

Customer focus

British Land has more than 1,400 occupiers across its portfolio. Whilst our long lease profile provides a solid bedrock, we recognise that the value of our portfolio is derived from customers choosing to lease space from us. Although a major part of this will be due to our commitment to invest in and maintain prime properties, we are also committed to continue to adapt the way we work to support our customers' own changing business needs most effectively. Where property management is being outsourced to managing agents, we are also continuing to improve our support and direction of them.

In 2005 we chose to accelerate improvements in our approach to customer service. This has resulted in a number of new initiatives, and changes to the way we work. The following is a summary of some of our customer initiatives:

- We joined Real Service, the industry customer service group of 20 owners and 15 managing agents. The group has developed an Engagement Index to benchmark customer service processes in each business against a best practice model. We have used this framework to support our efforts to identify areas we can improve.
- We undertook a Perception Study, interviewing senior decision makers from 60 of our largest customers to identify areas where we should improve. The following is a brief summary of their feedback:
 - We provide excellent property – very good buildings in strong locations.
 - The Pillar acquisition has been seen to be a positive move, merging Pillar's out-of-town retail expertise with British Land's market leadership.
 - Our customers want closer relationships with our own property team.
 - There is an opportunity to provide more active direction to our managing agents and to monitor their performance more effectively.

We will extend our customer surveys in 2006, across our portfolio as a whole, to benchmark our performance year on year and to provide greater clarity regarding the performance of our team and our service partners.

- Our property team is undertaking more frequent communication and contact with occupiers to build closer ongoing customer relationships, to understand more clearly how we can support their businesses and to receive feedback on our performance as a supplier.
- We have undertaken a review of our managing agents, resulting in a consolidation from 19 to 8 partners. This will enable us to establish greater service consistency across the portfolio and to support our managing agents more actively.
- We are standardising service charge management processes to enable our customers to benchmark costs across our portfolio and the industry as a whole so that they can have greater transparency that they receive value for money.
- We introduced 'Our Service Commitment' to communicate service expectations to our customers and to enable more effective performance management of our service providers. We have published this for our customers, staff and service providers. It is also available on our website.

Accelerating development programme

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

Projects involving a total of 113,500 sq m (1,222,000 sq ft) have been completed during the year, on time and within budget. New commitments to develop 201 Bishopsgate and The Broadgate Tower, Ropemaker Place and Ludgate West have been made in the year, enhancing our important City offices development programme. We expect City rental growth to put rents significantly higher during 2007-2009; our speculative developments should be well timed for delivery into this improving market.

The distribution warehouse units at Daventry International Rail Freight Terminal have been successfully completed and sold during the year.

Another phase of the Blythe Valley Park development has completed and the first letting of some 1,860 sq m (20,000 sq ft) has been achieved.

Construction of the Nugent Shopping Park has been completed and tenants already trading well include Next, Debenhams, Mothercare, Cotswold, Game, Clarks and Carphone Warehouse. Other retailers 'under offer' include HMV, Waterstones, WH Smith, Mamas & Papas, Jessops, and Clintons, representing the majority of the remaining space.

The construction of The York Building, W1, is programmed for completion in late 2006 to provide some 8,640 sq m (93,000 sq ft) offices, 1,770 sq m (19,000 sq ft) retail and ancillary space, and 22 residential apartments. It is intended that approximately 3,700 sq m (40,000 sq ft) of office space will be occupied by us as the new British Land head office.

Our speculative developments should be well timed for delivering into this improving market.

Development projects – adding value

Completed (since 31 March 2005)

	Sq ft 000	Rent £m pa		Site cost £m	Construction cost + interest £m	Value, March 2006 £m	Project uplift %
		Total ¹	Let/ pre-let				
Distribution: Daventry (E4 and C1) ²	1,050	2.5	2.5	11	19	38	27
Business Park: Blythe Valley (Plot A1)	55	1.1	0.4	2	8	13	30
Retail Park: Nugent, Orpington ³	117	4.3	2.0	26	30	72	29
	1,222	7.9	4.9	39	57	123	28

¹ current headline rent (excludes provision for tenants' incentives)

² International Rail Freight Terminal – BL Rosemound (JV) – rent, cost and value data show BL's 50% share

³ most of remaining space under offer, further uplift expected when fully let

Revised planning consent for a 35-storey Broadgate Tower and a 13-storey 201 Bishopsgate, Broadgate, EC2 has been obtained. The development has been made possible by creating a raft over the railway lines servicing Liverpool Street station. This preparation has enabled the construction of these imposing new buildings, commenced earlier this year, to be advanced quickly for completion in 2008 – well timed for delivery into the cyclical recovery of the City office market. The buildings will form the next phase of the Broadgate

Estate, providing offices designed to meet the needs of both financial and professional occupiers, and a new public space with shops, bars and cafes.

The offices at 51 Lime Street, EC3, which will form a new City landmark, are fully pre-let to leading insurance broker Willis Group under a 25-year lease without breaks. The 29-storey building, on a prime site opposite Lloyd's of London, is on programme for completion early in 2007.

Committed

	PC ¹	Sq ft 000	Cost £m ²		Value, March 2006 £m	Notional interest £m ³	Rent £m pa	
			Total	To complete			Total ⁴	Let/ prelet
London Offices:								
York Building ⁵	Q4 2006	138	56	29	57	1	6.3	
51 Lime Street	Q1 2007	475	191	88	186	5	21.3	21.0
Coleman Street ⁶	Q1 2007	180	40	20	19		2.7	2.7
Basinghall Street ⁶	Q2 2007	199	38	18	20		3.3	3.3
Ludgate West	Q4 2007	127	48	37	39	2	6.1	
201 Bishopsgate and The Broadgate Tower	Q3 2008	822	292	245	212	20	40.4	
Ropemaker Place ⁷	Q2 2009	548	208	208	131	10	27.6	
		2,489	873	645	664	38	107.7	27.0
Business Parks:								
Blythe Valley (Plot G2)	Q4 2006	35	6	4	3		0.7	0.7

¹ estimated practical completion of construction

² estimated construction cost

³ from 31 March 2006 during construction to PC

⁴ current estimated headline rent (excludes provision for tenants' incentives)







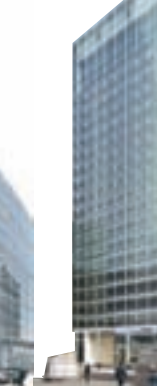

⁵ circa 40,000 sq ft to be occupied by British Land

⁶ City of London Office Unit Trust (CLOUT) – BL Share 35.94% – forward sold

⁷ subject to revised planning – existing consent for 46,900 sq m (505,000 sq ft)

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

3.5m sq ft of well timed London Office Developments

The York Building 138,100 sq ft	The Willis Building 475,000 sq ft Pre-let	35 Basinghall Street 199,000 sq ft Pre-sold	One Coleman Street 180,000 sq ft Pre-sold	Ludgate West 127,000 sq ft	The Broadgate Tower & 201 Bishopsgate 822,000 sq ft	Ropemaker Place 548,000 sq ft	Regent's Place – Osnaburgh Street 380,500 sq ft	The Leadenhall Building 601,000 sq ft	
									
									
2006 0.1m sq ft	2007 1.0m sq ft			2008 0.8m sq ft	2009 1.0m sq ft			2010 0.6m sq ft	

CLOUT is undertaking two City office developments at Basinghall Street and Coleman Street; both are fully pre-let and forward sold (Coleman Street is also forward funded).

Construction of Ludgate West, EC4, began in April 2006, following demolition and site preparation. The 10-storey building will provide high specification offices with some ancillary retail space, close to St Paul's Cathedral. The principal entrance will be on Fleet Place, with significant frontage and further access onto Farringdon Street.

Ropemaker Place, EC2, an 'island' site close to Moorgate and Liverpool Street Station, was purchased in March 2006. The site of 0.5 hectares (1.24 acres) has an existing detailed planning consent for a 46,900 sq m (505,000 sq ft) office development. We are reviewing the 20-storey consented design and expect to make an amended planning application to maximise efficiency and floor area. Work is likely to start on site later this year with delivery of the completed development expected mid 2009.

Development prospects

		Sq ft 000	Cost to complete £m ¹	Value, March 2006	Notional interest ² £m	Rent £m pa ³	Planning
The Leadenhall Building	City Office	601	278	103	26	31.4	Detailed
Regent's Place	West End Office						
	i) NE Quadrant	341	131	23	6	14.9	Pending
	ii) Osnaburgh St	380	176 ⁴	7	8	16.7	Resolution
	Residential	288	102	3	4	5.9	Pending
Blythe Valley Park	Business Park	699	107	15	4	14.0	Outline/detailed
New Century Park	Business Park/Distribution	582	80	23	3	8.1	Outline
Meadowhall Casino	Leisure	409	123	– ⁵	9	12.2	Submitted
Meadowhall	Car showrooms	171	29	– ⁵	2	3.2	Pending
Theale	Residential	204	32	13	2	4.3	Submitted
Beckton	Gallions Reach Retail Park	94	9	1	–	1.4	Detailed
Preston	Deepdale Retail Park	67	12	3	–	1.2	Detailed
Total		3,836	1,079	191	64	113.3	
Total construction cost ¹ :			1,110				

¹ estimated construction cost

² during construction to PC

³ current estimated headline rent (excluding cost of tenant incentives)

⁴ including estimated cost of land to be acquired from The Crown Estate under development agreement

⁵ value of these sites included in valuation of Meadowhall Shopping Centre

All data for Group, projects 100% owned

Another year of strong gains driven by yield shift and rental growth.

The development of the next plot at the successful Blythe Valley Business Park is fully pre-let and continues on programme and within budget.

In addition to completing development of over 92,900 sq m (1 million sq ft) of distribution warehouse accommodation at Daventry (and selling the residual land holding), the BL Rosemound Joint Venture completed the purchase and on-sale (in April 2006) to Tesco of a 127 acre site at Livingstone, Scotland, realising a substantial surplus.

Development prospects, set out in the table opposite, are sites and properties where we have identified opportunities and are progressing with designs, planning applications and site preparation for future development projects.

At the Leadenhall Building, EC3, we have been negotiating with existing tenants and are now able to obtain vacant possession of the building in early 2007. Alongside this process we have been designing and planning the new building to facilitate the prospective development. Detailed planning consent is in place for the striking new 47-storey tower – this will provide three times the office floor space of the existing building on the site.

At Regent's Place, NW1 (in conjunction with The Crown Estate) a resolution to grant planning consent has been received recently for 35,300 sq m (380,000 sq ft) offices and 10,200 sq m (110,000 sq ft) residential accommodation at Osnaburgh Street, to extend the estate by a mixed use scheme including a community theatre and retail around a new public space.

Retail park development

We actively pursue extension and other development potential at or adjacent to existing investments. Planning consents have been obtained for such extension and further development at 14 retail parks owned by British Land and by HUT, covering over 53,000 sq m (570,000 sq ft).

Gallions Reach, Beckton, Phase 2, has received open A1 planning consent for 8,700 sq m (94,000 sq ft), including a mezzanine level. The scheme is adjacent to a HUT retail scheme of 18,600 sq m (200,000 sq ft) let to occupiers including Tesco, HMV, Arcadia, New Look, Borders and Next. We are currently seeking pre-lets before committing to construction.

In March 2006 we exchanged conditional contracts in an off-market transaction to purchase Giltbrook Retail Park, Nottingham. The conditions are expected to be satisfied for completion in late June 2006. Giltbrook is an existing retail warehouse scheme of 5,600 sq m (60,000 sq ft) let to Decathlon and Next plc, with a 8.42 hectare (20.8 acre) site opposite, which we intend to develop (subject to revised

planning) to provide up to 13,900 sq m (150,000 sq ft) of further retail plus 7,000 sq m (75,000 sq ft) of industrial/office accommodation. The property adjoins a 17,650 sq m (190,000 sq ft) IKEA superstore which attracts over five million visitors per year. Next and Decathlon already trade well in this good location and, with the new park, we expect this to become an important regional retail destination.

Deepdale Retail Park, Preston is also adjacent to a major shopping park owned by HUT. A restricted use planning consent has been granted for a retail park of 4,200 sq m (45,000 sq ft) plus sheltered housing, a creche and small industrial units. The scheme is subject to further preparation and pre-lets.

Schemes being prepared by HUT include:

- Broughton Park, Chester – a new open A1 consent for 18,300 sq m (197,000 sq ft) (subject to formal confirmation) will enable a pre-sale to Marks & Spencer of 8,360 sq m (90,000 sq ft) and an extension of the Tesco store of 2,600 sq m (28,000 sq ft) to 9,300 sq m (100,000 sq ft), together with 5,100 sq m (55,000 sq ft) of additional retail units where pre-lets are being negotiated. In its extended form Broughton Park will become a regional destination of some 46,450 sq m (500,000 sq ft).
- Fort Kinnaird, Edinburgh – open A1 planning consent received for a 9,850 sq m (106,000 sq ft) extension will enable the Marks & Spencer store to be enlarged and provides flexibility for further extensions of units at ground and mezzanine levels.
- Glasgow Fort Shopping Park, Phase II – plans for an additional 9,300 sq m (100,000 sq ft) are being discussed with the local authority. Terms have been agreed with a major retailer to anchor this phase, subject to receipt of planning consent.

Portfolio valuation – up 13.5% in the year

The British Land property portfolio was valued at 31 March 2006 by external valuers Knight Frank, who now provide this analysis every three months in line with our quarterly reporting. Overall, the portfolio including our share of Funds and Joint Ventures, has increased in value over the year to £14.4 billion.

The portfolio valuation increase includes the Pillar properties and Funds from the date of completion of the acquisition (28 July 2005) to our year end. If we include growth in those Pillar assets from the date of their last reported value prior to the acquisition through to 31 March 2006, the increase in value in the overall portfolio rises to 13.9%.

The chart on the following page shows the valuation movements for the portfolio sectors, all of which improved in value. Our key areas of focus, out-of-town Retail and London Offices both performed well, with the accelerated London office development programme achieving the highest rate of growth, driven by yield shift and improvements in market rental values.