

OUR STRATEGY AIMS TO CAPTURE SUPERIOR TOTAL RETURN THROUGH THE HIGH OCCUPANCY AND RENTAL GROWTH WHICH RESULTS FROM SUCCESSFULLY BUILDING OUR BUSINESS AROUND CUSTOMER NEEDS

Introduction

This Operating and Financial Review ('OFR') sets out what British Land has achieved in the year under review. It shows how our actions fit the strategies we have laid out. It shows the business and financial results of those actions. We seek to highlight positioning for the future, risks in our business and how we are managing them as well as giving Key Performance Indicators ('KPI') to judge progress.

Importantly we show also the way our business is shaped by and responding to the needs of our customers and the wider needs of society in relation to the built environment of which we represent an important part.

Objectives and strategy

British Land's primary objective is to produce superior, sustained and secure long-term shareholder returns from management of our chosen real estate activities and their financing.

Our strategy aims to capture superior total return through the high occupancy and rental growth which results from successfully building our business around customer needs. We seek to do this in a number of ways. Property sales and purchases adjust the market and sector mix of our property portfolio to best capture growth trends in customer demand. Within our selected markets we also recycle capital, buying and selling buildings to improve the appeal and growth prospects of our holdings. And we look to create more value from new development in areas where demand for the best new space is highest. Our occupancy and rental growth is further enhanced by active asset management to hone our buildings' customer appeal.

The importance of the investment markets which interlink with our occupier markets also dictates that adroit financial management, partnerships and deal-doing complement our property based strategies to capture and translate property returns most efficiently to our shareholders.

In executing these strategies our 'bedrock' disciplines are:

- a focus on areas where we have or can build competitive advantage
- clarity that our business success will come from serving customers well
- a bias to high-quality assets, with long lease profiles and favourable demand and supply characteristics
- strong integrated risk management skills – blending leasing, development, asset and liability risk into a single attractive and secure growth proposition for shareholders
- a confident, entrepreneurial, performance-driven culture
- particular regard for long-term income/cash flow growth
- an appreciation of the importance of sustainability to our customers and other stakeholders in the built environment on which we operate.

British Land's activity in 2006/7

This was a year of real progress and achievement for British Land. We delivered outperformance for shareholders whilst strengthening the Company's prospects to deliver more in the future. As we noted last year, investment market led capital growth is slowing. Our focus on adding value in a more demanding environment is founded on our customer-led strategy. This way we can capture high occupancy levels and rental growth to provide future outperformance for shareholders.

The commentary in this Review highlights the actions we have taken to produce financial outperformance in line with the strategy we describe above. These actions rest on the effectiveness of our people and, as before, much work has gone into building still further our human capital and a performance culture with which to execute our business plans.

Under 'Portfolio Reshaping' we report on over £3 billion (gross) property purchases and sales. These reduced our holdings in market sectors where we forecast weaker customer demand and reinforced our market leadership positions where prospects are strong. It also shows how, even in favoured markets, we keep capital working hard by investing in property best placed to capture demand trends whilst reducing our holdings in more mature assets where we cannot do much more to improve them.

We highlight newer initiatives in Europe and indexed-lease property which leverage our existing market skills into areas where customer demand can drive growth and we perceive pricing to be attractive.

The 'Development' section showcases one of our more distinctive added-value areas. By creating new buildings at the forefront of modern service industry needs, we use our property skills and financial strength to make attractive incremental return. Our notable success in letting these buildings is the acid test of their customer appeal.

Under 'Asset Management' we show the range of work we undertake to better tailor our existing buildings to areas of greatest customer demand. In turn this results in the above market rental growth.

Our 'Property Market Outlook' and sector commentaries explain in more detail the implementation of strategy and its rationale.

In the 'Financial Performance' section and the 'Partnerships' section, the ways we have added value to supplement our property activity are described alongside an explanation of the financial results of this activity and the KPIs that show its effectiveness. Our balance sheet and debt management continue to be distinctive strengths, amplifying property returns. Equally fiscal management and especially our REIT election were major value creators during the year. And by working with others, inter alia through Joint Ventures and Unit Trusts, we earn valuable extra income, leverage our skills and capital and increase manoeuvrability in the property markets.

This year we also highlight more fully, in our Corporate Responsibility Report, our actions on sustainability including the commitment to lead our industry and become carbon neutral. We are a business of the built environment. Our careful use of scarce resources and our buildings' impact in improving our communities and facilitating growth remain integral to our business success. The CR Report may be viewed in full on our website: www.britishland.com

Portfolio reshaping

We continually review the prospects and expected performance of each asset in our portfolio in the light of market conditions, deciding across the portfolio when to buy, hold or sell, as part of the ongoing process of improving risk adjusted returns. Our occupier led strategy informs these decisions, concentrating on markets, sectors and properties with positive supply/demand characteristics, and focusing on providing efficient and flexible accommodation in the right locations. Our principal themes are:

- to amend and refine the sector and market mix of our portfolio to best capture trends in customer demand and rental growth; and
- within our selected markets to recycle capital, buying and selling properties to improve the appeal and growth prospects of our holdings.



Bob Bowden
Property Investment Director

Refining sector mix

We have further strengthened our positions in our favoured markets:

- prime offices, especially in London, with new investment primarily via our development programme, to capture the increasing rental values driven by strong demand for accommodation from the financial and business services industries;
- UK out-of-town retail, principally open A1 use parks and superstores, where consumer sales are growing fastest and retailers require increasing representation and new flexible trading formats. Together with the constrained supply characteristics of this sector, these factors are resulting in rising rental values;

Sales 12 months to 31 March 2007	Price £m	BL Share £m	Gain/ (loss) % ¹
Retail:			
Queensmere & Observatory Shopping Centres, Slough	200	200	(9.0)
Gallions Reach Shopping Park, E6 ²	192	35	8.4
29 in-town retail units	146	146	9.0
Weston Favell Shopping Centre, Northampton ³	122	61	22.0
9 Retail warehouse parks	112	75	9.2
Marsh Mills Retail Park, Plymouth ⁴	57	28	12.6
4 Homebase stores	56	56	22.2
New Cross Gate, SE14, Sainsbury's and retail units ⁵	48	48	20.5
Purley Way, Croydon, Units 1-3	44	44	12.5
2 B&Q warehouses: Stockton-on-Tees and Dagenham	41	41	(1.1)
Sainsbury's, Hanley	21	21	(5.0)
	1,039	755	5.2
Offices:			
Plumtree Court, EC4 ⁶	120	43	18.8
133 Houndsditch, EC3	110	110	41.2
51 Eastcheap, EC3	55	55	7.1
2-12 & 20-21 Cornwall Terrace, NW1 ⁵	50	50	59.8
Provincial offices	39	39	8.3
	374	297	27.7
Others:			
	60	50	82.3
	1,473	1,102	12.7

¹ Sale price versus last year end valuation (March 2006)

² Hercules Unit Trust (HUT)

³ The Tesco British Land Property Partnership

⁴ BLT Properties Ltd

⁵ Completed April 2007

⁶ City of London Office Unit Trust (CLOUT)