

We highlight newer initiatives in Europe and indexed-lease property which leverage our existing market skills into areas where customer demand can drive growth and we perceive pricing to be attractive.

The 'Development' section showcases one of our more distinctive added-value areas. By creating new buildings at the forefront of modern service industry needs, we use our property skills and financial strength to make attractive incremental return. Our notable success in letting these buildings is the acid test of their customer appeal.

Under 'Asset Management' we show the range of work we undertake to better tailor our existing buildings to areas of greatest customer demand. In turn this results in the above market rental growth.

Our 'Property Market Outlook' and sector commentaries explain in more detail the implementation of strategy and its rationale.

In the 'Financial Performance' section and the 'Partnerships' section, the ways we have added value to supplement our property activity are described alongside an explanation of the financial results of this activity and the KPIs that show its effectiveness. Our balance sheet and debt management continue to be distinctive strengths, amplifying property returns. Equally fiscal management and especially our REIT election were major value creators during the year. And by working with others, inter alia through Joint Ventures and Unit Trusts, we earn valuable extra income, leverage our skills and capital and increase manoeuvrability in the property markets.

This year we also highlight more fully, in our Corporate Responsibility Report, our actions on sustainability including the commitment to lead our industry and become carbon neutral. We are a business of the built environment. Our careful use of scarce resources and our buildings' impact in improving our communities and facilitating growth remain integral to our business success. The CR Report may be viewed in full on our website: [www.britishland.com](http://www.britishland.com)

## Portfolio reshaping

We continually review the prospects and expected performance of each asset in our portfolio in the light of market conditions, deciding across the portfolio when to buy, hold or sell, as part of the ongoing process of improving risk adjusted returns. Our occupier led strategy informs these decisions, concentrating on markets, sectors and properties with positive supply/demand characteristics, and focusing on providing efficient and flexible accommodation in the right locations. Our principal themes are:

- to amend and refine the sector and market mix of our portfolio to best capture trends in customer demand and rental growth; and
- within our selected markets to recycle capital, buying and selling properties to improve the appeal and growth prospects of our holdings.



**Bob Bowden**  
Property Investment Director

## Refining sector mix

We have further strengthened our positions in our favoured markets:

- prime offices, especially in London, with new investment primarily via our development programme, to capture the increasing rental values driven by strong demand for accommodation from the financial and business services industries;
- UK out-of-town retail, principally open A1 use parks and superstores, where consumer sales are growing fastest and retailers require increasing representation and new flexible trading formats. Together with the constrained supply characteristics of this sector, these factors are resulting in rising rental values;

Sales 12 months to 31 March 2007	Price £m	BL Share £m	Gain/ (loss) % <sup>1</sup>
<b>Retail:</b>			
Queensmere & Observatory Shopping Centres, Slough	200	200	(9.0)
Gallions Reach Shopping Park, E6 <sup>2</sup> 29 in-town retail units	192	35	8.4
Weston Favell Shopping Centre, Northampton <sup>3</sup>	146	146	9.0
9 Retail warehouse parks	122	61	22.0
Marsh Mills Retail Park, Plymouth <sup>4</sup>	112	75	9.2
4 Homebase stores	57	28	12.6
New Cross Gate, SE14, Sainsbury's and retail units <sup>5</sup>	56	56	22.2
Purley Way, Croydon, Units 1-3	48	48	20.5
2 B&Q warehouses: Stockton-on-Tees and Dagenham	44	44	12.5
Sainsbury's, Hanley	41	41	(1.1)
	<b>1,039</b>	<b>755</b>	<b>5.2</b>
<b>Offices:</b>			
Plumtree Court, EC4 <sup>6</sup>	120	43	18.8
133 Houndsditch, EC3	110	110	41.2
51 Eastcheap, EC3	55	55	7.1
2-12 & 20-21 Cornwall Terrace, NW1 <sup>5</sup>	50	50	59.8
Provincial offices	39	39	8.3
	<b>374</b>	<b>297</b>	<b>27.7</b>
<b>Others:</b>			
	60	50	82.3
	<b>1,473</b>	<b>1,102</b>	<b>12.7</b>

<sup>1</sup> Sale price versus last year end valuation (March 2006)

<sup>2</sup> Hercules Unit Trust (HUT)

<sup>3</sup> The Tesco British Land Property Partnership

<sup>4</sup> BLT Properties Ltd

<sup>5</sup> Completed April 2007

<sup>6</sup> City of London Office Unit Trust (CLOUT)

- European out-of-town retail where initial and prospective returns are favourable, responding to changing customer demographics and shopping trends which are expected to follow similar growth patterns to those seen in the UK; and
- properties subject to long leases with fixed or indexed annual rental increases. The RPI indexed increases are both more certain and potentially higher than 'all property' rental growth estimates and therefore are likely to be increasingly valued investments in a market with slower capital growth and intense focus on rental improvements.

Conversely, we have decreased our holdings where we see limited remaining opportunities to add value under our management and where we are less confident of their growth prospects in comparison with the alternatives available to us.

The sectors reduced this year are in-town shopping centres and high street units, retail parks with bulky goods profiles, provincial offices and industrial units. The strong investment market has provided good opportunities to achieve high sale prices; proceeds which we have reinvested into areas where we can create greater value.

Our decision to sell the in-town **Slough** shopping centres (at a loss versus March 2006 valuation) also reflects our disciplined focus on future trading prospects.

In May 2007 our joint venture, the Scottish Retail Property Limited Partnership, exchanged contracts for the sale of the **East Kilbride** Shopping Centre, which provides virtually all of the retail and leisure facilities in the town.

Our portfolio choices have already added value as the sectors and assets picked have performed more strongly than those reduced.

### Recycling capital within selected markets

We also continue to adjust holdings within our favoured markets. This is because, even where our sector view is positive, there may be assets which for their own specific reasons have less we can do to improve them further or represent outside commitments overall. Disposals of retail parks, for example, included the sale by HUT (and others) of **Gallions Reach Shopping Park**, Beckton for £192m. The 'Phase 2' site adjoining Gallions Reach owned by British Land was also sold for £15m, against a book value of less than £1m. The City offices sold were less prime, mature investments and we had the

opportunity to take profits and recycle the proceeds more effectively in our developments.

After the year end, in April 2007 we began marketing for sale the landmark building at **One Exchange Square**, in the heart of Broadgate, currently the headquarters of the European Bank for Reconstruction and Development. Contracts have recently been exchanged for the sale to KanAm Grund for £406.3m, with completion due in June.

We also launched in April 2007 proposals to introduce investment partners for our 1.5 million sq ft regional shopping centre, **Meadowhall**, Sheffield. Investors will have the opportunity to acquire a stake in Meadowhall. Since this is an exceptional asset, British Land expects to remain the largest individual investor and will act as Fund and Property Asset Manager, enhancing the returns from our in-house skills. Further details of Meadowhall are shown later in this report.

The **retail parks acquired** are part open A1 schemes in prominent positions which attract strong customer demand. With scope for our proactive asset management to tailor the accommodation and amenities to further increase the appeal of parks for both tenants and shoppers, we expect to achieve increasing rents.

The new **Limited Partnership with Tesco PLC** (our fourth joint venture with them) incorporates 21 high quality superstores across the UK, on leases subject to annual RPI indexed increases. Tesco is a strong superstore operator, attracting increasing numbers of customers and spending, and these investments are in limited supply due to land and planning restrictions. We expect the properties will rise in value, reflecting these attributes, while the lease structure guarantees increasing rental income. The occupational leases to Tesco also provide tenant operational flexibility, reflecting both Tesco's strategy and our customer focused approach.

The purchases of the B&Q stores (each of c 100,000 sq ft), the TGI Friday's restaurants and the Somerfield stores, all in good trading locations, together with the Cable and Wireless offices, also involve long leases with fixed or **indexed annual rental increases**, subject to a cap.

Our holdings of properties subject to this type of lease, with a certain level of cash flow and security of return, now amount to some £1.6 billion. The market is not presently attributing full value to these types of leases – they provide attractive initial yields with guaranteed increasing cash flow growth, plus where market rental growth for the

**£3.4 BILLION ASSET TURNOVER – OUR PORTFOLIO CHOICES HAVE ADDED VALUE AS THE SECTORS AND ASSETS PICKED HAVE PERFORMED MORE STRONGLY THAN THOSE REDUCED**

Purchases 12 months to 31 March 2007	Price £m	BL Share £m	Value uplift % <sup>1</sup>
<b>Retail:</b>			
<b>UK</b>			
50% share of 21 Tesco superstores portfolio <sup>2</sup>	325	325	–
50% share of BL Davidson portfolio	269	269	9.7
9 B&Q warehouses <sup>3</sup>	230	221	6.8
Centre Retail Park, Oldham	115	115	–
Hatters Way Retail Park, Luton <sup>4</sup>	39	14	–
Giltbrook Retail Park, Nottingham <sup>5</sup>	35	35	–
2 further retail parks: Dartford <sup>6</sup> and Hyde	24	16	8.9
Worcester Road, Evesham <sup>7</sup>	20	5	0.1
8 Somerfield supermarkets	20	20	4.1
<b>Europe</b>			
Nueva Condomina, Murcia, Spain <sup>8</sup>	237	118	–
9 retail parks in Europe <sup>9</sup>	200	63	–
50% share of Puerto Venecia, Zaragoza <sup>10</sup>	69	69	–
	<b>1,583</b>	<b>1,270</b>	<b>3.4</b>
<b>Offices:</b>			
50% share of BL Davidson portfolio	96	96	26.2
9 Cable & Wireless offices/network sites <sup>11</sup>	88	88	–
Osnaburgh Street Estate, NW1 <sup>12</sup>	55	55	–
Colmore Row, Birmingham <sup>12</sup>	25	25	2.0
	<b>264</b>	<b>264</b>	<b>9.7</b>
<b>Others:</b>			
Leisure, hotel & office ancillary investments	47	36	–
14 TGI Friday restaurants <sup>11</sup>	44	44	8.0
	<b>91</b>	<b>80</b>	<b>4.4</b>
	<b>1,938</b>	<b>1,614</b>	<b>4.5</b>

<sup>1</sup> From purchase price to March 2007 valuation (or earlier sale price)

<sup>2</sup> £650m portfolio acquisition in new Limited Partnership, March 2007

<sup>3</sup> Includes 7 acquired in portfolio, 1 in Hercules Income Fund (HIF)

<sup>4</sup> HUT (completed May 2007)

<sup>5</sup> Existing park and new development project

<sup>6</sup> Dartford acquired by HUT

<sup>7</sup> HIF – forward purchase of retail development

<sup>8</sup> Joint venture BL/PREF (Pillar Retail Europark Fund), exchanged contracts with completion due summer 2007

<sup>9</sup> PREF – 3 parks in Portugal, 2 in Spain, 2 in Switzerland, 1 in Belgium and Italy

<sup>10</sup> Purchase of 50% interest from and joint venture development agreement with Copcisa Corp (a Spanish construction company) and private investors

<sup>11</sup> Completed April 2007

<sup>12</sup> For development

property exceeds RPI, the further increase is recognised in valuations and captured at the open market review or at lease expiry.

The acquisition of the outstanding 50% of the **BL Davidson** joint venture brought into our portfolio properties including further retail parks and London offices. We are making selective profitable disposals of the smaller assets.

Post year end, in April 2007, **HUT formed a new £680m joint venture** limited partnership with The Crown Estate incorporating three major retail investments: HUT's £480m Fort Kinnaird Shopping Park in Edinburgh (550,000 sq ft) and The Crown Estate's Gallagher

Retail Park, Cheltenham (246,000 sq ft) and The Shires Retail Park, Leamington Spa (140,000 sq ft), together £200m. British Land will act as property adviser to the new limited partnership. HUT unitholders will benefit from diversification of investment, gaining exposure to two new high quality retail parks (not available on the market) which, together with Fort Kinnaird, offer further asset management opportunities under joint ownership. It also enables HUT to realise cash for reinvestment and degearing.

In the **office sector**, the acquisition of the remaining freehold interest in **Osnaburgh Street**, NW1 from The Crown Estate has enabled us to begin construction of the next phase of development of the Regent's Place estate, as set out below.

The freehold of the former Natwest building in **Colmore Row, Birmingham**, is a prominent and prime office site in the centre of the city for prospective redevelopment. We are designing some 250,000 sq ft of new high quality offices, to provide an attractive addition to the Birmingham office market.

### Investment in European retail

In an important strategic step, we extended our investment in Europe, becoming market leaders in its **growing out-of-town retail park market**. This profitably leverages the management infrastructure and expertise we have built in the UK and our European representation. There is an under provision of modern out-of-town retail parks in many of the major countries in Europe, resulting in attractive supply/demand characteristics. The Eurozone retail market currently has lower rents and higher initial yields than in the UK, with similar customer preference trends which indicate that the market will develop and grow. 'Out-of-town' retail offers customers great value compared with the high street, with rents on average only 10-15% of those in town – and some 50% of a fashion park in the UK. These assets have strong prospects for growth and are attracting increasing international investor interest.

In May 2006 we completed the purchase of a 50% joint venture interest in the Puerto Venecia retail and leisure development project of 200,000 sq m (2.2m sq ft) in **Zaragoza, Spain**; further details are set out below.

British Land and PREF formed a joint agreement in March 2007 to acquire a new prime regional shopping centre and retail park known as **Nueva Condomina in Murcia, Spain** for c €350m (£237m) with completion expected in the summer. The 120,000 sq m (1.3 million sq ft) scheme includes a two storey enclosed shopping centre, which opened in September last year, with a multiplex cinema and a hypermarket, and a retail park due for completion shortly. The scheme is overall 96% let to major international and Spanish retail brands.

British Land also has an effective 40% interest in PREF, which now owns 12 income producing retail parks in Spain, Italy, Portugal, Belgium, France and Switzerland, and has contracted conditionally to acquire a further six parks currently under development – plus the Murcia scheme. The combined area of these PREF schemes and developments when completed will total 460,000 sq m (4.9 million sq ft) with an estimated market value of over €1 billion (£680m).