

Statement by the Chairman, John Ritblat

British Land has had a thoroughly good year. I have every confidence in the current property market, but I must still stress the skills, instincts and sometimes courage that are required to achieve good returns, not just now but in the future.

In attracting major new tenants to occupy our new developments in the City of London, our properties have passed the acid test. We have raised funds of £3.1 billion including a record financing in excess of £2 billion on Broadgate, and we spent £1.3 billion. In November 2004 we were delighted to welcome Stephen Hester as our new Chief Executive.

Results

Our financial results revealed profits – pre-tax, pre-exceptional – exceeding £200 million for the first time ever. We took a £180 million (24p per share net of tax) exceptional charge in respect of the Broadgate refinancing, and suffered a reduction (32p per share) in net assets as a consequence of the arbitrary removal of the Stamp Duty exemption for disadvantaged areas but, even so, we made a 15% increase in net assets per share, which rose 145p to 1111p on an adjusted diluted basis.

The total return was 22.4% before the exceptional charge and the loss of Stamp Duty exemption, and still 16.6% after.

The final dividend is up 8.2% to 10.9p per share, making a distribution of 15.7p for the year.

British Land's approach

We strive to buy or construct buildings to match what tenants need and want, not just now but in the future. In today's market they are much better informed and more selective than was the case when property was a scarce commodity. Energy efficiency, the quality of life and amenities for occupiers, and the impact on local communities, all must pass muster. Buildings also need to be capable of being kept up-to-date by easy adaptation as technology evolves ever further. This is not a short-term business.

British Land selects its portfolio to encourage tenants to take long leases in our high quality, well located buildings. Property offering these advantages is a good investment for our shareholders and will grow in value over time as it produces increasing income.



Property market and regulations

There may be some disillusionment among private investors with equities, but that makes the prospect of REITs (Real Estate Investment Trusts) even more significant. These Trusts will enable investors to put their funds into those property companies which convert to REIT status without, as at present, being taxed twice, at both the corporate and personal levels. This is not to suggest of course that investors should be beguiled by the blandishments of tax benefits over the merits of the underlying assets. The foundation of the portfolio for our investors is always the prospects and quality of our buildings.

The enactment, when the Government has ended its consultation process, of considered legislation on REITs will signify real progress. We are pleased that the interests of all property companies are being represented by Lucinda Bell, our own Head of Tax and Accounting.

I have every confidence in the current property market, but I must still stress the skills, instincts and sometimes courage that are required to achieve good returns. A successful equity fund manager may make good picks, but does not manage the companies selected. A successful property entrepreneur also has to make good picks, but additionally has to apply creative managerial and asset management skills, coupled with awareness of emerging trends to maximise returns. The results can be only too obvious: there is nowhere to hide.

The extra managerial dimension required is nowhere more evident than in the testing aspects of new development of property, where the gap between success and failure, often the result of idiosyncrasies of personal judgments, can have such severe economic consequences. Many factors can influence the judgments, and the resulting success or failure is all too apparent. See-through clothing may be revealing, but a see-through building is a disaster!

The risks are very real, and a constant reminder to those of us who devote our lives to property that often we are exposed to changes in the business environment over which we have no control. It is therefore salutary that one change sought by some tenants – destroying upward only rent reviews – was resisted by the Government after it had considered the facts. Of course there should be choices offered to tenants, and the movement towards shorter lease terms and thus fewer rent reviews has accommodated this choice. That's what a free market is about.

Many tenants insist on long leases even with reviews. They are aware that long-term security, often coupled with extracting substantial cash from lease-back arrangements, can fully justify an upward only rent review clause, and may well be preferable as a better economic bet on market forces. Tenants currently exercising this preference include some with considerably greater financial muscle than their poor landlords!

Tenants and landlords have common commercial interests, and work together to achieve their separate objectives. British Land has made the use of joint

ventures and leasebacks a particular feature of its business. By co-operating with partners it has been possible to obtain the benefits of extending assets under management to £14 billion, well above our own assets of £12.5 billion. And property owners risking capital have to work together – they are often neighbours – and communities gain from major redevelopment schemes carried out jointly.

Financial resources

A major property business takes a lot of financing and as I have always said, half of our business is simply about money. Though the assets, our buildings, are highly visible counters, the liabilities demand almost as much attention. Since we launched the first securitisation by a British property company in 1996 we have raised over £5.3 billion through this route, refining techniques and reducing costs to provide a range of maturities. The maintenance of adequate financial resource remains a key focus of our business, with managed and structured gearing providing an important method of extracting superior returns from our portfolio of quality. Yields may appear lower – but not the long-term prospects for gain and total return.

In reality and in real estate there are no short cuts to sustained growth. Major property decisions to buy, sell or develop, and related financial decisions, have to stand the tests of time. Though instant uplifts are nice, it is the long-term projects that bring greater rewards for shareholders and at lower risk.

Warmest thanks to Lord Burns, who leaves the Board on 30 September 2005. He has been a highly valued non-executive director since 2000, and chairman of our Audit Committee. We wish him every success in his new appointment at Marks & Spencer plc.

We are most grateful to Atisreal whose 20 years' exemplary professional service as valuers to the Group has now concluded.

Shareholders have been well served in the past year by our staff at Head Office, Meadowhall, Broadgate and elsewhere. My warm thanks go to our entire team, including management and my colleagues on the Board, for their sustained and cohesive efforts in all aspects of our business.



John Ritblat Chairman

24 May 2005

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