



Graham Roberts Finance Director

Financial performance

Introduction

The results for the year are dominated by the significant reduction in property values, masking a strong increase in underlying profits, which are more closely correlated to rental income growth and operating cash flow. These profits have been achieved as a result of our focus on asset management including new lettings and the resultant rental growth, good housekeeping and reduction of administration costs. In addition, our financing programme and hedging policy provide borrowings at below 'current market' interest rates.

The performance for the year should be viewed in context. Viewing the recent property and interest rate cycle over a three-year time horizon since our renewed strategy was announced in May 2005, we have improved underlying profits by £103m, an increase of 57%. The reasons lie in the following key areas:

- £5.9 billion of sales, at yields on average below our marginal cost of borrowing;
- complete refinancing of our debt to capture the lowest point in the interest cycle, including locking in low margins on unsecured debt and fixing rates on 100% of debt;
- above market rental growth;
- additional contributions from the successful lettings of developments; and
- a vigorous approach to cost control, where administration costs are now only 0.5% of property values.

In turn we have been able to more than double the dividend paid from 15.7 pence to 35 pence over the same period.

This is our first full financial year as a REIT (Real Estate Investment Trust) from which we benefit by operating largely on a tax exempt basis.

Income statement

A proportionally consolidated Income Statement is included in Table A on page 100 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 unless stated otherwise.

Despite the significant amount of sales in the year, **gross rental and related income** for the year has decreased by less than 1% from £649m to £645m, the changes being summarised in the table below.

Gross rental and related income	£m
Year ended 31 March 2007	649
Purchases	26
Sales	(57)
Letting of completed developments	22
Lease determinations to enable redevelopment	(4)
Like-for-like growth	19
Reduction in surrender premiums received	(7)
Reduction in service charge income	(3)
Year ended 31 March 2008	645

Gross rental income, which excludes service charge income of £49m, decreased only fractionally from £597m to £596m; this includes the effects of sales, purchases and development lettings. On a like-for-like basis rental income (including our share of Joint Ventures and Unit Trusts) showed growth of 5.7%, which derived predominately from our retail properties and is ahead of the market overall (IPD at 2.5%).

Net rental and related income has remained constant at £561m (2007: £561m) and represents 94% of gross rental income; with property operating expenses showing a small improvement at £35m (2007: £36m).

Underlying **fees and other income** were £40m (2007: £50m) and include dividends from our investment in Songbird Estates plc of £16m (2007: £18m), performance fees from our fund management business of £9m (2007: £17m) and management fees from the Funds and Joint Ventures of £12m (2007: £13m). The further capital dividend from Songbird Estates of £30m (2007: £33m) results in total reported fees and other income of £70m.

The performance fees for HUT, our largest fund, are earned by exceeding stretching targets in a calendar year and are measured against the relevant benchmark. 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. Once again HUT outperformed its relevant IPD benchmark, but due to the valuation downturn no new performance fees were earned in the year, the fees included in the Income Statement are a release of fees earned in previous periods. At 31 March 2008 fees of £7m have been deferred and are subject to potential clawback.

Our fund management fees are based on a percentage of the portfolio value. The third-party element only of fees earned is recognised in the Income Statement.

Underlying earnings per share have risen by 23% and dividends are up by 72%.

The contribution to underlying profits from **Funds and Joint Ventures** is £40m, an increase of £3m from the previous year principally reflecting improved rents across the portfolio. As required by IFRS the reported results for Funds and Joint Ventures are included on a post tax basis as a single line with the Group's share of results totalling a loss of £306m, the major difference between this figure and the underlying profit of £40m referred to above being the share of valuation write-downs of £354m.

Underlying **administration expenses** amount to £67m, a significant reduction from £78m in the previous year. This is a result of a less complex corporate structure due to our reorganisation at the start of the 2007 calendar year when British Land converted to REIT status and good housekeeping generally, enabling us to reduce compliance and operating costs, the savings from which have more than offset salary and other cost inflation.

Underlying **net finance costs** represent net interest payable of £290m (2007: £313m), reflecting our reduced level of debt following property disposals during this year and last.

Underlying pre-tax profit has increased by 11% from £257m in 2007 to £284m in 2008. The £27m increase is due to the following factors:

	£m
New lettings and rent reviews (net of £5m lease determinations/expiries)	20
Effect of purchases and sales	12
Reduction in fund performance fee	(9)
Interest cost on REIT conversion charge	(10)
Interest savings from refinancings	8
Administration cost savings (including £1m in Funds)	12
Other	(6)
Increase	27

After adjustment for capital and other items (principally the net valuation losses totalling £1,916m), the **IFRS loss on ordinary activities before taxation** amounted to £1,609m. The amount for taxation included in the Income Statement for the year amounts to a credit of £46m, leaving a **loss for the year after taxation** of £1,563m.

Earnings per share

Underlying earnings per share have risen by 23% from 43 pence to 53 pence, due to both the increase in underlying profits before taxation described above and the significantly reduced tax charge as a result of a full year's REIT status. After adjustment for capital and other items, principally the valuation write-down, diluted earnings per share, on an IFRS basis, amount to a negative 303 pence.

Balance sheet

A proportionally consolidated Balance Sheet is also included in Table A on page 100 for the benefit of stakeholders who wish to see the net asset make-up of the Group's interest in Funds and Joint Ventures on a look-through basis. British Land's interests in Funds and Joint Ventures are shown in more detail under 'Partnerships' below.

The **EPRA net assets** shown in Table A of £6.9 billion compare with £8.9 billion at 31 March 2007. This gives a net asset value per share of 1344 pence, 20% lower over the year due to the valuation mark down. The principal components of the 338 pence reduction in EPRA NAV per share are as follows:

	Pence per share
At 31 March 2007	1682
Revaluation of properties, investments and gains/(losses) on asset disposals	(366)
Underlying profit after tax	53
Dividend paid	(32)
Other	7
NAV per share at 31 March 2008	1344

On a triple net asset basis (after adjusting debt and derivatives to market value and deducting deferred tax) EPRA net assets per share amount to 1438 pence. This significant difference above the 1344 pence NAV per share shown in the table principally arises due to a favourable mark to market adjustment of debt of £582m, reflecting the benefit of the refinancings carried out between 2005 and 2007.

The balance sheet reported under IFRS shows our net investment in Funds and Joint Ventures grouped together and not disaggregated. On this basis **IFRS net assets** at 31 March 2008 totalled £6.8 billion, comprising £10.5 billion of Group properties and £1.5 billion of net investment in Funds and Joint Ventures, less net debt of £5.0 billion and £0.2 billion of other net liabilities.

These figures show a significant change from the year before, when (on the IFRS basis) net assets of £8.7 billion comprised £14.0 billion of Group properties and £1.6 billion of net investment in Funds and Joint Ventures, less net debt of £6.4 billion and £0.5 billion of other net liabilities. The principal changes from these to the current year figures have arisen from the valuation write-down combined with the high level of property sales, resulting in a reduction of the amount of properties and the amount of Group debt. As a result, our Group **loan to value** ratio (debt as a proportion of property and investments) has remained steady at 41%.

Cash flows

The consolidated cash flow statement shows a net repayment of borrowings of £734m as compared with £68m in the previous year.

	March 2008	March 2007*
	£m	£m
Rental income and fees less expenses	477	494
Interest paid less interest and distributions received	(295)	(275)
Net cash flow from operating activities	182	219
Sales and other income less purchases, development and other expenditure	1,148	(54)
REIT conversion charge	(291)	-
Net purchase of shares	(144)	(6)
Dividends paid	(161)	(91)
Net repayment of borrowings	734	68

* Re-presented under the direct method

As set out in the table above, cash generated from operations (rental income and fees less expenses) has reduced by £17m to £477m, and net cash flow from operating activities by £37m to £182m. The most significant movement in the cash flow statement giving rise to the repayment of borrowings has been the cash inflow from investing activities (sales and other income less purchases, development and other expenditure), a net disinvestment of £1,148m, compared with a net outflow of £54m in the previous year.

Dividends

In November 2006 we announced a move to a quarterly dividend cycle, which mirrors rental cash inflows, as rents are typically settled quarterly. The proposed dividend for the fourth quarter is 8.75 pence per share, totalling £45m, and will be payable on 15 August 2008 to shareholders on the register at the close of business on 18 July 2008. The dividend consists of a property income distribution (PID) of 8.75 pence as explained in note 19 on page 96.

Together with the proposed fourth quarter dividend, our total dividend for the year will amount to £179m, 35 pence per share, an increase of 72% on the previous year.

Dividends (pence)	2008	2007
November	8.75	
February	8.75	5.60
May	8.75	6.50
August	8.75	8.25
Total per share	35.00	20.35

Total return

Due to the fall in property values the Group's total return for the year was a negative 18.1%, and compares with a positive 21.3% in the previous year. Over five years, our annualised total return has been 12.8% (pre-exceptional charges).

	March 2008	March 2007	% increase/ (decrease)
NAV per share ¹	1344p	1682p	(20)
Underlying earnings per share ²	53p	43p	23
Dividends payable per share	35p	20.35p	72
Total return per share ^{1,3}	(18.1)%	21.3%	

¹ EPRA basis – note 2 on page 85

² Note 2 on page 85

³ Before charges for REIT conversion and refinancings

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 note 1 (Basis of preparation) on page 84.

Financing 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 over the medium-term using financial leverage. A 45-55% loan to value ratio (LTV) is 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. Earlier in this year we considered the markets fully valued and brought gearing down through sales such that, despite the mark-downs in the valuation of the portfolio over the year, at 31 March 2008 LTV was 41%, 47% proportionally consolidated (2007: 43% and 47% respectively, pro forma for payment of REIT conversion charge).

In seeking 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. We spent £139m on share buy-backs during the year to take advantage of share prices below net asset value and to highlight management's view that buy-backs remain an option to be considered alongside other competing uses of capital.