

Chairman's Statement

Before reporting on the events of the past half-year, I am delighted to welcome Stephen Hester, who succeeds me as Chief Executive of British Land. We have split the roles and I am remaining as Chairman of the Company.

He takes over at a time when the Company is enjoying strong performance. The Net Asset Value per share has risen over the six months to 1049 pence on an adjusted diluted basis, an increase of 8.6%. The 3.8% portfolio improvement has added £400 million to lift fully diluted net assets to £5.48 billion. Retail warehouses were the star performers, up 9%, alone representing £125.9 million of the increase in net assets. City of London offices were up 3.2%, contributing £110 million, largely deriving from the success of our developments there.

Profits before tax were £80.1 million, reduced from the previous year only through less trading and fixed asset disposals. Underlying Profits stemming mainly from rents were up satisfactorily by over 15% at £74.8 million. We are raising the Interim Dividend by 8.4% to 4.8 pence per share.

Leases and leases

The flavour since 31 March, and indeed the main business feature on which I report, has been demand for our new developments, mainly in the City.

For our development at 51 Lime Street, London EC3, we now have a binding agreement to lease with Willis, the risk management and insurance intermediaries, who are taking 465,000 sq ft for 25 years without break. We already have planning consent for the site, demolition has begun, and we have submitted a detailed planning application for an amended scheme to meet the tenant's needs. The innovative design by Foster and Partners will be a striking addition to the London scene.

At Plantation Place, 30 Fenchurch Street, London EC3, Accenture had a pre-let of 375,000 sq ft. Royal & SunAlliance has taken 34,000 sq ft for their new group head offices, the Aspen Re insurance company 49,000 sq ft, and Wachovia Bank the remaining 49,000 sq ft to complete the letting of the office space there. We are making good progress, too, with leasing the 30,000 sq ft of shops, with the majority of units under offer.

At the new 10 Exchange Square, Broadgate, London EC2, Herbert Smith has taken 43,500 sq ft, and an additional 25,000 sq ft is now under offer to another tenant.

Elsewhere at Broadgate we are fully leased, having entirely refitted an office floor at 155 Bishopsgate which has been let to HBOS (38,600 sq ft). At 6 Broadgate, 12,600 sq ft have been leased to the U.S. company Ambac for its new London head offices. UBS Global Asset Management has taken the entire 70,000 sq ft of 3 Finsbury Avenue. At Exchange House, F&C Management have taken 20,500 sq ft.

In the West End the office space at 350 Euston Road, Regent's Place, London NW1 is fully let, following recent leases to the General

Medical Council (48,000 sq ft) and Balfour Beatty (15,500 sq ft). Not merely 350 Euston Road, but all the Regent's Place office space is leased, and we are moving forward to the next two phases there, totalling 1.2 million sq ft, on which we are already engaged in the planning process.

In Ireland the leading fashion retailers, H&M, have taken 14,000 sq ft for their Dublin flagship store at the ILAC Centre in the rapidly improving Henry Street area. This venture with Irish Life is managed by our Irish subsidiary.

Development

Completed developments since 31 March have added over 1.1 million sq ft to the portfolio, mainly in the City of London, and are already 68% let. We continue to push forward with the programme, and our exciting proposal for a 601,000 sq ft, 47 storey tower at 122 Leadenhall Street, London EC3 has received a Resolution to Grant detailed planning consent from the Corporation of the City of London.

Portfolio Activity

As ever, activity within the portfolio has been substantial, much of it taking place after 30 September, with sales since 31 March, including those in joint ventures, amounting to £321 million, and purchases involving £644 million.

The main items among the sales were 100 New Bridge Street, Watling House, Cannon Street and Standard House, Bonhill Street, in the City of London and the Swiss Centre in Leicester Square, London W1.

A major purchase was the 500,000 sq ft Queensmere and Observatory Shopping Centres with 1,600 car spaces and 65,000 sq ft of offices in the centre of Slough. We already own the linking 80,000 sq ft Allders store and we see considerable scope for management initiatives to increase the value of the entire investment. Much of our £5.8 billion retail portfolio is located in the most sought-after out-of-town sectors, but we also have a significant in-town presence, and add to it when interesting opportunities like this arise.

Following our successful partnership with Scottish & Newcastle, during which we profitably sold 328 of the 330 pubs we jointly owned (with only two remaining), we have acquired a new portfolio of 65 high quality pubs from Spirit Group. There were in addition numerous smaller transactions, buys and sells, forming part of our continuing active management.

Finance

In financing we have added or renewed £730 million in banking facilities, with availability now standing at £1.2 billion and further financing lines in course. Our new borrowing covenant gives the Company great flexibility to choose between secured and unsecured elements in structuring its debt, as it sets a 70% maximum ratio for unsecured debt to unencumbered assets. It also provides equality of treatment for all unsecured lenders.

Conversion of the 6% Subordinated Irredeemable Convertible Bonds into 30 million new Ordinary Shares has been accomplished. 84% of the Group's debt was fixed or capped, the weighted average rate was 6.51% and the average maturity was 13.8 years.

Other Topics

More and more investors recognise the long-term attractions of investing in property. As I have indicated previously, this return to the sector was sure to follow the stock market shakeout from its bubble at the start of the new millennium. Commercial property is a highly desirable investment class, with enduring defensive qualities against the downside and plenty of upside potential. The long overdue market correction to property yields began in our last financial year and has been transformed through our gearing to deliver, over the last 12 months, an impressive 195 pence per share or 22.4% total return to our shareholders, lifting adjusted diluted net assets from 869 pence to 1049 pence per share.

The perceptive investor knows that strategic patience is an important attribute for making money in our business, where timing is all-important. The Swiss Centre sale, where we gradually increased our ownership over time before selling, is one obvious example: another is Plantation Place, where it took a good few years to assemble the site and achieve vacant possession of the principal property on a timely basis and on sensible terms. While we expanded the site, we retained income from the existing buildings for as long as possible until demolition, thus financing holding costs. Throughout this long process we secured a series of progressively improved planning consents to take advantage of changing conditions and maximise value for shareholders. More haste can often mean less profit in the property business.

We are waiting to hear the outcome on two major Government topics at the moment. Real Estate Investment Trusts are now available in numerous countries with well-developed and sophisticated property markets, and we hope that we will shortly hear that Britain will join them. We are quick on our feet if it suits and will turn on a dime to adapt to new circumstances as they arise.

The other topic is the upward only rent review clause. Some of the statistical analysis has been revised and the revision shows that there are plenty of choices for tenants. We know that there are also plenty of negotiating skills among the tenants, who are certainly not patsies. Research findings on the increase both in the availability of short-term leases and in the large proportion of leases that have no rent review clauses at all, show that there is a level playing field in this currently free and constantly adapting market.

Prospects

The property market has prospered in recent years for those who are doing the right things in the right places, but it is no longer possible to assume that mere ownership of real estate will suffice. Tenants are now much more sophisticated and therefore more demanding, so a market may have substantial availability yet not meet tenants' needs. The first requirement for tenants is the location of their choice in new and well designed modern buildings, which can secure good rents in spite of an apparent overhang of non-competitive space.



Plantation Place, 30 Fenchurch Street, EC3
Completed on time, on budget, offices fully let

Stringent portfolio selection, with ever greater awareness of ever changing tenant needs, must be the way forward. Management's skill is to have properties of high quality in the locations and sectors when and where they will be wanted, bringing the rewards of growth to our shareholders, who benefit also from the liquidity in the stock market which a company of British Land's size can provide.

We have a strong all-round property team, seasoned in investment and development, management, leasing and finance.

John Ritblat Chairman
23 November 2004