities Properties Limited

Investment property business

Land Securities Intermediate Limited
Land Securities Property Holdings Limited
Ravenseft Properties Limited

The City of London Real Property Company Limited
Ravenside Investments Limited

All principal subsidiary undertakings operate in Great Britain and are registered in England and Wales.

A full list of subsidiary undertakings at 31 March 2009 will be appended to the Company's next annual return.

Notes to the financial statements

—for the year ended 31 March 2009 continued

23. Trading properties and long-term development contracts

Group	2009			2008		
	Cost £m	Impairment provision £m	Realisable value £m	Cost £m	Impairment provision £m	Realisable value £m
Trading properties:						
Development land and infrastructure	159.1	(92.0)	67.1	128.2	—	128.2
Other trading properties	26.0	(0.3)	25.7	44.8	—	44.8
Long-term development contracts	2.1	—	2.1	—	—	—
	187.2	(92.3)	94.9	173.0	—	173.0

The realisable value of the Group's trading properties at 31 March 2009 has been arrived at on the basis of a valuation carried out at that date by Knight Frank LLP, external valuers.

	2009 £m	2008 £m
Long-term development contracts		
Income statement:		
Contract revenue recognised as revenue in the year	48.9	26.3
Balance sheet:		
Contract costs incurred and recognised profits (less recognised losses) to date	383.8	332.8
Advances received from customers	(390.8)	(346.0)
	(7.0)	(13.2)
Plus: gross amount due to customers for contract work (included in accruals and deferred income)	9.1	13.2
Balance at the end of the year	2.1	—

24. Trade and other receivables

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Trade receivables	53.6	161.1	—	—
Less: allowance for doubtful accounts	(20.3)	(15.0)	—	—
Trade receivables – net	33.3	146.1	—	—
Property sales receivables	64.9	205.2	—	—
Other receivables	35.6	53.9	—	—
Prepayments and accrued income	212.9	314.6	0.1	0.3
Current tax assets	—	—	3.2	—
Finance leases receivable within one year (note 16)	0.8	7.1	—	—
Amounts due from joint ventures	44.6	111.1	—	—
Loans to Group undertakings	—	—	5.5	385.9
	392.1	838.0	8.8	386.2

Group	2009 £m	2008 £m
Movement in allowances for doubtful accounts		
At the beginning of the year	15.0	15.2
Additions/reversal of allowance	10.5	3.6
Write-offs charged against the allowances account	(3.3)	(3.8)
Allowance included as part of disposal of Trillium discontinued operations	(1.9)	—
At the end of the year	20.3	15.0

Notes to the financial statements

—for the year ended 31 March 2009 continued

24. Trade and other receivables continued

Group Accounts receivable past due	1-30 days past due £m	Up to 6 months past due £m	Up to 12 months past due £m	More than 12 months past due £m	Total £m
As at 31 March 2009					
Past due but not impaired	15.4	2.6	–	–	18.0
Past due and impaired	15.1	10.5	5.5	4.5	35.6
	30.5	13.1	5.5	4.5	53.6
As at 31 March 2008¹					
Past due but not impaired	16.1	1.9	–	–	18.0
Past due and impaired	17.0	5.3	3.4	5.3	31.0
	33.1	7.2	3.4	5.3	49.0

1. The balance for the year ended 31 March 2008 excludes £112.1m that relates to the Trillium discontinued operations.

In accordance with IFRS7, the amounts shown as past due represent the total credit exposure, not the amount actually past due.

25. Cash and cash equivalents

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Cash at bank and in hand:				
Unrestricted	108.1	25.7	105.1	69.5
Restricted	0.1	–	–	–
	108.2	25.7	105.1	69.5
Short-term deposits:				
Unrestricted	750.0	22.7	–	–
Restricted	29.8	–	–	–
	779.8	22.7	–	–
Liquidity funds:				
Unrestricted	751.0	–	–	–
Restricted	–	–	–	–
	751.0	–	–	–
	1,639.0	48.4	105.1	69.5

Liquidity funds

The liquidity funds are AAA rated cash-investment funds with constant net asset values, offering the Group same day access to the funds deposited. These investments yield a return of between 0.5% and 1.3% at 31 March 2009.

Short-term deposits

The effective interest rate on short-term deposits was **1.2%** at 31 March 2009 (2008: 5.1%) and had an average maturity of **91 days** (2008: one day).

Restricted cash and deposits

Restricted cash represents amounts held within the Security Group which requires the consent of the Security Group Trustee in order to be released for use by the Group. The requirement to hold restricted cash is an operating requirement under the terms of the Security Group's debt programme, which encourages a reduction in gearing when either LTV or interest cover exceeds prescribed levels. This does not prevent the Group from optimising returns by putting this money on short-term deposit. Restricted balances do not meet the definition of cash and cash equivalents for the purposes of the cash flow statement.

Notes to the financial statements

—for the year ended 31 March 2009 continued

25. Cash and cash equivalents continued

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:				
Cash at bank and in hand	108.1	25.7	105.1	69.5
Short-term deposits	750.0	22.7	–	–
Liquidity funds	751.0	–	–	–
Bank overdrafts (note 30)	(0.3)	(1.4)	–	–
	1,608.8	47.0	105.1	69.5

26. Non-current assets classified as held for sale

Group	2009 £m	2008 £m
Non-current assets classified as held for sale	–	664.1
Liabilities directly associated with non-current assets classified as held for sale	–	(427.7)
	–	236.4

Non-current assets and liabilities held for sale at 31 March 2008 represented a number of PPP investments owned by Trillium which were to be sold to Trillium Investment Partners LP or to third parties. These investments were held as a disposal group within the Trillium operations that were divested on 12 January 2009. The Group has not recognised any profits or losses in respect of these investments in the year ended 31 March 2009, other than the £23.0m profit on disposal of projects sold to Trillium Investment Partners LP and a £2.8m impairment charge, both of which are included within discontinued operations.

Set out below is an analysis of the movements within the disposal group for the year ended 31 March 2009:

	Total £m
Book value at the beginning of the year	236.4
Projects transferred from Investments in Public Private Partnership contracts	17.2
Projects sold to Trillium Investment Partners LP	(97.3)
Project acquisitions	7.5
Impairments	(2.8)
Profit from discontinued operations	1.1
Cash received from the disposal group	(1.8)
Disposals included as part of the disposal of Trillium	(160.3)
Book value at the end of the year	–

27. Trade and other payables

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Trade payables	2.7	28.5	–	–
Capital payables	129.7	116.8	–	–
Other payables	46.6	73.3	–	–
Accruals and deferred income	278.2	574.4	5.2	0.2
Amounts owed to joint ventures	168.6	134.2	–	–
Loans from Group undertakings	–	–	113.7	874.5
	625.8	927.2	118.9	874.7

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

Notes to the financial statements

—for the year ended 31 March 2009 continued

28. Provisions

Group	Dilapidations £m	Onerous leases £m	Other £m	Total £m
At 1 April 2007	20.9	39.8	20.0	80.7
Net charge to income statement for the year (included in discontinued operations)	7.2	0.4	7.2	14.8
Release of discount (included in discontinued operations)	–	1.6	–	1.6
Utilised in the year	(7.9)	(11.6)	–	(19.5)
At 31 March 2008	20.2	30.2	27.2	77.6
Net charge to income statement for the year (included in discontinued operations)	6.0	5.5	1.4	12.9
Release of discount (included in discontinued operations)	–	1.2	–	1.2
Utilised in the year	(2.4)	(8.3)	–	(10.7)
Provisions included in the disposal of Trillium	(23.8)	(28.6)	(28.6)	(81.0)
At 31 March 2009	–	–	–	–
Included in the balance above, the following amounts are anticipated to be utilised within one year:				
At 31 March 2009	–	–	–	–
At 31 March 2008	14.8	10.6	15.5	40.9

Dilapidations

Provisions for dilapidations were made in respect of certain leasehold properties held within the Trillium operations that were disposed of on 12 January 2009. A provision was established where the Group anticipated incurring future expenditure at the end of the lease. The amounts provided were based on the current estimate of the future costs determined on the basis of the present condition of the relevant properties. Settlement of the amounts provided occurred once agreement was reached with the parties to the lease.

Onerous leases

An onerous lease provision related to leasehold properties held within the Trillium operations that were disposed of on 12 January 2009. A provision was established in respect of leasehold properties that were unoccupied or where the expected future rental income was not expected to meet the Group's rental obligations. The provisions were based on assumptions about expected future rentals and voids.

Other

Other provisions included liabilities that arose from the contractual arrangements with clients of the disposed Trillium operations that included specific performance measurement targets and life cycle capital expenditure requirements. Settlement of the amounts provided followed agreement with the clients.

Notes to the financial statements

—for the year ended 31 March 2009 continued

29. Derivative financial instruments

Group	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest-rate swaps (cash flow hedges)	–	–	–	0.8
Interest-rate swaps (non-designated)	–	112.0	–	9.9
Forward foreign-exchange contracts (cash flow hedges)	–	–	4.3	–
Total	–	112.0	4.3	10.7

Non-designated derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Interest-rate swaps

The Group uses interest-rate swaps to manage its exposure to interest-rate movements on its interest-bearing loans and borrowings. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date.

The change in fair value of the contracts that are not designated as hedging instruments is taken to the income statement. For contracts that are designated as cash flow hedges the change in the fair value of the contracts is recognised directly in equity. There was no ineffectiveness to be recognised from the designated cash flow hedges. The deferred asset or liability assumed is released to the income statement during the term of each relevant swap.

Forward foreign-exchange contracts

The Group uses forward foreign-exchange contracts to manage its exposure to exchange-rate movements in relation to debt raised in currencies other than sterling, or to lock in the sterling equivalent of future committed expenditure denominated in foreign currencies. The fair value of these contracts is recorded in the balance sheet.

The change in fair value of designated cash flow hedging instruments is recognised directly in equity. The asset acquired or liability assumed is released to the income statement in the period to which it relates.

At the balance sheet date, the notional amount of outstanding derivative financial instruments was as follows:

	2009 £m	2008 £m
Interest-rate swaps	2,225.0	2,025.7
Forward foreign-exchange contracts	–	35.5
	2,225.0	2,061.2

Notes to the financial statements

—for the year ended 31 March 2009 continued

30. Borrowings

							2009
Group	Secured/ unsecured	Fixed/ floating	Effective interest rate %	Nominal/ notional value £m	Fair value £m	Book value £m	
Short-term borrowings and overdrafts							
Sterling							
Bank overdrafts	Unsecured	Floating	—	0.3	0.3	0.3	
Amounts payable under finance leases (note 32)		Fixed	5.5	0.8	0.8	0.8	
Total short-term borrowings and overdrafts				1.1	1.1	1.1	
Non-current borrowings							
Sterling							
4.625 per cent MTN due 2013	Secured	Fixed	4.7	300.0	294.3	299.8	
5.292 per cent MTN due 2015	Secured	Fixed	5.3	391.5	383.4	391.0	
4.875 per cent MTN due 2019	Secured	Fixed	5.0	400.0	370.0	396.5	
5.425 per cent MTN due 2022	Secured	Fixed	5.5	255.3	230.9	254.6	
4.875 per cent MTN due 2025	Secured	Fixed	4.9	300.0	237.2	297.2	
5.391 per cent MTN due 2026	Secured	Fixed	5.4	210.7	175.9	209.9	
5.391 per cent MTN due 2027	Secured	Fixed	5.4	611.1	509.6	608.5	
5.376 per cent MTN due 2029	Secured	Fixed	5.4	317.9	256.1	316.4	
5.396 per cent MTN due 2032	Secured	Fixed	5.4	322.9	258.6	321.1	
5.125 per cent MTN due 2036	Secured	Fixed	5.1	500.0	376.1	498.6	
Bond exchange de-recognition adjustment	Secured	Fixed		—	—	(499.8)	
				3,609.4	3,092.1	3,093.8	
Syndicated bank debt	Secured	Floating	LIBOR+ margin	1,662.8	1,662.8	1,658.6	
Bilateral facilities	Secured	Floating	LIBOR+ margin	640.0	640.0	640.0	
Amounts payable under finance leases (note 32)		Fixed	5.5	57.1	68.0	57.1	
Total non-current borrowings				5,969.3	5,462.9	5,449.5	
Total borrowings				5,970.4	5,464.0	5,450.6	

Medium term notes (MTN)

The MTN are secured on the fixed and floating pool of assets of the Security Group. Debt investors benefit from security over a pool of investment properties valued at **£7.5bn** at 31 March 2009 (2008: £11.0bn). The secured debt structure has a tiered operating covenant regime which gives the Group substantial flexibility when the loan to value and interest cover in the Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded the operating environment becomes more restrictive with provisions to encourage the reduction in gearing (see note 31). The interest rate is fixed until the expected maturity, being two years before the legal maturity date for each MTN, whereupon the interest rate for the last two years is LIBOR plus a step-up margin. The effective interest rate includes the amortisation of issue costs. The MTN are listed on the Irish Stock Exchange and their fair values are based on their respective market prices.

Syndicated bank debt

At 31 March 2009 the Group had two syndicated bank facilities:

1. £1.5bn authorised credit facility with a maturity of August 2013, which has been fully drawn. This facility is committed and is secured on the assets of the Security Group. The interest rates are floating at LIBOR plus a margin of between 0.15% and 0.25%; and
2. £352.0m committed development facility with a maturity of May 2013. This facility was taken out to fund the development of Leeds Trinity Quarter and is secured on this property; this facility is currently £162.8m drawn. The interest rates are floating at LIBOR plus a margin of 2.35%. There are £5.0m of issue costs which are being written off over the life of this facility.

Notes to the financial statements

—for the year ended 31 March 2009 continued

30. Borrowings continued

Bilateral facilities

Committed Bilateral facilities totalling £940.0m are available to the Group and are secured on the assets of the Security Group. These facilities mature between July and December 2011, with the exception of one undrawn facility for £40m which matures in September 2009. The Group has the option to extend any drawings for a further year past maturity, or two years in the case of the £40m facility. The interest rates are floating at LIBOR plus a margin of between 0.25% and 0.75%.

Bond exchange de-recognition

On 3 November 2004, a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new MTN with higher nominal values. The new MTN did not meet the IAS39 requirement to be substantially different from the debt that it replaced. Consequently the book value of the new debt is reduced to the book value of the original debt by the 'bond exchange de-recognition' adjustment which is then amortised to zero over the life of the new MTN. The amortisation is charged to net interest expenses in the income statement.

Fair values

The fair values of any floating rate financial liabilities are assumed to be equal to their nominal value.

2008						
Group	Secured/ unsecured	Fixed/ floating	Effective interest rate %	Nominal/ notional value £m	Fair value £m	Book value £m
Short-term borrowings and overdrafts						
Sterling						
Acquisition loan notes	Unsecured	Floating	5.4	106.4	106.4	106.4
Euro Commercial Paper	Unsecured	Floating	5.8	19.8	19.8	19.8
Money-market borrowings	Unsecured	Floating	5.7	45.0	45.0	45.0
Bank overdrafts	Unsecured	Floating	–	1.4	1.4	1.4
DWP term loan	Secured	Floating	6.4	30.0	30.0	30.0
Bilateral facilities	Secured	Floating	5.9	565.4	565.4	565.4
Amounts payable under finance leases (note 32)		Fixed	5.5	2.2	–	2.2
Bond exchange de-recognition adjustment	Secured	Fixed	–	–	–	(11.7)
Euro						
Commercial paper	Unsecured	Floating	4.7	35.5	35.5	35.5
Total short-term borrowings and overdrafts				805.7	803.5	794.0
Non-current borrowings						
Sterling						
4.625 per cent MTN due 2013	Secured	Fixed	4.7	300.0	292.9	299.7
5.292 per cent MTN due 2015	Secured	Fixed	5.3	391.5	384.0	390.9
4.875 per cent MTN due 2019	Secured	Fixed	5.0	400.0	369.9	396.1
5.425 per cent MTN due 2022	Secured	Fixed	5.5	255.3	240.0	254.5
4.875 per cent MTN due 2025	Secured	Fixed	4.9	300.0	257.2	297.0
5.391 per cent MTN due 2026	Secured	Fixed	5.4	210.7	190.5	209.8
5.391 per cent MTN due 2027	Secured	Fixed	5.4	611.2	547.6	608.5
5.376 per cent MTN due 2029	Secured	Fixed	5.4	317.9	283.4	316.3
5.396 per cent MTN due 2032	Secured	Fixed	5.4	322.9	285.2	321.0
5.125 per cent MTN due 2036	Secured	Fixed	5.1	500.0	426.6	498.5
Bond exchange de-recognition adjustment	Secured	Fixed	–	–	–	(499.8)
				3,609.5	3,277.3	3,092.5
Bank facility due 2010	Secured	Floating	6.4	15.5	15.5	15.5
DWP term loan	Secured	Floating	6.4	94.4	94.4	94.4
Syndicated bank debt	Secured	Floating	5.8	865.0	865.0	865.0
Bilateral facilities	Secured	Floating	5.9	500.0	500.0	500.0
Amounts payable under finance leases (note 32)		Fixed	5.5	65.1	79.5	65.1
Total non-current borrowings				5,149.5	4,831.7	4,632.5
Total borrowings				5,955.2	5,635.2	5,426.5

Notes to the financial statements

—for the year ended 31 March 2009 continued

30. Borrowings continued

Group	2009	2008
Reconciliation of the movement in borrowings	£m	£m
At the beginning of the year	5,426.5	5,155.2
(Decrease)/increase in overdrafts	(1.1)	1.4
Repayment of loans	(1,612.0)	(1,485.0)
Proceeds from new loans	1,737.6	1,748.9
Capitalisation of finance fees	(5.0)	–
Amortisation of finance fees	2.2	2.1
Amortisation of bond exchange de-recognition adjustment	11.7	7.6
Net movement in finance lease obligations	(9.4)	(3.7)
Borrowings included within the disposal of Trillium	(99.9)	–
At the end of the year	5,450.6	5,426.5

31. Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Financial review on pages 18 to 23 and Our risks and how we manage them on pages 30 to 32. This note provides further detail on financial risk management and includes quantitative information on specific financial risks.

The Group is exposed to a variety of financial risks: market risks (principally interest-rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the Group's financial performance, which includes the use of derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by Group Treasury under policies approved by the Board of Directors.

Capital structure

The capital structure of the Group consists of shareholders' equity and net borrowings, including cash held on deposit. The type and maturity of the Group's borrowings are analysed further in note 30 and the Group's equity is analysed into its various components in note 37. Capital is managed so as to promote the long-term success of the business and to maintain sustainable returns for shareholders. The Group's objective is to navigate a prudent course through the current downturn and market volatility.

Whilst the Group is maintaining a strong focus on the business actions which are within its influence, a number of factors affecting the market in which the Group operates are beyond the Group's control. The pace of valuation decline has, in recent months, exceeded the pace at which assets can be sold to counteract the impact of falling values on the Group's balance sheet position, and this represents an ongoing risk.

Given the prevailing market conditions and the Group's financing arrangements, the Group undertook a Rights Issue in March 2009 to improve the Group's ability to preserve and create shareholder value through the downturn and into the next cycle by strengthening the Group's balance sheet and providing flexibility to react quickly to pricing and timing opportunities.

The additional capital raised by the Rights Issue reduces the impact of the risk of prolonged falls in property values. Furthermore, the Group is now in a position to respond quickly to the turning point in the cycle, particularly in relation to the acquisition of assets and the commencement of development opportunities, and that flexibility on timing is key to the creation of value. The Rights Issue also strengthens the Group's position in refinancing its debt facilities.

The Group's strategy is to maintain an appropriate net debt to total equity ratio (gearing) to ensure that asset level performance is translated into enhanced returns for shareholders whilst maintaining an appropriate risk reward balance to accommodate changing financial and operating market cycles. The following table details the Group's adjusted gearing, which includes the effects of our share of our joint ventures' net debt.

Notes to the financial statements

—for the year ended 31 March 2009 continued

31. Financial risk management continued

Group	2009 £m	2008 £m
Adjusted net debt		
Borrowings (note 30)	5,450.6	5,426.5
Cash and cash equivalents (note 25)	(1,639.0)	(48.4)
Cumulative mark-to-market adjustment on financial derivatives – Group	112.0	6.4
Net debt	3,923.6	5,384.5
Share of joint ventures' net debt (note 20)	459.4	253.5
Less: Cumulative mark-to-market adjustment on financial derivatives – Group	(112.0)	(6.4)
– joint ventures	(38.2)	(2.0)
Reverse Bond exchange de-recognition	499.8	511.5
	4,732.6	6,141.1
Adjusted total equity		
Total equity	4,820.2	9,582.9
Cumulative mark-to-market adjustment on financial derivatives – Group	112.0	6.4
– joint ventures	38.2	2.0
Reverse Bond exchange re-recognition	(499.8)	(511.5)
	4,470.6	9,079.8
Gearing	81.4%	56.2%
Adjusted gearing	105.9%	67.6%

The Group is not subject to any externally imposed capital requirements.

Financial risk factors

(i) Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, finance lease receivables, amounts due from joint ventures and loans to third parties.

Bank and financial institutions

One of the principal credit risks of the Group arises from cash and cash equivalents, financial derivative instruments and deposits with banks and financial institutions. In line with the policy approved by the Board of Directors, only independently-rated banks and financial institutions with a minimum rating of A are accepted. In light of market conditions, Group Treasury currently performs a weekly review of the credit ratings of all its financial institution counterparties. Furthermore, Group Treasury ensures that funds deposited with a single financial institution remain within the Group's policy limits.

Trade receivables

Trade receivables are presented in the balance sheet net of allowances for doubtful receivables. Impairment is made where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned. The balance is low relative to the scale of the balance sheet and owing to the long-term nature and diversity of its tenancy arrangements, with central Government being the single largest tenant, the credit risk of trade receivables is considered to be low. Furthermore, a credit report is obtained from an independent rating agency prior to the inception of a lease with a new counterparty. This report is used to determine the size of the deposit that is required from the tenant at inception. In general these deposits represent between three and six months' rent.

Property sales

Property sales receivables primarily relate to the sale of five properties, for which all payments to date have been received when due. The credit risk on outstanding amounts is considered low.

Finance lease receivables

This balance relates to amounts receivable from tenants in respect of tenant finance leases. This is not considered a significant credit risk as the tenants are generally of good financial standing.

Loans to third parties

A loan maturing in 2035 was made to Semperian PPP (formerly Trillium Investment Partners LP) as part of the disposal of the Trillium business. This loan is not considered a significant credit risk as it is repayable from dividends from investments in government infrastructure projects.

(ii) Liquidity risk

The Group actively maintains a mixture of Notes with final maturities between 2013 and 2036, and long-term and short-term committed bank facilities that are designed to ensure that the Group has sufficient available funds for its operations and its committed capital-expenditure programme. The Group's core financing structure is in the Security Group, although the remaining Non-Restricted Group may also secure independent funding.

Notes to the financial statements

—for the year ended 31 March 2009 continued

31. Financial risk management continued

Security Group

The Group's principal financing arrangements utilise the credit support of a ring-fenced group of assets (the Security Group) that comprises the majority of the Group's investment property portfolio. These arrangements operate in 'tiers' determined by Loan-to-value ratio (LTV) and Interest cover ratio (ICR). This structure is flexible at lower tiers (with a lower LTV and a higher ICR) and allows property acquisitions, disposals and developments to occur with relative freedom. In higher tiers, the requirements become more prescriptive. No financial covenant default is triggered until the applicable LTV exceeds 100% or the ICR is less than 1.0.

As at 31 March 2008, the reported LTV for the Security Group was 50.5%, meaning that the Group was operating in Tier 1 and benefited from maximum operational flexibility. In January 2009, the Group borrowed a further £1,130.0m from its existing committed facilities to preserve operational flexibility and currently holds the majority of the funds outside the Security Group. As a result, the Security Group moved into Tier 2 which imposes limited additional restrictions, such as liquidity requirements which require liquidity facilities or cash reserves to be put in place, or debt to be prepaid over an agreed amortisation period. After 31 March 2009, the Group expects to operate within Initial Tier 3 in the short to medium term, a more restrictive covenant regime which restricts, for example, payments being made from the Security Group to members of the wider Group.

Management monitors the key covenants attached to the Security Group on a monthly basis, including LTV, ICR, sector and regional concentration and disposals.

Non-Restricted Group

The Non-Restricted Group obtains funding when required from a combination of inter-company loans from the Security Group and external bank debt. Bespoke credit facilities are established with banks when required for the Non-Restricted Group projects and joint ventures, usually on a limited-recourse basis.

The Group's objective is to navigate a prudent course through the current downturn and market volatility to avoid the Security Group moving into Final Tier 3 (80% LTV). As at 31 March 2009, as a result of the above decision to increase borrowings and fall in property values, the LTV was 76.7%. However, £1,596m of cash equivalents was held in the Non-Restricted Group and is available to be applied within the business, including being injected into the Security Group to maintain its LTV at less than 80% if further falls in property values are experienced. The Security Group would thus avoid entering Final Tier 3 and the significant additional financial and operational restrictions that would be imposed. The Group's aim in the medium term is to return to Tier 1 or Tier 2 to allow greater access to the debt markets and avoid the restrictions imposed in Tier 3.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2009			
	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Borrowings (excluding finance lease liabilities)	0.3	640.0	1,962.8	3,309.4
Finance lease liabilities	0.8	0.5	0.7	55.9
Derivative financial instruments	40.0	480.0	1,705.0	—
Trade payables	2.7	—	—	—
Capital payables	129.7	—	—	—
	173.5	1,120.5	3,668.5	3,365.3
	2008			
	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Borrowings (excluding finance lease liabilities)	803.5	500.0	315.5	4,268.9
Finance lease liabilities	2.2	2.4	6.4	56.3
Derivative financial instruments	214.4	46.7	1,721.9	78.2
Trade payables	28.5	—	—	—
Capital payables	116.8	—	—	—
	1,165.4	549.1	2,043.8	4,403.4

Notes to the financial statements

—for the year ended 31 March 2009 continued

31. Financial risk management continued

(iii) Market risk

The Group is exposed to market risk through interest rates, currency fluctuations and availability of credit.

Interest rates

The Group uses interest-rate swaps and similar instruments to manage its interest-rate exposure. With property and interest-rate cycles typically of four to seven years' duration, the Group's target is to have a minimum of 80% of anticipated debt at fixed rates of interest over this timeframe. Due to a combination of factors, principally the high level of certainty required under IAS 39 'Financial Instruments: Recognition and Measurement', hedging instruments used in this context do not qualify for hedge accounting. Where specific hedges are used in geared joint ventures to fix the interest exposure on limited-recourse debt these qualify for hedge accounting.

At 31 March 2009, the Group (including joint ventures) had **£2.7bn** (2008: £2.3bn) of hedges in place, and its debt was **107%** fixed (2008: 80%). Consequently, based on year end balances, a 1% increase in interest rates would decrease the net interest payable in the income statement by **£3.5m** (2008: increased by £12.4m), and if interest rates fall by 1% then the reverse occurs. The sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest-rate swaps and cash and cash equivalents.

Foreign exchange

Foreign-exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency.

The Group does not normally enter into any foreign-currency transactions as it is UK based. However, where committed expenditure in foreign currencies is identified, it is the Group's policy to hedge 100% of that exposure by entering into forward purchases of foreign currency to fix the Sterling value. Therefore the Group's foreign-exchange risk is low.

The Group had no foreign-currency exposure at 31 March 2009 and was fully hedged at 31 March 2008.

Financial maturity analysis

The interest rate and currency profiles of the Group's undiscounted borrowings, after taking into account the effect of the foreign-currency swaps and interest-rate swaps, are set out below:

	2009			2008		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Group						
Sterling	4,662.2	1,308.2	5,970.4	4,402.5	1,552.7	5,955.2

The expected maturity profiles of the Group's borrowings are as follows:

	2009			2008		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Group						
One year or less, or on demand	1.1	—	1.1	172.2	633.5	805.7
More than one year but not more than two years	740.2	200.3	940.5	464.4	38.0	502.4
More than two years but not more than five years	947.3	1,107.9	2,055.2	321.9	—	321.9
More than five years	2,973.6	—	2,973.6	3,444.0	881.2	4,325.2
	4,662.2	1,308.2	5,970.4	4,402.5	1,552.7	5,955.2

The expected maturity profiles of the Group's derivative instruments are as follows:

	2009			2008		
	Interest rate swaps £m	Foreign currency swaps £m	Total £m	Interest rate swaps £m	Foreign currency swaps £m	Total £m
Group						
One year or less, or on demand	40.0	—	40.0	178.9	35.5	214.4
More than one year but not more than two years	480.0	—	480.0	46.7	—	46.7
More than two years but not more than five years	1,705.0	—	1,705.0	1,721.9	—	1,721.9
More than five years	—	—	—	78.2	—	78.2
	2,225.0	—	2,225.0	2,025.7	35.5	2,061.2

Notes to the financial statements

—for the year ended 31 March 2009 continued

32. Obligations under finance leases

Group	2009 £m	2008 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	4.7	6.6
Later than one year but not more than five years	16.3	24.8
More than five years	426.6	393.3
	447.6	424.7
Future finance charges on finance leases	(389.7)	(357.4)
Present value of finance lease liabilities	57.9	67.3
The present value of finance lease liabilities is as follows:		
Not later than one year	0.8	2.2
Later than one year but not more than five years	1.2	8.8
More than five years	55.9	56.3
	57.9	67.3

The fair value of the Group's lease obligations, using a discount rate of **5.5%** (2008: 5.5%), is **£68.8m** (2008: £79.5m).

33. Net pension surplus

Contributory money purchase scheme

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

Pension costs for defined contribution schemes are as follows:

Group	2009 £m	2008 £m
Defined contribution schemes	2.3	2.0

Defined benefit schemes

Land Securities Scheme

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

Contributions to the Scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected-unit method. As the Scheme is closed to new members, the current service cost will be expected to increase as a percentage of salary, under the projected-unit method, as members approach retirement. A full actuarial valuation of the Land Securities Scheme was undertaken on 1 July 2006 by the independent actuaries, Hymans Robertson Consultants & Actuaries. This valuation was updated to 31 March 2009. As a result of the valuation performed on 1 July 2006, the Trustees and the Group have agreed that the employer contributions of 30% of pensionable salary will be paid together with additional employer contributions to address the deficit at that time.

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

The major assumptions used in the valuation were (in nominal terms):

Group	2009 %	2008 %
Rate of increase in pensionable salaries	3.40	3.60
Rate of increase in pensions in payment	3.40	3.60
Discount rate	7.00	6.90
Inflation	3.40	3.60
Expected return on plan assets	6.14	6.44

Notes to the financial statements

—for the year ended 31 March 2009 continued

33. Net pension surplus continued

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

The mortality assumptions used in this valuation were:

Group	2009 Years	2008 Years
Life expectancy at age 60 for current pensioners – Men	28.5	28.4
– Women	31.7	31.5
Life expectancy at age 60 for future pensioners (current age 40) – Men	29.7	29.6
– Women	32.7	32.6

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

	2009 %	2008 %	2007 %	2009 £m	2008 £m	2007 £m
Equities	7.50	7.50	7.50	43.9	70.5	70.8
Bonds and insurance contracts	5.24	5.35	4.80	62.6	68.0	71.6
Other	0.50	5.25	5.25	0.6	0.5	2.0
Fair value of schemes' assets				107.1	139.0	144.4
Present value of schemes' liabilities				(104.1)	(123.9)	(150.0)
Non-permissible surplus				–	(4.1)	–
Surplus/(deficit) in the schemes				3.0	11.0	(5.6)
Related deferred tax (liability)/asset				(1.6)	(0.8)	0.4
Net pension asset/(liability)				1.4	10.2	(5.2)

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

Group	2009 %	2008 %
Equities	41	51
Bonds and insurance contracts	59	49

The plan assets do not include any directly owned financial instruments issued by Land Securities Group PLC. Indirectly owned financial instruments had a fair value of less than **£0.1m** (2008: £0.2m).

Group	2009 £m	2008 £m
Analysis of the amounts charged to the income statement		
Analysis of the amount charged to operating profit		
Current service cost	1.3	2.1
Charge to operating profit	1.3	2.1
Analysis of amount (credited)/charged to interest expense		
Expected return on plan assets	(8.1)	(9.0)
Interest on schemes' liabilities	7.5	8.1
Net return	(0.6)	(0.9)

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

Notes to the financial statements

—for the year ended 31 March 2009 continued

33. Net pension surplus continued

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities	
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2% or £2.0m	
Rate of mortality	Increase by 1 year	Increase by 2.5% or £2.6m	
Group		2009	2008
Changes in the present value of the defined-benefit obligation		£m	£m
At the beginning of the year		123.9	150.0
Current service cost		1.3	2.1
Interest cost		7.5	8.1
Actuarial gains		(11.0)	(32.0)
Benefits paid		(4.2)	(4.5)
Contributions by plan participants		0.2	0.2
Defined-benefit obligation included in the disposal of Trillium		(13.6)	—
At the end of the year		104.1	123.9
Group		2009	2008
Changes in the fair value of plan assets		£m	£m
At the beginning of the year		139.0	144.4
Expected return on plan assets		8.1	9.0
Employer contributions		4.2	2.0
Actual return less expected return on schemes' assets		(26.2)	(12.1)
Benefits paid		(4.2)	(4.5)
Contributions by plan participants		0.2	0.2
Pension assets included in the disposal of Trillium		(14.0)	—
At the end of the year		107.1	139.0
Group		2009	2008
Analysis of the movement in the balance sheet surplus/(deficit)		£m	£m
At the beginning of the year		11.0	(5.6)
Charge to operating profit		(1.3)	(2.1)
Expected return on plan assets		8.1	9.0
Interest on schemes' liabilities		(7.5)	(8.1)
Employer contributions		4.2	2.0
Actuarial (losses)/gains		(11.1)	15.8
Transfer of defined-benefit pension scheme on the disposal of Trillium		(0.4)	—
At the end of the year		3.0	11.0
Group		2009	2008
Analysis of the amounts recognised in the statement of recognised income and expense		£m	£m
Analysis of gains and losses			
Actual return less expected return on schemes' assets		(26.2)	(12.1)
Experience gains and losses arising on schemes' liabilities		11.0	32.0
Decrease/(increase) in non-permissible surplus		4.1	(4.1)
Actuarial (losses)/gains		(11.1)	15.8

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

Notes to the financial statements

—for the year ended 31 March 2009 continued

33. Net pension surplus continued

Group	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
History of experience gains and losses					
Experience adjustments arising on schemes' assets					
Amount	(26.2)	(12.1)	(2.6)	15.5	3.1
Percentage of schemes' assets	24.5%	8.7%	1.8%	10.3%	2.5%
Experience adjustments arising on schemes' liabilities					
Amount	11.0	(32.0)	(1.3)	20.5	7.8
Percentage of the present value of funded obligations	10.6%	25.8%	0.9%	13.1%	5.7%
Present value of schemes' liabilities	(104.1)	(123.9)	(150.0)	(156.5)	(136.6)
Fair value of schemes' assets	107.1	139.0	144.4	150.0	125.7
Non-permissible surplus	—	(4.1)	—	—	—
Surplus/(deficit)	3.0	11.0	(5.6)	(6.5)	(10.9)

The contributions expected to be paid in respect of the defined-benefit schemes during the financial year ending 31 March 2010 amount to **£4.4m**.

The Company did not operate any defined-contribution schemes or defined-benefit schemes during the financial year ended 31 March 2009 or in the previous financial year.

34. Deferred taxation

Group	Pension deficit/(surplus) £m	Accelerated tax depreciation £m	Capitalised interest £m	Other £m	Total £m
At 1 April 2007 – Assets	0.4	—	—	0.9	1.3
– Liabilities	—	(4.4)	(0.9)	—	(5.3)
	0.4	(4.4)	(0.9)	0.9	(4.0)
(Charged)/credited to income statement for the year ¹	(0.3)	3.7	—	—	3.4
Charged to equity	(0.9)	—	—	—	(0.9)
At 31 March 2008 – Assets	—	—	—	0.9	0.9
– Liabilities	(0.8)	(0.7)	(0.9)	—	(2.4)
	(0.8)	(0.7)	(0.9)	0.9	(1.5)
Disposal of Trillium	—	1.4	—	—	1.4
(Charged)/credited to income statement for the year	(1.4)	1.2	0.9	(0.9)	(0.2)
Credited to equity	0.6	—	—	—	0.6
At 31 March 2009 – Assets	—	1.9	—	—	1.9
– Liabilities	(1.6)	—	—	—	(1.6)
	(1.6)	1.9	—	—	0.3

1. £3.3m of the net credit to the income statement for the year ended 31 March 2008 relates to Trillium and in compliance with IFRS5 has been reclassified to discontinued operations.

Group	2009 £m	2008 £m
Deferred tax is provided as follows:		
Excess/(deficit) of capital allowances over depreciation – operating properties	1.9	(0.7)
Capitalised interest – operating properties	—	(0.9)
Pension surplus	(1.6)	(0.8)
Other temporary differences	—	0.9
Total deferred tax asset/(liability)	0.3	(1.5)

The Group has unutilised trading losses carried forward as at 31 March 2009 of approximately £92.0m (2008: nil).

Notes to the financial statements

—for the year ended 31 March 2009 continued

35. Share-based payments

The Group's share-based payments are all equity settled and comprise the Savings Related Share Option Schemes (Sharesave), various Executive Share Option Schemes (ESOS), Performance and Deferred Bonus share schemes related to the annual bonus scheme, and the Long-Term Incentive Plan. In accordance with IFRS2 'Share-based Payment' the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest.

The total cost recognised in the income statement is shown below:

Group	2009 £m	2008 £m
Savings Related Share Option Schemes*	0.2	0.3
Executive Share Option Schemes*	1.8	0.9
Performance Shares*	1.2	(0.1)
Deferred Bonus Share Scheme*	1.1	0.7
Long-Term Incentive Plan*	4.3	3.2
	8.6	5.0
Attributed to:		
Continuing activities	4.8	2.8
Discontinued operations	3.8	2.2
	8.6	5.0

*Credited to equity as equity settled.

Impact of Rights Issue on share schemes

The Rights Issue that completed in March 2009 offered shareholders the right to acquire five shares for every eight shares that they held, for an issue price of 270p. As the issue price was below the market price of the ordinary shares a bonus share element was inherent in the Rights Issue. Both the number and exercise price of the share schemes outstanding at the date of the Rights Issue have therefore been adjusted to account for the dilutive impact of the bonus share element.

Savings Related Share Option Schemes

Under the 1993 and 2003 Savings Related Share Option Schemes all staff who have been with the Group for a continuous period of not less than six months are eligible to make regular monthly contributions into a Sharesave scheme operated by Lloyds Banking Group. On completion of the three, five or seven year contract period, ordinary shares in Land Securities Group PLC may be purchased at a price based upon the current market price at date of invitation less 20% discount. Options are satisfied by the issue of new shares. Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within six months of the bonus date. In certain circumstances leavers may exercise their options early based upon current savings. Alternatively, they may continue saving to receive the tax-free bonus at the end of the contract or withdraw their cash immediately. Fair-value calculations, which relate to the 2003 Scheme only, assume a lapse rate, based upon historic values, of approximately 20% for employees leaving the Group before vesting.

1993 Savings Related Share Option Scheme

	Number of options		Weighted average exercise price	
	2009	2008	2009 Pence	2008 Pence
At the beginning of the year	35,287	147,433	677	656
Exercised	(18,951)	(111,548)	690	649
Forfeited	(831)	(293)	651	650
Lapsed	(3,397)	(305)	707	650
Rights Issue adjustment	1,323	—	—	—
At the end of the year	13,431	35,287	585	677
Exercisable at the end of the year	—	3,312	—	650
			Years	Years
Weighted average remaining contractual life			0.50	0.87

The options outstanding under the scheme are exercisable at 585p seven years from the date of grant during 2009. The weighted average share price at the date of exercise during the year was 1291p (2008: 1647p).

Notes to the financial statements

—for the year ended 31 March 2009 continued

35. Share-based payments continued

2003 Savings Related Share Option Scheme

	Number of options		Weighted average exercise price	
	2009	2008	2009 Pence	2008 Pence
At the beginning of the year	507,472	462,116	1248	1121
Granted	–	175,605	–	1460
Exercised	(56,303)	(75,748)	746	937
Forfeited	(68,284)	(21,979)	1356	1173
Lapsed	(66,258)	(32,522)	1356	1376
Rights Issue adjustment	34,300	–	–	–
At the end of the year	350,927	507,472	1162	1248
Exercisable at the end of the year	86,563	14,919	1016	957
			Years	Years
Weighted average remaining contractual life			1.51	2.33

The options outstanding under the scheme are exercisable at prices between 610p and 1372p after three, five or seven years from the date of grant. 11,989 of the options outstanding are exercisable at 610p, 38,654 at 862p, 112,426 at 1032p, 113,149 at 1315p and 74,709 at 1372p during the periods 2009 to 2010, 2009 to 2011, 2009 to 2012, 2010 to 2014 and 2009 to 2013, respectively.

The weighted average share price at the date of exercise during the year was **1129p** (2008: 1559p). No options were granted during the year (2008: options were granted on 1 October 2007). The estimated fair value of the options granted in the previous year was £0.9m.

Executive Share Option Schemes

2000 Executive Share Option Scheme

	Number of options		Weighted average exercise price	
	2009	2008	2009 Pence	2008 Pence
At the beginning of the year	237,692	247,400	839	839
Exercised	(43,548)	(8,660)	855	835
Forfeited	(16,806)	(1,048)	850	869
Rights Issue adjustment	19,451	–	–	–
At the end of the year	196,789	237,692	752	839
Exercisable at the end of the year	196,789	237,692	752	839
			Years	Years
Weighted average remaining contractual life			2.83	3.70

No new grants to Directors and senior management of the Group have been made under this scheme since 19 July 2002.

These options have fully vested as the growth in the Group's normalised adjusted diluted earnings per share exceeded the growth in the Retail Prices Index by 2.5% per annum over the vesting period.

Options are satisfied by the issue of new shares. Options are forfeited, in most circumstances, when an employee leaves the Group before vesting or lapse if they are not exercised within 10 years of the date of grant.

The options outstanding under the scheme are exercisable at prices between 732p and 783p up to 2012. The weighted average share price at the date of exercise for share options exercised during the year was **1286p** (2008: 1650p).

Notes to the financial statements

—for the year ended 31 March 2009 continued

35. Share-based payments continued

2002 Executive Share Option Scheme

	Number of options		Weighted average exercise price	
	2009	2008	2009 Pence	2008 Pence
At the beginning of the year	1,581,872	1,977,946	1036	1036
Exercised	(114,005)	(348,832)	996	1047
Forfeited	(83,890)	(47,242)	1082	964
Rights Issue adjustment	151,865	—	—	—
At the end of the year	1,535,842	1,581,872	934	1036
Exercisable at the end of the year	1,535,842	1,581,872	934	1036
			Years	Years
Weighted average remaining contractual life			4.94	5.94

The final grants to Directors and senior management of the Group under this scheme were made on 12 July 2004.

Vesting is subject to growth in the Group's normalised adjusted diluted earnings per share exceeding the growth in the Retail Prices Index by 2.5% per annum over the three year vesting period. For options granted in the year ended 31 March 2004 there are a maximum of two retests for performance criteria in years four and five. For options granted in the year ended 31 March 2005 there is no retesting of performance criteria. Options are satisfied by the issue of new shares.

Options are normally forfeited if the employee leaves the scheme before the options vest or lapse if options are not exercised within 10 years of the date of grant.

Fair value calculations assume a lapse rate, based upon historic values, of between 2% and 5% per annum for employees leaving the Group before vesting.

20,530, 483,608 and 1,031,704 of the options outstanding under the 2002 Executive Share Option Scheme are exercisable at 681p, 710p and 1044p respectively up to 2014, provided the associated performance conditions are met.

The weighted average share price at the date of exercise for share options exercised during the year was **1278p** (2008: 1658p).

2005 Executive Share Option Scheme

	Number of options		Weighted average exercise price	
	2009	2008	2009 Pence	2008 Pence
At the beginning of the year	967,791	589,039	1640	1569
Granted	819,405	450,656	1213	1731
Exercised	—	(4,478)	—	1500
Forfeited	(82,647)	(67,426)	1470	1636
Rights Issue adjustment	185,007	—	—	—
At the end of the year	1,889,556	967,791	1301	1640
Exercisable at the end of the year	280,509	—	1280	—
			Years	Years
Weighted average remaining contractual life			8.30	8.41

The 2005 Executive Share Option Scheme is open to executives and management staff not eligible to participate in the Land Securities 2005 Long-Term Incentive Plan for senior executives. Options are granted in the ordinary shares of Land Securities Group PLC at the middle market price on the three dealing days immediately preceding the date of grant. The three year vesting period is not subject to performance conditions. Options are satisfied by the transfer of shares.

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

The options outstanding under the scheme are exercisable at 1095p, 1280p, 1560p and 1565p during the periods 2011 to 2018, 2009 to 2015, 2010 to 2017 and 2009 to 2016, respectively.

The weighted average share price at the date of exercise for share options exercised during the previous year was 1870p. During the year, **807,988** options were granted on **10 July 2008** and **11,417** options were granted on **30 March 2009** (2008: 29 June 2007). The estimated fair value of the options granted on those dates was **£1.4m** (2008: £1.2m).

Notes to the financial statements

—for the year ended 31 March 2009 continued

35. Share-based payments continued

Performance Shares

	Number of shares	
	2009	2008
At the beginning of the year	137,334	244,710
Exercised	(136,684)	(102,562)
Lapsed	(650)	(4,814)
At the end of the year	—	137,334
Exercisable at the end of the year	—	—
	Years	Years
Weighted average remaining contractual life	—	0.26

Under the Performance Shares plan approved by shareholders in 2002, senior executives of the Group received up to two shares for each deferred share received under the separate management bonus scheme depending on the extent to which performance criteria were satisfied. Half of these Performance Shares were dependent on the real increase in the Group's normalised adjusted diluted earnings per share over three financial years. The other half of the Performance Shares were subject to the Group's total property return equalling or exceeding the Investment Property Databank (IPD) All Fund Universe Index over a three year rolling period. The final grant under the scheme was made in July 2005. Awards under the plan are satisfied by transfer of existing shares.

The weighted average share price at the date of exercise for Performance Shares exercised during the year was **1176p** (2008: 1745p).

Deferred Bonus Shares Scheme

	Number of shares	
	2009	2008
At the beginning of the year	198,106	221,064
Granted	165,415	46,386
Capitalisation of dividends	6,559	7,565
Exercised	(153,252)	(73,468)
Forfeited	(356)	(3,441)
Rights Issue adjustment	6,040	—
At the end of the year	222,512	198,106
Exercisable at the end of the year	—	—
	Years	Years
Weighted average remaining contractual life	2.41	1.05

Under the Executive Director and senior management bonus plans, participants are eligible for awards in cash and deferred shares. The underlying performance criteria are earnings per share and increase in net asset value over the previous year. In previous years, Executive Directors have had the opportunity to earn a bonus of up to 20% of salary in cash and 20% of salary in shares for meeting rigorous targets and up to a maximum of 40% of salary in cash and 40% of salary in shares for superior results. Following a review of the reward structure by the Remuneration Committee, Executive Directors are in future eligible for awards of up to 100% of salary, 25% of which must be taken in deferred shares. Other management grades must now take their entire bonus in cash. Awards under the plan are satisfied by transfers of existing shares held by the ESOP trust.

The shares are deferred for three years and normally forfeited if the executive leaves employment during the period. Fair value has been adjusted for participants who have left the Group, but no adjustment has been made for future anticipated lapses.

The deferred shares outstanding under the scheme are to be issued at nil consideration subject to vesting conditions being met.

The weighted average share price at the date of exercise for shares exercised during the year was **1090p** (2008: 1741p). During the year, rights over **165,415** deferred shares were granted on **30 March 2009** (2008: 46,386 deferred shares were granted on 29 June 2007). The estimated fair value of the rights over shares granted on that date was **£1.5m** (2008: £0.7m).

Notes to the financial statements

—for the year ended 31 March 2009 continued

35. Share-based payments continued

2005 Long-Term Incentive Plan

	Number of shares	
	2009	2008
At the beginning of the year	1,263,526	756,629
Granted	508,527	517,103
Exercised	(565,424)	—
Forfeited	(220,908)	(10,206)
Rights Issue adjustment	80,301	—
At the end of the year	1,066,022	1,263,526
Exercisable at the end of the year	—	—
	Years	Years
Weighted average remaining contractual life	1.57	1.46

The Long-Term Incentive Plan (LTIP) for Executive Directors and senior executives authorises the Remuneration Committee to make grants of LTIP shares with a face value of up to 100% of salary for Executive Directors and up to 75% of salary for senior executives. In addition, an award of matching shares can be made, linked to co-investment in shares by participants. The participant's investment can be made through deferral of an annual bonus award and/or through optional pledging of shares purchased in the market. The maximum level of matching is shares with a face value of 50% of salary for Executive Directors and 25% of salary for senior executives. Performance conditions are similarly structured to those applying to the Performance Share Plan except that the EPS targets are increased and the IPD index measure is more closely targeted to the Group's asset classes. Awards may be satisfied by the issue of new shares and/or transfer of treasury shares and/or transfer of shares other than treasury shares.

Fair value calculations include the assumption that LTIP and matching shares will be awarded at 50% of the maximum possible under the scheme and have been adjusted for participants who have left the scheme but no adjustment has been made for future anticipated lapses.

The shares outstanding under the scheme are to be issued at nil consideration provided performance conditions are met.

The weighted average share price at the date of exercise for shares exercised during the year was 983p. Rights to receive **180,957** Performance Shares were granted on **10 July 2008** and **200,066** on **30 March 2009** (2008: 288,121 Performance Shares were granted on 29 June 2007). Rights to receive **60,878** Matching Shares were granted on **31 July 2008** and **66,626** on **30 March 2009** (2008: 228,982 Matching Shares were granted on 31 July 2007). The estimated fair value of the rights over the shares granted on those dates was **£2.6m** (2008: £4.1m).

Fair-values inputs

Fair values are calculated using the Black-Scholes option pricing model. Inputs into this model for each scheme are as follows:

	2003 Savings Related Share Option Scheme	2002 Executive Share Option Scheme	2005 Executive Share Option Scheme	Performance Shares	Deferred Bonus Shares	2005 Long-Term Incentive Plan
Range of share prices at grant date	846p to 1903p	756p to 1159p	1095p to 1737p	787p to 1405p	787p to 1737p	1095p to 1737p
Range of exercise prices	677p to 1523p	756p to 1159p	1095p to 1737p	nil p	nil p	nil p
Expected volatility	19%	19%	19% to 21%	19%	19% to 21%	19% to 21%
Expected life	3 to 7 years	3 to 5 years	2.3 to 5 years	3 years	3 to 5 years	2.3 to 5 years
Risk-free rate	4.19% to 5.67%	3.60% to 5.10%	2.04% to 5.67%	4.17%	2.04% to 5.67%	2.04% to 5.67%
Expected dividend yield	3.02% to 4.37%	4.11% to 4.34%	3.02% to 6.53%	3.81%	3.02% to 6.53%	3.02% to 6.53%

Expected volatility was determined by calculating the historic volatility of the Group's share price over the previous 10 years. The expected life used in the model has been determined, based upon management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Risk-free rate is the yield, at the date of the grant of an option, on a gilt-edged stock with a redemption date equal to the anticipated exercise of that option.

Notes to the financial statements

—for the year ended 31 March 2009 continued

36. Called up share capital

Group and Company	Authorised		Allotted and fully paid	
	2009 Number million	2008 Number million	2009 £m	2008 £m
Ordinary shares of 10p each	1,000.0	600.0	76.2	47.1
Non-equity B shares of £1.02 each	38.9	38.9	—	—
Redeemable preference shares of £1.00 each	0.1	0.1	—	—
			76.2	47.1

On 9 March 2009, an ordinary resolution was passed at a General Meeting that approved the increase in the authorised ordinary shares of 10p each from 600.0 million to 1,000.0 million.

	Number of shares	
	2009	2008
Movements in the share capital were:		
At the beginning of the year	470,901,478	470,356,546
Issued on the exercise of options	232,807	544,932
Rights Issue	290,773,925	—
At the end of the year	761,908,210	470,901,478

On 9 March 2009, a special resolution was passed that allowed the Company to proceed with a Rights Issue which provided shareholders with the right to acquire five additional shares at an issue price of 270p for every eight shares held on 5 March 2009. The Rights Issue resulted in the issue of an additional 290,773,925 ordinary shares on 25 March 2009 and raised net proceeds of £755.7m, consisting of gross proceeds of £785.1m net of issue costs of £29.4m.

The number of ordinary shares that would be issued if all options were exercised at 31 March 2009 is **3,986,545** (2008: 3,330,114).

In July 2007 and 2008 the shareholders at the Annual General Meeting authorised the acquisition of shares issued by the Company representing up to 10% of its share capital to be held as treasury shares. At 31 March 2009 the Group owned **5,896,000** ordinary shares (2008: 5,896,000 ordinary shares) with a market value of **£25.8m** (2008: £87.6m).

37. Equity attributable to equity holders of the Company

Group	Ordinary shares £m	Share premium £m	Capital redemption reserve £m	Share- based payments £m	Retained earnings* £m	Own shares £m	Total £m
At 1 April 2007	47.0	51.5	30.5	7.9	10,668.9	(14.5)	10,791.3
Exercise of options	0.1	5.1	—	—	—	—	5.2
Fair-value movement on cash flow hedges – Group	—	—	—	—	(3.2)	—	(3.2)
– joint ventures	—	—	—	—	(3.5)	—	(3.5)
Fair value of share-based payments (note 35)	—	—	—	5.0	—	—	5.0
Release on exercise/forfeiture of share options	—	—	—	(1.6)	1.6	—	—
Treasury shares acquired	—	—	—	—	(78.2)	—	(78.2)
Actuarial gains on defined-benefit pension schemes (net)	—	—	—	—	14.9	—	14.9
Loss for the financial year	—	—	—	—	(830.8)	—	(830.8)
Dividends paid (note 9)	—	—	—	—	(308.4)	—	(308.4)
Own shares acquired	—	—	—	—	—	(9.4)	(9.4)
Transfer of shares to employees on exercise of share schemes	—	—	—	—	(1.6)	1.6	—
At 31 March 2008	47.1	56.6	30.5	11.3	9,459.7	(22.3)	9,582.9
Rights Issue (note 36)	29.1	726.6	—	—	—	—	755.7
Exercise of options	—	2.0	—	—	—	—	2.0
Fair-value movement on cash flow hedges – Group	—	—	—	—	(0.2)	—	(0.2)
– joint ventures	—	—	—	—	(21.3)	—	(21.3)
Fair value of share-based payments (note 35)	—	—	—	8.6	—	—	8.6
Release on exercise/forfeiture of share options	—	—	—	(11.8)	11.8	—	—
Actuarial losses on defined-benefit pension schemes (net)	—	—	—	—	(10.5)	—	(10.5)
Loss for the financial year	—	—	—	—	(5,191.3)	—	(5,191.3)
Dividends paid (note 9)	—	—	—	—	(302.4)	—	(302.4)
Transfer of shares to employees on exercise of share schemes	—	—	—	—	(9.9)	9.9	—
At 31 March 2009	76.2	785.2	30.5	8.1	3,935.9	(12.4)	4,823.5

*Included within retained earnings are cumulative losses in respect of cash flow hedges (interest-rate swaps) of **£17.1m** (2008: gains of £4.4m).

Notes to the financial statements

—for the year ended 31 March 2009 continued

37. Equity attributable to equity holders of the Company continued

Company	Ordinary shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Share-based payments £m	Retained earnings* £m	Total £m
At 1 April 2007	47.0	51.5	30.5	373.6	12.5	4,431.6	4,946.7
Shares issued on exercise of options	0.1	5.1	—	—	—	—	5.2
Fair value of share-based payments (note 35)	—	—	—	—	5.0	—	5.0
Loss for the financial year	—	—	—	—	—	(15.3)	(15.3)
Dividends paid (note 9)	—	—	—	—	—	(308.4)	(308.4)
At 31 March 2008	47.1	56.6	30.5	373.6	17.5	4,107.9	4,633.2
Rights Issue (note 36)	29.1	726.6	—	—	—	—	755.7
Shares issued on exercise of options	—	2.0	—	—	—	—	2.0
Fair value of share-based payments (note 35)	—	—	—	—	8.6	—	8.6
Release on exercise/forfeiture of share options	—	—	—	—	(18.0)	18.0	—
Loss for the financial year	—	—	—	—	—	(273.6)	(273.6)
Dividends paid (note 9)	—	—	—	—	—	(302.4)	(302.4)
At 31 March 2009	76.2	785.2	30.5	373.6	8.1	3,549.9	4,823.5

*Available for distribution.

The merger reserve arose on 6 September 2002 when the Company acquired 100% of the issued share capital of Land Securities PLC. The merger reserve represents the excess of the cost of acquisition over the nominal value of the shares issued by the Company to acquire Land Securities PLC. The merger reserve does not represent a realised or distributable profit.

38. Own shares

Group	2009 £m	2008 £m
Cost at the beginning of the year	22.3	14.5
Acquisition of ordinary shares	—	9.4
Transfer of shares to employees on exercise of share schemes	(9.9)	(1.6)
Cost at the end of the year	12.4	22.3

Own shares consist of shares in Land Securities Group PLC held by the Employee Share Ownership Plan (ESOP) which is operated by the Group in respect of its commitment to the Deferred Bonus Shares Scheme (note 35).

The number of shares held by the ESOP at 31 March 2009 was **887,914** (2008: 1,336,275). The market value of these shares at 31 March 2009 was **£3.8m** (2008: £20.2m).

Notes to the financial statements

—for the year ended 31 March 2009 continued

39. Cash flow from operating activities

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Reconciliation of operating profit to net cash inflow from operating activities:				
Cash generated from operations				
Loss for the financial year from continuing activities	(4,773.7)	(972.9)	(273.6)	(15.3)
Income tax	0.5	(15.1)	(15.2)	(6.6)
Loss before tax	(4,773.2)	(988.0)	(288.8)	(21.9)
Share of losses of joint ventures (post-tax)	599.0	101.1	–	–
	(4,174.2)	(886.9)	(288.8)	(21.9)
Interest income	(32.5)	(25.9)	(20.0)	(14.7)
Interest expense	365.0	312.3	53.9	26.6
Operating loss from continuing activities	(3,841.7)	(600.5)	(254.9)	(10.0)
Operating (loss)/profit from discontinued operations	(79.0)	108.2	–	–
	(3,920.7)	(492.3)	(254.9)	(10.0)
Adjustments on continuing and discontinued operations for:				
Depreciation	24.3	45.8	–	–
Loss/(profit) on disposal of non-current properties	129.1	(75.4)	–	–
Net deficit on revaluation of investment properties	4,123.4	1,170.3	–	–
Goodwill impairment	148.6	–	–	–
Impairment of trading properties	92.3	–	–	–
Impairment to investment in subsidiary undertakings	–	–	234.7	–
Share-based payment charge	8.6	5.0	–	–
Pension scheme charge	1.3	2.1	–	–
	606.9	655.5	(20.2)	(10.0)
Changes in working capital:				
(Increase)/decrease in trading properties and long-term development contracts	(34.0)	0.2	–	–
Decrease/(increase) in receivables	69.5	(26.3)	0.1	(0.3)
Increase/(decrease) in payables and provisions	8.9	67.1	(375.3)	443.5
Net cash generated from operations	651.3	696.5	(395.4)	433.2

Notes to the financial statements

—for the year ended 31 March 2009 continued

40. Related party transactions

Subsidiaries

In accordance with IAS27 'Consolidated and Separate Financial Statements', transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Joint ventures

As disclosed in note 20, the Group has investments in a number of joint ventures. Details of transactions and balances between the Group and its joint ventures are disclosed as follows:

	Year ended 31 March 2009 and at 31 March 2009				Year ended 31 March 2008 and at 31 March 2008			
	Revenues £m	Net investments into joint ventures £m	Loans to joint ventures £m	Amounts owed to joint ventures £m	Revenues £m	Net investments into joint ventures £m	Loans to joint ventures £m	Amounts owed to joint ventures £m
The Scottish Retail Property Limited Partnership	0.5	0.4	0.3	(0.1)	0.6	(42.5)	0.9	(3.9)
Metro Shopping Fund Limited Partnership	0.8	4.7	—	—	0.9	(7.6)	0.7	(2.0)
Buchanan Partnership	5.3	(2.9)	1.6	—	3.7	(2.6)	0.5	—
St. David's Limited Partnership	8.0	74.0	12.3	(115.1)	5.4	55.4	4.3	(116.9)
The Martineau Galleries Limited Partnership	0.2	(5.9)	0.4	—	0.2	3.1	0.3	—
The Bull Ring Limited Partnership	—	(11.7)	—	—	—	(13.5)	—	—
Bristol Alliance Limited Partnership	7.0	57.4	14.2	—	9.0	76.1	11.7	—
The Martineau Limited Partnership	0.1	—	—	—	—	—	—	(0.1)
A2 Limited Partnership	—	(3.7)	—	—	—	(2.8)	—	—
Parc Tawe I Unit Trust	—	—	—	—	—	(1.4)	—	—
Hungate (York) Regeneration Limited	—	—	—	—	—	1.7	—	—
Countryside Land Securities (Springhead) Limited	—	0.9	0.6	—	—	5.5	—	—
Investors in the Community	—	0.2	—	—	—	—	—	—
The Ebbsfleet Limited Partnership	—	—	0.2	—	—	—	0.2	—
The Harvest Limited Partnership	0.6	14.6	0.6	(43.0)	0.1	72.9	0.1	(0.2)
The Oriana Limited Partnership	0.4	11.1	2.5	—	—	23.4	78.7	(0.3)
Millshaw Property Co. Limited	—	—	—	(10.4)	—	14.2	—	(10.8)
Fen Farm Developments Limited	0.1	(3.5)	11.1	—	0.1	(5.6)	13.7	—
The Empress State Limited Partnership	—	28.1	0.1	—	—	—	—	—
HNJV Limited	—	—	0.7	—	—	—	—	—
	23.0	163.7	44.6	(168.6)	20.0	176.3	111.1	(134.2)

Further detail of the above transactions and balances can be seen in note 20.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the applicable categories specified in IAS24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 76 to 79.

	2009 £m	2008 £m
Short-term employee benefits	3.2	7.7
Post-employment benefits	0.6	0.6
Share-based payments	2.6	3.2
	6.4	11.5

Notes to the financial statements

—for the year ended 31 March 2009 continued

41. Operating lease arrangements

The Group earns rental income by leasing its investment and operating properties to tenants under non-cancellable operating leases.

At the balance sheet date, the Group had contracted with tenants to receive the following future minimum lease payments:

	2009 £m	2008 £m
Not later than one year	534.0	547.6
Later than one year but not more than five years	1,981.5	2,123.0
More than five years	3,818.7	4,284.4
	6,334.2	6,955.0

The total of contingent rents recognised as income during the year was **£41.2m** (2008: £38.8m).

42. Discontinued operations

On 8 January 2009 Land Securities announced the sale of Trillium, its property outsourcing business, to Telereal. The sale was completed on 12 January 2009. The transaction included all of Trillium's contracts with the exception of the Accor hotel portfolio, which is now included within the Retail Portfolio business segment.

The Trillium operations represented a separate major line of business for Land Securities. As a result of the sale and in accordance with IFRS5, these operations have been treated as discontinued operations for the year ended 31 March 2009. A single amount is shown on the face of the income statement comprising the post-tax result of discontinued operations and the post-tax loss arising on the disposal of the discontinued operation. As a result, the income and expenses of Trillium are reported separately from the continuing activities of the Land Securities Group. The table below provides further details of the amount shown on the income statement. The income statement, and relevant notes, for the prior year have been restated to conform with this style of presentation.

	2009 ¹ £m	2008 £m
(Loss)/profit for the financial year from discontinued operations	(87.3)	142.1
Loss on disposal	(333.6)	–
	(420.9)	142.1
Income statement of Trillium discontinued operations		
	2009 ¹ £m	2008 £m
Revenue	558.1	743.2
Costs	(480.2)	(641.2)
	77.9	102.0
Goodwill impairment	(148.6)	–
Profit on disposal of non-current properties	1.7	18.1
Net deficit on revaluation of investment properties	(10.0)	(11.9)
Operating (loss)/profit	(79.0)	108.2
Interest expense	(6.1)	(12.1)
Interest income	2.1	3.5
	(83.0)	99.6
Share of the loss of an associate undertaking (post-tax)	(16.6)	(0.5)
Share of the profit of joint ventures (post-tax)	–	0.1
(Loss)/profit before tax	(99.6)	99.2
Income tax	(7.9)	(4.6)
(Loss)/profit for the financial year	(107.5)	94.6
Discontinued operations within Trillium	20.2	47.5
(Loss)/profit for the financial year from discontinued operations	(87.3)	142.1

1. The 2009 income statement is for the period from 1 April 2008 to 12 January 2009, the date of the disposal of Trillium.

Notes to the financial statements

—for the year ended 31 March 2009 continued

42. Discontinued operations continued

	2009 £m	2008 £m
Loss on disposal		
Consideration received or receivable:		
Cash	444.0	—
Present value of deferred sales proceeds	25.0	—
Total disposal consideration	469.0	—
Less: carrying amounts of net assets divested	(792.8)	—
Less: cost of disposal	(9.8)	—
Loss on sale before related income tax benefit	(333.6)	—
Income tax benefit	—	—
Loss on disposal	(333.6)	—
Net cash inflow on disposal		
Cash and cash equivalents consideration	444.0	—
Less: cash and cash equivalents balance divested	(51.3)	—
Reported in the cash flow statement	392.7	—

The cash consideration includes the repayment of inter-company balances of £435.8m that were outstanding between the Group and Trillium at 12 January 2009.

The Group cash flow statement contains the cash flows from the Trillium discontinued operations. The cash flows attributable to the operating activities of the Trillium discontinued operations are detailed in the following table:

	2009 £m	2008 £m
Operating cash flows	138.7	102.8
Investing cash flows	106.9	(195.5)
Financing cash flows	(24.4)	(48.8)
Total cash flows	221.2	(141.5)

