2002 Annual Report

SLOUGH ESTATES

Committed to protecting and enhancing global and local environment

COVER AND THIS PICTURE, CAMBRIDGE RESEARCH PARK

SLOUGH ESTATES

> We will aim to maximise occupancy, cashflows and earnings from good property management and to improve the long-term security of income

Sir Nigel Mobbs, Chairman

CONTENTS

DIRECTORS' REPORT AND ACCOUNTS

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 industrial and commercial properties comprising 2.9 million square metres with a value of £4 billion. These properties are occupied by over 1,798 businesses

Financial summary

	2002	2001	% change
Core property income*	**£140.3m**	£135.1m	+3.8
Profit before tax and exceptional items	**£143.5m**	£137.3m	+4.5
Profit before tax after exceptional items	**£143.4m**	£67.3m	+113.1
Adjusted basic earnings per share†	**28.8p**	27.6p	+4.3
Basic earnings per share	**20.9p**	10.4p	+101.0
Recommended final dividend	**8.55p**	8.0p	+6.9
Total dividend for year	**14.0p**	13.1p	+6.9
Diluted net assets per share before FRS19 deferred tax	**519p**	512p	+1.4

* Core property income comprises investment and joint venture property income less administration and net interest costs.

† Adjusted to exclude exceptional items and FRS 19 deferred tax.

Chairman's statement

TEMPLER AVENUE, FARNBOROUGH BUSINESS PARK

2002 WAS ONE OF THE MOST CHALLENGING years for business that I can remember. Nevertheless Slough Estates produced an improved profit before tax and exceptional items of £143.5 million and the Group's diluted net assets per share before FRS19 deferred tax were increased by 1.4 per cent to 519p per share.

Business conditions in all the markets in which we operated were difficult as fears of international turmoil grew, economic growth deteriorated and many business sectors suffered from over-expansion. Confidence was weak and consequently occupational demand suffered, particularly in the office markets.

The Group's resilient strength lies in its well-distributed and balanced portfolio which has generated a core property income growth of 3.8 per cent. Our strong management, our focus on superior locations and the benefits of a well-researched development programme have to a large extent protected us from an over-concentration on the more exposed property sectors.

Conversely, as interest rates remained low and stock markets further declined, the positive characteristics of property as an investment class became more evident with a 2002 total return of 9.7 per cent which compares with a negative total return of 22.3 per cent for equities.

Results

Profit before tax and exceptional items for 2002 amounted to £143.5 million, an increase of 4.5 per cent over the £137.3 million of the prior year. Pre-tax profit after exceptional items of £143.4 million was £76.1 million higher than 2001's £67.3 million. The 2001 results were adversely affected by the exceptional write-down of £60.2 million in the book value of the utilities plant at Slough and by the exceptional loss of £9.8 million on disposal of investment properties, compared to a loss in 2002 of £0.1 million in respect of the latter.

The Group has adopted FRS19 (Deferred Tax) for the first time this year. This new accounting standard has had a significant effect on both earnings and assets per share. The full details of the impact and prior year restatements are given in note 1 to the accounts and are explained more fully in the Financial Review on page 28. We are in agreement with other UK property companies and sector analysts that most of the FRS19 provision for deferred tax is unlikely to crystallize. We have consequently decided to report key financial figures adjusted to exclude the effects of FRS19.

Adjusted basic earnings per share was 28.8p, 4.3 per cent better than the 27.6p of 2001. After providing for deferred tax, earnings per share were 20.8p, a 28.3 per cent reduction. The underlying effective current tax rate (before exceptional items) was 8.2 per cent in 2002, down from 9.2 per cent in 2001. The overall effective tax rate including deferred tax but excluding exceptional items remains largely unchanged from a restated 33.4 per cent in 2001 to 31.3 per cent in 2002.

Diluted net assets per share of 519p were 1.4 per cent higher than the prior year's 512p before application of FRS19 deferred tax, or 0.2 per cent up to 480p after provision for deferred tax and the consequent restatement of the 2001 year-end accounts.

Dividend

Your Board recommends the payment of a final dividend of 8.55p per share which, together with the interim dividend of 5.45p per share, represents an aggregate distribution of 14.0p per share, an increase of 6.9 per cent for the year.

Summary of the Year

The Chief Executive's Review is on pages 12 to 19.

The main features of the year were that:

- Occupancy has declined from 91.6 per cent to 89.6 per cent but, when new pre-leased construction is included, occupancy is stable.
- The current reduced construction programme of 112,500 sq.m. is 80.6 per cent pre-leased together with recent completions and is expected to generate £48.8 million of additional rent.

The Group's strength lies in its well-distributed and balanced portfolio which has generated a core income growth of 3.8 per cent

- In Belgium occupancy has improved to 93 per cent from 84 per cent and in France the refurbished office building in Place d'Iena was let and sold.
- In the United States gross rental income increased by 27.2 per cent to £44.9 million as a result of new construction and acquisitions.
- In total some 175,000 sq.m. of new and existing space was leased in the UK and overseas.

Valuation

The value of investment properties, taking into account the year-end valuation, construction in progress at cost and prevailing exchange rates at 31 December 2002, amounted to £3,633 million (2001 £3,514 million).

The Group's investment property portfolio was valued externally by the valuers, listed on page 66, on the basis of open market value in accordance with the requirements of appropriate professional bodies in each country. In aggregate the revaluation gave rise to a deficit for the year of £20.3 million or 0.6 per cent.

In the United Kingdom, the valuation deficit of £33.1 million (1.2 per cent) reflects lower rental growth prospects offset by strong investor demand. Weaker customer demand in the M3 and M4 corridors resulted in office values declining by 8.6 per cent. Industrial values were more stable, reflecting slight continuing rental growth, and increased by 1.3 per cent.

Retail property, however, showed a positive improvement of 6.7 per cent. Land held for development, which represented 7.0 per cent of the UK portfolio value, declined by 13.4 per cent reflecting the adverse market conditions.

The UK occupied portfolio is reversionary by £11.5 million or 7.1 per cent.

In North America, the US portfolio showed an increase in value of £7.4 million or 1.2 per cent. The US values benefited from the continuing development programme and the quality of the locations. In Canada, values declined by £2.2 million or 7.8 per cent, reflecting the continuing weakness of the Vancouver market.

In Europe investment properties have gained 4.0 per cent in Belgium and 1.2 per cent in France, the aggregate increase being £7.6 million. The German interests are developed for sale and are therefore carried at the lower of cost or net realizable value.

The underlying assets held in property joint ventures were also valued externally and resulted in a surplus of £14.6 million or 6.6 per cent.

Diluted net assets per share (excluding FRS19 Deferred Tax) were 519p compared to 522p at 30 June and 512p at the end of 2001.

The Group's Strategy

With the appointment of Ian Coull as Chief Executive from 1 January, the opportunity is being taken to review fully the Group's strategy.

The current strategic principles have, however, continued to be as robust and resilient in challenging conditions as they have been in more favourable times. These principles are as follows:

- We should create, own and develop a selection of business parks, industrial and logistics estates and retail centres in international prime business centres that will be adaptable and resilient to changing conditions - locations with an appeal to customers and investors.
- The business space we develop should be flexible and economic and must respond to changing occupational needs. An active programme of new construction and regeneration will be maintained, subject to customer demand.
- We will manage our property portfolio to enhance customer satisfaction and wherever possible work with our customers to help them to prosper.
- We will aim to maximize occupancy, cashflows and earnings from good property management and to improve the long-term security of income.
- We will dispose of any properties that appear not to be able to add material value to the portfolio.
- In fulfilling these principles, we will exercise corporate responsibility in maintaining environmental sustainability and stewardship, good employment conditions and community accountability.

Our management teams in the UK and overseas are experienced and professional and they have total familiarity with the markets in which they operate.

The Group actively assesses and manages financial and business risks. Risk is spread effectively through the property portfolio's diversity of superior locations, business sectors and products which appeal to a variety of customers. Specifically in 2002 the Group took a decision to reduce speculative development in response to the more difficult market conditions. Whereas a year ago some 60 per cent of new construction was speculative, today the figure is less than 20 per cent. Further, these pre-let developments are concentrated in locations and business sectors that are showing a continuing resilience, a consequence of Slough Estates' strategy to focus on strong businesses in prime business centres.

We consider that by continuing our consistent and coherent policies of focusing on these development

PEGASUS PARK, BRUSSELS

criteria and by adopting good management and financial disciplines, we will continue to deliver good shareholder value and a sustained improvement in dividends.

Market Conditions

Market conditions during the past year have been difficult. Prior to the beginning of the year, world economies were slowing down and stock markets have been falling for the past three years. The terrorist attacks of 11 September 2001, the subsequent counter-terrorism measures, and the renewed concerns over Iraq have all damaged confidence. In the USA there have been examples of gross mis-governance by some businesses. In Europe some businesses and the German economy, the largest in Europe, are showing considerable signs of weakness. Here in the UK, whilst the domestic economy appears to be more resilient, businesses have been impacted by weaker world markets, particularly for manufactured products and financial services.

The consequences of these conditions have been a general contraction in occupier demand for property. This has in turn dampened rental growth, increased market vacancy and reduced development opportunity across the portfolio.

In general, with very little new development being undertaken, there is no great imbalance in supply and demand. Therefore when demand does return recovery in the best locations should be very positive.

Conversely, despite the fall in occupational demand, the property investment market has been more resilient as investors recognize the more stable characteristics of direct property investment based as it is on long-term contracted income-flows, low interest rates and irreplaceable real estate. Consequently values have been sustained broadly at 2001 year-end values except where there is an immediate over-supply situation.

The Way Forward

Looking to the future, we remain confident that our policies of recent years have focused our investment in the best locations. Corporate investment will recover and the demand for quality business space will strengthen in those premier locations where the Group is already located. This demand will re-emerge most strongly from knowledge-based businesses in the computer, communications and pharmaceutical sectors. Throughout the developed world, modern government and business is increasingly dependent upon knowledge and technology to improve performance, productivity and competitiveness. To achieve this there has to be renewed emphasis on new investment which has been lagging and this will in turn restore demand for business space.

The Group's strategy is clearly focused on creating, owning and developing business space which is designed to be flexible and adaptable to accommodate a wide range of needs. Modern businesses need good, well-located buildings to improve productivity, competitiveness and efficiency. We are committed to provide such buildings which are also good to work in, economic in use, energy-efficient and environmentally sustainable.

There is no doubt that throughout the developed world government policies are becoming more influential and intrusive in business decisions and government is looking increasingly to business to pay more taxes, levies and other charges - stealth taxes. Unfortunately these imposts are introduced without any real appreciation of their long-term impacts, particularly on investment.

In spite of all the Government's protestations, it is increasing taxation both overtly and by stealth and also the burden of bureaucracy. The result of this trend can only be to damage the UK's competitive advantage and its reputation for market transparency and labour flexibility.

All governments need to realize that the prospects for recovery are fragile and new investment will not be helped by indecision, inconsistent policies, more intrusive regulation and increased levies. Business needs to be encouraged not hindered by public policy.

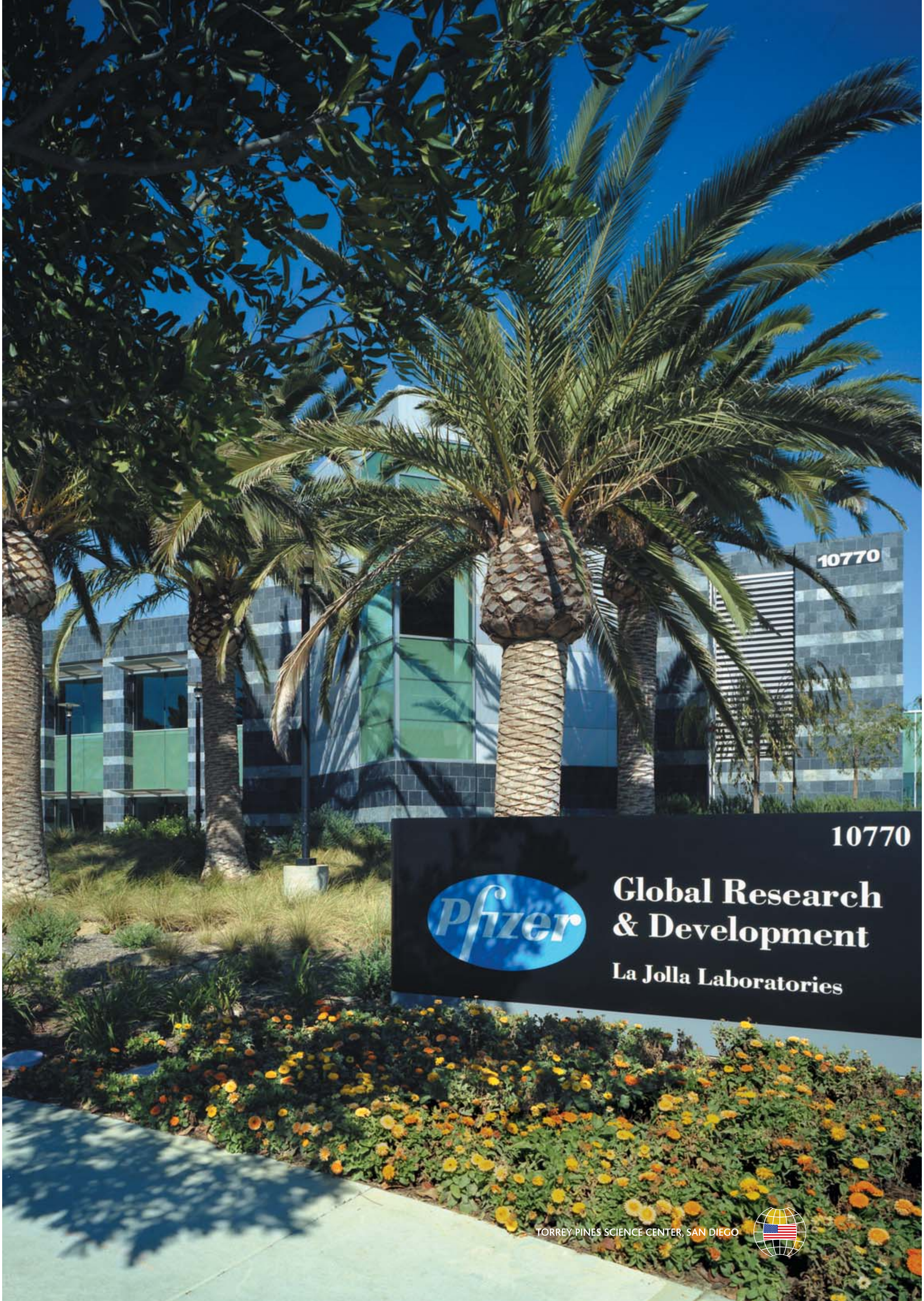
The Year Ahead

Never in my forty years' business experience has it been so difficult to predict how the year ahead will develop. Geopolitical influences and economic forecasts all appear to suggest a very challenging and uncertain 2003.

The resilience of the Group is reflected in a strong core income stream, a strong balance sheet and a well-leased development programme. I remain confident that these strengths will ensure that the Group's prospects are sustainable.

Corporate Governance

The Group has always believed in adopting good corporate governance and our policy guidelines have been included in previous reports. The Higgs Review has now been published and, whilst we are pleased to note that Derek Higgs has reaffirmed the basic principles of good practice which we already observe, we are concerned



TORREY PINES SCIENCE CENTER, SAN DIEGO


200 BATH ROAD, SLOUGH

that many of his consequent recommendations do, we believe, subordinate the judgement of the board, create a box-ticking environment and impose unrealistic burdens upon non-executive directors.

Higgs suggests that his recommendations depend upon the principle 'comply or explain'. It must therefore be understood and accepted that variations from the norm may well be a matter for praise and not always a point of criticism.

Good corporate governance does depend upon there being a constructive dialogue as between the company and shareholders. It must, however, be a two-way process. Major investors need to play their part by contributing to a meaningful discussion about their expectations and the company's positioning.

Corporate Social Responsibility

Businesses are rightly being asked to report on their corporate social responsibility (CSR) performance. This year we have included a report on the subject in addition to the section on environmental policy and performance.

As a company which has a long history of observing good corporate social responsibility policies, we are pleased to provide this information. We believe that our record is excellent and relevant to our business and to the communities within which we primarily operate. We are, however, concerned that the best objectives of such policies are at risk of being hijacked by the complexity and length of questionnaires being circulated by self-appointed rating agencies whose own accountability is not transparent and whose judgements can be at best only subjective. There is a very real threat of questionnaire fatigue.

During the past year, the Group's CSR committee under my chairmanship has met regularly and our employment policies, including health and safety, have been reviewed and updated where appropriate. We also continually review how our other policies can be further improved.

We continue to maintain our policy of providing charitable support to the extent of 1 per cent of dividends paid to a wide range of educational, environmental and welfare organizations within the community. This support, which in 2002 amounted to £380,000, takes the form of financial donations and management support. Many employees also become involved in a wide range of local and national voluntary service which we encourage and support.

The Board

I welcome the appointment of Mr. Ian Coull as a director and Chief Executive with effect from 1 January 2003. Ian Coull, who is a chartered surveyor, was for the past fourteen years a director of J. Sainsbury plc with responsibility for their extensive property and environmental activities. He has a wide knowledge of property development and its ownership and his experience will be of very great value to the Group.

Ian Coull succeeds Derek Wilson who retired from the Board towards the end of 2002 after sixteen years with the Group, first as Finance Director but as Chief Executive for the past six years. Derek made a notable contribution to the refocusing of our North American business and to the implementation of our prime business centre strategy. In October David Simons retired from the Board after nearly thirty years with the Group, being responsible for our growing European activities. I wish to thank them both for their very considerable contribution to the growth of the business and wish them well in retirement.

As previously advised, Sir Gordon Jewkes retired as a non-executive director at the conclusion of the last Annual General Meeting. Again I would like to express my appreciation to him for his wise counsel and support.

At the Annual General Meeting, the following directors will retire by rotation and offer themselves for re-election - Paul Orchard-Lisle, John Heawood and Marshall Lees. In addition, Mr. Ian Coull will be nominated for election.

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

Management and Staff

2002 has been a very challenging year for everybody and has called upon the professional skills, experience and resilience of all our people in the UK and overseas. All of them deserve to be congratulated and thanked for their very significant contribution throughout the past year.

Nigel Mobbs

Chairman

Chief Executive's **Review**

Throughout the countries in which the Group operates, business confidence in 2002 was weak as a result of economic under-performance, fears of terrorism and concerns as to corporate sustainability. The consequences were a very much weaker occupancy market, particularly for offices, but there was some recovery in demand for retail space in the UK.

As a result of these conditions, we have during the past year substantially reduced our speculative construction programmes and have concentrated more on pre-leased development which currently represents some 81 per cent of the space under construction. The current construction programme as shown on pages 24 and 25 amounts to £116.3 million.

The Group has also focused its attention on security of income through both the management of lease terms and its diverse tenancy base. Currently some 61 per cent of the Group rent roll is secured on leases with at least 10 years unexpired or 47 per cent if all tenants with break clauses within less than 10 years vacate their space. Long experience suggests that in practice some 60 per cent of lease reversions result in renewal.

The Group is not dependent upon any one customer or any one sector. With more than 1,500 tenants in the UK and almost 1,800 in total worldwide, no one tenant accounts for more than 3 per cent of Group income.

We continue to concentrate on maintaining a high level of customer satisfaction and retention and in

NEW CHIEF EXECUTIVE

Ian Coull was appointed Chief Executive of Slough Estates on 1 January 2003. A Fellow of The Royal Institution of Chartered Surveyors, Ian has spent the past fourteen years with J. Sainsbury, where he was responsible for the group's Real Estate, Construction and Environmental Affairs. He had previously held senior management and board positions at Ladbrokes, Texas Homecare and Cavenham Foods.

I am delighted to have been invited to join Slough Estates and to find the business in such robust good health.

We have an excellent portfolio and an exciting development programme which can be accelerated or slowed down according to market conditions.
And we have a lot of great people.

But I am under no illusion about the challenges that the Group faces in the uncertain economic times currently prevailing. The first indications of those difficulties started emerging last year.


TRY-angle
P251 0LE

maintaining good standards of environmental stewardship.

Despite weaker occupancy demand, the market for good, well-leased investments remained strong and the opportunity has been taken to sell some £34 million of properties in the UK, Europe, Canada and USA.

UK Property

The Group's strategic focus remains the development and management of industrial and business space, particularly along the M3, M4 and M40 corridors from London. A significant retail content is maintained to provide a cyclical counter-balance.

During 2002, 36,500 sq.m. of space was leased but this was offset by a similar level of new vacancy resulting in a small decline in occupancy from 92.7 per cent to 90.4 per cent. New construction completed amounted to 70,700 sq.m.

Gross rentals passing, excluding share of joint ventures, amounted to £162 million (2001 £156 million).

The ongoing regeneration of the Slough Trading Estate continued, which is the Group's largest asset, led by the development of the remaining Bath Road office sites comprising a completed office building of 6,400 sq.m. and a three-building campus of 7,800 sq.m. Two of these units have been pre-leased to L.G. Electronics and to Cubist Pharmaceuticals. The trade-park of 3,100 sq.m. on Farnham Road has been completed and is 31 per cent leased. A recent independent survey has suggested that Slough is one of the best locations for successful business start-ups. This is a market we have served for over 80 years.

At Farnborough, which we expect to be one of the UK's leading business parks, the first office building of 3,600 sq.m. was leased earlier in the year to Autodesk. The larger 8,000 sq.m. building is attracting interest. Negotiations continue with Rushmoor Council to agree on the retention of the famous wind tunnels and some of the other historic buildings. This agreement will enable us to design a viable development plan for the heritage core of the project which will ultimately produce 155,000 sq.m. of space.

At the Cambridge Research Park, which currently comprises 19,197 sq.m. of space, letting progress has been satisfactory with lettings being made to Daniolabs, Synaptics and Drake Electronics. A further phase of development is being worked up in response to encouraging pre-let enquiries.

Elsewhere 8,260 sq.m. of industrial space was built at Radlett, 6,877 sq.m. pre-let to Saint Gobain has been completed at Birmingham and a further 2,150 sq.m. is under construction at Emersons Green near Bristol for UPS.

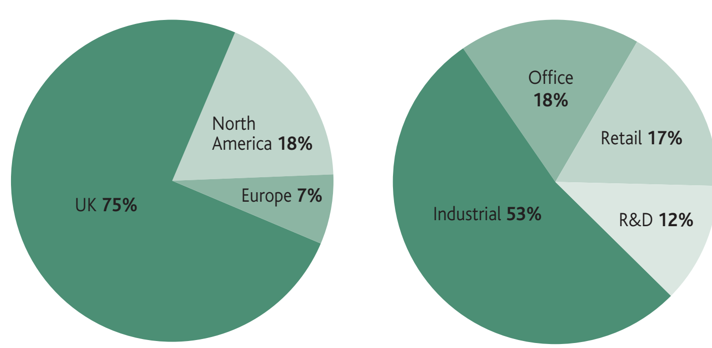
After the turn of the year, the opportunity of recovering retail values enabled the sale of the Pentagon Shopping Centre at Chatham for £54 million.

Overseas

Overseas business conditions have been just as challenging as those in the UK. The Group's overseas investment properties comprise some 25.5 per cent of total values.

Overseas income performance has continued to grow with profits of £42.7 million contributing 29.8 per cent of Group pre-tax profit, excluding exceptional items, compared to £40.8 million and 29.7 per cent respectively in 2001.

The Group's strategy is to locate its development and investment in centres of high economic growth and significant market mass.



Investment property portfolio by value worldwide

PLACE D'IENA, PARIS

USA

The considerable progress achieved in 2001 continued through 2002. Substantial new construction was achieved in both South San Francisco and San Diego.

At South San Francisco the build-out of the Britannia Oyster Point Park is well advanced with 44,685 sq.m. leased to Rigel, Raven and Tularik due for completion shortly. A further pre-let building of 6,287 sq.m. is being built for Sugen at Britannia Pointe Grand. The Britannia East Grand park is now fully master-planned and appropriate permits have been granted to enable development to commence in 2003. When completed, this project will accommodate approximately 75,000 sq.m. of health science research facilities.

The South San Francisco portfolio currently amounts to 44.56 hectares with a built area of 83,090 sq.m. of generic health science research laboratories and 18,210 sq.m. of warehouse space for future redevelopment. There remains a potential for a further 131,918 sq.m. to be built over the next few years.

In San Diego Pfizer have established their fourth Global Research Center on the Group's Torrey Pines Science Center. To date they occupy some 43,687 sq.m. of space and a further 35,580 sq.m. is under construction for phased delivery by 2004.

During 2002 rental income in the USA increased by 27.2 per cent to £44.9 million. By the time the current development programmes are completed in 2006, an additional £26 million of rental income will have been generated.

Canada

Following the sale of the Toronto portfolio in 2001, the Canadian portfolio is primarily focused on Vancouver with a residual holding in Montreal. During the year the Mayfair Industrial Park of 11,269 sq.m. at Coquitlam near Vancouver was sold for a figure approximately in line with the current book value of C$13.8 million. Negotiations are in hand to sell the Kirkland property at Montreal.

Belgium

Considerable progress was made in that some 46,632 sq.m. of space was leased during the year. Occupancy rose as a consequence from 84.1 per cent to 92.8 per cent.

The 16,500 sq.m. logistics building at Bornem has been leased to Tibbett and Britten. A further 37,000 sq.m. of distribution warehousing can be built on this site.

At Pegasus Park, Brussels, a 6,900 sq.m. office building pre-leased to Johnson Controls was completed and occupied. In addition, a 16,000 sq.m. speculative office building was built and is now 70 per cent leased to tenants including DHL, McDonalds, Agilent and Elementis.

At Pegasus Park II, Deloitte & Touche have committed to a third building of 3,925 sq.m.

France

The market for large distribution sheds in the greater Paris area seems to have reached temporary saturation as logistics contractors have reduced demand. The Group has a portfolio of 256,000 sq.m. with a current occupancy of some 94.4 per cent. During the year 23,900 sq.m. of warehousing was sold at St. Fargeau to an investor.

The refurbishment of the Place d'Iena office building of 2,250 sq.m. was completed and leased to Eversheds. The building was subsequently sold to an Italian investment fund at a significant profit.

At the year-end, a building of 3,320 sq.m. in Avenue Kléber, close to the Arc de Triomphe, was acquired and will be refurbished to provide high quality office accommodation by the end of 2003 for leasing on the open market.

We have signed an option to purchase a 7 hectare development site at Le Blanc Mesnil, close to Le Bourget airport. Part of the site will be leased back to the vendor whilst the remainder will be developed to provide a multi-let light industrial estate.

Germany

In Germany the Group's activities are focused on building multi-let light industrial estates and logistics buildings which are subsequently sold into the investment market as schemes become fully-leased. During the year 26,400 sq.m. was constructed in the Dusseldorf and Hamburg areas. Leasing activity has been good with 15,200 sq.m. being leased to some 23 tenants.

In 2003 it is planned to migrate this successful activity to the Frankfurt area where two new sites aggregating 4.5 hectares are being acquired. The first estate at Höchst, just to the west of Central Frankfurt, will be ready for occupation by the end of the year.

NON-PROPERTY ACTIVITIES

Slough Heat and Power

The Group's utilities operation has reduced its losses, though the delays in commissioning the new NFFO4 contract fibre fuel and generation plant have continued. The general contractor, Amec, is being pressed to perform against its contractual commitments. This new plant is expected to contribute over £4.0 million of annual net revenue to the undertaking when fully operational.

From April 2002 Slough Heat and Power was accredited to produce Renewables Obligation Certificates based on its ability to produce electricity from wood and biomass fuels. Ours is one of the first power stations to achieve this recognition of sustainability. Income generated from this source in the nine months from April 2002 amounted to £2.25 million and is expected to provide a growing and significant new revenue stream in years to come.

We continue to press for changes to the New Electricity Trading Arrangement (NETA) which since its inception in the spring of 2001 has seriously prejudiced our ability as a small generator to sell our surplus electricity into the general market. Government is now very well aware of the shortcomings of NETA which has jeopardized the viability of both large and small producers as well as the long-term UK security of supply.

An Energy White Paper was released in February and in it the Government sets out goals of reducing carbon emissions while retaining reliable supplies. We hope that the Government will show its claimed support for more environmentally friendly electricity generators, such as our combined heat and power plant on the Slough Trading Estate, by taking positive action to ensure that a more equitable market develops for such plant to operate in.

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 £35.6 million compared with the fund managers' valuations of £40.1 million. Uncalled commitments to both funds amount to £26.7 million.

Equity Interest In Californian Tenants

The Group's property developments in California are home to several emerging businesses, 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 3,026,000 shares in 19 different companies which include 1,552,000 warrants for shares of companies yet to seek a listing and 1,474,000 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 oil and gas company headquartered in Denver Colorado and quoted on the American Stock Exchange. It is focused primarily on exploration for and production of coalbed methane in Australia and the USA. The Group owns Tipperary Oil and Gas (Australia) Pty Ltd (TOGA) which holds a 65 per cent interest in south-eastern Queensland's 1.1 million acre Comet Ridge coalbed methane project. In a recent letter to shareholders it reported that its 'proved' gas reserves were valued at US$100 million, together with significantly larger probable gas reserves.

TOGA has recently entered into a long-term contract with a co-investor in Comet Ridge to supply up to 30 million cubic feet of gas per day to AGL, one of Australia's leading utilities companies, from 2007. This sale will enable TOGA to further develop the project and to generate further sales.

The Group has held an equity interest in Tipperary since 1986 and now owns 61 per cent with a book value of £19.7 million. The Group expects to continue to hold Tipperary stock until the full value of Comet Ridge and other US gas interests are realizable.

Ian Coull
Chief Executive


240 BATH ROAD, SLOUGH

UK Property Portfolio

as at 31 December 2002

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*
United Kingdom									
Slough	196	1	589,916	75,283	33,738	698,937	12,757	399	70,539
London	68	3	267,068	12,313	4,370	283,751	–	203	24,119
South East N. OF THAMES	64	10	166,321	8,439	–	174,760	–	111	9,697
South East S. OF THAMES	103	25	153,492	42,175	–	195,667	–	71	20,622
South	67	11	206,711	–	–	206,711	2,902	146	9,107
Midlands and North	99	12	156,597	28,211	16,786	201,594	3,116	167	13,049
Retail	36	–	–	6,207	190,640	196,847	–	426	35,689
Total	**633**	**62**	**1,540,105**	**172,628**	**245,534**	**1,958,267**	**18,775**	**1,523**	**182,822**
Percentage by use			79%	9%	12%	100%			

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*
Slough Trading Estate	**196**	**1**	**589,916**	**75,283**	**33,738**	**698,937**	**12,757**	**399**	**70,539**
London									
Inner	9	–	40,675	2,175	–	42,850	–	46	3,802
Greenford	5	–	24,956	–	–	24,956	–	15	1,869
West Drayton	7	–	35,900	–	–	35,900	–	18	2,198
Hayes	4	–	13,398	–	–	13,398	–	31	962
Uxbridge	7	3	19,952	757	–	20,709	–	13	1,495
South Ruislip	4	–	10,326	–	4,370	14,696	–	5	1,701
Feltham	23	–	81,900	8,668	–	90,568	–	35	9,133
Hounslow	3	–	15,870	–	–	15,870	–	15	1,014
Isleworth	6	–	24,091	713	–	24,804	–	25	1,945
Total	**68**	**3**	**267,068**	**12,313**	**4,370**	**283,751**	**–**	**203**	**24,119**
South East NORTH OF THAMES									
Elstree	27	5	32,995	6,270	–	39,265	–	17	2,473
High Wycombe	9	–	31,626	2,169	–	33,795	–	25	2,714
Welwyn Garden City	2	–	9,540	–	–	9,540	–	21	722
Chelmsford	3	–	15,523	–	–	15,523	–	10	813
Colnbrook	2	–	10,260	–	–	10,260	–	7	484
Radlett	11	4	27,927	–	–	27,927	–	2	616
Slough	1	1	–	–	–	–	–	1	80
Luton	9	–	38,450	–	–	38,450	–	28	1,795
Total	**64**	**10**	**166,321**	**8,439**	**–**	**174,760**	**–**	**111**	**9,697**

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*
South East SOUTH OF THAMES									
Epsom	1	–	6,843	–	–	6,843	–	3	301
Wokingham	2	–	7,465	–	–	7,465	–	6	536
Winnersh	30	–	100,492	20,684	–	121,176	–	41	14,711
Camberley	3	–	13,789	–	–	13,789	–	4	643
Leatherhead	2	–	4,176	–	–	4,176	–	4	462
Ascot	11	–	–	9,350	–	9,350	–	1	2,617
Bracknell	2	–	4,867	–	–	4,867	–	8	318
Farnborough	52	25	15,860	12,141	–	28,001	–	4	1,034
Total	**103**	**25**	**153,492**	**42,175**	**–**	**195,667**	**–**	**71**	**20,622**
South									
Basingstoke	3	–	11,007	–	–	11,007	–	8	1,082
Yate	9	–	31,568	–	–	31,568	–	29	1,432
Weston-super-Mare	8	1	25,573	–	–	25,573	–	42	1,142
Portsmouth	21	1	75,705	–	–	75,705	–	48	3,828
Bristol	7	2	15,758	–	–	15,758	2,902	11	725
Swindon	3	–	11,180	–	–	11,180	–	5	435
Southampton	5	2	13,035	–	–	13,035	–	3	463
Gloucester	11	5	22,885	–	–	22,885	–	–	–
Total	**67**	**11**	**206,711**	**–**	**–**	**206,711**	**2,902**	**146**	**9,107**
Midlands and North									
Birmingham	23	2	68,381	3,338	–	71,719	3,116	86	4,500
Huddersfield	8	–	15,332	–	9,023	24,355	–	21	1,331
Oldbury	2	–	4,315	1,575	–	5,890	–	6	473
Chester	3	–	–	–	7,763	7,763	–	4	1,638
Runcorn	4	–	13,697	–	–	13,697	–	4	635
Warrington	5	–	20,676	–	–	20,676	–	27	759
Northampton	5	–	20,565	–	–	20,565	–	2	1,061
Cambridge	45	10	–	19,197	–	19,197	–	5	1,575
Derby	4	–	13,631	4,101	–	17,732	–	12	1,077
Total	**99**	**12**	**156,597**	**28,211**	**16,786**	**201,594**	**3,116**	**167**	**13,049**
Retail									
Surrey Quays, Rotherhithe *(50%)*	9	–	–	393	25,159	25,552	–	48	3,993
Clifton Moor, York *(50%)*	9	–	–	–	19,323	19,323	–	10	3,160
Howard Centre, Welwyn	2	–	–	147	22,089	22,236	–	61	3,412
Pentagon Centre,Chatham	4	–	–	450	30,284	30,734	–	91	4,131
Lewisham Centre,Lewisham	5	–	–	3,909	28,766	32,675	–	84	6,133
Buchanan Galleries, Glasgow *(50%)*	4	–	–	223	56,377	56,600	–	87	13,179
Bishop Centre, Taplow	3	–	–	1,085	8,642	9,727	–	45	1,681
Total	**36**	**–**	**–**	**6,207**	**190,640**	**196,847**	**–**	**426**	**35,689**

Overseas Property Portfolio

as at 31 December 2002

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
Belgium	58	32	83,375	80,277	2,797	166,449	3,925	93
France	53	–	256,464	7,774	–	264,238	–	19
Germany	31	11	82,619	18,627	–	101,246	–	58
Canada	19	10	3,196	70,939	–	74,135	–	23
USA	148	35	310,488	26,262	18,184	354,934	86,553	80
Total	**309**	**88**	**736,142**	**203,879**	**20,981**	**961,002**	**90,478**	**273**
Percentage by use	–	–	77%	21%	2%	–	–	–

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
Belgium								
Brussels								
Woluwe St Stevens	4	–	18,228	2,304	–	20,532	–	18
Zaventem E40	1	–	5,106	–	2,337	7,443	–	7
Horizon	2	1	6,536	–	–	6,536	–	9
Sirius	1	1	–	–	–	–	–	–
Kortenberg	2	2	–	–	460	460	–	1
Relegem	4	–	19,334	–	–	19,334	–	27
Pegasus - Diegem 1	15	8	8,750	72,929	–	81,679	–	23
Pegasus - Diegem 2 *(50%)*	1	1	–	–	–	–	3,925	–
Strombeek	1	–	230	5,044	–	5,274	–	4
Nivelles	6	4	8,424	–	–	8,424	–	2
Diegem 2	2	–	–	–	–	–	–	1
Zellik *(50%)*	2	2	–	–	–	–	–	–
Zaventem 3 *(50%)*	6	6	250	–	–	250	–	–
Bornem *(50%)*	6	2	16,517	–	–	16,517	–	1
Rumst *(50%)*	5	5	–	–	–	–	–	–
Total	**58**	**32**	**83,375**	**80,277**	**2,797**	**166,449**	**3,925**	**93**

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
France								
Paris								
Colombes	3	–	17,812	–	–	17,812	–	4
Bures Orsay	4	–	19,264	–	–	19,264	–	2
Aulnay sous Bois	2	–	11,155	–	–	11,155	–	1
Nanterre *(66%)*	–	–	1,702	4,553	–	6,255	–	1
St. Fargeau	4	–	20,422	–	–	20,422	–	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
Avenue Kléber	–	–	–	3,221	–	3,221	–	–
Total	**53**	**–**	**256,464**	**7,774**	**–**	**264,238**	**–**	**19**

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
Germany								
Neuss	11	3	30,015	6,606	–	36,621	–	20
Mönchengladbach	2	–	7,637	3,365	–	11,002	–	11
Kapellen	11	5	28,473	1,075	–	29,548	–	4
Ratingen	3	1	6,083	5,572	–	11,655	–	11
Hamburg	2	–	10,411	2,009	–	12,420	–	12
Krefeld	2	2	–	–	–	–	–	–
Total	**31**	**11**	**82,619**	**18,627**	**–**	**101,246**	**–**	**58**
Canada								
Montreal								
Kirkland	10	8	3,196	–	–	3,196	–	3
Vancouver								
Burnaby *(50%)*	9	2	–	70,939	–	70,939	–	20
Total	**19**	**10**	**3,196**	**70,939**	**–**	**74,135**	**–**	**23**
USA								
Chicago: Illinois								
Elgin	33	23	16,861	–	–	16,861	–	3
Peoria: Illinois								
Washington/Cherrytree *(25%)*	7	–	–	–	18,184	18,184	–	13
California, San Diego								
Torrey Pines 1 *(37.5%)*	2	–	7,837	–	–	7,837	–	1
Torrey Pines 2 *(50%)*	1	–	4,297	–	–	4,297	–	1
Torrey Pines Science Center	15	–	51,244	–	–	51,244	35,581	4
Torreyana	3	–	7,898	–	–	7,898	–	1
Torrey Pines Science Park	7	–	27,014	–	–	27,014	–	11
San Francisco								
Hacienda, Pleasanton *(55%)*	6	–	23,166	–	–	23,166	–	12
Hacienda, Pleasanton *(90%)*	10	–	8,426	26,262	–	34,688	–	5
Nellcor, Pleasanton *(64%)*	3	–	13,099	–	–	13,099	–	1
Point Eden, Hayward *(64%)*	16	–	49,346	–	–	49,346	–	12
South San Francisco								
Oyster Point	13	–	18,210	–	–	18,210	44,685	2
East Grand	11	11	–	–	–	–	–	–
Gateway *(45%)*	2	–	6,143	–	–	6,143	–	1
Gateway *(90%)*	4	–	17,401	–	–	17,401	–	1
Pointe Grand	15	1	59,546	–	–	59,546	6,287	12
Total	**148**	**35**	**310,488**	**26,262**	**18,184**	**354,934**	**86,553**	**80**

Development Programme

as at 31 December 2002

		Type	Construction Completions 2002 *sq.m.*	Under Construction at end 2002 *sq.m.*	Projected starts 2003 *sq.m.*	
UK						
Slough	Bath Road 200 (net)	Office	6,414	–	–	
	Bath Road 250 (net)	Office	–	7,498	–	4,685 sq.m. let to LG, Cubist
	Farnham Road Trade Centre	Retail	–	3,074	–	953 sq.m. let
	Weston Road	Industrial	–	2,185	–	
	Ajax Avenue	Industrial	–	–	5,574	
	Leigh Road	Industrial	–	–	1,068	
	Total Slough		**6,414**	**12,757**	**6,642**	
Feltham	Phase 400	Industrial	1,981	–	–	Let to Spatrans
	Phase 1100	Industrial	5,048	–	–	Let to Fedex
	Phase 900	Industrial	–	–	4,281	
Birmingham	St Gobain	Industrial	6,877	–	–	Let to St Gobain
	K400	Industrial	–	3,116	–	
	K800	Industrial	–	–	2,000	
	K600	Industrial	–	–	1,115	
Elstree	Phase 300	Industrial	10,798	–	–	671 sq.m. let
	Phase 610 (net)	Office	1,117	–	–	Let to Tibbett & Britten
Radlett	Phase 100	Industrial	8,260	–	–	
Bristol	Phase 300	Industrial	–	2,902	–	2,183 sq.m. let
	Phase 400	Industrial	–	–	3,372	
Cambridge	Phase 1000	Office/R&D	3,627	–	–	
	Phase 7000	Office/R&D	7,251	–	–	
Chester		Retail	7,766	–	–	6,765 sq.m. let
Farnborough	1 Meadow Gate	Office	3,599	–	–	Let to Autodesk
	25 Templar	Office	7,980	–	–	
Uxbridge	Phase 2B	Industrial	–	–	3,995	
Portsmouth	Site F	Industrial	–	–	437	Pre-let to Snows
	UK Total		**70,718**	**18,775**	**21,842**	
Belgium	Pegasus JC	Office	6,929	–	–	Johnson Controls
	Pegasus 6	Office	16,044	–	–	McDonalds, Agilent, DHL
	Pegasus 2	Office	–	3,925	–	Deloitte & Touche
	Kortrijk	Office	–	–	3,600	Deloitte & Touche
	Rumst	Logistics	–	–	12,000	
France	St Fargeau A	Logistics	20,422	–	–	ID Logistics
	Place d'Iena	Office	2,254	–	–	Eversheds
	Avenue Kléber	Office	–	3,221	–	
	Le Blanc Mesnil	Industrial	–	–	7,350	
Germany	Neuss V	Industrial	10,787	–	–	34% let
	Ratingen	Industrial	2,447	–	–	39% let
	Mönchengladbach II	Industrial	6,340	–	–	47% let
	Hamburg II	Industrial	6,791	–	–	53% let
	Krefeld	Industrial	–	–	8,110	
	Frankfurt	Industrial	–	–	10,151	
	Ratingen II	Industrial	–	–	5,452	

		Type	Construction Completions 2002 *sq.m.*	Under Construction at end 2002 *sq.m.*	Projected starts 2003 *sq.m.*	
USA	Torrey Pines Lot 12	R&D	4,586	–	–	Let to Pfizer
	Torrey Pines Lot 18-20	R&D	7,798	–	–	Let to Syrrx
	Torrey Pines Lot 24-25	R&D	–	35,582	–	Let to Pfizer
	Oyster Point	R&D	–	44,685	–	37,068 sq.m. let to Raven, Rigel, Tularik
	Point Grand	R&D	–	6,287	–	Let to Sugen
	Torrey Pines 5	R&D	–	–	3,994	
	Overseas Total		84,398	93,700	50,657	
	Group Total		**155,116**	**112,475**	**72,499**	
	Let or sold		52.1%	80.6%	11%	

Development Opportunities

(to be developed over a 5 to 8 year time frame)

			Floor Space Developable *sq.m.*	Type of Space	Approximate Construction Costs £m**
UK	Farnborough	Business Park	149,750	Office/R&D	210
	Cambridge	Research Park	44,200	Office/R&D	65
	Slough	Bath Road	9,060	Office/R&D	9
		Other sites	41,000	Industrial/R&D	20
	Elstree	Centennial Park	19,000	Office/Industrial	18
	Gloucester	Javelin Park	46,500	Industrial	18
	Other locations		115,281	Mixed	69
Total UK			**424,791**		**409**
Belgium		Pegasus Park I	155,000	Office	131
		Pegasus Park II	15,000	Office	6
		Bornem	36,780	Logistics	6*
		Rumst	80,000	Logistics	12*
		Zaventem III	63,700	Mixed	19
		Other locations	49,495	Mixed	40
France		Le Blanc Mesnil	31,775	Industrial	14*
		Avenue Kléber	3,000	Office	4
Germany		Rhine/Ruhr/Hamburg	53,118	Industrial	24*
		Frankfurt	22,718	Industrial	16*
Total Continental Europe			**510,586**		**272**
USA		San Diego	3,994	R&D/Office	8
		East Grand	75,000	R&D/Office	172
		Oyster Point	37,918	R&D/Office	106
		Pointe Grand	19,045	R&D/Office	35
Total USA			**135,957**		**321**

** Building and infrastructure costs to complete post-2002
* Includes land not already owned


TEMPLER AVENUE, FARNBOROUGH

Financial Review

Results

Pre-tax profit, excluding exceptional items, increased by 4.5 per cent in 2002 from £137.3 million to £143.5 million. Profit before tax moved up from £67.3 million to £143.4 million. Adjusted basic earnings per share rose by 4.3 per cent to 28.8 pence. Year end exchange rates reduced profit before tax by £1.2 million.

The main factor behind the improvement in 2002's results was once again core property earnings. Core property income was up by 3.8 per cent from £135.1 million in 2001 to £140.3 million, and has had a compound annual growth rate of 15.4 per cent over the last five years. These superior returns are due to the Group's commitment to developing and owning quality properties in international prime business centres. The momentum in core property income growth slowed during 2002 as a consequence of the high level of property sales in 2001, which coincided with a cut-back in the Group's development programme in response to more difficult market conditions. The returns on the cash balances arising from the property sales are much lower than will be achieved when they are re-invested in future property development. The development opportunities outlined on page 25 ensure that the Group is very well placed to generate superior earnings growth again as markets improve.

Core property income comprises investment and joint venture property income less administration and net interest costs. Property investment income of £216.9 million was £4.6 million or 2.2 per cent higher than that of 2001, despite a reduction of £10.7 million in net rental income due to property sales during the last two years. Some £231.6 million of investment properties have been sold during this period, including the disposal of the under-performing Toronto and Chicago industrial property portfolios in 2001. The positive effect of the development programme continues, with new developments and acquisitions contributing an additional £15.1 million to rental income. On a like for like basis, rental income increased by £7.4 million or 3.2 per cent. Property joint ventures added £14.8 million.

As far as future prospects are concerned, the main influences on rental income will be new developments, the realisation of reversionary income and occupancy levels, offset by property sales. The development programme will continue to substantially enhance core earnings as additional year on year rental income of £32.8 million has already been secured on recent completions or properties currently under development. The UK portfolio of occupied space was 7.1 per cent reversionary at the end of 2002, which equates to £11.5 million of potential future rental income as leases are reviewed or properties re-let. Improving occupancy, which currently stands at 89.6 per cent, whilst achieving the best available rental rates, will be a prime objective again during 2003, despite weaker occupier demand in the UK and overseas. Considering the nature of the portfolio and the natural turnover of tenants, there will always be a proportion of the portfolio awaiting new occupiers. In most areas 95 per cent occupancy can be regarded as optimum. The estimated rental value of vacant space at the year end was £27.3 million, of which £23.8 million was in the UK. Net rental income in the current year will suffer by some £3.7 million from the effect of property disposals during 2002 and early 2003.

There is considerable security of income in that 61 per cent of the current Group rent roll is secured on leases with at least ten years unexpired, or 47 per cent if all tenants exercise break clauses and vacate at the earliest opportunity. Security is strongest in the UK at 62 per cent (or 44 per cent including breaks) and the USA at 80 per cent (or 73 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. If the additional year on year rental income of £32.8 million that has already been secured on recent completions or properties currently under development is included, the Group figures improve to 78 per cent and 63 per cent respectively.

The Group is not dependent on any one customer for its principal revenues as it has over 1,500 tenants in the UK and almost 1,800 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 rent) is occupied by customers in manufacturing 27 per cent, logistics 8 per cent, health science research 19 per cent, TMT 18 per cent, service 13 per cent, retail 14 per cent and other sectors 1 per cent.

Administration costs show a larger than normal increase but include the disengagement payment to the Group's former Chief Executive, Mr Derek Wilson, and also correct an historic underpayment in providing the contracted pension for Mr Marshall Lees.

Net interest costs fell by £1.4 million during 2002 to £76.5 million. Net interest payable (before capitalisation of interest) was up by £4.2 million from £108.4 million to £112.6 million. The increase was largely due to the effects of new developments and 2001 acquisitions (£12.1 million), partly offset by 2001/2002 property sales (£7.4 million). Capitalised interest increased by £5.6 million to £36.1 million, of which 29 per cent related to developments that were either pre-sold or covered by agreed lettings. Gross interest cover before exceptional items of 2.0 times was at the same level as that of 2001.

The return from the Group's utilities, property trading and other activities, moved up from £2.2 million to £3.2 million. Although Slough Heat & Power reduced its losses from £7.1 million to £4.5 million, delays in commissioning the new NFFO4 project prevented further improvement during 2002. This plant is expected to come on stream early in 2003 and is projected to add some £4 million of net revenue annually once it is fully operational. Property trading had a less successful year, with profits falling from £8.7 million to £2.8 million. Several projects in France and Belgium contributed, including the sales of the refurbished 2,254 sq.m. office property at Place d'Iena in Paris and the 23,900 sq.m. distribution warehouse at St. Fargeau to the south of Paris. There are sufficient developments underway in Germany, Belgium and France to suggest a reasonable level of trading profits in 2003.

Income of £4.9 million from other activities was £4.3 million higher than last year. The contributions from Candover and CHUSA rose thanks to a few profitable realisations being achieved in slightly more responsive markets. With an investment of £35.6 million remaining in these funds and uncalled commitments to them of £26.7 million, further profits can be expected in the future, although their timing and quantum are difficult to predict.

The Group's effective current tax rate of 8.2 per cent excluding exceptional items was lower than 2001's 9.2 per cent, due mainly to the finalisation of a number of years' tax returns with the Inland Revenue during 2002. The effective current tax rate is expected to move up to circa 15 per cent in 2003. The new accounting standard, FRS19 Deferred Tax, was implemented for the first time in 2002. Prior years' figures have been restated accordingly. It has had a significant effect on both earnings and assets per share. The FRS19 deferred tax charge of £33.1 million in 2002 compares to 2001's deferred tax credit of £5.6 million. 2001 benefited in FRS19 deferred tax terms from the £60.2 million utilities write down and the high level of property sales in that year. This illustrates the fundamental problem with FRS19 as applied to property investment companies. FRS19 requires that deferred tax should be provided in full on all timing differences that are not permanent. But when, for example, UK investment properties are sold, normally there is no clawback of capital allowances. Deferred tax provisions are consequently credited back without a corresponding tax charge. This gives rise to a much higher overall effective tax rate in 2002 of 31.2 per cent against 2001's 5.1 per cent, excluding exceptional items. As a company we agree with other property companies and sector analysts that accounting for deferred tax, which most likely will never materialize, is misleading and adds nothing to the clarity of accounting, and have decided to report key financial figures adjusted to exclude it.

The Board has proposed a total dividend of 14.0 pence per share for 2002, an increase of 6.9 per cent on 2001. Dividend cover, adjusted to exclude exceptional items and FRS19 deferred tax, remained at the same level as that of 2001, 2.1 times, as did core income dividend cover at 1.9 times.

Cash Flow

The net cash inflow from operations of £202.5 million was £28.2 million higher than in 2001, due largely to lower net spend on trading properties in 2002. After the payment of all interest, dividends and tax, there was a free cash inflow of £13.5 million. Capital expenditure of £166.4 million on the investment property portfolio significantly exceeded proceeds of £5.7 million from investment property sales. Overall, there was a net cash outflow of £156.1 million for the year.

Balance Sheet

Shareholders' funds excluding FRS19 deferred tax increased by £40.4 million during the year to £2,428.6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million due mainly to retained profit of £61.7 million, partly offset by the £5.7 million revaluation deficit, and exchange differences of £15.3 million. There was consequently a 1.4 per cent rise in adjusted diluted net assets per share (NAPS) from 512 pence to 519 pence. The total deferred tax liability increased from £154.1 million to £186.4 million during 2002. Diluted NAPS including deferred tax therefore moved up marginally from 479p in 2001 to 480p.

Year end net borrowings amounted to £1,489.6 million, a rise of £124.4 million during the year. Gearing (the ratio of net borrowings to shareholders' funds, excluding FRS19 deferred tax) increased from 57 per cent in 2001 to 61 per cent at the end of 2002, mainly due to the effect of the increase in net borrowings resulting from the development programme. The exchange rate effect reduced net borrowings by £29.4 million.

The Group has very little off-balance sheet debt. In addition to the £1,489.6 million of net borrowings disclosed as such in the balance sheet, £39.3 million of joint venture debt is included in the balance sheet as part of the £46.5 million 'Investments in joint ventures - share of gross liabilities'. Only £7.9 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 funds availability for the next five years was improved by entry into two new major bank credit facilities. In July a new €150 million unsecured committed revolving credit facility was signed up with a group of three existing relationship banks. This facility remains available until 2007. It replaces a number of bilateral lines all domiciled in Europe that were due to expire in 2002/3. In December three UK corporate lines, which provided some £400 million of standby availability and were due to expire in 2003/4, were refinanced through one new facility. A group of 13 major international banks signed up to provide a new £415 million multi-currency unsecured committed revolving credit facility which remains fully available until 2008.

Treasury Policies and Financial Risk Management

The Group operates a UK based centralised 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 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 12.1 years. £70.5 million of debt is due for repayment or rollover in 2003/2004. £1,357.8 million or 86 per cent of the Group's gross debt of £1,583.5 million has a maturity date beyond the year 2007.

At the year end the Group had £93.9 million of cash balances on deposit and £500.6 million of undrawn bank facilities. The duration of availability is shown in note 18 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 expected to amount to some £200 million in 2003 and about £125 million in 2004. 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 activity. Committed property expenditure amounted to £116.3 million at the end of 2002, 78 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 76 per cent of the debt portfolio was at fixed rate. The weighted average cost of fixed rate debt was 8.1 per cent which falls to 6.9 per cent when variable rate debt is included. This is analysed in detail by currency and duration in note 18 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 2002 of the Group's borrowings, as analysed in note 18 to these accounts, was some £191.8 million higher than book value before tax or £134.2 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 £367 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 the currencies involved in the Group's operations.

Accounting Policies

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 FRS17 'Retirement Benefits' been adopted in full, net assets at 31 December 2002 would have been reduced by £19.4 million net of deferred tax to reflect the 'Net pension liability' calculated as specified by the standard.

Dick Kingston
Finance Director

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a process whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis[1]. CSR should embrace the three pillars of sustainability, namely economic prosperity, environmental quality and social equity.

Although this is the first time that a CSR review has been included in our Annual Report, Slough Estates believes that its responsibilities to local communities and wider society are fundamental to the way in which it has always conducted its business. The Group is keen to continually improve its approach to CSR and, as part of this, is committed to gradually increasing and improving its communication of CSR related performance and initiatives with interested stakeholders. The Group's approach is based upon the following principles:

1 Good corporate citizenship recognises that companies should minimise harmful impacts on the environment and improve quality of life amongst communities in which they operate;

2 A company's success is not solely measured by its financial performance but also by its social and environmental performance;

3 Corporate reputation is enhanced through adherence to high standards of performance, good overall management, as well as openness and transparency;

4 The concept of CSR needs to be embedded in the culture of a business and secured through Board level commitment and vision;

5 A dynamic and motivating working environment is one in which employees and the people with whom they interact, can flourish.

Slough Estates is an international company with operations in Europe and North America. The company views compliance with local economic, social and environmental regulations as a minimum standard, and seeks where appropriate to exceed legislation by establishing its own standards in particular areas, e.g. Health and Safety. A cross-functional CSR Committee, chaired by the Chairman has been established to monitor and manage the company's evolving approach in this area.

In this first report, the company outlines its approach to a number of areas relevant to the CSR agenda.

These include:
Human Resources
Health and Safety (H&S)
Community investment
Business relationships
Corporate Governance
Environment

Human Resources

In the UK alone, the Group is made up of a total of 509 employees, 37 per cent of whom are employed at Slough Estates Head Office and the remainder of whom are employed in a number of subsidiary companies with specific functions. Examples of these include Slough Heat & Power (SHP), Fibre Fuel Ltd and Slough Retail Management Ltd.

Slough Estates is fully committed to the well being of its employees. It undertakes to train and motivate the workforce; to help employees build on skill levels, extend their education and qualifications. The average number of years in service for Slough Estates Head Office employees ranges from 8 years for administrative staff to 14 years for staff in managerial positions. During 2002, total staff turnover in the UK was 15 per cent, and for Slough Estates Head Office employees was 6 per cent.

All employment policies are regularly reviewed and these encompass the following areas:

- equal opportunities,
- part-time working arrangements and flexible hours,
- health and safety, and
- training and development.

At 31 December 2002, 27 per cent of Slough Estates Head Office staff were female. The average age of all Slough Estates Head Office employees is 43 years compared with a real estate sector average of approximately 37. We aim to provide a fair and competitive system of remuneration for all our staff. In addition, a well administered and funded final salary related pension scheme is available to all employees at Slough Estates Head Office and monthly paid staff at SHP, all of whom are also eligible to join a company share save scheme, which has an 85 per cent participation rate.

The company recognises that a healthy and productive workforce is critical to its business success and, therefore, provides a range of medical benefits to staff. These include a private health scheme for Slough Head Office staff and SHP managers, which extends to family members. Slough Estates is also a member of Corporate Health, a registered charity originally set up in 1947 as the Slough Industrial Health Service. This entitles employees to access casualty and diagnostic x-ray facilities, physiotherapy and free on-line advice from occupational health specialists. There are procedures to allow early retirement for employees suffering ill health and all retired staff are encouraged to maintain contact with the company through social engagements.

The company's concern for the health of its staff is matched by a variety of initiatives to provide facilities and opportunities for sport and recreation. Examples of these include:

- a fully equipped fitness room within Group headquarters available to all staff in the building.
- financial support for the company cricket and football teams.

Health and Safety (H&S)

Health and Safety is a critical issue for the company and is subject to robust management controls. The Group Board sets the policy while implementation is the responsibility of a cross-departmental committee that is active throughout UK, Europe and North America. Our Overseas Managing Directors report directly to the Chief Executive, who chairs the H & S Committee. There is a rolling programme to ensure that all Committee members are fully trained to IOSH 'Managing Safely' levels, a recognised industry standard. All senior managers visiting construction sites are required to complete an H & S audit. Slough Estates also requires all contractors to demonstrate

[1] Definition provided in the EC Green Paper on CSR, 2001.

their own commitment to H & S by ensuring that their workforce is appropriately trained and qualified. This is reviewed on a regular basis.

All H & S incidents are reported and recorded, and appropriate follow-up action taken. Serious incidents are all independently investigated by the Group's H & S consultants. During the course of 2002, no serious incidents occurred across any of our activities. In addition to staff training exercises, this year the Group organised a series of seminars for construction sub-contractors to affirm our H & S standards. Every effort is made to create a positive H & S culture across the Group. Employees are asked for their suggestions on initiatives which could contribute to safety, and during the year a financial incentive scheme was introduced to reward the best suggestions.

Community

The company's involvement in the community is integral to its core business and, therefore, tends to be focused on those locations where we have a significant presence. From its foundation in 1920, Slough Estates has believed in the importance of being actively engaged in the communities in which it operates. The relationship with these communities is important to the business and involves regular consultation with government and business organisations that serve the community. Our help to local bodies is both financial and 'in kind'. Members of our staff are actively encouraged to become involved and support community initiatives.

We work closely with organisations fostering business support, charity, education, the arts, recreation and welfare - both nationally and locally. We are members of Business in the Community, Thames Valley Economic Partnership, Slough Business Community Partnership, Blackwater Valley Enterprise and London First, amongst others.

In 2002, the company Charities Committee received some 250 appeals resulting in 150 awards, both large and small. The charity budget was £380,000 of which £70,000 was in-kind support. Of this, 60 per cent went to general charity support and a further 15 per cent to education. Among the leading recipients were the Prince's Trust, Buckinghamshire Foundation, Outward Bound Trust, the Civic Trust, Slough Activate and Shelter. We were lead sponsors of the Buckinghamshire Golden Jubilee Award Scheme.

The theme during this year has been our concentration on the local challenges and problems facing Slough's young people. As a Patron of the Outward Bound Trust, we provided funds to send over 40 local young people on an 'Outward Bound adventure' course at Aberdovey, North Wales. At Beechwood School, which was classified as 'a failing school', we provided professional building expertise and financial support to help refurbish dilapidated buildings, giving the children and staff new pride in their surroundings. Our support, together with

that provided by other local businesses, helped persuade the local Education Authority to keep the school open. Having been ranked amongst the 4 per cent of poorest performing schools in the country, Beechwood School went on to improve across a range of different parameters, most particularly community involvement, for which it was awarded top marks.

We regularly support Herschel Grammar School both with financial donations and support in kind. Our in-house team is providing help and expertise in the establishment of the Herschel Grammar School Community Sports Centre. The cost of this project is £2,400,000, most of the money being provided by Sports England. The company's support for this project is currently estimated to be in the region of £75,000.

In another young persons' project in conjunction with Slough Activate, we helped fund a scheme to put 26 Slough teenagers, who were at risk of being excluded from their schools, into a working environment for a year during which they gained not only experience of the work place, but also an academic qualification. Most of these young people are now either in full time employment or have moved on to further education.

In addition to the range of voluntary sponsorship and charitable activities outlined above, Slough Estates also makes significant contributions to community facilities and infrastructure through investment linked to our development activities. This results both from planning requirements through Section 106 agreements as well as the company's proactive decision to go beyond these on occasion.

Business relationships

Slough Estates recognises that the supply of flexible, efficient and well-located business space has to be backed up with the highest standards of 'after sales' care. A dedicated in-house property management team seeks to develop strong relationships with customers, many of whom have been occupying buildings in the Slough portfolio for a long time.

Regular surveys monitor occupier satisfaction and the results are used to adapt our approach, as part of a process of continuous improvement. Any complaints are dealt with as a priority and involve senior management. The loyalty engendered amongst customers is illustrated by 60 per cent of occupiers who continue when lease breaks/lease expiries give them an opportunity to move. This is encouraging evidence of the effectiveness of our long-standing policy of working in partnership with our customers. However, we recognise that customers are increasingly more discerning and willing to exercise their choice. We are therefore committed to maximising customer retention.

Our suppliers are important to us and our relationship with them is essential to the success of the company. We want our business dealings with them to be mutually beneficial and based on trust and a shared commitment to high standards. Unlike many of its peers, Slough Estates now operates a policy in which no monies are held back from suppliers and contractors upon completion of the works, in case of future rectification of defects. As a result, suppliers undertake to 'continually improve their processes'. The company ensures that all work is properly executed and paid for promptly, within 14 days, and in practice this can be sooner. Wherever possible, and subject to competitive and high quality services being provided, we seek to procure services from our occupiers.

Corporate governance

The Group adopts a positive stance towards good corporate governance and the adopted guidelines are set out on pages 36 and 37. These guidelines clearly follow the Consolidated Code of Practice and where there are differences these are justified.

Environment

See pages 38 to 41.

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 64 and 65.

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

Slough Estates recognises the strong business case for good environmental management. Benefits identified include reduced risk, operational efficiency, enhanced reputation and innovation.

The Group's Environmental Management Strategy is co-ordinated by a cross-departmental Environment Committee, and environmental performance is reported directly to the Main Board of Directors by the Group Chairman.

Progress in 2002

In order to implement the Group environmental policy (set out on pages 38 to 39), each part of the business is required to set specific, measurable, achievable, relevant and timebound (SMART) environmental targets on an annual basis. In 2002, the Group set itself a total of 32 targets, and progress was formally and independently reviewed in December 2002 by external strategic advisors, Upstream. This review was based upon scrutiny of the documented evidence produced by Slough Estates and a summary of achievements is set out in the table below.

		PROGRESS ACHIEVED			
	TOTAL	25%	50%	75%	100%
NO TARGETS	32	1	5	1	25
% OF TOTAL	100%	3%	16%	3%	78%

Over three quarters of the targets set for 2002 have been fully achieved and progress is evident in all others. This level of progress reflects the high priority placed on achieving environmental goals, as well as a strong commitment to continuous improvement throughout the company. This is reinforced by the high proportion of 2002 targets relating to actual environmental performance, rather than management procedures.

Slough Estates continues to perform well in the Business in the Environment (BiE) Index of Corporate Environmental Engagement. In the 6th BIE report the company was ranked 2nd amongst participating real estate companies. A property industry specific survey undertaken annually by Upstream found that in 2002, Slough Estates had moved up one place since the previous year and was ranked 2nd overall out of 18 of its peers.

Following a detailed review of the Group's Environmental Management Strategy against IS014001 requirements, a consolidated Environmental Framework Document has been compiled, incorporating all of the company's reviewed and updated environmental policies and procedures. This Document is available to all staff, and Divisional Managers have been trained on its use including implementation and review of the procedures.

In July 2002 Slough Estates held an environmental workshop with eight of its most significant suppliers, including construction and civil engineering companies. Participants are to identify two areas for their environmental improvements over the next 12 months. Progress will be monitored and further workshops with these and other suppliers are planned for 2003.

Investment

The asset management team works to ensure that all holdings are well managed and pollution free, undertaking regular property inspections. Working with occupiers to identify potential problems and to manage risk is just one way we can set our customer service standards apart from the competition.

The Group's Property Management System incorporates an environmental inspection history and register for all properties in the portfolio. The Group recognises that high environmental standards are good for business and the low incidence of negative reports is considered to be a reflection of the quality of our customer base and an endorsement of our occupier-focused approach.

In addition to distributing an updated Environmental Help Sheet to all tenants, a half-day seminar during October 2002 encouraged local businesses to make non-recyclable packaging waste available to Fibre Fuel - our CHP plant that is fired on coal and fibre fuel cubes (processed waste paper).

The most significant environmental impacts arising from property we occupy and manage are measured and monitored on an ongoing basis. The table below summarises environmental impacts for the period 1.10.01 to 30.09.02. However, the data is not normalised for floor area or hours of operation (e.g. kWh/m^2/hr) and therefore represents the company's absolute impacts only. Normalising of data will be introduced in 2003.

PROPERTY TYPE	TOTAL ENERGY (KWH OF ELECTRICITY AND GAS)	WATER (m^3)	WASTE (TONNES)
SE OCCUPIED BUILDINGS	2,789,465	5,283	40
UK MULTI-LET PROPERTIES	1,796,945	3,045	N/A
UK RETAIL CENTRES	16,715,459	96,706	3,329
EUROPE	60,770	229	N/A
USA	1,907,581	1,253	N/A
TOTAL	**23,270,220**	**106,516**	**3,369**

Using the conversion factors specified by the Government (www.defra.gov.uk/environment/envrp/gas/05.htm), the operation of properties in our portfolio was responsible for the emission of 8,552 tonnes of carbon dioxide in 2002.

When comparing those properties held in both 2001 and 2002, Slough Estates reduced its aggregated energy consumption by 8 per cent and reduced its aggregated water consumption by 2 per cent. Waste data was not collected for retail centres in 2001, so a comparison cannot be made.

For our retail centre investments and the offices we occupy, the 2003 target for both energy and water consumption is a further reduction of 1 per cent. For the rest of the portfolio of multi-let properties, the target for 2003 will be to avoid any increase in either energy or water consumption in respect of those common areas over which we have some control.

Revised clauses have been included in the company's standard landscape maintenance specification with the aim of reducing the use of chemicals and other substances with adverse environmental impacts.

Development and Construction

In keeping with national policy to renew and revitalise previously developed and disused sites, 100 per cent of the Group's development projects undertaken in the UK during 2002 were on brownfield land, and a total of £1.5 million was spent on remediating contamination. This approach helps regenerate and revitalise local communities by attracting occupiers and further inward investment.

The replacement of dereliction with high quality workspace continues to be fundamental to the Group's long-term strategy and in 2002 this included some 46 refurbishment schemes extending the life of existing buildings.

With consultant support the process of assessing the need for non statutory Environmental Impact Assessments (EIA) has been formalised. During 2002, 9 EIAs were commissioned on a voluntary basis.

High quality design standards are a feature of all new developments, with environmental efficiency and landscape enhancements being key elements. During the year, 2 new buildings were formally assessed under BREEAM (Building Research Establishment's Environmental Assessment Methodology) and, in compliance with our corporate objectives, one achieved 'Very Good' ratings and the other 'Excellent'.

The Group's close attention to biodiversity is evidenced by our development of Cambridge Research Park, where a comprehensive landscape and nature conservation management plan is in place. The Park has been built on brown land and includes six inter-linking lakes and a wildlife refuge for many species including Great-Crested newts. During 2002, 2,075 trees and 161,300 shrubs were planted.

Waste management plans are now adopted at all developments in conjunction with our appointed waste management company. The use of BRE's SMARTWaste tool at 250 Bath Road has done much to improve understanding of where efficiencies can be made with packaging and timber (mostly pallets) providing greatest scope.

Further evidence of the Group's focus on resource efficiency is reuse of onsite demolition material. During 2002, over 4,300 tonnes of crushed concrete and brick were re-used in the redevelopment process. At Farnborough Business Park key performance indicators have been adopted for both design and construction, in order to track and assess the environmental performance of the project.

Slough Estates' believes that exceeding the minimum statutory requirements for air-tightness and energy efficiency will help extend the economic life of buildings. For the coming year, a milepost target for air-tightness has been set with a longer term aspiration to achieve standards twice as stringent as the Building Regulation minimum.

Administration

While the Group's most significant environmental impacts do not arise from its own property occupation, it recognises the need to lead by example. One important aspect is raising awareness amongst employees and embedding green housekeeping in the organisational culture.

The head office 2002 electricity reduction target of 1 per cent was achievable until the end of the year, when a chiller fault resulted in an overall increase of 3.5 per cent. However, water consumption was reduced by 11.6 per cent during the year.

With regards to transport-related impacts, one of our targets for the coming year is that 20 per cent of company car drivers participate in the 'econo-drive' training programme. This is expected to help improve fuel efficiency and reduce emissions.

Slough Heat & Power (SHP)

SHP operate a facility at Slough providing electricity, heat and water to Trading Estate occupiers as well as waste management services for non recyclable packaging and papers and plastic. Emission monitoring and maintenance systems have been audited by the Environmental Agency and were scored in the top quartile for the Region.

Fourteen key performance indicators for measuring on site use of energy, chemicals, water and paper recycling show significant improvements In 2002 compared to 2001:

- A 50 per cent reduction in cooling tower water to 617,000m^3 through changes to the process chemistry.
- An increase in the use of renewable fuels of 34,000 tonnes (to 87,000 tonnes) over the year.
- A reduction in the sulphur dioxide released from the solid fuel boilers of 252 tonnes (to 146 tonnes) by switching from coal to wood.
- A reduction in the amount of ash sent to landfill of 15,000 tonnes (to 10,000 tonnes) principally due to the use of wood chips which are virtually ash free.

Other achievements include the recycling of some 1,500 fluorescent tubes and the diversion of 8.5 tonnes of packaging waste and shredded paper from landfill to fibre fuel. The new non-fossil fired extension to the CHP plant commissioned during 2002, effectively doubles SHP's renewable fuel capacity.

Directors, Officers and Advisers

As at 31 December 2002

Chairman

Sir Nigel Mobbs[ø]

Executive Directors

I D Coull *Chief Executive*[ø]

J A N Heawood

R D Kingston

M D Lees

Non-Executive Directors

P D Orchard-Lisle CBE, TD, DL
Deputy Chairman†*[ø]

Lord Blackwell†*[ø]

S L Howard†*[ø]

D Kramer

The Rt. Hon. Lord MacGregor
of Pulham Market OBE†*[ø]

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*

† Member of Audit Committee
* Member of Remuneration Committee
[ø] Member of Nomination Committee

Auditors

PricewaterhouseCoopers LLP

Solicitors

Lovells
Nabarro Nathanson

Merchant Bankers

UBS Warburg Ltd

Principal Bankers

Barclays Bank PLC
The Royal Bank of Scotland plc
HSBC Bank plc
Bayerische Landesbank

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
Telephone: (0870) 7020000

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

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Fax (49) (211) 37 46 89
e-mail: sloughestates@compuserve.com

Directors' Biographies

IAN COULL, SIR NIGEL MOBBS

THE RT HON LORD MACGREGOR, JOHN HEAWOOD

Sir Nigel Mobbs

Chairman

Sir Nigel Mobbs, whose grandfather was a founder of the company, joined Slough Estates in 1960. A director since 1963, he became Chairman and Chief Executive in 1976 and Executive Chairman from 1996-1999. 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 Trustees of Historic Royal Palaces and a member of Advisory Committee on Business and the Environment (ACBE). He is aged 65.

Ian Coull

Chief Executive

A Fellow of the Royal Institution of Chartered Surveyors, he joined Slough Estates in January 2003 from J Sainsbury plc where he was the director responsible for all Real Estate. Before joining Sainsbury's in 1987 he held Board and Senior Management positions at Ladbrokes, Texas Homecare and Cavenham Foods. He is on the London Regional Board of Royal & Sun Alliance and is Chairman of the London Sustainable Development Commission. He is aged 52.

John Heawood

Executive Director

Responsible for the UK property portfolio. 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 50.

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. He joined Slough Estates in 1987 and was appointed a director in March 1998. He is a director of Tipperary Corporation and Charterhouse Group International, Inc. He is a Canadian and is aged 49.

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 55 and became a director in April 1996.

STEPHEN L HOWARD, LORD BLACKWELL, DICK KINGSTON

DOUGLAS KRAMER, MARSHALL LEES, PAUL ORCHARD-LISLE

Paul Orchard-Lisle CBE TD DL

Non-Executive Deputy Chairman

A chartered surveyor, he is a non-executive director of Europa Capital Partners and the Falcon Property Trust, 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 64.

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. He was recently appointed to serve as a non-executive Board Member of the OFT from April 2003. 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 50, 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 as well as sitting on the advisory councils of various private and non-profit organisations. He is aged 49 and was appointed a director in 2001.

Douglas Kramer

Non-Executive Director

A citizen of the United States, he is Chairman of the Board of Draper and Kramer Incorporated, a full service real estate and mortgage banking company based in Chicago, Illinois. Draper and Kramer were partners with Slough Estates in the USA from 1973 until 1997. He is a director of Tipperary Corporation, an oil and gas production company of Denver, Colorado in which the Group has a 53 per cent equity interest. He also serves as Non-Executive Chairman of Slough Estates USA Inc. He is aged 66 and was appointed a director in 1981.

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 Supervising Board of DAF Trucks NV, Netherlands. He is 66 and was appointed a director in 1995.

Shareholders' Information

Financial Calendar 2003

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.	**19 March**

April

Post annual report to shareholders.	**9 April**

May

Annual General Meeting.	**13 May**
Payments: approved final dividend.	**16 May**
10 per cent bonds 2017 interest.	**3 May**
10 per cent bonds 2007 interest.	**27 May**

July

Payments: $12\frac{3}{8}$ per cent unsecured loan stock 2009 interest.	**30 June**
$11\frac{1}{4}$ per cent first mortgage debenture stock 2019 interest.	**30 June**

August

Payment of $7\frac{1}{8}$ per cent bonds 2010 interest.	**18 August**
Payment of $6\frac{3}{4}$ per cent bonds 2024.	**26 August**
Announcement of half year results.	**28 August**

September

Payment of dividend on 8.25p (net) convertible redeemable preference shares.	**1 September**
Payment of 7 per cent bonds 2022 interest.	**15 September**
Payment of $6\frac{1}{4}$ per cent bonds 2015.	**30 September**

October

Payment of interim dividend.	**Mid October**

December

Payments: $11\frac{5}{8}$ per cent bonds 2012.	**30 December**
$12\frac{3}{8}$ per cent unsecured loan stock 2009 interest.	**31 December**
$11\frac{1}{4}$ per cent first mortgage debenture stock 2019 interest.	**31 December**

February 2004

Payment of $7\frac{1}{8}$ per cent bonds 2010 interest.	**17 February**
Payment of $6\frac{3}{4}$ per cent bonds 2024.	**23 February**

Individual Savings Accounts 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 2411114.

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 2000, Aylesbury, Bucks HP21 8ZB. 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	**2002**	2001	2000	1999	1998
Highest	**432.0p**	433.5p	411p	393.5p	414p
Lowest	**303.5p**	303.5p	248p	276p	259.5p
31 December	**339.0p***	331.5p**	411p***	353.5p****	273p

*As at 31/12/02 **As at 28/12/01 ***As at 29/12/00 ****As at 30/12/99

Five Year Financial Results

	2002 £m	2001 Restated £m	2000 Restated £m	1999 Restated £m	1998 Restated £m
Group profit and loss account					
Property investment	**216.9**	212.3	196.7	182.6	141.4
Administration expenses	**(14.9)**	(13.2)	(12.9)	(12.5)	(13.5)
Share of operating profit from joint ventures and associates	**14.8**	13.9	14.0	9.6	5.8
Net interest	**(76.5)**	(77.9)	(78.2)	(72.3)	(51.8)
Core property income	**140.3**	135.1	119.6	107.4	81.9
Utilities - operating (loss)/profit	**(4.5)**	(7.1)	(3.6)	(3.7)	1.9
Core income	**135.8**	128.0	116.0	103.7	83.8
Utilities - exceptional write down	**—**	(60.2)	—	—	—
Property trading	**2.8**	8.7	6.7	6.1	6.1
Other income and non-property joint ventures	**4.9**	0.6	5.6	6.0	13.3
(Loss)/profit on sale of investment properties	**(0.1)**	(9.8)	0.6	12.2	(2.1)
Profit before tax	**143.4**	67.3	128.9	128.0	101.1
Group balance sheet					
Investment properties	**3,632.6**	3,514.2	3,463.8	2,935.4	2,670.0
Joint ventures and associates	**188.7**	174.7	191.8	181.7	151.0
Trading properties	**144.9**	134.0	105.0	89.1	96.5
Other assets	**171.0**	166.6	203.0	183.1	191.9
Cash and deposits	**93.9**	175.9	36.9	59.5	65.3
Total assets	**4,231.1**	4,165.4	4,000.5	3,448.8	3,174.7
Borrowings	**(1,583.5)**	(1,541.1)	(1,344.5)	(1,149.4)	(1,158.2)
Other liabilities and minority interests	**(402.5)**	(387.7)	(386.7)	(336.4)	(362.8)
Shareholders' funds	**2,245.1**	2,236.6	2,269.3	1,963.0	1,653.7
Total return					
Profit attributable to ordinary shareholders	**86.8**	42.9	93.9	97.0	57.4
Capital (deficit)/surplus	**(22.4)**	(22.9)	260.3	254.3	196.8
	64.4	20.0	354.2	351.3	254.2
Data per ordinary share:					
Revenue earnings					
Adjusted basic earnings per share	**28.8p**	27.6p	25.7p	21.7p	18.0p
Adjustments	**(7.9p)**	(17.2p)	(2.9p)	2.0p	(3.5p)
Basic earnings per share	**20.9p**	10.4p	22.8p	23.7p	14.5p
Capital (deficit)/surplus per share	**(5.4p)**	(5.6p)	63.0p	62.0p	49.8p
Total return per share	**15.5p**	4.8p	85.8p	85.7p	64.3p
Total return per ordinary share as a percentage of opening net assets per share	**3.1%**	0.9%	19.4%	23.3%	20.2%
Dividends per share	**14.0p**	13.1p	12.1p	11.2p	10.4p
Net assets per share					
Basic	**506p**	506p	514p	441p	368p
Basic excluding FRS 19 deferred tax	**551p**	542p	553p	476p	402p
Fully diluted	**480p**	479p	486p	421p	356p
Fully diluted excluding FRS 19 deferred tax	**519p**	512p	520p	452p	387p

The adjusted basic earnings per share is after having excluded the effects of profits and losses on the sale of investment properties net of tax and minority, Utilities exceptional write down in 2001 and FRS 19 deferred tax.

Directors'

Report and Accounts

SLOUGH ESTATES 2002

Directors' Report

The directors submit their annual report together with the audited accounts for the year ended 31 December 2002 which were approved by the Board on 18 March 2003.

Business of the Group

The principal activities of the Group continued throughout 2002 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 12 to 19 and the Financial Review on pages 27 to 31.

Results

The results for the year are set out in the Group profit and loss account on page 68. The Group's pre-tax profits were £143.4 million after charging exceptional items of £0.1 million (as detailed on page 68 of the financial statements). This compares with a profit of £67.3 million (after charging exceptional items of £70 million) for the year ended 31 December 2001. Profit on ordinary activities after taxation amounted to £98.8 million (2001 £53.3 million restated following adoption in 2002 of FRS19 Deferred Tax). After allowing for minority interests of £0.6 million and preference dividends of £11.4 million paid and accrued during the year, earnings attributable to ordinary shareholders were £86.8 million (2001 £42.9 million restated). Basic earnings per ordinary share excluding exceptional items and FRS19 Deferred Tax amounted to 28.8p (2001 27.6p) and 20.9p (2001 10.4p) including exceptional items and FRS19 Deferred Tax.

Diluted net assets per ordinary share excluding FRS19 Deferred Tax increased to 519p (2001 512p).

Ordinary dividend

An interim dividend of 5.45p per share was paid on 11 October 2002.

Your Board recommends the payment of a final dividend in respect of the year ended 31 December 2002 of 8.55p per share, making a total dividend of 14.0p per share (2001 13.1p per share) an increase of 6.9 per cent over the 2001 dividends.

The final ordinary dividend is payable on 16 May 2003 and the record date will be 25 April 2003.

The ordinary dividends paid and proposed in respect of 2002 will absorb £58.2 million.

Property valuations

The valuation of the Group's investment properties which was carried out by external valuers as at 31 December 2002 amounted to £3,632.6 million, an increase of £118.4 million over last year's £3,514.2 million. After taking into account total expenditure on investment properties of £186.9 million, the book value of investment property disposals of £6.2 million and exchange losses of £42.0 million, the deficit on valuation transferred to revaluation reserve amounted to £20.3 million.

Further details concerning the valuation are set out under the heading 'Property valuation' on page 66 and note 10 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' Remuneration Report of the Remuneration Committee

The details of the Directors' Remuneration Report of the Remuneration Committee can be found on pages 54 to 61.

An ordinary resolution will be put before shareholders at this year's Annual General Meeting to approve the report.

Directors

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

Sir Gordon Jewkes retired at the conclusion of the Annual General Meeting held on 14 May 2002 and Mr D E F Simons retired on 2 October 2002. Mr D R Wilson retired as a director on 31 December 2002. Mr I D Coull was appointed a director on 1 January 2003.

In accordance with the Articles of Association, Mr I D Coull will retire at the Annual General Meeting and is eligible for election. Mr P D Orchard-Lisle, Mr J A N Heawood and Mr M D Lees 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 an ordinary 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 £5,180,907. A special resolution, set out in the Notice of Meeting will (if passed) grant until the earlier of 12 August 2004 and the conclusion of the 2004 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 £5,201,487.

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 £5,201,487 represents approximately 5 per cent 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 2002. 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 2004 or 12 August 2004 if earlier.

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

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

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 11 days at 31 December 2002 (2001 10 days).

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 in previous years.

The amounts given by the company in 2002 were as follows:

Charitable	£463,592
Conservative Party Funds	£28,500
Centre for Policy Studies	£2,500

The Centre for Policy Studies is not a registered political party under the terms of the Political Parties, Elections and Referendums Act 2000.

Auditors

The auditors PricewaterhouseCoopers resigned as auditors of the company on 22 January 2003. PricewaterhouseCoopers LLP were appointed to fill the casual vacancy thus arising to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the company.

PricewaterhouseCoopers LLP have indicated their willingness to be re-appointed as auditors of the company 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 2002 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 Directors' Remuneration Report of the Remuneration Committee on pages 54 to 61.

Save as mentioned in the Directors' Remuneration Report of the Remuneration Committee on page 59, 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 2002 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 18 March 2003 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.

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

Legal & General Investment Management Limited and its subsidiaries hold in aggregate 12,548,890 ordinary shares of 25p each, representing 3.0 per cent.

Schroders Investment Management Limited and its subsidiaries hold in aggregate on a discretionary basis 38,633,854 ordinary shares of 25p each, representing 9.3 per cent.

Stichting Pensioenfonds 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
18 March 2003

Directors' Remuneration Report of the Remuneration Committee

The Remuneration Committee (the 'Committee')

The 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 and Lord MacGregor. Sir Nigel Mobbs and Mr D R Wilson attended meetings of the Committee during 2002 and Sir Nigel Mobbs continues to attend in 2003. Mr I D Coull attends meetings following his appointment on 1 January 2003. All absent themselves when their own remuneration is discussed.

The advisers to the Committee are Ernst & Young LLP, who were appointed by the Committee on 2 October 2002. Ernst & Young replaced Arthur Andersen who had previously been appointed by the Committee as its advisers. Neither Ernst & Young LLP nor Arthur Andersen have provided other services to the Group in the UK. Ernst & Young LLP are the auditors of Slough Estates Canada Limited, a wholly owned subsidiary. Hewitt Bacon & Woodrow Limited, as actuary and administrator to the Slough Estates (1957) Pension Scheme have provided pension information to the Committee in respect of the appointment of Mr I D Coull and the retirement of Mr D R Wilson.

The Company Secretary has provided administrative support and information to the Committee.

The Committee has been assisted during the year by Lovells, in respect of the retirement of Derek Wilson and the appointment of Ian Coull. Lovells also act for the company and have provided legal advice to the company during the period on a range of matters including advice on corporate, employment, litigation, share schemes, tax and pensions issues.

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 provisions of section 1 of the Combined Code, throughout the year.

Remuneration policy

The 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 the current and future remuneration policy is aligned with the objective of maximising the long term value of the business and is market competitive. This policy extends 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 policy is 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 for the Chairman, executive directors and senior executives consists of salary, health insurance, company car, pension and participation in the company's employee share schemes as described below. Levels of individual base salary, discretionary bonuses and share scheme awards are reviewed annually. The Committee considers that all elements of the package are of equal importance in supporting the Group's remuneration policy. The company does not currently operate a specific cash bonus scheme although the Committee does have discretion to award individual bonuses in recognition of performance which provides significant additional benefits to the company.

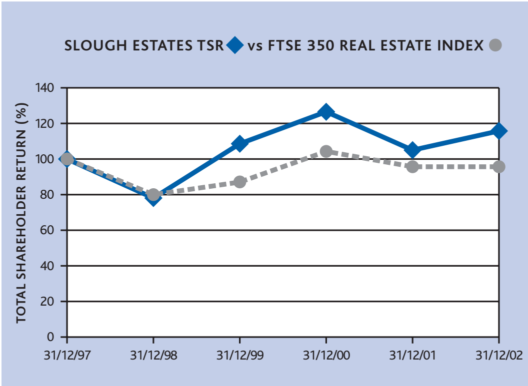
The Committee will be considering proposals during 2003 to introduce a discretionary performance related bonus scheme. Apart from this, no significant changes to the company's remuneration policy are expected.

The Committee will keep the company's remuneration policy, as detailed in this report, under review during 2003 and will in subsequent years ensure that the company reward programmes remain competitive and provide appropriate incentive for performance.

On the next page is a chart showing total shareholder returns for the company for each of the last five financial years compared to the FTSE 350 Real Estate Index.

Note: Ernst and Young LLP, Hewitt Bacon & Woodrow Limited and Lovells have given and not withdrawn their written consent to the issue of this document with the inclusion of references to their names in the form and context in which they appear.

Since Arthur Andersen no longer exists, the company was unable to obtain its written consent to the issue of this document with the inclusion of references to its name and context in which it appears.



The index has approximately 65 constituents. The company is a constituent of the FTSE 350 Real Estate Index and, therefore, the Committee considers this to be the most appropriate broad market equity index for illustrating the company's performance relative to other companies in the Real Estate sector.

Policy on the Performance Conditions and Summary of the Employee Share Schemes

The Committee has carefully considered the performance criteria which are used in the Long Term Incentive Plan and Executive Share Option Schemes.

The Committee is of the opinion that diluted earnings per share excluding profit and losses on sale in investment properties, exceptional writedowns and FRS19 deferred tax (adjusted EPS) is the most appropriate performance criteria for a property investment company. By concentrating on creating new and growing rental income flows, there will be growth in earnings and dividends. The growing rental income flows should be sustainable over the longer term and the resultant cash flows will influence the valuation and hence net asset values per share. Net asset values also change from year to year depending on the valuers' view of capitalisation rates prevalent in the market place on a certain date. Executives should be rewarded for the creation of sustainable growing cash flows.

Long Term Share Incentive Scheme (the 'Scheme')

The Scheme is primarily for the Chairman, executive directors and senior executives and operated by the independent Trustees of the Slough Estates plc Employees' Benefit Trust.

Awards under the Scheme are granted at the discretion of the Trustees of the Scheme on the recommendation of the Committee. Shares under award will normally be released to participants at the discretion of the Trustees on the third anniversary on which the awards were granted if the performance targets described below have been achieved.

The performance targets are based on the achievement of real growth in adjusted EPS and diluted net assets per share excluding FRS19 deferred tax (adjusted NAV) over a period of three years.

The growth required in both adjusted EPS (weighted 60 per cent) and adjusted NAV per share (weighted 40 per cent) between grant and vesting are:

		2000 - 2003	
	Vesting	Adjusted EPS	Adjusted NAV 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 higher weighting adjusted EPS is explained on page 76. Adjusted NAV is used as this should increase as income grows subject to consistent yields. However, if the end of the three year period coincided with a cyclical reversal in valuation capitalisation rates which hit balance sheet adjusted NAVs, the executives may not lose their awards entirely.

The calculation of whether the performance criteria has been met is initially prepared by the Chief Executive. This calculation is based on the figures for adjusted EPS and adjusted NAV as shown in the Report and Accounts. These figures are reviewed by the auditors and are then submitted for the approval of the Committee. This method was chosen by the Committee because the figures used are the ones shown in the Accounts and are audited.

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 2002 in respect of executive directors was £562,397 (2001 £500,373).

All awards under the Scheme are subject to the same performance conditions as described above.

Details of awards granted to the chairman and the executive directors under the Scheme are set out in the table on page 60.

Executive Share Option Schemes

The Chairman, executive directors and senior executives of the Group are eligible to participate in the Executive Share Option Schemes.

At the Annual General Meeting held on 14 May 2002, two new Executive Share Option Plans, the 2002 Approved Executive Share Option Plan (the '2002 Plan') and the 2002 Unapproved Executive Share Option Plan (the '2002 No.2 Plan') (together the '2002 Plans') were approved. Eligible executives would normally receive an annual grant of options over shares with a value on grant of up to the equivalent of 100 per cent of their annual remuneration.

Options will normally be exercisable between three and ten years of the date of grant if the performance condition imposed by the Committee has been satisfied. If the performance condition has not been satisfied by the third anniversary of the date of grant, options cannot be exercised and will lapse. Options can only be exercised if the growth in the company's adjusted EPS exceeds the growth in the RPI by at least 3 per cent per annum measured over the three financial years beginning with the financial year in which the option is granted. The performance condition applies to all the options which have been granted to the chairman and the executive directors under the 2002 Plans.

The executive directors also participated previously in the company's 1994 Approved Executive Share Option Scheme (the '1994 Approved Scheme') and the 1994 Executive Share Option Scheme (No.2) (the 'Unapproved 1994 scheme') (together the '1994 Schemes'). Under the 1994 Schemes, 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 are only exercisable if the growth in the company's adjusted EPS exceeds the increase in the RPI over any three year period from the date of grant plus 6 per cent. Under both the 2002 Plans and the 1994 Schemes the calculation of whether the performance criteria have been met is initially prepared by the Chief Executive. This calculation is based on the figure for adjusted EPS as shown in the Report and Accounts. These figures are reviewed by the auditors and are then submitted for the approval of the Committee.

This method was chosen by the Committee because the figures used are the ones shown in the Accounts and are audited.

The last grant of options under these 1994 Schemes was in 2001. The performance condition applies to all the options which have been granted to the chairman and the executive directors under the 1994 Schemes.

Details of options to the Chairman and the executive directors under the 2002 Plans and the 1994 Schemes and are set out in the table on pages 60 and 61.

1981 Savings-Related Option Scheme (the 'SAYE Scheme')

The company has operated an Inland Revenue approved SAYE share option scheme since 1981. The SAYE Scheme was renewed with shareholders' approval at the Annual General Meeting on 14 May 2002. All eligible employees of participating Group companies may participate in the SAYE Scheme. Each participant may save up to £250 a month to buy shares under option at the end of the option period. Savings contracts can be for a three, five or seven year period. The exercise price for options granted in 2001 included a discount of 20 per cent of the market value of the shares at the time of grant.

Options granted to executive directors under the SAYE Scheme are not subject to performance conditions. The SAYE Scheme is an Inland Revenue approved all-employee scheme, the terms of approval for which do not allow the imposition of performance conditions on the exercise of options.

Details of options granted to executive directors under the SAYE Scheme are set out in the table on pages 60 and 61.

Profit Sharing Scheme and the Share Incentive Plan

The Chairman and the executive directors participate in the company's Inland Revenue approved profit sharing scheme in which all eligible employees of participating Group companies may participate. The Profit Sharing Scheme was approved by shareholders on 21 May 1980. Shares appropriated to eligible employees 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 a participant. No further appropriations may be made under the Profit Sharing Scheme following the introduction in 2000 of a new Inland Revenue approved all-employee share scheme, the Share Incentive Plan, which supersedes the Profit Sharing Scheme. The new Plan in which all eligible employees of participating Group companies may participate will be launched in June 2003.

Details of the Chairman and the executive directors holdings under the Profit Sharing Scheme are set out in the table showing director's interests in shares on page 59.

Policy on outside appointments

An appointment of the Chairman or an executive director to the board of a company outside the Group 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 Committee, except in cases where the directorship is as a representative of the company.

Policy on service contracts

The Committee's intention is that executive directors should have contracts with rolling notice periods of no more than 12 months. However the Committee considers the notice period of two years for a long serving director who previously had a longer contract and for an initial period for newly appointed executive directors to be in the interests of the company.

Sir Nigel Mobbs, who relinquished his executive responsibilities in 1999, continues as Chairman of the company under an agreement which is terminable by the company and by the individual on 12 months' notice. 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. Mr R D Kingston has a service contract which is terminable by the company on two years' notice and by the individual director on one year's notice. Mr D R Wilson had a service contract which was terminable by the company on two years' notice and by the individual director on one year's notice. Mr D R Wilson's service contract terminated on 3 January 2003. Mr I D Coull was appointed a director on 1 January 2003 on a contract which requires the company to give two years' notice during the first two years from his date of appointment and thereafter it becomes terminable by the company on one year's notice. Mr I D Coull can terminate on giving 6 months' notice to the company at any time.

Any proposals for the early termination of the service contracts of directors and senior executives are considered by the Committee. The principles of mitigation are applied in settling compensatory amounts.

Non-Executive Directors

The fees payable to non-executive directors are set by reference to those paid by comparable organisations for similar appointments. In setting the fees independent external advice is sought on current market practice. The fees payable to non-executive directors are ratified by the Board after discussion between the executive directors.

The non-executive directors do not participate in any of the employee share schemes nor do they receive any other benefits on pension rights under the Pension Scheme. Non-executive directors do not have service contracts.

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. Mr Lees has a deferred pension under the pension scheme but is no longer accruing any additional benefits. 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.

Set out below are details of the pension benefits to which each of the executive directors are entitled in respect of the disclosure required by Paragraph 12 schedule 7A to the Companies Act 1985. The values given below include the effect of inflation in their calculation.

Director	Additional accrued pension earned in the year (£'000 p.a.)	Accrued pension at 31.12.02 (£'000 p.a.)	Transfer value at 31.12.01 (£'000)	Transfer value at 31.12.02 (£'000)	Increase in transfer value less directors' contributions (£'000)
D R Wilson	**24**	**192**	2,498	3,347	831
J A N Heawood	**1**	**10**	80	102	18
R D Kingston	**18**	**118**	1,243	1,632	379
D E F Simons *(retired 02.10.02)*	**1**	**127**	2,035	2,857	815
M D Lees	**1**	**7**	65	80	15

The Group has provided Mr M D Lees, a resident of the United States, a pension entitlement broadly equivalent to the benefit that he would have received had he continued to be a member of the Slough Estates (1957) Pension Scheme. Mr Lees is entitled to a pension of two-thirds his final salary at age 62, which will be reduced proportionately if he leaves Group service before age 62. The benefit is to be funded initially from the aggregate of Mr Lee's deferred pension under the Slough Estates (1957) Pension Scheme and the value of the money purchase benefits in his US non-contributory money purchase plan. Any additional amount that is required to make up his pension entitlement, if his pension fund does not match his two-thirds final salary promise, will be paid by the Group. The Group has accrued for the historic underpayment in providing the contracted pension for Mr Lees and it is anticipated that the company will commence making annual payments of approximately $210,000 to make up the anticipated deficit in his pension fund. Mr Lees' total accrued pension entitlement at the end of 2002 was £134,230 (2001 £119,330), with an estimated transfer value of £926,100. The additional accrued pension in the year was £14,900.

Sir Nigel Mobbs also receives pension payments through the Slough Estates (1957) Pension Scheme.

Set out below are details of the pension benefits for each of the executive directors in respect of the disclosure required under paragraph 12.43A of the Listing Rules. The values given below exclude inflation from their calculation.

Director	Additional accrued pension in the year excluding inflation (£'000 p.a.)	Transfer value of increase in accrued pension less directors' contributions (£'000)
D R Wilson	**19**	**274**
J A N Heawood	**1**	**7**
R D Kingston	**15**	**198**
D E F Simons *(retired 02.10.02)*	–	–
M D Lees	–	–

Funded Unapproved Retirement and Death Benefits Scheme

The company has set up a Funded Unapproved Retirement and Death Benefits Scheme (FURBS). It became effective from 1 November 1996. The FURBS will provide benefits to certain 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 (which is a money purchase scheme) for which provision is being made in the accounts. The cost of the FURBS in 2002 was £97,000 (2001: £109,000).

Mr I D Coull's Unfunded Unapproved Retirement Benefits Scheme ('UURBS') arrangements

Mr I D Coull, who was appointed on 1 January 2003 will be entitled at age 62 to a total pension of two thirds of his final pensionable salary less any retained benefits from prior employment. Final pensionable salary and retained benefits will be as defined in the rules (as modified by the unfunded unapproved retirement benefit scheme) of the Slough Estates (1957) Pension Scheme, of which he will be a member.

His entitlement to a pension from the company will consist of a scheme pension from the Slough Estates (1957) Pension Scheme and a company pension. The scheme pension will be the maximum that can be paid from the scheme without prejudicing Inland Revenue approval limits (subject to a maximum of his total pension entitlement). The company pension will be the balance of the total pension over and above the scheme pension.

The company will provide the company pension by means of an UURBS. It may choose, as an alternative to paying a regular monthly income in retirement, to pay a lump sum equal to the capitalised value of the pension which would otherwise have been payable. In this case, the company's liability for this will be calculated by Hewitt Bacon & Woodrow, the actuary of the Slough Estates (1957) Pension Scheme.

Directors' emoluments and compensation

	Salaries and fees £000	Benefits £000	Bonus* £000	Compensation for loss of office £000	**Total 2002 £000**	Total 2001 £000
Sir Nigel Mobbs *Chairman*	238	20	30	–	**288**	217
Executive directors						
J A N Heawood	290	17	–	–	**307**	292
R D Kingston	239	21	–	–	**260**	232
M D Lees†	249	25	97	–	**371**	366
D E F Simons *retired 02.10.02*	147	15	–	–	**162**	192
D R Wilson *Chief Executive*	382	17	–	1,249	**1,648**	366
Non-executive directors						
Lord Blackwell	25	–	–	–	**25**	19
S L Howard	25	–	–	–	**25**	16
Sir Gordon Jewkes *retired 14.05.02*	9	–	–	–	**9**	24
D Kramer**	108	–	–	–	**108**	101
The Rt Hon Lord MacGregor of Pulham Market *Chairman of the Audit Committee*	29	–	–	–	**29**	25
P D Orchard Lisle *Deputy Chairman*	39	–	–	–	**39**	38

†Mr M D Lees, Chief Executive of Slough Estates USA Inc., is resident and remunerated in the USA.
*The company does not currently have a specific cash bonus scheme.
**Mr D Kramer is non-executive Chairman of Slough Estates USA Inc. He is resident in and his fees are paid in the USA.

D R Wilson

The following compensation was paid to Mr D R Wilson or was receivable by him, as compensation for loss of office, in accordance with the terms of his contract on his leaving the company's employment on 3 January 2003.

- a severance payment of £818,000, less all taxes and deductions required by law;
- private medical insurance cover until the earlier of 3 January 2005 or until Mr Wilson obtains employment on terms which entitle him to such insurance cover. The total estimated cost of this benefit is £4,500;
- Mr Wilson is entitled to receive the maximum pension under the Slough Estates (1957) Pension Scheme, the value of which is set out on page 57 of this report. In addition, the company agreed to pay him a supplementary pension of £17,000 per annum less all deductions required by law, the cost of which to the company is estimated at £400,000; and
- the company agreed to arrange insurance cover for a period of two years from 3 January 2003, so that when aggregated with the benefits derived under the company pension scheme, in the event of Mr Wilson's death within the two year period, the total lump-sum benefit payable under such cover equals £770,000. The total estimated cost of this benefit is £26,500.

Former directors

Ex gratia payments to former directors and their dependants were £63,000 (2001: £62,000).

Directors' interests in shares

The interests of the directors and their immediate families in the ordinary shares of the company at 31 December 2002 and 1 January 2002 were:

Number of ordinary shares	Own holdings 31.12.02	Own holdings 1.1.02	Other interests 31.12.02	Other interests 1.1.02
Sir Nigel Mobbs	**554,104**	522,701	**18,327**	18,327
Lord Blackwell	**2,500**	2,500	**–**	–
J A N Heawood	**24,294**	17,719	**9,551**	7,030
S L Howard	**7,500**	7,500	**–**	–
Sir Gordon Jewkes *retired 14.05.02*	**3,116**	3,116	**–**	–
R D Kingston	**37,043**	26,624	**7,866**	7,866
D Kramer	**6,250**	6,250	**–**	–
M D Lees	**41,988**	33,157	**–**	–
Lord MacGregor	**3,000**	3,000	**–**	–
P D Orchard-Lisle	**28,580**	27,080	**–**	–
D E F Simons *retired 02.10.02*	**106,202**	98,242	**–**	–
D R Wilson	**143,110**	141,240	**–**	–

Beneficial interest in the table above represents shares held by executive directors, with directly or through a nominee, their spouse and children under 18. They include shares held on behalf of directors by the trustees of the Profit Sharing Scheme.

Between 31 December 2002 and 18 March 2003 there were no changes to the above.

At 31 December 2002, the executive directors above, together with other senior executives were potential beneficiaries in respect of a total of 598,274 ordinary shares in the company held by the trustees of the 1994 Employees' Benefit Trust.

8.25p convertible redeemable preference shares	Own holdings 31.12.02	Own holdings 1.1.02	Other interests 31.12.02	Other interests 1.1.02
Sir Nigel Mobbs	**35,752**	35,752	**6,760**	6,760
P D Orchard-Lisle	**6,300**	6,300	**–**	–
D E F Simons *retired 02.10.02*	**37,380**	37,380	**–**	–

The following are the non-beneficial interests of the directors who were in office at 31 December 2002:

	Ordinary shares 31.12.02	Ordinary shares 1.1.02	Preference shares 31.12.02	Preference shares 1.1.02
Sir Nigel Mobbs	**71,804**	71,804	**26,484**	26,484
Sir Nigel Mobbs, J A N Heawood and R D Kingston *(as Trustees of the Profit Sharing Scheme)*	**519,282**	517,853	**–**	–

The Trustees of the Profit Sharing Scheme did not sell any shares between 31 December 2002 and 18 March 2003.

Directors' other interests

Mr P D Orchard-Lisle was a senior partner of Healey & Baker until 14 September 1999. He then retired from the partnership and since that date has had no involvement or interest in its affairs. He also resigned as Chairman and Chief Executive of Healey & Baker Investment Advisors Inc. on 31 December 2001 and as non-executive Chairman of Healey & Baker Financial Limited on 1 September 2002. Healey & Baker has continued to act throughout the year as one of the Group's property advisers 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 2002 he held 40,000 Tipperary shares.

Long Term Share Incentive Scheme

	Number of shares under award 01.01.02	Number of shares lapsed	Number of shares over which awards are granted	Market value of shares on grant £	Number of shares vested 25.04.02*	Market value on date of vesting £	Number of shares under award 31.12.02	End of performance period over which performance conditions have to be met
Sir Nigel Mobbs								
20.04.99	39,533	–		3.32	39,533	4.12	–	
08.04.00	27,110			3.6886			27,110	31.12.02
27.03.01	27,932			3.58			27,932	31.12.03
04.04.02			25,125	3.98			25,125	31.12.04
J A N Heawood								
20.04.99	11,295	–		3.32	11,295	4.12	–	
08.04.00	18,435			3.6886			18,435	31.12.02
27.03.01	21,229			3.58			21,229	31.12.03
04.04.02			21,105	3.98			21,105	31.12.04
R D Kingston								
20.04.99	11,295	–		3.32	11,295	4.12	–	
08.04.00	19,519			3.6886			19,519	31.12.02
27.03.01	22,346			3.58			22,346	31.12.03
04.04.02			22,110	3.98			22,110	31.12.04
M D Lees								
20.04.99	14,742	–		3.32	14,742	4.12	–	
08.04.00	22,900			3.6886			22,900	31.12.02
27.03.01	28,120			3.58			28,120	31.12.03
04.04.02			27,798	3.98			27,798	31.12.04
D E F Simons *(retired 02.10.02)*								
20.04.99	10,165	–		3.32	10,165	4.12	–	
08.04.00	15,724			3.6886			15,724	31.12.02
27.03.01	18,100			3.58			18,100	31.12.03
D R Wilson								
20.04.99	26,430	–		3.32	26,430	4.12	–	
08.04.00	39,988			3.6886			39,988	31.12.02
27.03.01	45,391			3.58			45,391	31.12.03
04.04.02			44,597	3.98			44,597	31.12.04

On 7 January 2003 Mr I D Coull was granted an award under the terms of Long Term Share Incentive Scheme over 179,844 shares, which are subject to the performance criteria set out on page 55.

No variations have been made to the terms and conditions of any of the awards.

*The performance conditions are set out on page 55.

Options expiring, granted, exercised and outstanding to executive directors under the Executive and SAYE Schemes as follows:

	Number of shares under option 01.01.02	Number of shares lapsed	Number of shares over which options granted	Number of shares over which options exercised	Performance criteria	Exercise price p	Date of exercise	Mid-Market value on day of exercise p	Number of shares under option 31.12.02	Date from which option exercisable	Date option expires
Sir Nigel Mobbs											
		Nil									
1994 Unapproved	65,530			Nil	EPS - RPI + 6% over 3 years	381.5			65,530	20.09.02	19.09.06
2002 No. 2 Plan			48,879		EPS - RPI + 3% pa	409.167			48,879	10.06.05	09.06.12
J A N Heawood											
		Nil									
1994 Unapproved	11,049			11,049		271.5	04.04.02	396.5*	–		
1994 Unapproved	115,805				EPS - RPI + 6% over 3 years	271.5			115,805	04.04.00	03.04.04
1994 Unapproved	7,110					403.66			7,110	03.04.01	02.04.05
1994 Unapproved	18,369					312.5			18,369	31.03.02	30.03.06
1994 Unapproved	39,410					352.0			39,410	27.03.03	26.03.07
1994 Unapproved	18,785					356.5			18,785	28.03.04	27.03.08
2002 No. 2 Plan			51,323		EPS - RPI + 3% pa	409.167			51,323	10.06.05	09.06.12
SAYE	7,926	Nil	Nil	Nil	Nil	246.0			7,926	02.09.05	01.03.06

	Number of shares under option 01.01.02	Number of shares lapsed	Number of shares over which options granted	Number of shares over which options exercised	Performance criteria	Exercise price p	Date of exercise	Mid-Market value on day of exercise p	Number of shares under option 31.12.02	Date from which option exercisable	Date option expires
R D Kingston											
		Nil									
1994 Unapproved	3,104			3,104		233.833	05.04.02	404.0*	–		
1994 Unapproved	5,468			5,468		217.83	05.04.02	404.0*	–		
1994 Unapproved	24,452			24,452		210.5	03.05.02	429.0*	–		
1994 Unapproved	39,114					271.5			39,114	04.04.00	03.04.04
1994 Unapproved	10,665				EPS - RPI +	403.66			10,665	03.04.01	02.04.05
1994 Unapproved	24,796				6% over	312.5			24,796	31.03.02	30.03.06
1994 Unapproved	61,392				3 years	352.0			61,392	27.03.03	26.03.07
1994 Unapproved	22,936					356.5			22,936	28.03.04	27.03.08
2002 No. 2 Plan			53,767		EPS - RPI + 3% pa	409.167			53,767	10.06.05	09.06.12
SAYE	12,112	Nil	Nil	Nil	Nil	160.99			12,112	28.03.04	28.09.04
M D Lees											
1994 Unapproved	30,539	30,539				233.833					
1994 Unapproved	26,446			26,446		210.5		432.0*	–		
1994 Unapproved	36,456					271.5			36,456	04.04.00	03.04.04
1994 Unapproved	9,009				EPS - RPI +	403.66			9,009	03.04.01	02.04.05
1994 Unapproved	13,788				6% over	312.5			13,788	31.03.02	30.03.06
1994 Unapproved	41,174				3 years	352.0			41,174	27.03.03	26.03.07
1994 Unapproved	28,662					356.5			28,662	28.03.04	27.03.08
2002 No. 2 Plan			65,284		EPS - RPI + 3% pa	409.167			65,284	10.06.05	09.06.12
Tipperary Corporation	25,000	–	–	–	None	$4.25	–	–	25,000	26.08.00	ø
D E F Simons *(retired 02.10.02)*											
		Nil	Nil								
1994 Unapproved	7,028			7,028	EPS - RPI +6%	403.66	03.05.02	429.0*	–		
1994 Unapproved	14,956			14,956	over 3 years	312.5	03.05.02	429.0*	–		
1994 Unapproved	18,583					381.5			18,583	20.09.02	01.10.03
SAYE	12,112	Nil	Nil	Nil	Nil	160.99			12.112	02.10.02	02.04.03
	3,268	Nil	Nil	Nil	Nil	296.4			3,268	02.10.02	02.04.03
D R Wilson											
		Nil									
1994 Unapproved	13,635			13,635		210.5	11.04.02	399.0*	–		
1994 Unapproved	59,904			59,904		271.5	11.04.02	399.0*	–		
1994 Unapproved	50,805					403.66			50,805	03.04.01	02.04.05
1994 Unapproved	45,744				EPS - RPI +	312.5			45,744	31.03.02	30.03.06
1994 Unapproved	50,669				6% over	352.0			50,669	27.03.03	26.03.07
1994 Unapproved	45,238				3 years	356.5			45,238	28.03.04	27.03.08
2002 No. 2 Plan			86,761		EPS - RPI + 3% pa	409.167			86,761	10.06.05	09.06.12
SAYE	5,693	Nil	Nil	Nil		296.4			5,693†		

* The aggregate gains on exercise of options by each director were as follows: Mr J A N Heawood: £14,000, Mr R D Kingston: £71,000, Mr M D Lees: £59,000, Mr D E F Simons: £19,000, Mr D R Wilson: £102,000.

† The SAYE Scheme held by Mr D R Wilson lapsed on 3 January 2003 and shall have no effect.

ø 2 years after leaving the Tipperary Corporation Board.

On the retirement of Mr D R Wilson, the company agreed to exercise its discretion and request the Trustees of the Slough Estates plc 1994 Employees' Benefit Trust to allow unvested awards under the Long Term Share Incentive Scheme to vest subject to and in accordance with its rules.

On the retirement of Mr D R Wilson, the company agreed to exercise its discretion to allow unexercised Schemes under the 2002 No. 2 Plan and the Slough Estates plc 1994 Unapproved Scheme to be exercisable subject to and in accordance with the rules of those schemes.

On 6 January 2003, Mr I D Coull was granted an option over 116,279 ordinary shares at an exercise price of 344p under the 2002 Plans. These are subject to the performance conditions described on pages 55 and 56 and will be exercisable from 5 January 2006 if the performance conditions are met.

No payment is required for the grant of an option under the 1994 Schemes, 2002 Plans and SAYE Scheme.

No variations have been made to the terms and conditions of the options during the relevant period.

A summary of the performance conditions to which the exercise of Schemes is subject is set out on pages 55 and 56.

During the year, the share price ranged between a high of 432.0p and a low of 303.5p. The price on 31 December 2002 was 339.0p.

Approval

At the annual general meeting of the company to be held on 13 May 2003 an ordinary resolution will be proposed approving this report. This report was approved by the Board of directors on 18 March and signed on its behalf by order of the Board.

Auditable information

The information in the Directors' Remuneration report of the Remuneration Committee subject to audit is that included in the tables and related notes in the sections on Pension and Retirement benefits, Directors' emoluments and compensation, Long Term Share Incentive Scheme, and Share Options under the Executive and SAYE Schemes.

P Orchard-Lisle

Chairman of the Remuneration Committee

18 March 2003

Statement of the Directors' responsibilities

For the preparation of financial statements

UK 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 safe-guarding 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 Group profit and loss account, the statement of Group total recognised gains and losses, the notes of Group historical cost profits and losses, the reconciliation of movement in Group shareholders' funds, the balance sheets, the Group cash flow statement and the related notes, and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration 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 and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 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 only the financial summary, chairman's statement, chief executive's review, financial review, corporate governance guidelines, five year results, directors' report, the unaudited part of the directors' remuneration report, the combined code and the other information for shareholders, set out on the contents page.

We review whether the corporate governance statements reflect the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if they do not. We are not required to consider whether the board's statements on internal control cover 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 and the auditable part of the directors' remuneration report. 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 and the auditable part of the directors' remuneration report 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 2002 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A of the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
18 March 2003

Note

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Combined Code

and Slough Estates plc's Statement of Adherence

The company has applied all relevant aspects of the Principles and complied with the Best Practice Provisions of Section 1 of the Combined Code for all of 2002.

The company's Corporate Governance Guidelines are published on pages 36 and 37 of the 2002 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 four executive directors and there are five 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 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 Directors' Remuneration Report of the Remuneration Committee on pages 54 to 61.

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 2002 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 2002.

During 2002 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 at least 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 12).

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 Group has implemented the transitional disclosure requirements of FRS17 'Retirement Benefits'. These disclosure requirements, together with the requirements of SSAP24, are set out in note 21.

FRS 19 'Deferred Tax' 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 has adopted this standard in 2002 and the impact is set out in note 1 of the financial statements.

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 Colliers Conrad Ritblat Erdman or C B Hillier Parker in the United Kingdom, in the USA by Walden-Marling, Inc. (previously Realty Services International, Inc.), in Canada by Altus Group (previously known as Nilsen Realty Research Ltd), in Belgium by De Crombrugghe & Partners s.a. and in France by Insignia 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 intercompany 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.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax is not provided on timing differences arising from the revaluation of tangible fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Group profit and loss account

For the year ended 31 December 2002

	Note	2002 £m	2001 restated £m
Turnover:			
Group	2	292.2	281.5
Joint ventures	2	15.9	15.6
Operating income:			
Property investment	2	216.9	212.3
Property trading	2	2.8	8.7
Utilities - operating loss	2	(4.5)	(7.1)
- exceptional write down	2	–	(60.2)
		(4.5)	(67.3)
Other income	3	4.9	0.6
Administration expenses	4	(14.9)	(13.2)
Operating profit		205.2	141.1
Share of operating profit of property joint ventures and associate	5	14.8	13.9
Loss on sale of investment properties		(0.1)	(9.8)
Profit before interest and taxation		219.9	145.2
Interest (net)	6	(76.5)	(77.9)
Profit on ordinary activities before taxation		143.4	67.3
Taxation - current	7	(11.2)	(19.8)
- deferred	7	(33.4)	5.8
		(44.6)	(14.0)
Profit on ordinary activities after taxation		98.8	53.3
Minority interests - equity		(0.6)	1.2
Preference dividends	8	(11.4)	(11.6)
Profit attributable to ordinary shareholders		86.8	42.9
Ordinary dividends	8	(58.2)	(54.2)
Retained profit/(deficit)	15	28.6	(11.3)
Basic earnings per ordinary share	9	20.9p	10.4p
Adjustment to exclude profits and losses on sale of investment properties net of tax and minority and the write down of utilities plant		(0.1p)	18.6p
Adjustment to exclude FRS19 Deferred Tax		8.0p	(1.4p)
Adjusted basic earnings per ordinary share	9	28.8p	27.6p
Fully diluted earnings per ordinary share	9	20.9p	10.4p

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

The Group profit and loss account, balance sheet and other primary statements for the year ended 31 December 2001 have been restated for the effects of adopting Financial Reporting Standard 19 'Deferred Tax' as explained in note 1.

Statement of Group total recognised gains and losses

For the year ended 31 December 2002

	2002		2001 restated	
	£m	£m	£m	£m
Profit attributable to ordinary shareholders		**86.8**		42.9
Deficit on revaluation of properties	**(20.3)**		(6.0)	
Surplus/(deficit) on revaluation of - Joint ventures	**14.5**		(9.8)	
- Associate	**0.1**		(0.2)	
		(5.7)		(16.0)
Exchange differences	**(15.3)**		(0.4)	
Other items	**(0.6)**		(0.7)	
Taxation	**0.4**		(6.1)	
Minority interests	**(1.2)**		0.3	
Total other recognised gains and losses		**(16.7)**		(6.9)
Total recognised gains and losses for the year		**64.4**		20.0
Prior year adjustment (see note 1)		**(151.6)**		
		(87.2)		
Realised		**89.9**		34.1
Unrealised		**(25.5)**		(14.1)
		64.4		20.0

Notes of Group historical cost profits and losses

For the year ended 31 December 2002

	2002 £m	2001 restated £m
Reported profit on ordinary activities before taxation	**143.4**	67.3
Realisations of revaluation gains and losses of previous years	**(1.7)**	0.1
Historical cost profit on ordinary activities before taxation	**141.7**	67.4
Historical cost profit/(loss) for the year after taxation, minority interests and dividends	**27.3**	(17.3)

Reconciliation of movement in Group shareholders' funds

For the year ended 31 December 2002

	2002 £m	2001 restated £m
Profit attributable to ordinary shareholders	**86.8**	42.9
Ordinary dividends	**(58.2)**	(54.2)
	28.6	(11.3)
Revaluation deficit	**(5.7)**	(16.0)
Other recognised gains and losses	**(16.7)**	(6.9)
Ordinary shares issued	**2.3**	1.5
Net increase/(decrease) in shareholders' funds	**8.5**	(32.7)
Shareholders' funds at 1 January	**2,236.6**	2,269.3
Shareholders' funds at 31 December	**2,245.1**	2,236.6

The opening shareholders' funds as at 1 January 2002 as previously reported amounted to £2,388.2 million before the prior year adjustment of £151.6 million (see note 1).

Balance sheets

As at 31 December 2002

	Note	Group 2002 £m	Group 2001 restated £m	Company 2002 £m	Company 2001 restated £m
Fixed assets					
Tangible assets - investment properties	10	3,632.6	3,514.2	–	–
- other	11	38.1	31.7	–	–
Investments	12	–	–	3,443.1	3,293.8
Investments in joint ventures:					
- share of gross assets		231.3	217.0	59.8	53.8
- share of gross liabilities		(46.5)	(46.3)	(26.9)	(26.2)
	12	184.8	170.7	32.9	27.6
Investment in associate	12	3.9	4.0	–	–
		3,859.4	3,720.6	3,476.0	3,321.4
Current assets					
Stocks	13	146.8	135.3	–	–
Debtors	13	31.8	39.2	74.7	50.9
Trading investments	13	81.3	78.0	–	–
Cash and deposits		93.9	175.9	14.7	60.0
		353.8	428.4	89.4	110.9
Prepayments and accrued income		17.9	16.4	3.0	4.4
Total assets		4,231.1	4,165.4	3,568.4	3,436.7
Capital and reserves					
Called up share capital	14	138.5	138.7	138.5	138.7
Share premium account	15	331.2	328.7	331.2	328.7
Capital reserves	15	1,525.6	1,542.8	1,621.4	1,651.4
Profit and loss account	15	249.8	226.4	154.0	117.8
Shareholders' funds		2,245.1	2,236.6	2,245.1	2,236.6
Minority interests - equity		24.5	25.1	–	–
- non-equity		0.3	0.3	–	–
Provisions for liabilities and charges	17	189.2	155.8	134.9	114.2
Creditors falling due within one year					
Borrowings	18	27.8	47.5	5.2	3.5
Other	19	183.2	202.6	73.0	73.0
Creditors falling due after more than one year					
Borrowings	18	1,555.7	1,493.6	1,034.2	967.1
Other	19	5.3	3.9	76.0	42.3
		4,231.1	4,165.4	3,568.4	3,436.7
Shareholders' funds attributable to:					
Equity shareholders - ordinary shares		2,107.3	2,096.4	2,107.3	2,096.4
Non-equity shareholders - preference shares		137.8	140.2	137.8	140.2
		2,245.1	2,236.6	2,245.1	2,236.6
Net assets per ordinary share					
- basic	9	506p	506p		
- basic excluding FRS19 deferred tax	9	551p	542p		
- fully diluted	9	480p	479p		
- fully diluted excluding FRS19 deferred tax	9	519p	512p		

The financial statements on pages 66 to 90 inclusive were approved by the Board of directors on 18 March 2003 and signed on its behalf by:

Sir Nigel Mobbs
R D Kingston
Directors

Group cash flow statement

For the year ended 31 December 2002

	Note	£m	2002 £m	£m	2001 £m
Net cash inflow from operating activities	20(1)		**202.5**		174.3
Dividends from joint ventures and associate			**11.6**		9.7
Returns on investments and servicing of finance					
Interest received		**6.1**		7.8	
Interest paid		**(116.1)**		(115.7)	
Dividends paid to preference and minority shareholders		**(12.5)**		(12.3)	
			(122.5)		(120.2)
Taxation			**(22.3)**		(8.1)
Capital expenditure and financial investment					
Purchase and development of investment properties		**(166.4)**		(275.6)	
Purchase of other fixed assets		**(5.6)**		(15.7)	
Purchase of trading investments		**(24.7)**		(18.1)	
Sales of investment properties		**5.7**		225.9	
Sales of other fixed assets		**–**		0.2	
Sales of trading investments		**23.4**		8.3	
			(167.6)		(75.0)
Acquisitions and disposals					
Investment in joint ventures		**(2.0)**		(1.5)	
Return of capital from joint venture		**–**		10.0	
Acquisition of minority interests		**–**		(0.7)	
Contribution from minorities		**–**		3.8	
			(2.0)		11.6
Equity dividends paid			**(55.8)**		(51.7)
Net cash outflow before use of liquid resources and financing			**(156.1)**		(59.4)
Management of liquid resources	20(2)				
Investment in term deposits		**19.5**		(63.3)	
Net cash inflow/(outflow) from the management of liquid resources			**19.5**		(63.3)
Financing					
Issue of ordinary shares	20(3)	**2.3**		1.5	
Increase in debt	20(4)	**72.7**		199.3	
Cash inflow from financing			**75.0**		200.8
(Decrease)/increase in cash			**(61.6)**		78.1

Notes to the financial statements

1 Restatement for FRS 19 Deferred Tax

FRS 19 requires full provision to be made in the accounts for deferred tax on temporary timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be a suitable taxable profit from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements.

Previously, provision was made for timing differences to the extent that it was probable that a liability would crystallise in the foreseeable future. In adopting the standard, the Group has restated previous periods' results. The impact on the current and prior year periods, are summarised below:

	2002 £m	2001 £m
(Increase)/decrease in tax on profit on ordinary activities	(33.1)	5.6
(Decrease)/increase in profit in the financial period	(33.1)	5.6
Increase in other recognised gains and losses	–	0.6
Decrease in opening reserves	(151.6)	(157.8)
Decrease in shareholders' funds	(183.5)	(151.6)
Increase in provision for liabilities and charges	(183.5)	(151.6)
Decrease in net assets	(183.5)	(151.6)
Basic earnings per ordinary share:		
Prior to adopting FRS 19 Deferred Tax	28.9p	9.0p
Adjustment for FRS 19 Deferred Tax	(8.0p)	1.4p
As adjusted	20.9p	10.4p
Net assets per ordinary share - basic:		
Prior to adopting FRS 19 Deferred Tax	551p	542p
Adjustment for FRS 19 Deferred Tax	(45p)	(36p)
As adjusted	506p	506p
Net assets per ordinary share - fully diluted:		
Prior to adopting FRS 19 Deferred Tax	519p	512p
Adjustment for FRS 19 Deferred Tax	(39p)	(33p)
As adjusted	480p	479p

2 Segmental information and operating profit

	Turnover		Operating profit		Profit before tax		Net assets	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 restated £m
Business segments:								
Property investment	242.3	234.4	216.9	212.3	231.7	226.2	3,755.3	3,619.1
Property trading	31.6	30.1	2.8	8.7	2.8	8.7	137.4	131.4
Utilities - operating loss	18.3	17.0	(4.5)	(7.1)	(4.5)	(7.1)	39.5	31.0
- exceptional write down	–	–	–	(60.2)	–	(60.2)	–	–
Other activities	–	–	4.9	0.6	4.9	0.6	73.2	68.7
Loss on sale of investment properties	–	–	–	–	(0.1)	(9.8)	–	–
Net interest/net borrowings	–	–	–	–	(76.5)	(77.9)	(1,489.6)	(1,365.2)
Common costs/ common net liabilities	–	–	(14.9)	(13.2)	(14.9)	(13.2)	(270.7)	(248.4)
	292.2	281.5	205.2	141.1	143.4	67.3	2,245.1	2,236.6
Geographical segments:								
United Kingdom	183.9	179.5	142.2	79.9	152.8	90.8	2,720.7	2,675.0
Canada	2.4	12.7	1.0	9.8	0.8	2.3	23.3	17.0
USA	55.2	50.2	37.5	25.7	41.8	26.2	713.9	663.3
Europe	50.7	39.1	24.5	25.7	24.5	25.9	316.2	283.5
Net interest/net borrowings	–	–	–	–	(76.5)	(77.9)	(1,489.6)	(1,365.2)
Common net liabilities	–	–	–	–	–	–	(39.4)	(37.0)
	292.2	281.5	205.2	141.1	143.4	67.3	2,245.1	2,236.6

2 Segmental information and operating profit continued

Joint ventures (Group share)	Turnover		Share of assets		Share of liabilities		Net investment	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Business segments:								
Property investment – property	15.9	15.6	225.4	212.0	(46.5)	(46.3)	178.9	165.7
– other	–	–	5.9	5.0	–	–	5.9	5.0
	15.9	15.6	231.3	217.0	(46.5)	(46.3)	184.8	170.7
Geographical segments:								
United Kingdom	11.3	10.9	196.2	178.9	(30.4)	(29.5)	165.8	149.4
USA	4.6	4.7	35.1	38.1	(16.1)	(16.8)	19.0	21.3
	15.9	15.6	231.3	217.0	(46.5)	(46.3)	184.8	170.7

Property investment turnover comprises:	Rents		Tenant recharges and other		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Rents and recharges						
– United Kingdom	161.6	159.8	4.0	2.7	165.6	162.5
– Canada	2.0	11.3	0.4	1.4	2.4	12.7
– USA	44.9	35.3	9.3	6.5	54.2	41.8
– Europe	19.6	16.9	0.5	0.5	20.1	17.4
	228.1	223.3	14.2	11.1	242.3	234.4

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.

Net operating income comprises:	Property investment		Property trading		Utilities		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Turnover	242.3	234.4	31.6	30.1	18.3	17.0	292.2	281.5
Ground rents payable	(0.3)	(0.5)	–	–	–	–	(0.3)	(0.5)
Depreciation	–	–	–	–	(0.1)	(2.5)	(0.1)	(2.5)
Exceptional write down of utilities plant	–	–	–	–	–	(60.2)	–	(60.2)
Other property outgoings/cost of sales	(25.1)	(21.6)	(28.8)	(21.4)	(22.7)	(21.6)	(76.6)	(64.6)
Total property outgoings/cost of sales	(25.4)	(22.1)	(28.8)	(21.4)	(22.8)	(84.3)	(77.0)	(127.8)
Net operating income	216.9	212.3	2.8	8.7	(4.5)	(67.3)	215.2	153.7

3 Other income

	2002 £m	2001 £m
Net profit on trading investments	5.4	3.5
Dividends received from investments	0.7	0.4
Other	(1.2)	(3.3)
	4.9	0.6

4 Administration expenses

	2002 £m	2001 £m
Directors' remuneration	**2.0**	1.9
Compensation to director for loss of office	**1.2**	–
Depreciation of tangible fixed assets	**0.8**	0.7
Auditors' remuneration	**0.7**	0.6
Other administration costs	**10.2**	10.0
	14.9	13.2

Fees paid to the auditors in the United Kingdom and overseas during the year in respect of non-audit appointments were £0.1 million (2001 £0.1 million) and £0.4 million (2001 £0.8 million) respectively, all of which relate to tax advice.

Employees' staff costs were:	Property management £m	Utilities £m	Total 2002 £m	Total 2001 £m
Wages and salaries	14.1	5.6	**19.7**	20.0
Social security costs	1.4	0.5	**1.9**	2.0
Pension contributions (see note 21)	3.5	1.1	**4.6**	2.8
	19.0	7.2	**26.2**	24.8

The average number of employees of the Group was 525 (2001 549) of which 377 (2001 399) were engaged in property development, management and general administration and 148 (2001 150) were engaged in utilities. The average number of employees in the UK amounted to 482 (2001 480).

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 61 in the Directors' Remuneration Report of the Remuneration Committee and form part of these financial statements.

5 Share of operating profit of joint ventures and associate

Investment property	2002 £m	2001 £m
Joint ventures	**14.2**	13.4
Associate	**0.6**	0.5
	14.8	13.9

6 Interest (net)

	2002 £m	2001 £m
Group:		
On bank loans and overdrafts	**19.3**	20.3
On other loans	**95.9**	93.3
	115.2	113.6
Less interest received	**(5.2)**	(8.0)
Less amount charged to: the development of trading properties	**(3.8)**	(2.9)
: the development of investment properties	**(29.2)**	(25.6)
: the development of other assets	**(3.1)**	(2.0)
Charged to profit and loss account – Group	**73.9**	75.1
– Joint ventures	**2.4**	2.6
– Associate	**0.2**	0.2
	76.5	77.9

The interest capitalised rates for 2002 were: UK 8.0 per cent (2001 8.25 per cent), USA 6.93 per cent (2001 6.62 per cent), Canada 6.76 per cent (2001 7.65 per cent) and in Europe at rates ranging from 3.5 per cent to 6.0 per cent (2001 4.5 per cent to 6.5 per cent).

7 Taxation

Current tax	2002 £m	2001 restated £m
Provision for taxation based on profits for the year		
United Kingdom		
Corporation tax charge at 30 per cent (2001 30 per cent)	**7.1**	18.7
Advance corporation tax written back	**–**	(5.0)
Over provision in earlier years	**(0.2)**	(1.3)
Tax in joint venture	**0.6**	0.2
	7.5	12.6
Overseas		
Current tax charge	**3.9**	0.2
Tax (credit)/charge on sale of investment properties	**(0.2)**	7.0
Total current tax	**11.2**	19.8
Deferred tax		
Origination and reversal of timing differences	**35.4**	32.6
Effect of changes in tax rates on opening timing differences	**(2.2)**	0.7
Released in respect of property disposals in the period	**(0.1)**	(20.5)
Provision released following the write down of the Utilities plant	**–**	(18.4)
Total deferred tax - FRS 19	**33.1**	(5.6)
Other deferred tax	**0.3**	(0.2)
Total deferred tax	**33.4**	(5.8)
Total tax	**44.6**	14.0

Factors affecting tax charge for period:

The current tax charge for the year is lower than the standard rate corporation tax in the UK. The differences are explained below:

	2002 £m	2001 £m
Profit on ordinary activities before tax	**143.4**	67.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2001 30 per cent)	**43.0**	20.2
Effects of:		
Exceptional write down of the Utilities plant	**–**	18.0
Capital allowances	**(16.9)**	(9.3)
Interest capitalised	**(9.1)**	(4.9)
Utilisation of tax losses	**(0.8)**	–
Higher tax rates on overseas earnings	**4.7**	2.4
Prior year adjustments	**(9.7)**	(1.6)
Advance corporation tax	**–**	(5.0)
	11.2	19.8

Factors that may affect future tax charges

Based on current investment plans the Group expects to continue to be able to claim allowances on expenditure relating to properties.

The USA has tax losses resulting from accelerated capital allowance claims which are expected to be substantially consumed during 2003.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associate and joint ventures. In the event of their remittance to the UK, no net UK tax is expected to be payable.

8 Dividends

	2002 £m	2001 £m
Preference dividends		
Dividend paid to 1 September	**7.6**	7.7
Dividend accrued for period from 2 September to 31 December	**3.8**	3.9
	11.4	11.6
Ordinary dividends		
Interim dividend at 5.45p per share (2001 5.1p)	**22.7**	21.1
Proposed final dividend at 8.55p per share (2001 8.0p)	**35.5**	33.1
	58.2	54.2

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

			Basic		Fully diluted	
			2002	2001 restated	**2002**	2001 restated
The earnings, capital deficit and net assets per ordinary share have been calculated as follows:						
Profit attributable to ordinary shareholders	(a)	£m	**86.8**	42.9	**86.8**	42.9
Profit attributable to ordinary shareholders excluding profits and losses on sale of investment properties, exceptional write down and FRS 19 deferred tax	(b)	£m	**119.8**	114.3	**119.8**	114.3
Capital deficit	(c)	£m	**(22.4)**	(22.9)	**(22.4)**	(22.9)
Average number of shares in issue during the year	(d)	shares m	**415.5**	414.2	**415.8**	414.5
Earnings per share (a)/(d)		pence	**20.9**	10.4	**20.9**	10.4
Earnings per share excluding profits and losses on sale of investment properties, exceptional write down and FRS 19 deferred tax (b)/(d)		pence	**28.8**	27.6	**28.8**	27.6
Capital deficit per share (c)/(d)		pence	**(5.4)**	(5.6)	**(5.4)**	(5.6)
Equity attributable to ordinary shareholders	(e)	£m	**2,107.3**	2,096.4	**2,245.1**	2,236.6
Equity attributable to ordinary shareholders excluding FRS 19 deferred tax	(f)	£m	**2,290.8**	2,248.0	**2,428.6**	2,388.2
Number of shares in issue at the end of the year	(g)	shares m	**416.1**	414.5	**467.5**	466.8
Net assets per share (e)/(g)		pence	**506**	506	**480**	479
Net assets per share excluding FRS 19 deferred tax (f)/(g)		pence	**551**	542	**519**	512

	2002 m	2001 m
Average number of shares in issue during the year	**415.5**	414.2
Adjustment for the dilutive effect of employee share options and save as you earn schemes	**0.3**	0.3
Average number of shares in issue during the year - fully diluted	**415.8**	414.5

In 2002 and 2001 the effect of the preference shares is anti-dilutive and therefore they are excluded from the diluted earnings per share calculation.

The Group has also presented an adjusted basic earnings per share figure to exclude the impact of exceptional items, profits and losses on the sale of investment properties (net of taxation and minority interests) and FRS 19 Deferred Tax. The directors consider that this adjusted figure gives a more meaningful comparison for the periods shown in the consolidated financial statements. Deferred tax has been excluded from the adjusted calculation as the Group has no plans to sell a significant proportion of its investment properties, and in any case it is generally very unusual for UK capital allowances to be recaptured on the disposal of a property. Profits and losses on the sale of investment properties are excluded from adjusted earnings as these are non-recurring items.

Net assets per share are calculated on the equity shareholders' funds of £2,107.3 million (2001 £2,096.4 million restated). Adjusted net assets per share have been calculated on the same number of shares but shareholders' funds exclude the FRS 19 Deferred Tax liability of £183.5 million (2001 £151.6 million) as it is the opinion of the directors that deferred tax on capital allowances in relation to investment properties in unlikely to crystallise materially in practice.

10 Tangible assets - investment properties

	UK £m	Canada £m	USA £m	Europe £m	Total £m
At 1 January 2002	2,663.7	35.2	581.6	233.7	3,514.2
Exchange movement	–	(3.1)	(54.2)	15.3	(42.0)
Additions	76.1	1.5	101.7	7.6	186.9
Disposals	(0.1)	(5.4)	(0.7)	–	(6.2)
(Deficit)/surplus on valuation	(33.1)	(2.2)	7.4	7.6	(20.3)
At 31 December 2002	2,706.6	26.0	635.8	264.2	3,632.6
Completed properties	2,494.6	23.0	415.9	241.4	3,174.9
Properties for or under development	212.0	3.0	219.9	22.8	457.7
	2,706.6	26.0	635.8	264.2	3,632.6

	2002 £m	2001 £m
Properties held at valuation – cost	**2,141.6**	1,999.5
– valuation surplus	**1,371.9**	1,388.4
	3,513.5	3,387.9
Properties held at cost	**119.1**	126.3
	3,632.6	3,514.2

The above assets include long term leaseholds valued at £171.6 million (2001 £164.9 million).

The Group's completed investment properties and land held for or under development were externally valued as at 31 December 2002, in accordance with the accounting policies, by Insignia Richard Ellis or Colliers Conrad Ritblat Erdman or C B Hillier Parker in the United Kingdom, in the USA by Walden-Marling, Inc. (previously Realty Services International, Inc.), in Canada by Altus Group (previously known as Nilsen Realty Research Ltd), in Belgium by De Crombrugghe & Partners s.a. and in France by Insignia Bourdais Expertises s.a.

C B Hillier Parker and Insignia Richard Ellis have valued part of the portfolio since 1986 and Colliers Conrad Ritblat Erdman since 1989. C B Hillier Parker and Insignia Richard Ellis also undertake some professional and letting work on behalf of the Group, although this activity is limited in relation to the activities of the Group as a whole. All three companies advise us that the total fees paid by the Group represent less than 5 per cent of their total revenue in any year and have adopted policies for the regular rotation of the responsible valuer.

11 Tangible assets - other

	Cost £m	Depreciation £m	Net £m
At 1 January 2002	39.2	(7.5)	31.7
Additions	7.3	(0.9)	6.4
Disposals	(0.2)	0.2	–
At 31 December 2002	46.3	(8.2)	38.1

The net book value includes utilities plant and equipment amounting to £35.3 million (2001 £29.3 million).

12 Investments

	Associate £m	Joint ventures £m	Total 2002 £m	Total 2001 £m
Group				
Cost or valuation at 1 January 2002	4.0	170.7	**174.7**	191.8
Exchange movement	(0.4)	(2.0)	**(2.4)**	0.5
Net additions	–	1.8	**1.8**	1.2
Return of capital	–	–	**–**	(10.0)
Dividends received	(0.2)	(11.4)	**(11.6)**	(9.7)
Valuation surplus/(deficit)	0.1	14.5	**14.6**	(10.0)
Share of profits net of taxation	0.4	11.2	**11.6**	10.9
Cost or valuation at 31 December 2002	3.9	184.8	**188.7**	174.7

12 Investments continued

	Associate £m	Joint ventures £m	Total 2002 £m	Total 2001 £m
Analysed as follows:				
Cost less amounts written off	1.1	90.5	**91.6**	90.6
Valuation surplus	2.3	91.7	**94.0**	80.4
Share of retained profits	0.5	2.6	**3.1**	3.7
	3.9	184.8	**188.7**	174.7
Net borrowings of joint ventures and associate				
Included in joint venture gross liabilities shown on the balance sheet				
– gross borrowings	–	39.3	39.3	40.2
– other liabilities	–	7.2	7.2	6.1
Off balance sheet net borrowings of associate	2.1	–	2.1	2.6
	2.1	46.5	48.6	48.9

	Joint venture investments £m	Subsidiaries Shares restated £m	Subsidiaries Loans £m	Total restated £m
Company				
Cost or valuation at 1 January 2002	27.6	2,507.5	824.6	**3,359.7**
Prior year adjustment (see note 1)	–	(38.3)	–	**(38.3)**
Restated cost or valuation at 1 January 2002	27.6	2,469.2	824.6	**3,321.4**
Net additions	–	–	190.2	**190.2**
Provisions	–	–	(6.0)	**(6.0)**
Valuation surplus/(deficit)	5.3	(34.9)	–	**(29.6)**
Cost or valuation at 31 December 2002	32.9	2,434.3	1,008.8	**3,476.0**

Company investments comprise investments at cost less amounts written off of £2,474.6 million (2001 £2,290.4 million) and valuation surplus of £1,001.4 million (2001 £1,031.0 million restated).

The principal undertakings at 31 December 2002 are listed below (all equity holdings unless otherwise stated).

Property	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 96.7 Preference 100	
The Buchanan Partnership	England		50
Cambridge Research Park Limited	England	100	
Equinox Industrial Limited Partnership	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
Slough Europe Limited	England	100	
Slough Estates Canada Limited	Canada	99.9	
Slough Estates USA Inc.	USA	100	
Quail 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	

12 Investments continued

Service	Country of incorporation	Subsidiaries % holding	Joint ventures % holding
* Slough Estates Administration Limited	England	100	
* Slough Estates Finance plc	England	100	
Other			
Tipperary Corporation	USA	61	
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 October 2002, Slough Estates USA Inc. (SEUSA) acquired an additional 27% ownership of Britannia Hacienda II Limited Partnership for £2.1 million increasing SEUSA's total share of ownership from 36.5% to 63.5%.

Related party transactions

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

In 2001 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$375,000 of the consideration remains outstanding and attracts interest at 9% per annum. The US$375,000 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.

13 Current assets

	Group	
	2002 £m	2001 £m
Stocks		
Trading properties – completed properties	**120.5**	91.2
– properties under development	**24.4**	42.8
	144.9	134.0
Utilities stock	**1.9**	1.3
	146.8	135.3
Off balance sheet net borrowings relating to the above trading properties	**5.8**	7.2

Net rental income earned on trading properties is deducted from the cost of development. Net rental income for 2002 was £3.1 million (2001 £2.0 million).

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Debtors (receivable in less than one year)				
Trade debtors	**19.4**	25.1	**–**	–
Dividends receivable from subsidiaries	**–**	–	**74.7**	50.9
Other debtors	**10.3**	10.6	**–**	–
Tax recoverable	**1.4**	2.5	**–**	–
	31.1	38.2	**74.7**	50.9
Debtors (receivable in more than one year)				
Other debtors	**0.7**	1.0	**–**	–
	31.8	39.2	**74.7**	50.9
Trading investments				
Shares – listed (market value £1.0 million)	**0.1**	2.3	**–**	–
– unlisted	**35.6**	40.5	**–**	–
Gas investments in USA and Australia	**45.6**	35.2	**–**	–
	81.3	78.0	**–**	–

14 Share capital

	Authorised		Issued and fully paid	
	Shares m	£m	Shares m	£m
Ordinary shares of 25p each				
At 1 January 2002	586.4	146.6	414.5	103.6
Shares issued during the year			1.6	0.4
At 31 December 2002	586.4	146.6	416.1	104.0
Cumulative redeemable convertible preference shares of 25p each				
At 1 January 2002	141.6	35.4	140.2	35.1
Conversions during the year			(2.4)	(0.6)
At 31 December 2002	141.6	35.4	137.8	34.5

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 2003 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 51,112,659 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 168,255 ordinary shares were subscribed in cash at a price of 427.6p per share and were issued to the trustees and allocated at that price to eligible employees under the profit sharing scheme.

Share option schemes 591,975 ordinary shares were subscribed in cash following the exercise of employees' options under the share option schemes. The consideration received by the company was £1,626,061.

Conversions During the year 886,191 ordinary shares were issued, credited as fully paid following the conversion of, and in satisfaction of 2,389,990 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 208,346 ordinary shares at a subscription price of 276.4p per share.

Executive share option scheme 1,275,684 ordinary shares at a subscription price of 409.167p per share.

On 6 January 2003 options were granted over 116,279 shares at a subscription price of 344.0p per share. These options are included in the notes of the Slough Estates plc 2002 Executive Share Option Plans.

Profit sharing scheme Sir Nigel Mobbs and Messrs. Heawood and Kingston are trustees of the Slough Estates plc profit sharing scheme which was approved by the shareholders on 21 May 1980. At 18 March 2003 the number of shares held under the scheme was 519,282 ordinary shares. The interests stated in the 519,282 ordinary shares shown in the table on page 59 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. Heawood and Kingston and which are included in their beneficial holdings in the table shown on page 59.

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 18 March 2003 the number of ordinary shares under option was 168,195 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 18 March 2003 the number of ordinary shares under option was 1,972,578 at option prices ranging from 210.5p to 403.66p expiring on 27 March 2008.

Under the Slough Estates plc 2002 Approved Executive Share Option Plan approved by the shareholders on 14 May 2002, 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 18 March 2003 the number of ordinary shares under option was 45,375 at option prices ranging from 344.0p to 409.167p expiring on 5 January 2013.

Under the Slough Estates plc 2002 Unapproved Executive Share Option Plan approved by the shareholders on 14 May 2002, 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 18 March 2003 the number of ordinary shares under option was 1,321,636 at option prices ranging from 344.0p to 409.167p expiring on 5 January 2013.

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 18 March 2003 the number of ordinary shares under option was 1,001,667 at option prices ranging from 160.99p to 328.0p expiring on various dates up to 1 October 2009.

15 Reserves

	Share premium account £m	Capital reserve unrealised £m	Capital reserve realised £m	Profit and loss restated £m	**Total restated £m**
Group					
Balance at 1 January 2002	328.7	1,502.0	40.8	378.0	2,249.5
Prior year adjustment (see note 1)	–	–	–	(151.6)	(151.6)
Restated balance at 1 January 2002	328.7	1,502.0	40.8	226.4	2,097.9
Realisation of revaluation gains and losses of previous years	–	1.7	(1.7)	–	–
Revaluation deficit	–	(5.7)	–	–	(5.7)
Other recognised gains and losses (see page 69)	–	(19.8)	8.2	(5.1)	(16.7)
Retained profit for the year	–	–	–	28.6	28.6
Shares issued	2.5	–	–	–	2.5
Reserve transfer	–	3.4	(3.3)	(0.1)	–
Balance at 31 December 2002	331.2	1,481.6	44.0	249.8	2,106.6

	2002 £m	2001 restated £m
Retained profit/(deficit) for the year		
Parent company	**36.2**	35.4
Subsidiaries	**(7.6)**	(47.9)
Associate and joint ventures	**–**	1.2
	28.6	(11.3)

	Share premium account £m	Capital reserve unrealised restated £m	Capital reserve realised £m	Profit and loss restated £m	**Total restated £m**
Company					
Balance at 1 January 2002	328.7	1,116.7	573.0	231.1	2,249.5
Prior year adjustment (see note 1)	–	(38.3)	–	(113.3)	(151.6)
Restated balance at 1 January 2002	328.7	1,078.4	573.0	117.8	2,097.9
Retained profit for the year	–	–	–	36.2	36.2
Revaluation deficit	–	(29.6)	–	–	(29.6)
Shares issued	2.5	–	–	–	2.5
Other	–	–	(0.4)	–	(0.4)
Balance at 31 December 2002	331.2	1,048.8	572.6	154.0	2,106.6

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 £94.4 million (2001 £89.6 million restated).

16 Commitments

	2002 £m	2001 £m
a) Capital expenditure commitments		
Property – United Kingdom	**15.2**	34.9
– Overseas	**101.1**	154.5
Utilities	**0.1**	0.8
Other activities	**26.7**	30.9
	143.1	221.1

b) Operating leases
At 31 December 2002 the Group had annual commitments in respect of operating leases relating to land and buildings as follows:

	2002 £m	2001 £m
Leases which expire:		
Within two to five years	**1.4**	1.3
After five years	**0.4**	0.4
	1.8	1.7

17 Provisions for liabilities and charges

	Deferred tax restated £m	Other liabilities £m	**Total restated £m**
Group			
Balance at 1 January 2002	2.5	1.7	4.2
Prior year adjustment (see note 1)	151.6	–	151.6
Restated balance at 1 January 2002	154.1	1.7	155.8
Exchange movement	(1.1)	–	(1.1)
Charged to profit and loss account	33.4	1.2	34.6
Paid	–	(0.1)	(0.1)
Balance at 31 December 2002	186.4	2.8	189.2
Company			
Balance at 1 January 2002	0.9	–	0.9
Prior year adjustment (see note 1)	113.3	–	113.3
Restated balance at 1 January 2002	114.2	–	114.2
Charged to profit and loss account	20.7	–	20.7
Balance at 31 December 2002	134.9	–	134.9

Deferred tax relates to UK and overseas timing differences arising mainly from capital allowances on plant, industrial building allowances, overseas depreciation allowances on properties and interest capitalised and is provided at 30 per cent (2001 30 per cent) in the UK and at local rates overseas.

The other liabilities relate principally to provisions for onerous leases on rented properties and represent 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.

The estimated amount of potential taxation, for which no provision has been made and which would arise if the assets held as long term investments were sold at the values at which they appear in the balance sheet, amounts to £176.5 million (2001 £180.4 million restated).

17 Provisions for liabilities and charges continued

Deferred taxation consists of:	Group 2002 £m	Group 2001 restated £m	Company 2002 £m	Company 2001 restated £m
Accelerated capital allowances	**69.5**	61.3	**67.4**	59.5
Overseas depreciation allowances	**43.8**	37.3	**–**	–
Interest capitalised	**69.7**	61.6	**59.0**	53.8
Tax losses	**(8.9)**	(10.6)	**(1.2)**	–
Deferred tax assets	**(4.1)**	(5.5)	**(3.3)**	(5.5)
Other timing differences	**13.5**	7.5	**11.9**	5.5
Deferred tax - FRS19	**183.5**	151.6	**133.8**	113.3
Other deferred tax	**2.9**	2.5	**1.1**	0.9
Total deferred tax	**186.4**	154.1	**134.9**	114.2

18 Borrowings

Borrowings falling due after one year	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Payable in more than five years:				
Secured:				
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 6.91% to 2014	**7.7**	8.6	**–**	–
US dollars 6.83% to 10% 2008 to 2017	**75.9**	78.1	**–**	–
Euro mortgages 5.14% to 6.36% 2016	**42.9**	40.3	**–**	–
Unsecured:				
10% bonds 2007	**–**	50.0	**–**	50.0
12.375% loan stock 2009	**31.9**	31.9	**31.9**	31.9
7.125% bonds 2010	**124.2**	124.1	**124.2**	124.1
11.625% bonds 2012	**100.0**	100.0	**100.0**	100.0
6.25% bonds 2015	**147.9**	147.8	**147.9**	147.8
10% bonds 2017	**98.5**	98.4	**98.5**	98.4
7% bonds 2022	**148.7**	148.6	**148.7**	148.6
6.75% bonds 2024	**220.6**	220.4	**220.6**	220.4
8.09% US dollar Notes 2015	**6.2**	6.8	**–**	–
8.0% US dollar Notes 2012	**27.0**	29.8	**–**	–
7.94% US dollar Notes 2010	**56.9**	62.7	**–**	–
9.27% Canadian dollar Notes 2010	**9.9**	10.7	**–**	–
7.84% US dollar Notes 2008	**9.3**	10.3	**–**	–
7.58% US dollar Notes 2007	**–**	13.7	**–**	–
6.57% US dollar Notes 2011	**62.1**	68.5	**–**	–
6.97% US dollar Notes 2016	**62.1**	68.5	**–**	–
6.417% Euro Notes 2011	**32.7**	30.7	**–**	–
Long term loan 2010	**18.3**	17.8	**–**	–
Bank loans scheduled for renewal in over five years	**72.4**	–	**72.4**	–
	1,395.2	1,407.7	**984.2**	961.2
Exchange difference on currency swaps	**–**	0.1	**–**	–
Less instalments due in less than five years	**(37.4)**	(28.1)	**–**	–
	1,357.8	1,379.7	**984.2**	961.2
Payable by instalments in more than five years	**107.4**	116.6	**–**	–
Payable on final maturity date	**1,250.4**	1,263.1	**984.2**	961.2
	1,357.8	1,379.7	**984.2**	961.2

18 Borrowings continued

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Wholly repayable between three and five years:				
Secured:				
US dollars 6.9% to 10% 2006 to 2007 first mortgage	5.2	8.2	–	–
Unsecured:				
Medium term loans 2004	–	4.6	–	–
8.09% US dollar Notes 2004	–	30.8	–	–
7.58% US dollar Notes 2007	12.4	–	–	–
10% Bonds 2007	50.0	–	50.0	–
Bank loans scheduled for renewal between three and five years	60.0	15.6	–	–
	127.6	59.2	50.0	–
Instalments due on longer dated borrowings	28.1	19.0	–	–
Less instalments due in less than three years	(0.5)	(24.4)	–	–
	155.2	53.8	50.0	–
Repayable between one and two years:				
Secured:				
Euros 7.23% 2003 first mortgage	–	1.2	–	–
Unsecured:				
8.09% US dollar Notes 2004	18.6	–	–	–
Bank loans scheduled for renewal in one to two years	4.9	36.7	–	–
Bank loans and overdrafts	23.1	–	–	–
	46.6	37.9	–	–
Exchange difference on currency swaps	–	5.9	–	5.9
Instalments due on longer dated borrowings	5.4	16.9	–	–
Less instalments due within one year	(9.3)	(0.6)	–	–
	42.7	60.1	–	5.9
Total repayable in more than one year	1,555.7	1,493.6	1,034.2	967.1
Borrowings falling due within one year				
Secured:				
Euros 7.23% 2003 first mortgage	0.7	–	–	–
Unsecured:				
Loan Notes 2001/2	–	0.1	–	0.1
Bank loans and overdrafts	11.7	31.4	3.5	3.4
	12.4	31.5	3.5	3.5
Exchange difference on currency swaps	1.7	(1.2)	1.7	–
Instalments due on longer dated borrowings	13.7	17.2	–	–
Total repayable within one year	27.8	47.5	5.2	3.5

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 27 to 31 inclusive.

31 December 2002	Total £m	Variable rate £m	Fixed rate £m	Weighted average fixed rate %	Weighted average fixed period Years
Interest rate profile of Group debt					
Borrowings					
Sterling	859.8	109.4	750.4	8.67	12.0
US dollars	512.5	166.7	345.8	7.45	7.9
Canadian dollars	7.7	–	7.7	6.86	8.4
Euros	203.5	102.7	100.8	6.00	8.4
Total borrowings	1,583.5*	378.8	1,204.7	8.09	10.5

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

31 December 2002	Total £m	Variable rate £m	Fixed rate £m
Cash and deposits			
Sterling	(76.6)	(76.6)	–
US dollars	(5.8)	(5.8)	–
Canadian dollars	(4.3)	(4.3)	–
Euros	(7.2)	(7.2)	–
Total cash and deposits	(93.9)	(93.9)	–
Net borrowings	1,489.6	284.9	1,204.7

*** Derivatives included in above analysis**

£40.9m swapped from Sterling into US$65m until 2003 to produce funding at US$ LIBOR.
£30.3m swapped into US$50m to produce funding at 6.61% fixed to 2003 then US$ LIBOR until 2005.
£15.2m swapped into US$25m to produce funding at 6.635% fixed to 2003 then US$ LIBOR until 2005.
£15.9m swapped into Euro26m to produce funding at 4.54% fixed to 2003 then EURIBOR until 2005.
£150m of Sterling swapped from 6.75% fixed to variable rate at LIBOR plus 0.75%. Bank option to cancel on any rollover between 2003 and expiry in 2013.
£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.
€28m, amortising at €1m per annum, swapped from variable rate funding into fixed rate funding at 5.68% until 2010.
C$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. Any such bank or institution must hold at least an A1/P1 short term credit rating. At 31 December 2002 £14.7m of total cash was invested in AAA rated liquidity funds.

31 December 2001 Interest rate profile of Group debt	Total £m	Variable rate £m	Fixed rate £m	Weighted average fixed rate %	Weighted average fixed period Years
Borrowings					
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
Total borrowings	1,541.1**	282.6	1,258.5	7.85	11.5
Cash and deposits					
Sterling	(123.8)	(123.8)	–		
US dollars	(22.2)	(22.2)	–		
Canadian dollars	(16.3)	(16.3)	–		
Euros	(13.6)	(13.6)	–		
Total cash and deposits	(175.9)	(175.9)	–		
Net borrowings	1,365.2	106.7	1,258.5		

** **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.
C$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 December 2001 £60m of total cash was invested in an AAA rated liquidity fund managed by Barclays Global Investors.

18 Borrowings continued

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Maturity profile of Group debt				
In one year or less	27.8	47.5	5.2	3.5
In more than one year but less than two	42.7	60.1	–	6.0
In more than two years but less than five	155.2	53.8	50.0	–
In more than five years but less than ten	582.8	460.4	328.5	205.9
In more than ten years	775.0	919.3	655.7	755.2
Total Group debt	1,583.5	1,541.1	1,039.4	970.6
Split between secured and unsecured borrowings				
Secured (on land and buildings)	172.4	176.4	40.0	40.0
Unsecured	1,411.1	1,364.7	999.4	930.6
	1,583.5	1,541.1	1,039.4	970.6
Maturity profile of undrawn borrowing facilities				
In one year or less	60.5	67.2	13.3	16.5
In more than one year but less than two	20.7	133.7	–	127.2
In more than two years	419.4	362.5	362.6	320.0
Total available undrawn facilities	500.6	563.4	375.9	463.7

	Group		Group	
	Book value 2002 £m	Fair value 2002 £m	Book value 2001 £m	Fair value 2001 £m
Fair value of borrowings				
Short term fixed and variable rate borrowings (before swaps etc)	189.0	189.0	106.2	106.2
Long term fixed rate borrowings	1,392.8	1,580.5	1,430.1	1,555.9
Interest rate swaps	–	1.6	–	(0.8)
Swaptions	–	1.6	–	2.2
Currency swaps	1.7	2.6	4.8	5.9
	1,583.5	1,775.3	1,541.1	1,669.4
Tax relief due on early redemption/termination		(57.6)		(38.5)
	1,583.5	1,717.7	1,541.1	1,630.9
After tax mark to market adjustment		134.2		89.8
Fair value of other financial assets and liabilities				
Cash and deposits	93.9	93.9	175.9	175.9
Trading investments	81.3	86.8	78.0	91.1
	175.2	180.7	253.9	267.0

With the exception of cash and deposits none of the above financial assets are interest bearing. Short term debtors and creditors have been excluded from these disclosures as permitted by FRS13. There are no material debtors or creditors due after more than one year.

The market value of the preference shares at 31 December 2002 was £199.5 million (2001 £192.4 million) and £177.5 million at 18 March 2003. The Group considers the fair value to be equal to the book value of £137.8 million (2001 £140.2 million).

Fair values have been collated by either:

i) Obtaining the market price of tradeable instruments

ii) Obtaining indicative quotations from banks

iii) Arriving at a net present value by using discounted cashflows

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

19 Creditors - other

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Creditors falling due within one year				
Rents in advance	37.4	36.0	–	–
Trade creditors	90.3	99.1	26.5	25.8
Taxation	16.2	30.5	7.2	10.2
Proposed ordinary dividend	35.5	33.1	35.5	33.1
Preference dividend accrued	3.8	3.9	3.8	3.9
	183.2	202.6	73.0	73.0
Creditors falling due after more than one year				
Loans from subsidiaries	–	–	76.0	42.3
Other creditors	5.3	3.9	–	–
	5.3	3.9	76.0	42.3

20 Notes to Group cash flow statement

	2002 £m	2001 £m
(1) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	205.2	141.1
Less other income reallocated	(5.6)	(2.7)
Add back depreciation	0.9	3.2
Add back exceptional Utilities write down	–	60.2
Adjust for other non-cash items	0.3	0.1
Net rental income from trading properties	3.1	2.0
	203.9	203.9
Other movements arising from operations:		
Increase in stocks	(12.0)	(29.5)
Decrease in debtors	3.3	0.4
Increase/(decrease) in creditors	7.3	(0.5)
Net cash inflow from operating activities	202.5	174.3

(2) Liquid resources

Liquid resources are term deposits of less than one year.

	Ordinary share capital £m	Share premium £m	Total £m
(3) Issue of shares			
Balance at 1 January 2002	103.6	328.7	432.3
Issued on conversion of preference shares	0.2	0.4	0.6
Ordinary shares issued for cash	0.2	2.1	2.3
Balance at 31 December 2002	104.0	331.2	435.2

20 Notes to Group cash flow statement continued

	£m	2002 £m	£m	2001 £m
(4) Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash in the year		**(61.6)**		78.1
Increase in debt	**(72.7)**		(199.3)	
(Decrease)/increase in liquid resources	**(19.5)**		63.3	
		(92.2)		(136.0)
Change in net debt resulting from cash flows		**(153.8)**		(57.9)
Translation difference		**29.4**		0.3
Movement in net debt in the year		**(124.4)**		(57.6)
Net debt at 1 January 2002		**(1,365.2)**		(1,307.6)
Net debt at 31 December 2002		**(1,489.6)**		(1,365.2)

	At 1 Jan 2002 £m	Cash flow £m	Exchange movement £m	At 31 Dec 2002 £m
(5) Analysis of net debt				
Cash in hand and at bank *	**90.1**	(60.0)	(0.9)	**29.2**
Overdrafts	**(0.1)**	(1.6)	–	**(1.7)**
		(61.6)		
Loan capital	**(1,541.0)**	(72.7)	31.9	**(1,581.8)**
Term deposits *	**85.8**	(19.5)	(1.6)	**64.7**
	(1,365.2)	(153.8)	29.4	**(1,489.6)**

* Cash and deposits per balance sheet

21 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 £4.6 million (2001 £2.8 million) of which £1.1 million (2001 £0.2 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 was carried out by William M Mercer. The scheme's assets were valued 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 was increased in 2001 by 6.08 per cent per annum to 24.97% per annum until 31 March 2004 when the deficit was calculated to be eliminated.

The latest actuarial valuation of the Bilton scheme as at 5 April 2001 was carried out by Bacon & Woodrow. The assets of the scheme were valued 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 increases 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 £1.3 million (2001 £0.4 million).

Supplementary ex-gratia pensions of £0.1 million (2001 £0.2 million) were paid out of profits.

21 Pensions continued

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 Bacon & Woodrow to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2002. The assets of both schemes are stated at their market value at 31 December 2002.

The projected unit method of valuation was used for both schemes and the financial assumptions used to calculate the schemes' liabilities under FRS 17 are as follows:

	Slough scheme		Bilton scheme	
	% 2002	% 2001	% 2002	% 2001
Discount rate	**5.5**	5.8	**5.5**	5.8
Inflation rate	**2.3**	2.5	**2.3**	2.6
Increase to deferred benefits during deferment	**2.3**	2.5	**2.3**	2.6
Rate of increase to pensions in payment	**4.2**	4.0	**2.4**	2.5
Rate of increase in salaries	**4.3**	4.5	**n/a**	n/a

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

	Long-term rate of return expected		Valuation	
	2002 %	2001 %	2002 £m	2001 £m
Equities	**7.52**	8.67	**33.8**	44.5
Bonds	**4.52**	5.19	**17.0**	12.9
Other	**6.41**	6.13	**4.0**	6.0
Total market value of assets			**54.8**	63.4
Present value of schemes' liabilities			**(81.7)**	(70.9)
Deficit in the schemes			**(26.9)**	(7.5)
Less Bilton surplus which cannot be utilised			**(0.8)**	–
			(27.7)	(7.5)
Related deferred tax asset			**8.3**	2.3
Net pension liability			**(19.4)**	(5.2)

If the above net pension liability had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2002 would have been reduced by £19.4 million (2001 £5.2 million).

	2002 £m
Analysis of the amount that would have been charged to operating profit	
Current service cost	**3.0**
Past service costs	**0.1**
	3.1
Analysis of the amount that would have been credited/(charged) to other finance income/(expense)	
Interest on pension liabilities	**(4.2)**
Expected return on schemes' assets	**5.0**
	0.8

21 Pensions continued

Analysis of the amount that would have been recognised in the statement of Group total recognised gains and losses (STRGL).

	2002 £m
Actual return less expected return on assets	(14.8)
Experienced gains and losses on liabilities	0.3
Changes in financial assumptions underlying the present value of the schemes' liabilities	(5.6)
Actuarial loss recognised in STRGL	(20.1)

Movement in deficit during the year

	2002 £m
Deficit in scheme at 1 January 2002	(7.5)
Current service cost	(3.0)
Contributions	3.0
Past service costs	(0.1)
Other finance income	0.8
Actuarial loss	(20.1)
Deficit in scheme at 31 December 2002	(26.9)

History of experience gains and (losses)	**2002**
Difference between the expected and the actual return on the schemes' assets	
Amount	(£14.8m)
Percentage of schemes' assets	26.9%
Experience gains and losses on the schemes' liabilities	
Amount	£0.3m
Percentage of the present value of the schemes' liabilities	0.4%
Effect of changes in assumptions underlying the present value of the schemes' liabilities	
Amount	(£5.6m)
Percentage of the present value of the schemes' liabilities	6.9%
Total amount recognised in the statement of Group total recognised gains and losses	
Amount	(£20.1m)
Percentage of the present value of the schemes' liabilities	24.5%

22 Contingent liabilities

The company has guaranteed loans and bank overdrafts of subsidiary companies aggregating £368.9 million (2001 £378.7 million). All loans and overdrafts so guaranteed are included in the consolidated balance sheet. The company has given performance guarantees to third parties amounting to £3.6 million (2001 £5.3 million) in respect of development contracts of subsidiary companies.

Notes

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