

# **Building Fundamentals**

**Looking after our properties and actively managing our business through the real estate market cycles,**

**we are responding to our customers to provide an environment in which modern business can thrive.**

## Corporate Strategy

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British Land seeks to achieve superior long-term growth in shareholder value by:

focusing on customer needs in prime assets with enduring occupier appeal;

creating and acquiring exceptional investments with strong income cash flow from long lease profiles, and good growth potential;

enhancing property returns through activist asset management – buying, managing and selling well;

maximising risk-adjusted returns through optimal financing and partnership with others; and

taking on challenges arising in the property market and seizing opportunities where we see value.

## Financial Summary

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Gross Rental Income<sup>1</sup>  
**£650 million**

Dividends per Share up 3%  
**29.8 pence**

Underlying Profit before Tax<sup>2</sup>  
**£268 million (2007/8: £284 million)**

NAV per Share<sup>2</sup> down 64%  
**398 pence**

Underlying Earnings per Share<sup>4</sup>  
**41 pence (2007/8: 44 pence)**

NNNAV<sup>3</sup> per Share down 57%  
**508 pence**

**maintained at 2007/8 level  
excluding Songbird dividend**

**reflecting valuation reduction  
and Rights Issue**

IFRS Loss after Tax<sup>4</sup>  
**£3,881 million**

Like-for-like growth in Rental Income  
**2.7%**

Year to 31 March 2009

All per share data movement for the year based on March 2008 as adjusted for the March 2009 Rights Issue – see note 2 on page 79

1 Includes share of Funds and Joint Ventures, Table A on page 96

2 See note 2 on page 79

3 See Table A on page 97

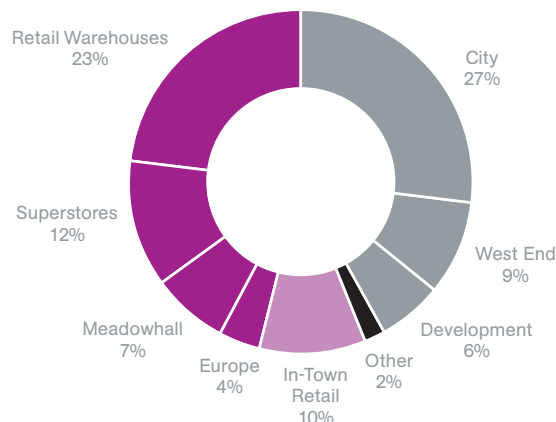
4 Including valuation movements taken to the income statement

# British Land at a Glance

## Prime Property Portfolio £8.6 billion

- Continued reshaping of portfolio
- £1.9 billion of property sales in the year
- Properties owned or managed £12.3 billion

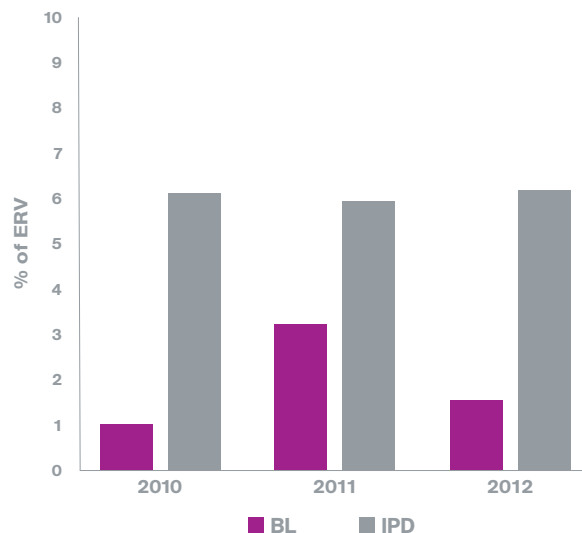
**56% Retail (82% Out-of-Town)**      **42% Offices (100% London)**



## Income Longevity and Security

- High occupancy, portfolio 96% let<sup>1</sup>
- 13 years average lease length remaining to first break, 15 years to expiry
- Only 6% of rent up for renewal before March 2012
- 98% of rent subject to upwards only rent reviews/fixed uplifts
- Broad diversity of customers and industries

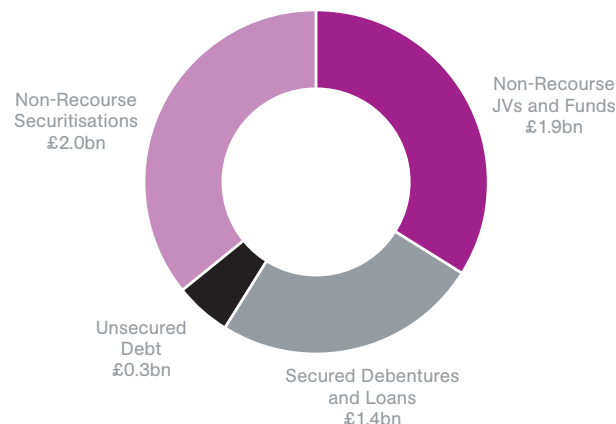
**Only 6% of rent subject to break/expiry over next 3 years (IPD benchmark 18%)**



## Balance Sheet Strength

- £740 million proceeds from Rights Issue
- 12.7 years average debt maturity<sup>2</sup>
- Debt at 5.3% pa<sup>2</sup>
- Substantial undrawn bank facilities available

**£5.6 billion gross borrowings – 70% non-recourse<sup>2</sup>**



<sup>1</sup> Includes accommodation subject to asset management initiatives and under offer

<sup>2</sup> Includes share of Funds and Joint Ventures

**Swings and roundabouts**  
Our trimmed portfolio, based on prime properties with enduring customer appeal, positions us well. Prime is where the grass is greenest.







## Chairman's Statement

**We are well focused on the opportunities we now expect to unfold.**

### Markets

The extreme financial market stress of the last 12 months continues to pose challenges to all businesses. The world banking crisis is unprecedented in scale and complexity, and the efforts of governments, central banks and regulators to support financial systems have only recently begun to take effect.

In the meantime we have felt the impact of a global recession. The effect on the so called real economy has yet to be fully felt, as consumers and businesses adjust their activities to mitigate both operational and financial risk. After a slow start, the response by governments to the slowing world economy has been massive – its benefits will, of course, take time to flow through. Schemes to restore banks' ability to lend are significant; it is confidence in the ongoing availability of debt rather than its overall cost that is holding back activity, so it is very important that banks are restored to full operation. We have also yet to see how the financial stimuli employed, including interest rate reductions, will affect personal and corporate behaviour. Given the powerful opposing forces in the markets, the range of possible outcomes for the world and UK economy is certainly wide.

Against this background, the real estate investment market behaved no differently than other financial markets. The turmoil dramatically hit valuations and introduced significant operational issues, not least reduced liquidity for transactions. Initially values fell indiscriminately across the board, as in other markets. The repricing was inevitably approximate and had less to do with changes in income security and longevity and more to do with the comparative pricing of alternative investments in a capital constrained environment. As market uncertainty lifts over the coming months, property specific valuations will become based once more on observable evidence, particularly as regards the sustainability of income. Prime property, whilst not immune, is the place to be. Secondary property has further to go as income risk becomes more readily quantifiable.

In these circumstances our actions have been decisive, looking to secure the Company's position and preserve its options. We followed basic disciplines: in the overall market conditions, caution dictated that we should be net sellers and that we should revisit capital expenditure projects.

Four decisions defined the year: first, the landmark sale of the Willis building for £400 million in June, reducing debt with a view to redeploying capital later for greater growth. Next we deferred construction of 122 Leadenhall Street, reflecting heightened construction and letting risk. Thirdly, in February we sold half our interest in Meadowhall, realising our long held ambition to lighten our weighting to this high quality steady performer, whilst simultaneously removing £1 billion of debt from our balance sheet. Finally we raised £740 million from shareholders in a pre-emptive Rights Issue: an insurance policy in an uncertain world which preserves our options as we look to capitalise on market opportunities.

## Results

In the year to March 2009 our portfolio declined 28% in value. Taking the Rights Issue into account, this valuation reduction took our net asset value down from 1114 pence to 398 pence per share. Despite an average lease length of 13 years and a 96% occupancy level, the valuation decline to date has been similar to IPD, the industry benchmark, in which the comparable factors are nine years and 91% respectively. We expect to see these factors recognised, as secondary property is repriced. Indeed, we are encouraged by early signs of price stabilisation for prime, as equity investors begin to return, and expect the gradual re-emergence of pricing differentials between prime and secondary.

## Dividends

We recognise the importance of dividends to investors and have increased the absolute amount paid out, reflecting the increased equity base after the Rights Issue. Our last quarterly dividend for the year to March 2009 is 6.5 pence per share. Adjusting for the effects of the Rights Issue the full year dividend is 29.8 pence per share, slightly ahead of the prior year.

For shareholders who wish to reinvest this fourth quarter dividend in the Company an enhanced scrip alternative will be offered, to enable receipt of shares instead of a cash dividend. Further details have been provided with the Annual General Meeting notice circular.

For the year to March 2010, the quarterly dividend is being continued at 6.5 pence per share, in line with guidance given at the time of the Rights Issue, equivalent for the full year to 26 pence per share.

## Looking forward

The Board is focused on developing British Land as a leader amongst global REITs maximising shareholder value through the cycle. The markets may be volatile and at times threatening but we have the disciplines to ride through the rougher moments and to capitalise on opportunity.

In spite of absorbing an adjustment to our property values of some 37% from the peak of the property market, we remain well capitalised with long leases, high occupancy and long fixed rate debt. Our sights are now set firmly on the next stage of the course and on maximising the benefits of our relative strength. Investor support for our equity

raising is valued and important to the Board, and we acknowledge the confidence bestowed in us. Whilst caution remains our master, we are well focused on the opportunities we now expect to unfold.

## People

We had a number of significant changes to the Board this year. Sir David Michels stood down as a non-executive director at last year's Annual General Meeting; we thank him warmly for his important contribution over the five years with us. We are pleased to welcome Aubrey Adams and John Gildersleeve, exceptional additions to our Board, who joined as non-executive directors in September 2008. Due to the demands of other business commitments, Kate Swann has decided not to put herself forward for re-election as a non-executive director at this year's Annual General Meeting on 10 July 2009. We will be sorry to see her leave and thank her for her valuable contribution.

In November 2008 Stephen Hester left to take up his position as Chief Executive at The Royal Bank of Scotland. We thank him for his excellent contribution to the leadership and development of British Land over the last four years and wish him every success with his important new role.

After a few months during which I held the reins as interim Executive Chairman, I was delighted to announce in January 2009 the appointment of Chris Grigg as our Chief Executive. Chris brings deep knowledge of the investment and financial sectors from his time at Goldman Sachs and wide management experience from his roles at Barclays. His background and skills are already blending strongly with those of British Land's well established management team.

It is to the credit of all at British Land that our team has responded with focus and dedication to the tasks in hand during these times – my especial thanks for their resilience, determination and support under the heavy demands arising out of a difficult year in the markets.



**Chris Gibson-Smith**

Chairman

20 May 2009



## Chief Executive's Report

**Our priorities are the enduring fundamentals of activist real estate investment and management.**

I am delighted to be reporting to you as Chief Executive of British Land. The smooth transition of Chief Executive responsibilities from Stephen Hester, through Chris Gibson-Smith's leadership and my joining is reflective of the strengths of the Company and its Board. The well established management team is purposeful and disciplined, clearly focused and active in the market.

British Land is one of the world's premier Real Estate Investment Trusts with specialised market leadership in the prime Central London Office and out-of-town Retail sectors. The Company's strong cash flow from long leases to a good spread of tenants and our financing structure are significant advantages in these difficult market conditions. Our asset management is concentrated actively on providing the right accommodation to meet occupiers' requirements in order to best maintain that cash flow.

We expect market distress will create circumstances in which strong players can benefit. While we face significant ongoing market challenges, I am enthusiastic about the opportunities they will provide for us. British Land has deep expertise in its sectors and we will examine each prospective action in a careful and disciplined manner.

### **Rights Issue**

The equity issue completed in March 2009 raised £740 million net of expenses. It combined the two principal aims of strengthening the balance sheet, to see through and emerge from the market dislocation in good shape, and enabling British Land to have the financial flexibility to exploit buying opportunities; though we cannot predict exactly their timing or nature we are confident they will arise. The support of our shareholders was hugely encouraging, recognising the underlying strengths of the Company, its prime assets, debt structure and management team.

## Our markets

The ongoing stress and disruption in the financial sectors has resulted in a shocking year for most markets. The steep decline in global economic activity has resulted in considerable damage to business in all sectors.

The IPD Benchmark for property has seen its largest ever annual capital value decline of some 30%, taking the fall from the peak at June 2007 for the sector to 40%. While the fall in capital value for the Benchmark over the most recent quarter (the first three months of 2009) has been at a slower rate of 8.7%, we must expect some further decline over the course of the year. However, we note that the Benchmark now shows an average net equivalent yield of 8.8%, which represents an attractive premium of 530 basis points above the 10 year gilt, and we are already seeing a small measure of increased activity in the property investment market. Almost all transaction activity is in prime assets, as investors are becoming fully aware of the risks associated with secondary property.

Currently in the UK 'real' economy there are somewhat conflicting indicators: for example, house prices appear to be stabilising and consumer spending is holding up better than might have been expected. These factors cannot be relied upon to continue if, as expected unemployment continues to rise (lagging other trends as usual). For retailers the challenge remains to concentrate efforts on store locations where they can trade most profitably.

In Central London Offices the effects of the economic and financial market dislocations are resulting in a lack of clarity on business models going forward and impeding decisions on requirements for accommodation. Nonetheless, in this sector again it will be the best located, specified and flexible offices that attract occupier demand.

The occupational effects of the difficulties being experienced by businesses are in early stages and we expect to see downward pressure on market rents in a number of segments. While prime property will not be immune from this effect, it is much better placed. As the market continues to adjust and reflect relative risk, and more transactions are seen, the investment view of what constitutes prime property is narrowing – and the gap in yields for prime versus secondary property should widen further.

In each of the sectors of our specialisation, out-of-town Retail and Central London Offices, our investments are concentrated in those prime properties that best meet occupiers' requirements. We expect better relative investment performance within our portfolio over time as a result.

## Results 2008/9

Reflecting the impacts of global markets and broadly in line with IPD, the property portfolio valuation has declined by 28.2% over the financial year to 31 March 2009, together with the Rights Issue translating into a reduction in EPRA Net Assets per share of 64%, to 398 pence.

Underlying pre tax profits at £268 million and underlying earnings per share at 41 pence were both maintained at the levels of the prior year to March 2008, when excluding the non-recurring dividend from our investment in Songbird Estates plc received in that year.

Like-for-like rental income growth of 2.7% has been achieved this year for the portfolio, ahead of IPD (at 2.1%), reflecting our proactive asset management approach, where we focus heavily on new lettings as well as rent reviews.

Further details of these results are set out later in the Business Review.

## Priorities

The management actions taken by the British Land team in the last three years have mitigated the impact of the current market downturn. Some £6.6 billion of assets (gross) have been sold, capturing values at the peak and against a falling market, while continuing to refine the composition of the portfolio. Included in this has been the joint venture opportunity concluded in February 2009 in respect of the Meadowhall Shopping Centre.

The team has also taken decisive action continually to improve and update the property assets, ensuring ongoing appeal to tenants and optimising values. The development programme has been rescheduled and exposure reduced. On the liabilities side, we have continued to fine tune our debt structure and, after receipt of the equity issue proceeds, have significant undrawn bank facilities available on relatively favourable terms.

Our priorities going forward continue to focus on the enduring fundamentals of activist real estate investment and management. We must buy, manage and sell well if we are to perform optimally over the cycle and we do expect real buying opportunities to emerge in the coming months. We will also seek to utilise complementary disciplines from other industries in order to boost our performance. Examples include an intense focus on hold periods and exit strategies for each asset, and a regular examination of how we expect each market sub-sector to perform over time.

We have the capacity and intention to take on the new challenges that will arise and seize opportunities where we see value.

**Chris Grigg**  
Chief Executive  
20 May 2009



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THOMAS



## **Poised for action**

**There are commercial opportunities in all economic climates – the skill is to anticipate them and have the resources in place to make your move.**