



This was a vintage year. British Land's tried and tested business model achieved record pre-tax profits of £172.4 million and our highest ever adjusted diluted net assets of 860p per share, up 57p, a rise of 7.1%. Adjusted undiluted assets per share were up 51p, a rise of 6.1% to 884p. The total return was 8.8%.

We are lifting the final dividend by 8.1% to 9.3p per share. Including the interim of 4.1p already paid, the distribution for the full year is also up 8.1% at 13.4p. With reversions of £58 million on the investment portfolio still to come plus income from developments, we expect to go on raising dividends, and thus carry forward our existing 24 year record of increasing payouts every year.

Net assets per share growth was helped by a combined programme of buying back 30.3 million shares at a cost of £130.1 million and of exercising the provision we built in for early redemption of the 6½% £323 million Convertible Bonds 2007 at par. This redemption removed the prospectively dilutive effect of 48.1 million shares due to be issued on conversion.

Overall we have thus reduced the number of diluted shares by 78.4 million, that is a cut of 13.1%. We timed our purchases to take advantage of market weakness derived from forced selling, thereby achieving the very beneficial outcome of one of the largest and the cheapest buybacks in the sector.

### The Portfolio

In valuation terms, overall the portfolio was up 0.7%. Quality assets even in sectors under pressure still hold up. While our other City office values are off 8.8%, Broadgate itself has declined only 6.0%. In this context the European Bank for Reconstruction and Development's decision to remain at Broadgate until 2022 is very positive for us. The imminence of the 2006 break clause is reflected in a lower value attributed by our independent valuers as at March 2003. With the break now removed we can look forward to significant accretions in value as both the rent-free period runs off and we enjoy the benefit of the value of the lease extension from 2016 to 2022. The lease remains full repairing, and the building is to be reinstated by the tenant to open space with all partitions removed. The net-of-tax cost of the rent-free is around £42 million, and we rather like the marble!

At £4.6 billion, retail represents some half of the entire portfolio and provided a counterbalance. The retail portfolio shows an overall increase of 7.9%, with department stores being the star performers, up 16.4%. Retail warehouses were up 11.7%. The supermarkets, up another 11%, also added value strongly, and we still believe they are under-rented.

Our use of joint ventures, the route we have employed to achieve access to properties that were not on the market, also paid off last year with growth of 4.5% on the £2.8 billion joint venture portfolios.

Our income is largely provided by rents paid by strong tenants on long leases. The weighted average lease length, assuming all breaks are exercised at the earliest date, is 16 years. We have granted no options to tenants to put back space. Gross rents, including our

**Mechanisation! Specialist equipment of many kinds is employed in the upkeep of the Royal Parks. Sometimes its use is obvious, though the purpose of some machines may invite speculation. This, we are reliably informed, is a device for aerating the soil.**

share of joint ventures, were up 7.3% at £551.6 million last year and net rents were up 7.6% at £513.3 million.

There is no substitute for sustained and rising cash flow, which is of course the basis of property valuation and its attraction to investors.

Including joint ventures, property purchases in the year were £328 million, with 1 Appold Street being the largest item and completing our 20 year assembly at Broadgate of four million sq ft on over 34 acres. Profitable property sales including the joint ventures and only minimal trading were £612 million.

### Specialist Management

Our specialist teams have been particularly active in managing their dedicated joint ventures. Reflecting our market views we sold our share of Cherrywood, the development near Dublin. We have made substantial sales in Public House Company, our joint venture with Scottish & Newcastle plc. In BLU, our joint venture with Great Universal Stores plc, we have continued our programme of sales. We also realised all the properties in BL Rank, our joint venture with Rank Group plc. On the other side of the coin we took advantage of opportunities to buy out our partners in 201 Bishopsgate, London EC2 and in the residential company London & Henley. We continue to seek further ventures and will apply the same selective and long-term approach to prospective partners.

### A Balanced View

We are long-term investors in real estate, but we are not in the business of fabricating quarterly firecrackers to suit short-term speculators in the market. The portfolio's performance in the present testing times shows the value of the long view and how important it is to have the right assets – modern, functional buildings of adaptable design for easy updating, situated in locations of enduring appeal to a spread of occupiers.

British Land's balanced portfolio provides significant benefits and attractions at a time of economic stress. Fashion is fickle and though it can be made to appear superficially attractive at the time to be focused on whatever sector of the market is in vogue, it is naive – not to mention tax inefficient and costly – to imagine that one can flit between the sectors on a whim. Every building, each parcel of land is different. Good property, once sold, may be impossible to retrieve or replicate – and in a difficult and less liquid market it is often only good property that will attract buyers. We have always been active in the market in pursuit of performance. Over the last six years profitable sales have been over £3 billion. Property is a long-term business but has stood up well as an asset class while alternatives, and particularly stock markets, have slumped.

### Development

As we announced at the interim stage, we have orchestrated our development programme to suit current market conditions. Last year British Land and its joint ventures completed just under one million sq ft at a construction cost of £115 million. This space, already 90% let, will yield £13 million a year when fully leased.

A major element of this completed space was Centre West, the 285,000 sq ft extension to the East Kilbride Shopping Centre in Scotland. Centre West opened in March 2003, on time and on budget, and is already 89% committed.

Significant committed transactions now under construction are limited to Plantation Place, London EC3 principally pre-let to Accenture, and the 163,000 sq ft office building at 10 Exchange Square in the middle of Broadgate. Overall we have now spent £135 million of the £319 million cost, funded from our own resources.

Joint venture development sales, primarily at Cherrywood near Dublin, Thatcham and Enfield, have reduced the extent of next stage projects by some 14%. We have also reduced the amount of the Company's capital tied up in non-earning sites to below £200 million, only 1.8% of the managed portfolio. We are continuing with preparatory moves on next stage projects, which we are happy to own until we judge the time is right to commence the development.

British Land's management ethos is exemplified in its development team. With just eight executives the largest and most complex of projects are managed highly efficiently. For example at Plantation Place, the office development providing 700,000 sq ft in two buildings, each has been run with a discrete project team. Together, the design phase has involved five different firms of consultants using more than 150 people. The construction phase involves 92 contractors with a peak number of people on the sites per day of 550 and with roughly 5,000 people engaged altogether. The steel frame contract for No.1 Plantation Place specifies the manufacture, delivery and assembly of 9,000 pieces of precision-cut steel weighing 7,000 tonnes in total and requiring over 75,000 man-hours to erect.

### Active Financial Management

The weighted average interest rate on our £4.4 billion net debt is improved again at 6.31% with 83% of debt at fixed rates of interest and 64% on terms which restrict lenders' recourse to specified assets only. By raising non-recourse, ring-fenced, securitised debt, the Company can realise value from property without the selling costs, stamp and tax bill that a profitable sale would incur. It also retains all the future growth.

The redemption of our 6½% £323 million Convertible saved interest which as planned has mitigated the financing cost of our share buy-back programme. Our share buy-backs in turn brought our mortgage ratio back up to almost 50%, which we regard as comfortable: tax cost is minimised because of deductible interest, our equity capital requirement is kept modest and shareholders gain a higher level of growth per share out of our property performance than if we were less geared. Moreover, the combined market value of our shares and our debt stand at a similar discount to those of our peers. It is rather simplistic to ignore the capital efficiencies which debt provides by taking only the net discount.

**In brief, have you the stomach for it? Like the Christmas Day swimmers in the Serpentine, London needs powerful lungs. Its tree-lined parks are of immeasurable importance to its ecology, absorbing carbon dioxide and enabling the capital to breathe.**





**Cap that! Thanks to careful conservation measures, a reduction in pollution and the ready availability of a food supply, a whole ecosystem now thrives in London's parks. Smokey and Snowy would be very interested in the smaller birds and mammals.**

## **Tax**

The 2003 Budget contained some positive proposals for property companies. We expect to gain from the proposed exclusion of disadvantaged areas from Stamp Duty, as some £3 billion of our assets, including the Meadowhall and Eastgate Shopping Centres, Stockton-on-Tees Retail Park and Serpentine Green, Peterborough, are expected to be beneficiaries. This is not a real bonus, just a redress of some of the previous retrospective levy.

On the other hand, the proposed hike in Stamp Duty on leases can hardly be described as helpful. We are active within our industry, especially through the British Property Federation, in addressing the numerous and highly technical issues which may arise for our tenants.

Part of our remit is to research ways to improve the return we can offer to shareholders. The prospect of tax transparent vehicles, also raised in the latest Budget, has clear attractions and if it materialises will be beneficial, and we have made our views known to H.M. Treasury and the Bank of England.

## **Management Initiatives**

British Land's dispositions for its own portfolio are carried out by specific teams of surveyors and controllers working through our outsourced agents, but there are several other distinctive operational features.

The strength of the Meadowhall management team has brought added value to our other shopping centres such as Eastgate in Basildon and East Kilbride in Scotland. We have been able to pool our resources to provide cross-fertilisation of initiatives and enjoy the benefits of scale.

Meadowhall has been the focus for our use of the new technologies. GO SHOP's 70,000 cardholders use touch screen kiosks at Meadowhall to take advantage of special offers within the Centre, enabling retailers to target brands to specific groups. The Meadowhall website now has 86,000 hits a day.

We have also launched a retailer warehousing and delivery service on site at Meadowhall, the ARC. This enables retailers to consolidate storage, reduce delivery costs and improve stock replenishment and visibility through a data link between their store and the warehouse. We have set up a joint venture company, Comgenic, with our software partners PoulterNet, selling the shopping centre management systems we have developed at Meadowhall to other shopping centre operators here and abroad.

Our own specialist building and estate management company, Broadgate Estates, provides services to the Group and to many other clients in Greater London. It is a profit centre in its own right and more than half of its profits come from outside the Group. It was at Broadgate that we launched Vicinitee, a website that offers local information and services to 60,000 desktops at tenants and occupiers. It is now in use at 22 of our City buildings and six more at Regent's Place, besides having been sold to landlords of six other buildings.



Our collaboration with other major property investors continues. We have taken an active position in PISCES, the standardised information exchange for the property industry, in Propex, the on-line property investment market, and in HSO, which provides high speed connections for offices.

#### **A Coded Message**

As I have reported before, we are conforming to the Lease Code, but finding little interest from takers. My previous stated view that market forces rather than the Government can best handle commercial transactions has been reinforced by a recent advertisement in the property press. A nationally known name wants to sell properties it currently owns and lease them back for 25 years – with five yearly upward only rent reviews. That is the choice of the prospective tenant, not of the oppressed landlord!

Our own very recent transactions with Deutsche Bank at Appold Street and with the European Bank for Reconstruction and Development, both at Broadgate, and both requiring long leases on an upward only rent review basis, show what sophisticated tenants seek to secure.

#### **Corporate and Social Responsibility**

Late last year we published our first Environment and Social Report. Our approach to investment, development and management of property is based on a clear appreciation of the economic environment and social objectives, and the need to take a long-term sustainable view of our operations. Our staff have voluntarily undertaken a variety of projects in their local communities, from helping blind shoppers to teaching English as a second language to staff working in our shops.

In March 2003 the Home Secretary, the Rt. Hon. David Blunkett M.P., opened The Source which we have built at Meadowhall. The 34,000 sq ft Source has been welcomed by the local community as it provides employment advice, various forms of training including IT, a gym and other leisure facilities, a crèche and a coffee bar.

The non-productive element of corporate and social responsibility is filling in those agonising questionnaires! One of the leading institutional inquisitors in this field has 53 pages of questions and 58 pages of notes. Most adopt a "one size fits all" stance so that we, with very few employees, can be statistically compared with multinationals employing tens of thousands. It really is time that the various researchers agreed on standard quiz sheets, tailored to differing sizes and types of enterprise, and stopped moving the goalposts every year. Then we could concentrate on performing CSR profitably without the distraction of box-ticking for competing questioners.

We actively care for the environment and access for the community and together with our sponsorships have strong empathy for the public good and public art. The new piazza at Regent's Place in particular is exhilarating, with works by modern artists and magnificent lighting effects.

**Knock-knees. From rollerblading in Kensington Gardens to Real Tennis at Hampton Court, sporting activities of all kinds are enjoyed in the Royal Parks. Henry VIII would, however, be disappointed to find they are no longer used as royal hunting grounds.**

### Prospects

British Land's business model is designed to extract maximum benefit from long-term property investment and development. And our strategy does just that: net assets per share and earnings per share have each tripled over the last ten years. Because of the nature of property we adopt a long-term horizon, but that involves a myriad of rapid response judgements, through buying and selling and leasing and refurbishing, and transactions to seize advantages wherever and whenever they arise. We are at the mercy of economic wind and tide, and have to make decisions the efficacy of which will show up very clearly in future valuations and performance. The market is cyclical and its pitfalls can be very damaging.

We are risk averse and so hedge property risk both by diversifying between sectors and by constructing or selecting well built assets of high quality in good locations, occupied on long leases by a spread of tenants who are themselves strong credits. Risk on the finance side is also tightly controlled. We fix the interest rates on a high proportion of debt, use a range of lenders and have a long average debt maturity.

At present the investment market remains strong, as do our assets. The Board believes that shareholders can have every confidence in the Company, and that they hold a fine investment.

### Corporate Governance

Our corporate governance continues to evolve. I stated at the 2002 Annual General Meeting that we would add to the Board, and we are fortunate to have found two exceptional new independent non-executive directors in Dr. Chris Gibson-Smith and Mr. David Michels. We welcome them both. After the AGM we will have a majority of non-executive directors on the Board.

Dr. Gibson-Smith is Chairman of National Air Traffic Services Ltd. and a non-executive director of Lloyds TSB Bank plc. Formerly he was Group Managing Director of BP plc. Recently he has been appointed Chairman of the London Stock Exchange. In March 2003 we appointed him Senior Independent Non-Executive Director.

Mr. Michels is Chief Executive of Hilton Group plc. He is a non-executive director of Hilton Hotels Corporation and until recently was a non-executive director of Arcadia plc.

We have also announced that the Board's Nomination Committee has set out to select a new Chief Executive by the 2004 AGM. Thereafter I will be remaining as Chairman for a period.

We are all more than grateful to our colleague and friend, Cyril Metliss, who joined the Board as an executive director in 1971, and stands down at the Annual General Meeting. We will retain in an executive role the benefit of his experience, skill, perseverance and acumen which have served the Company so well over the years.

For an £11 billion business our Board, executive and staff are not large. More than three quarters work directly at our properties, primarily Meadowhall and Broadgate, with around 150 at Head Office. Especial thanks go to our exceptionally talented and skilled teams. They share in creating a strong spirit and a congenial atmosphere in the Company. Their loyalty, enthusiasm and hard work are a great contribution to our success.



**Press-ganged!**

**John Ritblat** Chairman  
27 May 2003

**Sail before steam or splicing the main brace! The competitiveness of model yacht captains sailing on the pond in Kensington Gardens is as fierce as anything witnessed in Cowes Week – or in the property market. Tactics range from cerebral to thuggish.**

