

Objectives

The aim of British Land's financing policy is to fund the Group to service its evolving corporate strategy and needs, and provide the flexibility to take advantage of opportunities as they arise. The principal objectives are to ensure that:

- significant committed undrawn facilities are available to support current and future business requirements;
- the Group is financed over the long term with debt levels supported by recurring, committed income;
- the Group's cost of capital is minimised; and
- the Group maintains a prudent financial position by active management of financial risks, including interest rate, liquidity and counterparty risks.

Financing policy

Through a mix of debt and equity finance, together with a wide variety of debt sources, the Group aims to minimise its cost of capital, consistent with its other strategy aims (as outlined above). Most joint ventures have their own financing (see pages 76 to 78), which is entirely independent of the Group's financing. The Group's financing policy is to leverage equity returns through strategic gearing, and at the same time maintain a defensive debt structure. The mortgage ratio is maintained at or around 50% subject to the Board's view of the property market, the future growth prospects of British Land's portfolio and recurring cash flows.

Liability management

Liability management is not a profit centre and no speculative transactions are undertaken. The Group's debt and derivative positions are continuously reviewed to meet current and expected debt requirements.

The Group maintains a balance between longer-term and shorter-term financings. The latter provide flexibility of repayment at no penalty. Acquisitions are often funded initially by shorter-term credit facilities and then refinanced with longer-term funding when market conditions are favourable. Short-term financing is principally raised through bilateral and syndicated revolving bank facilities, which can be repaid at will without penalty and redrawn again when the need arises. All bank facilities are unsecured and on standard terms to maintain operational flexibility. Medium to longer-term financing comprises public and private bond issues, including convertibles and securitisations. British Land's property portfolio is well placed to take advantage of new asset-specific and cash-flow financing structures. Financing risk is spread by using a range of banks and a variety of types of finance. The maturity profile of debt is managed by spreading the repayment dates and extending and expanding bank facilities.

Interest rate management

The Group borrows principally in Sterling at both fixed and floating rates of interest, then uses derivatives to generate the desired interest rate profile and to control the Group's exposure to interest rate fluctuations. The proportion of debt held at variable interest rates is varied as new transactions (whether corporate, direct property or financing) emerge, to rebalance the overall mix. Normally, the Group maintains around 85% of debt (subject to a 5% tolerance either side) at fixed or capped rates to provide long-term protection. The time horizon for this policy is a rolling 3-5 years. The use of derivatives is managed and monitored by the Board of British Land Financing Limited and its Derivative Sub-Committee, which includes four executive directors, and also retains a specialist external firm of consultants. The Group's credit exposure to each derivative counterparty is monitored on a regular basis, as are external credit ratings.

Foreign currency management

To manage the impact of foreign exchange movements, the Group borrows in currencies other than Sterling, principally Euros, and uses cross-currency swaps to match foreign currency assets with foreign currency liabilities.

When attractive terms are available to do so, the Group borrows in freely available currencies other than Sterling. The Group fully hedges its foreign currency risk on such borrowings through derivatives. The Group's policy is to have no material unhedged net assets or liabilities denominated in foreign currencies.

Liquidity and cash management

The Group maintains a high level of undrawn revolving bank facilities to provide financial liquidity. The property portfolio is stringently reviewed to identify appropriate properties for sale, with a view to converting non-cash assets into cash if required. Deposits are placed to optimise the rate of return, subject to the creditworthiness of the counterparty.

Profit and loss account and balance sheet management

The Group monitors the current and projected financial position using several key internally generated reports: cash flow, borrowing, debt maturity and derivatives schedules. The Group also undertakes sensitivity analysis to assess the impact of proposed transactions and movement in interest rates on the key balance sheet, liquidity and profitability ratios. At the Group's option, the £150 million 6% Irredeemable Convertible Bond can be converted into preference shares, augmenting equity. These preference shares can subsequently be switched back to Bonds (see page 82).