

Notes to the financial statements

—for the year ended 31 March 2010

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.

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.

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.

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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

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

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	2009					
	Secured/ unsecured	Fixed/ floating	Effective interest rate %	Nominal/ notional value £m	Fair value £m	Book value £m
Short-term borrowings and overdrafts						
Sterling						
Bank overdrafts	Unsecured	Floating	–	0.3	0.3	0.3
Amounts payable under finance leases (note 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.

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

Notes to the financial statements

— for the year ended 31 March 2010 continued

29. Net pension (deficit)/surplus continued

Group	2010	2009
Analysis of the amounts recognised in other comprehensive income	£m	£m
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	2009	2008	2007	2006
History of experience gains and losses	£m	£m	£m	£m	£m
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. 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

Reconciliation of operating profit to net cash inflow from operating activities:	Group		Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
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.