

Notes to the financial statements for the year ended 31 March 2008

1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of 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 2007, as amended to reflect the adoption of the new Standards, Amendments to Standards and Interpretations which are mandatory for the year ended 31 March 2008. In most cases, these new requirements are not relevant for the Group. This is the case for, IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives', and IFRIC 10 'Interim Financial Reporting and Impairment'. However, the effect of adopting IFRS 7 'Financial Instruments: Disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements – capital disclosures' was to introduce additional disclosures in respect of financial instruments. Adoption of the standard has not had any impact on the classification and valuation of the Group's or Company's financial instruments. Although there has been no effect on the Group's results, adoption of IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' has resulted in a prior year adjustment, the effect of which has been to increase the net assets of the Company at 1 April 2006 by £6.9m.

The following new Standards and Interpretations have been issued but are not effective for the year ended 31 March 2008, and have not been adopted early, IFRS 8 'Operating Segments', IFRS 3 (revised) 'Business Combinations', IFRIC 12 'Service Concession Arrangements' and IFRIC 14 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction'. 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.

2. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements for the year ended 31 March 2008 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 IAS 31 'Interests in joint ventures' and following the procedures for this method set out in IAS 28 'Investments in associates'. Associates are also accounted for using the equity method. The equity method requires the Group's share of the joint ventures' 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 ventures' and associates' net assets to be presented separately in the balance sheet.

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.

(b) Acquisitions and business combinations

Where properties are acquired through corporate acquisitions and there are no significant assets or liabilities other than property, the acquisition is treated as an asset acquisition. In all other cases the acquisition is accounted for as a business combination, in which case, the assets and liabilities of a subsidiary or joint venture are measured at their estimated fair value at the date of acquisition or, in the case of non-current assets and disposal groups acquired with a view to resale, at the lower of cost and fair value less costs to sell (see (k) below). The cost of acquisition is measured at the fair value of the consideration given together with any liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

(c) 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. Unallocated liabilities include short-term borrowings and overdrafts, and certain non-current liabilities (borrowings, net pension benefit obligations and deferred tax liabilities).

(d) 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 remeasurement 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 remeasured to fair value as at the date of the transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

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 remeasured to fair value at each reporting date. Any gain or loss on remeasurement 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 remeasurement accounted for in accordance with the foregoing policy.

2. Significant accounting policies continued

(d) Investment properties continued

Gross 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.

(e) Property, plant and equipment

Operating properties

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

The estimated useful lives are 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.

(f) 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.

At the date of the Group's transition to IFRS, 1 April 2004, the goodwill in the Group balance sheet represented that arising on the acquisition of Trillium less amortisation to that date. In accordance with IFRS 1 'First-time adoption of IFRS', this amount has been adopted as the carrying amount of the goodwill for IFRS accounting purposes. In accordance with IFRS 3 'Business Combinations', the goodwill is not amortised but is reviewed for impairment at each reporting date. The Group's policy on impairment is set out in (u) below.

(g) 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.

(h) 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.

(i) 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.

(j) 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 cashflows.

(k) 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. Non-current assets held for sale are valued at the lower of their carrying value and fair value less costs to sell.

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.

(l) Trade and other payables

Trade and other payables are stated at fair value.

(m) 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 cashflows 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.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Provision is made for dilapidations that will crystallise in the future where, on the basis of the present condition of the property, an obligation exists at the reporting date and can be reliably measured. The estimate is revised over the remaining period of the lease to reflect changes in the condition of the building or other changes in circumstances. The estimate of the obligation takes account of relevant external advice.

(n) 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 IAS 39), 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.

(o) Pension benefits

The Group accounts for pensions under IAS 19 'Employee 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 are recognised immediately in the statement of recognised income and expense.

Contributions to defined contribution schemes are expensed as incurred.

(p) 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, net of tax, from the proceeds.

2. Significant accounting policies continued

(p) Share capital continued

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.

(q) 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 although the performance criteria are not market related.

(r) Revenue

The Group recognises revenue on an accruals basis, and 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, property services income earned by Trillium, 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. Property services income represents unitary charges and the recovery of other direct property or contract expenditure reimbursable by customers. Where revenue is obtained from the rendering of services, it is recognised by reference to the stage of completion of the relevant transactions at the reporting date.

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.

(s) Expenses

Property and contract expenditure, including bid costs incurred prior to the exchange of a contract, is expensed as incurred with the exception of expenditure on long-term development contracts (see (h) 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 IAS 40 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 (r) above) are charged as an expense in the periods in which they are incurred.

(t) Exceptional items

Items which are sufficiently material by either their size or nature to require separate disclosure are disclosed as exceptional items within the relevant income statement category. Items that management consider fall into this category are presented separately in the income statement in the column headed 'Exceptional items'. Events that may give rise to exceptional items include gains or losses on the disposal of joint ventures or other investments, impairment of assets including goodwill arising as a result of recognising deferred tax on a business combination, financial restructurings and significant changes in the tax regime.

(u) Impairment

The carrying amounts of the Group's non-financial assets, other than investment properties (see (d) 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.

Goodwill is tested for impairment at each reporting date, or more frequently if there are indicators of impairment. For this purpose goodwill is allocated to units or groups of units which represent the lowest level at which the goodwill is monitored for internal management purposes.

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 cashflows 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.

(v) 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.

The Group documents at the inception of the transaction the relationship between hedging instruments and 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 cashflows of hedged items.

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently remeasured 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 cashflows 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.

- Fair value hedges: Where a derivative is designated and qualifies as a hedge of the exposures to fair value of a recognised asset or liability that is attributable to a particular risk and could affect the income statement, changes in the fair value of the derivative are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
- Cashflow 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. When 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.

2. Significant accounting policies continued

(w) 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.

Prior to REIT conversion, deferred tax was provided on the full difference between the original cost of investment properties and their carrying amounts at the reporting date without taking into account deductions and allowances which would only apply if the properties concerned were to be sold, except where such properties are classified as held for disposal (see note 9).

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.

(x) 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.

(y) 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.

(z) Foreign currency translation

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in equity as qualifying cashflow hedges and qualifying net investment hedges.

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) Goodwill

The goodwill that arises from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations is sometimes judged not to be an asset, and is accordingly impaired on completion of the relevant acquisition. Otherwise goodwill is tested annually for impairment on the basis set out in note 15.

(b) Distinction between operating properties and investment properties

A property is classified as an operating property rather than an investment property where the degree of ancillary services supplied is judged to be significant in the context of the arrangements between the landlord and tenant.

(c) 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.

(d) 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 external advice and knowledge of recent comparable transactions.

(e) 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.

(f) Exceptional items

Exceptional items are defined as those items which are sufficiently material by either their size or nature as to require separate disclosure. Deciding which items meet this definition is judgemental.

(g) Investment property valuation

The Group normally uses the valuation performed by its external valuers as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

(h) Unagreed rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon an estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

(i) Non-current assets held for sale

Significant judgement has been required in assessing whether non-current assets and groups of assets and liabilities which comprise disposal groups qualify for treatment as a non-current asset held for sale. Judgement is required in determining the fair value less costs to sell, which has been evaluated based on our progress against the plan to sell non-current assets at the balance sheet date. Non-current assets are held at the lower of cost and fair value less costs to sell.

(j) 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.

(k) Onerous lease and dilapidation provisions

Judgement is required in determining the Group's onerous lease and dilapidation provisions, based on an assessment of the condition of each property and market conditions in the relevant location. External advice is obtained where appropriate.

4. Segmental information

Group	2008					2007				
	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Trillium £m	Total £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Trillium £m	Total £m
Income statements										
Rental income	271.2	329.1	9.6	–	609.9	279.2	311.6	8.7	–	599.5
Service charge income	47.3	53.3	0.6	–	101.2	46.8	48.6	0.3	–	95.7
Property services income	–	–	–	761.0	761.0	–	–	–	785.9	785.9
Trading property sale proceeds	1.3	40.0	2.3	–	43.6	–	33.1	29.0	1.7	63.8
Long-term development contract income	–	–	26.3	–	26.3	–	28.9	51.8	–	80.7
Finance lease interest	2.9	5.9	–	10.4	19.2	3.5	5.9	–	6.1	15.5
Revenue	322.7	428.3	38.8	771.4	1,561.2	329.5	428.1	89.8	793.7	1,641.1
Rents payable	(11.0)	(5.3)	–	(175.1)	(191.4)	(11.3)	(4.9)	–	(179.9)	(196.1)
Other direct property or contract expenditure	(64.7)	(72.6)	(1.0)	(403.6)	(541.9)	(67.7)	(62.1)	(0.8)	(469.0)	(599.6)
Indirect property or contract expenditure	(32.6)	(29.4)	(4.0)	(13.7)	(79.7)	(31.6)	(30.9)	(5.8)	(16.3)	(84.6)
Long-term development contract expenditure	–	–	(24.3)	–	(24.3)	–	(26.1)	(40.3)	–	(66.4)
Bid costs	–	–	–	(11.9)	(11.9)	–	–	–	(2.8)	(2.8)
Cost of sales of trading properties	(0.9)	(38.9)	(1.0)	–	(40.8)	(0.1)	(28.7)	(20.9)	(0.5)	(50.2)
Depreciation	(2.2)	(5.2)	(0.4)	(38.0)	(45.8)	(1.5)	(4.9)	(0.1)	(26.4)	(32.9)
Underlying operating profit	211.3	276.9	8.1	129.1	625.4	217.3	270.5	21.9	98.8	608.5
Profit on disposal of non-current properties	16.4	40.9	–	18.1	75.4	28.5	81.7	0.5	7.5	118.2
Net (deficit)/surplus on revaluation of investment properties	(671.2)	(464.7)	(9.5)	(24.9)	(1,170.3)	293.6	1,022.0	5.6	(13.6)	1,307.6
Segment result	(443.5)	(146.9)	(1.4)	122.3	(469.5)	539.4	1,374.2	28.0	92.7	2,034.3
Demerger costs					(9.8)					–
Unallocated expenses					(13.0)					(13.6)
Operating (loss)/profit					(492.3)					2,020.7
Net interest expense (note 6)					(295.0)					(220.9)
					(787.3)					1,799.8
Share of the (loss)/profit of joint ventures (post-tax)										
– Retail Portfolio					(92.6)					182.5
– London Portfolio					(14.4)					–
– Other investment portfolio					5.9					–
– Trillium					0.1					(3.2)
					(101.0)					179.3
Share of the loss of an associate undertaking (post-tax)					(0.5)					–
(Loss)/profit before tax from continuing activities					(888.8)					1,979.1

Included within rents payable is finance lease interest payable of £2.0m (2007: £1.9m) and £2.8m (2007: £3.1m) respectively for Retail Portfolio and London Portfolio.

All of the share of the loss of an associate undertaking is attributable to Trillium.

4. Segmental information continued

Group	2008					2007				
	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Trillium £m	Total £m	Retail Portfolio £m	London Portfolio £m	Other investment portfolio £m	Trillium £m	Total £m
Balance sheets										
Investment properties	4,615.9	7,069.6	48.8	562.4	12,296.7	5,497.7	7,329.4	64.6	427.6	13,319.3
Operating properties	–	–	–	544.8	544.8	–	–	–	551.5	551.5
Other property, plant and equipment	8.0	7.0	4.7	53.9	73.6	9.3	8.3	5.0	55.6	78.2
Net investment in finance leases	53.2	104.8	–	175.7	333.7	63.0	104.0	–	95.4	262.4
Goodwill	–	–	–	148.6	148.6	–	–	–	129.6	129.6
Investments in Public Private Partnerships	–	–	–	25.4	25.4	–	–	–	–	–
Investment in an equity accounted associate	–	–	–	42.9	42.9	–	–	–	–	–
Investments in equity accounted joint ventures	1,370.2	9.0	26.3	5.1	1,410.6	1,315.9	–	17.9	5.0	1,338.8
Trading properties and long-term development contracts	16.5	24.5	128.0	4.0	173.0	–	41.4	106.2	0.7	148.3
Trade and other receivables	203.1	390.0	23.3	221.3	837.7	185.9	220.3	27.7	207.5	641.4
Non-current assets classified as held for sale	–	–	–	664.1	664.1	–	–	–	2,420.3	2,420.3
Segment assets	6,266.9	7,604.9	231.1	2,448.2	16,551.1	7,071.8	7,703.4	221.4	3,893.2	18,889.8
Unallocated assets					64.0					53.1
Total assets					16,615.1					18,942.9
Trade and other payables	(249.2)	(253.2)	(24.1)	(338.2)	(864.7)	(286.7)	(160.8)	(20.0)	(281.8)	(749.3)
Provisions	–	–	–	(77.6)	(77.6)	–	–	–	(80.7)	(80.7)
Liabilities directly associated with non-current assets classified as held for sale	–	–	–	(427.7)	(427.7)	–	–	–	(1,601.0)	(1,601.0)
Segment liabilities	(249.2)	(253.2)	(24.1)	(843.5)	(1,370.0)	(286.7)	(160.8)	(20.0)	(1,963.5)	(2,431.0)
Unallocated liabilities					(5,662.2)					(5,720.6)
Total liabilities					(7,032.2)					(8,151.6)
Other segment items										
Capital expenditure	220.1	368.3	0.2	51.7	640.3	148.5	357.1	0.3	39.6	545.5

All the Group's operations are in the UK and are organised into four main business segments against which the Group reports its primary segment information. These are Retail Portfolio, London Portfolio, Other investment portfolio and Trillium.

Company

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

5. Employee costs

Group	2008 Number	2007 Number	2008 £m	2007 £m
The average monthly number of employees during the year, excluding Directors, and the corresponding aggregate employee costs were:				
Indirect property or contract and administration	632	584	51.3	48.6
Direct property or contract services:				
Full-time	988	1,041	54.8	49.1
Part-time	69	23	1.1	1.0
	1,689	1,648	107.2	98.7
Employee costs				
Salaries			82.7	77.5
Social security			10.7	10.4
Other pension			9.2	9.3
Share-based payments			4.6	1.5
			107.2	98.7
Directors				
Aggregate emoluments excluding pensions			10.9	8.5
Company contributions to pension schemes			0.6	0.7
			11.5	9.2

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

Five Directors (2007: five) have retirement benefits accruing under money purchase pension schemes. Retirement benefits accrue to one Director (2007: 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 66 to 76.

6. Net interest (expense)/income

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Interest expense				
Bond and debenture debt	(195.1)	(173.1)	–	–
Bank borrowings	(136.4)	(89.6)	–	–
Other interest payable	(2.2)	(1.2)	(26.6)	(3.4)
Fair value losses on interest rate swaps	(21.9)	–	–	–
Provision discounting (note 26)	(1.6)	(1.0)	–	–
Amortisation of bond exchange derecognition	(7.6)	(17.1)	–	–
Interest on pension scheme liabilities	(8.1)	(7.6)	–	–
	(372.9)	(289.6)	(26.6)	(3.4)
Interest capitalised in relation to properties under development	48.5	32.3	–	–
Total interest expense	(324.4)	(257.3)	(26.6)	(3.4)
Interest income				
Short-term deposits	4.1	1.5	–	–
Other interest receivable	1.3	2.4	14.7	5.7
Interest receivable from joint ventures	15.0	8.5	–	–
Expected return on pension scheme assets	9.0	8.6	–	–
Fair value profits on interest rate swaps	–	15.4	–	–
	29.4	36.4	14.7	5.7
Net interest (expense)/income	(295.0)	(220.9)	(11.9)	2.3

Included within rents payable (note 4) is finance lease interest payable of £4.8m (2007: £5.0m).

7. (Loss)/profit before tax

Group	2008 £m	2007 £m
The following items have been charged or (credited) in arriving at (loss)/profit before taxation:		
Employee costs (note 5)	107.2	98.7
Depreciation of property, plant and equipment (note 13):		
Investment properties	2.9	3.3
Operating properties	22.9	15.4
Other property, plant and equipment	20.0	14.2
Profit on disposal of non-current properties	(75.4)	(118.2)
Bad debts written off and provision for doubtful debts	3.6	3.4
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	0.6	0.6
Audit fees in respect of the audit of subsidiary undertakings and associates	0.4	0.4
Fees for services supplied pursuant to legislation	0.1	0.1
Services relating to taxation	0.2	0.1
Other services in relation to the demerger	1.1	–
Other services in relation to the sale of Trillium Investment Partners LP	0.7	–
Other services	–	0.1
	1.8	0.1
	3.1	1.3

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 Audit Committee.

In addition to the above PricewaterhouseCoopers LLP has also received £0.6m (2007: £nil) relating to the audit of various PPP entities within Trillium Investment Partners LP of which the Group now holds 10%.

8. Exceptional items

Group	2008 £m	2007 £m
Deferred taxation released within joint ventures on conversion to a Real Estate Investment Trust	–	98.0
Exceptional items before tax	–	98.0
Deferred taxation released on conversion to a Real Estate Investment Trust	–	2,309.2
Real Estate Investment Trust conversion charge	–	(315.0)
	–	2,092.2

The exceptional items arising from the Group's conversion to a Real Estate Investment Trust are explained in note 9 below.

9. Income tax (credit)/expense

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Current tax				
Corporation tax expense/(credit) for the year	10.3	68.8	(6.6)	0.7
Adjustment in respect of prior years	(17.9)	(0.6)	–	–
Corporation tax in respect of property disposals	0.5	32.0	–	–
Real Estate Investment Trust conversion charge	–	315.0	–	–
Total current tax (credit)/expense	(7.1)	415.2	(6.6)	0.7
Deferred tax				
Origination and reversal of timing differences	(3.4)	32.9	–	–
Released in respect of property disposals	–	(18.8)	–	–
On valuation surplus	–	330.7	–	–
Released on conversion to a Real Estate Investment Trust	–	(2,309.2)	–	–
Total deferred tax credit	(3.4)	(1,964.4)	–	–
Total income tax (credit)/expense in the income statement	(10.5)	(1,549.2)	(6.6)	0.7

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

(Loss)/profit on activities before taxation	(888.8)	1,979.1	(21.9)	2.3
(Loss)/profit on activities multiplied by the rate of corporation tax in the UK of 30%	(266.7)	593.7	(6.6)	0.7
Effects of:				
Deferred tax released in respect of property disposals	–	(18.8)	–	–
Corporation tax on disposal of non-current assets	6.3	6.0	–	–
Joint venture accounting adjustments	0.9	(44.2)	–	–
Prior year corporation tax adjustments	(17.9)	(0.6)	–	–
Prior year deferred tax adjustments	(2.9)	1.1	–	–
Non-allowable expenses and non-taxable items	19.8	7.9	–	–
Real Estate Investment Trust conversion charge	–	315.0	–	–
Deferred tax released on conversion to a Real Estate Investment Trust	–	(2,309.2)	–	–
Exempt property rental profits in the year ended 31 March 2008	278.9	–	–	–
Exempt property gains in the year ended 31 March 2008	(28.9)	–	–	–
Exempt property rental profits in the three months ended 31 March 2007	–	(89.8)	–	–
Exempt property gains in the three months ended 31 March 2007	–	(10.3)	–	–
Total income tax (credit)/expense in the income statement (as above)	(10.5)	(1,549.2)	(6.6)	0.7

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. On entering the REIT regime an entry charge equal to 2% of the aggregate market value of the properties associated with the qualifying rental business was payable. Deferred tax accrued at the date of conversion in respect of the assets and liabilities of the qualifying rental business was released to the income statement, as the relevant temporary differences are no longer taxable on reversal. An equivalent release of deferred taxation was also made by the joint ventures, of which the Group's share was £98.0m.

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 £216.0m could be released in the future.

10. Dividends

Group and Company	2008 £m	2007 £m
Ordinary dividends paid		
Final dividend for the year ended 31 March 2007 (34.00p per share)	159.5	–
Final dividend for the year ended 31 March 2006 (28.55p per share)	–	133.8
First quarterly dividend for the year ended 31 March 2008 (16.00p per share)	74.5	–
Second quarterly dividend for the year ended 31 March 2008 (16.00p per share)	74.4	–
Interim dividend for the year ended 31 March 2007 (19.00p per share)	–	89.2
	308.4	223.0

The Board has proposed a final dividend of 16.00p per share (final dividend for the year ended 31 March 2007: 34.00p) which will result in a further distribution of £74.4m (2007: £159.5m). It will be paid on 28 July 2008 to shareholders who are on the Register of Members on 20 June 2008. The final dividend is in addition to the third quarterly dividend of 16.00p paid on 25 April 2008. The total dividend paid and proposed in respect of the year ended 31 March 2008 is 64.00p (2007: 53.00p).

11. (Loss)/earnings per share

Group	2008 £m	2007 £m
(Loss)/profit for the financial year	(878.3)	3,528.3
Revaluation deficits/(surpluses) net of deferred taxation – Group	1,170.3	(976.9)
– joint ventures	134.2	(54.5)
Profit on non-current property disposals after current and deferred tax	(67.8)	(105.2)
Mark-to-market adjustment on interest rate swaps (net of deferred tax)	22.4	(13.7)
Demerger costs (net of taxation)	6.9	–
Prior year non-revenue tax adjustments	(16.2)	–
Deferred tax arising from capital allowances on investment properties	–	11.7
Deferred tax arising from capitalised interest on investment properties	–	5.8
Real Estate Investment Trust conversion charge	–	315.0
Deferred tax released on conversion to a Real Estate Investment Trust – Group	–	(2,309.2)
– joint ventures	–	(98.0)
EPRA adjusted earnings	371.5	303.3
Eliminate effect of debt restructuring charges (net of taxation)	1.9	13.4
Eliminate effect of bond exchange derecognition (net of deferred tax)	7.6	13.3
Adjusted earnings	381.0	330.0
	Number million	Number million
Weighted average number of ordinary shares	470.6	469.8
Effect of own shares and treasury shares	(5.4)	(1.6)
Weighted average number of ordinary shares after adjusting for own shares	465.2	468.2
Effect of dilutive share options	1.1	1.9
Weighted average number of ordinary shares adjusted for dilutive instruments	466.3	470.1
	Pence	Pence
Basic (loss)/earnings per share	(188.80)	753.59
Diluted (loss)/earnings per share	(188.80)	750.54
Adjusted earnings per share	81.90	70.48
Adjusted diluted earnings per share	81.71	70.20
EPRA adjusted earnings	79.67	64.52

Management have chosen to disclose adjusted earnings per share 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. In addition, the corporation tax charge arising from the conversion to a REIT, and the deferred tax released following the conversion to a REIT, have also been excluded due to their size and incidence. Further, prior to the conversion to a REIT, the deferred tax arising on capital allowances in respect of investment properties was eliminated as experience had shown that these allowances are not in practice repayable, and deferred tax on capitalised interest was also added back as this was effectively a permanent difference. 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.

12. Net assets per share

Group	2008 £m	2007 £m
Net assets attributable to equity shareholders	9,582.9	10,791.3
Cumulative mark-to-market adjustment on interest rate swaps (net of deferred tax) – Group	10.7	(14.4)
– joint ventures	1.5	(9.2)
– an associate undertaking	0.5	–
EPRA adjusted net assets	9,595.6	10,767.7
Reverse bond exchange derecognition adjustment	(511.5)	(519.1)
Adjusted net assets attributable to equity shareholders	9,084.1	10,248.6
Reinstate bond exchange derecognition adjustment	511.5	519.1
Cumulative mark-to-market adjustment on interest rate swaps (net of deferred tax) – Group	(10.7)	14.4
– joint ventures	(1.5)	9.2
– an associate undertaking	(0.5)	–
Excess of fair value of debt over book value (note 27)	(208.7)	(511.5)
EPRA triple net assets value	9,374.2	10,279.8
<hr/>		
Group	Number million	Number million
Number of ordinary shares	470.9	470.4
Effect of own shares and treasury shares	(7.2)	(2.1)
Number of ordinary shares after adjusting for own shares	463.7	468.3
Effect of dilutive share options	0.7	1.6
Number of ordinary shares adjusted for dilutive instruments	464.4	469.9
<hr/>		
	Pence	Pence
Net assets per share	2067	2304
Diluted net assets per share	2064	2297
Adjusted net assets per share	1959	2188
Adjusted diluted net assets per share	1956	2181
EPRA measure – adjusted diluted net assets per share	2066	2291
– triple net assets per share	2019	2188

Adjusted net assets per share excludes the deferred tax arising on revaluation surpluses, mark-to-market adjustments on financial instruments used for hedging purposes and the bond exchange derecognition adjustment as management consider that this better represents the expected future cashflows 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 shareholders is more indicative of underlying performance.

13. Non-current assets

Group	Portfolio management £m	Development programme £m	Trillium £m	Total investment properties £m	Operating properties £m	Other property, plant and equipment £m	Total £m
Net book value at 1 April 2006	10,211.2	1,229.3	27.1	11,467.6	536.1	73.6	12,077.3
Properties transferred from portfolio management into the development programme during the year (at 1 April 2006 valuation)	(219.0)	219.0	–	–	–	–	–
Developments completed, let and transferred from the development programme into portfolio management during the year	60.8	(60.8)	–	–	–	–	–
Property acquisitions	510.0	13.7	414.1	937.8	26.6	–	964.4
Capital expenditure	77.2	422.1	–	499.3	27.2	19.0	545.5
Capitalised interest	–	29.8	–	29.8	–	–	29.8
Disposals	(643.5)	(5.6)	–	(649.1)	(23.0)	(0.2)	(672.3)
Transfer to joint venture	(266.5)	–	–	(266.5)	–	–	(266.5)
Surrender premiums received	(3.9)	–	–	(3.9)	–	–	(3.9)
Depreciation	(3.3)	–	–	(3.3)	(15.4)	(14.2)	(32.9)
Surplus/(deficit) on revaluation	884.4	436.8	(13.6)	1,307.6	–	–	1,307.6
Net book value at 31 March 2007	10,607.4	2,284.3	427.6	13,319.3	551.5	78.2	13,949.0
Properties transferred from portfolio management into the development programme during the year (at 1 April 2007 valuation)	(218.7)	218.7	–	–	–	–	–
Developments completed, let and transferred from the development programme into portfolio management during the year	1,491.5	(1,491.5)	–	–	–	–	–
Property acquisitions	714.2	0.2	149.4	863.8	8.9	–	872.7
Capital expenditure	117.5	467.3	6.8	591.6	32.4	16.1	640.1
Capitalised interest	1.4	43.7	–	45.1	–	–	45.1
Disposals	(1,099.4)	(2.2)	(0.6)	(1,102.2)	(16.9)	(0.7)	(1,119.8)
Transfers to joint ventures	(228.2)	–	–	(228.2)	–	–	(228.2)
Transfers to trading properties	–	(17.4)	–	(17.4)	(4.1)	–	(21.5)
Reclassifications	–	–	4.1	4.1	(4.1)	–	–
Surrender premiums received	(6.2)	–	–	(6.2)	–	–	(6.2)
Depreciation	(2.9)	–	–	(2.9)	(22.9)	(20.0)	(45.8)
Deficit on revaluation	(1,038.3)	(107.1)	(24.9)	(1,170.3)	–	–	(1,170.3)
Net book value at 31 March 2008	10,338.3	1,396.0	562.4	12,296.7	544.8	73.6	12,915.1

The following table reconciles the net book value of the investment properties (excluding those within Trillium) to the market value. Trillium's investment properties have been excluded from this reconciliation as the net book value and the market value are not materially different. The components of the reconciliation are included within their relevant balance sheet headings.

	Portfolio management £m	Development programme £m	Total investment properties £m
Net book value at 31 March 2007	10,607.4	2,284.3	12,891.7
Plus: amount included in prepayments in respect of lease incentives	93.6	37.4	131.0
Less: head leases capitalised (note 30)	(61.6)	(9.4)	(71.0)
Plus: properties treated as finance leases	163.1	–	163.1
Market value at 31 March 2007 – Group	10,802.5	2,312.3	13,114.8
– plus: share of joint ventures (note 19)			1,637.7
Market value at 31 March 2007 – Group and share of joint ventures			14,752.5
Net book value at 31 March 2008	10,338.3	1,396.0	11,734.3
Plus: amount included in prepayments in respect of lease incentives	156.3	24.3	180.6
Less: head leases capitalised (note 30)	(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	11,996.8
– plus: share of joint ventures (note 19)			1,589.9
Market value at 31 March 2008 – Group and share of joint ventures			13,586.7

Included in investment properties are leasehold properties with a net book value of £1,368.1m (2007: £1,485.5m).

13. Non-current assets continued

In accordance with IFRS 1 'First time adoption of International Reporting Standards' and IAS 17 'Leases', the Group has reviewed the classification of all leases at the opening balance sheet date of 1 April 2004. In reviewing leases of land and buildings in accordance with IAS 17 the land and buildings elements of the lease need to be considered separately. On this basis, leases on 43 properties entered into between 1923 and 2003 were reclassified as finance leases in these accounts. This resulted in an increase in fixed assets of £77.2m and a finance lease creditor of the same amount at first time adoption on 1 April 2004. At 31 March 2008 leases on 25 properties (2007: 28) entered into between 1960 and 2007 were classified as finance leases. The corresponding increase in fixed assets and finance lease creditor was £67.3m (2007: £71.0m). Operating lease expense has reduced by £6.7m (2007: £7.2m).

The fair value of the Group's investment properties at 31 March 2008 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, and was arrived at by reference to market evidence of transaction prices for similar properties. Fixed asset properties include capitalised interest of £211.7m (2007: £145.6m). The average rate of capitalisation is 5.5% (2007: 5.5%). The historical cost of investment properties is £7,813.2m (2007: £7,210.6m).

The current value of investment properties in respect of proposed developments is £639.6m (2007: £329.3m). Developments are transferred out of the development programme when physically complete and 95% let. The schemes completed during the year were Christ's Lane, Cambridge, One Wood Street, EC2, Princesshay, Exeter, Maskew Avenue, Peterborough, Poole Road, Poole, Bankside 2&3, SE1, Thanet Leisure, Westwood Cross and Cardinal Place, SW1. The property rental income earned by the Group from its investment properties amounted to £603.8m (2007: £594.6m).

Group	2008 £m	2007 £m
Capital commitments	234.5	726.6

14. Net investment in finance leases

Group	2008 £m	2007 £m
Non-current		
Finance leases – gross receivables	692.8	603.9
Unearned finance income	(385.6)	(368.0)
Unguaranteed residual value	26.5	26.5
	333.7	262.4
Current		
Finance leases – gross receivables	27.4	14.6
Unearned finance income	(20.3)	(10.9)
	7.1	3.7
Total net investment in finance leases	340.8	266.1
Gross receivables from finance leases:		
Not later than one year	27.4	14.6
Later than one year but not more than five years	129.3	116.7
More than five years	563.5	487.2
	720.2	618.5
Unearned future finance income	(405.9)	(378.9)
Unguaranteed residual value	26.5	26.5
Net investment in finance leases	340.8	266.1

The Group has leased out a number of investment properties under finance leases ranging between 15 and 100 years in duration. 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.

15. Goodwill

Group	2008 £m	2007 £m
At the beginning of the year	129.6	34.3
Arising on acquisitions during the year (note 37)	13.5	83.2
Arising on acquisitions in the prior year	5.5	–
Transferred on acquisition of a joint venture (note 19)	–	12.1
At the end of the year	148.6	129.6
Represented by:		
Gross goodwill recognised	233.5	214.5
Total accumulated impairment losses	(84.9)	(84.9)
	148.6	129.6

The goodwill carried in the Group balance sheet relates entirely to the acquisition of the Group's Trillium business and subsequent acquisitions.

Impairment has been tested by comparing the carrying amount of the businesses' assets and liabilities with their recoverable amount, being their value in use. The latter has been calculated by reference to the cashflow projections for each business for its major contracts and covering the entire term of the contracts concerned. The main assumptions underlying the forecasts are the relative inflation rates applying to costs and revenues and the amount of expenditure required for the businesses to fulfil their service level commitments and the vacation rate under the DWP contract; and the volume of new business for SMIF management companies and IIC. The cashflows are discounted at a rate reflecting market assessments of the time value of money and the risks specific to each business. The discount rate used for the 2008 test was 7.5% (2007: 6.5%).

16. Investments in subsidiary undertakings

Company	2008 £m	2007 £m
At the beginning of the year – as previously stated	5,037.1	5,037.1
– prior year adjustment	12.5	6.9
At the beginning of the year – as restated	5,049.6	5,044.0
Capital contributions receivable for options granted over ordinary shares	5.0	5.6
At the end of the year	5,054.6	5,049.6

In accordance with IFRIC 11 'IFRS 2 – 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.

Certain subsidiaries and joint ventures have non-coterminous year ends. In these circumstances, management accounts prepared to 31 March 2008 are used for the purpose of the Group consolidation.

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, and its principal joint ventures, which are 50% owned (with the exception of The Bull Ring Limited Partnership which is 33% owned), are:

Wholly owned subsidiary undertakings

Group operations

Land Securities Properties Limited

Trillium

Land Securities Trillium 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

Joint ventures

The Scottish Retail Property Limited Partnership

Metro Shopping Fund Limited Partnership

Buchanan Partnership

The Bull Ring Limited Partnership

Bristol Alliance Limited Partnership

St. David's Limited Partnership

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

A full list of subsidiary undertakings at 31 March 2008 will be appended to the Company's next annual return.

17. Investments in Public Private Partnerships

Group	2008 £m	2007 £m
At the beginning of the year	–	–
Arising on acquisitions during the year (note 37)	17.2	–
Additions	8.2	–
At the end of the year	25.4	–

During the year ended 31 March 2008 a number of Public Private Partnership (PPP) investments were acquired independent from the disposal group. These PPP investments relate to assets currently under construction, they therefore have no revenues or trading expenses.

The Group's share of the assets and liabilities of the PPP investments at 31 March 2008 is as follows:

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

18. Investment in an associate undertaking

Group	2008 £m	2007 £m
At the beginning of the year	–	–
Transferred from non-current assets classified as held for sale (note 23)	43.4	–
Share of post-tax results	(0.5)	–
At the end of the year	42.9	–

On 14 March 2008 the Group sold 90% of its investment in Trillium Investment Partners LP. Trillium Investment Partners LP, prior to its partial disposal, had been classified as a non-current asset held for sale (note 23). Although the Group owns less than 20% of the equity, the Group believes that it exercises significant influence over Trillium Investment Partners LP, through representation on the Supervisory Board as well as its capacity as general partner and investment adviser. Consequently the Group's remaining interest in Trillium Investment Partners LP has been accounted for as an associate in accordance with IAS 28 'Investment in Associates'.

The Group's share of the revenue and expenses of Trillium Investment Partners LP for the period 15 March 2008 to 31 March 2008 is as follows:

	£m
Revenue	1.1
Expenses	(1.6)
Share of losses before tax	(0.5)
Tax	–
Group's share of post-tax result	(0.5)

The Group's share of the assets and liabilities of Trillium Investment Partners LP at 31 March 2008 is as follows:

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

19. Investments in joint ventures

Year ended 31 March 2008 and at 31 March 2008

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	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 expense	(0.1)	(0.6)	–	–	–	–	–	–	(2.4)	(3.1)
Share of (losses)/profits of joint ventures after tax	(32.1)	(12.5)	(6.4)	(16.8)	(18.3)	9.7	(8.4)	(14.4)	(1.8)	(101.0)
Balance sheet										
Investment properties ²	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 properties²	125.9	246.6	180.0	244.0	293.3	294.5	62.8	87.3	55.5	1,589.9
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
Share of post-tax results	(32.1)	(12.5)	(6.4)	(16.8)	(18.3)	9.7	(8.4)	(14.4)	(1.8)	(101.0)
Distributions	(42.5)	(14.2)	(6.0)	–	–	–	–	(0.8)	(11.6)	(75.1)
Fair value movement on cashflow 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)
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

1. Other principally includes the Martineau Galleries Limited Partnership, Fen Farm Developments Limited, the Ebbsfleet Limited Partnership, the A2 Limited Partnership and Investors in the Community (IIC).

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.

19. Investments in joint ventures continued

Year ended 31 March 2007 and at 31 March 2007

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	20.6	13.3	10.2	2.0	15.1	3.3	–	–	3.1	67.6
Service charge income	4.5	3.2	1.4	0.2	2.6	–	–	–	0.5	12.4
Property services income	–	–	–	–	–	–	–	–	1.6	1.6
Revenue	25.1	16.5	11.6	2.2	17.7	3.3	–	–	5.2	81.6
Rents payable	(0.2)	–	–	–	–	–	–	–	(0.1)	(0.3)
Other direct property expenditure	(8.4)	(4.3)	(2.4)	(0.4)	(4.5)	(0.2)	–	–	(4.6)	(24.8)
Indirect property expenditure	(1.4)	(1.0)	(0.1)	–	(0.2)	(0.1)	–	–	(0.9)	(3.7)
Depreciation	–	–	–	–	–	–	–	–	(0.1)	(0.1)
	15.1	11.2	9.1	1.8	13.0	3.0	–	–	(0.5)	52.7
Profit on disposal of non-current properties	–	–	–	–	–	–	–	–	0.2	0.2
Net surplus on revaluation of investment properties	6.3	23.0	10.2	2.6	23.8	6.9	–	–	2.3	75.1
Operating profit	21.4	34.2	19.3	4.4	36.8	9.9	–	–	2.0	128.0
Net interest (expense)/income	(11.7)	(10.9)	(3.4)	0.2	0.1	0.4	–	–	(0.2)	(25.5)
Profit before tax	9.7	23.3	15.9	4.6	36.9	10.3	–	–	1.8	102.5
Income tax (expense)/credit										
– ordinary	(2.7)	(6.2)	(3.5)	(1.2)	(5.6)	(1.1)	–	–	(0.9)	(21.2)
– exceptional	17.7	16.9	6.9	1.2	44.9	8.1	–	–	2.3	98.0
Share of profits of joint ventures after tax	24.7	34.0	19.3	4.6	76.2	17.3	–	–	3.2	179.3
Balance sheet										
Investment properties ²	357.2	301.0	185.1	213.2	319.6	197.3	–	–	57.9	1,631.3
Current assets	15.2	9.8	7.5	116.3	10.7	15.5	–	–	30.1	205.1
	372.4	310.8	192.6	329.5	330.3	212.8	–	–	88.0	1,836.4
Current liabilities	(4.5)	(5.2)	(4.0)	(21.2)	(9.2)	(11.8)	–	–	(5.9)	(61.8)
Non-current liabilities	(222.1)	(210.3)	–	(0.2)	–	(2.4)	–	–	(0.8)	(435.8)
	(226.6)	(215.5)	(4.0)	(21.4)	(9.2)	(14.2)	–	–	(6.7)	(497.6)
Net assets	145.8	95.3	188.6	308.1	321.1	198.6	–	–	81.3	1,338.8
Capital commitments	0.6	1.1	1.3	1.9	–	129.3	–	–	–	134.2
Market value of investment properties²	351.4	299.3	189.3	213.3	325.0	200.5	–	–	58.9	1,637.7
Net investment										
At 1 April 2006	105.2	81.0	173.0	0.8	259.3	118.5	–	–	91.7	829.5
Properties contributed	–	–	–	267.6	–	–	–	–	–	267.6
Cash contributed	9.5	6.8	1.4	35.1	0.3	–	–	–	2.5	55.6
Cost of acquisition	–	–	–	–	–	–	–	–	0.5	0.5
Share of post-tax results	24.7	34.0	19.3	4.6	76.2	17.3	–	–	3.2	179.3
Distributions	–	(29.6)	(5.1)	–	–	–	–	–	(4.5)	(39.2)
Fair value movement on cashflow hedges taken to equity	6.4	3.1	–	–	–	–	–	–	–	9.5
Transferred to goodwill	–	–	–	–	–	–	–	–	(12.1)	(12.1)
Loan advances	–	–	–	–	–	67.0	–	–	–	67.0
Loan repayments	–	–	–	–	(14.7)	(4.2)	–	–	–	(18.9)
At 31 March 2007	145.8	95.3	188.6	308.1	321.1	198.6	–	–	81.3	1,338.8

1. Other principally includes the Martineau Galleries Limited Partnership, the Ebbsfleet Limited Partnership, the A2 Limited Partnership and Investors in the Community (IIC).

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.

20. Trading properties and long-term development contracts

Group	2008 £m	2007 £m
Trading properties	173.0	148.3
The amounts for contracts in progress at the balance sheet date are as follows:		
Contract revenue recognised as revenue in the year	26.3	80.7
Contract costs incurred and recognised profits (less recognised losses) to date	332.8	494.8
Advances received	(346.0)	(504.1)
	(13.2)	(9.3)
Plus: gross amount due to customers for contract work (included in accruals and deferred income)	13.2	9.3
Gross amount due from customers for contract work	–	–

21. Trade and other receivables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade receivables – Property investment	34.0	26.1	–	–
– Trillium	112.1	96.2	–	–
Property sales receivables	205.2	78.6	–	–
Other receivables	53.9	81.6	–	–
Prepayments and accrued income	314.6	329.9	0.3	–
Finance leases receivable within one year (note 14)	7.1	3.7	–	–
Loans to joint ventures	111.1	25.7	–	–
Loans to Group undertakings	–	–	385.9	5.5
	838.0	641.8	386.2	5.5

Trade receivables are net of provisions for doubtful debts of £15.0m (2007: £15.2m). Financial assets which are past due but not impaired are £54.2m (2007: £29.4m).

22. Cash and cash equivalents

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank and in hand	25.7	32.4	69.5	5.0
Short-term deposits	22.7	20.3	–	–
	48.4	52.7	69.5	5.0

For the purposes of the cashflow statement, cash and cash equivalents comprise the following:

Cash at bank and in hand	25.7	32.4	69.5	5.0
Short-term deposits	22.7	20.3	–	–
Bank overdraft (note 24)	(1.4)	–	–	–
	47.0	52.7	69.5	5.0

The effective interest rate on short-term deposits was 5.1% (2007: 8.0%) and the deposits have an average maturity of one day (2007: 30 days).

23. Non-current assets classified as held for sale

Group	2008 £m	2007 £m
Non-current assets classified as held for sale	664.1	2,420.3
Liabilities directly associated with non-current assets classified as held for sale	(427.7)	(1,601.0)
	236.4	819.3

Non-current assets and liabilities held for sale at 31 March 2007 represent PPP investments acquired as part of the SMIF acquisition. SMIF was acquired on 5 February 2007 for £517.0m (excluding external debt repaid of £397.6m). SMIF included a number of PPP investments which the Group acquired exclusively with a view to being resold to third party investors, while maintaining a minority share. The Group transferred the majority of the PPP investments acquired with SMIF, together with a number of projects subsequently acquired, into a specifically created vehicle, Trillium Investment Partners LP, for the purpose of introducing third party investors. During the year Trillium Investment Partners LP was refinanced resulting in a repayment of £414.8m of debt. On 14 March 2008, 90% of the equity of Trillium Investment Partners LP was sold to third party investors and the remaining 10%, which is to be retained, was transferred to an investment in an associate undertaking. On disposal £23.9m was recognised as the income of Trillium Investment Partners LP as a discontinued operation, being the operational profits of the business from acquisition to 14 March.

The remaining balance represents a number of PPP investments which will be sold to Trillium Investment Partners LP or to third parties. The net carrying value of the disposal group is based on its fair value less costs to sell at the date of acquisition, as adjusted to reflect cash advanced and cash returned from the disposal group. The disposal group represents a discontinued operation, and the Group has not recognised any profits or losses in respect of this discontinued operation (other than disclosed above) for the period from acquisition to 31 March 2008. The disposal group is held in the Trillium segment.

23. Non-current assets classified as held for sale continued

Set out below is an analysis of the movements within the disposal group for the year ended 31 March 2008:

	Trillium Investment Partners LP £m	Other £m	Total £m
Book value at 1 April 2007	761.2	58.1	819.3
Projects acquired from AMEC (note 37)	–	134.4	134.4
Other projects acquired	67.0	77.5	144.5
Cash received on refinancing of Trillium Investment Partners LP	(414.8)	–	(414.8)
Cash received from the disposal group	(7.9)	(18.3)	(26.2)
Cash received on disposal of Meterfit	–	(25.3)	(25.3)
Trillium Investment Partners LP transferred to an associate undertaking (note 18)	(43.4)	–	(43.4)
Cash received on disposal of Trillium Investment Partners LP	(399.6)	–	(399.6)
Profit within Trillium Investment Partners LP from acquisition to 14 March 2008	23.9	–	23.9
Profit on disposal of Trillium Investment Partners LP	13.6	–	13.6
Profit on disposal of Meterfit	–	10.0	10.0
Profit from discontinued operations	37.5	10.0	47.5
Book value at 31 March 2008	–	236.4	236.4

The Group has retained a 10% interest in Trillium Investment Partners LP and consequently its share of the profit recognised from acquisition to 14 March 2008 is £2.4m.

24. Short-term borrowings and overdrafts

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Borrowings falling due within one year (note 27)	802.1	1,687.4	–	–
Overdrafts (note 27)	1.4	–	–	61.9
Bond exchange derecognition adjustment falling due within one year (note 27)	(11.7)	(6.3)	–	–
Amounts payable under finance leases falling due within one year (notes 27 and 30)	2.2	2.1	–	–
	794.0	1,683.2	–	61.9

Where the Group operates a notional cash pooling arrangement the cash and overdraft balances are netted off.

25. Trade and other payables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade payables	28.5	26.7	–	–
Capital payables	116.8	77.9	–	–
Other payables	73.3	28.1	–	–
Accruals and deferred income	574.4	526.6	0.2	–
Amounts owed to joint ventures	134.2	124.6	–	–
Loans from Group undertakings	–	–	874.5	50.8
	927.2	783.9	874.7	50.8

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.

26. Provisions

Group	Dilapidations £m	Onerous leases £m	Other £m	Total £m
At 1 April 2006	23.1	19.8	15.3	58.2
Net charge/(credit) to income statement for the year	5.9	(0.5)	7.1	12.5
Release of discount charged to net interest expense (note 6)	–	1.0	–	1.0
Utilised in the year	(8.1)	(4.7)	(2.4)	(15.2)
On acquisition of Royal Mail property portfolio	–	24.2	–	24.2
At 31 March 2007	20.9	39.8	20.0	80.7
Net charge to income statement for the year	7.2	0.4	7.2	14.8
Release of discount charged to net interest expense (note 6)	–	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
Included in the balance above the following amounts are anticipated to be utilised within one year:				
At 31 March 2007	7.9	11.6	–	19.5
At 31 March 2008	14.8	10.6	15.5	40.9

Dilapidations

Provision for dilapidations is made in respect of certain leasehold properties where the Group anticipates incurring future expenditure at the end of the lease. The amounts provided are 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 occurs once agreement is reached with the parties to the lease.

Onerous leases

An onerous lease provision is established in respect of leasehold properties that are unoccupied or the expected future rental income is not expected to meet the Group's rental obligations. The provisions are based on assumptions about expected future rentals and voids. This provision will be settled as the net rental obligations develop. The provision may vary based on reassessment of the relevant assumptions as circumstances change and new obligations are established.

Other

Other provisions include liabilities arising from the contractual arrangements with clients that include specific performance measurement targets and life cycle capital expenditure requirements. Settlement of the amounts provided follows agreement with the clients. It is expected that most of the other provisions will be utilised within the next three years.

27. Borrowings

Group	2008								
	Nominal/ notional value ⁷ £m	Book value		Effective interest rate %	Weighted average time for which interest rate is fixed Years	Fair value ¹⁰ £m	Surplus/ (deficit) of fair value over book value £m		
		Secured £m	Unsecured £m					Total £m	Fixed/ floating ⁹
Sterling									
4.625 per cent Notes due 2013 ¹	300.0	299.7	–	299.7	Fixed	4.7	2.8	292.9	(6.8)
5.292 per cent Notes due 2015 ¹	391.5	390.9	–	390.9	Fixed	5.3	5.7	384.0	(6.9)
4.875 per cent Notes due 2019 ¹	400.0	396.1	–	396.1	Fixed	5.0	9.6	369.9	(26.2)
5.425 per cent Notes due 2022 ¹	255.3	254.5	–	254.5	Fixed	5.5	12.0	240.0	(14.5)
4.875 per cent Notes due 2025 ¹	300.0	297.0	–	297.0	Fixed	4.9	15.5	257.2	(39.8)
5.391 per cent Notes due 2026 ¹	210.7	209.8	–	209.8	Fixed	5.4	15.9	190.5	(19.3)
5.391 per cent Notes due 2027 ¹	611.2	608.5	–	608.5	Fixed	5.4	17.0	547.6	(60.9)
5.376 per cent Notes due 2029 ¹	317.9	316.3	–	316.3	Fixed	5.4	19.5	283.4	(32.9)
5.396 per cent Notes due 2032 ¹	322.9	321.0	–	321.0	Fixed	5.4	22.3	285.2	(35.8)
5.125 per cent Notes due 2036 ¹	500.0	498.5	–	498.5	Fixed	5.1	25.9	426.6	(71.9)
Bank facility due 2010	15.5	15.5	–	15.5	Floating	6.4	0.1	15.5	–
Euro Commercial Paper ²	19.8	–	19.8	19.8	Floating	5.8	0.1	19.8	–
DWP term loan ³	124.4	124.4	–	124.4	Floating	6.4	0.3	124.4	–
Syndicated bank debt ⁴	865.0	865.0	–	865.0	Floating	5.8	–	865.0	–
Bilateral facilities ⁵	1,065.4	1,065.4	–	1,065.4	Floating	5.9	–	1,065.4	–
Acquisition loan notes ⁶	106.4	–	106.4	106.4	Floating	5.4	0.5	106.4	–
Bank overdraft	1.4	–	1.4	1.4	Floating	–	–	1.4	–
Money market borrowings	45.0	–	45.0	45.0	Floating	5.7	0.1	45.0	–
	5,852.4	5,662.6	172.6	5,835.2				5,520.2	(315.0)
Euro									
Euro Commercial Paper ²	35.5	–	35.5	35.5	Floating	4.7	0.1	35.5	–
Amounts payable under finance leases (note 30)	67.3	67.3	–	67.3	Fixed	5.5	88.5	79.5	12.2
	5,955.2	5,729.9	208.1	5,938.0				5,635.2	(302.8)
Fair value of derivative instruments									
Interest rate swaps – qualifying hedges	145.7	–	0.8	0.8		5.1	6.3	0.8	–
– non-qualifying hedges	1,880.0	–	9.9	9.9		5.2	1.7	9.9	–
Foreign currency swaps – qualifying hedges	35.5	–	(4.3)	(4.3)		4.7	0.1	(4.3)	–
	2,061.2	–	6.4	6.4				6.4	–
Bond exchange derecognition adjustment ⁹		(511.5)	–	(511.5)				–	511.5
Total borrowings		5,218.4	214.5	5,432.9				5,641.6	208.7
Less: bank overdraft (note 24)				(1.4)					
Less: borrowings falling due within one year (note 24)				(802.1)					
Less: derivative financial instruments – liabilities				(10.7)					
Plus: derivative financial instruments – assets				4.3					
Plus: bond exchange derecognition falling due within one year (note 24)				11.7					
Less: amounts payable under finance leases falling due within one year (notes 24 and 30)				(2.2)					
				4,632.5					

1. The Notes and the committed bank facilities are secured on a fixed and floating pool of assets (The Security Group). The debt investors benefit from security over a pool of investment properties valued at £11.0bn at 31 March 2008 (2007: £11.6bn). The nominal value borrowed against these assets was £5,595.2m (2007: £5,126.9m). The secured debt structure has a tiered covenant regime which gives the Group substantial operational flexibility when the loan to value and interest rate cover in The Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded, operational restrictions increase significantly and could act as an incentive to reduce gearing.

2. Euro Commercial Paper is unsecured. However, the amount drawn is required to be supported by an unutilised committed bank facility, which is a secured facility.

3. The DWP term loan was refinanced in December 2006 and expires in December 2017. It is secured on the freehold and long leasehold properties acquired from the Department for Work and Pensions. The carrying amount of the properties concerned was £364.0m at 31 March 2008 (2007: £380.4m).

4. At 31 March 2008, the Group had a £1.5bn syndicated bank facility with a maturity of August 2013. The facility is committed and secured on the assets of The Security Group. The maturity profile is calculated on the basis that it is the Group's intention to retain the existing loans or that the existing loans will be refinanced or rescheduled with the same financial institutions under the terms of the facility.

5. 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 £150.0m facility, which has been extended in December 2007, as a £175.0m facility with an expiry in February 2010. In July 2007 the Group entered into a £500.0m facility which was due to expire in July 2008, but a commitment has been obtained to replace it in July 2008 with a £350.0m facility with an expiry in July 2009. In December 2007, the £1.0bn SMIF acquisition facility was repaid. Another £350.0m facility was established in December 2007 which expires in October 2008. The Group has an option to extend each of these bilateral 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. The maturity profile is calculated on the basis that it is the Group's intention to retain the existing loans or that the loans will be refinanced or rescheduled with the same financial institutions under the terms of the facility.

6. The acquisition loan notes were issued by Retail Property Holdings Trust Limited, a subsidiary of the Group, as partial consideration for the purchase of Tops Estates PLC and the LxB portfolio. The notes are unsecured, however, they have the benefit of a commercial bank guarantee. Interest is calculated with reference to six month LIBOR. The notes are due to be redeemed in 2015, however, the holders of the notes can request redemption in full at the next interest payment date with at least 30 days notice. Accordingly, the notes have been classified as current liabilities.

7. For foreign currency amounts, the nominal/notional value is the Sterling equivalent of the principal amount at 31 March.

8. On 3 November 2004, a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new Notes. The new Notes did not meet the IAS 39 requirement to be substantially different from the debt that it replaced. Consequently the book value of the new Notes is reduced to the book value of the original debt (the bond exchange derecognition adjustment). The adjustment is amortised to zero over the life of the new Notes.

9. Before the effect of derivative instruments.

10. The Group's Notes are listed on the Irish Stock Exchange and their fair values are based on their respective market prices. The fair value of interest rate swaps is based on the market price of comparable instruments at the balance sheet date. The fair values of short-term deposits, loans and overdrafts are assumed to approximate to their book values, as are the values of longer-term, floating rate bank loans.

27. Borrowings continued

Group	Nominal/ notional value ⁷ £m	Book value		Fixed/ floating ⁹	Effective interest rate %	Weighted average time for which interest rate is fixed Years	Fair value ¹⁰ £m	Surplus/ (deficit) of fair value over book value £m	
		Secured £m	Unsecured £m						Total £m
Sterling									
5.016 per cent Notes due 2007 ¹	181.7	181.7	–	181.7	Fixed	5.0	0.1	181.6	(0.1)
4.625 per cent Notes due 2013 ¹	300.0	299.6	–	299.6	Fixed	4.7	3.8	288.5	(11.1)
5.292 per cent Notes due 2015 ¹	391.5	390.7	–	390.7	Fixed	5.3	6.7	384.3	(6.4)
4.875 per cent Notes due 2019 ¹	400.0	395.7	–	395.7	Fixed	5.0	10.6	379.1	(16.6)
5.425 per cent Notes due 2022 ¹	255.3	254.4	–	254.4	Fixed	5.5	13.0	255.4	1.0
4.875 per cent Notes due 2025 ¹	300.0	296.9	–	296.9	Fixed	4.9	16.5	286.2	(10.7)
5.391 per cent Notes due 2026 ¹	210.7	209.8	–	209.8	Fixed	5.4	16.9	213.2	3.4
5.391 per cent Notes due 2027 ¹	611.3	608.3	–	608.3	Fixed	5.4	18.0	614.8	6.5
5.376 per cent Notes due 2029 ¹	317.9	316.2	–	316.2	Fixed	5.4	20.5	324.5	8.3
5.396 per cent Notes due 2032 ¹	322.9	321.0	–	321.0	Fixed	5.4	23.3	331.3	10.3
5.125 per cent Notes due 2036 ¹	500.0	498.4	–	498.4	Fixed	5.1	26.9	498.0	(0.4)
Bank facility due 2010	15.5	15.5	–	15.5	Floating	5.7	0.1	15.5	–
Euro Commercial Paper ²	139.2	–	139.2	139.2	Floating	5.4	–	139.2	–
DWP term loan ³	173.1	173.1	–	173.1	Floating	5.7	0.5	173.1	–
Syndicated bank debt ⁴	183.0	183.0	–	183.0	Floating	5.5	–	183.0	–
Bilateral facility ⁵	885.6	885.6	–	885.6	Floating	5.9	0.4	885.6	–
Acquisition loan notes ⁶	114.4	–	114.4	114.4	Floating	4.4	0.5	114.4	–
Money market borrowings	192.0	–	192.0	192.0	Floating	5.5	0.1	192.0	–
	5,494.1	5,029.9	445.6	5,475.5				5,459.7	(15.8)
Euro									
Bilateral facility	26.9	26.9	–	26.9	Floating	4.0	0.2	26.9	–
Euro Commercial Paper ²	41.1	–	41.1	41.1	Floating	5.6	0.3	41.1	–
	68.0	26.9	41.1	68.0				68.0	–
Swiss Francs									
Euro Commercial Paper ²	21.0	–	21.0	21.0	Floating	5.5	–	21.0	–
Yen									
Euro Commercial Paper ²	38.8	–	38.8	38.8	Floating	5.4	–	38.8	–
Amounts payable under finance leases (note 30)									
	71.0	71.0	–	71.0	Fixed	5.5	86.9	79.2	8.2
	5,692.9	5,127.8	546.5	5,674.3				5,666.7	(7.6)
Fair value of derivative instruments									
Interest rate swaps – qualifying hedges	195.6	–	(2.4)	(2.4)		5.1	5.7	(2.4)	–
– non-qualifying hedges	1,205.0	–	(12.0)	(12.0)		4.9	2.0	(12.0)	–
Foreign currency swaps – qualifying hedges	100.9	–	(0.2)	(0.2)		5.5	0.1	(0.2)	–
	1,501.5	–	(14.6)	(14.6)				(14.6)	–
Bond exchange derecognition adjustment ⁸		(519.1)	–	(519.1)				–	519.1
Total borrowings		4,608.7	531.9	5,140.6				5,652.1	511.5
Less: borrowings falling due within one year (note 24)				(1,687.4)					
Plus: bond exchange derecognition falling due within one year (note 24)				6.3					
Plus: derivative financial instruments – assets				14.6					
Less: amounts payable under finance leases falling due within one year (notes 24 and 30)				(2.1)					
				3,472.0					

Financial risk management

Capital structure

The Group monitors and adjusts its capital structure (defined as equity shareholders' funds and net borrowings) with a view to promoting the long-term success of the business and maintaining sustainable returns for shareholders. This is achieved through a combination of controlling solvency, minimising financing costs, managing risk, a rigorous investment appraisal framework and maintaining high standards of business conduct. The key financial measures that are subject to review include cashflow projections and the ability to meet contracted commitments, projected gearing levels, interest covenants and dividend cover, although no absolute targets are set for these. At 31 March 2008, including our joint ventures, our loan to value ratio was **47.9%** (2007: 42.1%) and interest cover was **1.93x** (2007: 2.43x).

The Group monitors its cost of debt and its weighted average cost of capital (WACC) on a regular basis. At 31 March 2008, the weighted average cost of debt was **5.4%** (2007: 5.3%) and the WACC was **7.25%** (2007: 6.75%). Investment and development opportunities are evaluated against the WACC in order to ensure that long-term shareholder value is created.

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

27. Borrowings continued

Financial risk factors

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's operations and debt financing expose it to a variety of financial risks. The main risks arising include credit risk, liquidity risk and market risk, the latter in respect of both interest rates and foreign exchange.

The exposure to each risk, how it arises and policies for managing each risk for the year are summarised below:

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, finance lease receivables and short-term investments. The Group's credit risk is primarily attributable to its trade and finance lease receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for 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 therefore the credit risk of trade receivables is considered to be low.

Property sales receivables primarily relate to the sale of six properties, for which all payments to date have been received when due, and as the purchasers are of reputable financial standing the credit risk is considered low.

Finance lease receivables relate 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.

The credit risk on liquid funds and derivative financial instruments is limited due to the Group's policy of monitoring counterparty exposures. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties.

Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the Group has sufficient available funds for operations and committed investments. The Group's undrawn committed borrowing facilities are monitored against projected cash flows.

The expiry periods of the Group's undrawn committed borrowing facilities are:

Group	2008 £m	2007 £m
More than one year but not more than two years	25.0	–
More than two years but not more than five years	2.0	2.0
More than five years	584.0	1,077.1
	611.0	1,079.1

The undrawn committed borrowing facilities are net of amounts drawn under both the syndicated bank facility and the Euro Commercial Paper.

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 (forward rate agreements, forward starting swaps and gilt locks) 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 and a maximum of 20% floating 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. Specific hedges are also used in geared joint ventures to fix the interest exposure on limited recourse debt.

At 31 March 2008 the Group (including joint ventures) had £2.3bn of hedges in place, and its debt was 80% fixed. Consequently, based on year end debt levels, a 1% change in interest rates would decrease or increase the Group's annual profit before tax by £12.4m (2007: £8.6m). The sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest rate swaps, at the year end.

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, the Group is able to raise debt in currencies other than Sterling, and where this occurs it is the Group's policy to hedge 100% of the exposure by entering into currency swaps to fix the Sterling value of debt. Therefore the Group's foreign exchange risk is low.

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:

Group	2008			2007		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	4,402.5	1,552.7	5,955.2	5,458.4	207.6	5,666.0
Euro	–	–	–	–	26.9	26.9
	4,402.5	1,552.7	5,955.2	5,458.4	234.5	5,692.9

27. Borrowings continued

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

Group	2008			2007		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
One year or less, or on demand	172.2	633.5	805.7	1,457.2	234.5	1,691.7
More than one year but not more than two years	464.4	38.0	502.4	2.3	–	2.3
More than two years but not more than five years	321.9	–	321.9	22.0	–	22.0
More than five years	3,444.0	881.2	4,325.2	3,976.9	–	3,976.9
	4,402.5	1,552.7	5,955.2	5,458.4	234.5	5,692.9

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

Group	2008			2007		
	Interest rate swaps £m	Foreign currency swaps £m	Total £m	Interest rate swaps £m	Foreign currency swaps £m	Total £m
One year or less, or on demand	178.9	35.5	214.4	274.9	100.9	375.8
More than one year but not more than two years	46.7	–	46.7	178.9	–	178.9
More than two years but not more than five years	1,721.9	–	1,721.9	867.3	–	867.3
More than five years	78.2	–	78.2	79.5	–	79.5
	2,025.7	35.5	2,061.2	1,400.6	100.9	1,501.5

28. Net pension benefit assets/(obligations)**Defined benefit schemes****Land Securities Scheme**

The Pension & Assurance Scheme of the Land Securities Group of Companies (the Scheme) is the most significant defined benefit pension scheme of the Group. 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, and the latest formal valuation of the Land Securities Trillium Plan, was updated to 31 March 2008.

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.

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	2008 £m	2007 £m
Defined contribution schemes	2.0	1.8

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	2008 %	2007 %
Rate of increase in pensionable salaries	3.60*	3.25*
Rate of increase in pensions in payment	3.60	3.25
Discount rate	6.90	5.40
Inflation	3.60	3.25
Expected return on plan assets	6.44	6.14

*plus an allowance of 1.25% per annum for promotional salary increases in respect of employee members of the Trillium Plan.

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.

28. Net pension benefit assets/(obligations) continued

The mortality assumptions used in this valuation were:

Group	2008 Years	2007 Years
Life expectancy at age 60 for current pensioners – Men	28.4	28.4
– Women	31.5	31.5
Life expectancy at age 60 for future pensioners (current age 40) – Men	29.6	29.6
– Women	32.6	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:

	2008 %	2007 %	2006 %	2008 £m	2007 £m	2006 £m
Equities	7.50	7.50	7.50	70.5	70.8	64.1
Bonds and insurance contracts	5.35	4.80	4.60	68.0	71.6	82.9
Other	5.25	5.25	4.50	0.5	2.0	3.0
Fair value of schemes' assets				139.0	144.4	150.0
Present value of schemes' liabilities				(123.9)	(150.0)	(156.5)
Non-permissible surplus				(4.1)	–	–
Surplus/(deficit) in the schemes				11.0	(5.6)	(6.5)
Related deferred tax (liability)/asset				(0.8)	0.4	2.0
Net pension asset/(liability)				10.2	(5.2)	(4.5)

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

Group	2008 %	2007 %
Equities	51	49
Bonds and insurance contracts	49	49
Other	–	2

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 £0.2m (2007: £0.2m).

Group	2008 £m	2007 £m
Analysis of the amounts charged to the income statement		
Analysis of the amount charged to operating profit		
Current service cost	2.1	2.7
Charge to operating profit	2.1	2.7
Analysis of amount (credited)/charged to interest expense		
Expected return on plan assets	(9.0)	(8.6)
Interest on schemes' liabilities	8.1	7.6
Net return	(0.9)	(1.0)

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.

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 £2.2m
Rate of mortality	Increase by 1 year	Increase by 2.5% or £2.8m

28. Net pension benefit assets/(obligations) continued

Group	2008	2007
Changes in the present value of the defined benefit obligation	£m	£m
At the beginning of the year	150.0	156.5
Current service cost	2.1	2.7
Interest cost	8.1	7.6
Actuarial gains	(32.0)	(1.3)
Benefits paid	(4.5)	(15.6)
Contributions by plan participants	0.2	0.1
At the end of the year	123.9	150.0

Group	2008	2007
Changes in the fair value of plan assets	£m	£m
At the beginning of the year	144.4	150.0
Expected return on plan assets	9.0	8.6
Employer contributions	2.0	3.9
Actual return less expected return on schemes' assets	(12.1)	(2.6)
Benefits paid	(4.5)	(15.6)
Contributions by plan participants	0.2	0.1
At the end of the year	139.0	144.4

Group	2008	2007
Analysis of the movement in the balance sheet (surplus)/deficit	£m	£m
At the beginning of the year	5.6	6.5
Charge to operating profit	2.1	2.7
Expected return on plan assets	(9.0)	(8.6)
Interest on schemes' liabilities	8.1	7.6
Employer contributions	(2.0)	(3.9)
Actuarial (gains)/losses	(15.8)	1.3
At the end of the year	(11.0)	5.6

Group	2008	2007
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	(12.1)	(2.6)
Experience gains and losses arising on schemes' liabilities	32.0	1.3
Non-permissible surplus	(4.1)	–
Actuarial gains/(losses)	15.8	(1.3)

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

Group	2008	2007	2006	2005	2004
History of experience gains and losses	£m	£m	£m	£m	£m
Experience adjustments arising on schemes' assets					
Amount	(12.1)	(2.6)	15.5	3.1	13.7
Percentage of schemes' assets	(8.7%)	(1.8%)	10.3%	2.5%	13.1%
Experience adjustments arising on schemes' liabilities					
Amount	(32.0)	(1.3)	20.5	7.8	0.2
Percentage of the present value of funded obligations	(25.8%)	(0.9%)	13.1%	5.7%	0.1%
Present value of schemes' liabilities	(123.9)	(150.0)	(156.5)	(136.6)	(121.8)
Fair value of schemes' assets	139.0	144.4	150.0	125.7	104.6
Non-permissible surplus	(4.1)	–	–	–	–
Surplus/(deficit)	11.0	(5.6)	(6.5)	(10.9)	(17.2)

The contributions expected to be paid in respect of the defined benefit schemes during the financial year ending 31 March 2009 amount to £5.0m. The Company did not operate any defined contribution schemes or defined benefit schemes during the financial year ended 31 March 2008 or in the previous financial year.

29. Deferred taxation

Group	Accelerated tax depreciation £m	Capitalised interest £m	Revaluation surplus £m	Other £m	Total £m
Deferred tax liabilities					
At 1 April 2006	(147.9)	(26.5)	(1,664.2)	(154.7)	(1,993.3)
Net (charge)/credit to income statement for the year	(17.7)	(6.1)	(330.7)	0.8	(353.7)
Released in respect of property disposals during the year	1.1	–	32.5	–	33.6
Released on conversion to a Real Estate Investment Trust	160.1	31.7	1,962.4	154.8	2,309.0
At 31 March 2007	(4.4)	(0.9)	–	0.9	(4.4)
Transferred to deferred tax assets	–	–	–	(0.9)	(0.9)
Net credit to income statement for the year	3.7	–	–	–	3.7
At 31 March 2008	(0.7)	(0.9)	–	–	(1.6)

Group	Tax losses £m	Hedges £m	Pension deficit/(asset) £m	Other £m	Total £m
Deferred tax assets					
At 1 April 2006	12.2	2.3	2.0	9.0	25.5
Net charge to income statement for the year	(6.4)	(3.1)	(0.4)	–	(9.9)
Released in respect of property disposals during the year	(5.8)	–	–	(9.0)	(14.8)
Released on conversion to a Real Estate Investment Trust	–	2.4	(2.2)	–	0.2
(Credited)/charged to equity	–	(1.6)	1.0	–	(0.6)
At 31 March 2007	–	–	0.4	–	0.4
Transferred from deferred tax liabilities	–	–	–	0.9	0.9
Net credit to income statement for the year	–	–	(0.3)	–	(0.3)
Credited to equity	–	–	(0.9)	–	(0.9)
At 31 March 2008	–	–	(0.8)	0.9	0.1

Group	2008 £m	2007 £m
Deferred tax is provided as follows:		
Excess of capital allowances over depreciation – operating properties	0.7	4.4
Capitalised interest – operating properties	0.9	0.9
Other temporary differences	(0.1)	(1.3)
Total deferred tax	1.5	4.0

30. Obligations under finance leases

Group	2008 £m	2007 £m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	6.6	6.9
Later than one year but not more than five years	24.8	26.7
More than five years	393.3	425.9
	424.7	459.5
Future finance charges on finance leases	(357.4)	(388.5)
Present value of finance lease liabilities (notes 13 and 27)	67.3	71.0
The present value of finance lease liabilities is as follows:		
Not later than one year (notes 24 and 27)	2.2	2.1
Later than one year but not more than five years	8.8	8.8
More than five years	56.3	60.1
	67.3	71.0

The fair value of the Group's lease obligations, using a discount rate of 5.5% (2007: 5.5%), is £79.5m (2007: £79.2m).

31. Called up share capital

Group and Company	Authorised		Allotted and fully paid	
	2008 Number m	2007 Number m	2008 £m	2007 £m
Ordinary shares of 10p each	600.0	600.0	47.1	47.0
Non-equity B shares of £1.02 each	38.9	38.9	–	–
Redeemable preference shares of £1.00 each	0.1	0.1	–	–
			47.1	47.0

	Number of shares	
	2008	2007
Movements in the share capital were:		
At the beginning of the year	470,356,546	469,283,782
Issued on the exercise of options under:		
1993 Savings Related Share Option Scheme	111,548	85,658
2003 Savings Related Share Option Scheme	75,748	113,606
2000 Executive Share Option Scheme	8,660	63,371
2002 Executive Share Option Scheme	348,832	810,129
2005 Executive Share Option Scheme	144	–
At the end of the year	470,901,478	470,356,546

The number of ordinary shares that would be issued if all options were exercised at 31 March 2008 is **3,330,114** (2007: 3,423,934).

32. 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 IFRS 2 '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. Fair value is calculated using a Black-Scholes option pricing model.

Savings Related Share Option Scheme

Under the 1993 and 2003 Savings Related Share Option Scheme 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 TSB Bank Plc. 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

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2008 Pence	2007 Pence	2008 Pence	2007 Pence
At the beginning of the year	147,433	237,713	656	663
Exercised	(111,548)	(85,658)	649	682
Forfeited	(293)	(8,169)	650	651
Lapsed	(305)	3,547	650	692
At the end of the year	35,287	147,433	677	656
Exercisable at the end of the year	3,312	–	650	–
			Years	Years
Weighted average remaining contractual life			0.87	0.85

The options outstanding under the scheme are exercisable at prices between 650p and 713p after three, five or seven years from the date of grant during the period 2008 to 2009.

The weighted average share price at the date of exercise during the year was **1647p** (2007: 2023p).

No expense was recognised by the Group during the year, or during the corresponding year as the grants preceded the date relevant for IFRS 2 'Share-based Payment'.

32. Share-based payments continued**2003 Savings Related Share Option Scheme**

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2008	2007	2008 Pence	2007 Pence
At the beginning of the year	462,116	510,104	1121	914
Granted	175,605	128,173	1460	1523
Exercised	(75,748)	(113,606)	937	709
Forfeited	(21,979)	(42,202)	1173	941
Lapsed	(32,522)	(20,353)	1376	1129
At the end of the year	507,472	462,116	1248	1121
Exercisable at the end of the year	14,919	–	957	–
			Years	Years
Weighted average remaining contractual life			2.33	2.42

The options outstanding under the scheme are exercisable at prices between 677p and 1523p after three, five or seven years from the date of grant. 61,072 of the options outstanding are exercisable at 677p, 55,309 are exercisable at 957p, 122,892 at 1146p, 166,540 at 1460p, and 101,659 at 1523p during the periods 2008 to 2010, 2008 to 2012, 2010 to 2014 and 2009 to 2013, respectively.

The weighted average share price at the date of exercise during the year was 1559p (2007: 2132p). During the year, options were granted on 1 October 2007 (2007: 29 September 2006). The estimated fair value of the options granted on that date was £0.9m (2007: £0.5m).

During the year, the Group recognised total expenses of £0.3m (2007: £0.3m) relating to the 2003 Savings Related Share Option Scheme.

2000 Executive Share Option Scheme

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.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2008	2007	2008 Pence	2007 Pence
At the beginning of the year	247,400	312,600	839	836
Exercised	(8,660)	(63,371)	835	824
Forfeited	(1,048)	(1,829)	869	820
At the end of the year	237,692	247,400	839	839
Exercisable at the end of the year	237,692	247,400	839	839
			Years	Years
Weighted average remaining contractual life			3.70	4.69

The options outstanding under the scheme are exercisable at prices between 812p and 869p up to 2012. The weighted average share price at the date of exercise for share options exercised during the year was 1650p (2007: 1996p).

No expense was recognised by the Group during the year, or during the corresponding year as the grants preceded the date relevant for IFRS 2 'Share-based Payment'.

32. Share-based payments continued

2002 Executive Share Option Scheme

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.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2008	2007	2008 Pence	2007 Pence
At the beginning of the year	1,977,946	2,818,574	1036	970
Exercised	(348,832)	(810,129)	1047	805
Forfeited	(47,242)	(30,499)	964	1037
At the end of the year	1,581,872	1,977,946	1036	1036
Exercisable at the end of the year	1,581,872	652,018	1036	787
			Years	Years
Weighted average remaining contractual life			5.94	6.94

18,500, 503,292 and 1,060,080 of the options outstanding under the 2002 Executive Share Option Scheme are exercisable at 756p, 788p and 1159p 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 **1658p** (2007: 2018p).

During the year, the Group recognised an expense of **£0.2m** (2007: £1.2m) relating to the 2002 Executive Share Option Scheme.

2005 Executive Share Option Scheme

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.

Details of the share options outstanding during the year are as follows:

	Number of options		Weighted average exercise price	
	2008	2007	2008 Pence	2007 Pence
At the beginning of the year	589,039	338,868	1569	1421
Granted	450,656	287,375	1731	1737
Exercised	(4,478)	(12,486)	1500	1481
Forfeited	(67,426)	(24,718)	1636	1548
At the end of the year	967,791	589,039	1640	1569
Exercisable at the end of the year	–	–	–	–
			Years	Years
Weighted average remaining contractual life			8.41	8.76

The options outstanding under the scheme are exercisable at 1421p, 1731p and 1737p during the periods 2008 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 year was **1870p** (2007: 2018p). During the year, options were granted on **29 June 2007** (2007: 29 June 2006). The estimated fair value of the options granted on that date was **£1.2m** (2007: £0.6m).

During the year, the Group recognised an expense of **£0.7m** (2007: £0.4m) relating to the 2005 Executive Share Option Scheme.

32. Share-based payments continued

Performance Shares

Under the Performance Shares plan approved by shareholders in 2002, senior executives of the Group receive up to two shares for each deferred share received under the separate management bonus scheme depending on the extent to which performance criteria are satisfied. Half of these Performance Shares are 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 are subject to the Group's total property return equalling or exceeding the Investment Property Databank 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. Fair value calculations have been adjusted for participants who have left the Group but no adjustment has been made for future anticipated lapses.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2008	2007
At the beginning of the year	244,710	411,646
Exercised	(102,562)	(104,918)
Forfeited	–	(30,162)
Lapsed	(4,814)	(31,856)
At the end of the year	137,334	244,710
Exercisable at the end of the year	–	–
	Years	Years
Weighted average remaining contractual life	0.26	0.84

The Performance Shares outstanding under the scheme are to be issued at £nil consideration provided that performance conditions are met.

The weighted average share price at the date of exercise for Performance Shares exercised during the year was 1745p (2007: 1875p). The final grant of Performance Shares was made on 4 July 2005. The estimated fair value of the shares granted on that date was £1.1m.

During the year, the Group recognised a credit of £0.1m (2007: expense of £0.8m) relating to Performance Shares.

Deferred Bonus Shares Scheme

Under the Executive Directors' and senior managements' bonus plan, 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.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2008	2007
At the beginning of the year	221,064	270,627
Granted	46,386	54,787
Capitalisation of dividends	7,565	5,734
Exercised	(73,468)	(103,729)
Forfeited	(3,441)	(6,355)
At the end of the year	198,106	221,064
Exercisable at the end of the year	–	–
	Years	Years
Weighted average remaining contractual life	1.05	1.17

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 1741p (2007: 1925p). During the year, rights over 46,386 deferred shares were granted on 29 June 2007 (2007: 24,987 deferred shares were granted on 29 June 2006). The estimated fair value of the rights over shares granted on that date was £0.7m (2007: £0.9m).

During the year, the Group recognised an expense of £0.7m (2007: £0.9m) relating to Deferred Bonus Shares.

32. Share-based payments continued

2005 Long-Term Incentive Plan

The new 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.

Details of the rights over shares outstanding during the year are as follows:

	Number of shares	
	2008	2007
At the beginning of the year	756,629	351,425
Granted	517,103	468,274
Exercised	–	(13,819)
Forfeited	(10,206)	(49,251)
At the end of the year	1,263,526	756,629
Exercisable at the end of the year	–	–

	Years	Years
Weighted average remaining contractual life	1.46	1.89

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 previous year was 2117p. Rights to receive 288,121 Performance Shares were granted on 29 June 2007 (2007: 258,987 Performance Shares were granted on 29 June 2006). Rights to receive 228,982 Matching Shares were granted on 31 July 2007 (2007: 4,557 Matching Shares were granted on 1 June 2006 and 204,730 Matching Shares were granted on 31 July 2006). The estimated fair value of the rights over the shares granted on those dates was £4.1m (2007: £4.0m).

During the year, the Group recognised an expense of £3.2m (2007: £2.0m) relating to the 2005 Long-Term Incentive Plan.

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	1421p to 1737p	787p to 1405p	787p to 1737p	1421p to 1737p
Range of exercise prices	677p to 1523p	756p to 1159p	1421p to 1737p	nil p	nil p	nil p
Expected volatility	19%	19%	19%	19%	19%	19%
Expected life	3 to 7 years	3 to 5 years	3 to 5 years	3 years	3 to 5 years	3 to 5 years
Risk free rate	4.19% to 5.67%	3.60% to 5.10%	4.17% to 5.67%	4.17% to 5.03%	4.08% to 5.67%	4.17% to 5.67%
Expected dividend yield	3.02% to 4.16%	4.11% to 4.34%	3.02% to 3.81%	3.81% to 4.23%	3.02% to 4.23%	3.02% to 3.81%

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.

33. Total shareholders' equity

Group	Ordinary shares £m	Own shares £m	Share-based payments £m	Share premium £m	Capital redemption reserve £m	Retained earnings* £m	Total £m
At 1 April 2006	46.9	(3.4)	6.3	43.2	30.5	7,370.4	7,493.9
Exercise of options	0.1	–	–	8.3	–	–	8.4
Fair value movement on cashflow hedges – Group	–	–	–	–	–	5.1	5.1
– joint ventures	–	–	–	–	–	9.5	9.5
Fair value of share-based payments	–	–	5.6	–	–	–	5.6
Own shares acquired	–	(15.1)	–	–	–	(21.1)	(36.2)
Cost of shares awarded to employees	–	4.0	(4.0)	–	–	–	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(0.3)	(0.3)
Dividends paid (note 10)	–	–	–	–	–	(223.0)	(223.0)
Profit for the financial year	–	–	–	–	–	3,528.3	3,528.3
At 31 March 2007	47.0	(14.5)	7.9	51.5	30.5	10,668.9	10,791.3
Exercise of options	0.1	–	–	5.1	–	–	5.2
Fair value movement on cashflow hedges – Group	–	–	–	–	–	(3.2)	(3.2)
– joint ventures	–	–	–	–	–	(3.5)	(3.5)
Fair value of share-based payments	–	–	5.0	–	–	–	5.0
Own shares acquired	–	(9.4)	–	–	–	(78.2)	(87.6)
Cost of shares awarded to employees	–	1.6	(1.6)	–	–	–	–
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	14.9	14.9
Dividends paid (note 10)	–	–	–	–	–	(308.4)	(308.4)
Loss for the financial year	–	–	–	–	–	(830.8)	(830.8)
At 31 March 2008	47.1	(22.3)	11.3	56.6	30.5	9,459.7	9,582.9

*Included within retained earnings are cumulative gains in respect of cashflow hedges (interest rate swaps) of £4.4m (2007: £11.1m).

Own shares represent the cost of shares purchased in Land Securities Group PLC 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 32). The number of shares held by the ESOP at 31 March 2008 was 1,336,275 (2007: 895,771).

In July 2006 and 2007 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 2008 the Group owned 5,896,000 ordinary shares (2007: 1,225,000 ordinary shares) with a market value of £87.6m (2007: £25.9m).

Company	Ordinary shares £m	Share-based payments £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings* £m	Total £m
At 1 April 2006 – as previously stated	46.9	–	43.2	30.5	373.6	4,653.0	5,147.2
– prior year adjustment	–	6.9	–	–	–	–	6.9
At 1 April 2006 – as restated	46.9	6.9	43.2	30.5	373.6	4,653.0	5,154.1
Exercise of options	0.1	–	8.3	–	–	–	8.4
Dividends paid (note 10)	–	–	–	–	–	(223.0)	(223.0)
Fair value of share-based payments	–	5.6	–	–	–	–	5.6
Profit for the financial year	–	–	–	–	–	1.6	1.6
At 31 March 2007	47.0	12.5	51.5	30.5	373.6	4,431.6	4,946.7
Exercise of options	0.1	–	5.1	–	–	–	5.2
Dividends paid (note 10)	–	–	–	–	–	(308.4)	(308.4)
Fair value of share-based payments	–	5.0	–	–	–	–	5.0
Loss for the financial year	–	–	–	–	–	(15.3)	(15.3)
At 31 March 2008	47.1	17.5	56.6	30.5	373.6	4,107.9	4,633.2

*Available for distribution.

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 £15.3m (2007: profit of £1.6m).

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.

34. Cashflow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash generated from operations				
(Loss)/profit for the financial year	(878.3)	3,528.3	(15.3)	1.6
Income tax (credit)/expense	(10.5)	(1,549.2)	(6.6)	0.7
(Loss)/profit before tax	(888.8)	1,979.1	(21.9)	2.3
Share of losses/(profits) of joint ventures (post-tax)	101.0	(179.3)	–	–
Share of loss of an associate undertaking (post-tax)	0.5	–	–	–
	(787.3)	1,799.8	(21.9)	2.3
Interest income	(29.4)	(36.4)	(14.7)	(5.7)
Interest expense	324.4	257.3	26.6	3.4
Operating (loss)/profit	(492.3)	2,020.7	(10.0)	–
Adjustments for:				
Depreciation	45.8	32.9	–	–
Profit on disposal of non-current properties	(75.4)	(118.2)	–	–
Net deficit/(surplus) on revaluation of investment properties	1,170.3	(1,307.6)	–	–
Share-based payment charge	5.0	5.6	–	–
Pension scheme charge	2.1	2.7	–	–
Changes in working capital:				
Decrease in trading properties and long-term development contracts	0.2	110.1	–	–
(Increase)/decrease in receivables	(26.3)	(127.2)	(0.3)	137.2
Increase in payables and provisions	67.1	63.4	443.5	47.2
Net cash generated from operations	696.5	682.4	433.2	184.4

35. Related party transactions**Subsidiaries**

In accordance with IAS 27 '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 19, 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 2008 and at 31 March 2008				Year ended 31 March 2007 and at 31 March 2007			
	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	0.6	(42.5)	0.9	(3.9)	1.5	9.5	0.4	(7.6)
Metro Shopping Fund Limited Partnership	0.9	(7.6)	0.7	(2.0)	0.5	(22.8)	–	(0.1)
Buchanan Partnership	3.7	(2.6)	0.5	–	3.6	(3.7)	0.3	–
St. David's Limited Partnership	5.4	55.4	4.3	(116.9)	1.9	302.7	20.4	(115.0)
Martineau Galleries Limited Partnership	0.2	3.1	0.3	–	0.2	–	0.1	–
The Bull Ring Limited Partnership	–	(13.5)	–	–	–	(14.4)	–	–
Bristol Alliance Limited Partnership	9.0	76.1	11.7	–	5.1	62.8	4.3	(1.9)
Martineau Limited Partnership	–	–	–	(0.1)	–	(0.5)	–	–
A2 Limited Partnership	–	(2.8)	–	–	–	–	–	–
Parc Tawe 1 Unit Trust	–	(1.4)	–	–	–	(4.0)	–	–
Hungate (York) Regeneration Limited	–	1.7	–	–	–	1.6	–	–
Countryside Land Securities (Springhead) Limited	–	5.5	–	–	–	0.9	–	–
Investors in the Community	–	–	–	–	–	0.5	–	–
Ebbfleet Limited Partnership	–	–	0.2	–	–	–	0.2	–
The Harvest Limited Partnership	0.1	72.9	0.1	(0.2)	–	–	–	–
The Oriana Limited Partnership	–	23.4	78.7	(0.3)	–	–	–	–
Millshaw Property Co. Limited	–	14.2	–	(10.8)	–	–	–	–
Fen Farm Developments Limited	0.1	(5.6)	13.7	–	–	–	–	–
	20.0	176.3	111.1	(134.2)	12.8	332.6	25.7	(124.6)

Further detail of the above transactions and balances can be seen in note 19.

35. Related party transactions continued

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 IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 66 to 76.

	2008 £m	2007 £m
Short-term employee benefits	7.7	6.1
Post-employment benefits	0.6	0.9
Share-based payments	3.2	2.4
Compensation for loss of office	–	0.7
	11.5	10.1

The amount shown as compensation for loss of office represents the maximum potential amount assuming no mitigation.

36. 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:

	2008 £m	2007 £m
Not later than one year	547.6	516.8
Later than one year but not more than five years	2,123.0	2,055.6
More than five years	4,284.4	4,078.7
	6,955.0	6,651.1

The total of contingent rents recognised as income during the year was £10.9m (2007: £11.6m).

37. Business combinations

AMEC's Project Investments business

The Group acquired 100% of the voting rights of AMEC's Project Investments business (AMEC) on 12 November 2007 for a consideration of £203.8m, including costs. This has been accounted for as a business combination.

	£m
Provisional fair value of net assets acquired	
Assets of the disposal group	138.2
Liabilities directly associated with the assets of the disposal group	(3.8)
Disposal group (note 23)	134.4
PPP investments (note 17)	17.2
Cash and cash equivalents	45.3
Current liabilities	(6.6)
Net assets acquired	190.3
Fair value of consideration	
Cash	202.1
Costs	1.7
	203.8
Goodwill (note 15)	(13.5)
	190.3

The disposal group comprises a number of PPPs which were acquired exclusively with a view to being resold to Trillium Investment Partners LP. The net amount attributed to the disposal group at the date of acquisition represents fair value less costs to sell. The separate PPP investments represent investments in associates which are currently constructing PPP assets. These assets are not treated as assets held for sale. The remaining assets and liabilities relate to the management companies within AMEC that are being retained. The fair values reported above in respect of these assets and liabilities equate to their book values. The goodwill acquired is attributable to the knowledge and market expertise of the management team of the retained portion of the business.

Set out below are the results of AMEC's Project Investments business, excluding the disposal group, from the date of acquisition 12 November 2007 to 31 March 2008 and for the period from 1 April 2007 to the date of acquisition:

	Results for AMEC from 12 November 2007 to 31 March 2008 £m	Results for the Group excluding AMEC for the year ended 31 March 2008 £m	Results for the Group for the year ended 31 March 2008 £m	Results for AMEC from 1 April 2007 to 12 November 2007 £m	Results for the Group as if AMEC had been acquired on 1 April 2007 £m
Revenue	–	1,561.2	1,561.2	13.4	1,574.6
(Loss)/profit before tax	(5.5)	(883.3)	(888.8)	9.1	(879.7)
Taxation credit/(charge)	1.5	9.0	10.5	(2.5)	8.0
(Loss)/profit after tax	(4.0)	(874.3)	(878.3)	6.6	(871.7)

There were no recognised gains or losses in the year other than the profit attributable to shareholders.