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Financial performance

- underlying earnings per share up 22% to 43 pence
- net asset value per share 1682 pence, up 20% pre-charges
- total return for the year 21.3%

Introduction

The intense reshaping of the business over two years is reflected in a strong financial performance. The focus on rental growth, asset management, sector and asset specific buy, sell or hold decisions, the refinancing programme and our positive engagement with the REIT process, each contributed to financial outperformance.

The election for REIT status became effective on 1 January 2007 enabling our UK property rental activities to operate largely on a tax exempt basis. Nonetheless taxation will continue to arise on our overseas businesses, interest and fee income and surpluses on investments, including the units we hold in the HUT, HIF and PREF funds. The impact of REITs on the financials are explained further below.

Total return

British Land has delivered a total return for the year of 21.3%, before refinancing and REIT charges, which follows the 34.6% return in the previous year. Over five years, our annualised total return has been 18.6% (pre-exceptional charges). The valuation gains from our development programme, our active management as well as continuing positive market conditions and gearing contributed to this strong performance.

	March 2007	March 2006	% Increase
NAV per share ¹	1682p	1486p	13
Underlying earnings per share ²	43p	36p	22
Dividends paid per share	17.4p	16.1p	8
Total return per share ^{1,3}	21.3%	34.6%	

¹ EPRA basis – note 2 to the accounts

² See note 2

³ Before charges for REIT conversion and refinancings

Total returns are delivered from capital growth and income – the key components are described in the following paragraphs.

Capital growth

Net revaluation gains for the year were £1,630m. A revaluation surplus of £1,234m arose on wholly owned properties and £22m from investments (principally Songbird Estates PLC). Net revaluation gains from our share of Funds and Joint Ventures amounted to £257m.

The quirks of IFRS require us to recognise this unrealised surplus in different parts of the financial statements and a reconciliation is provided in note 6 to the accounts.

During the year, the Group appropriated its trading properties to investment properties, giving rise to a gain of £68m, which is unrealised but is recognised in the income statement in accordance with IFRS. This amount is not included in underlying profits.

The largest component of growth is the valuation uplift of 9.7% which includes the valuation movement in developments, purchases and sales, net of capital expenditure. Offices contributed 13.6%, all retail 7.6%.

Capital profits realised on sales of properties amounted to £82m, measured against the carrying value at 31 March 2006.

Net Asset Value growth

EPRA net assets at 31 March 2007 were £8.9 billion, 1682 pence per share, 13% ahead of the previous year and 20% ahead before charges for REITs and refinancings. The principal components of the 196 pence increase in EPRA NAV per share are as follows:

	Pence per share
At 31 March 2006	1486
Revaluation of properties and gains on asset disposals	292
Underlying profit after tax	43
Dividend paid	(17)
REIT conversion charge (see REIT section below)	(64)
Refinancing charges, net of tax relief	(40)
Other	(18)
NAV per share at 31 March 2007	1682

Income returns

A proportionally consolidated Income Statement and Balance Sheet are included as Table A to the accounts for the benefit of stakeholders who wish to see the results of British Land's interest in Funds and Joint Ventures on a look-through basis. The following commentary refers to financial information of the Group as reported under IFRS where the after tax results of Funds and Joint Ventures are shown as a single line on the Income Statement.

Gross rental and related income for the year is down 6% at £649m, principally due to sales as shown below.

	£m
Gross rental and related income	
Year ended 31 March 2006	690
Purchases	24
Sales	(76)
Like for like growth	10
Other	1
Year ended 31 March 2007	649

THE INTENSE RESHAPING OF THE BUSINESS OVER TWO YEARS IS REFLECTED IN A STRONG FINANCIAL PERFORMANCE

On a like for like basis rental income (including our share of Joint Ventures and Unit Trusts) showed growth of 3.5%, which is ahead of the market overall (IPD at 2.9%). The rental income growth was strongest on retail properties at 4.0% and 2.6% on offices. Office market rental levels have been growing and in so doing have largely eliminated the gap between market rents and the higher passing rents in our portfolio. Future rent review settlements in Central London above these levels will increase income.

Net rental income has reduced to £561m (2006: £589m) and represents 93.9% of gross rental income, after taking into account void costs and the expenses of individual asset management initiatives charged to property income. This is an improvement on the previous year (92.8%), partly due to the impact of sales.

The contribution to underlying profits from **Funds and Joint Ventures** is £37m, a reduction of £2m from the previous year reflecting BL Davidson becoming a subsidiary during the year.

As required by IFRS the reported results for Funds and Joint Ventures are included on a post tax basis as a single line with profits totalling £459m, an increase of 47.6% on the prior year. This profit includes financing costs of £57m, profit on sale and valuation gains £257m and a taxation credit of £170m.

Underlying **fees and other income** were £50m, the same level as the prior year, and include dividends from our investment in Songbird of £18m (2006: £16m) and performance and management fees from our fund management business of £30m (2006: £29m). A further special dividend from Songbird of £33m results in total reported fees and other income of £83m.

We again enjoyed a healthy level of performance fees where the HUT Fund enjoyed a total return of 17.5% and so outperformed its relevant IPD benchmark (15%) by 2.5%. The absolute amount of the

performance fees is lower than the previous year, which had benefited from the effect of stronger yield shift in that period. The performance fees are earned by exceeding stretching targets in a calendar year and are measured against the relevant benchmark. Our management fees are based on a percentage of the portfolio value. The third party element only of fees earned are recognised in the income statement.

Only half of the performance fee earned is recognised immediately, while the balance is released over a vesting period at the rate of 50% of the undistributed amount, provided there is no significant underperformance against the benchmark in each subsequent year. There is no clawback of released income. At 31 March 2007 fees of £13m have been deferred and are subject to potential clawback.

Underlying **administration expenses** amount to £78m which is £3m lower than the previous year partially due to one-off items in the current and prior year. In December and January a Group reorganisation was carried out allowing the Group to reduce complexity in its corporate structure and ongoing compliance and operating costs. Retirements and redundancies in the year have largely offset salary and other cost inflation.

Finance costs include net interest payable and exceptional refinancing charges. Net interest payable (before refinancing charges) is some £313m, 15.2% lower than the previous year representing the reduced interest costs through the sales in the current and prior period, as well as the effect of refinancing the superstores and Meadowhall securitisations and our higher coupon legacy debentures.

The refinancings gave rise to an exceptional cost of £305m and have the beneficial effect of reducing ongoing interest costs.

Underlying profits

Underlying profits have increased by 12.7% from £228m in 2006 to £257m in 2007. The £29m increase is due to the following factors:

	£m
New lettings and rent reviews (net of £17m lease expiries)	10
Effect of purchases and sales	3
Interest savings from refinancings	14
Administration cost savings	3
Other	(1)
Increase	29

Amortisation of intangible assets and goodwill

The fair value of fund management contracts acquired with Pillar is amortised over the contractual lives. The charge for the year is £15m (2006: £10m) leaving an unamortised balance of £50m.

Taxation

The underlying tax rate this year is 12% (2006: 19%). This low rate arises principally through the effect of REIT exempt income in the fourth quarter, non-taxable Songbird dividends, capital allowances and capitalised interest. The rate of tax on disposals is low because refinancing costs have been used to relieve gains in the current year.

The conversion to REIT status leads to a release of some £1.6 billion of deferred taxation representing the amount of tax provided for under IFRS on valuation surpluses, which is now exempt from tax on a disposal. This deferred taxation was previously added back under EPRA guidelines in calculating NAV, so this release does not affect reported NAV.

The £338m cost of the REIT election represents a conversion charge of 2% of the relevant assets payable for the most part in July 2007 and includes related costs of £13m. Unlike deferred tax, this item has reduced NAV in the year.

Impact of REITs	£m
Deferred tax benefit	
on investment properties	1,673
on development properties	84
Goodwill impairment	(106)
Elimination of deferred tax, net of goodwill	1,651
REIT conversion charge and costs	(338)
Net effect of REIT conversion	1,313

Goodwill impaired during the year amounted to £106m (2006: £240m). Goodwill primarily arose through the recognition of deferred tax on acquisition of subsidiary companies and such goodwill has been expensed as a result of the decision to become a REIT. The related deferred tax has also been released.

Dividends

In November we announced a move to a quarterly dividend cycle, which mirrors rental cash inflows, as rents are typically settled quarterly. Together with our final dividend proposal for the year of 8.25 pence, our total dividend for the year will amount to £107m, 20.35 pence per share, an increase of 20% on the previous year.

Dividends (pence)	2007	2006
February (interim)	5.6	5.2
May (first quarterly dividend)	6.5	
August (final, proposed)	8.25	11.8
Total per share	20.35	17.0

As announced in November, our dividend for the year to 31 March 2008 is expected to be not less than 33 pence per share, a 94% increase on 2006. We intend to maintain a progressive dividend policy thereafter, growing dividends in line with our underlying business.

The REIT rules provide for a minimum payout of 90% of relevant profits, being UK rental business profits adjusted for capital allowances and interest capitalised (Property Income Distribution ('PID')). Our dividend proposals for 2007 and 2008 however will exceed this minimum by a substantial margin.

Accordingly, future distributions will comprise a combination of PID and normal dividend. The coupons sent to investors will make the split clear. Withholding tax will be applied at the rate of 22% (20% from April 2008) to the PID element. Certain investors, such as pension funds and charities, may receive their PID income without withholding tax (but to do so must first complete formalities with our registrars).

The PID calculation for the quarter to 31 March 2007 must be distributed before 31 March 2008. As the PID for the year to 31 March 2008 is currently expected to be unusually low, the final dividend for 2007, due in August, will be payable out of non-PID income, that is as a normal dividend. The split of the November distribution between PID and normal dividend will be announced at the same time as the results for the quarter to 30 June 2007. Investors should note that the split between PID and non-PID will vary over time.

Earnings per share

Diluted earnings per share increased to 470 pence from 227 pence in 2006. Underlying earnings per share have risen 22% to 43 pence, due to both the increase in underlying profits and reduced tax charge.

Cash flows

Cash generated from operations has increased by £24m to £479m. Reduced interest costs and higher levels of cash distributions from Funds and Joint Ventures have increased the net cash flow from operating activities by £100m (96%).

	March 2007 £m	March 2006 £m
Cash generated from operations	479	455
Net cash flow from operating activities	204	104
Net investment cash flows	(39)	986
Financing	(11)	(1,025)
Dividends paid	(91)	(84)

Accounting judgements

The most significant judgements made in preparing these accounts relate to the carrying value of properties and investments which are stated at open market value. The Group uses external professional valuers to determine the relevant amounts.

Significant accounting policy judgements are highlighted in our accounting policy note. The most important judgement affecting comparability with other property companies is the approach to deferred tax, albeit following the introduction of the REIT regime this has become of less significance.

Finance and capital structure

British Land is managed on an integrated basis to produce secure and attractive risk adjusted returns to shareholders. 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 result. Overall, the Group's prime assets and their secure long term contracted rental income, primarily with upward only rent review clauses, present lower risks than many other property portfolios, enabling the returns to be enhanced using financial leverage. A 45-55% loan to value ratio is currently targeted, subject to the Board's view of markets, the prospects of and risks within the portfolio and the recurring cash flows of the business. At 31 March 2007, this was 41%, 45% proportionally consolidated (43% and 47% respectively pro forma for payment of REIT conversion charge).

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 over the medium term surplus funds arise over and above that which we believe can be attractively deployed in the business.

Debt is raised from a variety of sources with a spread of maturity dates. 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. Debentures benefit from long maturities and bullet repayment.

Unsecured revolving bank facilities provide flexibility of drawing and repayment and are committed for terms of five to ten years. We aim to spread the maturities of the different facilities from a wide range of banks. Other unsecured funding includes US private placements, with terms of up to 20 years.

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 or capped rates taking into account prospective transactions including development funding. This interest rate profile is closely monitored as part of our management of the overall financial effects of transactions. The year end position of 96% fixed/capped reflects recent disposals (and expenditure due in respect of the development programme).

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

Financing statistics	31 March 2007	31 March 2006
Group:		
Net debt	£6,404m	£5,593m
Weighted average debt maturity	14.1 yrs	15.0 yrs
Weighted average interest rate	5.32%	5.71%
% of net debt at fixed/capped interest rates	96%	95%
Interest cover ¹	1.70	1.51
Loan to value ²	41%	42%
Unsecured debt to unencumbered assets	28%	26%
Undrawn committed facilities and cash	£1,855m	£2,415m
Group and share of Funds and Joint Ventures:		
Net debt ³	£7,741m	£6,684m
Weighted average debt maturity	12.7 yrs	13.4 yrs
Weighted average interest rate	5.36%	5.69%
Interest cover ¹	1.69	1.52
Loan to value ²	45%	46%

¹ Underlying profit before interest and tax/net interest excluding refinancing charges

² Debt to property and investments

³ See Table A