



# Financial Review

- Adjusted diluted net asset value per share up 7.1%**
- Underlying profits before tax up 14.3%**
- Net rents, including share of joint ventures up 7.6%**
- Progressive dividend – up 8.1%**
- Portfolio valuation – up 0.7%**
- Total return on adjusted diluted net assets per share for year 8.8%**

## Drivers of Value

Our adjusted diluted net asset value per share rose 7.1%. This gain was achieved from three main sources:

- the strong growth in our retail portfolio valuation off-setting falls in the Central London office portfolio;
- strong earnings growth; and
- the opportunistic repurchase and cancellation of shares.

The length of our leases within the London office portfolio and the strength of the investment market mean that the fall in estimated rental values (ERVs), due to reduced tenant demand, does not translate into an equivalent fall in valuation. The long lease profile within the retail sector on the other hand, contributed to its particular attractiveness to investors and the strong growth in demand for department stores and supermarkets resulted in a significant increase in value of the retail portfolio, more than offsetting the fall in Central London offices.

Group earnings for the year were boosted by income from settlement of rent reviews and new lettings. Although ERVs in Central London have fallen over the year, the rent reviews concluded at Broadgate were on leases with passing rents substantially below the market rents at the review date so increased rents were still achieved.

The opportunistic repurchase and cancellation of 13.1% of the diluted share capital – with £323 million of convertibles redeemed in June 2002 and 30.3 million shares bought back between September 2002 and March 2003 at an average price of 429 pence per share – added 34 pence to the adjusted diluted NAV per share.

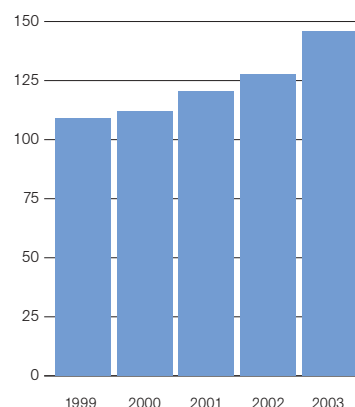
In practice we have used the returns generated in the year to 31 March 2003 to buy back shares and to fund a dividend increased by 8.1% to 13.4 pence per share. At the end of the year shareholders' funds remained virtually unchanged at £4.3 billion, after adding back the FRS19 capital allowance provision and the external valuation surplus on development and trading properties. An additional piece of symmetry: by redeeming the convertible, the annualised interest we have saved represents 90% of the additional cost of funds used to repurchase shares.

## Operating performance

Gross rental income, including our share of joint ventures, increased by 7.4% (£37.8 million) to £551.6 million (2002: £513.8 million). Properties wholly owned by the Group contributed £34.1 million of the increase, whereas our share of joint ventures gross rents grew by £3.7 million.

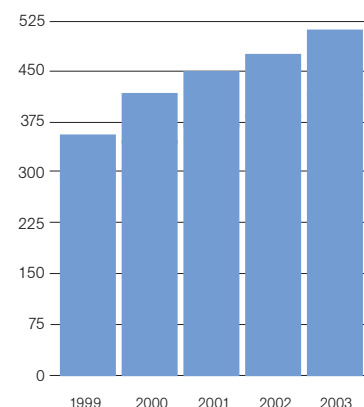
## Underlying Profit before Tax

year ended 31 March  
£m



## Net Rental Income\*

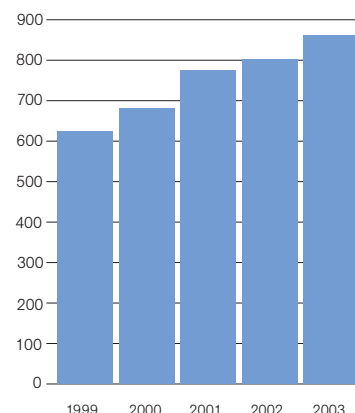
year ended 31 March  
£m



\* Including Share of Joint Ventures

## Net Asset Value per Share\*

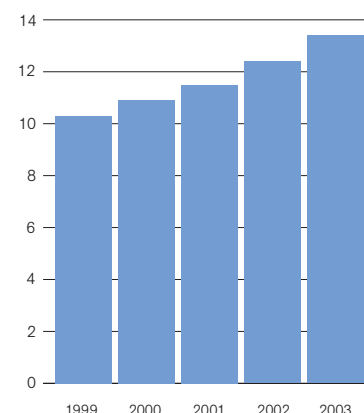
as at 31 March  
Pence



\* adjusted, diluted

## Dividends per Share

year ended 31 March  
Pence



Group net rental income increased by 8.2% (£31.6 million) to £418.2 million (2002: £386.6 million) including as a result of rent reviews and new lettings (£24.3 million), increased back rents (£4.8 million) and acquisitions (£8.2 million), less reductions from sales of properties (£5.6 million).

British Land's share of joint venture operating profits rose 4.2% to £92.3 million (2002: £88.6 million). This is driven by rent reviews and the full year impact of BL Davidson which was acquired in September 2001.

Profit before tax increased slightly to £172.4 million compared to £171.3 million in 2002. Profit before tax in 2002 included a much higher level of profits on disposal of fixed assets and property trading of £43.8 million (including £25.6 million relating to the disposal of shares in Haslemere N.V.), £17.1 million higher than the £26.7 million profits achieved in these areas during the year. Excluding these items underlying profits before tax increased by £18.2 million (14.3%) to £145.7 million (2002: £127.5 million).

Adjusted earnings per share have decreased to 27.4 pence per share (2002: 32.1 pence per share) and on a diluted basis to 27.1 pence per share (2002: 31.5 pence per share) as a result of the increased tax charge. Earnings per share were 27.2 pence per share (2002: 30.8 pence per share) and on a diluted basis 26.9 pence per share (2002: 30.2 pence per share).

Total return on adjusted diluted net assets was 70.4 pence per share representing an 8.8% return for the year.

### Taxation

The Group taxation charge comprises a corporation tax charge of £12.4 million, deferred tax of £3.1 million and £10.6 million attributable to joint ventures, equivalent to a current year charge of 15.1% (2002: 20.8%) compared to a prevailing corporation tax rate of 30%. The charge has been increased by £7.0 million in respect of items relating to earlier periods (2002: reduced by £23.8 million). The overall charge of £33.1 million (2002: £11.9 million) represents a tax rate of 19.2% (2002: 6.9%).

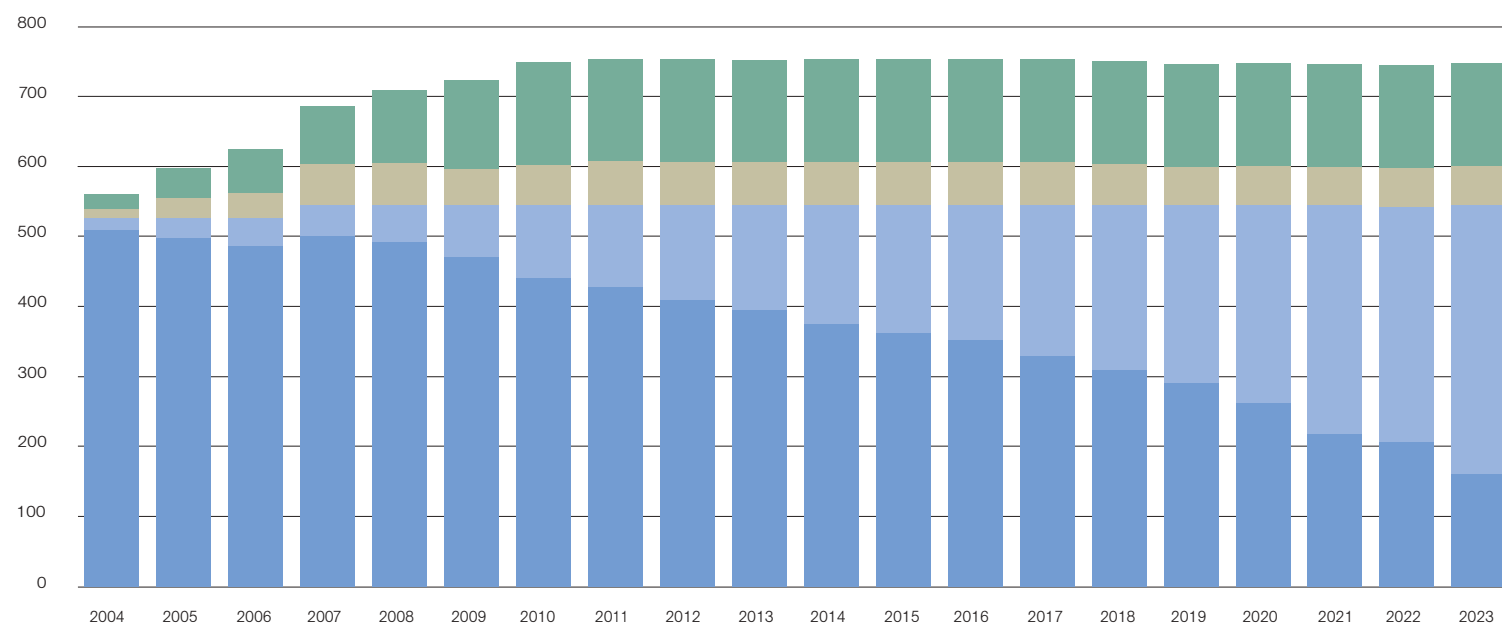
The tax which would arise on the disposal of properties and investments at the amount at which they are carried in the balance sheet, and including trading and development surpluses is estimated at £470 million (2002: £510 million), after taking account of available losses and provisions.

### Income

Current annualised net rents, including our share of joint ventures, amount to £545.8 million. This rental income is supported by long leases to strong covenants with regular upward only rent reviews.

- The average unexpired lease term within the portfolio is 17.4 years with 81.2% of the rent roll remaining in place until 2013 (ten years). Assuming break clauses are exercised at the earliest date this average is still 16.1 years with 72.4% of the current rent roll remaining in place in ten years time.
- Income quality has been measured by Investment Property Databank (IPD) (using a Dun and Bradstreet Stress Score) and shows 88.1% of our rent roll is derived from negligible, low and low/medium risk covenants (2002: 84.5%) with only 2.2% from high risk covenants (2002: 2.3%).
- Reversionary income from investment properties and rental income from committed developments are currently estimated at a further £100.9 million within five years, of which £41.0 million is contracted through pre-lets or the expiry of rent-free periods and minimum rental uplifts.

### Rental Income Profile (assuming no rental value growth) as at 31 March 2003 (£m)



■ **Annualised net rents** of £545.8 million at 31 March 2003 are shown to decrease at the earlier of lease expiry or tenant's break.<sup>†</sup>

■ **Leases expired/subject to break** are assumed to renew on the date of expiry/break at the present annualised net rent.\*<sup>†</sup>

■ **Reversionary income** of £58.0 million is based upon estimated rental values (ERV) by our external valuers at 31 March 2003.\*

■ **Development programme (committed and prospective)** when completed and let has an estimated rent at 31 March 2003 of £147.3 million, assumed to be realised evenly over the next 7 years.\*

\* No rental value growth is assumed.

<sup>†</sup> The graph is adjusted to reflect the new lease terms agreed with EBRD after the year end, as follows:

- Annualised net rents have been reduced by £18.9 million pa from June 2003 to November 2006 to reflect the rent free period.
- The new lease extends from December 2016 to December 2022 at £18.9 million pa.

The graph provides a snapshot of committed income and estimated income based on ERV at 31 March 2003, including our share of joint ventures. Upward only rent reviews across the portfolio protect rental income from falling below passing rent (prior to expiry/break). In addition, no account is taken of future acquisitions, disposals, expenditures or other events. Rental income will be affected by such transactions and future opportunities; the graph is not a forecast.

Annualised net rents are gross rents plus, where rent reviews are outstanding, any increases to estimated rental value (as determined by the Group's external valuers), less any ground rents payable under head leases.

### Adjusted net assets

Adjusted net asset value includes the revaluation surplus on trading and development properties and excludes deferred taxes provided on capital allowances where no tax payment is expected to crystallise. Adjusted net asset value decreased only slightly by £2.3 million to £4,318.5 million during the year in spite of the reduction in share capital.

Adjusted net asset value per share (undiluted) grew by 51 pence, an increase of 6.1%, to 884 pence per share. Adjusted diluted net asset value per share increased by 57 pence (7.1%), to 860 pence per share. The key drivers in the increase in adjusted diluted net assets per share included retained earnings (14 pence), revaluation surplus (10 pence), redemption of 6<sup>1</sup>/<sub>2</sub>% Convertible Bonds 2007 (12 pence) and the purchase and cancellation of ordinary shares (22 pence).

### Finance and capital structure

Approximately 50% of the Group's property value is financed by borrowings. British Land uses debt as a means of maximising equity returns and minimising tax leakage. The Group mortgage ratio at 31 March 2003 was 49% (2002: 46%). The mortgage ratio including joint venture debt (which totals £632.0 million of which only £12.0 million is with recourse to the Group) is 52% (2002: 50%).

British Land uses a variety of methods to finance property assets with the aim of employing the most capital efficient method for each asset's particular characteristics. Financing is raised through a mixture of securitisations, public and private debt issues, convertible bonds and bank borrowings.

The Group's financial risk management policy is to maintain approximately 85% of debt at fixed and capped rates with debt taken out under long-term facilities in order to match the Group's income profile from its long lease lengths. These policies concentrate economic exposure to the property market and our portfolio's performance and minimise exposure to short to medium term interest rate movements. The Group borrows using fixed and floating rate debt and uses interest rate derivatives to produce the desired interest rate profile for the Group's finances.

At 31 March 2003 net debt is £4,361.4 million (2002: £3,840.4 million). Securitised debt of £2,878.2 million is ringfenced with no recourse for repayment to other Group companies or assets.

The joint ventures are separately financed with no recourse to the Group, except for limited guarantees totalling £12 million (2002: £33 million).

The Group's weighted average interest cost has reduced to 6.31%, (2002: 6.62%) reflecting the early redemption of the 6<sup>1</sup>/<sub>2</sub>% Convertible Bonds 2007 and the increased proportion of cheaper floating rate debt. At 31 March 2003 83% of debt was at fixed or capped rates of interest (2002: 95%) with a weighted average debt maturity of 18.0 years (2002: 19.8 years). Interest cover has increased slightly to 1.60 times (net rents/net interest) (2002: 1.53 times).

The market value of net debt and interest rate derivatives (including British Land's share of joint ventures) was £527.3 million (before tax relief) greater than their book values. This compares to £320.7 million (before tax relief) last year, the increase reflecting the effect of significantly lower gilt yields, and to a lesser extent credit

Financing statistics (Group)	31 March 2003	31 March 2002
Net debt	<b>£4,361.4m</b>	£3,840.4m
Weighted average debt maturity	<b>18.0 years</b>	19.8 years
Weighted average interest rate	<b>6.31%</b>	6.62%
% of net debt at fixed/capped interest rates	<b>83%</b>	95%
% of debt ringfenced with no recourse to other Group companies/assets	<b>64%</b>	69%
Interest cover (net rents/net interest)	<b>1.60x</b>	1.53x
Cash and available committed bank facilities, of which drawn	<b>£1,635.4m</b> <b>£899.0m</b>	£2,286.4m £240.4

spreads, on the market value of debt issued prior to the start of the year.

The Group continues to maintain a significant level of committed undrawn facilities to enable it to rapidly respond to opportunities in the market and to fund developments, without the need for project specific financing.

### Changes in financing

#### Convertible Bonds

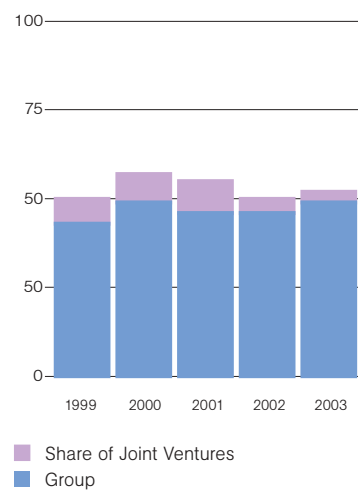
On 24 June 2002 the Company redeemed the £323 million 6<sup>1</sup>/<sub>2</sub>% Convertible Bonds 2007 at par eliminating 48.1 million shares which would have been issued on conversion. This redemption contributed 12 pence to the increase in adjusted diluted net assets per share during the year.

#### Securitisations

There have been no new securitisations during the year. On 14 April 2003 the Company issued a further £50 million of bonds securitising the rental income stream from Meadowhall. This is in addition to the £825 million of bonds issued in December 2001. The weighted average interest rate of the total £875 million issue is 5.5% and the

### Financing

as at 31 March  
% Mortgage Ratio



weighted average maturity is 18 years. The Group has now raised over 80% of the original net purchase price of Meadowhall through these securitisation issues at a competitive interest rate.

#### *Purchase and Cancellation of Ordinary Shares*

The Group purchased and cancelled 30.3 million Ordinary Shares during the year for a consideration of £130.1 million at an average price of 429 pence per share out of existing resources. These purchases contributed 22 pence to the increase in adjusted diluted net assets per share during the year. The Group's policy on the purchase of own shares - to do so when the share price is at a level that offers a good, low risk investment opportunity and if we feel buybacks offer better returns than new property investment, or to do so as one means of returning surplus capital should that circumstance arise - remains unchanged after these purchases.

#### **Dividends**

The Directors propose a final dividend of 9.3 pence per share, making a total dividend of 13.4 pence, an increase of 8.1% over 2002. This increase is in line with our continuing policy of dividend growth. The total dividend is covered 2.1 times by profits for the year.

#### **Cash Flow**

Profits after interest, tax and working capital movements, generated a positive operating cash flow for the year of £95.0 million (2002: £98.8 million). Property disposals by the Group and cash returns from joint ventures realised cash of £167.6 million. Investments in properties, subsidiaries and developments amounted to £438.2 million.

Cash and existing bank facilities were used to fund the £323 million redemption of the 6<sup>1</sup>/<sub>2</sub>% Convertible Bonds 2007 and £130.1 million purchase and cancellation of ordinary share capital.

#### **Accounting Issues**

There have been no Accounting Standard changes affecting the Group's results during the year.

The Group continues to report under the transitional arrangements of Financial Reporting Standard (FRS17) 'Retirements Benefits' following the extension of the transitional arrangements for the full adoption of FRS17 by the Accounting Standards Board (ASB). This extension was made because the International Accounting Standards (IAS) Board announced that IAS19 'Employee Benefits' is to be revised. The Group plans to adopt IAS19 in its accounts for the year ending 31 March 2006 when it will be required to report under IAS for the first time in line with other UK public companies. The Group's net pension liabilities at 31 March 2003 amount to only 0.1% of adjusted diluted net assets after taking account of the market value of the scheme assets and deferred tax, reflecting the Group's small employee numbers and payroll costs.

Implementation of IAS in 2006 will potentially have a material impact on the Group's results. However as a number of major Accounting Standards are scheduled for review before 2006 it is not possible to estimate accurately the likely impact of adopting IAS. These include Standards relating to Financial Instruments and Investment Property which are clearly fundamental to British Land. However, for example, should we be required to recognise financial

instruments at market rather than book value in the balance sheet then the adjusted diluted net asset value per share would decrease. By way of illustration, this amounted at 31 March 2003 to 101 pence, calculated in accordance with FRS13 before taking into account any tax relief (or 71 pence if full tax relief is taken into account).

In addition, in respect of deferred taxation, IAS requires contingent tax on revaluation of investment properties and investments to be provided in the balance sheet. Recognition of a contingent deferred tax liability on such revaluations in the balance sheet would decrease the Group's adjusted diluted net asset value per share by 90.3 pence (calculated in accordance with FRS19). Offset against the contingent tax should be any negative goodwill, which arises in respect of discounts received against the value of contingent tax in corporate acquisitions. At 31 March 2003 negative goodwill in the Group's balance sheet totalled £28.8 million (including our share of negative goodwill in joint ventures), equivalent to 5.5 pence per share (diluted).

#### **European Bank for Reconstruction and Development Lease**

On 16 April 2003 the Group agreed revised lease terms with the European Bank for Reconstruction and Development (EBRD), a prime tenant at Broadgate. The revised lease removes EBRD's option to break the lease on this building in 2006 and extends the end of the lease from 2016 to 2022.

The revised lease is for an unchanged annual rental of £18,975,000 (£52.50 per sq ft) with an upward only rent review in December 2006 and then every five years until the end of the lease. In addition EBRD will receive a rent free period of 3 years and 5 months from June 2003. The net present value of the cost to the Group of the rent free period amounts to £41.5 million (after tax relief). In accordance with UITF 28 'Operating Lease Incentives' the cost of the rent free period will be spread in the profit and loss account over the period from June 2003 to December 2011 resulting in an annualised reduction in profit after tax of £5.4 million over this period.



**Graham Roberts** Finance Director  
27 May 2003