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We have intensified our reshaping of the portfolio and proactive asset management, and will continue to focus on these efforts, to enhance risk adjusted returns.

British Land's primary objective is to produce superior, sustained and secure long-term shareholder returns from management of our chosen real estate activities and their financing. We set out in the March 2005 Annual Report our updated strategy for British Land and the changes we planned to make. In the first half of this year we have been delivering on those plans to renew and work the business hard.

Activity during the six months

Portfolio reshaping

Through an intensified asset review process, we are reshaping our portfolio to enhance risk adjusted returns, increasing focus on property where we see good prospects for growth, particularly from improving rental income. In the present market environment, this is leading us to increase our focus on out of town retail and prime London offices. Our holdings in a number of other sectors are being reduced into a strong and favourable investment market. Furthermore, even in our preferred sectors, individual properties are being sold where we consider we can utilise the proceeds more profitably elsewhere.

Purchases £1,815m – 2.6% increase in value

	Price £m	BL share £m	Value uplift %[1]
Pillar (wholly owned + share of funds)	1,566	1,566	2.1[1]
St Stephen's Shopping Centre, Hull[2]	135	135	
Others	127	114	12.5
	1,828	**1,815**	**2.6**

[1] from purchase price on completion to 30 September – for Pillar only two months since 28 July 2005

[2] forward purchase, expected completion mid 2007, not yet revalued

Completion in July 2005 of the purchase of **Pillar Property PLC** added over £1.5 billion of top quality assets, principally Open A1 planning permission retail parks offering the best prospects for continuing rental growth in a demanding retail sector. The properties were held directly by Pillar and through its share of the Funds which it managed, including the Hercules Unit Trust. On completion, 80% of the real estate was UK retail parks, 4% European retail parks and 16% City of London offices, with a total of over £3 billion under management. Pillar also brought a strong management team to add to our own. Its growing Fund Management business provides attractive new income streams. The Funds business is performing well whilst also giving us future options to launch new Funds, including introducing outside capital into existing British Land assets.

St. Stephen's Shopping Centre, Hull, is a new 46,500 sq m (500,000 sq ft) edge of town retail and leisure development project with strong prospects for improving value through both rental growth and yield shift. 68% of the space is already pre-let, pre-sold or under offer, with tenants to include Tesco, Next, New Look, H&M, Zara, TK Maxx, Boots, Sportsworld and Gala. There will also be an hotel and over 200 residential units.

In April 2005, we acquired our joint venture partners' 50% share in the **BL West companies,** owning the office properties at 1 and 10 Fleet Place, EC4, which have subsequently been profitably sold (see below).

We have committed to increase our investment in **PREF,** the European retail park fund, by €124 million as part of €214 million raised by PREF from a total of four investors to fund future acquisitions of out of town retail parks in the eurozone. Core countries for PREF include Spain, Italy, France, Portugal and the Benelux region. The Fund's current gross assets, including contracted acquisitions, amount to some €418 million with an average net yield of 6.1%. Average passing rents are €13.70/£9.60 per sq ft, well below UK levels and giving much scope for growth. With the new equity and a target of 60% gearing, PREF's objective is to achieve a portfolio size of some €1 billion by end 2006. While this European expansion is new in recent times for British Land, we are confident of the prospects for attractive returns, especially given our expertise in the sector from our leading UK position.

Sales £392m – 13.3% above valuation

	Price £m	BL share £m	Gain %[1]
10 Fleet Place, EC4	109	109	15.6
ILAC Shopping Centre, Dublin	85	85	25.0
9 high street retail units	52	52	11.6
Daventry (Plots E4 & C1)[2]	76	38	19.8
Others	109	108	2.4
	431	**392**	**13.3**

[1] sale price above latest year-end valuation

[2] International Rail Freight Terminal – BL Rosemound (JV)

These are **value enhancing disposals,** resulting from our continuing review of the performance of each asset. Significant gains above latest valuation have been achieved in a strong investment market, enabling us to recycle capital into properties where we can achieve higher returns, or to reduce gearing. In some cases, our disposals have also taken advantage of where the market has discounted risk

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factors such as location, lease length, income and forecast growth prospects, and where yield compression has also narrowed the gap in value between prime and more secondary assets. In other cases, our disposals have realised value created from completion of our asset management initiatives.

10 Fleet Place, EC4 had a weighted average lease length of some four years, with resulting void and capex risks, and passing rents above market levels.

The ILAC Shopping Centre, Dublin was purchased through our subsidiary in Ireland in 2001 for €56.6 million and owned jointly with Irish Life. Significant asset management during our ownership, including phased refurbishment and upgrade of facilities, new agreements with key tenants, remodelling of the principal Mary Street entrance and provision of a flagship store for H&M, added substantial value and enabled an opportune sale.

The sale of **9 retail properties** included an average initial yield of less than 4% for five prime high street shops. The market continues buoyant for such investments and further sales from our High Street portfolio are planned.

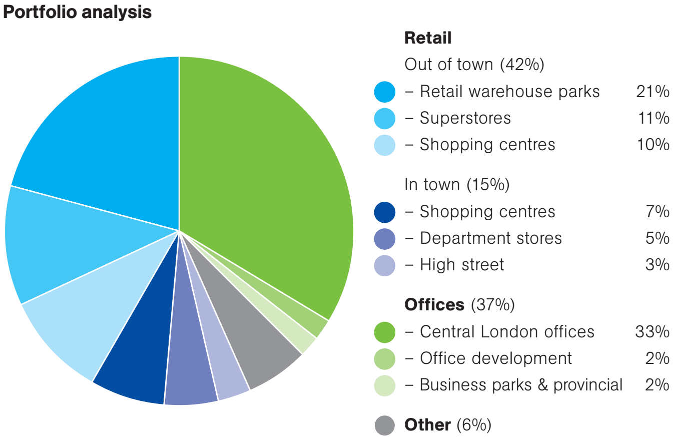
The distribution warehouse units we have developed at **Daventry** have been completed and profitably sold.

Since 30 September 2005, significant sales at 12% overall above the March year-end valuation have also been achieved at:

- **2-16 Baker Street, W1,** an office and retail property, for £57.2 million,
- **Heathrow Gateway,** Units 1 & 2, Feltham, high bay distribution warehouses developed by British Land, for £65.5 million,
- **Manchester Fort Shopping Park,** for £167.3 million (a sale previously committed by Pillar),
- **1 Fleet Place, EC4,** City offices, after restructuring the principal lease, for £119.5 million.

Profitable sales since 31 March 2005 amount in total to over £800 million and we expect to achieve more over the second half of the year.

Portfolio analysis



Retail warehouse parks increased to 21% (March 2005, 13%)

£6.2 billion out of town retail – largest owner by a factor of over two times

Exposure to Central London enhanced – through significant development leverage

Proactive asset management

Much of our energies, in every period, are devoted to improving the value of the property we own through proactive asset management and development. By improving our investments and providing space best suited to our tenant base, we achieve the goals of effective customer focus and resultant improvements in rental income or other aspects of property value.

In the six months to September 2005 (including our share of Funds and Joint Ventures):

- **150 new lettings and lease renewals** in respect of 44,000 sq m (473,000 sq ft) of property in all sectors have resulted in total rent of £15 million per annum, of which new rent to British Land is £8.6 million per annum, after expiry of any rent free periods,
- **124 rent reviews were settled** which have increased rent to British Land by £3.9 million per annum, 3.6% above our external valuer's estimates at the valuation date preceding the relevant rent review,
- significant activity at **Meadowhall Shopping Centre,** Sheffield has included agreement of 13 new lettings to retailers including River Island, Apple and Adams. One of these (post 30 September 2005) reflected a Zone A of £440 per sq ft, setting a new open market rental level. These lettings will assist us in negotiation of the round of 50 rent reviews at Meadowhall due as at September 2005,
- also at **Meadowhall** we have taken back the stores previously let to Sainsbury's and Allders and are in the process of installing mezzanines to provide an additional retail area of around 3,700 sq m (40,000 sq ft). The new first floor area will be directly connected to the existing first floor mall by the construction of a new mall adjoining WH Smith. As part of this remodelling, the extension to the Boots store has been completed. We estimate that when complete, at a cost of £48 million, this project will increase rents by approximately £3.5 million per annum,
- at **Teesside Shopping Park** we have agreed a key new letting to Marks & Spencer on a newly created 3,100 sq m (33,000 sq ft) store, opening Spring 2006 – a further major step forward for this open A1 retail park, and part of an on-going strategy to improve tenant line-up and the retail offer. As a result, top rents achieved on this park have risen to £40 per sq ft. Recent lettings at Teesside have included Borders, Sportsworld and TK Maxx, who join Next, Boots, Outfit, PC World and WH Smith,
- we acquired **1 Fleet Place, EC4** in April 2005 as part of the purchase of our partners' interests in the BL West companies. This 15,900 sq m (171,000 sq ft) office building was let primarily to Denton Wilde Sapte for a remaining term of four years at a rent above current market levels. We negotiated a revised lease for a new term of 20 years without break and have recently sold the property (see above) for well above valuation,
- we successfully negotiated the surrender and regrant of the lease to **Legal & General** in respect of its 24,000 sq m (259,000 sq ft) **Headquarters** office complex at Kingswood, Surrey. The existing lease contained a tenant's break clause in 2008 and a rent above current market levels. The new lease is for a term of 20 years with no break, at a revised rent, significantly improving the value of this investment.

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In October 2005 (just after the interim date and not included in the above data) we completed a letting of 3,900 sq m (42,000 sq ft) at our prime City office development at **Plantation Place South, EC3** to the specialist insurer Beazley Group plc. Beazley has taken the top three floors of the building on a 15 year lease at rents of £43 and £44 per sq ft. Plantation Place is already fully let and we have good levels of interest in the remainder of Plantation Place South.

Strong growth in rental income is targeted within the next five years from the existing portfolio and from the committed development programme. At current market rental values, without projecting any growth or inflation, settlement of rent reviews and full letting of committed developments would add £149 million to our annual passing net rents. Of this, £90 million per annum is already contracted (as at September 2005), £62 million from expiry of rent free periods and fixed/minimum rental uplifts, plus £28 million from pre-let agreements on developments. Considerable additional potential for income growth is in the development prospects.

Rental growth – £90m contracted	**Total £m**	**Of which contracted £m**
Annualised net rents, 30 September 2005	696	696
Reversion*, 5 years	109	62
Committed developments†	40	28
	845	
Development prospects†	159	
Total	**1,004**	**786**

* includes rent reviews, expiry of rent free periods, lease break/expiry and letting of vacant space at ERV (as determined by external valuers)

† to achieve income from developments the Group will incur construction and associated costs, which are not shown here – further details are set out in the Development Programme.

Net rental income under IFRS will differ from annualised net rents which are cash based, due to accounting items such as spreading lease incentives and contracted future rental uplifts, as well as direct property costs.

Development programme

British Land's development programme is based on opportunities created out of existing investments and from acquisitions. We commit to projects in controlled stages on the basis of pre-lets or anticipated market demand, adding quality assets to the portfolio.

Following successful completion of the Plantation Place and 10 Exchange Square office developments in the City, work is well under way at 51 Lime Street (the Willis Building) where Willis Group are contracted to take all the offices under a 25 year lease without breaks. The 43,200 sq m (465,000 sq ft) offices and 930 sq m (10,000 sq ft) retail are scheduled for completion in 2007.

Development projects – adding value	**Sq ft 000**	**Rent £m pa Total[1]**	**Rent £m pa Let/pre-let**	**Cost £m[2]**	**PC[3]**
Completed					
(since 31 March 2005)					
Daventry (E4 & C1)[4]	1,050	2.5	2.5	19.6	
Committed					
Offices:					
51 Lime Street, EC3	475	21.3	21.0	191.0	Q1 2007
York Building, W1	138	6.6		56.0	Q4 2006
Basinghall Street, EC2[5]	199	3.3	3.3	21.0	Q2 2007
Coleman Street, EC2[2]	180	2.7	2.7	21.8	Q1 2007
Business parks:					
Blythe Valley (Plot A1)	53	1.0		8.7	Q4 2005
Blythe Valley (Plot G2)	35	0.7	0.7	6.9	Q4 2006
Retail park:					
Nugent, Orpington	118	4.4	0.4	31.9	Q1 2006
Total	1,198	40.0	28.1	337.3	
Cost to complete:				**203.8**	

[1] current estimated headline rent

[2] construction cost, estimated or achieved

[3] estimated practical completion of construction

[4] International Rail Freight Terminal – BL Rosemound (JV) – rent and cost data above shows BL's 50% share

[5] City of London Office Unit Trust (CLOUT)

Data for Group and its share of Funds and Joint Ventures, except areas in sq ft shown at 100%

The York Building in London's West End is also being constructed on time and on budget for completion at the end of 2006. This will provide over 12,800 sq m (138,000 sq ft) of high quality office, retail and residential apartments.

The development by BL Rosemound of substantial distribution facilities at the Daventry International Rail Freight Terminal has successfully completed with all plots now sold at a significant surplus above cost. This joint venture intends to acquire further projects for mixed use development.

Nugent Shopping Centre in Orpington is a mixed use Open A1 (part restricted) scheme, providing a retail park together with a residential element. Pre-lets have been achieved to tenants including Debenhams, Next, Mothercare and HMV.

CLOUT is undertaking two City office developments at Basinghall Street and Coleman Street, EC2; both are forward sloped (and Coleman Street is also forward funded).

Development prospects, shown below, are sites and properties where we have identified opportunities and are progressing with design, planning applications and site preparation for development projects.

At 201 Bishopsgate, EC2 we have secured a revised planning consent (subject to a S106 agreement now in its final agreed form) for a 35-storey Broadgate Tower and a 13-storey building. These will provide 75,500 sq m (812,000 sq ft) of prime offices plus 930 sq m (10,000 sq ft) retail, forming the next phase of the Broadgate Estate and designed to meet the needs of both financial and professional occupiers. Estimated construction costs are £291 million with an ERV of £40 million per annum at market levels. Enabling works have commenced. We will proceed with development of this prime asset on a speculative basis and expect completion mid 2008 – well ahead of most competing schemes and well timed for delivery into the recovery in the City office market.

An artist's impression of Broadgate Tower and 201 Bishopsgate, EC2

Development prospects

	Sector	Sq ft 000	Rent £m pa	Cost[1] £m	Planning
201 Bishopsgate	City office	822	40.2	291	Detailed
The Leadenhall Building	City office	601	32.1	271	Detailed
Ludgate West	City office	127	5.8	46	Detailed
Regent's Place	West End office				
	i) N.E. Quadrant	347	15.4	134	Pending
	ii) Osnaburgh St	391	17.2	148	Submitted
	Residential	282	6.1	102	Pending/submitted
Blythe Valley Park	Business park	716	14.0	108	Outline/detailed
New Century Park	Business park/distribution	582	8.1	84	Outline
Meadowhall Casino	Leisure	409	12.2	124	Submitted
Theale	Residential	204	4.3	35	Submitted
Redditch[2]	Distribution	227	0.6	4	Detailed
Gallions Reach, Beckton	Retail park	58	1.4	16	Submitted
Preston	Retail park	67	1.2	14	Submitted
Total[3]		**4,833**	**158.6**	**1,377**	
Cost to complete:				1,327	

[1] estimated cost of construction, excluding land and interest
[2] BL Gazeley (JV)
[3] data for Group and its 50% share of JVs, except areas shown at 100%

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Financial results, six months to 30 September 2005

These results are the first reported under the International Financial Reporting Standards (IFRS) adopted from 1 April 2005. This change to the accounting basis arises from legislation requiring all EU listed companies to apply these standards in their financial statements. Comparative figures under IFRS are shown for the six months to 30 September 2004 and for 31 March 2005 where appropriate.

In anticipation of quarterly reporting, the Group has also changed the basis of accruing revenues between periods, which affects the allocation between the first and second halves of a financial year and aligns the Group with the industry norm. Net rental income for the comparative period (September 2004) would have been £6 million higher on the new basis. For the same reason, the uplift in revenue from rent reviews is now recognised on an accruals basis, based on valuer's estimated rental values, rather than on settlement of the rent review as previously. This gives rise to £2 million of additional revenue in this period.

	September 2005	September 2004 (restated for IFRS)	**Increase**
Revenue			
Gross rental and related income	**£340m**	£278m	22.3%
Net rental income	**£305m**	£237m	28.7%
Underlying profit before tax	**£102m**	£72m	41.7%
Profit before tax	**£761m**	£446m	70.6%
Diluted earnings per share	**118.3p**	71.7p	65.0%
Underlying diluted earnings per share	**15.4p**	10.4p	48.1%
Dividends per share	**5.2p**	4.8p	8.3%
	September 2005	March 2005 (restated for IFRS)	
Capital growth			
Net assets	**£5,299m**	£4,783m	10.8%
Adjusted diluted net assets	**£6,595m**	£5,913m	11.5%
Adjusted diluted NAV per share	**1256p**	1128p	11.3%

Revenue returns

The Group has prepared a proportionally consolidated income statement and balance sheet (which are included as Tables A and B attached) for the benefit of stakeholders who wish to see the results of the Group's interest in Funds and Joint Ventures on a look through basis. The following commentary (and the data in the above table) refers to the financial information of the Group as reported.

Gross rental and related income for the half year increased by 22.3% to £340 million. Net rental income increased by 28.7% to £305 million. The increases reflect £45 million of purchases and sales of £3 million, with new lettings adding £15 million of which £10 million arose from Plantation Place alone. The assets acquired in the Debenhams and Spirit portfolios included leases with guaranteed minimum uplifts. IFRS requires such uplifts to be spread over the lease term leading to a £10 million increase in reported rental income.

Underlying pre-tax profit from Funds and Joint Ventures was £14 million, £1 million less than from 2004. Net rental income from Funds and Joint Ventures increased by £13 million (+39.4%) reflecting £9 million from Funds acquired as part of the Pillar acquisition for the two months post acquisition. IFRS requires Funds and Joint Ventures to be accounted for as a single line in the income statement showing a total profit of £80 million. This includes financing costs (£28 million), valuation gains (£82 million) and a taxation charge (£16 million) which would have been reported separately under UK GAAP.

Group net financing costs rose £29 million to £190 million. The increase includes the cost of financing acquisitions (£37 million) and a saving of £7 million arising from the refinancing of the Broadgate securitisation. Net rents covered interest 1.6 times.

Our administrative expenses for the six months totalled £36 million, a 64% increase on the six months to September 2004, reflecting increased staff and other costs following acquisitions and key personnel recruitment, and include one off costs of £8 million.

Underlying profit before tax (excluding profits on asset disposals and revaluation gains) increased by 42% to £102 million. Underlying earnings per share of 15.4 pence per share (after applying an underlying tax rate of 21.6%) increased 48%. Previously reported underlying earnings per share of 11.7 pence for the period to September 2004 under IFRS have been restated to 10.4 pence, following analyst representations. The Group's policy now is only to include in underlying EPS tax items relating to the reported period. Previously we included tax items arising from prior periods.

Group profits on asset disposals were £34 million representing net sales proceeds less March valuation. Profit before tax of £761 million include revaluations of properties and investments as required by IFRS totalling £562 million. Diluted earnings per share totalled 118.3 pence per share including these valuation gains.

The tax rate for the six months is 20.8% with an underlying rate of 21.6% excluding tax on sales and the effects of prior year items. Corporation tax of £8 million is payable in respect of underlying profits, along with an underlying deferred tax charge of £14 million utilising losses including those arising from the refinancing of the Broadgate securitisation.

Our progressive dividend policy continues with an interim dividend declared of 5.2 pence per share, an increase of 8.3%. In accordance with IFRS this dividend has not been accrued.

Profits after interest, tax and working capital movements generated a positive operating cash flow of £62 million for the six months. As a significant net investor in the first half, acquisitions (including repayment of debt acquired) and development expenditure of £1,326 million outweighed disposal proceeds of £332 million. Funds and Joint Ventures have returned a further £240 million. During the period, secured assets and other assets of non-recourse companies generated £44 million of surplus cash after payment of interest and debt amortisation.

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Capital growth and total return

The strong growth in portfolio valuation and increased profits has led to an increase in adjusted diluted net assets since March 2005 of 11.5% to £6,595 million; 1256 pence per share. Total return to shareholders (adjusted diluted net asset value growth per share plus final dividend) in the half year was 12.3%.

Financing activity

Our financing and capital structure policies remain unchanged from those set out in our Annual Report as at 31 March 2005. It remains our strategy to manage the assets and liability mix in the business on a fully integrated basis, producing growth with a secure and attractive risk profile.

Financing statistics	30 September 2005	31 March 2005 (restated for IFRS)
Group		
Net debt	**£6,870m**	£6,061m
Weighted average debt maturity	**13.0 years**	14.3 years
Weighted average interest rate	**5.87%**	6.00%
% of net debt at fixed/capped interest rates	**88%**	90%
Interest cover (net rents to net interest)	**1.61**	1.59
Loan to value (borrowings to property & investments)	**51%**	50%
Unsecured debt to unencumbered assets	**47%**	42%
Undrawn committed facilities and cash	**£1,215m**	£969m
Group and share of Funds and Joint Ventures		
Net debt	**£8,104m**	£6,563m
Weighted average debt maturity	**11.8 years**	13.5 years
Interest cover (net rents to net interest)	**1.61**	1.63
Loan to value (borrowings to property & investments)	**54%**	52%

As a result of good growth and profitable disposals our gearing is comfortably within our target loan to value range of 45-55%, notwithstanding the Pillar acquisition and development expenditure.

During the last six months we raised over £1.3 billion of new (or renewed) bank lines. £790 million was arranged in a successful, oversubscribed syndicated facility with a total of 25 banks, taking advantage of good market pricing. In addition, more than £510 million resulted from a number of bi-lateral agreements on similar terms.

Hercules Unit Trust (HUT), the retail park fund advised by British Land Property Advisers Limited and owned 34.6% by the Group, completed a £1 billion securitisation in September 2005. The seven year debt issue, secured against 16 high quality retail parks located throughout Britain, incorporated significant asset management flexibility.

Portfolio valuation – up 4.9% in six months (5.2% including Pillar and disposals)

The British Land property portfolio was valued at 30 September 2005 by our newly appointed external valuers Knight Frank. This gives us a unique opportunity to test and validate values of our investment properties which we are pleased so to report. It does, however, make precise comparison with prior periods a little more complex, given detailed approach and methodology variances between firms of valuers. Overall, the portfolio including our share of Funds and Joint Ventures has increased in value by £2.1 billion over the six months to 30 September 2005, to £14.65 billion – over £1.4 billion from net additions and £680 million from growth of 4.9%.

This growth includes the Pillar properties and Funds from the date of completion of the acquisition (28 July 2005) to 30 September 2005. If we include growth in the Pillar assets from the date of their last reported value to September 2005, together with the surplus over the last year end valuation achieved on all our sales in the six months, the growth in the overall portfolio increases to 5.2%.

The improvement in value has resulted from further yield shift (as predicted last year) driven by strong investment markets, plus achievement of rental income growth. Investor demand is supported by property fundamentals and the continuing favourable comparison of risks versus returns from alternative asset classes.

All sectors in the portfolio improved in value. The tables shown later in this report set out the details of the valuation by sector.

All retail is up by 4.3% including an increase of 2.2% on our £3 billion retail warehouse portfolio, following a rise of 13.7% for the year to March 2005. This reflects the short two-month period that our interests in Pillar have been held during the half-year. If we included the Pillar portfolio for the full six months, the increase in the retail warehouse portfolio would have been 3.4%. Our retail in high street, superstores and department stores have all performed well. Meadowhall, which continues to be the subject of much asset management activity (as set out earlier in this report) is up 3.9% to £1.5 billion.

All offices are up 6.1% over the six months, which reflects the positive position of our prime City and West End investments at this early point in the cyclical recovery of the Central London office market. The Broadgate Estate, EC2, is up 4.7% to £2.974 billion; while the overall headline ERV determined by the valuers under different methodology than previously is put in a £37.50-£45.00 per sq ft range, against an average contracted rent of £46.74 per sq ft, the net initial yield has tightened to 5.7%.

Regent's Place, NW1 has increased in value by 5.2% to £536 million, based on a yield of 5.54%, with average contracted rents increased to £34.05 per sq ft. The two development sites at Regent's Place (N.E. Quadrant and Osnaburgh Street) are now valued separately.

Eye on the ball – *Life will bowl us many a chinaman. As in the financial world, a sharp eye for unpredictable spin is essential. Whites, however, except in the eyes are optional in the City.*

The ungeared change in property values is approximately 1% less than the IPD all property index movement for the same period. While British Land manages its business for absolute return, the aim also remains to beat this index at property level, as we have done at NAV level. Actions are in place to address individual asset issues.

The positive news is that overall the portfolio outperformed on fundamentals of rental growth and asset management, being held back in aggregate by yield compression favouring less prime properties. This phenomenon is quite likely to reverse in time.

Hercules Unit Trust, the largest of the Funds and valued by CBRE, has achieved an increase in the value of its retail park assets under management of 6.4%, to £2.7 billion, contributing to an ungeared total return of 8.2% over the last six months (11% on a geared basis). There is strong appetite from investors for the units, although few sellers in the market. The total funds under management by HUT, CLOUT, PREF and HIF have grown to over £3.6 billion, of which British Land's share is £1.3 billion.

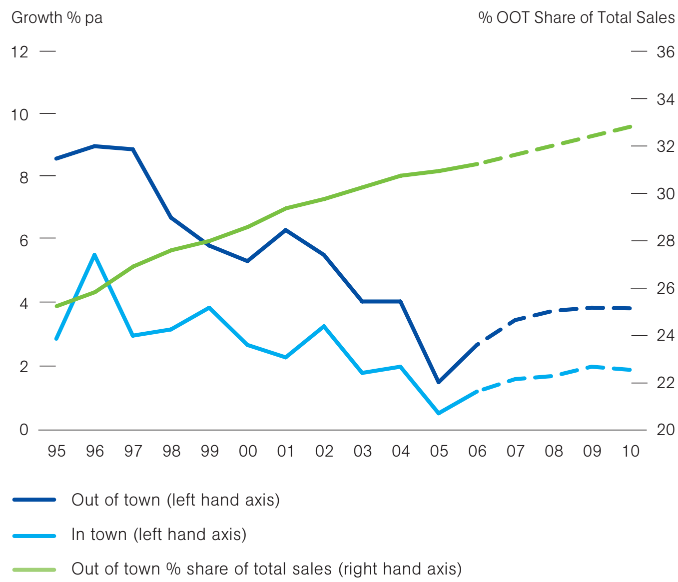
Outlook – portfolio positioned for growth and resilience

57% Retail – 73% of which is out of town
37% Office – 94% of which is in Central London

Retail sales and profits continue to be under much scrutiny as consumer expenditure growth has moderated. Retailers' experience in the current market varies but overall operating margins have built up some resilience and demand for the right locations and accommodation remains healthy.

Out of town retail sales growth is, and is expected to continue to be, above total retail sales growth as out of town takes an increasing share of the market. The size and configuration of out of town space is advantageous for retailers, and the overall costs of occupation and servicing such locations are lower. In particular, the larger retail parks with smaller unit sizes and flexible planning use are enjoying strong demand as retailers, such as Arcadia (Topshop, Topman), Boots, Next and Marks & Spencer, migrate or expand from the high street. The British Land and Funds portfolio has a high, and increasing, proportion of Open A1 (70% by value) and Open Restricted (12% by value) planning consents – these provide the greatest flexibility and enable us to respond to retailer requirements. For example, some retailers are changing the preferred sizes of their stores and in our portfolio we are able to respond with the required supply. In addition, as demand for traditional bulky goods parks slows, if tenants at those parks wish to move (or, indeed, if they fail) the warehouse parks in our portfolio have opportunities for reconfiguration and change of the type of retailer.

Retail sales growth – Out of town versus In town



Source: Verdict, September 2005

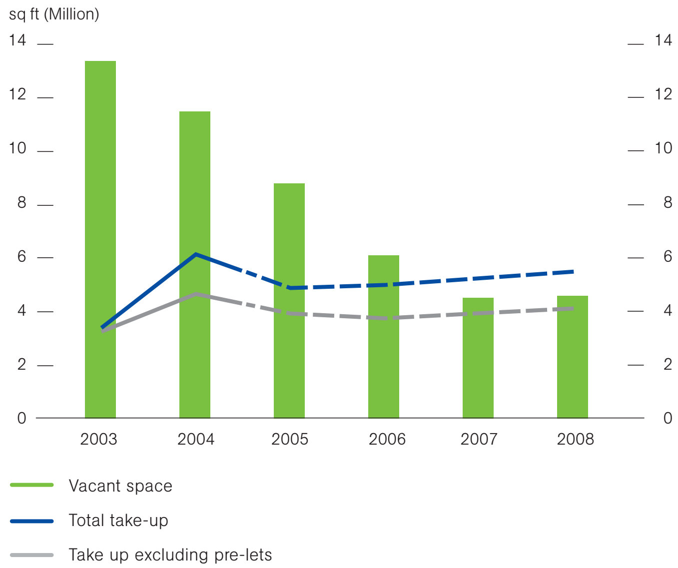
Our out of town portfolio has been boosted by the acquisition of Pillar, including the share of the important HUT retail park portfolio. This portfolio too is increasing focus on Open A1 use through active review of the assets and significant purchases of these investments, together with sales to reduce involvement with certain bulky goods schemes.

British Land now has 171 out of town retail schemes including superstores, providing some 1.6 million sq m (17 million sq ft) in over 1,031 retail units. Flexible unit sizes accommodate more than 240 different retail and leisure tenants. We expect these assets to continue to perform well.

Our investments in town – department stores, shopping centres and prime unit shops – have an important position in the portfolio. In these sectors we concentrate on the best towns and high streets and particular assets which have good opportunities for growth under our management. Income growth on our department stores is underpinned by the contracted 2½/3% per annum rental increases.

The Central London offices' occupational market is seeing good signs of recovery in demand. Take up of space is improving, and now back to trend at 511,000 sq m (5.5 million sq ft) per annum. Grade A offices in the City are particularly in demand and their availability has fallen to its lowest level since 2003. Business and financial services account for over 50% of current demand; this is expected to increase since employment in these sectors is predicted to grow, by some 136,000 jobs by 2008. Forecast vacancy overall for the City is set to reduce from the current 10% to 4.9% in 2008.

City offices – take-up improving
Vacant space vs take-up



Source: Jones Lang LaSalle 2003 and 2004 and British Land forecast 2005 to 2008

Against this increasing demand, supply continues to reduce as a result of minimal new speculative development. An upturn in rents is expected to result from these market factors and headline rents reported by Agents have increased for the first time in over four years, to £47.50 per sq ft.

The investment market in Central London offices remains very strong, continuing to set new records in turnover. In the first three quarters of 2005 the volume of transactions in the City has already exceeded that for all of 2004, which itself was a record year for investment in City offices. Yields are still tightening in this sector.

Property Market Analysis LLP (PMA), Europe's largest independent property research consultancy, has identified Central London offices and out of town retail as the sectors with best prospects for total returns driven by rental growth over the next five years. British Land's portfolio is positioned as to 67% in these sectors.

So the British Land portfolio is positioned for growth, with security provided by the prime quality of the assets, well let on long leases to strong tenants, including a significant proportion of guaranteed minimum rental uplifts. We have intensified our reshaping of the portfolio and proactive asset management, and will continue to focus on these efforts, to enhance risk adjusted returns.