Slough Estates plc

Annual Report 2003

Our vision

Our vision is to be highly regarded within the sector which means we must strive towards a position where investors understand us

and are keen to invest, customers recommend us and expand with us, financiers, commentators and governments prefer us, employees are proud to work for the company and are actually encouraged to develop their skill set, competitors respect us and suppliers want to work with us.

Contents

Highlights of the year

+37%

New leases for existing space increased by 37 per cent.

15.0p

The proposed dividend of 15.0 pence per share reflects the Board's confidence in the future, an increase of 7.1% on 2002.

28.8 ha

During the year the Group has acquired 28.8 hectares of sites for future development.

Financial summary

	2003	2002	% change
Core property income■	**£135.7m**	£140.3m	(3.3)
Profit before tax and exceptional items	**£140.1m**	£143.5m	(2.4)
Profit before tax after exceptional items	**£103.8m**	£143.4m	(27.6)
Adjusted basic earnings per share▼	**27.6p**	28.8p	(4.2)
Basic earnings per share	**19.6p**	20.9p	(6.2)
Recommended final dividend	**9.2p**	8.55p	7.6
Total dividend for year	**15.0p**	14.0p	7.1
Diluted net assets per share before FRS 19 deferred tax	**505p**	519p	(2.7)
Basic net assets per share	**489p**	506p	(3.4)

■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.

Slough Estates at a glance

We are committed to providing flexible business space and retail accommodation to clients across a broad range of business sectors

Slough Estates is a property investment and development company which is domiciled in the UK and has a listing on the London Stock Exchange. Slough Estates develops and invests in property in prime business centres in Western Europe and North America with over 80 per cent of its assets being invested in edge of town flexible business space and 16 per cent in six retail shopping centres in the UK.

Slough Estates' business space investments are mainly within business parks in what have been identified to be the locations with the best long-term economic prospects. Such centres have large well educated populations, a skilled workforce, good infrastructure and the capital base to ensure the long-term prosperity for the region. Slough Estates has selected the Thames Valley and Cambridge in the UK, in Continental Europe, greater Brussels and Paris, the Ruhr and Frankfurt in Germany, and in California, South San Francisco and San Diego.

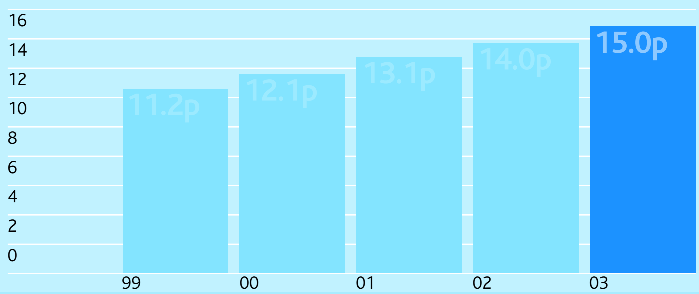
In total the Group has some 1,700 customers which bring an unrivalled diversification of risk, and the top twenty customers account for only 31 per cent of total annualised rent. Rental income from this wide customer base is the main source of income for the Group and currently brings an annualised income of £246 million per annum and on average there is a weighted average unexpired lease term, assuming that breaks are exercised at the first opportunity, of 9.4 years. This ensures excellent security of income for the Group for many years.

The Group is financed conservatively in order to reduce long-term financing risks with a long-term average debt profile to maturity of 10.8 years at an average interest cost of 6.68 per cent so providing certainty of finance. Further some 85 per cent of the debt has fixed rates of interest so protecting the company against any upward movements in interest rates.

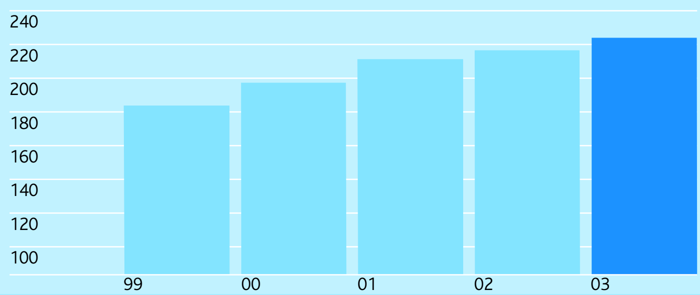
The Company was founded in 1920 at Slough and today its largest business park, the Slough Trading Estate, still remains its largest single investment representing 31 per cent of the portfolio. The Slough Trading Estate is a unique business park of 500 acres in single ownership, close to London's Heathrow airport and with unrivalled communications by air, road or rail. The Estate is home to some 400 tenants covering almost every sector. Such a large estate brings continual redevelopment opportunities and 24 per cent of the Estate has been built within the last 10 years.

Historically Slough Estates has made its best returns from development and therefore the Company continues to hold a substantial land bank of 147 million hectares, which will cost approximately £1 billion to build out over a 5-10 year period. This land will be developed when market conditions are favourable. The main land bank is located at Farnborough and Cambridge near London, at Pegasus Park near Brussels and in South San Francisco.

Total Dividend for Year

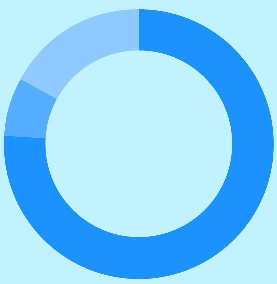


Property Investment Income



Investment Portfolio

By value, by location



location	%
UK	76
Europe	7
North America	17

Investment Portfolio

By value, by sector

sector	%
Industrial	52
Office	16
R&D	16
Retail	16

Chairman's statement

Your Board is confident that the company is well placed to meet what are expected to be better market conditions in the next few years and believes that the long-term outlook for property remains good

2003 Results

The results reflect a robust performance for the year across the Group's portfolio in what have been challenging market conditions. At both the preliminary results last March and the interim results in August we indicated that 2003 would be a slow year in terms of demand and therefore we would continue to hold back on new development. In these markets we can take a great deal of encouragement from the resilience of our core property income as our strategic bias towards flexible business space has protected us from the worst of the downturn and in recent months there has been an encouraging improvement in occupier enquiries.

The 2.4 per cent fall in profits before tax to £140.1 million (excluding exceptional items) reflected this slowdown in development by the Group in the previous 18 months and was also mirrored by the fall of diluted net asset value before FRS19 deferred tax to 505 pence per share reflecting the valuers', current view of the market. Ian Coull discusses these issues in his review on pages 10 to 13 but it is worth pointing to the Board's recommendation to increase the dividend by 7.1 per cent which reflects its underlying confidence in the prospects for the business.

The Group has a 147 hectare development land bank and conservative gearing of 64 per cent which gives us a solid platform for continuing growth in the future.

Strategic review

At the interim results in August we reported on the completion of a strategic review of the business, undertaken by the new Chief Executive Ian Coull, which has been approved by the Board. This review concluded that our focus will be on flexible business space, which today accounts for over 80 per cent of our property portfolio, as these well-located blocks of property offer the greatest opportunity for superior returns over time. Our intention will be to increase the Group's exposure to modern multi-use business parks, maximising returns for each location by providing the most appropriate mix of buildings appropriate for a wide range of customer demand. In terms of geographical spread, we concluded that the opportunities in selected markets outside the UK remain as good or better and that the Group will continue to invest in these Western European and North American business centres on the basis of investing in the locations that offer the most attractive returns for new money.

The review also confirmed the value of the small portfolio of retail shopping centres in the UK which will continue to have a limited place in the portfolio. It is also the intention of the Group to find over time the most advantageous exit from its non-property investments which make up just three per cent of the assets of the Group.

Chief Executive's review

Ian Coull reports more fully on the business of the Group in his review of Activities on pages 12 to 13. In his first year, he has focused on reviewing all aspects of the business,

Chairman's statement continued

providing vision for the future and on streamlining the management of our activities. This has been achieved by refocusing responsibilities and by introducing a new rewards package which will motivate our people to deliver superior performance.

The property industry

The property industry is an essential contributor to the economic and social well-being of nations. Not only do property companies own and manage buildings which accommodate business, government, leisure and residential needs but they also invest in new development and regeneration which is an important economic contributor. In recent years, property development and investment activities have become increasingly subject to a greater burden of taxation – increased stamp duty, aggregate and landfill levies, and planning gain payments. In addition, there is much more regulation, all of which increases cost and adds delay to essential new investment.

In the UK, quoted property companies are facing an interesting and challenging period of change; structural changes, personality changes and market changes. Structurally for the past five years ownership of commercial property has increasingly been moving to new off-shore investment vehicles which respond to a growing global appetite of North American, European and other investors who are seeking to mitigate the tax burden of ownership. Here in the UK there is a prospect that tax transparent Property Investment Funds (PIFs) may be introduced in due course.

Property companies have succeeded due to the entrepreneurial vision and leadership of strong, gifted personalities. In Britain over the next few years many of these leading personalities are likely to retire. As a result, there is a risk that the direction of property companies will inevitably become more managerial in character – a situation we will strive to avoid.

Institutional conformity will govern strategic options, risk, market focus and governance. Such conditions will create a more passive investment environment, more orthodoxy and the courage and individuality of earlier generations may be suppressed.

For many decades property companies have succeeded against challenge but impending changes may not all be for the future benefit of shareholders, nor will it encourage innovative new development. For the future it is important that the nation's infrastructure, including buildings, is of world-class, so that leading global businesses are attracted to the UK. The successful management of development risks is a powerful driver of shareholder value. Successful development creation and project implementation requires enlightened entrepreneurs and strong financing which is derived from a sound corporate asset base.

It is against this environment that my colleagues and I must ensure that going forward over the next few years we own and manage a quality portfolio of properties that respond to customer needs and continue to enhance shareholder value.

Market conditions

In the past year property markets have become bifurcated. On the one hand investment demand for good, well-leased properties has remained strong which has maintained yields and consequently values. Conversely, occupancy demand has been weak, reflecting low confidence across a number of business sectors, geopolitical uncertainty and increasing regulatory and fiscal intrusion. Consequently, rental rate performance has been mixed with positive growth from retail, stability for industrial and declines across the office sector.

On pages 8 to 9 we discuss in more detail our market forecasts for the future. We believe that the cyclical decline in occupancy demand has bottomed out and that markets will strengthen into 2005.

Businesses in the UK and abroad need flexible business space to enhance their own operational efficiency, productivity and working conditions for their employees. New intensified land use and environmental laws will over time make it more challenging to accommodate future business requirements in prime locations close to major markets.

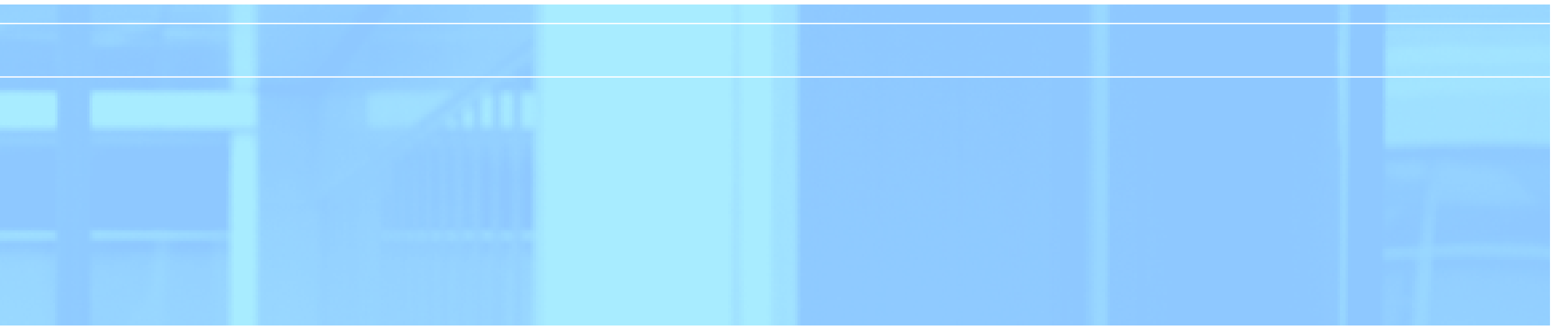
Slough Estates is very well placed to fulfil our current and future customers' space expectations. We provide a well-designed, flexible product in a number of excellent locations. We believe in the principles of sustainability and some 70 per cent of our development programme is on previously used land – 'brownfield sites'. Our leasing arrangements are flexible and constructive to our customers' interests.

Tax transparent property investment funds (PIFs)

The Government has now published its consultation paper on the possibility of introducing these vehicles and is asking for contributions from the property sector and others as to their views on the topic.

The concept of a tax transparent property vehicle has merit, particularly if more investment interest is generated. But if the concept is restrictive, regulatory and less flexible than the present property company, then the costs and non-financial burden may discourage conversion.

By definition the majority of these tax transparent vehicles in other countries are passive real estate owners and consequently the momentum of new development, regeneration and asset improvement can be prejudiced unless there is scope for reinvesting profits in future development.



As a company we welcome the opportunity to discuss these ideas with Government. We intend to evaluate the issues raised in the consultation paper and to actively participate in the debate. However, until the Government determines the actual detail of these PIFs and conditions for conversion, it is premature for us to decide whether the possibility would benefit the company and its shareholders.

Corporate social responsibility

For the first time we have published a 'stand-alone' Corporate Social Responsibility Report which is distributed with the Report and Accounts.

Slough Estates has for the past 80 years been an involved corporate citizen. This has been achieved by our active involvement in the communities in which we operate, principally Slough, by having a strong emphasis on the environment and by maintaining high standards of business conduct.

We have a committee under my chairmanship that oversees our overall performance, including comprehensive risk assessment and management.

As a company we continue to provide financial and management support to the extent of one per cent of dividends to a wide range of educational, environmental, heritage and welfare organisations. In 2003 our support amounted to £540,000. Many employees are personally involved in local and national voluntary service which we encourage and support.

Corporate governance

The new Combined Code has been reviewed and is being implemented with a view to achieving substantial compliance by the end of the financial year ending 31 December 2004.

As a company Slough Estates has always maintained a strong corporate governance culture which we believe does enhance corporate performance. We welcome the opportunity to 'comply or explain' any departures from full compliance. But we remain concerned that some of the provisions of the new code are too bureaucratic, too prescriptive and do little to advance the prosperity of the business or further the protection of shareholders' interests.

We have a good Board of Directors with a balance of executive and non-executive members. We combine the independence of more newly-appointed members with the wisdom and pragmatism of the longer-serving directors.

Our current corporate governance guidelines are set out on pages 40 to 41.

The board

Ian Coull joined the Board as director and Chief Executive on 1 January 2003.

Since the year-end two new independent non-executive directors have been appointed; Andrew Palmer, Group Finance Director of Legal & General and Chris Peacock, formerly Chief Executive of Jones LangLaSalle. Their appointment strengthens the Board and brings to it fresh ideas and experience. They will both be subject to election at the Annual General Meeting.

At that meeting the following directors will retire by rotation and offer themselves for re-election – Lord Blackwell, Lord MacGregor and myself.

In March 2004 Lord Blackwell was appointed the Senior Independent Director.

Brief biographical notes for all Board members are set out on pages 42 to 43.

Management and staff

The Group is facing change and 2003 has been again a very challenging year. Slough Estates has a good and loyal team of professional, skilled and experienced people. On behalf of the Board and shareholders, I thank them all most sincerely for their significant contribution to the Group's continuing success.

The year ahead

The turn in the property cycle confirms our belief in the strength of property as an investment medium. Slough Estates has avoided the worst of this downturn by its focus on flexible business space. Within the business space segment, Slough does not have any exposure to city centre properties and although the demand for suburban business space is still slow, demand is stable and we have seen recently a rise in enquiries. Slough Estates' investment in retail property is healthy with strong investor demand for well-located and well-let shopping centres.

Your Board is confident that the company is well placed to meet what are expected to be better market conditions in the next few years and believes that the long-term outlook for property remains good. This view means that we are confident about the prospects for the company and this is reflected in the proposed dividend increase of 7.1 per cent which is underpinned by a secure and growing rental stream.

Nigel Mobbs
Chairman

Market overview

To talk of the property market can be misleading as even in the UK there is not one market but a number of different markets, defined by both sector and region making it hard to generalise

With property investments in the UK, Continental Europe and North America it is vital for Slough Estates to have a clear view not only of the global property market but also the global economic fundamentals that are driving these sub-markets. In 2003, Slough Estates has retained Capital Economics (CE) to advise us on economic issues and to ensure that we are basing our investment decisions on sound economic forecasts.

To talk of the property market can be misleading as even in the UK there is not one market but a number of different markets, defined by both sector and region, making it hard to generalise. Further, successful property investment is ultimately about finding the best locations within each sub-market and our excellent local management initiates all investment selection decisions. However, with this proviso the Board maintains a close view on the macro-economic environment to help it decide on the allocation of investment funds.

World economy

The world economy has been split in two in 2003 with only patchy recovery. The US and Japan have grown strongly whereas there has been only marginal GDP growth across the euro-zone, in particular Germany has remained weak. The UK, Slough Estates' main market, has weathered the recent economic slowdown quite well and although interest rates are expected to rise CE does not expect these rises to be as fast as the market has discounted. We therefore expect the UK property market to perform more strongly in 2004 than it has in the last two years as business confidence increases.

UK property

In 2003, UK commercial property has finally lost its position at the top of the league of all investment asset classes. In the previous three years commercial property outperformed other asset classes, but in 2003 all property sub-sectors fell behind the FTSE All Share Index. Within these sub-sectors of the UK property market, retail performed the best with total returns of some 16.2 per cent, whereas industrial showed double-digit returns of 11.96 per cent and offices just low single-digit returns (see Chart B below).

In what have been challenging occupational property markets, what has been interesting is that property values have held up well despite the fall in rental values. The continuing decline in yields is caused by the fact that property investors are chasing a limited supply of property so driving up values. Chart C shows the IPD equivalent yields from January 2002 to February 2004 and illustrates clearly that yields have been falling in the office and industrial sectors as well as in the booming retail market. It seems that this strong investment market has been driven by the fact that the yield still exceeds the cost of funds by a considerable margin. Another factor has been the

Chart A

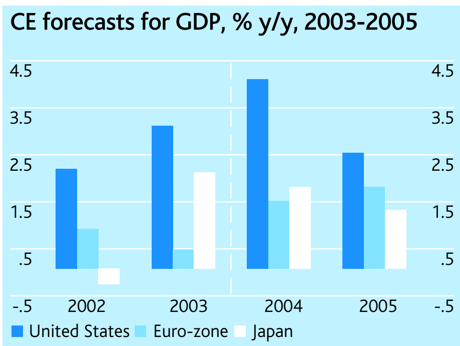
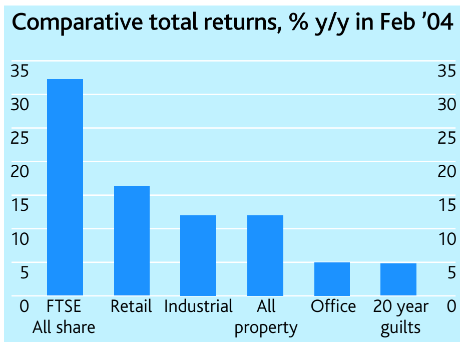
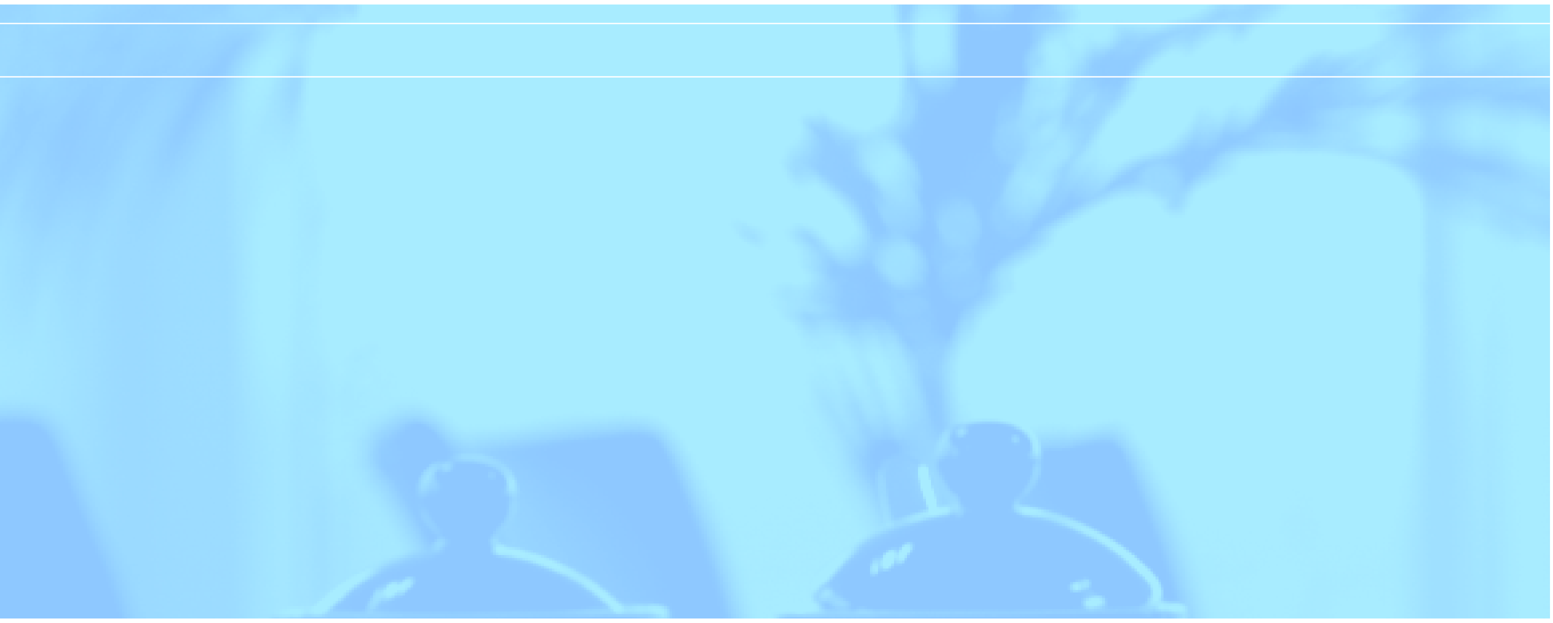


Chart B





emergence of overseas investors in the UK markets who are attracted to the UK as it is the largest and most liquid European market providing the best total returns. In particular, German Open Ended Funds have been a major investor in the UK in the last few years.

In rental terms it is encouraging to see a bottoming out in rental value growth in the middle of 2003 after a difficult year in 2002. Looking at Chart D, which shows the IPD all property annual and monthly rental value growth, it shows that rental value growth is no longer negative and the recent improvements in overall rental value growth gives grounds for optimism for 2004 and beyond.

The other major driver in the UK property market has been the political debate over tax transparent vehicles (Property Investment Funds – PIFs). The UK Government has indicated its interest in these vehicles which have been successfully introduced in the US, France, Belgium, Australia and other markets. In the 2004 Budget the UK Government announced a consultation process to find the best structure for the UK property sector and Slough Estates will be putting forward its views in this consultation process.

Commentators have suggested that Slough Estates might be one of the main beneficiaries of a PIF structure as it has low gearing and mainly unsecured debt.

The CE forecast of total returns for these broad property sectors is set out below:

Per cent	2004	2005	2006
All offices	6.6	8.8	10.4
All retail	8.8	7.9	10.0
All industrial	9.5	10.4	11.3

Subject to the aforementioned comments outlined above in respect of the performance of individual markets, we are encouraged by the forecast performance of the industrial numbers.

The euro-zone

The euro-zone economies have seen some pick-up and in particular Germany, Italy and The Netherlands are pulling out of recession so that overall euro-zone GDP growth for 2003 is 0.4 per cent.

CE remains cautious about growth in the euro-zone in 2004 and their forecasts suggest that interest rates will remain at two per cent until 2005 as the Central Bank attempts to avoid deflation in Germany. However, many of the forward-looking business confidence indicators in the euro-zone show signs of improvement but as yet this has not been demonstrated.

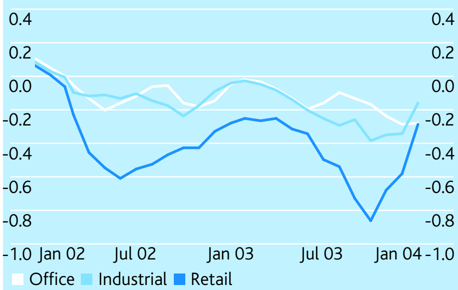
The US

The US economy has demonstrated strong activity in 2003 and in particular in Q3 it showed 8.2 per cent growth quarter on quarter annualised growth. CE expects this growth to remain strong in 2004.

Furthermore, it is agreed that it is seeing strong growth as a result of the tax cuts which have led to a strong increase in consumer spending. CE believes that this strong retail sales growth is unsustainable as it is not matched by broader consumer confidence and it is likely that consumption will slow in 2004 as the benefits of the tax cuts fade. 2004 is an election year in the US and some belt tightening can be expected post the election.

Chart C

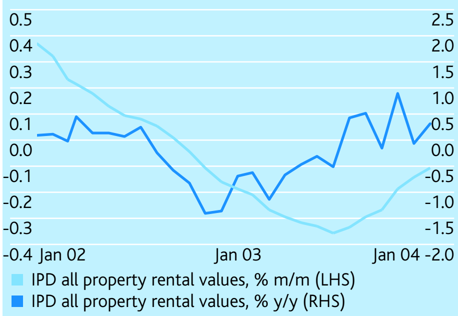
IPD equivalent yield, % m/m, Jan 02–Feb 04



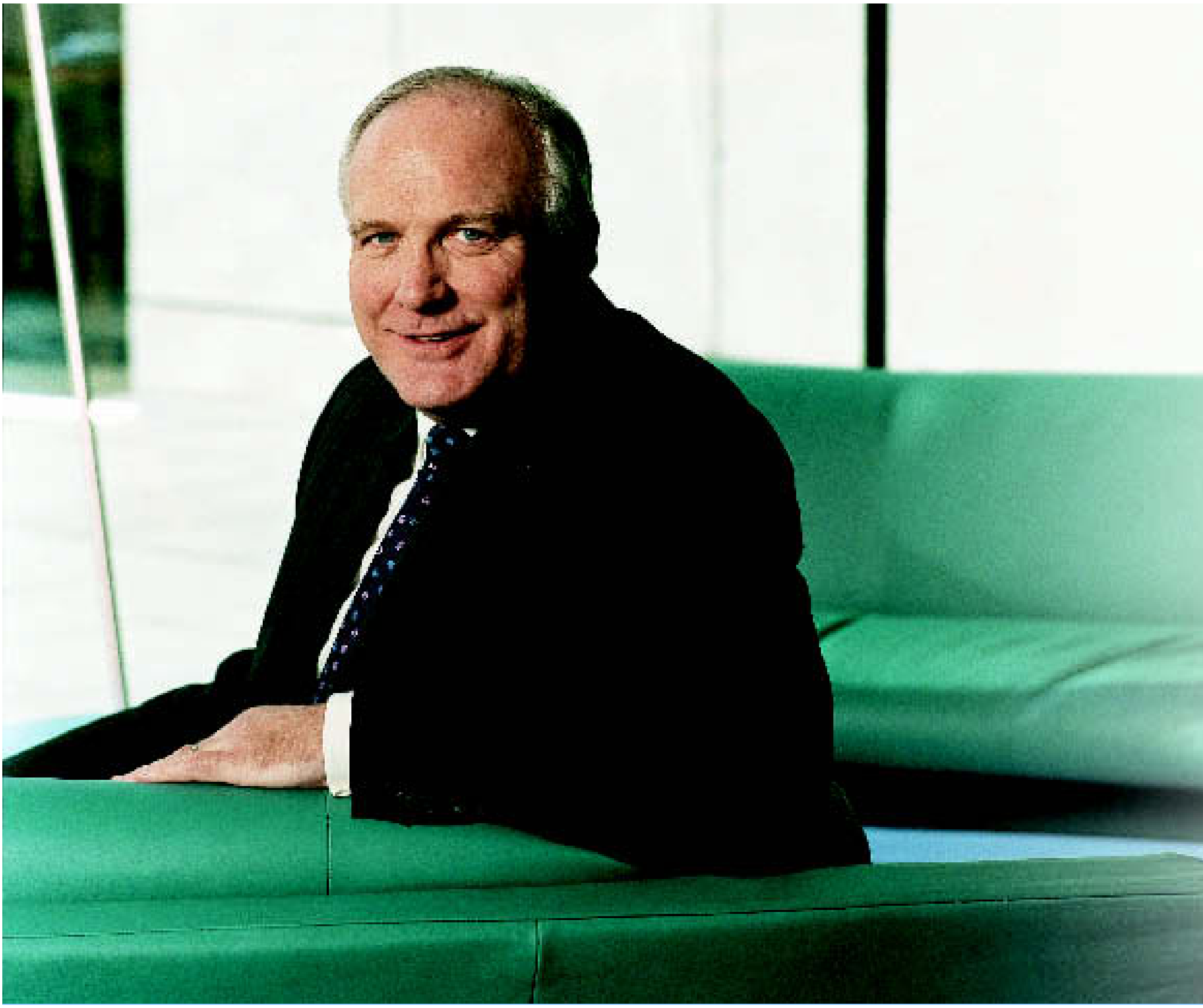
Graphical data reproduced with kind permission from Capital Economics.

Chart D

IPD all property annual and monthly rental value growth, Jan02–Feb04



Chief Executive's review



The attraction of a secure income stream means that in the current uncertain economic conditions there is still strong investment demand for well-let properties

These results reflect the fact that the Group cut back on development some 18 months ago in anticipation of the more difficult property markets that we have experienced in 2003 and this has impacted on the reported profits. Demand in 2003 has been slow and this has underlined the importance of our strategy with its focus on suburban flexible business space which has allowed the company to avoid the worst of the downturn, relying on a strong rental income stream from our excellent and well-located portfolio of international business parks and UK shopping centres.

Results

Profit before tax and exceptional items fell by £3.4 million to £140.1 million. Core property investment income was also lower, down by 3.3 per cent to £135.7 million. Both numbers were affected by the need to expense the interest on land held for development in the second half of 2003. Pre-tax profits excluding exceptional items would have been up 2.0 per cent at £146.3 million without the requirement to expense interest on vacant land. The decision to slow development in 2002 meant that work on site was halted on our major land holdings at Farnborough and Cambridge and this meant that current accounting rules required there was a need to expense interest on these holdings until the development process resumes. Work on our largest development holding at Farnborough is expected to resume in the next few months.

Pre-tax profit of £103.8 million after exceptional items was £39.6 million down on last year due mainly to a provision of £37.9 million on our residential leisure development at Quail West in Florida, which reflected the sales downturn that this business has suffered in the last two years.

Adjusted basic earnings per share decreased by 4.2 per cent to 27.6 pence. Basic earnings per share were 19.6 pence, a 6.2 per cent fall. The underlying effective tax rate (before exceptional items and FRS19 deferred tax) was 11.1 per cent (8.2 per cent in the prior period.)

Dividends

A final dividend of 9.2 pence per share is recommended which, together with the interim dividend of 5.8 pence per share, represents an aggregate distribution of 15 pence per share, an increase of 7.1 per cent for the year and a five-year compound return of 7.6 per cent per annum.

Balance sheet

An external valuation of the Group's UK investment properties was undertaken, as at 31 December 2003, by our valuers, CB Richard Ellis and DTZ Debenham Tie Leung, both of whom were appointed in 2003. The valuation reconfirmed the previous valuation process.

The valuation fall of £97.7 million or 2.7 per cent to £3,563.9 million on the Group's fully-owned worldwide properties was partly offset by a surplus on property joint ventures of £10.8 million or 4.7 per cent. The inclusion of retained earnings and other minor capital changes resulted in a 2.7 per cent reduction in diluted net assets per share to 505 pence before application of FRS 19 deferred tax, or a decrease of 3.3 per cent to 464 pence per share after provision for deferred tax.

In the UK the revaluation deficit was £89.7 million, 3.3 per cent down on last year's valuation. Surpluses in the retail (7.8 per cent) and industrial (1.8 per cent) sectors were more than offset by the 19.1 per cent and 25.5 per cent deficits on offices and development land respectively.

The attraction of a secure income stream means that in the current uncertain economic conditions there is still strong investment demand for well-let properties. This demand has continued to offset concerns about short-term rental growth prospects and, as a result, yields are broadly unchanged from those reported at this time last year.

In the US the valuation was down by £8.2 million or 1.3 per cent. The health science laboratory portfolio was more resilient than the multi-tenanted mixed-use product in the San Francisco area, the latter suffering from increased vacancy in that area.

In Belgium, and France there was an overall deficit of 0.6 per cent. A 1.0 per cent surplus in France, reflecting rent indexation, was offset by a 1.5 per cent deficit in Belgium due mainly to declines in rental and occupancy levels.

The balance sheet remains very strong and conservatively geared with a net debt to equity ratio of 64 per cent adjusted to exclude FRS 19 deferred tax, or 69 per cent after accounting for FRS 19. At the end of 2003 the Group's debt totalled £1,667.1 million or £1,507.8 million net of cash deposits.

Chief Executive's review continued

The Group's average interest rate on borrowed funds was 6.68 per cent, with an average maturity of 10.8 years.

Review

One of the most significant changes that came out of the Strategic Review has been the internal structure of the business, in terms of reporting and the overall management regime. Such changes are not obvious to the outside world but are fundamental to the success of the business. In 2003 we have streamlined the reporting structure and in particular in the UK leasing area we have centralised the management into one team, which has helped us to step up our efforts in leasing and to improve the process.

The UK Retail business is now under new leadership and the team will review some extensions in existing centres but will also explore how to manage assets more actively. In the area of human resources, a new Director of Human Resources was appointed in the Spring. A new rewards package has been introduced which sets out clear targets for performance-based remuneration across the business. We firmly believe that these changes will be a strong force for motivating our people and will maximise the contributions from the most talented individuals in what is a strong team of people.

2003 has shown the defensive attributes of Slough Estates' portfolio, with strong cash flow generation and low gearing. Our leased portfolio reflects strong covenants from our largest customers, such quality names as Fiat, Masterfoods, Microsoft, O_2, Centrica, Pfizer, DHL, Deloitte & Touche, McDonald's and Cisco. Overall, our top 20 customers provide some 31 per cent of Group income. The wide spread of businesses from our total customer base, which amounts to over 1,700 names worldwide, and covering a wide range of market sectors is a further source of strength. The diversity of business and strength of covenant is reinforced by long leases, with a worldwide average of 11.5 years to run, so giving us a high degree of income security. The contracted income stream for the next 5 and 10 years of 73 per cent and 50 per cent respectively when compared to our current income is excellent. This calculation is made on the most pessimistic and improbable assumption of no new lettings being made and every tenant break clause being exercised in the intervening period, when in reality we can expect a continued flow of lettings. In the last five years 78 per cent of our customers have not exercised their lease breaks and a majority of customers in fact renewed their leases.

It remains the case that new lettings for larger buildings have been more difficult to achieve, however, new leases for existing space increased by 37 per cent from 2002 and leases of new space increased by 31 per cent. We expect to increase the number of speculative developments in 2004. It is important, with the lead times involved in bringing product to the market, that we are prepared for the anticipated stronger markets in the next 18 months. With a strong balance sheet and an excellent supply of well-located land with planning consents across all our markets, Slough Estates is well placed for the expected upturn in the market. We have a total future development programme of some £1 billion on 147 hectares of land for the next five to eight years.

Occupancy by rent for 2003 is marginally down on 2002 but overall there seems a high level of stability in these figures, which we believe to have levelled off at around 90 per cent. In 2004 we are gaining confidence about the outlook in property markets as global economic prospects improve but it may be next year before we see a strong upturn in customer demand. We currently have only 67,000 sq.m. of space under construction, 40 per cent down on 2002 levels and with 45 per cent pre-leased, but we expect this figure to increase in 2004.

Our stated plans to exit from our non-core assets, which represent only three per cent of our asset base, are now in place. We are preparing for the sales of our investments at Quail West and Tipperary Corporation, but we have decided not to sell our investments in venture capital funds since they are still producing excellent returns. We will not, however, be committing any more funds to these activities.

The Power Station has had another difficult year due principally to the new plant being delivered late and with many faults which had rendered it initially unfit for purpose. We are now focused on making the plant operate profitably before reviewing our options further.

Review of activities

UK

It has been a year of consolidation with a reduced development programme reflecting the quieter market conditions. In 2003 there were only two speculative and two pre-let project starts as our focus has been on preparation, in terms of planning, and on leasing our existing buildings. We have submitted over 30 planning applications during the year for various developments, refurbishments and changes of use.

In terms of leasing the new restructured leasing team has successfully let 84,000 sq.m., a notable achievement in a difficult year. One change that has helped the management of our West London properties has been the creation of a new virtual estate, theLHR.com, which brings together 16 West London properties into one integrated estate with common estate management and leasing.

With a more encouraging economic and market outlook for 2004 and beyond, a number of new development projects are being brought forward. Work is under way on two more pre-lets for HR Owen and WH Smith for starts in the first quarter 2004, and in January work started on two smaller projects, a business unit in Slough and an office courtyard scheme in Kings Norton. In early 2004 we will review the prospects for speculative developments at Farnborough, Slough, West Drayton and Portsmouth.

On the Slough Trading Estate the company has been working with Slough Borough Council on the replacement of the current Trading Estate Simplified Planning Zone (SPZ) to follow on from the expiry of the existing SPZ in January 2005. Also, a new integrated transport strategy is being introduced to the Trading Estate. It will comprise a new bus service which will be funded by Slough Estates, Slough Borough Council and First Group. This Public Private Partnership will significantly improve the local transport.

Significant progress has been made in 2003 on the Development Brief Area (DBA) at Farnborough Business Park, working with the regulatory bodies concerned as well as other stakeholders, to ensure the key heritage buildings are drawn into the planning process in a sensitive but economic fashion.

2003 Major Events

- Sale of the Pentagon Shopping Centre in Chatham, Kent for £54 million (at an initial yield of 6.89 per cent) – January
- Letting of Building 7400 (1,776 sq.m.) at Cambridge Research Park to Drake Electronics – the largest commercial letting in Cambridge in 12 months – April
- Letting to Agusta Westland, the helicopter manufacturer, of part of 25 Templer Avenue at Farnborough at a rent of £275 per sq.m. – April
- Completion and letting of new 2,210 sq.m. purpose-built distribution centre to UPS and a pre-let to Knorr-Bremse of 3,372 sq.m., both at Emerald Park, Bristol – August
- Acquisition of nine hectares of land at Manor Royal, Crawley, Sussex for £25 million – November
- Six lettings completed at newly re-branded West London portfolio, theLHR.com, totalling 2,529 sq.m. of warehousing/manufacturing space – December
- New 4,293 sq.m. speculative development warehouse scheme completed at theLHR.com – December

North America

The North American business has had a successful year with underlying occupancy of 91.7 per cent, although temporarily two buildings, 333 Oyster Point and Allerton, have caused occupancy to fall to 87.3 per cent, but the first building is scheduled for demolition and the second for redevelopment, and so both buildings will only be in the statistics for a short period.

In 2003 Slough Estates leased 67,000 sq.m. of new and existing space. During this period clients vacated some 31,500 sq.m. and there were total client renewals of 14,000 sq.m.

- Five buildings were completed at Britannia Oyster Point, South San Francisco, a total of 45,000 sq.m.
- The third phase of the Pfizer (Sugen) campus at Pointe Grand, South San Francisco, of 6,300 sq.m. was completed
- Two buildings comprising 17,000 sq.m. were completed on the Pfizer campus at Torrey Pines Science Center, San Diego
- Slough Estates sold land and buildings in Elgin, Illinois for $6.7 million

Continental Europe

Slough Estates has had a successful trading year in Continental Europe in all three countries. There were property sales in Belgium at Pegasus II, Strombeek and Kortrijk, in France at St. Fargeau and in Germany at Kapellen.

In terms of new developments we are constructing another light industrial park in Frankfurt of some 9,000 sq.m. of which some 14 per cent is pre-let. A new office development at Kortrijk, in Belgium, of 4,000 sq.m. is being built which has been pre-let and forward sold. Perhaps the most exciting development is at Le Bourget near Paris where a 7,500 sq.m. first phase of a light industrial park is under construction which is 38 per cent pre-let.

- Letting to DHL of a 22,750 sq.m. distribution warehouse at Kapellen, just outside Düsseldorf
- 31,000 sq.m. let in France
- 32,000 sq.m. let in Germany

Tax transparent property trusts
(Property investment funds)

Reference is made elsewhere to the possible introduction of PIFs into the UK and we will be reviewing our options in forthcoming months. What is clear is that the anticipation of PIFs in the UK has been a strong driver in the share prices of the quoted property sector in the second half of 2003 including strong support for Slough Estates' share price. The PIF debate has far-reaching implications for Slough Estates as it has started a debate about how best to hold property assets both at home and abroad. In particular, we had already been looking at our substantial health science assets in California, as there may be attractions in the medium term to monetise these assets, and a US REIT structure may be the best way to hold these assets.

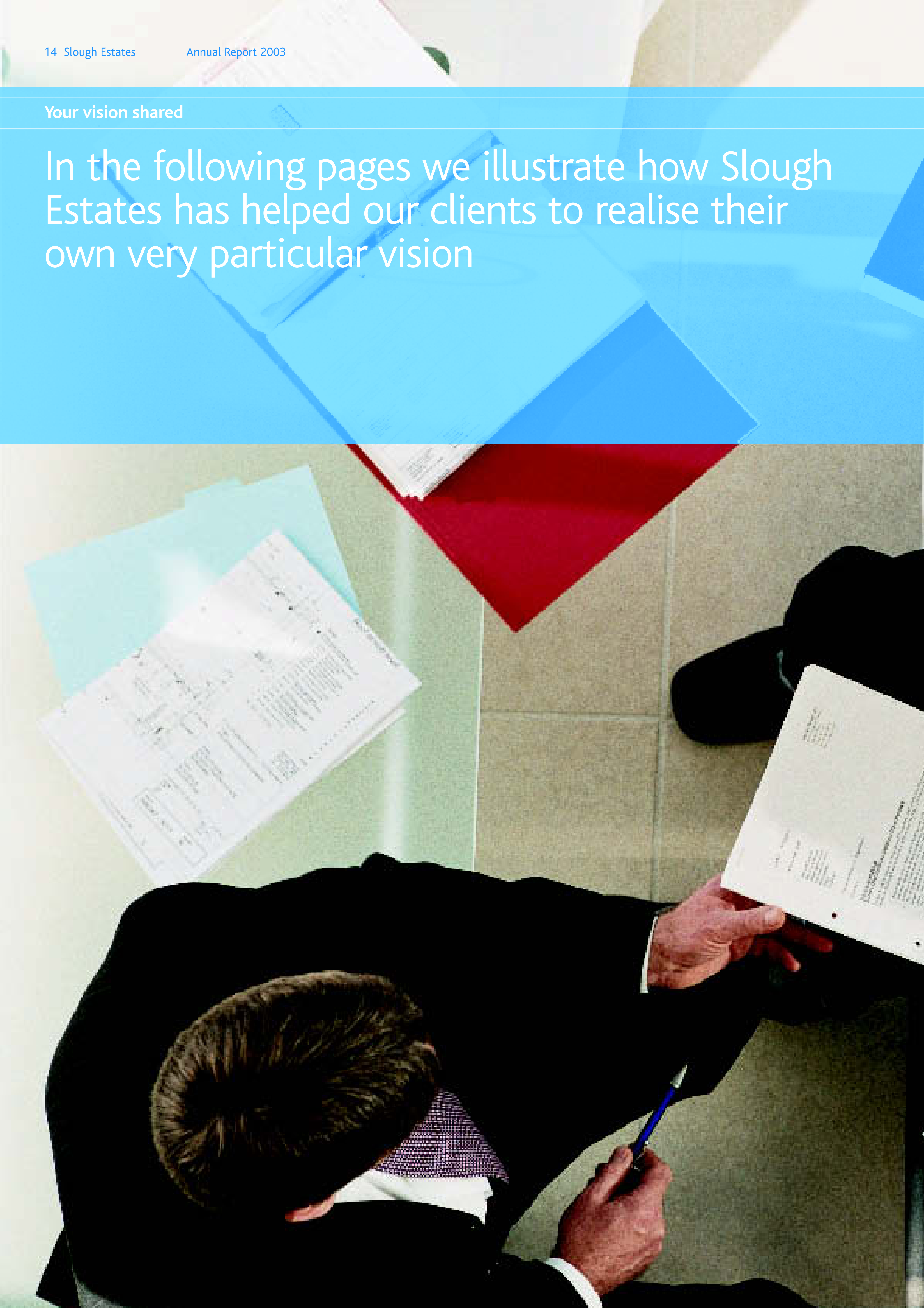
Outlook

In 2003 the Group has delivered a good set of results in what have been challenging markets for property companies. The slower growth in 2003 was inevitable following our decision in 2002 to cut back on the development programme as we believed that we faced a tougher business environment. This earlier caution has been shown to be fully justified by subsequent events with weaker demand for our products in 2003. Today, we look forward with a greater degree of optimism than at any time in the last 18 months and believe that demand will recover in 2005. Therefore, it is important that we ensure that we have sufficient product available to meet this rising demand and this will mean increasing development activity in 2004, so preparing for the upturn in the market.

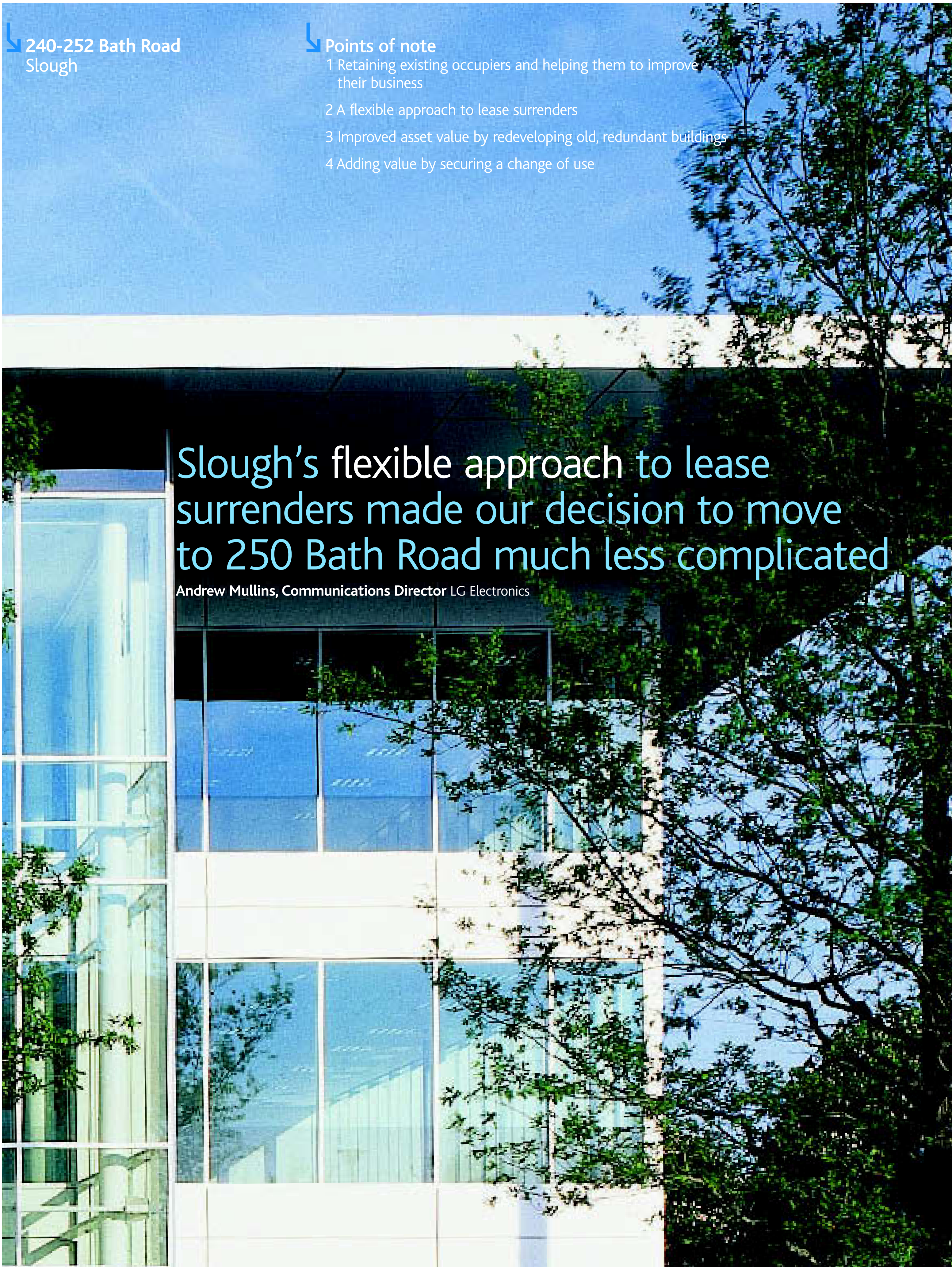
Ian Coull
Chief Executive

Your vision shared

In the following pages we illustrate how Slough Estates has helped our clients to realise their own very particular vision



Let us share your vision



240-252 Bath Road
Slough

Points of note
1 Retaining existing occupiers and helping them to improve their business

2 A flexible approach to lease surrenders

3 Improved asset value by redeveloping old, redundant buildings

4 Adding value by securing a change of use

Slough's flexible approach to lease surrenders made our decision to move to 250 Bath Road much less complicated

Andrew Mullins, Communications Director LG Electronics

This is a new development of three office buildings which adjoins the West Wing of Slough Estates headquarters.

The project involved the redevelopment of three old industrial buildings with office frontages onto the Bath Road. One of the buildings was occupied, on a temporary basis, by Slough Estates for the storage of construction materials. The second building had been occupied by Celltech which relocated to a new facility on the Bath Road. The third building had been occupied by Xenova, which relocated to a modern building on the Trading Estate.

The redevelopment of 240 to 252 Bath Road also involved the demolition of three old industrial buildings at 293, 294 and 295 Aberdeen Avenue. 293 Aberdeen Avenue had previously been occupied by Wagstaff Foundries and was vacant. 294 Aberdeen Avenue was occupied by Water on Wheels which relocated to a modern building on Bedford Avenue on the Trading Estate. The final building, 295 Aberdeen Avenue, was occupied by Aston Green Audi on a temporary basis for car storage.

A number of design proposals were considered for the redevelopment of the site, before the interest from two existing occupiers on the Slough Trading Estate determined that the final configuration should be three buildings around a central landscaped courtyard.

The two pre-lets were agreed to LG Electronics and Cubist and were amongst a handful of pre-lets achieved in the Thames Valley market that year. The decision was made to build the remaining office, 240 Bath Road, on a speculative basis. This building is in fact a mirror image of the Cubist building, 252 Bath Road.

The pre-let to LG Electronics involved the surrender of their existing building on the Bath Road which, together with the adjoining office building (occupied by Fiat), is earmarked for future office redevelopment. As part of the negotiations with LG Electronics, the company also acquired 245 Buckingham Avenue, the largest and final unit in the second phase of the Buckingham Centre redevelopment.

As part of the pre-let to Cubist the Investment Team agreed to accept the surrender of their existing property on payment of a substantial premium.

The speculative office building at 240 Bath Road is currently under offer to Fiat, another occupier on the Slough Trading Estate. This letting also involves the surrender of their existing office building which, as previously mentioned, adjoins the former LG Electronics building and will provide the opportunity to develop one of the two remaining major office sites on the Bath Road.

Above Reception area at 240 Bath Road.
Left Andrew Mullins (LG Electronics), Colin Young (Slough Estates Commercial Manager), Neil Whitehouse (Slough Estates Construction Manager) outside the new offices of LG Electronics, 250 Bath Road, Slough.

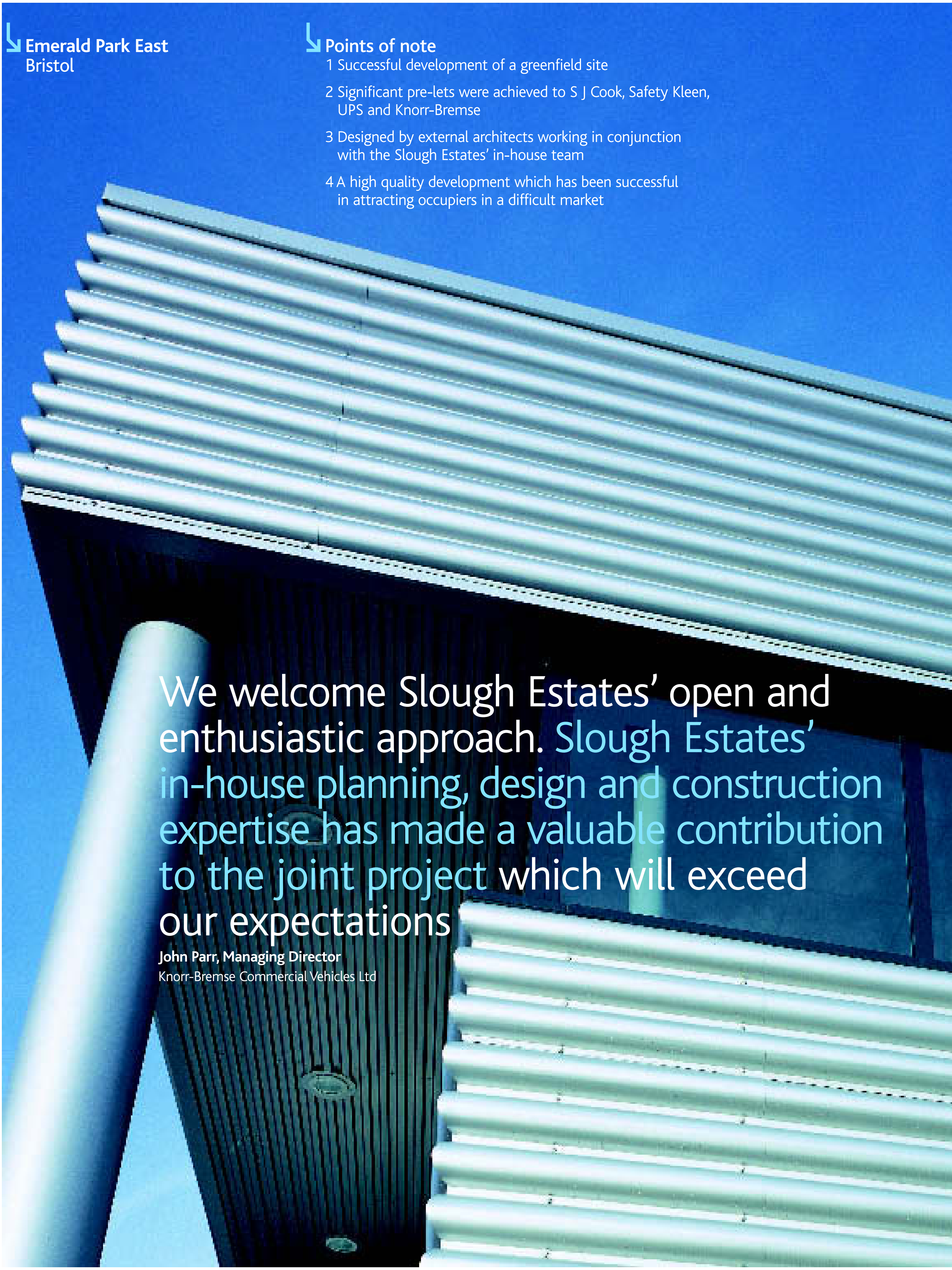
Emerald Park East
Bristol

Points of note
1 Successful development of a greenfield site

2 Significant pre-lets were achieved to S J Cook, Safety Kleen, UPS and Knorr-Bremse

3 Designed by external architects working in conjunction with the Slough Estates' in-house team

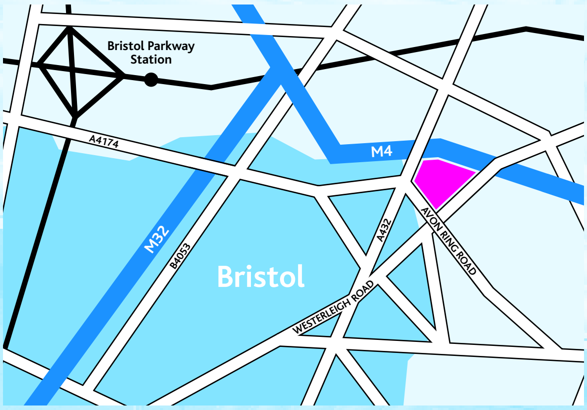
4 A high quality development which has been successful in attracting occupiers in a difficult market



We welcome Slough Estates' open and enthusiastic approach. Slough Estates' in-house planning, design and construction expertise has made a valuable contribution to the joint project which will exceed our expectations

John Parr, Managing Director
Knorr-Bremse Commercial Vehicles Ltd

Paul Marten (Architect) and Stanley Marek (Marketing) discussing the pre-let to Knorr-Bremse.



Phase 100, Emerald Park East, Bristol, fully let during the year.

The site was acquired from the Co-operative Insurance Society in 1999 following the opening of the Avon Ring Road which serves the Emerald Park area of Bristol and provides a rapid link to the M32 and M4 motorways and to Bristol City Centre.

The 15.7 acre site, which has an extensive frontage onto the Avon Ring Road, has been developed in four phases. The first phase provided 11 speculative production/warehouse units and a 20,950 sq.ft. purpose-built facility for S J Cook on part of the second phase. The balance of Phase two included a 10,270 sq.ft. purpose-built facility for Safety Kleen together with a speculative detached warehouse/production unit.

The third phase of the development was triggered by a 23,800 sq.ft. purpose-built facility for UPS and also included a detached industrial/warehouse unit which was constructed at the same time. The fourth and final phase is a 36,300 sq.ft. pre-let to Knorr-Bremse which is currently under construction. During the course of 2003 the new facility for UPS was handed over, on time and on budget, and work commenced on the construction of the pre-let to Knorr-Bremse. A further 35,200 sq.ft. of speculative warehouse and production space was let to Buck and Hickman and Progressive Financial Services (a further 23,300 sq.ft. is currently under offer.)

The North Feltham Trading Estate

Points of note

1 Brownfield redevelopment

2 Landfill site

3 Active asset management to create the redevelopment opportunities

4 In-house expertise in design and build projects and speculative development

5 Reduced traffic congestion on the Estate by the provision of greatly improved car-parking standards and reduced site cover on the new developments

6 Substantial uplifts in asset value as a result of redeveloping long-term holdings

7 Occupier retention, e.g. SpaTrans

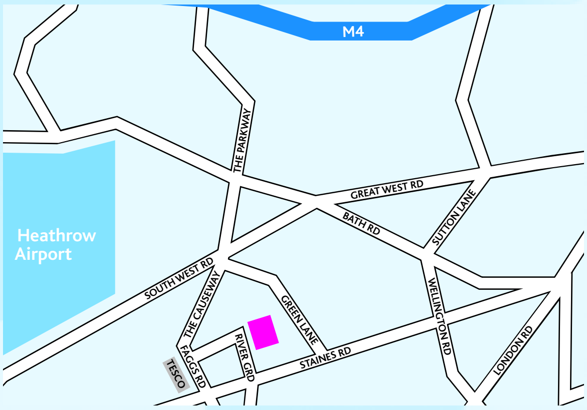
8 Reduced financial risk of redevelopment through securing the four pre-lets

9 Undertaking a series of speculative developments in favourable marketing conditions targeted at Heathrow related industries such as distribution and aircraft support services

By working in partnership with us, Slough Estates were able to meet our business aspirations and deliver a second building in this prime location. This has enabled us to develop our business post-2002

Patrick Roberts, Managing Director, SpaTrans

Clem Campbell (Estimator) and Dan Pagella (Leasing) discussing the speculative development at North Feltham Trading Estate.



The North Feltham Trading Estate was acquired by Slough Estates when it merged with Allnatt London Properties in 1984.

Over the last eight years Slough Estates has carried out a rolling redevelopment programme which, to date, has involved 10 separate phases. Of these phases, four were undertaken as pre-lets to Federal Express and Kamden International Shipping with two to SpaTrans.

The most recent speculative developments, Phases 800 and 900, are situated on River Gardens on what is known as the North Feltham Garage site. This site was designated as greenbelt until 1996 when, following representations made during the preparation of the Hounslow Urban District Plan, the site was removed from the green-belt.

Following adoption of the Urban District Plan in January 1998 Hounslow Council resolved to grant planning permission, subject to a Section 106 Agreement which made provision for environmental improvements to the adjoining greenbelt, the creation of a five-metre landscape buffer zone along the site's eastern and southern boundaries and a 1.8 metre-wide footpath along the western boundary beside the River Crane.

The site was originally occupied on a long lease, expiring in 2064, which was subject to rent reviews every 14 years. The original leasee had sub-let parts of the site to a number of different companies as it did not require the whole site for its own occupation. The long lease was re-negotiated to incorporate two break options. These were subsequently exercised to facilitate the construction of Phase 800, which was completed in November 2000, and Phase 900 which was completed in October 2003. The original leasee remains in occupation of the balance of the property at a lower rent following the pre-determined reductions agreed in the event of the break options being exercised.

Three further phases of redevelopment, which will be triggered by lease expiries, will complete the redevelopment of the North Feltham Trading Estate.

Britannia Oyster Point Business Park South San Francisco, CA

Points of note

1 Former brownfield site remediated for life sciences development

2 Master-planned life sciences campus

3 Premier location adjacent to Interstate Highway 101

4 Strategic location in the heart of the San Francisco Peninsula biotech cluster

Britannia Pointe Grand Business Park South San Francisco, CA

Points of note

1 Cytokinetics, is a rapidly-growing biotechnology company focusing on small molecule drugs targeting cancer and other disease vectors

2 The building is a sophisticated life sciences facility incorporating state-of-the-art systems to support drug research and development

3 The Britannia Pointe Grand Business Park includes 11 life sciences facilities totalling 630,000 sq.ft

Slough Estates' expertise in life sciences allows them to understand our technical needs

Luis Bayol, Treasurer, Tularik Inc.

As part of its general strategy to expand and to consolidate its life sciences portfolio in selected markets, Slough acquired the 22-acre Britannia Oyster Point site in early 2000. In late 2000, the City of South San Francisco approved the masterplan comprising a seven building, 580,000 sq.ft. life sciences campus set in an attractive, bay-side environment.

Construction commenced in 2001 and six buildings, totalling 480,000 sq.ft. have been completed to date. Five of the buildings are currently occupied by Tularik Inc, Rigel Inc, and Raven Biotechnologies Inc. The facilities accommodate sophisticated biotechnology companies and are equipped with state-of-the-art mechanical and electrical systems, chemistry and biology laboratories, cold rooms, gas supply and other components designed to support biotechnology research and development activities.

Cytokinetics respect the understanding, experience and professionalism that Slough Estates brings to the development and management of bioscience facilities.

Dr James H Sabry, MD, PhD,
President and CEO, Cytokinetics

Cytokinetics Building
Britannia Pointe Grand Business Park
South San Francisco, CA

With the launch of the life sciences strategy in 1994, Slough initially focused on the development and ownership of life sciences facilities in the Bay Area and San Diego. In early 1997, the acquisition of a four-building, 178,000 sq.ft. project with 11 acres of vacant land in South San Francisco enabled Slough to establish a significant presence in one of the strongest biotechnology clusters in the US. Over the next few years, Slough acquired an additional 12 acres of contiguous property and developed another seven life sciences buildings totalling 453,000 sq.ft.

The engineering and design of the new buildings continued the architectural themes of the original development, but also emphasised efficient and functional space. As part of the master plan for Britannia Pointe Grand, several derelict buildings on the west side of the business park were demolished and the sites redeveloped into biotech facilities.

Dr James H Sabry, MD, PhD, President and CEO outside the Cytokinetics building at Brittania Pointe Grand.

Pegasus Park Belgium

Points of note
1 Rezoned from industrial to office park

2 Linked to motorway, train station, bus routes and international airport

3 Repeat business from satisfied customers

4 Environment, amenities, accessibility

5 On-site management team

We chose Slough Estates because they provided us with a lease in the real sense. Like us, they believe in a flexible framework

Jan Verijke, Facility Manager Deloitte & Touche, Belgium

Pegasus Park is a high quality office park and the high levels of occupancy are testament to this and the management team's leasing efforts

Credit Suisse First Boston

Above Building III, Pegasus Park II Pre-leased to Deloitte & Touche
Left In May 2003, Slough hosted an analysts' visit to Brussels in order to demonstrate the success of Pegasus Park.

Pegasus Park is the premier office park in Belgium and amongst the finest in Continental Europe.

The tenant line-up is impressive with Cisco Systems, DHL, Johnson Controls, McDonald's, KBC Bank, Deloitte & Touche and Volkswagen amongst the instantly recognisable and multinational companies who have chosen to locate their offices on Pegasus Park. Of these companies, Cisco, Deloitte & Touche, DHL and Johnson Controls have all expanded their operations since locating on Pegasus Park.

The 18 ha park is the result of a concerted land assembly over 10 years, comprising seven different land purchases. To date, 106,000 sq.m. of office accommodation has been developed and a further 170,000 sq.m. can be provided.

Slough has benefited from changes to the zoning plan as the local authorities have gradually increased the density of office development allowed in the Airport location. The most recent change will permit buildings with up to eight upper floors on what had traditionally been an industrial zone.

Office parks depend for their success on quality of building and environment, location and transport links and on the amenities provided. Pegasus Park scores well on all these points. Respected local architects such as Jaspers and de Borman have designed buildings of the highest quality which are complemented by an infrastructure and landscaping which are now complete.

Few developments can be as well served by a choice of transport links that includes direct access to motorway, train station and several bus stops as well as being only minutes away from an international airport.

Amenities on the Park have been bolstered by the four star NH Hotel which opened on the Park in 2001 and which provides accommodation, restaurant, bar and conference facilities. Additional conference facilities are provided by the Regus Business Centre.

Kapellen Germany

Points of note

1 Site assembly; develop; lease; sale; reinvest profits

2 A functional, flexible building specifically designed for modern logistics users

3 Product designed to fulfil occupiers' needs and meet demands of institutional investors

4 A second phase to follow in 2004

This building was ideal for our requirements, in terms of both location and specification.

Jürgen Theobald, Branch Manager DHL Logistics GmbH

Slough Estates has developed distribution warehouses in the UK, Belgium, France and Germany.

Each of these warehouse schemes has been designed to respond to the activities of international distribution companies with a generous loading yard, 10 metre high eaves, flexible office accommodation and fire prevention and security measures.

The 23,000 sq.m. warehouse at Kapellen is our first distribution warehouse in Germany. There is land available for a second warehouse of up to 20,000 sq.m. on an adjoining site.

Such is the demand from investors for well-let, well-located logistics product that as soon as the DHL lease was signed, a number of highly competitive bids were received. Aareal Bank were selected as the preferred bidder and they also purchased the adjoining light industrial park.

The product

Although built speculatively, the Kapellen scheme was designed to comply with the demands of international logistics companies. Flexibility, efficiency and security are all-important considerations.

The tenant

Following the purchase of several logistics companies, including DHL and Danzas, a reorganisation of occupational requirements had become a priority for Deutsche Post.

The objective was to close down the older, smaller and inefficient buildings and re-house the goods in purpose-built logistics warehouses. Slough Estates' distribution park at Kapellen, outside Düsseldorf, met Deutsche Posts' criteria.

Logistics warehouse, Kapellen
Let to DHL and subsequently sold to Aareal Bank.

UK property portfolio
as at 31 December 2003

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
UK									
Slough	196		598,164	82,642	33,738	714,544		400	70,675
London	68	3	272,170	12,313	4,370	288,853		203	24,841
South East (north of Thames)	64	10	166,100	8,439		174,539		119	9,868
South East (south of Thames)	112	26	187,301	41,592		228,893		72	22,006
South	67	16	187,439			187,439	3,372	153	10,225
Midlands and North	99	12	157,556	28,211	16,734	202,501		161	13,409
Retail	33			5,757	160,460	166,217		340	32,756
Total	**639**	**67**	**1,568,730**	**178,954**	**215,302**	**1,962,986**	**3,372**	**1,448**	**183,780**
Percentage by use			80%	9%	11%				
Slough Trading Estate	**196**		**598,164**	**82,642**	**33,738**	**714,544**		**400**	**70,675**
London									
Inner	9		40,764	2,175		42,939		47	4,010
Greenford	5		24,955			24,955		14	1,835
West Drayton	7		35,900			35,900		18	2,372
Hayes	4		13,361			13,361		33	1,028
Uxbridge	7	3	23,965	757		24,722		12	1,405
South Ruislip	4		10,326		4,370	14,696		5	1,866
Feltham	23		82,938	8,668		91,606		36	9,362
Hounslow	3		15,870			15,870		16	1,065
Isleworth	6		24,091	713		24,804		22	1,898
Total	**68**	**3**	**272,170**	**12,313**	**4,370**	**288,853**	**–**	**203**	**24,841**
South East North of Thames									
Elstree	27	5	32,995	6,270		39,265		18	2,532
High Wycombe	9		31,564	2,169		33,733		26	2,662
Welwyn Garden City	2		9,541			9,541		21	748
Chelmsford	3		15,523			15,523		10	865
Colnbrook	2		10,264			10,264		8	590
Radlett	11	4	27,927			27,927		7	663
Slough	1	1						1	20
Luton	9		38,286			38,286		28	1,788
Total	**64**	**10**	**166,100**	**8,439**	**–**	**174,539**	**–**	**119**	**9,868**

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	323
Wokingham	2		7,465			7,465		7	539
Winnersh	30		100,492	20,684		121,176		40	14,860
Camberley	3	1	13,789			13,789		5	565
Leatherhead	2		4,176			4,176		4	462
Ascot	11			9,350		9,350		1	2,617
Bracknell	2		4,867			4,867		6	248
Crawley	9		33,809			33,809		2	1,100
Farnborough	52	25	15,860	11,558		27,418		4	1,292
Total	**112**	**26**	**187,301**	**41,592**	**–**	**228,893**	**–**	**72**	**22,006**
South									
Basingstoke	3		11,007			11,007		8	1,104
Yate	9		31,568			31,568		27	1,465
Weston-super-Mare	8	1	25,572			25,572		45	1,157
Portsmouth	21	1	76,174			76,174		49	4,005
Bristol	7	1	18,672			18,672	3,372	15	1,253
Swindon	3		11,411			11,411		6	778
Southampton	5	2	13,035			13,035		3	463
Gloucester	11	11							
Total	**67**	**16**	**187,439**	**–**	**–**	**187,439**	**3,372**	**153**	**10,225**
Midlands and North									
Birmingham	23	2	69,365	3,338		72,703		85	4,365
Huddersfield	8		15,315		9,023	24,338		19	1,316
Oldbury	2		4,315	1,575		5,890		6	487
Chester	3				7,711	7,711		5	1,896
Runcorn	4		13,696			13,696		4	635
Warrington	5		20,670			20,670		24	680
Northampton	5		20,564			20,564		2	1,061
Cambridge	45	10		19,197		19,197		5	1,924
Derby	4		13,631	4,101		17,732		11	1,045
Total	**99**	**12**	**157,556**	**28,211**	**16,734**	**202,501**	**–**	**161**	**13,409**
Retail									
Surrey Quays, Rotherhithe (50%)	9			393	25,105	25,498		53	4,023
Clifton Moor, York (50%)	9				19,312	19,312		10	3,213
Howard Centre, Welwyn	2			147	21,966	22,113		61	3,564
Lewisham Centre, Lewisham	5			3,909	29,308	33,217		81	6,232
Buchanan Galleries, Glasgow (50%)	4			223	56,140	56,363		88	13,855
Bishop Centre, Taplow	4			1,085	8,629	9,714		47	1,869
Total	**33**	**–**	**–**	**5,757**	**160,460**	**166,217**	**–**	**340**	**32,756**

Overseas property portfolio
as at 31 December 2003

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
Overseas								
Belgium	64	37	83,145	77,333	2,797	163,275	13,578	85
France	56		231,370		17,812	249,182	16,502	22
Germany	29	12	54,147	17,802		71,949	14,615	60
Canada	9	2		71,117		71,117		28
US	142	30	379,040	26,262	18,184	423,486	18,487	79
Total	**300**	**81**	**747,702**	**192,514**	**38,793**	**979,009**	**63,182**	**274**
Percentage by use			76%	20%	4%			

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		17
Zaventem E40	1		5,106		2,337	7,443		11
Horizon	2	1	6,536			6,536		5
Sirius	1	1						
Kortenberg	2	2			460	460		1
Relegem	4		19,334			19,334		25
Pegasus – Diegem 1	15	8	8,750	72,929		81,679		21
Pegasus – Diegem 2	1	1						
Kortrijk	2			2,100		2,100	3,882	2
Nivelles	6	4	8,424			8,424		2
Diegem 2	2	2						
Zellik (50%)	2	2						
Zaventem 3 (50%)	6	6	250			250		
Bornem (50%)	11	7	16,517			16,517		1
Rumst (50%)	5	3					9,696	
Total	**64**	**37**	**83,145**	**77,333**	**2,797**	**163,275**	**13,578**	**85**

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		3
Aulnay sous Bois	2		11,155			11,155		1
Nanterre (66%)							5,803	
Evry	5		26,087			26,087		2
Marly La Ville	25		108,377			108,377		6
Cergy Pontoise	10		51,645			51,645		2
Blanc Mesnil	7		14,842			14,842	7,478	4
Avenue Kléber							3,221	
Total	**56**	**–**	**231,370**	**–**	**17,812**	**249,182**	**16,502**	**22**

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	30,016	6,606		36,622		24
Mönchengladbach	2		7,637	3,365		11,002		14
Frankfurt	4	2		250		250	8,997	
Kapellen	5	5						
Ratingen	3		6,083	5,572		11,655	5,618	12
Hamburg	2		10,411	2,009		12,420		10
Krefeld	2	2						
Total	**29**	**12**	**54,147**	**17,802**	–	**71,949**	**14,615**	**60**

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
Canada								
Vancouver								
Burnaby (50%)	9	2		71,117		71,117		28
Total	**9**	**2**	–	**71,117**	–	**71,117**	–	**28**

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
US								
Chicago: Illinois								
Elgin	28	18	16,861			16,861		3
Peoria: Illinois								
Washington/Cherrytree (25%)	7				18,184	18,184		16
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		68,343			68,343	18,487	4
Torreyana	3		7,898			7,898		1
Torrey Pines Science Park	7		27,110			27,110		9
San Francisco								
Hacienda, Pleasanton (55%)	6		23,166			23,166		11
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		11
South San Francisco								
Oyster Point	13		63,280			63,280		4
East Grand	11	11						
Gateway (45%)	3		13,690			13,690		1
Gateway (90%)	2		9,854			9,854		1
Pointe Grand South	15	1	65,833			65,833		10
Total	**142**	**30**	**379,040**	**26,262**	**18,184**	**423,486**	**18,487**	**79**

Development programme
as at 31 December 2003

Location	Type	Practical completion 2003 sq.m.	Work in progress Dec 2003 sq.m.	Potential Starts 2004 sq.m.	
UK					
Slough					
Bath Road 250 (net)	Office	7,495			4,669 sq.m. let to LG, Cubist
Farnham Road Trade Centre	Retail	3,019			2,577 sq.m. let
Weston Road	Industrial	2,228			
275 Leigh Road	Industrial			1,115	
61 Whitby Road	Industrial			3,460	Pre-let to WH Smith
2F/2L Buckingham Avenue	Industrial			6,094	
2D/2E Buckingham Avenue	Industrial			1,734	
91-93 Farnham Road	Leisure			2,500	
Slough Total		**12,742**	**–**	**14,903**	
Feltham					
Phase 900	Industrial	4,293			
Birmingham					
K400	Industrial	3,116			
K800	Industrial			2,301	
Bristol					
Phase 300	Industrial	2,915			Let to UPS
Phase 400	Industrial		3,372		Pre-let to Knorr-Bremse
Uxbridge					
Phase 2B	Industrial	3,998			
Portsmouth					
Site F	Industrial	469			Let to Snows
Site D	Industrial			2,731	
Triangle	Industrial			1,934	
Farnborough					
200/250 The Square	Office			8,518	
Radlett					
Phase 200	Industrial			9,032	
West Drayton					
Stone Close Phase 1	Car Showroom			2,926	Pre-let to HR Owen
Stockley Close Phase 1	Industrial			6,585	
Camberley					
Stanhope Road	Industrial			2,145	
Gloucester					
Javelin Park Phase 1	Industrial			22,203	
UK Total		**27,533**	**3,372**	**73,278**	

Location	Type	Practical completion 2003 sq.m.	Work in progress Dec 2003 sq.m.	Potential Starts 2004 sq.m.	
Belgium					
Pegasus 2	Office	3,925			Let to Deloitte & Touche
Kortrijk	Office		3,882		Pre-let to Deloitte & Touche and forward sold
Rumst	Industrial		9,696		
Pegasus Park	Convention Centre				
Zaventem III	Industrial			5,000	
Bornem	Industrial			16,100	
Sirius	Office			11,000	
Nivelles	Logistics			10,000	
		3,925	**13,578**	**42,100**	
France					
Avenue Kléber	Office		3,221		
Nanterre	Office		5,803		
LeBlanc Mesnil	Industrial		7,478		Pre-let to Blindage de France
			16,502		
Germany					
Frankfurt	Industrial		8,997		Pre-let to Schulte
Ratingen II	Industrial		5,618		
Kapellen, Phase III	Logistics			11,500	
Krefeld	Industrial			8,157	
Frankfurt	Industrial			6,000	
Neuss IV	Industrial			8,000	
			14,615	**33,657**	
US					
Torrey Pines Lot 24-25	R&D	17,099			Let to Pfizer
Torrey Pines Lot 21-22	R&D		13,843		Pre-let to Pfizer
Torrey Pines Lot 23	R&D		4,645		Pre-let to Pfizer
Oyster Point	R&D	45,070			Let to Raven, Rigel, Tularik
Point Grand	R&D	6,287			Let to Sugen
Oyster Point	R&D			8,918	Pre-let to Tularik
East Grand	R&D			23,783	
		68,456	**18,488**	**32,701**	
Overseas Total		**72,381**	**63,183**	**108,458**	
Group Total		**99,914**	**66,555**	**181,736**	
Let or Sold		**74.8%**	**44.9%**	**9.9%**	

Financial review

Dividend up 7.1% in 2003 and up 7.6% compound over five years

Core property income before exceptionals down 3.3%

Key drivers for 2003 results

The underlying pre-tax profit before the expensing of interest previously capitalised and the write-down on non-core assets was slightly up on 2002 at £146.3 million showing that, despite a challenging year in the property markets, the core property business has been stable.

Results

Core property income was down by £4.6 million or 3.3 per cent from £140.3 million in 2002 to £135.7 million. The core property out-turn suffered in 2003 from the increase in net interest costs of financing non-core activities (£6.8 million), expensing the holding costs that had previously been capitalised on development sites mainly at Farnborough and Cambridge (£6.2 million), and the adverse effect of exchange rate movements (£1.6 million).

Property investment income of £223.1 million was up by £6.2 million or 2.9 per cent. New developments added £18.4 million to rental income, which was partly offset by the loss of £3.9 million of rent from property sales. On a like-for-like basis, rental income increased by £4.7 million or 2.0 per cent. Property joint ventures added £15.1 million.

Pre-tax profit, excluding exceptional items, fell by £3.4 million or 2.4 per cent in 2003 from £143.5 million to £140.1 million. Earnings per share, adjusted on a similar basis, and excluding the effects of FRS19 deferred tax, were down by 4.2 per cent to 27.6 pence. Year-end exchange rates reduced profit before tax, excluding exceptional items, by only £0.1 million.

Sales of investment properties realised a surplus of £1.6 million over book value in 2003, compared to a deficit of £0.1 million in 2002. The principal contributor in 2003 was the Pentagon Shopping Centre in Chatham.

Exceptional losses of £37.9 million or 5.6 pence per share after tax relating to the Quail West provision and write-down reduced overall basic earnings per share to 19.6 pence.

The year ahead

Looking ahead the picture is more encouraging. Additional year-on-year rental income of £14.5 million has already been secured on recent project completions or properties currently under development, 78 per cent of which will fall into 2004. The UK portfolio of occupied space was 3.2 per cent reversionary at the end of 2003, which equates to £5.1 million of potential future rental income as leases are reviewed or properties re-let. The estimated rental value of vacant space at the year end was £30.9 million, of which £21.9 million was in the UK. Improving occupancy will be a prime objective again during 2004, with a target to move towards the optimal 95 per cent occupancy.

Security of income

The Group has excellent income security in that 64 per cent of the current Group rent roll of £259.8 million is secured on leases with at least 10 years unexpired, or 50 per cent if all tenants exercise break clauses and vacate at the earliest opportunity. The weighted average term of unexpired leases is 11.5 years excluding breaks or 9.4 years assuming all breaks are exercised.

The Group is not dependent on any one customer for its principal revenues as it has over 1,400 tenants in the UK and over 1,700 tenants in total worldwide. No tenant accounts for more than 6 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 25 per cent, logistics 8 per cent, health science research 23 per cent, TMT 17 per cent, service 12 per cent, retail 14 per cent and others 1 per cent.

Financing

Net interest costs rose by £12.0 million to £88.5 million. Net interest payable (before capitalisation of interest) fell marginally from £112.6 million to £111.6 million. Capitalised interest was down by £13.0 million to £23.1 million. This significant reduction was due to the cutback in the development programme. Furthermore, accounting rules require that interest holding costs on development sites be expensed rather than capitalised after extended periods of inactivity. This meant that some £6.2 million of interest was expensed on several sites, particularly those at Farnborough and Cambridge, during the second half of 2003, rather than being capitalised in the normal way in

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Financial review continued

Basic net assets per share down 3.4%

the construction phase. It is expected that work will re-start at Farnborough shortly which will mean interest can again be capitalised. Gross interest cover of 2.0 times was at the same level as that of 2002, excluding exceptional items.

Non-core activities

Operating profit of £4.4 million from the Group's non-core activities involving utilities, property trading, oil and gas and other activities, were £1.2 million higher than last year.

Property trading: Property trading had a more successful year, with profits rising from £2.8 million to £7.1 million. Several projects in Germany, France and Belgium contributed, including the sales of the distribution warehouses at St. Fargeau to the south of Paris and Kapellen close to Düsseldorf. There are sufficient developments under way in Germany, Belgium and France to suggest a reasonable level of trading profits in 2004, as this type of development in Continental Europe has traditionally been sold on at attractive prices.

Non-property activities:

1 Slough Heat & Power. Although Slough Heat & Power reduced its operating losses from £4.5 million to £4.2 million, continued delays in commissioning the new NFFO4 project prevented further improvement during 2003. This plant is expected to come on-stream early in 2004 and is projected to add some £4.0 million of net revenue annually once it is fully operational.

2 Tipperary. Losses on the Group's investment in Tipperary increased from £1.2 million to £3.5 million, which was mainly due to the cost of developing the coal seam gas reserves in Queensland. This is an important step in maximising the Group's investment in Tipperary, which had a market value of £40.6 million against a book value of £15.9 million at the end of 2003. Tipperary will be sold when the Group has maximised this investment opportunity.

3 Private equity investments. Income of £4.8 million from other activities was £1.3 million lower than last year. The contributions from Candover and CHUSA fell due to fewer realisations being achieved in 2003 than in 2002. With an investment of £40.6 million remaining in these funds and uncalled commitments to them of £35.3 million, further profits can be expected in the future, although their timing and quantum are difficult to predict. It is not the Group's intention to extend these investments in future.

4 Residential leisure development at Quail West. Exceptional items have considerably affected this year's results. The steep decline in the number of sales of lots at the residential leisure development at Quail West in Florida, caused by adverse market conditions over the last two years or so, has required a write-down in the carrying value of Quail West's assets, and a provision against future costs there. The write-down amounted to £17.1 million and the provision to £20.8 million, or £37.9 million in total. Operating losses at Quail West were £3.8 million in 2003, which are included in the Group profit and loss account on the "Property trading – operating profit" line. Quail West was identified in the Strategic Review as a divestment asset and a transaction will be made when market conditions allow.

Taxation

The Group's effective tax rate of 11.1 per cent, excluding exceptional items and FRS 19 deferred tax, was higher than 2002's 8.2 per cent. 2002 benefited particularly from the finalisation of a number of years' tax returns with the Inland Revenue. The effective tax rate, excluding FRS 19 deferred tax, is expected to move up to circa 15 per cent in 2004. FRS 19 deferred tax has also had a significant effect on earnings. The FRS 19 deferred tax credit of £3.0 million in 2003 compares to 2002's deferred tax charge of £33.1 million. 2003 benefited in deferred tax terms by £14.6 million from the Quail West write-down/provision and the higher level of property sales in that year. This gives rise to a much lower overall effective tax rate in 2003 of 11.9 per cent against 2002's 31.1 per cent. As a company we agree with other property companies and sector analysts that accounting for deferred tax, which most likely will not materialise on the sale of properties, is misleading and adds nothing to the clarity of accounting, and have decided to report key financial figures adjusted to exclude it.

Dividend

The Board has proposed a total dividend of 15.0 pence per share for 2003, an increase of 7.1 per cent on 2002. Dividend cover, adjusted to exclude exceptional items and FRS 19 deferred tax, fell from 2.1 times in 2002 to 1.8 times, as did core income dividend cover from 1.9 times to 1.7 times.

Cash flow

The net cash inflow from operations of £212.3 million was £9.8 million higher than in 2002, due largely to rents from new developments. After the payment of all interest, dividends and tax, there was a free cash inflow of £24.7 million. Capital expenditure of £109.5 million on the investment property portfolio was partly offset by proceeds of £59.3 million from investment property sales. Overall, there was a net cash outflow of £57.3 million for the year.

Balance sheet and capital structure

Shareholders' funds excluding FRS 19 deferred tax fell by £54.2 million during the year to £2,374.4 million, due largely to the £86.9 million revaluation deficit, partly offset by retained earnings of £19.3 million after exceptional items of £36.2 million, and exchange differences of £3.5 million. There was consequently a 2.7 per cent fall in adjusted diluted net assets per share (NAPS) from 519 pence to 505 pence. The total deferred tax liability reduced from £186.4 million to £182.3 million during 2003.

Diluted NAPS including deferred tax slipped from 480 pence in 2002 to 464 pence.

Year-end net borrowings of £1,507.8 million rose by £18.2 million during the year. Gearing (the ratio of net borrowings to shareholders' funds, excluding FRS 19 deferred tax) increased from 61 per cent in 2002 to 64 per cent at the end of 2003, mainly due to the effect of the revaluation deficit and the exceptional losses. The exchange rate effect reduced net borrowings by £32.5 million.

The Group has very little off-balance sheet debt. In addition to the £1,507.8 million of net borrowings disclosed as such in the balance sheet, £42.6 million of joint venture debt is included in the balance sheet as part of the £50.5 million 'Investments in joint ventures-share of gross liabilities'. Only £1.9 million, relating to the Group's share of debt in a property-backed associate is not carried on balance sheet.

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.

Regarding 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 10.8 years. £68.3 million of debt is due for repayment or rollover in 2004/2005. £1,245.7 million or 75 per cent of the Group's gross debt of £1,667.1 million has a maturity date beyond the year 2008.

At the year end, the Group had £159.3 million of cash balances on deposit and £364.2 million of undrawn bank facilities. The period of availability is shown in note 17 of these accounts. This availability is more than adequate to cover the Group's development plans over the next two years or so. Spend on the development programme is expected to amount to some £180 million in 2004 and about £220 million in 2005. This will obviously depend on prevailing market conditions. Committed property expenditure amounted to £31.4 million at the end of 2003, 42.0 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, 85 per cent of the debt portfolio was at fixed rate. The weighted average cost of fixed rate debt was 7.34 per cent which falls to 6.68 per cent when variable rate debt is included. This is analysed in detail by currency and duration in note 17 to the accounts.

A number of the Group's historic fundings are at fixed interest rates which are high compared with current rates, but which reflect market conditions at the time they were completed. FRS 13 requires the disclosure of the 'fair value' of these loans and derivatives. The fair value at 31 December 2003 of the Group's borrowings, as analysed in note 17 to these accounts, was some £211.0 million higher than book value before tax or £147.7 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 £351 million. A 10 per cent movement in the value of sterling against all currencies affects diluted net assets per share (excluding FRS19) by 8 pence or 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 FRS 17 'Retirement Benefits' been adopted in full, net assets at 31 December 2003 would have been reduced by £20.2 million (2002 £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

and principals of Group Environmental Policy

Definitions:

What we mean by **Corporate Social Responsibility**: Where companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (EU Green Paper 2001).

What we mean by **Performance Data**: Data used to asses an organisation's level of performance, as measured against detailed economic environmental or social criteria.

What we mean by **Impacts**: The effects of an organisation's operations (both negative and positive) on either the economy, the environment or society.

We believe that our responsibility to local communities and wider society are fundamental to the way in which we conduct our business. This year for the first time we have produced a stand-alone CSR report (a full copy can be obtained from our website on www.sloughestates.com, or alternatively contact the Deputy Secretary), this is a resume of the full report.

This report covers the financial year ending 31 December 2003 and concentrates mainly on our UK activities. The scope of data varies between areas. In some it is comprehensive, in others we are working to improve our data collection.

Our CSR policy

The CSR policy we have developed aims to bring together and formalise our vision for the business, offering an 'umbrella' framework to encompass Group policies in areas including corporate governance, business ethics, risk assessment management, the environment, health and safety, supplier payment, equal opportunities and customer and tenant satisfaction, with various others currently under review.

We have long been committed to the principles of corporate social responsibility. We identify, measure and manage our impacts by defined economic, environmental and social criteria. We strive to follow best practice in these areas, and integrate them into our business strategy, based upon a belief that this approach will add value to our long-term business performance.

We seek to carefully identify the financial and non-financial risks to our business, because we recognise that robust risk management and a readiness to capitalise on new opportunities are the foundations of a sustainable corporation in a rapidly changing environment. We try to consider the views of most relevant stakeholders in our strategic decision-making and to ensure that we identify opportunities for their long-term benefits as well as our own.

We believe in building our relationships on trust, transparency, and responsibility, whilst also helping and encouraging others to move towards sustainability in their own activities.

We strive towards a position where

- **Investors understand us and are keen to invest** because we communicate transparently about our commercial strategy, attentively manage our risks, and continuously seek out new business opportunities.
- **Customers recommend us and expand with us** because we offer an excellent service, treat them fairly and respectfully, and contribute towards their own business performance.
- **Financiers, commentators and the government prefer us** because we demonstrate good governance, adopt a measured and responsible approach to our risks, and have embedded the principles of sustainability into our business strategy.
- **Employees are proud to work for the company and are actively encouraged to develop their skill sets** because we recognise that a positive, engaged and learning workforce is essential in delivering business goals, and that staff wish to work for a company that reflects their personal values.
- **Competitors respect us** because we operate successfully and with integrity to deliver consistent growth in earnings per share, and strive to outperform in all aspects of management – economic, social and environmental.
- **Suppliers want to work with us** because we treat them fairly and openly, seek to establish long-term relationships to ensure that their businesses are sustainable, and provide them with the support necessary to meet the exacting standards we ask of them.
- **Communities embrace us** because we engage with them to ensure that our activities make a positive contribution to people's lives, and that through our developments we enhance the economic, social and environmental fabric of the built environment.

Our commitment to CSR is evolving and we recognise the need for continual improvement to ensure that our business processes, procedures and reporting reflect CSR best practice. We seek to measure our improvements through the use of Key Performance Indicators and annual target-setting programmes.

Governing structures

Our CSR strategy is the responsibility of our cross-functional Group Risk Committee consisting of our:

- Chairman
- Chief Executive
- Finance Director
- General Manager Investment Division
- Group Company Secretary
- Director of Human Resources

The committee is responsible for:

- Co-ordinating the implementation of our CSR Policy
- Measuring our CSR performance
- Establishing the standards we will strive to achieve
- Monitoring and reviewing objectives and targets, and
- Communicating our CSR activity effectively to internal and external audiences

Definitions:

What we mean by **Stakeholders**: A stakeholder is any individual or interest group having a 'stake' in our organisation, whether because they affect us or because we effect them. Stakeholders include, but are not limited to, shareholders, employees, customers, suppliers and the community at large.

What we mean by **Benchmarking**: The process of comparing one's performance relative to peers or competitors for the purposes of understanding and improving performance.

What we mean by **Sustainability**: The UK Government defines four objectives for sustainable development.
- Social progress which recognises the needs of everyone
- Effective protection of the environment
- Prudent use of natural resources
- Maintenance of high and stable levels of economic growth and employment.

The Committee works to five principles:
- Good corporate citizenship requires you to minimise your harmful impact on the environment and improve quality of life in the communities in which you operate
- A company's success should be measured not only by its financial performance but also by its social and environmental performance
- Corporate reputation is enhanced through adherence to high standards of performance, good overall management, and openness and transparency
- The concept of CSR needs to be embedded in the business culture and secured through Board level commitment and vision
- We should aim to maintain a dynamic and motivating environment; one in which employees and all the people with whom they interact can flourish

External benchmarking helps us to gauge our performance as a responsible company and adds credibility to our efforts in this area. During 2003 we:
- Came third amongst participating real estate companies in the Business in the Environment (BiE) 'Index of Corporate Environmental Engagement'
- Came third out of 19 participating property companies in the Property Environment Group (PEG) annual environmental benchmarking survey
- Were listed in the FTSE4Good and Dow Jones Sustainability indices; and
- Received a 'Highly Commended' award from the South East of England Development Agency (SEEDA) for our overall approach to sustainability and corporate responsibility.

Stakeholders

Our people

Each of our employees has a part to play in driving our future success. We seek to attract and retain the best people through a competitive remuneration and benefits package and to give them the training and development necessary to enhance their capabilities and reach their full potential. We have recently been carrying out a review of our policies which means a period of change as we adjust to new ways of working, 2004 will see a full programme of focused meetings at which employees and senior management will work together to help everyone understand how their role contributes to our overall success. Further details of this review can be found in our full report.

Our shareholders

Part of our mission statement focuses on creating 'superior value for our shareholders'. Our sustainable approach to business continues to generate attractive returns for our shareholders. We have an honest and open investor-relations policy. We ensure we are proactive and transparent in this relationship, holding regular meetings between senior management and institutional investors, giving tours of our portfolio, and explaining the Group's strategy. We believe in the importance of maintaining robust corporate governance controls. The principles and responsibilities set out in our corporate governance guidelines are listed on pages 40 to 41 and are founded upon the basis of maintaining the successful continuity of the business.

Our customers

In keeping with our vision we work hard to make sure that our customers are happy with the service we provide. The security of our portfolio and of people that work in our buildings are business priorities, and we seek to ensure that the premises we supply comply with 'best practice' standards in this regard. Another priority is accessibility and we aim to conform fully with the requirements of the Disability Discrimination Act and ensure that that all our newer buildings we own and develop offer good access to all.

Our suppliers

We believe our relationships with our suppliers should be mutually beneficial, based on trust, transparency and a shared commitment to high standards. As part of this, we settle invoices within 14 days, without holding back monies against possible future problems. Whilst endeavouring to persuade and help our suppliers to manage their own economic, social and environmental impacts we ask that they demonstrate their H&S and environmental credentials and we contribute to some smaller contractors' training and awareness programmes.

Our community

We have always been actively engaged with the communities in which we operate believing that community vitality and business prosperity are closely entwined. We work with organisations that support business, charity, education, the arts, recreation and welfare – locally and nationally. We have introduced a 'Charity of the Year Scheme' with MacMillan Cancer Relief and have set a fundraising target of £50,000. In our charitable donations we look to help achieve positive, long-term impacts. In 2003 we donated £539,557 to charitable organisations and further details of our community partnerships are given in our full CSR report.

Corporate Social Responsibility continued

Government

We value good relations with government at all levels, from local authorities in areas where we operate to national policy makers. Our relationship with Slough Borough Council has become a model of good practice, showing how business and public authorities can work together to mutual benefit. We also recognise our responsibility to contribute our knowledge and experience to help guide policy formation.

Health & Safety

Health & Safety (H&S) is not negotiable and is a critical issue for the Group, cutting across stakeholder groups and business activities. Robust management controls and careful auditing procedures underpin a H&S record in which we can all take pride. The Group Board sets policy, whilst implementation lies with a cross-departmental committee spanning the UK, Europe and North America. Further details of our H&S record are available in the full CSR report.

Environment

We are committed to protecting and enhancing the environment – both locally and globally – in all our operations, both for its own sake, and for the major business benefits it offers, such as reduced risk, operational efficiency, enhanced reputation and opportunity for innovation. Responsibility for monitoring and managing our environmental impacts lies with a cross-departmental Environmental Committee, with the Chief Executive reporting to the main Board on our performance. Our environmental achievements are audited every year by our advisers to give an objective assessment of our performance. In 2003 we fully achieved 87 per cent of our environmental targets, a significant improvement on 2002. More comprehensive details can be found in our full CSR report.

Principles of the Group Environment Policy

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 the 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 waste.
- 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.

Definitions:
What we mean by **Environmental Management System**: Part of an overall management system which includes the organisational structure, responsibilities, practices, procedures, processes and resources for determining and implementing the environmental policy (Source: EMAS)

- 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 finds.
- 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 contracts 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.

Targets for the future

To maintain continuous improvement, our 2004 targets are more ambitious than ever before. This is not a definitive list a complete list of our targets can found in the full CSR report.

Customers targets for 2004

- To develop a comprehensive extranet for the Slough Trading Estate
- To establish extranets for Slough Estates' top two UK commercial sites, provide greater services for occupiers, and promote business to business relations between them.

Suppliers target for 2004

- To ensure that all subcontractors on Slough Estates' approved supplier database have a policy of paying staff above the minimum wage.

H&S targets for 2004

- To maintain fines for H&S non-compliance at their current level – zero
- To raise awareness about hand injuries on construction sites throughout training and presentations.

Community targets for 2004

- To introduce a policy allowing each member of staff to devote a day a year of company time on a community project or company-wide community initiative
- To develop a directive for management staff on retail centres to implement at least one major community initiative a year, and to measure, track and report on their community initiatives generally.

Environmental targets for 2004

- Identify and introduce a method of auditing the EMS
- Work with expert bodies to develop a Group Biodiversity Policy
- Investigate the various methodologies under development in preparation for the EU performance of Buildings Directive, and seek to contribute to the development of new methodologies where appropriate.
- Develop a data gathering system on the Group intranet for energy, water and waste impacts from the multi-let properties
- Run a tenant awareness campaign on waste reduction and recycling across the UK shopping centre portfolio
- Develop and incorporate into the tender process initiatives for contractors to reduce waste
- Develop a generic Green Travel Plan for all speculative developments over 5,000 sq.m. (gross external area) initiated in 2004 and seek to introduce this to incoming occupiers

Slough Heat & Power targets for 2004

- To reduce by 10 per cent the quantity of hazardous waste disposed of to landfill
- To increase by five per cent the total output of electricity and steam generated from non-fossil fuel sources.

Corporate Governance guidelines

This statement of Corporate Governance Policy has been adopted by the Board. In large part the company fully observes the principles and requirements of the Revised Combined Code but it also believes that there should be continuity of direction to ensure a smooth transition to fuller compliance with the Code. This statement is therefore to be read in conjunction with the Statement of Adherence to the current Combined Code which can be found on pages 60 and 61.

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 fulfiling 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 its 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

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. The Nomination Committee is responsible for the procedure of selecting new directors and for nominating them for election by the shareholders on first appointment and thereafter at three-yearly intervals.

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.

4 **Board leadership**

Selection of the Chairman and Chief Executive

a) The Nominations Committee will be responsible for selecting and nominating to the Board a candidate for the role of Chairman when a vacancy occurs. The Committee will exercise a presumption against the appointment of a current executive director but will maintain the freedom to choose the best candidate available. In accordance with the Code, the retiring Chairman would not chair the selection process.

b) The Deputy Chairman is a non-executive director who despite his length of service on the Board is adjudged as being independent in character and judgement.

c) It has been decided to appoint Lord Blackwell as the Senior Independent Director.

d) The separate roles of the Chairman and Chief Executive have been defined in writing and approved by the Board.

5 **Board composition and size**

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.

The Code requires a majority of independent non-executive directors on the Board. Currently there are four directors who comply with the strict definition of independence (Code A.3.1) and two others who in the opinion of the Board demonstrate by their proactive contribution independence in character and judgement. As these latter directors retire over the next two years, they will be replaced by new independent appointments.

6 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.

7 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 their 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 shareholders (every three years in general meeting). The Revised Code suggests that after two terms of three years there should be a rigorous assessment prior to being proposed for re-election. After nine years service, a non-executive director is by the Code deemed to have lost independence and would become liable to annual re-election. Whilst such limits help to ensure that fresh ideas and views are available to the Board, they have the significant disadvantage of losing the contribution of directors who have a wealth of understanding of the Group's business, the executive team and the markets we operate in.

8 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.

9 Performance evaluation
The Board undertakes a formal annual evaluation of its own performance and that of its committees and individual directors. The Chairman leads this process and his performance is evaluated by the non-executive directors led by the Senior Independent Director.

10 Professional development
Directors are encouraged to continually update their professional skills and capabilities, together with knowledge of the company's business.

11 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.

12 Board Committees
The Board will maintain two standing committees solely 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, executive directors and designated senior management. 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.

13 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. The Senior Independent Director will also make himself available to investors. The Board will be fully informed as to the information imparted to shareholders and their reactions.

14 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 meeting and other events.

15 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.

16 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.

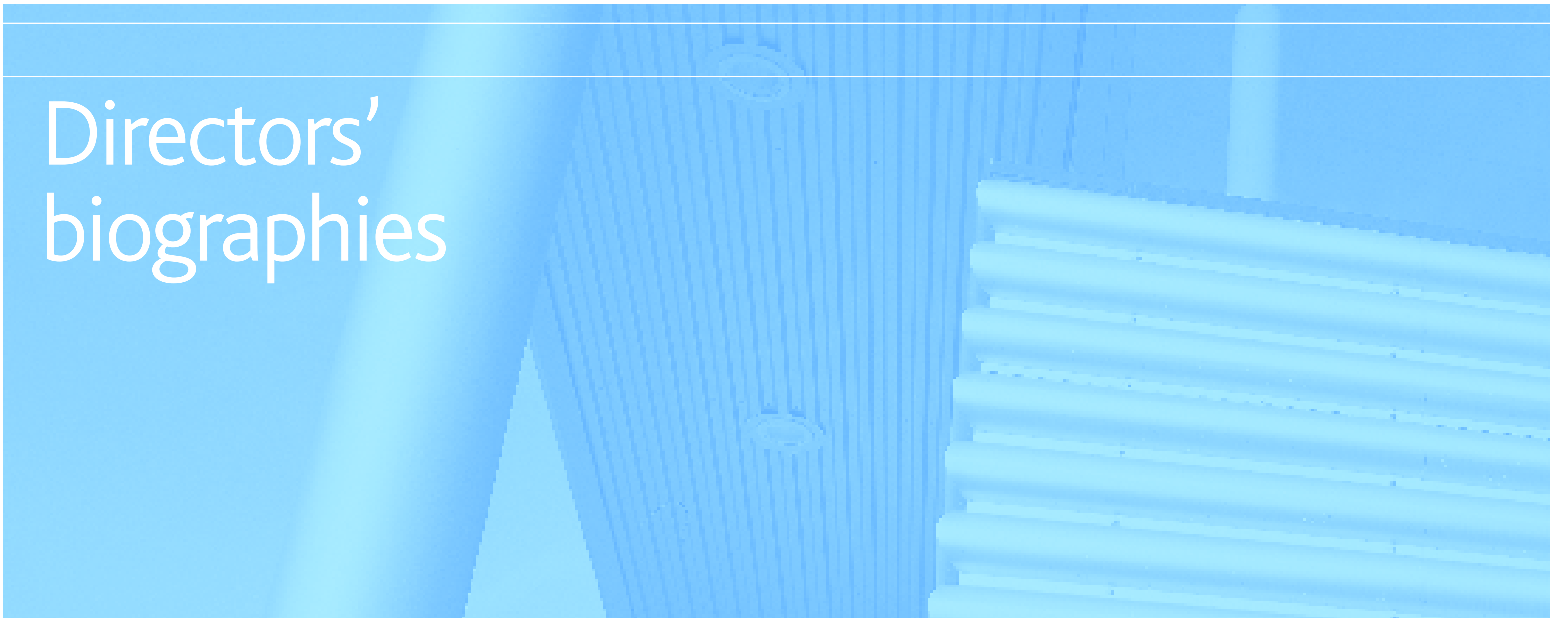
As a general rule, presentations on specific subjects should be sent to the Board in advance so that time at the Board meeting can be conserved and used for discussion focused on questions.

17 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 the investment and sanctioning authorities is also maintained.

18 Governance policies
Policy statements governing ethical, environmental and human resources issues are in place.

19 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.



Directors' biographies

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 51.

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 three 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 50.

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 five years with Hawker Siddeley as head of financial control and audit, he joined Slough Estates as Group Financial Controller in 1987. He was appointed a director in April 1996. He is aged 56.

Paul Orchard-Lisle CBE TD DL▼■
Non-Executive Deputy Chairman
A chartered surveyor, he is Executive Chairman of the Falcon Property Trust, a non-executive director of Europa Capital Partners, a member of the advisory board of IVG Holding AG, a member of the Estates Committee of the Wellcome Trust, Chairman of The Royal Artillery Museum, 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. He is aged 65.

Lord Blackwell▼◆■
Senior Independent Director
Amongst other business interests, he is Chairman of Smartstream Technologies Limited, a non-executive director of Standard Life and The Corporate Services Group Plc and a senior adviser to KPMG Corporate Finance. He was appointed a non-executive Board Member of the OFT in 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 1995-97, 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 was appointed a director in 2001. He is aged 51.

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 Howard de Walden Estates and Chairman of Trustees of Historic Royal Palaces. He is aged 66.

Ian Coull■
Chief Executive
A Fellow of the Royal Institution of Chartered Surveyors, he joined Slough Estates 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 a non-executive director of House of Fraser Plc, on the London Regional Board of Royal & Sun Alliance and is Chairman of the London Sustainable Development Commission. He was appointed a director in January 2003. He is aged 53.

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 multinational 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 was appointed a director in 2001. He is aged 50.

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 to 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 was appointed a director in 1981. He is aged 67.

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 l985 to 1995, Chief Secretary to the Treasury, Agriculture, Education and 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 was appointed a director in 1995. He is aged 67.

Andrew Palmer◆■
Non-Executive Director
A chartered accountant, he is currently Group Finance Director with Legal & General Group Plc. Since joining Legal & General in 1988 he has held a number of financial and operational roles in the asset management, insurance and international business. He was appointed a director in January 2004. He is aged 50.

Christopher Peacock▼■
Non-Executive Director
A chartered surveyor, he was President and Chief Executive Officer of Jones Lang LaSalle until the beginning of 2004. He joined Jones Lang Wootton in 1972 and was made a partner in 1974, he rose to being the European Chief Executive in 1996 and Jones Lang Wootton's first global Chief Executive in 1997. In 1999 he became Chief Operating Officer and subsequently CEO of the NYSE listed company, Jones Lang LaSalle. He was appointed a director in 2004. He is aged 58.

▼ Member of Remuneration Committee
◆ Member of Audit Committee
■ Member of Nomination Committee

Shareholder information

Financial Calendar 2004

March

Payment of dividend on 8.25p (net) convertible redeemable preference shares	1 March
Payment of 7% bonds 2022 interest	15 March
Announcement of results for the year ended 31 December last and recommended final dividend	17 March

April

Post annual report to shareholders	5 April

May

Annual General Meeting		11 May
Payments:	approved final dividend	14 May
	10% bonds 2017 interest	4 May
	10% bonds 2007 interest	27 May

June

Payments:	12 3/8% unsecured loan stock 2009 interest	30 June
	11 1/4% first mortgage debenture stock 2019 interest	30 June

August

Payment of 7 1/4% bonds 2010 interest	17 August
Payment of 6 1/4% bonds 2024 interest	23 August
Announcement of half year results	26 August

September

Payment of dividend on 8.25p (net) convertible redeemable preference shares	1 September
Payment of 7% bonds 2022 interest	15 September
Payment of 6 1/4% bonds 2015 interest	30 September

October

Payment of interim dividend	Mid October

December

Payments:	11 5/8% bonds 2012 interest	30 December
	12 3/8% unsecured loan stock 2009 interest	31 December
	11 1/4% first mortgage debenture stock 2019 interest	31 December

February 2005

Payment of 7 1/4% bonds 2010 interest	17 February
Payment of 6 3/4% bonds 2004 interest	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 08457 225 525.

Shareholders can also take advantage of a telephone share dealing service offered by our Registrars, Computershare, which provides shareholders with a simple low cost way of selling your shares. For further details telephone 0870 703 0084.

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.

Electronic communications

Shareholders have the opportunity to elect to receive shareholder communications electronically. If you are interested in this facility log on to www-uk.computershare.com/investor

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	2003	2002	2001	6 April 2000	31 March 1999
Highest	442.0p	432.0p	433.5p	411.0p	393.5p
Lowest	273.0p	303.5p	303.5p	248.0p	276.0p
31 December	439.25p	▪339.0p	▪▪331.5p	▪▪▪411.0p	▪▪▪▪353.5p

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

Directors' report

The directors submit their annual report together with the audited accounts for the year ended 31 December 2003 which were approved by the Board on 16 March 2004.

Business of the Group

The principal activities of the Group continued throughout 2003 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 7, the Chief Executive's Review on pages 10 to 13 and the Financial Review on pages 32 to 35.

Results

The results for the year are set out in the Group profit and loss account on page 64. The Group's pre-tax profits were £103.8 million after charging exceptional items of £36.3 million (as detailed on page 64 of the financial statements). This compares with a profit of £143.4 million (after charging exceptional items of £0.1 million) for the year ended 31 December 2002. Profit on ordinary activities after taxation amounted to £91.4 million (2002 £98.8 million). After allowing for minority interests of £1.8 million and preference dividends of £11.4 million paid and accrued during the year, earnings attributable to ordinary shareholders were £81.8 million (2002 £86.8 million). Basic earnings per ordinary share excluding exceptional items and FRS 19 Deferred Tax amounted to 27.6 pence (2002 28.8 pence) and 19.6 pence (2002 20.9 pence) including exceptional items and FRS 19 Deferred Tax.

Diluted net assets per ordinary share excluding FRS 19 Deferred Tax decreased to 505 pence (2002 519 pence).

Ordinary dividend
An interim dividend of 5.8 pence per share was paid on 10 October 2003.

Your Board recommends the payment of a final dividend in respect of the year ended 31 December 2003 of 9.2 pence per share, making a total dividend of 15.0 pence per share (2002 14.0 pence per share) an increase of 7.1 per cent over the 2002 dividends.

The final ordinary dividend is payable on 14 May 2004 and the record date will be 23 April 2004.

The ordinary dividends paid and proposed in respect of 2003 will absorb £62.5 million.

Property valuations
The valuation of the Group's investment properties which was carried out by external valuers as at 31 December 2003 amounted to £3,563.9 million, a decrease of £68.7 million over last year's £3,636.6 million. After taking into account total expenditure on investment properties of £129.9 million, the book value of investment property disposals of £60.1 million and exchange losses of £40.8 million, the deficit on valuation transferred to revaluation reserve amounted to £97.7 million.

Further details concerning the valuation are set out under the heading 'Property valuation' on page 73 and note 9 to the accounts.

Properties held for resale have been valued by the directors resulting in no provisions being required. However, the residential leisure development at Quail West in Florida required an exceptional provision/write-down of £37.9 million which reflected the downturn that this business has suffered in the last two years.

The property assets of Slough Heat & Power Limited were excluded from the valuation.

Directors' Remuneration report
The details of the Directors' Remuneration report of the Remuneration Committee can be found on pages 50 to 57.

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 pages 42 to 43.

Mr A W Palmer and Mr C A Peacock were appointed as non-executive directors on 28 January 2004.

In accordance with the Articles of Association, Messrs Palmer and Peacock are eligible for election. Lord Blackwell, Lord MacGregor and Sir Nigel Mobbs will retire from the Board by rotation and, being eligible, offer themselves for re-election.

Directors' report continued

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 authorisation 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 utilised 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 £5,201,487. A special resolution, set out in the Notice of the Meeting will (if passed) grant until the earlier of 10 August 2005 and the conclusion of the 2005 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 £5,222,170.

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 £5,222,170 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 2003. 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 2005 or 10 August 2005 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 a Special Resolution. Any shares which are purchased will be cancelled and the authority will not be used to purchase shares into treasury. Options over 921,157 ordinary shares representing 0.22 per cent of the issued ordinary share capital were outstanding as at 16 March 2004 (the latest practicable date prior to the publication of this report). Assuming the proposed authority to purchase ordinary shares was in force on and was exercised in full as at that date, the ordinary shares over which options have been granted would represent 0.23 per cent of the issued ordinary share capital following such exercise. If the existing authority had been exercised in full on that date such ordinary shares would represent 5.26 per cent of such share capital following that exercise.

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

Amendments to Articles of Association non-executive directors' fees
In order to give the company increased flexibility in respect to fees for non-executive directors at this year's Annual General Meeting it will be proposed that the aggregate remuneration figure contained in Article 102 should be revised from £250,000 to £500,000.

The current figure of £250,000 is the maximum amount that the company can utilise to pay as fees in total to its non-executive directors. The UK-based non-executives received the aggregate sum of £142,000 in 2003 and with the increase in the Board size the directors believe it is prudent to seek this authority from shareholders to be able to increase fees if required, in the future as detailed on page 53 of the Directors' Remuneration report.

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

The Group's trade creditors as a proportion of amounts invoiced by suppliers represented 10 days at 31 December 2003 (2002: 11 days).

Employment policy
The Group is committed to following an Equal Opportunities policy from recruitment and selection, through training and development, performance review and promotion to retirement.

We are committed to ensuring that within the framework of the law, our workplaces are free from unlawful discrimination on the grounds of race, colour, nationality or ethnic origin, religion or belief, sex, marital status, sexual orientation, physical or mental disability.

The Group values the involvement of its employees and encourages open and honest two-way communication and keeps them informed regularly on matters of concern affecting them as employees and on the financial and economic factors affecting the Group's performance.

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.

The Company's policy going forward is not to continue to make such cash donations consistent with the pattern of donations made by the company in previous years. However, the definition of political donations used in the Political Parties Election and Referendum Act is very broad and as a result could cover activities that form part of the relationships between the Company and the political machinery. These activities are not designed to support any political party nor to influence public support for a particular party. Therefore, authority from shareholders will be sought at the Annual General Meeting to ensure that the Company acts within the provisions of the current UK law when carrying out its normal business activities.

The amounts given by the company in 2003 were as follows:

	£
Charitable	539,557
Conservative Party Funds	26,500

Auditors

PricewaterhouseCoopers LLP were appointed as auditors of the Company 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 2003 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 50 to 57.

Save as mentioned in the Directors' Remuneration report of the Remuneration Committee on pages 53 to 54, 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 2003 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 16 March 2004 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 20,351,752 ordinary shares of 25 pence each, representing 4.87 per cent.

AVIVA Plc and its subsidiaries hold in aggregate 17,334,904 ordinary shares of 25 pence each representing 4.15 per cent.

Barclays Plc and its subsidiaries hold in aggregate 25,258,318 ordinary shares of 25 pence each, representing 6.04 per cent.

Legal & General Investment Management Limited and its subsidiaries hold in aggregate 13,110,056 ordinary shares of 25 pence each representing 3.13 per cent.

Schroders Investment Management Limited and its subsidiaries hold in aggregate on a discretionary basis 28,010,488 ordinary shares of 25 pence each, representing 6.7 per cent.

Stichting Pensioenfonds ABP hold in aggregate on a discretionary basis 16,592,018 ordinary shares of 25 pence each, representing 3.97 per cent.

By order of the Board
J R Probert
Secretary
16 March 2004

Directors' remuneration report

This report has been prepared pursuant to the Directors' Remuneration Report Regulations 2002 (the 'Regulations') which introduced statutory requirements for the disclosure of directors' remuneration and the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. A resolution to approve this report will be proposed at the Annual General Meeting of the company.

Accordingly this report has been divided into two sections. Pages 50 to part page 53 contain the unaudited information whilst the audited information is at part pages 53 to 57.

Unaudited Information

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 during the year were Lord Blackwell, Mr S L Howard and Lord MacGregor. Mr C A Peacock was also appointed to the Committee on 18 February 2004. Their biographical details appear on pages 42 and 43. The Chairman and the Chief Executive may attend Remuneration Committee meetings, except when their own remuneration is discussed.

Advice

The advisers to the Committee are Ernst & Young LLP, who were appointed by the Committee on 2 October 2002. Ernst & Young LLP have provided no other services to the Group in the UK. Ernst & Young LLP are the auditors of Slough Estates Canada Limited, a wholly-owned subsidiary. The company's legal advisers, Lovells have also provided advice to the Committee on share scheme matters. Lovells also act for the company and have provided legal advice to the company on a range of matters including advice on corporate, employment, litigation, tax and pension issues.

During the year the Director of Human Resources was invited by the Committee to provide her input on the operational aspects for any decisions that the Committee may make. The Company Secretary has also provided administrative support and information to the Committee.

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 relating to remuneration as applicable throughout the year.

Remuneration policy

The Committee settles and implements the remuneration policy for the Chairman, Chief Executive, executive directors, Company Secretary and designated 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:

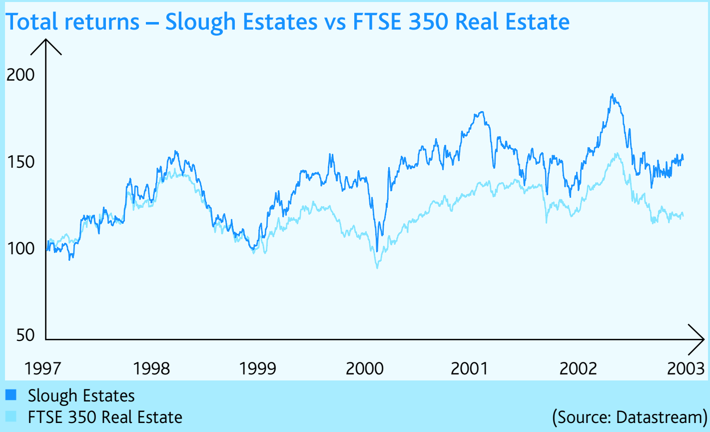
- To align the interests of employees and shareholders to deliver real value growth
- To recognise superior performance by the business and individuals
- To encourage the right behaviour to achieve good performance
- To ensure that total rewards are commercially competitive
- To make reward formulation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

Components of executive Rremuneration

The remuneration package for the Chairman, executive directors, Company Secretary and designated 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 of the elements of the package are of equal importance in supporting the Group's remuneration policy.

Annual Incentive Plan

In the Directors' Remuneration report for 2002, the Committee indicated its intention to introduce a discretionary performance-related cash bonus scheme. Following an extensive review of performance management processes, target setting and performance measurement



and market practice the Committee are proposing to introduce a formal Annual Incentive Plan to be extended to all UK-based executive directors, Executive Committee members and General Managers.

The Plan will be underpinned by improved performance management processes, which have been introduced throughout the organisation, and by the adoption of more stretching annual and long-term targets for the business. Executive directors leading business units will be incentivised by reference to the financial performance and the achievement of strategic milestones in their own business units. The Plan also contains an element of reward for achievement of individual objectives which will normally include customer and staff satisfaction.

As contracted at the time of his appointment, Ian Coull was guaranteed a first year bonus of 50 per cent of salary when he joined the company and this was paid in January 2004.

Apart from this, no significant changes to the company's remuneration policy have been introduced this year and no significant changes are expected. The Committee will keep the company's remuneration policy, as detailed in this report, under review during 2004 and will in subsequent years ensure that the company's reward programmes remain competitive and provide appropriate incentive for performance.

Above is a chart showing total shareholder returns for the company for each of the last six financial years compared to the FTSE 350 Real Estate Index.

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 profits and losses on sale of investment properties, net of tax and minority interests, any exceptional provision and FRS 19 deferred tax ('adjusted EPS') and diluted net assets per share excluding FRS 19 deferred tax ('adjusted NAV') are the most appropriate performance criteria for a property investment company. However, adjusted EPS is considered the most important of the criteria. By concentrating on creating new and growing rental income flows, there will be growth in earning 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, Company Secretary and designated senior executives and is 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 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 is:

	Vesting	Adjusted EPS	2000-2004 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 72. 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, subject to the Trustees discretion, lose their awards entirely.

The calculation of whether the performance criteria have been met is initially prepared by the Finance Director. This calculation is based on the figures for adjusted EPS and adjusted NAV as shown in the Report

Directors' remuneration report
continued

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 2003 was £493,243 (2002 £562,397).

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 55.

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

Under 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'), 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 3 and 10 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, Company Secretary and other designated senior executives 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 are normally exercisable between 3 and 10 years from the date of grant (3 and 7 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 Finance Director. 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 the 1994 Schemes was in 2001. The performance condition applies to all the options which have been granted to the Chairman and executive directors under the 1994 Schemes.

Details of options granted to the Chairman and executive directors under the 2002 Plans and the 1994 Schemes are set out in the table on page 56.

1981 Savings-Related Option Scheme (the 'SAYE Scheme')
The company has operated an Inland Revenue approved SAYE share option scheme since 1981. 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 2003 included a discount of 20 per cent to 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 page 56.

Profit Sharing Scheme and Share Incentive Plan
The last appropriation under the Profit Sharing Scheme was made on 5 June 2002. Shares previously appropriated to eligible employees under the Profit Sharing Scheme are held by the Trustees of the Profit Sharing Scheme on behalf of a participant for a period of three years from the date of appropriation before being released to a participant. The company introduced in June 2003 a new Inland Revenue approved all-employee share scheme, the Share Incentive Plan which supersedes the Profit Sharing Scheme.

The Share Incentive Plan in which all eligible employees of participating Group companies may participate was launched in June 2003. Under the Share Incentive Plan free shares are normally awarded annually based on a percentage of each employee's basic salary per annum (for 2003 this percentage was 7 per cent) subject to a maximum amount of £3,000. The shares are held by the Trustees of the Share Incentive Plan on behalf of a participant for a period of five years from the date of appropriation before being released to the participant.

Details of the Chairman's and the executive directors' holdings under the Profit Sharing Scheme and Share Incentive Plan are set out in the table showing director's interests in shares on page 53 to 54.

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. The only executive director with

an outside appointment is the Chief Executive and the details of his remuneration are shown opposite.

Policy on service contracts

The Chairman and executive directors

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.

The Chairman, 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 I D Coull was appointed a director on 1 January 2003 on a contract which requires the company to give two years' notice until 1 January 2005 and thereafter it becomes terminable by the company on one year's notice. Mr I D Coull can terminate his contract on giving 6 months' notice to the company at any time.

The contract commencement date for the Chairman and the executive directors are as follows:

Name	Date of contract commencement
Sir Nigel Mobbs	6 October 1999
I D Coull	1 January 2003
R D Kingston	13 March 1996
J A N Heawood	4 November 1996
M D Lees	25 March 1998

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 company's employee share schemes nor do they receive any other benefits on pension rights under the pension scheme. Whilst the non-executive directors do not have service contracts they have signed letters of engagement that inter alia prescribe their duties and obligations. Non-executive directors are not appointed for specified terms but are subject to re-election by shareholders (currently every three years).

Audited information

Directors' emoluments

	Salaries and fees £000	Benefits £000	Bonus £000	**Total 2003 £000**	Total 2002 £000
Sir Nigel Mobbs Chairman	258	24	40▪	**322**	288
Executive directors					
I D Coull Chief Executive	400	40	200	**640**	–
J A N Heawood	294	26	–	**320**	307
R D Kingston	271	24	20▪	**315**	260
M D Lees▪▪	249	26	90▪	**365**	371
Non-executive directors – Fees					
Lord Blackwell Senior Independent Director	30	–	–	**30**	25
S L Howard	30	–	–	**30**	25
D Kramer▪▪▪	101	–	–	**101**	108
The Rt Hon Lord MacGregor of Pulham Market Chairman of the Audit Committee	35	–	–	**35**	29
P D Orchard-Lisle Deputy Chairman	47	–	–	**47**	39

▪Relates to a discretionary bonus awarded for 2002. 2003 bonuses have not yet been finalised.
▪▪Mr M D Lees, Chief Executive of Slough Estates USA Inc., is resident and remunerated in the USA.
▪▪▪Mr D Kramer is non-executive Chairman of Slough Estates USA Inc. He is resident in and his fees are paid in the US.

I D Coull was appointed a director of House of Fraser plc on 24 September 2003 and was paid a fee of £6,731 for his services to 31 December 2003.

Directors' interests in shares

The interests of the directors and their immediate families in the ordinary shares and convertible redeemable preference shares of the company at 31 December 2003 and 1 January 2003 were:

	Beneficial interests 31.12.03	Beneficial interests 01.01.03	Other interests 31.12.03	Other interests 01.01.03
Number of ordinary shares				
Sir Nigel Mobbs	573,548	554,104	18,327	18,327
Lord Blackwell	2,500	2,500	–	–
I D Coull	17,645	–	–	–
J A N Heawood	31,227	24,294	19,978	9,551
S L Howard	7,500	7,500	–	–
R D Kingston	58,034	37,043	7,866	7,866
D Kramer	6,250	6,250	–	–
M D Lees	51,411	41,988	–	–
Lord MacGregor	3,000	3,000	–	–
P D Orchard-Lisle	28,580	28,580	–	–

Directors' remuneration report continued

	Beneficial interests 31.12.03	Beneficial interests 01.01.03	Other interests 31.12.03	Other interests 01.01.03
8.25p convertible redeemable preference shares				
Sir Nigel Mobbs	35,752	35,752	6,760	6,760
P D Orchard-Lisle	6,300	6,300	–	–

Beneficial interests in the tables above represent shares beneficially held by each director together with shares beneficially owned by his spouse and children under 18. They include any interests held on behalf of directors by the Trustees of the Profit Sharing Scheme and the Share Incentive Plan.

Between 31 December 2003 and 16 March 2004 there were no changes to the above.

At 31 December 2003, the executive directors above, together with other senior executives were potential beneficiaries in respect of a total of 851,120 ordinary shares in the company held by the Trustees of the 1994 Employees' Benefit Trust.

The following are the non-beneficial interests of the directors who were in office at 31 December 2003.

	Ordinary shares 31.12.03	Ordinary shares 01.01.03	Preference shares 31.12.03	Preference shares 01.01.03
Sir Nigel Mobbs	71,804	71,804	–	26,484
Sir Nigel Mobbs, J A N Heawood and R D Kingston (as Trustees of the Profit Sharing Scheme)	344,609	519,282	–	–
Sir Nigel Mobbs, J A N Heawood and R D Kingston (as Trustees of the Share Incentive Plan)	212,477	–	–	–

The Trustees of the Profit Sharing Scheme and Share Incentive Plan did not sell any shares between 31 December 2003 and 16 March 2004.

Directors' other interests

Mr P D Orchard-Lisle was a senior partner of Healey & Baker until 14 September 1999. He retired from that position on that date and now has no interest in the firm's affairs. 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.

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 (a subsidiary company) and at 31 December 2003 he held 40,000 (2002 40,000) Tipperary shares.

Long-Term Share Incentive Scheme	Number of shares under award 01.01.03	Number of shares lapsed	Number of shares over which awards are granted	Market value of share on grant £	Number of shares vested 23.04.03■	Market value on date of vesting £	Number of shares under award 31.12.03	End of performance period over which performance conditions have to be met
Sir Nigel Mobbs								
08.04.00	27,110			3.6886	18,597	3.025	–	
27.03.01	27,932			3.58			27,932	31.12.03
04.04.02	25,125			3.98			25,125	31.12.04
20.03.03	–		41,118	3.06			41,118	31.12.05
I D Coull								
07.01.03	–		179,844	3.40			179,844	31.12.05
J A N Heawood								
08.04.00	18,435			3.6886	12,646	3.025	-	
27.03.01	21,229			3.58			21,229	31.12.03
04.04.02	21,105			3.98			21,105	31.12.04
20.03.03	–		30,263	3.06			30,263	31.12.05
R D Kingston								
08.04.00	19,519			3.6886	13,390	3.025	–	
27.03.01	22,346			3.58			22,346	31.12.03
04.04.02	22,110			3.98			22,110	31.12.04
20.03.03	–		32,236	3.06			32,236	31.12.05
M D Lees								
08.04.00	22,900			3.6886	15,709	3.025	–	
27.03.01	28,120			3.58			28,120	31.12.03
04.04.02	27,798			3.98			27,798	31.12.04
20.03.03	–		33,099	3.06			33,099	31.12.05

No variations have been made to the terms and conditions of any of the awards.
The performance conditions are set out on pages 51 to 52.
■In April 2003, there was a vesting of shares from the Long-Term Incentive Scheme Allocation made in April 2000. The vesting was 68.8% of the 2000 allocation.

Directors' remuneration report
continued

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

	Number of shares under option 01.01.03	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	Number of shares under option 31.12.03	Date from which option exercisable	Date option expires
Sir Nigel Mobbs		Nil									
1994 Unapproved	65,530				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% p.a.	409.167			48,879	10.06.05	09.06.12
2002 No. 2 Plan			86,206			290.0			86,206	20.03.06	19.03.13
I D Coull		Nil									
2002 No. 1 Plan			8,720		EPS-RPI +3% p.a.	344.0			8,720	06.01.06	05.01.13
2002 No. 2 Plan			107,559			344.0			107,559	06.01.06	05.01.13
J A N Heawood		Nil									
1994 Unapproved	115,805			115,805	EPS-RPI +6% over 3 years	271.5	09.06.03	368.75■			
1994 Unapproved	18,369			18,369		352.0	21.11.03	422.25■			
1994 Unapproved	39,410			39,410		312.5	21.11.03	422.25■			
1994 Unapproved	7,110					403.66			7,110	03.04.01	02.04.05
1994 Unapproved	18,785					356.5			18,785	28.03.04	27.03.08
2002 No. 2 Plan	51,323				EPS-RPI +3% p.a.	409.167			51,323	10.06.05	09.06.12
2002 No. 2 Plan			79,310			290.0			79,310	20.03.06	19.03.13
SAYE	7,926	Nil	Nil		Nil	246.0			7,926	01.10.05	31.03.06
SAYE			3,028		Nil	304.6			3,028	01.10.06	31.03.07
R D Kingston		Nil									
1994 Unapproved	39,114			39,114	EPS-RPI +6% over 3 years	271.5	11.06.03	364.00■			
1994 Unapproved	10,665					403.66			10,665	03.04.01	02.04.05
1994 Unapproved	24,796					312.5			24,796	31.03.02	30.03.06
1994 Unapproved	61,392					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% p.a.	409.167			53,767	10.06.05	09.06.12
2002 No. 2 Plan			84,482			290.0			84,482	20.03.06	19.03.13
SAYE	12,112			12,112	Nil	160.99	07.05.03	325.25			
SAYE			7,520		Nil	317.5			7,520	01.05.08	31.10.08
M D Lees		Nil									
1994 Unapproved	36,456			36,456	EPS-RPI +6% over 3 years	271.5	15.05.03	351.0■			
1994 Unapproved	13,788			13,788		312.5	10.12.03	426.0■			
1994 Unapproved	41,174			41,174		352.0	10.12.03	426.0■			
1994 Unapproved	9,009					403.66			9,009	03.04.01	02.04.05
1994 Unapproved	28,662					356.5			28,662	28.03.04	27.03.08
2002 No. 2 Plan	65,284				EPS-RPI +3% p.a.	409.167			65,284	10.06.05	09.06.12
2002 No .2 Plan	–		86,742			290.0			86,742	20.03.06	19.03.13
Tipperary Corporation	25,000	–	–	–	None	$4.25	–	–	25,000	26.08.00	■■

■The aggregate gains on exercise of options by each director were as follows: Mr J A N Heawood £166,466, R D Kingston £36,180, Mr M D Lees £75,100.
■■Two years after leaving the Tipperary Corporation Board.
No payment is required for the grant of an option under the 1994 Schemes, 2002 Plans and the SAYE Schemes.
There have been no changes to the terms and conditions of the SAYE or Executive Share Option Schemes during the year. The performance criteria for the Executive Share Option Schemes and the Long-Term Incentive Plan are summarised on pages 51 and 52.
The market price of the shares as at 31 December 2003 was 439.25p. The highest and lowest market prices of ordinary shares during the financial year were 442.0p and 273.0p.

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 Slough Estates (1957) 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 the Chairman and each of the executive directors are entitled in respect of the disclosure required by Paragraph 12(2), 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 31.12.03 £000 p.a.	Transfer value at 31.12.02 £000	Transfer value at 31.12.03 £000	Increase (decrease) in transfer value less directors' contri-butions £000
Sir Nigel Mobbs	8	223	3,239	3,396	67
I D Coull	14	14	–	161	143
J A N Heawood	4	23	203▪	250	37
R D Kingston	11	129	1,632	1,793	149
M D Lees	5	90	1,021	993	(28)▪▪

▪Restated figure as at 31.12.2002 due to a change in retained benefit assumptions used by the actuary.
▪▪Due to exchange rate fluctuations

The Group has provided M D Lees, a resident of the United States, a pension entitlement broadly equivalent to the benefit that he would receive had he continued to be a member of 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	Transfer value of increase in accrued pension less directors' contri-butions £000
I D Coull	14	143
J A N Heawood	3	24
R D Kingston	7	81
M D Lees	3	33

Sir Nigel Mobbs' pension is in payment and therefore is not disclosable under paragraph 12.43A of the Listing Rules.

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 2003 was £84,840 (2002: £97,000).

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 UURBS) 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 for which provision is being made in the accounts. 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 the 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 liability for this will be calculated by Hewitt Bacon & Woodrow, the actuary of the Slough Estates (1957) Pension Scheme.

Compensation for past directors

There was no compensation paid to past directors in 2003. Compensation paid to former directors for loss of office was £1.2 million as disclosed in the previous year.

Former directors

Ex gratia payments to former directors and their dependants were £80,665 (2002 £63,000).

Approval

At the Annual General Meeting of the company to be held on 11 May 2004 an ordinary resolution approving this report will be proposed. This report was approved by the Board of Directors on 16 March 2004 and signed on its behalf by the order of the Board.

P Orchard-Lisle
Chairman of the Remuneration Committee
16 March 2004

Note Ernst & Young LLP 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.

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 safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Independent Auditors' Report

To the members of Slough Estates plc

We have audited the financial statements which comprise the accounting policies, 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. 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 UK 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 UK 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, 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 2003 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
16 March 2004

Note Legislation in the UK 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 complied with all relevant aspects of the Principles and Best Practice Provisions of Section 1 of the Combined Code for all of 2003.

The company's Corporate Governance Guidelines are published on pages 40 to 41 of the 2003 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 seven non-executive directors. Biographies of the Board members appear on pages 42 to 43.

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

Supply of information

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

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

Appointments to the Board

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

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

Independent professional advice

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

Re-election

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

Directors' remuneration

Disclosure

The company's policy regarding the level and make-up of remuneration, the remuneration policy, service contracts, compensation and interest in shares are set out in the Directors' Remuneration report of the Remuneration Committee on pages 50 to 57.

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 AGM

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 (www.sloughestates.com) 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.

As regards risk management, there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. 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 2003, 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 2003.

During 2003 the Board discharged its responsibility for internal control through the following key procedures:
- the establishment of an organisational structure with clearly defined levels of authority and division of responsibilities;
- a comprehensive system of reporting, budgeting and planning against which performance is monitored;
- the formulation of policies and of approval procedures in a number of key areas such as treasury operations, capital expenditures and environmental matters. These are reviewed from time to time by the Board to confirm their adequacy;
- the provision of a code of conduct for employees and the monitoring of the quality of personnel through an annual performance appraisal process.

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

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

It must be recognised that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

The Committee comprises a majority of non-executive directors under the Chairmanship of The Rt Hon Lord MacGregor of Pulham Market OBE.

Accounting Policies

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

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

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

Accounting standards
The 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 20.

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 CB Richard Ellis or DTZ Debenham Tie Leung or Colliers Conrad Ritblat Erdman in the UK, in the US by Walden-Marling, Inc., in Canada by Altus Group, in Belgium by De Crombrugghe & Partners s.a. and in France by CB Richard Ellis Bourdais (previously known as Insignia Bourdais Expertises s.a.).

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

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

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

Turnover
Turnover comprises: (1) rents and recharges charged to tenants; (2) 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; (3) the amounts invoiced to utilities customers for electricity, water and steam; and (4) Tipperary customers for oil and gas.

Depreciation

(a) **Properties:** In accordance with SSAP 19, 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) Depreciation is provided on buildings occupied by the Group and is calculated on a straight-line basis over the estimated lives of the buildings: mainly 20-30 years.

(c) **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.

Stocks

Stocks, excluding trading properties, are valued at cost, on a first in, first out basis, or net realisable 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.

Pensions

The company has a number of defined benefit pension plans which are funded with assets held separately from those of the company. Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Group profit and loss account
For the year ended 31 December 2003

	Note	2003 £m	2002 £m
Turnover			
Group	1	325.9	295.3
Joint ventures	1	16.8	15.9
Group operating income			
Property investment	1	223.1	216.9
Property trading – operating	1	7.1	2.8
Property trading – exceptional provision	1	(37.9)	–
		(30.8)	2.8
Utilities	1	(4.2)	(4.5)
Oil and gas	1	(3.5)	(1.2)
Other income	2	4.8	6.1
Administration expenses	3	(14.0)	(14.9)
Group operating profit		175.4	205.2
Share of operating profit of property joint ventures and associate			
Property investment	4	15.1	14.8
Property trading	4	0.2	–
		15.3	14.8
Total operating profit		190.7	220.0
Profit/(loss) on sale of investment properties		1.6	(0.1)
Profit before interest and taxation		192.3	219.9
Interest (net)	5	(88.5)	(76.5)
Profit on ordinary activities before taxation		103.8	143.4
Taxation – current	6	(14.7)	(11.2)
– deferred	6	2.3	(33.4)
		(12.4)	(44.6)
Profit on ordinary activities after taxation		91.4	98.8
Minority interests – equity		1.8	(0.6)
Preference dividends	7	(11.4)	(11.4)
Profit attributable to ordinary shareholders		81.8	86.8
Ordinary dividends	7	(62.5)	(58.2)
Retained profit	14	19.3	28.6
Basic earnings per ordinary share	8	19.6p	20.9p
Adjustment to exclude profits and losses on sale of investment properties net of tax and minority and the exceptional provision for Quail West		5.2p	(0.1p)
Adjustment to exclude FRS19 Deferred Tax		2.8p	8.0p
Adjusted basic earnings per ordinary share	8	27.6p	28.8p
Fully diluted earnings per ordinary share	8	19.6p	20.9p

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

The 2002 results of Tipperary Corporation Inc. (oil and gas) operations have been reclassified from other income into a separate line item “Oil and gas”.

Statement of Group total recognised gains and losses

For the year ended 31 December 2003

	2003 £m	2003 £m	2002 £m	2002 £m
Profit attributable to ordinary shareholders		**81.8**		86.8
Deficit on revaluation of properties	**(97.7)**		(20.3)	
Surplus on revaluation of – Joint ventures	**10.5**		14.5	
– Associate	**0.3**		0.1	
Total revaluation deficit		**(86.9)**		(5.7)
Exchange differences	**(3.5)**		(15.3)	
Other items	**–**		(0.6)	
Taxation	**4.0**		0.4	
Minority interests	**(1.9)**		(1.2)	
Total other recognised gains and losses		**(1.4)**		(16.7)
Total recognised gains and losses for the year		**(6.5)**		64.4
Realised		**91.7**		89.9
Unrealised		**(98.2)**		(25.5)
		(6.5)		64.4

Notes of Group historical cost profits and losses

For the year ended 31 December 2003

	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	**103.8**	143.4
Realisations of revaluation gains and losses of previous years	**9.1**	(1.7)
Historical cost profit on ordinary activities before taxation	**112.9**	141.7
Historical cost profit for the year after taxation, minority interests and dividends	**32.4**	27.3

Reconciliation of movement in Group shareholders' funds

For the year ended 31 December 2003

	2003 £m	2002 £m
Profit attributable to ordinary shareholders	**81.8**	86.8
Ordinary dividends	**(62.5)**	(58.2)
	19.3	28.6
Revaluation deficit	**(86.9)**	(5.7)
Other recognised gains and losses	**(1.4)**	(16.7)
Ordinary shares issued	**5.2**	2.3
Net (decrease)/increase in shareholders' funds	**(63.8)**	8.5
Shareholders' funds at 1 January	**2,245.1**	2,236.6
Shareholders' funds at 31 December	**2,181.3**	2,245.1

Balance sheets
As at 31 December 2003

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Tangible assets – investment properties	9	**3,563.9**	3,632.6	**–**	–
– other	10	**41.8**	38.1	**–**	–
Investments	11	**–**	–	**3,508.6**	3,443.1
Investments in joint ventures:					
– share of gross assets		**255.9**	231.3	**65.3**	59.8
– share of gross liabilities		**(50.5)**	(46.5)	**(26.5)**	(26.9)
	11	**205.4**	184.8	**38.8**	32.9
Investment in associate	11	**3.9**	3.9	**–**	–
		3,815.0	3,859.4	**3,547.4**	3,476.0
Current assets					
Stocks	12	**123.2**	146.8	**–**	–
Debtors	12	**35.9**	31.8	**46.6**	74.7
Trading investments	12	**107.3**	81.3	**–**	–
Cash and deposits		**159.3**	93.9	**34.9**	14.7
		425.7	353.8	**81.5**	89.4
Prepayments and accrued income	12	**20.3**	17.9	**2.6**	3.0
Total assets		**4,261.0**	4,231.1	**3,631.5**	3,568.4
Capital and reserves					
Called up share capital	13	**138.9**	138.5	**138.9**	138.5
Share premium account	14	**336.0**	331.2	**336.0**	331.2
Capital reserves	14	**1,439.2**	1,525.6	**1,569.4**	1,621.4
Profit and loss account	14	**267.2**	249.8	**137.0**	154.0
Shareholders' funds		**2,181.3**	2,245.1	**2,181.3**	2,245.1
Minority interests – equity		**22.1**	24.5	**–**	–
– non-equity		**0.3**	0.3	**–**	–
Provisions for liabilities and charges	16	**205.6**	189.2	**139.7**	134.9
Creditors falling due within one year					
Borrowings	17	**40.5**	27.8	**5.1**	5.2
Other	18	**177.9**	183.2	**75.9**	73.0
		218.4	211.0	**81.0**	78.2
Creditors falling due after more than one year					
Borrowings	17	**1,626.6**	1,555.7	**1,159.3**	1,034.2
Other	18	**6.7**	5.3	**70.2**	76.0
		1,633.3	1,561.0	**1,229.5**	1,110.2
		4,261.0	4,231.1	**3,631.5**	3,568.4
Shareholders' funds attributable to:					
Equity shareholders – ordinary shares		**2,043.5**	2,107.3	**2,043.5**	2,107.3
Non-equity shareholders – preference shares		**137.8**	137.8	**137.8**	137.8
		2,181.3	2,245.1	**2,181.3**	2,245.1
Net assets per ordinary share					
– basic	8	**489p**	506p		
– basic excluding FRS19 deferred tax	8	**535p**	551p		
– fully diluted	8	**464p**	480p		
– fully diluted excluding FRS19 deferred tax	8	**505p**	519p		

The financial statements on pages 62 to 87 inclusive were approved by the Board of directors on 16 March 2004 and signed on its behalf by:

Sir Nigel Mobbs
I D Coull
Directors

Group cash flow statement
For the year ended 31 December 2003

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Net cash inflow from operating activities	19(1)		**212.3**		202.5
Dividends from joint ventures and associate			**8.8**		11.6
Returns on investments and servicing of finance					
Interest received		**3.5**		6.1	
Interest paid		**(113.9)**		(116.1)	
Dividends paid to preference shareholders		**(11.4)**		(11.5)	
Dividends paid to minority shareholders		**(0.9)**		(1.0)	
			(122.7)		(122.5)
Taxation			**(14.1)**		(22.3)
Capital expenditure and financial investment					
Purchase and development of investment properties		**(109.5)**		(166.4)	
Purchase of other fixed assets		**(8.9)**		(5.6)	
Purchase of trading investments		**(33.7)**		(24.7)	
Sales of investment properties		**59.3**		5.7	
Sales of other fixed assets		**0.1**		–	
Sales of trading investments		**11.9**		23.4	
			(80.8)		(167.6)
Acquisitions and disposals					
Investment in joint ventures			**(1.2)**		(2.0)
Equity dividends paid			**(59.6)**		(55.8)
Net cash outflow before use of liquid resources and financing			**(57.3)**		(156.1)
Management of liquid resources	19(2)				
Investment in term deposits		**(46.1)**		19.5	
Net cash (outflow)/inflow from the management of liquid resources			**(46.1)**		19.5
Financing					
Issue of ordinary shares	19(3)	**5.2**		2.3	
Increase in debt	19(4)	**118.3**		72.7	
Cash inflow from financing			**123.5**		75.0
Increase/(decrease) in cash			**20.1**		(61.6)

Notes to the financial statements

1 Segmental information and operating profit

	Turnover		Group operating profit		Profit before tax		Net assets	
	2003	2002 restated	**2003**	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Business segments:								
Property investment	**256.6**	242.3	**223.1**	216.9	**238.2**	231.7	**3,707.4**	3,755.3
Property trading – operating	**40.6**	31.6	**7.1**	2.8	**7.3**	2.8	**104.9**	137.4
– exceptional provision	**–**	–	**(37.9)**	–	**(37.9)**	–	**–**	–
Utilities	**25.2**	18.3	**(4.2)**	(4.5)	**(4.2)**	(4.5)	**43.0**	39.5
Oil and gas	**3.5**	3.1	**(3.5)**	(1.2)	**(3.5)**	(1.2)	**55.6**	36.0
Other activities	**–**	–	**4.8**	6.1	**4.8**	6.1	**41.4**	37.2
Profit/(loss) on sale of investment properties	**–**	–	**–**	–	**1.6**	(0.1)	**–**	–
Net interest/net borrowings	**–**	–	**–**	–	**(88.5)**	(76.5)	**(1,507.8)**	(1,489.6)
Common costs/common net liabilities	**–**	–	**(14.0)**	(14.9)	**(14.0)**	(14.9)	**(263.2)**	(270.7)
	325.9	295.3	**175.4**	205.2	**103.8**	143.4	**2,181.3**	2,245.1
Geographical segments:								
United Kingdom	**197.2**	183.9	**141.1**	142.2	**153.3**	152.8	**2,664.2**	2,720.7
Australia – oil and gas	**3.5**	3.1	**(3.5)**	(1.2)	**(3.5)**	(1.2)	**55.6**	36.0
Canada	**2.6**	2.4	**2.2**	1.0	**1.8**	0.8	**28.3**	23.3
USA	**60.9**	55.2	**4.6**	38.7	**9.5**	43.0	**637.1**	677.9
Europe	**61.7**	50.7	**31.0**	24.5	**31.2**	24.5	**346.1**	316.2
Net interest/net borrowings	**–**	–	**–**	–	**(88.5)**	(76.5)	**(1,507.8)**	(1,489.6)
Common net liabilities	**–**	–	**–**	–	**–**	–	**(42.2)**	(39.4)
	325.9	295.3	**175.4**	205.2	**103.8**	143.4	**2,181.3**	2,245.1

The exceptional provision above is in respect of the residential leisure development at Quail West in Florida, and comprises a £17.1 million write down of the investment and a £20.8 million provision for future costs (note 16).

Joint ventures (Group share)	Turnover		Share of assets		Share of liabilities		Net investment	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Business segments:								
Property investment – property	**16.5**	15.9	**238.4**	225.4	**(46.2)**	(46.5)	**192.2**	178.9
– other	**–**	–	**5.8**	5.9	**–**	–	**5.8**	5.9
Property trading	**0.3**	–	**11.7**	–	**(4.3)**	–	**7.4**	–
	16.8	15.9	**255.9**	231.3	**(50.5)**	(46.5)	**205.4**	184.8
Geographical segments:								
United Kingdom	**12.1**	11.3	**209.8**	196.2	**(30.5)**	(30.4)	**179.3**	165.8
Europe	**0.3**	–	**14.9**	–	**(6.1)**	–	**8.8**	–
USA	**4.4**	4.6	**31.2**	35.1	**(13.9)**	(16.1)	**17.3**	19.0
	16.8	15.9	**255.9**	231.3	**(50.5)**	(46.5)	**205.4**	184.8

Property investment turnover comprises:	Rents		Tenant recharges and other		Total	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Rents and recharges						
– United Kingdom	**167.3**	161.6	**4.7**	4.0	**172.0**	165.6
– Canada	**2.1**	2.0	**0.5**	0.4	**2.6**	2.4
– USA	**49.6**	44.9	**10.1**	9.3	**59.7**	54.2
– Europe	**21.8**	19.6	**0.5**	0.5	**22.3**	20.1
	240.8	228.1	**15.8**	14.2	**256.6**	242.3

1 Segmental information and operating profit continued

Net operating income comprises:	Property investment		Property trading		Utilities		Oil and gas		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002 restated	**2003**	2002 restated
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Turnover	**256.6**	242.3	**40.6**	31.6	**25.2**	18.3	**3.5**	3.1	**325.9**	295.3
Ground rents payable	**(1.7)**	(0.3)	**–**	–	**–**	–	**–**	–	**(1.7)**	(0.3)
Depreciation	**(0.3)**	–	**–**	–	**(1.2)**	(0.1)	**(0.9)**	(0.9)	**(2.4)**	(1.0)
Exceptional provision	**–**	–	**(37.9)**	–	**–**	–	**–**	–	**(37.9)**	–
Other property outgoings/cost of sales	**(31.5)**	(25.1)	**(33.5)**	(28.8)	**(28.2)**	(22.7)	**(6.1)**	(3.4)	**(99.3)**	(80.0)
Total property outgoings/cost of sales	**(33.5)**	(25.4)	**(71.4)**	(28.8)	**(29.4)**	(22.8)	**(7.0)**	(4.3)	**(141.3)**	(81.3)
Net operating income	**223.1**	216.9	**(30.8)**	2.8	**(4.2)**	(4.5)	**(3.5)**	(1.2)	**184.6**	214.0

Oil and gas results are shown separately above for the first time in 2003. Previously these were shown in other income.

2 Other income

	2003	2002 restated
	£m	£m
Net profit on trading investments	**4.5**	5.4
Dividends received from investments	**0.3**	0.7
	4.8	6.1

The 2002 figures have been restated to exclude the results of Oil and gas operations which are now shown separately in net operating income above.

3 Administration expenses

	2003	2002
	£m	£m
Directors' remuneration	**2.2**	2.0
Compensation to director for loss of office	**–**	1.2
Depreciation of tangible fixed assets	**0.8**	0.8
Auditors' remuneration Group (parent company £50,000 (2002 £48,000))	**0.7**	0.7
Other administration costs	**10.3**	10.2
	14.0	14.9

Fees paid to the auditors in the United Kingdom and overseas during the year in respect of non-audit appointments were:

	UK		Overseas		Total	
	2003	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m
Taxation – compliance services	**0.1**	0.1	**0.2**	0.4	**0.3**	0.5
– other advisory services	**–**	–	**0.4**	–	**0.4**	–
Other services – advice relating to development projects	**0.1**	–	**–**	–	**0.1**	–
	0.2	0.1	**0.6**	0.4	**0.8**	0.5

Employees' staff costs were:	Property management	Utilities	Oil and gas	**Total 2003**	Total 2002
	£m	£m	£m	**£m**	£m
Wages and salaries	14.8	6.1	1.2	**22.1**	19.7
Social security costs	1.5	0.5	0.1	**2.1**	1.9
Pension contributions (see note 20)	2.7	1.2	–	**3.9**	4.6
	19.0	7.8	1.3	**28.1**	26.2

The 2002 comparatives have been restated to include the employees' staff costs and numbers of the Tipperary Corporation whose oil and gas activities are mainly based in Australia.

The decrease in the pension charge in 2003 is due to provisions made in 2002 for DR Wilson and MD Lees pensions not repeated in 2003.

The average number of employees of the Group was 559 (2002 569 restated) of which 357 (2002 377) were engaged in property development, management and general administration, 149 (2002 148) were engaged in utilities and 53 (2002 44) were engaged in oil and gas. The average number of employees in the UK amounted to 451 (2002 482).

Notes to the financial statements continued

3 Administration expenses continued

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 50 to 57 in the Remuneration Committee Report and form part of these financial statements.

4 Share of operating profit of joint ventures and associate

	Property investment		Property trading		Total	Total
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Joint ventures	**14.6**	14.2	**0.2**	–	**14.8**	14.2
Associate	**0.5**	0.6	**–**	–	**0.5**	0.6
	15.1	14.8	**0.2**	–	**15.3**	14.8

5 Interest (net)

	2003 £m	2002 £m
Group:		
On bank loans and overdrafts	**20.4**	19.3
On other loans	**93.0**	95.9
	113.4	115.2
Less interest received	**(4.1)**	(5.2)
Less amount charged to: the development of trading properties	**(1.5)**	(3.8)
: the development of investment properties	**(20.1)**	(29.2)
: the development of other assets	**(1.5)**	(3.1)
Charged to profit and loss account – Group	**86.2**	73.9
– Joint ventures	**2.2**	2.4
– Associate	**0.1**	0.2
	88.5	76.5

The interest capitalised rates for 2003 were: UK 8.0 per cent (2002 8.0 per cent), USA 5.72 per cent (2002 6.93 per cent), Canada 6.76 per cent (2002 6.76 per cent) and in Europe at rates ranging from 3.5 per cent to 4.5 per cent (2002 3.5 per cent to 6.0 per cent).

6 Taxation

	2003 £m	2002 £m
Current tax		
Provision for taxation based on profits for the year		
United Kingdom		
Corporation tax charge at 30 per cent (2002 30 per cent)	**14.2**	7.1
Over provision in earlier years	**(2.5)**	(0.2)
Tax in joint venture	**0.6**	0.6
	12.3	7.5
Overseas		
Current tax charge	**3.2**	3.9
Over provision in earlier years	**(0.8)**	–
Tax credit on sale of investment properties	**(0.1)**	(0.2)
Tax in joint venture	**0.1**	–
Total current tax	**14.7**	11.2
Deferred tax		
Origination and reversal of timing differences	**17.3**	35.4
Effect of changes in tax rates on opening timing differences	**(2.2)**	(2.2)
Released in respect of property disposals	**(3.5)**	(0.1)
Credit in respect of the exceptional provision for Quail West	**(14.6)**	–
Other deferred tax	**0.7**	0.3
Total deferred tax (credit)/charge	**(2.3)**	33.4
Total tax	**12.4**	44.6

6 Taxation continued

Factors affecting tax charge for the year:

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

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**103.8**	143.4
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2002 30 per cent)	**31.1**	43.0
Effects of:		
Exceptional provision for Quail West	**11.4**	–
Capital allowances	**(15.6)**	(16.9)
Interest capitalised	**(5.4)**	(9.1)
Utilisation of tax losses	**(3.8)**	(0.8)
Higher tax rates on overseas earnings	**0.3**	4.7
Prior year adjustments	**(3.3)**	(9.7)
	14.7	11.2

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 by 2006.

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.

7 Dividends

	2003 £m	2002 £m
Preference dividends		
Dividend paid to 1 September	**7.6**	7.6
Dividend accrued for period from 2 September to 31 December	**3.8**	3.8
	11.4	11.4
Ordinary dividends		
Interim dividend at 5.8p per share (2002 5.45p)	**24.1**	22.7
Proposed final dividend at 9.2p per share (2002 8.55p)	**38.4**	35.5
	62.5	58.2

Notes to the financial statements continued

8 Earnings, capital deficit and net assets per ordinary share

			Basic		Full diluted	
			2003	2002	2003	2002
The earnings, capital deficit and net assets per ordinary share have been calculated as follows:						
Profit attributable to ordinary shareholders	(a)	£m	**81.8**	86.8	**81.8**	86.8
Profit attributable to ordinary shareholders excluding profits and losses on sale of investment properties, exceptional provision and FRS 19 deferred tax	(b)	£m	**115.0**	119.8	**115.0**	119.8
Capital deficit	(c)	£m	**(88.3)**	(22.4)	**(88.3)**	(22.4)
Weighted average number of shares in issue	(d)	shares m	**416.6**	415.5	**417.3**	415.8
Earnings per share (a)/(d)		pence	**19.6**	20.9	**19.6**	20.9
Earnings per share excluding profits and losses on sale of investment properties, exceptional provision and FRS 19 deferred tax (b)/(d)		pence	**27.6**	28.8	**27.6**	28.8
Capital deficit per share (c)/(d)		pence	**(21.2)**	(5.4)	**(21.2)**	(5.4)
Equity attributable to ordinary shareholders	(e)	£m	**2,043.5**	2,107.3	**2,181.3**	2,245.1
Equity attributable to ordinary shareholders excluding FRS 19 deferred tax	(f)	£m	**2,236.6**	2,290.8	**2,374.4**	2,428.6
Number of shares in issue at the end of the year	(g)	shares m	**417.8**	416.1	**470.3**	467.5
Net assets per share (e)/(g)		pence	**489**	506	**464**	480
Net assets per share excluding FRS 19 deferred tax (f)/(g)		pence	**535**	551	**505**	519

	2003 m	2002 m
Weighted average number of shares in issue during the year	**416.6**	415.5
Adjustment for the dilutive effect of employee share options and save as you earn schemes	**0.7**	0.3
Weighted average number of shares in issue during the year – fully diluted	**417.3**	415.8

In 2003 and 2002 the effect of the preference shares is anti-dilutive and therefore they are excluded from the diluted earnings per share calculation. The preference shares are dilutive for the purpose of the diluted net assets per share calculations and have been treated as such.

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 deferred tax in respect of investment properties. 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 £2,043.5 million (2002 £2,107.3 million). Adjusted net assets per share have been calculated on the same number of shares but shareholders' funds exclude the deferred tax liability of £193.1 million (2002 £183.5 million) as it is the opinion of the directors that deferred tax on capital allowances in relation to investment properties is unlikely to crystallise materially in practice.

9 Tangible assets – investment properties

	UK £m	Canada £m	USA £m	Europe £m	Total £m
At 1 January 2003	2,706.6	26.0	635.8	264.2	3,632.6
Exchange movement	–	2.6	(63.9)	20.5	(40.8)
Additions	65.3	0.7	62.1	1.8	129.9
Disposals	(54.4)	(2.7)	(3.0)	–	(60.1)
(Deficit)/surplus on valuation	(89.7)	2.0	(8.2)	(1.8)	(97.7)
At 31 December 2003	2,627.8	28.6	622.8	284.7	3,563.9
Completed properties	2,481.6	27.2	534.4	260.2	3,303.4
Properties for or under development	146.2	1.4	88.4	24.5	260.5
	2,627.8	28.6	622.8	284.7	3,563.9

	2003 £m	2002 £m
Properties held at valuation – cost	**1,985.0**	1,902.3
– interest capitalised	**259.4**	239.3
– valuation surplus	**1,257.0**	1,371.9
	3,501.4	3,513.5
Properties held at cost	**62.5**	119.1
	3,563.9	3,632.6

The above assets include long-term leaseholds valued at £119.0 million (2002 £171.6 million) and buildings occupied by group companies valued at £10.6 million (2002 £14.0 million).

The Group's completed investment properties and land held for or under development were externally valued as at 31 December 2003, in accordance with the accounting policies, by CB Richard Ellis or DTZ Debenham Tie Leung or Colliers Conrad Ritblat Erdman in the United Kingdom, in the USA by Walden-Marling, Inc., in Canada by Altus Group, in Belgium by De Crombrugghe & Partners s.a. and in France by CB Richard Ellis Bourdais (previously known as Insignia Bourdais Expertises s.a.).

CB Richard Ellis and DTZ Debenham Tie Leung 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. Both companies advise us that the total fees paid by the Group represent less than five per cent of their total revenue in any year and have adopted policies for the regular rotation of the responsible valuer.

10 Tangible assets – other

	Cost £m	Depreciation £m	Net £m
At 1 January 2003	46.3	(8.2)	38.1
Additions	5.7	(2.0)	3.7
Disposals	(0.1)	0.1	–
At 31 December 2003	51.9	(10.1)	41.8

The net book value includes utilities plant and equipment amounting to £38.8 million (2002 £35.3 million).

Notes to the financial statements continued

11 Investments

	Associate £m	Joint ventures Investments £m	Joint ventures Loans £m	**Total 2003 £m**	Total 2002 £m
Group					
Cost or valuation at 1 January 2003	3.9	184.8	–	**188.7**	174.7
Exchange movement	(0.4)	(1.9)	–	**(2.3)**	(2.4)
Net additions	–	1.3	0.7	**2.0**	1.8
Reclassified from trading property	–	3.1	3.5	**6.6**	–
Dividends received	(0.3)	(8.5)	–	**(8.8)**	(11.6)
Valuation surplus	0.3	10.5	–	**10.8**	14.6
Share of profits net of taxation	0.4	11.9	–	**12.3**	11.6
Cost or valuation at 31 December 2003	3.9	201.2	4.2	**209.3**	188.7
Analysed as follows:					
Cost less amounts written off	1.0	91.2	4.2	**96.4**	91.6
Valuation surplus	2.3	102.0	–	**104.3**	94.0
Share of retained profits	0.6	8.0	–	**8.6**	3.1
	3.9	201.2	4.2	**209.3**	188.7
Net borrowings of joint ventures and associate					
Included in joint venture gross liabilities shown on the balance sheet					
– gross borrowings	–	42.6	–	**42.6**	39.3
– other liabilities	–	7.9	–	**7.9**	7.2
Off balance sheet net borrowings of associate	1.9	–	–	**1.9**	2.1
	1.9	50.5	–	**52.4**	48.6

Company	Joint venture investment £m	Subsidiaries Shares £m	Subsidiaries Loans £m	Total £m
Cost or valuation at 1 January 2003	32.9	2,434.3	1,008.8	3,476.0
Net additions	–	–	134.0	134.0
Provisions	–	–	(7.7)	(7.7)
Valuation surplus/(deficit)	5.9	(60.8)	–	(54.9)
Cost or valuation at 31 December 2003	38.8	2,373.5	1,135.1	3,547.4

Company investments comprise investments at cost less amounts written off of £2,600.9 million (2002 £2,474.6 million) and valuation surplus of £946.5 million (2002 £1,001.4 million).

11 Investments continued

The principal undertakings at 31 December 2003 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	
Service				
■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.

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 per cent owned subsidiary, sold certain USA properties, at arm's length, to Draper & Kramer Incorporated for £28.4 million. As part of the transaction, Slough Estates USA Inc. loaned Draper & Kramer US$750,000 which attracted interest at 9 per cent per annum. During 2003 the remaining balance of US$375,000 was repaid by Draper & Kramer. 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.

Notes to the financial statements continued

12 Current assets

	Group 2003 £m	Group 2002 £m
Stocks		
Trading properties – completed properties	**75.5**	120.5
– properties under development	**46.1**	24.4
	121.6	144.9
Utilities stock	**1.6**	1.9
	123.2	146.8
Off balance sheet net borrowings relating to the above trading properties	**–**	5.8

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Debtors (receivable in less than one year)				
Trade debtors	**19.5**	19.4	**–**	–
Dividends receivable from subsidiaries	**–**	–	**46.6**	74.7
Other debtors	**12.2**	10.3	**–**	–
Tax recoverable	**3.4**	1.4	**–**	–
	35.1	31.1	**46.6**	74.7
Debtors (receivable in more than one year)				
Other debtors	**0.8**	0.7	**–**	–
	35.9	31.8	**46.6**	74.7
Trading investments				
Shares – listed (market value £1.6 million)	**0.2**	0.1	**–**	–
– unlisted	**40.6**	35.6	**–**	–
Gas investments in USA and Australia	**66.5**	45.6	**–**	–
	107.3	81.3	**–**	–

Included in prepayments and accrued income are own shares held by the company with a cost of £1.3m relating to the long-term incentive scheme for directors and senior executives.

13 Share capital

	Authorised		Issued and fully paid	
	Shares m	£m	Shares m	£m
Ordinary shares of 25p each				
At 1 January 2003	586.4	146.6	416.1	104.0
Shares issued during the year			1.7	0.4
At 31 December 2003	586.4	146.6	417.8	104.4
Cumulative redeemable convertible preference shares of 25p each				
At 1 January 2003 and 31 December 2003	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 100 pence 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 2004 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 51,106,171 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:

Share Incentive Plan 215,978 ordinary shares were subscribed in cash at a price of 353.9p per share and were issued to the trustees and allocated at that price to eligible employees under the share incentive plan.

Share option schemes 1,432,204 ordinary shares were subscribed in cash following the exercise of employees' options under the share option schemes. The consideration received by the company was £4,468,194.

Conversions During the year 6,488 ordinary shares were issued, credited as fully paid following the conversion of, and in satisfaction of 17,497 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 585,688 ordinary shares at a subscription price of 218.4p per share and 102,595 ordinary shares at a subscription price of 304.6p per share.

Executive share option scheme 116,279 ordinary shares at a subscription price of 344.0p per share and 1,793,999 ordinary shares at a subscription price of 290.0p per share.

Share Incentive Plan Sir Nigel Mobbs and Messrs. Heawood and Kingston are trustees of the Slough Estates plc Share Incentive Plan which was approved by shareholders on 16 May 2000. At 16 March 2004 the number of shares held under the plan was 210,354 ordinary shares. The interest stated in the 210,354 ordinary shares included in the figure £212,477 shown in the table on page 54 represent all of the shares which those directors hold in a non-beneficial capacity as trustees of the plan but also included therein are those shares beneficially owned under the plan by Sir Nigel Mobbs and Messrs. Heawood and Kingston and which are included in their beneficial holdings in the table shown on page 53.

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 16 March 2004 the number of shares held under the scheme was 344,609 ordinary shares. The interests stated in the 344,609 ordinary shares shown in the table on page 54 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 53.

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 16 March 2004 the number of ordinary shares under option was 97,605 at option prices ranging from 217.83p 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 16 March 2004 the number of ordinary shares under option was 889,737 at option prices ranging from 271.5p 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 16 March 2004 the number of ordinary shares under option was 81,675 at option prices ranging from 290.0p to 409.167p expiring on 19 March 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 16 March 2004 the number of ordinary shares under option was 2,714,349 at option prices ranging from 290.0p to 409.167p expiring on 19 March 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 16 March 2004 the number of ordinary shares under option was 1,110,801 at option prices ranging from 218.4p to 328.0p expiring on various dates up to 1 October 2010.

Notes to the financial statements continued

14 Reserves

Group	Share premium account £m	Capital reserve unrealised £m	Capital reserve realised £m	Profit and loss £m	Total £m
Balance at 1 January 2003	331.2	1,481.6	44.0	249.8	2,106.6
Realisation of revaluation gains and losses of previous years	–	(9.1)	9.1	–	–
Revaluation deficit	–	(86.9)	–	–	(86.9)
Other recognised gains and losses (see page 65)	–	(11.3)	10.1	(0.2)	(1.4)
Retained profit for the year	–	–	–	19.3	19.3
Shares issued	4.8	–	–	–	4.8
Reserve transfer	–	2.9	(1.2)	(1.7)	–
Balance at 31 December 2003	336.0	1,377.2	62.0	267.2	2,042.4

Exchange gains and losses on net borrowings offset in reserves amount to £5.4 million (2002 £6.3 million) and the net movement in reserves arising from exchange differences amounts to £3.5 million (2002 £15.3 million).

Retained profit/(deficit) for the year	2003 £m	2002 £m
Parent company	**(17.0)**	36.2
Subsidiaries	**32.8**	(7.6)
Associate and joint ventures	**3.5**	–
	19.3	28.6

Company	Share premium account £m	Capital reserve unrealised £m	Capital reserve realised £m	Profit and loss £m	Total £m
Balance at 1 January 2003	331.2	1,048.8	572.6	154.0	2,106.6
Loss for the year	–	–	–	(17.0)	(17.0)
Revaluation deficit	–	(54.9)	–	–	(54.9)
Shares issued	4.8	–	–	–	4.8
Other	–	(1.7)	4.6	–	2.9
Balance at 31 December 2003	336.0	992.2	577.2	137.0	2,042.4

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 £45.5 million (2002 £94.4 million).

15 Commitments

	2003 £m	2002 £m
a) Capital expenditure commitments		
Property – United Kingdom	**8.6**	15.2
– Overseas	**22.8**	101.1
Utilities	**0.3**	0.1
Other activities	**35.3**	26.7
	67.0	143.1

b) Operating leases
At 31 December 2003 the Group had annual commitments in respect of operating leases relating to land and buildings as follows:

	2003 £m	2002 £m
Leases which expire:		
Within two to five years	**1.4**	1.4
After five years	**0.4**	0.4
	1.8	1.8

16 Provisions for liabilities and charges

Group	Pensions £m	Quail West £m	Deferred tax £m	Other liabilities £m	Total £m
Balance at 1 January 2003	0.7	–	186.4	2.1	189.2
Exchange movement	(0.1)	–	(1.8)	–	(1.9)
Charged/(credited) to profit and loss account	0.6	20.8	(2.3)	(0.7)	18.4
Paid	–	–	–	(0.1)	(0.1)
Balance at 31 December 2003	1.2	20.8	182.3	1.3	205.6
Company					
Balance at 1 January 2003	–	–	134.9	–	134.9
Charged to profit and loss account	0.2	–	4.6	–	4.8
Balance at 31 December 2003	0.2	–	139.5	–	139.7

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 (2002 30 per cent) in the UK and at local rates overseas.

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Deferred taxation consists of:				
Accelerated capital allowances	**63.6**	69.5	**61.4**	67.4
Overseas depreciation allowances	**53.7**	43.8	**–**	–
Interest capitalised	**75.3**	69.7	**64.1**	59.0
Tax losses	**(13.9)**	(8.9)	**(0.8)**	(1.2)
Deferred tax assets■	**(0.5)**	(4.1)	**–**	(3.3)
Other timing differences	**14.9**	13.5	**13.5**	11.9
Total deferred tax in respect of investment properties	**193.1**	183.5	**138.2**	133.8
Deferred tax asset in respect of Quail West■	**(14.6)**	–	**–**	–
Other deferred tax	**3.8**	2.9	**1.3**	1.1
	182.3	186.4	**139.5**	134.9

■The deferred tax assets at 31 December 2003 relate to the exceptional provision for Quail West made in 2003 (£14.6 million) and deferred costs in Canada (£0.5 million). At 31 December 2002 the deferred tax asset related to the exceptional write down of the Utilities plant in 2001 (£3.3 million) and deferred costs in Canada (£0.8 million).

The Group has a commitment to support the ongoing activities at the residential leisure development at Quail West until the overall activity reaches a certain level, which is not expected to occur for a number of years. In accordance with UK GAAP the Group has therefore recognised a provision of £20.8 million for the estimated net liability arising from this commitment. The most significant assumption in the determination of the provision is the rate of membership sales and the consequent timing of the release of the Group's commitment. The Group board is satisfied that the assumptions used to compute the provision are appropriate and will review these at each subsequent balance sheet date. The provision is stated at present value. It will be amortised to the profit and loss account after allowing for the unwind of the discount used, on the basis of the actual losses incurred by the ongoing activities.

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 £129.5 million (2002 £176.5 million).

Notes to the financial statements continued

17 Borrowings

Borrowings falling due after one year	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £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	**8.3**	7.7	**–**	–
US dollars 6.83% to 10% 2008 to 2017	**52.4**	75.9	**–**	–
€uro mortgages 5.14% to 6.36% 2016	**46.2**	42.9	**–**	–
Unsecured:				
12.375% loan stock 2009	**31.9**	31.9	**31.9**	31.9
7.125% bonds 2010	**124.3**	124.2	**124.3**	124.2
11.625% bonds 2012	**100.0**	100.0	**100.0**	100.0
6.25% bonds 2015	**148.1**	147.9	**148.1**	147.9
10% bonds 2017	**98.6**	98.5	**98.6**	98.5
7% bonds 2022	**148.8**	148.7	**148.8**	148.7
6.75% bonds 2024	**220.8**	220.6	**220.8**	220.6
8.09% US dollar Notes 2015	**5.6**	6.2	**–**	–
8.0% US dollar Notes 2012	**24.3**	27.0	**–**	–
7.94% US dollar Notes 2010	**51.0**	56.9	**–**	–
9.27% Canadian dollar Notes 2010	**10.8**	9.9	**–**	–
7.84% US dollar Notes 2008	**–**	9.3	**–**	–
6.57% US dollar Notes 2011	**55.7**	62.1	**–**	–
6.97% US dollar Notes 2016	**55.7**	62.1	**–**	–
6.417% €uro Notes 2011	**35.2**	32.7	**–**	–
Long-term loan 2010	**19.0**	18.3	**–**	–
Bank loans scheduled for renewal in over five years	**–**	72.4	**–**	72.4
	1,276.7	1,395.2	**912.5**	984.2
Exchange difference on currency swaps	**(1.9)**	–	**–**	–
Less instalments due in less than five years	**(29.1)**	(37.4)	**–**	–
	1,245.7	1,357.8	**912.5**	984.2
Payable by instalments in more than five years	**96.8**	107.4	**–**	–
Payable on final maturity date	**1,148.9**	1,250.4	**912.5**	984.2
	1,245.7	1,357.8	**912.5**	984.2
Wholly repayable between three and five years:				
Secured:				
US dollars 6.9% 2007 first mortgage	**4.5**	5.2	**–**	–
Unsecured:				
7.58% US dollar Notes 2007	**11.2**	12.4	**–**	–
7.84% US dollar Notes 2008	**8.3**	–	**–**	–
10% Bonds 2007	**50.0**	50.0	**50.0**	50.0
Bank loans scheduled for renewal between three and five years	**261.0**	60.0	**185.8**	–
	335.0	127.6	**235.8**	50.0
Instalments due on longer dated borrowings	**18.5**	28.1	**–**	–
Less instalments due in less than three years	**(0.4)**	(0.5)	**–**	–
	353.1	155.2	**235.8**	50.0

17 Borrowings continued

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Repayable between one and two years:				
Unsecured:				
8.09% US dollar Notes 2004	–	18.6	–	–
Bank loans scheduled for renewal in one to two years	–	4.9	–	–
Bank loans and overdrafts	**25.4**	23.1	**14.4**	–
	25.4	46.6	**14.4**	–
Exchange difference on currency swaps	**(3.4)**	–	**(3.4)**	–
Installments due on longer dated borrowings	**5.8**	5.4	–	–
Less installments due within one year	–	(9.3)	–	–
	27.8	42.7	**11.0**	–
Total repayable in more than one year	**1,626.6**	1,555.7	**1,159.3**	1,034.2
Borrowings falling due within one year				
Secured:				
€uros 7.23% 2003 first mortgage	–	0.7	–	–
Unsecured:				
8.09% US dollar Notes 2004	**8.4**	–	–	–
Bank loans	**6.0**	–	–	–
Bank loans and overdrafts	**20.9**	11.7	**5.1**	3.5
	35.3	12.4	**5.1**	3.5
Exchange difference on currency swaps	–	1.7	–	1.7
Installments due on longer dated borrowings	**5.2**	13.7	–	–
Total repayable within one year	**40.5**	27.8	**5.1**	5.2

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 33 to 35 inclusive.

31 December 2003

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	899.0	0.2	898.8	8.15	12.9
Australian dollars	34.2	34.2	–	–	–
US dollars	492.6	80.8	411.8	5.88	5.5
Canadian dollars	8.3	–	8.3	6.86	7.4
€uros	233.0	132.2	100.8	6.04	7.7
Total borrowings	1,667.1■	247.4	1,419.7	7.34	10.4
Cash and deposits					
Sterling	(120.2)	(120.2)	–		
US dollars	(9.0)	(9.0)	–		
Canadian dollars	(6.2)	(6.2)	–		
€uros	(23.9)	(23.9)	–		
Total cash and deposits	(159.3)	(159.3)	–		
Net borrowings	1,507.8	88.1	1,419.7		

■Derivatives included in above analysis (see next page)

Notes to the financial statements continued

17 Borrowings continued

■**Derivatives included in above analysis**

£31.1m swapped into US$50m to produce funding at 1.8325% fixed to 2005.
£15.4m swapped into US$25m to produce funding at 1.9325% fixed to 2005.
£17.2m swapped into €26m to produce funding at EURIBOR until 2005.
US$150m has been swapped from variable rate funding into fixed at 2.28% to 2006.
£150m of Sterling swapped from 6.75% fixed to variable rate at LIBOR plus 0.99%. Bank option to cancel on any rollover between 2003 and expiry in 2013. The LIBOR exposure is collared in a range of 4.5% to 5.5% to 2006.
£125m swaption at banks' option to provide fixed rate funding at 5% from 2010 to 2025. Banks pay premium of 0.52% per annum until 2010 in this respect.
€7.4m swapped from variable rate funding into fixed rate funding at 5.28% until 2004.
€27m, 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 2003 £19.6m of total cash was invested in AAA rated liquidity funds.

31 December 2002

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	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
€uros	203.5	102.7	100.8	6.00	8.4
Total borrowings	1,583.5■■	378.8	1,204.7	8.09	10.5
Cash and deposits					
Sterling	(76.6)	(76.6)	–		
US dollars	(5.8)	(5.8)	–		
Canadian dollars	(4.3)	(4.3)	–		
€uros	(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 €26m 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.

17 Borrowings continued

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Maturity profile of Group debt				
In one year or less	**40.5**	27.8	**5.1**	5.2
In more than one year but less than two	**27.8**	42.7	**11.0**	–
In more than two years but less than five	**353.1**	155.2	**235.8**	50.0
In more than five years but less than ten	**488.7**	582.8	**256.2**	328.5
In more than ten years	**757.0**	775.0	**656.3**	655.7
Total Group debt	**1,667.1**	1,583.5	**1,164.4**	1,039.4
Split between secured and unsecured borrowings				
Secured (on land and buildings)	**151.4**	172.4	**40.0**	40.0
Unsecured	**1,515.7**	1,411.1	**1,124.4**	999.4
	1,667.1	1,583.5	**1,164.4**	1,039.4
Maturity profile of undrawn borrowing facilities				
In one year or less	**67.5**	60.5	**4.8**	13.3
In more than one year but less than two	**8.6**	20.7	**5.6**	–
In more than two years	**288.1**	419.4	**238.0**	362.6
Total available undrawn facilities	**364.2**	500.6	**248.4**	375.9

	Group		Group	
	Book value 2003 £m	**Fair value 2003 £m**	Book value 2002 £m	Fair value 2002 £m
Fair value of borrowings				
Short term fixed and variable rate borrowings (before swaps etc)	**331.9**	**331.9**	189.0	189.0
Long-term fixed rate borrowings	**1,340.5**	**1,545.3**	1,392.8	1,580.5
Interest rate swaps	**–**	**2.0**	–	1.6
Swaptions and caps	**–**	**4.5**	–	1.6
Currency swaps	**(5.3)**	**(5.6)**	1.7	2.6
	1,667.1	**1,878.1**	1,583.5	1,775.3
Tax relief due on early redemption/termination		**(63.3)**		(57.6)
	1,667.1	**1,814.8**	1,583.5	1,717.7
After tax mark to market adjustment		**147.7**		134.2
Fair value of other financial assets and liabilities				
Cash and deposits	**159.3**	**159.3**	93.9	93.9
Trading investments	**107.3**	**111.9**	81.3	86.8
	266.6	**271.2**	175.2	180.7

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 Financial Reporting Standard 13. There are no material debtors or creditors due after more than one year.

The market value of the preference shares at 31 December 2003 was £233.6 million (2002 £199.5 million) and £240.5 million at 16 March 2004. This has already been included in the diluted net assets per share calculations in note 8.

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

Notes to the financial statements continued

18 Creditors – other

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Creditors falling due within one year				
Rents in advance	**37.1**	37.4	**–**	–
Accruals and other deferred income	**56.9**	59.6	**24.9**	26.5
Trade creditors	**7.7**	7.5	**0.1**	–
Other creditors	**19.7**	23.2	**–**	–
Taxation	**14.3**	16.2	**8.7**	7.2
Proposed ordinary dividend	**38.4**	35.5	**38.4**	35.5
Accrued preference dividend	**3.8**	3.8	**3.8**	3.8
	177.9	183.2	**75.9**	73.0
Creditors falling due after more than one year				
Loans from subsidiaries	**–**	–	**70.2**	76.0
Other creditors	**6.7**	5.3	**–**	–
	6.7	5.3	**70.2**	76.0

19 Notes to Group cash flow statement

	2003 £m	2002 £m
(1) Reconciliation of Group operating profit to net cash inflow from operating activities		
Group operating profit	**175.4**	205.2
Less other income reallocated	**(2.4)**	(5.6)
Add back depreciation	**3.2**	0.9
Add back exceptional provision against Quail West	**37.9**	–
Adjust for other non-cash items	**1.6**	0.3
Net rental income from trading properties	**–**	3.1
	215.7	203.9
Other movements arising from operations:		
Decrease/(increase) in stocks	**3.0**	(12.0)
(Increase)/decrease in debtors	**(3.8)**	3.3
(Decrease)/increase in creditors	**(2.6)**	7.3
Net cash inflow from operating activities	**212.3**	202.5

(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 2003	104.0	331.2	435.2
Ordinary shares issued for cash	0.4	4.8	5.2
Balance at 31 December 2003	104.4	336.0	440.4

19 Notes to Group cash flow statement continued

	2003		2002	
	£m	£m	£m	£m
(4) Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash in the year		**20.1**		(61.6)
Increase in debt	**(118.3)**		(72.7)	
Increase/(decrease) in liquid resources	**46.1**		(19.5)	
		(72.2)		(92.2)
Change in net debt resulting from cash flows		**(52.1)**		(153.8)
Non-cash adjustment■■		**1.4**		–
Translation difference		**32.5**		29.4
Movement in net debt in the year		**(18.2)**		(124.4)
Net debt at 1 January 2003		**(1,489.6)**		(1,365.2)
Net debt at 31 December 2003		**(1,507.8)**		(1,489.6)

	At 1 Jan 2003 £m	Cash flow £m	■■Non-cash adjustment £m	Exchange movement £m	At 31 Dec 2003 £m
(5) Analysis of net debt					
Cash in hand and at bank■	29.2	18.9	–	0.2	48.3
Overdrafts	(1.7)	1.2	–	(0.1)	(0.6)
		20.1			
Loan capital	(1,581.8)	(118.3)	1.4	32.2	(1,666.5)
Term deposits■	64.7	46.1	–	0.2	111.0
	(1,489.6)	(52.1)	1.4	32.5	(1,507.8)

■Cash and deposits per balance sheet

■■The non-cash adjustment relates to borrowing costs of £2.2 million which are deducted from borrowings in the balance sheet and amortised to the profit and loss account over the term of the borrowings, less debt acquired of £0.8 million.

20 Pensions

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

a) The Group operates a number of pension schemes throughout the world. Total pension costs for the Group were £3.9 million (2002 £4.6 million) of which £0.1 million (2002 £1.1 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.

As at 31 December 2003 the Group had a pension prepayment of £0.7 million (2002 £0.8 million) representing the unamortised cost of a £1.4 million cash contribution made in 1998 to eliminate the calculated SSAP24 deficit in the 'Slough scheme'. This cost is being amortised to the profit and loss account on a straight line basis and will be fully amortised by the year ended 31 December 2008.

The latest actuarial valuation of the Slough scheme as at 31 March 2001 was carried out by William M Mercer. The schemes'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. As a consequence, the company contribution rate was increased in 2001 by 6.08 per cent per annum to 24.97 per cent per annum.

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 £0.3 million (2002 £1.3 million).

Supplementary ex-gratia pensions of £0.2 million (2002 £0.1 million) were paid out of profits.

Notes to the financial statements continued

20 Pensions continued

b) FRS17 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 Hewitt Bacon & Woodrow to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2003. The assets of both schemes are stated at their market value at 31 December 2003.

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		
At 31 December	**% 2003**	% 2002	% 2001	**% 2003**	% 2002	% 2001
Discount rate	**5.4**	5.5	5.8	**5.4**	5.5	5.8
Inflation rate	**2.8**	2.3	2.5	**2.8**	2.3	2.6
Increase to deferred benefits during deferment	**2.8**	2.3	2.5	**2.8**	2.3	2.6
Rate of increase to pensions in payment – pre 2003 pensions	**4.2**	4.2	4.0	**2.7**	2.4	2.5
– post 2003 pensions	**2.7**	2.4	n/a	**n/a**	n/a	n/a
Rate of increase in salaries	**4.8**	4.3	4.5	**n/a**	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		
	2003 %	2002 %	2001 %	**2003 £m**	2002 £m	2001 £m
Equities	**7.80**	7.52	8.67	**39.2**	33.8	44.5
Bonds	**4.80**	4.52	5.19	**22.3**	17.0	12.9
Other	**6.48**	6.41	6.15	**2.7**	4.0	6.0
Total market value of assets				**64.2**	54.8	63.4
Present value of schemes' liabilities				**(91.8)**	(81.7)	(70.9)
Deficit in the schemes				**(27.6)**	(26.9)	(7.5)
Less Bilton surplus which cannot be utilised				**(1.2)**	(0.8)	–
				(28.8)	(27.7)	(7.5)
Related deferred tax asset				**8.6**	8.3	2.3
Net pension liability				**(20.2)**	(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 2003 would have been reduced by £20.2 million (2002 £19.4 million).

	2003 £m	2002 £m
Analysis of the amount that would have been charged/(credited) to operating profit		
Current service cost	**2.8**	3.0
Past service costs	**(2.0)**	0.1
	0.8	3.1
Analysis of the amount that would have been (charged)/credited to other finance (expense)/income		
Interest on pension liabilities	**(4.4)**	(4.2)
Expected return on schemes' assets	**3.6**	5.0
	(0.8)	0.8

20 Pensions continued

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

	2003 £m	2002 £m
Actual return less expected return on assets	**4.9**	(14.8)
Experienced gains and losses on liabilities	**(0.1)**	0.3
Changes in financial assumptions underlying the present value of the schemes' liabilities	**(7.1)**	(5.6)
Actuarial loss recognised in STRGL	**(2.3)**	(20.1)

Movement in deficit during the year

	2003	2002
Deficit in scheme at 1 January	**(26.9)**	(7.5)
Current service cost	**(2.8)**	(3.0)
Contributions	**3.2**	3.0
Past service costs	**2.0**	(0.1)
Other finance (expense)/income	**(0.8)**	0.8
Actuarial loss	**(2.3)**	(20.1)
Deficit in scheme at 31 December	**(27.6)**	(26.9)

History of experience gains and (losses)	2003	2002
Difference between the expected and the actual return on the schemes' assets		
Amount	**£4.9m**	(£14.8m)
Percentage of schemes' assets	**7.6%**	26.9%
Experience gains and losses on the schemes' liabilities		
Amount	**(£0.1m)**	£0.3m
Percentage of the present value of the schemes' liabilities	**0.1%**	0.4%
Effect of changes in assumptions underlying the present value of the schemes' liabilities		
Amount	**(£7.1m)**	(£5.6m)
Percentage of the present value of the schemes' liabilities	**7.7%**	6.9%
Total amount recognised in the Group statement of total recognised gains and losses		
Amount	**(£2.3m)**	(£20.1m)
Percentage of the present value of the schemes' liabilities	**2.5%**	24.5%

21 Contingent liabilities

The company has guaranteed loans and bank overdrafts of subsidiary companies aggregating £373.4 million (2002 £368.9 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 £4.1 million (2002 £3.6 million) in respect of development contracts of subsidiary companies.

At 31 December 2003 Fibre Power (Slough) Limited, a wholly owned subsidiary of the Group, was in commercial discussions with Amec Birwelco Limited regarding the contract to build a renewable energy power station. Amec Birwelco have lodged an £8.1 million claim for time delay and additional work they allege to have done in respect of the project. The directors of Fibre Power (Slough) Limited, having taken both legal and technical specialist's advice, do not accept this claim on the basis that the work referred to in the claim was covered by the original contract. It has also been rejected by the Independent Consulting Engineer who supervised the project. Furthermore Fibre Power (Slough) Limited have lodged a counter claim for £5.3 million in respect of liquidated damages and extra work incurred because of the late delivery of the contract and poor initial fitness for purpose of the installation.

Five year financial results

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Group profit and loss account					
Property investment	**223.1**	216.9	212.3	196.7	182.6
Administration expenses	**(14.0)**	(14.9)	(13.2)	(12.9)	(12.5)
Share of operating profit from joint ventures and associates	**15.1**	14.8	13.9	14.0	9.6
Net interest	**(88.5)**	(76.5)	(77.9)	(78.2)	(72.3)
Core property income	**135.7**	140.3	135.1	119.6	107.4
Utilities – operating loss	**(4.2)**	(4.5)	(7.1)	(3.6)	(3.7)
Core income	**131.5**	135.8	128.0	116.0	103.7
Utilities – exceptional write down	**–**	–	(60.2)	–	–
Property trading – operating	**7.1**	2.8	8.7	6.7	6.1
Share of operating profit from trading property joint ventures	**0.2**	–	–	–	–
Property trading – exceptional provision	**(37.9)**	–	–	–	–
Oil and gas	**(3.5)**	(1.2)	(3.3)	0.7	–
Other income and non-property joint ventures	**4.8**	6.1	3.9	4.9	6.0
Profit/(loss) on sale of investment properties	**1.6**	(0.1)	(9.8)	0.6	12.2
Profit on ordinary activities before taxation	**103.8**	143.4	67.3	128.9	128.0
Group balance sheet					
Investment properties	**3,563.9**	3,632.6	3,514.2	3,463.8	2,935.4
Joint ventures and associates	**209.3**	188.7	174.7	191.8	181.7
Trading properties	**121.6**	144.9	134.0	105.0	89.1
Other assets	**206.9**	171.0	166.6	203.0	183.1
Cash and deposits	**159.3**	93.9	175.9	36.9	59.5
Total assets	**4,261.0**	4,231.1	4,165.4	4,000.5	3,448.8
Borrowings	**(1,667.1)**	(1,583.5)	(1,541.1)	(1,344.5)	(1,149.4)
Other liabilities and minority interests	**(412.6)**	(402.5)	(387.7)	(386.7)	(336.4)
Shareholders' funds	**2,181.3**	2,245.1	2,236.6	2,269.3	1,963.0
Total return					
Profit attributable to ordinary shareholders	**81.8**	86.8	42.9	93.9	97.0
Capital (deficit)/surplus	**(88.3)**	(22.4)	(22.9)	260.3	254.3
	(6.5)	64.4	20.0	354.2	351.3

Data per ordinary share:

	2003	2002	2001	2000	1999
Revenue earnings					
Adjusted basic earnings per share	**27.6p**	28.8p	27.6p	25.7p	21.7p
Adjustments▪	**(8.0p)**	(7.9p)	(17.2p)	(2.9p)	2.0p
Basic earnings per share	**19.6p**	20.9p	10.4p	22.8p	23.7p
Capital (deficit)/surplus per share	**(21.2p)**	(5.4p)	(5.6p)	63.0p	62.0p
Total return per share	**(1.6p)**	15.5p	4.8p	85.8p	85.7p
Total return per ordinary share as a percentage of opening basic net assets per share	**(0.3%)**	3.1%	0.9%	19.4%	23.3%
Dividends per share	**15.0p**	14.0p	13.1p	12.1p	11.2p
Net assets per share					
– Basic	**489p**	506p	506p	514p	441p
– Basic excluding FRS19 deferred tax	**535p**	551p	542p	553p	476p
– Fully diluted	**464p**	480p	479p	486p	421p
– Fully diluted excluding FRS19 deferred tax	**505p**	519p	512p	520p	452p

▪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, Quail West exceptional provision in 2003, Utilities exceptional write down in 2001 and FRS 19 deferred tax.

Group information

UK
Head office and registered office
Slough Estates Plc
234 Bath Road
Slough SL1 4EE
England
Telephone: (01753) 537171
Fax: (01753) 820585
www.sloughestates.com
e-mail:
property@sloughestates.co.uk

US
Slough Estates USA Inc
444 North Michigan Avenue
Suite 3230
Chicago, Illinois 60611-3977
USA
Telephone: (1) (312) 755 0700
Fax: (1) (312) 755 0717
e-mail: property@sloughusa.com

Canada
Slough Estates Canada Limited
Suite 350, 4260 Still Creek Drive
Burnaby, B.C. V5C 6C6
Canada
Telephone: (1) (604) 294 3544
Fax: (1) (604) 294 2877
e-mail: property@sloughbc.com

Belgium
Slough Properties NV
De Kleetlaan 4, bus 8
1831 Diegem
Belgium
Telephone: (32) (2) 714 0600
Fax: (32) (2) 714 0619
e-mail: info@sloughproperties.be

France
Slough Developments (France) SA
17 Rue Galilée
75116 Paris
France
Telephone: (33) (1) 56 89 31 31
Fax: (33) (1) 56 89 31 35
e-mail:
info@sloughdevelopments.fr

Germany
Slough Commercial Properties GmbH
Elisabethstrasse 40
40217 Düsseldorf
Germany
Telephone: (49) (211) 38 20 52/3/4
Fax: (49) (211) 37 46 89
e-mail: info@sloughestates.de

Directors and Officers

Chairman
Sir Nigel Mobbs

Executive directors
I D Coull – Chief Executive
J A N Heawood – UK Property
R D Kingston – Finance
M D Lees – North America

Non-executive directors
P D Orchard-Lisle CBE, TD, DL – Deputy Chairman
Lord Blackwell
S L Howard
D Kramer
The Rt. Hon. Lord MacGregor of Pulham Market OBE
A W Palmer
C A Peacock

Secretary
J R Probert FCIS

Executive Committee
I D Coull
J A N Heawood
R D Kingston
J I Titford
J R Probert

Senior management
S M Bailey – Investment Property
P N Jackson – Slough Heat & Power
G J Osborn – Retail
H E Rogers – Construction
J I Titford – Human Resources
M Wilson – Development
W E Hens – Belgium and France
U Titz – Germany

Glossary of terms

Adjusted figures Reported amount adjusted to exclude exceptional items and deferred tax.

Dividend cover Adjusted earnings per share divided by dividend per share.

Earnings per share Profit after taxation divided by the average number of shares in issue during the year.

ERV The estimated market rental value of space.

Gearing Net debt expressed as a percentage of shareholders' funds excluding FRS19 deferred tax.

Interest cover Net rental income divided by net interest expense before capitalised interest.

Interest rate and currency swap An agreement with another party to exchange an interest or currency rate obligation for a predetermined period of time.

Net asset value per share Shareholders' funds excluding preference shares divided by the number of ordinary shares in issue at the year end.

Pre-let A lease signed with a tenant prior to completion of a development.

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