Chairman's Statement

Finance was a key factor of the half year ended 30 September 2003, as we raised over £670 million before interest rates moved.

Profits were up 33% at £87 million for the six months. Property sales showed an 11% uplift from the recent 31 March 2003 valuation, bringing increased capital profits of £15.9 million and trading profits of £6 million.

Earnings per share, adjusted diluted, were up 47% to 15.5 pence per share, so we are well placed to lift the Interim Dividend by 8% to 4.43 pence per share. Interest cover is over 1½ times, debt maturity is unchanged at a weighted average of 18 years with the interest down at an average rate of 6.26%. 83% of debt remains at fixed or capped interest rates. We thus have an excellent base for the upturn, and committed and future development expenditures are not only well within our own resources, but can be met without impairing continuance of our 22 years' run of uninterrupted increases in dividends.

Fully diluted net assets per share have risen 10 pence to 870 pence – thus overall our values have held up well. A 4.1% uplift in the retail sector compensates for a 3.9% decline in office values, proving again the merits of our well diversified portfolio. Within these broad sectors, as one would expect, there are considerable variances. City offices are down 4.8%, while supermarkets are up 4.7%. With the benefit of the stamp duty adjustment for 'disadvantaged' areas, the outcome is a minor uplift of some £18 million in value over the six months. Even so, the valuation and hence shareholders are still suffering a £160 million hit from Government's arbitrary increases in stamp duty.

A Strong Market

The investment market has been strong, as our capital and trading profits clearly demonstrate. Including joint ventures, sales at £192 million have been higher than the £17 million of purchases. There is plenty of investor demand and our asset managers continually seek out buildings in the portfolio where a sale is appropriate.

A noteworthy sale completed in the half year was the residual 27% of the St Stephen's Green Shopping Centre in Dublin for 64 million euros. The Centre was a highly successful development by British Land in 1988 and further extended in 1997. It has been a good time to take profits on smaller units, such as three Somerfield stores in Chepstow, Kingswinford and Monmouth which together realised over £10.7 million. Overall we like what we have in the portfolio but we are always ready to alter course to meet changes in the market.

We took sales opportunities in the joint ventures too. Sales by BL Universal, the joint venture with GUS plc, raised £47.6 million and those by the Public House Company, the joint venture with Scottish & Newcastle plc, brought in £16.3 million.

Active Financing

Managing and finessing finance have long been features at British Land, and we have been very active in this area recently, a business in itself, raising over £670 million. The liquidity was available and interest rates were attractive. Our approach has been diverse with no less than six separate financing initiatives completed.

To turn to our banking, for many years we have maintained an extensive unsecured book of committed bilateral and syndicated bank facilities, and we have good relations with 60 banks in all. These bank lines underpin our flexibility in the market. Recently Barclays Bank, Danske Bank, The Royal Bank of Scotland and Sumitomo Mitsui Banking Corporation Europe were mandated to raise a new syndicated facility of £250 million, which was over-subscribed by 14%, closing at £285 million. Agreed new or renewed bilateral bank facilities have added a further £155 million.

A continuing source of funding for British Land is the borrowing capacity deriving from the increasing rental income from securitised properties. We have raised an additional £50 million on the rental income of the Meadowhall Shopping Centre, which now sustains a total issue of £875 million of fixed rate debt at an average interest rate of 5.5% and an average maturity of 19.9 years. The Centre's rental income has now risen to £69.9 million. The average rent per sq ft is £54.50 (excluding M&S), up 36% from the £40 when we bought the Centre and there is more to come, now and over time. Increased rental income has arisen also on the 35 Sainsbury supermarkets securitised in 2001. To the £575 million already raised we have tapped the market for an additional £84 million at an effective rate of 5.8% for 15.5 years.

We again took advantage of the private placement market in the USA, where our name continues to be well known, raising fixed dollars, swapped into Sterling in the amount of £97.8 million, with a 12 year life at just under 6%.

On the equity side, just before the end of the half year we bought back a further one million shares at a price of 497 pence per share. We took a further step towards raising the Company's international profile and constituency among a wider US investor audience by launching a Level 1 American Depository Receipt programme, trading under the symbol BTLCY. Two investor relations visits to the USA this year have been well received.

Development

A year ago I indicated that we had anticipated the moderation in the current development market and reduced our programme accordingly. The cost to complete this current work is £109 million and principally involves 1 Plantation Place (539,000 sq ft, two-thirds let to Accenture), 2 Plantation Place (163,000 sq ft) and 10 Exchange Square (163,000 sq ft at Broadgate). Next stage projects, which mainly have planning consents in place, will produce 3.89 million sq ft when we are ready to go: there is only a written down £160 million, 1.8% of gross assets, tied up in pre-development sites which are non-income producing.

Joint Ventures

It is nearly nine years since we first embarked on a series of joint ventures with major UK corporations. The aim – which has been achieved – was to unlock portfolios of desirable properties which were not on the market and assist our partners through our management capability. By placing those properties in joint ventures the vendors retained half of their interest but, because of the financing which we were able to arrange, they typically realised 85% of their capital tied up in these assets, while British Land acquired a series of investment half interests with potential.

We manage them actively, as exemplified by the Public House and BL Universal ventures. Most of the pubs in The Public House Company, the joint venture with Scottish & Newcastle plc, have been profitably sold and all external debt has been repaid. BL Universal, the 1997 joint venture with GUS plc, originally owned 982 units of which 894 have been sold profitably. Capital released has been recirculated, largely into retail parks selected by our asset managers, and in repayment of debt. The venture has shown a 12% annualised ungeared return before tax, and we have carried through the rationalisation for GUS for which BL Universal was designed.

The needs of the successful GUS business have changed, creating an appropriate moment for us to buy out the GUS interest in this £761 million portfolio on acceptable – and cordial – terms. 80% of the portfolio is retail warehouses and shops, the remainder offices. Such a purchase avoids all the transactional costs of buying individual properties; there are no staff, we know all the buildings, we have ample finance to cover the £120 million price for half the equity, and we have total control.

Prospects

The stock market has sustained serious losses over the past three years, from which it now appears to be making some recovery. This, and renewed financial sector recruiting, are encouraging for our prime City of London holdings. Our confidence in the City remains. We own and control the entire Broadgate Estate, recognised as a unique complex. In particular Broadgate has never looked better – following the £35 million improvements to its public spaces which are appreciated by its tenants and ensure that it retains the best modern standards. Property has remained an attractive asset class throughout – particularly if it is buttressed by long leases to strong tenants, and the buildings themselves are modern, of high quality, efficient design, well located and will appeal in the future.

With its strong out-of-town retail content British Land's diversified portfolio also meets these tests, and its business model makes it well placed to maximise the upside with assured and increasing cash flow safeguarding the downside, especially when the assets are financed with long, largely fixed interest finance. Serious owners of property know that rents and thus values give consistent growth over time but at irregular intervals. Rental movements are not a smooth progression but occur in a series of spikes, giving in British Land's case a superior return multiplied by closely managed gearing.

We undertake to be fast on our feet, whether it is in buying or selling or in taking advantage of structural changes – such as any REIT proposals – or in seeking out other ways to maximise our shareholders' wealth and store of value.

John Ritblat Chairman
25 November 2003