

Business Review

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Introduction

This Business Review sets out what British Land has achieved in the year under review and the market context in which we operate. It shows how our actions fit the strategies we have laid out. It shows the business and financial results of those actions. We seek to highlight positioning for the future, risks in our business and how we are managing them as well as giving Key Performance Indicators ('KPIs') to judge progress.

Importantly we show also the way our business is shaped by and responds to the needs of our customers and the wider needs of society in relation to the built environment of which we represent an important part.

Objectives and strategy

British Land's primary objective is to produce superior, sustained and secure long-term shareholder returns from management of our chosen real estate activities and their financing.

Our strategy aims to deliver returns through the **high occupancy** and **rental growth** which results from successfully building our business around customer needs. We seek to do this in a number of ways. Property sales and purchases adjust the market and sector mix of our property portfolio to best capture trends in **customer demand**. Within our selected markets we also recycle capital, buying and selling buildings to improve the appeal and growth prospects of our holdings. And we look to create more value from new development in areas where demand for the best new space is highest. Our occupancy and rental growth prospects are further enhanced by **active asset management** to hone our buildings' customer appeal.

The importance of the investment markets which interlink with our occupier markets also dictates that financial management, partnerships and deal-doing complement our property-based strategies to capture and translate property returns most efficiently to our shareholders.

In executing these strategies our 'bedrock' disciplines are:

- a focus on areas where we have or can build competitive advantage;
- clarity that our business success will come from serving customers well;
- a bias to high-quality assets, with long lease profiles and favourable demand and supply characteristics;
- strong integrated risk management skills – blending leasing, development, asset and liability risk into a single attractive and secure growth proposition for shareholders;
- a confident, entrepreneurial, performance-driven culture;
- particular regard for long-term income/cash flow growth; and
- an appreciation of the importance of sustainability to our customers and other stakeholders in the built environment on which we operate.

British Land's activity in 2007/8

This was a year dominated by the global 'credit crunch' and its actual and possible impacts on real estate markets. British Land continued implementation of our activist strategy producing outperformance at property level, in rental growth and underlying profits. We also mitigated market-led damage to our business by reducing gearing ahead of price falls, by exceptional balance sheet and debt structuring and by moving our property portfolio to reduce exposure to assets with weaker occupancy and growth prospects. None of these actions came at the cost of future growth.

However, despite our actions, activity at the customer and investment market level clearly slowed as the year progressed. And market declines hit our asset valuations which we strive to keep 'realistic' in the face of significant adverse moves. We have every confidence in our strategies and the Company's robustness in the face of external stress. Growth and upside will return and we plan to capture it. But for the present, we need to weather the passing storm.

The commentary in this Review highlights the actions we have taken in our aim to outperform, in line with the strategy we describe above. These actions rest on the effectiveness of our people and as before, much work has gone into building still further our human capital and a performance culture with which to execute our business plans.

Under 'Sector and asset selection' we report on over £3.7 billion (gross) property purchases and sales. These reduced our total exposure to a property market we judged expensive. We also adjusted holdings in market sectors and individual assets where we forecast weaker customer demand and reinforced our market leadership positions where prospects are strong. It also shows how, even in favoured markets, we keep capital working hard by investing in property best placed to capture demand trends, whilst reducing our holdings in more mature assets where we cannot do much more to improve them.

We update on our newer initiatives in Europe which leverage our existing retail market skills into areas where customer demand can drive growth and we perceive rental growth prospects to be attractive.

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 we delivered again this year.

The 'Development' section reviews 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 target incremental return.

Under 'Portfolio valuation' we report on the valuation movement of each sector, together with data regarding occupancy and yields across the portfolio.

Our 'Retail Sector' and 'Office Sector' market commentaries explain in more detail the implementation of strategy and its rationale.

In the 'Financial performance', 'Financing and capital structure' and 'Partnerships' sections, 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, particularly relevant in these



The Willis Building, EC3

stressed financial market times. 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.

We also highlight, 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/crReport/2007/