

Risk:	Principal Mitigations:
Property Market Market pricing and other changes such as those caused by the current 'credit crunch' affecting property value, including: <ul style="list-style-type: none"> • Change in investor and occupier demand • Letting risk on speculative development • Environmentally unsustainable buildings • Tenant default 	Regular investment appraisals assess prospects and identify properties for disposal where justified Upward only long leases on good quality well-located buildings Occupier led development strategies with a phased pipeline of projects New developments built in line with a formal Sustainability Brief Spread of tenants with strong financial covenants and regular covenant review process
Debt and Financing Reduced availability or increased cost of finance Gearing covenants/constraints Counterparty credit risk Adverse interest rate movements Currency exchange movement	Sufficient lines maintained for spending commitments Leverage regularly reviewed Covenant headroom maintained Spread of sources and maturities of facilities Active interest rate management policy with high level of hedging Foreign currency assets financed by matching currency borrowings
Development Poor control of design and construction programme Construction cost inflation Contractor failure leading to cost overruns and programme delays	Contractor performance closely monitored within project management process Regular monitoring against budget and forecasting of project costs Early procurement strategy Contractor financial covenant reviewed Overall development exposure regularly reviewed
Reputation Health and safety Non-compliance with regulation	Health and Safety Policy and defined responsibilities and reporting throughout the Group Independent compliance auditing programme
People Retention of key staff	Career development and succession planning for key executive positions Key man insurance Remuneration structure reviewed and benchmarked
Financial Administration Loss of REIT status due to non-compliance with requirements Overseas fiscal compliance and execution risk Monetary fraud or accounting irregularity	Quarterly re-forecast and review of 'balance of business' tests Central review and oversight Professional local advice and administration obtained Compliance reporting Access controls and dual payment signatories Extensive review of accounting procedures

Partnerships

British Land's net investment in Funds and Joint Ventures is £1,532m (2007: £1,610m) at 31 March 2008. This investment is principally in three active funds and 14 active Joint Ventures, which hold in total £6.9 billion (2007: £7.0 billion) of properties in retail, offices and development. The Funds and Joint Ventures are financed by £3.3 billion (2007: £3.1 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.

HUT

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. During the year, the unitholders approved proposals for the extension of the Trust to 2020. HUT's 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 Retail Warehouse Quarterly Universe over the life of the Trust.

Although the Trust return for the year to 31 December 2007 was -17.3%, the three-year annualised return is 11.2% per annum. At the property level, without the effect of gearing, the portfolio returned -9.5% for the year, but this compares favourably with the IPD Retail Warehouse Quarterly Universe (excluding HUT) of -10.3% for the same period. This is attributable to:

- rental value growth of the portfolio of 2.8% over the year (IPD Retail Warehouse Quarterly Universe 1.5%); and
- low vacancy rate at 1.3% (IPD Retail Warehouse Quarterly Universe 4.0%).

In the year to December 2007:

- the distribution yield has risen from 1.3% to 2.2%; and
- there was a net repayment of debt of £250m following sales.

At 31 December 2007, gearing had reduced to 31.5% 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 52,968 units were traded over the year with a total value of £86m. The units traded at a discount of 0.8% to their net asset value during the year.

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

PREF

Pillar Retail Europark Fund ('PREF') 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 and Switzerland and in particular France, Spain, Portugal and Italy. Including outstanding contracted acquisitions, the portfolio reached €1.1 billion in value in autumn 2007 following the purchase of Nueva Condomina Shopping Centre, Murcia (in conjunction with British Land). In January 2008, five non-core assets, together with half of PREF's holding in Nueva Condomina, were sold in a portfolio transaction with a combined value of €300m.

The annualised total return for the year to 31 December 2007 was 9.3%. Gearing at 31 December 2007 remained at 58% but was significantly reduced in early 2008 by the portfolio sale. 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 had a 70% interest, and which increased to 100% during the year.

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 2007 was -13.5% and the property return was -10.0% compared with the IPD Annual Retail Warehouse Universe of -9.7%. HIF's loan to value is currently very low at 8%, which is considered appropriate in the current market conditions.

In the year to December 2007:

- one scheme was acquired; and
- two schemes were sold.

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

Fund	Portfolio	Value £m	Rent £m ¹	Finance £m	BL Share %	BL Interest £m
Hercules Unit Trust ('HUT')	Retail shopping parks	2,601	113	961	36.27	592
Pillar Retail Europark Fund ('PREF')	European retail parks	456	21	210	30.26 ²	77
Hercules Income Fund ('HIF')	Retail warehouses	125	7	10	26.12	30

¹ Annualised net rents

² Will increase to 38.7% when committed new equity fully contributed

The Joint Ventures provide British Land with access to desirable properties (often off market) and enable us to create further opportunities to deliver capital value. A separate entity is formed for the purpose, 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.

Activity since 31 March 2007 included:

- the formation of our new joint venture with J Sainsbury plc in respect of a £1.2 billion portfolio of 38 Sainsbury's stores and one Waitrose store;

- a new joint venture with the Universities Superannuation Scheme for the acquisition of a factory outlet centre in Whiteley Village, near Fareham in Hampshire;
- The Scottish Retail Property Limited Partnership sold the East Kilbride Shopping Centre; and
- distributions to British Land from the Joint Ventures of a total of £77m.

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

Summary details of the principal Joint Ventures in which we have a 50% share are shown opposite.

Joint Venture		Portfolio Valuation £m	Rent £m ¹	Finance £m	BL interest £m
Portfolio	JV Partner				
BLT Properties Ltd 1 retail park, 8 Tesco superstores	Tesco PLC	316	16	185	79
Tesco BL Holdings Ltd 2 retail parks, 2 shopping centres each anchored by Tesco, 5 Tesco superstores	Tesco PLC	601	31	315	144
Tesco British Land Property Partnership district shopping centre anchored by Tesco	Tesco PLC	112	7	45	23
Tesco Aqua Limited Partnership 21 Tesco superstores	Tesco PLC	594	29	487	48
The Scottish Retail Property Limited Partnership shopping centre in Aberdeen	Land Securities PLC	252	15	119	70
BL Fraser Ltd 12 department stores	House of Fraser Limited	262	14	126	67
Eurofund Investments Zaragoza SL² Puerto Venecia, out-of-town shopping scheme	Private Investors and Copcisa Corp	239	–	46	85
Whiteley Village, Fareham factory outlet shopping centre	Universities Superannuation Scheme	45	3	–	24
BL Sainsbury Superstores Ltd 38 Sainsbury superstores, 1 Waitrose superstore	J Sainsbury plc	1,190	61	722	232

¹ Annualised net rents

² Development project

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.

Corporate responsibility

Our full Corporate Responsibility Report 2007/8 may be viewed at www.britishland.com/crReport/2007/. It is designed to be accessible and easy to navigate for users. The switch to online reporting, rather than circulation of full printed copies, is part of our efforts to improve our environmental performance.

Business review

We have provided herein a commentary on our markets, activities and prospects. 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.

Directors’ responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, or ‘Business Review’, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board, **Graham Roberts**, Finance Director