

# REPORT OF THE AUDITORS

## **Independent Auditors' Report to the Members of The British Land Company PLC**

We have audited the Group financial statements of The British Land Company PLC for the year ended 31 March 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of movements in shareholders' funds, the consolidated cash flow statement and the related notes 1 to 25. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual Parent Company financial statements of The British Land Company PLC for the year ended 31 March 2007.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the directors' report includes that specific information presented in the operating and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report to be audited.

### **Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the Group financial statements.



**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London  
21 May 2007

**Table A****Summary income statement based on proportional consolidation**

The following pro forma information is unaudited and does not form part of the consolidated primary statements or the notes thereto. It presents the results of the Group, with funds and joint ventures consolidated on a line by line, i.e. proportional basis. The underlying profit before tax and total profit after tax are the same as presented in the consolidated income statement.

	Q4	Q3	Q2	Q1	Year ended	Year ended
	31 March	31 Dec	30 Sep	30 June	31 March	31 March
	2007	2006	2006	2006	2007	2006 <sup>†</sup>
	£m	£m	£m	£m	£m	£m
<b>Gross rental income</b>	173	180	177	176	<b>706</b>	751
<b>Net rental income</b>	162	169	166	164	<b>661</b>	701
Fees and other income	7	10	10	24	51	51
Administrative expenses	(17)	(22)	(23)	(23)	(85)	(88)
Net interest costs	(89)	(93)	(96)	(92)	(370)	(436)
<b>Underlying profit before tax</b>	63	64	57	73	<b>257</b>	228
Debt refinancing costs		(77)	(228)		(305)	(122)
Net valuation gains (includes profits on disposals)	304	310	355	455	1,424	1,748
Amortisation of intangible asset	(4)	(3)	(4)	(4)	(15)	(10)
Songbird dividend (capital)	33				33	
Goodwill impairment*	(3)	(106)		(2)	(111)	(240)
REIT conversion costs*		(13)			(13)	
<b>Profit on ordinary activities before tax</b>	393	175	180	522	<b>1,270</b>	1,604
Tax charge relating to underlying profit	(4)	(1)	(12)	(14)	(31)	(43)
REIT conversion charge*		(325)			(325)	
Deferred tax benefit*		1,673			1,673	
Other taxation	(3)	(33)	(5)	(93)	(134)	(377)
<b>Profit for the year after taxation</b>	386	1,489	163	415	<b>2,453</b>	1,184
<b>Underlying earnings per share – diluted basis</b>	11p	12p	9p	11p	<b>43p</b>	36p

<sup>†</sup> Restated as described in note 1.

The underlying earnings per share is calculated on underlying pre tax profit of £257m (2006: £228m), tax attributable to underlying profits of £31m (2006: £43m) and fully diluted shares numbering 522m (2006: 521m). Gross rental income excludes service charge receivable.

	£m
<b>*Effect of REIT conversion</b>	
Deferred tax benefit <sup>†</sup>	
on investment properties	1,673
on development properties (included in the consolidated statement of recognised income and expense)	84
Goodwill impairment	(106)
Elimination of deferred tax, net of goodwill	1,651
REIT conversion charge and costs	(338)
<b>Net effect of REIT conversion</b>	<b>1,313</b>

<sup>†</sup> The deferred tax benefit shown is the deferred tax which would have been recorded at 31 December 2006 had the Group not converted to REIT status.

**Summary balance sheets based on proportional consolidation**

The following pro forma information is unaudited and does not form part of the consolidated primary statements or the notes thereto. It presents the composition of the EPRA net assets of the Group, with share of funds and joint venture assets and liabilities included on a line by line, i.e. proportional basis and assuming full dilution.

	Group	Share	Share	Deferred	Mark-to-	Dilution	Head	EPRA	EPRA
	£m	of funds	of joint	tax	market of	effect of	lease**	Net assets	Net assets
	£m	£m	ventures	£m	interest	options	£m	2007	2006
			£m		rate swaps	£m		£m	£m
Retail properties	7,348	1,352	1,502				(29)	10,173	8,775
Office properties	6,168		4				(7)	6,165	5,200
Other properties	531		34					565	439
<b>Total properties</b>	<b>14,047</b>	<b>1,352</b>	<b>1,540</b>				<b>(36)</b>	<b>16,903</b>	<b>14,414</b>
Investment in funds and joint ventures	1,610	(840)	(770)						
Other investments	267							267	250
Intangible assets	50							50	65
Other net liabilities	(823)	(12)	(32)	168		46	36	(617)	(243)
Net debt	(6,404)	(500)	(738)		(99)			(7,741)	(6,684)
<b>Net assets</b>	<b>8,747</b>			<b>168</b>	<b>(99)</b>	<b>46</b>		<b>8,862</b>	<b>7,802</b>
<b>EPRA NAV per share (note 2)</b>								<b>1682p</b>	<b>1486p</b>

\*\* Head lease liabilities include £30m relating to Group properties and £6m relating to joint venture properties.

Table A (continued)

Calculation of EPRA NNAV per share	2007 £m	2006 £m
EPRA NAV	8,862	7,802
Deferred tax arising on revaluation movements, capital allowances and derivatives	(168)	(1,530)
Mark to market on effective cash flow hedges and related debt adjustments	99	(33)
Mark to market on debt	75	(386)
Tax relief arising thereon		125
<b>EPRA NNAV</b>	<b>8,868</b>	<b>5,978</b>
<b>EPRA NNAV per share</b>	<b>1683p</b>	<b>1139p</b>

EPRA NNAV is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include the deferred taxation on revaluations.

#### Total property valuations including share of funds and joint ventures

	2007 £m	2006 £m
<b>British Land Group</b>	<b>14,017</b>	<b>11,753</b>
<b>Share of funds and joint ventures</b>		
Investment properties	2,815	2,651
Development properties	77	
Trading and finance lease properties at valuation		18
Head lease liabilities	(6)	(8)
	<b>2,886</b>	<b>2,661</b>
<b>Total property portfolio valuation</b>	<b>16,903</b>	<b>14,414</b>

#### Segment information

##### Primary and secondary segments

Since the UK is the predominant location of the Group's property portfolio, these financial statements and related notes represent the results and financial position of the Group's primary business segment. The secondary reporting format by property use is shown below:

	Offices		Retail		Other		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
<b>Net rental income</b>								
British Land Group	228	238	306	318	27	33	561	589
Share of funds and joint ventures	2	12	96	98	2	2	100	112
<b>Total</b>	<b>230</b>	<b>250</b>	<b>402</b>	<b>416</b>	<b>29</b>	<b>35</b>	<b>661</b>	<b>701</b>
<b>Segment assets</b>								
British Land Group	6,171	5,105	7,401	6,307	1,198	866	14,770	12,278
Share of funds and joint ventures	51	153	2,877	2,546	185	182	3,113	2,881
<b>Total</b>	<b>6,222</b>	<b>5,258</b>	<b>10,278</b>	<b>8,853</b>	<b>1,383</b>	<b>1,048</b>	<b>17,883</b>	<b>15,159</b>
<b>Capital expenditure</b>								
British Land Group	487	491	1,016	506	147	45	1,650	1,042
Share of funds and joint ventures		210	539	1,071	15	6	554	1,287
<b>Total</b>	<b>487</b>	<b>701</b>	<b>1,555</b>	<b>1,577</b>	<b>162</b>	<b>51</b>	<b>2,204</b>	<b>2,329</b>

# COMPANY BALANCE SHEET

Prepared in accordance with  
UK GAAP as at 31 March 2007

Company Balance Sheet UK GAAP		2007	2006
	Note	£m	£m
<b>Non-current assets</b>			
Investments and loans to subsidiaries	d	28,329	14,721
Investments in joint ventures	d	51	26
Other investments	d	8	11
		<b>28,388</b>	<b>14,758</b>
<b>Current assets</b>			
Debtors	g	299	252
Pension scheme asset (non-current)	f	9	
Cash and short-term deposits	e	9	13
		<b>317</b>	<b>265</b>
<b>Current liabilities</b>			
Short-term borrowings and overdrafts	e	(10)	(102)
Creditors	h	(367)	(95)
Amounts due to subsidiaries		(18,374)	(10,167)
		<b>(18,751)</b>	<b>(10,364)</b>
<b>Net current liabilities</b>			
		<b>(18,434)</b>	<b>(10,099)</b>
<b>Total assets less current liabilities</b>			
		<b>9,954</b>	<b>4,659</b>
<b>Non-current liabilities</b>			
Debentures and loans	e	(2,916)	(1,606)
Provisions for liabilities	i		(3)
Pension scheme liability	f		(8)
		<b>(2,916)</b>	<b>(1,617)</b>
<b>Net assets</b>			
		<b>7,038</b>	<b>3,042</b>
<b>Equity</b>			
Called up share capital	j	130	130
Share premium	k	1,266	1,256
Other reserves	k	71	(8)
Revaluation reserve	k	139	143
Retained earnings	k	5,432	1,521
<b>Equity shareholders' funds</b>			
		<b>7,038</b>	<b>3,042</b>

## (a) Accounting policies

### Accounting basis

The financial statements are prepared in accordance with applicable United Kingdom law and Accounting Standards (UK GAAP) and under the historical cost convention as modified by the revaluation of investment properties and fixed asset investments.

Except as set out below, the accounting policies applied by the Company are consistent with those applied by the Group, as stated in note 1 of the consolidated financial statements, and have been applied consistently throughout the current and the previous year.

### Investments

Investments in joint ventures are stated at cost less provision for impairment. Investments in subsidiaries are stated at cost or directors' valuation less provision for impairment.

### Deferred taxation

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

## (b) Dividends

Details of dividends paid and proposed are included in note 21 of the consolidated financial statements.

## (c) Company profit for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The profit after tax for the year was £3,992m (2006: £860m).

The average number of employees of the Company during the year was 192 (2006: 200). Employee costs include wages and salaries of £22m (2006: £25m), social security costs of £3m (2006: £3m) and pension costs of £nil (2006: £12m). Details of the executive directors' remuneration are disclosed in the Remuneration Report.

Audit fees in relation to the Parent Company were £0.5m (2006: £0.5m).

Chris Gibson-Smith Chairman

Graham Roberts Finance Director

Approved by the Board on 21 May 2007.

## (d) Investments and loans to subsidiaries

	Shares in subsidiaries £m	Loans to subsidiaries £m	Investments in joint ventures £m	Other investments £m	Total £m
On 1 April 2006	7,058	7,663	26	11	14,758
Additions	37,349	2,281	25	7	39,662
Disposals	(26,001)			(10)	(26,011)
Reallocations	2,567	(2,567)			
Exchange fluctuations	(5)				(5)
Permanent diminution	(16)				(16)
<b>31 March 2007</b>	<b>20,952</b>	<b>7,377</b>	<b>51</b>	<b>8</b>	<b>28,388</b>

Shares in subsidiaries are included at cost or directors' valuation in 1977, 1995, 1997 and 1999 to 2007 inclusive; their historical cost is £21,066m (2006: £7,227m).

The amount of £51m (2006: £26m) includes £34m (2006: £8m) of loans to joint ventures by the Company. The Company has a 50% interest in The Public House Company Limited, which is registered and operates in England and Wales.

Results of the joint ventures are set out in note 11 of the consolidated financial statements.

The historical cost of other investments is £12m (2006: £14m).

## (d) Investments and loans to subsidiaries (continued)

The principal subsidiaries, which are wholly owned, and except where stated are registered and operate in England and Wales are:

<b>Executive</b>	<b>Property</b>	British Land Retail Warehouses Limited	Broadgate (PHC 15a) Limited
The British Land Corporation Limited*	1 & 4 & 7 Triton Limited	British Land Superstores (Non-Securitisised) Limited	Broadgate (PHC 16) 2005 Limited
British Land Developments Limited	122 Leadenhall St Limited	Broadgate (PHC 1) Limited	City Wall (Holdings) Limited
British Land Financing Limited*	2 Plantation Place Limited	Broadgate (PHC 2) Limited	Eastgate Shopping Centre Basildon Limited
British Land Properties Limited*	201 Bishopsgate Limited	Broadgate (PHC 3) Limited	Euston Tower Limited
	350 Euston Road Limited	Broadgate (PHC 4) Limited	Meadowhall Limited Partnership (Jersey)
<b>Finance, Investment and Management</b>	51 Lime St Limited	Broadgate (PHC 5) 2005 Limited	Peacocks Centre Limited
British Land Property Management Limited	BF Propco (No 10) Limited	Broadgate (PHC 6) 2005 Limited	Pillar Denton Limited
BLD Property Holdings Limited	BLD Properties Limited	Broadgate (PHC 7) Limited	Ropemaker Place Unit Trust (Jersey)
BL European Fund Management LLP (70% Owned)	British Land Industrial Limited	Broadgate (PHC 8) Limited	Stockton Retail Park Limited
BL European Holdings Limited	British Land In Town Retail Limited	Broadgate (PHC 9) Limited	The Mary Street Estate Limited
BL Superstores Finance PLC	British Land Leisure Limited	Broadgate (PHC 11) 2005 Limited	The Retail and Warehouse Company Limited
British Land (Joint Ventures) Limited	British Land Offices (Non-City) Limited	Broadgate (PHC 14) Limited	York House W1 Limited
British Land Property Advisors Limited			
Broadgate Financing PLC			
Meadowhall Finance PLC			

\* Direct subsidiaries of the Company.

## (e) Net debt

	2007 £m	2006 £m
<b>Secured on the assets of the Company</b>		
5.264% First Mortgage Debenture Bonds 2035	327	
5.0055% First Mortgage Amortising Debentures 2035	106	
8.875% First Mortgage Debenture Bonds 2035		247
5.357% First Mortgage Debenture Bonds 2028	307	
9.375% First Mortgage Debenture Stock 2028		197
10.50% First Mortgage Debenture Stock 2019/24		13
11.375% First Mortgage Debenture Stock 2019/24		20
6.75% First Mortgage Debenture Bonds 2020	224	
6.75% First Mortgage Debenture Bonds 2011	103	
Floating Rate Secured Loan Notes 2035	256	
	<b>1,323</b>	<b>477</b>
<b>Unsecured</b>		
5.50% Senior Notes 2027	98	
6.30% Senior US Dollar Notes 2015 <sup>1</sup>	78	88
10.25% Bonds 2012	2	2
7.35% Senior US Dollar Notes 2007 <sup>1</sup>		92
Bank loans and overdrafts	1,425	1,049
	<b>1,603</b>	<b>1,231</b>
<b>Gross debt</b>	<b>2,926</b>	<b>1,708</b>
Interest rate derivatives: liabilities	19	37
Interest rate derivatives: assets	(62)	(24)
	<b>2,883</b>	<b>1,721</b>
Cash and short-term deposits	(9)	(13)
<b>Net debt</b>	<b>2,874</b>	<b>1,708</b>

<sup>1</sup> Principal and interest on these borrowings were fully hedged into Sterling at the time of issue.

## Maturity analysis of net debt

	2007 £m	2006 £m
Repayable between:		
within one year and on demand	10	102
one and two years	53	10
two and five years	1,136	1,003
five and ten years	689	114
ten and fifteen years	213	
fifteen and twenty years	106	32
twenty and twenty five years	342	198
twenty five and thirty years	377	249
	<b>2,916</b>	<b>1,606</b>
<b>Gross debt</b>	<b>2,926</b>	<b>1,708</b>
Interest rate derivatives	(43)	13
Cash and short-term deposits	(9)	(13)
<b>Net debt</b>	<b>2,874</b>	<b>1,708</b>

## (f) Pension

The Company's pension scheme is the principal pension scheme of the Group and details are set out in note 9 of the consolidated financial statements.

## (g) Debtors

	2007 £m	2006 £m
Trade and other debtors	5	4
Amounts owed by subsidiaries	232	208
Corporation tax		16
Interest rate derivative assets*	62	24
	<b>299</b>	<b>252</b>

## (h) Creditors

	2007 £m	2006 £m
Trade creditors	1	1
Amounts due to joint ventures	27	26
Corporation tax	249	
Other taxation and social security	12	6
Accruals and deferred income	59	25
Interest rate derivative liabilities*	19	37
	<b>367</b>	<b>95</b>

\* Includes contracted cash flow with a maturity greater than one year at fair value.

## (i) Provision for liabilities

	Deferred tax 2007 £m	2006 £m
At 1 April 2006	3	2
Charged to the profit and loss account	(3)	1
<b>At 31 March 2007</b>		<b>3</b>
Deferred tax is provided as follows		
Temporary differences		3
		<b>3</b>

## (j) Share capital

The authorised share capital, being 25p ordinary shares, was 800,000,000 at 31 March 2007 (2006: 800,000,000).

	£m	Ordinary shares of 25p each
<b>Issued, called and fully paid</b>		
At 1 April 2006	130	519,185,289
Issues		2,113,068
<b>At 31 March 2007</b>	<b>130</b>	<b>521,298,357</b>

Details of outstanding share options, restricted and performance shares awarded to employees including executive directors are given in notes 8 and 20 of the consolidated financial statements.

## (k) Share capital and reserves

	Share capital £m	Share premium £m	Other reserves £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 31 March 2006	130	1,256	(8)	143	1,521	3,042
Share issues		10				10
Dividends paid					(91)	(91)
Purchase of ESOP shares					(16)	(16)
Adjustment for share and share option awards					18	18
Pension scheme movements					8	8
Retained profit for year					3,992	3,992
Derivatives valuation movement			79			79
Exchange movements on net investments				(4)		(4)
<b>At 31 March 2007</b>	<b>130</b>	<b>1,266</b>	<b>71</b>	<b>139</b>	<b>5,432</b>	<b>7,038</b>

## (l) Contingent liabilities, capital commitments and related party transactions

At 31 March 2007, the Company had no contingent liabilities for guarantees to third parties (2006: £nil). The Company also had no capital commitments (2006: £nil).

The Company has used the exemption under FRS 8 where disclosure is not required of transactions with fellow subsidiary undertakings 90% or more of whose voting rights are controlled within the Group.

Related party transactions are the same for the Company as for the Group. For details refer to note 25 of the consolidated financial statements.

## Report of the Auditors

### Independent Auditors' Report to the Members of The British Land Company PLC

We have audited the individual Company financial statements of The British Land Company PLC for the year ended 31 March 2007 which comprise the balance sheet and the related notes a to I. These individual Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of The British Land Company PLC for the year ended 31 March 2007 and on the information in the directors' remuneration report that is described as having been audited.

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### Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its profit for the year then ended;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
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**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors

London  
21 May 2007