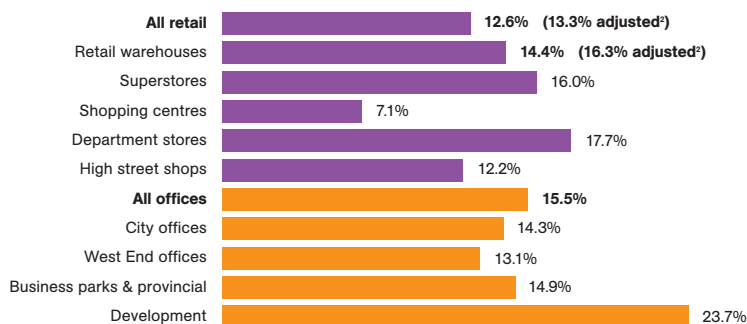


Increase in value in portfolio¹



¹ Includes valuation movements in developments, purchases and capital expenditure, and excludes sales

² Pro-forma for Pillar from April to July 2005 (i.e. full 12 months)

Performance against IPD benchmark

On an ungeared basis British Land’s property portfolio total return was 1.1% less than the IPD index in 2005/6. This element of underperformance occurred in the first half of the year (perhaps influenced in part by the change in valuers). In the second half the ungeared total return of 11.5% outstripped IPD for the same period by 0.5%.

British Land targets absolute risk adjusted returns; we are not an index-tracker, and do not seek to mirror the composition of the benchmark assets, though it is a goal to produce better returns over a multi-year period. In 2005/6 secondary property (more represented in the IPD Benchmark portfolio) saw greater yield shift than prime. Additionally the capital expenditure cycle at Meadowhall held back performance there, while the residential portfolio, since sold, had a dull year.

Nevertheless, British Land’s leveraged total return significantly outperformed at 34.6% (EPRA basis, excluding refinancing charges).

Property market outlook

In 2005/6 the UK property market saw:

- another year of strong gains driven by yield shift and compression – yields for more secondary properties have moved closer to those for prime assets as their risk factors (such as location, age, lease length, covenant strength or income growth prospects) have been discounted by investors
- the investment market continuing to be strong – transaction levels have been high, with demand from both UK and overseas investors, supported by availability of debt finance and relatively low interest rates (increasing recently)
- rents remain affordable in most sectors and the economy’s prospects should support continued modest growth.

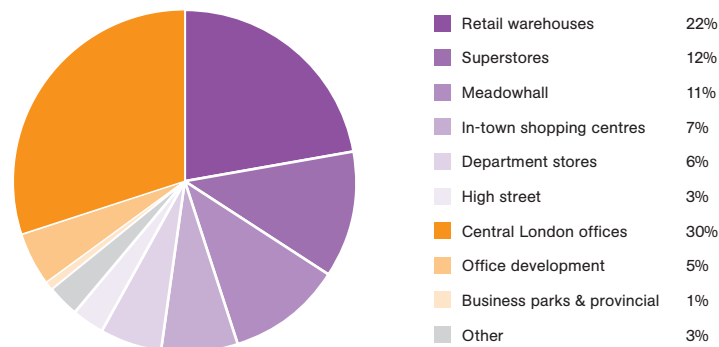
As a result we now believe that the value of property’s rental flows and growth prospects with its strong, bond-like, downside protection are fairly reflected overall in the market and consequently we expect valuation growth rates to slow.

Base returns from the UK property market overall in the next few years may be estimated at around 7% per annum, based on an average initial yield of 5% and expected average rental growth of 2% per annum, though it is quite possible that a little more yield shift also benefits the next year. Our target is that British Land’s prime portfolio, with gearing and our asset management activities, will improve upon this level of return and we expect total returns from property to continue to be attractive versus other asset classes (on a risk adjusted basis).

Going forward, we expect that returns will be driven more by rental growth than by yield shift, and there will be greater differentiation in relative asset performance. Outperformance will require the right portfolio positioning and effective assessment of the risk-reward position of prime versus secondary property. Stock selection within the sectors, coupled with intense asset management, will have a greater effect on portfolio performance.

Portfolio positioning

£14.4bn Total Assets
 61% Retail 36% Offices
 73% Out-of-town 96% Central London



The British Land portfolio, well let on long leases to strong tenants, has leading positions in the two main sectors with the best prospects for rental growth over the next five years:

- in retail warehouse parks and superstores, where there is a favourable supply and demand imbalance for the types of accommodation on which we are focused to meet tenants’ requirements, and
- in London offices, where there are clear signs of an upturn in the occupational market, we are fully invested in prime assets. The accelerated office development pipeline is designed to deliver, on a phased basis, further prime space into the improving market.

Retail sector

£8.8 billion invested – total property including under management £12.4 billion



Andrew Jones
Co-Head of Asset Management

Retail market

Retail sales continue to be under scrutiny as consumer expenditure growth fluctuates. Trading remains extremely competitive and retailers' experience in the current market varies, but demand for the right locations and accommodation remains healthy.

Total retail sales are forecast to continue to grow over the next five years, with out-of-town shopping locations maintaining the trend of taking an increasing share. Out-of-town is expected to see sales growth of 3.1% per annum with in-town at 1.7% per annum. Retailers find the size and layout of out-of-town space advantageous and the overall costs of occupation and servicing such locations are typically lower. Migration or expansion by tenants from the high street to out-of-town is continuing with several utilising new store formats, generating strong demand for the types of retail parks in which we are invested. The preferred features of flexible use and unit configuration are also producing higher than average rental growth, resulting in outperformance of these assets.

Out-of-town – £6.5 billion portfolio:

- 181 retail schemes, including superstores
- providing 1.8 million sq m (19 million sq ft)
- arranged in 1,402 retail units
- let to 482 tenants

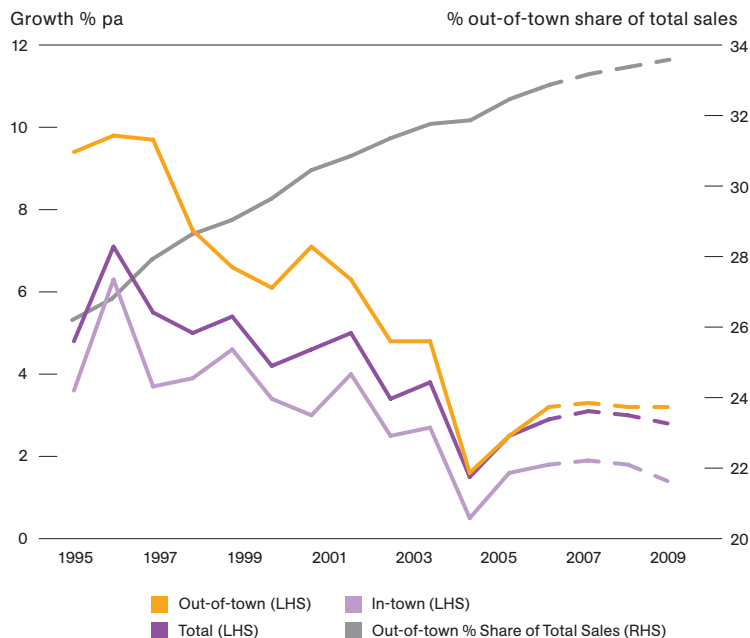
Strategy and positioning

British Land has a distinctive portfolio, being the largest investor in UK out-of-town retail warehouses and superstores. In retail warehouse parks we favour open A1 planning consents where supply is extremely restricted and demand remains high. Our occupier led strategy is focused on these assets which, due to these factors, are expected to outperform.

Key features in the out-of-town portfolio are:

- open A1 use, applying to 71% of our retail park schemes (plus a further 10% 'open restricted'), which can attract high street retailers
- larger schemes, usually over 9,300 sq m (100,000 sq ft), capable of dominating their catchment area
- flexibility of unit size and configuration, to ensure that we can offer retailers their preferred floorplate at both shopping parks and superstores

Retail sales growth – Out-of-town versus in-town



Verdict, May 2006

- schemes we can manage overall to provide better facilities in an environment which will increase shoppers' dwell time and improve sales densities for our retailers, while keeping occupational costs at a reasonable level

in each case to benefit the retailers trading and our opportunities to generate rental growth.

We are pursuing **acquisitions and disposals** which continue to strengthen the portfolio in these larger, open A1 use schemes. Sales in the year amounted to £510 million (our share £401 million) of retail warehouses primarily occupied by 'bulky goods' tenants where demand for space is weaker. HUT has invested £97 million in the year in four retail parks in Lincoln, Bristol, Glasgow and Hayle, all with open A1 or open restricted use.

We calculate that we are the largest owner of UK **superstores**, other than the occupiers themselves. In an increasingly restrictive planning environment and with limited new supply, these assets are much in demand. The supermarket retailers continue to require more and larger, flexible stores and are prepared to commit to full lease lengths of over 20 years. The resultant profile of rental growth with highly secure income is an attractive asset to British Land's portfolio.

The **Meadowhall** Shopping Centre of 132,800 sq m (1.4 million sq ft) is also an important component of our out-of-town portfolio and probably the best scheme of its kind in the UK, with exceptionally strong ongoing customer appeal. Our strategy is to leverage these strengths across the broader retail portfolio whilst positioning Meadowhall itself for attractive low risk growth through active management and ongoing refurbishment. This may be complemented by introduction of a Fund format to the asset's ownership structure in the future.

In-town – £2.3 billion portfolio:

- 9 shopping centres – 363,000 sq m (3.9 million sq ft)
- 39 department stores – 525,000 sq m (5.7 million sq ft)
- 67 high street shops
- 11 supermarkets

Key features:

- **shopping centres** £1.0 billion
Our focus for 'in-town' shopping centres is on those which have specific asset management opportunities. The centres are typically:
 - located within large catchment populations
 - well anchored and the dominant retail scheme in the area
 - of sufficient size to enable future redevelopment to provide new retail sales space
 - where we believe income growth can be achieved through proactive asset management
 - where we can introduce additional customer facilities which will also be income generating, such as catering and leisure operations.



Parkgate Retail Park, Rotherham

- **department stores** £0.9 billion
These stores are fully let to Debenhams and House of Fraser with a weighted average term of over 30 years. Income growth from these assets is underpinned by provisions in the leases for guaranteed increases in rent, such that gross rents will increase by at least £6 million (14%) over the next five years.

All the stores are located in town centre retailing locations and a number of opportunities for adding value are being explored including development.

- **high street shops** £0.4 billion
Disposals in the year of 16 high street shops, and six in-town supermarkets have been made, for a total of £135 million, tightening our focus in the sector, and where particularly good market prices have been achieved. More disposals are planned.

Asset management and development initiatives continue apace, including the acquisitions and disposals, lettings, rent reviews, unit reconfigurations, refurbishment and developments as set out earlier in this report. In summary across the retail portfolio, during this year:

- 192 rent reviews were concluded at £8.0 million per annum (BL share) above the previous rent and overall 5.8% above ERV
- 179 lettings and renewals generated £8.9 million per annum (BL share) of new rent
- planning consents for over 53,000 sq m (570,000 sq ft) of new retail gross lettable space have been achieved (including three approvals received in April 2006)
- a development of 11,000 sq m (117,000 sq ft) retail park completed at Orpington, which is letting well. Further developments are in prospect at another six locations.

The market is very competitive in the UK and we are expanding in Europe, through PREF and our own developments, also as set out earlier in this review.

Office sector

£5 billion invested – total 11 million sq ft including share of Funds, Joint Ventures and investments



Tim Roberts
Co-Head of Asset Management

- over 450,000 sq m (4.9 million sq ft) prime offices in the City
 - over 135,000 sq m (1.4 million sq ft) prime offices in the West End
 - weighted average lease length of more than 10 years
 - 230,000 sq m (2.5 million sq ft) committed London office developments
- plus our investment in Canary Wharf through Songbird Estates.

London office market

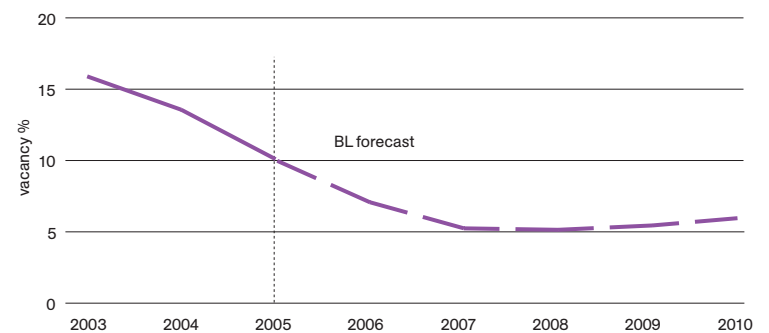
London has unique and distinctive competitive advantages for ‘white collar’ employment, being a pre-eminent financial and business services centre, fuelled by international businesses employing a highly skilled and flexible workforce. These financial and other service activities, including insurance, accounting and law, are expanding faster than the overall UK GDP, so increasing employment and the demand for accommodation.

The London office occupational market is in the early stage of cyclical recovery, with demand and take up of accommodation improving and now back to average trend levels. There has been an increase in demand for prime offices in the City and therefore the vacancy rate of Grade A accommodation has fallen to 5%. Supply of new office space tends to display cyclical with the complexities of planning regulations, infrastructure constraints and site preparation creating significant time lags. New supply has been limited and rents have begun to improve across the whole of London offices. The market outlook suggests an acceleration of these trends but, since supply is likely to be re-established over time, the right product and timing are key.



Exchange Square, London EC2

City vacancy



Source: Jones Lang LaSalle and British Land forecast

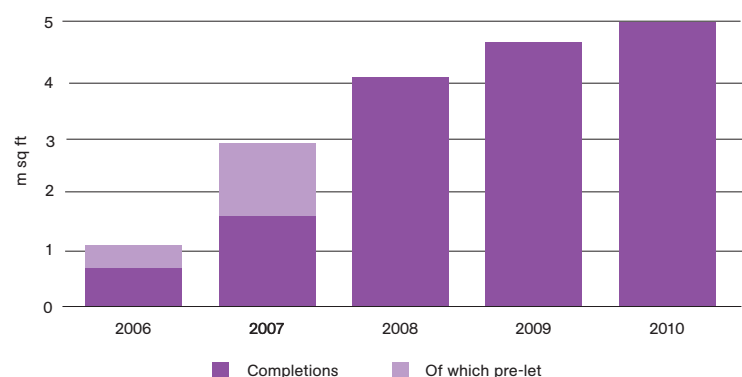
Prospects are good for rental growth in London

Strategy and positioning

We have maintained and increased our portfolio weighting during the upturn in the cycle, although where increased market prices have already built in growth, we have sold. Developments have been the principal route for the additional investment, which is focused on prime London offices, providing flexible high-quality accommodation in the locations meeting occupiers' requirements.

The market leading office portfolio has performed relatively well in the year primarily due to market yield shift, while having limited exposure to downside risks due to the strong income flows under average lease lengths of 12.2 years to lease expiry, 10.3 years to break. There is still very strong investment demand due to the improved prospects for rental growth and some yield shift is therefore expected to continue although at a lower rate than recently seen.

City development pipeline



Source: Estimated total completions 2006-2010, based on DTZ potential pipeline

To continue this good performance, our activity includes:

- **recycling capital** through the sale of more 'mature' investments, and those which in our view do not offer adequate risk adjusted returns. Total sales of over £1.1 billion of offices have been made in the year, achieving gains over valuation. It is likely that more sales will be made where we do not see adequate growth potential or where we believe the market is pricing too aggressively against the risks involved;
- **achieving lettings** in the year to March 2006 of some 25,000 sq m (270,000 sq ft) in the City and West End, generating over £8 million of new rent to British Land. The prospects of letting further vacant accommodation are encouraging as existing vacancies are nearly all new or 'take back' accommodation;
- employing **asset management projects**, such as taking back space and re-letting it on the open market to establish new rental levels in otherwise fully let office investments, for example the 3,500 sq m (38,000 sq ft) we recently decided to take back at 155 Bishopsgate, one of the 15 buildings within the Broadgate Estate, EC2. The rents passing at Broadgate vary between £37 and £55 per sq ft some of which, as the market continues to improve, will become reversionary. Our aim is to refurbish the space and re-let it in the open market later this year at a level which will demonstrate that rents at Broadgate are rising;
- pursuing further **rent reviews**; 158,000 sq m (1.7 million sq ft) of the office space in the portfolio is due for review in 2008/9 at an average rent passing of £43 per sq ft, when we expect to see strongest growth;
- increasing our investment in the sector through the **development pipeline** (set out earlier in this report), where we will be delivering the best quality product to the market, and well timed to meet rising demand at higher rents. A total of some 2.5 million sq ft is being scheduled for delivery from late 2006 through to 2009.