British Land

HALF YEAR 2009/10 RESULTS PRESENTATION
TUESDAY, 17TH NOVEMBER 2009

Chris Grigg, CEO: Good Morning Everybody and thanks for joining us today. In a moment, Graham will take you through the results then Tim will talk about the portfolio and after that, I'll talk about the work we've been doing this year to prepare British Land for the next stage of the cycle.

Our first half results give cause for cautious optimism after a period of market dislocation. The valuation of the portfolio increased in the second quarter. That's the first time since the financial crisis began and net asset value per share grew 3% in Q2.

Like-for-like income growth is positive and we have high levels of lettings. These results, together with work we've done throughout the year, put British Land in a strong place. Our portfolio is now positioned to perform well. We've strengthened our balance sheet and in anticipation of a market recovery, we've put in place an investment framework to help make disciplined investment decisions.

I'll talk more about that later. First, let me hand over to Graham to take you through the results.

Graham Roberts, Finance Director: Thank you Chris and Good Morning Everyone. I'm pleased to report underlying profits of £129 million for the half year; that's £66 million for the second quarter following £63 million in Q1. This is 15p per share over six months, representing 8p per share over the three months' to September and 7p for the first quarter.

The reduction against the prior year comparative is to do with the effect of property disposals and the development program, with which you are familiar and I'll come back to this with some more details later. On the capital side, NAV climbed by 3% since June, reflecting the stabilisation of investment markets and renewed bidding competition for property. This is clearly very encouraging and draws a line under the period of rapidly dropping values caused by financial uncertainty.

Underlying the NAV increase is a valuation uplift of 1.4% in the second quarter, countering the 3.7% decline recorded in the previous three months. Our portfolio value is, therefore, down by only 2.4% from March and this takes our NAV to 372p per share. Tim will give you some more colour on the valuation in a minute.

As previously indicated, our dividend is 6.5p for the quarter and we continue to offer a scrip alternative, which to date has attracted a take up rate of around 40%. The effect of the scrip program is to bridge the temporary income gap due to the timing of our investment and reinvestment strategy, and also enables us to balance the need for income for some investors, while rewarding others by reinvesting cash in the business.

Now as I said, moving on to the income statement; on the right hand side I set out a summary of the underlying profits, which as you know excludes capital items. Now there are three key structural movements you should focus on when distinguishing between the two half year periods. Firstly, the impact of sales over the last 18 months, which creates a reduction of £18 million; secondly the effect of the development program, which amounts to £10 million, taking into account the phasing of income, the void costs and the timing of ceasing to capitalise interest.

In due course, additional rental income from new lettings will offset this as and when we let up the newly built space.

Finally, you will recall that we set aside in the second half of last year, some exceptional provisions for credit risk related to fixed uplift lease accounting.   In view of the major improvement in credit markets and the covenants of the tenants concerned, we have released £16 million to underlying profits in the half year, of which £5 million was released in Q1 and £11 million now released in Q2.

Effectively, we were cautious not to over recognise income later in respect of past earnings accrued but not received and now that the financial position is clearer, we can now account for

this income and include it in profits available for distribution.

Whilst these major movements are important for your income modeling, from a business perspective, like for like organic income growth is just as important and on the retail side, this is a positive 2.7%, which is a decent growth level in a market and from a like for like portfolio that is nearly fully let. Offices understandably showed a reduction of 2.3% and this reduces the overall average to 0.7% but, nonetheless, a positive figure and compares well to IPD which was a negative 1.4%. Net interest is reduced as a result of the property disposals and is a healthy 2 x cover has been maintained.

Looking forward, your income models need to reflect the impact of the Broadgate joint venture, which closed on November 3 and which gives an income dilution of around £7 million per quarter.

You should, however, also reflect the reinvestment program we signaled at the time of the Broadgate announcement. This is likely to be sizeable and in the order of £1 billion and will be highly accretive to underlying earnings.

To help you with your modeling, I've included a slide here of indicative earnings accretion from the reinvestment program and the letting up of space from developments we have completed recently. There is an assumptions page in the appendices. Thus, for example, investing £750 million at 7% adds £38 million and letting up of 75% of the remaining space at today's ERV adds £21 million, together increasing earnings by £59 million on an annualised basis.

Turning to capital movement, I've shown the movement in net asset value from March to June and on to September. The first quarter saw valuation declines, reducing NAV by 38 pence, but this was sharply reversed in the second quarter with a 9 pence increase in the second quarter.

Over 70% by value of our properties increased in value in the three months. And as Tim will come on to mention, there is evidence of further strengthening since September. Our platform

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for growth is the exceptional strength of our cash flows and our ability now to acquire additional properties to grow that cash flow. This is a pretty unique bedrock to take us to the next stage.

The chart on the right shows our contracted annualised net rents, in darker blue, and assuming all breaks are exercised and no re-lettings take place and for completeness, the clear areas highlighted above, illustrate the incremental cash from letting up vacant space based on our valuers' assumptions for rents and voids.

Now the dark blue tails down only gradually, with £36 million of rent frees running off and so adding to annualized cash flow, offsetting the minimal breaks and expiries that we have over the next three years, which only amount to about 6% of rent.

You will see that there is very little reduction over this period. Indeed, this profiles gives the remarkable statistic that after three years, i.e. at the start of 2012, we still have 98% by value of today's rents contracted. This is remarkable by any FTSE 100 or REIT's standard, but it's not just a statistic. We are in a rental deflationary environment. While Central London has led the way and seems to be bottoming out, the retail rental market is still vulnerable.

Our development program has borne the brunt of rental value fall but our investment portfolio, excluding recent development space is 98% let and with so little up for renewal, that is to say for re-pricing in the next three years, we expect resilience in our income. Our income robustness is further illustrated by a reduction in occupiers in administration, which are now down to only 0.8% of the rent roll and of this amount, nearly half is in the process of being assigned and re-let.

Moving then on to the balance sheet, in view of its significance, I have shown these figures pro forma for the joint venture on Broadgate which completed two weeks ago.

Our portfolio is now valued at £7.2 billion and is financed by £3.9 billion of net debt, which is a loan to value of 53% at September values. At the Company level, this is a loan to value of only 29%, leaving ample capacity for acquisitions.

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Our debt maturity is 11 years and liquidity remains strong. The graph on the right shows the length and breadth of our committed undrawn facilities, which total nearly £3 billion.

So to summarise, values have stabilised and we have seen growth through yield compression since June. Our income, moreover, is robust and provides the bedrock on which to build for the future; all very encouraging.

And on that note I'll hand over to Tim.

Tim Roberts, Head of Offices: Thank you Graham, morning everybody, so I'm going to talk you through the property portfolio.

We continue to actively manage and work on the balance of the portfolio. We've completed our exercise of reducing our exposure to large single assets by forming the Broadgate joint venture and in so doing, we've improved the balance of the Office portfolio.

The rebalancing of the whole portfolio will only take its full shape once we've invested around £1 billion into the market and we're in the process of doing that at the moment. Our portfolio focus remains very much on prime property, which offers enduring occupier appeal and we also leverage up on that by offering best in class property services. We carry out regular occupier surveys and I'm pleased to say that 82% of our customers rated British Land as excellent or good.

Due to this focus on prime properties, we benefit from secure income. It helps us to get superior lease lengths and also superior occupancy rates. In weak occupier markets where rents are falling this helps us in our performance.

So let's have a look at what we've been doing over the six months. As well as the Broadgate JV, we've carried out £206 million of sales, which have been partially offset already by £128 million of purchases. In particular, our latest purchases were, an office building in Victoria Street and a retail park in Sunderland and together they throw off an initial yield of over 8%. Chris will talk you through those in a minute.

We also continue to focus our efforts on generating income and we've added £8 million per annum during the first half of the year. The vast majority of the uplifts has been in Retail.

Despite the retail occupier markets remaining weak, our retail team has generated good momentum on rent reviews and lettings. We've leveraged up our retailer relationships and agreed 11 package deals on 62 units and this has significantly contributed to the 1.4 million square feet of lettings and renewals we've achieved during the year. With another 50,000 square feet that we've done post half year, we've maintained the momentum.

On the office side, it's been more challenging but we've still agreed or put under offer 60,000 square feet of City accommodation at rents of about £40 per square foot.

All this activity means across the portfolio, we have benefited from positive like for like income growth of 0.7% and this compares with IPD, which has fallen by 1.4%.

So on valuation, we've reached a turning point on values. As Graham has said, the portfolio has increased in Q2 by 1.4%, showing the first uplift since June 2007 and that's partially offset the decline in Q1. So the portfolio is down 2.4% over the first half, with the UK portfolio outperforming IPD over six months by 1.1%. 70% of our assets have increased in value over the quarter two and our experience in the investment market, together with the latest monthly valuation from HUT in October, which shows nearly a 3% uplift, suggests that the values will continue to increase for the time being.

ERVs have fallen, especially in London Offices. However, you can see that the decline across the portfolio in quarter two is much slower than in the first half. Our long leases shield us from the valuation effects of these rental falls so, ERVs have fallen by 6%, but our valuations only fallen by 2.4%.

Also, at this moment, the market is income hungry and it's primarily pricing off initial yield not net equivalent yield and at 7.4% at top up yield on the portfolio offers an attractive income return. So really, income remains key.

Our occupancy rate, which has remained steady at 94%, is superior to the industry average of 90%. In Retail it is 98% and we've benefited from good progress in lettings, in particular at Meadowhall and in Offices it is now 86%, and that's primarily because we've completed the development at Ropemaker.

But 92% of our vacant Office accommodation is brand new and I'm confident that we'll get more than our fair share of occupiers. The 80,000 square feet of offices that we have let or put under offer over the six months are all accretive to the valuation.

A striking feature of the portfolio is the relatively small percentage of leases that are due to break or expire over the next three years. At 6% it is markedly better than IPD at 20% and you can see from the graph that I show you here that is a constant advantage for us over the next five years.

We also benefit from diversity of income, no occupier represents more than 7% of the rent roll and our two biggest tenants are Tesco and Sainsbury's and we've also reduced the rent that we receive from banks and large lawyers to 19%.

We have only one development under construction and that's at Osnaburgh Street, Regent's Place and it represents 2.5% of the assets. A quarter of that scheme is residential and it's been pre-sold, profitably and the remainder of the scheme’s 360,000 square feet of office accommodation and there we're attracting good tenant interest.

With sites valued at £137 million, that offers a potential for 4 million square feet of development we're also positioning ourselves so that we can commence development when we think the time is right.

So I'm going to finish off with the market starting with Retail. The Retail environment remains mixed, there are signs of Retail sales growth, especially in the food sector where we are heavily invested, but those signs are off weak comparables. On footfall British Land has seen growth of nearly 1% with some of our best retail parks up by 5% and that compares with the national average, which is flat.

Retailer demand remains thin and competition for occupiers remains high with IPD vacancy rates at 7%. Again due to our occupier led strategy, our vacancy rates across all the sub-sectors are very good. In particular, at Meadowhall, the vacancy rate in quarter two has reduced from 4.9% to 1.6% so rental values remain under pressure but incentives on the best schemes seem to have stabilised.

On the investment side yields are hardening across all the sectors due to limited supply and increased demand, but turnover is remaining pretty low.

Finishing off with Offices; as development supply tails off and the release of tenant controlled accommodation modifies, there's a reasonable prognosis that London office vacancy rates have peaked and will fall next year and what I do here is I show you a graph showing Jones Lang's estimate of where the vacancy rate will go and you can see that it's falling down.

Since the summer we've experienced an improvement in occupier sentiment and take up on an annual rolling basis has picked up to 8 million square feet, so that's still lower than the 10 year average at 10 million square feet. We've also seen an increase in viewings of our buildings over the last six months and we've responded to requests for proposals from tenants for a total amount of accommodation of 1.7 million square feet so there is activity out in the market.

However, we remain sanguine about the London occupier market, as nearly all the take up in the short term is going to be driven by lease events and expansion through business growth is going to be rare. On a more positive note speculative development and refurbishment is difficult to justify with banking finance almost impossible to find for it, so the supply imbalance will adjust and rents should stabilise.

Finally on investments, turnover is up and demand has improved. Demand is relatively broad based; it includes overseas investors, UK REITs, UK institutions. So this is a time when supply of investment is scarce, so consequently yields are hardening and values are going up and on that positive note, I'm going to pass you back to Chris.

Chris Grigg, CEO: Thank you Tim. The events of the last nine months to twelve months in the property markets have been pretty remarkable. When I joined British Land at the beginning of the year I joined a business with a long distinguished history and a strong track record at a time of unprecedented market dislocation.

We've weathered that storm and we've done so by taking actions which leave us in a stronger position than at the outset. British Land is now well placed to take advantage of opportunities as they emerge and that's important because, as Tim said, we've seen evidence in the last few months that the UK real estate market has turned an important corner.

As you've heard the value of our portfolio has risen in the last quarter after a period of slowing declines and if anything our numbers understate the improvement in the market, especially for small lot sizes. So buyers are back. In our view this change is partly a function of low short-term interest rates, partly because there's been a sudden flow of money into the market and partly because there is real value out there.

As I say most buyers are looking for smaller lot sizes for long leases and the highest quality real estate. Though it's worth noting that we haven't seen large volumes of prime real estate actually been offered for sale.

You've also heard that the occupational markets remain challenging, though even here circumstances are more positive than we were expecting back in March. Predicting how the market will move forward is, of course, tough. A lot will depend on the economy and on interest rates and it would be dangerous to assume either that, it will be all plain sailing from here or that this recovery will look like those in the past.

The whole financial sector has been profoundly shocked and with it the banking system, both here and abroad. I expect the aftershocks to continue to ripple for some time and the property market will, of course, be affected some times in ways that are difficult to predict. Meanwhile risk capital is coming back, but not always quickly, and this will help create investment opportunity in my view.

I said earlier that we've taken decisive actions this year and that we're better positioned as a result. I want to explain what I mean by that in respect of three areas, our portfolio, our financial position and our investment approach.

You'll be aware that we sold early and kept on selling and that in the course of this calendar year, we've entered into two substantial joint ventures, Meadowhall and Broadgate. I know that some of you have questioned the timing of the Broadgate joint venture in particular. However, these transactions have created a much stronger portfolio and, most importantly, one that will perform well in a variety of economic scenarios.

First, they've reduced our exposure to large single assets, Meadowhall was 12% of our portfolio; it's now 8%. Broadgate has reduced from 25% to 15%. Second, we've reduced our exposure to single tenants, UBS has gone from 8% to 5% and Royal Bank of Scotland from 4% to 2%. Third, we now have less invested in a highly cyclical market, namely City offices, which is currently down to 20% of our portfolio.

Of course, we also have a portfolio with considerable financial flexibility and resilience. Even now despite turmoil in the retail sector this year just 0.5% of our rents are turnover only and only

0.8% of our tenants are in administration. More importantly, as Graham said, even if we did nothing at all for the next three years 98% of today's rental income would still be coming in because of the uplifts in existing contracts. This is a huge plus at a time when the path to economic recovery is still difficult to call.

Our other major priority has been to ensure the strength of our balance sheet. Our Rights Issue in February combined with the impact of these JVs has resulted in a Group loan to value of 29% compared to 54% at the start of the year and consolidated gearing is now at 53%. You all know that our debt profile is exceptional, long and in very good shape and of course, we have over £3 billion of undrawn facilities and cash.

So we've made changes to an already strong portfolio and we've strengthened our financial position at a time when buying really was not on the agenda. Together, these changes mean that we can now invest confidently going forward. I said at the time of the Broadgate announcement that we have at least £1 billion to invest over the next 12 to 24 months.

The third thing that we've done is to put in place a structured framework to help us make investment decisions. We've thought carefully about how this would work. We've looked at practice across the industry and we've refined our approach so that we're better set up to invest wisely. So let me outline how that approach will work.

It will be structured around three categories each with its own specific criteria. The first is what we call Core, as in core investments. These are investments that we intend to hold for the long term, a timeline of at least seven years providing a long secure income stream for British Land. Lease lengths will be 15 years or more and for each individual asset we're targeting an IRR in high single figures.

We expect asset management opportunities to be modest as these are usually sale and leaseback investments or joint ventures with the occupiers. Our clear competitive advantage here is our successful track record of joint ventures with partners such as Tesco and Sainsbury's.

Core represents 26% of our existing portfolio today and the largest group of assets in this category is our superstore portfolio. What's important about core assets is that the average lease length is 20 years and we have occupancy rates of precisely 100%. This gives us the bedrock on which to build out the rest of our portfolio.

Our second investment category is Value-Add, typically I'd expect our target hold period here to be seven years or less. A shorter holding period gives us the discipline of recycling capital into other value creating investments and we expect to see a lot of asset management opportunities in this category. By working the asset hard we can add real value and we'll sell when we've added that value. Our target IRR here is higher than Core, close to double-digits in today's interest rate environment.

In this segment our competitive advantage is even more obvious. Our retail and office expertise, combined with our ability to generate value through asset management puts us in a strong position. 72% of the existing portfolio is value-add, including retail parks and most of our London offices.

Our third category is Opportunistic. As you might expect here we set an even higher IRR target for each asset, somewhere in the mid-teens, along with a shorter holding period. We don't expect this to be a large part of our portfolio, but after such market dislocation players like British Land with scale, strong real estate capabilities and capital to invest will see some great deals.

Of course, we also have the ability to move swiftly, to structure deals in the most effective way, which gives us a keen competitive edge. Currently land is the major component in our existing portfolio that's classed as Opportunistic; you can see the numbers there.

So that sets out our investment framework. The substantial majority of our portfolio will be Core and Value-Add. Of course, making opportunistic investments is not a new departure. British Land has done this many times in the past and done it well. What is new is the ability to assess investments within a structured framework that balances risk and return across the portfolio.

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We'll no doubt refine this framework over time, but the principals and the approach are clear. I thought I might bring this to life if I give you a couple of real examples. They both fall into the Value-Add category.

The first is the retail park we've just purchased on behalf of the Hercules Unit Trust in Sunderland. This has been under managed in the past and is just the kind of asset and deal we like because of the asset management opportunities it offers us. The average rent is £15 per square foot, which is low given that we have Open A1 planning consent.

The tenant mix includes a lot of bulky goods retailers and there's an opportunity to introduce more fashion that will drive footfall and increase rental values. There's also a chance to extend the retail park by a further 10,000 square feet. Here, as you heard from Tim, we have an 8.6% initial yield and we expect to generate an IRR of 10% or more.

My second example is a London office building, 39 Victoria Street. We bought it for £40 million and it has an initial yield of 8.4%. It's let to Bank of America until July 2012 at a rent of £47 per square foot. They sublet it entirely, to half a dozen or so tenants, so that in three years time we have real opportunities.

We could re-gear the existing leases to the existing tenants. We can refurbish the building and there's also an opportunity to increase the usable space within the building. So three things, three pieces of asset management that we can execute over time and, in particular, when you can reasonably expect the market and rents to be in a stronger position.

Once again, we expect to generate an IRR on that transaction of 10%. The investment framework I've outlined here is a tool to help us make high quality investment decisions and to evaluate them thereafter but it's not a management structure.

We'll continue to organise people along existing lines in Office and in Retail with asset management and investment professionals well integrated, as they have always been. Asset

management is one of our key competitive advantages and it remains at the heart of our approach. This integration will be formalised by the creation of an Investment Committee.

As we formulated this approach we concluded we needed to add some more senior real estate talent at British Land, and I'm delighted that we've been able to hire two new Executive Directors. As Chief Investment Officer, Stephen Smith's responsibilities are those you'd expect; to help us reach decisions with regards to sectors and weightings, as well as buying and selling individual assets. He'll also chair the Investment Committee.

Charles Maudsley will be focused on business expansion. I've talked before about the disciplines which emanate from fund management and Charlie's experience of deploying capital effectively will be particularly useful, especially given the fund management and joint venture aspects of British Land's business.

Both Steve and Charlie have many years of experience in real estate and fund management. Both have constructed and managed portfolios inside and outside the UK and both have strong networks within our industry. So individually, and as a combination, they have a lot to bring to the business. Their arrival is also a clear demonstration of British Land's capacity to attract world-class talent.

I thought it would also be useful to give you a sense of what's in our pipeline at the moment. We break this down into two parts; first, on the left hand side, current bids and second, on the right, possible transactions that we're still in the process of screening. This slide shows you our pipeline by Core, Value-Add and Opportunistic, that's the pie charts in the top, and then by sector in the pie charts in the bottom.

We're very active currently with over £500 million bids outstanding. The top left hand shows that 80% of these are Value-Add investments. The majority are in retail, as you can see, with about one-fifth in offices. We don't expect to win all of these, of course, but over time this level of activity will see us achieve our investment targets.

Looking to the right, we have another £2 billion worth of assets that we're actively screening. Of course, we're seeing these opportunities as a result of our scale and our strong balance sheet but it's also appropriate to cast the net widely at this stage and in this market. You'll see that a reasonable number of deals come from sectors outside retail and offices, reflecting the opportunities arising from market dislocation.

We've already used the criterion approach that I've described to assess these possible investments each investment that we make a bid for must have a clear investment thesis and as we screen opportunities, of course, we're looking for areas where we think there are strong supply demand dynamics and where there may be a shortage of risk capital.

I want to conclude by talking about where I see British Land standing today. Our portfolio is resilient. Our finances and our balance sheet are resilient too. And that's important when the course of further economic recovery is hard to predict.

We also have a structured framework for investing. This helps us to balance risk and returns better as we assess new investments. It helps us to compare our existing assets more rigorously and it helps us to make disciplined decisions as to when to buy and when to sell. The aim is simple, to make capital work harder for our shareholders and to outperform IPD over time.

In conclusion, I believe we're very well positioned for the next stage of the cycle.

Thank you very much.