

Financial Review

Financial highlights

Adjusted diluted net assets per share rose 8.6% in the six months to 1049 pence primarily as a result of the underlying 3.8% uplift in the portfolio value, which contributed to NAV growth due to the effect of gearing.

Underlying profits rose 15.1% as new lettings and increased rents at review added £7.2 million.

Our financial risks have been well contained over this period with our 85% fixed/capped hedging strategy limiting the impact of interest rate rises and our conservative approach to speculative development limiting the impact of empty space. Our letting success in Central London, particularly at Plantation Place, will immediately contribute in the second half of this year.

The dividend is up 8.4% to 4.8 pence per share.

Financial results

The principal transactions impacting the shape of the profit and loss account and balance sheet included the buy out of GUS plc's interest in BL Universal, taking control of BVP Developments, the formation of The Scottish Retail Property Limited Partnership and the investment in Songbird Estates plc.

Gross rental income for the six months to September 2004, including our share of joint ventures, increased by 6.4% to £288.0 million (2003: £270.6 million). Group gross rents increased £25.5 million (11.3%), whereas our share of joint ventures gross rents declined by £8.1 million (18.4%). Group net rental income for the period rose 10.7% to £231.9 million (2003: £209.4 million) principally due to the buyout of GUS plc's interest in BL Universal (£20.1 million) and new lettings and rent reviews (£7.2 million).

British Land's share of joint venture operating profits reduced by 13.6% to £33.8 million (2003: £39.1 million), reflecting the changes in ownership of joint ventures described above.

Administrative expenses for the half year of £22.4 million (2003: £21.2 million) include the expense of the Group's stock option and share incentive plans. On an annualised basis we continue to operate efficiently with administration costs at only 0.4% (2003: 0.4%) of the portfolio value.

Profit before tax is £80.1 million (2003: £86.9 million). Profits on sale of fixed assets in the six months amounted to £4.7 million (2003: £15.9 million) and trading profits £0.6 million (2003: £6.0 million). Underlying profit before tax, excluding these items, increased by 15.1% to £74.8 million (2003: £65.0 million).

The tax charge for the six months is £14.0 million, an effective rate of 17.5% (2003: £11.4 million, 13.1%).

Adjusted diluted earnings per share is 12.9 pence (2003: 15.4 pence). Earnings per share is 13.2 pence (2003: 15.5 pence).

Adjusted diluted net assets per share increased by 8.6% to 1049 pence, from 966 pence at 31 March 2004. Revaluation of properties and investments contributed 76.4 pence per share and retained earnings 7.4 pence per share. Diluted net assets per share is 1027 pence (31 March 2004: 944 pence).

Financing and capital structure

Approximately 50% of the Group's property value is financed by borrowings from a diverse variety of sources and with a spread of maturity dates. The Group's financial risk management policy is to maintain approximately 85% of debt at fixed and capped rates with debt taken out under a range of maturities, including long-term facilities in order to balance 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 derivatives to produce the desired interest rate profile for the Group's finances.

At 30 September 2004 Group net debt is £4,936.4 million (31 March 2004: £4,866.8 million). Securitisations account for 58% of net debt and are non-recourse to the Group. Net debt including our share of joint ventures debt is £5,371.5 million (31 March 2004: £5,396.6 million). The joint ventures are separately financed with no recourse to British Land.

The Group's mortgage ratio is 46% (31 March 2004: 48%). The mortgage ratio including the Group's share of joint venture debt is 48% (31 March 2004: 51%).

The Group's weighted average interest cost is 6.51%, of which 84% is at fixed or capped rates of interest, with a weighted average debt maturity of 13.8 years (31 March 2004: 16.9 years). The reduction in weighted average debt maturity is mainly the result of the conversion of the 6% Subordinated Irredeemable Convertible Bonds.

At 30 September 2004 the market value of net debt and interest rate derivatives is £427.5 million more than their book values. Much of the decrease of £56.8 million from 31 March 2004 (£484.3 million) is a result of the conversion of the £150 million 6% Subordinated Irredeemable Convertible Bonds into ordinary shares.

Financing statistics	30 September 2004	31 March 2004
Group		
Net debt	£4,936.4m	£4,866.8m
Weighted average debt maturity	13.8 years	16.9 years
Weighted average interest rate	6.51%	6.38%
% of net debt at fixed/capped interest rates	84%	84%
% of gross debt ringfenced with no recourse to other Group companies/assets	64%	64%
Interest cover (net rents/net interest)	1.51x	1.55x
Mortgage ratio (debt/property and investments)	46%	48%
Cash and available committed bank facilities, of which drawn	£2,364.9m £1,200.8m	£2,149.6m £1,011.0m
Group and share of joint ventures		
Net debt	£5,371.5m	£5,396.6m
Weighted average debt maturity	13.0 years	15.7 years
Mortgage ratio	48%	51%

Securitisations

On 20 September 2004 Exchange House was released from the security pool that supports the Broadgate securitisation. The release of Exchange House adds over £300 million to the Group's unencumbered assets.

6% Subordinated Irredeemable Convertible Bonds

Following the Group's announcement on 10 June 2004 that it planned to redeem, at par, its £150 million 6% Subordinated Irredeemable Convertible Bonds, all the bonds converted into ordinary shares. This led to the issue of 30 million new ordinary shares. As a result, the final dividend for the year ended 31 March 2004 increased by £2.5 million. The interest saving from 1 April 2004 is £9 million per annum.

Dividend

The directors declare an interim dividend of 4.8 pence per share payable on 18 February 2005. This represents an increase of 8.4% over the 2003 interim dividend of 4.43 pence per share and is in line with our policy of progressive dividend growth.

Cash flow

Profits after interest, tax and working capital movements generated a positive operating cash flow for the six months of £65.2 million (2003: £65.9 million). The Group has been a significant net investor during the half year with property acquisitions, developments and investment expenditure amounting to £236.5 million. Property and investment disposals by the Group realised cash of £16.4 million.

Canary Wharf

During the six month period the Group acquired a 15.8% interest in the AIM listed Songbird Estates plc ('Songbird') for a consideration of £97.1 million. Songbird acquired 66.3% of the Canary Wharf Group PLC in a leveraged takeover. Songbird's first financial reports are scheduled to be for the period to 31 December 2004. Songbird is shown as an investment and is valued at £97.1 million at 30 September 2004. The Group has yet to receive any dividend income.

Subsequent transactions

Since 30 September 2004 the Group has completed a number of significant transactions. The Queensmere and Observatory Shopping Centres in Slough were acquired for £192 million, 65 high quality pubs were purchased for £174 million from Spirit Group who will continue to occupy and operate these pubs on a 30 year lease. The Swiss Centre was sold for a price of £47 million, some £12 million in excess of its 31 March 2004 book value.

Accounting policies

At 31 March 2004 the Group fully adopted Financial Reporting Standard (FRS 17) 'Retirement Benefits' and Financial Reporting Standard (FRS 20) 'Share-based Payment'. The 2003 comparative amounts in this interim statement have been restated to reflect these changes. The adoption of FRS 17 has no impact on profit for the half year (2003: decrease £0.1 million). The Group has recorded a net pension asset of £0.1 million (31 March 2004: £0.1 million) which represents only 0.002% of the Group's adjusted net assets, reflecting the Group's small employee numbers and payroll costs.

The impact of FRS 20 is immaterial and hence no prior year adjustment is necessary.



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International Accounting Standards

International Accounting Standards (IAS) will be applied, as required for all European Union listed companies, for our financial year ending 31 March 2006. Whilst of course the Group's cash flows will be unaffected by the introduction of IAS, the new standards will represent a fundamental change in accounting and reporting. The Group has been working towards the implementation of IAS for some two years and is well advanced in its plans to meet the challenges of IAS implementation. Work performed to date includes the ongoing detailed assessment of the impact of IAS, training of staff on IAS and updating of systems and methodologies to ensure IAS compliance.

The Group intends to provide guidance as to the accounting impact of IAS at a seminar for analysts to be held on 25 January 2005. The materials from this seminar will be available on the Group's website www.britishland.com immediately thereafter. The Group will present its 31 March 2005 results under IAS next summer following publication of the Group's 31 March 2005 UK GAAP annual results. The principal areas where IAS differs from UK GAAP, affecting the Group's results are shown below.

Property accounting

Property valuation movements are recorded in the profit and loss account under IAS rather than the UK GAAP treatment where such movements are accounted as movements in reserves. This will lead to an increased volatility in reported profits.

The treatment of lease incentives under IAS is different in that such incentives are spread in the profit and loss account to the earlier of the first lease break or the end of the lease whereas under UK GAAP they are spread to the first open market rent review. This will lead to different phasing of recognition of gross rental income, to recognise income earlier than currently and to amortise costs over a longer period.

In the case of head leases on the Group's leasehold properties, IAS will require a financial liability and corresponding asset to be recognised in the balance sheet. Currently the financial effect of head leases is reflected by our valuers as a deduction from their valuations. The net asset effect of this change is not expected to be material.

The definitions of finance and operating leases are different between UK GAAP and IAS. Where a lease is classified as a finance lease it will be shown as a financial asset rather than as a property. Buildings subject to such leases will not be revalued and an element of the rents paid by tenants will be accounted for as repayment of loans rather than income. The Group expects that virtually all its leases will be operating leases.

Deferred Tax Accounting

UK GAAP does not permit deferred tax to be recognised where a business is not obliged to pay more tax at a future date. IAS on the other hand requires provision for all taxable and deductible differences between book values for tax purposes and accounting book values that are not 'permanent' timing differences. The effect of this change will be to reduce net assets.

The most significant such difference for British Land is between the base costs for tax purposes of its properties and its share of properties held by joint ventures, and the accounting book values which include material revaluation adjustments. Tax payments will arise only if British Land sells those assets and the amount of tax crystallised will reflect the price received at the time, the structure of the transaction, any tax benefits available such as loss relief and benefits derived from the tax position of the purchaser or of the Group at that time. None of these mitigating factors are accurately quantifiable where no transaction is in contemplation or negotiation, accordingly the provision to be booked under IAS will not represent an amount which the company expects to pay. Substantial deferred tax movements will appear in the profit and loss account, reflecting deferred tax arising on valuation changes.

Derivatives

British Land uses derivatives to manage its interest rate risk. In accordance with UK GAAP British Land's derivatives are not valued when they are hedges and any income or costs are recognised in the profit and loss account consistently with the underlying hedged transaction. IAS requires all derivatives, whether cash flow hedges or fair value hedges, to be carried at their fair values in the balance sheet. The disclosures in note 9 to the interim statement show the fair values of the Group's derivatives. The hedge accounting provisions of IAS 39 reduce the sensitivity of the profit and loss account to movements in the fair values of cash flow hedge derivatives. IAS prescribes a number of stringent tests to determine whether or not derivatives qualify as effective hedges. The Group expects to account for its current portfolio of interest rate derivatives as effective hedges.

Dividends

Unlike UK GAAP which requires proposed final dividends to be accrued, IAS only permits recognition of the liability to pay a final dividend when this has been approved by the shareholders. This will lead to a one off increase in net asset value by the net cost of the proposed dividend.



Graham Roberts Finance Director
23 November 2004