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The Government is also issuing new and revised planning guidance to support the reforms to the planning system in the new Act. The recently published PPS 6 dealing with town centres confirms the Government's commitment to restricting out of town retail development and requires local authorities to take positive action to promote redevelopment in central areas. There are some exceptions to the general presumption against out of town centre retail development but the long trail of refused applications for this type of development will continue to dissuade all but the most determined.

Corporate responsibility and relationships with key stakeholders

The corporate responsibility programmes bring real benefits to the business. They build relationships with stakeholders, improving our reputation with tenants, investors, lenders, analysts, employees and local communities, reducing risk and costs by efficient resource management. We are pleased to report that in 2004, for the second year running, British Land was designated by the Dow Jones Sustainability Indices as the financial services sector world market leader in corporate responsibility issues.

Our 2004 Corporate Responsibility Report was published in April 2005. A key feature is the launch of the Sustainability Brief, a process that establishes sustainable design and construction in our developments, and has been recognised by Government as a leading example. We have also been working with the Carbon Trust to develop and implement a Carbon Management Programme for the multi-let property portfolio. This enables the Company to benchmark the energy performance for all multi-let buildings' common areas and set targets to reduce carbon emissions and, as a result, make cost savings.

Technology and innovation

There have been a number of initiatives designed to support our occupiers and improve operational efficiency.

Occupier initiatives include:

- our onsite replenishment and storage facility at Meadowhall (ARC), which has experienced increased retailer take up and has also won the ICSC (International Council for Shopping Centres) Award for Centre Productivity in 2005

- the Broadgate Environmental Working Group, where we have worked collaboratively with Broadgate occupiers to improve waste management and increase the incidence of recycling at Broadgate.

Operational efficiency initiatives include:

- wider deployment of the British Land portal (web-based access to our systems) for our agents and other consultants, improving operational effectiveness
- a pilot project to explore ways to improve procurement and to improve the quality of the provision of services relating to the service charge, which are costs incurred by the building manager and paid for by the occupier.

Risks and uncertainties

The Group's objective is to achieve attractive long-term total returns whilst minimising risks. In order to identify and evaluate risks and design controls to mitigate them, a regular comprehensive assessment is undertaken which has identified some 50 individual risks affecting the Group. Responsibility for management of each key risk is clearly identified and delegated by the Board to specific executive directors and senior executives within the Group.

Most of the risks faced by the Group arise out of natural market volatility, relating to supply and demand imbalances in the following core areas:

- demand for space from occupiers against available space (including new developments)
- differential pricing for previous locations and buildings
- alternative use for buildings (particularly redevelopment)
- demand for returns from investors in property, compared to other asset classes
- price differentials for capital to finance the business
- legislative initiatives, including planning consents and taxation
- economic cycles, including the impact on tenant covenant quality, interest rates and inflation
- mis-pricing of property assets by the equity markets.

Our preference for long-term investments let on long leases to strong tenants with upward only rent reviews provides stable long-term cash flows which enables the Group to ride out much of this natural market volatility.

Following discussions held in 2002 and 2003, there has been a further round of consultation on corporation tax reform, in advance of intended legislation. We operate, in common with most other corporate entities, with considerable uncertainty as to when and how any legislation will take effect.

Explanatory notes

The following sections provides shareholders with general information to assist with understanding the results.

Operating and Financial Review

From March 2006 British Land is required to publish an Operating and Financial Review in accordance with new regulations. Although guidance on its preparation is not finalised, this OFR aims to anticipate most of the new requirements.

In preparing this operating and financial review, we are required to advise the reader that by their nature, all forward looking statements made involve uncertainty since future events often cause outcomes and results to differ from those anticipated.

International Accounting Standards

This will be the Group's last set of results prepared under generally accepted accounting principles in the UK ('UK GAAP'). As from 1 April 2005 we have adopted International Accounting Standards ('IAS') as required for all European Union listed companies. We made a presentation to investors and analysts of the expected impact of adoption of IAS on 21 January 2005, a copy of which can be found on our website www.britishland.com. We will be re-presenting our 2005 results in IAS format during summer 2005.

Understanding capital and revenue performance

Major accounting policies:

The Group's results comprise profits arising from revenues less expenses (revenue profits) and capital growth, some realised in the year through sales and the rest unrealised but quantified by way of external valuations. This is the last time we present the results under UK GAAP, which recognises in the profit and loss account only revenue profits and that element of capital profits on assets sold which derives from net sales proceeds exceeding valuation.

Investment properties and investments are revalued to market values each year. In assessing total returns, return on capital is therefore rebased each year. Returns on historical cost are considerably higher.

Tenant incentives such as rent free periods are spread to the nearest date when a rebasing to open market rent is expected. This means that net rental income in the profit and loss account is not the same as cash rents received. To avoid double counting, the asset arising from this rent adjustment is deducted from the valuation.

Accounting policies that may be different from other major property companies:

We account for rent reviews only on settlement. Some companies accrue rent reviews on the basis of estimates of markets rents. Our policy, whilst conservative, does not smooth earnings and where commercially we decide to prolong negotiations or arbitrate, significant rent adjustments can arise in later years (back rents).

We account for equity settled share based incentives for directors and staff by charging the fair value as determined at the date of grant over the vesting period. We also account on balance sheet for our defined benefit scheme. Other companies are in the process of moving towards both of these bases as they implement IAS.

On acquisitions through corporate vehicles, any discount received in respect of contingent tax taken on, is treated as negative goodwill and is not added back to net asset value. The negative goodwill already recognised is taken into account when calculating contingent capital gains. Some companies add negative goodwill back to reserves thereby increasing net assets.

Application of policies for new material circumstances:

As a result of the acquisition in the second half of over £732 million of properties with minimum periodic uplifts in rents, we have followed UK GAAP in spreading the total minimum contracted rents evenly over the lease term. This recognises income substantially earlier than the cash flows. To avoid double counting the asset recognised is deducted from the valuation. The additional net rental income recognised is £5 million in the year to March 2005 (annualised £19 million).

Key performance indicators

British Land is focused on achieving attractive and sustainable risk adjusted total returns for shareholders. The property business is influenced by many factors and decisions are judged over multi-year periods. We do pay careful attention to a range of KPIs, which are presented elsewhere in this review. However, movements up or down in any of these indicators are not of themselves definitive performance indicators since, when seen in the light of other indicators, management strategies and market events, they may have quite different significance. The more prominent KPIs include:

Financial measures: total return on adjusted net assets; earnings per share and underlying earnings per share; loan to value gearing; interest cover; average debt maturities; management of interest rate exposure and percentage of interest costs fixed; administrative costs as a percentage of portfolio value; tax rate.

Asset measures: average lease lengths; vacancy rate; security of income and tenant covenants; irrecoverable property costs as a percentage of portfolio value; income at risk from development programme.