

# “My general view of property as an investment class is that it remains at least as good as anything else, if not better.”

This is my 35th Annual Report to shareholders and I am pleased to tell you that the Company is in a position of great strength. Today British Land owns or manages some £18 billion of prime property, making it Europe's largest quoted property company by this measure. In the year ended 31 March 2006, total return (before refinancing charges) is 35% and for the fifth successive year the dividend increase exceeds 8%, with a final dividend of 11.8p per share, making a total of 17p for the year. Shareholders will welcome these outcomes, not least because the value they represent has taken our stock market capitalisation well beyond £6 billion. Net assets, now £7.8 billion, have risen by 32% to 1486p per share on an EPRA basis.

## 150th Anniversary

In 2006 we celebrate the 150th anniversary of The British Land Company's original incorporation. The Company started as part of the great electoral Reform movement of the mid-19th century, when few people had the vote, but ownership of an interest in land worth only £2 in rent per year conferred that right. British Land bought tracts of land, mostly in and around London, which could be subdivided into plots on which houses could be built and so votes obtained.

This early political significance did not last long. The Company soon concentrated on conventional business, and for the first three-quarters of its existence it survived at a very modest level of activity, but it invested prudently and consistently made profits. It is only in the last quarter of its long lifespan that British Land has grown to take its place among the top 50 of all listed British companies. This is a source of pride to all who have contributed to its considerable endeavours over this period.

British Land's equity base in 1970 was just £20 million, so we have come a long way! In my second year we embarked on a double takeover, first of Haleybridge Investment Trust and then, using Haleybridge's holding in Regis Property as a platform, we acquired Regis as well. Regis famously owned a prime City of London office building, the 365,000 sq ft net Plantation House, in scale quite beyond the reach of the old British Land. It housed banks, insurers and commodity exchanges, enjoying

international renown. Over the years we extended the site, redeveloped the building, and recently sold only a part of the new Plantation Place offices for £527 million.

Our underlying strategy has been consistently applied for many years. Achieving ownership of the 30 acre Broadgate Estate in stages over a 20 year span was another long-term venture. It began with a participation in the One Finsbury Avenue office development in 1983, and now extends to over 4 million sq ft, with another 820,000 sq ft currently under development. It was a similar story at the Regent's Place Estate, half purchased in 1984, the other half in 1986, which is still in course of redevelopment and revitalisation to provide an additional 1 million sq ft, making just over 2 million sq ft of space in all.

We have joint-ventured with others throughout – Commercial Union, GUS, House of Fraser, Scottish & Newcastle, the Quantum Fund run by George Soros, and Tesco, to name a few of our many partners.

## Core values

So while there have been important changes in markets generally over the last 35 years, the core values that built British Land successfully remain more valid than ever, and much of our current prosperity derives from earlier decisions, judgements and actions. Property is a long-term game and it is vital to have the strength of conviction and strength of finances to build enduring value. Our focus on prime property and on certainty of income remain distinctive benefits, as they have been in past years. Freeholds are no less attractive now than they were 150 years ago in 1856.

We are also nimble and accomplished deal makers. With undoubted liquidity and a large high-quality asset base, we can take full advantage of market opportunities to add to or reshape the portfolio as we did in the past and have done again with Pillar this year.

Sectoral trends come and go, as do commentator enthusiasms. We offer our shareholders the transparency of quarterly reporting, but one of our perennial strengths must be to look beyond temporary fashion, using our expertise to allocate and reallocate capital across sectors and types of property. In this way we capture superior long-term gains, but avoid short-term diversions that may build column inches rather than substantive value.

### **REITS and the future**

We welcome the Government's long overdue introduction of Real Estate Investment Trust (REIT) legislation to the UK which should be operational during the current financial year.

Much work has gone into REITs and it represents an important recognition, as it has elsewhere, of the positive role that a vibrant, onshore, quoted property industry can play in regeneration of the UK's built infrastructure and as a facilitator of economic expansion.

These outcomes rely on the operation of open markets to allocate capital efficiently and to drive performance. We support the 'market friendly' model of REIT legislation, which has been selected here and is enjoyed by investors in other major economies.

While not all the detail has been settled, we feel we already know enough to conclude that the REITs regime will benefit British Land. We therefore have decided in principle to apply for this status from the earliest possible date. With a level playing field in tax terms, I am confident that a British Land REIT will prosper and be able to pursue creating growth and value from our property assets, and with little change from the fundamentals of our current business model.

My general view of property as an investment class is that it remains at least as good as anything else, if not better. With the firm foundation of quality assets providing strong, sustainable and growing cash flows, the Company has a great deal to offer currently and prospectively.

### **The Board**

We are very pleased to welcome some newcomers to the Board. Joining as non-executive directors from 1 April are Lord Turnbull and Kate Swann, who will both



add considerable lustre and relevant experience to our deliberations. Lord Turnbull's distinguished career in public service, latterly as Secretary to the Cabinet and Head of the Home Civil Service, is particularly apposite to the important public policy issues that regularly involve our industry. Our extensive retail property interests will benefit from the deep insights and experience in retail and consumer fields of Kate Swann, who is Chief Executive of WH Smith PLC.

We are also pleased to nominate, at the AGM, two new executive directors. Andrew Jones, who joined us with Pillar in 2005, and Tim Roberts, who joined in 1997, have worked to great effect as Co-Heads of Asset Management since last summer and will lead our Retail and Office sectors going forward.

Retiring at the AGM are three directors, to each of whom we owe special gratitude and appreciation. Sir Derek Higgs, our Deputy Chairman, joined the Board in 2000 and has been a stalwart and leading light on the Board since then. Patrick Vaughan also retires having, as agreed, helped us through the successful integration of Pillar, of which he was Chief Executive. His contribution in this, as well as more broadly, has been substantial. Finally, John Weston Smith. John joined me in 1971 at the beginning of the revival of the Company, and his contribution to the Company for 35 years has been immense. For five years he managed British Land of America, and on his return to the United Kingdom he took over the role of Finance Director. He is both friend and colleague and has been an enormous contributor to our success.

Other forthcoming departures include the evergreen Cyril Metliss, a friend who has concluded a further three-years' service on our operating boards following 32 outstanding years as an executive director; and the retirements after many invaluable years of our long-serving Chief Surveyor, Michael Gunston, and Deputy Chief Surveyor, John Iddiols.

We shall be saying farewell also to our Cornwall Terrace headquarters, where we have run out of space. In 2007 we move to our new building at Marble Arch, where our team, energetic as always, will continue to flourish.

A handwritten signature in blue ink, which appears to read "John Ritblat". The signature is fluid and cursive, with a horizontal line underneath it.

**Sir John Ritblat**

Chairman  
1 June 2006