

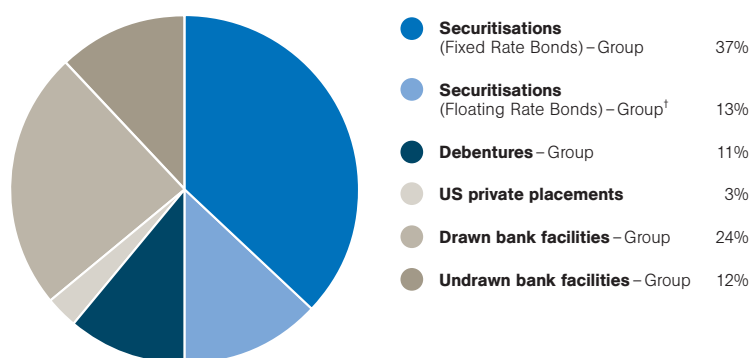
Principal Debt Instruments

Financing structure

British Land uses a number of methods of finance in order to spread maturities, reduce borrowing costs and mitigate refinancing risk.

Finance is raised through a mixture of securitisations, public and private debt issues and bank borrowings. At 31 March 2005 the Group had net borrowings of £6.04 billion (2004: £4.87 billion).

Accessing a flexible pool of finance



[†] Floating rate bonds with related fixed rate swaps.

Non recourse

At 31 March 2005 £3.9 billion (2004: £3.3 billion) of outstanding debt had been issued by ring-fenced, special purpose companies, with no recourse to other companies or assets in the Group. The securitisations and debt issued by the subsidiary company BL Universal fall within the non-recourse category.

Securitisations

At 31 March 2005 outstanding debt raised through securitisations amounted to £3,545m (2004: £2,896m). British Land's securitisations are used to raise long-term debt at fixed rates of interest from the cash flows generated from specific assets or pools of assets. The strength of these cash flows allows credit rated debt to be raised on a non-recourse basis, thereby lengthening maturities and reducing interest costs. British Land retains the flexibility to actively manage the assets and provide suitable substitute assets if appropriate. This enables returns to be maximised, benefiting both debt and equity investors. Additional flexibility permits British Land to sell or introduce third party capital without repaying the existing debt.

Although a combination of fixed and floating rate debt has been issued via securitisations, all the floating rate instruments have been fully swapped into fixed rate debt, from the date of issue, to provide certainty over future interest cost.

Further details of British Land's financing structure are provided within the Investors section of the Company's website (www.britishland.com).

Broadgate

The refinancing of the Broadgate Estate (completed 2 March 2005) involved the issue of £2,080m secured bonds by Broadgate Financing PLC, a ring-fenced wholly-owned subsidiary of British Land. This followed the redemption of the existing bonds and notes of Morgan Stanley Mortgage Finance (Broadgate) PLC and Broadgate (Funding) PLC.

The transaction created an enlarged security pool of 15 properties, adding further high quality tenants and increasing tenant diversity. The refinancing reduced interest costs and extended debt maturity.

Nominal outstanding	£2,080m
Valuation of securitised portfolio	£2,838m
Weighted average interest rate	5.05%
Weighted average debt maturity	19.8 years
Gross Coverage Ratio	184%*

* Estimate of average ratio of Gross Rental Income (including amounts standing to the credit of the Cash Reserve Account) to Debt Service for 2005/6 financial year.

Details of the bonds and their ratings are shown in the following table:

Bond	Principal outstanding £m	Rating S&P/Moody's/Fitch
Class A1 Floating Rate Bonds 2032	225	AAA/Aaa/AAA
Class A2 4.949% Bonds 2031	315	AAA/Aaa/AAA
Class A3 4.851% Bonds 2033	175	AAA/Aaa/AAA
Class A4 4.821% Bonds 2036	400	AAA/Aaa/AAA
Class B 4.999% Bonds 2033	365	AA/Aa2/AA
Class C1 Floating Rate Bonds 2022	235	A/A2/A
Class C2 5.098% Bonds 2035	215	A/A2/A
Class D Floating Rate Bonds 2025	150	BBB/Baa2/BBB
Total	2,080	

Meadowhall

On 5 December 2001 Meadowhall CMR Finance PLC, a special purpose vehicle, issued £825m of Bonds supported by the cash flows of the Meadowhall Shopping Centre, Sheffield. The proceeds of the issue were on-lent to a ring-fenced wholly-owned British Land subsidiary, MSC (Funding) PLC, in exchange for one tranche of secured and four tranches of unsecured notes, which are the obligations of the Group. The former are secured on the Meadowhall Shopping Centre and the latter are guaranteed by Meadowhall Shopping Centre Limited, the ring-fenced British Land subsidiary that owns the centre.

Following the successful realisation of additional income through rent reviews and new lettings at Meadowhall a £50m reserve tranche of bonds was issued on 14 April 2003.

Nominal outstanding	£865m
Valuation of securitised portfolio	£1,441m
Weighted average interest rate	5.53%
Weighted average debt maturity	18.6 years
Gross Coverage Ratio	139%*

* Source: 12 April 2005 Debt Service

Details of the bonds and their ratings are shown in the following table:

Bond	Principal outstanding £m	Rating S&P/Fitch
Class A1 5.260% Bonds 2035	580	AAA/AAA
Class A2 Floating Rate Bonds 2013	40	AAA/AAA
Class B 5.793% Bonds 2035	160	A/A
Class C Floating Rate Bonds 2035	85	BBB/BBB
Total	865	

Sainsbury's portfolio

On 15 June 2001 Werretown Supermarkets Securitisations PLC, a special purpose vehicle, issued £575m of Bonds supported by the cash flows from a portfolio of 35 superstores owned by British Land and leased to Sainsbury's Supermarkets Ltd.

Nominal outstanding	£620m
Valuation of securitised portfolio	£1,070m
Weighted average interest rate	6.77%
Weighted average debt maturity	14.0 years
Coverage Ratio	104%*

* Source: 4 April 2005 Debt Service

The proceeds of the issue were on-lent to a ring-fenced wholly-owned British Land subsidiary, BLSSP (Funding) PLC, in exchange for one tranche of secured and five tranches of unsecured notes, which are the obligations of the Group. The former are secured on the 35 superstores and the latter are guaranteed by the ring-fenced British Land subsidiaries that own the superstores.

On 6 October 2003 Werretown Supermarkets Securitisations PLC issued a further £78m of Bonds.

The properties in the security pool have increased in value by 58% from £677m to £1,070m since the original issue date.

Details of the bonds and their ratings are shown in the following table:

Bond	Principal outstanding £m	Rating S&P/Fitch
Class A1 Floating Rate Bonds 2016	80	AA/AA
Class A2(C) 6.453% Bonds 2028	209	AA/AA
Class B1 Floating Rate Bonds 2028	81	BBB-/BBB
Class B2 6.994% Bonds 2028	209	BBB-/BBB
Class B3 7.239% Bonds 2028	41	BBB-/BBB
Total	620	

BL Universal PLC 6.75% First Mortgage Debenture Bonds

The 6.75% First Mortgage Debenture Bonds were originally issued by BL Universal PLC in March 1998. There are £100m of Bonds due 2011, and £200m of Bonds due 2020 outstanding.

The Group acquired the remaining 50% interest in BL Universal from its joint venture partner, GUS plc, in November 2003. This Company is now a ring-fenced subsidiary with no recourse to other companies or assets in the Group.

The secured properties are located in a wide number of locations throughout the UK. A full list of these properties is provided in the Investors section of the British Land website (www.britishland.com).

Recourse

As at 31 March 2005 recourse debt amounted to £2.3 billion (2004: £1.8 billion). Of this, £483m was raised through debentures with the balance from unsecured lenders. These lenders have recourse for repayment of these borrowings to the Group, including equity interests in non-recourse companies.

Debentures

The Group's debentures are secured against specific assets.

Debentures provide very long-term finance with no amortisation, with the right to substitute properties from time to time, subject to meeting current income and capital tests. Mortgaged properties can be withdrawn from the security pools provided that tests relating to loan to value and interest cover are met. The Group is required to provide additional security if the loan to value and interest cover fall below certain levels.

8.875% First Mortgage Debenture Bonds 2035

The 8.875% First Mortgage Debenture Bonds 2035 were originally issued by the Company in September 1995. There are £250m of Bonds outstanding. The following properties are charged to secure the Bonds:

- Tollgate Centre, Colchester
- St. James Retail Park, Northampton
- Botley Road Retail Park, Oxford
- Eastgate Shopping Centre, Basildon
- Euston Tower, Regent's Place, London NW1
- Scottish and Newcastle Depot, Oldfield Lane, Greenford

During the year ended 31 March 2005, Greyhound Retail Park, Chester was released from charge.

9.375% First Mortgage Debenture Stock 2028

The 9.375% First Mortgage Debenture Stock 2028 was originally issued by the Company in April 1993. There is £200m of Stock outstanding.

The following properties are charged to secure the Stock:

- Portcullis House, Glasgow
- Primark Store, Kingston
- 2 Moorfields, Liverpool
- 51 Eastcheap, London EC3
- Triton Square, Regent's Place, London, NW1
- Auldhouse Retail Park, Glasgow
- Teeside Retail Park, Stockton-on-Tees

During the year ended 31 March 2005, Legal and General House, Kingswood, was released from charge.

Unsecured lenders

Bank facilities

At 31 March 2005 available bank facilities amounted to £2,481m (2004: £1,976m) of which £818m (2004: £965m) was undrawn. The majority of these facilities are revolving and can be drawn at short notice, providing the Group with valuable operational flexibility. British Land maintains relationships with a large and diverse group of banks, reducing reliance on any particular lender. At 31 March 2005, 48 different financial institutions from 20 countries had provided finance to the Group via bilateral or syndicated facilities. Most facilities are for a term of five years, although a significant number can be extended if the lender consents. The Group has recently raised seven-year bilateral finance. All the facilities are floating rate and British Land uses interest rate derivatives, which mainly take the form of interest rate swaps, to achieve the desired fixed versus floating interest rate profile.

6.30% Senior US Dollar Notes 2015 and 7.35% Senior US Dollar Notes 2007

British Land has \$314m of US denominated unsecured notes. Both principal and interest have been swapped into Sterling. These notes, which had a term of 12 and 10 years at the date of issue, broaden the finance pool by providing access to US investors.

Principal features of unsecured debt

British Land operates a 'level playing field', providing unsecured lenders with a standard set of borrowing conditions. The covenants are:

- a) a 70% maximum ratio for net unsecured borrowings to unencumbered assets.

For this purpose net unsecured borrowings exclude all secured and non-recourse debt, and unencumbered assets exclude assets subject to a security interest and other assets of non-recourse companies.

Investments in joint ventures are also excluded; and

- b) a 175% maximum ratio for net borrowings to adjusted capital and reserves.

In this case net borrowings include all Group borrowings, even where they are non-recourse.

As at 31 March 2005 these ratios stood at 42% (2004: 47%) and 106% (2004:102%) respectively.

Ratio	31 March 2001	31 March 2002	31 March 2003	31 March 2004	31 March 2005
Net unsecured borrowings to unencumbered assets ¹	45%	23%	45%	47%	42%
Net borrowings to adjusted capital and reserves ²	92%	91%	103%	102%	106%

Highest during the year to 31 March 2005: 52%¹; 109%²

Although secured assets and other assets of non-recourse companies are excluded from unencumbered assets for the covenant calculations, unsecured lenders benefit from the surplus value of these assets above the related debt and from the free cash flow from these assets. During the year ended 31 March 2005 these assets generated £75m of surplus cash after payment of interest and debt amortisation. Based on current passing rents, a similar amount of such surplus cash is expected during the financial year to March 2006. Surplus cash is passed up to the Group on a quarterly basis.

In addition, while investments in joint ventures do not form part of unencumbered assets, profits generated by these ventures are regularly passed up to the Group. Refinancing of joint ventures, following increases in property valuations, provides an additional source of cash flow for the Group. During the year ended 31 March 2005 there was a net cash inflow of £50m from joint ventures.

Long leases with upward only rent reviews create a strong income profile. The benefit to unsecured lenders is enhanced by the Group's interest rate risk management strategy (see page 68). This aims to maintain approximately 85% of debt at fixed or protected rates over a rolling three to five year horizon. The following table shows the percentage of current net debt fixed in 1, 5 and 10 years' time. The relatively high proportion of fixed rate debt means a movement up or down of 1% (100 basis points) in market rates of interest results in an increase or reduction of the Group's annual interest charge of just £7m (1.4% of net rental income).

Net debt at 31 March 2005 – Profile of fixed and protected interest rates

	Year 1	Year 5	Year 10
	90%	87%	54%



William Morris founded the **Society for the Protection of Ancient Buildings** in 1877 to counter the over-enthusiastic 'restoration' of medieval buildings by Victorian architects. Preservation, he argued, was not the same as renewal. The Society advocates conservative repair, remedying defects while retaining as much as possible of the historic fabric and character, including good later additions. It encourages the imaginative use of new design that enriches rather than undermines the value of the existing structure.

Leading by example *In this Leicester foundry, lead for re-roofing historic buildings is made by wholly traditional processes. It is poured on to a bed of sand, which imparts a textured finish, before being smoothed off and cut with a heavy, long-handled knife.*

