



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.

The corporate responsibility programmes bring real benefits to the business. A key feature is the launch of the Sustainability Brief, a process that establishes sustainable design and construction in our developments.

The Government is also issuing new and revised planning guidance to support the reforms to the planning system in the new Act. The recently published PPS 6 dealing with town centres confirms the Government's commitment to restricting out of town retail development and requires local authorities to take positive action to promote redevelopment in central areas. There are some exceptions to the general presumption against out of town centre retail development but the long trail of refused applications for this type of development will continue to dissuade all but the most determined.

Corporate responsibility and relationships with key stakeholders

The corporate responsibility programmes bring real benefits to the business. They build relationships with stakeholders, improving our reputation with tenants, investors, lenders, analysts, employees and local communities, reducing risk and costs by efficient resource management. We are pleased to report that in 2004, for the second year running, British Land was designated by the Dow Jones Sustainability Indices as the financial services sector world market leader in corporate responsibility issues.

Our 2004 Corporate Responsibility Report was published in April 2005. A key feature is the launch of the Sustainability Brief, a process that establishes sustainable design and construction in our developments, and has been recognised by Government as a leading example. We have also been working with the Carbon Trust to develop and implement a Carbon Management Programme for the multi-let property portfolio. This enables the Company to benchmark the energy performance for all multi-let buildings' common areas and set targets to reduce carbon emissions and, as a result, make cost savings.

Technology and innovation

There have been a number of initiatives designed to support our occupiers and improve operational efficiency.

Occupier initiatives include:

- our onsite replenishment and storage facility at Meadowhall (ARC), which has experienced increased retailer take up and has also won the ICSC (International Council for Shopping Centres) Award for Centre Productivity in 2005

- the Broadgate Environmental Working Group, where we have worked collaboratively with Broadgate occupiers to improve waste management and increase the incidence of recycling at Broadgate.

Operational efficiency initiatives include:

- wider deployment of the British Land portal (web-based access to our systems) for our agents and other consultants, improving operational effectiveness
- a pilot project to explore ways to improve procurement and to improve the quality of the provision of services relating to the service charge, which are costs incurred by the building manager and paid for by the occupier.

Risks and uncertainties

The Group's objective is to achieve attractive long-term total returns whilst minimising risks. In order to identify and evaluate risks and design controls to mitigate them, a regular comprehensive assessment is undertaken which has identified some 50 individual risks affecting the Group. Responsibility for management of each key risk is clearly identified and delegated by the Board to specific executive directors and senior executives within the Group.

Most of the risks faced by the Group arise out of natural market volatility, relating to supply and demand imbalances in the following core areas:

- demand for space from occupiers against available space (including new developments)
- differential pricing for previous locations and buildings
- alternative use for buildings (particularly redevelopment)
- demand for returns from investors in property, compared to other asset classes
- price differentials for capital to finance the business
- legislative initiatives, including planning consents and taxation
- economic cycles, including the impact on tenant covenant quality, interest rates and inflation
- mis-pricing of property assets by the equity markets.