

Finance and capital structure

British Land is managed on a fully integrated basis to produce secure and attractive shareholder returns. Risk management is a distinctive skill at British Land where the mix of assets, leases, developments and debt are managed together to ensure the most effective risk adjusted result. Overall, the Group's prime assets and their uniquely secure rental income present lower risks than other property portfolios, enabling returns to shareholders to be enhanced using financial leverage: a 45-55% loan to value ratio is targeted. The financing policy is also highly risk averse, to ride out any cycle.

Since we seek to maximise shareholder returns, we prefer to avoid equity issuance, except where the commercial opportunity clearly merits it. We also would expect to return capital to shareholders if surplus arises over what we believe can be attractively deployed in the business.

Debt is raised from a variety of sources with a spread of maturity dates; the weighted average maturity is 14.3 years. Longer term debt is raised principally through securitisations and debentures. Securitisations have a range of benefits, including long maturities at competitive rates with no recourse to other companies or assets in the Group, and without financial covenants by British Land. The securitisations of £3.5 billion include £2.4 billion, about 40% of Group net debt, rated AAA or AA.

Unsecured bank facilities tend to be for terms of five to seven years, and we aim to spread the maturities of the different facilities from a wide range of banks. Further details are set out later in this report.

The Group borrows at fixed and floating rates and uses derivatives to achieve the desired interest rate profile; currently the policy is to maintain around 85% (subject to 5% tolerance) of debt at fixed and capped rates. This interest rate profile is closely monitored as part of our management of the overall financial effects of transactions in the Group.

The joint ventures are separately financed, and have their own interest rate derivatives, all with no recourse to British Land.

Our principal liabilities comprise net debt of £6 billion, increased over the year as funds were drawn for net property acquisitions and offset by a £150 million reduction as a result of the conversion of the Convertible Bonds.

Financing statistics	31 March 2005	31 March 2004
Group:		
Net debt	£6,040.6m	£4,866.8m
Weighted average debt maturity	14.3 years	16.9 years
Weighted average interest rate	6.00%	6.38%
% of net debt at fixed/capped interest rates	90%	84%
% of gross debt ringfenced with no recourse to other Group companies/assets	63%	64%
Interest cover (net rents/net interest)	1.59x	1.55x
Loan to value (debt/property & investments)	50%	48%
Cash and available committed facilities	£2,632.2m	£2,149.6m
– of which drawn	£1,663.4m	£1,011.0m
Group and share of joint ventures:		
Net debt	£6,536.2m	£5,396.6m
Weighted average debt maturity	13.5 years	15.7 years
Loan to value (debt/property & investments)	52%	51%
Weighted average interest rate	6.03%	6.41%

The reduction in weighted average debt maturity reflects three main factors: the new Broadgate securitisation has a longer term than the Notes redeemed, offset by the conversion of the £150 million Convertible Bonds and the significant net investment in property, predominantly financed by unsecured facilities.

At 31 March 2005, the market value of the Group's net debt and interest rate derivatives was £293.9 million more than book values (£302.4 million including share of joint ventures).

Financing activity

We have also been active this year in arranging financing of the business, in the banking and capital markets. In the year some £500 million from 13 facilities came to the end of their terms and all but one was renewed or replaced. New bank lines of over £1 billion were agreed, including a £600 million syndicated loan facility.

The major refinancing of Broadgate was completed in March 2005: £2.08 billion of bonds were issued at an average interest rate of 5.05% and a weighted average maturity of 20 years.



Tesco, Serpentine Green Shopping Centre, Peterborough

The major refinancing of Broadgate was completed in March 2005: £2.08 billion of bonds were issued at an average interest rate of 5.05% and a weighted average maturity of 20 years. After repayment of the existing debt previously securitised on the Estate, the costs of closing out interest rate hedging and payment of transactions costs, the net additional finance raised was approximately £500 million. British Land's future interest charges are reduced by some £13 million per annum. The timing of the transaction was particularly advantageous, achieving tight market pricing of the bonds, particularly at the AAA rated level. This financing reduces the Group's interest costs overall and extends the maturity profile of borrowings.

Broadgate refinancing – £2.08 billion at an average rate of 5.05% pa

Key benefits	Key financial effects 2004/5
Additional £500m of long-term funding	Pre-tax exceptional charge of £180m
Interest costs reduced by £13m per annum	NAV reduced by 24p per share
Weighted average maturity of 20 years	NNNAV reduced by less than 3p per share
Attractive shareholder post-tax return	
Improved prepayment provisions	

The Tesco BL Properties Limited joint venture was refinanced by a group of banks in January 2005, repaying existing debt and returning some £50 million surplus to each of British Land and Tesco.

As we reported at the interim, the £150 million 6% Subordinated Irredeemable Convertible Bonds all converted to ordinary shares, resulting in the issue of 30 million new shares, and an interest saving from April 2004 of £9 million per annum.

The Scottish Retail Property Limited Partnership, a joint venture established in March 2004 with funding from the partners, was refinanced after the year end by a seven year securitisation, returning some £210 million to each of the British Land and Land Securities partners.

Important trends in the UK market

Real Estate Investment Trusts – prospects

The introduction of a tax efficient property investment vehicle is widely anticipated. It is still an uncertain process and might be available only on unattractive conditions. However, we do expect REITs to happen and with a structure to which the market will respond positively. British Land is fully supportive and deeply engaged in the process. We believe that British Land will make an attractive REIT due to our:

- outstanding property portfolio
- strong brand name
- significant range of structural alternatives
- safe financial structure.

Code of Practice for Commercial Leases

British Land is a supporter of the Code of Practice for Commercial Leases and remains committed to promoting greater flexibility in leasing practices. In common with other major landlords it has signed a declaration allowing sub-letting at below passing rents reserved in the lease. Following a period of study and consultation the Government announced that it did not intend to legislate to ban upward only rent review clauses in commercial leases.

Planning

Town and Country Planning legislation sets the statutory and policy framework for our development programme, as well as for extensions and changes of use to the investment portfolio. The planning background is also an important consideration when acquisitions are made.

The 2004 Planning and Compulsory Purchase Act has changed nearly all aspects of the planning regime. The additional importance given to planning policy and the requirement for local planning authorities to keep their planning policies up to date makes it more important than ever that we engage with local and regional planning authorities. The new Act also stresses the need for more public consultation at the beginning of the process on major planning applications. At the same time, the scope and complexity of the technical issues influencing planning decisions continue to increase.

The Government's commitment to creating sustainable communities requires a considered approach to the long term masterplanning of our major development projects. At Regent's Place, Canada Water, New Century Park in Coventry and the development land around Meadowhall for example, we are working with local authorities to plan the mix of uses and the necessary infrastructure which create value and gain local support.