

Statement by the Chief Executive Stephen Hester

“British Land is in great shape.”

We are reporting record financial results as the outcome of both intense and effective business activity. We have also made substantial progress to reposition the Company, building on strong foundations and delivering on our promises made a year ago. This means we are well placed to welcome the advent of UK REITs as an industry leader and look forward to the challenge of outperformance for shareholders in this new guise.

The 2005/6 results

Headline pre-tax profits are up 117% to £1.7 billion while underlying profits rose 26% to £228 million. EPRA net asset value was 1486p per share (up 32%). EPRA net assets are £7.8 billion.

Our underlying profit growth was driven by three factors: rental growth, ahead of the market overall; strong gains in fee and other income from the acquisition of Pillar and its subsequent outperformance and dividends from Songbird; and a lower average interest rate reflecting the Broadgate debt refinancing in 2004/5.

Our growth in asset value was primarily driven by property valuation gains and realised profits on disposals. Continuing yield shift in the market benefited all property. Company specific actions on sector weighting, asset management, development pipeline and gearing were responsible for outperformance, despite the yield compression that penalised prime property.

Market conditions

Real Estate markets offered another year of strong gains driven by yield shift. Overall markets now fairly reflect the value of property's rental growth prospects and strong, bond-like, downside protection compared to alternative financial market trade-offs from bonds to equities. This means that we expect growth rates to reduce, whilst remaining both positive and competitive with other asset classes on a risk-adjusted basis. The property market is also more vulnerable than in recent years to setbacks should interest rates go higher.

The economy's prospects (with modest inflation) should support both rental and occupancy growth from current levels, which remain affordable in historic terms.

However, without yield shift 'drowning out' real performance, we see greater differentiation in relative results likely in coming years. Success will come more clearly from correct portfolio positioning, intense asset management and effective risk-reward assessments.

Delivering on our promises

A year ago we presented British Land's focused strategy for the future. This builds on the bedrock of our Retail and Office expertise, our bias to prime property, focus on secure, income led growth and disciplined risk management. We also set forth some important areas of change to equip the Company to outperform for shareholders in years to come.

I am pleased to report that we have delivered on these promises.

Intensified portfolio reshaping

In just 12 months we have bought or sold £4.8 billion (gross) of property. This is the result of a disciplined plan to reshape our property holdings with tighter focus on areas of probable outperformance and to work shareholders' capital harder in the process. While the pace of asset turnover is likely to slow, this 'process discipline' will remain in place. Not only will the reshaping benefit future performance, in practically every case we have reported significant profit on both sales and purchases.

Pro-active asset management

An important source of value growth comes from working assets harder whilst under our stewardship. Success is ultimately shown by rental growth – above market at British Land. A wide range of lettings, tenancy changes, lease restructurings and premises enhancement lie behind these figures. So too does the enhancement of our property development activity, which we believe is well timed to capture value for shareholders.

Management and culture renewal

The success of our strategy is measured by long-term outperformance for shareholders. Its key enabler is the expertise, resourcing and application of our people, from whom more is being demanded. Here too we have made good progress. Our new executive team is in place and functioning well together. We have doubled the professionals in our Asset Management and Development teams. Succession plans are in place and happening where needed. We are implementing a 'performance' culture with explicit and demanding targets, greater individual responsibility and more variable performance linked pay to match. We also expect to move to a new head office in the current financial year.

Investor friendly positioning

On top of our 'tangible' value creation strategies, we have sought to establish British Land at the forefront of investor friendly behaviour – to help improve translation of the economic value we create into value in the hands of our shareholders.

We aim to be a leader in frequency and quality of reporting and disclosure with high levels of transparency and thereby trust from our investors.

Clarity of strategy, primacy of shareholder value, focus on competitive advantage – all underpin this approach. As do strong Corporate Governance arrangements and Corporate Social Responsibility.

Pillar

The acquisition of Pillar in July last year was a major event for the Company and one which has turned out well.

Pillar's Hercules Unit Trust (HUT) produced total returns of 35.5% in 2005 demonstrating the value of BL's leadership in Open A1 consented retail warehouse parks which we cemented with the £1.3 billion of these assets acquired with Pillar. HUT also produced record 'outperformance' for its investors further benefiting British Land; fee income from third parties of some £40 million was earned in the calendar year. The ability of the Fund Management model to generate strategic options as well as fees was subsequently illustrated with the sale of BL's residential interests in February 2006 whilst retaining their asset management. The integration success of Pillar is not only financial but has also been a contributor to the Company's management and culture renewal described above.

The future

The course we set last year remains valid. Our sector focus, asset management and development potential and financial strength should provide a platform for superior results in coming years, though there is plenty of work still to do to embed the progress to date.

The advent of REITs facilitates our strategy. It will allow the right property decisions to prevail with less fiscal distortions. It is positive to stated and future net assets as contingent tax based on past success is substantially eliminated in exchange for the entry charge. However, our basic job – making money from efficiently financed real estate – is unchanged. Total returns will continue to be the yardstick, with income certainty an important part of the mix.

While making sure that near and medium-term execution is our main focus, we will continue to grow longer-term capabilities. This includes overseas, as our European out-of-town retail interests expand, or in other UK sectors or property types such as the fixed uplift and indexed rental sector. We will stay disciplined to areas of competitive advantage, but be willing to exploit our scale and expertise to add value within, across and between sectors.

The record shows that our scale and breadth can bring opportunity, without sacrifice of manoeuvrability or focused returns. Above all the acid test is long-term, tangible value creation for shareholders. This will drive our size, our strategies and our behaviour.

In closing, tribute is due to the efforts of our people who throughout the business have risen to the performance challenge. Change brings opportunity and uncertainty – it is gratifying to see our talented people welcoming the former and prevailing over the latter.

As the Chairman has noted, we have a number of retirements this year. We are immensely grateful for their contribution to British Land, we will miss them individually and we wish them all the best for the future.

Stephen Hester

Chief Executive
1 June 2006

