

Our activity during the year focused on repositioning the Company and strengthening its capabilities to outperform for shareholders in the years to come.

to produce the best (risk-adjusted) returns in the next few years – prime London offices and out-of-town retail. This discipline will continue, complemented by development of potential new areas for growth in the medium term.

Whilst they are in our portfolio, we work our property assets hard, focusing on meeting customer needs pro-actively, and so achieving improved performance ourselves from a myriad of asset management and development initiatives. This capability and orientation is being extended still further.

And finally, we are clear that the acid test of long-term performance is value delivered to shareholders. The ease with which they develop comfort and trust in our strategy, our capabilities, our transparency and the performance it reveals is important and an area in which we also strive to excel.

Portfolio reshaping

Property purchases of £2 billion and sales of £2.2 billion gross have been successfully completed in the year to March 2006.

This activity resulted from the intensified asset review process put in place 15 months ago oriented at improving the (risk-adjusted) growth prospects of our asset base. The process is a permanent part of how we intend to add value, although we do expect the level of asset turnover to be lower in a normal year.

Our portfolio reshaping can be characterised by two principal themes – narrowing our sectoral focus to areas where we have both distinctive expertise and confidence in performance – and recycling our capital within ‘advantaged’ sectors to reinforce market leadership and enhance growth prospects.



Bob Bowden
Property Investment Director

Sales 12 months to 31 March 2006	Price £m	BL Share £m	Gain %¹
Offices			
Plantation Place, EC3	527.0	527.0	20.2
CityPoint, EC2 ²	520.0	186.9	8.3
1 Fleet Place, EC4	119.5	119.5	21.0
10 Fleet Place, EC4	109.1	109.1	15.6
Legal & General House, Kingswood	73.6	73.6	30.4
2-16 Baker Street, W1	57.2	57.2	31.6
Microsoft Campus, Reading	52.2	52.2	9.8
	1,458.6	1,125.5	18.3
Retail			
ILAC Shopping Centre, Dublin	85.2	85.2	25.0
Manchester Fort Shopping Park	167.3	167.3	³
Banbury Cross Retail Park, Banbury ⁴	69.3	12.0	0.4
Greyhound Retail Park, Chester	66.5	66.5	
Palace Grounds Retail Park, Hamilton ⁴	64.6	22.4	4.1
Solarton Retail Park, Farnborough	47.6	47.6	³
Priory Retail Park, Merton	42.7	42.7	6.8
Auldhouse Retail Park, Glasgow	39.8	39.8	4.5
Matalan Unit, Romford	12.1	3.2	10.8
Sixteen High street retail units	86.3	86.1	14.1
Six in-town supermarkets	48.7	48.7	3.8
	730.1	621.5	6.0
Industrial & Distribution			
Daventry (Plots E1, E3, E4 and C1) ⁵	83.3	41.7	19.0
1, 2 & 3 Heathrow Gateway, Feltham	81.1	81.1	17.2
Residential Portfolio			
Others	44.4	34.6	
	2,697.5	2,204.4	11.5

¹ sale price above last year end valuation (March 2005)/fair value on acquisition

² City of London Office Unit Trust (CLOUT)

³ sale contracted by Pillar prior to British Land acquisition

⁴ Hercules Unit Trust (HUT) – Banbury 50% owned

⁵ International Rail Freight Terminal – BL Rosemound (JV)

Capital recycling – total sales of £1.5 billion, including:

Offices – our sales in the Office sector have focused on assets where our assessment of (risk-adjusted) growth prospects was lower than that of our development pipeline and other assets. This includes the two largest individual sales yet seen in the City, of Plantation Place and CityPoint.

- **Plantation Place** was developed by British Land with completion in 2004. The offices in this 51,100 sq m (550,000 sq ft) high-quality building are fully let to Accenture, Wachovia Bank, Aspen Insurance and Royal & Sun Alliance. The £527 million sale, at a price above year end valuation and reflecting an exit yield of around 5%, enables us to take a development profit and to recycle the proceeds into further London developments, where we see better prospects for rental growth.
- The sale of **CityPoint** for £520 million was announced by CLOUT, the Unit Trust advised by British Land, in January 2006. This landmark building built in the 1960s and refurbished some five years ago provides over 65,000 sq m (700,000 sq ft) of office and ancillary space, let to over 20 tenants. With office passing rents of up to £68 per sq ft the risk-adjusted growth prospects available elsewhere were seen to be better.
- **1 and 10 Fleet Place** were wholly acquired by us through the purchase of our partner's 50% share in the BL West Joint Venture. Following restructuring of the principal lease at 1 Fleet Place, and to reduce exposure to void and capex risks at 10 Fleet Place, these office properties were both sold in the year for a combined £228.6 million. In each case we were able to take profits in a market featuring strong competition from a number of potential purchasers.
- **2-16 Baker Street** was sold for £57.2 million at some 32% above valuation. This office property had a weighted average lease length of four years and was overrented. Its development prospects were highly valued by others in a competitive market.

Retail – in the Retail portfolio, sales have reflected our original programme and the refining of our combined portfolio following the Pillar acquisition. Investment has focused on larger retail parks with Open A1 planning consents, which provide greater opportunities for growth through our management.

- **The ILAC Shopping Centre**, Dublin, was purchased 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 for €125 million, (£85.2 million).
- **Eight retail parks** with more emphasis on bulky goods have been sold profitably at a total of £510 million, following achievement of improvements in rental income.

Tightening sectoral focus – sales of £700 million included:

- The sale of 16 **in-town retail** properties, where the prospects for tenant demand and therefore rental growth were seen as weaker, included an average initial yield of less than 4% for five prime high street shops. We also sold six in-town supermarkets, in a market which has been buoyant for these smaller lot size high street investments.
- The **residential** investment portfolio, being outside our core focus, was sold in February 2006 for a total consideration of £300 million. However, we are pleased that as part of the transaction, we entered into a contract to provide on-going asset management services for the portfolio, thereby utilising our skills in the sector and extending our Fund Management activities and earnings.
- At both **Daventry** International Rail Freight Terminal and **Heathrow Gateway** the developments of distribution warehouse units were completed and profitably sold.
- Offices at **Kingswood** and **Reading** have also been sold, above valuation, where our confidence in rental growth was limited.

£2 billion of purchases – redeploying capital to primary markets:

- The successful acquisition of **Pillar Property PLC** in July 2005 added more than £1.5 billion of real estate, including some £1.3 billion of top quality retail warehouse parks, most with the Open A1 planning consent. These offer greater flexibility and superior prospects for continuing growth with our asset management, in a demanding retail market. We have built a market leading portfolio in this sector and are benefiting from improving wider relationships with our customers, the tenants.

The Pillar properties were held either directly by the Company or through its share of the Funds it managed, including the Hercules Unit Trust (HUT), with the largest specialist UK retail park portfolio at £3.1 billion, and PREF, the European Retail Park Fund. These assets have performed well, ahead of expectations. For the calendar year 2005, at a property level the HUT portfolio achieved a 19.5% increase in value. The Trust return for the year was 35.5%. PREF's Trust return for the same period was 18.7%.

Purchases 12 months to 31 March 2006	Price £m	BL Share £m	Value uplift %¹
Pillar (wholly owned + share of funds)	1,565.8	1,565.8	9.4 ¹
St Stephen's Shopping Centre, Hull ²	135.0	135.0	2
Ropemaker Place, EC2	131.0	131.0	3
Four Retail Parks ⁴	96.8	33.5	2.8
Two Retail Parks in France ⁵	50.4	17.2	
Others	166.9	150.2	6.5
	2,145.9	2,032.7	7.8

¹ from purchase price on completion to 31 March 2006 – for Pillar eight months since 28 July 2005

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

³ purchased 21 March 2006

⁴ Hercules Unit Trust (HUT)

⁵ PREF – Europark Fund – purchases not yet revalued

Pillar also brought a strong asset management team to add to our own. Its growing Fund Management business provides attractive additional income streams. Fees earned by Pillar in the year to 31 December 2005 amounted to some £60 million (a record level), from both asset management and Fund outperformance. British Land's net share is some £40 million, of which £26 million is recognised in our accounts for the year due to the Trust's fee structure provisions (set out in further detail below).

- **Ropemaker Place** was acquired in March 2006 for £131 million. The cleared island site of just over one acre close to Moorgate and Liverpool Street stations, has detailed planning consent for 46,900 sq m (505,000 sq ft) offices. We intend to make a revised planning application and to start construction later this year for delivery of the development to the market in early 2009.
- **St Stephen's Shopping Centre**, Hull, forward purchased for £135 million, is a new 46,450 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.

Investment in Europe

We have embarked upon extending our investment in Europe, with the focus on out-of-town retail, where attractive returns are expected in a market which has both lower rent levels and higher yields than comparable assets in the UK. We are market leaders in the sector in the UK; we have the management infrastructure and expertise in our team following the acquisition of Pillar, and believe in the prospects for growth in the European market as it develops driven by trends similar to those seen in the UK.

Investment in Europe is currently through the PREFER Fund – which we manage and collect fee income from, and of which we own 34% (40% when new equity fully contributed) – and development held directly by ourselves.

We have committed to increase our **investment in PREFER** by €124 million, as part of a further €214 million raised by the Fund, to fund acquisitions of out of town retail parks in the eurozone. This equity and expected gearing puts PREFER on track to achieve its objective of a portfolio under management or contracted in the region of €1 billion by the end of 2006 of which €628 million is already purchased or under contract.

PREFER owns six retail parks in Europe, two of which were acquired during the year, both on the outskirts of Paris in established retail locations in good catchment areas. The Montgeron Retail Park was purchased for €23.8 million, fully let to a strong range of tenants at conservative rents. The purchase for €48.5 million of the Corbeil-Essonnes Retail Park, currently under construction and 100% pre-let, is expected to be completed in time for pre-summer 2007 opening. Both parks in Paris will provide a yield in excess of 6%. PREFER has also

contracted conditionally to acquire a further eight retail park schemes on completion of their development in Italy, France, Spain, Belgium and Portugal. In total these are expected to add a further 186,000 sq m (2 million sq ft) to PREFER's existing 148,600 sq m (1.6 million sq ft) portfolio.

A significant further step into Europe by British Land has been taken with the purchase in May 2006 of a 50% Joint Venture interest (with Copcisa Corp, a Spanish construction company, and private investors) in a major project in **Zaragoza, Spain. Puerto Venecia** will be a 195,000 sq m (2.1 million sq ft) €500 million development of a retail park, a specialist retail and leisure park and a shopping centre, with ancillary facilities. Anchors secured for the parks include the major retailers IKEA, Leroy Merlin, Decathlon, Boulanger, Porcelanosa and Conforama. Zaragoza is Spain's fifth largest city approximately 300 kilometres from each of Madrid, Barcelona and Valencia. This important project will provide a new regional centre for the city, which will host the international EXPO in 2008.

Pro-active asset management

Considerable energy continues to be devoted to improving both the value and income of the property we own with a range of intensive asset management and development activity. An increasing focus on customer requirements is enhancing performance and outcomes.

	Number	Sq ft 000s	Rent, £m pa	
			New total rent increase	BL share of
Retail warehouses	31	303	7.9	2.6
Shopping centres	131	400	16.7	5.3
High street	17	59	1.7	1.0
City offices	25	215	9.0	8.0
West End offices	18	52	1.5	0.4
Other	110	180	1.8	0.7
Total	332	1,209	38.6	18.0

Included in these new lettings are:

- lettings of 3,900 sq m (42,000 sq ft) at our prime City office development of **Plantation Place South, EC3** to specialist insurer Beazley Group plc at rents of £43/44 per sq ft under a 15-year lease. Further lettings have been agreed at £45 per sq ft since the year end,
- lettings of 1,350 sq m (14,500 sq ft) to solicitors Herbert Smith at £45 per sq ft (granted pursuant to a 2004 option, now reversionary) and 2,700 sq m (29,000 sq ft) to Close Asset Management at £48.50 per sq ft achieved in our development at **10 Exchange Square**, Broadgate. Since the year end we have another letting here under offer at £50 per sq ft,
- a new letting to Marks & Spencer at **Teesside Shopping Park** (due to open in August 2006 in a store extending to over 4,600 sq m (50,000 sq ft)) with further lettings to Superdrug, Mamas & Papas and Lilley & Skinner, continuing the improvement of the retailer line up.

Examples of our asset management activity in the year include:

Rent reviews

229 reviews were settled across the portfolio, including Funds and Joint Ventures. These have increased rent to British Land by some £9 million per annum, a result averaging 5.3% above our external valuer's estimates of rental value at the valuation date preceding the relevant review.

Lease regearing

1 Fleet Place, EC4 was acquired as part of the purchase of our partners' interests in the BLWest companies. These offices were let primarily to Denton Wilde Sapte for a remaining term of four years at a rent above current market level. We negotiated a revised lease for a new term of 20 years without break and then sold the property (as set out above) for a price well above valuation.

The lease to Legal & General in respect of its 24,100 sq m (259,000 sq ft) Headquarters office complex at Kingswood which contained a tenant's break clause in 2008 and provided for a rent above market level was successfully renegotiated. The new lease was agreed for a term of 20 years without break, at a revised rent significantly improving the value of the investment and enabling a sale (reported above) some 30% above valuation.

Unit reconfiguration

At The Peacocks, Woking we have improved prime rents from £90 to £110 per sq ft 'Zone A' during the year, by negotiating the surrender of leases of a number of units which have been re-let at higher rents, providing open market evidence for other reviews at the centre. By taking back a basement car park from the Local Authority, a new 1,300 sq m (14,000 sq ft) unit was created for New Look with a rent of £281,000 per annum.

A profitable project of reconfiguration and enlargement of five units at The Eastgate Shopping Centre, Basildon was completed, including letting of a new unit to Jane Norman at £150,000 per annum, enhancing the rental tone for the centre.

Meadowhall Shopping Centre, Sheffield

Significant activity included 25 new lettings, of which 13 are to retailers new to the centre, including Apple and TM Lewin, and Boots and WH Smith have opened their new stores. One of these new lettings reflected a 'Zone A' rent of £440 per sq ft, setting a new open market rental level for Meadowhall. Together these lettings have increased rent by some £2 million per annum. A further £880,000 per annum has been added following completion of 21 rent reviews.

We took back the stores previously let to Sainsbury's and Alders and are in the process of installing mezzanines to provide an additional retail area of around 4,300 sq m (46,000 sq ft). The new first floor area will be directly connected to the existing first floor mall by the construction of a new mall. The reconfiguration is progressing well, with completion due in September 2007. We estimate that, at a cost of £48 million, this project will enhance the retail environment and increase rents by approximately £3.5 million per annum.

A major refurbishment programme for Meadowhall, featuring improvements to the lighting and installation of mall cooling, started in June 2005 and is set for completion in autumn 2007, at a total cost of some £38 million. Retailers' and shoppers' requirements develop over time and it is necessary to undertake regular programmes of phased updating and refurbishment at major shopping centres. The expenditure at Meadowhall, as part of such a programme, will maintain its standards as a pre-eminent regional shopping centre, although having an adverse effect on the asset's recent investment performance.

Extensions

Agreements have been reached with Sainsbury's and Tesco Stores to extend seven stores to provide a total of over 9,300 sq m (100,000 sq ft) additional space.

Retail Park enhancement

A project recently completed at St. James Retail Park, Dumbarton is a good example of the range of our activity at retail parks; it included:

- overcladding, new unit entrances and re-landscaping
- construction of a new 985 sq m (10,600 sq ft) unit and letting to Argos
- an extension of 1,860 sq m (20,000 sq ft) to the existing ASDA store
- a new letting to Carpetright and an agreement (conditional on planning) to let a further unit to Marks & Spencer.

Rental growth potential

Strong growth in rents 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 market growth, inflation or further asset management success, settlement of rent reviews and full letting of committed developments would add £210 million to our annual passing net rents. Contracted increases include £47 million from expiry of rent free periods and fixed/minimum rental uplifts. Approximately £1.6 billion of the total portfolio value comprises properties with fixed or minimum guaranteed rental increases included in their occupational leases.

Considerable additional potential for income growth is in the development prospects, which will be progressed when market conditions are right.

These are cash rents; it should be noted that accounting policies under IFRS require that certain portions of these contracted rents are anticipated in the Group's income statement.

Rental growth – £75m contracted	Total £m	of which contracted £m
Annualised net rents, 31 March 2006	625	625
Reversion,* 5 years	102	47
Committed developments†	108	28
	835	700
Development prospects†	113	
Total	948	700

* 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