

1 Basis of preparation

The financial statements for the year ended 31 March 2007 have been prepared on the historical cost basis, except for the revaluation of properties, investments and derivatives. The financial statements have also been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation.

These accounting policies have been applied consistently in all material respects, with the exception that following an amendment to IAS 39 – ‘Financial Instruments: Recognition and Measurement’ revaluation of other investments is now taken to equity rather than recognised directly in the consolidated income statement. This change has no impact on the Group’s net assets and the comparative results have been restated on a consistent basis.

At the date of approval of these financial statements, IFRS 7 – ‘Financial Instruments: Disclosures’; and the related amendment to IAS 1 on capital disclosures was in issue. IFRS 7 will require additional disclosure on financial instruments when it comes into effect for the year commencing 1 April 2007. The revised standard IAS 23 ‘Borrowing Costs’ was issued in March 2007, effective from 1 January 2009. Upon adoption, the revised standard will have no impact on the financial statements.

The key external business, internal management and process risks are detailed in the Operating and Financial Review.

Subsidiaries, joint ventures and associates (including funds)

The consolidated accounts include the accounts of The British Land Company PLC and all subsidiaries (entities controlled by British Land). Control is assumed where British Land has the power to govern the financial and operating policies of an investee entity so as to gain benefits from its activities.

The results of subsidiaries, joint ventures or associates acquired or disposed of during the year are included from the effective date of acquisition or to the effective date of disposal. Accounting practices of subsidiaries, joint ventures or associates which differ from Group accounting policies are adjusted on consolidation.

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount received is credited to the income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures and associates, including funds, are accounted for under the equity method, whereby the consolidated balance sheet incorporates the Group’s share of the net assets of its joint ventures and associates. The consolidated income statement incorporates the Group’s share of joint venture and associate profits after tax. Their profits include revaluation movements on investment properties.

Other investments

Other investments are shown at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in the income statement are not subsequently reversed through the income statement.

Properties

Properties are externally valued on an open market basis at the balance sheet date. Investment and development properties are recorded at valuation.

Any surplus or deficit arising on revaluing investment properties or investment properties being redeveloped is recognised in the income statement.

Valuation surpluses arising on other development properties, those not previously classified as investment properties, are reflected in the statement of recognised income and expense, unless a deficit reduces the value below cost, in which case the deficit is charged to the income statement.

The cost of properties in the course of development includes attributable interest and other associated outgoings. Interest is calculated on the development expenditure by reference to specific borrowings where relevant and otherwise on the average rate applicable to short-term loans. Interest is not capitalised where no development activity is taking place. A property ceases to be treated as a development property on practical completion.

Disposals are recognised on completion: profits and losses arising are recognised through the income statement, the profit on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus additions in the period.

In determining whether leases and related properties represent operating or finance leases, consideration is given to whether the tenant or landlord bears the risks and rewards of ownership.

Head leases

Where an investment property is held under a head lease it is initially recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

Intangible assets

Intangible assets, such as customer contracts, acquired through business combinations, are measured initially at fair value and are amortised on a straight-line basis over their estimated useful lives, and are subject to regular reviews for impairment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary, associate or jointly controlled entity at the time of acquisition. Goodwill is recognised as an asset and reviewed for impairment annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Financial obligations and cash

Debt instruments are stated at their net proceeds on issue. Finance charges including premiums payable on settlement or redemption and direct issue costs are spread over the period to redemption, using the effective interest method.

As defined by IAS 39, cash flow and fair value hedges are carried at fair value in the balance sheet. Changes in the fair value of derivatives that are designated and qualify as effective cash flow hedges are recognised directly in the hedging reserve. Changes in the fair value of derivatives that are designated and qualify as effective fair value hedges are recorded in the income statement, along with any changes in the fair value of the hedged item that is attributable to the hedged risk. Any ineffective portion is recognised in the income statement.

Cash equivalents are limited to instruments with a maturity of less than three months.

Net rental income

Rental income is recognised on an accruals basis. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a rent free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of lease commencement to the earliest termination date. Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the shorter of the entire lease term or the period to the first break option. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation.

Initial direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the earliest termination date.

Where a lease incentive payment, including surrender premiums paid, does not enhance the value of a property, it is amortised on a straight-line basis over the period from the date of lease commencement to the earliest termination date. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned is immediately reflected in income.

Management and performance fees

Management and performance fees receivable are recognised in the period to which they relate, except for performance fee retentions subject to clawback, which are recognised over the clawback performance period. In assessing the risk of clawback, account is taken of the unpredictability of future relative performance against the benchmark.

Taxation

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are not taxable (or tax deductible). In particular the Group became a REIT on 1 January 2007 and income and gains on qualifying assets are now exempt from taxation. Current and prior year tax payable is estimated.

Deferred tax is provided on items that may become taxable at a later date, on the difference between the balance sheet value and tax base value, on an undiscounted basis. On business combinations, the deferred tax effect of fair value adjustments is incorporated in the consolidated balance sheet.

Employee costs

The fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model. Compensation linked to performance fees accrued by the Group is amortised over the vesting period.

Defined benefit pension scheme assets are measured using fair values; pension scheme liabilities are measured using the projected unit credit method and discounted at the rate of return of a high-quality corporate bond of equivalent term to the scheme liabilities. The net surplus or deficit is recognised in full in the consolidated balance sheet. Any asset resulting from the calculation is limited to past service costs plus the present value of available refunds and reductions in future contributions to the plan.

The current service cost and gains and losses on settlement and curtailments are charged to operating profit. Past service costs are recognised in the income statement if the benefits have vested or, if they have not vested, are amortised on a straight-line basis over the period until vesting occurs. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the consolidated statement of recognised income and expense.

Contributions to the Group's defined contribution schemes are expensed on the basis of the contracted annual contribution.