

Financial results

Headline results

The Group's loss before tax was £1,737.2m, compared to a profit of £365.2m for the six months to 30 September 2007. The loss before tax includes the revaluation deficit on our investment properties of £1,769.1m (six months to 30 September 2007: £122.0m surplus). Revenue profit, our measure of underlying profit before tax, increased by 13.3% from £172.8m to £195.8m. Earnings per share decreased from 76.43p last year to a loss per share of 375.10p, with adjusted diluted earnings per share showing a 14.7% increase on the comparable period to 41.83p (six months to 30 September 2007: 36.46p).

The combined investment portfolio, which excludes Trillium, decreased in value from £13.6bn to £12.1bn on the back of a valuation deficit of £1,723.1m or 12.7%. Net assets per share decreased by 19.7% to 1660p from 2067p, with adjusted diluted net assets per share decreasing by 20.7% to 1552p (31 March 2008: 1956p).

(Loss) / profit before tax

The main drivers of our loss before tax are the change in value of our investment portfolio (including any profits or losses on disposal of properties), our net rental income, the performance of our Trillium business, and the amount of interest we incurred. The degree to which movement on these and other items led to the reduction in our profit before tax from £365.2m last year to a loss of £1,737.2m this period, is explained in Table 4 below. During the current period, we took the decision to impair the goodwill associated with Trillium, resulting in an exceptional charge of £147.6m. A number of Trillium's new business prospects rely on the availability of long-term debt funding at reasonable cost. Given current credit markets, we have taken a more cautious view on the value of Trillium's discounted cashflows including new business with the result that we have impaired its goodwill.

Table 4: Principal changes in profit / (loss) before tax and revenue profit

	Profit / (loss) before tax £m	Revenue profit £m
Six months ended 30 September 2007	365.2	172.8
Valuation deficit	(1,891.1)	-
Goodwill impairment	(147.6)	-
Profit on disposal of non-current properties	(68.3)	-
Profit on sale of trading properties	(7.6)	-
Decrease in capitalised interest ⁽¹⁾	(3.1)	(3.1)
Amortisation of bond de-recognition ⁽²⁾	(3.6)	-
Long-term development contract profits	0.7	-
Trillium operating profit (including joint ventures) ⁽³⁾	2.8	2.8
Interest related to PPP investments ⁽⁴⁾	18.9	18.9
Other Trillium interest ⁽⁵⁾	(1.3)	(1.3)
Net rental and service charge income ⁽⁶⁾	14.0	14.0
Indirect costs	(2.2)	(2.2)
Other interest ⁽⁷⁾	(6.1)	(6.1)
Demerger costs ⁽⁸⁾	(16.4)	-
Debt restructuring charges	1.3	-
Other	7.2	-
Six months ended 30 September 2008	(1,737.2)	195.8

Notes:

- Lower development activity, with several developments completing since 1 October 2007 (New Street Square, Princesshay and Bankside 2&3).
- The debt instruments issued as part of the refinancing in November 2004 do not meet the recognition requirements of IAS39 as they are not deemed to be substantially different from the debt they replaced. As a result, the book value of the new instruments is reduced to the book value of the debt it replaced and

the difference is amortised over the life of the new instruments. The increase in amortisation over the comparable period is a reflection of the maturity profile of debt replaced.

3. Increase is mainly due to DWP (£14.3m) and Accor hotels (£2.8m) offset by higher bid costs. See Table 3 on page 16 for details.
4. Lower interest cost associated with ownership of PPP investments (on which no revenue is recognised) following the sale of a number of PPP assets to the Trillium Investment Partners fund in the second half of 2007/08.
5. Increased cost due to higher average capital employed, principally Accor hotels.
6. Increase in net rental and service charge income is largely driven by completed developments.
7. Other interest includes a full six months interest on the REIT conversion charge paid in July 2007 (£316.2m), which amounted to £4.3m.
8. All costs related to the proposed demerger were expensed in the six months and do not form part of the calculation of revenue profit.

Revenue profit

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

Revenue profit for the six months increased by 13.3% from £172.8m to £195.8m, principally due to an increase in profit in Trillium.

In the six month period, there was an increase in revenue profit in London and Retail of £2.6m. Net rental income from our investment portfolio increased by £18.4m on the back of £4.4m of like-for-like rental income increases and £29.4m from our developments, including New Street Square, EC4, and Princesshay in Exeter. Offsetting the higher net rental income on our investment portfolio were higher interest costs as we ceased capitalising interest on completed developments as well as higher non-recoverable service charge costs arising from voids, in particular those related to properties being emptied in anticipation of redevelopment. At a Group level, interest costs were higher than the prior period as we had the full six months effect of the REIT conversion charge of £316.2m paid in July 2007.

At Trillium, operating profit was at a similar level to last year, while at the revenue profit level there has been an improvement of £20.4m, largely attributable to a reduction in interest on the PPP investments. These assets were refinanced and then sold in the second half of 2007/08 to Trillium Investment Partners, the fund in which we have a 10% interest. Since our PPP investments are generally accounted for as assets held for sale, we do not recognise any income from our ownership of them. Consequently, Trillium's revenue profit benefits from the interest saving from the release of capital when these assets are sold. Further information on the performance of Trillium can be found on page 16.

Further information on the change in revenue profit compared to the prior period is given in Table 4 and a reconciliation between profit before tax and revenue profit is shown in Table 5:

Table 5: Reconciliation of profit before tax to revenue profit

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m
(Loss) / profit before tax	(1,737.2)	365.2
Goodwill impairment	147.6	-
Valuation deficit / (surplus) – Group	1,562.7	(145.5)
– joint ventures	206.4	23.5
(Profits) / losses on non-current property disposals – Group	(1.5)	(79.0)
– joint ventures	(1.9)	7.3
Mark-to-market adjustment on interest rate swaps	(0.9)	4.2
Eliminate effect of bond exchange de-recognition	5.9	2.3
Debt restructuring (credits) / charges	(0.3)	1.0
Joint venture tax adjustment	0.9	3.0
Demerger costs	16.4	-
Profit on sale of trading properties – Group	(0.5)	-
– joint ventures	(0.1)	(8.2)
Long-term development contract profits	(1.7)	(1.0)
Revenue profit	195.8	172.8

(Loss) / earnings per share

The basic loss per share was 375.10p, compared to earnings per share of 76.43p in the comparative period, the change being predominantly due to the revaluation deficit on the investment property portfolio (407.65p per share).

In the same way that we adjust profit before tax to remove capital and one-off items to give revenue profit, we also report an adjusted earnings per share figure, for which the calculation is set out in note 7 to the financial statements. Adjusted diluted earnings per share increased from 36.46p per share for the six months ended 30 September 2007 to 41.83p per share in the current period, a 14.7% increase. The increase in adjusted earnings per share is largely attributable to the lower interest costs on Trillium's PPP business following the disposal of the majority of its PPP investments to the Trillium Investment Partners fund.

Dividends

We will be paying a second quarterly dividend of 16.5p per share on 12 January 2009 to shareholders on the Register on 5 December 2008. Taken together with the first quarterly dividend of 16.5p, paid on 24 October 2008, this makes a first half dividend of 33.0p per share (2007: 32.0p), which represents a 3.1% increase.

The first and second quarterly dividends comprise 90% and 100% Property Income Distribution (PID) from the REIT qualifying activities respectively. The PID element is subject to 20% withholding tax for relevant shareholders. The Company offers shareholders the option to participate in a Dividend Reinvestment Plan (DRIP). For further details, please refer to the Shareholder centre within the Investor section of our corporate website www.landsecurities.com.

Table 6: Dividends

	Property income distribution (PID) pence	Non-property income distribution pence	Total pence
First quarterly dividend (paid on 24 October 2008)	14.85	1.65	16.50
Second quarterly dividend (payable on 12 January 2009)	16.50	-	16.50
Total	31.35	1.65	33.00

Balance of business tests

REIT legislation specifies conditions in relation to the type of business a REIT may conduct, which the Group is required to meet in order to retain its REIT status. In summary, at least 75% of the Group's profits must be derived from REIT qualifying activities (the 75% profits test) and 75% of the Group's assets must be employed in REIT qualifying activities (the 75% assets test). Qualifying activities means our property rental business. The result of these tests for the Group for the six months ended 30 September 2008 and 30 September 2007, and at the balance sheet date, is as follows:

Table 7: REIT balance of business tests

	For the six months ended 30 September 2008 / as at 30 September 2008			For the six months ended 30 September 2007 / as at 30 September 2007			For the year ended 31 March 2008 / as at 31 March 2008		
	Tax- Exempt Business	Residual Business	Adjusted Results	Tax- Exempt Business	Residual Business	Adjusted Results	Tax- Exempt Business	Residual Business	Adjusted Results
Adjusted profit before tax (£m)	184.4	(5.4)	179.0	186.5	(12.0)	174.5	351.1	9.7	360.8
Balance of business – 75% profits test	103.0%	(3.0%)		106.9%	(6.9%)		97.3%	2.7%	
Adjusted total assets (£m)	13,163.6	1,444.7	14,608.3	16,189.5	2,308.1	18,497.6	14,766.8	1,962.9	16,729.7
Balance of business – 75% assets test	90.1%	9.9%		87.5%	12.5%		88.3%	11.7%	

Net assets

At 30 September 2008, net assets per share were 1660p, a decrease of 407p over the six months since 31 March 2008.

In common with other property companies, we calculate an adjusted measure of net assets which we believe better reflects the underlying net assets attributable to shareholders. Our adjusted net assets are lower than our reported net assets primarily due to an adjustment to our debt. Under IFRS, we do not show our debt at its nominal value, although we believe it would be more appropriate to do so, and we therefore adjust our net assets accordingly. At 30 September 2008, adjusted diluted net assets per share were 1552p per share, a decrease of 404p or 20.7% from 31 March 2008.

Table 8 summarises the main differences between net assets and our adjusted measure together with the key movements over the periods.

Table 8: Net assets

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Net assets at the beginning of the period	9,582.9	10,791.3	10,791.3
Adjusted earnings	194.3	170.8	381.0
Demerger costs	(16.4)	-	(6.9)
Revaluation (deficits) / surpluses on ongoing and completed development properties	(368.3)	182.1	(117.3)
Revaluation deficits on investment properties (excluding Trillium)	(1,354.8)	(51.3)	(1,162.3)
Revaluation deficits on Trillium investment properties	(46.0)	(8.8)	(24.9)
Profits on non-current asset disposals	3.4	71.7	67.8
Goodwill impairment	(147.6)	-	-
Interest charges not included in adjusted earnings	(4.7)	(7.5)	(31.9)
Prior year non-revenue tax adjustments	-	-	16.2
(Loss) / profit after tax	(1,740.1)	357.0	(878.3)
Profit on discontinued operations	14.7	10.0	47.5
Dividends paid	(148.8)	(159.5)	(308.4)
Other reserve movements	(4.6)	(75.8)	(69.2)
Net assets at the end of the period	7,704.1	10,923.0	9,582.9
Mark-to-market on interest rate hedges	12.3	(14.5)	12.7
Debt adjusted to nominal value	(505.6)	(516.8)	(511.5)
Adjusted net assets at the end of the period	7,210.8	10,391.7	9,084.1

To the extent tax is payable, all items are shown post-tax.

Cash flow, net debt and gearing

During the period, our cash receipts exceeded cash expenditure by £175.1m and, as a result, net debt decreased to £5,209.4m (31 March 2008: £5,384.5m). During the six months we invested £266.1m in our properties including £32.4m on investment property acquisitions and £212.2m on development. The development expenditure, which includes land acquisitions but excludes our share of joint ventures and capitalised interest, was spent principally on One New Change, EC4, 50 Queen Anne's Gate, SW1, in London and shopping centre developments in Livingston, and Leeds.

Cash receipts during the six months, including net cash receipts from our joint ventures and associates, totalled £510.6m. This included £212.5m from investment property disposals (including £9.7m of Trillium investment properties). A further £30.5m was received from the sale of Trillium's freehold operating properties. We also received a net £103.0m from the disposal of PPP assets to the Trillium Investment Partners fund.

We received a net £163.2m from our joint ventures and associates, of which £185.3m was achieved by the sale of the Empress State Building, SW6, to a 50:50 joint venture with Liberty International PLC, and its simultaneous refinancing. Our share of expenditure within the joint venture category includes £90.6m on developments, principally at Bristol and Cardiff, and £17.6m on acquisitions into the Harvest joint venture with Sainsbury's.

The factors contributing to the decrease in net debt of £175.1m are shown in Table 9 below:

Table 9: Cash flow and net debt

	Six months ended 30 September 2008 £m	Six months ended 30 September 2007 £m	Year ended 31 March 2008 £m
Operating cash inflow after interest and tax (excluding REIT conversion charge)	96.0	86.0	315.4
REIT conversion charge	-	(316.2)	(316.2)
Dividends paid	(148.8)	(159.5)	(308.4)
Investment property acquisitions	(32.4)	(552.7)	(722.6)
Trillium property acquisitions	(0.8)	(153.0)	(158.3)
Development and refurbishment capital expenditure	(212.2)	(318.9)	(530.3)
Investment in finance lease receivables (Norwich Union and DVLA)	(20.7)	(35.8)	(82.1)
Investment in properties	(266.1)	(1,060.4)	(1,493.3)
Acquisition of AMEC	-	-	(158.5)
Acquisition of PPPs	-	(67.0)	(152.7)
Other capital expenditure	(4.7)	(5.3)	(15.4)
Total capital expenditure	(270.8)	(1,132.7)	(1,819.9)
Disposals	243.0	830.0	1,080.7
Receipts from discontinued activities	103.0	25.3	424.9
Receipts from the disposal group	1.4	6.0	441.0
Joint ventures and associates	163.2	(29.8)	(0.2)
Purchase of share capital	-	(81.1)	(87.6)
Other movements	(11.9)	(4.5)	(26.3)
Decrease / (increase) in net debt	175.1	(776.5)	(296.6)
Opening net debt	(5,384.5)	(5,087.9)	(5,087.9)
Closing net debt	(5,209.4)	(5,864.4)	(5,384.5)

Although net debt has decreased, gearing increased principally due to the impact of falling property values on our equity. Details of the Group's gearing are set out in Table 10, which also shows the impact of joint venture debt, although the lenders to our joint ventures have no recourse to the Group for repayment. Adjusted gearing, which we believe to be the most appropriate measure, since it recognises the nominal value of our debt, increased over the six months from 64.9% to 79.3% (43.5% LTV equivalent). Adjusted gearing (including our share of joint ventures) increased from 67.7% to 84.4% (45.4% LTV equivalent).

Table 10: Gearing

£m	30 September 2008 %	31 March 2008 %
Gearing – on book value of balance sheet debt	67.6	56.2
Adjusted gearing *	79.3	64.9
Adjusted gearing * – as above plus notional share of joint venture debt	84.4	67.7

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

Our interest cover ratio, excluding our share of joint ventures, has increased from 1.93 times for the year ended 31 March 2008 to 2.14 times for the six months ended 30 September 2008. Under the rules of the REIT regime, we need to maintain an interest cover ratio in the exempt business of at least 1.25 times to avoid paying tax. As

calculated under the REIT regulations, our interest cover ratio for the exempt business for the six months to 30 September 2008 was approximately 2.37 times.

For more than a year now, liquidity in the investment property market has been impacted by the credit crisis. Throughout this period, we have maintained a close focus on our cash flows, the level of available credit facilities and the maturity of our debt. As a result, unutilised committed facilities of £873.6m at 30 September were higher than the position at the year end.

During the six months ended 30 September 2008, the Group has refinanced and extended its three existing committed bilateral facilities totalling £825.0m and established two new committed bilateral facilities totalling £65.0m. The facilities have expected maturities of July, August and September 2010. In May 2008 the Group entered into a five year £352.0m syndicated bank facility for the development of Leeds Trinity Quarter. With the exception of the loan notes (£106.4m), of which £105.1m has been repaid since 30 September, there are no bank facilities that mature prior to 31 March 2010. The average duration of the Group's debt is 10.7 years and weighted cost of debt is 5.4%.

The majority of Land Securities' borrowing is secured against a large pool of our assets (Security Group). At 30 September, £5,336.0m of our debt was secured against £9,993.3m of our assets, giving an LTV ratio of 53.4%. Our secured debt structure provides for different operating environments which apply in "tiers" determined by levels of LTV and Interest Cover Ratios (ICR), although it is LTV which is the more likely determinant of which operating environment applies. These ratios do not trigger an event of default until LTV exceeds 100% or projected ICR is less than 1.0 times. However, our operating environment becomes more restrictive at higher levels of LTV / lower levels of ICR. There are minimal operational restrictions on the Group in Tier 1 (LTV below 55%) and Tier 2 (LTV: 55% to 65%) although we are required to put in place progressively a liquidity facility as we move up Tier 2 and into initial Tier 3 (LTV: 65% to 80%). In Tier 3, our operating environment would be more restrictive with provisions designed to encourage a reduction in gearing including mandatory debt amortisation.

At 30 September 2008, we were in Tier 1 with a Security Group LTV of 53.4%, up from 50.5% at 31 March 2008. Despite the sharp decline in values in the six months, we were able to offset the expected rise in LTV by adding additional properties to the Security Group.

Hedging

We use derivative products to manage our interest rate exposure, and have a hedging policy which requires at least 80% of our existing debt plus our net committed capital expenditure to be at fixed interest rates for the coming five years. Specific hedges are also used in geared joint ventures to fix the interest exposure on limited recourse debt. At 30 September 2008 we had £1,262.1m of active interest rate hedges in place, and our debt including joint ventures was 81% fixed. Consequently, based on debt levels at 30 September 2008, a 1% fall in LIBOR would decrease full year interest charges by approximately £11.4m.

Taxation

As a consequence of the Group's conversion to REIT status, income and capital gains from our qualifying property rental business are now exempt from UK corporation tax. The tax charge for the period is £2.9m (six months ended 30 September 2007: £8.2m), representing tax payable on 'residual' trading and other taxable activities, the majority of which arose in Trillium.

Risks and uncertainties

The operational risks facing the Group for the remaining months of the financial year are consistent with those outlined on pages 19, 22 and 23 of the Annual Report for the year ended 31 March 2008. The risks include property investment risk (primarily lower tenant demand and tenant failure), property development risk (failure to let developments), Trillium risks (failure to let vacated space and performance of service partners), and financial risks (unavailability of funds and exposure to prevailing market rates).

The impact of tenant failures would be to reduce cash inflow in the near-term. Failure to re-let empty units would have an adverse impact on valuation. Although retailers are currently experiencing a difficult trading environment the Group has not suffered any significant tenant failures. In general, the Group has a diversified tenant base, with the largest occupier being the Government (9.6% of income) with the next largest occupier accounting for only 2.7% of our income.

As noted above, the deterioration of markets has restricted the availability of credit and reduced the expectations for growth in the economy. Although credit is not as readily available as previously the Group had at 30 September 2008 unutilised committed facilities of £873.6m. None of these facilities expire in the next eighteen months.

The availability of credit at a reasonable margin to investors in commercial property is important in ensuring a properly functioning investment market, which in turn provides clear evidence of current values and provides liquidity to sellers.

The most significant effect of a failure by a financial counterparty to the Group would be that committed facilities would no longer be available. However, the Group's largest committed facility which expires in August 2013 is syndicated with 13 financial institutions. The Group has £2.8bn of interest rate hedges with a number of financial institutions. Although the nominal value of the hedges is large, the market value of the hedges is circa £10m.

If property valuations continue to decrease this would have an adverse impact on LTV ratios within the Security Group. As explained above, not until the ratio exceeds 65% do operational restrictions increase significantly. The value of investment properties within the Security Group would have to decline a further 18% for this to apply assuming no changes in debt levels. A liquidity facility or cash reserving is progressively required as LTVs move above 55%.

Related party transactions

Transactions with related parties during the six months ended 30 September 2008 are disclosed in note 18. These transactions have not had a material impact on the financial position or the results of the Group.

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