

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.