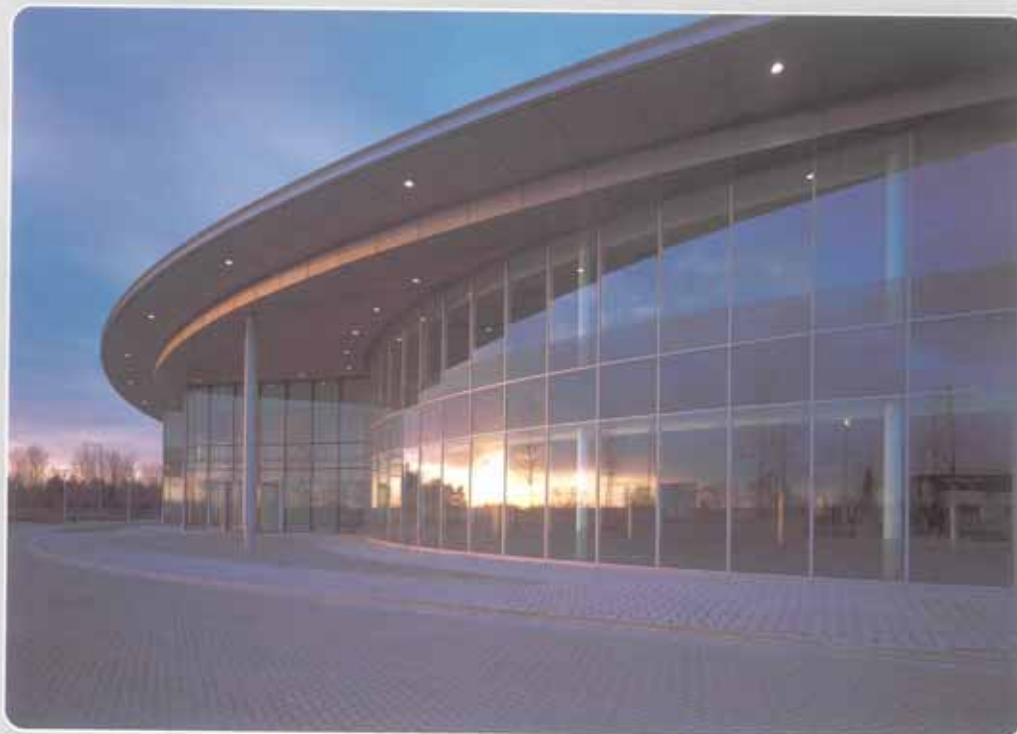




working  
environment

San Francisco  
Bay Area

Oyster  
Point



M3  
Farnborough  
Business  
Park

Cambridge  
Research  
Park

M11

SLOUGH  
ESTATES

Annual Report **2001**



**SLOUGH ESTATES** is committed to building and owning quality buildings for business located in prime business centres in the United Kingdom, Continental Europe and North America to provide its shareholders with superior growth of net assets and earnings per share to enhance overall shareholder value.



The Group, founded in 1920, owns, develops and manages commercial properties comprising 2.8 million square metres with a value of £3.8 billion. These properties are occupied by over 1,750 businesses.

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# Financial Summary

	2001	2000	% changes
Core investment property earnings	£135.1m	£119.6m	+13.0
Profit before tax and exceptional items	£137.3m	£128.3m	+7.0
Earnings per share before exceptional items	27.6p	25.7p	+7.4

## Operating Highlights



### Farnborough Business Park

In 2000 this former Royal Aircraft Establishment factory site, adjacent to the famous Farnborough Air Show airfield was granted planning consent for 155,000 sq.m. gross of office and R&D space as well as 6,000 sq.m. for ancillary uses. In 2001 the site was cleared, save for several buildings of historical interest and construction started on the two mile long spine road and utilities infrastructure.

The first two buildings of 3,600 sq.m. and 8,000 sq.m. recently completed construction and the former has been let to Autodesk. The quality standards set for both the infrastructure and buildings combined with the park's excellent location should ensure that this site becomes the pre-eminent business park in the M3 corridor.



### Cambridge Research Park

Following its purchase in July 2000 this remediated brownfield site, just north of Cambridge, has been transformed during the year through the construction of the full infrastructure of roads, utilities and lakes which are now essentially complete.

With its total planning consent of 56,000 sq.m., plus an hotel, the first two completed and pre-let buildings were also acquired with the site purchase. These have been followed by a first phase of 11,300 sq.m. of buildings designed for either office or laboratory use. This semi-rural, well landscaped business park is expected to be attractive to the many new and established knowledge-based businesses for which Cambridge is a leading location.



### Oyster Point South San Francisco

Construction commenced during 2001 on the 53,600 sq.m. Oyster Point health science research park in South San Francisco. Located next to the Bay, close to San Francisco airport, Oyster Point is being built on a reclaimed steelworks site and will be the largest science park in South San Francisco, the top location for health research in Northern California. The 53,600 sq.m. in seven buildings has been pre-let to four companies, will cost some £160 million to complete and will produce £21 million rental income when fully occupied in 2005. This park increases the Group's holdings of research laboratory space in South San Francisco to 141,700 sq.m. with a prospective rent roll of £42 million.



	2001	2000	% changes
Earnings per share after exceptional items	9.0p	25.8p	
Total dividend for year	13.1p	12.1p	+8.3
Diluted net assets per share	512p	520p	-1.5



### Torrey Pines Science Center San Diego

At the Group's Torrey Pines Science Center site in San Diego, California, the campus being built for Pfizer, the world's largest pharmaceutical company, has been expanded to include the last remaining available lots and an office building originally built speculatively. The campus will ultimately extend to 70,100 sq.m. on completion in March 2004 of which 31,200 sq.m. is currently built and occupied. It will produce a rent roll of £16 million on completion in 2004 and will have cost £133 million.

During the year the Group purchased for £48 million the neighbouring Torrey Pines Science Park. An established research location of 27,400 sq.m., it is reversionary and has good possibilities to add value.



### Pegasus Park, Brussels

Pegasus Park, close to the entrance to Brussels airport, has outline planning consent for 275,000 sq.m. To date 78,700 sq.m. have been completed and let or sold, and two buildings are under construction totalling 22,900 sq.m., of which 14,300 sq.m. is available to lease. In addition a 234 bed four star hotel was opened in December.

The largest tenant is Cisco which occupies 32,600 sq.m., followed by DHL and Deloitte & Touche as major occupiers. Pegasus Park's superior airport location is a significant attraction to international businesses and on completion, which could take some five years, will be one of Europe's largest suburban office parks.



### Toronto Portfolio Disposal

Slough's first investment in Toronto was in 1950 since when a quality portfolio of predominantly industrial buildings on nine estates were developed. Following a strategic review of the past and potential performance of Toronto industrial properties it was decided to sell the entire 524,000 sq.m. portfolio which realised in October a price in excess of book value. On a smaller scale and for similar reasons, the 91,000 sq.m. of industrial property at Elk Grove, Chicago, were also sold.



## Chairman's Statement

In 2001 Slough Estates increased its core investment property earnings by 13.0 per cent and made notable progress with its major development projects in the UK, Belgium and the USA. The portfolio was further rationalized by the sales of lower-performing properties in the UK, USA and Canada which released funds for more profitable new developments.

All this was achieved against the backdrop of a particularly challenging year for many businesses, the tragic events of September 11 further aggravating already declining economic prospects.

### Summary of the Year

The main achievements of an active year included:

- the completion of 256,260 sq.m. (2,750,000 sq.ft.) of new construction in the UK, Europe and North America with a further 168,110 sq.m. (1,800,000 sq.ft.) currently in progress of which 40 per cent is pre-leased
- the leasing of 223,440 sq.m. (2,400,000 sq.ft.) of new and existing space
- at Oyster Point South San Francisco 53,600 sq.m. (575,000 sq.ft.) of pre-leased laboratory space has commenced construction for four health science research businesses which will when completed in 2005 contribute an additional £21 million to gross rental income.
- the sale of the under-performing Toronto portfolio of 524,300 sq.m. (5,640,000 sq.ft.) at £2.5 million above book value, together with a further 162,500 sq.m. (1,750,000 sq.ft.) located elsewhere in the Group. In total £233 million was realized from these sales.

The Chief Executive's Review of the Year and the Financial Review provide more detail of these and other activities.



PFIZER, TORREY PINES SCIENCE CENTER, SAN DIEGO, USA





In 2001 Slough Estates continued to grow its core investment property earnings by 13 per cent and made notable progress with its major development projects in the UK, Belgium and the USA.

## Results

The profit before tax and exceptional items was £137.3 million, an increase of 7.0 per cent over the prior year.

As forewarned in the interim statement, it has been decided to provide for an exceptional write-down of £60.2 million in the book value of the utilities plant at Slough.

The utilities operation is an integral part of activities on the Slough Trading Estate and has been in existence since the inception of the company.

As a consequence of the introduction of the New Electricity Trading Arrangements by the Government in March 2001, the business has been unable to sell supplies of electricity to the Grid system at reasonable prices - consequently the need for a full write-down which is a once and for all adjustment. We are actively lobbying the Government along with other small CHP and 'green' energy producers over the unfair elements of the New Electricity Trading Arrangements. Looking to the future, the new plant which is coming on line provides for guaranteed electricity sales under special contract arrangements and we expect the utilities operation to return to profitability by 2003.

The exceptional loss of £9.8 million on disposal of investment properties was mainly from the strategic sale of the Toronto industrial estates and related office closure and early debt redemption costs.

As a consequence, the pre-tax profit after exceptional items for 2001 was £67.3 million.

Earnings per share excluding exceptional items were 27.6p per share compared with 25.7p per share in 2000.

Diluted net assets per share were 512p compared with 520p at the year-end 2000. Excluding the 17p per share impact of the utilities plant write-down and costs associated with the exit from Toronto, net assets per share actually increased by 1.7 per cent.

## Dividend

Your Board recommends the payment of a final dividend of 8.0p per share which, together with the interim dividend of 5.1p per share, represents an aggregate distribution of 13.1p per share, an increase of 8.3 per cent for the year.

## Valuation

The value of investment properties, taking into account the annual revaluation, construction in progress at cost and prevailing exchange rates at 31 December 2001, amounted to £3,514 million (2000 £3,464 million).

The Group's investment property portfolio was valued externally on the basis of open market value in accordance with the requirements of the professional bodies in each country. In aggregate, the revaluation gave rise to a very small deficit for the year of £6.0 million or 0.2 per cent.

In the United Kingdom, the valuation deficit of £54.5 million (2.0 per cent) reflects general increases in investment yields, limited growth in rental rates of 1.7 per cent and weaker customer demand for offices in the M4 and M25 corridors. Completed development projects valued for the first time showed a 15.3 per cent increase over cost.

The underlying negative portfolio value movements were 1.4 per cent industrial, 6.5 per cent offices and 1.1 per cent retail.

The UK occupied portfolio is reversionary by £17.7 million or 11.5 per cent.

In Europe portfolios have maintained growth in values with positive movements of 4.5 per cent in Belgium and 3.2 per cent in France. The German portfolio is held for resale and is therefore carried at cost. In aggregate, the value of the Belgian and French properties increased by £8.3 million.

CISCO PEGASUS PARK, BRUSSELS





■ The Group's total return compounded over a five year period has been approximately 16 per cent per annum.



CELLTECH, SLOUGH TRADING ESTATE

In the USA the substantial development programme in California is delivering positive value benefits. The overall value of our US interests increased by £45.8 million or 8.5 per cent. In Canada, following the disposal of the Toronto portfolio, the value of the residual Vancouver properties declined by £5.6 million reflecting vacancies in recently completed buildings and the difficult economic climate in this market.

The underlying assets of property joint ventures and associates were also valued externally and resulted in a deficit of £10.0 million.

Despite the small reduction in net assets per share which resulted largely from the exceptional charges and related tax of 17p per share, the Group's total return compounded over a five year period has been approximately 16 per cent per annum.

### The Group's Strategy

The Group continues to follow the strategic principles set out below:

- We should own and develop a selection of business parks, industrial and distribution estates and retail centres in international prime business centres that will be adaptable to changing conditions
- The accommodation we create must be flexible and economic, responding to occupational requirements. There will be an active programme of construction and renovation in response to market demand
- We will tailor our property management to provide the best possible support for those who occupy our properties and, where possible, work with our customers to help them expand their businesses
- We will aim to maximize occupancy, cashflows and earnings from good property management



EMERSON'S GREEN, BRISTOL

- We will dispose of any properties that appear not to be able to add material value to our portfolio
- For the foreseeable future we will concentrate on the Group's portfolios centred on prime business centres in the UK, Continental Europe and the USA.

We believe that these principles, together with an emphasis on strong financial and management disciplines, will deliver shareholder rewards.

The Group is focused on managing risks and benefits from a diversity of quality locations, sectors and customers.

### Market Conditions

The year 2001 was one of mixed fortunes. As the year developed, recessionary pressures were mounting on manufacturing businesses and the telephone and communications sectors were

particularly affected by over-capacity and loss of orders. Conversely other sectors, notably pharmaceutical and bio-technology research, proved to be more resilient. The tragic events of September 11 further aggravated deteriorating business conditions and severely damaged business confidence to invest.

These factors have generally dampened occupancy demand, slowed rental growth, inhibited property investment sentiment and, as a consequence, values have been slightly lower. Investment yields have weakened despite significant cuts in interest rates. Nevertheless, over the past 12 months property investment has out-performed the total returns from equities and bonds, demonstrating the defensive investment qualities of the property sector.

On a more positive note, with a few notable exceptions, there is no great imbalance of supply and



demand for quality locations and buildings and the banking system is not funding additional speculative supply. As business conditions improve, so vacancies will be absorbed and improved rental growth will return.

### The Way Forward

We are cautiously optimistic that current business prospects will improve as lower interest rates and other fiscal stimuli encourage consumption and structural readjustment for many enterprises. We will continue to monitor individual markets and respond to opportunities in those locations. We will concentrate on increasing portfolio occupancy and constructing pre-committed buildings.

The Group owns a well-diversified portfolio of quality buildings in prime locations. No single business sector dominates and as a consequence the

Group is insulated against many portfolio ownership risks. We also own a valuable land bank for further development in the future. This land bank, together with the significant opportunities for regenerating and improving the built portfolio, is an encouragement that we can maintain our forward momentum.

Modern businesses need good, well-located buildings to improve productivity, competitiveness and efficiency. Contemporary buildings are more economic in use and are more environmentally sustainable. In all the markets in which the Group operates, the regulatory regimes are becoming more intrusive and interventionist.

In the UK, the Government has published proposals to radically change the legislative principles of the Town Planning system. Whilst their objectives are to simplify the system and to ease the situation for business, the detail of their ideas is in many respects



KAPELLEN, DUSSELDORF

■ We will tailor our property management to provide the best possible support for those who occupy our properties.







the opposite. They are also proposing to overhaul the principles of planning gain and to possibly introduce tariff-based levies on new development; in other words a stealth betterment tax. These new ideas are unlikely to be enacted before about 2005 but in the interim local planning policies and new land release will be confused.

Such conditions will limit new supply and create scarcity of product in the best-located markets and will ensure that rental rates and values of both new and existing stocks will grow faster than underlying inflation.

The Group is very well-positioned to take full advantage of these factors and its forward development programme will generate significant benefits in the years ahead. In particular our health science laboratory development in California is expected to make an increasingly significant contribution to profits over the next 3 years. In Europe we are developing a number of good locations in Belgium, France and Germany which are already attracting interest and will be valuable additions to the portfolio. Here in the UK new developments at Farnborough, Cambridge and the continuing regeneration of the Slough Trading Estate will all ensure further growth in core rental income and added value. For example, the potential new rent roll of our 6 major park developments should amount to £125 million per annum within possibly 6 to 7 years.

### The Year Ahead

Recent economic data and authoritative forecasts indicate that the worst effects of recession may have been avoided or at worst be short-lived in North America. The UK economy still tends to be heavily influenced by the US and, though growth in property occupancy tends to lag the general economic cycles, the prospects for property are now looking more promising than late last year.

The Group's earnings growth potential from its existing portfolio and the contributions which will come from our extensive development programme give me confidence in the Group's current prospects.

### Corporate Social Responsibility

The Group continues with its long-established tradition of supporting charities and being actively involved in community initiatives in the belief that both the Group and the communities in which we operate benefit. In 2001 the Group's Charities Committee considered over 250 requests for financial support and, as a result, some 168 donations aggregating £281,000 were made to both national and local charities, principally in the fields of education, environment and welfare. Amongst the organizations that benefited in 2001 were: University of Buckingham, Arbour Vale and Wexham Sports College in Slough, The National Trust,



EXELIXIS, POINTE GRAND, SOUTH SAN FRANCISCO

The Civic Trust and The Prince's Trust. We remain committed to our long-standing policy of being fully involved in the communities in which we operate, particularly in Slough and its adjacent areas. Members of our staff are involved in a number of community projects and we are active participants and financial supporters of such partnership bodies as the Safer Slough Partnership, Slough Business Strategy Group and Business in the Community. Your Board firmly believes that a business should be a "good corporate citizen" and a board committee has been established to oversee our corporate social responsibility policies and their application. On subsequent pages we report on our environmental and sustainability performance, our corporate governance guidelines and our community support.

We maintain an excellent record on employment, health and safety practices and ethical conduct.

### The Board

In my statement last year, I reported that Mr. Roger Brooke would be retiring from the Board at the conclusion of the Annual General Meeting and that Lord Blackwell had joined the Board.

In May, Mr. Stephen Howard, the chief executive of Cookson Group plc, was appointed a non-executive director. He is an American citizen and resident in the UK.

In November, Mr. David Hubbard, a non-executive director since 1994, retired.

At the conclusion of this year's Annual General Meeting, Sir Gordon Jewkes, having reached the age of 70, will be standing down from the Board. Sir Gordon joined the Board in 1992.

I would like to express my very sincere thanks to both David Hubbard and Gordon Jewkes for their valuable contribution.

At the Annual General Meeting, the following directors retire by rotation and offer themselves for re-election Mr. R. D. Kingston, Mr. D. Kramer and myself. In addition, Mr. Howard will be nominated for election.

Brief biographical notes for all Board members are set out on pages 44 and 45.

### Management and Staff

Our success is very much the result of good teamwork, professional skills and experience and familiarity with our markets. The Slough Estates team deserve to be congratulated and thanked for their effort and support throughout a challenging but successful year.

#### Nigel Mobbs

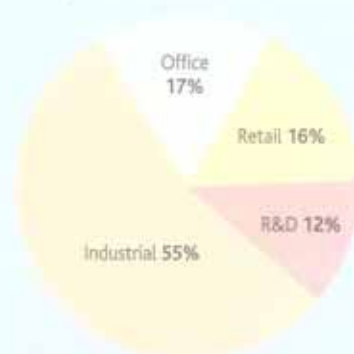
*Chairman*





TARNBOROUGH BUSINESS PARK

#### Investment property portfolio by value worldwide





# Chief Executive's Review



■ The Group achieved most of its objectives for the year... progress in development of the Farnborough Business Park and the Cambridge Research Park has been substantial.

The early 2001 predictions for a slow down in economic growth for each of the countries in which the Group operates proved correct in terms of direction, though few forecasters predicted how sharp the US downturn would be. Continental Europe, particularly Germany, has been less responsive to interest rate stimulus and the UK has been the strongest performer amongst the G7 nations. In this setting the Group achieved most of its objectives for the year, increasing its core income, making good leasing and development progress and disposing of under-performing assets.

The progress in development of the Farnborough Business Park has been substantial with most of its infrastructure now in place and the first two buildings completed construction in February 2002, one of which is let. The development of the Cambridge Research Park is at a similar stage. During the year strategic sales of City and provincial offices were completed, raising £55 million.

Until such time as the economy and occupier demand for property shows clear signs of strengthening, the Group's UK development balance will favour pre-let developments rather than speculative.

In North America the portfolio structure has changed as a result of strategic initiatives. The whole of the 524,000 sq.m. Toronto portfolio of primarily industrial buildings on nine estates was successfully sold in October, for a gross sum of C\$328 million, which exceeded book value by C\$6 million. Earlier in the year the 91,000 sq.m. Elk Grove, Chicago portfolio of industrial properties was sold, raising US\$42 million. Both of these had been under-performing other Group locations in financial terms for several years, a situation which was likely to continue. The Group's remaining Canadian assets in Vancouver will be sold on completion of the letting of the new developments. In contrast, exceptional progress has been made in California. With an increased commitment from Pfizer for their research campus the whole Torrey Pines Science Center, San Diego, is now built or prelet for phased



PEGASUS PARK, BRUSSELS

occupation. The Group's interest in the park will ultimately comprise approximately 100,000 sq.m. and have a rent roll of over \$33 million. At Oyster Point, South San Francisco, the whole of the 53,600 sq.m. development was pre-let during the year. This park will have a rent roll of \$31 million on completion in 2005 and will have cost approximately \$235 million.

The Pegasus Park development close to Brussels airport, which will ultimately extend to 275,000 sq.m. of office space, continues its transformation, with the completion of 26,700 sq.m. of offices, all of which is let, and the opening of a 234 bed, four star hotel. Elsewhere in Europe the successful logistics warehouse strategy followed in the Paris area has been extended to two locations in the Antwerp/Brussels corridor and to one at Kapellen near Dusseldorf.

The Group's strategy for earnings and cashflow growth through development in prime business centres has been closely followed in 2001. Expenditures in the year on both investment and trading properties aggregated £316 million.

On land in the Group's control and including buildings currently under construction, development opportunities aggregate some 970,000 sq.m. To complete these developments approximately £950 million would need to be spent. Though the current economic environment may result in these developments being phased over a longer period than originally envisaged, the Group is not committed or obligated to develop at a rate faster than occupier demand will allow. These development opportunities bring new income streams to enhance the earnings growth potential of the current standing portfolio as well as development capital gains.

Further details of development progress in 2001 and a summary of development opportunities is set out on pages 26 and 27.

Development may be the higher profile side of real estate, but good asset management is the bedrock on which to base a consistent earnings achievement. The recognition of customer needs in terms of the quality of our estate management, our flexibility towards negotiation of contractual arrangements,



services offered and rapidity of response to solving customers' problems all contribute ultimately to the reliability of the rental income and the optimisation of cashflow. Occupancy and rental rates are the prime measures of success in this respect.

Occupancy in the UK has marginally improved year on year but worldwide has reduced to 91.6 per cent.

#### As at 31 December 2001

	Total Space 000's sq.m.	Occupancy 2001	2000
UK	1,866	92.7%	92.2%
Europe	493	88.6%	98.3%
Canada	85	66.2%	93.9%
USA	363	96.4%	94.7%
Worldwide	2,807	91.6%	93.6%

The increase in European vacancy is due largely to the completion of large industrial/logistics units in Belgium and Germany close to the year end which account for eight percentage points of the vacancy. The Paris properties are all fully let. The high Canadian vacancy is due to the recently completed but unlet Vancouver developments. The USA vacancy is mainly in industrial units acquired in California as future expansion land for health science customers. All laboratory space is fully let.

Overall the Group's income quality and growth potential is very strong. In the UK the portfolio is reversionary by £17.7 million or 11.5 per cent, excluding the rental value of vacancies, and additional rental income from developments in progress will far exceed the financing costs of those developments. For the future, the potential new rent roll on completion of the six major park developments, Farnborough, Cambridge, Pegasus Park, Torrey Pines, Oyster Point and East Grand, should amount to over £125 million at current rent levels within possibly six to seven years. Of this, rents already contracted under pre-let agreements in California aggregate £35 million.

#### UK PROPERTY

The Group's strategic focus for the UK continues to be industrial and business space, particularly in the South East and predominantly in the Thames Valley, supported by a significant investment in retail centres which can provide a strong cyclical counter-balance.

Despite business confidence generally declining in the course of 2001, the leasing of 101,000 sq.m. to new tenants was only 14,000 sq.m. down on the exceptionally good year enjoyed in 2000 and occupancy at 92.7 per cent was up by 0.5 per cent.

Though the effects of the worldwide decline in TMT business activity has been particularly significant with respect to demand for office accommodation in the South East and the Thames Valley in particular, the Group's standing office space in this area, valued at £380 million or 12 per cent of the total portfolio remains well occupied with only two buildings available to let. Its impact on industrial and warehouse space has been small.

Including the Group's share of rent from retail joint ventures, rents passing at year end 2001 amounted to £166 million, paid by 1,500 tenants. The UK portfolio extends to 1.86 million sq.m. (20.0 million sq.ft.), details of which are shown on pages 22 and 23.

The Slough Trading Estate, the Group's largest asset, continues to perform well. Rent passing now runs at £70.3 million per annum compared with £66.2 million at December 2000 and occupancy remains high at 93.1 per cent. Development completions of 15,300 sq.m. were lower than in recent years but all have been let or agreed for lease. One office building of 6,440 sq.m. remains under construction. Construction on the Group's last major office site on the Bath Road will commence in 2002 where two of three buildings totalling 7,500 sq.m. have been pre-let, one for health science purposes. Currently several further pre-let opportunities are being negotiated and a start on construction of a "trade park" on Farnham Road is likely to be made in Spring 2002.

No acquisitions of new sites or standing investments were made in the UK in 2001. Farnborough Business Park and Cambridge Research Park, both acquired in recent years, were transformed by construction of infrastructure and landscaping and the start of first phases of building. Farnborough Business Park, which has consent for 155,000 sq.m. of office and R&D space, is being provided with two miles of spine roads and related utilities. Two office buildings of 3,600 sq.m. and 8,000 sq.m. were completed in February 2002, the former having been recently leased to Autodesk. Further new construction is expected in 2002. The whole project is likely to take seven years or more to fully develop.

At Cambridge Research Park the infrastructure is now complete and an exceptional working environment has been created. A first phase of 10,900 sq.m. in five buildings completes in March 2002. The rate of build out of this park will be determined by letting and pre-let activity.

Elsewhere in the UK 15,000 sq.m. of industrial space was completed, 84 per cent of which has been let. Developments under construction include



■ Developments under construction include a 1,100 sq.m. pre-let office at Elstree together with a 11,700 sq.m. industrial phase.



CENTENNIAL PARK, ELSTREE



7,000 sq.m. of pre-let distribution space at Feltham, a 6,900 sq.m. building trade centre for St. Gobain at Birmingham, a 1,100 sq.m. pre-let office at Elstree together with a 10,700 sq.m. industrial phase and a 8,100 sq.m. industrial park at Radlett.

The Group's retail team manages 190,000 sq.m. of shopping centres valued at £559 million, of which £385 million is in Slough's ownership. Customer visits at all of the seven locations has increased year on year and all have shared in the consumers' spending confidence. The Buchanan Galleries in Glasgow, opened in March 1999, has seen car park usage increase by 24 per cent year on year. Although shopping centres as an investment medium have been unpopular in recent years, their stability of underlying income in periods of economic stress justify their presence in a portfolio, an attribute which is currently being better appreciated in the investment market.

Sales of buildings in London and Bournemouth during the year raised £55 million.

## OVERSEAS

Overseas property accounts for 24 per cent of the total investment portfolio by value including development land, being 18 per cent in North America and 6 per cent in Europe. Information on the Group's overseas properties is set out on pages 24 and 25.

The contribution from non-UK operations towards Group performance has continued to grow, contributing £40.8 million or 29.7 per cent of Group pre-tax profit, before exceptional items. A strategic review of the Group's overseas prime business centres resulted in the decisions to sell the Toronto and Elk Grove, Chicago assets and to exit Vancouver when leasing of current developments is completed. Though these locations have resulted in profitable development in the past, they were underperforming the level of returns that the Group had achieved elsewhere in recent years. By the same process Paris, Brussels, the Rhine/Ruhr region and California were confirmed as preferred locations for investment.

## USA

The Group's achievements in 2001 were outstanding, derived from the purchase in recent years of exceptional sites for the development of health science research facilities in the two leading Californian locations for such activity, Torrey Pines in San Diego and South San Francisco. Health science research is a long term business backed by major pharmaceutical companies, venture capital, charitable foundations and Government and as such has escaped the cyclical downturn which burst the TMT balloon.

At the Group's Torrey Pines Science Center, the campus being developed for Pfizer has been expanded from the 57,600 sq.m. agreed in 2000 to one of 70,100 sq.m., by including a 4,600 sq.m. office built speculatively and the last remaining lots which will provide 7,900 sq.m. of research space. To date 31,200 sq.m. are occupied and the balance will be built and occupied in stages through to March 2004. The initial rent roll on the total campus will approximate \$22 million and will have cost \$185 million to complete. The other speculative laboratory space of 7,900 sq.m. built in 2001 has been occupied by Syrx. As all of the land at the science center is now committed, the Torrey Pines Science Park nearby has been purchased for \$72 million. This four building park of 27,400 sq.m. is fully let, reversionary and with possibilities to add further value in due course.

In South San Francisco, the Group's established research parks at Pointe Grand and Gateway remain fully let. The completion of two buildings for Exelixis and Fibrogen during the year and the exercise by Pharmacia of its option for 6,300 sq.m. on the last site available means the parks are now fully committed.

In late 2000 a new site at Oyster Point, South San Francisco was granted planning consent for 53,000 sq.m. of research space. The whole of this space in seven buildings has been pre-let, the largest letting being to Tularik for 26,000 sq.m. in three buildings. Currently the whole of the infrastructure is under construction as are four buildings. All of the lettings are for fifteen years with renewal options, and rental increases contracted at three to four per cent per annum. Occupancy dates range from October 2002 to January 2003 for those under construction and from May 2003 to November 2005 for the Tularik space.

A further site in San Francisco at East Grand, on the Bay and adjacent to the Genentech campus, is awaiting a planning consent for 72,500 sq.m. of health science or office space. Development of this

site will start this year, and could take five years to complete. Over the past two years industrial buildings adjacent to Pointe Grand and Oyster Point have been acquired to provide for the future expansion requirements of customers. Though currently income earning, these buildings could be demolished to provide land for a further 40,000 sq.m. in due course.

Also in the Bay area, properties at Pleasanton and Point Eden, Hayward continue to thrive with virtually full occupancy.



CAMBRIDGE RESEARCH PARK



NURSING INDUSTRIAL ESTATE, SOUTHAMPTON







PFIZER CAMPUS DEVELOPMENT, SAN DIEGO

## Canada

The sale of the Group's nine Toronto industrial parks was completed in October along with the transfer of 38 employees to the new owners' management company. The gross sale proceeds of C\$328 million exceeded the prior valuation but after transaction costs, office closure costs and debt close out costs, an exceptional pre-tax loss of £8.1 million has been recorded. There remains to be sold some land in Montreal at a book value of £2.9 million. In Vancouver, the Group's share of the Willingdon Park joint venture will be sold when the new development is let. The last phase of 27,200 sq.m. completed shell construction in the year of which 10,000 sq.m. was pre-let to Nortel. The Coquitlam industrial development will likewise be sold. The book value of the Vancouver assets is £27 million.

## Continental Europe

The economies of Belgium, France and Germany all showed reduced but positive growth in 2001. Relatively high unemployment rates, low inflation and steady interest rates can be expected to continue in those countries throughout the introduction of the Euro, though that alone is not expected to stimulate extra growth in the short term.

Property markets have remained firm for investment demand though there are signs that occupier demand has eased from the exceptional highs at the end of 2000.

## Belgium

The focus of activity in the Brussels region has been at Pegasus Park, where, following the acquisition of additional land in 2000, the planning consent should allow for the development of 275,000 sq.m. of office



ST FARGEAU, PARIS





space. To the 52,000 sq.m. built in prior years a further 18,600 sq.m. has been built and occupied by Cisco Systems and a further 8,100 sq.m. built for Deloitte & Touche. Under construction is a 6,900 sq.m. headquarters for Johnson Controls and a 16,100 sq.m. speculative office completed recently. Being very close to Brussels airport, the attractions of this location to international business occupiers are clear and the retention of a significant part of this development for the long term is planned.

The success of the French logistics activity has prompted the migration of that strategy to Belgium. Planning consents have been granted on two sites, at Bornem for 50,000 sq.m. and at Rumst for 80,000 sq.m., both in the Antwerp/Brussels corridor. A first phase of 16,500 sq.m. has been completed at Bornem. Further phases will be started when this is let.

### France

Following the rapid development and letting of the 100,000 sq.m. Marly la Ville logistics park during 2000, which became fully income producing for 2001, our stock of logistics land was significantly reduced. Development completions were limited to 23,900 sq.m. at St. Fargeau, south of Paris, and work commenced on a second unit there of 20,400 sq.m. The former was let during construction.

Since the Group started its extremely successful logistics strategy in France in 1995 not only has developer competition for sites increased but local authorities have become increasingly reluctant to grant consents for big distribution sheds for fear both of traffic congestion and the low employment generation they bring. The huge growth in this sector over recent years, in which the Group has played a major part, has resulted in a dramatic reduction in land zoned for logistics though occupier demand has continued to absorb new development.

Following the success of the Rue Vineuse office redevelopment in Paris, a further building at Place d'Iena, also in the 16th arrondissement, has been acquired for substantial refurbishment, letting and sale. The building will be available for occupation in April 2002.

### Germany

In Germany the focus for some years has been the development, leasing and subsequent sale of small industrial developments to institutional buyers. With limited rental rate growth to be expected and investment yields static, holding developments for the long term can only dilute the initial development rate of return.

Consequently the Group has been taking a trading stance in this market. Following the purchase of several sites in prior years, activity in Germany was significantly higher in 2001. Completed industrial space totalled 30,600 sq.m. at Neuss, Ratingen, Mönchengladbach, Kapellen and Hamburg, together with a 22,750 sq.m. logistics unit at Kapellen. A further 20,000 sq.m. industrial space is under construction. 2001 was also a good year for sales, with 35,000 sq.m. sold for some £22.1 million. German contributions to profit amounted to £3.4 million.

Depending on the ultimate success of the logistics project at Kapellen, this activity may be extended further in Germany.

### NON PROPERTY ACTIVITIES

#### Slough Heat & Power

Slough Heat & Power is an integral part of the Slough Trading Estate. Half of its electricity generating capacity of 100 MW is typically used by

BORNEM, ANTWERP

The successful logistics warehouse strategy followed in the Paris area has been extended to Brussels and Dusseldorf.

KAPELLEN, DUSSELDORF



Trading Estate customers with the balance available for export to the Grid. It also provides steam and water to estate customers, as well as utilities expertise and installation services to the Group and tenants. The generating plant is capable of burning gas, coal, waste derived fuel, wood, paper and plastic commercial waste and, in reserve, oil, giving it unique fuel flexibility.

This Combined Heat and Power (CHP), environmentally friendly power station is just the sort of plant being encouraged by environmentalists and by Government. However, in March 2001 the Regulator (Ofgem) introduced the New Electricity Trading Arrangements (NETA) to supersede the former Pool system with the aim of creating a more competitive market. A consequence of NETA, a system based on a commodity trading model, is that small generators can no longer sell equitably into the Grid system because the effective prices available to them are significantly lower than those which can be achieved by the big producers. The rules of trading also result in the commercial risks being too great. There is no longer a level playing field between the major producers/suppliers and the small CHP or "green" energy producers. Since September the Government has recognised that this is a serious regulatory and trading problem for small generators, but no meaningful solution has been proposed or implemented. The losses reported for the year are a result of having to abandon almost all sales into the

Grid and the consequent loss of net generating revenues. This has been compounded by the squeeze on margins caused by high fuel prices not yet being reflected in consumer electricity prices.

In view of this significant change in operating prospects, the Board has reluctantly decided to write down the book value of plant by £60.2 million.

In March this year the commissioning began of SH&P's new 11MW plant to produce electricity from paper and plastic waste. This stand alone plant benefits from a Non Fossil Fuel Obligation No.4 contract which guarantees the sale of electricity output from the plant for fifteen years at an RPI indexed price. With the benefit of receiving gate fees for taking in non-recyclable fibrous waste which would otherwise be sent to landfill, this new, environmentally friendly plant is a prime example of sustainability. The full year profit should be in the order of £4 to £5 million. Part of the older plant qualifies for the new Renewables Obligation from 1 April 2002 which will attract a premium price for green energy output. As a consequence of these developments, it is expected that the loss reported by utilities operations in 2001 will move to a modest profit in 2003 but it is also dependent on additional Government action to put its energy and environmental policies back on track by amending the NETA trading rules for small generators.

WILLINGDON PARK, VANCOUVER





## Management Buy out Investments

Through its participation in funds managed by Candover Investments plc in the UK and Charterhouse Group International Inc in the USA, the Group has investments in over 50 businesses. The year end book value of investments in these funds was £40.6 million compared with the fund managers' valuations of £49.3 million and uncalled commitments to both funds amount to £30.9 million.

## Equity Interest in Californian Tenants

The Group's property developments in California are home to many start up companies, particularly in the field of health science. As part of pre-letting agreements, but not to the detriment of the basic property deal, Slough has been granted equity warrants over a total of 2,418,000 shares in 19 different companies, which include 1,426,000 warrants for shares of companies yet to seek a listing and 992,000 in listed companies. The ultimate redeemable value of these warrants carried in the books at nil value is impossible to determine.

## Tipperary

Tipperary Corporation is an independent energy company headquartered in Denver Colorado and quoted on the American Stock Exchange. It is focused primarily on exploration for and production of coalbed methane. It owns Tipperary Oil and Gas (Australia) Pty Ltd which holds a 65 per cent interest in south eastern Queensland's 1.1 million acre Comet Ridge methane project. In its most recent letter to shareholders it reported that its "proved" gas reserves were valued at US\$100 million together with significantly larger probable gas reserves.

The Group has held an equity interest in Tipperary since 1986 and now owns 61 per cent with a book value of £23.3 million and a market value of £26.4 million. The Group will continue to hold Tipperary stock until the full value of Comet Ridge is realisable.

**Derek Wilson**

*Chief Executive*

# Investment Portfolio analysis by value

£millions	Industrial	Office	R&D	Retail	Total	%	Land and construction % in progress	% including land	
UK									
Slough	693	250	60	97	1,100	44%	34%	34	30%
Thames Valley	480	130	5	36	651	26%	20%	15	18%
Other south	217	20	9	216	462	18%	15%	203	18%
Midlands and north	98	35	—	159	292	12%	9%	85	10%
Total UK	1,488	435	74	508	2,505	100%	78%	337	76%
Percentage	60%	17%	3%	20%	100%	—	—	—	—
North America									
San Diego	—	—	155	—	155	23%	5%	40	5%
San Francisco Bay area	116	30	157	—	303	44%	10%	113	12%
Illinois	8	—	—	—	8	1%	—	5	—
Vancouver	4	25	—	—	29	4%	1%	6	1%
Total North America	128	55	312	—	495	72%	16%	164	18%
Europe									
Paris area	80	7	—	—	87	13%	3%	—	2%
Brussels area	49	57	—	—	106	15%	3%	41	4%
Total Europe	129	64	—	—	193	28%	6%	41	6%
Total Overseas	257	119	312	—	688	100%	22%	205	24%
Percentage	37%	17%	45%	—	100%	—	—	—	—
Total	1,745	554	386	508	3,193	—	100%	542	100%
Percentage	55%	17%	12%	16%	100%	—	—	—	—
Trading properties in Belgium, France and Germany held at cost are excluded. Includes share of properties in joint ventures and associates.									

# UK Property Portfolio

as at 31 December 2001



Location	Land Area Hectares	Land for Development Hectares	Industrial/ Warehousing sq.m.	Business/ Office sq.m.	Retail sq.m.	Total sq.m.	Under Construction sq.m.	Number of Tenants	Rent Roll £000's
<b>Slough</b>									
Slough Trading Estate	196	1	590,135	70,268	28,112	688,515	6,443	408	70,327
<b>London</b>									
Central	—	—	—	2,175	—	2,175	—	3	594
Park Royal	5	—	21,167	—	—	21,167	—	30	1,544
Acton	4	—	19,512	—	—	19,512	—	17	1,747
Feltham	23	—	74,901	8,668	—	83,569	7,048	36	7,610
Hounslow/Isleworth	9	—	39,961	713	—	40,674	—	45	3,004
Hayes/West Drayton	11	—	49,297	—	—	49,297	—	50	3,050
Greenford	5	—	25,056	—	—	25,056	—	15	1,838
Uxbridge	7	—	16,471	1,769	—	18,240	—	11	1,411
South Ruislip	4	—	12,474	—	2,422	14,896	—	6	1,429
	68	—	258,839	13,325	2,422	274,586	7,048	213	22,227
<b>South East NORTH OF THAMES</b>									
Elstree	27	5	22,197	5,152	—	27,349	11,860	16	2,182
High Wycombe	9	—	31,621	2,169	—	33,790	—	24	2,578
Welwyn Garden City	2	—	9,540	—	—	9,540	—	22	725
Chelmsford	3	—	15,523	—	—	15,523	—	8	665
Colnbrook	2	—	10,260	—	—	10,260	—	10	711
Radlett	12	4	19,668	—	—	19,668	8,157	2	486
Luton	9	—	38,842	—	—	38,842	—	26	1,603
	64	9	147,651	7,321	—	154,972	20,017	108	8,950
<b>South East SOUTH OF THAMES</b>									
Epsom	1	—	6,843	—	—	6,843	—	3	301
Wokingham	2	—	7,465	—	—	7,465	—	6	485
Winnersh	30	—	100,492	20,684	—	121,176	—	43	14,447
Camberley	3	—	13,787	—	—	13,787	—	3	774
Farnborough	72	52	8,982	120	—	9,102	—	3	600
Ascot	11	—	—	9,350	—	9,350	11,579	1	2,617
Leatherhead	2	—	2,180	1,996	—	4,176	—	4	462
Bracknell	2	—	5,007	—	—	5,007	—	8	400
	123	52	144,756	32,150	—	176,906	11,579	71	20,086



Location	Land Area Hectares	Land for Development Hectares	Industrial/ Warehousing sq.m.	Business/ Office sq.m.	Retail sq.m.	Total sq.m.	Under Construction sq.m.	Number of Tenants	Rent Roll £000's
<b>South</b>									
Basingstoke	3	—	11,007	—	—	11,007	—	8	1,078
Yate	9	—	31,700	—	—	31,700	—	27	1,268
Weston-super-Mare	8	1	25,575	—	—	25,575	—	41	1,143
Portsmouth	21	1	73,162	2,543	—	75,705	—	48	3,758
Bristol	7	2	15,758	—	—	15,758	—	9	595
Swindon	3	—	11,180	—	—	11,180	—	6	751
Southampton	6	2	13,050	—	—	13,050	—	2	279
Gloucester	11	5	8,386	—	—	8,386	—	2	150
	<b>68</b>	<b>11</b>	<b>189,818</b>	<b>2,543</b>	<b>—</b>	<b>192,361</b>	<b>—</b>	<b>143</b>	<b>9,022</b>
<b>Midlands and North</b>									
Birmingham	23	2	61,941	3,062	—	65,003	6,887	77	3,764
Huddersfield	8	—	15,332	—	9,023	24,355	—	22	1,365
Oldbury	2	—	4,315	1,575	—	5,890	—	6	473
Chester	3	—	5,418	—	—	5,418	—	1	212
Runcorn	4	—	13,697	—	—	13,697	—	4	626
Warrington	5	—	20,656	—	—	20,656	—	25	643
Northampton	5	—	20,565	—	—	20,565	—	2	1,061
Derby	4	—	13,631	4,101	—	17,732	—	13	1,071
Cambridge	45	10	—	8,354	—	8,354	10,916	3	1,348
	<b>99</b>	<b>12</b>	<b>155,555</b>	<b>17,092</b>	<b>9,023</b>	<b>181,670</b>	<b>17,803</b>	<b>153</b>	<b>10,563</b>
<b>Retail</b>									
Surrey Quays, Rotherhithe (50%)	9	—	—	—	25,441	25,441	—	42	3,948
Clifton Moor, York (50%)	9	—	—	—	19,420	19,420	—	9	3,007
Howard Centre, Welwyn	2	—	—	147	22,083	22,230	—	57	3,011
Pentagon Centre, Chatham	4	—	—	—	30,991	30,991	—	89	4,036
Lewisham Centre, Lewisham	5	—	—	3,918	28,392	32,310	—	83	6,045
Buchanan Galleries, Glasgow (50%)	4	—	—	—	56,756	56,756	—	84	12,756
Bishop Centre, Taplow	3	—	—	1,167	8,876	10,043	—	44	1,740
	<b>36</b>	<b>—</b>	<b>—</b>	<b>5,232</b>	<b>191,959</b>	<b>197,191</b>	<b>—</b>	<b>408</b>	<b>34,543</b>
<b>Total UK</b>	<b>654</b>	<b>85</b>	<b>1,486,754</b>	<b>147,931</b>	<b>231,516</b>	<b>1,866,201</b>	<b>62,890</b>	<b>1,504</b>	<b>175,718</b>
Percentage by use	—	—	80%	8%	12%	100%	—	—	—

# Overseas Property Portfolio

as at 31 December 2001

Location	Land Area Hectares	Land for Development Hectares	Industrial/ Warehousing sq.m.	Business/ Office sq.m.	Retail sq.m.	Total sq.m.	Under Construction sq.m.	Number of Tenants
<b>Belgium</b>	57	27	85,849	65,441	2,797	154,087	22,940	86
<b>France</b>	59	—	259,955	4,553	—	264,508	22,676	20
<b>Germany</b>	28	9	61,417	13,392	—	74,809	19,574	36
<b>Canada</b>	30	17	14,465	70,863	—	85,328	—	30
<b>USA</b>	147	47	312,946	32,221	18,184	363,351	40,030	86
<b>Total</b>	<b>321</b>	<b>100</b>	<b>734,632</b>	<b>186,470</b>	<b>20,981</b>	<b>942,083</b>	<b>105,220</b>	<b>258</b>
Percentage by use	—	—	78%	20%	2%	100%	—	—



## Belgium

### Brussels

Pegasus Park I	15	3	11,474	49,956	—	61,430	22,940	15
Pegasus Park II (50%)	2	1	—	8,137	—	8,137	—	1
Diegem	3	3	—	—	—	—	—	—
Woluwe	4	—	18,228	2,304	—	20,532	—	19
Zavandem	10	7	11,642	—	2,337	13,979	—	18
Relegem	4	—	19,334	—	—	19,334	—	26
Kortenbergh (50%)	2	2	—	—	460	460	—	2
Bornem (50%)	6	2	16,517	—	—	16,517	—	—
Strombeek	—	—	230	5,044	—	5,274	—	3
Nivelles	6	4	8,424	—	—	8,424	—	2
Zellik (50%)	5	5	—	—	—	—	—	—
	<b>57</b>	<b>27</b>	<b>85,849</b>	<b>65,441</b>	<b>2,797</b>	<b>154,087</b>	<b>22,940</b>	<b>86</b>



## France

### Paris

Colombes	3	—	17,812	—	—	17,812	—	4
Bures Orsay	4	—	19,264	—	—	19,264	—	3
Aulnay sous Bois	2	—	11,155	—	—	11,155	—	1
Nanterre (66%)	—	—	1,702	4,553	—	6,255	—	1
Evry	5	—	26,087	—	—	26,087	—	2
Marly la Ville	25	—	108,377	—	—	108,377	—	6
Cergy Pontoise	10	—	51,645	—	—	51,645	—	2
St. Fargeau	10	—	23,913	—	—	23,913	20,422	1
Place d'Iena	—	—	—	—	—	—	2,254	—
	<b>59</b>	<b>—</b>	<b>259,955</b>	<b>4,553</b>	<b>—</b>	<b>264,508</b>	<b>22,676</b>	<b>20</b>



## Germany

Neuss	11	3	18,489	7,348	—	25,837	10,787	13
Mönchengladbach	2	—	3,549	1,114	—	4,663	6,340	6
Hamburg	2	1	4,822	730	—	5,552	—	7
Kapellen	11	5	28,474	1,075	—	29,549	—	4
Ratingen	2	—	6,083	3,125	—	9,208	2,447	6
	<b>28</b>	<b>9</b>	<b>61,417</b>	<b>13,392</b>	<b>—</b>	<b>74,809</b>	<b>19,574</b>	<b>36</b>





## Canada

### Vancouver

Willingdon Park,

Burnaby (50%)

Coquitlam

### Montreal

Kirkland

Location	Land Area Hectares	Land for Development Hectares	Industrial/ Warehousing sq.m.	Business/ Office sq.m.	Retail sq.m.	Total sq.m.	Under Construction sq.m.	Number of Tenants
Burnaby (50%)	9	2	—	70,863	—	70,863	—	23
Coquitlam	11	7	11,269	—	—	11,269	—	4
Kirkland	10	8	3,196	—	—	3,196	—	3
	30	17	14,465	70,863	—	85,328	—	30



## USA

### Chicago: Illinois

Elgin

Peoria (25%)

### California, San Diego

Torrey Pines Science

Center (32.5%)

Torrey Pines Science

Center (50%)

Torrey Pines Science Center

Torreyana, Torrey Pines

Torrey Pines Science Park

### San Francisco

Hacienda, Pleasanton (55%)

Hacienda, Pleasanton (36.5%)

Hacienda, Pleasanton (90%)

Point Eden, Hayward

Gateway,

South San Francisco (45%)

Gateway,

South San Francisco (90%)

Pointe Grand,

South San Francisco (90%)

Allerton,

South San Francisco

Oyster Point,

South San Francisco

Oyster Boulevard,

South San Francisco

East Grand,

South San Francisco

Elgin	34	29	16,861	—	—	16,861	—	3
Peoria (25%)	7	—	—	—	18,184	18,184	—	16
Torrey Pines Science Center (32.5%)	2	—	7,837	—	—	7,837	—	1
Torrey Pines Science Center (50%)	1	—	4,297	—	—	4,297	—	1
Torrey Pines Science Center	13	5	38,785	—	—	38,785	12,476	3
Torreyana, Torrey Pines	3	—	7,898	—	—	7,898	—	1
Torrey Pines Science Park	7	—	27,155	—	—	27,155	—	11
Hacienda, Pleasanton (55%)	6	—	23,194	—	—	23,194	—	12
Hacienda, Pleasanton (36.5%)	3	—	—	13,099	—	13,099	—	1
Hacienda, Pleasanton (90%)	10	—	15,546	19,122	—	34,668	—	5
Point Eden, Hayward	16	—	49,208	—	—	49,208	—	14
Gateway, South San Francisco (45%)	2	—	6,143	—	—	6,143	—	1
Gateway, South San Francisco (90%)	4	—	17,401	—	—	17,401	—	2
Pointe Grand, South San Francisco (90%)	13	1	52,261	—	—	52,261	—	9
Allerton, South San Francisco	2	—	12,263	—	—	12,263	—	2
Oyster Point, South San Francisco	9	4	—	—	—	—	27,554	—
Oyster Boulevard, South San Francisco	4	—	18,210	—	—	18,210	—	3
East Grand, South San Francisco	11	8	15,887	—	—	15,887	—	1
	147	47	312,946	32,221	18,184	363,351	40,030	86

# Development Programme

as at 31 December 2001



## UK

		Type	Construction Completions 2001 sq.m.	Under Construction at end 2001 sq.m.	Projected starts 2002 sq.m.	
Slough	Bath Road 190/208/200	Office	7,742	6,443	—	7,742 sq.m. let Celltech, Ipsen
	Bath Road 250	Office/R&D	—	—	7,498	4,685 sq.m. pre-let LG, Cubist
	Bath Road 230	Office/R&D	—	—	4,540	To be pre-let
	Farnham Road Trade Park	Retail	—	—	3,158	Part let
	Various sites	Industrial	7,565	—	12,180	7,565 sq.m. let
<b>Total Slough</b>			<b>15,307</b>	<b>6,443</b>	<b>27,376</b>	
Farnborough	Sites 1/25	Office	—	11,579	11,250	3,599 sq.m. let Autodesk
Cambridge	Phase 1	Office/R&D	410	10,916	6,642	1,144 sq.m. let
London W3	Westway	Industrial	2,075	—	—	Let
Feltham	Phases 400/1100	Industrial	—	7,048	—	Pre-let Spatrans, Fedex
Uxbridge	Riverside Way	Industrial	3,519	—	5,875	3,519 sq.m. let
Elstree	Phases 300/400	Industrial	—	10,745	6,000	
	Phases 600	Office	—	1,115	—	Let Tibbett & Britten
Radlett	Phases 1	Industrial	—	8,157	—	
Luton	Dallow Road	Industrial	7,097	—	—	4,700 sq.m. let
Wokingham	Fishponds Close	Industrial	1,970	—	—	Let
Bristol	Emersons Green	Industrial	—	—	2,188	To be pre-let
Birmingham	Kings Norton	Industrial	—	6,887	3,160	6,887 sq.m. pre-let St Gobain
Chester	Redevelopment	Retail	—	—	7,464	4,877 sq.m. pre-let
<b>UK Total</b>			<b>30,378</b>	<b>62,890</b>	<b>69,955</b>	



## Belgium

Pegasus Park I	Office	18,599	6,929	—	Let to Cisco, Johnson Controls
	Office	—	16,011	8,000	1,705 sq.m. let
Pegasus Park II	Office	8,137	—	—	Let to Deloitte & Touche
Strombeek	Office	5,274	—	—	2,906 sq.m. let
Kortenbug	Industrial	12,153	—	6,000	12,153 sq.m. sold
Bornem & Rumst	Logistics	16,517	—	23,000	



## France

St Fargeau	Logistics	23,913	20,422	—	23,913 sq.m. let
Place d'Iena	Office	—	2,254	—	Refurbishment



## Germany

Six Developments	Industrial	30,648	19,574	22,493	22,698 sq.m. let
Kapellen	Logistics	22,750	—	—	



## Canada

Toronto	Industrial	30,760	—	—	Let and sold
Vancouver	Office	27,235	—	—	10,214 sq.m. let Nortel



## USA

San Diego CA	Torrey Pines	R&D	21,460	4,552	34,375	Pre-let to Pfizer
	Torrey Pines	R&D	—	7,924	—	Pre-let to Syrrx
South San Francisco CA	Gateway/Pointe Grand	R&D	8,438	—	6,270	Pre-let to Fibrogen, Exelixis, Sugen
	Oyster Point	R&D	—	27,554	26,014	Pre-let to EOS, Raven, Rigel, Tularik

Overseas Total	225,884	105,220	126,152
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<b>Group Total</b>	<b>256,262</b>	<b>168,110</b>	<b>196,107</b>
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Leased or sold	73%	40%	39%
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# Development Opportunities



			Floor Space Developable sq.m.	Type of Space	Approximate Construction Costs £m
UK	Farnborough	Business Park	155,000	Office/R&D	192
	Cambridge	Research Park	46,560	Office/R&D	52
	Slough	Bath Road	15,300	Office/R&D	21
		Other sites available	19,400	Industrial/R&D	12
	Elstree	Centennial Park	41,500	Office/Industrial	25
	Chester	Retail Park	7,460	Retail warehouse	6
	Other locations		40,890	Industrial	27
			<b>326,110</b>		<b>335</b>
USA	San Diego	Torrey Pines	46,850	R&D	57
	San Francisco	Pointe Grand	6,300	R&D	10
		Oyster Point	53,600	R&D	114
		East Grand	72,500	R&D	175
			<b>179,250</b>		<b>356</b>
Continental Europe	Belgium	Pegasus Park I	177,940	Office	133
		Pegasus Park II	19,280	Office	14
		Bornem	36,780	Logistics	12
		Rumst	80,000	Logistics	24
		Zavarnem	74,100	Industrial/Office	47
	France	St. Fargeau	20,420	Logistics	3
	Germany	Ruhr/Rhine/Hamburg	59,160	Industrial	26
			<b>467,680</b>		<b>259</b>
<b>Total</b>			<b>973,040</b>		<b>950</b>

Floor space includes space under construction at 31.12.01

Construction costs include building and infrastructure costs to be incurred after 31.12.01; excludes land costs (except where acquired after 31.12.01) and finance costs.



## Financial Review

### Results

Growth in core property income was yet again the main factor behind the 7 per cent improvement in pre-tax profit, excluding exceptional items. The latter rose to £137.3 million in 2001. Core property income, comprising investment and joint venture property income less administration and net interest costs, increased by 13 per cent from £119.6 million in 2000 to £135.1 million in 2001. These core, or maintainable earnings, have had a compound annual growth rate of 14.9 per cent over the last five years. Such a sustained high level of growth has been achieved through the continuing commitment to the strategy of concentrating development and investment in prime business centres in the UK and overseas.

Property investment income of £212.3 million was up by £15.6 million or 7.9 per cent, despite the adverse effect of property disposals over the last two years, which reduced 2001 net rental income by £9.8 million. Some £275.5 million of investment properties have been sold during this period, including the Toronto and Chicago industrial property portfolios during 2001. New developments and acquisitions added £20.5 million to rental income, emphasizing the significant contribution that the development programme continues to make to earnings growth. On a like for like basis, rental income increased by £7.5 million or 3.5 per cent. Property joint ventures contributed £13.9 million.

Looking ahead, the main variables affecting rental revenue are likely to be new development and the realisation of reversionary income, offset by property sales. The development programme will continue to substantially enhance core earnings as additional year on year rental income of £52 million has already been secured on recent completions or pre-lets, although circa 69 per cent of this income is not expected to flow until 2003 and thereafter. The UK portfolio of occupied space was 11.5 per cent reversionary at the end of 2001, which equates to

£17.7 million of potential future rental income as leases are reviewed or properties re-let. Rental income in the current year will suffer by some £12.0 million from the effect of the high level of property disposals during 2001.

There is considerable security of income in that 63 per cent of the current Group rent roll is secured on leases with at least ten years unexpired, or 49 per cent if all tenants exercise break clauses and vacate at the earliest opportunity. Security is strongest in the UK at 64 per cent (or 46 per cent including breaks) and the USA at 87 per cent (or 84 per cent including breaks). In Europe the customary length of lease is for shorter periods, but any resultant reduced level of income security is compensated by the greater mobility of businesses.

The Group is not dependent on any one customer for its principal revenues as it has over 1,500 tenants in the UK and more than 1,750 tenants in total worldwide. No tenant accounts for more than 3 per cent of Group rental income. Nor is the Group over-reliant on any one business sector. Its worldwide portfolio (by value) is occupied by customers in manufacturing 24.1 per cent, logistics 14.4 per cent, health science 15.6 per cent, TMT 17.9 per cent, service 9.0 per cent, retail 16.0 per cent and other sectors 3.0 per cent.

Net interest costs fell by £0.3 million during 2001 to £77.9 million. Net interest payable (before capitalisation of interest) was up by £7.9 million from £100.5 million to £108.4 million. The increase was largely due to the effects of recently completed properties (£13.4 million), partly offset by 2000/2001 property sales (£7.2 million). Capitalised interest increased by £8.2 million to £30.5 million, of which 32 per cent related to developments that were either pre-sold or covered by agreed lettings. Gross interest cover of 2.0 times was down a little from 2000's 2.1 times.

Returns of £2.2 million from the Group's non core activities were £6.5 million down on last year. The factors that caused the £3.5 million deterioration in



BUCHANAN GALLERIES, GLASGOW



utilities' results are dealt with in the Chief Executive's Review on page 20. Property trading had another good year, with profits increasing from £6.7 million to £8.7 million. A number of projects in Belgium and Germany contributed. There are sufficient developments underway to suggest a reasonable level of trading profits in 2002.

Income of £0.6 million from other activities was £5.0 million lower than last year. The Candover and CHUSA contributions were down, due to few realisations being achieved in an unresponsive market. With an investment of £40.6 million remaining in these funds and uncalled commitments to them of £30.9 million, further profits can be expected in the future, although their timing and quantum are difficult to predict.

The Group's effective tax rate of 9.2 per cent excluding exceptional items was higher than 2000's 8.0 per cent, as the benefits arising from the measures that were taken in 1998 to alleviate the Group's surplus advance corporation tax position became fully utilised during 2001. The effective tax rate is therefore expected to move up to circa 15 per cent in 2002, excluding the effects of the implementation of FRS19 (Deferred Tax).

Earnings per share, excluding exceptional items, rose by 7.4 per cent from 25.7 pence to 27.6 pence per share in 2001.

Exceptional losses of £70.0 million before tax had a significant effect on this year's results. The reasons for the £60.2 million write down in the book value of utilities plant are given in the Chief Executive's Review on page 20. Of the £9.8 million deficit against book value on the sale of investment properties and the associated tax charge of £7.0 million, £8.1 million and £6.6 million respectively relate to the sale of the Toronto property portfolio and the subsequent withdrawal from Toronto. The Toronto property sale showed a surplus on book value of £2.5 million. The loss arose after the inclusion of Toronto closure costs of £6.9 million and associated debt close-out costs of £3.7 million.

Exceptional losses of 18.6 pence per share reduced overall earnings per share to 9.0 pence.

The Board has proposed a total dividend of 13.1 pence per share for 2001, an increase of 8.3 per cent on 2000. Dividend cover, adjusted to exclude exceptional items, remained at the same level as that of 2000, 2.1 times, as did core income dividend cover at 1.9 times.

## Cash Flow

The net cash inflow from operations of £174.3 million was £5.3 million lower than in 2000, due largely to a £29 million build up in property trading stock during 2001, mainly in France and Germany. After the payment of all interest, dividends and tax, there was a free cash inflow of £4.0 million. Capital expenditure of £275.6 million on the investment property portfolio exceeded proceeds of £225.9 million from investment property sales. Overall, there was a net cash outflow of £59.4 million for the year.

## Balance Sheet

Shareholders' funds fell by £38.9 million during the year to £2,388.2 million due largely to retained losses of £16.9 million after exceptional items of £77.0 million, and the £16.0 million revaluation deficit. There was consequently a 1.5 per cent reduction in diluted net assets per share (NAPS) from 520 pence to 512 pence. The adverse impact of the utilities asset write down and withdrawal from Toronto was 17 pence per share, without which NAPS would have increased by 1.7 per cent to 529 pence per share.

Year end net borrowings amounted to £1,365.2 million, a rise of £57.6 million during the year. Exchange rates had a positive effect of £0.3 million. Gearing (the ratio of net borrowings to shareholders' funds) increased from 54 per cent in 2000 to 57 per cent at the end of 2001, mainly due to the effect of the exceptional items and the increase in net borrowings resulting from the development programme.

The Group has very little off-balance sheet debt. In addition to the £1,365.2 million of net borrowings disclosed as such in the balance sheet, £40.2 million of joint venture gross debt is included in the balance sheet as part of the £46.3 million "Investments in joint ventures share of gross liabilities". Only £9.8 million, relating to the Group's share of debt in property backed associate and short term partnerships, is not carried on balance sheet.

The Group's debt profile has been enhanced by three new financings during 2001. In February, an unsecured Eurobond issue raised £150 million for 21 years at a coupon of 7 per cent. Two private placements were arranged for €50 million and \$200 million at average interest rates of 6.42 per cent and 6.77 per cent respectively. The Euro issue matures in 10 years, while \$100 million of the US dollar issue is for 10 years and the other \$100 million for 15 years. The proceeds are being used to help finance the ongoing development programme.





NORDSON, SLOUGH TRADING ESTATE

### Treasury Policies and Financial Risk Management

The Group operates a UK based centralized treasury function. Its objectives are to meet the financing requirements of the Group on a cost effective basis, whilst maintaining a prudent financial position. It is not a profit centre and speculative transactions are not permitted. Board policies are laid down covering the parameters of the department's operations including the interest rate mix of borrowings, net assets exposed to exchange rate movements and aggregate exposure limits to individual financial institutions. Derivative instruments are used to hedge real underlying debt, cash or asset positions and to convert one currency to another. Approval to enter into derivative instruments which affect the Group's exposure is required from two out of the Group Chairman, Chief Executive or Finance Director prior to transacting.

The main financial risks facing the Group are liquidity risk, interest rate risk and foreign exchange translation exposure.

As regards liquidity, as property investment is a long term business, the Group's policy is to finance it primarily with equity and medium and long term borrowings. The weighted average maturity of borrowings at the year end was 13 years. £107.6 million of debt is due for repayment or

rollover in 2002/2003. £1,379.7 million or 89 per cent of the Group's gross debt of £1,541.1 million has a maturity date beyond the year 2006.

At the year end the Group had £175.9 million of cash balances on deposit and £538.4 million of undrawn committed bank facilities. The duration of availability is shown in note 17 of these accounts. This availability is more than adequate to cover the Group's development plans over the next two years or so. Spend on the development programme is



LUXBRIDGE RIVERSIDE, LONDON





SLOUGH TRADING ESTATE



expected to amount to some £250 million in 2002 and about £200 million in 2003. This will obviously depend on prevailing market conditions. Until economic indicators and occupier demand for property show clear signs of strengthening, emphasis will remain on pre-let developments rather than speculative. Committed property expenditure amounted to £189.4 million at the end of 2001, 78.2 per cent of which relates to pre-let opportunities. There are no restrictions on the transfer of funds between the parent and subsidiary companies. All covenants in bank or loan agreements restricting the extent to which the Group may borrow, leave substantial headroom for the Group to expand its operations.

The Group's approach to interest rate risk is that a minimum of around 70 per cent of the gross debt portfolio must attract a fixed rate of interest or be variable rate debt hedged with a derivative instrument providing a maximum interest rate payable. At the year end 82 per cent of the debt portfolio was at fixed rate. The weighted average cost of fixed rate debt was 7.85 per cent which falls to 7.25 per cent when variable rate debt is included. This is analysed in detail by currency and duration in note 17 to the accounts.

A number of the Group's historic fundings are at fixed interest rates which are high compared with current rates, but which reflect market conditions at the time they were completed. FRS 13 requires the disclosure of the "fair value" of these loans and derivatives. The fair value at 31 December 2001 of the Group's borrowings, as analysed in note 17 to these accounts, was some £128.3 million higher than book value before tax or £89.8 million after tax. It is important to realise that the Group is under no obligation to repay these loans at anything other than their nominal value at the original maturity dates.

The main currency risk is translation exposure, i.e. the exchange rate effect of retranslating overseas currency denominated assets back into sterling at each balance sheet date. The Group's policy is that currency assets should be substantially hedged by maintaining liabilities (normally debt or currency swaps) in a similar currency. Net assets exposed to exchange rate fluctuations amounted to £383 million. A 10 per cent movement in the value of sterling against all currencies affects net assets per share by 1.6 per cent although experience shows that sterling rarely moves in the same direction against all currencies.



## Accounting Policies

The Group has adopted UITF 28 "Operating Lease Incentives" and the transitional arrangements permitted under FRS 17 "Retirement Benefits". UITF 28 had an immaterial effect on the Group's results. The Group's two defined benefit pension schemes were actuarially valued as at 31 March and 5 April 2001, resulting in an overall past service surplus of £0.9 million. However, had FRS 17 been adopted in full, net assets at 31 December 2001 would have been reduced by £5.2 million net of deferred tax to reflect the "net pension liability" calculated as specified by the standard.

FRS 19 (Deferred Tax) will have a material impact on the Group's financial statements. FRS 19 requires that deferred tax should be provided in full on all timing differences that are not permanent, but does not apply to revaluation surpluses. FRS 19 has not been adopted this year as it will give a misleading impression of the Group's financial position, but will be applied next year when it becomes mandatory. Had it been introduced in 2001, it would have reduced the Group's 2001 tax charge by £5.6 million from £19.6 million to £14.0 million, comprising a pre-exceptional items charge of £38.9 million, partly offset by a tax credit on exceptional items of £24.9 million. A provision for liabilities of £151.6 million, (UK £111.7 million, overseas £39.9 million), which has been calculated on an undiscounted basis, would have been included in the Group's 2001 balance sheet.

Our current accounting policy recognises deferred tax only to the extent that a liability or asset is expected to crystallize, which potentially only arises



WILLINGDON PARK, VANCOUVER

on the sale or demolition of a property. The FRS 19 full provision for UK capital allowances does not reflect a true underlying liability as, in reality, capital allowance clawbacks do not normally arise and cause tax to be paid when properties are sold or demolished in property investment companies such as ours. Furthermore, overseas depreciation allowance tax clawbacks can be avoided to some extent through the appropriate structuring of sales transactions. In practice then, the FRS 19 provision of £151.6 million would be greatly over-stated in that only a relatively small liability is likely to crystallize eventually.

**Dick Kingston**

*Finance Director*



DALLOW ROAD, LUTON



## Health Science in California

Over the past ten years the Group's US subsidiary, Slough Estates USA Inc., has become one of the leading developers and owners of health science research space in California. To date \$500 million has been invested (valued at \$680 million) and on completion of development of current projects our investment at cost in "biotech" will increase to \$1.0 billion.

Since the founding of Genentech in South San Francisco 25 years ago the biotech industry has grown exponentially, producing a plethora of new technologies and drugs that are finding commercial application. More than 75 biotech medicines have been commercialised since 1995, and another 350 drug products targeting 200 diseases are currently in Phase II and Phase III trials in the USA.

Much of this new industry has been based on venture capital start ups, small businesses pursuing distinctive lines of research sponsored both by venture capitalists and the big pharmaceutical companies who need a new range of drugs to replace their older blockbuster patents as they expire. The most important element of biotech however is its intellectual capital: its research scientists and their support teams who require laboratory facilities ideally located and suited to achieve their ambitions. It follows that all the key centres of biotech research in the USA are located close by universities, research establishments and other major pharmaceutical research companies that serve as the seedbed for bioscience innovation.

Slough's two centres are at South San Francisco and Torrey Pines, San Diego. At South San Francisco, which benefits from proximity to Stanford University, UCSF and UC - Berkeley, the number of bioscience companies has doubled in the last four years and 6,150 people were employed in the industry in 2000. Torrey Pines, San Diego has become the leading cluster location for biotech in Southern California being the home of UCSD, the Scripps Research Institute, the Salk Institute, the Burnham Institute and many research establishments of major pharmaceutical companies. Slough's investment in biotech in California was the result of in-depth research undertaken in the early nineties to identify business growth areas whose accommodation needs were not being met by the market. Biotech was recognised as such a sector. It was growing rapidly and had a critical need for facilities located close to research hubs, typically in areas of land scarcity. Moreover, the market perception of their business risk often made it difficult for these fledgling companies to raise property funding from institutions. Slough's strong balance sheet and its willingness to accept measured credit risk has given it a competitive edge in supplying this market and has enabled the Group to acquire prime locations on which to develop laboratory space at above average financial returns. Research facilities are critical to the biotech industry for their long term research. A consequence of this is





their desire for real security of tenure of their laboratories and typical leases run for 15 years or more, with five year renewal options, all with rents increasing regularly year on year. This has been generating a significant cash flow for the Group which is expected to continue to grow.

Though the laboratories are built to the tenants' specification, they are essentially a generic product which, with a minimum of refit, can be suitable for most biotech occupiers. This suits the tenant as it is easy for them to sub-let space if necessary and suits the owner in the event of the tenant's failure as it can easily be re-let. However, the Group's experience has been that where tenants have met financial difficulties, they have tended to be taken over by a bigger company for their intellectual assets. Similarly the initial credit risk has frequently been short term even for successful new companies where they have been acquired by a major pharmaceutical company. Slough now has twenty biotech customers ranging from pharmaceutical giants like Pfizer and Pharmacia, NASDAQ quoted companies such as Tularik, Rigel and Millennium to new unquoted businesses. This broad customer base involves a wide variety of credit ratings and research fields which underpins the reliability of a biotech real estate portfolio as a long term investment.

The biotechnology industry growth in California has benefited from the advances in

computer technology in Silicon Valley and is now highly dependant on innovative computing to sift and test the infinite numbers of permutations of formulations to target disease.

The future of biotech is also inextricably linked to the development of other high technology industries including robotics, precision engineering and medical devices. Although the sequencing of the human genome in recent years was not proof of the potential of biotechnology, it illustrated the potential for gene identification and protein manipulation to formulate new drugs and treatments.

There is no doubt that health care will continue to be a growth industry in the USA and elsewhere into the future. The US population aged 45+ will grow from 96 million to 120 million in ten years. The pharmaceutical industry must continue to work towards maintaining the quality of life to match increasing longevity but it is also charged with the challenge of making it affordable.

The USA is a vast country not short of land. The Group's Californian health science strategy is centred on a growing industry both in terms of technology and need, an industry that is extremely location specific which underpins land values for the future, and an industry where its buildings are "mission critical".



# Corporate Governance Guidelines

A Statement of Policy for Slough Estates

## Introduction

This statement of Corporate Governance policy has been adopted by the Board. It gives guidance on how the principles are applied to the company. A Statement of Adherence to the Combined Code as appended to the Listing Rules can be found on pages 62 and 63.

## The Mission of the Board of Directors

The Slough Estates Board of Directors represents the shareholders' interests in maintaining and growing a successful business including optimising consistent long term financial returns. The Board is accountable for determining that the company and its subsidiaries are managed in such a way to achieve this objective. The Board has a general responsibility to ensure that in good times as well as times of adversity the Executive is fulfilling its responsibilities. The Board's responsibility is to monitor regularly the effectiveness of the Executive's policies and decisions, including the implementation and execution of its strategies.

In addition to meeting its obligations for improving shareholder value, the Board has a responsibility to the Group's customers, employees and suppliers, and to the communities where it develops and invests.

All these principles and responsibilities are founded upon the basis of maintaining the successful continuity of the business.

## Guidelines on important corporate governance issues

### 1 Selection and composition of the Board

The Board will on a regular basis review the composition of the Board, the diversity of skills and experience, their complementarity and the characteristics required of both executive and non-executive members of the Board in the context of the business and its strategies. This review should embrace diversity of experience, age, and term on the Board.

### 2 Selection and background of directors

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at three yearly intervals.

Appointment of directors should be a transparent process. A Nomination Committee comprising a majority of non-executive directors has the responsibility for making recommendations for new appointments to the Board.

3 On appointment, new directors will be given a comprehensive introduction to the Group's business including visits to the Group's activities and meetings with senior management.

## Board leadership

### 4 Selection of Chairman and Chief Executive

a The Board should be free to make this choice in any way that seems best for the company at the relevant time.

The Board has an open mind as to whether or not the roles of Chairman and Chief Executive should be separate, though its prevailing policy would be for separation.

b A "senior" non-executive director has been identified and acts as the Deputy Chairman of the Board. The "senior" non-executive director may also assume such responsibilities that might be designated by the Board.

## Board composition and size

### 5 Size of the Board

It is important that the Board is of a size to enable there to be a reasonable balance as between executive and non-executive directors, the number of executive directors to be such as to ensure the sound management of the business and to offer the expectation of promotion for senior non-Board executive management. By way of guidance, neither the executive nor non-executive element of the Board should exceed two-thirds at any one time and a majority of the non-executive directors should be independent.

### 6 What constitutes independence for outside directors

The Board believes that independence is a matter of judgement and conscience but that, to be independent, non-executive directors should be free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Their interest in receiving fees as a director and being a shareholder should not prejudice their independence. An outside director should receive fair remuneration for the time devoted and the responsibilities involved but such remuneration should never represent to that director such a material income in relation to his overall financial position as to prevent that director from acting independently. Directors considered to be independent will be identified in the Annual Report.

### 7 The appointment of former executive directors to the Board

The Board believes that this is a matter to be decided in each individual instance but save for the Chairman and/or Chief Executive it would probably be an



exception to the rule for a former executive director to be considered. A former executive director would not be considered as being an independent member of the Board.

## **8 Term limits**

**a** Executive directors are employed on contracts which have varying notice periods which do not exceed two years. Subject to performance and other factors, executive directors once appointed would usually remain on the Board until the normal retirement age of 62, subject of course to their periodic re-appointment by the shareholders in general meeting.

**b** Non-executive directors are appointed and are then subject to periodic re-appointment by the shareholders (every 3 years) in general meeting. The Board does not believe that it should establish term limits. Whilst such limits help to ensure that fresh ideas and views are available to the Board, they have the disadvantage of losing the contribution of directors who have a wealth of understanding of the Group's business and the executive team. As an alternative to term limits, the Nomination Committee will when a non-executive director is up for re-appointment assess the director's suitability for re-appointment based upon his current commitment and interest in the business of the Board. This process will also allow each director the opportunity to conveniently confirm his desire to continue.

## **9 Retirement age**

The normal retirement age for all non-executive directors is 70 and the director will retire at the Annual General Meeting following the director's 70th birthday.

## **10 Board compensation review**

The pay and benefits for executive directors, including the Chairman, is determined by the Remuneration Committee - a committee comprised entirely of non-executive directors. For non-executive directors, their fees and remuneration is determined by the Board on the advice of the company Chairman. The remuneration of executive directors and non-executive directors will be the subject of continual monitoring of comparable companies and the assistance of independent external advisers will be sought from time to time.

## **11 Board Committees**

The Board will maintain two standing committees comprising non-executive directors appointed by the Board. The Remuneration Committee will in accordance with its terms of reference determine the pay and other benefits of the Chairman and executive directors. The Audit Committee will review the financial accounts and policies and oversee internal controls and compliance. A third committee, the Nomination Committee, will consider the need to make new appointments to the Board and determine

the renewal of directors' appointments when they are due for re-election. This latter committee will comprise a majority of non-executive directors.

## **12 The Board's relationship with investors, press etc.**

The Chairman, Chief Executive and designated executive directors will be the company's principal spokesmen with investors, fund managers, the press and other interested parties.

## **13 Board access to senior management**

Board members have complete access to senior management. It is assumed that directors will use their judgement to be sure that this contact is not distracting to the business of the company and the duties of management, and that the Chairman and Chief Executive are kept informed.

Senior management are from time to time brought into formal and informal contact at Board meetings and other events.

## **14 Availability of information**

The Executive has a responsibility to provide the whole Board with all the information of which it is aware that is relevant to the discharge of the Board's responsibilities. The Board therefore expects to receive timely advice on all material information about the company, its subsidiaries, its activities, performance and its projects, particularly including any significant variances from a planned course of progress.

## **15 Meeting procedures**

The Chairman, together with the Chief Executive, will establish the agenda for each Board meeting.

The necessary papers for meetings will be distributed in advance of the meeting. The Executive will provide the desired information but will endeavour to ensure that the material does not contain anything that is not relevant.

As a general rule, presentation on specific subjects should be sent to the Board in advance so that time at the Board meeting can be conserved and used for discussion focused on questions.

## **16 Board authorities, delegations and discretions**

The Board has determined those matters which are retained for Board sanction and those matters which are delegated to the executive management of the business.

A statement determining investment and sanctioning authorities is also maintained.

## **17 Governance policies**

Policy statements governing ethical, environmental and personnel issues are in place.

## **18 Succession planning**

The Board has a primary role in ensuring that adequate thought is given to planning for succession to executive director and senior management positions and that there are management development programmes in place for suitable internal candidates.



# Principles of the Group Environmental Policy



The Group is committed to protecting and enhancing the global and local environment in all its operations in the United Kingdom and overseas.

The Group's environmental policy is based on the following general principles:

- the Group in all its activities is concerned for the environmental well-being of the communities in which it invests.
- the Group considers the impact of its activities on the environment in all aspects of its business, prioritising the prevention of pollution and contamination and working to achieve the most sustainable practices.
- the Group complies with current environmental legislation and regulations as a matter of course and seeks to exceed these standards where practical.
- the Group strives to achieve continuous improvement in its environmental performance through implementing the latest environmental standards and practices.
- the Group actively promotes environmental awareness internally amongst its employees, and externally with its customers and suppliers.
- when placing contracts, the Group seeks to ensure that contractors and other interested parties comply with the Group's environmental policy.
- the Group protects the health and safety of its employees and visitors.

## The Implementation of the Policy

The Group Board takes full responsibility for ensuring that this policy is effectively implemented.

- The Group Board regularly reviews the scope and content of the policy and considers any amendments required as a result of evolving practice.
- Operational implementation of the policy is embedded in the responsibility of senior line managers who submit regular reports on the progress achieved.

- The environmental management system includes a set of targets for each operating division – which form the basis of an annual review of progress.
- In the event of adverse incidents the Group Chief Executive is informed and a report submitted to the Chairman and the Board without delay.
- Appropriate on-going training is provided to allow all employees to meet their environmental responsibilities effectively.

## Development

The policy of improving environmental standards is achieved by:

- implementing local environmental control policies and complying with relevant environmental regulations, such as Environmental Impact Assessments, Biodiversity Action Plans and Travel Plans.
- a commitment to regenerating areas of previously developed land and brownfield sites in line with national government policy.
- reviewing all proposed development projects to assess the presence of any contamination and, where necessary, remediating consistent with best practice.
- specifying and monitoring works to remediate contaminated property and to minimise the risk of pollution which might pose a threat to the environment or to health.

## Building Design and Construction

In building design and construction the following measures are applied:

- an assessment of projects using BREEAM (Building Research Establishment Environmental Assessment Methodology), where appropriate, with a minimum requirement of a "very good" score.

- eliminating the use of materials containing ozone depleting substances in accordance with relevant legislation.
- where possible, specifying building materials with low environmental impacts throughout their life cycle, and from sources certified as sustainable (e.g. FSC-certified timber),
- promoting energy efficiency through innovative site and building design.
- specifying engineering solutions and fittings that are efficient in their use of natural resources.
- considering the need to reduce dependence on the private car through the provision of cycling and walking facilities and integrated transport links.
- minimising construction waste through careful design and incorporating facilities for occupiers to segregate and sort their own wastes.
- enhancing landscaping and external aspects in harmony with existing surroundings, and where appropriate, considering sustainable urban drainage systems.
- reclaiming waste building materials for re-use where practical and disposing of other waste in compliance with the Duty of Care.
- implementing effective pollution prevention strategies on site to ensure that developments do not cause air, water or ground pollution.
- adopting best health and safety at work practices including measures to protect workers, visitors and the public from exposure to unacceptable risks and hazards.
- limiting the effects of noise, dust and hazards through the implementation of the Group's 'Responsible Contractors Initiative' so as not to cause a nuisance.

### Leasing and Estate Management

The policy of improving environmental standards is achieved by:

- continually assessing the environmental impact of the uses and processes of current and prospective occupiers.
- inspecting all land and buildings owned within the portfolio at least annually to ascertain whether environmental damage has occurred or is at risk of occurring and maintaining a comprehensive register of the findings.
- specifying and monitoring works to remediate contaminated property and to remove pollution which might pose a threat to the environment or to health.

- ensuring that occupiers commit through the lease to observe environmental regulations and maintain good environmental standards.
- helping and encouraging all occupiers to manage their own environmental performance by distributing relevant contacts and information.



### Slough Heat & Power Ltd (SHP)

This company, a wholly owned subsidiary of the Group, adopts "Best Available Techniques Not Entailing Excessive Cost" (BATNEEC) to ensure, as a minimum, its compliance with current and future regulations. SHP observes the following basic principles:

- minimising and controlling all releases to air, water and land to comply, as a minimum requirement, with all relevant legislation.
- encouraging the most efficient use of energy by providing advice to customers on energy efficiency and by optimising the power station energy efficiency by generating both steam and electricity in a combined heat and power plant.
- using reclaimed and processed waste fuel to reduce reliance on fossil fuels.
- continuing to develop and modernise the power station to reduce the overall environmental impact whilst maintaining cost effective operations.
- integrating environmental management into normal operational procedures at all levels to ensure that all environmental objectives and statutory requirements are continuously monitored and achieved.

### Company Administration

For its own part, the company in its internal operations will:

- monitor and measure consumption of energy and water and production of waste to enable environmental impacts to be effectively managed.
- use, as far as practicable, materials that are obtained from sustainable sources or are from recycled material.
- return used materials for recycling.
- maintain a safe and healthy working environment for the well-being of employees and visitors to its premises.
- provide incentives to employees for selecting more fuel efficient vehicles and encourage car sharing as part of a Green Transport Plan.



# Environmental Performance Report



## Progress in 2001

In order to implement the Group environmental policy (set out on pages 38 and 39), each part of the business sets meaningful, objective targets on an annual basis. In 2001, the Group set itself a total of 59 targets with progress independently reviewed by external advisors, Environmental Governance.

Almost three quarters of the 2001 targets were achieved in full and some progress is evident in all but 5%. In view of the ambitious number of targets set for the year, Environmental Governance consider this to be a considerable achievement and one that is wholly consistent with a strong corporate commitment to environmental management and performance.

## Investment

The asset management team is keen to ensure that all properties in the UK investment portfolio are well managed and free from contamination, undertaking annual site investigations and monitoring trends. The Group recognises that high environmental standards are good for business and the low incidence of negative reports is considered to reflect the quality of its customer base and to endorse the occupier-focused approach adopted.

An Environmental Help Sheet was distributed to all occupiers in 2001, to encourage best practice and thereby minimise the risk of problems occurring.

The most significant environmental impacts arising from property occupied by the Group or from the common areas of multi-let buildings and shopping centres are measured and monitored on an ongoing basis. Data from 4 UK shopping centres has been provided to Environmental Governance to assist in the development of environmental performance benchmarks that, in turn, will be used to improve the management and performance of our own retail portfolio.

Recognising that waste can have a significant impact, data is being collected from which reduction targets will be set. Apart from a small amount of non-combustible material, all waste over which we have control is sent to our fibre fuel facility at

Slough where it is used to generate energy and hot water for the district heating system.

## Development and Construction

In 2001, the entire UK development programme was on brownfield land, improved through environmental remediation. By way of example, innovative bioremediation techniques were used on 600m<sup>2</sup> of soil contaminated with hydrocarbons. All material removed was returned to the ground after being treated with naturally occurring bacteria.

The Group aims to regenerate and revitalise local communities through its development activities, by attracting occupiers and promoting business success. The replacement of dereliction with high quality workspace continues to be fundamental to the Group's long-term strategy. In 2001, this included the refurbishment of some 38 buildings totalling over 50,000 square meters at an approximate cost of £4.2 million. During the same period, over 326,000 tonnes of crushed concrete and brick were re-cycled as part of the redevelopment process.

High quality design is applied to all new developments, with environmental efficiency and landscape enhancements forming an integral part of the specification. Significant investment in landscaping continues through innovative procurement agreements directly with plant and tree nurseries, turf suppliers and landscape contractors. For instance, at Farnborough Business Park, over two and a half miles of hedging is being planted, partly from 20,000 boxus grown for the largest order of its kind in the UK. Some 1,000 trees have also been planted.

At Cambridge Research Park, a land reclamation scheme has been completed enabling an old gravel extraction works to be transformed into a high quality business park. The use of kimmeridge clay to cap the original gravel required a holistic approach to drainage, irrigation and landscape design. Close to 33,000 shrubs and 600 trees have been successfully installed on the Cambridge site, and an ongoing maintenance regime is now in place.

A representative building was formally assessed under BREEM (Building Research Establishment's Environmental Assessment Methodology) and, in compliance with corporate objectives, achieved a 'Very Good' rating. Other new buildings were internally assessed using the same criteria and achieved a similar rating. In its efforts to promote energy efficiency and refine building design, the Development team continues to monitor and compare the performance of alternative air conditioning systems.

The Group recognises the potential impact of its construction activities on local communities and seeks to control these through its own 'Responsible Contractors Initiative'. This includes active waste management processes which are implemented through construction site managers and used to establish where further efficiencies might be introduced.

### Administration

The Group is committed to sustainability in its own housekeeping and to raise environmental awareness amongst employees. Encouraged by an 8% reduction in electricity use per square metre and a 9% reduction in water consumption per employee in the year to September 2001, further 1% reduction targets have been set for 2002. A new compactor has allowed some 24 tonnes of combustible material to be converted into power station fuel pellets, while a 'Cash for Car' scheme has been introduced to encourage the use of fuel efficient vehicles. A car sharing initiative has also been launched as part of a Greener Transport Plan.

### Slough Heat & Power (SHP)

SHP operate a facility on the Slough Trading Estate providing electricity, heat and potable water to tenants as well as waste management services for packaging and non recyclable papers and plastic. All releases to the environment are regulated by the Environment Agency under the 1990 Environmental Protection Act and therefore the principle objective is always to maintain compliance with the various

permissions which are generally based on European legislation. Full compliance with the site environmental permission was achieved in 2001 and was verified by external audit.

An internal environmental audit was carried out during the year to record any environmental improvements achieved and identify opportunities for more in the future. One improvement was to set out 14 key performance indicators for on site use of energy, chemicals, water and paper as well as waste generation in order to set specific improvement targets in future years. Other improvements that have been achieved recently are a 30% reduction in water use in the cooling towers due to improvements in the re-circulation chemistry and an 80% reduction in the use of acid and caustic for water treatment following the successful commissioning of a new water treatment plant.

Over the year a record 20% of the site electrical generation, compared with 11% in 2000, came from renewable sources which avoided the landfill of some 53,000 tonnes of material. Trials using wood chips as an alternative solid fuel were also successful and formal permission for their long term use was obtained from the Environment Agency. This, combined with a new plant to process and use fibre fuel (made from packaging and non-recyclable paper) should increase the renewables output significantly in 2002.

### Benchmarking

The Group continues to perform well in the Business in the Environment (BiE) Index of Corporate Environmental Engagement, being ranked 2nd in the real estate sector. Slough Estates is also an active member of the Environmental Governance Property Environment Group - PEG ([www.pegonline.net](http://www.pegonline.net)) and supports their annual benchmarking survey. For 2001, the company achieved a ranking of 2nd overall out of 18 participants.

The 2001 Mars Award for the Environment in Berkshire was awarded to Slough Estates in recognition of its commitment to working closely with its customers to bring about environmental improvement.





# Directors, Officers and Advisers

As at 31 December 2001

## Executive Directors

Sir Nigel Mobbs *Chairman*<sup>o</sup>  
D R Wilson *Chief Executive*<sup>o</sup>  
J A N Heawood  
R D Kingston  
M D Lees  
D E F Simons

## Non-Executive Directors

P D Orchard-Lisle CBE, TD, DL  
*Deputy Chairman*<sup>†\*o</sup>  
Lord Blackwell<sup>†\*o</sup>  
S L Howard<sup>†\*o</sup>  
Sir Gordon Jewkes KCMG<sup>†\*o</sup>  
D Kramer  
The Rt. Hon. Lord MacGregor  
of Pulham Market OBE<sup>†\*o</sup>

## Secretary

J R Probert FCIS

## Senior Management

S M Bailey *Investment Property*  
P N Jackson *Slough Heat & Power*  
T C Mant *Treasurer*  
H E Rogers *Construction*  
M L Taylor *Retail*  
M Wilson *Development*  
I W Finlay *Canada*  
W E Hens *Belgium and France*  
U Titz *Germany*

<sup>†</sup> Member of Audit Committee

<sup>\*</sup> Member of Remuneration Committee

<sup>o</sup> Member of Nomination Committee

## Auditors

PricewaterhouseCoopers

## Solicitors

Lovells  
Nabarro Nathanson

## Merchant Bankers

UBS Warburg Ltd

## Principal Bankers

Barclays Bank PLC  
The Royal Bank of Scotland plc  
Commerzbank AG  
HSBC Bank plc  
Royal Bank of Canada

## Stockbrokers

UBS Warburg Ltd  
Hoare Govett Limited

## Registrars and Transfer Office

Computershare Investor Services PLC  
PO Box 82, The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

## Trustees for Debenture and Loan Stocks

Commercial and General Union Plc  
The Prudential Assurance Company Ltd

## Head Office and Registered Office

Slough Estates plc  
234 Bath Road, Slough SL1 4EE  
England  
Telephone: (01753) 537171  
Fax: (01753) 820585

# Group Information

## United Kingdom

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234 Bath Road  
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e-mail: property@sloughestates.co.uk

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Telephone (1) (312) 755 0700  
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e-mail: property@sloughusa.com

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Telephone (32) (2) 714 0600  
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e-mail: info@sloughdevelopments.fr

## Germany

Slough Commercial Properties GmbH  
Elisabethstrasse 40  
40217 Dusseldorf, Germany  
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e-mail: sloughestates@compuserve.com



# Directors' Biographies



DEREK WILSON, SIR NIGEL MOBBS, SIR GORDON JEWKES

## Sir Nigel Mobbs

### Chairman

Sir Nigel Mobbs, whose grandfather was a founder of the company, joined Slough Estates in 1960. An executive director since 1963, he became Chairman and Chief Executive in 1976 and Executive Chairman from 1996 to 1999. He is Lord-Lieutenant for the County of Buckinghamshire. He is non-executive chairman of Bovis Homes, a non-executive director of Barclays Bank and Howard de Walden Estates, chairman of Wembley Task Force and a member of Advisory Committee on Business and the Environment (ACBE). He is aged 64.

## Derek Wilson

### Chief Executive

A graduate of Bristol University, he qualified as a chartered accountant with Deloitte Haskins & Sells in London and Geneva. After 5 years with Cavenham Limited and 5 years with Wilkinson Sword, he joined Slough Estates as finance director from Cadbury Schweppes in 1986. He is a non-executive director of Candover Investments plc and Westbury plc. He became Chief Executive in 1996 and is aged 57.

## Sir Gordon Jewkes KCMG

### Non-Executive Director

He served as Director-General of British Trade and Investment, USA and HM Consul General, New York from 1989 to 1991 and earlier as Governor of the Falkland Islands, Consul-General in Chicago and Cleveland and as Finance Officer of the Diplomatic Service. He is a member of the Council of the University of Buckingham and has served on other public bodies. He is aged 70 and was appointed a director in 1992.



DAVID SIMONS, DICK KINGSTON, THE RT HON LORD MACGREGOR

## Dick Kingston

### Executive Director

Responsible for Group Finance. Having obtained a Business Studies degree whilst with British Petroleum, he qualified as a chartered accountant with Whinney Murray & Co. (now Ernst & Young) in London and Paris. Following 5 years with Hawker Siddeley as head of financial control and audit, he joined Slough Estates as Group Financial Controller in 1987. He is aged 54 and became a director in April 1996.

## David Simons

### Executive Director

Responsible for operations in Europe. Following a degree in Economics and Politics at Cambridge, he subsequently qualified as a chartered accountant with Whinney, Smith & Whinney (now Ernst & Young). Following 5 years in industry and 3 years in management consultancy, he joined Slough Estates in 1973 as General Manager of overseas operations. He is aged 61 and became a director in 1991.

## The Rt Hon Lord MacGregor of Pulham Market OBE

### Non-Executive Director

Member of Parliament for South Norfolk from 1974 to 2001. He became a Life Peer in July 2001. He served Conservative Governments in several Cabinet appointments, from 1985 to 1995, Chief Secretary to the Treasury, Agriculture, Education & Science, Leader of the House and Lord President of the Council, and Secretary of State for Transport. He is currently a non-executive director of Associated British Foods PLC, Uniq Plc and Friends Provident, and of the European Supervisory Board of DAF Trucks NV, Netherlands. He is 65 and was appointed a director in 1995.



LORD BLACKWELL, JOHN HEAWOOD, STEPHEN L HOWARD

### John Heawood

#### *Executive Director*

Responsible for the UK property portfolio excluding retail. Following degrees in Estate Management and Rural Planning Studies from Reading University, he qualified as a Chartered Surveyor in 1977. After 6 years with Fletcher King and 11 years with DTZ Debenham Thorpe dealing with provincial industrial and office property, he joined Slough Estates in November 1996. He is aged 49.

### Lord Blackwell

#### *Non-Executive Director*

Amongst other business interests, he is Chairman of Smartstream Technologies Ltd, a non-executive director of Dixons Group plc and The Corporate Services Group plc, and a senior advisor to KPMG Corporate Finance. After many years as a partner with McKinsey & Company, international management consultants, he served as Head of the Prime Minister's Policy Unit from 1995 - 1997, and was Director of Group Development at NatWest Group from 1997 - 2000. He was created a Life Peer in 1997, and is currently Chairman of the Centre for Policy Studies. He is 49, and joined the Board of Slough Estates in 2001.

### Stephen L Howard

#### *Non-Executive Director*

He began his career as an attorney in his native United States with a focus on corporate advisory work for multi-national companies. Currently he is Group Chief Executive of Cookson Group plc, a London-based international engineering company. He is a non-executive director of Novar plc and sits on the advisory councils of various private and non-profit organisations. He is aged 48 and was appointed a director in 2001.



DOUGLAS KRAMER, MARSHALL LEES, PAUL ORCHARD-LISLE

### Marshall Lees

#### *Executive Director*

Responsible for operations in North America. He is a graduate of the University of Western Ontario and York University, Toronto. Following 3 years with British American Tobacco, he obtained an MBA at the London Business School and subsequently joined Imperial Group plc in 1983. He joined Slough Estates in 1987 and was appointed a director in March 1998. He has been a director of Tipperary Corporation since 1995. He is a Canadian and is aged 48.

### Douglas Kramer

#### *Non-Executive Director*

A citizen of the United States, he is Chairman of the Board of Draper & Kramer Incorporated, a full service real estate company based in Chicago, Illinois. Draper & Kramer were partners with Slough Estates in the USA from 1973 until 1997. He is a director of Tipperary Corporation, an oil and gas company of Denver, Colorado in which the Group has a 61 per cent equity interest. He also serves as Non-Executive Chairman of Slough Estates USA Inc. He is aged 65 and was appointed a director in 1981.

### Paul Orchard-Lisle CBE TD DL

#### *Non-Executive Deputy Chairman*

A chartered surveyor, a member of the board of Cushman & Wakefield of Asia. He is a non-executive director of Beckwith Fund Management Limited, a Commonwealth War Graves Commissioner, a member of the advisory board of Sonae Investments, a member of the advisory board of IVG Holding AG and president of the council of Reading University. He is a deputy lieutenant for the County of Greater London and a past president of the Royal Institution of Chartered Surveyors. He has been a director of the company since 1980 and is aged 63.

# Shareholders' Information

## Financial Calendar 2002

### March

Payment of dividend on 8.25p (net) convertible redeemable preference shares.	1 March
Payment of 7 per cent bonds 2022 interest.	14 March
Announcement of results for the year ended 31 December last and recommended final dividend.	20 March

### April

Post annual report to shareholders.	10 April
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### May

Annual General Meeting.	14 May
Payments: approved final dividend.	17 May
10 per cent bonds 2017 interest.	3 May
10 per cent bonds 2007 interest.	27 May

### July

Payments: 12 <sup>3</sup> / <sub>4</sub> per cent unsecured loan stock 2009 interest.	1 July
11 <sup>1</sup> / <sub>4</sub> per cent first mortgage debenture stock 2019 interest.	1 July

### August

Payment of 7 <sup>1</sup> / <sub>4</sub> per cent bonds 2010 interest.	19 August
Payment of 6 <sup>3</sup> / <sub>4</sub> per cent bonds 2024.	23 August
Announcement of half year results.	29 August

### September

Payment of dividend on 8.25p (net) convertible redeemable preference shares.	1 September
Payment of 7 per cent bonds 2022 interest.	16 September
Payment of 6 <sup>3</sup> / <sub>4</sub> per cent bonds 2015.	30 September

### October

Payment of interim dividend.	Mid October
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### December

Payments: 11 <sup>1</sup> / <sub>4</sub> per cent bonds 2012.	30 December
12 <sup>3</sup> / <sub>4</sub> per cent unsecured loan stock 2009 interest.	31 December
11 <sup>1</sup> / <sub>4</sub> per cent first mortgage debenture stock 2019 interest.	31 December

### February 2003

Payment of 7 <sup>1</sup> / <sub>4</sub> per cent bonds 2010 interest.	17 February
Payment of 6 <sup>3</sup> / <sub>4</sub> per cent bonds 2024.	24 February



## Individual Savings Accounts, Personal Equity Plans (PEP) and Low Cost Share Dealing Service

With the introduction of Individual Savings Accounts (ISA) the company selected the Halifax ShareXpress ISA as its preferred ISA provider. Details on the Halifax ShareXpress ISA are obtainable from the Halifax on telephone 0870-24-11-114.

Corporate PEP and Single Company PEP holders who require further information about their PEPs should ring the Halifax helpline on Freephone 0870 6066418.

The company has appointed The Share Centre Limited to provide shareholders and prospective shareholders with a low cost share dealing service. Details can be obtained from The Share Centre Limited, Slough Estates Low Cost Share Dealing Service, PO Box 1000, Tring, Herts. HP23 4JR. Telephone: 0800 800008.

## Taxation

The values at the following dates for the purposes of UK capital gains tax were:

	6 April 1965	31 March 1982
Ordinary shares of 25p each (adjusted for capitalisation issues in 1967, 1972, 1979, 1982 and rights issue in 1993)	11.76p	108p

## Stock Market Prices

Financial Year	2001	2000	1999	1998	1997
Highest	433.5p	411p	393.5p	414p	376p
Lowest	303.5p	248p	276p	259.5p	261p
31 December	331.5p*	411p**	353.5p***	273p	344p

\*As at 28/12/01

\*\*As at 29/12/00

\*\*\*As at 30/12/99

## Five Year Financial Results

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
<b>Group profit and loss account</b>					
Property investment	212.3	196.7	182.6	141.4	124.8
Administration expenses	(13.2)	(12.9)	(12.5)	(13.5)	(10.9)
Share of operating profit from joint ventures and associates	13.9	14.0	9.6	5.8	7.5
Net interest	(77.9)	(78.2)	(72.3)	(51.8)	(52.9)
<b>Core property income</b>	<b>135.1</b>	<b>119.6</b>	<b>107.4</b>	<b>81.9</b>	<b>68.5</b>
Utilities - operating (loss)/profit	(7.1)	(3.6)	(3.7)	1.9	1.2
<b>Core income</b>	<b>128.0</b>	<b>116.0</b>	<b>103.7</b>	<b>83.8</b>	<b>69.7</b>
Utilities - exceptional write down	(60.2)	—	—	—	—
Property trading	8.7	6.7	6.1	6.1	8.5
Other income and non-property joint ventures	0.6	5.6	6.0	13.3	11.7
(Loss)/profit on sale of investment properties	(9.8)	0.6	12.2	(2.1)	3.3
<b>Profit before tax</b>	<b>67.3</b>	<b>128.9</b>	<b>128.0</b>	<b>101.1</b>	<b>93.2</b>
<b>Group balance sheet</b>					
Investment properties	3,514.2	3,463.8	2,935.4	2,670.0	2,017.5
Associates and joint ventures	174.7	191.8	181.7	151.0	101.7
Trading properties	134.0	105.0	89.1	96.5	79.1
Other assets	166.6	203.0	183.1	191.9	171.8
Cash and deposits	175.9	36.9	59.5	65.3	35.8
<b>Total assets</b>	<b>4,165.4</b>	<b>4,000.5</b>	<b>3,448.8</b>	<b>3,174.7</b>	<b>2,405.9</b>
Borrowings	(1,541.1)	(1,344.5)	(1,149.4)	(1,158.2)	(723.8)
Other liabilities and minority interests	(236.1)	(228.9)	(192.5)	(222.1)	(164.5)
<b>Shareholders' funds</b>	<b>2,388.2</b>	<b>2,427.1</b>	<b>2,106.9</b>	<b>1,794.4</b>	<b>1,517.6</b>
<b>Total return</b>					
Profit attributable to ordinary shareholders	37.3	106.5	100.8	69.2	61.3
Capital (deficit)/surplus	(23.5)	261.6	253.7	196.9	222.4
	<b>13.8</b>	<b>368.1</b>	<b>354.5</b>	<b>266.1</b>	<b>283.7</b>
<b>Data per ordinary share:</b>					
<b>Revenue earnings</b>					
Excluding profits and losses on sale of investment properties net of tax and minority and exceptional write down	27.6p	25.7p	21.7p	18.0p	14.9p
Adjustment for profits and losses on sale of investment properties net of tax and minority and exceptional write down	(18.6p)	0.1p	2.9p	(0.5p)	0.8p
<b>Basic</b>	<b>9.0p</b>	<b>25.8p</b>	<b>24.6p</b>	<b>17.5p</b>	<b>15.7p</b>
<b>Capital (deficit)/surplus</b>	<b>(5.7p)</b>	<b>63.3p</b>	<b>61.9p</b>	<b>49.8p</b>	<b>56.8p</b>
<b>Total return</b>	<b>3.3p</b>	<b>89.1p</b>	<b>86.5p</b>	<b>67.3p</b>	<b>72.5p</b>
<b>Total return per share as a percentage of opening net assets per share</b>	<b>0.6%</b>	<b>18.7%</b>	<b>21.5%</b>	<b>19.2%</b>	<b>25.2%</b>
<b>Dividends</b>	<b>13.1p</b>	<b>12.1p</b>	<b>11.2p</b>	<b>10.4p</b>	<b>9.525p</b>
<b>Net assets per share — basic</b>	<b>542p</b>	<b>553p</b>	<b>476p</b>	<b>402p</b>	<b>350p</b>
<b>Net assets per share — diluted</b>	<b>512p</b>	<b>520p</b>	<b>452p</b>	<b>387p</b>	<b>340p</b>



# Directors' Report and Accounts 2001





# Directors' Report

The directors submit their annual report together with the audited accounts for the year ended 31 December 2001 which were approved by the Board on 19 March 2002.

## Business of the Group

The principal activities of the Group continued throughout 2001 to be commercial property development, construction and investment, the supply of utility services and the provision of services associated with such activities.

A review of the development of the business of the company and its subsidiary undertakings during the year, their position at the end of it and likely future developments in their business, are set out in the Chairman's Statement on pages 4 to 11, the Chief Executive's Review on pages 13 to 21 and the Financial Review on pages 28 to 33.

## Results

The results for the year are set out in the Group profit and loss account on page 66. The Group's pre-tax profits were £67.3 million after charging exceptional items of £70 million (as detailed on page 66 of the financial statements). This compares with a profit of £128.9 million for the year ended 31 December 2000. Profit on ordinary activities after taxation amounted to £47.7 million (2000 £118.6 million). After allowing for minority interests of £1.2 million and preference dividends of £11.6 million paid and accrued during the year, earnings attributable to ordinary shareholders were £37.3 million (2000 £106.5 million). Basic earnings per ordinary share excluding exceptional items amounted to 27.6p (2000 25.7p) and 9.0p (2000 25.8p) including exceptional items.

Diluted net assets per ordinary share decreased to 512p (2000 520p).

## Ordinary dividend

An interim dividend of 5.1p per share was paid on 12 October 2001.

Your Board recommends the payment of a final dividend in respect of the year ended 31 December 2001 of 8.0p per share, making a total dividend of 13.1p per share (2000 12.1p per share) an increase of 8.3 per cent over the 2000 dividends.

The final ordinary dividend is payable on 17 May 2002 and the record date will be 26 April 2002.

The ordinary dividends paid and proposed in respect of 2001 will absorb £54.2 million.

## Property valuations

The valuation of the Group's investment properties which was carried out by external valuers as at 31 December 2001 amounted to £3,514.2 million, an increase of £50.4 million over last year's £3,463.8 million. After taking into account total expenditure on investment properties of £291.2 million, the book value of investment property disposals of £232.2 million and exchange losses of £2.6 million, the deficit on valuation transferred to revaluation reserve amounted to £6.0 million.

Further details concerning the valuation are set out under the heading "Property valuation" on page 64 and note 9 to the accounts.

Properties held for resale have been valued by the directors resulting in no provisions being required. The property assets of Slough Heat & Power Ltd were excluded from the valuation.

## Directors

The present directors who have served throughout the year are named on page 42.

Mr C R E Brooke retired at the conclusion of the Annual General Meeting held on 15 May 2001 and Mr R D C Hubbard retired on 8 November 2001.

Mr S L Howard was appointed a director on 16 May 2001 and Sir Gordon Jewkes will retire at the conclusion of this year's Annual General Meeting.

In accordance with the Articles of Association, Mr S L Howard will retire at the Annual General Meeting and is eligible for election. Mr R D Kingston, Mr D Kramer and Sir Nigel Mobbs will retire from the Board by rotation and, being eligible, offer themselves for re-election.

## Directors' powers to allot shares

At the Annual General Meeting held on 16 May 2000 a resolution was adopted which gave your directors authority to allot shares. Under this

authorization your directors were granted a general authority to allot or grant rights over shares, for a period to 16 May 2005 of up to £34,400,205 in nominal amount of ordinary share capital (representing approximately one-third of the current issued ordinary share capital) and a limited authority to cover inter alia the allotment of shares by way of scrip dividend and of rights to ordinary shares upon the adjustment of conversion rights attached to the remaining convertible preference shares held in the capital of the company.

The additional authority will only be utilized to allot shares in this manner.

The Articles also grant a power to the directors to issue or grant rights over ordinary shares wholly for cash otherwise than in connection with a rights issue up to an aggregate nominal amount of £5,173,535. A special resolution, set out in the Notice of the Meeting will (if passed) grant until the earlier of 13 August 2003 and the conclusion of the 2003 Annual General Meeting of the company, the power of the directors to issue ordinary shares wholly for cash otherwise than in connection with a rights issue up to an aggregate nominal amount of £5,180,907.

The directors believe that it is prudent for them to have this power so that there is readily available for issue for cash an appropriate, although relatively small, pool of authorised but uncommitted ordinary shares to take advantage of any suitable opportunities which may arise to extend the Group's activities, either to acquire further assets or to raise additional funds.

The figure of £5,180,907 represents approximately 5% of the issued ordinary share capital and the proposed authority as a whole conforms to guidelines issued by the institution's Investment Committees.

### **Company's authority to purchase its shares**

The company obtained authority to purchase its own shares at the Annual General Meeting in 2001. However, no shares have been purchased pursuant to this authority. Your directors now seek to renew this authority to enable the company to respond promptly should circumstances arise such that a purchase of own shares would be in the best interest of the company.

The renewed authority will allow the use of the company's available cash resources to acquire its own ordinary shares in the market for cancellation.

The authority will expire at the conclusion of the Annual General Meeting of the company in 2003 or 13 August 2003 if earlier.

This authority is granted pursuant to Section 166 of the Companies Act 1985. Accordingly, a Special Resolution will be proposed at this year's Annual General Meeting to authorise the purchase in the market of up to 10% of the issued ordinary shares of the company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the company (as derived from the Stock Exchange daily official list) for five business days prior to the date of purchase.

The Board, however, has no present intention to exercise that authority but it will then have the flexibility should circumstances materially change.

### **Renewal of SAYE Share Option Scheme**

The company's 1981 Savings-Related Share Option Scheme (the "SAYE Scheme") expired in May 2001. This meant that no more options could be granted under the SAYE Scheme, but existing options were unaffected. To renew the SAYE Scheme in compliance with the rules of the Listing Authority and to enable new options to be granted at the normal time in September 2001, the Board approved on 26 September 2001 the renewal of the SAYE Scheme in a form which only permitted the grant of options over existing ordinary shares in the company. The renewed SAYE Scheme was approved by the Inland Revenue on 27 September 2001. The Trustees of the Slough Estates plc 1994 Employees Benefit Trust ("EBT") held sufficient shares in the company to satisfy the options which were to be granted and the Trustees agreed to satisfy such options on exercise if so requested by the company. The Board also resolved at that time to seek shareholders' approval for the amendment of the rules of the renewed SAYE Scheme at the company's next Annual General Meeting in May 2002 to enable options, whenever granted, to be satisfied on exercise either by the issue of new shares by the company or the transfer of existing shares by the Trustees of the EBT if so requested by the company. Shareholders are now being asked to approve the necessary amendments to the renewed SAYE Scheme so that options may be satisfied on exercise either by the issue of new shares by the company or the transfer of existing shares to exercising optionholders by the Trustees of the EBT. A summary of the principal features of the renewed



SAYE Scheme incorporating the proposed amendments is set out in the Appendix to the Notice of the Annual General Meeting. Resolution 8 to amend the renewed SAYE Scheme is proposed as an ordinary resolution.

### New Executive Share Option Plans

The company is committed to the provision of competitive long-term equity incentives to its senior executives. These are currently provided under the Slough Estates plc 1994 Approved and Unapproved Executive Share Option Schemes (the "1994 Schemes"). After a review of alternative structures available to provide equity incentives for senior executives, the Remuneration Committee has decided that a discretionary share option plan continues to be the most appropriate way to provide a competitive and market related long-term equity incentive. The 1994 Schemes were due to be considered for renewal at the company's 2003 Annual General Meeting. However, given that the 1994 Schemes needed to be updated to reflect changing practice and new ABI guidelines, the Remuneration Committee has decided that it would be better to replace the 1994 Schemes now with two new share option plans rather than wait until next year.

The company therefore seeks the approval of shareholders at the Annual General Meeting for two new share option plans (the "2002 Plans"); the Slough Estates plc 2002 Approved Executive Share Option Plan (the "Plan"); and the Slough Estates plc 2002 Unapproved Executive Share Option Plan (the "No. 2 Plan").

The 2002 Plans are intended to comply with the principles set out in the current guidelines for Share Incentive Schemes published by the Association of British Insurers (ABI).

The principal objective of the 2002 Plans is to continue to achieve long term sustained improvement in the performance of the company by linking the rewards delivered to key executives to its performance and thus aligning the interests of participants with those of shareholders.

With this in mind, the Remuneration Committee has decided that options granted initially under the 2002 Plans may normally only be exercised if growth in earnings per share over the three year performance period exceeds the growth in the Retail Prices Index by at least 3% per annum. There will be no retesting of the performance condition. If the

condition is not satisfied at the end of the performance period options will lapse.

The Remuneration Committee has also decided that a policy of phased annual option grants would be appropriate. In determining the level of option grants which may be made to individuals each year under the 2002 Plans, the Remuneration Committee has taken into account industry conditions, market practice and the level of awards made under the 1994 Schemes. In the future, eligible executives would normally receive an annual grant of options over shares with a value on grant of up to the equivalent of 100% of their annual remuneration. In appropriate circumstances, the Remuneration Committee may consider granting options over shares worth more than this but no participant may receive options under the 2002 Plans over shares worth more on grant than a maximum of 300% of their annual remuneration in any financial year.

Options granted under the 2002 Plans may be satisfied by the issue of new shares or by the Trustees of the EBT with shares purchased in the market.

No further awards will be made under the 1994 Schemes.

A summary of the principal features of the new 2002 Plans are set out in Part 2 of the Appendix to the Notice of the Annual General Meeting.

Resolution 9 to adopt the Plan will be proposed as an ordinary resolution. Resolution 10, to adopt the No. 2 Plan will be proposed as an ordinary resolution.

### Company status

The company is not a close company under the provisions of the Income and Corporation Taxes Act 1988.

### Payment of suppliers

It is the company's and the Group's payment policy, in respect of all suppliers, to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders.

The Group's trade creditors as a proportion of amounts invoiced by suppliers represented 10 days at 31 December 2001.

### Employment policy

The Group is committed to equal opportunities for all staff and does not discriminate in respect of sex, race or disability.



The Group places considerable value upon the involvement of its employees, at all levels, in its affairs and has continued its practice of keeping them regularly and systematically informed on matters of concern affecting them as employees and on the financial and economic factors affecting the Group's performance.

In addition, most UK employees may participate in the company's employee share schemes whereby they have the opportunity to benefit from the performance and progress of the Group.

### Charitable, political and other donations

A resolution was adopted at the Annual General Meeting in May 2000 which authorised the directors, for a period of four years from 16 May 2000, to make one or more donations/contributions to any registered political party as they consider to be in the best interests of the company of up to a maximum of £150,000 over that four year period. The resolution also authorised directors to incur occasional political expenditure for registered political parties of up to a maximum of £50,000 over the four year period. Occasional expenditure would include items such as publications and sponsorship where they were provided at below the commercial rate.

It is the directors' intention to continue to make such donations consistent with the pattern of donations made by the company as in previous years.

The amounts given by the company in 2001 were as follows:

	£
Charitable	280,922
Conservative Party Funds	53,000
Aims of Industry	3,000
Centre for Policy Studies	2,500

Aims of Industry and Centre for Policy Studies are not registered political parties under the terms of the Political Parties, Elections and Referendums Act 2000.

### Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and, in accordance with the provisions of the Companies Act 1985, resolutions concerning their re-appointment and remuneration will be placed before the Annual General Meeting.

### Directors' interests in share and loan capital

The directors of the company who were in office at 31 December 2001 and the beneficial interests of these directors and their families in the share and loan capital of the company, as shown by the register maintained by the company under the provisions of Section 325 of the Companies Act 1985, are shown in the report of the Remuneration Committee on pages 54 to 59.

Save as mentioned in the report of the Remuneration Committee on page 56, no director had any holding or interest in the company's shares or in any of the company's debenture or unsecured loan stocks, or unsecured bonds and none of the directors had any beneficial interest in the share or loan capital of any subsidiary of the company and no director had a material interest in any contract, transaction or arrangement with the company or any of its subsidiaries at, or during the year ended, 31 December 2001 in respect of which particulars are required to be stated in the accounts under the provisions of Schedule 6 to the Companies Act 1985.

### Substantial shareholdings

At 19 March 2002 the following had notified the company of an interest of 3 per cent or more in the ordinary share capital of the company:

The AXA Group and its subsidiaries hold in aggregate 20,701,333 ordinary shares of 25p each, representing 5.0 per cent.

Barclays PLC and its subsidiaries hold in aggregate on a discretionary basis 12,504,814 ordinary shares of 25p each, representing 3.0 per cent.

Britannic Assurance plc and its subsidiaries hold in aggregate 20,630,161 ordinary shares of 25p each, representing 5.0 per cent.

Schroders Investment Management Limited and its subsidiaries hold in aggregate on a discretionary basis 40,977,832 ordinary shares of 25p each, representing 9.9 per cent.

Stichting Pensioenfond ABP hold in aggregate on a discretionary basis 13,308,115 ordinary shares of 25p each, representing 3.2 per cent.

By order of the Board

**J R Probert**  
Secretary

19 March 2002

# 2001 Remuneration Committee Report

## The Remuneration Committee

The Remuneration Committee is comprised wholly of non-executive directors and is chaired by Mr P D Orchard-Lisle. The other members of the Committee are Lord Blackwell, Mr S L Howard, Sir Gordon Jewkes and Lord MacGregor. Sir Nigel Mobbs and Mr D R Wilson are in attendance at meetings and absent themselves when their own remuneration is discussed.

## Compliance with the Combined Code

The Committee is satisfied that the company has applied the principles set out in section 1 of the Combined Code when framing its remuneration policy. It is also satisfied that it has complied with the best practice provisions concerning directors' remuneration as set out in section 1 of the Combined Code, throughout the year.

## Remuneration Policy

The Remuneration Committee settles and implements the remuneration policy for the Chairman, executive directors and senior executives. The Committee takes independent professional advice with regard to information on compensation and salary levels in companies in the property sector and in other companies of comparable size, for executives with similar skills, qualifications and experience.

Slough Estates seeks to ensure that reward policies are aligned with the objective of maximising the long term value of the business and are market competitive. These policies extend to all employees.

The Group is committed to using remuneration to reinforce a strong performance culture whereby excellence is expected at every level of the business.

The Group policies are supported by the following remuneration principles:-

- To align the interests of employees and shareholders to deliver real value growth
- To recognise superior performance by the business and individuals
- To encourage the right behaviour to achieve good performance
- To ensure that total rewards are commercially competitive
- To make reward formulation transparent, relevant to performance and well communicated.

The remuneration package consists of salary, health insurance, company car, pension and participation in a Long Term Share Incentive Scheme with performance criteria to align the long term interests of management with those of the shareholders, share options and a profit sharing scheme. As the company provides a Long Term Share Incentive Scheme, it does not operate a specific cash bonus scheme although the Remuneration Committee does have discretion to award individual bonuses in recognition of special performance that benefits the company.

## Outside appointments

An appointment of an executive director to the board of an outside company requires the approval of the Board. Executive directors who are non-executive directors of outside companies may retain any fees payable to them with the consent of the Remuneration Committee, except in cases where the directorship is as a representative of the company.

## Service contracts

The Committee's intention is that executive directors should have contracts with rolling notice periods of no more than 12 months. However they consider notice periods of two years for long serving directors who previously had longer contracts are in the interests of the company.

Sir Nigel Mobbs, who relinquished his executive responsibilities in 1999, continues as Chairman under an agreement which is subject to 12 months' notice by either party. Mr J A N Heawood and Mr M D Lees have service contracts which are terminable by the company and by the individual director on one year's notice. The contract of Mr D E F Simons will terminate on 30 September 2002 as a result of his retirement as an executive. Mr D R Wilson and Mr R D Kingston have service contracts which are terminable by the company on two years' notice and by the individual director on one year's notice. In recognition of a reduction in notice from three years to two years in 1996, the contract of Mr D R Wilson contains a provision for predetermined compensation of up to 24 months of salary, plus company pension contributions, should control of the company change and as a consequence his employment is terminated.



Any proposals for the early termination of the service contracts of directors and senior executives are considered by the Remuneration Committee. Save for the circumstances stated above, when the predetermined compensation becomes payable, the principles of mitigation are applied in settling compensatory amounts.

#### Non-executive directors

The fees payable to non-executive directors are agreed by the Board, following the recommendation by the Chairman of the Board and with assistance of independent external advice on comparable organisations and appointments.

#### Pension and retirement benefits

All executive directors, other than Mr M D Lees, qualify for pension benefits under the Slough Estates (1957) Pension Scheme, which is a final salary scheme. The Pension Scheme is contracted-out of the State Earnings Related Pension Scheme and is Inland Revenue approved. It has been registered with the Pensions' Registrar.

For directors, the Scheme provides upon retirement at the age of 62, a pension of two thirds of final salary where they are not capped by the Finance Act 1989, which includes taxable benefits, subject to completion of a minimum of 20 years' service, or pro-rata. Discretionary bonuses are not pensionable. The accrued benefits under the Pension Scheme for the directors during the period were as follows:

	Increase in accrued pension from 31.12.00 to 31.12.2001 £	Accumulated accrued benefits at 31.12.2001 £	Transfer value of increase in accrued pension £
D R Wilson	25,488	186,763	285,605
J A N Heawood	1,839	8,493	8,855
R D Kingston	14,612	99,780	123,388
D E F Simons	15,433	126,175	247,603

Mr M D Lees, a resident of the United States, belongs to a non-contributory money purchase pension plan, with a retirement age of 65. The cost of the Plan in 2001 was US\$8,500 and the value at 31 December 2001 was US\$134,697. Mr M D Lees has a deferred pension under the Slough Estates (1957) Pension Scheme of £6,430 p.a.

#### Funded Unapproved Retirement and Death Benefits Scheme

The company has set up a Funded Unapproved Retirement and Death Benefits Scheme (FURBS) which was effective from 1 November 1996. The FURBS will provide benefits to those employees who are capped by the Finance Act 1989, one of whom is Mr J A N Heawood, a director.

Mr Heawood's pension is funded by a combination of the company scheme and the funded unapproved scheme for which provision is being made in the accounts. The cost of the FURBS in 2001 was £109,000 (2000: £90,000).

The non-executive directors do not participate in any of the share schemes nor do they receive any other benefits or pension rights under the Pension Scheme.

#### Remuneration of directors

	2001 £000	2000 £000
<b>Executive directors</b>		
Base salaries	1,481	1,362
Benefits	109	99
Bonuses	75	57
Non-executive directors' fees	256	226
<b>Aggregate Emoluments</b>	<b>1,921</b>	<b>1,744</b>
 Pensions to former directors and their dependents	 62	 57



## Details of remuneration

		Base Salaries £000	Benefits £000	Bonus* £000	Total £000
Sir Nigel Mobbs <i>Chairman</i>	2001	200	17	—	217
	2000	200	13	—	213
<b>Executive directors</b>					
D R Wilson <i>Chief Executive</i>	2001	348	18	—	366
	2000	318	17	—	335
J A N Heawood	2001	277	15	—	292
	2000	245	15	—	260
R D Kingston	2001	215	17	—	232
	2000	195	15	—	210
M D Lees†	2001	265	26	75	366
	2000	246	24	57	327
D E F Simons	2001	176	16	—	192
	2000	158	15	—	173

†Mr M D Lees, Chief Executive of Slough Estates USA Inc., is resident and remunerated in the USA.

\*The company does not have a specific cash bonus scheme but does provide a Long Term Share Incentive Scheme, details of which are on page 58.

	Fees 2001 £000	Fees 2000 £000
<b>Non executive directors</b>		
Lord Blackwell ( <i>appointed 1 April 2001</i> )	19	—
C R E Brooke ( <i>retired 15 May 2001</i> )	9	23
S L Howard ( <i>appointed 16 May 2001</i> )	16	—
R D C Hubbard ( <i>Chairman of the Audit Committee until his retirement on 8 November 2001</i> )	24	26
Sir Gordon Jewkes	24	23
D Kramer*	101	96
The Rt Hon Lord MacGregor of Pulham Market ( <i>appointed Chairman of the Audit Committee 9 November 2001</i> )	25	23
P D Orchard-Lisle ( <i>Deputy Chairman</i> )	38	35

\*Mr D Kramer is non-executive Chairman of Slough Estates USA Inc. He is resident in and his fees are paid in the USA.

## Directors' interests in shares

The interests of the directors and their immediate families in the ordinary shares of the company at 31 December 2001 and 1 January 2001 were:

	Own holdings		Other interests		Long Term Incentive Share Scheme	
	31.12.01	1.1.01	31.12.01	1.1.01	*31.12.01	1.1.01
<b>Number of ordinary shares</b>						
Sir Nigel Mobbs	522,701	486,914	18,327	18,327	94,575	96,177
Lord Blackwell ( <i>appointed 1 April 2001</i> )	2,500	—	—	—	—	—
C R E Brooke ( <i>retired 15 May 2001</i> )	—	20,700	—	—	—	—
J A N Heawood	17,719	13,311	7,030	4,283	50,959	37,916
S L Howard ( <i>appointed 16 May 2001</i> )	7,500	—	—	—	—	—
R D C Hubbard ( <i>retired 8 November 2001</i> )	—	—	—	4,370	—	—
Sir Gordon Jewkes	3,116	3,056	—	—	—	—
R D Kingston	26,624	19,349	7,866	7,866	53,160	39,315
D Kramer	6,250	6,250	—	—	—	—
M D Lees	33,157	26,648	—	—	65,762	48,518
Lord MacGregor	3,000	1,000	—	—	—	—
P D Orchard-Lisle	27,080	23,580	—	—	—	—
D E F Simons	98,242	91,419	—	—	43,989	33,760
D R Wilson	141,240	116,411	—	—	111,809	86,474

\*Maximum number of shares which may be awarded to the individuals on achievement of upper level performance targets for 2000 and 2001, together with the number of shares which will be released in 2002 relating to 1999.

Between 31 December 2001 and 19 March 2002 there were no changes to the above.

8.25p convertible redeemable preference shares	Own holdings		Other interests	
	31.12.01	1.1.01	31.12.01	1.1.01
Sir Nigel Mobbs	35,752	35,752	6,760	6,760
P D Orchard-Lisle	6,300	6,300	—	—
D E F Simons	37,380	37,380	—	—

The following are the non-beneficial interests of the directors who were in office at 31 December 2001.

	Ordinary shares		Preference shares	
	31.12.01	1.1.01	31.12.01	1.1.01
Sir Nigel Mobbs	71,804	71,804	26,484	26,484
Sir Nigel Mobbs, D E F Simons, D R Wilson and Sir Gordon Jewkes (as Trustees of the Profit Sharing Scheme)	517,853	456,803	—	—

The Trustees of the Profit Sharing Scheme did not sell any shares between 31 December 2001 and 19 March 2002.

### Directors' other interests

Mr P D Orchard-Lisle was a senior partner of Healey & Baker until 14 September 1999. He retired from that position on that date and now has no interest in the firm's affairs. He also resigned as Chairman and Chief Executive of Healey & Baker Investment Advisors Inc. on 31 December 2001. He is however Chairman of the associated business of Healey & Baker Financial Limited. Healey & Baker has continued to act throughout the year as one of the Group's property advisors and as such has received fees for its service on normal professional terms. The Group has not paid any fees to either Healey & Baker Investment Advisors Inc. or Healey & Baker Financial Limited during the period under review.

Mr D Kramer is the non-executive Chairman of Slough Estates USA, Inc. and a director of Draper & Kramer Inc. which has provided professional and management services to businesses in which the Group has an interest and has received fees for its services on normal professional terms. Mr D Kramer is a non-executive director of the Tipperary Corporation and at 31 December 2001 he held 40,000 Tipperary shares.

### Executive Share Option Schemes

Executive directors and senior executives of the Group participate in the Executive Share Option Schemes (the Approved 1994 Scheme and the Unapproved 1994 No. 2 Scheme). Options will normally be exercisable between three and ten years from the date of grant (three and seven years in the case of the Unapproved 1994 Scheme) if the performance condition set at the date of grant is satisfied. Options granted under the 1994 Schemes before 27 March 1996 are only exercisable if the growth in the company's earnings per share exceeds the increase in the Retail Price Index (R.P.I.) over any three year period from the date of grant plus 1 per cent. On 27 March 1996, the Remuneration Committee recommended and the Board approved a change to the performance criteria so that options granted after 27 March 1996 are only exercisable if the growth in the company's earnings per share exceeds the increase in the R.P.I. over any three year period from the date of grant plus 6 per cent.

Options expiring, granted and outstanding to executive directors under the Schemes are as follows:

	Opening Balance 1.1.01	Lapsed	Granted	Exercised	Closing Balance 31.12.01	Average Exercise Price p	Value of Share Options where the Market Price exceeds Option Price at 28.12.01 331.5p £
Sir Nigel Mobbs	65,530	Nil	Nil	Nil	65,530	381.5	—
D R Wilson	220,757	Nil	45,238	Nil	265,995	330.45	61,132
J A N Heawood	191,743	Nil	18,785	Nil	210,528	302.19	79,602
R D Kingston	169,081	Nil	22,936	Nil	192,017	310.09	67,125
M D Lees	157,412	Nil	28,662	Nil	186,074	296.99	86,319
D E F Simons	40,567	Nil	Nil	Nil	40,567	359.9	2,842

During the year, the share price ranged between a high of 433.5p and a low of 303.5p. The price on 28 December 2001 was 331.5p. There were no options exercised during 2001.

The exercise periods for options outstanding are up to 27 March 2008.

Full details of the above are contained in the Register of Directors' Interests.

On exercise of an option, the option holder is required to subscribe for the new shares at the option price. The value of the options shown above is calculated by deducting the subscription amount from the value of the option shares based on the closing share price at 28 December 2001.

Mr M D Lees has an option for 25,000 shares, which was granted on 26 August 1997, in the Tipperary Corporation (in which the company has 61% equity interest) at a price of US\$4.25 exercisable from 26 August 2000. No options have been exercised.

### Long Term Share Incentive Scheme

A Long Term Share Incentive Scheme which is operated by the Independent Trustees of the Slough Estates plc Employees' Benefit Trust has been introduced for executive directors and senior executives with effect from 23 June 1994 under which bonus awards of shares in the company may be earned based on the achievement of real growth in adjusted diluted earnings and assets per share over a period of three years. Awards under the Scheme are granted at the discretion of the Trustees of the Scheme on the recommendation of the Remuneration Committee. Awards will normally vest at the discretion of the Trustees on the third anniversary on which the awards were granted subject to the performance targets described below.

The growth required in both earnings per share (weighted 60%) and net assets per share (weighted 40%) between grant and the vesting are:

	Vesting	1999 - 2001	
		Earnings per share	Net assets per share
Low hurdle	20%	4.0% p.a.	4.0% p.a.
High hurdle	100%	11.0% p.a.	8.0% p.a.

and pro-rata for intermediate achievement subject to performance exceeding the low hurdle.

The estimated costs of the Scheme are charged to operating profit over the three year period before the actual number of shares to be released is determined. The amount charged to operating profit in 2001 in respect of executive directors was £500,373 (2000 £417,657).

### Vesting of shares from 1998 Allocation and proposed vesting from 1999 Allocation

In April 2001, there was a vesting of shares from the Long Term Share Incentive Scheme allocation made in April 1998. The vesting was 100% of the 1998 allocation. The number of shares vested to each director was as follows:

	Number of Shares		Value of Gross Benefit £000
	Gross	Net Vested	
Sir Nigel Mobbs	29,534	17,675	116
D R Wilson	20,056	12,003	78
J A N Heawood	8,186	4,900	32
R D Kingston	8,501	5,088	33
M D Lees	10,876	6,509	42
D E F Simons	7,871	4,711	31

The market price of the shares on the date of vesting was 391.5p. The Trustees purchased the shares at a price of 332.0p in April 1998.

Under current tax legislation the independent Trustees are responsible for the collection of the income tax due on the vesting. The difference between the gross and the net figures is the number of shares sold by the Trustees to meet the individual director's tax liability.

The directors' interest in shares under the Long Term Share Incentive Scheme are included in the table on page 56.

In April 2002, there will be a vesting of shares from the Long Term Share Incentive Scheme allocation made in April 1999. The vesting will be 100% of the 1999 allocation. The number of shares to be vested to each director is as follows: Sir Nigel Mobbs 39,533 shares, J A N Heawood 11,295 shares, R D Kingston 11,295 shares, M D Lees 14,742 shares, D E F Simons 10,165 shares and D R Wilson 26,430 shares.



### SAYE Share Option Scheme

The company has operated an Inland Revenue approved SAYE Share Option Scheme since 1981. Savings contracts can be for a three, five or seven year period.

The following are details of the options held by the directors:

	Date of grant	Maturity date	Option price p	Number of shares
R D Kingston	22.4.96	7.5.2003	160.99	12,112
J A N Heawood	03.9.98	1.10.2005	246.00	7,926
D E F Simons	22.4.96	7.5.2003	160.99	12,112
	23.4.01	1.5.2004	296.4	3,268
D R Wilson	23.4.01	1.5.2006	296.4	5,693

### Profit Sharing Scheme

The executive directors participate in the company's Inland Revenue Approved Profit Sharing Scheme in which all eligible employees are entitled to participate. The Scheme was approved by shareholders on 21 May 1980. Appropriations of shares by the Trustees of the Scheme to directors during the year were 2,112 shares (2000 2,189 shares) to each of the following: Sir Nigel Mobbs, D R Wilson, J A N Heawood,

R D Kingston, D E F Simons. The market value per share for the purposes of the Scheme was 378.7p per share (2000 365.3p per share). The shares, which are included in the directors' beneficial interests in shares shown on page 56, are held by the Trustees of the Scheme on behalf of a participant for a period of three years from the date of appropriation before being released to the participant.

# Statement of the Directors' responsibilities

For the preparation of financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit for that year. In preparing the financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate

to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for maintaining the integrity of the financial information, including the Annual Report, on the Slough Estates plc website.

# Independent Auditors' Report

to the members of Slough Estates plc

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Chairman's statement, Chief Executive's review, Financial review, Directors' biographies, Directors' report, Corporate Governance Guidelines, the Combined Code, 2001 Remuneration Committee Report, the five year report and the other information for shareholders.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified

for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the company's or Group's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## PricewaterhouseCoopers

Chartered Accountants and Registered Auditors  
Reading

19 March 2002



# The Combined Code

and Slough Estates plc's Statement of Adherence

The company has complied with all relevant aspects of the Principles and Best Practice Provisions of Section 1 of the Combined Code for all of 2001.

The company's Corporate Governance Guidelines are published on pages 36 and 37 of the 2001 Report and Accounts.

## DIRECTORS

### The Board

The Board of Directors is responsible to the shareholders for the Group's management and internal financial control systems and represents their interests in maintaining and growing a successful business.

### Chairman and CEO

Sir Nigel Mobbs was appointed Chairman in 1976 and he is supported by a non-executive Deputy Chairman and a Chief Executive.

### Board balance

In addition to the Chairman, there are five executive directors and there are six non-executive directors. Biographies of the board members appear on pages 44 and 45.

The Board considers that all the non-executive directors, with the exception of Mr D Kramer, are independent as they are free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

### Supply of information

Board meetings are held on a regular monthly basis and there is a defined schedule of matters reserved for decisions by the Board.

The Board receives timely advice on all material information about the company, its subsidiaries, its activities, performance and its projects, particularly including any significant variances from a planned course of progress.

### Appointments to the Board

A Nomination Committee comprising a majority of the non-executive directors has responsibility for making recommendations for new appointments to the Board.

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment.

### Independent professional advice

There is an agreed procedure for directors to take independent professional advice and they have complete access to senior management.

### Re-election

All directors are subject to periodic re-appointment by the shareholders at three yearly intervals.

## DIRECTORS' REMUNERATION

### Disclosure

The company's policy regarding the level and make-up of remuneration, the remuneration policy, service contracts, compensation and interest in shares are set out in the Remuneration Committee Report on pages 54 to 59.

## RELATIONS WITH SHAREHOLDERS

### Dialogue with institutional shareholders

The Chairman, Chief Executive and designated executive directors are the company's principal spokesmen with investors, fund managers, the press and other interested parties.

The company publishes its Annual Report and Accounts and Interim Statement and also its policy statements governing ethical, environmental and personnel issues. There is regular dialogue with individual institutional shareholders.

### Constructive use of the Annual General Meeting

At the Annual General Meeting, investors are given the opportunity to question the Board and to meet with them afterwards. They are encouraged to participate in the meeting.

Photographic displays and literature are available to illustrate the company's developments.

### Web site

The company has a web site which includes details of the business, both corporate and financial, property and personnel.

## ACCOUNTABILITY AND AUDIT

### Financial reporting

The Board believes that it presents a balanced and understandable assessment of the company's position and prospects.

### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

### Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness.

The Board continues to apply the procedures necessary to comply with the requirements of the Turnbull guidance "Internal Control – Guidance for Directors on the Combined Code". An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place throughout 2001 and to the date of approval of the annual report and accounts. The executive directors and senior operational management are responsible for identifying key risks and assessing their likelihood and impact through formal processes at both Group and subsidiary levels. The controls that are in place to manage these significant risks in each unit have been identified within a comprehensive control framework and an assessment has been made of the effectiveness of these controls. A full risk assessment was completed in January 2001, which has been updated and reported to the Board quarterly. A complete risk and control assessment was undertaken before reporting on the year ending 31 December 2001.

During 2001 the Board discharged its responsibility for internal control through the following key procedures:

- the establishment of an organisational structure with clearly defined levels of authority and division of responsibilities;
- a comprehensive system of reporting, budgeting and planning against which performance is monitored;
- the formulation of policies and of approval procedures in a number of key areas such as treasury operations, capital expenditures and environmental matters. These are reviewed from time to time by the Board to confirm their adequacy;
- the provision of a code of conduct for employees and the monitoring of the quality of personnel through an annual performance appraisal process.

The internal control system is monitored through a process of self-certification whereby senior management report on the operation of those elements of the system for which they are responsible.

The Board has reviewed the effectiveness of the Group's systems of internal control during the financial year. This involved consideration of a management report on the systems and the results of the self-certification process.

It must be recognised that such systems are 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.

### Audit Committee and Auditors

An Audit Committee has been in place since 1990 and it meets twice a year with the Auditors.

The Committee comprises all the UK resident non-executive directors under the Chairmanship of The Rt Hon Lord MacGregor of Pulham Market OBE.



# Accounting Policies

## Basis of accounting

These financial statements have been prepared on the basis of historical costs but incorporating property valuations, and in accordance with applicable Accounting Standards and, except for the depreciation of investment properties, with the Companies Act 1985. An explanation of the departure from the requirements of the Act is given below in the depreciation note.

The value of investments in subsidiaries, associate and joint ventures has been adjusted to reflect the underlying net asset values (see note 11).

The company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

## Accounting Standards

The Accounting Standards Board has issued three new financial reporting standards; FRS17 - Retirement Benefits, FRS18 - Accounting Policies and FRS19 - Deferred Tax.

FRS17 provides for a phased implementation period with full implementation by 2003. The Group has implemented the first year's requirements which are additional disclosures over and above those also required by SSAP24.

The Group has adopted FRS18 in 2001. This has not resulted in any change in accounting policy.

FRS19 requires full provision to be made for future tax consequences of past transactions and events. The timing differences are recognised as deferred tax liabilities or assets in the financial statements, measured at expected future tax rates. The Group will comply with FRS19 in 2002 when it becomes compulsory. The impact that this standard would have had on the Group accounts if it had been applied in the current year is disclosed in the Financial Review.

The Group has adopted UITF28 (Operating Lease Incentives) which requires property companies to treat any incentive for lessees to enter into lease agreements as a revenue cost and also to account for rental income from the commencement and not, as

was the Group's practice, the expiry date, of any rent-free period. The adoption of this UITF has had no material effect on the results for the year.

## Consolidation

The consolidated financial statements comprise the results of the company and its subsidiaries, made up to 31 December, together with the Group's share of net profits and losses and reserves of associate and joint ventures.

## Foreign currencies

Assets and liabilities expressed in foreign currency and profits and losses of overseas subsidiaries are translated into sterling at year end exchange rates. Exchange differences arising on revenue items are reflected in the profit and loss account, together with any translation differences arising on currency borrowings which are not covered by translation differences arising on investments in currency assets. All other translation differences are reflected in reserves.

## Property valuation

The Group's completed investment properties and land held for or under development were externally valued as at 31 December by Insignia Richard Ellis or Conrad Colliers Ritblat Erdman or C B Hillier Parker in the United Kingdom, in the USA by Realty Services International, Inc., in Canada by Nilsen Realty Research Ltd, in Belgium by De Crombrughe & Partners s.a. and in France by Bourdais Expertises s.a.

The valuations have been prepared on the basis of open market value in accordance with the relevant guidance notes on the valuation of property assets applicable to each country. The valuers have made the normal deductions for hypothetical purchasers' costs in arriving at their valuations in the UK. Each property has been valued individually and not as part of a portfolio. No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charges, and no allowance has been made for any expenses of realisation, nor for any taxation which might arise in



the event of a disposal. The figures also do not reflect any element of special purchaser value following a merger of interests or sale to an owner or occupier of an adjoining property.

The valuations have been prepared on the basis of information provided to the respective valuers by the Group relating to title, tenure, lettings, site and floor areas, planning consents and other relevant information. Valuers were instructed to assume that no deleterious materials or techniques had been used in the construction of any of the buildings and not to carry out structural surveys. The valuers were also instructed to assume that, unless informed to the contrary, the properties are not, or likely to be, affected by land contamination and have assumed that the cost of any decontamination work would be immaterial unless advised to the contrary. In addition, the valuers have assumed that there are no ground conditions which would affect the present or future uses of the properties.

The surpluses and deficiencies arising attributable to the Group are reflected in unrealised capital reserves. To the extent that projects have not been included in the valuation review, they are included at cost or at the directors' assessment of open market value. Buildings under construction are valued at cost.

## Depreciation

(a) **Properties:** In accordance with SSAP19, no depreciation is provided in respect of freehold investment properties or leasehold investment properties with over 20 years to run. This treatment may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate.

The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot reasonably be separately identified or quantified.

(b) **Plant and equipment:** No depreciation is charged where plant and equipment is provided in the Group's premises for the use of its tenants, as it is covered by the full repairing covenant embodied in the respective

leases. Other plant and equipment operated by the Group in the normal course of business is depreciated (after an initial commissioning period in the case of Utilities) on a straight line basis over its estimated useful life: mainly 10-25 years.

## Capitalisation of interest

Interest costs incurred in funding land for or under development, construction work in progress and major construction programmes for the Utilities plant are capitalised during the period of development.

## Trading properties

Unless pre-sold, properties are held at the lower of cost, including finance costs, and market value. Pre-sold properties are stated at cost plus attributable profits less losses, where the outcome can be assessed with reasonable certainty, less progress payments receivable. Attributable profit consists of the relevant proportion of the total estimated profit appropriate to the progress made in construction and letting. Cost includes direct expenditure and interest, less any relevant income.

## Stocks

Stocks, excluding trading properties, are valued at cost, on a first in, first out basis, or market value, whichever is the lower.

## Investments

Investments held as current assets are stated at the lower of cost and directors' assessment of current market value.

## Taxation

Deferred tax is provided by the liability method on short term timing differences only to the extent that a liability to pay tax is foreseen. Deferred tax assets are only carried forward to the extent that they are expected to be recovered without replacement by equivalent debit balances. No deferred tax is provided on capital allowances attributable to assets which are not subject to depreciation or where a liability is not expected to crystallise. No provision is made for any contingent tax liability which would arise in the event of sales of investment properties being effected at the valuation at which they are carried in the balance sheet.

# Group profit and loss account

For the year ended 31 December 2001

	Note	Pre-exceptional items £m	Exceptional items £m	2001 £m	2000 £m
<b>Turnover:</b>					
Group	1	281.5	–	281.5	281.3
Joint ventures	1	15.6	–	15.6	14.9
<b>Operating income:</b>					
Property investment	1	212.3	–	212.3	196.7
Property trading	1	8.7	–	8.7	6.7
Utilities - operating loss and exceptional write down	1	(7.1)	(60.2)	(67.3)	(3.6)
Other income	2	0.6	–	0.6	5.4
Administration expenses	3	(13.2)	–	(13.2)	(12.9)
<b>Operating profit</b>		201.3	(60.2)	141.1	192.3
Share of operating profit of joint ventures and associate					
— property		13.9	–	13.9	14.0
— other		–	–	–	0.2
	4	13.9	–	13.9	14.2
(Loss)/profit on sale of investment properties		–	(9.8)	(9.8)	0.6
<b>Profit before interest and taxation</b>		215.2	(70.0)	145.2	207.1
Interest (net)	5	(77.9)	–	(77.9)	(78.2)
<b>Profit on ordinary activities before taxation</b>		137.3	(70.0)	67.3	128.9
Taxation - current tax	6	(12.6)	–	(12.6)	(10.2)
- tax on sale of investment properties	6	–	(7.0)	(7.0)	(0.1)
		(12.6)	(7.0)	(19.6)	(10.3)
<b>Profit on ordinary activities after taxation</b>		124.7	(77.0)	47.7	118.6
Minority interests - equity		1.2	–	1.2	(0.5)
Preference dividends	7	(11.6)	–	(11.6)	(11.6)
<b>Profit attributable to ordinary shareholders</b>		114.3	(77.0)	37.3	106.5
Ordinary dividends	7	(54.2)	–	(54.2)	(50.0)
<b>Retained profit/(deficit)</b>	14	60.1	(77.0)	(16.9)	56.5
<b>Basic earnings per ordinary share</b>					
excluding exceptional items	8	27.6p	–	27.6p	25.7p
Basic earnings per ordinary share on exceptional items		–	(18.6p)	(18.6p)	0.1p
<b>Basic earnings per ordinary share</b>	8	27.6p	(18.6p)	9.0p	25.8p
<b>Diluted earnings per ordinary share</b>	8	27.6p	(18.6p)	9.0p	25.3p

Exceptional items comprise profits and losses on sale of investment properties and related tax and the write down of the Utilities plant.

The results in the Group profit and loss account relate to continuing operations.

## Statement of Group total recognised gains and losses

For the year ended 31 December 2001

	£m	2001 £m	£m	2000 £m
<b>Profit attributable to ordinary shareholders</b>		<b>37.3</b>		<b>106.5</b>
(Deficit)/surplus on revaluation of properties	(6.0)		247.5	
(Deficit)/surplus on revaluation of — joint ventures	(9.8)		6.5	
— Associate	(0.2)		0.3	
		<b>(16.0)</b>		<b>254.3</b>
Exchange differences	(1.0)		12.5	
Other items	(0.7)		(0.5)	
Taxation	(6.1)		(0.5)	
Minority interests	0.3		(4.2)	
<b>Total other recognised gains and losses</b>		<b>(7.5)</b>		<b>7.3</b>
<b>Total recognised gains and losses for the year</b>		<b>13.8</b>		<b>368.1</b>
Realised		27.9		102.8
Unrealised		(14.1)		265.3
		<b>13.8</b>		<b>368.1</b>

## Notes of Group historical cost profits and losses

For the year ended 31 December 2001

	2001 £m	2000 £m
Reported profit on ordinary activities before taxation	67.3	128.9
Realisations of revaluation gains and losses of previous years	0.1	3.0
<b>Historical cost profit on ordinary activities before taxation</b>	<b>67.4</b>	<b>131.9</b>
<b>Historical cost (loss)/profit for the year after taxation, minority interests and dividends</b>	<b>(22.9)</b>	<b>59.0</b>

## Reconciliation of movement in Group shareholders' funds

For the year ended 31 December 2001

	2001 £m	2000 £m
Profit attributable to ordinary shareholders	37.3	106.5
Ordinary dividends	(54.2)	(50.0)
	<b>(16.9)</b>	<b>56.5</b>
Revaluation (deficit)/surplus	(16.0)	254.3
Other recognised gains and losses	(7.5)	7.3
Ordinary shares issued	1.5	2.1
	<b>(38.9)</b>	<b>320.2</b>
Net (decrease)/increase in shareholders' funds	2,427.1	2,106.9
Shareholders' funds at 1 January		
<b>Shareholders' funds at 31 December</b>	<b>2,388.2</b>	<b>2,427.1</b>



# Balance sheets

As at 31 December 2001

		Group		Company	
	Note	2001 £m	2000 £m	2001 £m	2000 £m
<b>Fixed assets</b>					
Tangible assets — properties	9	3,514.2	3,463.8	—	—
— other	10	31.7	79.7	—	—
Investments	11	—	—	3,332.1	3,366.6
Investments in joint ventures:					
— share of gross assets		217.0	229.9	53.8	58.5
— share of gross liabilities		(46.3)	(42.2)	(26.2)	(22.4)
	11	170.7	187.7	27.6	36.1
Investment in associate	11	4.0	4.1	—	—
		<u>3,720.6</u>	<u>3,735.3</u>	<u>3,359.7</u>	<u>3,402.7</u>
<b>Current assets</b>					
Stocks	12	135.3	106.4	—	—
Debtors	12	39.2	41.3	50.9	57.4
Trading investments	12	78.0	68.2	—	—
Cash and deposits		175.9	36.9	60.0	—
		<u>428.4</u>	<u>252.8</u>	<u>110.9</u>	<u>57.4</u>
Prepayments and accrued income		16.4	12.4	4.4	0.6
<b>Total assets</b>		<u>4,165.4</u>	<u>4,000.5</u>	<u>3,475.0</u>	<u>3,460.7</u>
<b>Capital and reserves</b>					
Called up share capital	13	138.7	138.6	138.7	138.6
Share premium account	14	328.7	327.3	328.7	327.3
Capital reserves	14	1,542.8	1,642.5	1,689.7	1,757.7
Profit and loss account	14	378.0	318.7	231.1	203.5
<b>Shareholders' funds</b>		<u>2,388.2</u>	<u>2,427.1</u>	<u>2,388.2</u>	<u>2,427.1</u>
Minority interests — equity		25.1	21.1	—	—
— non-equity		0.3	0.3	—	—
Provisions for liabilities and charges	16	4.2	6.2	0.9	2.0
Creditors falling due within one year					
Borrowings	17	47.5	54.6	3.5	0.2
Other	18	202.6	197.9	73.0	68.9
Creditors falling due after more than one year					
Borrowings	17	1,493.6	1,289.9	967.1	887.6
Other	18	3.9	3.4	42.3	74.9
		<u>4,165.4</u>	<u>4,000.5</u>	<u>3,475.0</u>	<u>3,460.7</u>
<b>Shareholders' funds attributable to:</b>					
Equity shareholders — ordinary shares		2,248.0	2,286.8	2,248.0	2,286.8
Non-equity shareholders — preference shares		140.2	140.3	140.2	140.3
		<u>2,388.2</u>	<u>2,427.1</u>	<u>2,388.2</u>	<u>2,427.1</u>
<b>Net assets per ordinary share — basic</b>	8	542p	553p		
<b>Net assets per ordinary share — fully diluted</b>	8	512p	520p		

The financial statements on pages 64 to 86 inclusive were approved by the Board of directors on 19 March 2002 and signed on its behalf by:

**Sir Nigel Mobbs**  
**D R Wilson**  
*Directors*

# Group cash flow statement

For the year ended 31 December 2001

	Note	£m	2001 £m	£m	2000 £m
<b>Net cash inflow from operating activities</b>	19(1)		<b>174.3</b>		<b>179.6</b>
<b>Dividends from joint ventures and associate</b>			<b>9.7</b>		<b>8.3</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		7.8		5.6	
Interest paid		(115.7)		(99.9)	
Dividends paid to preference and minority shareholders		(12.3)		(12.1)	
			<b>(120.2)</b>		<b>(106.4)</b>
<b>Taxation</b>			<b>(8.1)</b>		<b>(4.3)</b>
<b>Capital expenditure and financial investment</b>					
Purchase and development of investment properties		(275.6)		(264.4)	
Purchase of other fixed assets		(15.7)		(15.8)	
Purchase of trading investments		(18.1)		(16.7)	
Sales of investment properties		225.9		49.6	
Sales of other fixed assets		0.2		0.2	
Sales of trading investments		8.3		20.8	
			<b>(75.0)</b>		<b>(226.3)</b>
<b>Acquisitions and disposals</b>					
Purchase of subsidiary undertaking (net of cash and bank overdrafts acquired)	19(2)	–		(0.1)	
Investment in joint ventures		(1.5)		(1.4)	
Loans to joint ventures and others		–		(0.5)	
Return of capital from joint venture		10.0		–	
Acquisition of minority interests		(0.7)		(2.6)	
Contribution from minorities		3.8		1.6	
			<b>11.6</b>		<b>(3.0)</b>
<b>Equity dividends paid</b>			<b>(51.7)</b>		<b>(47.5)</b>
<b>Net cash outflow before use of liquid resources and financing</b>			<b>(59.4)</b>		<b>(199.6)</b>
<b>Management of liquid resources</b>	19(3)				
Investment in term deposits		(63.3)		14.0	
<b>Net cash (outflow)/inflow from the management of liquid resources</b>			<b>(63.3)</b>		<b>14.0</b>
<b>Financing</b>					
Issue of ordinary shares	19(4)	1.5		2.1	
Increase in debt	19(5)	199.3		174.3	
<b>Cash inflow from financing</b>			<b>200.8</b>		<b>176.4</b>
<b>Increase/(decrease) in cash</b>			<b>78.1</b>		<b>(9.2)</b>

# Notes to the financial statements

## 1 Segmental information and operating profit

	Turnover		Operating profit		Profit before tax		Net assets	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
<b>Business segments:</b>								
Property investment	234.4	216.4	212.3	196.7	226.2	210.7	3,619.1	3,585.4
Property trading	30.1	42.9	8.7	6.7	8.7	6.7	131.4	95.3
Utilities - operating loss	17.0	22.0	(7.1)	(3.6)	(7.1)	(3.4)	31.0	78.5
- exceptional write down	-	-	(60.2)	-	(60.2)	-	-	-
Other activities	-	-	0.6	5.4	0.6	5.4	68.7	57.3
(Loss)/profit on sale of investment properties	-	-	-	-	(9.8)	0.6	-	-
Net interest/net borrowings	-	-	-	-	(77.9)	(78.2)	(1,365.2)	(1,307.6)
Common costs/ common net liabilities	-	-	(13.2)	(12.9)	(13.2)	(12.9)	(96.8)	(81.8)
	<b>281.5</b>	<b>281.3</b>	<b>141.1</b>	<b>192.3</b>	<b>67.3</b>	<b>128.9</b>	<b>2,388.2</b>	<b>2,427.1</b>
<b>Geographical segments:</b>								
United Kingdom	179.5	179.6	79.9	137.8	90.8	148.4	2,785.4	2,837.9
Canada	12.7	14.5	9.8	10.1	2.3	10.2	19.3	173.7
USA	50.2	37.2	25.7	23.9	26.2	27.9	685.5	520.2
Europe	39.1	50.0	25.7	20.5	25.9	20.6	300.2	233.5
Net interest/net borrowings	-	-	-	-	(77.9)	(78.2)	(1,365.2)	(1,307.6)
Common net liabilities	-	-	-	-	-	-	(37.0)	(30.6)
	<b>281.5</b>	<b>281.3</b>	<b>141.1</b>	<b>192.3</b>	<b>67.3</b>	<b>128.9</b>	<b>2,388.2</b>	<b>2,427.1</b>

Joint ventures (Group share)	Turnover		Share of assets		Share of liabilities		Net investment	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
<b>Business segments:</b>								
Property investment - property	15.6	14.9	212.0	218.5	(46.3)	(42.2)	165.7	176.3
- other	-	-	5.0	11.4	-	-	5.0	11.4
	<b>15.6</b>	<b>14.9</b>	<b>217.0</b>	<b>229.9</b>	<b>(46.3)</b>	<b>(42.2)</b>	<b>170.7</b>	<b>187.7</b>
<b>Geographical segments:</b>								
United Kingdom	10.9	10.9	178.9	191.3	(29.5)	(25.8)	149.4	165.5
USA	4.7	4.0	38.1	38.6	(16.8)	(16.4)	21.3	22.2
	<b>15.6</b>	<b>14.9</b>	<b>217.0</b>	<b>229.9</b>	<b>(46.3)</b>	<b>(42.2)</b>	<b>170.7</b>	<b>187.7</b>

Property investment turnover comprises:	Rents		Tenant recharges and other		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Rents and recharges						
- UK	159.8	154.7	2.7	2.7	162.5	157.4
- Canada	11.3	12.7	1.4	1.8	12.7	14.5
- USA	35.3	25.0	6.5	5.7	41.8	30.7
- Europe	16.9	13.3	0.5	0.5	17.4	13.8
	<b>223.3</b>	<b>205.7</b>	<b>11.1</b>	<b>10.7</b>	<b>234.4</b>	<b>216.4</b>

Turnover comprises: rents and recharges charged to tenants; the net realised value of trading properties and the value of work, including attributable profit, carried out during the year on pre-sold trading property developments; and the amounts invoiced to utilities customers.



## 1 Segmental information and operating profit continued

	Property investment		Property trading		Utilities		Total	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
<b>Net operating income comprises:</b>								
Turnover	234.4	216.4	30.1	42.9	17.0	22.0	281.5	281.3
Ground rents payable	(0.5)	(0.9)	-	-	-	-	(0.5)	(0.9)
Depreciation	-	-	-	-	(2.5)	(4.9)	(2.5)	(4.9)
Exceptional write down	-	-	-	-	(60.2)	-	(60.2)	-
Other property outgoings/cost of sales	(21.6)	(18.8)	(21.4)	(36.2)	(21.6)	(20.7)	(64.6)	(75.7)
Total property outgoings/cost of sales	(22.1)	(19.7)	(21.4)	(36.2)	(84.3)	(25.6)	(127.8)	(81.5)
Net operating income	212.3	196.7	8.7	6.7	(67.3)	(3.6)	153.7	199.8

## 2 Other income

	2001 £m	2000 £m
Net profit on trading investments	3.5	4.6
Dividends received from investments	0.4	0.2
Other	(3.3)	0.6
	0.6	5.4

## 3 Administration expenses

	2001 £m	2000 £m
Directors' remuneration	1.9	1.8
Depreciation of tangible fixed assets	0.7	0.7
Auditors' remuneration	0.6	0.6
Other administration costs	10.0	9.8
	13.2	12.9

Fees paid to the auditors, PricewaterhouseCoopers, in the United Kingdom and overseas during the year in respect of non-audit appointments were £0.1 million (2000 £0.1 million) and £0.8 million (2000 £0.2 million) respectively, all of which relates to tax advice.

	Property management £m	Utilities £m	Total 2001 £m	Total 2000 £m
<b>Employees' staff costs were:</b>				
Wages and salaries	14.6	5.4	20.0	19.8
Social security costs	1.5	0.5	2.0	2.0
Pension contributions (see note 20)	2.0	0.8	2.8	2.6
	18.1	6.7	24.8	24.4

The average number of employees of the Group was 549 (2000 551) of which 399 (2000 404) were engaged in property development, management and general administration and 150 (2000 147) were engaged in utilities. The average number of employees in the UK amounted to 480 (2000 471).

Disclosures required by the Companies Act 1985 on directors' remuneration, including salaries, share options, pension contributions and pension entitlement and those specified by the Financial Services Authority are included on pages 54 to 59 in the Remuneration Committee Report and form part of these financial statements.

4 Share of operating profit of joint ventures and associate

	2001 £m	2000 £m
Joint ventures	13.4	13.5
Associate	0.5	0.7
	<u>13.9</u>	<u>14.2</u>
Analysed between:		
Property	13.9	14.0
Other	—	0.2
	<u>13.9</u>	<u>14.2</u>

5 Interest (net)

	2001 £m	2000 £m
Group:		
On bank loans and overdrafts	20.3	18.0
On other loans	93.3	85.1
	<hr/> 113.6	<hr/> 103.1
Less interest received	(8.0)	(5.9)
Less amount charged to: the development of trading properties	(2.9)	(1.3)
: the development of investment properties	(25.6)	(20.5)
: the development of Utilities plant	(2.0)	(0.5)
	<hr/>	<hr/>
Charged to profit and loss account – Group	75.1	74.9
– joint ventures	2.6	3.1
– Associate	0.2	0.2
	<hr/> 77.9	<hr/> 78.2

The interest capitalised rate for 2001 was: UK 8.25 per cent (2000 8.5 per cent), USA 6.62 per cent (2000 7.63 per cent), Canada 7.65 per cent (2000 8.4 per cent) and in Europe at rates ranging between 4.5 per cent to 6.5 per cent (2000 3.9 per cent to 5.7 per cent).

## 6 Taxation

	2001 £m	2000 £m
Provision for taxation based on profits for the year		
<b>United Kingdom</b>		
Corporation tax charge at 30 per cent (2000 30 per cent)	18.7	15.4
Advance corporation tax written back	(5.0)	(5.5)
Over provision in earlier years	(1.3)	(8.2)
Deferred tax (credit)/charge	(1.1)	1.2
Tax in joint venture	0.2	—
	11.5	2.9
<b>Overseas</b>		
Current tax charge	0.2	6.6
Tax on sale of investment properties	7.0	0.1
Deferred tax charge	0.9	0.7
	19.6	10.3

The current tax charge has been increased by the exceptional write down in the UK, with the impact of that being mitigated by relief for capital allowances and capitalised interest.

## 7 Dividends

	2001 £m	2000 £m
<b>Preference dividends</b>		
Dividend paid to 1 September	7.7	7.7
Dividend accrued for period from 2 September to 31 December	3.9	3.9
	<b>11.6</b>	<b>11.6</b>
<b>Ordinary dividends</b>		
Interim dividend at 5.1p per share (2000 4.7p)	21.1	19.4
Proposed final dividend at 8.0p per share (2000 7.4p)	33.1	30.6
	<b>54.2</b>	<b>50.0</b>

## 8 Earnings, capital (deficit)/surplus and net assets per ordinary share

			Basic		Fully diluted	
			2001	2000	2001	2000
The earnings, capital (deficit)/surplus and net assets per ordinary share have been calculated as follows:						
Profit attributable to ordinary shareholders	(a)	£m	37.3	106.5	37.3	118.1
Profit attributable to ordinary shareholders excluding profits and losses on sale of investment properties and exceptional write down	(b)	£m	114.3	106.0	114.3	117.6
Capital (deficit)/surplus	(c)	£m	(23.5)	261.6	(23.5)	261.6
Average of shares in issue during the year	(d)	shares m	414.2	413.3	414.5	466.3
Earnings per share (a) ÷ (d)		pence	9.0	25.8	9.0	25.3
Earnings per share excluding profits and losses on sale of investment properties and exceptional write down (b) ÷ (d)		pence	27.6	25.7	27.6	25.2
Capital (deficit)/surplus per share (c) ÷ (d)		pence	(5.7)	63.3	(5.7)	56.1
Equity attributable to ordinary shareholders	(e)	£m	2,248.0	2,286.8	2,388.2	2,427.1
Shares in issue at the end of the year	(f)	shares m	414.5	413.9	466.8	466.9
Net assets per share (e) ÷ (f)		pence	542	553	512	520

	2001 m	2000 m
Average of shares in issue during the year	414.2	413.3
Adjustment for the dilutive effect of employee share options, save as you earn schemes and preference shares	0.3	53.0
Average of shares in issue during the year diluted	414.5	466.3

In 2001 the effect of the preference shares is anti-dilutive and therefore they are excluded from the diluted earnings per share calculation. In 2000 the effect was dilutive and therefore they were included in the 2000 diluted earnings per share calculation.

The earnings per share and fully diluted earnings per share excluding profits and losses (net of tax and minority) on the sale of investment properties and exceptional write down have been calculated in addition to the disclosures required by FRS3, since in the opinion of the directors this gives shareholders a more meaningful measure of performance.



## 9 Tangible assets - investment properties

	UK £m	Canada £m	USA £m	Europe £m	Total £m
<b>At 1 January 2001</b>	2,653.9	173.5	425.4	211.0	3,463.8
Exchange movement	—	(6.2)	8.7	(5.1)	(2.6)
Additions	118.0	10.4	133.5	29.3	291.2
Disposals	(53.7)	(136.9)	(31.8)	(9.8)	(232.2)
(Deficit)/surplus on valuation	(54.5)	(5.6)	45.8	8.3	(6.0)
<b>At 31 December 2001</b>	2,663.7	35.2	581.6	233.7	3,514.2
Completed properties	2,325.8	29.4	423.7	192.7	2,971.6
Properties for or under development	337.9	5.8	157.9	41.0	542.6
	2,663.7	35.2	581.6	233.7	3,514.2
				<b>2001 £m</b>	<b>2000 £m</b>
Properties held at valuation – cost				1,999.5	1,974.5
– valuation surplus				1,388.4	1,394.7
				<b>3,387.9</b>	<b>3,369.2</b>
Properties held at cost				126.3	94.6
				<b>3,514.2</b>	<b>3,463.8</b>

The above assets include long term leaseholds valued at £164.9 million (2000 £209.6 million).

The Group's completed investment properties and land held for or under development were externally valued as at 31 December 2001, in accordance with the accounting policies, by Insignia Richard Ellis or Conrad Colliers Ritblat Erdman or C B Hillier Parker in the United Kingdom, in the USA by Realty Services International, Inc., in Canada by Nilsen Realty Research Ltd, in Belgium by De Crombrughe & Partners s.a. and in France by Bourdais Expertises s.a.

## 10 Tangible assets - other

	Cost £m	Depreciation £m	Net £m
<b>At 1 January 2001</b>	127.1	(47.4)	79.7
Additions	15.6	(3.2)	12.4
Exceptional write down	(102.7)	42.5	(60.2)
Disposals	(0.8)	0.6	(0.2)
<b>At 31 December 2001</b>	39.2	(7.5)	31.7

The net book value includes utilities plant and equipment amounting to £29.3 million (2000 £77.7 million).

## 11 Investments

	Associate £m	Joint ventures £m	Total 2001 £m	Total 2000 £m
<b>Group</b>				
Cost or valuation at 1 January 2001	4.1	187.7	191.8	181.7
Exchange movement	0.1	0.4	0.5	1.5
Net additions	—	1.2	1.2	1.4
Reduction on joint venture becoming a subsidiary	—	—	—	(2.3)
Return of capital	—	(10.0)	(10.0)	—
Dividends received	(0.3)	(9.4)	(9.7)	(8.2)
Valuation (deficit)/surplus	(0.2)	(9.8)	(10.0)	6.8
Share of profits net of taxation	0.3	10.6	10.9	10.9
<b>Cost or valuation at 31 December 2001</b>	<b>4.0</b>	<b>170.7</b>	<b>174.7</b>	<b>191.8</b>
Analysed as follows:				
Cost less amounts written off	1.2	89.4	90.6	99.3
Valuation surplus	2.4	78.0	80.4	90.1
Share of profits	0.4	3.3	3.7	2.4
	4.0	170.7	174.7	191.8
<b>Net borrowings of joint ventures and associate</b>				
Included in joint venture gross liabilities shown on the balance sheet				
— gross borrowings	—	40.2	40.2	36.0
— other liabilities	—	6.1	6.1	6.2
Off balance sheet net borrowings of associate	2.6	—	2.6	2.6
	2.6	46.3	48.9	44.8
	Joint venture investments £m	Subsidiaries		Total 2001 £m
		Shares £m	Loans £m	
<b>Company</b>				
Cost or valuation at 1 January 2001	36.1	2,576.5	790.1	3,402.7
Net additions	—	—	78.0	78.0
Return of capital	(10.0)	—	—	(10.0)
Provisions	—	—	(43.5)	(43.5)
Valuation surplus/(deficit)	1.5	(69.0)	—	(67.5)
<b>Cost or valuation at 31 December 2001</b>	<b>27.6</b>	<b>2,507.5</b>	<b>824.6</b>	<b>3,359.7</b>
Company investments comprise investments at cost less amounts written off of £2,290.4 million (2000 £2,233.6 million) and valuation surplus of £1,069.3 million (2000 £1,169.1 million).				
The principal undertakings at 31 December 2001 are listed below (all equity holdings unless otherwise stated).				
<b>Property</b>	Country of incorporation	Subsidiaries % holding	Joint ventures % holding	
* Slough Properties Limited	England	100		
* Slough Trading Estate Limited	England	100		
* Allnatt London Properties PLC	England	100		
* Bilton p.l.c.	England	100		
* Bredero Properties Plc	England	Ordinary 96.6 Preference 100		
The Buchanan Partnership	England		50	
Cambridge Research Park Limited	England	100		
* Lewisham Investment Partnership Limited	England	100		
Howard Centre Properties Limited	England	100		
Slough Investments Limited (operating in Germany)	England	100		
* Shopping Centres Limited	England		50	
* Pentagon Developments (Chatham) Limited	England	100		
Slough Estates Canada Limited	Canada	99.9		
Slough Estates USA Inc.	USA	100		
Quall West, Ltd.	USA	100		
Slough Management N.V.	Belgium	100		
Slough Properties N.V.	Belgium	100		
Slough Developments (France) SA	France	100		
Kingswood Ascot Property Investments Limited	England	100		
The Bishop Centre Limited	England	100		
Farnborough Business Park Limited	England	100		
Real Estate and Commercial Trust Limited	England	100		

## 11 Investments continued

Service	Country of incorporation	Subsidiaries % holding	Joint ventures % holding
* Slough Estates Administration Limited	England	100	
* Slough Estates Finance plc	England	100	
<b>Other</b>			
Slough Heat & Power Limited	England	100	
* Kwacker Limited	England	100	

\* Held directly by Slough Estates plc

Unless otherwise indicated the principal country of operation is the same as the country of incorporation.

To comply with the Companies Act 1985 a full list of subsidiaries will be filed with the company's next annual return.

In December 2001, Slough Estates USA Inc. (SEUSA) increased its holding in Tipperary Corporation (a fully consolidated US subsidiary) from 53% to 61% as a result of a rights issue by Tipperary Corporation. During 2001, SEUSA acquired 25% of Quail West, Ltd. (a fully consolidated US subsidiary) for a consideration of £0.7 million giving SEUSA 100% ownership. SEUSA also acquired an additional 10% ownership of Britannia Hacienda I Limited Partnership for £1.4 million increasing SEUSA's total share of ownership from 45% to 55%. The entity continues to be accounted for as a joint venture partnership.

### Related party transactions

The Group undertakes a number of immaterial transactions in the normal course of business with its associate and joint ventures.

Details of bank guarantees given in respect of joint venture companies are shown in note 21 to the financial statements.

During the year, Slough Estates USA Inc., a 100% owned subsidiary, sold certain USA properties, at arms length, to Draper & Kramer Incorporated for £28.4 million. As part of the transaction, US\$750,000 of the consideration remains outstanding and attracts interest at 9% per annum. The US\$750,000 is repayable on 7 June 2003. Mr D Kramer is Chairman of the Board, and a minority shareholder in Draper & Kramer Incorporated and is also a non-executive director of Slough Estates plc.

## 12 Current assets

	Group	
	2001 £m	2000 £m
<b>Stocks</b>		
Trading properties – completed properties	91.2	82.1
– properties under development	42.8	22.9
	134.0	105.0
Utilities stock	1.3	1.4
	135.3	106.4
Off balance sheet net borrowings relating to the above trading properties	7.2	8.5

Net rental income earned on trading properties is deducted from the cost of development. Net rental income for 2001 was £2.0 million (2000-£1.1 million).

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>Debtors (receivable in less than one year)</b>				
Trade debtors	25.1	23.6	–	–
Dividends receivable from subsidiaries	–	–	50.9	51.0
Other debtors	10.6	11.3	–	3.2
ACT recoverable	–	0.9	–	0.8
Other tax recoverable	2.5	4.3	–	2.4
	38.2	40.1	50.9	57.4
<b>Debtors (receivable in more than one year)</b>				
Other debtors	1.0	1.2	–	–
	39.2	41.3	50.9	57.4
<b>Trading investments</b>				
Shares – listed (market value £6.5 million)	2.3	2.3	–	–
– unlisted	40.5	36.6	–	–
Oil and gas investments in USA and Australia	35.2	29.3	–	–
	78.0	68.2	–	–



### 13 Share capital

	Authorised		Issued and fully paid	
	Shares m	£m	Shares m	£m
<b>Ordinary shares of 25p each</b>				
At 1 January 2001	586.4	146.6	413.9	103.5
Shares issued during the year			0.6	0.1
<b>At 31 December 2001</b>	<b>586.4</b>	<b>146.6</b>	<b>414.5</b>	<b>103.6</b>
<b>Cumulative redeemable convertible preference shares of 25p each</b>				
At 1 January 2001	141.6	35.4	140.3	35.1
Conversions during the year			(0.1)	—
<b>At 31 December 2001</b>	<b>141.6</b>	<b>35.4</b>	<b>140.2</b>	<b>35.1</b>

**Cumulative redeemable convertible preference shares** The preference shares were issued on 6 June 1991 at a price of 100p per share. They carry the right to a fixed cumulative preferential dividend of 8.25p (net) per share per annum payable half yearly in arrears in equal amounts on 1 March and 1 September in each year. The company may redeem some or all of the preference shares at any time between 1 March 2006 and 31 August 2011. All preference shares not converted or redeemed on or prior to 31 August 2011 will be redeemed by the company on 1 September 2011 at a price of 100p per share.

The preference shares will ordinarily be convertible at the option of the holder in each of the years 2002 to 2011 (inclusive) during the period of 28 days prior to the record date for any final dividend on the ordinary shares, on the basis of 37.0793 ordinary shares for every 100 preference shares.

Full conversion of the preference shares would give rise to the issue of 51,998,850 ordinary shares.

The preference shares carry no right to attend or vote at General Meetings except in certain very limited circumstances.

The following issues of ordinary shares and conversions of preference shares took place during the year:

**Profit sharing scheme** 180,074 ordinary shares were subscribed in cash at a price of 378.7p per share and were issued to the trustees and allocated at that price to eligible employees under the profit sharing scheme.

**Share option schemes** 386,189 ordinary shares were subscribed in cash following the exercise of employees' options under the share option schemes. The consideration received by the company was £798,089.

**Conversions** During the year 22,823 ordinary shares were issued, credited as fully paid following the conversion of, and in satisfaction of 61,552 8.25p cumulative redeemable convertible preference shares.

During the year options to subscribe for ordinary shares of the company were granted as follows:

**Savings related scheme** 162,590 and 148,555 ordinary shares at subscription prices of 296.4p and 284.8p per share respectively.

**Executive share option scheme** 488,373 ordinary shares at a subscription price of 356.5p per share.

**Profit sharing scheme** Sir Nigel Mobbs, Sir Gordon Jewkes and Messrs. Wilson and Simons are trustees of the Slough Estates plc profit sharing scheme which was approved by the shareholders on 21 May 1980. At 19 March 2002 the number of shares held under the scheme was 517,853 ordinary shares. The interests stated in the 517,853 ordinary shares shown in the table on page 57 represent all of the shares which those directors hold in a non-beneficial capacity as trustees of the scheme but also included therein are those shares beneficially owned under the scheme by Sir Nigel Mobbs and Messrs. Wilson and Simons and which are included in their beneficial holdings in the table shown on page 56.

**Executive share option schemes** Under the 1994 Slough Estates plc Approved Executive Share Option Scheme approved by the shareholders on 18 May 1994, certain executives have options to subscribe for unissued ordinary shares. Options are generally exercisable after three and before ten years from the date of the grant of the option. At 19 March 2002 the number of ordinary shares under option was 250,488 at option prices ranging from 210.5p to 403.66p expiring on 27 March 2011.

Under the 1994 Slough Estates plc Executive Share Option Scheme (No. 2) approved by the shareholders on 18 May 1994, certain executives have options to subscribe for unissued ordinary shares. Options are generally exercisable after three and before seven years from the date of the grant of the option. At 19 March 2002 the number of ordinary shares under option was 2,400,780 at option prices ranging from 210.5p to 403.66p expiring on 27 March 2008.

**1981 savings related share option scheme** Under the option scheme approved by the shareholders on 20 May 1981, as amended, certain employees have options to subscribe for unissued ordinary shares. Options under the savings related scheme are generally exercisable three or five or seven years after the date of the grant of the option. At 19 March 2002 the number of ordinary shares under option was 995,458 at option prices ranging from 160.99p to 328.0p expiring on various dates up to 1 October 2008.

## 14 Reserves

	Share premium account £m	Capital reserve unrealised £m	Capital reserve realised £m	Profit and loss £m	Total £m
<b>Group</b>					
Balance at 1 January 2001	327.3	1,507.7	134.8	318.7	2,288.5
Realisation of revaluation gains and losses of previous years	—	(0.1)	0.1	—	—
Revaluation deficits	—	(16.0)	—	—	(16.0)
Other recognised gains and losses (see page 67)	—	1.8	(8.5)	(0.8)	(7.5)
Deficit for the year	—	—	—	(16.9)	(16.9)
Shares issued	1.4	—	—	—	1.4
Reserve transfer	—	8.6	(85.6)	77.0	—
<b>Balance at 31 December 2001</b>	<b>328.7</b>	<b>1,502.0</b>	<b>40.8</b>	<b>378.0</b>	<b>2,249.5</b>
				<b>2001 £m</b>	<b>2000 £m</b>
<b>Retained profit/(deficit) for the year</b>					
Holding company				27.6	117.1
Subsidiaries				(45.7)	(63.3)
Associate and joint ventures				1.2	2.7
				<b>(16.9)</b>	<b>56.5</b>
	Share premium account £m	Capital reserve unrealised £m	Capital reserve realised £m	Profit and loss £m	Total £m
<b>Company</b>					
Balance at 1 January 2001	327.3	1,216.5	541.2	203.5	2,288.5
Retained profit for the year	—	—	—	27.6	27.6
Revaluation deficit	—	(67.5)	—	—	(67.5)
Shares issued	1.4	—	—	—	1.4
Other	—	—	(0.5)	—	(0.5)
Reserve transfer	—	(32.3)	32.3	—	—
<b>Balance at 31 December 2001</b>	<b>328.7</b>	<b>1,116.7</b>	<b>573.0</b>	<b>231.1</b>	<b>2,249.5</b>

Other than in respect of Canada from which the Group has announced its intention to withdraw, no provision has been made for taxes that may become payable should overseas profits be remitted as there is no current intention to distribute these profits.

As permitted by the Companies Act 1985, the profit and loss account of the parent company has not been presented separately in these financial statements. The profit for the year attributable to ordinary shareholders of the parent company is £81.8 million (2000 £167.1 million).

## 15 Commitments

	2001 £m	2000 £m
a) Capital expenditure commitments		
Property – UK	34.9	18.7
– Overseas	154.5	102.9
Utilities	0.8	11.5
Other activities	30.9	14.7
	<u>221.1</u>	<u>147.8</u>

### b) Operating leases

At 31 December 2001 the Group had annual commitments in respect of operating leases relating to land and buildings as follows:

	2001 £m	2000 £m
Leases which expire:		
Within two to five years	1.3	1.3
After five years	0.4	0.3
	<u>1.7</u>	<u>1.6</u>

## 16 Provisions for liabilities and charges

	Deferred tax £m	Other liabilities £m	Total £m
<b>Group</b>			
Balance at 1 January 2001	2.7	3.5	6.2
Credited to profit and loss account	(0.2)	(1.5)	(1.7)
Paid	–	(0.3)	(0.3)
<b>Balance at 31 December 2001</b>	<u>2.5</u>	<u>1.7</u>	<u>4.2</u>
<b>Company</b>			
Balance at 1 January 2001	2.0	–	2.0
Credited to profit and loss account	(1.1)	–	(1.1)
<b>Balance at 31 December 2001</b>	<u>0.9</u>	<u>–</u>	<u>0.9</u>

Deferred tax relates to UK and overseas timing differences and is provided at 30 per cent (2000 30 per cent) in the UK and at local rates overseas, relating to trading properties.

The other liabilities relate principally to provisions for onerous leases on rented properties and represents the estimated liability of future costs for lease rentals and dilapidation costs less the expected receipts from sub-letting these properties which are surplus to business requirements.

No provision has been made for taxation estimated at £332.0 million (2000 £329.0 million) which might become payable if the Group's properties and plant were sold at their book value. Had FRS 19 (Deferred Tax) been adopted in 2001, taxation of £100.0 million on potential clawbacks of capital allowances included in the above figure of £332.0 million would instead have been included in the FRS 19 deferred tax provision.



## 17 Borrowings

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>Borrowings falling due after one year</b>				
<b>Payable in more than five years:</b>				
<b>Secured:</b>				
11.25% first mortgage debenture 2019	40.0	40.0	40.0	40.0
Currency first mortgages on overseas properties:				
Canadian dollars from 6.8% to 12% to 2014	8.6	27.6	–	–
US dollars 6.83% to 7.51% 2007 to 2017	78.1	79.9	–	–
French francs 5.14% to 6.36% 2014	40.3	15.3	–	–
<b>Unsecured:</b>				
10% bonds 2007	50.0	50.0	50.0	50.0
12.375% loan stock 2009	31.9	31.9	31.9	31.9
7.125% bonds 2010	124.1	123.9	124.1	123.9
11.625% bonds 2012	100.0	100.0	100.0	100.0
6.25% bonds 2015	147.8	147.6	147.8	147.6
10% bonds 2017	98.4	98.3	98.4	98.3
7% bonds 2022	148.6	–	148.6	–
6.75% bonds 2024	220.4	220.2	220.4	220.2
8.09% US dollar Notes 2015	6.8	6.7	–	–
8.0% US dollar Notes 2012	29.8	29.2	–	–
7.94% US dollar Notes 2010	62.7	61.4	–	–
9.27% Canadian dollar Notes 2010	10.7	11.2	–	–
7.84% US dollar Notes 2008	10.3	10.1	–	–
7.58% US dollar Notes 2007	13.7	13.4	–	–
6.57% US dollar Notes 2011	68.5	–	–	–
6.97% US dollar Notes 2016	68.5	–	–	–
6.417% Euro Notes 2011	30.7	–	–	–
Long term loan 2010	17.8	18.9	–	–
	<b>1,407.7</b>	<b>1,085.6</b>	<b>961.2</b>	<b>811.9</b>
Exchange difference on currency swaps	0.1	(1.2)	–	–
Less instalments due in less than five years	(28.1)	(27.2)	–	–
	<b>1,379.7</b>	<b>1,057.2</b>	<b>961.2</b>	<b>811.9</b>
<b>Payable by instalments in more than five years</b>	<b>116.6</b>	<b>114.4</b>	<b>–</b>	<b>–</b>
<b>Payable on final maturity date</b>	<b>1,263.1</b>	<b>942.8</b>	<b>961.2</b>	<b>811.9</b>
	<b>1,379.7</b>	<b>1,057.2</b>	<b>961.2</b>	<b>811.9</b>
<b>Wholly repayable between three and five years:</b>				
<b>Secured:</b>				
French francs 7.23% 2003 first mortgage	–	1.8	–	–
US dollars 10% 2006 first mortgage	8.2	–	–	–
<b>Unsecured:</b>				
Medium term loans 2004	4.6	4.7	–	–
8.09% US dollar Notes 2004	30.8	40.3	–	–
Bank loans scheduled for renewal between three and five years	15.6	136.6	–	64.8
	<b>59.2</b>	<b>183.4</b>	<b>–</b>	<b>64.8</b>
Exchange difference on currency swaps	–	6.4	–	7.5
Instalments due on longer dated borrowings	19.0	17.5	–	–
Less instalments due in less than three years	(24.4)	(20.8)	–	–
	<b>53.8</b>	<b>186.5</b>	<b>–</b>	<b>72.3</b>

## 17 Borrowings continued

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>Repayable between one and two years:</b>				
<b>Secured:</b>				
French francs 7.23% 2003 first mortgage	1.2	–	–	–
<b>Unsecured:</b>				
Bank loans scheduled for renewal in one to two years	36.7	30.8	–	3.4
	37.9	30.8	–	3.4
Exchange difference on currency swaps	5.9	–	5.9	–
Instalments due on longer dated borrowings	16.9	15.4	–	–
Less instalments due within one year	(0.6)	–	–	–
	60.1	46.2	5.9	3.4
<b>Total repayable in more than one year</b>	<b>1,493.6</b>	<b>1,289.9</b>	<b>967.1</b>	<b>887.6</b>
<b>Borrowings falling due within one year</b>				
<b>Secured:</b>				
Canadian dollars 10.25% first mortgage	–	0.3	–	–
7.56% Loan 2001	–	18.1	–	–
<b>Unsecured:</b>				
Loan Notes 2001/2	0.1	0.2	0.1	0.2
Unsecured loans	–	1.6	–	–
Bank loans and overdrafts	31.4	19.3	3.4	–
	31.5	39.5	3.5	0.2
Exchange difference on currency swaps	(1.2)	–	–	–
Instalments due on longer dated borrowings	17.2	15.1	–	–
<b>Total repayable within one year</b>	<b>47.5</b>	<b>54.6</b>	<b>3.5</b>	<b>0.2</b>

### Financial instruments

This note contains disclosures as required under FRS13 (Derivatives and Other Financial Instruments : Disclosures) and should be read in conjunction with the objectives, policies and strategies set out in the Financial Review on pages 28 to 33 inclusive.

31 December 2001	Total £m	Variable rate £m	Fixed rate £m	Weighted average fixed rate %	Weighted average fixed period Years
<b>Interest rate profile of Group debt</b>					
<b>Borrowings</b>					
Sterling	866.7	167.0	699.7	8.52	13.3
US dollars	471.6	31.9	439.7	7.33	7.8
Canadian dollars	8.6	–	8.6	6.86	9.4
Euros	194.2	83.7	110.5	5.80	8.4
<b>Total borrowings</b>	<b>1,541.1*</b>	<b>282.6</b>	<b>1,258.5</b>	<b>7.85</b>	<b>11.5</b>
<b>Cash and deposits</b>					
Sterling	(123.8)	(123.8)	–		
US dollars	(22.2)	(22.2)	–		
Canadian dollars	(16.3)	(16.3)	–		
Euros	(13.6)	(13.6)	–		
<b>Total cash and deposits</b>	<b>(175.9)</b>	<b>(175.9)</b>	<b>–</b>		
<b>Net borrowings</b>	<b>1,365.2</b>	<b>106.7</b>	<b>1,258.5</b>		

\* Derivatives included in above analysis (see next page)

## 17 Borrowings continued

### \* Derivatives included in above analysis

£33.2m swapped from Sterling into US\$46.6m until 2002 to produce funding at US\$ LIBOR.  
 £30.3m swapped into US\$50m to produce funding at 6.61% fixed to 2003.  
 £15.2m swapped into US\$25m to produce funding at 6.635% fixed to 2003.  
 £15.9m swapped into Euro26m to produce funding at 4.54% fixed to 2003.  
 £50m of Sterling swapped from 6.75% fixed into variable rate for 3 years at LIBOR minus 0.45% until 2003.  
 £150m of Sterling swapped from 7% fixed to variable rate at LIBOR plus 0.49%. Bank option to cancel on any rollover between 2002 and expiry in 2011.  
 £125m swaption at banks' option to provide fixed rate funding at 5% from 2010 to 2025. Banks pay premium of 0.50% per annum until 2010 in this respect.  
 €7.4m swapped from variable rate funding into fixed rate funding at 5.28% until 2004.  
 €29m, amortising at €1m per annum, swapped from variable rate funding into fixed rate funding at 5.68% until 2010.  
 Can\$25m at 9.27% swapped into US\$15.9m to produce funding at 9.23% fixed to 2010.  
 Variable rate borrowings attract interest at a margin over LIBOR or similar local benchmark. All cash is either on short term deposit with banks or similar institutions or is invested in corporate commercial paper. Any such bank, institution or corporate must hold at least an A1/P1 short term credit rating. At 31.12.01 £60m of total cash was invested in an AAA rated liquidity fund managed by Barclays Global Investors.

31 December 2000	Total £m	Variable rate £m	Fixed rate £m	Weighted average fixed rate %	Weighted average fixed period Years
<b>Interest rate profile of Group debt</b>					
<b>Borrowings</b>					
Sterling	736.2	51.7	684.5	8.68	14.2
US dollars	351.1	86.7	264.4	7.42	7.1
Canadian dollars	116.1	14.4	101.7	7.67	5.1
Euros	141.1	84.1	57.0	5.70	6.9
<b>Total borrowings</b>	<b>1,344.5**</b>	<b>236.9</b>	<b>1,107.6</b>	<b>8.14</b>	<b>13.2</b>
<b>Cash and deposits</b>					
Sterling	(21.4)	(21.4)	—	—	—
US dollars	(6.2)	(6.2)	—	—	—
Euros	(9.3)	(9.3)	—	—	—
<b>Total cash and deposits</b>	<b>(36.9)</b>	<b>(36.9)</b>	<b>—</b>		
<b>Net borrowings</b>	<b>1,307.6</b>	<b>200.0</b>	<b>1,107.6</b>		

### \*\* Derivatives included in above analysis

£35.8m swapped into Can\$85m to produce funding at 6.175% fixed to 2003.  
 £30.3m swapped into US\$50m to produce funding at 6.61% fixed to 2003.  
 £15.2m swapped into US\$25m to produce funding at 6.635% fixed to 2003.  
 £15.9m swapped into Euro26m to produce funding at 4.54% fixed to 2003.  
 £50m of Sterling swapped from 6.75% fixed into variable rate for 3 years at LIBOR minus 0.45% until 2003.  
 €7.4m swapped from variable into fixed rate funding at 5.28% until 2004.  
 €30m, amortising at €1m per annum, swapped from variable rate funding into fixed rate funding at 5.68% until 2010.  
 US\$20m swapped into Can\$27.7m to produce funding at 7% fixed to 2004.  
 US\$20m swapped into Can\$27.4m to produce funding at 6.28% fixed to 2007.  
 Variable rate borrowings attract interest at a margin over LIBOR or similar local benchmark. All cash is either on short term deposit with banks or similar institutions or is invested in corporate commercial paper. Any such bank, institution or corporate must hold at least an A1/P1 short term credit rating.



## 17 Borrowings continued

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>Maturity profile of Group debt</b>				
In one year or less	47.5	54.6	3.5	0.2
In more than one year but less than two	60.1	46.2	6.0	3.4
In more than two years but less than five	53.8	186.5	–	72.3
In more than five years but less than ten	460.4	356.4	205.9	205.8
In more than ten years	919.3	700.8	755.2	606.1
<b>Total Group debt</b>	<b>1,541.1</b>	<b>1,344.5</b>	<b>970.6</b>	<b>887.8</b>
<b>Split between secured and unsecured borrowings</b>				
Secured (on land and buildings)	176.4	183.0	40.0	40.0
Unsecured	1,364.7	1,161.5	930.6	847.8
	<b>1,541.1</b>	<b>1,344.5</b>	<b>970.6</b>	<b>887.8</b>
<b>Maturity profile of undrawn borrowing facilities</b>				
In one year or less	67.2	35.1	16.5	23.4
In more than one year but less than two	133.7	18.0	127.2	10.4
In more than two years	362.5	415.0	320.0	370.9
<b>Total available undrawn facilities</b>	<b>563.4</b>	<b>468.1</b>	<b>463.7</b>	<b>404.7</b>
	Group		Group	
	Book value 2001 £m	Fair value 2001 £m	Book value 2000 £m	Fair value 2000 £m
<b>Fair value of borrowings</b>				
Short term fixed and variable rate borrowings (before swaps etc)	106.2	106.2	210.4	210.4
Long term fixed rate borrowings	1,430.1	1,555.9	1,128.9	1,245.3
Interest rate swaps	–	(0.8)	–	(1.4)
Swaptions	–	2.2	–	–
Currency swaps	4.8	5.9	5.2	3.5
	<b>1,541.1</b>	<b>1,669.4</b>	<b>1,344.5</b>	<b>1,457.8</b>
Tax relief due on early redemption/termination		(38.5)		(34.0)
<b>Net fair value</b>	<b>1,541.1</b>	<b>1,630.9</b>	<b>1,344.5</b>	<b>1,423.8</b>
After tax mark to market adjustment		89.8		79.3
<b>Fair value of other financial assets and liabilities</b>				
Cash and deposits	175.9	175.9	36.9	36.9
Trading investments	78.0	91.1	68.2	88.3
	<b>253.9</b>	<b>267.0</b>	<b>105.1</b>	<b>125.2</b>

With the exception of cash and deposits none of the above financial assets are interest bearing. There are no material debtors or creditors due after more than one year.

The market value of the preference shares at 31 December 2001 was £192.4 million (2000 £226.9 million) and £219.7 million at 19 March 2002. The Group considers the fair value to be equal to the book value of £140.2 million (2000 £140.3 million).

Fair values have been collated by either:

- Obtaining the market price of tradeable instruments
- Obtaining indicative quotations from banks
- Arriving at a net present value by using discounted cashflows

There are no material unrecognised gains or losses on instruments used for hedging.

## 18 Creditors - other

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>Creditors falling due within one year</b>				
Rents in advance	36.0	35.3	—	—
Trade creditors	99.1	112.4	25.8	27.0
Taxation	30.5	15.7	10.2	7.4
Proposed ordinary dividend	33.1	30.6	33.1	30.6
Preference dividend accrued	3.9	3.9	3.9	3.9
	<u>202.6</u>	<u>197.9</u>	<u>73.0</u>	<u>68.9</u>
<b>Creditors falling due after more than one year</b>				
Loans from subsidiaries	—	—	42.3	74.9
Other creditors	3.9	3.4	—	—
	<u>3.9</u>	<u>3.4</u>	<u>42.3</u>	<u>74.9</u>

## 19 Notes to Group cash flow statement

	2001 £m	2000 £m
<b>(1) Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	141.1	192.3
Less other income reallocated	(2.7)	(5.1)
Add back depreciation	3.2	5.6
Add back exceptional Utilities write down	60.2	—
Adjust for other non-cash items	0.1	(0.5)
Net rental income from trading properties	2.0	1.1
	<u>203.9</u>	<u>193.4</u>
Other movements arising from operations:		
Increase in stocks	(29.5)	(8.7)
Decrease/(increase) in debtors	0.4	(3.2)
Decrease in creditors	(0.5)	(1.9)
<b>Net cash inflow from operating activities</b>	<u>174.3</u>	<u>179.6</u>
<b>(2) Acquisition of subsidiary undertakings</b>		
Cash paid	—	0.1

### (3) Liquid resources

Liquid resources are term deposits of less than one year.

	Ordinary share capital £m	Share premium £m	Total £m
<b>(4) Issue of shares</b>			
Balance at 1 January 2001	103.5	327.3	430.8
Ordinary shares issued for cash	0.1	1.4	1.5
<b>Balance at 31 December 2001</b>	<u>103.6</u>	<u>328.7</u>	<u>432.3</u>

## 19 Notes to Group cash flow statement continued

	£m	2001 £m	£m	2000 £m
<b>(5) Reconciliation of net cash flow to movement in net debt</b>				
Increase/(decrease) in cash in the year		78.1		(9.2)
Increase in debt	(199.3)		(174.3)	
Increase/(decrease) in liquid resources	63.3		(14.0)	
		(136.0)		(188.3)
Change in net debt resulting from cash flows		(57.9)		(197.5)
Reduction of debt due to disposal of subsidiary		–		4.0
Translation difference		0.3		(24.2)
Movement in net debt in the year		(57.6)		(217.7)
Net debt at 1 January 2001		(1,307.6)		(1,089.9)
Net debt at 31 December 2001		(1,365.2)		(1,307.6)
	At 1 Jan 2001 £m	Cash flow £m	Exchange movement £m	At 31 Dec 2001 £m
<b>(6) Analysis of net debt</b>				
Cash in hand and at bank*	14.4	75.8	(0.1)	90.1
Overdrafts	(2.4)	2.3	–	(0.1)
		78.1		
Loan capital	(1,342.1)	(199.3)	0.4	(1,541.0)
Term deposits*	22.5	63.3	–	85.8
	(1,307.6)	(57.9)	0.3	(1,365.2)

\* Cash and deposits per balance sheet

## 20 Pensions

The Group has continued to account for pensions under SSAP 24 and the disclosures given in (a) below are those required by that standard. FRS17 Retirement Benefits was Issued in November 2000 and requires certain transitional disclosures to be made in addition to the requirements of SSAP24. These disclosures, to the extent that they are not given in (a), are set out in (b) below:

a) The Group operates a number of pension schemes throughout the world. Total pension costs for the Group were £2.8 million (2000 £2.6 million) of which £0.2 million (2000 £0.3 million) related to overseas schemes. Pension costs relating to overseas schemes have been determined in accordance with local practice.

The company has two defined benefits schemes in the UK, the Slough Estates (1957) Pension Scheme (the 'Slough scheme') and the Bilton Group Pension Scheme (the 'Bilton scheme'). Their assets are held by trustees separately from the assets of the employer. Contributions to the schemes, which are assessed in accordance with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method of calculation, are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

The latest actuarial valuation of the Slough scheme as at 31 March 2001 valued the scheme's assets at market value. The assumptions used to calculate the liabilities of the scheme included investment returns 2.0 per cent per annum higher than the rate of annual salary increase and 2.25 per cent higher than the rate of increase in pensions. In order to calculate the contribution rate required, longer term assumptions of investment returns 2.25 per cent per annum higher than the rate of annual salary increase were used. At the date of the latest valuation, the market value of the assets of the scheme was £42.4 million and the actuarial value of those assets represented 94 per cent of the benefits that had accrued to members, after allowing for assumed future increases in earnings. The company contribution rate will increase by 6.08 per cent per annum until 31 March 2004 when the deficit is calculated to be eliminated.



## 20 Pensions continued

The latest actuarial valuation of the Bilton scheme as at 5 April 2001 valued the scheme's assets at market value. The main assumptions used were investment returns 2.4 per cent per annum higher than the increase to pensions in payment and 2.4 per cent more than increases to pensions in deferment. At the valuation date the market value of the assets of the scheme was £23.8 million and the actuarial value of those assets represented 117 per cent of the benefits that had accrued to members, after allowing for expected future increase in earnings. The actuary has recommended that no contributions are required from Bilton p.l.c.

The Group also has a number of defined contribution schemes in the UK and overseas. The total cost for these schemes for the period, and fully expensed in the profit and loss account, amounted to £0.4 million (2000 £0.3 million).

Supplementary ex-gratia pensions of £0.2 million (2000 £0.2 million) were paid out of profits.

### b) FRS 17 Retirement Benefits disclosures

The valuation of the Slough and Bilton schemes used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2001 for Slough and 5 April 2001 for Bilton and updated by William M Mercer for Slough and Bacon & Woodrow for Bilton to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2001. The assets of both schemes are stated at their market value at 31 December 2001.

The financial assumptions used to calculate the schemes' liabilities under FRS 17 are as follows:

	Slough scheme %	Bilton scheme %
Valuation method	Projected unit	Projected unit
Discount rate	5.8	5.8
Inflation rate	2.5	2.6
Increase to deferred benefits during deferment	2.5	2.6
Increase to pensions in payment	4.0	2.5
Salary increases	4.5	N/A

The assets in the Slough and Bilton schemes and the expected rates of return were:

	Long-term rate of return expected at 31 December 2001 %	Valuation at 31 December 2001 £m
Equities	8.67	44.5
Bonds	5.19	12.9
Other	6.13	6.0
Total market value of investments		63.4
Present value of scheme liabilities		(70.9)
Deficit in the schemes		(7.5)
Related deferred tax asset		2.3
Net pension liability		(5.2)

If the above amounts had been recognised in the financial statements, the Group's net assets at 31 December 2001 would have been reduced by £5.2 million.

## 21 Contingent liabilities

The company has guaranteed loans and bank overdrafts of subsidiary companies aggregating £378.7 million (2000 £253.7 million). All loans and overdrafts so guaranteed are included in the consolidated balance sheet. Additionally, loans of a joint venture company amounting to nil (2000 £4.0 million) which are not included in the consolidated balance sheet have been guaranteed or indemnified by the company. The company has given performance guarantees to third parties amounting to £5.3 million (2000 £7.9 million) in respect of development contracts of subsidiary companies.









■ Exceptional progress has been made in California, the whole Torrey Pines Science Center, San Diego, is now built or prelet for phased occupation.

