

Corporate Governance

Statement of compliance with the Code of Best Practice

The Company has complied throughout the year with the Provisions of the Code of Best Practice and the Principles of Good Governance set out in section 1 of the Combined Code.

Board effectiveness

The directors listed on pages 54 and 55 constituted the Board throughout the year, except that Nicholas Ritblat and Lord Burns retired from the Board on 31 August 2005 and 30 September 2005 respectively. The Board is responsible for the strategy and effective control and management of the Group. There is a written division of responsibilities at the head of the Company between the Chairman and Chief Executive, which has been approved by the Board. There is a formal schedule of matters specifically reserved for Board approval, which includes approval of the annual and interim accounts, the approval of authority levels below the Board and material acquisitions, disposals and financing arrangements. The Board delegates authority to the Approvals Committee of the Board, which consists of the executive directors of the Company, in respect of certain transactions within defined, limited parameters. The Board has a regular schedule of meetings together with further meetings as required by the ongoing business of the Company. The executive directors and senior executives who comprise the Executive Committee meet weekly, chaired by the Chief Executive, to deal with the ongoing management of the Group.

The Chairman of the Board and individual directors meet regularly, outside formal Board meetings, as part of each director's continuing contribution to delivery of the Company's strategy and superior returns for shareholders. This process also allows for open two-way discussion about the effectiveness of the Board, its committees and individual directors, both executive and non-executive. By this means the Chairman is continuously aware of the views of individual directors and can act as necessary to deal with any issues relating to Board effectiveness before they can become a risk to the Company.

There is a strong and independent non-executive element on the Board as shown by the details of directors on pages 54 and 55.

BL Board performance evaluation

In 2005, a formal Board Performance Appraisal process was introduced with each director giving detailed input annually, the results of which are considered by the Chairman, Senior Independent Non-Executive Director and Board as appropriate and relevant consequential changes made.

The Senior Independent Non-Executive Director discusses the performance of the Chairman with other directors annually, or more frequently as necessary.

Committees of the Board

The Board has established Audit, Remuneration and Nomination Committees which operate within defined terms of reference, which are made available on the Company's website www.britishland.com, and their minutes are circulated to the Board.

Attendance at Board or Committee meetings during the year to 31 March 2006

(where '-' is shown, the director listed is not a member of the Committee)

Name	Board	Nomination Committee	Audit Committee	Remuneration Committee
Sir John Ritblat	6	1	-	-
Sir Derek Higgs	6	1	-	3
Stephen Hester	6	1	-	-
John Weston Smith	6	-	-	-
Nicholas Ritblat	2*	-	-	-
Michael Cassidy	6	1	-	-
Robert Bowden	6	-	-	-
Robert Swannell	6	1	3**	-
Lord Burns	3†	-†	1†	1†
Graham Roberts	6	-	-	-
Dr Christopher Gibson-Smith	4	-	3	3
David Michels	6	1	4	3
Patrick Vaughan	3‡	-	-	-
No. of meetings during the year	6	1	4	3

*Two meetings held during Board membership to 31 August 2005.

**Three meetings held since appointment to Committee on 1 October 2005.

†Three Board, no nomination committee, one audit committee and one remuneration committee meeting held during Board membership to 30 September 2005.

‡Four meetings held since appointment to Board on 28 July 2005.

The Audit and Remuneration Committees are entirely composed of independent non-executive directors. Sir Derek Higgs is Deputy Chairman; he was also Chairman of the Remuneration Committee until 30 September 2005, when he retired from that post and Dr Christopher Gibson-Smith was appointed. Dr Christopher Gibson-Smith is the Senior Independent Non-Executive Director. Robert Swannell is Chairman of the Audit Committee replacing Lord Burns who stepped down on 30 September 2005.

Nomination Committee

The Nomination Committee's responsibilities include making recommendations to the Board on all new Board appointments and succession planning. It consists of the seven non-executive directors together with Sir John Ritblat and Stephen Hester. Sir John Ritblat is Chairman of the Nomination Committee, replacing Dr Christopher Gibson-Smith who stepped down on 30 September 2005.

During the year the Nomination Committee conducted a search, with the assistance of consultants, to recruit two new non-executive directors to replace Lord Burns and Sir Derek Higgs. In consequence, Lord Turnbull and Kate Swann were appointed to the Board on 1 April 2006.

The Nomination Committee during the year has also considered, *inter alia*, the constituency of the Board's committees; the renewal of non-executive directors' letters of appointment; and management development and succession, and the nomination of Andrew Jones and Tim Roberts for appointment to the Board at this year's Annual General Meeting.

Remuneration policy and Committee

Details of the Group remuneration policy are set out in the Remuneration Report on pages 57 to 66.

Rotation of directors

Under the Articles of Association of the Company, each director retires at the third annual general meeting after the general meeting at which he was last elected.

Non-executive directors

The Board considers that Sir Derek Higgs, Michael Cassidy, Robert Swannell, David Michels, Dr Christopher Gibson-Smith, Kate Swann and Lord Turnbull are independent non-executive directors. In making this determination the Board has considered whether each director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could affect, the director's judgement. The Board believes that it is evident from consideration of the non-executive directors' biographies detailed on pages 54 and 55 that they are of the integrity and stature to perform their roles of independent non-executive directors.

The Board has considered Sir Derek Higgs' position at Jones Lang LaSalle and noted that i) this is not an executive position; ii) Sir Derek declares an interest and is neither involved at Jones Lang LaSalle in the decision-making process regarding Jones Lang LaSalle's services to British Land, nor does he participate in any such discussions at British Land; and iii) the fees paid by British Land to Jones Lang LaSalle have been at all times immaterial in size, amounting to considerably less than 1% of British Land's turnover.

Notwithstanding that Michael Cassidy has served on the Board for ten years, the Board does not consider that, given his integrity and stature, this affects his independence. Further, in the interests of achieving a smooth Board transition and given the number of recent Board appointments and departures, the Board has asked Michael Cassidy to extend his service until 2007 during which calendar year he will retire from the Board. Accordingly Michael Cassidy is proposed for a one year re-election by shareholders.

The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office and at the Annual General Meeting.

Internal Control

The directors are responsible for the maintenance of a sound system of internal control. The Board continues to apply the internal control provisions of the 2003 FRC Combined Code through a continuous process for identifying, evaluating and managing the significant risks the Group faces. The process has been in place throughout the year, from the start of the year to the date of approval of this report and the Group has been in compliance with the code provisions set out in Section 1 of the 2003 FRC Combined Code on Corporate Governance. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group applies two fundamental control principles:

- a defined schedule of matters reserved for decision by the Board; and
- a detailed authorisation process which ensures that no commitments are entered into without competent and proper authorisation by more than one approved executive.

In compliance with the provisions of the Combined Code, the Board continuously reviews the effectiveness of the Group's system of internal control. The key risks that the Group faces and features of the internal control system that operated throughout the period covered by the accounts are described below:

Identification and evaluation of commercial risks and related control objectives

British Land has undertaken a comprehensive risk assessment, which has identified over 50 individual risks that affect the Group. The

responsibility for management of each key risk has been clearly identified and delegated by the Board to specific executive directors and senior executives within the Group. The executive directors have close involvement with the day-to-day operational matters of the Group. In addition to the main Board of directors, there are operational boards which are responsible for specific areas of the Group's activities.

These include:

- group management and operations;
- management of property assets;
- management of development activities; and
- financing activities.

The Board and the operational boards consider the risk implications of business decisions. These include matters such as new treasury products and major transactions. The control environment is supported by the various committees of the Board and the operational boards, including the Audit Committee, the Corporate Responsibility Committee and the Derivatives Committee. The way each risk is managed within the Group is considered at least annually by the executive directors and the Audit Committee. The Group reassesses these risks on a regular basis to ensure that any risk arising from changes in the Group's operations or the external environment are identified and appropriately managed.

In order to provide relevant and timely information to the executives with responsibility for managing risks, the Group has the following key information systems which generate reports as follows:

- a management reporting system which includes regular working capital reports and forecasts;
- operational reporting on property purchases, sales and portfolio management; and
- regular reporting to the Board on financial and treasury matters.

Monitoring

The Audit Committee meets regularly throughout the year and has reviewed the Group's internal controls. The Audit Committee has agreed a schedule of internal audit reviews of various of the Group's processes and controls to be undertaken, and has reviewed the results of those reviews already completed. The Head of Internal Audit reports directly to the Audit Committee. During the year, further Internal Audit resources and an Internal Audit Charter were approved.

Investor Relations

The directors place considerable importance on maintaining open and clear communication with investors. The Company's Investor Relations department is dedicated to facilitating communication with shareholders. The Company has an ongoing programme of dialogue and meetings between the executive directors and its shareholders, where a wide range of relevant issues including strategy, performance, the market, management and governance are discussed within the constraints of the information already known to the market. In addition, the Company undertakes regular roadshows to the US, Scotland and the Netherlands and participates in sector conferences.

The directors consider it is important to understand the views of shareholders, and at each scheduled Board meeting the directors receive a written report of the major issues which have been raised with management. Meetings are also held between shareholders and the Senior Independent Non-Executive Director and other non-executive directors, and the Company facilitates such meetings on request.

During the course of a year, shareholders are kept informed of the progress of the Company through results statements and other announcements that are released through the London Stock

Exchange and other news services. Company announcements and presentations are made available simultaneously on our website, affording all shareholders full access to material information. Shareholders can also raise questions directly with the Company at any time through a facility on the website.

Additionally there is an opportunity at the Annual General Meeting (AGM) for individual shareholders to question the Chairman and the Chairmen of the Audit, Remuneration and Nomination Committees. At the meeting, the Company complies with the Combined Code as it relates to voting, including votes withheld, the separation of resolutions, the attendance of committee chairmen and voting by poll. The Annual Report & Accounts and Notice of Meeting are sent to shareholders at least 20 working days prior to the AGM. The voting results are announced to the London Stock Exchange and are available on the website and on request. In July 2005, all AGM resolutions were passed on a poll and were approved by substantial majorities in excess of 97% in each case.

Going concern

After making enquiries and examining major areas which could give rise to significant financial exposure the directors are satisfied that no material or significant exposures exist, other than as reflected in these financial statements, and that the Group has adequate resources to continue its operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements.

The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of UK GAAP Company accounts, the directors are also required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period and to make judgements and estimates that are reasonable and prudent. The directors are responsible for keeping proper accounting records

which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985. The directors are responsible for the maintenance and integrity of the Company website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are also responsible for the Group's system of internal controls, which is designed to meet the Group's particular needs and the risks to which it is exposed.

Auditors and valuers

The Audit Committee meets with the auditors and valuers to discuss with them the scope and conclusions of their work. The Committee is specifically charged under its terms of reference with considering matters relating to the audit appointment, the independence and objectivity of the auditors, and reviewing the results and effectiveness of the audit.

With respect to other services provided by the auditors the following framework is in place:

- Audit related services – the auditors are one of a number of firms providing audit-related services, which include formal reporting relating to borrowings, shareholder and other circulars and various other regulatory reports and work in respect of acquisition and disposals. Where they must carry out the work because of their office or are best placed to do so, the auditors are selected. In other circumstances the selection depends on which firm is best suited;
- Tax advisory – the auditors are one of a number of firms that provide tax advisory services, including the preparation and submission of tax returns. The selection depends on who is best suited in the circumstances;
- General consulting – the auditors do not provide general consultancy services except in rare circumstances, and then only after consideration that they are best placed to provide the service and that their independence and objectivity would not be compromised.

An analysis of fees paid to the auditors is set out on page 86.

As previously announced, Knight Frank were appointed during the year as principal valuers to the Group, in succession to Atisreal. Knight Frank reported for the first time on the 30 September 2005 valuation.

The Board introduced quarterly financial reporting including valuations with effect from December 2005 so as to provide shareholders with a more regular update on its portfolio performance.

The arrangements with auditors and valuers have been approved by the Audit Committee and are regularly reviewed in the light of changing requirements and best practice.

Sigmund Freud 1856–1939

1926, by Ferdinand Schmutzer

In giving us concepts such as the 'id', the 'ego' and the 'super-ego', Freud convinced the world that we are all neurotic and seething with repressed sexual energy. He described himself not as a scientist but as an 'adventurer', further confusing those struggling to understand the difference between psychiatry and psychology. While many of today's practitioners disagree with his ideas, his findings – especially regarding the nature of mental illness and the definition of 'normal' – have fuelled many a dinner-party conversation and legitimised the practice of self-obsession.