

Partnerships

British Land's net investment in Funds and Joint Ventures is £1,610m (2006: £1,234m) at 31 March 2007. This investment is principally in four active funds and 15 (2006: 13) active Joint Ventures, which hold in total £7 billion (2006: £6.4 billion) of properties in retail, offices and development. The Funds and Joint Ventures are financed by £3.1 billion (2006: £2.8 billion) of external debt, all of which is without recourse to British Land.

The Funds provide British Land with interests in properties in our key sectors. British Land acts as property adviser to the Funds and receives performance and management fees.

Funds

HUT

The Hercules Unit Trust ('HUT') was established in 2000 as a Jersey based closed ended property unit trust with a fixed life to September 2010, subject to extension with consent of unitholders. Its aim is to acquire and own retail warehouse and shopping park investment properties throughout the UK, with a view to providing an annual total return on the portfolio in excess of the IPD Annual Retail Warehouse Index over the life of the Trust.

The Trust return for the year to 31 December 2006 was 22.5%, with a three year annualised return of 31.5% per annum. At the property level, without the effect of gearing, the portfolio returned 17.5% for the year, compared to the IPD Annual Retail Warehouse Universe (excluding HUT) of 15% for the same period. Drivers of this performance were:

- rental value growth of the portfolio of 4.4% over the year (IPD Retail Warehouse Index 2.9%)
- low vacancy rate at 2.3% (IPD Retail Warehouse Index 7.5%).

In HUT's year to December 2006:

- the net asset value of the Trust increased to £2.1 billion (2005: £1.7 billion)
- the net asset value per unit rose 20.8% to £1,635 (2005: £1,354)
- the underlying property portfolio increased in value to £3.4 billion (2005: £3.0 billion), despite net property sales of £87m.

At 31 December 2006, gearing equated to 35.6% of the aggregate Trust value, well within the Trust's limit of 60%.

The secondary market has continued to be active, with no new units issued in the year. A total of 174,532 units were traded over the year with a total value of £252.5m. The units traded at a premium of 7% above their net asset value during the year with the exception of one large portfolio sale.

British Land Property Advisers Ltd is HUT's property adviser, and Schroder Property Managers (Jersey) Ltd is the Fund Manager.

PREF

PREF (Pillar Retail Europark Fund) was created in March 2004 as a closed-end Luxembourg based Fonds Commun de Placement to invest in out-of-town retail parks in the Eurozone – particularly France, Spain, Italy, Portugal and the Benelux countries together with Switzerland. On completion of outstanding contracted acquisitions, the target of a €1 billion portfolio, set when the fund was launched, will be exceeded.

The annualised total return for the year to 31 December 2006 was 15.2%. Gearing at 31 December 2006 was 58%. PREF gears up to 60% loan to value with debt provided by a syndicate of banks.

The Investment Manager is BL European Fund Management LLP, in which British Land has a 70% interest.

HIF

Hercules Income Fund ('HIF') was established in September 2004 as a Jersey based closed ended property unit trust with a fixed life of 10 years, subject to extension with unitholder consent. Its objective is to target smaller retail park assets, and with an emphasis on a higher distributable yield.

The Trust return for the year to 31 December 2006 was 18.9% and the property return was 19.3% compared with the IPD Annual Retail Warehouse Universe Benchmark of 15.3%. HIF's loan to value is currently low, but it is intended to raise the level of gearing to nearer HIF's target of 50% in order to further enhance returns when acquisition opportunities arise.

In the year to December 2006:

- net assets have increased to £145m
- the net asset value per unit has risen from £1,137 to £1,307
- the underlying property portfolio has increased in value to £149m (2005: £144m) despite net property sales of £13m.

British Land Property Advisers Ltd is the property adviser, and Pillar Property Management (Jersey) Ltd is the Fund Manager.

| Fund | Portfolio | Value £m | Net Rent £m ¹ | Finance £m | BL Share % | BL Interest £m |
|--|-----------------------|----------------|-----------------------------|---------------|--------------------|-------------------|
| Hercules Unit Trust ('HUT') | Retail shopping parks | 3,408 | 112 | 1,225 | 36.27 | 787 |
| Pillar Retail Europark Fund ('PREF') | European retail parks | 340 | 20 | 201 | 22.35 ² | 29 |
| City of London Office Unit Trust ('CLOUT') | Offices | – ³ | – | 69 | 35.94 | 10 |
| Hercules Income Fund ('HIF') | Retail warehouses | 153 | 6 | 6 | 26.12 | 39 |

¹ Annualised

² Will increase to 40% when committed new equity fully contributed

³ CLOUT investments all forward sold or sold during the year

| Joint Venture | | Portfolio Valuation | Net Rent | Finance | BL Interest |
|--|------------------------------------|---------------------|-----------------|---------|-----------------|
| Portfolio | JV Partner | £m | £m ¹ | £m | £m ² |
| BLT Properties Ltd 1 retail park, 8 Tesco superstores | Tesco PLC | 363 | 15 | 185 | 93 |
| Tesco BL Holdings Ltd 2 retail parks, 2 shopping centres each anchored by Tesco, 5 Tesco superstores | Tesco PLC | 705 | 29 | 315 | 154 |
| Tesco British Land Property Partnership district shopping centre anchored by Tesco | Tesco PLC | 109 | 5 | 45 | 20 |
| Tesco Aqua Limited Partnership 21 Tesco superstores | Tesco PLC | 652 | 29 | 487 | 84 |
| The Scottish Retail Property Limited Partnership shopping centres in Aberdeen and East Kilbride | Land Securities PLC | 703 | 37 | 430 | 107 |
| BL Fraser Ltd 12 department stores | House of Fraser PLC | 296 | 14 | 130 | 70 |
| Eurofund Investments Zaragoza SL³ Puerto Venecia, out-of-town shopping scheme | Private Investors and Copcisa Corp | 154 | – | 16 | 73 |

¹ Annualised ² BL share of net assets ³ Development project

Joint Ventures

The Joint Ventures provide British Land with access to desirable properties (often off market), within a separate entity formed for the purpose, and controlled on a 50:50 basis by a board carrying equal representation from each partner. The entities are able to raise finance on the strength of their assets, usually with no support from the partners, thereby significantly lowering the initial equity investments and enhancing returns on capital. The enterprise is shared by the partners, over a specific agreed lifetime for the venture.

Key activity since April 2006 included:

- In March 2007 a fourth joint venture with Tesco PLC was formed, The Tesco Aqua Limited Partnership. The £650m portfolio has an initial rent of £29m per annum from 21 superstores let to Tesco.
- The formation in May 2006 of the new joint venture in respect of Zaragoza, Spain, to develop a 2.2 million sq ft out-of-town shopping scheme.
- The acquisition of the outstanding 50% ownership of BL Davidson for approximately £256m in August 2006.

Although some of the Joint Ventures have different year ends from British Land, the accounting periods recognised have now been aligned to the Group's March year end using management accounts, to assist the requirements of quarterly reporting.

The summary details of the principal Joint Ventures in which we have a 50% share are shown above.

People

Individuals are essential ingredients in our long term success. It is important that we retain and attract motivated and skilled professionals able to deliver our strategy and work effectively in a small and focused team.

The business model is people light and asset heavy – it leverages the work, skill and judgement of a relatively small staff over a large value of efficiently financed assets. The strategy and business changes introduced in 2005 are designed to emphasise the 'human value added' in order to lift performance at the property level, whilst retaining efficient translation to profits and net asset value via financial and fiscal structure. This is all the more important in a

market where outperformance is going to be delivered through superior rental growth and an activist approach to asset selection and management.

To accomplish our performance goals and the shift in business model, the Company is engaged in a process of management renewal and culture change, targeting a high performance, open and meritocratic culture where its people are motivated individually and as a team to outperform competitors, subject to maintenance of quality and security overall.

During the year that process has included:

- reinforcement of the annual appraisal process introduced in 2005 with specific financial and non-financial goals for executives, and alignment of the remuneration structure to support performance against objectives
- succession planning for a number of key retirements during the period
- recruiting further property professionals to assist the execution of our intensive asset review and management process
- expanding our development team in response to the increased programme activity
- reshaping the Finance & Tax teams following the major restructuring of the Group's internal corporate structure on REIT conversion.

At a time of intense business activity, our staff have responded to the challenges presented by major changes in the composition of our teams.

Our move to a new Head Office is aimed at providing our staff with the modern efficient environment we offer to our customers and we are already reaping the benefits of improved communication and effectiveness at York House.

Forward looking statements

In preparing this Business Review we have had regard to the recommendations and guidance issued by the Accounting Standards Board, insofar as we consider they are relevant to our business model and industry. We have provided herein a commentary on our markets, activities and prospects. Readers will understand that where we make forward looking statements they reflect our current views; future results will depend on many factors and interactions which may cause outcomes to differ from those anticipated.