

Business Review

We continued implementation of our activist customer led strategy, producing rental income growth in our portfolio.

British Land's Activity in 2008/9

In another year dominated by the global financial markets turmoil and economic uncertainty we continued implementation of our activist customer led strategy, producing rental income growth in our portfolio and property performance in line with IPD. We again mitigated market-driven damage to our business by asset disposals ahead of further price falls, and by strong balance sheet and debt structuring, including the recent Rights Issue.

The commentary in this Review highlights the actions we have taken over the year.

Under 'Sector and Asset Selection' we report on £1.9 billion (gross) property sales, reducing our total exposure to a falling property market. We also adjusted holdings in market sectors and individual assets where we forecast weaker customer demand, reinforcing our market leadership positions where prospects are stronger.

Under 'Asset Management' we show the range of work we undertake to better tailor our existing buildings to areas of greatest customer demand, and to capture the growth in rents we achieved again this year.

The 'Development' section reviews another distinctive area of expertise, by creating new buildings at the forefront of modern business needs.

In 'Portfolio Valuation' we detail the principal property valuation movements in the year.

Our 'Property Sectoral Outlook' includes market commentaries and explains the implementation of our strategy and its rationale.

In the 'Financial Performance' and 'Financing and Cash Flow' sections, we explain the financial results and summarise the ways we have added value to supplement our property activity. Our balance sheet and debt management continue to be distinctive strengths, particularly relevant in these stressed financial market times. We also set out our Key Performance Indicators. The 'Risk Management' section sets out the principal business risks we face and how we mitigate them.

By working with others, inter alia through Joint Ventures and Unit Trusts as described in the 'Partnerships' section, 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 Corporate Responsibility Report may be viewed in full on our website www.britishland.com/crReport/2009/



Green roof at Ropemaker

Sector and Asset Selection

The prospects and expected performance of each asset in our portfolio are regularly reviewed in light of changing market conditions; part of the ongoing process of concentrating on sectors and properties with positive medium-term supply/demand characteristics to best capture trends in customer demand and rental growth, and disposing of lower growth or riskier assets.

Within our selected markets we recycle capital – buying and selling properties to refine the focus on those assets with more occupier appeal and better potential for increases in rent, or with opportunities for us to improve growth through asset management. Even where our sector view is positive, there are assets which reach a point where there is little we can do to improve them further and a sale may be appropriate.

We have continued our **emphasis on sales** in line with this approach, managing financial gearing and overall reducing our exposure to a falling market. All sectors have been reduced this year. Over the 12 months to March 2009, despite a difficult market with an overall low level of transactions, property disposals have amounted to over £1.9 billion gross, with £1 billion (including 50% of Meadowhall) achieved in the last financial quarter, since 31 December 2008. These sales are a significant achievement in current conditions and represent more than our market share. We expect to redeploy proceeds into higher performing assets, taking appropriate opportunities to enhance returns.

The Retail portfolio has been changed by:

- enhancing our **retail park profile** through sales of assets with slower rental growth prospects;
- sales of more in-town investments, high street shops in total £74 million (reducing our remaining investment in this sub-sector to only £20 million) and department stores at £108 million; and
- a reduction in our investment in **Meadowhall** shopping centre by the creation of a new 50:50 joint venture.

In the Offices portfolio we have:

- continued to **reduce our City offices** investments at this point in the cycle;
- sold assets where we saw the growth prospects as lower with limited scope for value-add; and
- achieved sales of residential elements of successful developments.

The transactions are summarised in the table opposite. It should be noted that this data (in keeping with our past practice) compares all sales in the year against the previous March 2008 year end valuations. Given the markdown in market and portfolio valuation over the year, while most sales contracted this year showed losses against the March 2008 valuation, sales were overall accretive to our performance and allowed us to manage gearing.

The recent post year end sales shown are in line with current valuation. These are smaller lot sizes where the range of interested investors is larger (as is usual) and there are signs of increasing market activity.

Sales	Price £m	BL Share £m	Gain/ (loss) % ¹
12 months to 31 March 2009			
Retail			
Meadowhall, Sheffield (50% Interest) ²	588	588	
Peacocks, Woking	116	116	
8 Department Stores ³	108	94	
Silverlink Retail Park, Newcastle ⁴	91	33	
Borehamwood Shopping Park, Herts ⁴	81	29	
27 High Street Shops	74	74	
Colne Valley Retail Park, Watford ⁴	45	16	
Cortonwood Retail Park, Barnsley ⁴	42	15	
Queensgate Centre Retail Park, Harlow ⁴	40	14	
Meadowbank Retail Park, Edinburgh	38	38	
2 Superstores	24	24	
B&Q Admirals Park, Guernsey	13	13	
London Road Retail Park, Hemel Hempstead	10	10	
	1,270	1,064	(22.1)
Offices			
Willis Building, Lime Street, London EC3 ⁵	400	400	
2 & 3 Triton Square, London NW1 ⁶	115	115	
Osnaburgh Street, London NW1 (residential) ⁷	58	58	
Portcullis House, Glasgow	18	18	
251/256 Tottenham Court Road, London W1	14	14	
Two Moorfields, Liverpool	11	11	
	616	616	(10.5)
Others	42	38	(26.9)
Total	1,928	1,718	(18.5)

Average net initial yield on disposals 6.5%, assuming top-up of rent-free periods

Since 31 March 2009

1 Retail Warehouse, 2 Department stores ⁸ ,			
2 High Street Shops	74	27	1.3% ⁹

¹ Sale price versus last year end valuation, March 2008

² Includes £47 million payable on completion of identified lettings

³ Includes sale by BL Fraser (JV) of House of Fraser Guildford store

⁴ HUT (Hercules Unit Trust)

⁵ Contract provides for top-up of rent-free period to minimum uplift (NPV at contract date, May 2008, £60m) – loss calculated net

⁶ Completed 2 April 2009

⁷ 62 open market units plus social housing at Regent's Place

⁸ Sale by BL Fraser (JV) of House of Fraser Leeds and Leamington Spa stores

⁹ Sale price versus year end valuation, March 2009

The sale of the **Willis Building** realised a profit on the cost of its development by us and underlined our record of successfully delivering and letting significant development projects. The London headquarters of Abbey at Triton Square, a development by us completed in 2002, was sold to Grupo Santander. We are pleased to have Abbey as a significant stakeholder in the Regent's Place Estate.

The sale of the **Peacocks** Shopping Centre achieved an attractive price for a timely disposal in line with our strategy to focus the retail portfolio on those assets which will continue to show growth from our asset management efforts.

In February 2009 we formed a 50:50 joint venture in respect of the **Meadowhall** Shopping Centre with London & Stamford Property Green Park Property Trust. The transaction valued Meadowhall at £1,175 million, on a net initial yield of 6.75%. British Land is property manager for Meadowhall and acts jointly with London & Stamford Property Ltd as strategic adviser for the joint venture, which also owns certain nearby properties including the Meadowhall distribution centre. The surrounding development land and ancillary sites remain in British Land ownership; the joint venture has the option to acquire these at a later date at market value.

The formation of this new partnership underlines the enduring investment and occupier appeal of Meadowhall, one of only six super-regional shopping centres in the UK. The transaction reduced our exposure to our largest retail asset while allowing us to retain a substantial share of its future performance; it also has the effect of increasing our financial flexibility.

There were no purchases contracted during the year, save for the shares of our partner in the Asda St James joint venture, involving a mixed used scheme in Leeds. The purchase of St Stephen's Shopping Centre, Hull, which was contracted in a previous year, completed in late 2008.

Investment in European Retail

British Land continues to be a market leader in Europe's out-of-town retail park market through both direct investment and its effective 40% investment in PREF, based on a strong management infrastructure and expertise in both the UK and Europe.

With a continued softening investment market this year, asset management has remained a key driver in combating falling values. During the year to March 2009, our European team has delivered 32 new lettings totalling over 300,000 sq ft. This was only marginally below the level achieved in the more robust market of the previous year. One notable achievement in November 2008 was the successful launch of the new 108,000 sq ft Carrefour hypermarket at Nassica, Madrid, Spain. We had taken a former Leroy Merlin DIY unit, reconfigured and enlarged the space and achieved the new letting, which has resulted in a 20% increase in footfall at the retail and leisure park, where the visitor numbers reached seven million for the year.

Early in 2008, PREF successfully completed €300 million of sales in a transaction which anticipated the weakening market, was in line with our UK strategy of divesting assets with weaker growth prospects and enabled us to recycle equity. Purchases included two parks that PREF had forward committed to acquire in previous years in Portugal (Santarém Retail Park) and Italy (Terminal Nord, Udine) both of which are now fully trading.



Queens Retail Park, Stafford

Asset Management

Proactively meeting customers' requirements

Concentrating on our customers' requirements and focusing our asset management on providing accommodation to best suit their business needs, we seek to capture occupational demand, maintaining high occupancy and rental income cash flow. This is achieved through appropriate tenancy changes, lease restructuring, initiating improvements by better design or configuration or planning use, refurbishments and redevelopment. Our deliberate focus on prime rather than secondary property has stood us in good stead and enabled us to respond flexibly to market circumstances.

Since 31 March 2008 we have exchanged agreements for 395 new lettings and lease renewals at overall 2.4% above the applicable ERV, generating increased rent of £26.1 million per annum.

New lettings and lease renewals

(including Funds and Joint Ventures)

	Number	Sq ft '000	Rent, £m pa	
			New total	BL share of increase
Retail warehouses	146	1,002	26.0	8.7
Shopping centres	133	202	11.2	3.1
High street	19	168	3.5	0.3
Offices, including developments	20	751	19.5	13.7
Other (ancillary areas)	77	11	0.6	0.3
Total	395	2,134	60.8	26.1

Headline rents, before tenants' incentives and including unconditional contracts exchanged with forward completions. Included above are lettings of less than two years (to first break) contributing £1.1 million pa to the BL share of increase above previous passing rent

There has also been much activity on rent reviews, with 215 rent reviews settled during the year at overall **3.1% above the applicable ERV** and 20% above the previously passing rent, generating an increase in rental income of £11.2 million per annum.

Rent reviews

(including Funds and Joint Ventures)

	Number	Rent, £m pa		BL share of increase
		New total	Increase	
Retail warehouses	114	36.8	9.2	5.0
Superstores	11	14.4	2.7	1.4
Shopping centres	43	13.3	2.2	1.7
High street	19	3.7	0.4	0.4
Offices	14	34.5	2.5	2.5
Other	14	1.9	0.2	0.2
Total	215	104.6	17.2	11.2

The progress with lettings and rent reviews, together with some specific examples of our asset management activities, are commented on below.

Retail parks

At Queens Retail Park in Stafford, we created a new fashion line up in units that were vacant on our acquisition of the park (in March 2008). The sub-division and refurbishment of these units has resulted in five new lettings to Next, Brantano, Peacocks, New Look and Mothercare. The park is now fully let and trading well.

The refurbishment of units at Springfield Retail Park, Elgin, following achievement of a revised planning consent to Open A1, has enabled new lettings to Next, Peacocks and New Look – with our efforts achieving a near doubling of the rents.

Over 1 million sq ft of retail park lettings (included in the data above) have been concluded at 4% ahead of ERV, and rent reviews have taken place on 1.5 million sq ft of retail park space. New lettings are predominantly to household names, with major lettings or renewals to Arcadia/Bhs, Asda, Birthdays, Boots, Carpetright, Homestore & More, Mothercare and Toys R Us, in addition to those tenants mentioned above.

Shopping centres

At Meadowhall overall retailer performance continues to be good. New tenants at the Centre include Blue Inc, Molton Brown, Yo! Sushi, Hollister and Kurt Geiger. The former Namco Family Entertainment facility has now been reconfigured to create space for new restaurants in the Meadowhall Oasis including Zizzi, Coal and Frankie & Benny's.

At Bon Accord and St Nicholas Shopping Centre, Aberdeen, we have instigated a number of lease surrenders and reconfigured space to improve the retail mix. An improved fashion line-up has been achieved through a programme of asset management and leasing activity. At Bon Accord a new 50,000 sq ft unit has been developed for Next, alongside enlarged stores for River Island and Topshop. A £2 million refurbishment of St Nicholas has resulted in a reinvigoration of retailer interest, particularly fashion.

The recently completed St Stephen's Shopping Centre in Hull is now established as one of the main shopping and leisure destinations for the area. The recent opening of a large 20,000 sq ft Argos store together with earlier lettings including to Tesco, H&M, Next, Topshop, River Island, TK Maxx, Nando's and Reel Cinemas, have attracted increased numbers of shoppers. We continue to focus our asset management on further lettings and realising new commercialisation opportunities on the malls.

Superstores

Four extensions completed during the year of stores let to Tesco, creating an additional area of 50,300 sq ft and generating additional income of £1.1 million per annum.

During the year, we have also undertaken 11 reviews increasing rents by £2.7 million per annum. This represents a 23% increase on the previous passing rent, equivalent to 4.2% per annum.

London offices

We are continuing to invest in improving our major assets, preserving and enhancing income growth and potential.

The £12 million refurbishment at 338 Euston Road, Regent's Place of 20,000 sq ft of the offices over three floors, plus the common services and reception areas, was completed during the year. Two of the three floors have already been let at increased rents, the most recent at £58.50 per sq ft, emphasising the success of this project.

The scheme to improve and extend the entrance and circulation areas at 4 Triton Square, Regent's Place has also been completed. Also at Regent's Place, 47,000 sq ft of rent reviews were agreed at 350 Euston Road at an average of £56 per sq ft, 10% above ERV.

Public spaces across the **Regent's Place** estate are being upgraded, to be completed this year in conjunction with the Osnaburgh Street phase of development on the Estate. These works will provide improved pedestrian links, including a crossing over Euston Road to more easily connect with public transport. The improvements also include the creation of a new western entrance to the Estate, a community theatre, the planting of nearly 200 trees, new public seating, art installations and a re-branding for marketing and management of the Estate – all of which go towards improving the local environment, attracting occupiers and maintaining or improving rental values.

At **Broadgate**, 88% of the offices developed at 201 Bishopsgate have now been let. Lettings this year include 36,000 sq ft representing the entire 7th floor to Landesbank Baden-Württemberg and 15,500 sq ft to Alpari (UK) Ltd. In the Broadgate Tower, 48% of the offices completed earlier this year have now been let, with a further 16% (63,000 sq ft) under offer. Lettings have been concluded to serviced offices operator Regus who have taken 26,000 sq ft and will provide a useful facility for business at Broadgate. Reed Smith have taken up both 13,000 sq ft under an option plus a further 13,000 sq ft to reach total accommodation for them in the Tower of 168,000 sq ft, where they have fitted out the accommodation and moved in their 600 staff.

At 1 & 2 Broadgate, we took direct tenancies with UBS, ICAP and KBW in respect of the offices they occupy (originally under sub-lettings from Lehman Brothers), representing 78% of the £15.8 million rental income from the accommodation formerly let by us to Lehman.

At 4 Broadgate we have let a total of 55,000 sq ft of offices on flexible short term leases, pending our consideration of the redevelopment or refurbishment of this building. This gives us as landlord the ability to preserve our options and time to review the project while having the benefit of receiving significant contributions to the holding costs of the building. Also at Broadgate the rent review was settled with Deutsche Bank in respect of 185,000 sq ft at 1 Appold Street in line with ERV at £49 per sq ft.

The Estate is also being improved through selective surrenders and refurbishments such as at 6 Broadgate where 60,000 sq ft (23%) has been taken back and is planned to be refurbished; a further 112,000 sq ft (43%) is similarly to be taken back from Mitsubishi UFJ Securities International plc when they move together with The Bank of Tokyo-Mitsubishi UFJ, Ltd to our new development Ropemaker (after their fit-out of those offices).

We have completed works which have improved the links between the developments at 201 Bishopsgate and the Broadgate Tower so as to incorporate them fully into the existing Broadgate Estate. Paving and lighting improvements have been carried out on the principal pedestrian routes on the Estate from Liverpool Street Station. The Broadgate Plaza has also been completed, creating a fourth landscaped public space in the area between 201 Bishopsgate and the Broadgate Tower and a new amenity for our occupiers in Broadgate.

More than 80,000 sq ft of lettings and rent reviews of retail/leisure accommodation in the London offices portfolio also completed in the year, increasing rent by £630,000 per annum. Retail is an important element of our office investments, providing services to occupiers and enhancing our investment.



Broadgate Plaza

Residential

British Land also creates value from the residential elements of mixed use properties and developments, for example at Osnaburgh Street, Regent's Place, NW1. Our small team of residential asset managers deals with projects including the preparation and sale of assets acquired as part of wider commercial portfolios, refurbishment of central London residential elements of new developments, mixed use blocks, negotiation of leasehold extensions, and rent reviews on a small number of residential units that British Land retain. Similar asset management services are undertaken for third parties; at the year end residential assets valued at some £325 million were under management on behalf of external clients.

Customer Focus

Our ongoing focus on customer needs during the year has involved increased contact with occupiers on property management issues, proactive management of the performance of our managing agents, and identification of ways to provide better value for money from the service charge. In March 2009 we completed our third **Occupier Survey**. These bi-annual surveys act as an indicator to validate feedback we receive from our occupiers from our contact or regular meetings. We are pleased that we continue to make progress, building on earlier reports and improving occupier satisfaction, while recognising that there are areas where we need to make further efforts: **82% of our tenants rated British Land 'good' or 'excellent'** as landlord.

Cost reduction is a major issue for our occupiers. In our retail portfolio we have been working with retailers to identify and achieve **reductions in service charges**. In conjunction with other owners we have developed a '10 point plan' to help find savings across all our retail investments. As a result we have already identified reductions in annual service charges of 15% on average across the retail portfolio, including a budgeted 20% service charge reduction at Meadowhall. In our office portfolio we have also embarked upon a service charge cost reduction programme, collaborating with occupiers to consult and plan how to achieve further savings.

We combine cost reductions with being at the forefront of the industry in providing an open and customer focused property management service. We were pleased to win recognition of our efforts by being awarded '**Best Service Charge Provider**' for 2008 by the Property Managers Association (nominated by the major UK retailers).

In this difficult economic climate, the sector overall has seen a number of tenants falling into administration but, to date, we have not been materially adversely affected. This is due to a number of factors: our occupier-led strategy and good relationships with tenants; focus on owning prime assets in profitable trading destinations which are likely to be in most demand throughout the cycle; the earlier disposal of weaker trading properties; and, where possible, our anticipation of difficulties and adoption of contingency plans to re-let as quickly as possible space that becomes available.

At 31 March 2009 occupiers in administration represented only 1.8% of rents, including 1.4% from leases under negotiations for assignment or re-letting, or where the rent is guaranteed by a third party. During April 2009, two further retailers have gone into administration, with minimal impact on our portfolio, and total exposure remains at 1.8% of rents.

Occasionally tenant difficulties will provide an opportunity. For example, we had planned to take back a lease at a retail park from MFI to enable us to reconfigure the space and re-let to other retailers at higher rents. The failure of MFI hastened our plans but avoided the need for a compensatory payment to release the space. Part of the area involved has already been re-let to New Look.

Development

Our development programme combines our skills in the development process, from planning and design to construction management, with our customer and market focused real estate knowledge, to create distinctive added value. Development involves higher risk than our standing investment properties and requires careful management, balancing risk and reward, while considering market cycles across time and in the broader context of our business.

Important elements of development projects include the transport and other infrastructure attributes of the location, quality of specification, configuration and flexibility of accommodation, and timing of delivery into market demand. Emphasis is also placed on working with talented architects to create well designed and sustainable buildings that enhance their location – all contributing to appeal to occupiers.

Completed developments

Development of the 35-storey **Broadgate Tower, EC2** completed in August 2008, providing 400,000 sq ft of highly flexible offices. The striking building has attracted considerable occupier interest: as set out under Asset Management above, 64% of the offices are let or under offer. The Tower and 201 Bishopsgate (where the offices are now 88% let and tenants are in occupation) have taken their place as important additions to the Broadgate Estate.

The **Giltbrook Retail Park in Nottingham**, a mixed use scheme of retail and industrial space, completed on time and on budget in September 2008. All units at the 127,000 sq ft retail park are now fully let, open and trading. Tenants include Laura Ashley, Carpentryright, CSL, Starbucks, Bhs, Next, Comet and Frankie & Benny's. An improved planning consent achieved on two units enabled letting of these to Boots and Pets at Home, at rents above those for the units let earlier. The success of the park has confirmed our expectations of Giltbrook as an important regional retail destination. The industrial space is 50% let, sold, or under offer.

We have a good record of delivering and letting developments profitably, and of achieving sales of projects to recycle capital. Over the last five years we have completed over 2.4 million sq ft of major London office projects and sold over 1.3 million sq ft.

Committed developments

The programme in the UK is now limited to the City offices at Ropemaker and the West End offices and residential scheme at Osnaburgh Street, where the office buildings are known as Regent's Place One and Regent's Place Two. The Puerto Venecia retail project in Spain is progressing, as set out below, although we are delaying the timing of the Shopping and Leisure Centre elements in light of the current retail market in Spain.

The value of these committed schemes overall at 31 March 2009 represents just 4% of the total portfolio.

Committed developments

	PC ¹	Cost £m ²			Value March 2009 £m	Notional interest £m ³	Rent £m ⁴		Sales £m ⁵
		Sq ft '000	Total	To complete			Total pa	Let/pre-let	
London Offices									
Ropemaker	Q2 2009	586	220	56	204	2	27.1	9.2 ⁷	–
Regent's Place One & Two ⁶	Q3 2009	380	177	53	105	5	17.6	–	–
One Osnaburgh Street (residential) ⁶	Q3 2009	110	72	22	29	1	–	–	58
Total Offices		1,076	469	131	338	8	44.7	9.2	58
Retail Parks									
Puerto Venecia, Zaragoza (shopping centre) ⁸	2011/12	1,333	105	73	49	10	9.7	3.0	10
Total		2,409	574	204	387	18	54.4	12.2	68

¹ Estimated practical completion of construction

² Estimated construction cost

³ From 1 April 2009 to PC

⁴ Current estimated headline rent

(excludes provision for tenants' incentives)

⁵ Parts of development sold, no rent allocated

⁶ Osnaburgh Street development comprises Regent's Place One & Regent's Place Two (offices) and One Osnaburgh Street (residential)

⁷ Option until June 2009 to take a further 21,630 sq ft

⁸ Joint venture (Eurofund Investments Zaragoza) – BL share 50%

Data for Group and its share of Funds and Joint Ventures (except areas shown at 100%)

Leadenhall now a prospective development

Ropemaker, London EC2, the 20-storey prime City office development on a 1.2 acre site close to Moorgate and Liverpool Street, reached practical completion in early May 2009. The offices have attracted encouraging tenant interest in a difficult market. Agreements have been entered into recently for the pre-letting to The Bank of Tokyo-Mitsubishi UFJ, Ltd and Mitsubishi UFJ Securities International plc ('MUSI') of 186,500 sq ft (32%) of these offices, plus an option (until June 2009) over a further 21,630 sq ft. The average initial rent is £46.50 per sq ft on a lease term of 20.5 years, with a minimum uplift to £52.50 per sq ft at first review in 2014. An initial rent-free period will apply of 48 months from the practical completion of the building to 'shell and core' specification during which the new occupier will fit-out the offices, integrating the 'category A' works of installing raised floors, suspended ceilings and light fittings with its own required offices finishes and layout. These banks will be co-locating from their existing buildings at Finsbury Circus and 6 Broadgate. During Q1 2011, MUSI will surrender 112,000 sq ft at 6 Broadgate, where their lease is due to expire in 2013.

Ropemaker is one of the City's most sustainable developments with a range of efficient floor plates and extensive roof gardens. The building meets our objectives to provide accommodation attractive to occupiers in the wider context, to include minimising use of resources. Ropemaker is on target to achieve 15% lower carbon emissions than set out in the Building Regulations and an 'Excellent' BREEAM rating.

The Building Research Establishment Environmental Assessment Method ('BREEAM'), the most widely used measure for development, evaluates a broad range of the environmental impacts of new building. All our London office developments have target or provisional **BREEAM ratings of Excellent** (i.e. at the top of the scale).

The 380,000 sq ft office buildings, **Regent's Place One and Regent's Place Two**, are progressing well at Osnaurgh Street, London NW1, on target for completion later this year. Marketing of the offices is under way, although our expectations, as is usual practice in the West End, is that we will see occupational interest once the buildings are complete. As part of this development, on a 2.5 acre site on the west side of the Regent's Place Estate in the West End of London, we have constructed 110,000 sq ft of residential accommodation at **One Osnaurgh Street** being part social housing and 62 apartments for open market sale. These have successfully attracted considerable interest, despite market conditions, and contracts have been exchanged for the sale of all the units. The social housing has been pre-sold to a Housing Association. Retail space of 8,000 sq ft is included in the development, to add to the occupier and public amenities on the Estate.

British Land was named '**Developer of the Year**' at *Property Week's* industry awards in April 2008, noting our development and letting success in the City, particularly at 201 Bishopsgate.

At **Puerto Venecia, Zaragoza**, our retail and leisure investment and development joint venture in Spain, the IKEA-anchored 900,000 sq ft Retail Park is consolidating well with some significant recent openings, including a Leroy Merlin DIY store (118,000 sq ft) and a flagship Media Markt electrical and computer store (43,000 sq ft). The Park is now close to 90% let or sold with positive tenant interest in the few remaining units. The success of the scheme has firmly established it as one of the premier retail parks in Spain in terms of location, design, accessibility and quality of operators.

In addition to the open and trading Retail Park, the further development areas at Puerto Venecia comprise the 1.3 million sq ft Shopping and Leisure Centre. There has been positive progress in the leisure element where lettings in the last quarter have doubled to 57% of the area, including recent pre-lets to the multiplex operator, Cinesa, and to the US surfing concept, Wavehouse. We also expect shortly to settle a letting to a national bowling operator. As a result, of the total 2.2 million sq ft project, 70% is now let, pre-let or sold. In addition to those already mentioned, tenants include notable names such as Primark, Desigual, Mango, Decathlon and Toys R Us. Since the start of 2009, progress in respect of letting the Shopping Centre element has slowed considerably against the backdrop of economic conditions in Spain and the adverse effect on consumer spending, particularly in fashion, which is the primary focus of this Shopping Centre. In light of this, we have agreed with our 420,000 sq ft anchor department store partner, El Corte Inglés, to reschedule the opening of the Shopping and Leisure Centre elements to 2011/12. We will keep under review the development programme and target opening in order to provide us with greater flexibility in respect of our ongoing letting strategy and to launch the Shopping and Leisure Centre into an anticipated stronger retailing environment.



Puerto Venecia, Zaragoza

Prospective developments

At the **Regent's Place**, London NW1 estate, the next phase of development will be the North East Quadrant. Detailed planning consent has been obtained for the 380,000 sq ft of offices and 120,000 sq ft of residential accommodation.

At **Leadenhall** the demolition and preliminary basement works are near completion. We are reviewing the design and construction proposals alongside a reassessment of the timing of delivery of these offices into the market.

Planning consent has been achieved for a 280,000 sq ft 35-storey office building at Colmore Row in Birmingham. A planning consent for up to 2.2 million sq ft of mixed use space on land we own adjacent to Meadowhall Shopping Centre has also been obtained.

We continue to work on proposals for a redevelopment or refurbishment of the offices at **4 Broadgate**, EC2 and at London Euston Station where, together with Network Rail, we are master planning a 15 acre site with potential for up to three million sq ft of mixed use development.

Overall, these projects are being managed with minimal ongoing expenditure and with limited capital committed of some 1.8% of the overall portfolio. We are able to see through the cycle and evaluate opportunities pending decisions as to when, subject to market conditions, it may be appropriate to proceed.

Keeping a cool head
The measure of any business is how well it handles exceptional market conditions.

Prospective developments		Sq ft '000	Value, £m		Planning
			March 2009		
The Leadenhall Building	City Offices	610	55		Detailed
Regent's Place, NE Quadrant	West End Offices/ Residential	500	27		Detailed
Colmore Row	Provincial Offices	280	8		Detailed
Meadowhall additional land	Mixed use	2,200	11		Outline
4 Broadgate	City Offices	Potential refurbishment or redevelopment	40		Pending
New Century Park ¹	Mixed use	Potential land sale	7		Detailed
Theale	Residential	Potential land sale	13		Detailed
Euston Station ²	Mixed use	Master planning in progress			Pending
Canada Water ³	Mixed use	Master planning in progress			Detailed/ Outline

¹Joint venture with Goodman Real Estate (UK) Limited

²In partnership with Network Rail

³Joint venture with Canada Quays Limited

Data for Group and its share of Funds and Joint Ventures (except areas which are shown at 100%)



Desserts

12 Pickles & Sauces
Cooking Oils
Herbs & Spices

Desserts

Ice Cream

Hot Desserts

Cakes & Confectionery

Cakes & Confectionery

Price Cut

Over 100 Products
BIG FREEZE
£1 or under

Portfolio Valuation

The continuing adverse effects of the global 'credit crunch' have further reduced values across most asset classes including commercial real estate. Widening risk premia, increased cost and reduced availability of finance, low investor confidence and fears of the effect of a weaker economy on customers' business and rental growth are continuing to apply.

The table below shows the principal **valuation movements by sector** for the three and 12-month periods to 31 March 2009, totalling 9.2% decline for the quarter, 28.2% decline for the year.

Valuation by sector	Group £m	Funds/JVs ¹ £m	Total £m	Portfolio %	Change % ²	
					3 mths	12 mths
Retail						
Retail warehouses	1,338	914	2,252	26.1	(9.2)	(29.4)
Superstores	113	958	1,071	12.4	(2.6)	(16.4)
Shopping centres ³	192	855	1,047	12.1	(10.8)	(26.6)
Department stores	408	69	477	5.5	(7.5)	(29.1)
High street	20	–	20	0.2	(12.7)	(24.6)
All retail	2,071	2,796	4,867	56.3	(8.3)	(26.4)
Offices⁴						
City ⁵	2,653	–	2,653	30.8	(9.7)	(30.4)
West End ⁶	895	–	895	10.4	(12.8)	(30.7)
Provincial	15	7	22	0.3	(6.4)	(25.3)
All offices	3,563	7	3,570	41.5	(10.5)	(30.4)
Industrial, distribution, leisure, other	176	12	188	2.2	(10.2)	(34.3)
Total⁷	5,810	2,815	8,625	100.0	(9.2)	(28.2)

¹ Group's share of properties in Funds and Joint Ventures

² Change in value for three months and 12 months to 31 March 2009, includes valuation movement in developments, purchases and sales, net of capital expenditure

³ Meadowhall Shopping Centre valuation down over 12 months 25.8% to £573 million (BL 50% share); ERV £42 million; net equivalent yield 6.7%

⁴ Includes developments in City, West End and provincial: total value £475 million, 5.5% of Portfolio, 39.5% decline for the 12 months

⁵ Broadgate valuation down 32.1% over 12 months to £2,284 million; headline ERV range £39.00-£52.50 per sq ft (average headline ERV £43 per sq ft); net initial yield 7.4% (assuming top-up of rent-free periods and minimum uplifts at first review); net equivalent yield 7.3% (this valuation includes 201 Bishopsgate and the Broadgate Tower but excludes 4 Broadgate which is classified as a development)

⁶ Regent's Place valuation down 25.4% over 12 months to £529 million; headline ERV range £35.00-£47.50 per sq ft; net initial yield 7.3% (assuming top-up of rent-free periods and minimum uplifts at first review); net equivalent yield 7.1%

⁷ Portfolio valued by external valuers on the basis of Market Value in accordance with the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors; principally Knight Frank LLP £6.6 billion and CB Richard Ellis Ltd £1.7 billion (see note 11)

The **capital return** from the portfolio at –9.1% for three months, –30.2% for 12 months, as **measured by IPD** (calculated for our UK assets on average capital employed and excluding capitalised interest) was comparable with the IPD Benchmark at –8.7% and –29.7% respectively. The rate of capital decline was slower over the last quarter of the financial year than that seen in the third quarter (at –13.5% for the portfolio).

Like-for-like rental value (ERV) was unchanged over the quarter for Retail (up 0.8% over the year) and down by 8.7% for Offices (down 14.6% for the year). Overall like-for-like ERV for the portfolio was down 4.0% for the quarter (IPD Benchmark down 3.0%). For the year to March 2009, like-for-like ERV for the portfolio was down 5.9% (IPD down 4.6%), primarily due to our weighting in London offices.

The valuation movements across the sectors were:

- **City offices**, at 30.8% of the portfolio, over the quarter saw outward initial yield shift of 61bps on the investments which, coupled with the decline in ERV of 8.6%, resulted in an overall decrease in valuation of 9.7% (30.4% for the year);
- **West End offices**, at 10.4% of the portfolio, were similarly affected in the market with the valuations down over the quarter by 12.8% (30.7% for the year), driven by outward initial yield shift for the quarter of 73bps on the investments and a reduction in ERV of 9.2%;
- **Retail warehouses**, representing 26.1% of the portfolio, saw outward equivalent yield shift of 60bps over the quarter, with current ERV unchanged but reduced prospects of rental value growth, resulting in the valuation reducing by 9.2% (29.4% for the year);
- **Shopping centres**, following the sale of 50% of Meadowhall, have reduced to 12.1% of the portfolio, and have seen a fall in value of 10.8% over the quarter (26.6% for the year). On a like-for-like basis, the equivalent yield shifted outwards by 49bps (168bps for the year) to reflect declining rental value growth prospects and general concerns regarding certain tenant covenants; and
- **Superstores**, at 12.4% of the portfolio, are proving more resilient to market turbulence, with 0.6% ERV growth over the quarter reflected in a smaller valuation decline of 2.6% (16.4% over the year), due to their long income streams, retail sales growth and underlying stronger tenant covenants.

Portfolio yields (excluding developments)	Annualised net rents ¹ £m	Reversionary income ² (5 years) £m	Initial yield ³ %	Top-up initial yield ^{3,6} %	Reversionary yield ³ (5 years)%	Net equivalent yield ⁴ %
Retail						
Retail warehouses	157	21	7.3	7.5	8.3	7.6
Superstores	69	3	6.4	6.4	6.7	6.2
Shopping centres	73	12	7.0	7.2	8.1	7.2
Department stores	38	6	7.7	8.9	8.9	8.6
All retail	337	42	7.1	7.3	7.9	7.3
Offices						
City	166	26	7.1	7.9	8.1	7.3
West End	51	2	6.9	7.4	7.2	7.0
All offices	217	28	7.0	7.8	7.9	7.2
Industrial, distribution, leisure, other	17	3	9.6	10.8	11.5	11.1
Total	571	73⁵	7.1	7.6	8.0	7.4

Data for Group and its share of Funds and Joint Ventures

¹Net rental income under IFRS differs from annualised net rents which are cash based, due to accounting items such as spreading lease incentives and contracted future rental uplifts, as well as direct property costs

²Includes rent reviews and lease break/expiry and letting of vacant space at current ERV (as determined by external valuers) within five years, plus expiry of rent-free periods

³Gross yield to British Land (without notional purchaser's costs)

⁴After purchaser's costs

⁵£39 million contracted under expiry of rent-free periods and contracted rental increases

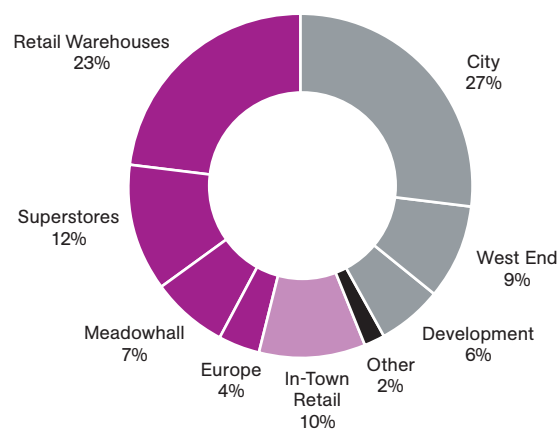
⁶Adding back rent-frees and minimum rental uplifts

The net equivalent yield (after notional purchaser's costs) on the portfolio at 7.4% has moved out 40bps over the quarter and 183bps for the year.

At current market values, and without projecting any growth or inflation, achievement of the reversionary income in the investment portfolio would add £73 million per annum to our annual passing rent. Included in this are **contracted increases of £39 million per annum** due from expiry of rent-free periods and fixed/minimum uplifts. (It should be noted that accounting policies under IFRS require that portions of these contracted rents are anticipated in the Group's income statement.) In addition, the pre-lets of committed developments to date will add £12 million per annum.

56% Retail
(82% Out-of-Town)

42% Offices
(100% London)



Property Sectoral Outlook

Retail Sector

Leadership in Retail

£4.9 billion invested (BL share)

£8.2 billion total property under management



Andrew Jones
Head of Retail

Following significant reshaping, the retail portfolio is now firmly focused on **prime out-of-town shopping parks** with Open A1 planning use, **superstores and Meadowhall** (our 50% share), offering the best scope for our ongoing asset management initiatives.

Our strategy for the retail portfolio is customer-led. We have built good relationships with the larger retailers and aim to continue to provide them with the right space in the locations they prefer. This is being achieved through ongoing rigorous shaping of our retail assets to take account of occupier trends and drive rental growth.

We have commented on our active management of the retail portfolio earlier in this report, aimed at delivering the best portfolio performance through high occupier contentment. Like-for-like **income growth was 2.9%** for the year. During the last three years we have sold £4.5 billion (gross) of retail assets, including £1.3 billion in the year to March 2009 (BL share £1.1 billion) where we anticipated weaker potential for growth in rental value or had fewer asset management prospects to enable us to create growth. We are discriminating between individual assets; for example, not all out-of-town is expected to perform well and in-town shopping centres and high streets have widely differing appeal. We expect to continue with our portfolio shaping and planning through further disposals, although probably not at the rate seen over the last few years. We will be alert to opportunities arising across the market.

Actions taken over the last three years have enabled us to weather the current market storms better than would otherwise have been the case and ahead of our competitors. Our prime portfolio now has **strong defensive qualities**:

- high occupancy of 98%;
- a long average lease length of over 15 years to first break;
- low voids from tenants in administration at only 2.2% of rents (including 1.5% in negotiations or guaranteed);
- 27% of current retail rents from food retailers and Marks & Spencer;

- valued on the basis of net equivalent yield of 7.3% (gross top-up initial yield 7.3%);
- only 4% of current rents up for renewal in the next three years; and
- £14 million per annum of further contracted income over the next five years.

Out-of-town – 82% of the retail portfolio, £4.0 billion:

- 205 retail schemes, including the Superstores and Meadowhall shopping centre;
- providing a total of 22 million sq ft; and
- with an average lease length to first break of over 13 years.

The retail portfolio has a particular bias to out-of-town with emphasis on **retail warehousing** with Open A1 (non-food) planning use, applicable to 85% of our investments in this sub-sector. Such use classification permits a wide range of retail operations and enables us to be flexible in offering asset management initiatives to deliver the size and configuration of trading space required. We also aim to be responsive to changes in those requirements as the retailers amend their formats to meet their own customers' preferences. For example, where there is retailer demand for larger or smaller units at out-of-town shopping parks, we have been active in changing unit sizes (extending or subdividing) and providing imaginative new formats, including new and varied catering outlets.

It is important to note that not all out-of-town retail parks fall into a single sub-sector. Open A1 parks are expected to outperform due to their favourable supply and demand characteristics; retailers continue to migrate to these parks from the high street, seeking and realising lower occupational costs and flexible accommodation. By contrast, bulky goods retail warehouses, which account for around 75% of the UK retail warehouses market are more restricted in their trading and retailer mix, currently experiencing difficult market conditions and have more limited prospects.

We are the largest owner of UK **superstores**, other than the operators themselves. The operators are gaining an increasing share of consumer expenditure through broadening product ranges, especially non food, while maintaining their customer appeal of convenience and accessibility. In an increasingly restrictive planning and regulatory environment, which is limiting new supply of these assets, the retailers are committed to full lease lengths. The Superstore investment profile of rental growth with secure income flow continues to be an attractive element of the portfolio.

During the year through the creation of a new joint venture, we sold a 50% share in the 1.5 million sq ft **Meadowhall** shopping centre – one of the best schemes of its kind in the UK with exceptionally strong ongoing customer appeal, and our continuing investment remains an important component of our out-of-town portfolio.

In-town – 18% of the retail portfolio, £880 million:

- Six shopping centres, in total 2.5 million sq ft;
- 29 department stores, in total 4.6 million sq ft; and
- Three high street shops.

Our in-town **shopping centres** are located within large catchment populations, well anchored and generally the dominant retail scheme in the area, and of sufficient size to enable proactive asset management, including new income generating customer facilities and possible future development. The **department stores** are fully let to Debenhams or House of Fraser with an average lease term of some 30 years. Income growth from these assets is underpinned by provisions in the leases for guaranteed increases in rent; gross rents will increase by some £5.7 million (16%) over the next five years. As part of our refinement of the portfolio, we are continuing to sell stores where appropriate.

Investment market

The investment market for retail has been adversely affected by the economic conditions. The lack of liquidity, with limited availability of debt and equity waiting on the sidelines for price levels to become compelling, resulted in low levels of investment activity for much of the year. As yields have continued to move out, the similar level of yield shift which has been applied in the market to both prime and secondary assets does not, in our view, reflect their different prospects. While we expect some further degree of outward yield movement in the market overall, this should apply less to prime where pricing should stabilise due to long and more secure income. Investors will focus on income and recognise the relative prospects for growth and the downside risks of secondary assets, such as re-letting concerns.

At current market pricing, we are now seeing the return to the market of potential investors seeking investment opportunities, primarily high net worth individuals, overseas buyers and UK pension funds, and the beginnings in some instances of competition for the right assets. While debt is still thin, it is available to purchasers with a reasonable level of equity for a sound transaction, although large lot sizes are still much more difficult to transact if debt is required.

We will be alert to acquisition opportunities and continue to be involved in the market on a selective individual asset basis.



Meadowhall

Occupier market

Current market conditions are challenging; while total retail sales seem to be holding up better than most had feared, in a competitive trading environment like-for-like sales for most retailers are down and continue under pressure. There continues to be real possibility of rental value declines particularly where voids, lease expiries and corporate failures are creating a demand/supply imbalance and pushing down rents. Much will depend on the impact on consumers from wider economic outcomes. Home related (DIY, furniture and carpets) and electrical goods retailers are bearing the brunt of the downturn in consumer confidence, which will adversely affect the bulky goods parks. Clothing sales are mixed, entertainment is faring better and food is trading more strongly. As a result, demand for new stores is thin as retailers preserve their positions.

Our occupier led strategy has been based on owning retail property in locations where our customers trade profitably and our portfolio is positioned accordingly. Prime retail, while not immune from ongoing market uncertainties, is better placed, with stronger occupational demand, better retailer trading and tenant covenants, higher occupancy and longer leases.

Office Sector

Leadership in London Offices

£3.6 billion invested



Tim Roberts
Head of Offices

We have continued to manage the office portfolio by taking opportunities to sell a total of £1.8 billion (gross) of offices over the last three years to take advantage of higher market prices, having recognised that London offices had been in a cyclical upswing. These sales were primarily in the City (78%).

Our **strategy for the offices portfolio** is to concentrate on prime assets in the City and West End of London. Despite recent credit market turbulence, London's global position as a business centre is well established and we consider London is the right place to be over the medium term.

Our customer focus is on providing modern, high quality and well located accommodation to meet the requirements of the financial and business services based in the capital. We build on this by offering 'best in class' property management, from estate services through to development of new buildings. Proactive asset management aims to tailor what we offer to customers' changing needs.

We have a relatively **well positioned prime London office portfolio with strong income:**

- 4.4 million sq ft in the City;
- 1.4 million sq ft in the West End;
- investments over 94% occupied;
- 93% of vacant accommodation is brand new Grade A;
- weighted average lease length of over nine years to first break (11 years to expiry);
- valued on the basis of a net equivalent yield of 7.2% (gross top-up initial yield of 7.8%);
- only 9% of current rents up for renewal over the next three years;
- £23 million per annum further contracted income over the next five years; and
- an average rent of £46 per sq ft.

Our continued active management of the office portfolio is set out in detail earlier in this report. The £616 million of sales in this year, achieved in a difficult market with falling values and limited liquidity, have been overall accretive to our performance for the year. New income has been generated of £2.5 million per annum from settlement of rent reviews and of £13.7 million per annum from new lettings, including 300,000 sq ft at our London developments, with more under offer. The completed developments at 201 Bishopsgate and the Broadgate Tower continue to attract new tenants: including areas currently under offer, the Tower is 64% let and we have only 12% of 201 Bishopsgate remaining available. On the investment portfolio, **like-for-like income growth of 2.5%** for our offices has been achieved over this year – 1.3% in the City and 7.6% in the West End.

Completion of these development projects and deferral of Leadenhall has reduced our committed office schemes from 2 million sq ft last year to less than 1 million sq ft, now representing less than 4% of the total portfolio value. Included in this is Ropemaker where we are pleased to have reached agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd and Mitsubishi UFJ Securities International plc for a major pre-let of 186,500 sq ft. Tenant interest is also being seen in the Regent's Place office development, although large pre-lets in the West End are relatively unusual and we have always believed that significant progress in lettings will be achieved after the buildings are completed and available to view. The residential units at Osnaburgh Street (part of Regent's Place) have all contracted for sale, de-risking the project, with completion due later this year.

Investment market

The London office market, along with all other sectors, has been affected by the financial markets and economic conditions. Given the lower levels of debt available and the uncertain investment climate, a significant downturn in transaction volumes has been seen this year. However, during our financial year some £3.5 billion of London office property has been traded, indicating that there continues to be a degree of liquidity from equity investors even in this difficult market – and the level of sales we have achieved from our portfolio at over £600 million is a good result.

The reduced relative liquidity has resulted in significant adjustment of yields since mid 2007, with the City having moved out by 320bps (with prime now at 7.2%) and the West End by 270bps (prime 6.0%). In a low interest rate environment, these current yields are starting to look attractive to income-hungry funds and there are now early signs of investor demand returning to London. The relative devaluation of Sterling is also attracting growing interest from overseas purchasers, notably the German funds. These factors together are generating more positive sentiment and there are early indications that yields on prime, well let buildings have started to stabilise.

Secondary assets, which lack occupier appeal and security of income (and have little prospect of raising new transaction debt) remain most vulnerable to further falls in value. At this stage it seems that the banks are unwilling to call in loans which are under pressure, so there is very little evidence of an impending wave of 'distressed' sales coming to the market. Nevertheless, the gap between prime and secondary yields is likely to continue to grow.

Occupier market

London offices continue to have relatively low vacancy rates, although the current level of 7.3% (being below the long term 20 year average of 8.1%) is expected to rise, due to completion of development projects in progress without pre-lets, together with the release of tenant controlled accommodation. Many forecasters currently believe the vacancy rate in London will rise no higher than that seen in previous downturns, primarily since the total level of new development has not been as high in comparison to earlier office cycles.

The most important factor in the current significant slowdown in take up is that business confidence has been severely dented and demand weakened. Even occupiers who have requirements are reluctant to make decisions on their accommodation in these uncertain times. We are aware that many businesses would like to improve, consolidate or expand their offices but are reluctant to commit at this stage. Financial and business services are unlikely to generate employment growth this year. It will require a return of confidence in the economic outlook to restore take up and release a degree of pent up demand in the occupational market.

British Land's office portfolio is modern, high quality, well located and let with good income security. Our development exposure is limited and the committed projects, spread between the City and the West End, will produce prime offices attractive to new occupiers.



Broadgate





Mirroring tenants' needs

The success of our business strategy reflects our willingness to listen to what our customers want. Where possible we will tailor our properties to match their needs.

Financial Performance



Graham Roberts
Finance Director

Introduction

The unprecedented financial turmoil over the past year has had a defining impact on the Group's financial results for the financial year ended 31 March 2009. The results have been dominated by a further significant decline in property values that have masked the relative stability of the Group's underlying profits.

During the past two years the Group has been an active seller of property, the proceeds of which have been used to pay down debt and reduce gearing. Initially these sales were at yields below our marginal borrowing cost thus increasing our underlying profits, while more recent sales have been at higher yields and have therefore had a dilutive effect.

A proportionally consolidated income statement and balance sheet are included in Table A to the financial statements 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 the 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 and the net investment in Funds and Joint Ventures is shown as a single line on the Balance Sheet, unless stated otherwise.

Rights Issue

At an extraordinary general meeting on 3 March 2009 the shareholders of British Land approved a pre-emptive 2 for 3 Rights Issue at an issue price of 225 pence per share. This Rights Issue raised £740 million (net of expenses). The proceeds were received just before the year end and have been used primarily to pay down bank debt.

As a result of the Rights Issue the prior year earnings per share, dividend per share and net asset per share calculations have been adjusted for the increased number of shares for the purpose of comparisons (see note 2 to the accounts).

Year ending:	31 March 2009	31 March 2008
Income Statement	£m	£m
Underlying pre-tax profit ¹	268	284
– excluding Songbird dividend	268	268
Gross rental income	497	596
– proportional basis ²	650	709
Net interest costs	207	290
– proportional basis ²	292	350
	pence	pence
IFRS earnings (loss) per share	(614)	(251)*
Underlying diluted earnings per share ¹	41	44*
Dividend per share	29.8	29*
As at:	31 March 2009	31 March 2008
Balance Sheet		
Net Assets	£3,209m	£6,790m
EPRA NAV ¹ per share	398 pence	1114 pence*
EPRA NNAV ² per share	508 pence	1191 pence*

¹See note 2

²See Table A

*Restated for the Rights Issue (see note 2)

Income statement

The Group's **gross rental income** for the year ended 31 March 2009 at £497 million was lower than a year ago (2008: £596 million), principally due to the Group's property sales programme (£127 million), partially offset by new lettings and rent reviews (£37 million).

Net rental and related income at £453 million is £108 million lower than the prior year, also reflecting the sales and lettings mentioned above and with property operating expenses higher than last year at £44 million compared to £35 million. This increase in property operating expenses was due to the Group recognising £17 million less income than required in respect of rent due under leases with contracted fixed uplifts in view of current credit conditions (2008: £8 million).

On a **like-for-like** basis, **rental income has grown** by 2.7% over the year across the portfolio.

Underlying **fees and other income** were £18 million, a reduction of £22 million on the previous year, principally due to the dividend from Songbird Estates plc of £16 million that was recognised in underlying profit last year; these dividends by their nature are variable in amount and timing. The remaining movements in fees and other income were due to a reduction in fund performance fees.

Performance fees recognised from our fund management business were £3 million compared to £9 million in the prior year. Though no new fees were earned in the latest performance period, the Group is still benefitting from receiving the deferred element of performance fees earned in prior periods in the HUT Fund. When a performance fee is earned only 50% is paid and recognised immediately, while the balance is released in future periods provided there is no significant underperformance against the benchmark therein.

Funds and Joint Ventures underlying profits for the financial year were £55 million (2008: profit £40 million). The increase reflected the establishment of the BL Sainsbury Superstores Joint Venture in March 2008 and the Meadowhall Joint Venture in February 2009. On an IFRS basis (being the net profit after taxation) the reported results for Funds and Joint Ventures were a loss of £767 million (2008: loss £306 million). The major element of the difference between this figure and the underlying profits of £55 million was the valuation write-downs of property and investments of £762 million.

A significant proportion of the Group's **administration expenses** is staff related costs (salary, benefits and performance related remuneration). The performance related element principally comprises awards of share incentives (performance shares and share options) that vest after a performance period (typically three years). The cost of the share incentives is recognised over the performance period and if the incentives are no longer expected to vest (or at a lower level than previously forecast) the over-accrued costs charged to date are released.

Administration expenses for the year ended 31 March 2009 were £51 million, a significant reduction from the prior year £67 million, principally due to a release of accruals for share based incentives; the property valuation decline over the past 18 months has resulted in the majority of the share incentives granted over the past three years becoming non-vesting.

Underlying **net financing costs** were £207 million compared to £290 million in the prior year, with lower interest accrued on our reduced level of debt following property disposals during the past two years.

Due to lower projected Group borrowings as a result of receipts from the Rights Issue and property disposals, as well as a lower financial commitment under the reduced development programme, certain interest rate swap arrangements were no longer required and have been closed out. On the close out of these swaps, amounts that have previously been charged to reserves have been 'recycled' through the income statement and a charge of £119 million has been recognised in the income statement this year.

Underlying pre-tax profits were £268 million. This compared to £284 million in the prior year which included the dividend of £16 million from Songbird Estates plc. Excluding this non-recurring dividend pre-tax profits were maintained over the year. A high level summary of the principal movements is set out below:

Underlying pre-tax profit	£m
Year ended 31 March 2008	284
No dividend from Songbird	(16)
Year ended 31 March 2008 – recurring profit	268
Rent reviews, new lettings and lease renewals (net)	25
Effect of property sales	–
Reduction in management and performance fees	(8)
Release of share incentive accruals	15
Interest on developments	(17)
Interest on REIT conversion charge	(6)
Recognition of fixed uplifts	(9)
Year ended 31 March 2009	268

The valuation reduction of £3,241 million was the most significant item in the Group's IFRS income statement for the financial year to 31 March 2009, resulting in the **IFRS loss on ordinary activities before taxation** amounting to £3,928 million, compared to a loss of £1,609 million for last year (which was also the result of downward market valuation).

Taxation recognised in the income statement amounted to a credit of £47 million compared to a credit of £46 million in the prior year. Accordingly the IFRS loss for the year after taxation was £3,881 million (2008 loss: £1,563 million).

Earnings per share

Underlying earnings per share were 41 pence compared to 44 pence in the prior year (as adjusted for the Rights Issue) based on the movements in underlying pre-tax profit and taxation discussed above.

After adjusting for capital and other items, principally the valuation write-down, diluted **earnings per share** on an IFRS basis were a negative 614 pence, compared to a negative 251 pence in the year to 31 March 2008.

Net assets

The EPRA net assets shown in Table A to the financial statements were £3.4 billion (398 pence per share) compared with £6.9 billion (1114 pence per share) as at 31 March 2008. The principal factors of this reduction are as follows.

	Pence per share
At 31 March 2008 (restated) ¹	1114
Issue of shares, movement in share options etc	(217)
Revaluation of properties, investments and gains/(losses) on disposals	(494)
Underlying profit after tax	30
Dividend paid	(22)
Close out of interest rate swaps	(14)
Other	1
Net Asset Value at 31 March 2009	398

¹ NAV per share restated for Rights Issue (see note 2)

On a **triple net asset** basis (after adjusting debt and derivatives to market value and deducting deferred tax) EPRA net assets per share (NNNAV) amounted to 508 pence (2008: 1191 pence). The difference between the NNNAV and the NAV principally arises due to a favourable mark to market adjustment of debt and derivatives of £963 million (113 pence per share), reflecting the value of the debt structures that British Land established between 2005 and 2007.

The IFRS balance sheet shows our **investment in Funds and Joint Ventures** grouped together and shown net. On this basis our net investment at 31 March 2009 was £952 million (2008: £1,532 million) principally due to the write-down of property valuations in these entities of £762 million, partially offset by the establishment of the Meadowhall Joint Venture with a net equity of £163 million in February 2009.

Cash flows

The consolidated cash flow statement shows a reduction in net debt of £1,091 million. This movement in cash flow can be summarised as follows:

	March 2009	March 2008
	£m	£m
Rental income and fees less expenses	406	477
Interest paid less interest and distributions received	(201)	(295)
Net cash flow from operating activities	205	182
Property and investment sales and related income	1,024	1,884
Property purchases, development and other expenditure	(600)	(736)
REIT conversion charge	(6)	(291)
Rights Issue proceeds	741	-
Issue (purchase) of shares	2	(144)
Movement in other financial liabilities	(76)	-
Dividends paid	(188)	(161)
Repayment of debt acquired with subsidiary undertaking	(11)	-
Net borrowings repaid	1,091	734

As shown above, net cash flow from operating activities has improved by £23 million to £205 million from £182 million in the prior year. The most significant cash flow movements that have resulted in the net repayment of borrowings are from the Rights

Issue proceeds of £741 million and portfolio activities (sales and other income less purchases, development and other expenditure) producing a net disinvestment of £424 million, compared to a disinvestment of £1,148 million in the prior year.

Net debt in each year reduced further by the transfer into Joint Ventures of the securitisations in respect of Meadowhall and the Sainsbury's portfolio, in aggregate £1.6 billion.

Dividends

The Group pays dividends on a quarterly cycle, which mirrors the rental cash inflows. The proposed dividend for the fourth quarter is 6.5 pence per share, totalling £55 million, and will be payable on 14 August 2009 to shareholders on the register at the close of business on 10 July 2009.

An enhanced scrip alternative is to be offered to shareholders with the fourth quarter dividend. Shareholders will be able to choose between cash or shares. Further details will be available with the Annual General Meeting notice circular. The cash dividend (but not the share alternative) will be all Property Income Distribution (PID).

Together with the fourth quarter dividend, our total dividends paid for the year will amount to £199 million. Restated for the Rights Issue, the dividend is 29.8 pence per share, an increase of 3% on the previous year.

Dividends (pence per share)	2009	2008
November	7.77*	7.25*
February	7.76*	7.25*
May	7.77*	7.25*
August	6.50	7.25*
Total per share	29.8	29.0*

* Restated for the Rights Issue (see note 2)

Total return

The Group's total return for the year was a negative 61.6% (compared with a negative 18.1% in the previous year), due to the fall in property values.

	March 2009	March 2008	%
			movement
NAV per share	398p	1114p*	(64)
Underlying earnings per share	41p	44p*	(7)
Dividends paid per share	30p*	27p*	11
Total return per share	(61.6)%	(18.1)%	-

* Restated for the Rights Issue (see note 2)

Accounting judgements

In preparing these accounts the carrying value of properties and investments are stated at Market Value. The Group uses external professional valuers to determine the relevant amounts.

The primary source of evidence for property valuations should be recent, comparable market transactions on arm's length terms. The current economic environment has meant that there have been fewer transactions in the market compared with recent years. In these circumstances, there is greater degree of judgement required from valuers in reporting Market Values.

Financing and cash flow

The management actions taken over recent years have given us exceptional asset based cash flow strengths and financing structure, managed together to achieve the most effective result.

British Land's prime property assets generate secure long term contracted rental income. The **weighted average lease length is over 13 years** (15 years to expiry). If no other management action is taken (and if all tenants with a break clause in their leases choose to exercise them) after three years (to March 2012) 94% of our current rents (96% including fixed/minimum uplifts) will continue to be contracted.

This **reliable cash flow**, offering considerable downside protection, is increased under lease terms which contractually provide for growth in income at regular rent reviews. In outline, of our total UK rent roll including our share of Funds and Joint Ventures:

- 98% are subject to upward only reviews;
- included in these, 74% have open market rent reviews, usually every five years (with reviews across the portfolio well spread over the next five year period);
- 24% are subject to RPI-linked (subject to a floor of zero), fixed or minimum uplifts. Over the next five years, £39 million further income is contracted to be added to the rent roll on the expiry of current rent-free periods and when minimum rental increases become effective under existing leases. (It should be noted that accounting policies under IFRS require that portions of these contracted increases are anticipated in the Group's income statement.);
- 2% are from short term leases;
- less than 0.5% are related to the occupier's turnover; and
- over 98% of the March 2009 quarter rents were collected within 10 working days of the due date, in line with our previous collection rates.

A **wide spread of good tenant covenants** contributes to the security of our income. No single entity accounts for more than 8% of the total rents. The top 10 office tenants include major international banks, firms of lawyers and HM Government, accounting for 24% of the rent roll. Top 10 retail tenants include the largest food operators, department stores and fashion/homeware retailers and provide 27% of rents.

Leases and occupancy (excluding developments)	Average lease length, years		Occupancy rate %	
	to expiry	to first break	Underlying ¹	Overall
Retail				
Retail warehouses	12.9	11.6	97.8	96.5
Superstores	18.1	18.1	100.0	100.0
Shopping centres	12.2	11.7	95.3	92.1
Department stores	30.2	28.3	100.0	100.0
All retail	16.3	15.3	97.8	96.5
Offices				
City	11.0	9.0	92.9	91.3
West End	11.9	9.3	99.3	97.6
All offices	11.3	9.1	94.4	92.8
Industrial, distribution, leisure, other	22.7	22.5	94.2	93.6
Total	14.8	13.3	96.4	94.9

¹The underlying occupancy rate includes accommodation subject to asset management initiatives and under offer

Occupancy is high across all sectors. The only significant areas available to let are in the development programme, where almost all the accommodation remaining is at the completed developments, being new Grade A City offices.

Financing policy

The **principal objectives** under this policy are to:

- minimise the cost of capital through a mix of debt and equity finance;
- raise debt from a variety of sources and maintain a spread of maturities, including longer-term financing supported by committed income under long leases;
- maintain significant committed undrawn loan facilities, to support current and future business requirements; and
- actively manage financial risks, including interest rate, foreign exchange, liquidity and counterparty risks.

Liability management is not a profit centre – no speculative transactions are undertaken. The Group's debt and derivative positions are continuously reviewed to meet current and expected debt requirements.

The Group maintains a balance between longer-term and shorter-term financings. Short-term financing is principally raised through bilateral and syndicated revolving bank facilities. Medium to longer-term financing comprises public and private bond issues, including private placements and securitisations. Financing risk is spread by using a variety of types of debt. The maturity profile is managed by spreading the repayment dates and extending facilities.

Interest rate management

To manage exposure to interest rate fluctuations the Board determines a range for the proportion of projected debt to be maintained at fixed or capped rates of interest. At present the target is 85% (subject to a 5% tolerance either side) over a rolling three to five year time horizon. With financing raised at both fixed and variable rates, derivatives (primarily interest rate swaps) are used to achieve the desired interest rate profile across all the Group debt. The use of derivatives is managed by the Board of British Land Financing Limited and its Derivative Sub-Committee. The Group's exposure to each derivative counterparty is monitored on a regular basis, as are their external credit ratings.

Foreign currency management

The Group's policy is to have no material unhedged net assets or liabilities denominated in foreign currencies. The currency risk on overseas investments is hedged via foreign currency denominated borrowings and derivatives.

When attractive terms are available to do so, the Group borrows in freely available currencies other than Sterling. The Group fully hedges its foreign currency risk on such borrowings through derivatives.

Liquidity and cash management

The Group maintains undrawn revolving bank facilities to provide financial liquidity. These can be drawn/repaid at short notice, reducing the need to hold liquid resources in cash and deposits. This minimises costs arising from the difference between borrowing and deposit rates, while reducing credit exposure. Deposits are placed as necessary to optimise the rate of return, subject to the creditworthiness of the counterparty.

Profit and loss account and balance sheet management

The Group monitors its current and projected financial position using several key internally generated reports: cash flow, borrowing, debt maturity and derivatives schedules. The Group also undertakes sensitivity analysis to assess the impact of proposed transactions and movements in interest rates on the key balance sheet, liquidity and profitability ratios.

Financing structure

At 31 March 2009 Group gross borrowings were £3,765 million; including our share of debt in Funds and Joint Ventures, gross borrowings were £5,649 million.

Financing statistics	31 March 2009	31 March 2008
Group:		
Net debt	£3,242m	£5,032m
Weighted average debt maturity	15.1 yrs	14.6 yrs
Weighted average interest rate	5.33%	5.27%
% of debt at fixed/capped interest rates	100%	100%
Interest cover ¹	2.0x	1.8x
Loan to value ²	46%	41%
Undrawn committed facilities	£2,950m	£2,433m
Group and share of Funds and Joint Ventures:		
Net debt ³	£4,941m	£6,413m
Weighted average debt maturity	12.7 yrs	12.9 yrs
Weighted average interest rate	5.27%	5.29%
Interest cover ¹	1.9x	1.8x
Loan to value ²	57%	47%

¹ Underlying profit before interest and tax/net interest

² Debt to property and investments

³ See Table A

A loan to value ratio (LTV) for the business in the range of 45-55% is normally targeted, subject to the Board's view of the market, the prospects for the portfolio and its recurring cash flows. The LTV for the Group at 31 March 2009 was 46%, proportionally consolidated (including our share of Funds and Joint Ventures) 57%. We were alert to the markets being fully valued in 2007 and the prospects of ongoing falls in values over the last two years. Management actions have been proactive: £6.6 billion of sales have been achieved over the last three years, including £1.9 billion this year, to bring gearing down and the balance sheet has been further strengthened by the Rights Issue.

Interest cover has risen to 2 times for the Group, 1.9 times including our share of Funds and Joint Ventures.

Facilities with recourse to British Land

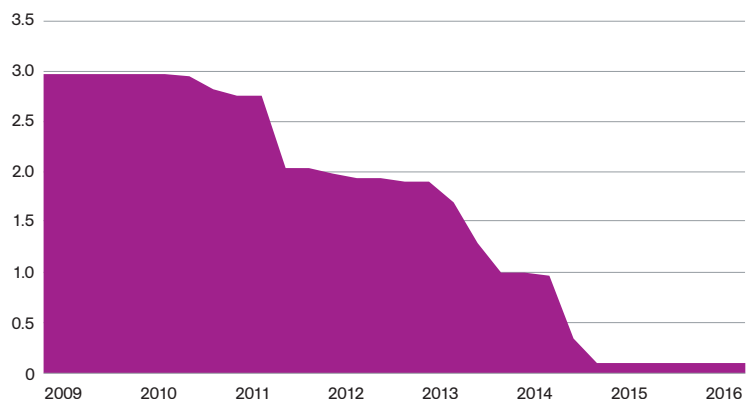
Secured debt at fixed interest rates with long maturities and no amortisation is provided by debentures. The £1 billion of **Debentures** issued by British Land are secured against a single combined pool of assets with common covenants: the value of assets is required to cover the amount of these debentures by a minimum of 1.5 times and net rental income must cover the interest at least 1 times. We use our rights under the debentures to withdraw, substitute or add properties (or cash collateral) in the security pool, in order to manage these cover ratios effectively and remedy if necessary. Secured debt issued by the Group as part of the acquisition in 2006 of the BL Davidson former joint venture also includes asset value and income ratios, similarly managed by us and remediable as necessary. The assets of the Group not subject to any security stood at over £2.5 billion as at 31 March 2009.

Unsecured bank revolving credit facilities raised by British Land provide full flexibility of drawing and repayment at short notice without additional cost, providing valuable operational support, and are committed for terms up to a further seven years. These lines are based on relationships with a large and diverse range of banks, reducing reliance on any particular lender. At 31 March 2009, 32 different financial institutions from 13 countries provided finance to the Group via bilateral or syndicated facilities. Current facilities amount to some £3.1 billion at floating interest rates based on LIBOR plus an average margin of 48bps per annum. These facilities were mostly undrawn at 31 March 2009 following repayments of bank loans from the proceeds of the Rights Issue.

The maturities of the Group bank facilities are such that only £355 million expire within the next two years and some £1 billion has a maturity of more than five years. Longer maturing facilities are sufficient to fund our committed development programme, and there is no scheduled Group refinancing requirement before 2014.

Committed Undrawn Bank Facilities

year ended 31 March (£bn)



Other unsecured funding includes US private placements, issued at fixed rates, requiring no amortisation and with terms up to 20 years. British Land currently has two outstanding US private placements: £98 million 5.5% Senior Notes 2027 and \$154m 6.3% Senior US Dollar Notes 2015 (which is swapped back into Sterling at 6.0%). Issuing in this market widens the debt investor base.

Covenants applying across each of these **unsecured facilities** are the same:

- a) Net Borrowings not to exceed 175% of Adjusted Capital and Reserves; and
- b) Net Unsecured Borrowings not to exceed 70% of Unencumbered Assets.

No income/interest cover ratios apply to these facilities.

There are no other unsecured debt financial covenants in the Group.

Covenant ratio	31 March 2005	31 March 2006	31 March 2007	31 March 2008	31 March 2009
Net Unsecured Borrowings to Unencumbered Assets ¹	42%	26%	28%	22%	6%
Net Borrowings to Adjusted Capital and Reserves ²	106%	73%	74%	74%	83%

See note 18 to the accounts for the calculations of ratios
Highest during the year to 31 March 2009: 30%¹; 115%²

Although secured assets and other assets of non-recourse companies are excluded from unencumbered assets for the covenant calculations, unsecured lenders benefit from the surplus value of these assets above the related debt and from the free cash flow from them. During the year ended 31 March 2009 these assets generated £108 million of surplus cash after payment of interest and debt amortisation. Surplus cash is passed up to the Group on a quarterly basis. In addition, while investments in Joint Ventures do not form part of unencumbered assets, profits generated by these ventures are passed up to the Group.

Non-recourse to British Land

Funds and Joint Ventures are each financed and interest rate managed separately, according to the requirements of their property business, including superstores, department stores and shopping centres, without recourse to British Land. The debt has been arranged through securitisation or bank debt specifically for each venture. At 31 March 2009, our share of the total bank or securitised debt in the Funds and Joint Ventures is some £1.9 billion. Over the next two years a total of £362 million of this debt will mature and these facilities will be addressed by the relevant entities as appropriate for their businesses.

The majority of these debt arrangements in Funds and Joint Ventures include a variety of loan to value cover ratios and covenants, with maximum levels ranging from 55% to 90% (except for one Fund in which we have a small interest where the LTV is 35%) and several of them also have rental income to interest or debt service cover requirements. While there is no obligation on British Land to remedy any breach of these covenants, by way of example, if values of all the properties involved fell by 20% (from March 2009) our share of the total amount required to remedy the resulting loan to value ratios would be in the region of £140 million.

Transaction specific derivatives are employed to achieve the desired interest rate profile when floating rate debt is raised in these ventures.

Debentures without recourse to British Land are those issued by BLD Property Holdings Limited (formerly Asda Property Holdings Limited), a company acquired by the Group in 2006 as part of the BL Davidson transaction. There are three fixed rate debentures of £111 million in total:

- 10.3125% First Mortgage Debenture Stock 2011;
- 6.125% First Mortgage Debenture Stock 2014; and
- 9.125% First Mortgage Debenture Stock 2020.

Asset value and income ratio cover requirements are managed by us and remediable as necessary, in line with our other debentures.

Securitisations are used to raise long-term debt based on the cash flows generated from specific assets or pools of assets. The strength of these cash flows allows credit-rated debt to be raised with long maturities and at low interest costs. Securitisations are arranged in ring-fenced, special purpose subsidiaries with no recourse to other companies or assets in the Group (and no cross-default to the Group). Flexibility is included to manage the assets actively and provide suitable substitute assets or cash collateral if appropriate. Additional flexibility permits British Land to introduce third-party capital without repaying the existing debt (as seen in the formation of the new Meadowhall Joint Venture this year).

The securitisations by the Group of the Broadgate Estate (£2 billion) and now in the Joint Ventures of Meadowhall (£835 million) and the Sainsbury's superstores portfolio (£699 million) have weighted average maturities of 17 years, 15 years, and 11 years respectively. The only financial covenant applicable to these securitisations is that income must cover interest and scheduled amortisation (1 times). Investors may view further details of the securitisations on our website. These securitisations provide for quarterly principal repayments with the balance outstanding reducing to approximately 20–30% of the original amount raised by expected final maturity.

Although a combination of fixed and floating rate debt has been issued via securitisations, all the floating rate instruments have been fully swapped into fixed rate debt, from the date of issue, to provide certainty of interest cost.

Key Performance Indicators

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

Year to March 2009	British	IPD
	Land	Benchmark
Occupancy rate	94.9% ¹	90.6%
Average lease term, remaining to expiry	14.8 years	9.9 years
Rent subject to break/expiry over next three years	6%	18%
Like-for-like rental income growth	2.7%	2.1%
Like-for-like rental value growth (ERV)	-5.9%	-4.6%
Portfolio capital return, per IPD	-30.2%	-29.7%
Rent review settlements versus ERV	3.1% above	
Customer satisfaction survey – 82% of tenants rated British Land 'good' or 'excellent' as a landlord		

¹96.4% underlying, including accommodation subject to asset management initiatives and under offer

The table above shows a fall in value for our portfolio comparable with IPD in a year where all property has been repriced in a thin market. Income security will be a key determinant of value going forward and we would expect our prime properties with long leases to see better relative performance prospectively. The high levels of occupancy and rental income growth are strong indicators of our continued selection of properties that are in demand, and that this converts over time into growing rents.

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

Financial Performance Indicator	One year	Three Years	Five Years
Total shareholder return¹			
– British Land	(48.6)%	(26.6)%	(4.8)%
– Peer group ²	(65.4)%	(33.2)%	(12.2)%
– FTSE Real Estate Index	(62.2)%	(32.4)%	(10.4)%
– Ranking in peer group	1	1	1
Total Return³			
– British Land	(61.6)%	(22.8)%	(4.6)%
– Peer group	(40.8)%	(7.9)%	3.5%
– Ranking	4	5	4
Earnings per share growth⁴			
– British Land	(6.6)%	11.7%	7.5%
– Peer group	(8.8)%	4.1%	4.7%
– Ranking	3	1	2

All data in the table has been restated for share issues

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

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

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

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

Source: Datastream, company reports

On the valuation measure of total shareholder return we were ranked first among our peers across each period. For total return, the higher level of gearing compared with our peers has worked to the detriment of performance over recent years and this in turn is reflected in a lower relative ranking on such returns over a five year horizon.

On the income measure of earnings per share growth, we retain strong leadership over a three time horizon and we were ranked third over a one year view.

Risk Management

The prolonged effects of the recent financial market turmoil across all markets has continued to be the headline risk event, impacting property values, borrowing covenants and increasing the risk of failure of occupiers' businesses.

Management actions over the past 12 months including the recent Rights Issue and selected asset sales, have improved the Group's gearing, significantly reducing the risk of breaching borrowing covenant limits and better positioning the Group to take advantage of a market upswing in the future.

Awareness and anticipation of tenants experiencing trading or financial difficulty and reshaping the portfolio where possible, helps to manage the increased risk of tenant default and administration. The Group expects prolonged difficult trading conditions for some retailers and continues to closely monitor and manage this portfolio accordingly.

We maintain relationships with a spread of banks and have a policy to deposit any cash arising across a range of accounts.

The decision to pause development of major projects not already under construction has mitigated construction costs and timing risks, with all other committed developments near completion. Active negotiation of pre-lets to potential new tenants of good covenant reduces residual letting risk on the Group's developments nearing completion.

Management continues to identify, assess and manage the Group's risk profile. The principal risks, which are predominantly external, are detailed in the following table. These and other risks identified within the Group's formal risk management process are subject to prioritisation and analysis based on the likelihood of occurrence and potential impact on the Group. Risks identified as potentially having significant impacts are managed through the design and implementation of mitigation strategies. Assurance on these is the prime focus of the Group's Internal Audit team. The principal risks are considered, reviewed and discussed periodically by the Executive Directors, the Audit Committee and the Board.

	Risk	Impact Areas	Key Mitigants
Property	Financial market turmoil leads to continued low investor demand and market pricing correction.	Property values. Market liquidity. Debt covenant headroom.	Prime well located sites. Selective asset sales and Joint Ventures pursued. Use of capital markets.
	Financial market turmoil leads to continued low occupier demand.	Rents and increased cost of tenant incentives for new leases. Void costs. Property values.	Long upward only leases provide income underpinning. Quality developments/prime property. Tenant incentives offered on pre-lets for long leases and good covenants.
	Tenant administration.	Letting income and cash flow. Void costs. Property values.	Tenant covenants reviewed before new leases signed. Market trends monitored closely. Diversified tenant base. Good relationship and contact with tenants. Selective asset sales to reduce exposure. Prime sites easier to re-let.
	Development contractor solvency and availability.	Cost over-runs. Programme delays.	Close supply chain relationships. Contractor financial covenant review process before contract agreed.
Financial	Liquidity/Refinancing risk.	Inability to meet financial obligations (interest, loan, repayments, expenses, development, dividends). Cost of renegotiating finance. Inability to capitalise on expected market upswing.	Significant committed undrawn financing facilities with a range of lenders. Regular monitoring of covenant headroom and leverage.
	Counterparty credit risk.	Loss of deposits. Incremental changes in financing rate. Cost of re-arranging deal. Favourable positions forcibly closed.	Spread of sources and maturity of facilities. Deposits placed across a range of accounts.
Operational	Poor management of development programme.	Cost over-runs. Un-let buildings after completion.	Close monitoring of market conditions driving development strategy. Cost and forecast monitoring. Regular project review meetings. Insurances.
	Development of unsustainable buildings.	Reputational damage. Penalties and levies. Property values.	New developments built in line with Sustainability Brief. High quality projects.
	Fraud and misstatement.	Reputational damage. Financial loss. Operational disruption.	Access controls, segregation of duties and dual payment signatories. Conservative policies and transparent procedures.
	Occupational and Construction Health and Safety.	Criminal prosecution of responsible managers. Reputational damage. Fines and legal costs.	Specialised advice. Health and Safety policy. Extensive compliance reporting. Audit visits and risk assessments.

Partnerships

British Land's net investment in Funds and Joint Ventures is £952 million (2008: £1,532 million) at 31 March 2009. This investment is principally in three active funds and 14 active Joint Ventures, which hold in total £6.2 billion (2008: £6.9 billion) of properties in retail, offices and development. The Funds and Joint Ventures are financed by £4.1 billion (2008: £3.3 billion) of external debt, all of which is without recourse to British Land.

Fund	Portfolio	Value £m	Net Rent £m ¹	Finance £m	BL Share %
Hercules Unit Trust ('HUT')	Retail Shopping Parks	1,535	128	900	36.3
Pillar Retail Europark Fund ('PREF')	European Retail Parks	479	32	274	35.2 ²
Hercules Income Fund ('HIF')	Retail Warehouses	81	7	14	26.1

¹Annualised

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

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 which has been extended to September 2020 and subject to further extension with consent of unitholders. 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 2008 was -41.6%, the five year annualised return was -1.9% per annum. At the property level, without the effect of gearing, the portfolio returned 23.6% for the year; this compares favourably with the IPD Retail Warehouse Quarterly Universe (excluding HUT) of -25.4% for the same period. This is attributable to:

- rental value growth of the portfolio of 1.0% over the year (IPD Retail Warehouse Quarterly Universe -0.4%) and
- low vacancy rate at 3.3% (IPD Retail Warehouse Quarterly Universe 5.0%).

In the year to December 2008:

- the distribution yield has risen from 2.2% to 4.8%; and
- there was repayment of debt of £95 million following sales.

At 31 December 2008, gearing had increased to 44.1% of the aggregate Trust value, well within the Trust's limit of 60%, as a result of falling capital values. Since its year end, a further four asset sales were completed, realising £172 million, to help ensure compliance with banking covenants.

The secondary market has continued to be active; a total of 13,492 units were traded over the year with a total value of £12 million. No new units were issued in 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-ended 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 €300 million. At 31 December 2008, PREF's portfolio comprised 12 assets valued at €595 million.

The annualised total return for the year to 31 December 2008 was -19.6%. Gearing at 31 December 2008 was 44%, following a reduction in early 2008 from 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.

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 2008 was -34.8% and the property return was -30.4% compared with the IPD Annual Retail Warehouse Universe of -25.6%. HIF's loan to value is currently very low at 16%, which allows it to operate without being a forced seller, although asset sales are being considered to further increase liquidity.

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

Joint Ventures provide British Land with access to desirable properties (often off market) or introduce third party investors to assets owned by us, enabling us to create further opportunities. Each joint venture is a separate entity for the purpose, controlled by a board carrying equal representation from each partner. The entities are able to raise finance on the strength of their assets, with no support from the partners, thereby significantly lowering the initial equity investments. The enterprise is shared by the partners, over a specific agreed lifetime for the venture.

Activity since 31 March 2008 included:

- sale of a 50% share in Meadowhall Shopping Centre by formation of our new joint venture with London & Stamford Property Green Park Property Trust; and
- distributions to British Land from the Joint Ventures of a total of £18 million over the year.

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 below.

Joint Venture	JV Partner	Portfolio		
		Value £m	Net Rent £m ¹	Finance £m
BLT Properties Ltd 1 retail park, 8 Tesco superstores	Tesco PLC	255	16	185
Tesco BL Holdings Ltd 2 retail parks, 2 shopping centres each anchored by Tesco, 5 Tesco superstores	Tesco PLC	492	33	315
Tesco British Land Property Partnership District shopping centre anchored by Tesco	Tesco PLC	94	7	45
Tesco Aqua Limited Partnership 21 Tesco superstores	Tesco PLC	532	30	487
The Scottish Retail Property Limited Partnership Shopping centre in Aberdeen	Land Securities PLC	168	13	119
BL Fraser Ltd 11 department stores	House of Fraser Limited	138	12	91
Eurofund Investments Zaragoza SL² Puerto Venecia, out-of-town shopping scheme	Private Investors and Copcisa Corp	196	3	73
Whiteley Village, Fareham Factory outlet shopping centre	Universities Superannuation Scheme	25	3	–
BL Sainsbury Superstores Ltd 38 Sainsbury superstores, 1 Waitrose superstore	J Sainsbury plc	964	63	699
Meadowhall Shopping centre in Sheffield	LSP Green Park Property Trust	1,165	73	835

¹Annualised net rent

²Development 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 approach are designed to emphasise the ‘human value added’ in order to lift performance. This is all the more important at a time of significant market dislocation which brings both threats and opportunities.

Corporate Responsibility

Our full Corporate Responsibility Report 2008/9 may be viewed at www.britishland.com/crReport/2009/. It is designed to be accessible and easy to navigate. On-line reporting, rather than circulation of full printed copies, is part of our efforts to improve environmental performance. Our Corporate Responsibility Key Performance Indicators provide a rigorous method of assessment of progress against annual targets in seven critical business areas and are independently audited each year.

Business Review

This report contains certain ‘forward-looking’ statements reflecting current views on our markets, activities and prospects. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements. Any forward-looking statements made by or on behalf of British Land speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. British Land does not undertake to update forward-looking statements to reflect any changes in British Land’s expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Supplementary information regarding the Portfolio Description and the Development Programme is available on our website www.britishland.com

Directors’ Responsibility Statement

We confirm that to the best of our knowledge:

- (a) 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;
- (b) the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- (c) 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

Hands-on management
We continue to focus on the active management of our portfolio. Our continuous attention to detail is standing us in good stead.

