



## WE ARE VERY MUCH ALIVE TO OUR INFLUENCING ROLE ON THE BUILT ENVIRONMENT

It is with great pleasure I make this inaugural report to you in British Land's new guise as a Real Estate Investment Trust (REIT). Having taken up the Chairman's role on 1 January 2007 after four years on the Board as a non-executive director, I can report that on closer scrutiny your Company looks even better.

### Results

As you will read, British Land enjoyed an excellent year in 2006/7. Our Net Assets are up, our Earnings per Share up and our owned and managed assets now total £21.3 billion. On top of that, shareholder returns again outperformed the Real Estate Index and the FTSE 100.

In the light of these results we have declared a final quarterly dividend of 8.25 pence per share (to be paid in August), making 20.35 pence for the year (up 20% on 2005/6) and reaffirm our minimum dividend pledge for 2007/8 of 33 pence per share.

### REITs

In January it was a pleasure to celebrate the start of REIT trading in the UK with the property industry in my other role as Chairman of the London Stock Exchange. British Land is a flagship of the new regime and focused on making the most of this reform. Quoted REIT vehicles are a vital and growing part of international capital markets.

As a REIT, British Land is unchanged in all structural senses from before, but now has the benefit of being substantially tax free as to both income and capital gains.

Our dividends are going up and will take a slightly different form as explained in the Financial Performance section of the following Review. We also submit to a light touch regulatory regime, underpinning our property focus and secure capital structure.

However, in strategic terms, REITs are also an important development. UK property companies previously operated under a disadvantageous tax regime relative to most other real estate participants, which limited the size of the quoted sector and its delivery of shareholder value. With a level playing field now granted, REITs can further improve returns from active, tax efficient portfolio management. And with the benefits of liquidity, governance, management talent and gearing, I expect UK REITs to take market share from less liquid private and institutional property vehicles over the medium term.

There will be property cycles, but overall we are confident that British Land will be more valuable to shareholders in REIT format than otherwise.

## Property industry

The property industry is a fascinating one. Its central role in developing our built environment is increasingly important. Providing the modern space for our service industries to grow whilst intermediating society's need for social and environmental advances in physical space is itself a major challenge.

But less appreciated by many is the property industry's unique dynamics at the interplay of two markets – the global investment markets that establish traded values for real estate alongside and in competition with other financial asset classes – and the 'bricks and mortar', occupier driven markets where space is manufactured to compete for demand and value created or lost in ways comparable to most other non-traded industries.

This juxtaposition is particularly relevant at present as a period of major change in investment markets' relative valuation of real estate ebbs, while a period of continuing change and growing demand in occupier markets flows. In this context British Land's enduring characteristic has been the ability to understand and respond to both markets. Strong capital market skills leverage investment market trends and are complemented by an increasingly impressive property level activism, to ensure we capture superior asset value from meeting our customers' needs.

We are also very much alive to our influencing role on the built environment and the community and environmental responsibilities implied thereby. British Land is leading the industry in these areas, partnering with customers, suppliers, communities and public authorities to advance the cause of sustainability.

## York House

British Land is changing – building on its distinguished past and adapting decisively to the challenges ahead. Our move to new headquarters at York House in March was an exemplar of this change – a transformation in our own space, efficiency and culture, highlighting the importance of modern, well located space to service industry occupiers in general whilst also showcasing our own development skills.

## The Board

Nowhere are the changes more notable than at the human level. May I pay tribute to my predecessor as Chairman, Sir John Ritblat. John was truly a giant of the real estate industry over the last 35 years. From very small beginnings he built an industry leader in British Land. Along the way he created immense shareholder value whilst never diluting his charismatic, entrepreneurial personality. We are proud to keep a symbolic connection with John as our Honorary President and owe him a debt of gratitude for the Company he built and for its timely handover in the best of health.

Similarly there is much other human change ongoing at British Land. Across the Company, our Chief Executive is working swiftly with his colleagues to renew our management ranks and install a determined performance culture. In so doing we are all conscious of the debt owed to those retiring from the Company and thank them for their sterling service. This is especially true at Board level. 2006/7 saw the retirement of Sir Derek Higgs as Deputy Chairman and John Weston Smith and Patrick Vaughan as executive directors; and Michael Cassidy retires as a non-executive at our AGM this July. I am pleased to note that we are already back to full strength as a Board. Andrew Jones and Tim Roberts joined the Board last July, running our Retail and Office sectors, and have made a major contribution. Our non-executive ranks were ably boosted by Kate Swann and Lord Turnbull who joined last April. I am delighted also to welcome Clive Cowdery (Chairman of Resolution plc) and John Travers (ex CEO, Cushman & Wakefield EMEA) as non-executive directors.

The coming years will almost certainly bring more exacting market conditions. I am therefore delighted at the close partnership that is developing with Stephen Hester, our Chief Executive, and have every confidence in him and the whole executive team taking our business forward. We look forward to the challenges and believe your Company to be facing them in fine shape.



**Chris Gibson-Smith**  
Chairman  
21 May 2007