

## Financial results

### Headline results

Profit before tax was £375.2m for the six months to 30 September 2007, down from £1,178.2m for the comparable period. 'Profit before tax' includes the revaluation surplus on our investment properties, and the reduction in profit before tax for the period was almost entirely due to the lower, but still positive, revaluation surplus on our investment properties. Earnings per share at 78.57p were similarly impacted (six months to 30 September 2006: 183.25p). Revenue profit, our measure of underlying profit before tax, decreased from £193.1m to £172.8m for the reasons explained below under 'Revenue profit'. Adjusted diluted earnings per share showed an 11.0% increase on the prior period to 36.46p (six months to 30 September 2006: 32.84p), the increase being largely attributable to the majority of our activities no longer being subject to tax since we became a REIT on 1 January 2007.

The combined portfolio rose in value from £14,752.5m to £15,043.2m. This included a valuation surplus of £130.8m or 0.9%. Net assets per share rose by 2.3% to 2356p from 2304p, with adjusted diluted net assets per share rising by 2.5% to 2236p (31 March 2007: 2181p).

### Profit before tax

The main drivers of our profit before tax performance 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 Trillium, and the amount of net interest we paid. The degree to which movements on these and other items led to the reduction against the comparable period in our profit before tax to £375.2m (six months to 30 September 2006: £1,178.2m) is explained in Table 2 below:

**Table 2: Principal changes in profit before tax and revenue profit**

	Profit before tax £m	Revenue profit £m
Six months ended 30 September 2006	1,178.2	193.1
Valuation surplus	(840.4)	-
Profit on disposal of non-current properties	38.1	-
Profit on disposal of PPP projects	10.0	-
Profit on sale of trading properties	(0.6)	-
Increase in capitalised interest <sup>(1)</sup>	20.9	20.9
Amortisation of bond de-recognition <sup>(2)</sup>	6.3	-
Long-term development contract profits <sup>(3)</sup>	(8.4)	-
Property Partnerships profit <sup>(4)</sup>	7.2	7.2
Net rental and service charge income <sup>(5)</sup>	(3.2)	(3.2)
Indirect costs	0.2	0.2
Interest on SMIF acquisition loan	(27.1)	(27.1)
Other interest <sup>(6)</sup>	(18.3)	(18.3)
Debt restructuring charges	5.3	-
Other	7.0	-
Six months ended 30 September 2007	375.2	172.8

#### Notes:

- Increased development activity, with several developments commencing since 1 October 2006 (One New Change, St David's 2, Cardiff and The Elements, Livingston).
- The debt instruments issued as part of the refinancing in November 2004 do not meet the de-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 decrease in amortisation over the comparable period is a reflection of the maturity profile of debt replaced.
- Lower levels of activity on the development contract at Broadcasting House.
- Profits from Accor, Royal Mail and one-off income from DWP, offset by increased central costs.
- Decrease in net rental and service charge income is largely driven by disposals made in the year ended 31 March 2007.
- Other interest, includes interest on the REIT conversion charge paid in July 2007 (£316.2m), which amounted to £3.6m.

## 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 surplus, gains on disposals, trading profits and profits on long-term development contracts.

Revenue profit for the six months fell by 10.5% from £193.1m to £172.8m, for the reasons set out in Table 2.

While Trillium's operating profit is at a similar level to last year, at the revenue profit level there has been a decline of £34.5m, largely attributable to interest on the SMIF assets acquired in February 2007. SMIF owns and provides management services to PPP projects. Since it remains our intention to divest the PPP investments by transferring them to a fund and bringing in outside investors while maintaining a minority interest, we have treated these assets as a disposal group. The accounting implications of this are that we do not consolidate the individual assets and liabilities of the PPP investments. Instead, they are held in the balance sheet at fair value less costs to sell and we do not recognise our share of the underlying net income of the PPP projects. However, we do include the interest cost of the loan associated with acquiring SMIF in Group revenue profit as well as the cost of the SMIF management team. For the six months to 30 September 2007, the interest cost associated with the acquired SMIF business amounted to £27.1m.

A reconciliation between profit before tax and revenue profit is shown in Table 3 below:

**Table 3: Reconciliation of profit before tax to revenue profit**

	Six months ended 30 September 2007 £m	Six months ended 30 September 2006 £m
Profit before tax	375.2	1,178.2
Valuation (surplus) / deficit – Group	(145.5)	(896.7)
– joint ventures	23.5	(65.7)
(Profits) / losses on non-current property disposals – Group	(79.0)	(33.6)
– joint ventures	7.3	-
Profit on disposal of PPP projects (Meterfit)	(10.0)	-
Mark-to-market adjustment on interest rate swaps	4.2	(6.2)
Eliminate effect of bond exchange de-recognition	2.3	8.6
Debt restructuring charges	1.0	6.3
Joint venture tax adjustment	3.0	20.4
Profit on sale of trading properties – Group	-	(8.8)
– joint ventures	(8.2)	-
Long-term development contract profits	(1.0)	(9.4)
Revenue profit	172.8	193.1

## Earnings per share

Basic earnings per share decreased by 57.1% to 78.57p (six months ended 30 September 2006: 183.25p), the decrease predominantly relating to the lower revaluation surplus.

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 32.84p per share for the six months ended 30 September 2006 to 36.46p per share in 2007, an 11.0% increase. The increase in adjusted earnings per share is largely attributable to a significantly lower tax rate following REIT conversion partially offset by the interest costs associated with the SMIF acquisition.

## Dividends

As announced at our preliminary results in May 2007, we have commenced paying dividends on a quarterly basis. We will be paying a second quarterly dividend of 16.0p per share on 7 January 2008 to shareholders on the register on 7 December 2007. Taken together with the first quarterly dividend of 16.0p, paid on 26 October 2007, this makes a first half dividend of 32.0p per share (2006: 19.0p), which represents a 68.4% increase. Part of this substantial increase arises because quarterly dividends result in the total dividend being more equally spread between the first and second half of the year than was the case last year. Nevertheless, on an annualised basis our quarterly dividends imply an increase in the total dividend for the year of over 20%. The third quarterly dividend will be paid on 25 April 2008.

Both quarterly dividends comprise 80% Property Income Distribution (PID) from the REIT qualifying activities. The PID element is subject to 22% 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](http://www.landsecurities.com).

## 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 2007 and at the balance sheet date is as follows:

**Table 4: REIT balance of business tests**

	For the six months ended / at 30 September 2007		
	Tax-exempt business	Residual business	Adjusted results
Adjusted profit before tax (£m)	186.5	(12.0)	174.5
Balance of business – 75% profits test	106.9%	(6.9%)	
Adjusted total assets (£m)	16,189.5	2,308.1	18,497.6
Balance of business – 75% assets test	87.5%	12.5%	

If the £27.1m interest cost of the SMIF acquisition loan is eliminated from the above figures, the profits of the tax-exempt business comprise 92.5% of total adjusted profits.

## Net assets

At 30 September 2007, net assets per share were 2356p, an increase of 52p over the six months since 31 March 2007.

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. In previous years, the main adjustment to net assets has been to remove the deferred tax on revaluations. Since we no longer provide for deferred tax on revaluations due to our REIT status, this adjustment is no longer required. As a result, our adjusted net assets are now lower than our reported net assets primarily due to the debt adjustment we continue to make. 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 2007, adjusted diluted net assets per share were 2236p per share, an increase of 2.5% from 31 March 2007.

Table 5 summarises the main differences between net assets and our adjusted measure together with the key movements over the periods.

**Table 5: Net assets**

	Six months ended 30 September 2007 £m	Six months ended 30 September 2006 £m	Year ended 31 March 2007 £m
Net assets at the beginning of the period	10,791.3	7,493.9	7,493.9
Adjusted earnings	170.8	154.7	330.0
Revaluation surpluses on ongoing and completed development properties *	174.2	188.1	331.4
Revaluation (deficits) / surpluses on investment properties (excluding Trillium) *	(43.4)	485.3	710.1
Revaluation (deficits) / surpluses on Trillium investment properties *	(8.8)	0.2	(10.1)
Profits on non-current asset disposal *	81.7	47.7	105.2
Interest charges not included in adjusted earnings *	(7.5)	(6.1)	(13.0)
Tax (charges) / credits not included in adjusted earnings	-	(10.1)	2,074.7
Profit after tax	367.0	859.8	3,528.3
Dividends paid	(159.5)	(133.8)	(223.0)
Other reserve movements	(75.8)	(28.2)	(7.9)
Net assets at the end of the period	10,923.0	8,191.7	10,791.3
Deferred tax on investment properties	-	151.5	-
Deferred tax on net revaluation surpluses	-	2,007.7	-
Mark-to-market on interest rate hedges	(14.5)	1.1	(23.6)
Debt adjusted to nominal value	(516.8)	(369.3)	(519.1)
Adjusted net assets at the end of the period	10,391.7	9,982.7	10,248.6

\* These amounts are post-tax.

## Drivers of performance

A key driver of the increase in our net assets is the underlying performance of our investment portfolio, which includes our share of joint ventures (see Table 6).

The positive valuation surplus on our investment portfolio was wholly attributable to the success of our development programme in that the valuation surplus on the development programme of £174.2m exceeded the surplus on our overall investment portfolio at £130.8m.

On the like-for-like portfolio which excludes developments and acquisitions and so allows for performance comparison of income growth and yield change over time, there was a small valuation deficit for the six months of £37.8m or 0.4%. As expected there has been a re-pricing of property investments which has seen yields rise and capital values fall. This re-pricing would in itself have decreased capital values on our like-for-like portfolio by some 4.6%, but it was largely offset by continuing rental value growth of 4.6% over the six month period.

As stated, our development programme, including our share of joint ventures and those properties completed and let in the six months, produced a valuation surplus of 5.9% or £174.2m. We have an estimated further spend of £851m on the projects currently underway which, when complete and fully let, will produce £160m of annual income (at today's estimated rental value). Capital expenditure on proposed developments could total a further £882m if we proceed with these schemes, which are held as part of the investment portfolio and have a current carrying value of £555m. The figures given for capital expenditure represent the Group's actual or forecast cash outlays on developments, excluding land values and capitalised interest. The total development cost for the full development pipeline is £3.7bn, of which £2.3bn relates to our current development programme.

The net reversionary potential of the like-for-like portfolio at the half year end was 14.6% compared to 10.6% six months ago. Void levels on our like-for-like Retail Portfolio have increased over the six months from 3.9% to 4.0%, but still stand well below the UK average void level for retail properties as measured on the IPD Quarterly Index of 5.9% (September 2007). On our like-for-like London Portfolio, void levels have decreased from 4.8% to 4.4%.

Table 6: Valuation and rental income summary

	Open market value at 30 September 2007 £m	Open market value at 31 March 2007 £m	Open market value at 30 September 2006 £m	Valuation surplus / (deficit) <sup>(1)</sup> %	Rental income for the six months ended 30 September 2007 <sup>(1)</sup> £m	Rental income for the six months ended 31 March 2007 <sup>(1)</sup> £m	Rental income for the six months ended 30 September 2006 <sup>(1)</sup> £m
Shopping centres and shops	<b>3,120.4</b>	3,173.9	3,138.8	(2.1)	92.0	90.7	87.9
Retail warehouses	<b>1,963.5</b>	2,033.1	2,023.8	(4.2)	43.5	42.5	41.6
London retail	<b>1,024.1</b>	1,005.8	964.8	1.3	21.6	23.3	22.7
London offices	<b>3,860.9</b>	3,702.6	3,449.1	2.9	94.6	95.4	95.5
Other	<b>733.3</b>	727.7	696.2	(1.2)	13.5	13.7	12.8
Like-for-like investment portfolio <sup>(2)</sup>	<b>10,702.2</b>	10,643.1	10,272.7	(0.4)	265.2	265.6	260.5
Completed developments	<b>1,307.5</b>	1,166.1	963.9	4.5	17.6	17.3	9.2
Acquisitions	<b>1,149.9</b>	631.7	463.4	(0.5)	20.5	15.1	5.5
Disposals and restructured interests	-	869.3	1,679.7	-	15.2	32.6	42.7
Development programme <sup>(3)</sup>	<b>1,883.6</b>	1,442.3	1,060.1	6.9	10.3	11.9	18.4
Combined portfolio	<b>15,043.2</b>	14,752.5	14,439.8	0.9	328.8	342.5	336.3
Adjustment for finance leases					(5.8)	(6.3)	(6.3)
Combined portfolio					323.0	336.2	330.0

Notes:

1. The valuation surplus / (deficit) and rental income are stated after adjusting for the effect of spreading rents and rent free periods over the duration of leases in accordance with IFRS but before restating for finance leases.
2. Properties that have been in the combined portfolio for the whole of the current and previous financial periods.
3. Development programme comprising projects which are completed but less than 95% let, developments on site, committed developments (approved projects with the building contract let), and authorised developments (projects approved by the Board, but for which the contract has not yet been let).

Table 7 details the top six performing properties over £50m in each sector by revaluation surplus together with an explanation of the key drivers of their performance, which primarily relate to development activity in London Portfolio and rental value growth for the Retail Portfolio.

Table 7: Top six performing properties over £50m for Retail and London Portfolio

Retail Portfolio	Valuation surplus %	Description	London Portfolio	Valuation surplus %	Description
Corby Town Centre	4.6	Rental value growth	New Street Square, EC4	19.8	Development
Princesshay, Exeter	4.0	Development	Bankside 2&3, SE1	15.8	Development
Gunwharf Quays, Portsmouth	2.3	Rental income growth	140 Aldersgate, EC1	9.3	Rental value growth
Buchanan Galleries, Glasgow	1.1	Rental income growth	Selborne House, SW1	9.2	Potential development opportunity
Westwood Cross, Thanet	1.0	Rental value growth	70/88 Oxford Street, W1	6.8	Rental value growth
The Mall, Stratford	1.0	Rental value growth	Dashwood House, EC2	6.4	Development

## Cash flow, net debt and gearing

During the period, our cash expenditure exceeded cash receipts by £776.5m, and as a result net debt increased to £5,864.4m (31 March 2007: £5,087.9m). During the six months we paid the REIT conversion charge of £316.2m, and in total we invested £1,126.7m in our properties and PPP assets including £552.7m on investment property acquisitions and £246.2m on development. The development expenditure, which includes land acquisitions but excludes our share of joint ventures and capitalised interest, was spent principally on New Street Square, EC4, Queen Anne's Gate, SW1, in London and shopping centre developments in Exeter and Livingston. In Trillium, we spent £153.0m on property acquisitions (primarily Accor hotels), £35.8m on Norwich Union and DVLA buildings and contributed £61.0m to the disposal group for further PPP acquisitions.

Cash receipts during the six months totalled £799.4m from investment portfolio property disposals, which included Whitefriars, Canterbury, Greater London House, NW1 and New London House, EC3. This excludes the £193.4m received on the disposal of East Kilbride Shopping Centre, where the majority of the proceeds were used to repay debt in the Scottish Retail Property joint venture. A further £30.6m was received from the sale of operating properties.

We advanced a net £29.8m to our joint ventures, including £71.7m invested in shopping centre developments in Bristol and Cardiff, which was largely offset by £43.1m received on disposals, the largest of which was East Kilbride Shopping Centre.

The factors contributing to the increase in net debt of £776.5m are shown in Table 8 below:

**Table 8: Cash flow and net debt**

	Six months ended 30 September 2007 £m	Six months ended 30 September 2006 £m	Year ended 31 March 2007 £m
Operating cash inflow after interest and tax (excluding REIT conversion charge)	86.0	174.1	361.5
REIT conversion charge	(316.2)	-	-
Dividends paid	(159.5)	(133.8)	(223.0)
Investment property acquisitions	(552.7)	(473.4)	(523.7)
Property Partnerships property acquisitions	(153.0)	(12.4)	(416.5)
Development and refurbishment capital expenditure	(318.9)	(206.6)	(532.6)
Investment in finance lease receivables (Norwich Union and DVLA)	(35.8)	(18.9)	(43.3)
Investment in properties	(1,060.4)	(711.3)	(1,516.1)
Acquisition of SMIF and IIC	-	-	(919.0)
(Investment in) / receipts from the disposal group	(61.0)	-	25.0
Other capital expenditure	(5.3)	(9.1)	(18.8)
Total capital expenditure	(1,126.7)	(720.4)	(2,428.9)
Disposals	855.3	334.2	869.8
Joint ventures	(29.8)	(38.4)	50.0
Purchase of share capital	(81.1)	(35.7)	(36.2)
Other movements	(4.5)	5.1	4.8
Increase in net debt	(776.5)	(414.9)	(1,402.0)
Opening net debt	(5,087.9)	(3,685.9)	(3,685.9)
Closing net debt	(5,864.4)	(4,100.8)	(5,087.9)

As a result of the increase in net debt, gearing has increased from 47.1% to 53.7%. Details of the Group's gearing are set out in Table 9, which also shows the impact of joint venture debt, although the lenders to our joint ventures have no recourse to the Group for repayment.

**Table 9: Gearing**

£m	30 September 2007 %	31 March 2007 %
Gearing – on book value of balance sheet debt	53.7	47.1
Adjusted gearing *	61.4	54.7
Adjusted gearing * – as above plus notional share of joint venture debt	63.6	58.8

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

Our interest cover ratio, excluding our share of joint ventures, has fallen from 2.43 times for the year ended 31 March 2007 to 1.82 times for the six months ended 30 September 2007. This reduction arises because we do not recognise our share of the underlying net income of the PPP projects within SMIF, but we do include the interest cost of the loan associated with its acquisition. If the interest on the SMIF acquisition loan is excluded from the calculation, interest cover is then 2.20 times. Under the rules of the REIT regime, we need to maintain an interest cover ratio in the exempt business of at least 1.25 times to avoid paying tax. As calculated under the REIT regulations, our interest cover ratio for the exempt business for the six months to 30 September 2007 was approximately 2.6 times.

During the course of the six months, we arranged £650.0m of committed bilateral bank facilities. The facilities are for 364 days with an option to extend by a further year.

### 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 2007 we had £1,055.1m of active interest rate hedges in place, and our debt was 84% fixed. Consequently, based on debt levels at 30 September 2007, a 1% rise in interest rates would increase full year interest charges by approximately £10m.

### 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. Accordingly, the tax charge for the period has fallen to £8.2m (six months ended 30 September 2006: £318.4m including £269.0m of deferred tax on revaluation gains), 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 six months of the financial year are consistent with those outlined in the Annual Report for the year ended 31 March 2007. The outlook for the property market and the economy is weaker than in March 2007, but the risk mitigants listed in the 2007 Annual Report are still appropriate. Our development letting risk exposure has reduced materially since March 2007 as a result of the progress we have made on development lettings over the half year.

### Related party transactions

Transactions with related parties during the six months ended 30 September 2007 are disclosed in note 27. These transactions have not had a material impact on the financial position or the results of the Group.