

FIRST QUARTER 2009/10 RESULTS CONFERENCE CALL

Tuesday, 18th August 2009

Chris Grigg, Chief Executive : Good morning everyone and thank you for joining our First Quarter Results conference call. Hopefully you all have a copy of the slides, if not these can be found on our website. I am going to say a few words of introduction and on our activity since the year end, before handing over to Graham Roberts to go through the financials. I'll then come back with some thoughts around what we are seeing in the market and why British Land is in a strong position to benefit from the next stage in the cycle. Andrew Jones and Tim Roberts have also joined us for the Q&A, should you have any specific questions to ask them.

Slide 1, One of the key trends of these results is that the pace of valuation decline in the portfolio has slowed markedly to 3.7% compared to 9.2% in the previous quarter. In fact for the first time in the last 2 years we have seen yields harden between 2 and 97 bps on 20% of the portfolio and stabilise on a further 19% of the portfolio. This is the result of a clear improvement in investor sentiment, and in some cases renewed bidding competition.

Moreover, since June the market has strengthened for assets with long, secure income – as demonstrated by CBRE having moved in its prime yields by 15-25 bps for both retail and offices. In our own portfolio, HUT increased in value by 0.6% on an un-gearred basis in the month of July. This was driven by positive yield shift of 8 bps, partly offset by rental value decline of 0.5%. In some parts of our portfolio, we are now receiving bids ahead of valuation. These bids nonetheless fell short of our own expectations of likely future returns. These are of course asset specific decisions. One example is our Debenhams store on Oxford Street, where we received a number of indicative bids – the best reflecting a net initial yield of around 5.75%.

On the occupational side, rental deflation is emerging across most sectors. In the quarter ERVs have fallen 4% on average. We have all seen the estimates from various market commentators, but it is clear that the extent of rental deflation will ultimately be a function of how the economy recovers. What we have seen within our own portfolio, however, is that a typical retail park letting today is c.11% below the ERV levels we had been achieving some 12 months ago. In offices, where there has been much less real evidence, our rental values have already fallen by some 20% from their peak, which was around 15 months ago.

Notwithstanding the current weakness in tenant demand, we have continued to achieve lettings, demonstrating the quality and attractiveness of our properties and the energy and diligence of our people. At Meadowhall, for example, we have seen increased demand. The likes of Hollister, Kurt Geiger, Yo Sushi and Fat Face have recently opened there; whilst Laura Ashley, JD Sports and Bank have increased space (between 1/3rd and 50%); and we've just exchanged contracts for the new

format George Davies. Our active management of Meadowhall continues to strengthen the fashion mix and broaden the retail offering.

Another measure of the performance of our retail assets which we watch is footfall. Here, we are also doing well. Across our shopping parks, footfall is up around 5% up in the year to date, whilst the retail market as a whole is down 2%.

A great deal of focus has also been placed on pre-packs and CVAs, but to date our experience has been supportive of our particular asset picks. Of the 20 pre-packs and CVAs over the last 6 months, 81% of the 90 total stores have either for us been retained or re-let. In fact, our exposure to tenants in admin has decreased to just 1.2%.

Most important of all - our retail void rate remains very low at only 2% and has been stable since March.

In London offices, take-up is still well below norm and vacancy rates will continue to rise as current developments complete and add to supply over the short-term. However, there have been increased signs of activity and some occupiers are beginning to commit to new Grade A accommodation. But there is no question that the letting market is very sporadic and therefore rental levels remain depressed.

In our view rental deflation will be particularly determined at the individual asset level according to each property's specific supply and demand characteristics. At a portfolio level of course, income security and longevity will be key differentiators, protecting values from the impact of rental deflation which we expect to be most acute in the near term. British Land's prime portfolio is 94% let with 13 years remaining lease term and most importantly, in our view, only 6% of our rent due to expire over the next 3 years.

Our First Quarter performance underlines these qualities together with the actions that we have taken to this point. They show we are in a strong position as we look ahead to the next phase of the real estate cycle, with a high quality portfolio, resilient income flow and an activist, customer-led approach to property management. The balance sheet remains strong with our debt fixed at a low rate and with long maturities. We have ample liquidity for our needs with no Group refinancing required within the next 5 years.

Our activity, and not just our mindset, has changed from being a conviction net seller to now focusing on new investment. Since the year end, we have been fairly active but little has yet met our criteria. We've assessed more than a dozen asset specific opportunities – investing in 2 of our funds and

putting in bids on another two opportunities – one a retail park and a Waitrose superstore. We are focusing on assets and portfolios which are mispriced or those thrown up by distressed situations.

Slide 2, Looking at our activity since March,

- Maintained a good level of lettings momentum with over 340,000 sq ft of lettings and renewals, which have generated an additional £2.5m pa of additional rent, after factoring in incentives. These were agreed only marginally below the valuer's ERV. Principal lettings included M&S, New Look, Boots, TopShop, Pets at Home and Asda. That momentum has continued over the summer with around 100,000 sq ft since June.
- We also settled over 835,000 sq ft of rent reviews in the quarter – again marginally below ERV, but showing a 17% increase against the previous levels as the in-place rents are re-set, capturing past performance – most notably in the retail warehouse and our West End office portfolio.
- Our sales levels this quarter were exceeded by investment commitments. We have committed some £80m to our Funds. In HUT we have underwritten £50m in 10% convertible bonds. We have also taken the opportunity to buy out another investor in PREF taking our holding to 65%.

On that note, I will hand over to Graham to take you through the numbers.

Graham Roberts, Finance Director : Thank you Chris and good morning everyone. Slide 3 summarises the financial highlights which show the resilience of the business and impact of management actions.

Firstly, starting with underlying profits which were £63 million for the quarter, up 3% compared to the previous quarter to March.

Underlying profit is 15% below the run rate of the prior year, due mainly to the effect of disposals and reduced interest capitalisation as developments complete. As I highlighted at the year end results, the proceeds from more recent sales have yet to be re-deployed, but as we make new investments these in turn will be accretive to earnings as will future lettings on our recently completed and remaining development pipeline.

The like-for-like investment portfolio showed 1.2% income growth. This represents the continuing capture of reversion, through achieving uplift at rent review and lettings. It is of course a lagging indicator in a recession but nonetheless it is ahead of the market.

The overall portfolio valuation declined by 3.7% in Q1. For our UK assets, which represent 97% of the total portfolio, the pace of decline has slowed to 3.1% over the current quarter reflecting the improvement in the investment market. Now this compares to the IPD Capital decline of 4.1% for the same 3 months to June. So overall we are in a position where we have seen a 41% fall in our values since the peak.

As a result Net Asset Value per share is down 9% from March to 361 pence. Just moving on to the dividend, first quarter dividend as we have flagged previously is 6.5 pence.

We will continue with the Scrip alternative on the same terms as our most recent dividend which was taken up by some 38% of shareholders who therefore received 6.1 million shares in lieu of a £21 million cash distribution.

Slide 4, The next slide shows the underlying profits in more detail.

Net rental income is down £19 million, or 12%, compared to the first quarter of the previous year and that's due to the sale we have made. This has been partly offset by an increase of £2 million within the retained portfolio as a result of rent reviews and new lettings.

The £143 million of net rental income for this quarter includes a release of £5 million of provisions made against income recognised in advance on leases with contracted fixed uplifts and this is due to an improvement in the covenant strength of certain tenants.

On a like for like basis gross rental income growth was 1.2%, compared to IPD at -0.2%. The growth was almost wholly driven by the group's retail portfolio – up 3.5% - where the most notable performer continues to be retail warehouses (up 7.6%) underlining the strength and resilience of our out of town retail portfolio and capturing the reversion there. Meanwhile, the office portfolio was down 2.2% on a like for like basis, within that West End increased by 1.0%, meanwhile City offices declined 3.0% due to the Lehman's bankruptcy and our taking over the sub-leases at an annualised rent £3 million lower.

Moving on to interest costs. Net interest costs were £10 million lower than the quarter a year ago as we have reduced net debt over the last 12 months by over a £bn through asset disposals and the rights issue. Interest capitalised is obviously a key feature there and has halved to £4 million for the quarter; of which £1 million related to Ropemaker. Following the completion of Ropemaker, our committed developments are now limited to just 2 remaining projects. With Osnaburgh due for completion by the end of the year, capitalisation of interest levels will further reduce. You will also see there that our interest cover remains a healthy 2.0 times.

Slide 5, Moving now to the portfolio valuation, our portfolio is valued at £8.2 billion with total properties owned and under management of £11.6 billion.

The portfolio declined by 3.7% in the first quarter, of which the UK portfolio valuation reduced by 3.1%, outperforming IPD by 1.0%. Our European out of town retail portfolio has seen a significant fall in values of 20%, mainly reflecting the overdue correction in European markets as sentiment has caught up with the UK.

I mentioned the like for like income growth earlier as a lagging indicator, a leading indicator is estimated rental values which are declining in many sectors. Unsurprisingly therefore the main component of the valuation decline this quarter was a reduction in rental values across the portfolio of 4.1%, with retail falling by 2.7% and offices by 6.3%, although the extent of rental declines, as Chris mentioned early, is of course very much asset specific.

The gross Initial Yield, topped-up for rent frees and contracted fixed uplifts, is now 7.7%

Across the portfolio the initial yield moved out on average by 22 bp in the quarter. Here it is important to note that yield movements are very asset specific and as shown here ranged from 150 bp outward shift to a 97 bp inward shift. Our net equivalent yield remained constant at 7.4%.

As Chris highlighted earlier, across the portfolio almost 40% of valuations have either increased or remained unchanged since the March quarter, most notably in our superstore portfolio which was the one area of our portfolio which saw some ERV growth.

Chris Grigg, Chief Executive : *Slide 8*, When I look back to when I spoke to you 3 months ago – in some respects it feels like a long time ago whilst in other respects it seems like only yesterday. When I then think why this is the case - it is because some things have changed a lot and other things haven't really changed.

Looking at the property market, as I said at the outset, there has been clear improvement in investor sentiment and general confidence, and these things seem to have turned a corner. But let's not forget that this is from a low base and overall values did continue to fall in the first quarter.

On the other hand, the occupational market continues to be under pressure with reduced, or at best flat, demand for new space. With growing evidence of yields stabilising, rental deflation comes more into focus. The extent of rental deflation and how it feeds through to income will be very important to the performance of real estate in coming months. Like unemployment, rental deflation tends to be a lagging indicator of the economy. It is likely to abate when the economy in general returns to health: there are many views out there as to how long this will take.

We are certainly not sanguine about rental deflation. Far from it. But British Land has a prime portfolio with secure cash flows and a strong balance sheet. People ask me quite a bit about so-called legacy assets, and whether British Land has them. From my perspective, what we do have is a portfolio of assets which would be very difficult to re-produce today. These defining features also enable us to look at new opportunities in a pro-active manner.

Before I turn to Q&A, let me pre-empt the question I have been asked the most since I joined British Land. Broadgate. I have said several times that all British Land assets are for sale at the right price. Broadgate is no exception. I can confirm that we have received a number of approaches. As and when there is anything further to disclose, then of course we would do so. There's not really anything more to add at present.

Thanks for listening.