

1. Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 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 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, disclosed in note 3, are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Land Securities Group PLC has not presented its own statement of comprehensive income (and separate income statement), as permitted by Section 408 Companies Act 2006. The profit for the year of the Company, dealt with in its financial statements, was **£1,084.1m** (2009: loss of £273.6m).

2. Significant accounting policies

The accounting policies are consistent with those applied in the year ended 31 March 2009, as amended to reflect the adoption of the new Standards, Amendments to Standards and Interpretations which are mandatory for the year ended 31 March 2010.

The items adopted that have had a material impact on the Group's financial statements are:

- IAS 1 (revised) 'Presentation of financial statements'. The revised standard requires 'non-owner changes in equity' to be presented separately from 'owner changes in equity'. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of total comprehensive income) or two statements (the income statement and the statement of comprehensive income). The Group has elected to present two statements: income statement and a statement of comprehensive income. In addition, the statement of changes in equity has been included as a primary statement.

The financial statements have been prepared under the revised presentation requirements.

- IFRS 7 'Financial Instruments: Disclosures'. The amendment requires enhanced disclosures about the fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The disclosures have been given in line with the transitional disclosures.
- IFRS 8 'Operating Segments'. The standard requires segmental reporting to be on the same basis as internal management reporting. This standard has had no impact on the Group's profit for the year or equity. Disclosures have been amended as detailed in note 4.

The following Accounting Standards or interpretations are effective for the financial year beginning 1 April 2009 but do not have a material impact on the Group:

- IAS 16 (2008 improvement) 'Property, Plant and Equipment'
- IAS 23 (revised) 'Borrowing Costs'
- IAS 32 (amendment) 'Financial Instruments: Presentation', and IAS 1
- IAS 40 (2008 improvement) 'Investment Property'
- IFRS 1 'First time Adoption of IFRS' and IAS 27 'Consolidated and Separate Financial Statements'
- IFRS 2 (amendment) 'Share-based Payment' on 'Vesting conditions and cancellations'
- IFRIC 9 'Reassessment of Embedded Derivatives' and IAS 39 'Financial Instruments: Recognition and Measurement – Embedded Derivatives (amendments)'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

The following Accounting Standards or Interpretations which are not yet effective, and not expected to have a material impact, have not been early adopted by the Group:

- IFRS 2 'Share-based payments – Group cash settled share-based payment transactions'
- IFRS 3 (revised) 'Business Combinations'
- IAS 24 'Related Party disclosures'
- IAS 27 (revised) 'Consolidated and Separate Financial Statements'
- IAS 32 'Classification of Rights'
- IAS 39 'Financial Instruments: Recognition and Measurement – Eligible hedged items'
- IFRS 9 'Financial Instruments'
- IFRIC 14 'Prepayments of a Minimum Funding Requirement'
- IFRIC 17 'Distribution of Non-cash Assets to Owners'
- IFRIC 18 'Transfers of Assets from Customers'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

In addition, there are also a number of changes to standards as a result of the IASB's 2009 and 2010 Annual Improvements programmes which are not expected to have a material impact on the Group.

(a) Basis of consolidation

The consolidated financial statements for the year ended 31 March 2010 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. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IAS 31 'Interests in joint ventures'. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet. Joint ventures with net liabilities are carried at zero value in the balance sheet where there is no commitment to fund the deficit and any distributions are included in the consolidated income statement for the year.

The Group's share of jointly controlled assets, related liabilities, income and expenses are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

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 are eliminated to the extent of the Group's interest in the joint venture or associate concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

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

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Management Board, which consists of all the executive directors.

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

Notes to the financial statements

—for the year ended 31 March 2010 continued

2. Significant accounting policies continued

overdrafts, and certain non-current liabilities (borrowings and deferred tax liabilities).

(c) Investment properties

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

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

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

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

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

(d) Property, plant and equipment

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

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

(e) 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.

(f) 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.

(g) 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.

(h) Cash and cash equivalents

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

(i) Loan investments

Loan investments are non-derivative financial assets which are initially recognised at fair value plus acquisition costs. They are subsequently carried at amortised cost using the effective interest method.

(j) Trade and other payables

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

(k) Provisions

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

(l) 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.

(m) Pension benefits

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

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

(n) Share capital

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

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

2. Significant accounting policies continued

(o) Share-based payments

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

(p) 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, proceeds of sales of its trading properties and income arising on long-term contracts. Rental income includes the income from managed operations such as car parks, food courts, serviced offices and flats. Service charges and other recoveries include income in relation to service charges and directly recoverable expenditure together with any chargeable management fees.

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

When property is let out under a finance lease, the Group recognises a receivable at an amount equal to the net investment in the lease at inception of the lease. Rentals received are accounted for as repayments of principal and finance income as appropriate. Finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining net investment in the finance lease. Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded as income in the periods in which they are earned.

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

(q) Expenses

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

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

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

(r) Impairment

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

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

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

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

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

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

All derivatives are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured at fair value. The fair value of interest-rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the

terms and maturity of each contract and using market interest rates for similar instruments at the measurement date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

- Cash flow hedges: where a derivative is designated as a hedge of the variability of a highly probable forecast transaction (i.e. an interest payment) the element of the gain or loss on the derivative that is an effective hedge is recognised directly in other comprehensive income. Where the forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in the statement of other comprehensive income 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.

(t) 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.

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.

(u) 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

Notes to the financial statements

—for the year ended 31 March 2010 continued

2. Significant accounting policies continued

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.

(v) Dividends

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

3. Significant judgements, key assumptions and estimates

The Group's significant accounting policies are stated in note 2 above. Not all of these significant accounting policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

(a) Investment property valuation

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

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

The investment property valuation contains a number of assumptions upon which Knight Frank LLP

has based its valuation of the Group's properties as at 31 March 2010. The assumptions on which the Property Valuation Report has been based include, but are not limited to, matters such as the tenure and tenancy details for the properties, ground conditions at the properties and the structural condition of the properties, prevailing market yields and comparable market transactions. These assumptions are market standard and accord with the RICS Valuation Standards. However, if any assumptions made by the property valuer prove to be false, this may mean that the value of the Group's properties differs from their valuation, which could have a material effect on the Group's financial condition.

(b) Finance lease calculations

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

(c) Trading properties

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

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

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

(d) Trade receivables

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

(e) Valuation of interest-rate swaps

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

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

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

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

4. Segmental information

Management has determined the Group's operating segments based on the reports reviewed by the Senior Management Board ('SMB'), which consists of the four Executive Directors, to make strategic decisions.

All the Group's operations are in the UK and are organised into two business segments against which the Group reports its segmental information, being Retail Portfolio and London Portfolio. The London Portfolio includes all our London offices and Central London retail (excluding assets held in the Metro Shopping Fund LP joint venture) and the Retail Portfolio includes all our shopping centres, shops, retail warehouse properties, the Accor hotel portfolio and assets held in retail joint ventures, excluding Central London retail.

The information and reports reviewed by the SMB are prepared on a combined portfolio basis, which includes the Group's share of joint ventures on a proportionately consolidated basis and, as such, the following segmental information has been prepared and presented on a proportionately consolidated basis.

The Group's primary measure of underlying profit before tax is Revenue profit. This measure seeks to show the profit arising from ongoing operations and as such removes all items of a capital nature (e.g. valuation movements and profit/(loss) on disposal of investment properties) and one-off or exceptional items. Segment profit is the lowest level to which the profit arising from the ongoing operations of the Group is analysed between the two segments. The Group manages its financing structure, with the exception of joint ventures, on a pooled basis and, as such, debt facilities and interest charges are not specific to a particular segment.

102 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

4. Segmental information continued

The segmental information provided to the SMB for the reportable segments for the year ended 31 March 2010 is as follows:

	Retail Portfolio			London Portfolio			Year ended 31 March 2010 Total		
	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m
Revenue profit									
Rental income	255.6	68.1	323.7	304.7	10.4	315.1	560.3	78.5	638.8
Finance lease interest	2.3	0.5	2.8	3.6	–	3.6	5.9	0.5	6.4
Rents payable	(12.3)	(1.3)	(13.6)	(6.4)	–	(6.4)	(18.7)	(1.3)	(20.0)
Gross rental income	245.6	67.3	312.9	301.9	10.4	312.3	547.5	77.7	625.2
Service charge income	32.3	9.2	41.5	45.3	0.2	45.5	77.6	9.4	87.0
Service charge expense	(34.3)	(10.7)	(45.0)	(49.7)	(0.2)	(49.9)	(84.0)	(10.9)	(94.9)
Net service charge expense	(2.0)	(1.5)	(3.5)	(4.4)	–	(4.4)	(6.4)	(1.5)	(7.9)
Other property related income	9.2	1.0	10.2	12.8	–	12.8	22.0	1.0	23.0
Direct property expenditure	(28.6)	(11.8)	(40.4)	(32.0)	(0.4)	(32.4)	(60.6)	(12.2)	(72.8)
Net rental income	224.2	55.0	279.2	278.3	10.0	288.3	502.5	65.0	567.5
Indirect property expenditure	(20.8)	(3.7)	(24.5)	(19.1)	(0.1)	(19.2)	(39.9)	(3.8)	(43.7)
Depreciation	(0.4)	–	(0.4)	(1.6)	–	(1.6)	(2.0)	–	(2.0)
Segment profit before interest	203.0	51.3	254.3	257.6	9.9	267.5	460.6	61.2	521.8
Joint venture net interest expense	–	(22.4)	(22.4)	–	(10.2)	(10.2)	–	(32.6)	(32.6)
Segment profit	203.0	28.9	231.9	257.6	(0.3)	257.3	460.6	28.6	489.2
Group services – income							13.4	–	13.4
– expense							(39.4)	–	(39.4)
– eliminate non-revenue profit income							(9.7)	–	(9.7)
Interest expense							(248.9)	–	(248.9)
Interest income							29.8	–	29.8
Eliminate effect of bond exchange de-recognition							13.8	–	13.8
Eliminate debt restructuring charges							3.6	–	3.6
Revenue profit							223.2	28.6	251.8

Included within rents payable is finance lease interest payable of **£2.3m** (2009: £2.5m) and **£1.5m** (2009: £1.8m) respectively for Retail Portfolio and London Portfolio.

	Retail Portfolio			London Portfolio			Year ended 31 March 2010 Total		
	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m
Reconciliation to profit before tax from continuing operations									
Segment profit before interest	203.0	51.3	254.3	257.6	9.9	267.5	460.6	61.2	521.8
Trading properties sale proceeds	10.0	6.7	16.7	3.5	5.6	9.1	13.5	12.3	25.8
Costs of sales of trading properties	(8.1)	(5.8)	(13.9)	(5.8)	(5.3)	(11.1)	(13.9)	(11.1)	(25.0)
Profit/(loss) on disposal of trading properties	1.9	0.9	2.8	(2.3)	0.3	(2.0)	(0.4)	1.2	0.8
Long-term development contract income	–	–	–	140.7	–	140.7	140.7	–	140.7
Long-term development contract expenditure	–	–	–	(134.0)	–	(134.0)	(134.0)	–	(134.0)
Profit on long-term development contracts	–	–	–	6.7	–	6.7	6.7	–	6.7
	204.9	52.2	257.1	262.0	10.2	272.2	466.9	62.4	529.3
Investment property disposal proceeds	410.8	213.6	624.4	408.7	–	408.7	819.5	213.6	1,033.1
Carrying value of investment property disposals (including lease incentives)	(434.1)	(205.6)	(639.7)	(417.9)	–	(417.9)	(852.0)	(205.6)	(1,057.6)
(Loss)/profit on disposal of investment properties	(23.3)	8.0	(15.3)	(9.2)	–	(9.2)	(32.5)	8.0	(24.5)
Net surplus on revaluation of investment properties	341.5	100.3	441.8	404.5	17.5	422.0	746.0	117.8	863.8
Impairment of trading properties	–	(4.0)	(4.0)	(10.6)	1.1	(9.5)	(10.6)	(2.9)	(13.5)
	523.1	156.5	679.6	646.7	28.8	675.5	1,169.8	185.3	1,355.1
Demerger costs							–	–	–
Group services – income							13.4	–	13.4
– expense							(39.4)	–	(39.4)
Operating profit							1,143.8	185.3	1,329.1
Interest expense							(248.9)	(32.6)	(281.5)
Interest income							29.8	–	29.8
Fair value movement on interest-rate swaps							7.0	(1.4)	5.6
Joint venture tax adjustment							–	2.0	2.0
Joint venture net liabilities adjustment							–	(15.7)	(15.7)
Profit before tax from continuing operations							931.7	137.6	1,069.3

Notes to the financial statements

—for the year ended 31 March 2010 continued

4. Segmental information continued

	Retail Portfolio			London Portfolio			Year ended 31 March 2009 Total		
	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m
Revenue profit									
Rental income	302.8	69.1	371.9	338.9	8.6	347.5	641.7	77.7	719.4
Finance lease interest	2.7	0.4	3.1	5.3	—	5.3	8.0	0.4	8.4
Rents payable	(11.6)	(0.5)	(12.1)	(4.6)	—	(4.6)	(16.2)	(0.5)	(16.7)
Gross rental income	293.9	69.0	362.9	339.6	8.6	348.2	633.5	77.6	711.1
Service charge income	37.3	10.4	47.7	47.0	0.3	47.3	84.3	10.7	95.0
Service charge expense	(39.7)	(12.9)	(52.6)	(53.3)	(0.3)	(53.6)	(93.0)	(13.2)	(106.2)
Net service charge expense	(2.4)	(2.5)	(4.9)	(6.3)	—	(6.3)	(8.7)	(2.5)	(11.2)
Other property related income ¹	11.0	—	11.0	14.7	—	14.7	25.7	—	25.7
Direct property expenditure	(40.3)	(10.2)	(50.5)	(29.8)	(0.2)	(30.0)	(70.1)	(10.4)	(80.5)
Net rental income	262.2	56.3	318.5	318.2	8.4	326.6	580.4	64.7	645.1
Indirect property expenditure ¹	(23.5)	(3.2)	(26.7)	(21.3)	(0.6)	(21.9)	(44.8)	(3.8)	(48.6)
Depreciation ¹	(0.4)	—	(0.4)	(3.1)	—	(3.1)	(3.5)	—	(3.5)
Segment profit before interest	238.3	53.1	291.4	293.8	7.8	301.6	532.1	60.9	593.0
Joint venture net interest expense	—	(19.0)	(19.0)	—	(7.7)	(7.7)	—	(26.7)	(26.7)
Segment profit	238.3	34.1	272.4	293.8	0.1	293.9	532.1	34.2	566.3
Group services – income							3.4	—	3.4
– expense							(36.8)	—	(36.8)
– eliminate non-revenue profit income							—	—	—
Interest expense							(262.9)	—	(262.9)
Interest income							32.5	—	32.5
Eliminate effect of bond exchange de-recognition							11.7	—	11.7
Eliminate debt restructuring charges							0.7	—	0.7
Revenue profit							280.7	34.2	314.9

	Retail Portfolio			London Portfolio			Year ended 31 March 2009 Total		
	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m
Reconciliation to loss before tax from continuing operations									
Segment profit before interest	238.3	53.1	291.4	293.8	7.8	301.6	532.1	60.9	593.0
Trading properties sale proceeds	8.8	10.7	19.5	0.4	5.3	5.7	9.2	16.0	25.2
Costs of sales of trading properties	(6.6)	(5.7)	(12.3)	(0.1)	(4.8)	(4.9)	(6.7)	(10.5)	(17.2)
Profit on disposal of trading properties	2.2	5.0	7.2	0.3	0.5	0.8	2.5	5.5	8.0
Long-term development contract income	—	—	—	48.9	—	48.9	48.9	—	48.9
Long-term development contract expenditure	—	—	—	(45.1)	—	(45.1)	(45.1)	—	(45.1)
Profit on long-term development contracts	—	—	—	3.8	—	3.8	3.8	—	3.8
	240.5	58.1	298.6	297.9	8.3	306.2	538.4	66.4	604.8
Investment property disposal proceeds	164.5	11.1	175.6	434.7	—	434.7	599.2	11.1	610.3
Carrying value of investment property disposals (including lease incentives)	(219.3)	(8.2)	(227.5)	(510.7)	—	(510.7)	(730.0)	(8.2)	(738.2)
(Loss)/profit on disposal of investment properties	(54.8)	2.9	(51.9)	(76.0)	—	(76.0)	(130.8)	2.9	(127.9)
Net deficit on revaluation of investment properties	(1,923.1)	(603.5)	(2,526.6)	(2,190.3)	(26.8)	(2,217.1)	(4,113.4)	(630.3)	(4,743.7)
Impairment of trading properties	—	(9.0)	(9.0)	(92.3)	(3.3)	(95.6)	(92.3)	(12.3)	(104.6)
	(1,737.4)	(551.5)	(2,288.9)	(2,060.7)	(21.8)	(2,082.5)	(3,798.1)	(573.3)	(4,371.4)
Demerger costs							(10.2)	—	(10.2)
Group services – income							3.4	—	3.4
– expense							(36.8)	—	(36.8)
Operating loss							(3,841.7)	(573.3)	(4,415.0)
Interest expense							(262.9)	(26.7)	(289.6)
Interest income							32.5	—	32.5
Fair value movement on interest-rate swaps							(102.1)	(15.4)	(117.5)
Joint venture tax adjustment							—	(1.3)	(1.3)
Joint venture net liabilities adjustment							—	17.7	17.7
Loss before tax from continuing operations							(4,174.2)	(599.0)	(4,773.2)

1. In line with internal management information, the cost and income of Group services has not been allocated across the Retail Portfolio and London Portfolio business segments, instead being disclosed as single line items. This represents a change from the segmental information presented in the 2009 Annual Report in which elements of Group services were allocated across the segments within 'Indirect property expenditure', 'Depreciation' and 'Other property related income'.

104 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

4. Segmental information continued

	Retail Portfolio			London Portfolio			Year ended 31 March 2010		
	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m
Balance sheet									
Investment properties	3,167.9	1,035.2	4,203.1	4,876.4	191.9	5,068.3	8,044.3	1,227.1	9,271.4
Other property, plant and equipment	4.5	–	4.5	8.3	–	8.3	12.8	–	12.8
Net investment in finance leases	48.3	8.6	56.9	67.1	–	67.1	115.4	8.6	124.0
Trading properties and long-term development contracts	2.0	15.0	17.0	85.9	17.8	103.7	87.9	32.8	120.7
Trade and other receivables	163.2	91.1	254.3	171.2	2.1	173.3	334.4	93.2	427.6
Share of joint venture cash	–	18.6	18.6	–	8.4	8.4	–	27.0	27.0
Joint venture net liabilities adjustment	–	2.0	2.0	–	–	–	–	2.0	2.0
Segment assets	3,385.9	1,170.5	4,556.4	5,208.9	220.2	5,429.1	8,594.8	1,390.7	9,985.5
Unallocated:									
Derivative financial instruments							1.0	–	1.0
Cash and cash equivalents							159.4	–	159.4
Monies held in restricted accounts							95.6	–	95.6
Loan investments							84.3	–	84.3
Pension surplus							–	–	–
Deferred tax assets							–	–	–
Reclassification of joint venture liabilities to assets							–	(602.9)	(602.9)
Total assets							8,935.1	787.8	9,722.9
Trade and other payables	(106.3)	(70.1)	(176.4)	(160.0)	(13.7)	(173.7)	(266.3)	(83.8)	(350.1)
Share of joint venture borrowings	–	(354.8)	(354.8)	–	(164.3)	(164.3)	–	(519.1)	(519.1)
Segment liabilities	(106.3)	(424.9)	(531.2)	(160.0)	(178.0)	(338.0)	(266.3)	(602.9)	(869.2)
Unallocated:									
Borrowings							(3,518.3)	–	(3,518.3)
Derivative financial instruments							(1.1)	–	(1.1)
Pension deficit							(6.5)	–	(6.5)
Provisions							(1.5)	–	(1.5)
Current tax liabilities							(111.0)	–	(111.0)
Trade and other payables							(129.2)	–	(129.2)
Reclassification of joint venture liabilities to assets							–	602.9	602.9
Total liabilities							(4,033.9)	–	(4,033.9)
Other segment items									
Capital expenditure	40.4	93.2	133.6	133.2	1.4	134.6	173.6	94.6	268.2

Notes to the financial statements

—for the year ended 31 March 2010 continued

4. Segmental information continued

	Retail Portfolio			London Portfolio			Year ended 31 March 2009		
	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m	Group £m	Joint ventures £m	Total £m
Balance sheet									
Investment properties	3,205.4	1,035.0	4,240.4	4,724.0	173.0	4,897.0	7,929.4	1,208.0	9,137.4
Other property, plant and equipment	4.7	—	4.7	9.6	—	9.6	14.3	—	14.3
Net investment in finance leases	48.5	8.6	57.1	67.8	—	67.8	116.3	8.6	124.9
Trading properties and long-term development contracts	10.0	19.0	29.0	84.9	18.0	102.9	94.9	37.0	131.9
Trade and other receivables	201.4	210.4	411.8	190.7	3.3	194.0	392.1	213.7	605.8
Share of joint venture cash	—	23.9	23.9	—	4.6	4.6	—	28.5	28.5
Joint venture net liabilities adjustment	—	17.1	17.1	—	0.6	0.6	—	17.7	17.7
Segment assets	3,470.0	1,314.0	4,784.0	5,077.0	199.5	5,276.5	8,547.0	1,513.5	10,060.5
Unallocated:									
Cash and cash equivalents							1,609.1	—	1,609.1
Monies held in restricted accounts							29.9	—	29.9
Loan investments							50.0	—	50.0
Pension surplus							3.0	—	3.0
Deferred tax assets							1.9	—	1.9
Reclassification of joint venture liabilities to assets							—	(582.7)	(582.7)
Total assets							10,240.9	930.8	11,171.7
Trade and other payables	(335.9)	(86.8)	(422.7)	(241.3)	(12.4)	(253.7)	(577.2)	(99.2)	(676.4)
Share of joint venture borrowings	—	(320.3)	(320.3)	—	(163.2)	(163.2)	—	(483.5)	(483.5)
Segment liabilities	(335.9)	(407.1)	(743.0)	(241.3)	(175.6)	(416.9)	(577.2)	(582.7)	(1,159.9)
Unallocated:									
Borrowings							(5,450.6)	—	(5,450.6)
Derivative financial instruments							(112.0)	—	(112.0)
Current tax liabilities							(163.1)	—	(163.1)
Trade and other payables							(48.6)	—	(48.6)
Reclassification of joint venture liabilities to assets							—	582.7	582.7
Total liabilities							(6,351.5)	—	(6,351.5)
Other segment items									
Capital expenditure	147.6	142.5	290.1	272.0	1.6	273.6	419.6	144.1	563.7

106 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

5. Group revenue

Group	2010 £m	2009 £m
Rental income (excluding adjustment for lease incentives)	544.9	606.4
Adjustment for lease incentives	15.4	35.3
Rental income	560.3	641.7
Service charge income	77.6	84.3
Other property related income	22.0	25.7
Trading property sales proceeds	13.5	9.2
Long-term development contract income	140.7	48.9
Finance lease interest	5.9	8.0
Other income	13.4	3.4
	833.4	821.2

6. Employee costs

Group	2010 Continuing operations Number	Continuing operations Number	Discontinued operations ¹ Number	2009 Total Number
The average monthly number of employees during the year, excluding Directors, were:				
Indirect property or contract and administration	430	471	165	636
Direct property or contract services:				
Full-time	174	173	780	953
Part-time	47	51	20	71
	651	695	965	1,660

Group	2010 Continuing operations £m	Continuing operations £m	Discontinued operations ¹ £m	2009 Total £m
Employee costs (excluding Directors)				
Salaries	40.0	46.3	43.4	89.7
Social security	4.8	5.2	4.9	10.1
Other pension (note 29)	3.2	3.6	—	3.6
Share-based payments (note 31)	6.0	4.8	3.8	8.6
	54.0	59.9	52.1	112.0

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

Group	2010 £m	2009 £m
Directors		
Aggregate emoluments excluding pensions	5.0	4.2
Company contributions to pension schemes	0.4	0.4
	5.4	4.6

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

Two Directors (2009: three) have retirement benefits accruing under money purchase pension schemes. Retirement benefits accrue to one Director (2009: 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 [p87–89](#).

Notes to the financial statements

—for the year ended 31 March 2010 continued

7. Auditor remuneration

Group	2010 £m	2009 £m
Services provided by the Group's auditor		
Audit fees:		
Accounts of the Company	0.2	0.4
Subsidiary undertakings	0.3	0.3
	0.5	0.7
Other fees:		
Services supplied pursuant to legislation	0.1	0.1
Taxation services	0.1	0.1
Services in relation to the demerger	–	0.5
Services in relation to disposal of Trillium ¹	–	0.6
Services in relation to the Rights Issue ²	–	0.3
	0.2	1.6
	0.7	2.3

1. Included within discontinued operations.

2. Taken directly to the statement of comprehensive income

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, PricewaterhouseCoopers LLP also receives fees for statutory duties performed for some of our joint venture arrangements, of which our proportionate share of the fees are **£0.1m** (2009: £0.1m).

8. Net interest expense

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Interest expense				
Bond and debenture debt	(200.9)	(191.1)	–	–
Bank borrowings	(42.7)	(95.4)	–	–
Other interest payable	(2.1)	(0.9)	(11.1)	(53.9)
Amortisation of bond exchange de-recognition	(13.8)	(11.7)	–	–
Interest on pension scheme liabilities	(7.2)	(7.5)	–	–
	(266.7)	(306.6)	(11.1)	(53.9)
Interest capitalised in relation to properties under development	17.8	43.7	–	–
Total interest expense	(248.9)	(262.9)	(11.1)	(53.9)
Interest income				
Short-term deposits	8.5	2.7	–	0.5
Interest received on loan investments	3.7	0.7	–	–
Gain on disposal of foreign-exchange contract	–	2.7	–	–
Other interest receivable	0.9	1.5	–	19.5
Interest receivable from joint ventures	10.1	16.8	–	–
Expected return on pension scheme assets	6.6	8.1	–	–
Total interest income	29.8	32.5	–	20.0
Fair value movement on interest-rate swaps	7.0	(102.1)	–	–
Net interest expense	(212.1)	(332.5)	(11.1)	(33.9)

Included within rents payable (note 4) is finance lease interest payable of **£3.8m** (2009: £4.3m).

108 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

9. Dividends

	Payment date	Restated ¹ per share pence	Actual per share pence	Group and Company	
				2010 £m	2009 £m
Ordinary dividends paid					
For the year ended 31 March 2008:					
Third quarter	25 April 2008	14.4	16.0	–	74.4
Final quarter	28 July 2008	14.4	16.0	–	74.4
For the year ended 31 March 2009:					
First quarter	24 October 2008	14.9	16.5	–	76.8
Second quarter	12 January 2009	14.9	16.5	–	76.8
Third quarter	24 April 2009	14.9	16.5	76.8	–
Final quarter	24 July 2009	7.0	7.0	52.9	–
For the year ended 31 March 2010:					
First quarter	23 October 2009	7.0	7.0	52.9	–
Second quarter	15 January 2010	7.0	7.0	52.9	–
				235.5	302.4

1. The restated dividend per share represents the theoretical dividend per share that would have been paid had the bonus shares inherent in the 2009 rights issue been in existence at the relevant dividend dates.

During the year, the Company introduced a scrip dividend scheme, which provides shareholders with the option to receive their dividend in shares as opposed to cash. As a result of shares issued in lieu of dividends of **£17.6m** (2009: £nil), dividends paid in cash, as set out in the consolidated statement of cash flows, totalled **£217.9m** (2009: £302.4m).

The Board has proposed a final quarterly dividend for the year ended 31 March 2010 of **7.0p** per share (2009: 7.0p), which will be a 100% PID and result in a further distribution of **£53.3m** (2009: £52.9m). It will be paid on 30 July 2010 to shareholders who are on the Register of Members on 25 June 2010. The final dividend is in addition to the third quarterly dividend of **7.0p** or **£53.1m** paid on 1 April 2010 (2009 restated: 14.9p or £76.8m). The total dividend paid and proposed in respect of the year ended 31 March 2010 is **28.0p** (2009 restated: 51.7p).

All of the dividends paid and payable in respect of the financial year ended 31 March 2010 comprise PIDs to the extent that these dividends are paid in cash. Scrip dividends are not treated as qualifying towards the Group PID requirement.

10. Income tax

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Current tax				
Corporation tax credit for the year	(4.3)	–	(5.9)	(15.2)
Adjustment in respect of prior years	(21.0)	0.3	0.6	–
Total current tax (credit)/expense	(25.3)	0.3	(5.3)	(15.2)
Deferred tax				
Origination and reversal of timing differences	2.2	0.2	–	–
Total deferred tax expense	2.2	0.2	–	–
Total income tax (credit)/expense in the income statement	(23.1)	0.5	(5.3)	(15.2)

The tax for the year is lower than the standard rate of corporation tax in the UK of **28%** (2009: 28%). The differences are explained below:

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Profit/(loss) on activities before taxation	1,069.3	(4,773.2)	1,078.8	(288.8)
Profit/(loss) on activities multiplied by the rate of corporation tax in the UK of 28% (2009: 28%)	299.4	(1,336.5)	302.1	(80.9)
Effects of:				
Refund of conversion charge on developments	(4.3)	–	–	–
Interest rate swap break costs and fair value movements	(22.8)	28.6	–	–
Prior year corporation tax adjustments	(21.0)	0.3	0.6	–
Prior year deferred tax adjustments	1.2	(1.1)	–	–
Non-allowable expenses and non-taxable items	1.3	4.5	(308.0)	65.7
Losses carried forward	8.1	25.7	–	–
Exempt property rental profits and revaluations in the year	(281.2)	1,314.5	–	–
Exempt property gains in the year	(3.8)	(35.5)	–	–
Total income tax (credit)/expense in the income statement (as above)	(23.1)	0.5	(5.3)	(15.2)

Notes to the financial statements

—for the year ended 31 March 2010 continued

10. Income tax continued

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.

During the year the Group reached agreement in relation to a number of issues, resulting in payment of additional tax of **£14.0m** and a release of provisions to the income statement of **£21.0m**. If the remaining issues are resolved in the Group's favour, provisions established in previous periods of up to **£86.7m** (2009: £211.0m) could be released in the future.

11. Earnings/(loss) per share

Group	2010 £m	2009 £m
Profit/(loss) for the financial year attributable to the owners of the Parent	1,088.9	(5,191.3)
of which from: continuing operations attributable to the owners of the Parent	1,088.9	(4,770.4)
of which from: discontinued operations attributable to the owners of the Parent	–	(420.9)

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

	2010 £m	2009 £m
Profit/(loss) for the financial year from continuing operations attributable to the owners of the Parent	1,088.9	(4,770.4)
Net (surplus)/deficits on revaluation of investment properties – Group	(746.0)	4,113.4
– joint ventures	(117.8)	630.3
Loss/(profit) on investment property disposals after current and deferred tax – Group	32.5	130.8
– joint ventures	(8.0)	(2.9)
Impairment of development land and infrastructure ¹ – Group (note 19)	10.6	92.0
– joint ventures	2.9	12.3
Fair value movement on interest-rate swaps – Group	(7.0)	102.1
– joint ventures	1.4	15.4
Adjustment due to net liabilities on joint ventures ²	15.7	(17.7)
Non-revenue tax adjustments	(23.1)	–
Demerger costs (net of taxation)	–	7.2
Eliminate effect of revenue arising on restructuring of TQD financing	(9.7)	–
EPRA adjusted earnings from continuing operations attributable to the owners of the Parent	240.4	312.5
Eliminate effect of debt restructuring charges (net of taxation)	3.6	0.8
Eliminate effect of bond exchange de-recognition	13.8	11.7
Adjusted earnings from continuing operations attributable to the owners of the Parent	257.8	325.0

- The impairment in relation to the development land and infrastructure programmes within trading properties has been removed from both our and the EPRA's adjusted earnings due to the long-term nature of these programmes.
- The adjustment to net liabilities on joint ventures is the result of valuation deficits in the prior year, partially reversed by surpluses in the current year.

	2010 Number million	2009 Number million
Weighted average number of ordinary shares	762.5	526.7
Effect of weighted average number of treasury shares	(5.9)	(5.9)
Effect of weighted average number of own shares	(0.6)	(1.2)
Weighted average number of ordinary shares for calculating basic earnings per share	756.0	519.6
Effect of share options which are dilutive for diluted earnings per share	0.4	–
Weighted average number of ordinary shares for calculating diluted earnings per share	756.4	519.6
Effect of share options which are dilutive for adjusted diluted earnings per share	–	0.3
Weighted average number of ordinary shares for calculating adjusted diluted earnings per share	756.4	519.9

110 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

11. Earnings/(loss) per share continued

	2010 Pence	2009 Pence
Basic earnings/(loss) per share	144.04	(999.04)
of which from: continuing operations	144.04	(918.04)
of which from: discontinued operations	–	(81.00)
Diluted earnings/(loss) per share	143.96	(999.04)
of which from: continuing operations	143.96	(918.04)
of which from: discontinued operations	–	(81.00)
Adjusted earnings per share from continuing operations	34.10	62.60
Adjusted diluted earnings per share from continuing operations	34.08	62.57
EPRA adjusted earnings per share from continuing operations	31.80	60.20

12. Net assets per share

Group	2010 £m	2009 £m
Net assets attributable to the owners of the Parent	5,689.9	4,823.5
Cumulative fair value movements on interest-rate swaps – Group	0.1	112.0
– joint ventures	37.2	38.2
EPRA adjusted net assets	5,727.2	4,973.7
Reverse bond exchange de-recognition adjustment	(486.0)	(499.8)
Adjusted net assets attributable to the owners of the Parent	5,241.2	4,473.9
Reinstate bond exchange de-recognition adjustment	486.0	499.8
Cumulative fair value movements on interest-rate swaps – Group	(0.1)	(112.0)
– joint ventures	(37.2)	(38.2)
Excess of fair value of debt over book value (note 26)	(476.5)	(13.4)
EPRA triple net assets	5,213.4	4,810.1

	2010 Number million	2009 Number million
Number of ordinary shares in issue	764.6	761.9
Number of treasury shares	(5.9)	(5.9)
Number of own shares	(0.5)	(0.9)
Number of ordinary shares used for calculating basic net assets per share	758.2	755.1
Dilutive effect of share options	0.6	–
Number of ordinary shares used for calculating diluted net assets per share	758.8	755.1

	2010 Pence	2009 Pence
Net assets per share	750	639
Diluted net assets per share	750	639
Adjusted net assets per share	691	593
Adjusted diluted net assets per share	691	593
EPRA measure – adjusted diluted net assets per share	755	659
– diluted triple net assets per share	687	637

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

Notes to the financial statements

— for the year ended 31 March 2010 continued

13. Investment properties

Group	Portfolio management £m	Development programme £m	Trillium £m	Total £m
Net book value at 1 April 2008	10,338.3	1,396.0	562.4	12,296.7
Developments transferred from the development programme into portfolio management	410.3	(410.3)	–	–
Accor hotel properties transferred from Trillium to portfolio management	435.9	–	(435.9)	–
Property acquisitions	101.9	1.3	–	103.2
Capital expenditure	174.1	245.5	6.0	425.6
Capitalised interest	14.0	23.1	–	37.1
Disposals	(681.9)	(1.3)	(41.4)	(724.6)
Transfer from operating properties	–	–	11.9	11.9
Surrender premiums received	(2.0)	–	–	(2.0)
Depreciation	(2.1)	–	–	(2.1)
Valuation deficit – continuing operations	(3,573.1)	(540.3)	–	(4,113.4)
– discontinued operations	–	–	(10.0)	(10.0)
Disposals included as part of the disposal of Trillium	–	–	(93.0)	(93.0)
Net book value at 31 March 2009	7,215.4	714.0	–	7,929.4
Developments transferred from the development programme into portfolio management	498.1	(498.1)	–	–
Properties transferred from portfolio management into the development programme	(237.9)	237.9	–	–
Property acquisitions	13.3	–	–	13.3
Capital expenditure	50.7	122.9	–	173.6
Capitalised interest	0.7	15.5	–	16.2
Disposals	(824.5)	–	–	(824.5)
Surrender premiums received	(10.0)	–	–	(10.0)
Depreciation	(0.8)	–	–	(0.8)
Transfer from trading properties	1.1	–	–	1.1
Valuation surplus	549.0	197.0	–	746.0
Net book value at 31 March 2010	7,255.1	789.2	–	8,044.3

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

	Portfolio management £m	Development programme £m	Total £m
Net book value at 31 March 2009	7,215.4	714.0	7,929.4
Plus: tenant lease incentives (note 20)	148.8	40.5	189.3
Less: head leases capitalised (note 28)	(56.5)	(1.4)	(57.9)
Plus: properties treated as finance leases	104.7	–	104.7
Market value at 31 March 2009 – Group	7,412.4	753.1	8,165.5
– plus: share of joint ventures (note 17)	950.0	291.5	1,241.5
Market value at 31 March 2009 – Group and share of joint ventures	8,362.4	1,044.6	9,407.0
Net book value at 31 March 2010	7,255.1	789.2	8,044.3
Plus: tenant lease incentives (note 20)	167.4	4.5	171.9
Less: head leases capitalised (note 28)	(50.6)	(2.0)	(52.6)
Plus: properties treated as finance leases	121.8	–	121.8
Market value at 31 March 2010 – Group	7,493.7	791.7	8,285.4
– plus: share of joint ventures (note 17)	1,063.8	191.2	1,255.0
Market value at 31 March 2010 – Group and share of joint ventures	8,557.5	982.9	9,540.4

The net book value of leasehold properties where head leases have been capitalised is **£1,044.0m** (2009: £994.0m).

The fair value of the Group's investment properties at 31 March 2010 has been arrived at on the basis of a valuation carried out at that date by Knight Frank LLP, external valuers. The valuation by Knight Frank LLP, which conforms to Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors and with IVA 1 of the International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. Fixed asset properties include capitalised interest of **£160.5m** (2009: £181.1m). The average rate of interest capitalisation for the year is **4.6%** (2009: 5.5%). The historical cost of investment properties is **£6,877.8m** (2009: £7,721.8m).

The current value of investment properties, including joint ventures, in respect of proposed developments is **£336.2m** (2009: £524.8m). Developments are transferred out of the development programme when physically complete and 95% let, or two years after completion, whichever is earlier. The schemes transferred out of the development programme during the year were New Street Square, London EC4, Willow Place, Corby and Bristol Alliance, Bristol.

The Group has outstanding capital commitments of **£75.4m** at 31 March 2010 (2009: £280.5m).

112 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

14. Other property, plant and equipment

Group	2010 £m	2009 £m
Book value at the beginning of the year	14.3	73.6
Capital expenditure	3.1	8.4
Disposals	(0.6)	(7.8)
Depreciation – continuing operations	(4.0)	(4.6)
– discontinued operations	–	(0.9)
Disposals included as part of the disposal of Trillium	–	(54.4)
Book value at the end of the year	12.8	14.3

15. Net investment in finance leases

Group	2010 £m	2009 £m
Non-current		
Finance leases – gross receivables	270.8	277.7
Unearned finance income	(181.1)	(187.1)
Unguaranteed residual value	25.7	25.7
	115.4	116.3
Current		
Finance leases – gross receivables	7.0	7.0
Unearned finance income	(6.1)	(6.2)
	0.9	0.8
Total net investment in finance leases	116.3	117.1
Gross receivables from finance leases:		
Not later than one year	7.0	7.0
Later than one year but not more than five years	28.0	20.9
More than five years	242.8	256.8
	277.8	284.7
Unearned future finance income	(187.2)	(193.3)
Unguaranteed residual value	25.7	25.7
Net investment in finance leases	116.3	117.1

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

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

16. Loan investments

Group	2010			2009		
	Real Estate secured loan notes £m	Loans to third parties £m	Total £m	Real Estate secured loan notes £m	Loans to third parties £m	Total £m
At the beginning of the year	–	50.0	50.0	–	–	–
Additions	33.3	–	33.3	–	50.0	50.0
Amortisation of loan note discount at acquisition	1.0	–	1.0	–	–	–
At the end of the year	34.3	50.0	84.3	–	50.0	50.0

The credit quality of loan investments can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. None of the loan investments are past due but not impaired.

None of the loan investments that are fully performing have been renegotiated in the last year.

Notes to the financial statements

—for the year ended 31 March 2010 continued

16. Loan investments continued

Group	2010			2009		
	Real Estate secured loan notes £m	Loans to third parties £m	Total £m	Real Estate secured loan notes £m	Loans to third parties £m	Total £m
Counterparties with external credit ratings						
AAA	34.3	—	34.3	—	—	—
	34.3	—	34.3	—	—	—
Counterparties without external credit ratings						
Group 1 ¹	—	—	—	—	50.0	50.0
Group 2 ²	—	50.0	50.0	—	—	—
Group 3 ³	—	—	—	—	—	—
	—	50.0	50.0	—	50.0	50.0
	34.3	50.0	84.3	—	50.0	50.0

1. Group 1 – new counterparty (less than six months).
2. Group 2 – existing counterparty (more than six months) with no defaults in the past.
3. Group 3 – existing counterparty (more than six months) with some defaults in the past. All defaults were fully recovered.

17. Investments in joint ventures

The Group's joint ventures are described below:

Name of joint venture	Percentage owned	Business segment	Year end date	Joint venture partners
The Scottish Retail Property Limited Partnership	50.0%	Retail Portfolio	31 March	The British Land Company PLC
Metro Shopping Fund Limited Partnership	50.0%	Retail Portfolio	31 March	Delancey Real Estate Partners Limited
Buchanan Partnership	50.0%	Retail Portfolio	31 December	The Henderson UK Shopping Centre Fund
St. David's Limited Partnership	50.0%	Retail Portfolio	31 December	Capital Shopping Centres PLC
Bristol Alliance Limited Partnership	50.0%	Retail Portfolio	31 December	Hammerson plc
The Harvest Limited Partnership	50.0%	Retail Portfolio	31 March	J Sainsbury plc
The Oriana Limited Partnership	50.0%	London Portfolio	31 March	Frogmore Real Estate Partners Limited Partnership
The Martineau Galleries Limited Partnership ¹	33.3%	Retail Portfolio	31 December	Hammerson plc Pearl Group Limited
The Ebbsfleet Limited Partnership ¹	50.0%	London Portfolio	31 March	Lafarge Cement UK PLC
Millshaw Property Co. Limited ¹	50.0%	Retail Portfolio	31 March	Evans Property Group Limited
The Martineau Limited Partnership ¹	33.3%	Retail Portfolio	31 December	Hammerson plc Pearl Group Limited
Hungate (York) Regeneration Limited ¹	33.3%	Retail Portfolio	30 June	Crosby Land Lease PLC Evans Property Group Limited
Countryside Land Securities (Springhead) Limited ¹	50.0%	London Portfolio	30 September	Countryside Properties PLC
Fen Farm Developments Limited ¹	50.0%	Retail Portfolio	31 March	Economic Zones World
The Empress State Limited Partnership ¹	50.0%	London Portfolio	31 December	Liberty International PLC
HNJV Limited ¹	50.0%	London Portfolio	31 March	Places for People Group Limited

1. Included within Other.

The Group disposed of its share of the Bullring and the related assets and liabilities for a cash consideration of £209.8m on 18 September 2009.

114 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

17. Investments in joint ventures continued

Financial information of Group's share of joint ventures Year ended and as at 31 March 2010										
	The Scottish Retail Property Limited Partnership £m	Metro Shopping Fund Limited Partnership £m	Buchanan Partnership £m	St. David's Limited Partnership £m	The Bull Ring Limited Partnership £m	Bristol Alliance Limited Partnership £m	The Harvest Limited Partnership £m	The Oriana Limited Partnership £m	Other £m	Total £m
Income statement										
Rental income	7.5	11.8	8.6	8.6	7.1	17.9	4.8	3.4	8.8	78.5
Finance lease interest	–	0.1	0.1	–	–	0.3	–	–	–	0.5
Rents payable	(0.1)	–	–	(0.6)	–	(0.5)	–	–	(0.1)	(1.3)
	7.4	11.9	8.7	8.0	7.1	17.7	4.8	3.4	8.7	77.7
Service charge income	1.2	2.4	0.5	1.2	1.4	2.1	0.2	0.2	0.2	9.4
Service charge expense	(1.1)	(2.8)	(0.6)	(1.7)	(1.5)	(2.5)	(0.1)	(0.2)	(0.4)	(10.9)
Net service charge income/(expense)	0.1	(0.4)	(0.1)	(0.5)	(0.1)	(0.4)	0.1	–	(0.2)	(1.5)
Other property related income	0.3	0.2	–	–	–	0.5	–	–	–	1.0
Direct property expenditure	(2.3)	(1.1)	(1.2)	(1.9)	(1.1)	(3.8)	(0.2)	(0.4)	(0.2)	(12.2)
Net rental income	5.5	10.6	7.4	5.6	5.9	14.0	4.7	3.0	8.3	65.0
Trading properties sale proceeds	–	–	–	–	–	–	–	–	12.3	12.3
Cost of sales of trading properties	–	–	–	–	–	–	–	–	(11.1)	(11.1)
Profit on disposal of trading properties	–	–	–	–	–	–	–	–	1.2	1.2
Indirect property expenditure	(0.4)	(0.8)	(0.1)	(1.6)	(0.1)	(0.3)	–	(0.1)	(0.4)	(3.8)
	5.1	9.8	7.3	4.0	5.8	13.7	4.7	2.9	9.1	62.4
Investment property disposal proceeds	–	–	–	–	212.8	0.8	–	–	–	213.6
Carrying value of investment property disposals	–	–	–	–	(205.1)	(0.5)	–	–	–	(205.6)
Profit on disposal of investment properties	–	–	–	–	7.7	0.3	–	–	–	8.0
Net surplus on revaluation of investment properties	9.5	45.1	5.7	2.5	–	27.0	11.1	9.6	7.3	117.8
Impairment of trading properties	–	–	–	–	–	–	–	–	(2.9)	(2.9)
Operating profit	14.6	54.9	13.0	6.5	13.5	41.0	15.8	12.5	13.5	185.3
Net interest expense	(3.3)	(10.6)	(3.9)	(3.3)	–	–	(3.1)	(4.8)	(5.0)	(34.0)
Profit before tax	11.3	44.3	9.1	3.2	13.5	41.0	12.7	7.7	8.5	151.3
Income tax	–	(0.6)	–	–	–	–	–	–	2.6	2.0
	11.3	43.7	9.1	3.2	13.5	41.0	12.7	7.7	11.1	153.3
Net liabilities adjustment	–	(16.5)	–	–	–	–	–	–	0.8	(15.7)
Share of profits after tax	11.3	27.2	9.1	3.2	13.5	41.0	12.7	7.7	11.9	137.6
Net investment										
At 1 April 2009	17.5	–	114.4	240.6	202.8	244.2	65.9	7.1	38.3	930.8
Cash contributed	1.2	2.5	2.0	–	–	–	2.1	–	0.4	8.2
Distributions	–	(1.1)	(3.4)	–	–	–	–	–	(2.4)	(6.9)
Fair value movement on cash flow hedges taken to the statement of comprehensive income	0.2	2.4	–	–	–	–	–	–	–	2.6
Disposals	–	–	–	–	(208.6)	–	–	–	–	(208.6)
Capital advances	–	–	–	75.3	–	12.1	–	–	–	87.4
Capital repayments	–	–	–	(145.5)	(7.7)	(10.1)	–	–	–	(163.3)
Share of profits of joint ventures after tax	11.3	27.2	9.1	3.2	13.5	41.0	12.7	7.7	11.9	137.6
At 31 March 2010	30.2	31.0	122.1	173.6	–	287.2	80.7	14.8	48.2	787.8
Balance sheet										
Investment properties ¹	96.3	217.0	118.6	230.7	–	268.9	83.3	94.9	117.4	1,227.1
Current assets	6.4	7.6	6.9	6.8	–	29.5	45.7	2.9	55.8	161.6
	102.7	224.6	125.5	237.5	–	298.4	129.0	97.8	173.2	1,388.7
Current liabilities	(4.9)	(5.9)	(3.4)	(26.5)	–	(8.3)	(1.2)	(6.1)	(27.5)	(83.8)
Non-current liabilities	(67.6)	(187.7)	–	(37.4)	–	(2.9)	(47.1)	(76.9)	(99.5)	(519.1)
	(72.5)	(193.6)	(3.4)	(63.9)	–	(11.2)	(48.3)	(83.0)	(127.0)	(602.9)
Net liabilities adjustment ²	–	–	–	–	–	–	–	–	2.0	2.0
Net assets	30.2	31.0	122.1	173.6	–	287.2	80.7	14.8	48.2	787.8
Capital commitments	0.1	0.4	–	12.8	–	3.9	0.1	–	0.3	17.6
Market value of investment properties¹	97.6	218.3	122.5	233.0	–	286.5	84.1	95.0	118.0	1,255.0
Net (debt)/cash	(64.2)	(183.0)	0.8	(34.4)	–	3.2	(45.8)	(74.1)	(91.4)	(488.9)

1. 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.

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

Notes to the financial statements

— for the year ended 31 March 2010 continued

17. Investments in joint ventures continued

	Financial information of Group's share of joint ventures Year ended and as at 31 March 2009									
	The Scottish Retail Property Limited Partnership £m	Metro Shopping Fund Limited Partnership £m	Buchanan Partnership £m	St. David's Limited Partnership £m	The Bull Ring Limited Partnership £m	Bristol Alliance Limited Partnership £m	The Harvest Limited Partnership £m	The Oriana Limited Partnership £m	Other £m	Total £m
Income statement										
Rental income	9.1	12.9	9.2	5.0	15.5	10.8	4.4	4.3	6.5	77.7
Finance lease interest	–	–	0.1	–	–	0.3	–	–	–	0.4
Rents payable	(0.2)	–	–	–	–	(0.2)	–	–	(0.1)	(0.5)
	8.9	12.9	9.3	5.0	15.5	10.9	4.4	4.3	6.4	77.6
Service charge income	1.5	2.5	1.8	0.7	2.5	1.1	0.2	0.3	0.1	10.7
Service charge expense	(2.3)	(3.2)	(1.8)	(1.0)	(2.5)	(1.3)	(0.2)	(0.3)	(0.6)	(13.2)
Net service charge expense	(0.8)	(0.7)	–	(0.3)	–	(0.2)	–	–	(0.5)	(2.5)
Direct property expenditure	(1.3)	(0.8)	(1.1)	(0.2)	(2.6)	(3.6)	(0.1)	(0.2)	(0.5)	(10.4)
Net rental income	6.8	11.4	8.2	4.5	12.9	7.1	4.3	4.1	5.4	64.7
Trading properties sale proceeds	–	–	–	–	–	–	–	–	16.0	16.0
Cost of sales of trading properties	–	–	–	–	–	–	–	–	(10.5)	(10.5)
Profit on disposal of trading properties	–	–	–	–	–	–	–	–	5.5	5.5
Indirect property expenditure	(0.4)	(1.2)	(0.1)	(0.3)	(0.3)	(0.1)	(0.4)	(0.6)	(0.4)	(3.8)
	6.4	10.2	8.1	4.2	12.6	7.0	3.9	3.5	10.5	66.4
Investment property disposal proceeds	(0.1)	0.2	–	–	0.4	6.9	–	–	3.7	11.1
Carrying value of investment property disposals	–	–	–	–	–	(5.2)	–	–	(3.0)	(8.2)
Profit/(loss) on disposal of investment properties	(0.1)	0.2	–	–	0.4	1.7	–	–	0.7	2.9
Net deficit on revaluation of investment properties	(54.0)	(78.1)	(66.5)	(184.6)	(87.8)	(106.3)	(11.5)	(4.8)	(36.7)	(630.3)
Impairment of trading properties	–	–	–	–	–	–	–	–	(12.3)	(12.3)
Operating loss	(47.7)	(67.7)	(58.4)	(180.4)	(74.8)	(97.6)	(7.6)	(1.3)	(37.8)	(573.3)
Net interest (expense)/income	(3.2)	(10.6)	(3.9)	0.3	–	–	(1.4)	(11.7)	(11.6)	(42.1)
Loss before tax	(50.9)	(78.3)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(49.4)	(615.4)
Income tax	(0.2)	(0.8)	–	–	–	–	–	–	(0.3)	(1.3)
	(51.1)	(79.1)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(49.7)	(616.7)
Net liabilities adjustment	–	16.5	–	–	–	–	–	–	1.2	17.7
Share of losses after tax	(51.1)	(62.6)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(48.5)	(599.0)
Net investment										
At 1 April 2008	73.0	69.9	179.6	346.7	289.3	284.4	64.5	9.0	94.2	1,410.6
Properties contributed	–	–	–	–	–	–	–	–	27.3	27.3
Cash contributed	0.4	5.8	1.4	–	–	–	17.6	11.2	4.1	40.5
Distributions	–	(1.1)	(4.3)	–	–	–	(3.0)	(0.1)	(13.1)	(21.6)
Fair value movement on cash flow hedges taken to the statement of comprehensive income	(4.8)	(12.0)	–	–	–	–	(4.2)	–	(0.3)	(21.3)
Disposals	–	–	–	–	–	–	–	–	(17.9)	(17.9)
Capital advances	–	–	–	74.0	0.3	61.1	–	–	0.2	135.6
Capital repayments	–	–	–	–	(12.0)	(3.7)	–	–	(2.4)	(18.1)
Disposal of Trillium	–	–	–	–	–	–	–	–	(5.3)	(5.3)
Share of losses of joint ventures after tax	(51.1)	(62.6)	(62.3)	(180.1)	(74.8)	(97.6)	(9.0)	(13.0)	(48.5)	(599.0)
At 31 March 2009	17.5	–	114.4	240.6	202.8	244.2	65.9	7.1	38.3	930.8
Balance sheet										
Investment properties	82.3	171.5	112.3	147.6	200.0	230.8	69.5	83.9	110.1	1,208.0
Current assets	6.4	7.5	6.0	119.0	12.2	33.6	44.3	3.1	55.7	287.8
	88.7	179.0	118.3	266.6	212.2	264.4	113.8	87.0	165.8	1,495.8
Current liabilities	(3.1)	(5.6)	(3.9)	(25.6)	(9.4)	(17.3)	(1.0)	(4.3)	(29.0)	(99.2)
Non-current liabilities	(68.1)	(189.9)	–	(0.4)	–	(2.9)	(46.9)	(75.6)	(99.7)	(483.5)
	(71.2)	(195.5)	(3.9)	(26.0)	(9.4)	(20.2)	(47.9)	(79.9)	(128.7)	(582.7)
Net liabilities adjustment	–	16.5	–	–	–	–	–	–	1.2	17.7
Net assets	17.5	–	114.4	240.6	202.8	244.2	65.9	7.1	38.3	930.8
Capital commitments	1.6	0.7	0.4	53.1	–	12.9	–	–	1.9	70.6
Market value of investment properties	83.8	172.6	115.0	147.5	205.0	253.4	70.0	84.0	110.2	1,241.5
Net (debt)/cash	(63.3)	(185.1)	1.9	2.7	2.8	1.9	(46.1)	(74.8)	(99.4)	(459.4)

116 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

18. Investments in subsidiary undertakings

Company	2010 £m	2009 £m
At the beginning of the year	4,828.5	5,054.6
Capital injection	850.0	—
Capital contributions relating to share-based payments (note 31)	6.0	8.6
Impairment to reduce net assets of the Company to net assets of the Group attributable to equity shareholders	—	(234.7)
At the end of the year	5,684.5	4,828.5

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.

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

Wholly owned subsidiary undertakings

Group operations

Land Securities Properties Limited

Investment property business

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

The City of London Real Property Company Limited
Ravenside Investments Limited

All principal subsidiary undertakings operate in Great Britain and are registered in England and Wales. A full list of subsidiary undertakings at 31 March 2010 will be appended to the Company's next annual return.

19. Trading properties and long-term development contracts

Group	2010			2009		
	Cost £m	Impairment provision £m	Realisable value £m	Cost £m	Impairment provision £m	Realisable value £m
Trading properties:						
Development land and infrastructure	170.1	(102.6)	67.5	159.1	(92.0)	67.1
Other trading properties	16.8	(0.3)	16.5	26.0	(0.3)	25.7
Long-term development contracts	3.9	—	3.9	2.1	—	2.1
	190.8	(102.9)	87.9	187.2	(92.3)	94.9

The realisable value of the Group's trading properties at 31 March 2010 has been arrived at on the basis of a valuation carried out at that date by Knight Frank LLP, external valuers.

Group	2010 £m	2009 £m
Long-term development contracts		
Income statement:		
Contract revenue recognised as revenue in the year	140.7	48.9
Contract expenditure recognised as costs in the year	(134.0)	(45.1)
	6.7	3.8
Balance sheet:		
Contract costs incurred and recognised profits (less recognised losses) to date	526.3	383.8
Advances received from customers	(527.8)	(390.8)
	(1.5)	(7.0)
Plus: gross amount due to customers for contract work (included in accruals and deferred income)	5.4	9.1
Balance at the end of the year	3.9	2.1

Notes to the financial statements

— for the year ended 31 March 2010 continued

20. Trade and other receivables

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Trade receivables	44.8	53.6	–	–
Less: allowance for doubtful accounts	(20.2)	(20.3)	–	–
Trade receivables – net	24.6	33.3	–	–
Property sales receivables	29.9	64.9	–	–
Other receivables	13.6	35.6	–	–
Tenant lease incentives	171.9	189.3	–	–
Prepayments and accrued income	47.0	23.6	–	0.1
Current tax assets	–	–	5.9	3.2
Finance leases receivable within one year (note 15)	0.9	0.8	–	–
Amounts due from joint ventures	46.5	44.6	–	–
Loans to Group undertakings	–	–	13.3	5.5
	334.4	392.1	19.2	8.8

Group	1–30 days past due £m	Up to 6 months past due £m	Up to 12 months past due £m	More than 12 months past due £m	Total £m
Accounts receivable past due					
As at 31 March 2009					
Past due but not impaired	15.4	2.6	–	–	18.0
Past due and impaired	15.1	10.5	5.5	4.5	35.6
	30.5	13.1	5.5	4.5	53.6
As at 31 March 2010					
Past due but not impaired	20.8	1.6	–	–	22.4
Past due and impaired	3.6	2.5	5.6	10.7	22.4
	24.4	4.1	5.6	10.7	44.8

In accordance with IFRS 7, the amounts shown as past due represent the total credit exposure, not the amount actually past due. Trade receivables are all considered past due as relate to rents receivable from tenants all of which are payable in advance.

Group	2010 £m	2009 £m
Movement in allowances for doubtful accounts		
At the beginning of the year	20.3	15.0
Additions/reversal of allowance	3.0	10.5
Write-offs charged against the allowances account	(3.1)	(3.3)
Allowance included as part of disposal of Trillium discontinued operations	–	(1.9)
At the end of the year	20.2	20.3

21. Monies held in restricted accounts and deposits

Group	2010 £m	2009 £m
Cash at bank and in hand	87.5	0.1
Short-term deposits	6.0	29.8
Liquidity funds	2.1	–
	95.6	29.9

Monies held in restricted accounts and deposits represent cash held by the Group in accounts with conditions attached that restricts the use of these monies by the Group and, as such, does not meet the definition of cash and cash equivalents as defined in IAS 7 'Statement of Cash Flows'. Holding cash in restricted accounts does not prevent the Group from optimising returns by putting these monies on short-term deposit.

The credit quality of monies held in restricted accounts and deposits can be assessed by reference to external credit ratings of the counterparty.

Group	2010 £m	2009 £m
Counterparties with external credit ratings		
AAA	2.1	–
AA	76.7	–
A+	10.8	29.9
A	6.0	–
	95.6	29.9

118 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

22. Cash and cash equivalents

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Cash at bank and in hand	17.7	108.1	0.2	105.1
Short-term deposit	11.8	750.0	—	—
Liquidity funds	129.9	751.0	—	—
	159.4	1,609.1	0.2	105.1

Liquidity funds

The liquidity funds are AAA rated cash-investment funds with constant net asset values, offering the Group same day access to the funds deposited. These investments yield a return of between **0.3%** and **0.6%** at 31 March 2010 (2009: between 0.5% and 1.3%).

Short-term deposits

The effective interest rate on short-term deposits was **0.3%** at 31 March 2010 (2009: 1.2%) and had an average maturity of **1 day** (2009: 91 days).

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed.

Group	2010 £m	2009 £m
Counterparties with external credit ratings		
AAA	129.9	751.0
AA	7.1	460.6
AA-	—	75.0
A+	22.4	322.5
	159.4	1,609.1

23. Trade and other payables

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Trade payables	9.9	2.7	—	—
Capital payables	47.8	129.7	—	—
Other payables	43.5	46.6	5.6	—
Accruals and deferred income	238.5	278.2	2.5	5.2
Amounts owed to joint ventures	55.8	168.6	—	—
Loans from Group undertakings	—	—	—	113.7
	395.5	625.8	8.1	118.9

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.

24. Provisions

Group	Dilapidations £m	Onerous leases £m	Total £m
At 1 April 2008 and 2009	—	—	—
Net charge to income statement for the year	0.3	1.2	1.5
At 31 March 2010	0.3	1.2	1.5
Included in the balance above, the following amounts are anticipated to be utilised within one year:			
At 31 March 2009	—	—	—
At 31 March 2010	0.3	1.2	1.5

Dilapidations

Following all head office staff moving to 5 Strand, a provision for dilapidations was made in respect of 11 Strand. The amounts provided were based on the current estimate of the future costs determined on the basis of the present condition of the property.

Onerous leases

An onerous lease provision was established in respect of the lease at 11 Strand which is due to expire at the end of 2010.

Notes to the financial statements

—for the year ended 31 March 2010 continued

25. Derivative financial instruments

Group	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest-rate swaps (non-designated)	1.0	(1.1)	—	(112.0)
Total	1.0	(1.1)	—	(112.0)

Non-designated derivatives are classified as a current asset or liability.

Interest-rate swaps

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

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

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

	2010 £m	2009 £m
Interest-rate swaps	570.0	2,225.0
	570.0	2,225.0

Valuation hierarchy

Interest-rate swaps are the only financial instruments which are carried at fair value. The table below shows the interest-rate swaps carried at fair value by valuation method.

Group	2010				2009			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets	—	1.0	—	1.0	—	—	—	—
Liabilities	—	(1.1)	—	(1.1)	—	(112.0)	—	(112.0)

Note:

Level 1: valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2: valued using techniques based on information that can be obtained from observable market data.

Level 3: valued using techniques incorporating information other than observable market data as at least one input to the valuation cannot be based on observable market data.

Credit quality

The credit quality of interest-rate swap assets can be assessed by reference to external credit ratings of the counterparty.

Group	2010 £m	2009 £m
Counterparties with external credit ratings		
AA	0.6	—
A+	0.4	—
	1.0	—

120 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

26. Borrowings

Group	2010					
	Secured/ unsecured	Fixed/ floating	Effective interest rate %	Nominal/ notional value £m	Fair value £m	Book value £m
Short-term borrowings and overdrafts						
Sterling						
Bank overdrafts	Unsecured	Floating	—	—	—	—
4.625 per cent MTN due 2013	Secured	Fixed	4.7	300.0	305.2	299.9
5.253 per cent QAG Bond	Secured	Fixed	5.3	8.2	8.6	8.2
Amounts payable under finance leases (note 28)		Fixed	6.9	0.5	0.5	0.5
Total short-term borrowings and overdrafts				308.7	314.3	308.6
Non-current borrowings						
Sterling						
5.292 per cent MTN due 2015	Secured	Fixed	5.3	391.5	412.6	391.1
4.875 per cent MTN due 2019	Secured	Fixed	5.0	400.0	409.8	397.0
5.425 per cent MTN due 2022	Secured	Fixed	5.5	255.3	256.9	254.7
4.875 per cent MTN due 2025	Secured	Fixed	4.9	300.0	280.5	297.4
5.391 per cent MTN due 2026	Secured	Fixed	5.4	210.7	206.2	209.9
5.391 per cent MTN due 2027	Secured	Fixed	5.4	611.0	596.6	608.6
5.376 per cent MTN due 2029	Secured	Fixed	5.4	317.9	307.8	316.5
5.396 per cent MTN due 2032	Secured	Fixed	5.4	322.8	312.0	321.1
5.125 per cent MTN due 2036	Secured	Fixed	5.1	500.0	464.4	498.6
Bond exchange de-recognition adjustment	Secured	Fixed		—	—	(486.0)
				3,309.2	3,246.8	2,808.9
5.253 per cent QAG Bond	Secured	Fixed	5.3	348.9	366.0	348.7
Syndicated bank debt	Secured	Floating	LIBOR + margin	—	—	—
Bilateral facilities	Secured	Floating	LIBOR + margin	—	—	—
Amounts payable under finance leases (note 28)		Fixed	6.9	52.1	67.7	52.1
Total non-current borrowings				3,710.2	3,680.5	3,209.7
Total borrowings				4,018.9	3,994.8	3,518.3

Medium term notes (MTN)

The MTN are secured on the fixed and floating pool of assets of the Security Group. Debt investors benefit from security over a pool of investment properties valued at **£7.8bn** at 31 March 2010 (2009: £7.5bn). The secured debt structure has a tiered operating covenant regime which gives the Group substantial flexibility when the loan to value and interest cover in the Security Group are less than 65% and more than 1.45 times respectively. If these limits are exceeded the operating environment becomes more restrictive with provisions to encourage the reduction in gearing (see note 27). The interest rate is fixed until the expected maturity, being two years before the legal maturity date for each MTN, whereupon the interest rate for the last two years is LIBOR plus a step-up margin. The effective interest rate includes the amortisation of issue costs. The MTN are listed on the Irish Stock Exchange and their fair values are based on their respective market prices.

The 4.625 per cent MTN due 2013 has been classed as a short-term borrowing as it is anticipated that the monies will be repaid within 12 months.

Syndicated bank debt

At 31 March 2010 the Group had a £1.5bn authorised credit facility with a maturity of August 2013, which was fully undrawn. This facility is committed and is secured on the assets of the Security Group.

Bilateral facilities

Committed Bilateral facilities totalling £650.0m are available to the Group and are secured on the assets of the Security Group. These facilities mature between April and November 2014.

Queen Anne's Gate (QAG) Bond

On 29 July 2009, the Group issued a £360.3m bond secured on the rental cash flows from the commercial lease with the UK Government over Queen Anne's Gate, London, SW1. The QAG Bond is a fully amortising bond with a final maturity in February 2027 and a fixed interest rate of 5.253%.

Fair values

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

Notes to the financial statements

— for the year ended 31 March 2010 continued

26. Borrowings continued

Group			Effective interest rate %	Nominal/notional value £m	2009	
	Secured/unsecured	Fixed/floating			Fair value £m	Book value £m
Short-term borrowings and overdrafts						
Sterling						
Bank overdrafts	Unsecured	Floating	–	0.3	0.3	0.3
Amounts payable under finance leases (note 28)		Fixed	5.5	0.8	0.8	0.8
Total short-term borrowings and overdrafts				1.1	1.1	1.1
Non-current borrowings						
Sterling						
4.625 per cent MTN due 2013	Secured	Fixed	4.7	300.0	294.3	299.8
5.292 per cent MTN due 2015	Secured	Fixed	5.3	391.5	383.4	391.0
4.875 per cent MTN due 2019	Secured	Fixed	5.0	400.0	370.0	396.5
5.425 per cent MTN due 2022	Secured	Fixed	5.5	255.3	230.9	254.6
4.875 per cent MTN due 2025	Secured	Fixed	4.9	300.0	237.2	297.2
5.391 per cent MTN due 2026	Secured	Fixed	5.4	210.7	175.9	209.9
5.391 per cent MTN due 2027	Secured	Fixed	5.4	611.1	509.6	608.5
5.376 per cent MTN due 2029	Secured	Fixed	5.4	317.9	256.1	316.4
5.396 per cent MTN due 2032	Secured	Fixed	5.4	322.9	258.6	321.1
5.125 per cent MTN due 2036	Secured	Fixed	5.1	500.0	376.1	498.6
Bond exchange de-recognition adjustment	Secured	Fixed		–	–	(499.8)
				3,609.4	3,092.1	3,093.8
Syndicated bank debt	Secured	Floating	LIBOR + margin	1,662.8	1,662.8	1,658.6
Bilateral facilities	Secured	Floating	LIBOR + margin	640.0	640.0	640.0
Amounts payable under finance leases (note 28)		Fixed	5.5	57.1	68.0	57.1
Total non-current borrowings				5,969.3	5,462.9	5,449.5
Total borrowings				5,970.4	5,464.0	5,450.6

Reconciliation of the movement in borrowings

Group	2010 £m	2009 £m
At the beginning of the year	5,450.6	5,426.5
Decrease in overdrafts	(0.3)	(1.1)
Repayment of loans	(2,306.2)	(1,612.0)
Proceeds from new loans	360.2	1,737.6
Capitalisation of finance fees	(0.2)	(5.0)
Amortisation of finance fees	5.7	2.2
Amortisation of bond exchange de-recognition adjustment	13.8	11.7
Net movement in finance lease obligations	(5.3)	(9.4)
Borrowings included within the disposal of Trillium	–	(99.9)
At the end of the year	3,518.3	5,450.6

Bond exchange de-recognition

On 3 November 2004, a debt refinancing was completed resulting in the Group exchanging all of its outstanding bond and debenture debt for new MTN with higher nominal values. The new MTN did not meet the IAS 39 requirement to be substantially different from the debt that it replaced. Consequently the book value of the new debt is reduced to the book value of the original debt by the 'bond exchange de-recognition' adjustment which is then amortised to zero over the life of the new MTN. The amortisation is charged to net interest expenses in the income statement.

122 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

27. Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Corporate Governance section [p69–70](#) and Our risks and how we manage them [p36–37](#). This note provides further detail on financial risk management and includes quantitative information on specific financial risks.

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

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

Capital structure

The capital structure of the Group consists of shareholders' equity and net borrowings, including cash held on deposit. The type and maturity of the Group's borrowings are analysed further in note 26 and the Group's equity is analysed into its various components in the Statement of changes in equity. Capital is managed so as to promote the long-term success of the business and to maintain sustainable returns for shareholders.

Whilst the Group is maintaining a strong focus on the business actions which are within its influence, a number of factors affecting the market in which the Group operates are beyond the Group's control. After a period of rapid valuation decline, values began to stabilise in mid-2009, and have since experienced a strong rebound. As a result of this and other actions taken, the Board believes the Group now has an appropriate gearing level for this phase of the property cycle.

The Group's strategy is to maintain an appropriate net debt to total equity ratio (gearing) and loan-to-value ratio (LTV) to ensure that asset level performance is translated into enhanced returns for shareholders whilst maintaining an appropriate risk reward balance to accommodate changing financial and operating market cycles. The following table details the Group's key metrics in relation to managing its capital structure.

Group	2010			2009		
	Group £m	Joint ventures £m	Combined £m	Group £m	Joint ventures £m	Combined £m
Property portfolio						
Market value of investment properties	8,285.4	1,255.0	9,540.4	8,165.5	1,241.5	9,407.0
Trading properties and long-term contracts	87.9	32.8	120.7	94.9	37.0	131.9
	8,373.3	1,287.8	9,661.1	8,260.4	1,278.5	9,538.9
Net debt						
Borrowings	3,518.3	478.7	3,997.0	5,450.6	449.7	5,900.3
Cash and cash equivalents	(159.4)	(25.0)	(184.4)	(1,609.1)	(28.5)	(1,637.6)
Monies held in restricted accounts and deposits	(95.6)	(2.0)	(97.6)	(29.9)	–	(29.9)
Cumulative fair value movement on interest-rate swaps	0.1	37.2	37.3	112.0	38.2	150.2
Net debt	3,263.4	488.9	3,752.3	3,923.6	459.4	4,383.0
Less: Cumulative fair value movement on interest-rate swaps	(0.1)	(37.2)	(37.3)	(112.0)	(38.2)	(150.2)
Reverse bond exchange de-recognition (note 26)	486.0	–	486.0	499.8	–	499.8
Adjusted net debt	3,749.3	451.7	4,201.0	4,311.4	421.2	4,732.6
Adjusted total equity						
Total equity	5,689.0	–	5,689.0	4,820.2	–	4,820.2
Cumulative fair value movement on interest-rate swaps	0.1	37.2	37.3	112.0	38.2	150.2
Reverse bond exchange de-recognition (note 26)	(486.0)	–	(486.0)	(499.8)	–	(499.8)
Adjusted total equity	5,203.1	37.2	5,240.3	4,432.4	38.2	4,470.6
Gearing	57.4%		66.0%	81.4%		90.9%
Adjusted gearing	72.1%		80.2%	97.3%		105.9%
Loan to value – Group	44.8%		43.5%	52.2%		49.6%
– Security Group	45.5%			76.7%		
Weighted average cost of debt	5.2%		5.3%	4.1%		4.3%

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

Notes to the financial statements

—for the year ended 31 March 2010 continued

27. Financial risk management continued

Financial risk factors

(i) Credit risk

The Group's principal financial assets are cash and cash equivalents, trade and other receivables, finance lease receivables, amounts due from joint ventures, loans to third parties and commercial property backed loan notes. Further details concerning the credit risk of counterparties is provided in the note that specifically relates to each type of asset.

Bank and financial institutions

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

Trade receivables

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

Property sales

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

Finance lease receivables

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

Loans to third parties

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

Commercial property backed loan notes

The Group has acquired investments in commercial property backed loan notes which have been independently rated with a rating of AAA.

(ii) Liquidity risk

The Group actively maintains a mixture of Notes with final maturities between 2013 and 2036, and medium-term committed bank facilities that are designed to ensure that the Group has sufficient available funds for its operations and its committed capital expenditure programme.

Management monitors the Group's available funds as follows:

Group	March 2010 £m	December 2009 £m	September 2009 £m	June 2009 £m	March 2009 £m
Cash and cash equivalents	159.4	190.3	518.9	1,511.3	1,609.1
Undrawn committed credit lines ¹	1,400.0	1,400.0	707.6	–	–
Available funds	1,559.4	1,590.3	1,226.5	1,511.3	1,609.1
As a proportion of drawn debt	39.3%	40.1%	27.3%	25.7%	27.2%

1. Undrawn committed credit lines represent total undrawn committed facilities adjusted for amounts that would be restricted as a result of LTV covenants.

The Group's core financing structure is in the Security Group, although the remaining Non-Restricted Group may also secure independent funding.

Security Group

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

As at 31 March 2010, the reported LTV for the Security Group was 45.5%, meaning that the Group was operating in Tier 1 and benefited from maximum operational flexibility.

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

124 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

27. Financial risk management continued

Non-Restricted Group

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

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

	2010			
	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Borrowings (excluding finance lease liabilities)	308.2	9.3	427.0	3,221.8
Finance lease liabilities	0.5	0.4	0.4	51.3
Derivative financial instruments	–	–	1.1	–
Trade payables	9.9	–	–	–
Capital payables	47.8	–	–	–
	366.4	9.7	428.5	3,273.1

	2009			
	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Borrowings (excluding finance lease liabilities)	0.3	640.0	1,962.8	3,309.4
Finance lease liabilities	0.8	0.5	0.7	55.9
Derivative financial instruments	0.3	24.2	87.5	–
Trade payables	2.7	–	–	–
Capital payables	129.7	–	–	–
	133.8	664.7	2,051.0	3,365.3

(iii) Market risk

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

Interest rates

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

At 31 March 2010, the Group (including joint ventures) had **£1.1bn** (2009: £2.7bn) of hedges in place, and its net debt was **98.2%** fixed (2009: 107%). At the year-end all Group debt was fixed and subsequently the interest payable in the income statement is not sensitive to movements in interest rates. In the prior year, based on year-end balances, a 1% increase in interest rates would decrease the net interest payable in the income statement by £3.5m. The sensitivity has been calculated by applying the interest rate change to the variable rate borrowings, net of interest-rate swaps and cash and cash equivalents.

Foreign exchange

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

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

The Group had no foreign-currency exposure at 31 March 2010 or at 31 March 2009.

Notes to the financial statements

—for the year ended 31 March 2010 continued

27. Financial risk management continued

Financial maturity analysis

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

Group	2010			2009		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Sterling	4,018.9	—	4,018.9	4,662.2	1,308.2	5,970.4

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

Group	2010			2009		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
One year or less, or on demand	308.7	—	308.7	1.1	—	1.1
More than one year but not more than two years	9.7	—	9.7	740.2	200.3	940.5
More than two years but not more than five years	427.4	—	427.4	947.3	1,107.9	2,055.2
More than five years	3,273.1	—	3,273.1	2,973.6	—	2,973.6
	4,018.9	—	4,018.9	4,662.2	1,308.2	5,970.4

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

Group	2010	2009
	£m	£m
One year or less, or on demand	350.0	40.0
More than one year but not more than two years	—	480.0
More than two years but not more than five years	220.0	1,705.0
More than five years	—	—
	570.0	2,225.0

28. Obligations under finance leases

Group	2010	2009
	£m	£m
The minimum lease payments under finance leases fall due as follows:		
Not later than one year	4.1	4.7
Later than one year but not more than five years	14.7	16.3
More than five years	391.4	426.6
	410.2	447.6
Future finance charges on finance leases	(357.6)	(389.7)
Present value of finance lease liabilities	52.6	57.9
The present value of finance lease liabilities is as follows:		
Not later than one year	0.5	0.8
Later than one year but not more than five years	0.8	1.2
More than five years	51.3	55.9
	52.6	57.9

The fair value of the Group's lease obligations, using a discount rate of 5.2% (2009: 5.5%), is £68.2m (2009: £68.8m).

126 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

29. Net pension (deficit)/surplus

Contributory money purchase scheme

A contributory money purchase scheme was introduced on 1 January 1999 for all new administrative and senior property based employees, subject to eligibility, together with a separate similar scheme, effective 1 April 1998, for other property based employees.

Pension costs for defined contribution schemes are as follows:

Group	2010 £m	2009 £m
Defined contribution schemes	2.2	2.3

Defined benefit schemes

Land Securities Scheme

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

Contributions to the Scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected-unit method. As the Scheme is closed to new members, the current service cost will be expected to increase as a percentage of salary, under the projected-unit method, as members approach retirement. A full actuarial valuation of the Land Securities Scheme was undertaken on 30 June 2009 by the independent actuaries, Hymans Robertson Consultants & Actuaries. As a result of this valuation, the Trustees and the Group have agreed that, in order to address the deficit at that time, the employer contributions of 30% of pensionable salary will be paid together with additional employer contributions of £4m per annum for a period of six years commencing on 1 July 2010. This valuation was updated to 31 March 2010.

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	2010 %	2009 %
Rate of increase in pensionable salaries	3.80	3.40
Rate of increase in pensions in payment	3.80	3.40
Discount rate	5.60	7.00
Inflation	3.80	3.40
Expected return on plan assets	6.10	6.14

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

The mortality assumptions used in this valuation were:

Group	2010 Years	2009 Years
Life expectancy at age 60 for current pensioners – Men	29.7	28.5
–Women	31.4	31.7
Life expectancy at age 60 for future pensioners (current age 40) – Men	32.8	29.7
–Women	34.5	32.7

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:

	2010 %	2009 %	2008 %	2010 £m	2009 £m	2008 £m
Equities	7.50	7.50	7.50	62.4	43.9	70.5
Bonds and insurance contracts	5.05	5.24	5.35	78.4	62.6	68.0
Other	0.50	0.50	5.25	0.8	0.6	0.5
Fair value of schemes' assets				141.6	107.1	139.0
Present value of schemes' liabilities				(148.1)	(104.1)	(123.9)
Non-permissible surplus				–	–	(4.1)
(Deficit)/surplus in the schemes				(6.5)	3.0	11.0
Related deferred tax liability				–	(1.6)	(0.8)
Net pension (liability)/asset				(6.5)	1.4	10.2

Notes to the financial statements

—for the year ended 31 March 2010 continued

29. Net pension (deficit)/surplus continued

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

Group	2010 %	2009 %
Equities	44	41
Bonds and insurance contracts	56	59

The plan assets do not include any directly owned financial instruments issued by Land Securities Group PLC. Indirectly owned financial instruments had a fair value of less than **£0.1m** (2009: £0.1m).

	2010 £m	2009 £m
Analysis of the amounts charged to the income statement		
Analysis of the amount charged to operating profit		
Current service cost	1.0	1.3
Charge to operating profit	1.0	1.3
Analysis of amount (credited)/charged to interest expense		
Expected return on plan assets	(6.6)	(8.1)
Interest on schemes' liabilities	7.2	7.5
Net return	0.6	(0.6)

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 £3.0m
Rate of mortality	Increase by 1 year	Increase by 2.5% or £3.7m

Group	2010 £m	2009 £m
Changes in the present value of the defined-benefit obligation		
At the beginning of the year	104.1	123.9
Current service cost	1.0	1.3
Interest cost	7.2	7.5
Actuarial losses/(gains)	40.4	(11.0)
Benefits paid	(4.8)	(4.2)
Contributions by plan participants	0.2	0.2
Defined-benefit obligation included in the disposal of Trillium	–	(13.6)
At the end of the year	148.1	104.1

Group	2010 £m	2009 £m
Changes in the fair value of plan assets		
At the beginning of the year	107.1	139.0
Expected return on plan assets	6.6	8.1
Employer contributions	7.3	4.2
Actual return less expected return on schemes' assets	25.2	(26.2)
Benefits paid	(4.8)	(4.2)
Contributions by plan participants	0.2	0.2
Pension assets included in the disposal of Trillium	–	(14.0)
At the end of the year	141.6	107.1

Group	2010 £m	2009 £m
Analysis of the movement in the balance sheet (deficit)/surplus		
At the beginning of the year	3.0	11.0
Charge to operating profit	(1.0)	(1.3)
Expected return on plan assets	6.6	8.1
Interest on schemes' liabilities	(7.2)	(7.5)
Employer contributions	7.3	4.2
Actuarial losses	(15.2)	(11.1)
Transfer of defined-benefit pension scheme on the disposal of Trillium	–	(0.4)
At the end of the year	(6.5)	3.0

128 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

29. Net pension (deficit)/surplus continued

Group	2010 £m	2009 £m
Analysis of the amounts recognised in other comprehensive income		
Analysis of gains and losses		
Actual return less expected return on schemes' assets	25.2	(26.2)
Experience gains and losses arising on schemes' liabilities	(40.4)	11.0
Decrease in non-permissible surplus	–	4.1
Actuarial losses	(15.2)	(11.1)

Actuarial gains and losses are recognised immediately through the Statement of comprehensive income.

Group	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
History of experience gains and losses					
Experience adjustments arising on schemes' assets					
Amount	25.2	(26.2)	(12.1)	(2.6)	15.5
Percentage of schemes' assets	17.8%	24.5%	8.7%	1.8%	10.3%
Experience adjustments arising on schemes' liabilities					
Amount	(40.4)	11.0	(32.0)	(1.3)	20.5
Percentage of the present value of funded obligations	27.3%	10.6%	25.8%	0.9%	13.1%
Present value of schemes' liabilities	(148.1)	(104.1)	(123.9)	(150.0)	(156.5)
Fair value of schemes' assets	141.6	107.1	139.0	144.4	150.0
Non-permissible surplus	–	–	(4.1)	–	–
(Deficit)/surplus	(6.5)	3.0	11.0	(5.6)	(6.5)

The contributions expected to be paid in respect of the defined-benefit schemes during the financial year ending 31 March 2011 amount to **£5.4m**.

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

30. Deferred taxation

Group	Pension deficit/ (surplus) £m	Accelerated tax depreciation £m	Capitalised interest £m	Other £m	Total £m
At 1 April 2008 – Assets	–	–	–	0.9	0.9
– Liabilities	(0.8)	(0.7)	(0.9)	–	(2.4)
	(0.8)	(0.7)	(0.9)	0.9	(1.5)
Disposal of Trillium	–	1.4	–	–	1.4
(Charged)/credited to income statement for the year	(1.4)	1.2	0.9	(0.9)	(0.2)
Credited to other comprehensive income	0.6	–	–	–	0.6
At 31 March 2009 – Assets	–	1.9	–	–	1.9
– Liabilities	(1.6)	–	–	–	(1.6)
	(1.6)	1.9	–	–	0.3
Charged to income statement for the year	(0.3)	(1.9)	–	–	(2.2)
Credited to other comprehensive income	1.9	–	–	–	1.9
At 31 March 2010 – Assets	–	–	–	–	–
– Liabilities	–	–	–	–	–
	–	–	–	–	–

Group	2010 £m	2009 £m
Deferred tax is provided as follows:		
Excess of capital allowances over depreciation – operating properties	–	1.9
Pension surplus	–	(1.6)
Total deferred tax asset	–	0.3

The Group has unutilised trading and other tax losses carried forward as at 31 March 2010 of approximately **£102.0m** (2009: £92.0m).

Notes to the financial statements

—for the year ended 31 March 2010 continued

31. 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, the Long-Term Incentive Plan and Conditional shares granted on the appointment of a Board director on 1 January 2010. 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.

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

Group	2010 £m	2009 £m
Savings Related Share Option Schemes	0.4	0.2
Executive Share Option Schemes	0.6	1.8
Performance shares	–	1.2
Deferred bonus share scheme	0.9	1.1
Long-Term Incentive Plan	3.9	4.3
Conditional shares granted 1 January 2010	0.2	–
	6.0	8.6
Attributed to:		
Continuing activities	6.0	4.8
Discontinued operations	–	3.8
	6.0	8.6

Savings Related Share Option Schemes

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

1993 Savings Related Share Option Scheme

	Number of options		Weighted average exercise price	
	2010 Pence	2009 Pence	2010 Pence	2009 Pence
At the beginning of the year	13,431	35,287	585	677
Exercised	(5,008)	(18,951)	585	690
Forfeited	–	(831)	–	651
Lapsed	(8,117)	(3,397)	585	707
Rights Issue adjustment	–	1,323	–	–
At the end of the year	306	13,431	585	585
Exercisable at the end of the year	306	–	585	–
			Years	Years
Weighted average remaining contractual life			–	0.50

The options outstanding under the scheme are exercisable at **585p**, during 2010, being seven years from the date of grant. No shares were exercised during the year. The weighted average share price at the date of exercise during the year was **670p** (2009: 1291p).

2003 Savings Related Share Option Scheme

	Number of options		Weighted average exercise price	
	2010 Pence	2009 Pence	2010 Pence	2009 Pence
At the beginning of the year	350,927	507,472	1162	1248
Granted	674,988	–	388	–
Exercised	(926)	(56,303)	388	746
Forfeited	(58,097)	(68,284)	962	1356
Lapsed	(274,822)	(66,258)	1108	1356
Rights Issue adjustment	–	34,300	–	–
At the end of the year	692,070	350,927	447	1162
Exercisable at the end of the year	14,814	86,563	1188	1016
			Years	Years
Weighted average remaining contractual life			3.45	1.51

130 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

31. Share-based payments continued

The options outstanding under the scheme are exercisable at prices between 388p and 1372p after three, five or seven years from the date of grant. 3,790 of the options outstanding are exercisable at 610p, 6,551 at 862p, 5,077 at 1032p, 16,674 at 1315p, 18,091 at 1372p and 641,887 at 388p during 2010 and the periods 2010 to 2011, 2010 to 2012, 2010 to 2014, 2010 to 2013 and 2012 to 2016 respectively.

The weighted average share price at the date of exercise during the year was **667p** (2009: 1129p). During the year options were granted on 12 June 2009 (2009: nil). The estimated fair value of the options granted in the year was **£0.5m** (2009: £nil).

Executive Share Option Schemes
2000 Executive Share Option Scheme

	Number of options		Weighted average exercise price	
	2010	2009	2010 Pence	2009 Pence
At the beginning of the year	196,789	237,692	752	839
Exercised	–	(43,548)	–	855
Forfeited	(98,611)	(16,806)	744	850
Rights Issue adjustment	–	19,451	–	–
At the end of the year	98,178	196,789	758	752
Exercisable at the end of the year	98,178	196,789	758	752
			Years	Years
Weighted average remaining contractual life			1.72	2.83

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

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

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

The options outstanding under the scheme are exercisable at prices between 732p and 783p up to 2012. No options were exercised during the year. The weighted average share price at the date of exercise for share options exercised during the previous year was 1286p.

2002 Executive Share Option Scheme

	Number of options		Weighted average exercise price	
	2010	2009	2010 Pence	2009 Pence
At the beginning of the year	1,535,842	1,581,872	934	1036
Exercised	–	(114,005)	–	996
Forfeited	(841,516)	(83,890)	938	1082
Rights Issue adjustment	–	151,865	–	–
At the end of the year	694,326	1,535,842	929	934
Exercisable at the end of the year	694,326	1,535,842	929	934
			Years	Years
Weighted average remaining contractual life			3.92	4.94

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

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 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.

20,530, 215,924 and 457,872 of the options outstanding under the 2002 Executive Share Option Scheme are exercisable at 681p, 710p and 1044p respectively up to 2014.

No options were exercised during the year. The weighted average share price at the date of exercise for share options exercised during the previous year was 1278p.

Notes to the financial statements

—for the year ended 31 March 2010 continued

31. Share-based payments continued

2005 Executive Share Option Scheme

	Number of options		Weighted average exercise price	
	2010	2009	2010 Pence	2009 Pence
At the beginning of the year	1,889,556	967,791	1301	1640
Granted	1,198,821	819,405	469	1213
Exercised	(3,894)	—	469	—
Forfeited	(530,907)	(82,647)	1346	1470
Rights Issue adjustment	—	185,007	—	—
At the end of the year	2,553,576	1,889,556	904	1301
Exercisable at the end of the year	189,705	280,509	1419	1280
			Years	Years
Weighted average remaining contractual life			8.39	8.30

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

The three year vesting period is not subject to performance conditions. Options are satisfied by the transfer of shares.

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

The options outstanding under the scheme are exercisable at 469p, 723p, 1095p, 1280p, 1560p and 1565p during the periods 2012 to 2019, 2012 to 2019, 2011 to 2019, 2010 to 2015, 2010 to 2017 and 2010 to 2016, respectively.

The weighted average share price at the date of exercise for share options exercised during the year was **679p**. During the year, **1,196,877** options were granted on **29 June 2009** and **1,944** on **18 November 2009** (2009: 807,988 on 10 July 2008 and 11,417 on 30 March 2009). The estimated fair value of the options granted on those dates was **£0.5m** (2009: £1.4m).

Performance Shares

	Number of shares	
	2010	2009
At the beginning of the year	—	137,334
Exercised	—	(136,684)
Lapsed	—	(650)
At the end of the year	—	—
Exercisable at the end of the year	—	—
	Years	Years
Weighted average remaining contractual life	—	—

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

The weighted average share price at the date of exercise for Performance Shares exercised during the prior year was 1176p.

132 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

31. Share-based payments continued
Deferred Bonus Shares Scheme

	Number of shares	
	2010	2009
At the beginning of the year	222,512	198,106
Granted	–	165,415
Capitalisation of dividends	7,826	6,559
Exercised	(87,582)	(153,252)
Forfeited	–	(356)
Rights Issue adjustment	–	6,040
At the end of the year	142,756	222,512
Exercisable at the end of the year	–	–
	Years	Years
Weighted average remaining contractual life	1.77	2.41

The Executive Directors' Annual Bonus Scheme is structured in two distinct parts. Under the Bonus Opportunity participants are eligible for awards of up to 100% of salary, 25% to be taken in deferred shares. The underlying performance criteria are specific to each Executive Director and include Total returns in excess of WACC, Group Profit, Investment and Business Unit performance. Under the Additional Bonus Opportunity participants are eligible for additional awards of up to 200% of salary, 50% to be taken in deferred shares, vesting criteria being outperformance against London and Retail property sector IPD Total Property Return (TPR) benchmarks. 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 Director leaves employment during the period. Fair value has been adjusted for participants who have left the Group, but no adjustment has been made for future anticipated lapses.

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

The weighted average share price at the date of exercise for shares exercised during the year was **480p** (2009: 1090p). No deferred shares were granted during the year (2009: 165,415 deferred shares were granted on 31 March 2009). The estimated fair value of the rights over shares granted in 2009 was **£1.5m**.

2005 Long-Term Incentive Plan

	Number of shares	
	2010	2009
At the beginning of the year	1,066,022	1,263,526
Granted	1,144,429	508,527
Exercised	(287,091)	(565,424)
Forfeited	(132,059)	(220,908)
Rights Issue adjustment	–	80,301
At the end of the year	1,791,301	1,066,022
Exercisable at the end of the year	–	–
	Years	Years
Weighted average remaining contractual life	1.66	1.57

The Long-Term Incentive Plan (LTIP) for Executive Directors and senior executives authorises the Remuneration Committee to make grants of LTIP Performance 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. On a two for one basis the maximum Matching Shares award is over shares with a value of 100% of salary for Executive Directors and 50% for senior executives. Awards of LTIP Performance Shares and Matching Shares are subject to the same performance measures over three years. For grants up to and including those made on 31 March 2009 half of any award will vest based on achieving increases in Normalised Adjusted Diluted Earnings Per Share (NADEPS). The other half will vest dependent on the Group's Total Property Return (TPR) equalling, or exceeding, IPD weighted indices which reflect the sector mix of Land Securities' investment portfolio. For awards commencing with the grant of LTIP Performance Shares on 29 June 2009, NADEPS has been replaced by a relative Total Shareholder Return (TSR) measure. Specifically, Land Securities' three-year TSR performance (share price increase plus reinvested dividends) will be compared against the TSR performance of an index of a comparator group of FTSE 350 Real Estate Companies. Vesting is on a sliding scale between 0% for performance below the index and 100% for performance which beats the index by 4% per annum or more. 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.

Notes to the financial statements

—for the year ended 31 March 2010 continued

31. Share-based payments continued

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

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

The weighted average share price at the date of exercise for shares exercised during the year was **491p**. Rights to receive **722,135** Performance Shares were granted on **29 June 2009** (2009: 180,957 Performance Shares were granted on 10 July 2008 and 200,066 on 30 March 2009). Rights to receive **422,294** Matching Shares were granted on **31 July 2009** (2009: 60,878 Matching Shares were granted on 31 July 2008 and 66,626 on 30 March 2009). The estimated fair value of the rights over the shares granted on those dates was **£2.2m** (2009: £2.6m).

Conditional shares granted 1 January 2010

	Number of shares	
	2010	2009
At the beginning of the year	—	—
Granted	160,000	—
At the end of the year	160,000	—
Exercisable at the end of the year	—	—
	Years	Years
Weighted average remaining contractual life	1.54	—

160,000 shares were granted to a Board director on his appointment on 1 January 2010. 34,000, 46,000 and 80,000 shares vest on 30 June 2010, 30 June 2011 and 30 June 2012, respectively, provided that he is in employment at the vesting date for each tranche of shares. There are no other performance conditions. The estimated fair value of the shares on the date of grant was **£1.0m**.

Fair-values inputs

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

	2003 Savings Related Share Option Scheme	2002 Executive Share Option Scheme	2005 Executive Share Option Scheme	Deferred Bonus Shares	2005 Long-Term Incentive Plan	Conditional shares granted 1 January 2010
Range of share prices at grant date	485p to 1903p	756p to 1159p	469p to 1737p	787p to 1737p	469p to 1737p	664p
Range of exercise prices	388p to 1523p	756p to 1159p	469p to 1737p	nil p	nil p	nil p
Expected volatility	19% to 21%	19%	19% to 21%	19% to 21%	19% to 21%	21%
Expected life	3 to 7 years	3 to 5 years	2.3 to 5 years	3 to 5 years	2.3 to 5 years	0.25 to 2.25 years
Risk-free rate	2.25% to 5.67%	3.60% to 5.10%	2.04% to 5.67%	2.04% to 5.67%	2.04% to 5.67%	0.7% to 1.3%
Expected dividend yield	3.02% to 5.98%	4.11% to 4.34%	3.02% to 6.53%	3.02% to 6.53%	3.02% to 6.53%	4.38%

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.

32. Called up share capital

Group and Company	Authorised		Allotted and full paid	
	2010 Number million	2009 Number million	2010 £m	2009 £m
Ordinary shares of 10p each	1,000.0	1,000.0	76.5	76.2
Non-equity B shares of £1.02 each	38.9	38.9	—	—
Redeemable preference shares of £1.00 each	0.1	0.1	—	—
			76.5	76.2

Group and Company	Number of shares	
	2010	2009
Movements in the share capital were:		
At the beginning of the year	761,908,210	470,901,478
Issued on the exercise of options	5,934	232,807
Issued in lieu of cash dividends	2,735,338	—
Rights Issue	—	290,773,925
At the end of the year	764,649,482	761,908,210

The number of ordinary shares that would be issued if all options were exercised at 31 March 2010 is **4,038,456** (2009: 3,986,545).

In July 2008 and 2009 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 2010 the Group owned **5,896,000** ordinary shares (2009: 5,896,000 ordinary shares) with a market value of **£39.9m** (2009: £25.8m).

134 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

33. Own shares

Group	2010 £m	2009 £m
Cost at the beginning of the year	12.4	22.3
Acquisition of ordinary shares	—	—
Transfer of shares to employees on exercise of share schemes	(5.5)	(9.9)
Cost at the end of the year	6.9	12.4

Own shares consist of shares in Land Securities Group PLC held by the Employee Share Ownership Plan (ESOP) which is operated by the Group in respect of its commitment to the Deferred Bonus Shares Scheme (note 31).

The number of shares held by the ESOP at 31 March 2010 was 522,409 (2009: 887,914). The market value of these shares at 31 March 2010 was **£3.5m** (2009: £3.8m).

34. Cash flow from operating activities

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Reconciliation of operating profit to net cash inflow from operating activities:				
Cash generated from operations				
Profit/(loss) for the financial year from continuing operations	1,092.4	(4,773.7)	1,084.1	(273.6)
Income tax	(23.1)	0.5	(5.3)	(15.2)
Profit/(loss) before tax	1,069.3	(4,773.2)	1,078.8	(288.8)
Share of (profit)/losses of joint ventures (post-tax)	(137.6)	599.0	—	—
	931.7	(4,174.2)	1,078.8	(288.8)
Fair value movement on interest-rate swaps	(7.0)	102.1	—	—
Interest income	(29.8)	(32.5)	—	(20.0)
Interest expense	248.9	262.9	11.1	53.9
Operating profit/(loss) from continuing operations	1,143.8	(3,841.7)	1,089.9	(254.9)
Operating loss from discontinued operations	—	(79.0)	—	—
Operating profit/(loss)	1,143.8	(3,920.7)	1,089.9	(254.9)
Adjustments on continuing and discontinued operations for:				
Depreciation	4.8	24.3	—	—
Loss on disposal of non-current properties	32.5	129.1	—	—
Net valuation (surplus)/deficit on investment properties	(746.0)	4,123.4	—	—
Goodwill impairment	—	148.6	—	—
Impairment of trading properties	10.6	92.3	—	—
Impairment to investment in subsidiary undertakings	—	—	—	234.7
Dividends from subsidiary undertakings ¹	—	—	(1,100.0)	—
Share-based payment charge	6.0	8.6	—	—
Pension scheme charge	1.0	1.3	—	—
	452.7	606.9	(10.1)	(20.2)
Changes in working capital:				
Decrease/(increase) in trading properties and long-term development contracts	10.1	(34.0)	—	—
(Increase)/decrease in receivables	(30.0)	69.5	242.3	0.1
(Decrease)/increase in payables and provisions	(5.8)	8.9	(110.8)	(375.3)
Net cash generated from operations	427.0	651.3	121.4	(395.4)

1. Dividends received from subsidiary undertakings have been satisfied through the inter-company account and have no cash impact.

Notes to the financial statements

—for the year ended 31 March 2010 continued

35. Related party transactions

Subsidiaries

During the year, the Company entered in to transactions, in the normal course of business, with other related parties as follows:

	2010 £m	2009 £m
Transactions with subsidiary undertakings:		
Recharge of costs	117.4	(350.9)
Dividends received	1,100.0	—
Interest (paid)/received	(11.1)	53.9
Investment in subsidiary	(850.0)	—

At 31 March 2010, £13.3m was due from subsidiary undertakings (2009: £108.2m due to subsidiary undertakings).

Joint ventures

As disclosed in note 17, 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 2010 and at 31 March 2010				Year ended 31 March 2009 and at 31 March 2009			
	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	0.7	1.2	1.2	—	0.5	0.4	0.3	(0.1)
Metro Shopping Fund Limited Partnership	0.4	1.4	0.5	(0.8)	0.8	4.7	—	—
Buchanan Partnership	4.3	(1.4)	0.8	—	5.3	(2.9)	1.6	—
St. David's Limited Partnership	8.2	(70.2)	17.7	(0.4)	8.0	74.0	12.3	(115.1)
The Martineau Galleries Limited Partnership	0.2	(2.3)	0.3	—	0.2	(5.9)	0.4	—
The Bull Ring Limited Partnership	—	(7.7)	—	—	—	(11.7)	—	—
Bristol Alliance Limited Partnership	1.1	2.0	5.4	—	7.0	57.4	14.2	—
The Martineau Limited Partnership	—	—	—	—	0.1	—	—	—
A2 Limited Partnership	—	(0.1)	—	—	—	(3.7)	—	—
Countryside Land Securities (Springhead) Limited	—	0.4	0.8	—	—	0.9	0.6	—
Investors in the Community	—	—	—	—	—	0.2	—	—
The Ebbsfleet Limited Partnership	—	—	0.2	—	—	—	0.2	—
The Harvest Limited Partnership	0.3	2.1	0.7	(43.2)	0.6	14.6	0.6	(43.0)
The Oriana Limited Partnership	0.2	—	4.0	—	0.4	11.1	2.5	—
Millshaw Property Co. Limited	—	—	—	(11.4)	—	—	—	(10.4)
Fen Farm Developments Limited	0.1	—	12.7	—	0.1	(3.5)	11.1	—
The Empress State Limited Partnership	—	—	0.1	—	—	28.1	0.1	—
HNJV Limited	—	—	2.1	—	—	—	0.7	—
	15.5	(74.6)	46.5	(55.8)	23.0	163.7	44.6	(168.6)

Further detail of the above transactions and balances can be seen in note 17.

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 [p87–89](#).

	2010 £m	2009 £m
Short-term employee benefits	5.0	4.2
Post-employment benefits	0.4	0.4
Share-based payments	3.2	2.6
	8.6	7.2

136 **Notes to the financial statements**
—for the year ended 31 March 2010 continued

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:

	2010 £m	2009 £m
Not later than one year	463.0	534.0
Later than one year but not more than five years	1,740.0	1,981.5
More than five years	3,464.2	3,818.7
	5,667.2	6,334.2

The total of contingent rents recognised as income during the year was **£37.1m** (2009: £41.2m).