

High levels of occupancy, rental value growth and rental income growth are strong indicators that our prime properties are in demand.

Key performance indicators

The leading indicators measuring our performance against the key elements of our objectives and strategy are:

Year to March 2008	British Land	IPD Benchmark
Occupancy rate	97.9% ¹	92.7%
Like-for-like rental value (ERV) growth	6.2%	4.0%
Like-for-like rental income growth	5.7%	2.5%
Portfolio capital return, per IPD	(11.5)%	(13.2)%
Rent review settlements versus ERV	7% above	
Customer satisfaction survey		
– REAL SERVICE Best Practice Index	Top quartile	

¹ 99.2% including accommodation subject to asset management initiatives and under offer

Financial Performance Indicator	One year	Three Years	Five Years
Total shareholder return¹			
– British Land	(38.2)%	6.5%	20.0%
– Peer group ²	(27.8)%	7.5%	18.2%
– FTSE Real Estate Index	(33.3)%	6.8%	19.8%
– Ranking in peer group	5	3	2
Total Return³			
– British Land	(18.1)%	10.7%	12.8%
– Peer group	(1.0)%	14.7%	13.3%
– Ranking	5	5	3
Earnings per share growth⁴			
– British Land	23.3%	25.2%	14.4%
– Peer group	18.4%	9.4%	6.6%
– Ranking	2	1	1

¹ Total shareholder return represents growth in share price plus dividends per share (assuming reinvested)

² Average of major peers – Land Securities, Hammerson, Liberty and SEGRO (some differences in year ends)

³ Total return (pre-exceptional) represents growth in adjusted, diluted net asset value per share plus dividends per share

⁴ Adjusted diluted earnings per share (excluding exceptional items, profits on asset disposals and revaluation gains)

Source: Datastream, company reports

The high levels of occupancy, rental value growth and rental income growth are strong indicators of our continued selection of prime properties that are in demand, and that this converts over time into growing profits.

Our outperformance at a capital level versus IPD is encouraging, reflecting again the prime nature of the portfolio. However, clearly prime property is not immune from market forces and so the capital return is negative.

Compared with our valuers' assessment of market rents at the nearest date to rent reviews, the rent increases achieved on average were 7% higher, reflecting good out-turns for those negotiations.

We successfully achieved a top quartile position for customer satisfaction, an important feedback from our many tenants.

On valuation measures – total shareholder return and total return – the higher level of gearing compared with our peers has worked to the detriment of performance in the current year and this in turn is reflected in a lower relative ranking on returns to second and third place over a five-year horizon.

On income measures, we retain strong leadership over a three and five-year time horizon and despite a 23.3% increase in earnings per share, we were ranked second over a one year view.

Risk management

British Land generates returns to shareholders through long-term investment decisions requiring the Company to evaluate opportunities arising in the following core areas:

- demand for space from occupiers against available supply;
- differential pricing for premium locations and buildings;
- alternative use for buildings;
- demand for returns from investors in property, compared to other asset classes;
- economic cycles, including their impact on tenant covenant quality, interest rates, inflation and property values;
- price differentials for capital to finance the business;
- legislative changes, including planning consents and taxation; and
- construction pricing and programming.

These opportunities also represent risks, the most significant being changes to the value of the property portfolio. This risk has high visibility to senior executives and is considered and managed on a continuous basis. Executives use their knowledge and experience to knowingly accept a measured degree of market risk.

The **principal business risks**, which are predominantly external, are summarised in the following table.

These and other risks are identified within British Land's formal risk management process, which defines risk areas and includes a risk scoring methodology based on the assessed impact of the risk event and the likelihood of its occurrence. The principal risks identified are considered and reviewed at various stages in the process, culminating in consideration of and discussion by the Executive Directors, the Audit Committee and the Board. Internal procedures to mitigate risks are the focus of assurance work performed by the Group's Internal Audit function.

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.