

## Statement by the Chief Executive, Stephen Hester

It is my pleasure to write this having enjoyed an active first six months at British Land. The Company, its people and its assets are everything I was expecting and I am greatly optimistic for British Land's future.

### Strategy

As this is my first letter it makes sense to update you on British Land's strategy, characteristics and the evolution we are now embarked upon.

British Land has long been about growth, quality and security in its chosen markets – and brings to this focus an entrepreneurial spirit, a willingness to change and to embrace opportunity. These tenets are grounded on a deep understanding of both property and financial risk. British Land fully appreciates the value of firm foundations to the portfolio and the Company's role as a safe investment vehicle for its shareholders, but one which nevertheless delivers superior bottom line performance. The Company has a strong bias to high quality real estate for its core, a portfolio feature that can often be undervalued in bull markets but is essential in less certain times.

And I should add to these core themes, three business principles. At all times, cliché though it may be, the primary mission is to deliver superior shareholder value; we need to be unafraid of radical change but equally happy to sit on our hands where that is the wisest course – without being misled by temporary market fads. We must stay true to medium and longer term value trends; especially as many real estate decisions are made with at least five to ten years' progression in mind.

Companies which do not maintain a clear focus on where and why they will be good at what they are doing can come unstuck, which of course is a lesson well rehearsed in other sectors. That is not the same as saying a company can only do one thing, or can never nurture new initiatives – far from it – but it does encourage an important strategic discipline.

Finally, I believe in staying at the forefront of investor friendly behaviour; in disclosure and transparency; in straight talking and in open listening. British Land has already distinguished itself in this respect and we plan to take a further step by introducing quarterly reporting at the end of 2005 along with the early introduction in this Annual Report of new and fuller "Operating and Financial Review" reporting.



## Business results

Turning to our business results for 2004/5, British Land delivered a total return of 22.4% (underlying) which even after charges for Broadgate refinancing and Stamp Duty increases was still 16.6%. These attractive returns maintain our successful record relative to our major competitors.

Portfolio activity was high, as the Company showed its distinctive ability to add value through purchases, sales, partnerships and developments. These skills will remain important to complement organic growth in our long-term cash flows.

During the year we took full advantage of many opportunities to improve our assets. The misfortunes of Allders became the route to installing Debenhams at the Queensmere Shopping Centre, Slough, at the Peacocks Centre, Woking and at the Eastgate Centre, Basildon. British Land also bought the Allders store at Clapham and leased it to Debenhams. Additionally a range of other retail, office and leisure assets have been acquired, strengthening the portfolio in sectors where the Company's managers have a proven record of adding value.

Nearly all the portfolio enjoys high occupancy, is of prime quality, with excellent covenants on long leases. In turn the bias to quality allows room for greater adventurousness in trading or development as well as in financial leverage. British Land is intrinsically low risk, and its properties are therefore able to support gearing through debt on fine terms. We thereby improve shareholder returns at modest total risk compared to the less visible but very real challenges that too much secondary property can bring.

## The future

Our portfolio is well positioned for the next few years – though we will continue to actively reshape it. 55% is in top quality retail property, dominated by out of town assets benefiting from long-term fundamental growth trends that will endure a more challenging retail climate. This is complemented by our prominent and prime exposure to the London office cycle with both investments and future developments and is well protected against the downside of short leases or of secondary buildings or of unpromising locations.

On management matters, we are focused on adding to our capacity for pro-active asset management and strong customer orientation. We also have introduced a regular, disciplined and dispassionate assessment of our assets. Each asset in the portfolio has to be established as having good prospects for the future or we will lessen our capital exposure to it over time.

As to the prospects for our industry, it is encouraging that rents appear to be affordable in most sectors of the economy. The yield shift that has occurred is supported by the fundamentals, particularly in comparison to alternative asset classes and we see some more to come. Investors know that the risks and returns of property offer a favourable mix. So investor demand for property has been exceeding supply as a process of reweighting takes place, and the prospective establishment of REITs seems likely to support this trend. However, it is important to note that we will continue to manage our business on the bedrock of our properties and their cash flows – not for the ebbs and flows of transaction pricing and activity.

To achieve the changes we target, and to continue to make our shareholders' money, one resource remains particularly crucial – our people. The talents and experience of British Land's management are well recognised and it is our prime responsibility to retain, develop and renew our team. This we are doing. I would like to thank my new colleagues at British Land for all their efforts in 2004/5 and their results in which we can have some pride. But I should also thank them especially for a warm welcome and a fine inheritance!



**Stephen Hester** Chief Executive

24 May 2005