

Financial review

The Group's loss before tax was £888.8m, compared to a profit of £1,979.1m a year ago. The loss before tax includes the revaluation deficit on our investment properties of £1,304.5m (2007: £1,382.7m surplus). Revenue profit, our measure of underlying profit before tax, decreased from £392.2m to £379.1m. Earnings per share decreased from 753.59p last year to a loss per share of 188.80p, with adjusted diluted earnings per share showing a 16.4% increase on last year to 81.71p (2007: 70.20p).

The combined investment portfolio decreased in value from £14.8bn to £13.6bn. This included a valuation deficit of £1,279.6m or 8.8%. Net assets per share decreased by 10.3% to 2067p from 2304p, with adjusted diluted net assets per share decreasing by 10.3% to 1956p (2007: 2181p).

(Loss)/profit before tax

The main drivers of our loss before tax are the change in value of our investment portfolio (including any profits or losses on disposal of properties), our net rental income, the performance of our Trillium business, and the amount of interest we paid. The degree to which movement on these and other items led to the reduction in our profit before tax from £1,979.1m last year to a loss of £888.8m this year, is explained in *Table 6* below:

Table 6

Principal changes in profit before tax and revenue profit

	Profit/(loss) before tax £m	Revenue profit £m
Year ended 31 March 2007	1,979.1	392.2
Valuation deficit	(2,687.2)	–
Profit on disposal of non-current properties	(50.1)	–
Profit on sale of trading properties	(2.5)	–
Amortisation of bond derecognition ¹	9.5	–
Long-term development contract profits ²	(12.3)	–
Net rental and service charge income ³	7.9	7.9
Indirect costs	1.5	1.5
Trillium operating profit (including joint ventures) ⁴	34.6	34.6
Interest associated with PPP investments ⁵	(42.0)	(42.0)
Other Trillium interest ⁶	(18.9)	(18.9)
Other interest ⁷	3.8	3.8
Demerger costs ⁸	(9.8)	–
Debt restructuring charges	17.3	–
Joint venture tax adjustment	(79.9)	–
Interest rate swaps	(39.8)	–
Year ended 31 March 2008	(888.8)	379.1

- The debt instruments issued as part of the refinancing in November 2004 do not meet the requirements of IAS 39 as they are not deemed to be substantially different from the debt they replaced. As a result, the book value of the new instruments is reduced to the book value of the debt it replaced and the difference is amortised over the life of the new instruments. The decrease in amortisation over the comparable period is a reflection of the maturity profile of debt replaced.
- 2007 benefited from the first time recognition of profits on the BBC Broadcasting House contract.
- Increased as a result of completed developments and like-for-like rental income growth, partially offset by properties sold.
- Increase is mainly due to DWP contract and Accor hotels. See *Table 42* on page 49 for details.
- Interest cost associated with acquiring PPP investments on which no revenue is recognised.
- Increased costs due to higher average capital employed, principally associated with Royal Mail and Accor.
- Relates to property investment business and Group. Lower interest costs due to net sales of investment properties, offset by interest on REIT entry charge and movement to quarterly dividends.
- All costs related to the proposed demerger were expensed during the year but do not form part of the calculation of revenue profit.

Revenue profit

Revenue profit is our measure of the underlying pre-tax profit of the Group, which we use internally to assess our performance. It includes the pre-tax results of our joint ventures but excludes capital and other one-off items such as the valuation (deficit)/surplus, gains on disposals, trading profits and profits on long-term development contracts.

Revenue profit for the year decreased by 3.3% from £392.2m to £379.1m. An increase in revenue profit from London and Retail on the back of higher net rental income was offset by a decline in Trillium for the accounting reasons described below. Net rental income from our investment portfolio increased by £8.2m, despite almost £800m of net investment property sales. This growth in rental income was driven by £17.4m of like-for-like rental income increases and £31.7m of higher income from our completed developments, which included Princesshay in Exeter and, in London, Cardinal Place, SW1 and Bankside 2&3, SE1. While net property sales reduced rental income by £36.6m, this was more than offset by the associated interest savings.

While Trillium's operating profit is higher than last year (see *Table 42* on page 49), at the revenue profit level there has been a decline of £26.3m, due to the accounting treatment of its PPP assets. Through the acquisition of Secondary Market Infrastructure Fund in February 2007 and subsequent transactions, Trillium has purchased a number of PPP assets. These assets were purchased with the intention from the outset that they would be transferred to a fund, Trillium Investment Partners, in which Trillium would subsequently reduce its ownership. As a result, we have accounted for all PPP investments which we are intending to transfer to Trillium Investment Partners or sell to third parties, as a disposal group. The implications of this are that we do not consolidate the



Martin Greenslade

“We are recommending a final dividend payment of 16.0p per share. Our full year dividend will be 64.0p per share, a 20.8% increase over last year.”

Loss before tax was £888.8m, compared with a profit of £1,979.1m a year ago

The ‘loss before tax’ includes the revaluation deficit on our investment properties of £1,304.5m

Revenue profit, our measure of underlying profit before tax, decreased from £392.2m to £379.1m

Adjusted diluted earnings per share showed a 16.4% increase on last year to 81.71p (2007: 70.20p)

individual assets and liabilities of the PPP investments. Instead, they are held at fair value less costs to sell in the balance sheet and we do not recognise our share of the underlying net income of the PPP investments, nor do we recognise in revenue profit any profits on disposal of these PPP investments. During the course of the year, we made £47.5m from the sale of Meterfit and equity interests in Trillium Investment Partners, the owner of the majority of Trillium's PPP investments. We do, however, include in revenue profit the interest cost associated with acquiring and owning these PPP investments, which amounted to £42m for the year. This imbalance in accounting for revenue profit, whereby we recognise interest cost but not revenues, has resulted in the decline in Trillium's contribution to revenue profit.

The net divestment of almost £800m of investment property sales reduced interest costs related to London and Retail. This benefit was largely offset by higher interest costs at Group level of £14.7m following the payment in July 2007 of £316.2m as our REIT entry charge and our move to paying quarterly dividends.

An explanation of the year-on-year change in revenue profit is given in *Table 6*, and a reconciliation between the (loss)/profit before tax and the revenue profit is shown in *Table 7*.

*Table 7**Reconciliation of (loss)/profit before tax to revenue profit*

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
(Loss)/profit before tax	(888.8)	1,979.1
Valuation deficit/(surplus) – Group	1,170.3	(1,307.6)
– joint ventures	134.2	(75.1)
(Profits)/losses on non-current property disposals – Group	(75.4)	(118.4)
– joint ventures	7.1	–
Mark-to-market adjustment on interest rate swaps	22.4	(17.4)
Eliminate effect of bond exchange derecognition	7.6	17.1
Debt restructuring charges	1.9	19.2
Joint venture tax adjustment	3.1	(76.8)
Demerger costs	9.8	–
Profit on sale of trading properties – Group	(2.8)	(13.6)
– joint ventures	(8.3)	–
Long-term development contract profits	(2.0)	(14.3)
Revenue profit	379.1	392.2

(Loss)/earnings per share

The basic loss per share was 188.80p, compared to earnings per share of 753.59p in the prior year, the change predominantly due to the revaluation deficit on the investment property portfolio (576.28p per share).

In the same way that we adjust profit before tax to remove capital and one-off items to give revenue profit, we also report an adjusted earnings per share figure, although this includes some additional adjustments to revenue profit. The adjustments to earnings per share are set out in note 11 to the financial statements. They are based on the guidance given by European Public Real Estate Association (EPRA) with a limited number of further adjustments to reflect better our underlying earnings. Adjusted diluted earnings per share increased from 70.20p per share in 2007 to 81.71p per share in 2008, a 16.4% increase. The increase in adjusted earnings per share is largely attributable to a significantly lower tax charge following REIT conversion (last year only benefited for three months), partially offset by the interest costs associated with the PPP investments in Trillium.

Total dividend

We are recommending a final dividend payment of 16.0p per share. Taken together with the three quarterly dividends of 16.0p, our full year dividend will be 64.0p per share (2007: 53.0p), a 20.8% increase over last year. A large part of this substantial increase is attributable to the tax we have saved by being a REIT for the full financial year.

REIT conversion also impacts on the make-up of the Group's dividend, which now consists of two components: a property income distribution (PID) from the REIT qualifying activities and a dividend distribution from the non-qualifying activities (non-PID). The aggregate of these two components will continue to be referred to as our total dividend. We are obliged for certain shareholders to withhold tax, currently at a rate of 20% (22% prior to 6 April 2008), from the PID element of the dividend. Our total dividend is therefore a gross dividend. *Table 8* sets out our quarterly dividends, the date on which they were paid, and how much of each dividend was a PID, together with similar details for our proposed final dividend. A note on the tax consequences for shareholders and forms to enable certain classes of shareholder to claim exemption from withholding tax are available on our website at www.landsecurities.com.

£58.5m p.a.

Development lettings in year

**Cardinal Place, SW1**

Higher income from completed developments such as Cardinal Place helped drive growth in rents.

The total dividend for the year is covered 1.3 times by adjusted earnings (2007: 1.3 times). Subject to approval by shareholders at the Annual General Meeting to be held on 17 July 2008, our final dividend, which is 100% PID will be paid on 28 July 2008 to shareholders on the Register at 20 June 2008. For the next financial year, our first quarterly dividend will be 16.5p of which 90% will be a PID.

Table 8
Dividends

	Property income distribution (PID) pence	Non-property income distribution pence	Total pence
First quarterly dividend (paid on 26 October 2007)	12.8	3.2	16.0
Second quarterly dividend (paid on 7 January 2008)	12.8	3.2	16.0
Third quarterly dividend (paid on 25 April 2008)	12.8	3.2	16.0
Final dividend (payable on 28 July 2008)	16.0	–	16.0
Total	54.4	9.6	64.0

Balance of business tests

REIT legislation specifies conditions in relation to the type of business a REIT may conduct, which the Group is required to meet in order to retain its REIT status. In summary, at least 75% of the Group's profits must be derived from REIT qualifying activities (the 75% profits test) and 75% of the Group's assets must be employed in REIT qualifying activities (the 75% assets test). Qualifying activities means a property rental business. The result of these tests for the Group for the financial year, and at the balance sheet date, is as follows:

Table 9
REIT balance of business tests

	For the year ended/as at 31 March 2008			For the year ended/as at 31 March 2007		
	Tax-Exempt Business	Residual Business	Adjusted Results	Tax-Exempt Business	Residual Business	Adjusted Results
Adjusted profit before tax (£m)	351.1	9.7	360.8	358.3	42.9	401.2
Balance of business – 75% profits test	97.3%	2.7%		89.3%	10.7%	
Adjusted total assets (£m)	14,766.8	1,962.9	16,729.7	15,695.8	2,111.6	17,807.4
Balance of business – 75% assets test	88.3%	11.7%		88.1%	11.9%	

Net assets

At the financial year end, net assets per share were 2067p, a decrease of 237p or 10.3% over the year. The fall in value of our investment property portfolio was responsible for the decline in net assets.

In common with other property companies, we calculate an adjusted measure of net assets which we believe better reflects the underlying net assets attributable to shareholders. Adjusted net assets are lower than our reported net assets primarily due to the debt adjustment we make. Under current accounting standards, we do not show our debt at its nominal value, although we believe it would be more appropriate to do so and we therefore adjust our net assets accordingly. At the year end, adjusted diluted net assets per share were 1956p per share, a decrease of 10.3% from last year end.

64p

This year's dividend is up 20.8% on 2007

Property Income Distribution (PID)

Who can claim exemption from deduction of withholding tax on Property Income Distributions?¹

- UK companies
- Charities
- Local Authorities
- UK Pension Schemes
- Managers of PEPs, ISAs and Child Trust Funds

Who is unlikely to be able to claim exemption from deduction of withholding tax on Property Income Distributions?²

- Overseas shareholders²
- Individual private shareholders

1. See Total dividend information on how eligible shareholders can claim exemption.
2. May be able to reclaim some or all of the withholding tax under relevant double taxation treaty.

Chart 10
Geographical spread of equity shareholders (%)

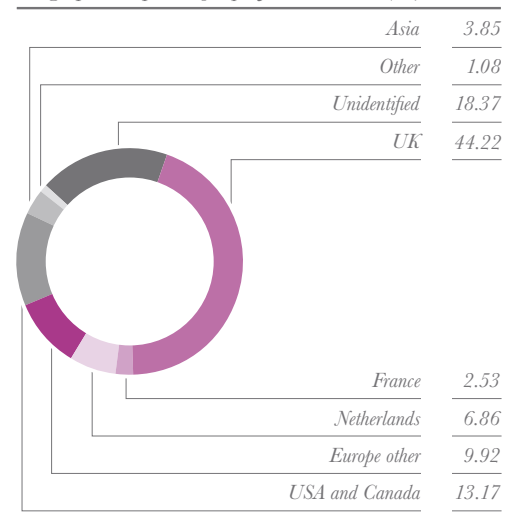


Table 11

Net assets

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Net assets at the beginning of the year	10,791.3	7,493.9
Adjusted earnings	381.0	330.0
Demerger costs*	(6.9)	–
Revaluation (deficits)/surpluses on ongoing and completed development properties*	(126.6)	130.9
Revaluation (deficits)/surpluses on investment properties (excluding Trillium)*	(1,153.0)	910.6
Revaluation deficits on Trillium investment properties*	(24.9)	(10.1)
Profits on non-current asset disposal*	67.8	105.2
Interest charges not included in adjusted earnings*	(31.9)	(13.0)
Prior year non-revenue tax adjustments	16.2	–
Tax credits not included in adjusted earnings	–	2,074.7
(Loss)/profit after tax	(878.3)	3,528.3
Profit on discontinued operations	47.5	–
Dividends paid	(308.4)	(223.0)
Other reserve movements	(69.2)	(7.9)
Net assets at the end of the year	9,582.9	10,791.3
Mark-to-market on interest rate hedges	12.7	(23.6)
Debt adjusted to nominal value	(511.5)	(519.1)
Adjusted net assets at the end of the year	9,084.1	10,248.6

*These amounts are post-tax

Cashflow and net debt

Cash receipts during the year totalled £1,080.7m from investment portfolio property disposals, which included Whitefriars, Canterbury and Greater London House, NW1. In total, we invested £1,667.2m in our properties including £722.6m on investment property acquisitions, £158.5m by Trillium (primarily Accor hotels) and £530.3m on developments. The development expenditure, which includes land acquisitions but excludes capitalised interest and our share of joint ventures, was spent principally on New Street Square, EC4, Queen Anne's Gate, SW1, and One New Change, EC4, in London and shopping centre developments in Livingston and Exeter.

As part of our strategy to continue to expand Trillium in the PPP market, we spent £158.5m acquiring PPP assets from AMEC. We also received £814.4m from our Trillium Investment Partners fund; first through raising debt against the assets (£414.8m in 'Receipts from the disposal group' in Table 14) followed by £399.6m from the sale of equity interests in the fund (included in 'Receipts from discontinued activities'). Further details are given in the Trillium section.

We invested a net £0.2m in our joint ventures including, £56.2m received on disposals, the largest of which was East Kilbride Shopping Centre, offset by £131.5m spent on shopping centre developments in Bristol and Cardiff.

At 31 March 2008, the Group's net debt was £5,384.5m, some £296.6m higher than 2007 (£5,087.9m). While this increase can be attributed to the REIT conversion charge of £316.2m, there were significant capital inflows and outflows which are summarised in Table 14.

5.3%

Property sales above 31 March 2007 valuation
(before disposal costs)

Chart 12

Active capital management (£m)

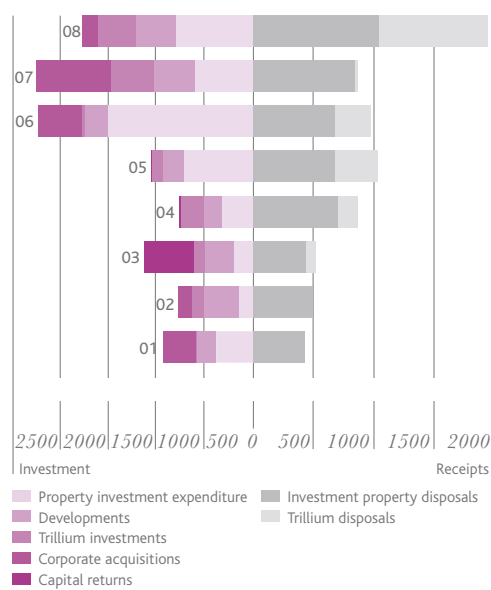


Table 13

Gearing

£m	31 March 2008 %	31 March 2007 %
Gearing – on book value of balance sheet debt	56.2	47.1
Adjusted gearing*	64.9	54.7
Adjusted gearing* – as above plus notional share of joint venture debt	67.6	58.8

*Book value of balance sheet debt increased to recognise nominal value of debt on refinancing in 2004 divided by adjusted net asset value.

Table 14
Cashflow and net debt

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Operating cash inflow after interest and tax (excluding REIT conversion charge)	315.4	361.5
REIT conversion charge	(316.2)	–
Dividends paid	(308.4)	(223.0)
Investment property acquisitions	(722.6)	(523.7)
Trillium property acquisitions	(158.3)	(416.5)
Development and refurbishment capital expenditure	(530.3)	(532.6)
Investment in finance lease receivables (Norwich Union and DVLA)	(82.1)	(43.3)
Investment in properties	(1,493.3)	(1,516.1)
Acquisition of AMEC (2007: SMIF and IIC)	(158.5)	(919.0)
Acquisition of PPP investments	(152.7)	–
Other capital expenditure	(15.4)	(18.8)
Total capital expenditure	(1,819.9)	(2,453.9)
Disposals	1,080.7	869.8
Receipts from discontinued activities	424.9	–
Receipts from the disposal group	441.0	25.0
Joint ventures	(0.2)	50.0
Purchase of share capital	(87.6)	(36.2)
Other movements	(26.3)	4.8
Increase in net debt	(296.6)	(1,402.0)
Opening net debt	(5,087.9)	(3,685.9)
Closing net debt	(5,384.5)	(5,087.9)

Details of the Group's gearing are set out in *Table 13*, which includes the effects of our share of joint venture debt, although the lenders to our joint ventures have no recourse to the wider Group for repayment.

Financing strategy and financial structure

Our financing strategy is to maintain an appropriate net debt to equity ratio (gearing) to ensure that asset level performance is translated into enhanced returns for shareholders while maintaining an appropriate risk reward balance to accommodate changing financial and operating market cycles.

The last 12 months has seen a major upheaval in the international debt markets, beginning with defaults on sub-prime mortgages in the US. As a result of the nature of international banking, the contagion quickly spread around the world impacting the ability of domestic banks to make advances as their capital ratios came under pressure. The implications for borrowers like Land Securities continue to unfold. Initially the UK bond markets were effectively closed, and whilst this has historically been an important source of funding for the Group, our demerger plans have meant that the Group would not have accessed such long-term financing at this time. In the UK market, we have seen the following effects – an increase in the cost of debt, the imposition of more onerous covenants, increased execution time and increased execution risk.

Despite these conditions, Land Securities has executed eight different financing arrangements during the course of the year, either directly or through joint ventures. We have been able to continue to access the debt markets as a result of our on-going debt investor relations programme, a responsible creditor track record and a high quality portfolio and debt structure from which to raise funding. Under this structure (see *Chart 15*), we benefited from a lower cost of finance by utilising the credit strength of our investment portfolio without the more onerous restrictions of individually collateralised obligations. Operational flexibility is maintained through provisions which allow us to buy and sell assets, without restriction, and to undertake developments. At 31 March 2008, our debt investors had security over £11.0bn of investment properties in this structure.

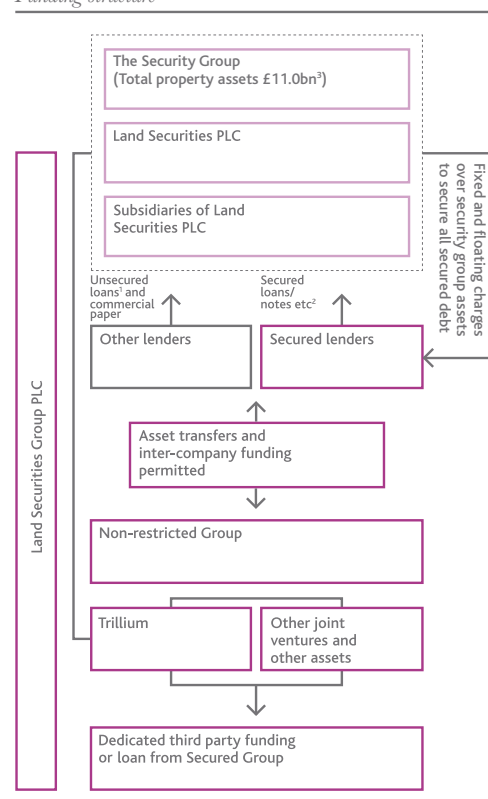
As previously stated, net debt increased by 5.8% from £5.1bn to £5.4bn as a result of our REIT conversion charge. Despite only a moderate rise in net debt, gearing has increased from 47.1% to 56.2% principally due to the impacts of the revaluation deficit on our equity.

Our interest cover ratio, excluding our share of joint ventures, has fallen from 2.43 times in 2007 to 1.93 times in 2008. A large part of this reduction can be attributed to the accounting treatment of Trillium's PPP assets. While we recognise the interest cost associated with acquiring these assets, we do not include our share of the underlying income they generate. If we adjust the interest cost related to these assets, interest cover would be 2.23 times. Under the rules of the REIT regime, we need to maintain an interest cover ratio in the exempt business of at least 1.25 times to avoid paying tax. As calculated under the REIT regulations, our interest cover ratio of the exempt business for the year to 31 March 2008 was 2.09 times.

£1.56bn

Investment property sales

Chart 15
Funding structure



1. Limited to the higher of £150m or 2% of total collateral value.
2. The borrower under the Secured Bank facility is LS Property Finance Company Limited. Notes are issued from Land Securities Capital Markets PLC. Commercial paper is issued from Land Securities PLC.
3. Source: Knight Frank LLP Valuation Report for 31 March 2008.

During the year, the Group entered into three committed bilateral facilities all of which are secured on the assets of The Security Group. In June 2007, the Group entered into a £150m facility, which has been extended in December 2007, as a £175m facility with an expiry in February 2010. In July 2007, the Group entered into a £500m facility which was due to expire in July 2008, but a commitment has been obtained to replace it in July 2008 with a £350m facility with an expiry in July 2009. In December 2007, the £1.0bn SMIF acquisition facility was repaid. Another £350m facility was established in December 2007 which expires in October 2008. The Group has an option to extend each of these facilities by a further year. In December 2007, the Group acquired a share of Leeds Trinity Quarter which included a facility which has been refinanced post year end with a five-year £352m committed facility secured on these assets.

Also during the year, we bought back in the market 4.7m of our own shares for a total cost of £78.2m, equating to an average price of 1666p.

At 31 March 2008, Land Securities' net borrowings (including joint ventures) amounted to £6,133.0m, of which £865.0m was drawn under our £1.5bn secured bank facility and £67.3m related to finance leases. Committed but undrawn facilities amounted to £611.0m. The majority of debt due in one-year relates to drawings under the committed bank facilities which have a one-year extension option.

Hedging

We use derivative products to manage our interest rate exposure and have a hedging policy which requires at least 80% of our existing debt plus our net committed capital expenditure to be at fixed interest rates for the coming five years. Specific hedges are also used in geared joint ventures to fix the interest exposure on limited recourse debt. At the year end we had £2.3bn of hedges in place, and our debt was 80% fixed. Consequently, based on year end debt levels, a 1% rise in interest rates would increase full year interest charges by only £12.4m.

Taxation

As a consequence of the Group's conversion to REIT status, income and capital gains from our qualifying property rental business are now exempt from UK corporation tax. The tax credit for the year of £10.5m (2007: £1,549.2m) includes a current year tax charge of £10.3m on non-qualifying activities offset by a £20.8m release in respect of prior years.

Table 16
Principal financial risks

Risk description	Impact	Mitigation
Funding		
<ul style="list-style-type: none"> Lack of available funds 	<ul style="list-style-type: none"> Unable to progress investment opportunities 	<ul style="list-style-type: none"> Flexible funding structure. Sizeable committed, undrawn facilities – see page 18 Ability to sell investment property assets
Interest rates		
<ul style="list-style-type: none"> Exposure to prevailing market rates 	<ul style="list-style-type: none"> Increased borrowing costs following interest rate rise 	<ul style="list-style-type: none"> Hedging policy – see page 19
Taxation		
<ul style="list-style-type: none"> Failure to meet REIT compliance tests 	<ul style="list-style-type: none"> Loss of REIT status leading to higher tax costs 	<ul style="list-style-type: none"> Internal monitoring procedures and current safety margin – see page 16 Internal tax specialists and appropriate use of external advisers

Pension schemes

The Group operates a number of defined benefit pension schemes which are closed to new members. At 31 March 2008 the schemes had a combined surplus, net of deferred tax, of £10.2m (2007: deficit £5.2m). The surplus has arisen due to an increase in the prescribed discount rate used to value scheme liabilities from 5.4% to 6.9%.

Chart 17

Analysis of equity shareholdings by size of holding at 31 March 2008

	Number of holdings	%	Balance as at 31.03.08	%
1 to 500	13,355	49.82	3,461,572	0.74
501 to 1,000	6,388	23.83	4,695,417	1.00
1,001 to 5,000	5,484	20.46	10,855,966	2.31
5,001 to 10,000	534	1.99	3,784,092	0.80
10,001 to 50,000	525	1.96	11,974,938	2.54
50,001 to 100,000	144	0.54	10,503,640	2.23
100,001 to 500,000	230	0.86	51,159,879	10.86
500,001 to 1,000,000	61	0.23	43,506,607	9.24
1,000,001 to highest	84	0.31	330,959,367	70.28
Totals	26,805	100.00	470,901,478	100.00

Chart 18

Expected debt maturities (nominal) £bn

