



WHERE  
BUSINESS  
WORKS...

**SEGR****O**  
SLOUGH ESTATES GROUP

SEGRO\* is an international property investment and development company that matches its customers' plans and ambitions by providing Flexible Business Space tailored to meet customers' current and future requirements at strategic locations in Europe and the USA.

As a leader in its international markets, SEGRO seeks to achieve superior total returns for its shareholders by:

- providing a high standard of customer service and actively managing existing assets
- achieving growth by driving a major development programme
- capitalising on the higher returns and lower borrowing costs available across Continental Europe
- operating an efficient international tax structure
- actively recycling capital by selling mature assets and reinvesting the proceeds in new acquisitions and development opportunities

\* Slough Estates plc has adopted the trading name of SEGRO and at the time of writing is seeking investor approval to formally change its company name to SEGRO plc; throughout this document, if appropriate, the name SEGRO is used when referring both to historical and future activities of Slough Estates.

## SLOUGH ESTATES HAS BEEN CHANGING...

...and now the introduction of our new trading name, SEGRO, marks an exciting phase in our development. As we build on the success of our highly focused business model and expand our activities across Europe, we are determined to maintain our position as a leading world-class performer in our chosen markets. Our new corporate identity reinforces the significant cultural changes of recent years; bringing a much greater focus on the needs of both investors and customers, being innovative and embracing change in our markets, and responsibly developing buildings in balance with their environment.

- specialist focus and expertise
- consistent world-class delivery
- flexible in the type of business space we provide
- flexible “can do” approach to client needs
- international business skills with a local market focus
- managing today’s space for tomorrow’s environment



## OUR VALUES

To continue to succeed and grow in the future, we need to adapt and change; thinking innovatively about our business, our culture and the way we reward our people.

Our values articulate our behaviour,  
both as people and as a company.

**Respect:** We treat our customers and each other fairly and courteously with respect for the diversity of our approaches. We are sincere and trustworthy.

**Partnership:** We will serve our customers and each other by building relationships that encourage the sharing of skills, information and ideas.

**Energy:** We are dynamic and enthusiastic. We will look for opportunity and challenge conventional thinking, pushing ourselves to go beyond expectations.

**Responsibility:** We are prepared to take ownership of our work and responsibility for our people. We are 'spurred on' to superior performance by our achievements.

# BASIC FACTS

Headquartered in the UK, Slough Estates plc – trading as SEGRO – is listed on the London Stock Exchange and on Euronext in Paris. The Company is a UK Real Estate Investment Trust (REIT) with operations in 11 countries, serving a diversified customer base of more than 1,760 customers operating in a wide range of sectors, representing both small and large businesses, from start ups to global corporations. With investment property assets of over £5.0 billion (£6.0 billion including trading properties and development assets) and 4 million sq m of business space, SEGRO has a gross rental income in excess of £300 million per annum.

01.

## Operating and Financial Review



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## 02. A strong performance from Europe's leading provider of Flexible Business Space

- Another strong operating performance in 2006
- Further strong portfolio performance and total returns
- Well placed to deliver superior shareholder returns

# SEGRO in 2006

**17%**

Total Return

**+ 19%**

Profit Before Tax

**+ 120% (+3%\*)**

Earnings Per Share

**+ 24% (+14%\*)**

Net Asset Value

**+ 8.6%**

Total Dividend for the Year

## SEGRO Financial Highlights

	2006	2005	Change %
Profit before tax (£m's)	690.1	582.3	18.5
Adjusted* profit before tax (£m's)	142.7	119.5	19.4
Basic EPS (p)	201.8	91.7	120.0
Adjusted* diluted EPS (p)	25.1	24.3	3.3
Total dividend for the year (p)	19.0	17.5	8.6
NAV per share (p)	718	579	24.0
Adjusted* diluted NAV per share (p)	775	680	14.0
– excluding REIT conversion charge (p)	792	680	16.5
Adjusted* gearing (debt to equity) (%)	61	62	–
<b>Total property portfolio (including joint ventures) (£m's)</b>	<b>6,013</b>	<b>5,138</b>	<b>17.0</b>

\* Adjusted diluted

Note: for definitions of "adjusted" items, see Glossary, page 140 and note 13 of the accounts on page 86.

## United Kingdom

The UK team concentrated on adding value and improving revenue by actively managing the £4 billion core portfolio. We were net sellers, taking advantage of market conditions to dispose of underperforming assets at prices that locked in significant gains. Our capital investment programme included redeveloping and upgrading our major holdings and the selective acquisition of property that offers SEGRO real opportunities to outperform, such as Treforest in Wales and a number of sites close to Heathrow Airport. Underlying year on year vacancy levels by space remained unchanged at 8 per cent, and income from lettings were ahead of forecast in generating £14.2 million of revenue.

## Continental Europe

Our Continental European business has had an outstanding year of achievement. Having doubled in size and moved into Central Europe, its 169,000 sq m lettings of the existing stock helped to reduce overall vacancy levels from 12.3 per cent to 7.5 per cent. 77 per cent of our pre-lettings were delivered in Continental Europe. The late 2006 £70 million acquisition of a major logistics and light industrial portfolio from Antalis moved us straight into target European business centres, including key locations in two new countries (Italy and Spain), giving us another important partnership relationship with a major corporate occupier and significantly enhancing our platform for growth. We continue to see a steady flow of these attractive acquisitions in Continental Europe with real potential for SEGRO to add value.

## USA

In 2006 the USA business firmly maintained its focus on a core life sciences portfolio, expanding and consolidating in existing locations through; prudent acquisition and assembly of buildings with redevelopment potential, marketing/leasing existing vacant space aggressively, and executing major life sciences campus construction programmes for Genentech and Amgen.

In November 2006 we announced a strategic review of options for the USA business, at the time of writing, that process was well underway. Our £0.9 billion investment portfolio has grown by 28 per cent during the year, which reflects development activity and the growing attraction of biotech assets as a real estate investment class.

03.

## Completed Investment Properties\* – Rental and Valuation Data Group Level

	Lettable space (sq m)	Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Gross rental income for 2006 (£m)	Net rental income for 2006 (£m)	Vacancy rate by space %	Valuation at year end (£m)	Valuation percentage of total (%)	Valuation surplus (£m)	%	Initial yield %	Reversionary yield (%)
<b>UK – by asset type</b>												
Industrial	2,312,525	143.7	169.9	154.5	129.7	11.3	2,941.5	59	302.4	11.5	4.9	5.8
Offices	177,506	28.4	31.5	30.0	23.8	21.3	494.7	10	27.4	5.9	5.7	6.4
Retail	64,532	12.6	13.5	13.8	11.5	0.1	262.4	5	24.2	10.2	4.8	5.1
<b>Total</b>	<b>2,554,563</b>	<b>184.7</b>	<b>214.9</b>	<b>198.3</b>	<b>165.0</b>	<b>11.6</b>	<b>3,698.6</b>	<b>74</b>	<b>354.0</b>	<b>10.6</b>	<b>5.0</b>	<b>5.8</b>
<b>Continental Europe – by asset type</b>												
Industrial	652,900	19.8	23.5	18.4	15.7	9.1	267.0	5	16.6	6.6	7.4	8.8
Offices	85,684	10.3	10.7	8.9	7.6	8.0	143.9	3	8.6	6.4	7.1	7.4
<b>Total</b>	<b>738,584</b>	<b>30.1</b>	<b>34.2</b>	<b>27.3</b>	<b>23.3</b>	<b>8.7</b>	<b>410.9</b>	<b>8</b>	<b>25.2</b>	<b>6.5</b>	<b>7.3</b>	<b>8.3</b>
<b>Total USA</b>	<b>453,317</b>	<b>58.1</b>	<b>70.5</b>	<b>78.6</b>	<b>60.4</b>	<b>18.9</b>	<b>902.6</b>	<b>18</b>	<b>118.8</b>	<b>15.2</b>	<b>6.4</b>	<b>7.8</b>
Industrial	2,965,425	163.5	193.4	172.9	145.4	10.8	3,208.5	64	319.0	11.0	5.1	6.0
Offices	263,190	38.7	42.2	38.9	31.4	16.7	638.6	13	36.0	6.0	6.1	6.6
Retail	64,532	12.6	13.5	13.8	11.5	0.1	262.4	5	24.2	10.2	4.8	5.1
US Biotech/office	453,317	58.1	70.5	78.6	60.4	18.9	902.6	18	118.8	15.2	6.4	7.8
<b>Group Total</b>	<b>3,746,464</b>	<b>272.9</b>	<b>319.6</b>	<b>304.2</b>	<b>248.7</b>	<b>11.9</b>	<b>5,012.1</b>	<b>100</b>	<b>498.0</b>	<b>11.0</b>	<b>5.4</b>	<b>6.4</b>

\* Including the Group's share of joint ventures' properties. Excluding land held for investment and properties in the course of construction.

For reconciliation of the investment property values with the amounts shown in the accounts, see page 126.



04.

### WHAT IS FLEXIBLE BUSINESS SPACE?

Flexible Business Space is the development of industrial sites and business parks, for the highest value and most appropriate customer uses. These include:

- manufacturing & light industrial activities
- warehousing & distribution  
(including 'big box' logistics facilities)
- the housing of data centres
- research & development
- office uses





# Focus on a core asset class

05.

- with secure high-quality income and covenant
- resilient income profile with a weighted average lease length of 11 years before breaks

We develop and acquire buildings on industrial sites or business parks located at key infrastructure junctions or in 'edge of town' locations. We seek to hold 'clusters' of assets in key business locations in areas of economic growth. The mix of building type reflects customer requirements as influenced by local economies as well as the precise location on each estate. For example, the Slough Trading Estate near Heathrow airport, at its centre, has both traditional manufacturing units and modern data centres, but also major corporate offices on prime road frontage locations. In Belgium we have corporate headquarters in Pegasus Business Park near Brussels airport, whereas in Poland we provide large warehouse and manufacturing facilities – again at key transport infrastructure hubs, in this case near to major pan-European road intersections.

This combination of a strong industrial focus with a pan-European geographical spread, means that, even in more challenging macroeconomic conditions, we will always have customers whose businesses are growing, with continual opportunities for us to meet their space requirements across our portfolio. Currently for example, we have occupiers who have chosen to relocate from the UK or other parts of Western Europe to newly-thriving areas of Central Europe, and we can serve their needs in both ends of this spectrum of locations.

With a diversified range of more than 1,760 occupiers across a wide range of industrial sectors, our customers can, and often do, include small start-up operations, but our major customers also include some of the world's best-known organisations. Cisco Systems, RIM/BlackBerry, KarstadtQuelle, Masterfoods (Mars), O2, Ernst & Young, Corning, Ferrari and DHL are all SEGRO customers.



06.

# SEGRO strategy for value creation

## ACTIVE APPROACH TO ASSET MANAGEMENT

- strong customer focus, proactive leasing, ongoing refurbishment & redevelopment of our buildings, and capital recycling

## EXTRACTING VALUE-ADDING POTENTIAL FROM ACQUISITIONS

- selecting income-producing assets which are undermanaged and/or can be developed
- cultivating corporate partnering (sale and leaseback) transactions with income and scope for development
- taking advantage of higher yields and lower borrowing costs in Continental Europe

## DRIVING DEVELOPMENT PROGRAMME

- successfully executing the current programme under construction
- preparing sites and seeking pre-lets to support projects due to start in 2007/08
- acquiring new greenfield and brownfield sites for future development

## BUILDING CRITICAL MASS IN EXISTING MARKETS AND IDENTIFYING NEW MARKETS FOR GROWTH

- entering new business centres in specific growth areas at key infrastructure hubs





## DEVELOPMENT-LED GROWTH MOMENTUM

- 470 hectare land bank
- over 1 million sq m of space under construction or expected to start in 2007
- £226 million of additional rental income at current rates when fully built and let
- £28 million of additional rental income secured on pre-lettings
- £1.1 billion existing book value, £2 billion future spend

07.

Further details of the development pipeline can be found on pages 126 onwards and on the Investor Relations page of our website.





# Ready to Reap the REIT Dividend

## WHAT ARE REITs?

REITs are Real Estate Investment Trusts – they are companies that have elected to adopt a tax status which is now open to eligible UK companies. Slough Estates plc (now trading as SEGRO) became a REIT on the earliest possible date, 1 January 2007.

## WHY ARE REITs A GOOD THING?

REIT status offers exemption from UK corporation tax on profits and gains from an eligible UK portfolio, and also, therefore, a greater flexibility to undertake asset disposals, since tax on capital gains is no longer an issue. Development gains on investment properties are also exempt from corporation tax on capital gains, subject to certain conditions.

REITs are required to distribute to their shareholders at least 90 per cent of the profits from the part of the business that is within the REIT 'ringfence'.

Further information is available at [www.REITA.org](http://www.REITA.org)

# Why REIT status works for SEGRO

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SEGRO is well suited to REIT status due to its strong focus on a single asset class – Flexible Business Space on a pan-European platform.

With a conversion charge of £82 million, REIT status has allowed us to release some £416 million of provisions for deferred tax, which is no longer payable, and exempts us from tax on the eligible UK income. We expect to save a significant annual sum from this tax exemption alone.

SEGRO's growth plans are development led and the structure of UK REITs complements and facilitates the execution of SEGRO's major development programme, because development gains will generally be tax free.

SEGRO's pan-European focus is a key differentiator as the Group pursues superior returns for its shareholders. The UK REIT structure, combined with the tax rules in most other European jurisdictions, facilitates the creation of a tax efficient international structure.

The Board has announced a new REITs dividend policy with a high income pay-out ratio, to take effect on dividends paid in relation to 2007 performance and beyond.







Nigel Rich CBE Chairman

## Chairman's Statement

"In my first year as Chairman of Slough Estates, I have been impressed with the Group's financial and operational performance. The development pipeline in both the UK and Continental Europe is very strong and focused. The balance sheet provides opportunities for further investment and the portfolio is being actively managed. The Board is recommending a final dividend of 12.1 pence, making a total dividend of 19.0 pence, an overall increase of 8.6 per cent."

As your new Chairman, I am delighted to have joined the Company at a time when it is going through exciting change. The heritage of the Mobbs family provided the strong base from which Ian Coull and his management team are taking the Company forward in the UK and in Continental Europe. We have also announced a strategic review of the options for our US business, which is progressing well.

On 1 January 2007, we became a Real Estate Investment Trust (REIT), which will save the Company considerable tax going forward, in return for a conversion fee. We have already announced that shareholders should benefit through an enhanced dividend policy. The new dividend policy will take effect during 2007, but is not reflected in the recommended final dividend for 2006.

With the publication of the Annual Report we are implementing a new corporate identity. Consistent with this change and with the strategic direction of the Company, we are also proposing a name change. As our business has developed to many other regions in the UK and also in Continental Europe, we have decided to evolve our name from the Slough Estates Group to SEGRO. We believe the new name reinforces the dynamic momentum of the Company.

Our employees have all contributed to our performance in 2006 and are committed to delivering sustained performance in the years ahead. Their success is also reflected in recent awards given to the Company. In September the Estates Gazette gave us its Industrial Property Company of the Year Award. In October at the European Property Awards organised by Property Week, the Supreme European Property Achievement was awarded to Ian Coull.

I must pay tribute to my immediate predecessor Paul Orchard-Lisle, a veteran of the Slough Estates Board who became acting Chairman and then Chairman when Sir Nigel Mobbs so sadly died. Paul did a terrific job and ensured, with Ian Coull, that there was no pause in the momentum of the Company. Paul retired from the Board following my appointment as Chairman.

#### Dividends per share

pence



In May 2006 Lord Macgregor retired as a Director after 11 years. Dick Kingston who was Finance Director until 2005, and then chaired our European business, retired at the end of 2006 after 19 years' service. We are grateful to both of them for their significant contribution to the development of the Company.

On 1 January 2007, Lesley MacDonagh joined the Board as a Non-Executive Director. Lesley was formerly worldwide Managing Director of Lovells, from where she will be retiring this month. Lesley's expertise in property law and in leading Lovells into Europe will be invaluable to the Board. On the same date, Walter Hens joined the Board as an Executive Director. Walter has been with the Company for 17 years and has been responsible for the successful development of our Continental European business.

It is clear that 2007 is going to be at least as busy and full of opportunities as 2006. The Company is well placed to take advantage of the opportunities, has a substantial development pipeline, and we are determined to build on our position as leader in the provision of Flexible Business Space in Europe.

Nigel Rich  
Chairman  
7 March 2007



Ian Coull Chief Executive



David Sleath Finance Director

# Operating and Financial Review

“We entered 2006 in good shape and we left it in even better shape.”

With our clear strategic focus on Flexible Business Space, a highly motivated team and the right organisational structure, we have consolidated on the strengthened position of recent years. Given the scale of our expansion in Continental Europe we are particularly pleased to be able to report that the European business delivered an outstanding performance in 2006.

The 19 per cent increase in underlying adjusted profit before tax highlights another strong operating performance in 2006. Group lettings in the year increased to 440,000 sq m, with a further 159,000 sq m in pre-lets for the future benefit of the business. Robust customer demand, our active management of assets and our sharpened focus on customer needs were the main factors behind this strong performance. Continental Europe alone delivered an excellent 169,000 sq m. Across the Group, we invested £243 million in developments and £216 million in acquisitions, with £173 million of disposals crystallising £43 million of gains in value from previous investment. In the UK we recycled over £170 million of capital but we were net sellers of assets. The Group valuation surplus was 11.0 per cent, with the major UK industrial element of our portfolio up 11.5 per cent – ahead of the equivalent IPD industrial index which increased by 11.3 per cent. Even allowing for the non-cash effects of new shares issued for the preference share conversion and deferred tax charges, adjusted EPS growth was 3.3 per cent.

## Implementation of strategy

During 2006 the UK team has concentrated on shaping the portfolio to produce stronger returns by four primary routes. We acquired estates or assembled a critical mass of properties in areas that enabled customers to expand their businesses within our holdings and for the most cost-effective provision of services. We disposed of underperforming or non-conforming assets where there was limited opportunity to add value – with £173 million of disposals. We aggressively pursued and delivered redevelopments that allowed us to effectively replace older buildings and recycle the portfolio whilst retaining key holdings. We also worked closely with our customers to provide a level of service that contrasts positively with other landlords.

Opportunities in Continental Europe currently offer attractive yields, low borrowing costs and strong prospects for growth. Employing fundamentally the same model as in the UK, the strategy has been to identify the areas with the best growth potential in each country and then to assemble a critical mass or ‘cluster’ of properties in these locations.

We have already secured this critical mass in the northern sector of Paris, France, and in the Düsseldorf region, Germany, where SEGRO is now established as the leading provider of modern and flexible light industrial, office and logistics space. We are also already very well established in the vicinity of Brussels airport in

“With our clear strategic focus on Flexible Business Space, a freshly invigorated team and the right organisational structure, we have made good progress on all fronts. It’s particularly encouraging that in the first year after a significant expansion in the scale of its operations, our business in Continental Europe has delivered well ahead of our own expectations.”

Belgium and Schiphol airport in the Netherlands where further land and income-producing properties have been acquired in these important strategic areas. During 2006, SEGRO made some major and highly-successful inroads into Central European locations providing a platform for future growth in that region. As our strategy evolves, we seek to acquire and develop industrial and logistics space, as well as land for development, in the growth zones of key markets across Continental Europe.

A £70 million acquisition and leaseback agreement with Antalis, was largely complete by 31 December 2006. This agreement included properties in two new major target countries, Italy and Spain, and provides SEGRO with a platform in key locations, including potential to make further strategic acquisitions.

In the USA, the business focuses on the implementation of the biotechnology strategy and on value-adding opportunities in major biotechnology clusters in the San Francisco Bay Area and San Diego County. The business model concentrates on development, redevelopment, conversions and strategic acquisitions. In 2006 investment momentum accelerated in response to biotechnology industry activity during the year, buoyed by increased funding from the major pharmaceutical companies and the venture capital community. During the year, we have added several new clients to the portfolio: clients who have the potential to provide opportunities for future expansion.

## 2006 performance review

### UK

With most commentators forecasting the end of yield compression in the UK and in the context of the generally positive rental levels, the UK team is demonstrating the quality of its core property skills. In 2006 we recycled capital, completed the latest phase of the development programme and implemented our asset management strategy, successfully driving gross property rental income up by £10 million. UK underlying year on year vacancy levels by space remained unchanged at 8 per cent, but we generated an extra £4 million of rental income from space let over space returned. We achieved overall rental growth of 3.7 per cent on rent reviews, ahead of the IPD industrial figure of 1.4 per cent. Rental growth on new lettings was flat, consistent with the priority we give to generating cash from unoccupied

space. As expected, the potential from development completions coming on stream and from vacancy actively acquired with major new properties resulted in headline vacancy in the UK increasing, from 10.9 per cent to 11.6 per cent. We selectively acquired £145 million of properties in the UK, in attractive locations.

### Continental Europe

Having doubled in size and firmly established a presence in Central Europe at the start of the year, our Continental European business delivered an outstanding performance in 2006. Its excellent 169,000 sq m of lettings increased the rent roll by over £7 million pa and brought investment property vacancy levels down from 10.2 per cent to 8.7 per cent, with overall vacancy levels – including trading properties – down from 12.3 per cent to 7.5 per cent. 77 per cent of our pre-lettings were delivered in Continental Europe.

### USA

In the USA, the business had a good year with the £0.9 billion book valuation at the end of 2006 representing a 28 per cent increase on the end of 2005, reflecting development completions and yield compression in a market which is increasingly seeing biotech real estate as an attractive asset class. Gross rental income increased 25.3 per cent to £76 million, reflecting the full year effect of some strong lettings in 2005 and the benefit of development completions in 2006. Further progress was made with lettings and with new acquisitions for future developments, although the market in San Diego County, unlike the San Francisco peninsula, has remained somewhat subdued, leaving the USA vacancy high at 18.9 per cent.

### REIT Conversion

Slough Estates became a Real Estate Investment Trust (REIT) on 1 January 2007. We believe SEGRO is well placed to deliver superior shareholder returns as a REIT, with its strong development pipeline and pan-European business model. In addition to the UK tax advantages which REIT status provides for most eligible companies, the UK REIT legislation also enhances our ability to implement an efficient international tax structure – enabling us to take greater advantage of the already stronger yields and lower borrowing costs available in Continental Europe. The Board announced its new post REIT dividend policy in November 2006. In future the

14.

Board ordinarily expects total dividends to exceed the mandatory 90 per cent Property Income Distribution (PID) element, and to comprise between 85 per cent and 95 per cent of the worldwide recurring property rental earnings plus a proportion of trading property profits and other income from non-property activities. This new policy will take effect during 2007 and is not reflected in the proposed final dividend for 2006.

### Development

Our £3 billion development pipeline, a key driver of our future returns, is building momentum. With 154,000 sq m of developments completed during 2006 and 338,000 sq m of construction in progress at the year end, the pipeline now stands at 2.4 million sq m with £226 million of rental income potential.

### Outlook

Market conditions are encouraging. In the UK, enquiry levels are in line with last year, with some areas seeing particular strength in rental levels – such as Bristol, Heathrow and the Thames Valley. Conditions are generally stronger across Continental Europe. Our Central European locations are seeing continuing strong demand across the board, there are also some specific areas of strength in Western Europe, such as in light industrial markets in France and in the logistics market in France and in Belgium. In the USA, demand for SEGRO's biotech product remains strong in the San Francisco Bay area, but there has been little pick up as yet in San Diego.

The momentum in the development pipeline continues to grow, with 338,000 sq m under construction at the end of 2006 and with 734,000 sq m of construction starts expected during 2007 – 515,000 sq m of it in Continental Europe alone – underpinned by the healthy occupier demand levels across the Group. The sale and leaseback agreement with Antalis in late 2006 moved us into a number of high growth European business centres – including key locations in two new countries, Italy and Spain – and gave us another important partnership relationship with a substantial corporate occupier, thereby enhancing our platform for growth. We continue to see a steady flow of attractive investment and acquisition opportunities. With our strategy and structure now firmly in place, we are meeting or beating our targets and our growth plans remain firmly on track.

### USA Strategic Review

In November 2006 SEGRO announced that, consistent with its previously-stated strategy of focusing on the provision of Flexible Business Space in the UK and in Continental Europe, it was exploring the strategic options for its USA business. It was announced that the process involved consideration of a range of possible options, including an immediate or phased divestment and also joint venturing or merging SEGRO's USA business with a third party. In assessing the options the Board has regard to all relevant considerations including the current and potential future value of the business as well as the tax implications of the various options. The process is well underway and we anticipate making a further announcement during the second quarter of the year.

### Strategy and Business Model

The Group's principal objective is the generation of shareholder value through the investment, development and management of commercial real estate. Our chosen sector is Flexible Business Space, which encompasses the provision of business accommodation to a wide range of users – from sectors as diverse as research, manufacturing, data centres, light assembly and distribution – in pan-European and US locations, or clusters, which we believe will outperform over the longer term.

We believe that we diversify our business and development risk through the breadth and spread of not only the geographic reach of our portfolio but also the variety and quality of our customer base. Given the differing local dynamics of the property markets, we manage the business through three geographic business units – the UK, Continental Europe and the USA. We currently have a presence in strategic locations in 11 countries.

Our strategy is to build critical mass in each of our existing markets and to identify and enter new markets where there are attractive growth prospects and the potential to achieve attractive returns. Whilst scale and access to international customers is an important dimension of our business, property is ostensibly a local business and our philosophy, therefore, is to employ people with expert local knowledge who understand the dynamics, drivers and characteristics of each local market.

### Existing Markets

- France – Ile de France, Paris
- Belgium – Brussels, Antwerp, Ghent triangle
- Germany – Cologne, Düsseldorf, Frankfurt, Berlin and Hamburg
- The Netherlands – Schiphol, Amsterdam
- Poland – Poznan, Strykow, Warsaw, Silesia
- Czech Republic – Prague
- Hungary – Budapest

### Future Markets – Key Target Locations

- France – Lyon, Marseille and Lille
- Spain – Madrid, Barcelona, Valencia
- Italy – Milan/Turin
- Germany – Munich
- The Netherlands – Randstad
- Poland – Gdansk

Our strategy for achieving our objectives has three main elements:

1. Proactive asset management
  - focusing on our customers' needs
  - delivering a strong leasing programme
  - the ongoing refurbishment and redevelopment of our buildings
  - recycling capital by selling mature assets where there is limited potential for SEGRO to add further value



## 2. Property acquisitions

- acquiring income producing assets, which are undermanaged and/or can be developed
- Corporate partnering (sale and leaseback) transactions with income and scope for development
- Taking advantage of higher yields and lower borrowing costs in Continental Europe

## 3. Development

- Executing the current programme of pre-let and speculative developments under construction
- Preparing sites and seeking pre-lets to support the projects due to be started in 2007/8
- Acquiring new greenfield and brownfield sites for future development.

We assess all potential investment opportunities according to their strategic rationale, their risk profile and their expected financial returns – both income and total un-gearred return. Our current targets are to achieve total pre-tax returns of 8 per cent to 10 per cent from investment activities and 9 per cent to 14 per cent from development projects.

We set different target return levels according to the tax profile of each particular investment and according to our assessment of the individual project risk. We normally apply a premium to the minimum return that we expect from an investment, to reflect:

- Tax: as a UK REIT and soon also as a French SIIC ('Société d'Investissement Immobilier Côtée'), most of our investments are tax free; however, in jurisdictions where tax is potentially payable, we expect the project returns to cover any expected tax costs
- Geographic/market risk: we demand a premium for international investments, particularly in new or emerging markets
- Construction and letting risk: we expect a premium over 'dry' investments to compensate for any construction risk and for letting risk – speculative development projects are required to show a higher expected return than pre-let developments.

We believe the key differentiators of SEGRO's business compared to its competitors are its growth in Continental Europe, its very strong development pipeline and its core skills in asset management.

SEGRO announced its intention to grow its Continental European business in 2005. This focus was chosen because the Group believes superior returns are available from investing in major European business markets rather than being purely a UK player. These expected superior returns are driven by the higher investment yields available in most Continental European markets, the expectation that yields will compress – leading to capital growth, and the superior economic growth prospects in several European countries. We also believe there are synergies available by providing a consistent approach and service level to our growing number of international customers.

## Development Pipeline

		Construction in Progress	Potential Development Starts in 2007	Potential Developments 2008 & Beyond	Total programme
Land area	ha	55	151	264	470
Space:					
Industrial	sq m	197,510	619,511	735,404	1,552,425
Offices	sq m	71,841	80,287	515,636	667,764
Retail	sq m	0	6,065	1,858	7,923
Biotech	sq m	68,951	27,870	87,812	184,633
Total	sq m	338,302	733,733	1,340,710	2,412,745
Investment properties	%	76	74	77	76
Trading properties	%	24	26	23	24
Pre-Let	%	57	4	1	10
Planning status					
- fully approved	%	100	20	5	26
- zoned/outline approval	%	0	58	55	48
Rental value when completed	£m	42.3	56.8	138.7	237.9
Current book value – at valuation	£m	359.9	235.9	507.8	1,103.6
Forecast future costs to completion	£m	251.4	501.7	1,249.3	2,002.4

All amounts are indicative only and are liable to change. Certain properties included above are currently income producing and are expected to be redeveloped; such properties have a current book value of £288 million and produce current rental income of approximately £12 million pa.

16.

Our pan-European strategy is supported by the operation of an efficient tax and capital structure. With REIT status in the UK, and soon with SIIC status in France and the efficient use of lower-cost borrowings in Continental Europe, SEGRO operates with a low overall tax charge and an efficient cost of capital.

SEGRO has one of the largest development pipelines in the industry, with the potential to build up to 2.4 million sq m of Flexible Business Space, equivalent to 64 per cent of the current built portfolio. This could produce, at today's rental values and assuming full letting, incremental annual rental income of approximately £226 million (including our share of joint venture developments and after deducting rents currently passing on buildings that are expected to be redeveloped) – 82 per cent of the current annual rent roll.

Risks associated with the development pipeline are carefully managed:

- Concentrating development activity in areas of proven economic activity
- Paying heed to detailed local advice and our own knowledge of occupier requirements in specifying the size and nature of the space being delivered
- Using initiatives to ensure best value is obtained in procuring new buildings. During 2006 SEGRO moved to outsource the procurement of construction in line with industry best practice. New relationships are being forged with external contractors and project managers are employed to ensure completed schemes continue to be delivered on time and within budget
- Working closely with local planning authorities and local communities to understand their requirements and eliminate areas of possible conflict
- Creating Flexible Business Space that will suit the widest variety of businesses in different sectors.

All development projects are subject to strict financial targets, as described above.

SEGRO's asset management skills are based upon:

- A passionate focus on our customers to ensure that their current and prospective property needs are being addressed, both locally and on an international basis
- An ongoing programme of refurbishing, renewing and redeveloping existing estates and buildings to ensure our 'product' remains up to date and suitable for current market needs

- A proactive programme of capital recycling whereby we identify properties in the portfolio which have reached maturity and that are unlikely to deliver future returns at our required levels – these properties are sold and the proceeds reinvested in other properties and development opportunities.

### Market Context

From the perspective of global trading volumes and pricing, 2006 was a record year for property investors. In the key markets of Asia, Europe and the USA, commercial property investment totalled US\$645 billion, some 33 per cent ahead of 2005 (source: Cushman and Wakefield). Furthermore, the data reveals the extent to which the markets have evolved over recent years. Trading volumes in the second half of 2006 were nearly equal to the annual total for 2004 and indeed the quarterly average for 2006 exceeded the full year total for 2001.

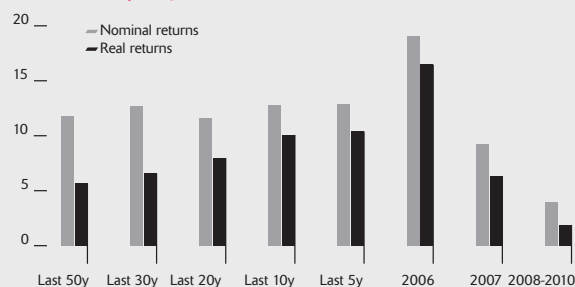
Investment in Europe totalled US\$295 billion and the region accounted for six of the top ten global investment markets, with the UK second behind the USA and Germany in third place. Within Europe, the share of investment accounted for by Central and Eastern Europe has risen from 1 per cent in 2001 to 5.5 per cent in 2006, driven by increased investment in Poland and an increasing interest in Russia.

The flow of money targeting real estate continues to increase as the populations of many of the mature economies increasingly focus on pension provision and these institutional investors are drawn to real estate for its transparency, lease structure, relatively stability and recent strong returns. Over the past year demand for commercial property in the UK has been driven primarily by institutions.

However, commercial property prices are high and, looking forward, this may restrict the activity of some investors. As prices have risen, particularly over the past year, yield convergence across the globe has been evident not only in the emerging markets of Rumania, Bulgaria and the Ukraine, but more significantly in the more established markets of the USA, western Europe and the UK. Whilst there is some evidence that the rate of yield decrease is now slowing, particularly in the UK, unless interest rates are quickly reversed, to secure good returns investors will become increasingly reliant on good management, development programmes and growth in rental income.

In the UK, as a result of the recent interest rate rises, property is no longer self financing. Looking ahead most commentators are expecting a slowdown in returns in 2007 as the fall in yields, which has underpinned much of the investment performance over the past five years, comes to an end.

### UK All Property Total Returns (%)



Source: Capital Economics

The graph featured on the left from Capital Economics (independent macroeconomic research consultants) shows their forecast of a cooling investment market with total returns falling from an anticipated 18.7 per cent in 2006 to around 9 per cent in 2007 and then falling further to an average of 4 per cent in the period 2008 to 2010. Given recent performance this could be viewed as a bearish outlook, but in such an environment investors are likely to focus on the property fundamentals of location, customer covenant strength and targeted development to drive performance.

17.

### Key Performance Indicators

SEGRO has a comprehensive suite of measures which Management and the Board use to set targets and assess performance in the context of our strategic objectives. These measures are cascaded throughout most areas of the business and cover financial and non-financial matters, including corporate and social responsibility measures.

Work is ongoing to develop and evolve the capture and use of 'KPI's throughout all areas of the business and to ensure that they are fully aligned with the Group's objectives as a REIT. The key measures currently used at Group level, and our performance achieved in 2006, are as follows:

#### To deliver attractive total returns in the period

Key Performance Indicator	2006 Performance & commentary
Adjusted profit before taxation	£142.7m (+19%)
Adjusted earnings per share	25.1p (+3%)
Total return	16.6%
TSR performance	35% (+23%)

#### To provide a platform for attractive future returns

Key Performance Indicator	2006 Performance & commentary
Total space let in the period	440,000 sq m
Vacancy rate at end of the period	11.9% (up 0.1%)
Contracted rent roll at end of the period	£273m
Construction starts in the period	475,000 sq m
Land bank at end of the year	470 ha
Capital 'recycled' from divestments	£173m

#### To achieve high levels of customer satisfaction and retention

Key Performance Indicator	2006 Performance & commentary
Customer satisfaction level (proportion of customers rating overall 'good' or 'excellent')	73% (UK)
Lease renewal rate (including percentage of break options not exercised)	68% (UK)

See glossary on page 140 for definitions of certain KPIs.

## 18. Risk Management

Identifying and evaluating risks is a fundamental element of managing SEGRO's business to achieve our objective of creating shareholder value. The Group views effective risk management as integral to the day-to-day business decisions and encourages all its managers to assess risk on a continuous basis.

In addition, we carry out regular, formal risk assessments to identify and evaluate risks and to identify controls and other risk management techniques in place. These assessments involve four key elements, as follows:

- Identifying significant risks to the achievement of the Group's strategic objectives
- Evaluating the risks in terms of the magnitude of their impact and the likelihood of occurrence
- Developing action plans to manage risks, including the development of internal controls
- Reporting to the Audit Committee and the Board on the risk management process, the assessment of key risks and the status of risk management plans.

To assist the risk identification process, we categorise risks into three areas of: the external environment, operational risks (ie the internal management processes and structures), and risks related to the production and use of management information.

As a property investment and development company, the main business risks we face on an ongoing basis are in the following table, along with their potential impact and any mitigating factors or risk management strategies we have in place. Environmental, Social and Governance risks are separately addressed on pages 44 to 47 of this report.

### Key Business Risks

Description of risk	Potential impact	Mitigating factors and risk management strategies
<b>General Property Investment Risks</b> Downturn in the demand for Flexible Business Space-type assets	Portfolio underperformance due to falling values for commercial property	Broad geographic spread of investments across Europe reduces dependence on any single market location  Active monitoring and assessment of the portfolio to identify assets likely to underperform
Downturn in occupier market conditions or over-supply of space as a result of competitor activity	Lack of rental income /increased vacancy levels due to weak occupier demand  Loss of rents and bad debts from occupier failures    Lack of growth or even a decline in market rents for Flexible Business Space	Vacancy levels are carefully monitored and development activity is reduced if occupier demand weakens  The Group has a wide spread of customers (more than 1,760 in total), with no customer representing more 3.5 per cent of total rental income  The largest concentration of risk in any one industry is the US biotechnology sector, which represents approximately 19 per cent of total Group rental income  The majority of the portfolio is subject to upward-only rent reviews on existing leases in the UK, indexation adjustment in Continental Europe and fixed rent 'step-ups' in the USA  The expected returns from the development programme are not dependent on rental growth
Inability to recruit, develop, motivate or retain people with the necessary skills to deliver the Group's strategy	Underperformance in any aspect of the business	Programme to develop management and talent  Employee engagement survey carried out regularly

## Key Business Risks (continued)

Description of risk	Potential impact	Mitigating factors and risk management strategies
<b>Development Risks</b> Inability to source sufficient land and risk of holding too much development land	Dilution of returns due to capital invested in unproductive assets or inability to grow the portfolio and deliver future returns due to lack of growth opportunities	The operating management and the Group Capital Approvals Committee carefully manage the type, amount and location of development land. See details of development pipeline in the Property Portfolio at page 125
Failure to obtain, or delay in obtaining, planning consent on land held for development	Erosion of expected financial returns due to time delays or possible impairment in value of land holdings	Most sites acquired with outline zoning or planning consent already in place
Construction costs exceed budgeted levels or there are delays in completing construction projects	Erosion of expected financial returns	Contingencies built into all development appraisals Transfer of most risk to construction partners Use of specialist in-house project managers Regular project reviews
Letting risk on speculative development schemes	Erosion of total returns from capital invested in non-income producing developments	Total exposure to speculative schemes is carefully monitored by the Group Capital Approvals Committee and details reported to the Board Sensitivity analysis carried out on all potential investments to ensure target returns can be achieved with delay to leasing assumptions Overall modelling of the impact of speculative development schemes is carried out to monitor and assess exposure
Health and safety risks – the risk of injury or illness to the Group's or third parties' construction workers	Failure to achieve the Group's CSR objectives and damage to the Group's reputation and possible criminal or civil action	Group Health & Safety Manager establishes appropriate policies and monitors accident reports – all significant accidents are reported to the Board Health & Safety training provided to all employees
<b>Geographic Risks</b> The political and economic risks associated with investing outside the UK, particularly in some of the emerging economies	Loss of value of investments or failure to achieve adequate risk adjusted returns	Careful analysis of each market is undertaken before investing in new markets. Local offices set up in all significant markets, staffed by employees who understand their local markets



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## Key Business Risks (continued)

Description of risk	Potential impact	Mitigating factors and risk management strategies
<b>Financial Risks</b> Liquidity risk – a lack of available funds to meet the Group's needs	Inability to fund developments, and requirement to sell properties at wrong point in the cycle	The Group has a flexible funding strategy with substantial undrawn funds available Funds availability and financial ratios regularly monitored by the Group Treasurer and reported to the Board quarterly
Interest rate risk	Increased borrowing costs if interest rates rise	The majority of borrowings are fixed – see Financial Review
Currency risk	Reduction in the sterling value of assets or earnings if foreign currencies depreciate against sterling	The majority of foreign currency assets are matched by borrowings of equal amount denominated in the same currencies
Tax risks – REIT compliance	Potential tax penalties or loss of REIT status by failing to comply with the new REIT rules in the UK	Internal monitoring procedures are in place to track compliance with the appropriate rules
Risk of unexpected tax costs through lack of tax planning or execution in tax-paying jurisdictions	Additional tax costs, reducing total returns	Recent appointment of a tax planning manager Use of external advice, as appropriate



## Customers

SEGRO provides accommodation for more than 1,760 businesses across the UK, Continental Europe and the USA. Our customers range from small organisations moving into their first business premises to major international companies for whom we provide bespoke space designed to suit specific requirements.

Our commitment remains the same – to be transparent, honest and helpful in all our dealings across the portfolio. We are mindful of the fact that improving occupier retention and attraction is one of the main ways we can distinguish our property from the competition and drive stronger returns. The value of this approach is confirmed by the fact that more than 30 per cent of our lettings by rent are to existing customers seeking new or additional space.

Particular ways in which we have forged stronger relations with customers include:

- The fast-growing USA business has been built on the foundation of excellent communications and a management team responsive to the needs of a relatively small group of high-added-value life science businesses based in San Francisco and San Diego. Most new opportunities have been the result of personal recommendation and our positive reputation as a supplier that understands this specialised group of customers.

- In the UK we routinely commission independent satisfaction surveys, share the findings with our customers and act on the results. Following significant feedback about the adequacy of security in industrial areas, we undertook a programme of introducing monitored CCTV (closed circuit television) monitoring systems, across our major UK holdings.

Our customers' property is now protected by monitored CCTV at more than 50 per cent of our holdings by area and we are already seeing improved satisfaction ratings at the estates that benefit from this service. Other recent initiatives introduced in response to feedback from customers include the introduction of well-supported Business Clubs and new café bars at Winnersh and Farnborough. We are also pioneering innovative occupancy agreements at several sites, which have proved to be a popular alternative to traditional leases.

In the last independent survey, 73 per cent of our customers rated their overall satisfaction as good or excellent.

- Across Continental Europe we have fully-empowered local offices, which work closely with our customers to meet their needs. New facilities introduced in 2006 include a fitness centre at Pegasus Park, which is proving popular with corporate occupiers and a 200-seat restaurant at the Carré des Aviateurs light industrial estate in Blanc Mesnil outside Paris. Our Continental European strategy involves concluding agreements with major multinational companies that allow our customers to realise the capital tied up in real estate. The most recent such transaction with Antalis also provides for us to be a partner in satisfying future space requirements.

## 22. Financial Review

### REIT conversion and dividend policy

A major event in the year was the EGM on 14 December 2006 which approved the Group's election to become a REIT. This took effect from 1 January 2007 after many months of hard work and careful preparation. In financial terms, the one-off conversion charge amounts to approximately £82 million and this will be paid in four quarterly instalments commencing July 2007.

REIT conversion means that income and capital gains from the Group's eligible UK investment activities will be tax exempt. This includes development gains provided that the properties are retained for at least three years following completion. Accordingly, whilst the 2006 accounts include provision for the conversion charge, they also include the release of £416 million of previously provided deferred tax which is no longer payable.

Following its December 2006 listing on Euronext, the Group also intends to elect into France's tax exempt regime for real estate companies – to become a "SIIC" – with similar benefits to REIT status in the UK. This should be with retrospective effect from 1 January 2007.

With REIT status in the UK, SIIC status in France and prudent tax planning in respect of other taxable activities, we believe we will be able to operate a very efficient international structure with a low overall tax charge.

Operating as a REIT will require us to distribute, in the form of dividends, at least 90 per cent of the eligible UK property rental profits, after certain deductions. However, the Board has taken the opportunity to review its overall dividend policy, recognising that the Group is now operating in a market in which there is global competition for capital. The Board's aim will be to achieve a sustainable, progressive policy which satisfies shareholders' expectations of a relatively high pay-out of recurring property rental income, whilst supporting the ongoing needs for capital.

The precise proportion of recurring property rental income that the Group distributes may vary between years and will be flexed as appropriate, according to the needs of the business. Ordinarily, however, the Board would expect the total dividend to exceed the mandatory 90 per cent PID (Property Income Distribution) element, and to comprise between 85 per cent and 95 per cent of worldwide recurring property rental earnings plus a proportion of trading property profits and other income from non-property activities.

### Total return to Equity Shareholders

A commonly used measure of the total return is the increase in adjusted diluted net asset value per share plus dividends paid in the year. On this basis, SEGRO delivered a total return for the year of 16.6 per cent (112.9 pence per share), or 19.2 per cent (130.3 pence per share) before the REIT conversion charge. With similarly strong portfolio performance in each of the two previous years, the total return over the last three years has averaged 18.6 per cent per annum.

	2006	2005	Increase
NAV per share	<b>718p</b>	579p	24.0%
Adjusted diluted NAV per share	<b>775p</b>	680p	14.0%
Dividend paid per share	<b>17.9p</b>	16.35p	9.5%
Total return per share	<b>130.3p*</b>	138.35p	(5.8%)
Total return	<b>19.2%*</b>	24.8%	

\* After adding back the REIT conversion charge of £81.9 million (17.4 pence per share).

The principal driver of the total return was the increased adjusted diluted NAV per share which grew by 14.0 per cent, largely as a result of property valuation gains, which added £563.8 million or 119.7 pence on a diluted adjusted basis to NAV. Adjusted profits after tax added a further £114.9 million or 24.4 pence per share.

The increased NAV is analysed further in the table below.

	£m	Pence per share
Adjusted diluted equity attributable to shareholders at 31 December 2005	3,197.3	680.4
Dilution adjustment	–	(1.4)
Property valuation gains	563.8	119.7
Adjusted profit after tax	114.9	24.4
REIT conversion charge	(81.9)	(17.4)
Decrease in value of available-for-sale investments, net of tax	(1.7)	(0.4)
Actuarial gain on pension scheme, net of tax	3.2	0.7
Currency translation differences	(58.5)	(12.4)
Ordinary dividends paid	(84.0)	(17.8)
Other items	(4.3)	(0.9)
<b>Adjusted diluted equity attributable to shareholders at 31 December 2006</b>	<b>3,648.8</b>	<b>774.9</b>

See note 12(v) for reconciliation of total equity attributable to ordinary shareholders to adjusted equity attributable to ordinary shareholders.

We have provided for the one-off REIT conversion charge of £81.9 million which has reduced NAV by 17.4 pence per share and this amount will be paid over four quarterly instalments commencing in July 2007. Currency translation differences on the conversion of foreign currency denominated assets reduced NAV by £58.5 million, or 12.4 pence per share – this mostly relates to US dollar differences arising in the first half of the year. We have subsequently increased our hedging such that, as at 31 December 2006, only 6 per cent of the Group's adjusted NAV was exposed to currency movements.

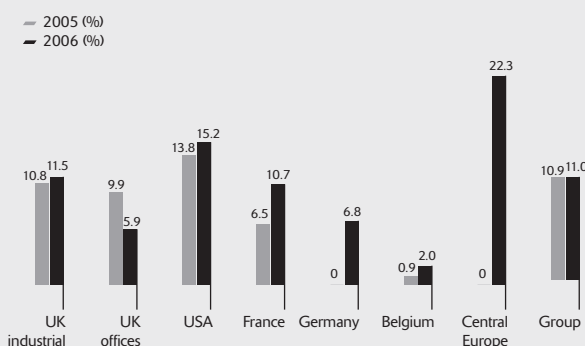
### Valuation movements

Property gains, including the Group's share of joint ventures, amounted to £568.6 million (2005: £482.4 million), and were comprised of:

	2006 £m	2005 £m
<b>Property valuation gains</b>		
Valuations gains in income statement	<b>532.2</b>	409.1
Valuation gains in statement of recognised income and expense	<b>22.3</b>	48.4
Share of joint ventures' valuation gains	<b>9.3</b>	10.5
<b>Total valuation gains</b>	<b>563.8</b>	468.0
Profits from the sale of investment properties	<b>4.8</b>	14.4
<b>Total property gains</b>	<b>568.6</b>	482.4

The strongest valuation gains experienced were in the USA, Central Europe, the UK and France, in all cases driven mainly by further significant yield compression due to the weight of money being targeted at prime real estate assets in most sectors.

### Valuation uplifts – geographical analysis



## 24. Financial Review (continued)

**Income statement**

The Income Statement appears on page 69 and analyses the results on an IFRS and 'adjusted basis'. The adjustments are made to exclude the effects of valuations, profits and losses on the disposal of investment properties, as recommended by EPRA, and items deemed exceptional by virtue of their size or nature. The only exceptional item in 2006 was the REIT conversion charge (£81.9 million) whilst in 2005, exceptional items comprised a lease surrender premium of £36.4 million, the gain of £16.1 million on the disposal of Quail West, bond refinancing costs of £126.0 million and the gain on the disposal of Tipperary (£99.7 million). Full details of all the adjustments are provided in note 13 of the accounts.

**Adjusted profit before tax**

Adjusted profit before tax increased by 19.4 per cent to £142.7 million (2005: £119.5 million) primarily due to an increase in adjusted net rental income of £23.3 million plus improved performance from Slough Heat & Power (and the elimination of losses following the sale of Tipperary Corporation in 2005), and increased gains from venture capital fund realisations (shown as "investment income"). These were partly offset by an increase in administration expenses.

<b>Reconciliation of adjusted profit before tax</b>	<b>2006 £m</b>
Adjusted profit before tax – 2005	<b>119.5</b>
Increase in net rental income	<b>23.3</b>
Improved performance from Slough Heat & Power/Tipperary	<b>3.0</b>
Increased investment income	<b>3.0</b>
Reduced finance costs	<b>1.3</b>
Increased administration expenses	<b>(8.2)</b>
Other changes	<b>0.8</b>
<b>Adjusted profit before tax – 2006</b>	<b>142.7</b>

**Rental income**

Gross rental income, excluding exceptional surrender premiums, increased by £35.2 million (13.1 per cent) to £304.8 million for the year and is reconciled with the portfolio table on page 3, as follows:

<b>Reconciliation of gross rents</b>	<b>UK £m</b>	<b>Continental Europe £m</b>	<b>USA £m</b>	<b>Total £m</b>
Gross rents per Investment Portfolio Table	198.3	27.3	78.6	304.2
Less rents included within share of joint ventures' results	(5.1)	(0.3)	(2.4)	(7.8)
Add trading property rental income	–	8.4	–	8.4
<b>Total rents per Income Statement</b>	<b>193.2</b>	<b>35.4</b>	<b>76.2</b>	<b>304.8</b>

Net rental income, also excluding the exceptional surrender premiums, increased by 10.4 per cent to £247.2 million and the main drivers of this growth were as follows:

	<b>£m</b>
Net rental income 2005 (excluding exceptional surrender premium)	223.9
Acquisitions	20.7
Disposals	(11.1)
New developments, relettings & rent reviews	36.5
Space returned	(12.2)
Increase in property operating expenses, net of recoveries	(7.5)
Other	(3.1)
<b>Net rental income 2006</b>	<b>247.2</b>

Acquisition led growth arises principally from the full year effect of acquisitions made in 2005, specifically KarstadtQuelle AG in Germany (£3.6 million) and Heywood and Woodside in the (£9.2 million), plus the 2006 acquisition of Treforest (£2.1 million) in the UK. This was offset by reduced rental during the year from strategic disposals, including £7.9 million in the UK.

Record lettings, particularly of new developments in all locations (£10.2 million) and strong relettings in the UK (£5.6 million), contributed significantly to the growth in net rental income. The effects of rent averaging (mainly arising on new developments) increased the net rental income for the year by £12.2 million, of which £10.1 million arose in the USA.



### Like-for-like Rents

	UK		Continental Europe		USA		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Gross Rental Income</b>								
Completed properties owned throughout 2005 & 2006	162.1	162.7	21.6	21.8	31.6	29.5	215.3	214.0
Properties acquired during 2005 & 2006	19.8	7.2	3.7	–	12.9	8.4	36.4	15.6
Properties sold during 2005 & 2006	3.5	11.4	–	–	1.1	4.3	4.6	15.7
Rent from development completions during 2005 & 2006	7.8	2.3	1.2	0.1	30.6	19.6	39.6	22.0
Rent from trading properties			8.4	3.3			8.4	3.3
Transfer from trading			0.5				0.5	–
Exchange differences						(1.0)	–	(1.0)
<b>Total rental income pre-exceptionals</b>	<b>193.2</b>	<b>183.6</b>	<b>35.4</b>	<b>25.2</b>	<b>76.2</b>	<b>60.8</b>	<b>304.8</b>	<b>269.6</b>
Exceptional lease surrender premium						36.4	–	36.4
<b>Total rental income per accounts</b>	<b>193.2</b>	<b>183.6</b>	<b>35.4</b>	<b>25.2</b>	<b>76.2</b>	<b>97.2</b>	<b>304.8</b>	<b>306.0</b>

The increase in property operating expenses, net of recoveries, arises mainly due to acquisitions (£7.2 million) – KarstadtQuelle, Grontmij and Mainland in Continental Europe in 2005. The increased costs arising from acquisitions are partly recovered from occupiers and are included in rental income.

### Other income and expenses

Profit on sale of trading properties was £6.1 million (2005 excluding exceptional gain on Quail West of £16.1 million: £7.0 million), with the gains mainly arising on the sale of trading property in Germany (£4.7 million).

The Group's share of adjusted profits from joint ventures and associate after tax increased by £1.7 million to £7.0 million (2005: £5.3 million) due to higher profits on the sale of trading properties (£6.5 million compared to £0.8 million in 2005), offset by reduced rental income, higher finance costs and tax. The higher trading property profits in joint ventures was mainly attributable to the Group's UK logistics venture, HelioSlough (£5.1 million). The Group's share of valuation gains, net of tax, have been excluded from the adjusted profits before tax, in accordance with EPRA guidelines.

The performance of Slough Heat & Power continues to improve, returning an operating profit of £2.1 million for 2006, an increase of 75 per cent from £1.2 million in 2005. The total improvement in net income from utilities and gas of £3.0 million, from a loss of £0.9 million in 2005, also reflects the disposal of the Tipperary group at the beginning of the second half of 2005.

Other investment income, which represents the Group's share of realisations from available-for-sale private equity investments, increased by £3.0 million to £8.5 million in the year. At 31 December 2006 the Group had available-for-sale investments held at fair value of £44.1 million (2005: £54.7 million) and a remaining commitment to invest further funds of £9.0 million (2005: £11.7 million).

Administration costs increased by £8.2 million to £28.9 million (2005: £20.7 million). The increase primarily is attributable to a number of one-off costs including professional advice in connection with REIT conversion and the USA strategic review (£2.6 million), higher IFRS charges in relation to share based incentive payments (£1.8 million) and staff costs and other increases due to the expansion of the Group's activities, particularly in Continental Europe.

### Net finance costs

Adjusted net finance costs for the year are classified as follows:

	Year ended 31 December	
	2006 £m	2005 £m
Interest on overdrafts & loans	131.2	116.9
Interest on convertible preference shares	4.1	13.2
Interest receivable	(10.1)	(9.9)
Other net income	(2.4)	(0.5)
<b>Net finance costs before capitalisation</b>	<b>122.8</b>	<b>119.7</b>
Less amounts capitalised in respect of development activities	(23.5)	(19.1)
<b>Adjusted net finance costs</b>	<b>99.3</b>	<b>100.6</b>

## 26. Financial Review (continued)

Adjusted net finance costs were broadly unchanged. The convertible preference shares were converted into equity during the year and the resulting reduction in interest on these preference shares was offset by increased interest on overdrafts and loans related to the Group's capital expenditure programme.

### Tax

The tax charge for the year can be analysed as follows:

	Year ended 31 December			
	£m	2006 %	£m	2005 %
Underlying tax charge on adjusted profit				
– current	18.2	13	15.6	13
– deferred	9.6	6	0.4	–
Total	27.8	19	16.0	13
REIT conversion charge	81.9	–	–	–
Deferred tax reversal	(416.1)	–	–	–
Tax relating to exceptional items and EPRA adjustments	(77.4)	14	178.2	39
<b>Total Group tax (credit)/charge</b>	<b>(229.0)</b>	<b>(33)</b>	<b>194.2</b>	<b>33</b>

The tax credit for the year arises due to the reversal of the deferred tax provision of £416.1 million relating to investment properties, which will no longer be payable under the REIT regime. This has been partly offset with a provision for the REIT conversion charge of £81.9 million.

The underlying tax charge on the adjusted profit before tax was 19 per cent (2005: 13 per cent) with the increase primarily due to the reduction in adjustments in respect of previous years.

### Earnings per share and dividend

Diluted adjusted earnings per share increased to 25.1 pence (2005: 24.3 pence) and basic earnings per share increased 120 per cent to 201.8 pence (2005: 91.7 pence). The 3.3 per cent increase in diluted adjusted earnings per share is lower than the increase in adjusted profit before tax mainly due to the increased deferred tax charges in 2006 and the effects of new equity shares issued upon conversion of the convertible redeemable preference shares.

The directors have proposed a final dividend of 12.1 pence per share, taking the total dividend for the year to 19 pence per share, an increase of 8.6 per cent from 2005.

### Cash flow and net debt

A summary of the cash flow for the year is set out in the table below:

	Year ended 31 December	
	2006 £m	2005 £m
Cash flow from operations	137.6	237.3
Finance costs (net)	(122.8)	(116.4)
Dividends received	35.7	0.1
Tax paid (net)	(11.6)	(91.8)
Additional pension scheme contributions	–	(16.2)
<b>Free cash flow</b>	<b>38.9</b>	<b>13.0</b>
Capital expenditure	(451.9)	(738.9)
Property sales (including joint ventures)	164.1	147.0
Sale of Tipperary	–	110.5
Cash cost of bond exchange	–	(40.8)
Ordinary dividends	(84.0)	(69.0)
Other items	(3.6)	0.8
<b>Net funds flow</b>	<b>(336.5)</b>	<b>(577.4)</b>
Investments in term deposits	–	185.6
Net increase in borrowings	321.4	340.0
<b>Net cash outflow</b>	<b>(15.1)</b>	<b>(51.8)</b>
<b>Opening cash and cash equivalents</b>	<b>166.9</b>	<b>218.1</b>
Exchange rate changes	(0.8)	0.6
<b>Closing cash and cash equivalents</b>	<b>151.0</b>	<b>166.9</b>

Cash flows generated from operations for the year were £137.6 million, a decrease of 42 per cent from 2005 as a result of the exceptional surrender premium and significant trading property proceeds in 2005. Dividends received from joint ventures and associates are £35.6 million higher than 2005 mainly due to higher distributions from HelioSlough and a one-off dividend from the Group's joint venture with Tesco. Finance costs of £122.8 million, net of interest income, were higher by £6.4 million due to property acquisitions in 2005 and 2006, partly offset by the lower interest paid on the preference shares which were converted into ordinary shares during the year. Tax paid during the year of £11.6 million was significantly lower than 2005 (£91.8 million) mainly due to taxes paid in 2005 relating to the Pfizer campus sale and other US taxes. Additional pension contributions in 2005 comprised a one-off payment of £15 million.

After payment of the dividends, there was a net funds outflow of £336.5 million (2005 £577.4 million). Allowing for the movement in borrowings, the net cash outflow for the year was £15.1 million (2005 £51.8 million).

Capital expenditure of £451.9 million (2005: £738.9 million) included development expenditure of £236 million (2005: £142.0 million) and acquisitions of £216 million (2005: £589.6 million). Provided market conditions remain favourable, we expect to maintain the high rate of expenditure with £350 million to £400 million being planned for both 2007 and 2008.

#### Major Disposals and Acquisitions – investment properties

Disposals	Price £m	Gain Over book value %
Cambridge Research Park (part)	26.3	(2)
Kingswood, Ascot	35.4	(2)
Deva, Retail Park, Chester	34.8	1
Victoria Road Retail Park, Ruislip	38.3	9
Centennial Park, Elstree (Phase 300)	19.9	16
Eddison Road, Basingstoke	10.5	(5)
Since 31 December 2006: Juniper 1&2, Basildon	30.8	3

Acquisitions	Price (inc costs) £m	Group Share %
Treforest Industrial Estate, Cardiff	62.3	100
Sunbury International Estate, Sunbury	27.3	100
Manasty Road Industrial Estate, Peterborough	18.4	100
Pucklechurch, Bristol	17.0	100
Logistics Centre, Colnbrook (Partnership with BAA plc and Morley)	16.9	50
Plenty Site, Newbury	10.7	100
Ligand Pharmaceuticals Inc, San Diego	26.1	100
KarstadtQuelle, Germany (residual element)	12.3	100
Kimbal, USA	14.9	100
Antalis portfolio*	69.9	100

\* Currently classified as trading properties.

#### Financing

At 31 December 2006, the Group's borrowings totalled £2,384.8 million. Cash balances totalled £161.4 million resulting in reported net debt amounting to £2,223.4 million (2005: £2,092.3 million). The weighted average maturity of the debt portfolio was 10.5 years.

On 22 March 2006 the Company had the opportunity to issue a redemption notice in respect of the 8.25 pence convertible redeemable preference shares 2006-2011. Such a notice was indeed served and, as anticipated, virtually all holders instead exercised their conversion options at 37.0793 new ordinary shares for each 100 preference shares. After enforcing conversion on those

holders that did not specifically request redemption, 99.9 per cent of the preference shares were converted to 47,053,908 new 25 pence ordinary shares. As a result of this conversion Group net debt was reduced by £107.7 million compared to year end 2005.

Unsecured borrowings represent 97 per cent of gross debt at the year end. Secured debt totalled £77.1 million representing some historical mortgage debt domiciled in the Group's overseas operations. £1,471.8 million of debt domiciled in the UK is unsecured and is issued by the Parent Company direct without any supporting up-stream guarantees. £835.9 million of unsecured debt is issued by subsidiary companies located overseas.

Reported financial gearing was 66 per cent (2005: 86 per cent) or 61 per cent (2005: 62 per cent) after adding back deferred tax of £276.1 million (2005: £649.2 million). The reduction in deferred tax is significant due to the release of the provision in respect of the UK property rental business following the adoption of REIT status. The loan to value ratio (net debt divided by property assets) at 31 December 2006 was 38 per cent (2005: 42 per cent).

Interest cover based upon adjusted profit before interest and tax and adjusted net finance costs was 2.4 times (2005: 2.2 times), or 1.94 times (2005: 2.0 times) if capitalised interest is included. The market value of borrowings at the end of December 2006 was £83.7 million higher than the book value.

Funds availability at year end 2006 totalled £671.3 million, comprised of £161.4 million of cash deposits and £509.9 million of undrawn bank facilities. Only £25 million of this total is uncommitted overdraft lines with the balance of undrawn facilities being fully committed and with £461.7 million remaining available to 2010/11.

In April a new €200 million five year committed revolving credit facility was closed on behalf of Slough Commercial Properties GmbH to refinance the acquisition cost of the KarstadtQuelle portfolio in Germany and to provide some additional finance for development purposes. In July a new €100 million five-year committed revolving credit facility was closed on behalf of Slough BV and its subsidiaries to provide finance for the Group's new operations in Central Europe following the takeover of Grontmij Real Estate International at the end of 2005. This €100 million facility has subsequently been increased to €225 million.

### 28. Financial Review (continued)

#### Hedging Policies

The Group has set policies on interest rate and foreign currency translation exposures, liquidity and funding. These policies state that around 85 per cent (increased from 70 per cent effective January 2006) of the Group's debt portfolio should attract a fixed or capped rate of interest and that between 75 per cent – 90 per cent of foreign currency assets should be matched with liabilities of the same currency.

#### Interest rate exposure

As at 31 December 2006, 83 per cent (2005: 87 per cent) of the debt portfolio attracted a fixed or capped rate of interest at a weighted average rate of 6.03 per cent (2005: 6.19 per cent). Much of this debt is in the form of fixed rate debt issues raised through Sterling Eurobonds and US dollar private placements. Such fixed-rate debt issues are held in the balance sheet at amortised cost. Interest rate swaps, caps, collars and forward rate agreements are also used to convert variable rate bank debt to fixed rate. The 17 per cent of debt remaining at a variable rate of interest brought the overall weighted average cost of debt down to 5.84 per cent (2005 5.81 per cent).

The Group has decided not to elect to hedge account its interest rate derivatives portfolio. Therefore movements in the fair value are taken to the Income Statement but, in accordance with EPRA recommendations, these gains and losses are eliminated from adjusted profit before tax and adjusted EPS.

#### Foreign currency translation exposure

Due to the nature of the Group's business it has no cross-border trading transactions and therefore, foreign exchange transaction exposure is negligible. However, it does have operations located overseas which transact business in the domestic currency of the country in which the business is located – mostly in US dollars and Euros. The Group's main currency exposure therefore is the translation risk associated with converting net currency assets back into sterling in the Group consolidated accounts at each balance sheet date. As mentioned above the policy is that between 75 per cent – 90 per cent of currency denominated assets must be matched with liabilities of the same currency. At 31 December 2006, £223.5 million or 14 per cent of currency denominated net assets were exposed to exchange movements. A 10 per cent movement in the value of sterling against all currencies in which the Group operates would therefore change net assets by £22.3 million and net assets per share by 5 pence or 0.6 per cent.

#### Financial Ratios and Credit Rating

The Group follows an unsecured funding model which relies upon maintaining a strong investment grade credit rating. The Board believes it is appropriate to adapt gearing levels according to its assessment of prevailing property market conditions and the stage in the economic cycle. Accordingly, whilst current Group policy is to maintain a long-term financial gearing level below 80 per cent (net debt to equity) and interest cover in excess of 1.8 times, (adjusted profit before tax divided by net interest before capitalisation) the Group retains flexibility to temporarily exceed these thresholds should particular circumstances warrant it. The Group is currently rated A- (long term) F2 (short term) with a stable outlook, by the credit rating agency FITCH.

#### Liquidity and funding

The policy on liquidity risk is that at any given time forecasts should demonstrate that there is headroom of at least £200 million against immediately available cash and/or committed bank facilities for two years projected forward. As property investment is a long-term business the Group aims to raise funding on a long-term basis through a mix of equity, long-term debt issues and committed medium-term revolving credit facilities as well as recycling capital generated from property sales. Typically developments are funded through cash resources or drawing down committed bank lines whilst the investment portfolio is funded through unsecured long-term debt issues of similar weighted average life to that of the unexpired remaining term of the lease portfolio.





The strongest valuation gains experienced were in the USA (15.2 per cent), Central Europe (22.3 per cent), the UK industrial (11.5 per cent) and France (10.7 per cent),

in all cases driven mainly by further significant yield compression due to the weight of money being targeted at prime real estate assets in most sectors.

30.



John Heawood Group Executive Director, UK Property

## Geographic Review

# UK

“Record levels of take up over the last two years encouraged us to significantly increase the volume of development being delivered to the market in 2006. The UK development programme is now at a record level with 802,000 sq m in the pipeline. In 2006, 13 development projects were completed, delivering 61,388 sq m of new space, 30 per cent of which has been let. A further 12 projects are underway with 46 per cent pre-let.”

### Profile

The UK business serves 1,478 customers, has 84 property holdings, a current rent roll of £184.7 million and includes £4.2 billion of property (including land and trading properties), representing 70 per cent of the Group by value. The business focus covers the full range of Flexible Business Space products, although ‘big-box’ warehouses are generally developed with our joint venture HelioSlough.

The UK properties are located mainly in the south of England; they are concentrated in outer London but extend out as far as Cardiff in the west and Chelmsford in the east; there is also an important base in the Midlands which manages our holdings north of Birmingham. There are six regions employing less than 200 people directly; functions not core to the property skill base are outsourced – construction having been reorganised along these lines during the first half of 2006.

More detailed information on the UK business, its assets and its development pipeline can be found in the Property Portfolio section of this report at page 125, further supplemented by detailed tables in the investor relations section of our corporate website.

### Completed Investment Properties\*

As at 31 December 2006	Slough	West London	Thames Valley & the West	South London & the South	Midlands & the North	North London & the East	Retail (50% joint venture)	Total
Value £m*	1,375.9	566.5	533.3	315.1	367.3	449.7	90.8	3,698.6
Area sq m	659,914	354,659	404,862	246,596	417,211	448,641	22,680	2,554,563
Rent Roll £m	69.7	27.9	28.4	13.1	18.7	22.2	4.7	184.7
Net rental income (£m)								
– 2005	63.7	25.5	24.3	10.4	13.6	17.2	4.3	159.0
– 2006	65.5	24.6	25.3	10.0	16.9	18.6	4.1	165.0
Change %	3	(4)	4	(4)	24	8	(5)	6

\* Including Group share of joint ventures



### Our Strategy

Our strategy is to provide Flexible Business Space to the widest range of potential occupiers.

During 2006 the team has concentrated on shaping the portfolio to produce stronger returns by:

- Acquiring larger estates or assembling a critical mass of properties within an area that enables customers to expand their businesses within our holdings and for the most cost-effective provision of services
- Disposing of underperforming or non-conforming assets where there are limited opportunities to add value – with £166 million of acquisitions (including investment in a new joint venture) and £173 million of disposals. We were net sellers
- Aggressively pursuing and delivering redevelopments that allow us to effectively replace older buildings and recycle the portfolio whilst retaining key ownerships
- Working closely with our customers to provide a level of service that contrasts positively with other landlords – customer satisfaction is regularly measured and the most recent independent survey highlighted that 73 per cent of our customers rated their satisfaction as good or excellent and that an increasing number see business benefits from being our customers.

The regional structure introduced in 2005 is embedded as a way of working that gives the six multi-disciplined teams the opportunity to maximise returns from their individual portfolios by concentrating on the highest value-added local issues. The previous structure was based on functional disciplines, by contrast the regional structure gives full project life cycle responsibility to individual managers and this has been a key factor in the improved operational performance which has been delivered since its introduction. A lean central team is responsible for ensuring that best practice is shared across the business as well as supporting the Regional teams and managing large acquisitions across the UK.

### Performance Summary

The UK market defied most commentators by producing a further year of strong returns with the widely-predicted slowdown in yield compression only becoming evident in the final quarter of the year. Over the full year the value of our UK portfolio increased from £3.6 billion to £4.2 billion. This increase was the result of capital growth, but importantly also from the successful conclusion of a stream of major development projects.

The total net valuation surplus is £354 million (10.6 per cent). The uplift, excluding land held for future development and acquisitions made during the year, is 11.2 per cent while the surplus for our core industrial property is 11.5 per cent, ahead of the IPD Index of Industrial Property.

The market for all types of commercial property remains positive but there are signs of purchasers becoming increasingly selective. Against this background, we continued to proactively recycle capital by selling underperforming and low-yielding properties with few untapped opportunities to add value. These sales generated £173 million (including Phase 300 Centennial Park where the sale was contracted in 2006 and completed in 2007).

We secured £166 million of property acquisitions – opportunities which were mainly generated off market. The purchases will help to fuel our future growth and also help with our medium-term site assembly plans. These acquisitions delivered a year-end surplus of £8.8 million (a 5.4 per cent surplus net of all costs).

In 2006 184,000 sq m of new and existing buildings were let. This secured rent, including licence fees, of £14.2 million pa. This was an excellent achievement and above our internal targets for the year. 45 per cent (by rent) of the lettings were to existing occupiers, underlining the benefits of long-standing relationships and highlighting the success of our major programme of customer initiatives. Rent review and lease renewals in respect of leases with passing rents of £21.9 million produced an uplift of £1.3 million pa. The rental growth demonstrated by 2006 rent reviews was 3.7 per cent; significantly ahead of the IPD Industrial figure of 1.4 per cent. As expected, the level of buildings returned during 2006 was again high at 169,000 sq m (with £10.7 million of related rental income) although considerably lower than the lettings achieved and the team managed to bring this in below the levels it had forecast at the start of the year. The level of returns is high partly as a result of our flexible approach – which is valued by our customers and consistently leads to higher levels of repeat business. Of the property returned or vacated during 2006 40 per cent will eventually be incorporated in redevelopment plans. Of the remainder, 36 per cent has been re-let.

The underlying vacancy rate held firm at 8 per cent, which as we have indicated previously is approaching an acceptable level given the need for some capacity in which to decant occupiers to facilitate development. As expected the headline vacancy rate at the year end had risen to 11.6 per cent, reflecting the opportunity to increase revenue from acquisitions and completed developments coming on stream.

The net benefit of the intense application of our core asset management skills, plus the effects of development completions and acquisitions, helped to drive an overall £9.6 million uplift in gross property rental income.

## 32. UK Geographic Review (continued)

### Acquisitions

The strong competition for commercial property has reduced yields to new historic lows. Against this background it has become increasingly challenging to identify opportunities that will deliver a significant contribution to future profitability. We successfully acquired £166 million of properties that meet our financial and strategic targets – by complementing existing holdings or by enabling us to gain a major presence in areas that are anticipated to benefit from economic growth. The acquisitions provide opportunities to add value by redeveloping or refurbishing parts of the sites, and the regional teams are actively pursuing a programme to positively integrate our new customers. These acquisitions, several of which were in the second half of 2006, already show a 5.4 per cent surplus when comparing the year-end valuation with the purchase price (including costs).

Treforest in Wales was the location of one of our major acquisitions in 2006, and SEGRO's first move into Wales. Purchased at a price of £62.3 million (including costs), its year-end valuation was £70 million, representing a surplus of £6.1 million or 9.5 per cent. The holding entity owning this 53 hectares industrial estate was acquired in April 2006. It is in a prime growth location just north of Cardiff, close to the M4 and has been an established trading estate since 1936. Existing customers include the BBC, GE, Honeywell, WH Smith, Barclays and Lloyds TSB. In addition to providing over 94,000 sq m of space, the site includes 4.4 hectares of development land.

One of the attractions of the site was the opportunity represented by its high vacancy levels (23 per cent) and the fact that occupier relationships had been undermanaged. Since acquisition the SEGRO team has launched a range of new customer initiatives and is working closely with the existing customer base to deliver new buildings to suit their particular requirements. The team has also been successful in securing planning consent for a new 1,800 sq m trade counter scheme with construction anticipated to start shortly.

Other key acquisitions during the year included the £16.9 million (inclusive of costs) acquisition of a 50 per cent share of the Logistics Centre in Colnbrook, a 20.3 hectare site acquired in partnership with The Airport Property Partnership (a specialist joint venture between BAA plc and Morley) and located immediately adjacent to the M25 and to Terminal 5 at Heathrow airport. The majority of the site is leased to Heathrow Airport Limited who occupy a 14,000 sq m facility and will be paying a rent of £2.6 million pa. The strategic location of the site,

adjacent to Heathrow and the motorway network, makes it a natural fit for SEGRO's portfolio. SEGRO already owns 87 hectares of land in the west London and Heathrow area, with 356,665 sq m of business space.

Also near Heathrow on a 1.26 hectare site, is the 4,400 sq m former Japanese Airline's facility in Poyle. This redevelopment opportunity was acquired off market in a transaction that involved locating an existing SEGRO customer – Air Fayre – to refurbished accommodation in nearby Heston.

Several other major acquisitions were agreed at the end of 2006 including the £27.3 million (including costs) acquisition of Sunbury International Estate, representing an initial yield of 6.7 per cent. It is a multi-let estate comprising 16,000 sq m of industrial units, data centre and offices immediately adjacent to Junction 1 of the M3. Acquired in December 2006, this property provides a mix of secure income and also opportunities to add value through using the Company's leasing, marketing and refurbishment skills. It produces £1.5 million of income and adds to our critical mass of property within close proximity of Heathrow Airport – theLHR.com – that now includes 17 estates in 11 locations.

Also at the end of the year, we acquired the Manasty Road Industrial Estate in Peterborough for £18.4 million (including costs). This multi-let industrial estate, strategically located adjacent to Junction 17 of the A1(M), extends to 7.8 hectares and provides 30,000 sq m of business space in 45 units, used mainly for warehousing and light industrial purposes. The passing rent is £867,000 per year and major occupiers include the Inland Revenue and ChoicesUK, the home entertainment company. The acquisition extends the portfolio into a new geographic location that presents good potential for growth.

The 26,000 sq m Pucklechurch Industrial Estate, which increases our holdings in the strong letting market of North Bristol, was also acquired in December, for £17 million (including costs). There is scope to improve the current (£1 million pa) income through active management and letting of vacant space. The estate extends to 8 hectares and includes 26,000 sq m of buildings.

### Disposals

During the year we actively recycled capital and took the opportunity to realise value created by selling over £173 million of property. Sales receipts exceeded book value by over 4.8 per cent.

Several of these disposals were completed in August including the largest individual assets sold – the Deva Retail Centre, Chester together with a retail warehouse and industrial premises at South Ruislip, in a combined transaction to CMG/Insight for £73.1 million. CMG/Insight already owned neighbouring property. Together, these two assets total 18,437 sq m and the disposals represented an attractive overall exit yield of 4.22 per cent (4.42 per cent on Chester and 3.75 per cent on Ruislip) and were sold at £4 million above the book value. The disposals also further advanced the final stages of the strategic realignment of SEGRO's property portfolio, moving away from remote offices and stand-alone retail warehousing and focusing on Flexible Business Space.

Reinforcing the more active asset management approach of recent years, land sales have also been undertaken where this has resulted in more attractive, enhanced facilities for the benefit of estate occupiers generally. These include two agreements at Farnborough Business Park. One was a conditional £5.3 million sale agreement with De Vere and with Quadrant Estates to respectively provide a 130 bedroom hotel (with restaurant and gym) and a new children's nursery. The Farnborough team also conditionally sold a 4.85 hectare site subject to planning consent for £21 million (precise realisation dependent upon planning conditions) to Redrow Homes. These will all enhance the estate and complement the existing business activities.

### Development

Record levels of take up over the last two years encouraged us to significantly increase the volume of development being delivered to the market in 2006. The UK development programme is now at a record level with 802,000 sq m in the pipeline. In 2006, 13 development projects were completed, delivering 61,388 sq m of new space, 30 per cent of which has been let. A further 12 projects are under way with 46 per cent pre-let.

Pre-lets remove the letting risk associated with speculative development and enable our customers to enjoy a bespoke facility designed to suit their particular requirements.

However, many occupiers still require buildings to be available without delay – accordingly whilst several developments in 2006, as in previous years, were built speculatively, by year end 37 per cent of these buildings had been let, sold or were under offer.

In a market showing modest levels of rental growth our ambitious development programme is making an increasingly important contribution to value and revenue enhancement.

The UK represents 33 per cent of the total Group development pipeline by space to be built, with 158 hectares (802,000 sq m) in the land bank being scheduled for future development of built space at an estimated total spend of £1 billion. It is the nature of SEGRO schemes that individually very few projects would ever represent more than ten per cent of the pipeline. Extensive information on these schemes can be found in the property portfolio section of this report at page 125, supplemented by even more detailed tables within the investor relations section of the corporate website.

### Lettings

Major transactions include:

Customer	Building Type	Location	Annual Rent £
Existing customer	Offices	Slough	900,000
Jacobs K Ltd*	Offices	Reading	560,593
Bibby Distribution	Warehouse	Manchester	500,000
AgustaWestland	Offices	Farnborough	402,560
Agilent	Warehouse	Reading	330,000
	Retail		
Next	Warehouse	Slough	315,000
Skan Dansk	Warehouse	Basildon	303,372
Modular Heating	Warehouse	Basildon	266,869
Twinmar	Warehouse	Dunstable	249,790
Aristocrat	Warehouse	Uxbridge	239,253
Business Post	Warehouse	Fareham	230,319
Safestore	Warehouse	Slough	219,991

\* Serviced office – inclusive rent

### Pre-lettings agreed during 2006

IX Europe	Data Centre	Slough	847,333
Agilent	Offices	Reading	463,581
Direct UK	Warehouse	Manchester	190,000
Safestore	Warehouse	Hayes	186,993

### HelioSlough Joint Venture

HelioSlough is a 50:50 joint venture between Slough Estates plc and Helios Properties plc focused on the UK 'big box' logistics market. It is a trading company with the objective of maximising development profit distribution to the partners.

The Company now has ten schemes with a development pipeline (including land owned, development agreements and options) totalling approximately 560,000 sq m at various stages of development and a substantial land bank.

### 34. UK Geographic Review (continued)

HelioSlough secured a pre-construction sale worth £42 million from CBRE for its 69,680 sq m distribution facility at Nimbus Park, Thorne, near Doncaster at the beginning of the year and achieved practical completion of the unit in December. Nimbus Park is well connected with the opportunity for a dedicated rail spur ultimately connecting to the East Coast Mainline to the south of Doncaster providing an important access to the East Coast ports. HelioSlough expects to begin the second phase of 18,580 sq m at the 20-hectare park during 2007.

Following the success of the Nimbus Park relationship, in December HelioSlough secured a further circa £100 million forward sale agreement with CBRE for an additional six speculative distribution properties across the UK, totalling 145,860 sq m. Work has already commenced on the units, which will be completed in 2007. Each of the sites is in a prime location, with excellent access to the road networks. SIRFT, Sheffield also offers £3 million of new railfreight facilities, together with rail services provided by EWS. The growing demand for high quality B8 space in these locations coupled with increasing demand for rail connectivity was an important factor in securing this funding. The transaction has helped HelioSlough accelerate profits for these schemes, providing an excellent platform for future growth in 2007 and beyond.

A major part of HelioSlough activity in 2007 will be ensuring the successful completion of the substantial development programme outlined above. The joint venture will also continue its marketing and development contracts at these and other existing developments such as Wynyard 360 and Wynyard Park (both at Teeside) where it has a completed building ready for occupation of 27,870 sq m, a further consented 37,160 sq m and 49 hectares of development land. We will take forward planning consent discussions at our key strategic holdings at Stainforth (Doncaster), Rossington and Radlett. And there will be a major focus on our land acquisitions programme to drive our future growth plans.

#### Outlook for the UK

There has been a positive start to the new year with 29,230 sq m let to the end of February producing an additional £2.8 million of annualised income. With a consistent take up of new space we are planning to start development of up to 225,376 sq m in 2007 across all six regions of the UK.

Since the year end our 41,000 sq m holding in Basildon has been sold for £30.8 million which is in line with the 2006 year end book value.

Looking ahead total returns are expected to be lower in 2007 as five years of market driven yield compression generally continues to flatten or comes to an end. This will underline the importance of proactive asset management – attracting and retaining customers as the main driver of performance.

We look forward to the challenge of working in partnership with new and existing customers to deliver the standards of accommodation, service and required level of service required in 2007 and beyond.



In 2006 the UK team reshaped the portfolio, producing good returns, adding value throughout the business, and improving revenue from new lettings which delivered:

35.

- **196** new letting transactions
- **£14.2** million of new income
- **45** per cent by income from existing customers

36.



Walter Hens Managing Director, Continental Europe

## Geographic Review

# Continental Europe

"A record 169,000 sq m was let over the course of 2006, increasing the rent roll by £7 million and reducing the overall vacancy across the portfolio to 7.5 per cent."

### Profile

The Continental European business serves 221 customers, has 100 property holdings, generates a rent roll of £30 million per annum, includes £411 million of investment property and 522 hectares of land. The business focus covers the full range of Flexible Business Space product and, unlike the UK, we will directly develop 'big-box' warehouses or 'sheds' which are a key part of our product offering, particularly in Central Europe.

The Continental European business is based in key locations in nine countries, in specific areas with high economic growth potential at key transport infrastructure inter modal hubs – often close to airports or major road intersections. Following the December 2006 agreement of a major portfolio acquisition from Antalis, SEGRO now has additional presence in its key existing markets of France, Germany, Belgium, Central Europe and, for the first time, in Spain and Italy.

### Completed Investment Properties\*

As at 31 December 2006	France	Germany	Belgium	The Netherlands	Central Europe	Total
Value £m*	149.6	73.2	166.4	6.9	14.8	410.9
Area sq m	354,325	193,781	138,734	8,733	43,011	738,584
Rent Roll £m	10.9	5.0	12.4	0.6	1.2	30.1
Net rental income £m						
– 2005	9.5	–	10.9	–	–	20.4
– 2006	10.1	3.2	10.7	(0.3)	(0.4)	23.3
Change %	6	–	(2)	–	–	14

\* Including Group share of joint ventures



Extensive information on the Continental European business, its assets and its development pipeline can be found in the Property Portfolio section of this report at page 125, further supplemented by detailed tables in the investor relations section of our corporate website.

### Strategy

Continental Europe currently offers attractive yields, low borrowing costs and strong prospects for growth – in the general economies in which we operate and particularly in the specific locations in which we have a presence. Employing fundamentally the same model as in the UK, the strategy has been to identify the areas with the best growth potential in each country and then to assemble a critical mass or 'cluster' of properties in these locations.

We have already secured this critical mass in the northern sector of Paris, France, and in the Düsseldorf region, Germany, where SEGRO is now established as the leading provider of modern and flexible light industrial, office and logistics space. We are also already very well established in the vicinity of Brussels airport in Belgium and Schiphol airport in the Netherlands where further land and income-producing properties have been acquired in these important strategic areas. During 2006, SEGRO made some major and highly successful inroads into Central European locations providing a platform for future growth in that region. As our strategy evolves, we seek to acquire and develop industrial and logistics space, as well as land for development, in the growth zones of key markets across Continental Europe.

Over the course of 2006, SEGRO centralised the individual country support functions into a single enhanced Continental European base in Paris to lead and support the Continental Europe country offices, their major growth plans and the new wave of expansion in Europe. SEGRO now has 67 employees in Continental Europe. It successfully integrated the Central European property development operations of GREI (Grontmij Real Estate International), the property development arm of a Dutch consulting engineering firm, which was acquired for £12.9 million giving SEGRO an established presence in Poland, the Czech Republic and Hungary, with development teams already in place and further sites to develop.

A £70 million acquisition and leaseback agreement with Antalis, the largest European distributor of communications support products (including packaging, paper, print and office materials), was largely completed by 31 December 2006. This agreement enabled SEGRO to acquire properties in two new major target countries, Italy and Spain. This provides SEGRO with a platform in key locations, including potential to make further strategic acquisitions.

### 2006 Performance

Including joint ventures and trading properties, 1.2 million sq m of space was under management by the end of 2006, representing a 7.2 per cent increase year on year. This followed the acquisition of 164,680 sq m of space and 116 hectares of land across nine countries, the disposal of 45,160 sq m of non-core property and the demolition of a further 75,926 sq m of redundant buildings for redevelopment. Without this major demolition and disposal programme the space under management would have increased by 18.5 per cent. Of the existing total stock, 169,239 sq m has been let over the course of the year, increasing the rent roll by £7 million pa and reducing the overall vacancy rate across the portfolio to 7.5 per cent overall. In addition to this, 105,213 sq m of space under development was pre-leased including joint ventures on a 100 per cent basis, representing additional annual rent of £3.4 million pa when this comes on stream.

Acquisitions and lettings helped to drive a £10.2 million or 40.5 per cent uplift in gross property rental income, translating into a £5.4 million or 23.7 per cent increase in net property rental income. The lower percentage increase at the net income level reflects increased operating costs as the operational infrastructure scales up to match the significantly increased size of the business. Over the year, due to the ongoing acquisition programme, rental growth and further yield compression, the value of the existing portfolio in Continental Europe has grown from £499 million to £690 million as at December 2006, representing an increase of 38 per cent.

### Acquisitions

Although generally higher than in the UK, yields in Continental Europe have also been driven to historic lows. Partly in response to this, resources were targeted at identifying properties with further development potential in key strategic clusters in each country which will ultimately complement the performance of our existing holdings.

Two strategically important acquisitions were agreed and completed around the turn of the year from 2005 to 2006; the £12.9 million purchase of GREI, an existing corporate entity with property assets in Central Europe and with an established management team; also the £110 million acquisition from KarstadtQuelle AG (in a sale and leaseback transaction) of a substantial logistics and ancillary office portfolio in Germany, bringing an existing income stream from these investment assets along with a substantial development land bank.

Then as referred to above in December 2006 for £70 million, we secured an acquisition and leaseback of a significant pan-European portfolio from Antalis. The core properties are in SEGRO's strategic growth markets. The buildings are a mixture of old and new properties in good locations, providing excellent future development potential underpinned by an income stream. Antalis is committed to the properties it occupies for an average of approximately 7.5 years. This transaction represented a post acquisition costs yield

### 38. Continental Europe Geographic Review (continued)

of 7.2 per cent. SEGRO and Antalis have also signed a partnership agreement, covering both the extension of existing properties and the potential development of new properties. This partnership agreement will also provide potential synergies in other markets as it covers the UK as well as Continental Europe.

In Germany SEGRO agreed the acquisition of a 29 hectare future logistics site from ThyssenKrupp group, at a phased purchase price of £12.9 million. This prime site to the west of Düsseldorf, in close proximity to the airport, has direct access to the A44 motorway. The site will also be connected to the railway network and is one of the only viable sites for logistics development close to the city of Düsseldorf and its airport. SEGRO will develop 117,000 sq m of light industrial and logistics accommodation in a low density environmentally sensitive scheme. The delivery of the first phase is anticipated for the end of 2007.

We plan to continue this strategy of acquiring property in each strategic area across Europe over the course of 2007 via corporate acquisitions, large-scale sale and leasebacks and the purchase of investment portfolios where these have potential for growth through restructuring leases or redevelopment.

#### Disposals

Our strategy is to dispose of property that does not fall into one of the key regional clusters identified in each country as having growth potential and where there is no critical mass or where the asset is commercially mature with little scope to add further value.

In 2006 SEGRO was successful in disposing of 45,160 sq m and 9.52 hectares of surplus or non-strategic property in Germany.

In Neuss and Ratingen, we sold 33,000 sq m of logistics and Flexible Business Space at two sites to Standard Life at a total sale price of £21.4 million. In a separate deal, at Ratingen, SEGRO sold units comprising 5,670 sq m on a site of 1.1 hectares to JEF Holdings BV, a subsidiary of the Dubai Islamic Bank, both for £4.2 million and in a further deal in Neuss we sold a scheme to IVG for £4 million. All four sales transactions were at initial yields better than our normal target levels

Sales over the course of the year have generated cash of £29.6 million and net gains of £5.2 million.

#### Development

SEGRO currently has 161,000 sq m under construction across Continental Europe with plans to develop a further 515,000 sq m in 2007. Of the existing development pipeline 81,000 sq m has been pre-let, representing 50 per cent of the total and generating an additional rent roll of £3.4 million pa.

An important driver in the development program has been the acquisition of GREI which initially brought 79 hectares of land and a further 17 hectares under short-term options. Following further acquisitions, the logistics sites now include 61 hectares at Strykow near Lodz, a strategic location in central Poland, 22 hectares in Poznan, Western Poland, 31 hectares adjacent to Prague airport and 9 hectares near the M1 motorway running west out of Budapest. Also included is a site for a 16,000 sq m suburban office development in the Mokotow district of Warsaw.

Further extensive information on these can be found in the Property Portfolio section of this report at page 125, supplemented by even more detailed tables within the investor relations section of the corporate website.

#### Lettings – A Record Year

2006 was a record year for SEGRO in Continental Europe with 169,000 sq m being taken up across all countries through 55 separate transactions which have increased the customer base to a total of 221 occupiers.

The market has been relatively buoyant in all countries with demand coming from both local and international end users for good quality well-located light industrial, office and logistics product in key strategic areas. SEGRO has also been able to benefit from synergies with its existing customer base to generate new business across the different countries, for example the 17,081 sq m office pre-let to Ernst and Young in Brussels and a 42,433 sq m logistics pre-let in Rumst, Belgium to Exel were both achieved through existing relationships with corporate customers.

Net absorption of the overall portfolio has been 7.5 per cent and the average vacancy rate has fallen to 7.5 per cent (including trading properties), a 40 per cent decrease since 2005. We believe that this strong take up will continue throughout 2007 with a general shortage of good quality product in many of SEGRO's key European markets, most notably in Central Europe.

#### Outlook

During 2006, 169,000 sq m of space has been leased producing an additional £7 million pa of rental income. The level of take up of core product – evidenced by the number of transactions and the levels of rent secured – has encouraged us to plan for a significant increase in development starts to over 515,000 sq m in 2007.

In addition to this, we will be expanding the portfolio both organically and through external acquisitions and aim to build upon our existing strong base to become the leading provider of Flexible Business Space in all key markets.

## In Continental Europe 2006

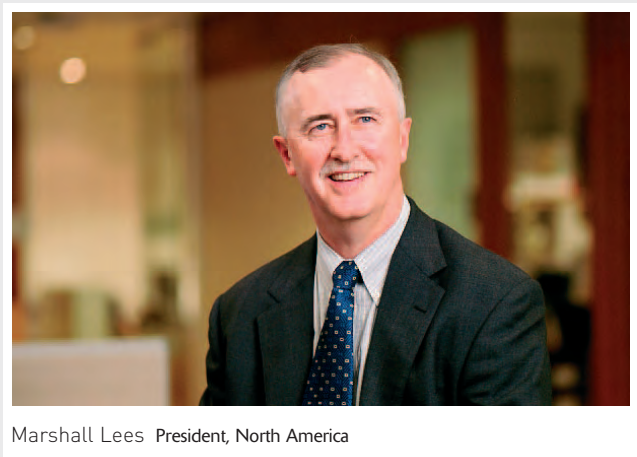
- 169,000 sq m let on existing space
  - 81,000 sq m pre-let of space under development
- 39.

Because of this level of take up of our core product in 2007 we are planning a significant increase

- 515,000 sq m of development starts



40.



Marshall Lees President, North America

## Geographic Review

# USA

“Our £0.9 billion portfolio at the end of 2006 represents a 28 per cent increase on the end of 2005, reflecting our development completions and increased market demand for life sciences real estate assets.”

### Profile

The USA business serves 61 customers, has 77 buildings, generates a rent roll of £58 million per annum, including £0.9 billion of property and 171 hectares of land, representing 12 per cent of the Group in terms of built space. The business model is based on Flexible Business Space products but, unlike the European business, it is concentrated primarily on research and development facilities serving the biotechnology industry. Its clients include some of the largest biotechnology companies in the world including Amgen and Genentech and SEGRO’s relationship with many of its biotech clients dates back to when they were small business start ups. The business is based in two main locations in California, in the San Francisco Bay Area and in San Diego County. We focus on the mission-critical core property skills with most other functions being outsourced – consequently it only requires nine direct employees to manage the business.

Extensive information on the USA business, its assets and its development pipeline can be found in the Property Portfolio section of this report at page 125, further supplemented by detailed tables in the investor relations section of our corporate website.

### Strategy

The business focuses on the implementation of the USA biotechnology strategy and on value-adding opportunities in major life sciences clusters in the San Francisco Bay Area and San Diego County. The business model concentrates on development, redevelopment, conversions and strategic acquisitions. In 2006 investment momentum accelerated in response to life sciences industry activity during the

### Completed Investment Properties\*

As at 31 December 2006

Value £m*	902.6
Area sq m	453,317
Rent Roll £m	58.1

Net rental income £m	
– 2005	50.2
– 2006	60.4
Change %	+20%

\* Including Group share of joint ventures

year, buoyed by increased funding from the major pharmaceutical companies and the venture capital community. During the year, we have added several new clients to the portfolio, including OncoMed, Cordis, Portola, Alexza, Covalent and Ligand, who have the potential to provide opportunities for future expansion.

In November 2006 SEGRO announced that, consistent with its previously stated strategy of focusing on the provision of Flexible Business Space in the UK and in Continental Europe, it was exploring the strategic options for its USA business. It was announced that the process involved consideration of a range of possible options, including an immediate or phased divestment and also joint venturing or merging SEGRO's USA business with a third party. In assessing the options the Board has regard to all relevant considerations including the current and potential future value of the business as well as the tax implications of the various options. The process is well underway and we anticipate making a further announcement during the second quarter of the year.

#### 2006 Performance

The general US economy slowed during the year in response to volatile and uncertain energy prices, a slowdown in the housing market and interest rate increases. Despite the economic slowdown during the latter part of the year, real estate markets experienced further cap rate compression and steady improvements in occupancy and rental rates. Against this general backcloth, the life sciences industry experienced a resurgence in activity, with demand accelerating for our product and increased supply of funding to the sector, mainly through the major pharmaceutical companies.

In 2006 our USA business (SEUSA) maintained its focus on core life sciences portfolio, expanding and consolidating in existing locations through prudent acquisition and assembly of buildings with redevelopment potential; marketing/leasing existing vacant space aggressively; and executing major life sciences campus construction programmes for Genentech and Amgen.

Our portfolio valuation for the year improved by £146.2 million or 15.2 per cent which compares favourably with the £127.6 million or 16.8 per cent achieved during 2005. This increase reflects development completions and increased demand for life sciences assets as a real estate investment class. During the year, SEUSA added £135.9 million of fixed assets to the balance sheet. Gross property rental income – excluding exceptionals – increased by £15.4 million to £76.2 million. This 25.3 per cent increase reflected both the 2006 resurgence in activity in our life sciences' markets and the full year benefit of some key lettings and acquisitions in 2005. In 2006 we secured 86,000 sq m in leasing, with a year end vacancy of 18.9 per cent or 88,000 sq m – a similar position to the 19.5 per cent at the end of 2005.

Market performance was mixed, with buoyant levels of activity in the San Francisco Bay Area offset to some extent by softer conditions in San Diego County. In the Bay Area we have experienced relatively high levels of enquiries and made solid progress in leasing vacant space, including several vacant units which are currently under negotiation. The San Diego life sciences market suffered from the downsizing of several pharmaceutical companies and is gradually recovering. However, the real estate fundamentals of this market are attractive, featuring relatively low availability of vacant land entitled for development.

We acquired approximately 57 hectares of land in Central and Northern San Diego County over the past two years to exploit the value creation opportunity afforded by the increasing scarcity of sites against the backcloth of the continued expansion of the life sciences industry. We are confident that our patience will be rewarded.

Key 2006 transactions included; further expansion/consolidation in existing life sciences clusters with acquisitions of several buildings to create over 37,000 sq m of development and redevelopment potential in the Bay Area and San Diego; major leasing transaction with Amgen to consolidate their campus life sciences development in South San Francisco, adding four buildings (over 37,000 sq m) to their existing 31,000 sq m; important leasing transactions with several new life sciences clients to add to our pipeline of future expansion opportunities; continuing high levels of development with 69,000 sq m of buildings currently under construction and a 48,000 sq m of completions in the year.

#### Acquisitions and Disposals

Our strategy of securing sites for future development, redevelopment or conversion, was progressed with the assembly of several existing industrial facilities in the Bay Area which will form the platform for the third phase of our Britannia Modular Labs concept as well as a 21,400 sq m, three-building, life sciences campus. In San Diego, we acquired the Ligand Pharmaceutical facility for £26.1 million, in an attractive sale and leaseback transaction that featured additional land for two future life sciences buildings (7,700 sq m).

We evaluated several other opportunities during the year and will continue to acquire sites and product wherever appropriate to expand our market position. At the same time, we will maintain our strict investment criteria and disciplines to ensure that we focus on value creation opportunities and do not over-invest in inventory in anticipation of demand.

At the end of January 2007, we acquired for £20.1 million the Sierra Point site in Brisbane, CA., to the immediate north of our Oyster Point projects in South San Francisco, CA. The nine hectare parcel will feature a five-building, 50,000 sq m, state-of-the-art, Silver LEED standard, life sciences project. It is hoped this project will receive planning consent during the first half of 2007.

### 42. USA Geographic Review (continued)

#### Development

The construction of the Genentech campus is more than half completed following the completion and leasing of the Phase I element comprising four buildings totalling 42,000 sq m. Phase II is well underway with the delivery of four buildings (31,000 sq m) scheduled during 2007 and 2008.

We are also making excellent progress with the Amgen campus at Oyster Point, with the delivery of two buildings (17,000 sq m) and commencement of construction on Britannia Oyster Point II, a three-building, 29,000 sq m campus adjacent to BOP I, of which two buildings are pre-leased to Amgen (22,000 sq m).

Following the completion of our Britannia Modular Labs II facility during the year, we have entered into discussions with a major life sciences company to lease the entire building. We have several enquiries and proposals outstanding for Phase I of this exciting new life sciences product concept and anticipate that it will be leased during the coming year. With the completion of the assembly of three nearby industrial buildings, SEUSA has embarked on the necessary planning consents for a Phase III, 8,400 sq m, two-building, modular labs development.

Another four building assembly in south San Francisco will provide a 21,400 sq m life sciences redevelopment opportunity in due course. This site expands and consolidates our premier position in this critical life sciences market and we are optimistic about the prospects for demand.

Another component of the life sciences strategy is the profitable redevelopment of some of our existing life sciences business parks. In this respect, we are in the process of securing consent for the redevelopment of the original, four-building, 16,000 sq m core element of our Pointe Grand estate into a four-building, 45,000 sq m, modern life sciences campus complex. We are also reviewing various options to add density through the redevelopment of part of our Gateway life sciences campus in South San Francisco.

We should also receive planning consent during the first quarter of 2007 for the development of a two-building, 28,000 sq m life sciences project on our Forbes site in South San Francisco. We are optimistic about pre-leasing at least part of this project, but under the right circumstances will also consider a speculative development.

#### Lettings

Although we ended the year with an 18.9 per cent vacancy rate, this figure masks substantial leasing activity during the year. As part of our investment strategy, it is crucial to have available vacant space to accommodate the uncertain and volatile demand patterns that characterise the industry. There is no optimal inventory since demand can vary significantly over space and time. Of the 88,000 sq m of vacant space, 26,000 sq m is comprised of buildings in Poway and another 19,000 sq m in Torrey Pines, of which 12,000 sq m were buildings vacated in mid-2006. In the Bay Area, we are anticipating leasing transactions during the first part of 2007 that have the potential to largely eliminate the outstanding vacancies in our modular labs buildings and the Shoreline project.

During the year, we agreed new leases on 86,000 sq m of new and existing space, and a pre-let to Amgen of 22,000 sq m. This was offset by vacancies of 39,000 sq m, resulting in net absorption of 47,000 sq m. We have also been the beneficiaries of increasing demand during the year which has delivered new lettings and a measurable improvement in the tone of our rental rates. We expect this trend to continue throughout 2007, especially as we anticipate that the inventory of appropriate life sciences product should be steadily absorbed.

#### Outlook

The solid if not spectacular economy together with continued rapid growth in the life sciences industry fuels our optimism for development and leasing activities during 2007 and beyond. The wider real estate sector remains an investment commodity very much in demand and the highly-competitive demand for real estate product has driven up prices. In spite of this, the fundamentals of supply and demand are robust and we anticipate continued improvements in occupancy and rental rates. The life sciences industry activity is expected to further strengthen in response to increased funding from the pharmaceutical sector, but also due to more approvals of the many drugs, vaccines and devices that are in late-stage clinical trials or under review with the FDA (Food & Drug Administration).

Our strategy is firmly rooted in the development of critical mass in major life sciences clusters and, over the years, we have been rewarded for maintaining our value-focused investment philosophy. We have established a solid platform for the future expansion of our life sciences portfolio in California.



In 2006 the life sciences industry experienced a resurgence in activity, with demand accelerating for our product and increased pharmaceutical company funding for the sector.

43.

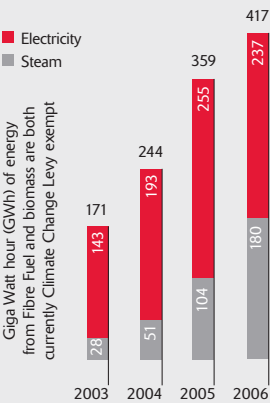
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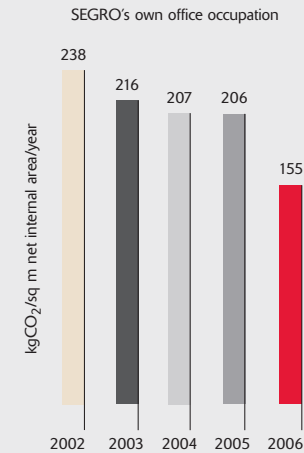
# Environment, Social and Governance

“Sustained change in our business has demanded even more from our employees in recent years and they have constantly responded positively to the challenge of achieving continually improving business performance and accomplished what is asked of them.”

## Renewable energy generation (SH&P)



## CO<sub>2</sub> emissions of own office occupation



The graph above shows a drop in CO<sub>2</sub> emissions from 2005 to 2006, which is largely due to a reduction in employees at Head Office. Global CO<sub>2</sub> emissions are not available for this year due to insufficient/unreliable data monitoring systems in Europe.

## Environmental

The Group take a considered and structured approach to managing our environmental aspects and impacts. Using our environmental management system to both ensure compliance and to go beyond legal requirements in areas such as energy use, waste management, use of natural resources, pollution prevention and biodiversity. We believe that good environmental management is integral to good management of the business.

We have a number of KPI's related to our activities and we set annual objectives throughout the Group to both manage and seek continual improvement in our environmental performance.

We recognise the responsibility we have for sustainable development and will seek ways to minimise damage to the local and global environment caused by our activities. Our three most significant environmental impacts are energy use, transport and land use. Climate change and the energy performance of our buildings are issues we have set as a priority to introduce policies and procedures for their long-term management. Managing these impacts for a positive result is good for the environment. Employees receive training on managing environmental impacts and changes in legislation. Regional management committees have been set up to meet regularly and discuss progress.

We understand our responsibility to future generations to pass on an environment, that is capable of sustaining life, whilst providing employment and prosperity for our stakeholders now and in the future. Sustainability is an important part of our generic development brief. Both as developers and in partnership with our contractors and suppliers, we are working towards a whole-life, whole-building approach to sustainable practice.

We work closely with our customers to try to ensure that we can meet their environmental needs and requirements.

We participate in leading external surveys including the Dow Jones Sustainability Index, FTSE4Good and the Business in the Community Environmental Index. In 2006 we became a founding member of the UK Green Building Council.

Some of the KPIs that we measure ourselves against are energy use, land use, pollution and emissions. More details are available in our separate Corporate Responsibility Report.

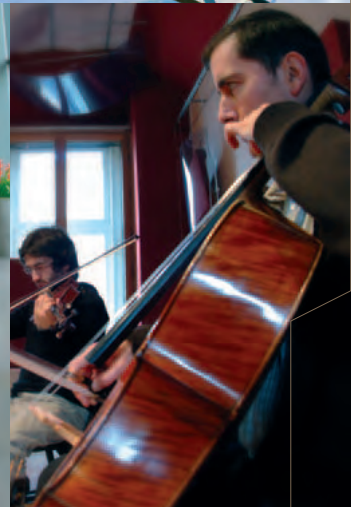
## Our People

Our employees are critical to the overall delivery of our business strategy. Sustained change in our business has demanded even more from our employees in recent years and they have constantly responded positively to the challenge of achieving continually improving business performance and accomplished what is asked of them. As our business is changing we involve our people with these changes and as a consequence we have developed a real sense of partnership with our employees.

An employee forum has now been operating for more than two years in order to involve our UK employees in the running of our business and the development of employment standards. This forum debates everything from the implementation of new employment legislation to the improvement of our office facilities. We are looking at ways to extend the scope of this forum in the coming year to include our international colleagues.

This year we conducted our first groupwide Employee Engagement survey, although we have been surveying our UK-based employees since 2003. Employee engagement encompasses more than employee satisfaction, it is the measure of employee commitment to the direction that the Company is taking, how driven





employees are to assist with the Company's progress and whether they will provide the Company with discretionary effort to help it achieve its goals. The overall Group engagement score is 57 per cent. In the UK we have seen the level of engagement increase by 50 per cent since employees were last surveyed in 2004. This is an outstanding achievement given the amount of change the Company has gone through and demonstrates the commitment of our employees to the ongoing success of our business.

Our international operations, in Continental Europe and the USA, were surveyed for the first time and they returned an engagement score of 65 per cent. The overall engagement score is particularly satisfying when the average score for companies stands at 51 per cent as measured on a global basis by Hewitt Associates. As our culture evolves, it's important that we continue to develop and invest in a diverse workforce and the engagement survey results support our belief that we are a business where employees are treated equally. 86 per cent of employees are satisfied that we are a diverse organisation that offers equal opportunities.

Rewarding performance is vital to ensuring that employees constantly seek to add value to the business and to our stakeholders. Employee reward, including salaries and bonus arrangements, are benchmarked annually to ensure that we remain competitive. In the UK, bonus arrangements reward all employees who deliver stretching performance at an individual, business unit and Company level. These bonus arrangements have been operating

since 2004. Prior to this date, employees received bonuses based on a more discretionary system – rather than the achievement of stretching performance as measured through the current structured process, founded on the accomplishment of "SMART" targets. To further expand this commitment to a performance-based culture, during 2006 we trialled the introduction of structured performance measurement in our French operation and will extend this to all of our Continental European operations during 2007 and we will commence the benchmarking of salaries. Reward in Continental Europe will then also be based on the delivery of stretching performance accurately assessed against targets and where benchmarking ensures competitiveness.

Last year we introduced long-term incentive awards to employees at manager level, as well as at executive and senior manager levels. These awards enhance the link to the delivery of sustained long-term performance and further encourages employees to become shareholders in the Group.

Recruitment and retention of talented employees remains paramount. Recruitment has been particularly key to ensuring that we are successfully managing the ongoing major expansion of our business in Continental Europe.

During 2006 we hosted our first Leadership Conference for many years, with the aim of improving the way leaders of our business work together. At the conference the corporate strategy was clearly articulated and then further developed. Our leaders were then tasked with

ensuring the effective communication of our business goals and priorities to all employees. Leadership development is a continuing theme within our business. During 2006 we have been developing our groupwide leadership development programme. This programme is further supported by our Leadership and People Review, which helps us to focus on career opportunities for our people. This is key to retaining good people and to assisting with succession planning for our future.

2006 has been a year of sustained progress for the Company, which would not have been achieved without the commitment and dedication of our employees.

Communities

The Group recognises its responsibilities towards its local communities and believes in the mutual benefits of improving the quality of life for those communities where we operate. Due to our strong presence in the Slough area, we are particularly keen to contribute to projects in that area, however in 2007 we are looking further afield to those areas where we have a significant presence, including the south of England, west London and Continental Europe.

Our community programme includes building long-term relationships with local partners to deliver a shared objective; establishing strong, safe and healthy communities by investing time and resources into projects that directly address local needs.

Our community partnerships are well supported by our employees, many of whom take part in programmes through our Employee Volunteering Scheme. Our community involvement benefits our employees by enhancing their own local community and offering significant personal development opportunities making SEGRO a company for which they are proud to work.

In 2006 we continued to support the Prince's Trust and the Outward Bound Trust and also helped a local school to achieve specialist status. This local school also benefited from our donations to the Outward Bound Trust as a group of students received funded places on one of the Trust's residential courses in mid-Wales. Other supported projects include Slough Activate and Pitstop, two local Slough projects that help children and young adults who have been – or are in danger of being – excluded from mainstream education. In Belgium we supported a group of young musicians, led by the clarinettist Vlad Weverbergh, to help them produce a classical music CD featuring works by Mozart written for the clarinet.

Our chosen charity for 2006 was Barnardo's, where employees initially pledged to raise £30,000. This target was increased during the year to £50,000 and the final amount raised totalled £120,000 (including £60,000 of matching funds from the Company), which was an

outstanding achievement. Not only did this exercise raise much-needed funds for a worthy cause, but it united employees behind the fund-raising programme. People were inspired to come up with new ways of personally raising money with initiatives including two yacht racing challenges, a charity golf day, auctions, raffles and sporting events.

Looking forward to 2007 we will financially support the Langley Park project which is a restoration programme that aims to transform a historic parkland in the Slough area.

Further employee volunteering opportunities are being explored including providing employee volunteers to a local charity to build a willow structure for a playground for disabled children. We also plan to run a Business Dynamics programme for senior Executives which is a partnership between local schools and companies to introduce students to the opportunities and challenges of business. Furthermore, a 'Seeing is Believing' bespoke programme is being run for our Executive Committee later in the year, facilitated by Business in the Community.

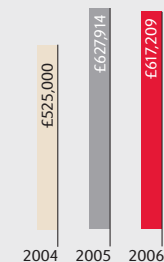
Health & Safety

Health & Safety is one of our highest priorities. Every year we re-affirm our commitment to ensure safe and healthy working conditions for our employees and visitors. We focus on continuous improvement by reporting and recognising safety performance. Our Health & Safety policy is available on our website.

We strive to improve behaviour by encouraging a positive safety culture at all our locations, by auditing our safety performance, by sharing information and best practice at our locations, by improving communication on safety issues throughout the Group and by active involvement of our senior executives.

The KPIs that we measure ourselves against include work related fatalities, the accident incident rate and the number of instances of non-compliance with Health & Safety regulations.

Charitable giving (cash and in kind)



Accident Incident Rate



SEGRO's reportable Accident Incident Rate decreased in 2006 from 2005.



### Suppliers

We work with a large number of suppliers ranging from property managers to building contractors. Managing supplier relationships to the benefit of both parties requires regular and consistent attention.

A responsible procurement policy has been developed and is being piloted in the UK before being rolled out to the Group. We aim to ensure that our suppliers adhere to this policy and that best practice and innovation is constantly reflected.

During 2006 we developed a Code of Business Ethics which extended to our relationship with suppliers. We are committed to strengthening our marketplace relationships which depends on our reputation for conducting all aspects of our business with suppliers in a way that is mutually beneficial as well as open. The Group aims to develop relationships with its suppliers based on honesty, fairness and mutual trust. We undertake to pay our suppliers in accordance with agreed terms. We respect the confidentiality of all information concerning the relationship between the Group and our suppliers. Where practicable, we favour suppliers demonstrating socially and environmentally responsible behaviour and high standards of ethical behaviour. We also check, where practicable the business practices of contractors and agents working on our behalf for compatibility with this Code or seek adherence to similar codes.

Targets have been set for 2007 to develop a phased engagement plan with suppliers to ensure that sustainability is embedded in the supply chain as much as is practical.

### Governance and Corporate Responsibility

At SEGRO governance and corporate responsibility (CR) is fundamental to the way in which we do business. This means we are continually trying to achieve the highest possible safety standards, treat our employees, suppliers and the communities where we operate as long-term partners whilst considering the environmental impact of what we do.

We aim to behave ethically and manage risk strategically. We have processes for identifying, evaluating and managing all risks in accordance with best practice. A Business Ethics Code has been introduced and applies to all areas of our business and strengthens our commitment to integrity and responsible business practice.

Our fourth summary CR report is available on our website along with more detailed information on our approach to CR. A full list of our targets for 2007 is also available on our website. In 2006 we held a CR key impact workshop which helped us to identify our key impact areas and will provide the business with the framework to focus on more long-term visionary targets.

### Executive Responsibility & Stakeholder Engagement

The Responsibility Committee sets and publishes annual targets for all our main impact areas. Safety, health and environmental matters are the responsibility of our Chief Executive and systems are implemented by our managers. Workplace issues, including diversity, equal opportunities and human rights are managed by the HR Director. Market issues, including customer relations are managed by business support teams. Supply management is overseen by a Procurement manager who works with our suppliers through a supplier evaluation, selection and performance appraisal system which ensures minimum standards of supplier performance and social and environmental performance. Community sponsorship and community relations are the responsibility of the Company Secretary.

Furthermore, the Responsibility Committee leads the development of the CR framework and other senior managers are responsible for CR management within their areas.

The common platform that supports this effort includes our CR policy which provides the framework for understanding and managing the opportunities and challenges associated with our CR agenda.

In line with our commitment to leadership by example, we are aiming to integrate CR into our leadership development programme in 2007.

We strive towards effective communication with all our stakeholder groups through satisfaction surveys, benchmarking exercises, one to one meetings, conferences, audits and our corporate website.

### Outlook

We are looking at focusing on developing key performance indicators (KPIs) in other areas of social responsibility. We have much work to do to improve CR-related activities across the Group and we are beginning processes to develop a common platform for formally capturing local information at an international level which will improve our reporting requirements.

# Directors' Biographies

48.



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02.



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## 01. Nigel Rich CBE

Chairman \* # †

Appointed as a Non-Executive Director on 1 July 2006, he became Chairman on 1 October 2006. He is Deputy Chairman of Xchanging Ltd, a Non-Executive Director of Pacific Assets Trusts and KGR Absolute Return PCC, and Deputy Chairman of Asia House, a charity promoting cultural and other links with Asia. He was previously Chairman of Exel PLC, CP Ships and Hamptons Group Ltd and in his career he was Managing Director of Hongkong Land and then Jardine Matheson. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

## 02. Ian Coull

Chief Executive ‡ \*

Appointed as Chief Executive on 1 January 2003. He is also on the London Regional Board of Royal & SunAlliance and chairs the British Property Federation's (BPF) REITs task force, having been President of the BPF until July 2006. Prior to joining Slough Estates he was a Director at J Sainsbury plc and held Board and Senior Management positions at Ladbroke's, Texas HomeCare and Cavenham Foods. He is a Fellow of the Royal Institution of Chartered Surveyors.

## 03. John Heawood

Group Executive Director, UK Property ‡

Appointed as a Group Executive Director on 4 November 1996. He is responsible for the UK property portfolio. Prior to joining Slough Estates, he was a Director at DTZ Debenham Tie Leung. He is a Member of the Royal Institution of Chartered Surveyors.

## 04. Andrew Palmer

Non-Executive Director

Chairman of the Audit Committee \* #

Appointed as a Non-Executive Director on 26 January 2004. He is Group Finance Director of Legal & General Group plc where he has held a number of financial and operational roles in the asset management, insurance and international businesses. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

## 05. Christopher Peacock

Non-Executive Director \* †

Appointed as a Non-Executive Director on 28 January 2004. He is a Director of Howard De Walden Estates Limited, a Director of Land Locator Company, and a member of the Strategic Advisory Board of Benson Elliot Real Estate Partners 11, L.P. He was previously President & Chief Executive Officer of Jones Lang LaSalle. He is a Fellow of the Royal Institution of Chartered Surveyors.

## 06. Lesley MacDonagh

Non-Executive Director †

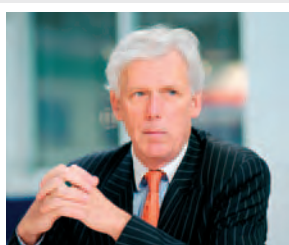
Appointed as a Non-Executive Director on 1 January 2007. She is a Director of Lovells, the International Law Firm, and a Non-Executive Director of Bovis Homes Group. She was previously a Governor of the London School of Economics, a member of the Property Advisory Group for the UK Government, and a Council Member of the Law Society.



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#### 07. Lord Blackwell

Senior Independent Non-Executive Director \* # †

Appointed as a Non-Executive Director on 1 April 2001. He is Chairman of Interserve plc, a Non-Executive Director of Standard Life plc, a senior adviser to KPMG's Corporate Finance practice, a Non-Executive Board Member of the Office of Fair Trading Limited, and Chairman of the Centre for Policy Studies. He was previously a partner with McKinsey & Company, Head of the Prime Minister's Policy Unit from 1995-97, Director of Group Development at NatWest Group, and a Non-Executive Director of The Corporate Services Group plc and Smartstream Technologies Ltd. He became a Life Peer in 1997.

#### 08. Stephen L Howard

Non-Executive Director

Chairman of the Remuneration Committee \* # †

Appointed as a Non-Executive Director on 16 May 2001. He is a Non-Executive Director of Balfour Beatty plc, holds memberships of the advisory councils of various private and non-profit organisations, and is the Managing Director of Business in the Community. He was previously Group Chief Executive of Cookson Group plc and then Novar plc.

#### 09. Thom Wernink

Non-Executive Director #

Appointed as a Non-Executive Director on 23 May 2005. He is a Non-Executive Director on a number of property and investment companies based in Continental Europe. He was previously Chairman of the European Public Real Estate Association and of Corio NV, a Netherlands-based property company with retail, office and retail interests across Europe.

#### 10. Walter Hens

Managing Director, Continental Europe ‡

Appointed as a Group Executive Director on 1 January 2007. He is responsible for the Continental Europe property portfolio. He is also a Non-Executive Director of Intervest Offices, a Belgian REIT. He joined Slough Estates in 1989, was responsible for Belgian operations until 2004 and joined the Executive Committee in September 2005. Prior to joining the Company, he was with Imofa (now Banimmoo). He is a Fellow of the Royal Institution of Chartered Surveyors.

#### 11. Marshall Lees

President, North America ‡

Appointed as a Group Executive Director on 25 March 1998. He is responsible for the USA property portfolio. He is also a Director of the Charterhouse Group International, Inc. He joined Slough Estates in 1987. Prior to joining the Company, he was with British American Tobacco, obtained an MBA at the London Business School and subsequently joined Imperial Group Plc.

#### 12. David Sleath

Group Finance Director ‡

Appointed as Group Finance Director on 1 January 2006. He joined Slough Estates as Deputy Finance Director in April 2005. Prior to joining the Company, he was Finance Director of Wagon plc and, for Arthur Andersen, he was a partner and Head of Audit & Assurance for the Midland region. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

\* Member of Nomination Committee

# Member of Audit Committee

† Member of Remuneration Committee

‡ Executive Committee

# Executive Committee

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## Members:

Ian Coull\*  
 Roger Bell  
 Andrew Gulliford  
 John Heawood\*  
 Walter Hens\*  
 Marshall Lees\*  
 John Probert  
 David Sleath\*  
 Jennifer Titford  
 Michael Waring

\* Biographies on  
 pages 48 and 49

### 01. Andrew Gulliford

#### Director of Corporate Acquisitions

Appointed to the Executive Committee on joining Slough Estates in July 2004. He is responsible for major transactions in the UK and is a director of HelioSlough, the Company's logistics joint venture. Prior to joining Slough Estates, he was European Director for Industrial Services at Jones Lang LaSalle.

### 02. John Probert

#### Group Company Secretary

Appointed to the Executive Committee in August 2003. He is responsible for Company Secretariat, insurance and business continuity planning. He joined Slough Estates in 1986 as Assistant Company Secretary and became Company Secretary in 1990. Prior to joining the Company, he was with Metal Box.

### 03. Jennifer Titford

#### Director of Human Resources

Appointed to the Executive Committee on joining Slough Estates in June 2003. She is responsible for Group Human Resources and is a Board member for the Council of Management of Corporate Health Ltd, a charitable trust. Prior to joining Slough Estates, she was head of Human Resource for the property company of J Sainsbury plc, and Head of Human Resources for UK Store Development, Operations and Group Estates at Marks & Spencer.

### 04. Michael Waring

#### Director of Corporate Communications

Appointed to the Executive Committee on joining Slough Estates in October 2005. He set up the Company's first in-house Communications function and his responsibilities include Investor Relations. Prior to joining Slough Estates, he was global Director of Communications for United Business Media and prior to that he held a range of strategy, regulatory and international business development roles at BAA. He trained in Chartered Accountancy at KPMG Peat Marwick.

### 05. Roger Bell

#### Director of Group Strategy

Appointed to the Executive Committee in October 2005. He is responsible for development of the Group strategic framework. He joined Slough Estates in 1986 and in 1997 he moved to the UK property business. In 2003 he joined the Strategy Unit and in 2005 was appointed Head of Group Strategy. Prior to joining the Company, he trained with Coopers & Lybrand.



It is clear that 2007 is going to be at least as busy and full of opportunities as 2006.

The Company is well placed to take advantage of the opportunities, has a substantial development pipeline, and is determined to build on its position as a leader in the provision of Flexible Business Space in Europe.

Nigel Rich, Chairman



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The Company is required to comply with The Combined Code on Corporate Governance ("the Code") which came into effect for reporting years beginning on or after 1 November 2003.

For the Company, this was effective from 1 January 2004 and a revised code was introduced in June 2006.

#### Statement of Compliance

The Company believes that, as demonstrated by the information set out in this section and in the Remuneration Report, it has applied the principles, save as indicated below, and complied with the provisions of the Code throughout the year ended 31 December 2006.

Mr N M S Rich was appointed Non-Executive Director on 1 July 2006 and Chairman on 1 October 2006 and on appointment was deemed independent as per the requirements of A.2.2. of the Code. Mr P D Orchard-Lisle resigned as Chairman on 1 October 2006 and was not deemed independent due to the length of his service with the Company but the Board agreed that he should remain as Chairman until his successor was appointed.

#### The Board

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

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

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

The Board has a schedule of matters reserved to it and discusses and makes decisions relating to, but not limited to, strategy and management, structure and capital, financial reporting controls, internal controls, contracts, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters and policies, significant acquisition and disposals of assets and development approvals.

The Board delegates authority to the Executive Committee in respect of certain transactions within defined, limited parameters.

Managing corporate responsibility opportunities and risks are fully considered by the Board and overseen by a separate Executive Committee.

There are the following Board Committees:

- Audit
- Remuneration
- Nomination

Membership of these committees is set out on pages 48 and 49.

Below is a table of the attendance:

Table of the attendance

Name	Board (11 meetings)	Audit Committee (3 meetings)	Remuneration Committee (5 meetings)	Nomination Committee (1 meeting)
N M S Rich <sup>4</sup>	5	–	1	–
Lord Blackwell	11	3	5	1
I D Coull	11	–	–	–
J A N Heawood	11	–	–	–
W E R Hens <sup>1</sup>	–	–	–	–
S L Howard	11	3	5	1
R D Kingston <sup>2</sup>	11	–	–	–
M D Lees <sup>6</sup>	6	–	–	–
L A MacDonagh <sup>3</sup>	–	–	–	–
Rt Hon Lord MacGregor <sup>5</sup>	5	1	–	–
P D Orchard-Lisle <sup>7</sup>	7	3	2	1
A W Palmer	10	3	–	1
C A Peacock	10	–	5	1
D J R Sleath	11	–	–	–
T W Wernink	11	3	–	1

1 Mr W E R Hens was appointed to the Board on 1 January 2007. He was in attendance for 5 Board meetings during 2006

2 Mr R D Kingston retired from the Board on 31 December 2006

3 Mrs L A MacDonagh was appointed to the Board on 1 January 2007

4 Mr N M S Rich was appointed to the Board on 1 July 2006

5 Rt Hon Lord MacGregor resigned from the Board on 16 May 2006

6 Mr M D Lees is resident in the USA and therefore does not travel over for every Group Board meeting

7 Mr P D Orchard-Lisle resigned from the Board on 1 October 2006

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Terms of Reference for each of the Board Committees are available on the Company's website ([www.segro.com](http://www.segro.com)) or on written request from the Company Secretary as are the terms of appointment for the Non-Executive Directors, Chairman and Chief Executive.

## **Chairman and Chief Executive**

Mr N M S Rich was appointed to the Board on 1 July 2006 and appointed Chairman on 1 October 2006 when Mr P D Orchard-Lisle resigned as Chairman. The Chairman has no other significant commitments and is not Chairman of any other FTSE 100 company.

Mr I D Coull was appointed Chief Executive in 2003.

The Board has approved written roles for the Chairman and the Chief Executive.

## **Non-Executive Directors**

In addition to the Chairman, there are five Executive Directors, (including Mr W E R Hens who was appointed to the Board on 1 January 2007), Lord Blackwell (Senior Independent Non-Executive) and six other Non-Executives.

The Board considers that the following Non-Executives are independent in both character and judgement and there are no relationships or circumstances which are likely to affect or appear to affect the individual's judgement.

- Mr N M S Rich
- Lord Blackwell
- Mr S L Howard
- Mr A W Palmer
- Mr C A Peacock
- Mr T W Wernink
- Mrs L A MacDonagh

Mr P D Orchard-Lisle (former Chairman) and Mr N M S Rich both held meetings during the year with the Non-Executive Directors without the Executive Directors being present.

## **Appointments to the Board**

The Nomination Committee comprises Mr N M S Rich, who chairs this committee, Mr S L Howard, Mr A W Palmer and Mr C A Peacock, all of whom are independent Non-Executive Directors and Mr I D Coull. The Committee has responsibility for making recommendations for new appointments to the Board. Outside consultants give advice to the Committee regarding searches for potential new Non-Executive Directors.

The Committee evaluates the balance of skills, knowledge and experience on the Board and prepares a description of the role and capabilities required for a particular appointment.

## **Information and Professional Development**

Board meetings are held on a regular basis with some eleven meetings being programmed each year, with additional ad-hoc ones being arranged if necessary.

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.

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

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

All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Directors have the right to consult with the Company's professional advisers and to seek independent professional advice at the Company's reasonable expense.

## **Performance Evaluation**

The Board undertakes a formal evaluation of its own performance and that of its committees and individual Directors. The Chairman leads this process, assisted by the Company Secretary. The performance evaluation consists of each Director completing a wide ranging appraisal questionnaire which is based on the process and questions outlined in the Code. The responses to the questionnaire are reviewed by the Chairman and the Board.

There were no major issues identified in the 2006 review. Some minor adjustments have been made to the operation of the Board.

The Chairman has confirmed that the Non-Executive Directors standing for re-election at this year's Annual General Meeting continue to perform effectively and demonstrate commitment to their roles.

## **Re-election**

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

Non-Executive Directors are appointed and are then subject to periodic re-appointment. After two terms of three years there is a rigorous assessment prior to their being proposed.

## **The level and make-up of Remuneration**

The pay and benefits for Executive Directors, including the Chairman, is determined by the Remuneration Committee. The Committee comprises, Mr S L Howard (Chairman), Lord Blackwell, Mr N M S Rich and Mr C A Peacock.

For Non-Executive Directors, their fees and remuneration is determined by the Board on the advice of the 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.

The Remuneration Report is on pages 59 to 67.

## **Accountability and Audit**

There is an Audit Committee comprising Mr A W Palmer (Chairman), Lord Blackwell, Mr S L Howard, Mr N M S Rich and Mr T W Wernink.



The Terms of Reference of the Audit Committee are:

- (a) considering the appointment of the external auditor and ensuring that key partners are rotated at appropriate intervals;
- (b) assessing the independence of the external auditor;
- (c) recommendation of the audit fee to the Board and pre-approve any fees in respect of non-audit services provided by the external auditor in excess of a fee of £25,000 per assignment and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectives. For the avoidance of doubt, the provision of normal taxation advice is to be regarded as being included within normal audit services;
- (d) discussing with the external auditor, before the audit commences, the nature and scope of the audit and reviewing the auditors' quality control procedures and the steps taken by the auditor to respond to changes in regulatory and other requirements;
- (e) overseeing the process for selecting the external auditor and making appropriate recommendations through the Board to the shareholders to consider at the Annual General Meeting;
- (f) reviewing the external auditor's management letter and management's response;
- (g) reviewing the results of internal audits and management responses;
- (h) considering management's response to any major external audit or internal review recommendations;
- (i) reviewing from time to time the Company's procedures for handling allegations from whistleblowers;
- (j) reviewing the assessment and management of risk, including financial, market, operational, legal, regulatory and reputational risks, and reviewing management, internal auditor's reports and the comments of the external auditors;
- (k) reviewing management's and the internal auditor's reports on the effectiveness of systems for internal financial control and reporting;
- (l) reviewing, and challenging where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the board, paying particular attention to:
  1. critical accounting policies and practices, and any changes in them
  2. decisions requiring a major element of judgement
  3. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
  4. the clarity of disclosures
  5. significant adjustments resulting from the audit
  6. the going concern assumption
  7. compliance with accounting standards
  8. compliance with stock exchange and other legal requirements
  9. reviewing the Company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Company;
- (m) reviewing significant litigation and legal risk (if not in the ordinary course of business);
- (n) reviewing the internal audit programme;
- (o) ensuring that such internal audit function is adequately resourced and has appropriate standing with the Company;
- (p) approving the appointment or dismissal of the head of internal audit; and
- (q) considering such other topics, as defined by the Board.

#### 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 & Internal Audit

The Board is responsible for monitoring and maintaining a robust and effective internal controls framework across the Group and for identifying, evaluating and managing the Group's significant risks, in compliance with principle C.2 of the Combined Code. This framework and system has been developed in compliance with the Turnbull guidance and is continuously reviewed by the Board, who confirm that it has been in place throughout the year and to the date of this report. The framework and internal controls system are designed to manage but not to eliminate the risk of failure of the Group to meet its business objectives and as such only provide reasonable but not absolute assurance against material misstatement or loss.

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The key features of the internal control framework include:

- 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 and effective operation;
- the provision of a code of conduct for employees and the monitoring of the quality of personnel through an annual performance appraisal process;
- a regular and ongoing risk assessment process, undertaken at both Group and subsidiary levels which includes identification and evaluation of the likelihood of key risks materialising and assessment of the controls and other processes in place to manage such risks;
- a Group Risk Committee, with the responsibility to oversee the identification, assessment and management of all the risks faced by the Group;
- an internal audit function, introduced during 2006, with a risk-based programme of work aimed at improving processes and the controls; and
- an annual control self-assessment and certification exercise whereby managers throughout the business carry out an assessment of the controls in their area of the responsibility and certify whether such controls have been operating effectively throughout the year.

During the second half of the year an internal audit function was established using an external provider. The function is managed internally but the scope of work and findings are closely monitored by the Board and the Audit Committee. The Internal Audit function carries out a programme of risk-based reviews to ensure both operating effectiveness of internal controls, but also to assess the design effectiveness of the controls, promoting best practice and consistency across the Group.

The Audit Committee on behalf of the Board has reviewed the effectiveness of the systems of internal control and risk management. The review covered all material areas of the business including financial, operational and compliance controls and risk management.

In performing its review of effectiveness, the Audit Committee took into account the following reports and activities:

- Internal audit reports on reviews of business processes and activities, including action plans to address any identified control weaknesses.
- Management's own assessments of the strengths and weaknesses of the overall control environment in their area, and the action plans to address the weaknesses.
- External auditor reports on any recommendations for improvements in controls or processes identified in the course of their work, including the follow-up of previous recommendations.
- Risk management reporting, including the status of actions to mitigate major risks.

The Board and the Audit Committee monitor management's action plans designed to address weaknesses in internal controls which have been identified as a result of the above procedures. The Board confirms that it has not been advised of any failings of weaknesses which it regards to be significant.

## Relations with Shareholders

The Chairman, Chief Executive and designated 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.

There are regular meetings with institutional shareholders held by the Chief Executive and Finance Director which are reported on to the Board. The Chairman and the Senior Independent Non-Executive Director have separate meetings with institutional shareholders and these are also reported on to the Board.

## Constructive Use of the Annual General Meeting

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

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

## Risk Management

For more detailed information on risk management please refer to pages 18 to 20 in the Operating and Financial Review.

The Directors submit their annual report together with the audited accounts for the year ended 31 December 2006 which were approved by the Board on 7 March 2007.

### Business Review

The principal activities of the Group continued throughout 2006 to be commercial property development, construction and investment, the supply of utility services and the provision of services associated with such activities.

The review of the business of the Company and the description of the principal risks and uncertainties facing the Company, comprises the following sections of the Annual report: the Chief Executive's review, the Financial Directors' review and the Operating and Financial Review.

Other information relevant to the Directors' Report may be found in the following sections of the Annual Report:

Information	Location in Annual Report
Future developments	Operating and Financial Review
Supplier payment policies	Operating and Financial Review
Employment policies	Operating and Financial Review
Environmental matters	Operating and Financial Review
Social & community matters	Operating and Financial Review

### Results

The results for the year are set out in the Group income statement on page 69. The Group's pre-tax profits were £690.1 million (as detailed on page 69 of the financial statements). This compares with a profit of £582.3 million for the year ended 31 December 2005. Profit after tax from continuing operations amounted to £919.1 million (2005 £388.1 million). After allowing for minority interests of £2.6 million the earnings attributable to ordinary shareholders were £916.5 million (2005 £385.1 million). Basic earnings per ordinary share excluding exceptional items and deferred tax amounted to 25.1 pence (2005 24 pence) and 201.8 pence (2005 91.7 pence) including exceptional items and deferred tax.

Adjusted diluted net assets per ordinary share excluding deferred tax relating to investment properties increased to 775 pence (2005 680 pence).

### Ordinary Dividend

An interim dividend of 6.9 pence per share was paid on 6 October 2006.

Your Board recommends the payment of a final dividend in respect of the year ended 31 December 2006 of 12.1 pence per share, making a total dividend of 19.0 pence per share (2005 17.5 pence per share) an increase of 8.6 per cent over the 2005 dividends.

Subject to authorisation at the Annual General Meeting to be held on 22 May 2007, the final ordinary dividend is payable on 25 May 2007 and the record date will be 20 April 2007. A dividend reinvestment plan will be introduced during 2007 which will enable ordinary shareholders to invest their dividends in ordinary shares.

The dividends paid during 2006 absorbed £84 million.

### Property Valuations

The valuation of the Group's investment and development properties which was carried out by external valuers as at 31 December 2006, amounted to £5,616.3 million, an increase of £740 million over last year's £4,876.4 million. After taking into account expenditure on investment and development properties of £480 million, the book value of property disposals of £165 million, exchange losses of £138 million and a transfer from trading property of £8 million the surplus transferred to revaluation reserve amounted to £555 million.

Further details concerning the valuation are set out on pages 87 to 90 and note 15 to the accounts.

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

### Directors

The present Directors who held office throughout the year are named on pages 48 and 49.

In addition, Mr N M S Rich was appointed as a Non-Executive Director on 1 July 2006 and became Non-Executive Chairman on 1 October 2006, Mrs L A MacDonagh and Mr W E R Hens were appointed Directors on 1 January 2007. Mr P D Orchard-Lisle resigned as a Director on 1 October 2006 and Mr R D Kingston retired on 31 December 2006.

Details of Directors' remuneration, pension rights, service contracts and Directors' interests in the ordinary shares of the Company are included in the Remuneration Report of the Remuneration Committee on pages 59 to 67.

In accordance with the Articles of Association, Mr S L Howard, Mr M D Lees, Mr A W Palmer and Mr C A Peacock will retire from the Board by rotation and, being eligible, offer themselves for re-election. Since Mr N M S Rich, Mrs L A MacDonagh and Mr W E R Hens were appointed Directors after the last Annual General Meeting, they will retire from the Board, and being eligible offer themselves for re-election. Mr N M S Rich and Mrs L A MacDonagh do not have service agreements with the Company. Mr W E R Hens has a service agreement which is terminable on six month's notice from the Company.

### Share Capital

At the 2006 Annual General Meeting, shareholders gave the Company renewed authority to repurchase in the market ordinary shares representing up to 10 per cent of the issued share capital at that time with such authority to expire at the 2007 Annual General Meeting. No shares were repurchased in the year to 31 December 2006. A resolution to renew this authority in respect of up to 10 per cent of the issued share capital will be proposed at the 2007 Annual General Meeting.

### Directors' Indemnities

Directors of the Company are entitled to be indemnified by the Company against any liability, loss or expenditure incurred in connection with their duties, powers or office, to the extent permitted by statute.

### 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 and suppliers are made aware

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of these payment conditions. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with relevant contractual conditions. The Group's trade creditors as a proportion of amounts invoiced by suppliers represented 19 days at 31 December 2006 (2005: 16 days). The Directors do not consider that there is any one supplier (or person with whom the Company has a contractual arrangement with) that is essential to the business.

**Employment**

Details of the Group's policies on employment and on employee development are given in the Operating and Financial Review. The Group is committed to achieving a high standard of health and safety and is continually reviewing its policies and practices to ensure that those standards are maintained. We are committed to ensuring safe and healthy working conditions for our employees and visitors.

**Charitable, Political and Other Donations**

There were no political donations during the year and it is the Group's policy not to make cash donations to political parties. However, the definition of political donations used in the Political Parties Election and Referendums Act 2000 is very broad and as a result could cover activities that form part of the relationships between the Group 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 Group acts within the provisions of the current UK law when carrying out its normal business activities.

The charitable amounts given by the Company in 2006 were as follows:

	£
Charitable Donations	£617,209
The main donations made were as follows:-	
Slough Social Fund	£372,209
Corporate Health (benefit in kind)	£165,000
In kind support	£ 80,000

Donations are made to a variety of community and social charities and in particular to charities connected to localities in which the Group is represented. Slough Social Fund is a charity which provides financial support to local charities in the Slough and South Bucks area. The benefit in kind provided to Corporate Health includes the provision of a rent-free building which Corporate Health (a registered charity) uses to provide occupation health services to the Slough Trading Estate.

**Environment & Corporate Responsibility**

The Group's environmental policy is published on the Company's website [www.segro.com](http://www.segro.com). We report on our environmental activities in more detail in the Operating and Financial Review. We report on corporate responsibility matters including employees, health, safety and the environment both in this report and in our separate 2006 Corporate Responsibility Report.

**Auditors and Disclosure of Information to Auditors**

PricewaterhouseCoopers LLP were appointed as auditors of the Group to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

So far as the Directors are aware, there is no relevant audit information of which the auditors is unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Directors' Interests in Share and Loan Capital**

The Directors of the Company who were in office at 31 December 2006 and the beneficial and non-beneficial interests of these Directors and their families in the share and loan capital of the Company, are shown in the Remuneration Report of the Remuneration Committee on page 64.

Save as mentioned in the Remuneration Report of the Remuneration Committee on page 64, 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 2006.

**Treasury Operations, Financial Instruments and Risk Management**

The Group's policy in relation to financial risk management, objectives and policies of the Company are set out in the Operating and Financial Review.

**Substantial Shareholdings**

At 7 March 2007 the following substantial interests (3 per cent or more) in the ordinary share capital of the Company had been notified to the Company:

ABP Investments hold in aggregate 23,241,694 ordinary shares of 25p each representing 4.92 per cent.

The AXA Group and its subsidiaries hold in aggregate 22,103,380 ordinary shares of 25p each, representing 4.68 per cent.

Barclays plc and its subsidiaries hold in aggregate 30,734,814 ordinary shares of 25p each, representing 6.51 per cent.

Legal & General Investment Management Limited and its subsidiaries hold in aggregate 18,578,115 ordinary shares of 25p each, representing 3.94 per cent.

By order of the Board

J R Probert  
Secretary

7 March 2007



This report has been approved and adopted by the Board and has been prepared in accordance with the Schedule 7A Companies Act 1985 and the Listing Rules of the Financial Services Authority. A resolution to approve this report will be proposed at the Annual General Meeting of the Company.

The auditors must report to the Company's members on the information contained in the tables on pages 64 to 67 of this report and state whether, in their opinion, this part of the report has been properly prepared in accordance with the Companies Act 1985. This is the audited information. The rest of the report is the unaudited information and appears on pages 59 to 63.

#### Unaudited Information

##### The Remuneration Committee of the Board (the "Committee")

The Committee only comprises Non-Executive Directors and is chaired by Mr S L Howard. The other members of the Committee during the year were Mr N M S Rich, Lord Blackwell and Mr C A Peacock. Mrs L A MacDonagh was appointed on 1 January 2007. Their biographical details appear on pages 48 and 49. All the Non-Executive Directors appointed to the Committee are considered to be independent by the Company. The Committee operates within written terms of reference which are available on the Company's website. The Chief Executive may attend Committee meetings, except when his own remuneration is discussed.

#### Advice

During the year the Committee has sought advice on various aspects of remuneration from Ernst & Young LLP. On 3 August 2006 Watson Wyatt were appointed in their place. Ernst & Young LLP provide the Company with limited fiscal advice in Poland and Hungary. The Company's legal adviser, Lovells, has also provided advice to the Committee on employees' share plans and employment matters. Lovells also acts for the Company and has provided legal advice to the Company on a range of matters including advice on corporate, employment, litigation, real estate, tax and pension issues. Watson Wyatt provide no other services to the company.

During the year, the Director of Human Resources provided information and advice to the Committee. The Company Secretary has also provided administrative support and information to the Committee.

#### Remuneration Policy

The function of the Committee is to review and determine annually, the individual salaries and other terms and conditions of employment of the Executive Directors and Company Secretary together with any incentive or bonus plan in which the Executive Directors and other senior Executives may be invited to participate. During the year the Committee met five times. The objective of the Group's remuneration policy is to provide remuneration which will attract, motivate and retain high quality management.

The levels of remuneration are set by reference to the market median for the relevant market. For Executives this refers to companies of a similar size within the FTSE 100 and 250 and other UK property companies.

The Group 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 in the UK and in those countries where it operates. The Group is committed to using remuneration to reinforce a strong performance culture whereby excellence is expected at every level of the business. This policy extends to all employees.

The Group policy is supported by the following remuneration aims:

- 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 and
- To make reward formulation transparent, well communicated and relevant to long-term performance.

Executive Directors and other senior Executives are encouraged to acquire and retain ordinary shares in the Company to the value of one times their annual salary within a five year period of joining the Group. The Chief Executive is encouraged to acquire and retain shares to the value of one and a half times annual salary within a five year period.

#### Components of Executive Remuneration

To align the interests of the Executive Directors and Shareholders, a significant proportion of the Executive Directors' remuneration is performance-related through an annual incentive plan and share-based long-term incentive plans which are described more fully below.

The remuneration packages for the Executive Directors comprise the following elements:

- Base salary
- Annual Incentive Plan
- Long-term share incentive
- Save as you earn
- Share Incentive Plan
- Pension contributions
- Other benefits (eg. health and life insurance)
- Company cars

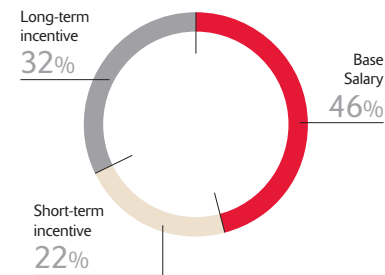
The Committee takes a total approach to remuneration which includes all these elements. The Committee considers that all of the elements of the package are of equal importance in supporting the Group's remuneration policy. The Committee considers that the targets set for the different elements of performance-related remuneration are appropriate and demanding. The Committee also oversees the long-term share incentive arrangements for relevant senior Executives.

An appropriate balance is maintained between fixed and performance-related remuneration and between elements linked to short-term financial performance and those linked to longer term shareholder value creation (see illustrative graphs below). Actual figures have been taken for base salary and on "target figures" for the variable elements.

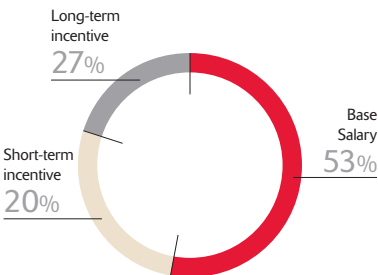
# Remuneration Report

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## Chief Executive



## Other Executive Directors



### Base Salary and Benefits

Each Executive Director receives a salary which reflects his responsibilities, experience and performance. Salaries are reviewed annually in April having regard to competitive market practice, company and individual performance and independently compiled salary survey information. Benefits include the use of a company car or the provision of a car allowance, health insurance and life assurance cover. Benefits are reviewed annually. Details of directors' remuneration are given on page 63.

### Annual Incentive Plan (the "Plan")

The Plan extends to all Executive Directors, Executive Committee members, senior management and employees based at Head Office. It consists of a cash bonus payable reflecting the performance of the Group, their operating area and their own individual performance during the year. Any payment made under the Plan are agreed by the Committee and take account of individual performance and responsibilities. Any payments made under the Plan are not pensionable.

Performance is measured over a financial year and payment is made after the financial year end. For Executive Directors and the Chief Executive the principal financial measure is the delivery of the annual budget. The Plan also contains an element of reward for the achievement of individual objectives. Actual targets are not disclosed for reasons of commercial sensitivity.

During 2006 under the Plan, UK Executive Directors could earn a cash bonus of up to a maximum of 50 per cent of base salary if they met stringent performance criteria set by the Committee. This bonus was based on Group profit (50 per cent), divisional performance (30 per cent) and individual performance (20 per cent). The Chief Executive had the opportunity to earn a cash bonus of up to 80 per cent of base salary. His bonus is based on Group profit (80 per cent) and individual performance (20 per cent). Mr M D Lees who is based in the USA has the opportunity of earning a cash bonus of up to 100 per cent of salary in line with market conditions in the USA. A bonus of up to 100 per cent of salary may be payable to him but it is contingent on the outcome of the USA strategic review.

The actual bonuses to be paid to the Executive Directors during the year are set out below:

Name	Bonus Payable	Percentage of base salary
I D Coull	£376,992	76.16%
J A N Heawood	£120,183	40.74%
D J R Sleath	£145,500	48.50%
R D Kingston*	£94,050	28.50%
M D Lees**	–	–

\* Mr R D Kingston's bonus was paid on his retirement from the Board

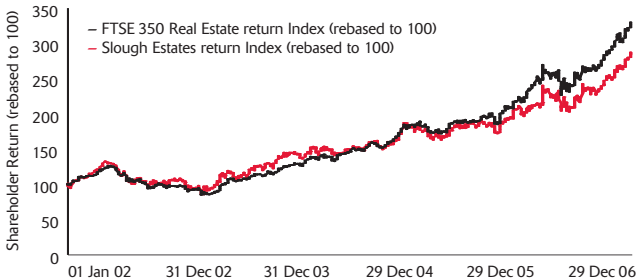
\*\* Any future bonus payment to Mr M D Lees will be contingent on the outcome of the USA strategic review.

Annual bonus levels earned in 2006 reflect above target performance on financial measures and above target personal performance for the Executive Directors.

Going forward for 2007, the Committee have agreed to increase the bonus opportunity for the Executive Directors and the Chief Executive. The Executive Directors will now be able to earn a cash bonus of up to 80 per cent of salary and the Chief Executive will now have a bonus opportunity of 100 per cent of salary. As before cash bonuses will only be paid if stringent performance criteria are met. This change was made in order to keep the Company's remuneration competitive within the market.

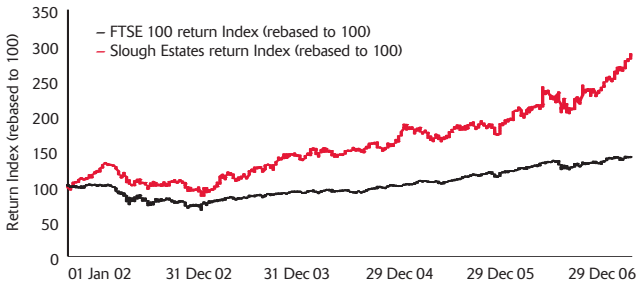
Below are charts showing total shareholder returns for the Company for each of the last five financial years compared to the FTSE 350 Real Estate Index and the FTSE 100 index.

### Slough Estates versus FTSE 350 Real Estate Index



Total Shareholder Return – value of hypothetical £100 holding of shares

### Slough Estates versus FTSE 100



Total Shareholder Return – value of hypothetical £100 holding of shares

Source: Datastream

The Company has compared itself against both the FTSE 350 Real Estate Index and the FTSE 100 Index as it joined the FTSE 100 index during 2006.

### Policy on Performance Conditions and Summary of the Employees' Share Plans

There were no significant changes to the Company's remuneration policy introduced during the year. There are no plans to make grants under the Executive Share Option Plans in the future, unless required for recruitment purposes. Long-term incentive is delivered entirely through the Long-Term Share Incentive Scheme for all Executive Directors, senior managers and managers. The Committee will keep the Group's remuneration policy, under review to ensure the Group's reward programmes remain competitive and provide appropriate incentive for performance. The Committee will take account of institutional investor guidelines in relation to the operation of the performance conditions and, the proportion of shares that vest and acceptable levels of dilution.

The number of ordinary shares over which annual grants have been made to Executive Directors and employees is well below the recommended one per cent per annum.

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

The Committee is of the opinion that diluted earnings per share excluding profit and losses on sale of investment properties, net of tax and minority interests, any exceptional provision and deferred tax relating to investment properties ("adjusted diluted EPS") and diluted net assets per share excluding deferred tax relating to investment properties ("adjusted diluted NAV") are the most appropriate performance criteria for a property investment company. However, adjusted diluted EPS is considered the more important of the criteria. By concentrating on creating new and growing rental income flows, there will be growth in earnings and dividends. The growing rental income flows should be sustainable over the longer term and the resultant cash flows will influence the valuation and hence net asset values per share. Net asset values also change from year-to-year depending on the valuers' view of capitalisation rates prevailing 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 "LTIS")

The LTIS is for the Executive Directors, Senior Executives and managers and is operated by the independent Trustees of the Slough Estates plc 1994 Employees' Benefit Trust (the "Trustees"). The Trustees of the LTIS are Towers Perrin Share Plan Services (Guernsey) Limited.

Awards under the LTIS are granted at the discretion of the Trustees 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 of the date on which the awards were granted if the performance targets described below have been achieved. Executive Directors will be encouraged as part of the Company's shareholding guidelines to hold their LTIS shares for a three year period after vesting.

Awards are normally granted annually. The level of awards is based on an annual assessment of individual and corporate performance. The maximum value of an award which may be granted to the Chief Executive in any year is 175 per cent of salary and the maximum value of an award granted to any Executive Director is 140 per cent of salary.

The Committee believes that the LTIS provides a clear incentive to participants to improve the performance of the business through the focus on two of the key measures of long-term success – earnings growth and net asset values.

The performance targets are based on the achievement of real growth in adjusted diluted EPS and adjusted diluted NAV over a period of three years. All awards under the LTIS are subject to the same performance targets.

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

	Vesting	Adjusted diluted EPS	Adjusted diluted 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 proportionately for intermediate achievement if performance exceeds the lower hurdle.

The higher weighting to adjusted diluted EPS is explained on page 85. Adjusted diluted NAV is used as this should increase as income grows subject to consistent yields.

The calculation relating to whether or not the performance targets have been met is initially prepared by the Finance Director. This calculation is based on the figures for adjusted diluted EPS and adjusted diluted NAV as shown in the Report and Accounts. These figures are reviewed by the auditors and are then submitted to the Committee for approval. This method was chosen by the Committee because the figures used are the ones shown in the Report and Accounts and are audited.

The estimated costs of the LTIS are charged to operating profit over the three-year period before the actual number of shares to be released is determined. The amount credited to operating profit in 2006 was £602,820 (2005: (£51,498)). During the course of 2006, it was determined that the performance criteria relating to 2005 were not met. As a consequence there was a credit in 2006.

In the event of a change of control of the Company, the Trustees would having first consulted the Board, and having regard to current institutional investor guidelines determine if awards would vest and if so, over how many shares. A recommendation would be made to the Trustees that they measure performance to the date of the relevant event and that the number of shares under award which may be released should reflect the proportion of the performance period for which the award has been held.

Details of awards granted to the Executive Directors under the LTIS are set out in the table on page 65.

In line with our transition to a REIT a full review of the appropriateness of the terms of the LTIS and the performance measures used will be undertaken during the course of 2007.

### Executive Share Option Plans (the "Plans")

In the past the Executive Directors and designated senior executives of the Group have participated in the Plans. As reported last year, the Committee suspended the granting of options under the Plans to Executive Directors and the Executive Committee in 2005. No Executive options were granted in 2006. However, existing options already granted

# Remuneration Report

62. became exercisable in 2006 as a result of meeting the required performance conditions, further options may become exercisable if the relevant performance criteria are met in the future.

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 three and ten years from 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 three 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 options granted to the Executive Directors under the 2002 Plans.

The Executive Directors 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 three and ten years from the date of grant (three and seven years in the case of the Unapproved 1994 Scheme) if the performance condition set at the date of grant is satisfied. Options granted under the 1994 Schemes are only exercisable if the growth in the Company's adjusted EPS exceeds the increase in the RPI over any three year period from the date of grant plus six per cent. The last grant of options under the 1994 Schemes was in 2001. The performance condition applies to all options granted to the Executive Directors under the 1994 Schemes.

Under the 2002 Plans and the 1994 Schemes, the calculation of whether or not the performance condition has 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 to the Committee for approval. This method was chosen by the Committee because the figures used are the ones shown in the Report and Accounts and are audited.

Details of options granted to the Executive Directors under the 2002 Plans and the 1994 Schemes are set out in the table on page 66.

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

The Company has operated an HM Revenue & Customs approved SAYE share option plan 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 2006 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 HM Revenue & Customs approved all-employee plan, 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 66.

### Share Incentive Plan (the "SIP")

The Share Incentive Plan ("SIP") is a HM Revenue & Customs approved all-employee share plan.

All eligible employees of participating Group companies may participate in the SIP. Under the SIP, free shares are normally awarded annually based on a percentage of each employee's base salary per annum. For 2006 this percentage was seven per cent up to a maximum amount of £3,000. The shares are held by the Trustees of the SIP on behalf of a participant for a period of five years from the date of appropriation before they may be released to a participant. The Trustees of the SIP during 2006 were Mr R D Kingston, Mr J A N Heawood and Mr J R Probert. Since Mr R D Kingston's retirement as a Director on 31 December 2006, Mrs J I Titford has been appointed as Trustee in his place.

Details of the Executive Directors' holdings under the SIP are included in the table showing Director's interests in shares on page 64.

### Policy on Outside Appointments

An appointment of an Executive Director to the Board of a non-Group company requires the approval of the Board. Executive Directors who are Non-Executive Directors of non-Group 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. During the year Mr I D Coull was a Non-Executive Director of an external company and the detail of his remuneration is shown on page 64 of this report. Executive Directors should not take on more than one outside external directorship of another publicly listed company.

### Policy on Service Contracts

#### Executive Directors

Service agreements for the Executive Directors are on a twelve month rolling basis. Executive Directors may now opt to continue in employment until age 65 to comply with Age Discrimination legislation. The service agreements for Mr M D Lees and Mr J A N Heawood may be terminated by either party on giving one year's notice. Mr I D Coull, Mr D J R Sleath and Mr W E R Hens are required to give six months' notice to the Company. There are no further provisions for compensation payable on termination of service contracts of Directors.

The appointment and contract commencement/renewal dates for the Executive Directors are as follows:

Name	Date of Appointment	Date of Contract
I D Coull	1 January 2003	1 January 2003
R D Kingston*	1 January 1996	1 January 2005
J A N Heawood	4 November 1996	4 November 1996
M D Lees	25 March 1998	25 March 1998
D J R Sleath	1 January 2006	1 January 2006
W E R Hens	1 January 2007	1 January 2007

\* Mr R D Kingston retired on 31 December 2006



## Policy on Service Contracts (continued)

### Executive Directors (continued)

Any proposals for the early termination of the service contracts of Directors and senior Executives are considered by the Committee. The contractual terms and 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 employees' share plans nor do they receive any other benefits or pension rights under the pension scheme. While 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 annually for any Non-Executive Director appointed longer than nine years, otherwise re-election is every three years.

The appointment dates and service commencement/renewal dates for the Non-Executive Directors are as follows:-

Name	Date of Appointment	Date of Service Agreement
N M S Rich	1 July 2006	1 July 2006
S L Howard	16 May 2001	29 January 2004
Lord Blackwell	1 April 2001	29 January 2004
Lord MacGregor*	6 January 1995	29 January 2004
A W Palmer	28 January 2004	28 January 2004
C A Peacock	28 January 2004	28 January 2004
P D Orchard-Lisle**	25 June 1980	19 August 2005
T W Wernink	23 May 2005	27 May 2005
L A MacDonagh	1 January 2007	1 January 2007

\* Lord MacGregor resigned on 16 May 2006

\*\* Mr P D Orchard-Lisle resigned on 1 October 2006

## Audited Information

### Directors' Emoluments

	Salaries and fees £000	Benefits £000	Annual Incentive Plan £000	Total 2006 £000	Total 2005 £000
N M S Rich (appointed Non-Executive Director 1 July 2006 and Non-Executive Chairman 1 October 2006)	83	–	–	83	–
P D Orchard-Lisle (former Chairman resigned 1 October 2006)	154	–	–	154	109
<b>Executive Directors</b>					
I D Coull Chief Executive	485	46	377	908	646
J A N Heawood	297	20	120	437	429
R D Kingston (retired 31 December 2006)	333	25	94	452	397
D J R Sleath (appointed 1 January 2006)	315	18	146	479	–
M D Lees +	338	29	–	367	645
<b>Non-Executive Directors – Fees</b>					
Lord Blackwell (Senior Independent Director)	43	–	–	43	41
S L Howard (Chairman of the Remuneration Committee)	43	–	–	43	41
The Rt Hon Lord MacGregor of Pulham Market (resigned 16 May 2006)	15	–	–	15	41
A W Palmer (Chairman of the Audit Committee)	40	–	–	40	35
C A Peacock	37	–	–	37	35
T W Wernink	36	–	–	36	21
<b>Total</b>	<b>2,219</b>	<b>138</b>	<b>737</b>	<b>3,094</b>	<b>2,440</b>

+ Mr M D Lees, Chief Executive of Slough Estates USA Inc., is resident and remunerated in the USA. The exchange rate used as at 31.12.06 was \$1.96.

# Remuneration Report

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## Audited Information (continued)

### Directors' Emoluments (continued)

Mr R D Kingston retired as a Director on 31 December 2006 and pursuant to his settlement agreement received a payment of £577,325 as compensation for the termination of his contract.

All the Executive Directors receive benefits comprising the provision of health insurance, life insurance and a company car.

Mr I D Coull was paid a fee of £26,000 for his services as a Non-Executive Director of House of Fraser plc up to 8 November 2006 when he resigned. He was also paid £1,300 for his services as a Director of London Regional Board of Royal & Sun Alliance to 31 December 2006.

### Directors' Interests in Shares

The interests of the Directors and their immediate families in the ordinary shares of the Company at 31 December 2006 and 1 January 2006 were:

	Beneficial interests		Other interests	
	31.12.06	01.01.06	31.12.06	01.01.06
Number of ordinary shares				
N M S Rich <sup>1</sup>	25,000	–	–	–
Lord Blackwell	2,500	2,500	–	–
I D Coull	44,926	23,893	27,645	5,000
W E R Hens <sup>2</sup>	25,808	25,808	–	–
J A N Heawood	44,535	40,432	30,991	23,394
S L Howard	7,500	7,500	–	–
R D Kingston <sup>3</sup>	8,958	54,981	5,366	5,366
M D Lees	61,379	53,436	–	–
L A MacDonagh <sup>4</sup>	–	–	–	–
A W Palmer	2,500	2,500	–	–
C A Peacock	2,500	2,500	–	–
D J R Sleath	10,000	–	–	–
T W Wernink	–	–	–	–

1 N M S Rich was appointed to the Board on 1 July 2006

2 W E R Hens was appointed to the Board on 1 January 2007

3 R D Kingston retired from the Board on 31 December 2006

4 L A MacDonagh was appointed to the Board on 1 January 2007

Beneficial interests in the tables above represent shares beneficially held by each Director together with shares beneficially owned by their spouse and children under 18. They include any ordinary shares held on behalf of the Directors by the Trustees of the Share Incentive Plan.

Between 31 December 2006 and 7 March 2007 there were no changes to the above interests.

At 31 December 2006, the Executive Directors above, together with other senior executives were potential beneficiaries in respect of a total of 1,754,937 ordinary shares in the Company held by the Trustees of the 1994 Slough Estates plc Employees' Benefit Trust.

The following are the non-beneficial interests of the Directors who were in office at 31 December 2006.

	Ordinary shares	
	31.12.06	01.01.06
Number of ordinary shares		
R D Kingston*		
J A N Heawood		
and J R Probert		
(as Trustees of the Share Incentive Plan)	494,170	378,133

\* R D Kingston retired as a Trustee of the Share Incentive Plan on 31 December 2006. Mrs J I Titford was appointed as a Trustee of the Share Incentive Plan in his place on 15 January 2007.

The Trustees of the Share Incentive Plan transferred 5,485 ordinary shares to employees between 31 December 2006 and 7 March 2007.

Audited Information (continued)  
LTIS

	Number of shares under award 01.01.06	Number of shares lapsed/ number of shares not released	Number of shares over which awards granted	Market value of shares on grant £	Number of shares released	Market value on date of release £	Number of shares under award 31.12.06	End of performance period over which performance conditions have to be met
<b>I D Coull</b>								
07.01.03	179,844	107,907		3.40	71,937	5.87		
14.05.04	55,395			4.28			55,395	31.12.06
04.05.05	123,421			4.80			123,421	31.12.07
<b>25.05.06</b>			108,112	6.01			108,112	31.12.08
<b>J A N Heawood</b>								
20.03.03	30,263	18,158		3.06	12,105	5.87		
14.05.04	23,081			4.28			23,081	31.12.06
04.05.05	53,305			4.80			53,305	31.12.07
<b>25.05.06</b>			45,824	6.01			45,824	31.12.08
<b>W E R Hens* 1</b>								
<b>25.05.06</b>			34,385	6.01			34,385	31.12.08
<b>R D Kingston* 2</b>								
20.03.03	32,236	19,342		3.06	12,894	5.87		
14.05.04	25,851			4.28			25,851	31.12.06
04.05.05	61,505			4.80			61,505	31.12.07
<b>25.05.06</b>			74,847	6.01			74,847	31.12.08
<b>M D Lees</b>								
20.03.03	33,099	19,860		3.06	13,239	5.87		
14.05.04	23,726			4.28			23,726	31.12.06
04.05.05	53,390			4.80			53,390	31.12.07
<b>25.05.06</b>			73,044	6.01			73,044	31.12.08
<b>D J R Sleath</b>								
04.05.05	51,254			4.80			51,254	31.12.07
<b>25.05.06</b>			50,916	6.01			50,916	31.12.08

\*1 W E R Hens was appointed as an Executive Director on 1 January 2007

\*2 R D Kingston retired as an Executive Director on 31 December 2006

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

The performance targets are based on the achievement of real growth in adjusted diluted EPS and adjusted diluted NAV over a period of three years. A more detailed summary of the performance criteria for the LTIS can be found on page 61 of this report.

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

	Vesting	Adjusted diluted EPS	Adjusted diluted NAV per share
Low Hurdle	20%	4.0%pa	4.0%pa
High Hurdle	100%	11.0%pa	8.0%pa

and pro-rata for intermediate achievement subject to performance exceeding the Lower Hurdle.

# Remuneration Report

66.

## Audited Information (continued)

Options under The Executive Plans and SAYE Scheme:

	Plan/ Scheme	Number of shares under option at 01.01.06	Number of shares over which options granted	Grant Price pence	Number of shares over which options exercised	Exercise Price pence	Mid Market value on day of exercise pence	Number of shares under option at 31.12.06	Period in which options can be exercised
I D Coull	3	8,720				344.00		8,720	06.01.06-05.01.13
	2	107,559				344.00		107,559	06.01.06-05.01.13
	2	85,515				467.75		85,515	14.04.07-13.04.14
	4	4,726				372.40		4,726	01.05.11-31.10.11
<b>Total</b>		206,520						206,520	
J A N Heawood	1	18,785			18,785	356.50	732.00		
	2	79,310			79,310	290.00	732.00		
	2	53,447				467.75		53,447	14.04.07-13.04.14
	4	3,028			3,028	304.60	671.00		
	4		1,769	528.40		528.40		1,769	01.10.09-31.03.10
<b>Total</b>		154,570	1,769					55,216	
W E R Hens	1	8,364			8,364	356.50	732.00		
<b>Total</b>		8,364						Nil	
R D Kingston	1	22,936			22,936	356.50	586.00		
	2	84,482			84,482	290.00	586.00		
	2	59,861				467.75		59,861	14.04.07-13.04.14
	4	7,520				218.40		7,520	01.05.08-31.10.08
<b>Total</b>		174,799						67,381	
M D Lees	1	28,662				356.50		28,662	28.03.04-27.03.08
	2	86,742				290.00		86,742	20.03.06-19.03.13
	2	54,940				467.75		54,940	14.04.07-13.04.14
<b>Total</b>		170,344						170,344	
DJR Sleath	4		3,046	528.40		528.40		3,046	01.10.11-31.03.12
<b>Total</b>		Nil						3,046	

- (1) Unapproved 1994 Scheme
- (2) 2002 No 2 Plan
- (3) 2002 Plan
- (4) SAYE scheme

The aggregate gross gain on exercise of options by Mr J A N Heawood and Mr R D Kingston was £421,005 and £298,922 respectively. The aggregate gain on exercise for Mr W E R Hens was £46,249.

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

There have been no changes to the terms and conditions of the 2002 Plans, the 1994 Schemes and the SAYE Scheme during the year. The performance criteria for the 1994 Unapproved Scheme is EPS-RPI + 6 per cent over 3 years. The performance criteria for the 2002 No 2 Plan and the 2002 Plan is EPS-RPI + 3 per cent per annum. A more detailed summary of the performance targets for the 2002 Plans and the 1994 Schemes can be found on pages 61 to 62.

The market price of the shares as at 29 December 2006 was 785.5 pence. The highest and lowest market prices of ordinary shares during the financial year were 796 pence and 559 pence.

Between 31 December 2006 and 7 March 2007 there were no changes to the above option figures.

### Pension and Retirement benefits

Pension policy for Executive Directors has been changed during 2006. Previously, pensions were provided through the Slough Estates (1957) Pension Scheme (the "Scheme") and allowed for retirement at the age of 62. At this point in time a pension of two-thirds of final pensionable salary, would be payable (less any retained benefit from previous employment) subject to completion of a minimum of 20 year's service. To comply with Age Discrimination legislation, Executive Directors may now continue in employment until age 65. Upon reaching a pension of two-thirds of final pensionable salary, Executive Directors, other than Mr I D Coull who is subject to a different arrangement, (see UURBS section below) will then accrue a further 1/60th of final pensionable salary for every completed year of subsequent service, which is in line with ordinary members of the Scheme.

All Executive Directors other than Mr M D Lees and Mr W E R Hens qualify for pension benefits under the Scheme, which is a final salary scheme. Mr M D Lees has a deferred pension under the pension Scheme but is no longer accruing any additional benefits. The Scheme is contracted-out of the State Earnings Related Pension Scheme and is HM Revenue & Customs registered. It has been registered with the Pensions' Regulator.

Set out overleaf are details of the pension benefits to which 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 31.12.06 (£000 p.a.)	Transfer value at 31.12.05 (£000)*	Transfer value at 31.12.06 (£000)*	Increase (decrease) in transfer value less Directors' contributions (£000)
I D Coull	22	84	877	1,257	354
J A N Heawood **	8	35	368	484	98
R D Kingston ***	5	180	3,172	3,379	866
M D Lees **	5	135	1,764	2,065	301
D J R Sleath	7	8	12	76	46

\* Transfer values have been calculated in accordance with Actuarial Guidance note GN11. They do not represent sums payable to individual Directors.

\*\* The start year figure for transfer values for Mr Heawood and Mr Lees have been restated to reflect updated retained benefit information.

\*\*\* Mr Kingston retired on 31 December 2006.

The accrued pension entitlement is the amount that the Executive Directors would receive if they retired at the year end.

The Group has provided Mr M D Lees, a resident of the USA, with a pension entitlement broadly equivalent to the benefit that he would receive had he continued to be a member of the Scheme.

Mr W E R Hens's pension arrangements are currently under review in light of his appointment to the Board.

Set out below are details of the pension benefits for each of the Executive Directors for the disclosure required under Rule 9.8.8 (12) of the Listing Rules which are not shown above. The values given below exclude the effect of inflation from their calculation.

Director	Additional accrued pension in the year excluding inflation (£000 p.a.)	Transfer value of increase in accrued pension less Directors' contributions (£000)
I D Coull	20	239
J A N Heawood	7	68
R D Kingston	-	(17)
M D Lees	2	30
D J R Sleath	7	41

#### Funded Unapproved Retirement and Death Benefits Scheme

The Company Funded Unapproved Retirement and Death Benefits Scheme (FURBS) became effective from 1 November 1996. The FURBS will provide benefits to certain employees whose benefits were capped by the Finance Act 1989. These employees are Mr J A N Heawood and Mr D J R Sleath. Mr Heawood's and Mr Sleath's pensions were funded by a combination of the Scheme and the FURBS (which is a money purchase scheme) which has been charged to the income statement. The intention of the combined pension benefit was to provide a pension of two-thirds final pensionable salary (less any retained benefit from prior employment) at age 62 after 20 years' service. The cost of the FURBS in 2006 was £17,016 (2005: £119,030).

Following the introduction of new taxation rules in the Finance Act 2004 (amended in 2006) the Committee has reviewed the pension benefits available to Mr Heawood and Mr Sleath and has decided to remove the FURBS. The intention of the FURBS was to provide in combination with the Scheme pension of two-thirds of a final salary benefit for these two Executives. Instead of this benefit Mr Heawood and Mr Sleath are now entitled to all benefits from the Scheme, on an uncapped basis. The intention of this change is to provide the same defined benefits as the previous arrangements and should not incur any additional cost to the Company.

#### Mr I D Coull's Unfunded Unapproved Retirement Benefits Scheme ("UURBS") Arrangement

Mr I D Coull will be entitled at age 62 to a total pension of two-thirds of his final pensionable salary less any retained benefits from prior employment. Final pensionable salary and retained benefits will be as defined in the rules (as modified by the UURBS) of the Scheme, of which he is a member.

His entitlement to a pension from the Company will consist of a scheme pension from the Scheme and a company pension for which provision is being made in the accounts. The scheme pension will be the maximum that could be paid from the Scheme without prejudicing the former HM Revenue & Customs 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 Scheme.

#### Pension Entitlement in the Event of Severance

The Committee is satisfied that no Executive Director has any guaranteed pension arrangements on leaving service before retirement age. In the event of severance situations company policy will apply to reduce the pension entitlement for early retirement will apply. As previously stated, Mr W E R Hens's pension arrangements are currently under review as a result of his appointment to the Board.

#### Former Directors

Ex-gratia payments to former Directors and their dependents were £84,740 (2005:£83,810).

Lord MacGregor, a former Director, was appointed a Company nominated trustee of the Slough Estates (1957) Pension Scheme on 1 June 2006. He received fees from the Company of £15,703.

#### Approval

At the Annual General Meeting of the Company to be held on 22 May 2007 an ordinary resolution approving this report will be proposed. This report was approved by the Board of Directors on 7 March 2007 and signed on its behalf by order of the Board.

#### S L Howard

Chairman of the Committee  
7 March 2007

#### Note:

Ernst & Young LLP, Lovells and Watson Wyatt 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

68.

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 or loss of the Group 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 that the financial statements comply with IFRS; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at the time the financial position of the Company and 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 Company and 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 Company's website.

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

By order of the Board

**J R Probert**  
Secretary

7 March 2007

	Note	2006			2005		
		Adjusted Income & Expense <sup>1</sup> £m	Adjustments <sup>2</sup> £m	IFRS Income & Expense £m	Adjusted Income & Expense <sup>1</sup> £m	Adjustments <sup>2</sup> £m	IFRS Income & Expense £m
<b>Revenue</b>	3	<b>384.1</b>	–	<b>384.1</b>	405.2	–	405.2
Gross property rental income	3	<b>304.8</b>	–	<b>304.8</b>	269.6	36.4	306.0
Property operating expenses		<b>(57.6)</b>	–	<b>(57.6)</b>	(45.7)	–	(45.7)
<b>Net property rental income</b>		<b>247.2</b>	–	<b>247.2</b>	223.9	36.4	260.3
Profit on sale of trading properties	2	<b>6.1</b>	–	<b>6.1</b>	7.0	16.1	23.1
Share of profits from property joint ventures and associates after tax	7	<b>7.0</b>	<b>6.3</b>	<b>13.3</b>	5.3	8.2	13.5
Net income from utilities and gas	2	<b>2.1</b>	–	<b>2.1</b>	(0.9)	–	(0.9)
Other investment income	4	<b>8.5</b>	–	<b>8.5</b>	5.5	–	5.5
Administration expenses	5	<b>(28.9)</b>	–	<b>(28.9)</b>	(20.7)	–	(20.7)
Property gains	6	–	<b>537.0</b>	<b>537.0</b>	–	423.5	423.5
Gain on disposal of joint ventures		–	–	–	–	7.8	7.8
Gain from sale of gas interests		–	–	–	–	99.7	99.7
<b>Operating profit</b>		<b>242.0</b>	<b>543.3</b>	<b>785.3</b>	220.1	591.7	811.8
Finance income	8	<b>31.1</b>	<b>4.7</b>	<b>35.8</b>	19.9	1.5	21.4
Finance costs	9	<b>(130.4)</b>	<b>(0.6)</b>	<b>(131.0)</b>	(120.5)	(130.4)	(250.9)
<b>Profit before tax</b>		<b>142.7</b>	<b>547.4</b>	<b>690.1</b>	119.5	462.8	582.3
Tax (charge)/credit – current		<b>(18.2)</b>	<b>(71.1)</b>	<b>(89.3)</b>	(15.6)	(28.8)	(44.4)
– deferred		<b>(9.6)</b>	<b>327.9</b>	<b>318.3</b>	(0.4)	(149.4)	(149.8)
<b>Total tax</b>	10	<b>(27.8)</b>	<b>256.8</b>	<b>229.0</b>	(16.0)	(178.2)	(194.2)
<b>Profit for the year</b>		<b>114.9</b>	<b>804.2</b>	<b>919.1</b>	103.5	284.6	388.1
Attributable to equity shareholders		<b>113.9</b>	<b>802.6</b>	<b>916.5</b>	100.9	284.2	385.1
Attributable to minority interests		<b>1.0</b>	<b>1.6</b>	<b>2.6</b>	2.6	0.4	3.0
		<b>114.9</b>	<b>804.2</b>	<b>919.1</b>	103.5	284.6	388.1
Basic earnings per share	12			<b>201.8p</b>			91.7p
Diluted earnings per share	12			<b>196.0p</b>			85.0p

**Notes**

1. 'Adjusted Income & Expense' relates to the Group's income and expense after EPRA adjustments and excluding exceptional items.
2. EPRA adjustments arise from adopting the recommendations of the Best Practices Committee of the European Public Real Estate Association ("EPRA") as appropriate. Exceptional items are disclosed separately due to their size or incidence to enable a better understanding of performance. Both these types of adjustments are described in Note 13.

# Statement of recognised income and expense (SORIE)

For the year ended 31 December 2006

70.

	Note	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Revaluation gains on properties in the course of development	6	22.3	48.4	–	–
Exchange movement arising on translation of international operations		(34.3)	25.4	–	–
Actuarial gains/(losses) on defined benefit pension schemes	27	10.2	(4.0)	11.8	(3.7)
Increase in value of available-for-sale investments	19	7.5	10.8	–	–
Tax on items taken directly to equity		(10.9)	(25.4)	(8.1)	(3.8)
<b>Net (loss)/gain recognised directly in equity</b>		<b>(5.2)</b>	55.2	<b>3.7</b>	(7.5)
Transfer to income statement on sale of available-for-sale investments		(6.2)	(1.1)	–	–
Profit/(loss) for the year		919.1	388.1	425.9	(103.8)
Total recognised income and expense for the year		907.7	442.2	429.6	(111.3)
Adoption of IAS 39		–	(103.9)	–	(106.6)
Total recognised income and expense for the year after restatement		907.7	338.3	429.6	(217.9)
Attributable to – equity shareholders		905.8	334.8	429.6	(217.9)
– minority interests		1.9	3.5	–	–
		907.7	338.3	429.6	(217.9)



		Group		Company	
	Note	2006 £m	2005 £m	2006 £m	2005 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	14	0.7	0.7	–	–
Investment properties	15	5,090.0	4,440.1	–	–
Development and owner occupied properties	15	469.7	436.3	–	–
Plant and equipment	16	48.1	45.0	–	–
Investment in subsidiaries	18	–	–	3,491.0	3,218.0
Investments in joint ventures and associates	18	84.5	100.1	5.5	18.6
Finance lease receivables	17	10.6	10.9	–	–
Available-for-sale investments	19	44.1	54.7	–	–
Deferred tax asset	26	–	–	5.3	12.4
		5,747.7	5,087.8	3,501.8	3,249.0
<b>Current assets</b>					
Trading properties	15	232.3	123.6	–	–
Trade and other receivables	20	185.7	162.8	6.2	1.9
Cash and cash equivalents	21	161.4	172.6	20.9	–
Current tax assets		5.1	8.1	4.0	2.9
Non-current assets classified as held for sale	15	56.6	–	–	–
Finance leases receivables	17	0.2	0.1	–	–
Inventories	22	1.0	1.6	–	–
		642.3	468.8	31.1	4.8
<b>Total assets</b>		<b>6,390.0</b>	<b>5,556.6</b>	<b>3,532.9</b>	<b>3,253.8</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	24	2,307.2	2,250.2	1,468.0	1,782.1
Deferred tax provision	26	298.5	635.9	–	–
Provisions for liabilities and charges	23	17.7	29.6	14.4	27.8
Trade and other payables	28	31.7	7.6	345.0	194.4
		2,655.1	2,923.3	1,827.4	2,004.3
<b>Current liabilities</b>					
Borrowings	24	77.6	14.7	3.8	1.5
Tax liabilities		82.5	7.2	–	–
Trade and other payables	28	192.4	162.4	31.8	31.0
		352.5	184.3	35.6	32.5
<b>Total liabilities</b>		<b>3,007.6</b>	<b>3,107.6</b>	<b>1,863.0</b>	<b>2,036.8</b>
<b>Net assets</b>		<b>3,382.4</b>	<b>2,449.0</b>	<b>1,669.9</b>	<b>1,217.0</b>
<b>Equity</b>					
Share capital	29	118.0	137.5	118.0	137.5
Share premium account	31	367.3	256.8	367.3	256.8
Own shares held	32	(10.6)	(6.9)	(10.6)	(6.9)
Revaluation reserve	33	2,129.3	1,419.6	–	–
Other reserves	34-37	70.4	52.0	48.9	50.3
Retained earnings	38	698.3	581.4	1,146.3	779.3
<b>Total shareholders' equity</b>	30	<b>3,372.7</b>	<b>2,440.4</b>	<b>1,669.9</b>	<b>1,217.0</b>
Minority interests		9.7	8.6	–	–
<b>Total equity</b>		<b>3,382.4</b>	<b>2,449.0</b>	<b>1,669.9</b>	<b>1,217.0</b>
<b>Net assets per ordinary share</b>					
– basic	12	718p	579p		
– diluted	12	716p	542p		

The financial statements on pages 69 to 122 were approved by the Board of Directors and authorised for issue on 7 March 2007 and signed on its behalf by:

I D Coull  
D J R Sleath  
Directors

# Cash flow statements

For the year ended 31 December 2006

72.

	Note	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
<b>Cash inflow/(outflow) generated from operations</b>	44(i)	<b>137.6</b>	237.3	<b>(19.3)</b>	(13.2)
Interest received on deposits and loans		13.1	10.3	111.4	91.6
Dividends received		36.5	4.3	487.9	3.2
Interest paid		(130.7)	(156.7)	(97.3)	(127.4)
Dividends paid to preference shareholders		(5.2)	(10.8)	(5.2)	(10.8)
Minority dividends paid		(0.8)	(4.2)	–	–
Tax (paid)/recovered		(11.6)	(91.8)	0.1	0.3
Additional pension scheme contributions		–	(16.2)	–	(16.2)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>38.9</b>	(27.8)	<b>477.6</b>	(72.5)
<b>Cash flows from investing activities</b>					
Purchase of subsidiary undertakings		–	(9.3)	–	–
Purchase and development of investment properties		(262.6)	(587.4)	–	–
Sale of investment properties		158.3	118.6	–	–
Receipts on property swaps		–	0.2	–	–
Purchase and development of property, plant and equipment		(189.3)	(142.4)	–	–
Sale of property, plant and equipment		5.8	7.6	–	–
Purchase of available-for-sale investments		(4.7)	(11.9)	–	–
Proceeds from disposal of available-for-sale investments		15.7	16.4	–	–
Proceeds from disposal of gas interests		–	122.8	–	–
Additional net investment in subsidiary undertakings		–	–	(491.0)	–
Loan repayments and advances to subsidiary undertakings		–	–	265.9	(227.2)
Investments and loans to joint ventures and associates		(21.3)	(16.5)	–	(12.4)
Repayments of loans by joint ventures		9.2	–	13.1	–
Proceeds from the disposal of investments in joint ventures		–	20.8	–	–
Investment in term deposits		–	185.6	–	0.1
Transfer to restricted deposit		(3.9)	–	–	–
<b>Net cash used in investing activities</b>		<b>(292.8)</b>	(295.5)	<b>(212.0)</b>	(239.5)
<b>Cash flows from financing activities</b>					
Dividends paid to ordinary shareholders		(84.0)	(69.0)	(84.0)	(69.0)
Proceeds from new loans		66.9	644.7	7.6	642.2
Repayment of loans		(10.1)	(366.8)	(168.3)	(304.2)
Net increase in other borrowings		264.6	62.1	–	–
Proceeds from the issue of ordinary shares		5.9	1.5	5.9	1.5
Purchase of own shares		(4.5)	(1.0)	(4.5)	(1.0)
<b>Net cash from/(used in) financing activities</b>		<b>238.8</b>	271.5	<b>(243.3)</b>	269.5
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(15.1)</b>	(51.8)	<b>22.3</b>	(42.5)
Cash and cash equivalents at the beginning of the year		166.9	218.1	(1.5)	41.0
Effect of foreign exchange rate changes		(0.8)	0.6	–	–
<b>Cash and cash equivalents at the end of the year</b>	21	<b>151.0</b>	166.9	<b>20.8</b>	(1.5)

## 1. Significant accounting policies

### Basis of preparation and consolidation

#### Basis of preparation

Slough Estates plc ("the Company") is a public limited company incorporated in England. These financial statements are presented in sterling since that is the currency in which the majority of the Group's transactions are denominated.

The consolidated and parent financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC Interpretations, and the Companies Act 1985 applicable to companies reporting under IFRS. In addition, the Group has also followed best practice recommendations issued by the European Public Real Estate Association ("EPRA") as appropriate.

The Directors have taken advantage of the exemption offered by Section 230 of the Companies Act not to present a separate income statement for the parent company. The financial statements have been prepared under the historical cost convention as modified by the revaluation of properties, available-for-sale investments and financial assets and liabilities held for trading.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The key estimates and assumptions relate to the property valuations applied by the Group's property valuers, the actuarial assumptions used in calculating the Group's retirement pension benefit obligations, and in the determination of the valuation of available-for-sale investments.

#### Basis of consolidation

The consolidated financial statements, prepared up to 31 December 2006, comprise the financial statements of Slough Estates plc ("the Company") and its subsidiaries (collectively referred to as "the Group"), plus the Group's share of the results and net assets of the joint ventures and associates. The Company holds investments in these undertakings at cost.

A subsidiary is an entity controlled by the Company. They are consolidated under the acquisition method from the date of control, and de-recognised when control ceases. Their financial statements are adjusted to align to Group accounting policies, and intra-group balances and unrealised results on intra-group transactions are eliminated on consolidation.

An associate is an entity which the Group can significantly influence but not control. A joint venture is a contract under which the Group and other parties undertake an activity, or invest in an entity, under joint control. The Group uses equity accounting for such entities, carrying its investment at cost plus the movement in the Group's share of net assets after acquisition, less impairment.

#### Presentation of Group income statement

The Group income statement has been presented by analysing the results into three columns; Adjusted Income and Expense, Adjustments and IFRS Income and Expense. In addition, the results of the property joint ventures and associates have been included immediately after net property rental income and profit on sale of trading properties.

The adjustments column represents items of income and expense and related taxation and minority interest, that have been recommended by the Best Practices Committee of EPRA as requiring adjustment in arriving at the EPRA adjusted measure of earnings per share, together with items classified as exceptional items. Exceptional items are significant items, separately disclosed for their size or incidence to enable a better understanding of performance, and primarily consist of significant premiums received on the early surrender of leases, significant gains on the sale of assets and the UK Real Estate Investment Trust ("REIT") conversion charge. Details of amounts included within the adjustments column are set out in Note 13.

The results of the property joint ventures and associates have been brought further up the Group income statement from the normal position set out in IAS 1 – Presentation of Financial Statements, so as to reflect the property income of the Group together within the Group income statements.

The presentation, as set out above, has been adopted so as to explain more clearly the different aspects of the Group's financial performance.

#### Goodwill

Goodwill arises on acquiring a business undertaking, when the fair value of the acquisition cost exceeds the fair value of the net assets acquired. It is carried in the balance sheet at cost, but reviewed for impairment annually, with any impairment immediately recorded in the income statement. If the acquisition cost is lower than the fair value of the net assets acquired, this excess is booked in the Group income statement in the year of acquisition.

# Notes to the financial statements

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## 1. Significant accounting policies (continued)

### Foreign currency and exchange

#### Foreign currency transactions

Foreign currency transactions are translated into sterling at the exchange rate ruling on the transaction date. Foreign exchange gains and losses resulting from settling these, or from retranslating monetary assets and liabilities held in foreign currencies, are booked in the Group income statement. The exception is for foreign currency loans that hedge investments in foreign subsidiaries, where exchange differences are booked in equity until the investment is realised.

#### Consolidation of foreign entities

Assets and liabilities of foreign entities are translated into sterling at exchange rates at the balance sheet date. Their income, expenses and cash flows are translated at the average rate for the period or at spot rate for significant items. Resultant exchange differences are booked in the revenue reserve, and recognised in the Group income statement when the operation is sold.

### Property portfolio

#### Investment property

These are freehold and leasehold properties held to earn rental income or gain capital appreciation. Leasehold properties are shown gross of the leasehold payables (which are accounted for as finance lease obligations).

The properties are first measured at cost (including transaction costs), and then revalued to fair value at each reporting date by professional valuers. Additions include costs of a capital nature, capitalised interest (if under development), and costs relating to managing developments (e.g. internal staff costs). Valuation gains and losses in a period are taken to the Group income statement, and then reclassified from distributable revenue reserves into undistributable revaluation reserves (until realisation on the sale of the property). As the Group uses the fair value model as per IAS 40, no depreciation is provided.

Existing investment properties being redeveloped to earn future rental income continue to be treated as investment properties. Those being constructed or developed for future use as investment properties but not classified as such before, are treated as development properties. When the Group redevelops an investment property with a view to sell, it is revalued at fair value and transferred to trading properties, with any gain or loss taken to the Group income statement.

The gain or loss arising on the sale of a property is the difference between sales proceeds and the brought forward carrying amount (plus additions in the period), and is recognised in the Group income statement.

#### Development properties and owner occupied properties

These comprise properties acquired for development, as well as completed properties occupied by Group entities, and are initially measured at cost including interest. Only owner-occupied properties are depreciated. Properties are fair-valued on the same basis as investment properties with revaluation movements being booked in the revaluation reserve through the Statement of recognised income and expense. However, where a fall reduces the value to below cost, the deficit is taken to the Group income statement. Subsequent revaluation gains are taken to the Group income statement, but only to the extent of cumulative net deficits charged to the Group income statement.

On completion, development properties are reclassified at fair value to investment properties. If sold, a gain or loss is recognised in the Group income statement equal to the difference between sales proceeds, and the carrying amount at the beginning of the period plus additions in the period. Any revaluation reserve surplus is transferred to revenue reserves.

Owner-occupied properties are depreciated over their estimated useful lives (usually 30 years).

#### Trading properties

These are properties developed and held for sale, and are shown at the lower of cost and net realisable value. Cost includes direct expenditure and any capitalised interest.

For pre-sold developments, profits are recognised by reference to work completed using the percentage of completion method. The amount due from customers for contract work is booked as a receivable, comprising costs incurred plus recognised profits (less recognised losses).

If the Group reclassifies properties from trading to investment, they are transferred at fair value, with the resulting fair value gain taken to the Group income statement.

#### Property purchases and sales

Property purchases and sales are recognised on the date of unconditional exchange, or, where exchange is conditional, on the date that the conditions have been satisfied.



## 1. Significant accounting policies (continued)

### Leases

Leases where substantially all of the risks and rewards of ownership are transferred to the lessee, are classified as finance leases. All others are deemed operating leases.

#### *Group company as borrowing lessee*

Under finance leases, the minimum lease obligation, or if lower, the asset's fair value, is capitalised at the commencement of the lease. The rental obligation is recorded as a borrowing at a similar amount. Each lease payment is allocated between liability repayment and finance charges in a way so as to achieve a constant effective interest rate on the balance outstanding. Under operating leases, the asset does not appear in the Group's balance sheet, and lease payments are charged to the Group income statement on a straight-line basis over the lease term.

#### *Group company as lessor*

Under finance leases, the asset leased out is not shown in the Group's balance sheet, but the present value of the minimum lease payments is booked as a receivable. Lease income is recognised over the lease term using the net investment method before tax, which reflects a constant effective interest rate on the outstanding balance. Under operating leases, properties leased to tenants are accounted for as investment properties. In cases where only the buildings part of a property lease qualifies as a finance lease, the land is shown as an investment property.

### Impairment

The Group's assets, excluding investment properties, are reviewed at each reporting date to assess impairment. Where indication of impairment exists, the asset's recoverable amount is estimated, and if found to be lower than its carrying value, it is written down to the recoverable amount. The impairment loss is taken to the Group income statement. The recoverable amount is the higher of an asset's net selling price and its value-in-use (i.e. the net present value of its future cash flows, discounted at a pre-tax interest rate that reflects the borrowing costs and risks for the asset).

An impairment loss is reversed if estimates for the recoverable amount change, but only to the extent that its carrying amount after reversal does not exceed the net asset value that would arise had there been no impairment loss.

### Revenue

Revenue includes rent, income from service charges, proceeds from the sale of trading properties and sales of electricity, water and steam, and in 2005 revenue from gas assets in Australia.

#### *Rental income*

This includes net income from managed operations. Rentals from properties let as operating leases are recognised over the lease term on a straight-line basis over the lease term. Lease incentives and initial costs to arrange leases are amortised on a straight line basis. For properties let as finance leases, 'minimum lease receipts' are apportioned between finance income and principal repayment, but receipts that were not fixed at lease inception (e.g. rent review rises), are booked as income when earned. Surrender premiums received in the period are included in rental income.

#### *Service charges and other recoveries from tenants*

These include income in relation to service charges, directly recoverable expenditure and management fees. Revenue from services is recognised by reference to the stage of completion of the relevant services provided at the reporting date.

#### *Proceeds from sale of trading properties*

A trading property is regarded as sold when the significant risks and rewards have been transferred to the buyer on the date of unconditional exchange, or, for conditional exchanges, when all the conditions have been satisfied.

#### *Sales of electricity, water and steam and sales from gas assets*

Sales of utility services are recognised when these services are delivered to the customer.

## Borrowings, borrowing costs and derivatives

### Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the Group income statement over the period of the borrowings, using the effective interest method.

### Borrowing costs

Gross borrowing costs relating to direct expenditure on properties under development or undergoing major refurbishment are capitalised. The interest capitalised is calculated using the Group's weighted average cost of borrowing. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

# Notes to the financial statements

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## 1. Significant accounting policies (continued)

### Derivative financial instruments

The Group uses derivatives (especially interest rate swaps) in managing interest rate risk, and does not use them for trading. They are recorded, and subsequently revalued, at fair value, with revaluation gains or losses being immediately taken to the Group income statement. The exception is for derivatives qualifying as hedges, when the treatment of the gain/loss depends upon the item being hedged. None of the Group's interest rate derivatives qualify as a hedge. However, there are USD and Euro forward currency sales that have been elected as effective net investment hedges.

### Other assets, liabilities and exceptional items

#### Available-for-sale (AFS) investments

These are non-derivative financial assets, that are not held for trading, but are designated as available for sale. They primarily include investments in Charterhouse USA, Candover and certain warrants in USA corporate tenants.

The investments are held at fair value, with gains and losses taken to equity, and then recycled through the income statement on realisation. If there is objective evidence that the asset is impaired, any cumulative loss recognised in equity is removed from equity and recognised in the income statement, calculated as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in income. Impairment losses recognised in the income statement are not reversed through income.

#### Plant and equipment

These include power station assets, oil and gas plant & equipment, vehicles, group office improvements and furniture and fixtures. They are depreciated on a straight-line basis over their estimated useful lives, and stated at cost less accumulated depreciation.

#### Trade and other receivables and payables

Trade and other receivables are booked at fair value. An impairment provision is created where there is objective evidence that the Group will not be able to collect in full. Trade and other payables are stated at cost, since cost is a reasonable approximation of fair value.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts.

#### Provisions

A provision is recognised where there is an obligation from past events requiring settlement by an outflow of economic benefits. Where material, expected outflows are discounted at rates reflecting prevailing interest rates and risks.

A provision for an onerous contract is recognised where the unavoidable cost of meeting contractual obligations exceeds its benefits. Dilapidations are provided for if an obligation exists at the reporting date which can be reliably estimated.

### Employee benefits

#### Pensions – Defined benefit schemes

The schemes' assets are measured at fair value, their obligations are calculated at discounted present value, and any net surplus or deficit is recognised in the balance sheet. Operating and financing costs are charged to the income statement, with service costs spread systematically over employees' working lives, and financing costs expensed in the period in which they arise. Actuarial gains and losses are recognised through equity in the Statement of recognised income and expense. Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognisable asset is limited to that for which the Group can benefit in the future.

#### Pensions – Defined contribution schemes

Contributions to such schemes are expensed as incurred.

#### Share-based payments

The cost of granting share options and other share-based remuneration is recognised in the income statement at their fair value at grant date. They are expensed straight-line over the vesting period, based on estimates of the shares or options that eventually vest. Charges are reversed if it appears that performance will not be met. Options are valued using the Black-Scholes model. Own shares held in connection with employee share plans or other share based payment arrangements are treated as treasury shares and deducted from equity, and no profit or loss is recognised on their sale, issue or cancellation.

## 1. Significant accounting policies (continued)

### Tax

#### Current tax

The current tax charge is based on results for the year, adjusted for items that are non-assessable or disallowable. It is calculated using rates that are enacted (or substantively enacted) by the balance sheet date. The conversion charge applicable to the Group's UK properties covered by the REIT regime has been provided as current tax as the Group was committed to this liability at 31 December 2006.

#### Deferred tax

This is the tax expected to be paid or recovered on differences between the reported value of assets and liabilities and their tax base. The Group uses the balance sheet liability method, under which tax liabilities are usually recognised for all taxable temporary differences, but tax assets are recognised only to the extent taxable profits are expected to be available against which to utilise temporary differences.

The carrying amount of tax assets is reviewed each reporting date and reduced if full recoverability is not expected. Tax is calculated at rates expected to apply in the period the liability settles or the asset is realised, and is booked to the income statement. Where it relates to items accounted for in equity, however, the tax is also dealt with in equity. Tax assets and liabilities are offset when they are levied by the same tax authority and the Group is entitled to settle net. Indexation relief on land is allowed as a reduction of the deferred tax liability, but not on the buildings, unless the properties are in the process of being sold.

From 1 January 2007, no deferred tax is recognised on UK properties covered by the REIT regime. All deferred tax liabilities relating to the properties in the REIT have been released to the income statement on 31 December 2006.

#### Standards, amendments and interpretations effective in 2006 but have no effect on the Group's operations

- IAS 21 (Amendment), Net investment in a foreign operation,
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intra-group transactions,
- IAS 39 (Amendment), The fair value option,
- IFRS 1, (Amendment), First-time adoption of international financial reporting standards,
- IFRS 6, Exploration for and evaluation of mineral resources,
- IFRIC 4, Determining whether an arrangement contains a lease,
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds, and
- IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment.

#### Published standards and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

It is not expected that they will have any significant future impact on the Group's accounts

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures',
- IFRS 8, Operating Segments,
- IFRIC 8, Scope of IFRS 2,
- IFRIC 10, Interim Financial Reporting and Impairment, and
- IFRIC 11, Group and treasury share transactions.

#### Published interpretations to existing standards that are not yet effective and not relevant to the Group's operations

- IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies,
- IFRIC 9, Reassessment of embedded derivatives, and
- IFRIC 12, Service Concession Arrangements.

# Notes to the financial statements

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## 2. Segmental analysis

For management purposes the Group's primary reporting format is the geographic location of its properties as set out below. The secondary reporting format is by business sector.

Geographical segments	UK		Continental Europe		USA		Group	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Segment revenue</b>	<b>237.7</b>	222.8	<b>70.0</b>	55.3	<b>76.4</b>	127.1	<b>384.1</b>	405.2
Gross property rental income	<b>193.2</b>	183.6	<b>35.4</b>	25.2	<b>76.2</b>	97.2	<b>304.8</b>	306.0
Property operating expenses	<b>(32.6)</b>	(28.9)	<b>(7.2)</b>	(2.4)	<b>(17.8)</b>	(14.4)	<b>(57.6)</b>	(45.7)
<b>Net property rental income</b>	<b>160.6</b>	154.7	<b>28.2</b>	22.8	<b>58.4</b>	82.8	<b>247.2</b>	260.3
Proceeds on sale of trading properties	<b>1.2</b>	1.1	<b>34.6</b>	30.1	<b>0.2</b>	26.1	<b>36.0</b>	57.3
Carrying value of trading properties sold	<b>(1.2)</b>	(0.5)	<b>(28.7)</b>	(23.7)	–	(10.0)	<b>(29.9)</b>	(34.2)
Profit on sale of trading properties	–	0.6	<b>5.9</b>	6.4	<b>0.2</b>	16.1	<b>6.1</b>	23.1
Share of profits/(losses) from property joint ventures and associates after tax	<b>9.1</b>	8.3	<b>0.6</b>	(0.2)	<b>3.6</b>	5.4	<b>13.3</b>	13.5
Revenue from sale of utilities and gas	<b>43.3</b>	38.1	–	–	–	3.8	<b>43.3</b>	41.9
Cost of sale of utilities and gas	<b>(41.2)</b>	(36.9)	–	–	–	(5.9)	<b>(41.2)</b>	(42.8)
Net profit/(loss) from utilities and gas	<b>2.1</b>	1.2	–	–	–	(2.1)	<b>2.1</b>	(0.9)
Other investment income	<b>5.0</b>	4.0	–	–	<b>3.5</b>	1.5	<b>8.5</b>	5.5
Administration expenses	<b>(20.7)</b>	(15.0)	<b>(4.6)</b>	(2.7)	<b>(3.6)</b>	(3.0)	<b>(28.9)</b>	(20.7)
Property gains	<b>374.9</b>	312.1	<b>22.6</b>	8.1	<b>139.5</b>	103.3	<b>537.0</b>	423.5
Gain on disposal of joint ventures	–	–	–	–	–	7.8	–	7.8
Gain from sale of gas interests	–	–	–	–	–	99.7	–	99.7
<b>Operating profit</b>	<b>531.0</b>	465.9	<b>52.7</b>	34.4	<b>201.6</b>	311.5	<b>785.3</b>	811.8
Finance income	<b>26.8</b>	18.1	<b>6.1</b>	0.4	<b>2.9</b>	2.9	<b>35.8</b>	21.4
Finance costs	<b>(99.5)</b>	(225.2)	<b>(13.0)</b>	(6.6)	<b>(18.5)</b>	(19.1)	<b>(131.0)</b>	(250.9)
<b>Profit before tax</b>	<b>458.3</b>	258.8	<b>45.8</b>	28.2	<b>186.0</b>	295.3	<b>690.1</b>	582.3
Taxation – current	<b>(79.0)</b>	4.6	<b>(2.6)</b>	(3.8)	<b>(7.7)</b>	(45.2)	<b>(89.3)</b>	(44.4)
– deferred	<b>399.5</b>	(85.1)	<b>(11.1)</b>	(6.5)	<b>(70.1)</b>	(58.2)	<b>318.3</b>	(149.8)
<b>Net profit after tax</b>	<b>778.8</b>	178.3	<b>32.1</b>	17.9	<b>108.2</b>	191.9	<b>919.1</b>	388.1
<b>Adjusted profit before tax</b>	<b>78.4</b>	66.8	<b>19.9</b>	20.9	<b>44.4</b>	31.8	<b>142.7</b>	119.5
<b>Adjusted profit after tax</b>	<b>68.9</b>	51.4	<b>16.2</b>	17.1	<b>29.8</b>	35.0	<b>114.9</b>	103.5
Property assets <sup>1</sup>	<b>4,192.8</b>	3,658.6	<b>707.7</b>	515.2	<b>1,112.6</b>	964.0	<b>6,013.1</b>	5,137.8
Other assets (excluding cash)	<b>98.6</b>	129.9	<b>34.8</b>	17.6	<b>82.1</b>	98.7	<b>215.5</b>	246.2
<b>Segment assets</b>	<b>4,291.4</b>	3,788.5	<b>742.5</b>	532.8	<b>1,194.7</b>	1,062.7	<b>6,228.6</b>	5,384.0
Deferred tax liability	<b>(7.1)</b>	(401.1)	<b>(70.8)</b>	(59.9)	<b>(220.6)</b>	(174.9)	<b>(298.5)</b>	(635.9)
Other liabilities (excluding borrowings)	<b>(260.9)</b>	(158.8)	<b>(40.5)</b>	(25.2)	<b>(22.9)</b>	(22.8)	<b>(324.3)</b>	(206.8)
<b>Segment liabilities</b>	<b>(268.0)</b>	(559.9)	<b>(111.3)</b>	(85.1)	<b>(243.5)</b>	(197.7)	<b>(622.8)</b>	(842.7)
<b>Net segment assets</b>	<b>4,023.4</b>	3,228.6	<b>631.2</b>	447.7	<b>951.2</b>	865.0	<b>5,605.8</b>	4,541.3
Net external borrowings	<b>(1,350.3)</b>	(1,629.2)	<b>(366.0)</b>	(203.3)	<b>(507.1)</b>	(259.8)	<b>(2,223.4)</b>	(2,092.3)
Net inter-segment borrowings	<b>72.9</b>	123.0	<b>(57.6)</b>	(56.1)	<b>(15.3)</b>	(66.9)	–	–
<b>Net assets</b>	<b>2,746.0</b>	1,722.4	<b>207.6</b>	188.3	<b>428.8</b>	538.3	<b>3,382.4</b>	2,449.0
Depreciation by segment	<b>4.2</b>	3.9	<b>0.5</b>	0.1	–	1.1	<b>4.7</b>	5.1
Capital expenditure in the year	<b>300.2</b>	406.9	<b>202.7</b>	136.9	<b>128.0</b>	258.1	<b>630.9</b>	801.9

1. The figure for property assets includes trading properties and the Group's share of joint ventures' properties.



2. Segmental analysis (continued)

Business segments	Property investment		Trading property		Slough Heat & Power		Other activities		Group	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Segment revenue</b>	<b>296.4</b>	302.7	<b>44.4</b>	60.6	<b>43.3</b>	38.1	–	3.8	<b>384.1</b>	405.2
Gross property rental income	<b>296.4</b>	302.7	<b>8.4</b>	3.3	–	–	–	–	<b>304.8</b>	306.0
Property operating expenses	<b>(54.4)</b>	(45.1)	<b>(3.2)</b>	(0.6)	–	–	–	–	<b>(57.6)</b>	(45.7)
<b>Net property rental income</b>	<b>242.0</b>	257.6	<b>5.2</b>	2.7	–	–	–	–	<b>247.2</b>	260.3
Proceeds on sale of trading properties	–	–	<b>36.0</b>	57.3	–	–	–	–	<b>36.0</b>	57.3
Carrying value of trading properties sold	–	–	<b>(29.9)</b>	(34.2)	–	–	–	–	<b>(29.9)</b>	(34.2)
Share of profits from property joint ventures and associates after tax	<b>9.5</b>	13.0	<b>3.8</b>	0.5	–	–	–	–	<b>13.3</b>	13.5
Revenue from sale of utilities and gas	–	–	–	–	<b>43.3</b>	38.1	–	3.8	<b>43.3</b>	41.9
Cost of sale of utilities and gas	–	–	–	–	<b>(41.2)</b>	(36.9)	–	(5.9)	<b>(41.2)</b>	(42.8)
Other investment income	–	–	–	–	–	–	<b>8.5</b>	5.5	<b>8.5</b>	5.5
Administration expenses	–	–	–	–	–	–	<b>(28.9)</b>	(20.7)	<b>(28.9)</b>	(20.7)
Property gains	<b>537.0</b>	423.5	–	–	–	–	–	–	<b>537.0</b>	423.5
Gains on disposal of joint ventures	–	7.8	–	–	–	–	–	–	–	7.8
Gain from sale of gas interests	–	–	–	–	–	–	–	99.7	–	99.7
<b>Operating profit</b>	<b>788.5</b>	701.9	<b>15.1</b>	26.3	<b>2.1</b>	1.2	<b>(20.4)</b>	82.4	<b>785.3</b>	811.8
Finance income	–	–	–	–	–	–	<b>35.8</b>	21.4	<b>35.8</b>	21.4
Finance costs	–	–	–	–	–	–	<b>(131.0)</b>	(250.9)	<b>(131.0)</b>	(250.9)
<b>Profit/(loss) before tax</b>	<b>788.5</b>	701.9	<b>15.1</b>	26.3	<b>2.1</b>	1.2	<b>(115.6)</b>	(147.1)	<b>690.1</b>	582.3
Taxation	–	–	–	–	–	–	<b>229.0</b>	(194.2)	<b>229.0</b>	(194.2)
<b>Profit/(loss) for the year</b>	<b>788.5</b>	701.9	<b>15.1</b>	26.3	<b>2.1</b>	1.2	<b>113.4</b>	(341.3)	<b>919.1</b>	388.1
Segment assets	<b>5,846.5</b>	5,060.3	<b>261.9</b>	185.2	<b>52.4</b>	52.8	<b>67.8</b>	85.7	<b>6,228.6</b>	5,384.0
Segment liabilities	<b>(510.7)</b>	(757.8)	<b>(23.3)</b>	(10.2)	<b>(16.4)</b>	(11.4)	<b>(72.4)</b>	(63.3)	<b>(622.8)</b>	(842.7)
<b>Net segment assets/(liabilities)</b>	<b>5,335.8</b>	4,302.5	<b>238.6</b>	175.0	<b>36.0</b>	41.4	<b>(4.6)</b>	22.4	<b>5,605.8</b>	4,541.3
Net borrowings	–	–	–	–	–	–	<b>(2,223.4)</b>	(2,092.3)	<b>(2,223.4)</b>	(2,092.3)
<b>Net assets/(liabilities)</b>	<b>5,335.8</b>	4,302.5	<b>238.6</b>	175.0	<b>36.0</b>	41.4	<b>(2,228.0)</b>	(2,069.9)	<b>3,382.4</b>	2,449.0
Capital expenditure in the year	<b>460.2</b>	714.0	<b>163.0</b>	76.0	<b>4.7</b>	3.4	<b>3.0</b>	8.5	<b>630.9</b>	801.9

Slough Heat & Power supplies electricity, water and steam. There are no significant inter-segment trading activities. The total cost of sales amounts to £128.7 million (2005 £122.7 million) and comprises property operating expenses, the carrying value of trading properties sold and the cost of sale of utilities and gas.

# Notes to the financial statements

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## 3. Revenue

	2006 £m	2005 £m
Rental income from investment properties	272.1	245.5
Surrender premiums	5.2	42.7
Interest received on finance lease assets	0.8	0.9
Service charge income	18.3	13.6
<b>Investment and development property rental income</b>	<b>296.4</b>	<b>302.7</b>
Trading property rental income	8.4	3.3
<b>Gross property rental income</b>	<b>304.8</b>	<b>306.0</b>
Proceeds from sale of trading properties	36.0	57.3
Sale of utilities	43.3	38.1
Sale of gas	–	3.8
<b>Total revenue</b>	<b>384.1</b>	<b>405.2</b>

## 4. Other investment income

	2006 £m	2005 £m
Net (loss)/profit on available-for-sale investments	(2.9)	2.9
Transfer of fair value surplus realised on sale of available-for-sale investments	9.6	1.1
Dividends from available-for-sale investments	1.8	1.5
<b>Total other investment income</b>	<b>8.5</b>	<b>5.5</b>

## 5. Administration expenses

	2006 £m	2005 £m
Directors' remuneration	3.1	2.7
Compensation to Director for loss of office	0.6	–
Depreciation	1.2	0.9
Other administration expenses	24.0	17.1
<b>Total administration expenses</b>	<b>28.9</b>	<b>20.7</b>

The full 2006 depreciation charge, including amounts charged under other headings, is £4.7 million (2005 £5.1 million), and relates to assets owned by the Group. Other administration expenses include the costs of services of the Group's auditor and network firms.

### Services provided by the Group's auditor and network firms

During the year, the Group obtained the following services from the Group's auditor at costs as detailed below:

	2006 £000	2005 £000
<b>Audit services</b>		
Fees payable to Company auditor for the audit of Company and consolidated accounts	337	334
<b>Non-audit services</b>		
Fees payable to the Company's auditor and associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	484	570
– Other services pursuant to legislation	57	55
– Tax services	416	478
Services relating to corporate finance transactions entered into on behalf of the company or any of its associates	–	268
All other services	12	326
	<b>1,306</b>	<b>2,031</b>
Fees in respect of the Slough Estates plc pension schemes (included in 'non-audit services' above)		
– Audit of pension schemes	20	17

## 5. Administration expenses (continued)

Employees' staff costs were:

	2006			2005		
	Property management £m	Utilities £m	Total 2006 £m	Property management £m	Utilities & Gas £m	Total 2005 £m
Wages and salaries	20.6	6.7	27.3	20.0	8.3	28.3
Social security costs	2.9	0.5	3.4	1.9	0.7	2.6
Pension costs – defined benefits	2.6	1.1	3.7	1.9	0.8	2.7
– curtailment credit	(1.1)	–	(1.1)	–	–	–
– defined contributions	0.3	0.1	0.4	0.3	0.1	0.4
Share scheme costs	2.5	0.3	2.8	1.2	0.4	1.6
Termination benefits	1.1	–	1.1	–	–	–
National Insurance – unexercised share options	0.8	–	0.8	–	–	–
<b>Total</b>	<b>29.7</b>	<b>8.7</b>	<b>38.4</b>	<b>25.3</b>	<b>10.3</b>	<b>35.6</b>
Average number of Group employees:	<b>295</b>	<b>141</b>	<b>436</b>	269	178	447

The comparative data for 2005 includes £1.8 million of staff costs and an average of 31 employees in respect of Tipperary Oil and Gas company which was sold in July 2005.

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 59 to 67 in the Remuneration Report and form part of these financial statements.

The aggregate remuneration of employees of the Company is £3.1 million (2005 £2.7 million). All of the executive directors are employees of Slough Estates plc except for M D Lees who is an employee of Slough Estates USA Inc. The total number of employees of the Company is four (2005 three) and details of their remuneration are disclosed in the Remuneration Report on pages 59 to 67.

## 6. Property gains

The total property gains for the period are shown in the financial statements as follows:	2006 £m	2005 £m
Income statement – valuation surpluses	532.2	409.1
– profits from the sale of investment properties	4.8	14.4
<b>Total property gains per income statement</b>	<b>537.0</b>	<b>423.5</b>
Statement of recognised income and expense – valuation surpluses	22.3	48.4
<b>Total property gains</b>	<b>559.3</b>	<b>471.9</b>
The valuation surpluses arise on the following properties:		
Investment properties	535.5	423.3
Development and owner occupied properties	19.0	34.2
	<b>554.5</b>	<b>457.5</b>
Net valuation surpluses of joint ventures and associates included within share of joint ventures' and associates' profits on the face of the income statement	9.3	10.5
<b>Total valuation surpluses</b>	<b>563.8</b>	<b>468.0</b>

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## 7. Share of profits from property joint ventures and associates

	Investment property		Trading property		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Revenue</b>	<b>7.8</b>	9.5	<b>37.2</b>	7.6	<b>45.0</b>	17.1
Gross property rental income	<b>7.8</b>	9.5	<b>0.8</b>	0.4	<b>8.6</b>	9.9
Property operating expenses	<b>(1.0)</b>	(1.2)	<b>(1.0)</b>	(0.1)	<b>(2.0)</b>	(1.3)
Proceeds on sale of trading properties	–	–	<b>36.4</b>	7.2	<b>36.4</b>	7.2
Carrying value of trading properties sold	–	–	<b>(29.9)</b>	(6.4)	<b>(29.9)</b>	(6.4)
Finance costs	<b>(3.1)</b>	(2.7)	<b>(1.2)</b>	(0.5)	<b>(4.3)</b>	(3.2)
	<b>3.7</b>	5.6	<b>5.1</b>	0.6	<b>8.8</b>	6.2
Valuation surpluses	<b>9.3</b>	10.5	–	–	<b>9.3</b>	10.5
Profit before tax	<b>13.0</b>	16.1	<b>5.1</b>	0.6	<b>18.1</b>	16.7
Current tax	<b>(0.5)</b>	(0.9)	<b>(1.5)</b>	–	<b>(2.0)</b>	(0.9)
Deferred tax	<b>(3.0)</b>	(2.2)	<b>0.2</b>	(0.1)	<b>(2.8)</b>	(2.3)
<b>Group share of profit after tax</b>	<b>9.5</b>	13.0	<b>3.8</b>	0.5	<b>13.3</b>	13.5
<b>Adjusted profit after tax<sup>1</sup></b>	<b>3.2</b>	4.8	<b>3.8</b>	0.5	<b>7.0</b>	5.3

1. Represents the Group's share of profit after tax and after EPRA adjustments.

The total income and total expenses amount to £45.0 million (2005 £17.1 million) and £36.2 million (2005 £10.9 million) respectively.

## 8. Finance income

	2006 £m	2005 £m
Interest received on bank deposits	<b>10.1</b>	9.9
Fair value gains on interest rate swaps and other derivatives	<b>4.7</b>	1.5
Unwinding of discount on amounts receivable	<b>0.9</b>	1.4
Return on pension assets less unwinding of discount on pension liabilities	<b>0.5</b>	–
Exchange differences	<b>19.6</b>	8.6
	<b>35.8</b>	21.4

Fair value adjustments on derivatives equal £4.1 million income (£0.6 million finance costs, £4.7 million finance income). 2005 was £1.0 million expense (£2.5 million expense, £1.5 million income).



9. Finance costs

	2006 £m	2005 £m
Interest on overdrafts and loans	131.2	116.9
Interest on convertible redeemable preference shares	4.1	13.2
Unwinding of discount on the pension liabilities less return on assets	0.2	0.5
Unwinding of discount on other provisions	–	0.2
<b>Total borrowing costs</b>	<b>135.5</b>	<b>130.8</b>
Less amounts capitalised on the development of		
– trading properties	(1.6)	(0.7)
– investment and development properties	(21.9)	(17.9)
– other assets	–	(0.5)
<b>Net borrowing costs</b>	<b>112.0</b>	<b>111.7</b>
Fair value losses on interest rate swaps and other derivatives	0.6	0.2
Swaption close out cost	–	2.3
Borrowing close out cost relating to property disposals	–	1.9
Exchange differences	18.4	8.8
<b>Total finance costs before exceptional expense</b>	<b>131.0</b>	<b>124.9</b>
Exceptional cost of refinancing (see explanation below)	–	126.0
<b>Total finance costs</b>	<b>131.0</b>	<b>250.9</b>

On 10 May 2005 the Group announced a debt exchange programme whereby holders of £250 million Eurobonds, £31.8 million unsecured loan stock, and £40 million 1st mortgage debentures, were offered the chance to exchange them, at market value plus an incentive, to longer dated current coupon bonds. They were redeemed on 21 June 2005 and replaced with new debt of £200 million 5.5 per cent Euro Bond 2018, £100 million 5.75 per cent Euro Bond 2035, and £146 million of new bank line drawings at circa 5 per cent (subsequently refinanced through a new 2020 bond at a coupon of 5.625 per cent). The mark-to-market of the old bonds, plus the £4.9 million incentive fee, cost the Group a one-off tax deductible £126.0 million.

The interest capitalisation rates for 2006 were: UK 6.25 per cent (2005 8 per cent for the six months to 30 June 2005 and 6.5 per cent for the remainder of year), USA 6.78 per cent (2005 6.68 per cent), and in Continental Europe, rates ranging from 3.5 per cent to 4.0 per cent (2005 3.0 per cent to 4.5 per cent). Interest is capitalised gross of tax relief.

10. Tax charge/(credit)

10(i) – Tax on profit

	2006 £m	2005 £m
<b>Current tax</b>		
<b>United Kingdom</b>		
Corporation tax charged at 30 per cent (2005 30 per cent)	–	–
REIT conversion charge	81.9	–
Over provision in earlier years	(2.9)	(4.6)
	<b>79.0</b>	<b>(4.6)</b>
<b>International</b>		
Current tax charge	11.9	15.4
Over provision in earlier years	(1.6)	(2.3)
Tax charge on sale of gas interests (Tipperary)	–	34.0
Tax charge on sale of investment properties	–	1.9
	<b>10.3</b>	<b>49.0</b>
<b>Total current tax</b>	<b>89.3</b>	<b>44.4</b>
<b>Deferred tax</b>		
Release on conversion to REIT	(416.1)	–
Origination and reversal of timing differences	7.7	19.1
(Released)/charged in respect of property disposals in the year	(0.4)	11.5
On valuation surpluses	65.5	130.5
<b>Total deferred tax in respect of investment properties</b>	<b>(343.3)</b>	<b>161.1</b>
Released in respect of Quail West	–	10.6
Other deferred tax	25.0	(21.9)
<b>Total deferred tax</b>	<b>(318.3)</b>	<b>149.8</b>
<b>Total tax (credit)/charge on profit on ordinary activities</b>	<b>(229.0)</b>	<b>194.2</b>

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## 10. Tax charge/(credit) (continued)

### 10(ii) – Factors affecting tax charge for the year

The tax charge for 2006 is lower (2005 higher) than the standard rate of UK corporation tax. The differences are:

	2006 £m	2005 £m
Profit on ordinary activities before tax	690.1	582.3
Less valuation surplus in respect of UK properties not taxable	(370.3)	–
	319.8	582.3
Multiplied by standard rate of UK corporation tax of 30 per cent (2005 30 per cent)	95.9	174.7
<b>Effects of:</b>		
Release of deferred tax provision on conversion to REIT	(416.1)	–
REIT conversion charge	81.9	–
Permanent timing differences	(0.9)	4.7
Profit on joint ventures already taxed	(3.8)	(4.1)
Higher tax rates on international earnings	18.5	23.6
Prior year adjustments	(4.5)	(4.7)
<b>Total tax (credit)/charge on profit on ordinary activities</b>	<b>(229.0)</b>	<b>194.2</b>

In addition to the tax (credited)/charged above, deferred tax of £10.9 million (2005 £25.4 million) was recognised directly in equity, including £0.9 million (2005 £18.4 million) on revaluation of properties other than investment property.

### 10(iii) – Factors that may affect future tax charges

Slough Estates plc elected during December 2006 to become a Real Estate Investment Trust (REIT) for UK tax purposes with effect from 1 January 2007. As a result, no UK corporation tax should be due on future income or capital gains in respect of investment properties within the REIT.

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

## 11. Dividends

	2006 £m	2005 £m
<b>Ordinary dividends paid</b>		
Interim dividend for the year ended 31 December 2006 @ 6.9 pence per share	32.4	–
Final dividend for the year ended 31 December 2005 @ 11.0 pence per share	51.6	–
Interim dividend for the year ended 31 December 2005 @ 6.5 pence per share	–	27.4
Final dividend for the year ended 31 December 2004 @ 9.85 pence per share	–	41.6
	84.0	69.0

In respect of the current year, the Directors propose that a dividend of 12.1 pence per ordinary share, amounting to £57.1 million will be paid to shareholders on 25 May 2007. This dividend is subject to approval by the shareholders at the Annual General Meeting (AGM). As required by IFRS this final dividend is not recognised in the financial statements.

Preference dividends paid during 2006 of £5.2 million (2005 £10.8 million) are included within finance costs.

## 12. Earnings and net assets per ordinary share

### 12(i) – Earnings per ordinary share

		Basic		Diluted	
		2006 pence	2005 pence	2006 pence	2005 pence
Earnings per ordinary share	e/a, f/c	201.8	91.7	196.0	85.0
Adjusted earnings per ordinary share	g/a, h/c	25.1	24.0	25.1	24.3

### 12(ii) – Number of shares

		Weighted average in year		In issue at year end	
		2006 millions	2005 millions	2006 millions	2005 millions
The number of shares used in calculating earnings and net assets per share is:					
Shares in issue		456.4	421.8	472.0	423.0
Less shares held by the ESOP		(2.2)	(1.7)	(2.2)	(1.7)
Basic number of shares	a, b	454.2	420.1	469.8	421.3
Dilution adjustment for preference shares		14.3	47.1	–	47.1
Dilution adjustment for share options and save-as-you-earn schemes		1.1	1.5	1.1	1.5
Diluted number of shares	c, d	469.6	468.7	470.9	469.9

### 12(iii) – Earnings

		Basic		Diluted	
		2006 £m	2005 £m	2006 £m	2005 £m
Earnings used in calculating earnings per share are:					
Profit attributable to equity shareholders		916.5	385.1	916.5	385.1
Adjustment for interest on preference shares		–	–	4.1	13.2
	e, f	916.5	385.1	920.6	398.3
EPRA adjustments (note 13 below)		(889.5)	(272.0)	(889.5)	(272.0)
Minority interest on EPRA adjustments		1.6	0.4	1.6	0.4
Adjustments for exceptional items (note 13 below)		85.3	(12.6)	85.3	(12.6)
Adjusted earnings	g, h	113.9	100.9	118.0	114.1

### 12(iv) – Net assets per ordinary share

		Basic		Diluted	
		2006 pence	2005 pence	2006 pence	2005 pence
Net asset values (NAV) are as follows:					
NAV	i/b, j/d	718	579	716	542
Adjustment for deferred tax on investment properties					
– capital allowances		20	56	20	50
– revaluation surpluses		39	98	39	88
Adjusted NAV	k/b, l/d	777	733	775	680
Fair value of debt net of tax		(17)	(25)	(16)	(23)
Deferred tax in respect of capital allowances		(20)	(56)	(20)	(50)
Deferred tax in respect of valuation surpluses		(39)	(98)	(39)	(88)
Unrecognised indexation allowances		–	22	–	20
Triple net NAV (NNNAV)		701	576	700	539

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## 12. Earnings and net assets per ordinary share (continued)

### 12(v) – Net assets

	Basic		Diluted	
	2006 £m	2005 £m	2006 £m	2005 £m
Equity used for the calculation of net assets per ordinary share is:				
Total equity attributable to ordinary shareholders	<b>3,383.3</b>	2,447.3	<b>3,383.3</b>	2,447.3
Dilution adjustment for preference shares	–	–	–	107.7
Less shares held by the ESOP	<b>(10.6)</b>	(6.9)	<b>(10.6)</b>	(6.9)
	<b>3,372.7</b>	2,440.4	<b>3,372.7</b>	2,548.1
Deferred tax attributable to investment and development properties	<b>276.1</b>	649.2	<b>276.1</b>	649.2
Adjusted equity attributable to ordinary shareholders	<b>3,648.8</b>	3,089.6	<b>3,648.8</b>	3,197.3

## 13. Adjustments for EPRA, exceptional items and related tax

The Group has presented the income statement in a three-column format, so as to present adjusted amounts to exclude the impact of EPRA adjustments, exceptional items and related tax. The Directors consider that the adjusted figures give a useful comparison for the periods shown in the consolidated financial statements.

EPRA adjustments arise from adopting the recommendations of the Best Practices Committee of EPRA as appropriate. Exceptional items are items that are disclosed separately due to their size or incidence to enable a better understanding of performance.

Details of adjustments	Income statement line	2006 £m	2005 £m
<b>EPRA adjustments (excluding minority interests)</b>			
Gains after tax on property valuations	Share of profits from property joint ventures and associates	<b>6.3</b>	8.2
Property gains	Property gains	<b>537.0</b>	423.5
Gain on sale of joint ventures	Gain on disposal of joint ventures	–	7.8
Borrowing close out costs on property disposals	Finance costs	–	(1.9)
Adjustments for fair value of derivatives	Finance costs	<b>(0.6)</b>	(2.5)
Adjustments for fair value of derivatives	Finance income	<b>4.7</b>	1.5
<b>EPRA adjustments before tax</b>		<b>547.4</b>	436.6
Deferred tax attributable to investment and development property which does not crystallise unless the property is sold	Deferred tax	<b>343.3</b>	(161.1)
Current tax and other deferred tax	Current tax	–	(3.5)
	Deferred tax	<b>(1.2)</b>	–
<b>Total EPRA adjustments after tax</b>		<b>889.5</b>	272.0
<b>Exceptional items (excluding minority interests)</b>			
Exceptional surrender premiums	Gross property rental income	–	36.4
Profit on sale of Quail West	Profit on sale of trading properties	–	16.1
UK REIT conversion charge	Current tax	<b>(81.9)</b>	–
Profit on sale of Tipperary	Gain from sale of gas interests	–	99.7
Cost of refinancing bonds	Finance costs	–	(126.0)
<b>Total exceptional items before tax</b>		<b>(81.9)</b>	26.2
Tax effect of exceptional items	Current tax	<b>10.8</b>	(25.3)
	Deferred tax	<b>(14.2)</b>	11.7
<b>Total exceptional items after tax</b>		<b>(85.3)</b>	12.6
<b>Total adjustments (excluding minority interests)</b>		<b>804.2</b>	284.6

#### 14. Goodwill

Group	2006 £m	2005 £m
Balance 1 January	0.7	–
Additions arising on acquisitions in the year	–	0.7
At 31 December	0.7	0.7

#### 15. Properties

Properties are included in the balance sheet as follows:

	Note	2006 £m	2005 £m
<b>Properties carried at valuation:</b>			
Investment properties	15(i)	5,090.0	4,440.1
Development and owner occupied properties	15(ii)	469.7	436.3
Classified as held for sale in current assets	15(i), 15(ii)	56.6	–
		5,616.3	4,876.4
Group's share of investment properties within joint ventures and associates	18	137.3	113.5
Total properties carried at valuation		5,753.6	4,989.9
<b>Properties carried at cost:</b>			
Trading properties	15(iii)	232.3	123.6
Group's share of trading properties within joint ventures and associates	18	27.2	24.3
Total properties carried at cost		259.5	147.9
<b>Total properties at 31 December</b>		<b>6,013.1</b>	<b>5,137.8</b>

The investment properties were externally valued as at 31 December 2006 by CB Richard Ellis, DTZ Debenham Tie Leung or Colliers CRE in the United Kingdom, in the USA by Walden-Marling Inc., in Belgium by DTZ Winssinger Tie Leung, in France by CB Richard Ellis, in Germany by Savills GmbH and in Central Europe and the Netherlands by DTZ Zadelhoff Tie Leung. The valuation basis is fair value, conforms to international valuation standards and was arrived at by reference to market evidence of the transaction prices for similar properties. All the valuers listed above are qualified valuers who hold a recognised and relevant professional qualification and have recent experience in the relevant location and category of the properties being valued.

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 5 per cent of their total revenue in any year and have adopted policies for the regular rotation of the responsible valuer.



# Notes to the financial statements

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## 15. Properties (continued)

### 15(i) – Investment properties

These include completed land and buildings and properties being redeveloped, but exclude trading properties, properties occupied by Group companies, land held for development and developments under construction.

Group	UK £m	Continental Europe £m	USA £m	Total £m
<b>At 1 January 2005</b>	<b>2,776.8</b>	<b>264.8</b>	<b>411.1</b>	<b>3,452.7</b>
Exchange movement	–	(8.5)	62.2	53.7
Acquisitions	280.0	67.3	168.1	515.4
Additions	47.5	(1.8)	18.1	63.8
Disposals	(74.9)	–	(40.2)	(115.1)
Transfer from development properties	15.6	3.1	15.6	34.3
Transfer from trading properties	–	12.0	–	12.0
Revaluation surplus during the year	326.8	9.9	86.6	423.3
<b>At 1 January 2006</b>	<b>3,371.8</b>	<b>346.8</b>	<b>721.5</b>	<b>4,440.1</b>
Exchange movement	–	(5.1)	(107.4)	(112.5)
Acquisitions	139.4	19.3	35.9	194.6
Additions	42.3	16.0	25.0	83.3
Disposals	(159.1)	(0.1)	–	(159.2)
Transfer from development properties	37.1	–	107.3	144.4
Transfer (to)/from trading properties	(0.7)	4.5	–	3.8
Revaluation surplus during the year	367.4	24.8	143.3	535.5
<b>At 31 December 2006</b>	<b>3,798.2</b>	<b>406.2</b>	<b>925.6</b>	<b>5,130.0</b>
Less classified as held for sale and shown in current assets	(40.0)	–	–	(40.0)
	<b>3,758.2</b>	<b>406.2</b>	<b>925.6</b>	<b>5,090.0</b>
Completed properties	3,591.8	406.2	877.0	4,875.0
Properties for or under redevelopment	206.4	–	48.6	255.0
	<b>3,798.2</b>	<b>406.2</b>	<b>925.6</b>	<b>5,130.0</b>
			<b>2006 £m</b>	<b>2005 £m</b>
Properties held at valuation – cost			<b>2,856.8</b>	2,710.5
– valuation surplus			<b>2,273.2</b>	1,729.6
<b>At valuation</b>			<b>5,130.0</b>	4,440.1

Long-term leasehold values in the above are £57.4 million (2005 £105.0 million). All other properties are freehold. Investment properties have been included at market value after deducting £66.7 million (2005 £50.6 million) for lease incentives and letting fees included in trade and other receivables.

Investment property rental income and direct operating expenses are:	2006 £m	2005 £m
Rental income from rented properties, all leased under operating leases	<b>295.6</b>	301.8
Operating expenses relating to let properties	<b>(48.4)</b>	(40.6)
Net rental income from rented properties	<b>247.2</b>	261.2
Operating expenses relating to vacant investment properties	<b>5.6</b>	4.1

Certain properties have been pledged to secure £77.1 million (2005 £86.6 million) of borrowings in Continental Europe and USA.

15. Properties (continued)

15(ii) – Development and owner occupied properties

These include land held for development, developments under construction and properties occupied by Group companies.

Group	UK £m	Continental Europe £m	USA £m	Total £m
<b>Cost or valuation</b>				
<b>At 1 January 2005</b>	<b>140.7</b>	<b>31.7</b>	<b>105.6</b>	<b>278.0</b>
Exchange movement	–	(1.1)	17.7	16.6
Additions	71.6	6.6	70.9	149.1
Disposals	(3.1)	–	(4.1)	(7.2)
Transfer to investment properties	(15.6)	(3.1)	(15.6)	(34.3)
Transfer from trading properties	–	1.6	–	1.6
Revaluation (deficit)/surplus during the year	(5.4)	(1.4)	41.0	34.2
<b>At 1 January 2006</b>	<b>188.2</b>	<b>34.3</b>	<b>215.5</b>	<b>438.0</b>
Exchange movement	–	(0.8)	(24.6)	(25.4)
Additions	97.9	30.1	74.9	202.9
Disposals	(5.4)	–	–	(5.4)
Transfer to investment properties	(37.1)	–	(107.3)	(144.4)
Transfer (to)/from trading properties	(6.7)	10.4	–	3.7
Revaluation surplus during the year	15.5	0.6	2.9	19.0
<b>At 31 December 2006</b>	<b>252.4</b>	<b>74.6</b>	<b>161.4</b>	<b>488.4</b>
<b>Depreciation</b>				
<b>At 1 January 2005</b>	1.2	–	–	1.2
Additions	0.5	–	–	0.5
<b>At 1 January 2006</b>	1.7	–	–	1.7
Additions	0.4	–	–	0.4
<b>At 31 December 2006</b>	<b>2.1</b>	<b>–</b>	<b>–</b>	<b>2.1</b>
<b>Net book value</b>	<b>250.3</b>	<b>74.6</b>	<b>161.4</b>	<b>486.3</b>
Less classified as held for sale and shown in current assets	(16.6)	–	–	(16.6)
<b>At 31 December 2006</b>	<b>233.7</b>	<b>74.6</b>	<b>161.4</b>	<b>469.7</b>
At 31 December 2005	186.5	34.3	215.5	436.3
			<b>2006 £m</b>	<b>2005 £m</b>
Properties held at valuation – cost			<b>478.7</b>	362.0
– valuation surplus			<b>7.6</b>	74.3
<b>At valuation</b>			<b>486.3</b>	436.3

The depreciation rates are (straight line)

3%

n/a

n/a

All the properties are freehold. There are no additions, disposals or transfers of owner occupied properties in the above.

Land for or under development and owner occupied buildings are valued on the same basis as investment properties.

The valuers are detailed above.

# Notes to the financial statements

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## 15. Properties (continued)

### 15(iii) – Trading properties

Group	UK £m	Continental Europe £m	Total £m
<b>2006</b>			
Completed properties	15.3	159.9	175.2
Properties under development	8.4	48.7	57.1
<b>At 31 December 2006</b>	<b>23.7</b>	<b>208.6</b>	<b>232.3</b>
<b>2005</b>			
Completed properties	0.6	60.8	61.4
Properties under development	6.6	55.6	62.2
At 31 December 2005	7.2	116.4	123.6

## 16. Plant and equipment

Group	Gas assets £m	Utilities plant £m	Other plant, fixtures and fittings £m	Total £m
<b>Cost</b>				
<b>At 1 January 2005</b>	75.8	45.3	10.7	131.8
Exchange movement	4.1	–	–	4.1
Additions	7.1	3.3	2.1	12.5
Disposals	(87.0)	–	(0.1)	(87.1)
<b>At 1 January 2006</b>	–	48.6	12.7	61.3
Additions	–	4.8	3.0	7.8
Disposals	–	–	(1.0)	(1.0)
<b>At 31 December 2006</b>	<b>–</b>	<b>53.4</b>	<b>14.7</b>	<b>68.1</b>
<b>Depreciation</b>				
<b>At 1 January 2005</b>	1.1	5.2	7.5	13.8
Additions	1.0	2.4	1.2	4.6
Disposals	(2.1)	–	–	(2.1)
<b>At 1 January 2006</b>	–	7.6	8.7	16.3
Additions	–	2.7	1.6	4.3
Disposals	–	–	(0.6)	(0.6)
<b>At 31 December 2006</b>	<b>–</b>	<b>10.3</b>	<b>9.7</b>	<b>20.0</b>
<b>Net book value at 31 December 2006</b>	<b>–</b>	<b>43.1</b>	<b>5.0</b>	<b>48.1</b>
Net book value at 31 December 2005	–	41.0	4.0	45.0
Carrying value measured at	Cost	Cost	Cost	
Depreciation rates used (straight-line in all 3 segments)	20%	2-30%	10-60%	

## 17. Finance lease receivables

The Group has leased out a number of investment properties under finance leases. These are presented as finance lease receivables rather than investment properties. A reconciliation between finance lease receivables and the present value of the minimum lease payments receivable at the balance sheet date is as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Amounts receivable under finance leases:</b>				
Within one year	1.0	0.9	0.2	0.1
In the second to fifth years inclusive	3.7	3.5	0.6	0.3
Later than five years	27.1	28.6	10.0	10.6
	31.8	33.0	10.8	11.0
Less unearned finance income	(21.0)	(22.0)	n/a	n/a
Present value of minimum lease payments receivable	10.8	11.0	10.8	11.0
<b>Analysed as:</b>				
Non current finance lease receivables	30.8	32.1	10.6	10.9
Current finance lease receivables	1.0	0.9	0.2	0.1
	31.8	33.0	10.8	11.0

The interest rate inherent in the lease is fixed at the contract date for all of the lease term. The weighted average interest rate on finance lease receivables at 31 December 2006 was 7.91 per cent (2005 7.93 per cent).

At 31 December 2006, the fair value of the Group's finance lease receivables is £10.8 million (2005 £11.0 million), while the unguaranteed residual values of assets leased under finance leases are estimated at £2.6 million (2005 £2.6 million).

## 18. Investments in joint ventures, associates and subsidiaries

The Group accounts for associates and joint ventures under the equity method. Note 45 lists the significant joint ventures and associates.

	Joint ventures		Associates		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Investments by the Group</b>						
<b>Cost or valuation at 1 January</b>	95.0	80.2	5.1	3.9	100.1	84.1
Exchange movement	(2.2)	1.7	(0.6)	0.5	(2.8)	2.2
Additions	17.3	15.7	0.5	–	17.8	15.7
Disposals	–	(12.6)	–	–	–	(12.6)
Loan repayments	(9.2)	–	–	–	(9.2)	–
Dividends received	(34.4)	(2.5)	(0.3)	(0.3)	(34.7)	(2.8)
Valuation surpluses	8.9	9.9	0.4	0.6	9.3	10.5
Deferred tax on valuation surpluses	(3.0)	(2.3)	–	–	(3.0)	(2.3)
Share of profits net of tax	6.6	4.9	0.4	0.4	7.0	5.3
<b>Cost or valuation at 31 December</b>	79.0	95.0	5.5	5.1	84.5	100.1
<b>Analysed as follows:</b>						
Cost	46.7	39.6	1.4	1.1	48.1	40.7
Valuation surpluses net of deferred tax	54.1	48.9	2.5	2.3	56.6	51.2
Share of retained (losses)/profits	(21.8)	6.5	1.6	1.7	(20.2)	8.2
	79.0	95.0	5.5	5.1	84.5	100.1

# Notes to the financial statements

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## 18. Investments in joint ventures, associates and subsidiaries (continued)

Group's share of joint ventures and associates	Joint ventures		Associates		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Balance sheets</b>						
Investment and development properties	132.1	108.0	5.2	5.5	137.3	113.5
<b>Total non-current assets</b>	<b>132.1</b>	<b>108.0</b>	<b>5.2</b>	<b>5.5</b>	<b>137.3</b>	<b>113.5</b>
Trading properties	27.2	24.3	–	–	27.2	24.3
Other receivables	8.5	13.0	2.1	1.1	10.6	14.1
Cash	9.3	4.3	0.1	0.1	9.4	4.4
<b>Total current assets</b>	<b>45.0</b>	<b>41.6</b>	<b>2.2</b>	<b>1.2</b>	<b>47.2</b>	<b>42.8</b>
<b>Total assets</b>	<b>177.1</b>	<b>149.6</b>	<b>7.4</b>	<b>6.7</b>	<b>184.5</b>	<b>156.3</b>
Mortgages and loans	72.6	32.4	1.9	1.6	74.5	34.0
Deferred tax	14.6	15.6	–	–	14.6	15.6
Other liabilities	0.5	1.7	–	–	0.5	1.7
<b>Total non-current liabilities</b>	<b>87.7</b>	<b>49.7</b>	<b>1.9</b>	<b>1.6</b>	<b>89.6</b>	<b>51.3</b>
Other liabilities	10.4	4.9	–	–	10.4	4.9
<b>Total current liabilities</b>	<b>10.4</b>	<b>4.9</b>	<b>–</b>	<b>–</b>	<b>10.4</b>	<b>4.9</b>
<b>Total liabilities</b>	<b>98.1</b>	<b>54.6</b>	<b>1.9</b>	<b>1.6</b>	<b>100.0</b>	<b>56.2</b>
<b>Group's share of net assets</b>	<b>79.0</b>	<b>95.0</b>	<b>5.5</b>	<b>5.1</b>	<b>84.5</b>	<b>100.1</b>

The Group accounts for its joint ventures and associates under the equity method, even where its interest exceeds 50 per cent under the venture agreements, as it is unable to control the individual venture. For one venture with Tesco plc, Shopping Centres Limited, where the Group has a 50 per cent interest, the year end is 31 July and the accounts reflect appropriate adjustments up to 31 December 2006. Tax in USA owned entities is borne by the investing company under the terms of the venture agreements.

The amount of loans advanced by the Group to joint ventures and associates is £34.7 million (2005 £25.3 million).

Investments by the Company	Investments		Loans		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Company investment in subsidiaries</b>						
<b>Cost at 1 January</b>	<b>1,462.1</b>	<b>1,462.0</b>	<b>1,755.9</b>	<b>1,441.4</b>	<b>3,218.0</b>	<b>2,903.4</b>
Recapitalisation of subsidiaries	501.0	0.1	–	–	501.0	0.1
Repayment of preference shares by subsidiary	(10.0)	–	–	–	(10.0)	–
Net loan movement	–	–	(113.0)	312.1	(113.0)	312.1
(Increase)/decrease in provision for loans	–	–	(105.0)	2.4	(105.0)	2.4
<b>Cost at 31 December</b>	<b>1,953.1</b>	<b>1,462.1</b>	<b>1,537.9</b>	<b>1,755.9</b>	<b>3,491.0</b>	<b>3,218.0</b>
<b>Company investment in joint ventures</b>						
<b>Cost at 1 January</b>	<b>5.5</b>	<b>5.5</b>	<b>13.1</b>	<b>0.7</b>	<b>18.6</b>	<b>6.2</b>
Net loan movement	–	–	(13.1)	12.4	(13.1)	12.4
<b>Cost at 31 December</b>	<b>5.5</b>	<b>5.5</b>	<b>–</b>	<b>13.1</b>	<b>5.5</b>	<b>18.6</b>



19. Available-for-sale investments

Group	Warrants £m	Venture capital investments £m	Treasury stock and other £m	Total £m
<b>Cost at 1 January 2005</b>	–	<b>38.3</b>	<b>0.1</b>	<b>38.4</b>
Restate for IAS 39	1.3	2.8	–	4.1
	1.3	41.1	0.1	42.5
Exchange movement	0.1	2.9	–	3.0
Additions	–	11.6	0.3	11.9
Fair value movement	(0.6)	10.3	–	9.7
Disposals and return of capital	–	(11.3)	–	(11.3)
Transfer to income statement	–	(1.1)	–	(1.1)
<b>Valuation at 1 January 2006</b>	<b>0.8</b>	<b>53.5</b>	<b>0.4</b>	<b>54.7</b>
Exchange movement	(0.1)	(4.0)	–	(4.1)
Additions	0.3	4.2	–	4.5
Fair value movement	0.1	7.4	–	7.5
Disposals and return of capital	–	(18.5)	–	(18.5)
<b>Valuation at 31 December 2006</b>	<b>1.1</b>	<b>42.6</b>	<b>0.4</b>	<b>44.1</b>

Warrants were received from certain USA clients. Venture capital investments are holdings in private equity funds investing in UK, Continental Europe and USA.

	Investment balance		Remaining commitment at year end	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>The investments were in the following funds:</b>				
Candover 1997 fund	0.5	1.7	–	–
Candover 2001 fund	20.0	20.7	4.7	4.4
Charterhouse Equity Partners II L.P.	0.4	0.7	–	–
Charterhouse Equity Partners III L.P.	6.4	15.4	–	–
Charterhouse Equity Partners IV L.P.	15.3	15.0	4.3	7.3
USA warrants	1.1	0.8	–	–
Treasury stock	0.1	0.1	–	–
Other investments	0.3	0.3	–	–
	<b>44.1</b>	<b>54.7</b>	<b>9.0</b>	<b>11.7</b>

20. Trade and other receivables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Current</b>				
Trade receivables	55.2	67.8	0.8	0.6
Other receivables	23.6	11.4	0.2	–
Prepayments and accrued income	82.9	63.7	–	–
Fair value of derivatives	7.2	4.8	1.2	0.6
Amounts due from subsidiaries	–	–	0.1	0.7
	<b>168.9</b>	<b>147.7</b>	<b>2.3</b>	<b>1.9</b>
<b>Non-current</b>				
Other receivables	16.8	15.1	–	–
Amounts due from related parties	–	–	3.9	–
<b>Total trade and other receivables</b>	<b>185.7</b>	<b>162.8</b>	<b>6.2</b>	<b>1.9</b>

There is no concentration of credit risk in trade receivables, as the Group has a large number of globally dispersed customers. The carrying amount of the trade and other receivables is considered by the directors to approximate their fair value.

# Notes to the financial statements

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## 20. Trade and other receivables (continued)

Included in prepayments and accrued income are pre-paid operating lease incentives given to tenants. They are amortised over the period of the lease.

	Group	
	2006 £m	2005 £m
Balance 1 January	40.4	35.1
Exchange differences	(4.4)	3.0
Disposals during the year	(1.2)	(4.4)
Additions net of amortisation	17.6	6.7
Balance 31 December	52.4	40.4

## 21. Cash and cash equivalents

These are cash in hand, demand deposits and highly liquid short-term investments that are readily convertible to known amounts of cash within three months from acquisition and subject to an insignificant risk of changes in value.

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Bank balance	54.3	16.3	20.3	–
Call deposits	107.1	156.3	0.6	–
Cash and cash equivalents per the balance sheet	161.4	172.6	20.9	–
Less restricted deposits	(3.9)	–	–	–
Bank overdrafts	(6.5)	(5.7)	(0.1)	(1.5)
<b>Cash and cash equivalents in the cash flow statements</b>	<b>151.0</b>	<b>166.9</b>	<b>20.8</b>	<b>(1.5)</b>

## 22. Inventories

	Group	
	2006 £m	2005 £m
Total inventory (all related to utilities)	1.0	1.6

## 23. Provisions for liabilities and charges

	Group				Company
	Retirement benefit schemes £m	Other liabilities £m	Quail West £m	Total £m	Retirement benefit schemes £m
<b>Balance at 1 January 2005</b>	41.5	0.3	18.0	59.8	40.2
Exchange movement	0.1	–	1.0	1.1	–
Charged/(credited) to income statement	2.9	–	(19.0)	(16.1)	2.9
Charged to SORIE	4.0	–	–	4.0	3.8
Paid	(19.1)	(0.1)	–	(19.2)	(19.1)
<b>Balance at 1 January 2006</b>	<b>29.4</b>	<b>0.2</b>	<b>–</b>	<b>29.6</b>	<b>27.8</b>
Exchange movement	(0.1)	–	–	(0.1)	–
Charged to income statement	2.3	0.1	–	2.4	2.1
Credited to SORIE	(10.2)	–	–	(10.2)	(11.8)
Paid	(3.9)	(0.1)	–	(4.0)	(3.7)
<b>Balance at 31 December 2006</b>	<b>17.5</b>	<b>0.2</b>	<b>–</b>	<b>17.7</b>	<b>14.4</b>

Retirement benefit schemes are discussed in Note 27.

The other liabilities relate principally to provisions for onerous leases on rented properties, being the estimated liability of future lease rentals and dilapidation costs less sub-letting receipts over the length of the contract.

The Quail West provision related to an onerous obligation associated with the Group's holding of property at Quail West, Florida. This provision was released in 2005 in connection with the disposal of the Quail West property.

## 24. Borrowings

### 24(i) – Borrowings by type

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Secured Borrowings:</b>				
European mortgages (repayable within 1 year)	0.9	3.6	–	–
Polish mortgage (repayable between 1-2 years)	–	3.5	–	–
US dollars 6.9% 2007 first mortgage	3.5	4.3	–	–
Euro mortgages 2009 to 2012	7.7	2.5	–	–
US dollars 6.85% to 7.51% 2008 to 2017	24.4	30.4	–	–
Euro mortgages 5.14% to 6.36% 2014 to 2016	40.6	42.3	–	–
<b>Total secured (on land, buildings and other assets)</b>	<b>77.1</b>	<b>86.6</b>	<b>–</b>	<b>–</b>
<b>Unsecured Borrowings:</b>				
<b>Bonds</b>				
7.125% bonds 2010	124.5	124.3	124.5	124.3
6.25% bonds 2015	148.2	148.0	148.2	148.0
5.5% bonds 2018	197.9	197.8	197.9	197.8
5.625% bonds 2020	246.8	246.6	246.8	246.6
7.0% bonds 2022	148.7	148.7	148.7	148.7
6.75% bonds 2024	220.7	220.6	220.7	220.6
5.75% bonds 2035	197.9	197.9	197.9	197.9
<b>Notes</b>				
7.58% US dollar Notes 2007	10.2	11.6	–	–
7.84% US dollar Notes 2008	7.6	8.7	–	–
9.27% Canadian dollar Notes 2010	11.0	12.5	–	–
7.94% US dollar Notes 2010	46.6	53.1	–	–
6.417% Euro Notes 2011	33.7	34.2	–	–
6.57% US dollar Notes 2011	50.9	58.0	–	–
8.0% US dollar Notes 2012	22.2	25.3	–	–
8.09% US dollar Notes 2015	5.1	5.8	–	–
6.97% US dollar Notes 2016	50.9	58.0	–	–
<b>Others</b>				
8.25p Convertible redeemable preference shares	–	107.7	–	107.7
	<b>1,522.9</b>	<b>1,658.8</b>	<b>1,284.7</b>	<b>1,391.6</b>
Bank loans & overdrafts	784.5	519.2	187.1	392.0
Preference shares held by subsidiary	0.3	0.3	–	–
<b>Total unsecured</b>	<b>2,307.7</b>	<b>2,178.3</b>	<b>1,471.8</b>	<b>1,783.6</b>
<b>Total borrowings</b>	<b>2,384.8</b>	<b>2,264.9</b>	<b>1,471.8</b>	<b>1,783.6</b>

### The maturity profile of borrowings is as follows:

#### Maturity profile of debt

In one year or less	77.6	14.7	3.8	1.5
In more than one year but less than two	30.7	49.2	6.6	–
In more than two years but less than five	991.0	544.5	301.2	358.5
In more than five years but less than ten	272.8	567.1	148.1	412.0
In more than ten years	1,012.7	1,089.4	1,012.1	1,011.6
<b>Total debt</b>	<b>2,384.8</b>	<b>2,264.9</b>	<b>1,471.8</b>	<b>1,783.6</b>

#### Maturity profile of undrawn borrowing facilities

In one year or less	37.1	44.8	6.2	8.5
In more than one year but less than two	11.1	18.5	3.4	–
In more than two years	461.7	471.0	257.7	374.3
<b>Total available undrawn facilities</b>	<b>509.9</b>	<b>534.3</b>	<b>267.3</b>	<b>382.8</b>

There are no early settlement or call options on any of the borrowings. Financial covenants relating to the borrowings include maximum limits to the Group's gearing ratio and minimum limits to permitted interest cover. The Group is comfortably within the limits imposed by the covenants.

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## 24. Borrowings (continued)

### 24(ii) – Borrowings by interest rates

The interest rate profile of Group and Company debt was as follows:

Interest rate profile – Group	31 December 2006					31 December 2005				
	Fixed rate %	Fixed period Years	Fixed debt £m	Variable debt £m	Total £m	Fixed rate %	Fixed period Years	Fixed debt £m	Variable debt £m	Total £m
<b>Borrowings</b>	<b>Weighted average before swaps</b>					<b>Weighted average before swaps</b>				
Sterling	6.19	14.4	1,284.7	1.1	1,285.8	6.19	15.4	1,283.9	0.3	1,284.2
US dollars	7.28	4.7	221.5	359.9	581.4	7.27	5.7	255.2	282.0	537.2
Canadian dollars	9.27	3.0	10.9	–	10.9	9.27	4.0	12.4	–	12.4
Euros	6.13	5.2	74.3	432.1	506.4	5.99	6.2	78.6	244.5	323.1
	6.36	12.5	1,591.4	793.1	2,384.5	6.38	13.3	1,630.1	526.8	2,156.9
Guildhall preference shares			0.3	–	0.3			0.3	–	0.3
Convertible redeemable preference shares			–	–	–			107.7	–	107.7
<b>Total borrowings</b>			1,591.7	793.1	2,384.8			1,738.1	526.8	2,264.9
<b>Borrowings</b>	<b>Weighted average after swaps</b>					<b>Weighted average after swaps</b>				
Sterling	6.19	14.4	1,284.7	1.1	1,285.8	6.19	15.4	1,283.9	0.3	1,284.2
US dollars	6.28	3.2	411.1	170.3	581.4	6.15	4.2	471.2	66.0	537.2
Canadian dollars	9.27	3.0	10.9	–	10.9	9.27	4.0	12.4	–	12.4
Euros	4.74	4.9	265.2	241.2	506.4	5.93	5.8	95.8	227.3	323.1
	6.03	10.7	1,971.9	412.6	2,384.5	6.19	12.0	1,863.3	293.6	2,156.9
Guildhall preference shares			0.3	–	0.3			0.3	–	0.3
Convertible redeemable preference shares			–	–	–			107.7	–	107.7
<b>Total borrowings</b>			1,972.2	412.6	2,384.8			1,971.3	293.6	2,264.9
<b>Cash and deposits</b>										
Sterling				(121.5)	(121.5)				(154.8)	(154.8)
US dollars				(5.3)	(5.3)				(3.7)	(3.7)
Canadian dollars				(3.8)	(3.8)				(4.2)	(4.2)
Euros				(30.8)	(30.8)				(9.9)	(9.9)
<b>Total cash and deposits</b>				(161.4)	(161.4)				(172.6)	(172.6)
<b>Net borrowings</b>			1,972.2	251.2	2,223.4			1,971.3	121.0	2,092.3

The analysis by currency excludes liabilities created by the forward sale of US\$464.5 million (2005 nil) and the forward sale of €100.0 million in 2006 (2005 nil) which are held as net investment hedges.

## 24. Borrowings (continued)

### 24(ii) – Borrowings by interest rates (continued)

Interest rate profile – Company	31 December 2006					31 December 2005				
	Fixed rate %	Fixed period Years	Fixed debt £m	Variable debt £m	Total £m	Fixed rate %	Fixed period Years	Fixed debt £m	Variable debt £m	Total £m
<b>Borrowings</b>	<b>Weighted average before swaps</b>					<b>Weighted average before swaps</b>				
Sterling	6.19	14.4	1,284.7	0.2	1,284.9	6.19	15.4	1,283.9	–	1,283.9
US dollars	–	–	–	76.7	76.7	–	–	–	282.1	282.1
Euros	–	–	–	110.2	110.2	–	–	–	109.9	109.9
	6.19	14.4	1,284.7	187.1	1,471.8	6.19	15.4	1,283.9	392.0	1,675.9
Convertible redeemable preference shares			–	–	–			107.7	–	107.7
<b>Total borrowings</b>			1,284.7	187.1	1,471.8			1,391.6	392.0	1,783.6
<b>Borrowings</b>	<b>Weighted average after swaps</b>					<b>Weighted average after swaps</b>				
Sterling	6.19	14.4	1,284.7	0.2	1,284.9	6.19	15.4	1,283.9	–	1,283.9
US dollars	5.29	0.5	62.0	14.7	76.7	4.82	2.3	216.1	66.0	282.1
Euros	4.13	5.0	30.4	79.8	110.2	–	–	–	109.9	109.9
	6.11	13.5	1,377.1	94.7	1,471.8	6.00	13.5	1,500.0	175.9	1,675.9
Convertible redeemable preference shares			–	–	–			107.7	–	107.7
<b>Total borrowings</b>			1,377.1	94.7	1,471.8			1,607.7	175.9	1,783.6
<b>Cash and deposits</b>										
Sterling				(20.3)	(20.3)				–	–
Euros				(0.6)	(0.6)				–	–
<b>Total cash and deposits</b>				(20.9)	(20.9)				–	–
<b>Net borrowings</b>			1,377.1	73.8	1,450.9			1,607.7	175.9	1,783.6

The above analysis for 2006 excludes US\$250.0 million of interest rate swaps transacted in the name of the Company which are hedging debt in Slough Estates USA Inc. In 2005 the US\$250 million of interest rate swaps were included in the analysis as they were hedging debt in the name of the company.

Interest was charged on borrowings as follows:	Group				Company			
	Pre-swaps 2006 £m	Post-swaps 2006 £m	Pre-swaps 2005 £m	Post-swaps 2005 £m	Pre-swaps 2006 £m	Post-swaps 2006 £m	Pre-swaps 2005 £m	Post-swaps 2005 £m
<b>Due after more than one year</b>								
Up to 5%	–	174.6	4.3	75.0	–	30.4	–	70.7
5% to 7.5%	1,475.1	1,680.2	1,496.9	1,659.4	1,284.7	1,346.7	1,283.9	1,429.3
Over 7.5%	98.9	98.9	124.8	124.8	–	–	–	–
	1,574.0	1,953.7	1,626.0	1,859.2	1,284.7	1,377.1	1,283.9	1,500.0
Convertible redeemable preference shares	–	–	107.7	107.7	–	–	107.7	107.7
Variable rate	733.2	353.5	516.5	283.3	183.3	90.9	390.5	174.4
	2,307.2	2,307.2	2,250.2	2,250.2	1,468.0	1,468.0	1,782.1	1,782.1



# Notes to the financial statements

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## 24. Borrowings (continued)

### 24(iii) – Derivatives

The Group has utilised derivatives as follows:

#### In the year to 31 December 2006

US\$250.0 million has been swapped from variable rate funding into fixed at 4.63 per cent to 2009.\*

US\$121.6 million has been fixed by future rate agreements at rates ranging between 4.79 per cent and 5.53 per cent until 2007.\*

€24.0 million amortising at €1.0 million per annum swapped from variable rate funding into fixed rate funding at 5.68 per cent until 2010.

€8.5 million has been swapped from variable rate funding into fixed at 3.21 per cent to 2008.

C\$25.0 million at 9.27 per cent has been swapped into US\$15.9 million to produce funding at 9.23 per cent fixed to 2010.

€100.0 million has been swapped from variable rate funding into fixed rate at 3.30 per cent to 2011.

€50.0 million has been swapped from variable rate funding into fixed rate at 3.60 per cent to 2011.

€65.0 million has been swapped from variable rate funding into fixed rate at 3.59 per cent to 2011.

€45.0 million has been swapped from variable rate funding into fixed rate at 3.63 per cent to 2011.\*

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.\*\*

The average interest rate in respect of deposits held at 31 December 2006 amounted to 5.1 per cent (2005 4.6 per cent).

#### In the year to 31 December 2005

US\$150.0 million had been swapped from variable rate funding into fixed at 2.28 per cent to 2006.\*

£150.0 million of Sterling LIBOR exposure was collared in a range of 4.5 per cent to 5.5 per cent to 2006.\*

US\$250.0 million had been swapped from variable rate funding into fixed at 4.63 per cent to 2009, this was traded after 31 December 2005 and was effective from the next interest payment date.\*

US\$121.6 million had been fixed by future rate agreements at rates ranging between 3.92 per cent and 4.82 per cent until 2007.\*

€25.0 million amortising at €1.0 million per annum had been swapped from variable rate funding into fixed rate funding at 5.68 per cent until 2010.

C\$25.0 million at 9.27 per cent had been swapped into US\$15.9 million to produce funding at 9.23 per cent fixed to 2010.

Variable rate borrowings attracted interest at a margin over LIBOR or similar local benchmark. All cash was either on short-term deposit with banks or similar institutions.\*\*

The average interest rate in respect of deposits held at 31 December 2005 amounted to 4.6 per cent (2004 3.35 per cent).

\* In the name of Slough Estates plc.

\*\* Any such bank or institution must hold at least an A1, P1 or F1 short-term credit rating.

25. Financial instruments and fair values

	Group				Company			
	Book value 2006 £m	Fair value 2006 £m	Book value 2005 £m	Fair value 2005 £m	Book value 2006 £m	Fair value 2006 £m	Book value 2005 £m	Fair value 2005 £m
<b>Borrowings</b>								
Secured bank loans	77.1	78.8	86.6	92.9	—	—	—	—
Unsecured bond issues	1,284.7	1,350.0	1,283.9	1,400.1	1,284.7	1,350.0	1,283.9	1,400.1
Unsecured loans	238.2	254.9	267.2	296.1	—	—	—	—
Bank loans and overdrafts	784.5	784.5	519.2	519.2	187.1	187.1	392.0	392.0
Guildhall preference shares	0.3	0.3	0.3	0.3	—	—	—	—
Convertible redeemable preference shares	—	—	107.7	107.7	—	—	107.7	107.7
<b>Debt</b>	<b>2,384.8</b>	<b>2,468.5</b>	<b>2,264.9</b>	<b>2,416.3</b>	<b>1,471.8</b>	<b>1,537.1</b>	<b>1,783.6</b>	<b>1,899.8</b>
Interest rate swaps	(2.6)	(2.6)	1.4	1.4	(1.2)	(1.2)	(0.4)	(0.4)
Cross currency swaps	(3.7)	(3.7)	(4.2)	(4.2)	—	—	—	—
Forward rate agreements	—	—	(0.2)	(0.2)	—	—	(0.2)	(0.2)
Caps and collars	—	—	0.2	0.2	—	—	0.2	0.2
<b>Derivatives</b>	<b>(6.3)</b>	<b>(6.3)</b>	<b>(2.8)</b>	<b>(2.8)</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>(0.4)</b>	<b>(0.4)</b>
<b>Debt &amp; derivatives (pre-tax)</b>	<b>2,378.5</b>	<b>2,462.2</b>	<b>2,262.1</b>	<b>2,413.5</b>	<b>1,470.6</b>	<b>1,535.9</b>	<b>1,783.2</b>	<b>1,899.4</b>
Tax relief due on early redemption/termination @ 30%		(5.5)		(45.4)		—		(34.9)
<b>Debt &amp; derivatives (post-tax)</b>	<b>2,378.5</b>	<b>2,456.7</b>	<b>2,262.1</b>	<b>2,368.1</b>	<b>1,470.6</b>	<b>1,535.9</b>	<b>1,783.2</b>	<b>1,864.5</b>
After tax mark-to-market adjustment		78.2		106.0		65.3		81.3
<b>Other financial assets and liabilities</b>								
Cash and deposits	161.4	161.4	172.6	172.6	20.9	20.9	—	—
AFS investments	44.1	44.1	54.7	54.7	—	—	—	—
Trade and other receivables	178.5	178.5	158.0	158.0	5.0	5.0	1.3	1.3
Trade and other payables	223.2	223.2	168.0	168.0	376.8	376.8	225.2	225.2

Fair values are obtained from market prices of tradeable instruments, indicative bank quotes, or discounted cash flows.

Included in the above analysis are unamortised borrowing costs of £17.3 million (2005 £18.6 million) for Group, and £15.9 million (2005 £17.3 million) for Company. The 8.25 pence convertible redeemable preference shares were redeemed during the year by 12 June 2006. Their market value at 31 December 2005 was £286.2 million, and they have been included in the diluted net assets per ordinary share calculation in note 12.

Exposure to credit, interest rate and currency risks arise in the normal course of business, and the Group manages these in the manner outlined below. Further details on risk management policy and exposure are included in the Financial Review on pages 22 to 28. Derivative financial instruments, currency borrowings and cross currency swaps are used to reduce exposure to interest rate and foreign exchange fluctuations. There are no material unrecognised gains or losses on hedging instruments.

# Notes to the financial statements

## 100. 25. Financial instruments and fair values (continued)

### Credit risk and liquidity risk management

Potential customers are evaluated for creditworthiness and where necessary collateral is secured. Investment in financial instruments is restricted to short-term liquid funds with high credit rating. Derivative financial instruments are only transacted via ISDA agreements with counterparties with good investment grade credit ratings. There is no significant concentration of credit risk, and Directors are of the opinion that there is no material credit or liquidity risk.

### Interest rate risk management

At 31 December 2006, 83 per cent (2005 87 per cent) of Group debt is at fixed rate, primarily in Sterling Eurobonds and USD Private Placements, and is held at amortised cost. Interest rate swaps, collars and forward rate agreements are also used to convert variable debt to fixed. Derivatives are only held for risk management, and not for trading. They are not accounted for as hedges; their fair value movements are immediately booked in the income statement. The Group's weighted average interest cost was 5.84 per cent (2005 5.81 per cent), and a one percentage movement in interest rates in the same direction across all Group currencies would impact pre-tax profit by +/- £4.1 million (2005 +/- £2.9 million). There is no material interest rate exposure.

A section of the Group's financial assets and liabilities are not directly subject to interest rate risk. These include trade investments and equity warrants included under available-for-sale investments.

### Foreign currency risk management

The impact of international transactions or of translating international profits has been minimal, so these are not hedged.

The Group is, however, exposed to exchange movements on converting net currency assets. To manage this, the policy is that between 75 per cent – 90 per cent of currency assets are financed by borrowings in the same currencies or currency swaps. Net assets exposed at year end were £223.5 million (2005 £460.9 million). A 10 per cent sterling movement in the same direction across the Group's currencies would affect assets by +/- £22.3 million (2005 +/- £46.0 million) or 0.6 per cent (2005 1.44 per cent).

The Group is also exposed to its net investment in international undertakings, which it hedges by foreign currency loans and currency swaps. US\$586.1 million and €155.7million (2005 US\$371.6 million and €54.2 million) of UK domiciled foreign currency loans and currency swaps are designated as hedges against part of the Group's investment in subsidiaries in Continental Europe and USA. The carrying amount of the loans and currency swaps at 31 December 2006 was £404.0 million (2005 £253.2 million). A foreign exchange gain of £35.3 million (2005 loss of £12.8 million) was recognised in equity on translation of these loans and currency swaps to sterling.

## 26. Deferred tax assets and provisions

Movement in deferred tax was as follows:

	Balance 1 January £m	Exchange movement £m	Recognised in income £m	Recognised in equity £m	Transfer £m	Balance 31 December £m
<b>Group – 2006</b>						
Valuation surpluses on properties	412.1	(16.5)	(214.1)	0.9	–	<b>182.4</b>
Accelerated tax allowances	170.4	(9.3)	(129.2)	–	–	<b>31.9</b>
Others	66.7	0.7	–	–	(5.6)	<b>61.8</b>
<b>Total relating to investment properties</b>	<b>649.2</b>	<b>(25.1)</b>	<b>(343.3)</b>	<b>0.9</b>	<b>(5.6)</b>	<b>276.1</b>
Accelerated tax allowances on plant and equipment	6.3	–	2.4	–	–	<b>8.7</b>
Pension deficit	(8.1)	–	–	7.1	–	<b>(1.0)</b>
Deferred tax assets	(24.8)	0.3	15.5	–	–	<b>(9.0)</b>
Others	13.3	(1.8)	7.1	(0.5)	5.6	<b>23.7</b>
<b>Total deferred tax provision</b>	<b>635.9</b>	<b>(26.6)</b>	<b>(318.3)</b>	<b>7.5</b>	<b>–</b>	<b>298.5</b>
<b>Group – 2005</b>						
Valuation surpluses on properties	256.6	6.6	130.5	18.4	–	<b>412.1</b>
Accelerated tax allowances	127.6	5.8	37.0	–	–	<b>170.4</b>
Others	73.1	–	(6.4)	–	–	<b>66.7</b>
<b>Total relating to investment properties</b>	<b>457.3</b>	<b>12.4</b>	<b>161.1</b>	<b>18.4</b>	<b>–</b>	<b>649.2</b>
Accelerated tax allowances on plant and equipment	2.6	–	3.7	–	–	<b>6.3</b>
Pension deficit	(11.9)	–	–	3.8	–	<b>(8.1)</b>
Deferred tax assets	(13.1)	(0.8)	(10.9)	–	–	<b>(24.8)</b>
Others	13.5	0.7	(4.1)	3.2	–	<b>13.3</b>
<b>Total deferred tax provision</b>	<b>448.4</b>	<b>12.3</b>	<b>149.8</b>	<b>25.4</b>	<b>–</b>	<b>635.9</b>
<b>Company – 2006</b>						
			Balance 1 January £m	Recognised in income £m	Recognised in equity £m	Balance 31 December £m
Deferred tax asset relating to the pension deficit			(8.1)	–	8.1	–
Deferred tax assets relating to the bond loss			(5.3)	(1.7)	–	<b>(7.0)</b>
Others			1.0	0.7	–	<b>1.7</b>
<b>Total deferred tax asset</b>			<b>(12.4)</b>	<b>(1.0)</b>	<b>8.1</b>	<b>(5.3)</b>
<b>Company – 2005</b>						
Deferred tax asset relating to the pension deficit			(11.9)	–	3.8	<b>(8.1)</b>
Deferred tax assets relating to the bond loss			–	(5.3)	–	<b>(5.3)</b>
Others			1.1	(0.1)	–	<b>1.0</b>
<b>Total deferred tax asset</b>			<b>(10.8)</b>	<b>(5.4)</b>	<b>3.8</b>	<b>(12.4)</b>

At the balance sheet date, the Group has unused revenue tax losses of £30.0 million (2005 £75.4 million) available for offset against future profits. A deferred tax asset has been recognised in respect of all of these losses as it is expected that future profits will be available.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed profits of subsidiaries and joint ventures for which deferred tax liabilities have not been recognised was £nil (2005 £nil). No liability has been recognised because the Group is in a position to control the distribution of these profits and this is unlikely in the foreseeable future.

# Notes to the financial statements

## 102. 27. Retirement benefit schemes

### Background

The Group has two defined benefit 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, assessed according to the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method of calculation, are charged to the income statement so as to spread the pensions cost over employees' working lives with the Group. The Bilton scheme was closed to new members from 2003, and the Slough scheme from October 2005.

Valuation of the Slough and Bilton schemes has been based on the most recent actuarial valuation at 31 March 2004 for Slough and 5 April 2004 for Bilton and updated by the independent actuaries in order to assess the liabilities of the schemes at 31 December 2006. Assets of both schemes are stated at their market value at 31 December 2006.

The Company has an unfunded or unapproved retirement benefit scheme (UURBS) for one employee, the Chief Executive. This arrangement is a defined benefit in nature. The calculation of the value of this unapproved benefit promise uses assumptions which are consistent with those used for the Slough scheme. There are no assets supporting this UURBS.

The Group has an UURBS through Slough Estates USA Incorporated for one employee. This is a US dollar denominated defined benefit arrangement. The calculation of the value of this unapproved benefit promise uses assumptions which are consistent with the Slough scheme and consistent with a US dollar denominated liability. There are no assets supporting this UURBS.

In the Netherlands the Group has two schemes. One is an insured arrangement with a notional investment portfolio and therefore the amount of assets can only be estimated from the local reserve. However, no contributions have been paid for 2006 and as a consequence there are no assets as at 31 December 2006. A deficit of £547,000 at 31 December 2005 has been absorbed through the SORIE in 2006. A premium of £30,000 is estimated to be payable in 2007 as well as an accrual of £30,000 for 2006. The second scheme arises from the Mainland acquisition in 2005 and a charge of £63,000 has been absorbed through the SORIE in 2006.

The Group has a number of defined contribution schemes in the UK and overseas which were all expensed to the income statement. Additionally, the Group has paid supplementary ex-gratia pensions of £0.2 million (2005 £0.2 million) that were paid out of profits.

### Financial summary

	UK		International		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Balance sheet</b>						
Obligation on defined benefit schemes	12.8	26.8	0.4	–	13.2	26.8
Obligation on UURBS	1.7	1.0	2.3	1.3	4.0	2.3
Obligation on unfunded scheme to former director	0.3	0.3	–	–	0.3	0.3
	14.8	28.1	2.7	1.3	17.5	29.4
Related deferred tax asset	–	8.1	1.0	–	1.0	8.1
<b>Income statement expense</b>						
Defined contribution schemes	0.2	0.2	0.2	0.2	0.4	0.4
Defined benefit schemes	1.9	3.1	0.4	0.1	2.3	3.2
Total amount charged to the income statement	2.1	3.3	0.6	0.3	2.7	3.6
<b>Statement of recognised income and expense</b>						
Amounts credited/(charged) directly to equity on defined benefit schemes	11.5	(3.9)	(1.3)	(0.1)	10.2	(4.0)



27. Retirement benefit schemes (continued)

Defined benefit schemes

The most recent full formal actuarial valuations for defined benefit schemes have been updated by qualified actuaries for the financial year ended 31 December 2006 to provide the IAS 19 disclosures below.

	UK		International	
	2006 %	2005 %	2006 %	2005 %
<b>The major assumptions used were as follows:</b>				
Discount rate for scheme liabilities	5.2	4.7	5.8	5.5
Rate of inflation	3.0	2.9	3.0	2.9
Rate of increase to pensions in payment in excess of GMP				
Before April 2003 (Slough/Bilton)	4.1/3.0	4.1/2.8	–	–
From April 2003 to October 2005	3.0	2.8	–	–
After October 2005	2.3	2.1	4.0	–
Rate of general long-term increase in salaries	5.0	4.9	4.5	4.8

	UK	
	2006 %	2005 %
<b>The long-term rates of return on plan assets in the year were expected to be:</b>		
Equities	7.6	7.5
Bonds	4.6	4.3
Property	6.6	6.5
Other assets	5.3	4.5
Overall – Slough Scheme	6.4	6.5
Overall – Bilton Scheme	5.6	5.4

	Mortality table	Life expectancy at age 65 (years)	
The mortality rates used are as follows:		Male	Female
Current pensioners	PA92C2014SC	20.8	23.6
Future pensioners	PA92C2024SC	21.5	24.3

The expected return on plan assets is a blended average of projected long-term returns for the various asset classes. Asset class returns are based on a forward looking building block approach. Equity returns are developed based on the selection of an equity risk premium above the risk free rate which is measured in accordance with the yields on government bonds. Returns on property are assumed to be 1 per cent per annum lower than those on equities. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the schemes' holdings of these instruments.

	2006 £m	2005 £m	2006 %	2005 %
<b>Analysis of UK schemes' assets at 31 December is as follows:</b>				
Equities	60.1	63.2	53.5	61.0
Bonds	50.2	38.0	44.7	36.7
Property	1.5	1.3	1.3	1.3
Other	0.5	1.1	0.5	1.0
	112.3	103.6	100.0	100.0

# Notes to the financial statements

## 104. 27. Retirement benefit schemes (continued)

### Defined benefit schemes (continued)

The schemes have no investments in the Group's equity securities or in property currently used by the Group.

	UK		International		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Charges on the basis of the assumptions were:</b>						
<b>Charge to Group income statement</b>						
Current service cost	3.5	3.4	0.2	0.1	3.7	3.5
Past service costs	–	(0.8)	–	–	–	(0.8)
Curtailments	(1.1)	–	–	–	(1.1)	–
Amount charged to operating profit	2.4	2.6	0.2	0.1	2.6	2.7
Interest on pension liabilities	6.1	5.8	0.2	–	6.3	5.8
Expected return on scheme assets	(6.6)	(5.3)	–	–	(6.6)	(5.3)
Amount (credited)/charged to other finance income/costs	(0.5)	0.5	0.2	–	(0.3)	0.5
Total included within staff costs and finance income/costs	1.9	3.1	0.4	0.1	2.3	3.2
<b>Credit/(charge) to Group statement of recognised income and expense</b>						
Actual return less expected return on assets	0.3	10.2	–	–	0.3	10.2
Experienced gains and losses on liabilities	(0.3)	(0.3)	(1.5)	(0.1)	(1.8)	(0.4)
Changes in financial assumptions underlying the present value of the schemes' liabilities	12.3	(13.2)	0.2	–	12.5	(13.2)
Movement in unrecognised Bilton surplus	(0.8)	(0.6)	–	–	(0.8)	(0.6)
	11.5	(3.9)	(1.3)	(0.1)	10.2	(4.0)

All actuarial gains and losses are recognised immediately and relate to continuing operations. The cumulative recognised actuarial losses for the UK and other schemes was £2.8 million (2005 £14.3 million) and £1.7 million (2005 £0.5 million) respectively.

27. Retirement benefit schemes (continued)

Fair value of the assets and liabilities of the schemes

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement schemes is as follows:

	UK		International		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
<b>Movement in assets</b>						
1 January	103.6	71.2	–	–	103.6	71.2
Expected return on scheme assets	6.6	5.3	–	–	6.6	5.3
Actuarial gains	0.3	10.2	–	–	0.3	10.2
Employer cash contributions	3.9	19.2	–	–	3.9	19.2
Member cash contributions	0.9	0.6	–	–	0.9	0.6
Benefits paid	(3.0)	(2.9)	–	–	(3.0)	(2.9)
31 December	112.3	103.6	–	–	112.3	103.6
<b>Movement in liabilities</b>						
1 January	130.0	110.4	1.3	1.0	131.3	111.4
Service cost	3.5	3.4	0.2	0.1	3.7	3.5
Curtailments	(1.1)	–	–	–	(1.1)	–
Past service cost	–	(0.8)	–	–	–	(0.8)
Interest cost	6.1	5.8	0.2	–	6.3	5.8
Member contributions	0.9	0.6	–	–	0.9	0.6
Actuarial (gains)/losses	(12.0)	13.5	1.3	0.1	(10.7)	13.6
Benefits paid	(3.0)	(2.9)	–	–	(3.0)	(2.9)
Exchange movements	–	–	(0.3)	0.1	(0.3)	0.1
31 December	124.4	130.0	2.7	1.3	127.1	131.3
<b>Analysis of net assets/(deficits):</b>						
Market value of schemes' assets	112.3	103.6	–	–	112.3	103.6
Present value of funded schemes' liabilities	(122.7)	(129.0)	(0.4)	–	(123.1)	(129.0)
Deficits for funded schemes	(10.4)	(25.4)	(0.4)	–	(10.8)	(25.4)
Less Bilton surplus which cannot be utilised	(2.4)	(1.4)	–	–	(2.4)	(1.4)
Present value of UURBS' liabilities	(1.7)	(1.0)	(2.3)	(1.3)	(4.0)	(2.3)
Retirement benefit obligation recognised in the balance sheet	(14.5)	(27.8)	(2.7)	(1.3)	(17.2)	(29.1)
Related deferred tax asset	–	8.1	1.0	–	1.0	8.1
	(14.5)	(19.7)	(1.7)	(1.3)	(16.2)	(21.0)
<b>Analysed as:</b>						
Non-current liabilities	(14.5)	(19.7)	(1.7)	(1.3)	(16.2)	(21.0)

The deficit in respect of international schemes at 31 December relates to the unfunded scheme in the USA and the funded schemes in the Netherlands. A further provision of £0.3 million (2005 £0.3 million) in the Company is held within the pension provision for a pension payable to a former Director. The Group does not recognise the surplus in the Bilton scheme and consequently it has been reversed and the movement taken to the SORIE.

Actual return on scheme assets

	UK		International		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Actual return on scheme assets	6.9	15.5	–	–	6.9	15.5

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## 27. Retirement benefit schemes (continued)

### History of experience adjustments

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
<b>UK</b>					
Present value of defined benefit obligations	<b>(126.8)</b>	(131.4)	(110.4)	(92.0)	(81.7)
Fair value of schemes' assets	<b>112.3</b>	103.6	71.2	64.2	54.8
Deficit in schemes	<b>(14.5)</b>	(27.8)	(39.2)	(27.8)	(26.9)
<b>Experience adjustments on schemes' assets</b>					
Amounts	<b>0.3</b>	10.2	1.1	4.9	(14.8)
Percentage of schemes' assets	<b>0.3%</b>	9.8%	1.5%	7.6%	(27.0%)
<b>Experience adjustments on schemes' liabilities</b>					
Amounts	<b>(0.3)</b>	(0.3)	6.2	(0.1)	0.3
Percentage of present value of schemes' liabilities	<b>0.2%</b>	0.2%	(5.6%)	0.1%	(0.4%)
<b>Effect of changes in assumptions underlying the present value of the schemes' liabilities</b>					
Amounts	<b>12.3</b>	(13.2)	(18.0)	(7.1)	(5.6)
Percentage of present value of schemes' liabilities	<b>(9.7%)</b>	10.0%	16.3%	7.7%	6.9%
<b>Total amount recognised in the statement of recognised income and expense</b>					
Amounts	<b>11.5</b>	(3.9)	(10.2)	(2.3)	(20.1)
Percentage of present value of schemes' liabilities	<b>(9.1%)</b>	3.0%	9.1%	2.5%	24.6%
<b>International</b>					
Present value of defined benefit obligations and deficit	<b>(2.7)</b>	(1.3)	(1.0)	(0.6)	–
<b>Experience adjustments on schemes' liabilities</b>					
Amounts	<b>(1.5)</b>	(0.1)	(0.2)	–	–
Percentage of present value of schemes' liabilities	<b>55.6%</b>	7.7%	20.0%	–	–
<b>Effect of changes in assumptions underlying the present value of the schemes' liabilities</b>					
Amounts	<b>0.2</b>	–	(0.1)	–	–
Percentage of present value of schemes' liabilities	<b>(7.4%)</b>	–	10.0%	–	–
<b>Total amount recognised in the statement of recognised income and expense</b>					
Amounts	<b>(1.3)</b>	(0.1)	(0.3)	–	–
Percentage of present value of schemes' liabilities	<b>48.1%</b>	7.7%	30.0%	–	–

The expected employer's contributions to be paid in the year ending 31 December 2007 is £4.0 million.

28. Trade and other payables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Due within one year</b>				
Trade payables	40.0	37.7	0.1	2.7
Rents in advance	48.0	46.4	–	–
Accruals and deferred income	103.5	76.3	31.7	28.1
Derivative liabilities	0.9	2.0	–	0.2
<b>Total trade and other payables due within one year</b>	<b>192.4</b>	<b>162.4</b>	<b>31.8</b>	<b>31.0</b>
<b>Due after one year</b>				
Obligations under finance leases	0.4	0.5	–	–
Other payables	31.3	7.1	–	–
Loans from subsidiaries	–	–	345.0	194.4
<b>Total other payables due after one year</b>	<b>31.7</b>	<b>7.6</b>	<b>345.0</b>	<b>194.4</b>

Group obligations under finance leases due after one year are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006 £m	2005 £m	2006 £m	2005 £m
Payable between second to fifth years	0.2	0.2	–	–
Payable after five years	2.2	2.6	0.4	0.5
	2.4	2.8	0.4	0.5
Less future finance charges	(2.0)	(2.3)	n/a	n/a
<b>Present value of lease obligations</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>

These are non-current finance lease liabilities on investment properties with a carrying value of £0.4 million (2005 £0.5 million). Lease agreements range between 20-120 years. There are no restrictions, and contingent rents are not payable, but leased assets revert to the lessor in the event of default.

29. Share capital

Group and Company	Authorised		Issued and fully paid	
	Shares m	£m	Shares m	£m
<b>Ordinary shares of 25p each</b>				
<b>At 1 January 2006</b>	586.4	146.6	423.0	105.7
Shares issued during the year	–	–	49.0	12.3
<b>At 31 December 2006</b>	<b>586.4</b>	<b>146.6</b>	<b>472.0</b>	<b>118.0</b>
<b>Cumulative redeemable convertible preference shares of 25p each</b>				
<b>At 1 January 2006</b>	141.6	35.4	127.0	31.8
Conversions during the year	–	–	(126.9)	(31.8)
Redemptions in the year	–	–	(0.1)	–
<b>At 31 December 2006</b>	<b>141.6</b>	<b>35.4</b>	<b>–</b>	<b>–</b>



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## 29. Share capital (continued)

### Cumulative redeemable convertible preference shares

The preference shares were issued on 6 June 1991 at a price of 100 pence per share. They carried the right to a fixed cumulative preferential dividend of 8.25 pence (net) per share per annum payable half yearly in arrears in equal amounts on 1 March and 1 September in each year. The terms and conditions of issue provided that the Company could redeem some or all of the preference shares at any time between 1 March 2006 and 31 August 2011. All preference shares not converted were redeemable by the Company at a price of 100 pence per share.

The Company exercised its right to redeem the preference shares and those preference shares that did not convert to ordinary shares were redeemed on 12 June 2006 on the basis of 37.0793 ordinary shares to 100 preference shares.

### Ordinary shares

The following issue of ordinary shares took place during 2006:

**Share option schemes:** 1,786,052 ordinary shares were subscribed in cash following the exercise of employees' options under the share option schemes. The consideration received by the Company was £5,265,917.98.

### Conversion of preference shares to ordinary shares in 2006

During the year, 47,053,908 ordinary shares were issued, credited as fully paid following the conversion of, and in satisfaction of 126,900,749 8.25 pence cumulative redeemable convertible preference shares.

**Share incentive plan:** 86,810 ordinary shares were subscribed in cash at a price of 581.2 pence per share and were issued to the trustees and allocated at that price to eligible employees under the share incentive plan.

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

**Save-as-you-earn option scheme:** 100,669 ordinary shares at a subscription price of 483.2 pence per share and 66,802 ordinary shares at a subscription price of 528.4 pence per share.

**Executive share option scheme:** There were no ordinary shares awarded during the year.

### 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 7 March 2007, the number of ordinary shares under option was 8,530 at an option price of 356.5 pence 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 7 March 2007, the number of ordinary shares under option was 54,368 at an option price of 356.5 pence 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 7 March 2007, the number of ordinary shares under option was 101,923 at option prices ranging from 290.0 pence to 476.8 pence expiring on various dates up to 28 April 2015.

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 7 March 2007, the number of ordinary shares under option was 1,996,833 at option prices ranging from 290.0 pence to 476.8 pence expiring on various dates up to 28 April 2015.

### Save-as-you-earn option scheme (also called 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 7 March 2007, the number of ordinary shares under option was 795,989 at option prices ranging from 218.4 pence to 528.4 pence expiring on various dates up to 1 October 2013.

### Share incentive plan

Mr Heawood, Mr Probert and Mrs Titford are trustees of the Slough Estates plc Share Incentive Plan which was approved by the shareholders on 16 May 2000. At 7 March 2007, the number of shares held under the plan was 488,685 ordinary shares. The interest stated in the 488,685 ordinary shares included in the figure of 494,170 shown in the table on page 64 represents all of the shares which Mr Heawood holds in a non-beneficial capacity as trustee of the plan but also included therein are those shares beneficially owned under the plan by Mr Heawood and which are included in his beneficial holdings in the table shown on page 64.

30. Statement of changes in equity

	Balance 1 January £m	Restate for IAS 39 £m	Exchange move- ment £m	Retained profit for year £m	Other items in SORIE <sup>1</sup> £m	Shares issued £m	Other £m	Dividend paid £m	Reserve transfers £m	Preference share con- versions £m	Balance 31 December £m
<b>Group 2006</b>											
Revaluation reserve <sup>2</sup>	1,419.6	–	(24.1)	–	21.4	–	(0.3)	–	712.7	–	<b>2,129.3</b>
Share based payments reserve	2.9	–	–	–	–	–	2.1	–	(0.5)	–	<b>4.5</b>
Fair value reserve for AFS <sup>3</sup>	10.2	–	(0.7)	–	(1.7)	–	–	–	(0.4)	–	<b>7.4</b>
Translation and other reserves	38.9	–	–	–	20.3	–	–	–	(0.7)	–	<b>58.5</b>
Total revaluation and other reserves	1,471.6	–	(24.8)	–	40.0	–	1.8	–	711.1	–	<b>2,199.7</b>
Retained earnings	581.4	–	(29.1)	916.5	3.2	–	–	(84.0)	(711.1)	21.4	<b>698.3</b>
Ordinary share capital	105.7	–	–	–	–	0.5	–	–	–	11.8	<b>118.0</b>
Preference shares	31.8	–	–	–	–	–	–	–	–	(31.8)	<b>–</b>
Share premium	256.8	–	–	–	–	5.4	–	–	–	105.1	<b>367.3</b>
Own shares held	(6.9)	–	–	–	–	–	(3.7)	–	–	–	<b>(10.6)</b>
Total equity attributable to equity shareholders	2,440.4	–	(53.9)	916.5	43.2	5.9	(1.9)	(84.0)	–	106.5	<b>3,372.7</b>
Minority interests	8.6	–	(0.7)	2.6	–	–	–	(0.8)	–	–	<b>9.7</b>
Total equity	2,449.0	–	(54.6)	919.1	43.2	5.9	(1.9)	(84.8)	–	106.5	<b>3,382.4</b>
<b>Group 2005</b>											
Revaluation reserve <sup>2</sup>	1,090.8	–	9.3	–	29.6	–	–	–	289.9	–	<b>1,419.6</b>
Share based payments reserve	0.3	–	–	–	–	–	2.6	–	–	–	<b>2.9</b>
Fair value reserve for AFS <sup>3</sup>	–	4.1	0.7	–	6.5	–	–	–	(1.1)	–	<b>10.2</b>
Translation and other reserves	36.1	2.0	(0.2)	–	(0.1)	–	–	–	1.1	–	<b>38.9</b>
Total revaluation and other reserves	1,127.2	6.1	9.8	–	36.0	–	2.6	–	289.9	–	<b>1,471.6</b>
Retained earnings	565.2	(18.7)	15.3	385.1	(7.8)	–	–	(69.0)	(289.9)	1.2	<b>581.4</b>
Ordinary share capital	104.8	–	–	–	–	0.1	–	–	–	0.8	<b>105.7</b>
Preference shares	34.0	–	–	–	–	–	–	–	–	(2.2)	<b>31.8</b>
Share premium	339.1	(91.0)	–	–	–	1.4	–	–	–	7.3	<b>256.8</b>
Own shares held	(5.2)	–	–	–	–	–	(1.7)	–	–	–	<b>(6.9)</b>
Total equity attributable to equity shareholders	2,165.1	(103.6)	25.1	385.1	28.2	1.5	0.9	(69.0)	–	7.1	<b>2,440.4</b>
Minority interests	19.4	(0.3)	0.8	3.0	–	–	(9.9)	(4.4)	–	–	<b>8.6</b>
Total equity	2,184.5	(103.9)	25.9	388.1	28.2	1.5	(9.0)	(73.4)	–	7.1	<b>2,449.0</b>

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## 110. 30. Statement of changes in equity (continued)

	Balance 1 January £m	Restate for IAS 39 £m	Exchange move- ment £m	Retained profit for year £m	Other items in SORIE <sup>1</sup> £m	Shares issued £m	Other £m	Dividend paid £m	Reserve transfers £m	Preference share con- versions £m	Balance 31 December £m
<b>Company 2006</b>											
Share based											
payments reserve	2.9	-	-	-	-	-	(1.4)	-	-	-	<b>1.5</b>
Asset surplus reserve	47.4	-	-	-	-	-	-	-	-	-	<b>47.4</b>
Total other reserves	50.3	-	-	-	-	-	(1.4)	-	-	-	<b>48.9</b>
Retained earnings	779.3	-	-	425.9	3.7	-	-	(84.0)	-	21.4	<b>1,146.3</b>
Ordinary share capital	105.7	-	-	-	-	0.5	-	-	-	11.8	<b>118.0</b>
Preference shares	31.8	-	-	-	-	-	-	-	-	(31.8)	<b>-</b>
Share premium	256.8	-	-	-	-	5.4	-	-	-	105.1	<b>367.3</b>
Own shares held	(6.9)	-	-	-	-	-	(3.7)	-	-	-	<b>(10.6)</b>
Total equity attributable to equity shareholders	1,217.0	-	-	425.9	3.7	5.9	(5.1)	(84.0)	-	106.5	<b>1,669.9</b>
<b>Company 2005</b>											
Share based											
payments reserve	0.3	-	-	-	-	-	2.6	-	-	-	<b>2.9</b>
Asset surplus reserve	47.4	-	-	-	-	-	-	-	-	-	<b>47.4</b>
Total other reserves	47.7	-	-	-	-	-	2.6	-	-	-	<b>50.3</b>
Retained earnings	974.0	(15.6)	-	(103.8)	(7.5)	-	-	(69.0)	-	1.2	<b>779.3</b>
Ordinary share capital	104.8	-	-	-	-	0.1	-	-	-	0.8	<b>105.7</b>
Preference shares	34.0	-	-	-	-	-	-	-	-	(2.2)	<b>31.8</b>
Share premium	339.1	(91.0)	-	-	-	1.4	-	-	-	7.3	<b>256.8</b>
Own shares held	(5.2)	-	-	-	-	-	(1.7)	-	-	-	<b>(6.9)</b>
Total equity attributable to equity shareholders	1,494.4	(106.6)	-	(103.8)	(7.5)	1.5	0.9	(69.0)	-	7.1	<b>1,217.0</b>

1. SORIE is the term used for the "Statement of recognised income and expense". Items in the SORIE column are net of tax.

2. The revaluation reserve is shown net of deferred tax.

3. AFS is the term used for "Available-for-sale investments" and is shown net of deferred tax.

## 31. Share premium account

Group and Company	2006 £m	2005 £m
Balance at 1 January	<b>256.8</b>	339.1
Restate for IAS 39	-	(91.0)
	<b>256.8</b>	248.1
Conversion of preference shares	<b>105.1</b>	-
Premium arising on the issue of shares	<b>5.4</b>	8.7
<b>Balance at 31 December</b>	<b>367.3</b>	256.8

### 32. Own shares held

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Balance at 1 January</b>	<b>6.9</b>	5.2	<b>6.9</b>	5.2
Shares issued	<b>0.5</b>	0.7	<b>0.5</b>	0.7
Shares purchased	<b>4.0</b>	1.9	<b>4.0</b>	1.9
Shares transferred to subsidiaries	–	–	<b>(0.3)</b>	–
Disposed of on exercise of options	<b>(0.8)</b>	(0.9)	<b>(0.5)</b>	(0.9)
<b>Balance at 31 December</b>	<b>10.6</b>	6.9	<b>10.6</b>	6.9

These represent the cost of shares in Slough Estates plc bought in the open market and held by Towers Perrin Share Plan Services (Guernsey) Limited, to satisfy options under the various Group share option and incentive schemes.

### 33. Revaluation reserve

The revaluation reserve for the Group is as follows. There is no revaluation reserve for the Company.

Group	Property revaluation £m	Related deferred tax £m	Total £m
<b>Balance at 1 January 2005</b>	1,354.3	(263.5)	1,090.8
Exchange movement	16.0	(6.7)	9.3
Surplus on development properties – SORIE	48.4	(18.4)	30.0
Minority interest in surplus on development properties – SORIE	–	(0.4)	(0.4)
Valuation surplus on investment properties transferred from retained earnings	409.1	(130.1)	279.0
Valuation surplus on joint ventures transferred from retained earnings	10.5	(2.3)	8.2
Minority interest on investment property valuation surplus	(0.5)	0.2	(0.3)
Deficit realised on disposal	3.4	(0.4)	3.0
<b>Balance at 1 January 2006</b>	1,841.2	(421.6)	1,419.6
Exchange movement	(40.1)	16.0	(24.1)
Surplus on development properties – SORIE	22.3	(0.9)	21.4
Valuation surplus on investment properties transferred from retained earnings	532.2	214.1	746.3
Valuation surplus on joint ventures transferred from retained earnings	9.3	(3.9)	5.4
Minority interest on investment property valuation surplus	(2.6)	1.0	(1.6)
Reserve transfer	–	0.6	0.6
Surplus realised on disposal	(38.3)	–	(38.3)
<b>Balance at 31 December 2006</b>	<b>2,324.0</b>	<b>(194.7)</b>	<b>2,129.3</b>

This reserve shows the surpluses and deficits on revaluing investment and development properties and the deferred tax thereon. These are unrealised and thus not available for distribution to shareholders, until realisation through sale.

### 34. Other Reserves

	Note	Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Share based payment reserve	35	<b>4.5</b>	2.9	<b>1.5</b>	2.9
Fair value reserve for available-for-sale investments	36	<b>7.4</b>	10.2	–	–
Translation and other reserves	37	<b>58.5</b>	38.9	<b>47.4</b>	47.4
<b>Total other reserves</b>		<b>70.4</b>	52.0	<b>48.9</b>	50.3

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## 112. 35. Share based payment reserve

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Balance at 1 January</b>	<b>2.9</b>	0.3	<b>2.9</b>	0.3
Shares vested	(0.8)	–	(0.5)	–
Reserve transfer	(0.5)	–	–	–
Transfer to subsidiary	–	–	(1.8)	–
Movement in the fair value of share based payments	<b>2.9</b>	2.6	<b>0.9</b>	2.6
<b>Balance at 31 December</b>	<b>4.5</b>	2.9	<b>1.5</b>	2.9

This reserve represents the fair value of the share options granted for the share based payments and is deemed to be non-distributable.

## 36. Fair value reserve for available-for-sale investments

Group	Fair value reserve £m	Related deferred tax £m	Total £m
<b>Balance at 1 January 2005</b>	–	–	–
Restate for IAS 39	4.1	–	4.1
Exchange movement	0.7	–	0.7
Movement in fair value – SORIE	10.8	(3.2)	7.6
Reserve transfer	–	(1.1)	(1.1)
Transfer to income statement on realisation	(1.1)	–	(1.1)
<b>Balance at 1 January 2006</b>	14.5	(4.3)	10.2
Exchange movement	(1.0)	0.3	(0.7)
Movement in fair value – SORIE	7.5	(3.0)	4.5
Reserve transfer	–	(0.4)	(0.4)
Transfer to income statement on realisation	(9.6)	3.4	(6.2)
<b>Balance at 31 December 2006</b>	<b>11.4</b>	<b>(4.0)</b>	<b>7.4</b>

The fair value reserve represents unrealised surpluses and deficits from the revaluation of available-for-sale investments. When these investments are realised the amounts are transferred to income for the period. There is no fair value reserve for the Company.

## 37. Translation and other reserves

	Group			Company	
	Realised translation £m	Unrealised translation £m	Asset surplus reserve £m	Total £m	Asset surplus reserve £m
<b>Balance at 1 January 2005</b>	–	(11.3)	47.4	36.1	47.4
Restate for IAS 39	4.2	(2.2)	–	2.0	–
Exchange arising on translation of international operations	(10.5)	10.2	–	(0.3)	–
Reserve transfer	(0.9)	2.0	–	1.1	–
<b>Balance at 1 January 2006</b>	(7.2)	(1.3)	47.4	38.9	47.4
Exchange arising on translation of international operations	35.1	(14.8)	–	20.3	–
Reserve transfer	(3.5)	2.8	–	(0.7)	–
<b>Balance at 31 December 2006</b>	<b>24.4</b>	<b>(13.3)</b>	<b>47.4</b>	<b>58.5</b>	<b>47.4</b>

The translation reserve is for exchange differences on re-translating net investment in international operations, and is not distributable until realised. The asset surplus reserve related to acquisition of assets in the early 1990s, and will be deemed distributable when those assets are disposed.



### 38. Retained earnings

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Balance at 1 January</b>	<b>581.4</b>	565.2	<b>779.3</b>	974.0
Restate for IAS 39	–	(18.7)	–	(15.6)
	<b>581.4</b>	546.5	<b>779.3</b>	958.4
Dividends paid	<b>(84.0)</b>	(69.0)	<b>(84.0)</b>	(69.0)
Net profit/(loss) for the year (net of minority interest)	<b>916.5</b>	385.1	<b>425.9</b>	(103.8)
Actuarial losses on defined benefit pension schemes	<b>10.2</b>	(4.0)	<b>11.8</b>	(3.7)
Tax on items taken directly to equity	<b>(7.0)</b>	(3.8)	<b>(8.1)</b>	(3.8)
Transfer valuation surplus to revaluation reserve	<b>(532.2)</b>	(409.1)	–	–
Transfer minority interest relating to valuation surplus	<b>2.6</b>	–	–	–
Transfer deferred tax on valuation surplus to revaluation reserve	<b>(214.1)</b>	130.1	–	–
Transfer minority interest in deferred tax relating to valuation surplus	<b>(1.0)</b>	–	–	–
Transfer valuation surplus of joint ventures and associate to revaluation reserve <sup>(1)</sup>	<b>(5.4)</b>	(8.2)	–	–
Prior year valuation surpluses/(deficits) realised on disposal <sup>(1)</sup>	<b>38.3</b>	(3.0)	–	–
Other reserve transfers	<b>22.1</b>	1.5	<b>21.4</b>	1.2
Exchange movements	<b>(29.1)</b>	15.3	–	–
<b>Balance at 31 December</b>	<b>698.3</b>	581.4	<b>1,146.3</b>	779.3

The 2006 retained earnings of the Group and Company qualify as entirely distributable, as did the 2005 retained earnings.

The net profit/(loss) for the Group in the year arises in:	2006 £m	2005 £m
Parent company	<b>425.9</b>	(103.8)
Subsidiaries	<b>511.9</b>	478.2
Associates and joint ventures	<b>(21.3)</b>	10.7
	<b>916.5</b>	385.1

1 These figures are shown net of related deferred tax

### 39. Commitments

These are contractual obligations to purchase, construct, develop, repair, maintain or enhance assets as follows:

Group	UK		International		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Properties	<b>104.0</b>	120.9	<b>226.3</b>	188.1	<b>330.3</b>	309.0
Available-for-sale investments	<b>4.7</b>	4.4	<b>4.3</b>	7.3	<b>9.0</b>	11.7
Utilities plant	<b>2.3</b>	0.6	–	–	<b>2.3</b>	0.6
Other plant and equipment	<b>0.1</b>	0.1	–	–	<b>0.1</b>	0.1
<b>Total capital commitments</b>	<b>111.1</b>	126.0	<b>230.6</b>	195.4	<b>341.7</b>	321.4

The Group's share of capital commitments of joint ventures and associates is:

Properties	<b>29.5</b>	7.4	<b>26.3</b>	8.4	<b>55.8</b>	15.8
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There are no significant commitments relating to repairs, maintenance or enhancements relating to investment properties at 31 December 2006 and 2005.

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## 40. Contingent liabilities

The Group has given performance guarantees to third parties amounting to £8.5 million (2005 £7.1 million) in respect of development contracts of subsidiary undertakings. It is unlikely that these contingencies will occur.

The Company has guaranteed loans and bank overdrafts of subsidiary undertakings aggregating £799.3 million (2005 £363.6 million). All of these loans and overdrafts are included in the consolidated balance sheet.

## 41. Operating leases

### The Group as lessor

The Group leases out all of its investment properties under operating or finance leases. Lease terms are typically seven to fifteen years (UK), three, five or nine years (Continental Europe) and five to ten years (USA). Properties are expected to generate yields of between 5.5 per cent and 9 per cent (UK), 10 per cent (Continental Europe) and 9 per cent (USA).

Future aggregate minimum rentals receivable under non-cancellable operating leases are:

	2006 £m	2005 £m
Not later than one year	274.8	247.5
Later than one year but not later than five years	978.6	914.1
Later than five years	1,327.9	1,512.7
	<b>2,581.3</b>	<b>2,674.3</b>

The 2005 numbers have been restated to exclude rents from joint ventures and other adjustments.

### The Group as lessee

At 31 December, annual commitments in respect of operating leases relating to land and buildings were:

	2006 £m	2005 £m
<b>Leases which expire:</b>		
Between two and five years	0.2	–
In more than five years	0.2	0.3
Total annual minimum rental income from sublease receipts expected to be received	0.2	0.2
Recognised as an expense in current year on operating leases	0.2	0.1

The Group has three properties under operating leases expiring in 2009, 2011 and 2017. Lease payments are subject to rent reviews to reflect market rents, and none of the leases include contingent rents.

Lease agreements for properties held as investment property are accounted for as if they were finance leases.

One of the leased properties, which has been sublet by the Group, has been classified as an onerous lease. The lease and sublease expire in 2017. Sublease payments of £0.2 million are expected to be received during next year. The Group has recognised a provision of £0.1 million in respect of this lease.

Future aggregate minimum lease payments on non-cancellable operating leases are:

	2006 £m	2005 £m
<b>Leases which expire:</b>		
Not later than one year	0.4	0.3
Later than one year but not later than five years	1.4	1.0
Later than five years	1.2	1.4
	<b>3.0</b>	<b>2.7</b>

#### 42. Share-based payment arrangements

During the period ended 31 December 2006, the Group had six share-based payment arrangements, which are described below. In each case, the expected volatility was determined by calculating historical volatility of the Group's share price over multiple time periods.

##### 42(i) – Executive share option plan

The options in the executive share option plan are exercisable after three years but before ten years subject to performance criteria. The employee would normally have to remain with the Group for the three year period. If the performance conditions have not been met by the third anniversary of the date of the grant the options lapse. The performance criteria are based on an increase in adjusted diluted earnings per share by the Retail price index (RPI) plus 3 per cent per annum over the three year period

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
At 1 January	3,811,671	386.0p	4,652,981	374.9p
Options granted	–	–	680,599	476.8p
Options exercised	(1,490,419)	303.8p	(131,254)	353.3p
Options expired/lapsed	(111,957)	466.0p	(1,390,655)	396.5p
<b>At 31 December</b>	<b>2,209,295</b>	<b>437.4p</b>	<b>3,811,671</b>	<b>386.0p</b>

The options outstanding at 31 December 2006 were exercisable between 290.0p and 476.8p per share. The grants made since 7 November 2002 have been fair valued using the Black-Scholes model. The main assumptions are as follows:

Grant date	6-Jan-03	20-Mar-03	14-May-04	2-Sep-04	29-Apr-05
Exercise price/market price	344.0p	290.0p	467.7p	459.8p	476.8p
Risk-free interest rate	5.1%	5.1%	5.1%	5.1%	4.8%
Dividend yield	3.9%	4.8%	3.2%	3.3%	4.0%
Volatility	20.3%	21.3%	22.6%	22.7%	21.0%
Term of option	4 years	4 years	4 years	4 years	4 years
Fair Value per share	53p	42p	87p	85p	73p

##### 42(ii) – Save-as-you-earn option scheme (SAYE)

SAYE options are exercisable after three, five and seven years and are not subject to any performance criteria except the employees must remain with the Group for the term of the option.

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
At 1 January	989,218	274.4p	1,069,157	257.8p
Options granted	167,471	501.2p	121,943	453.7p
Options exercised	(295,633)	249.7p	(148,038)	262.2p
Options expired/lapsed	(50,771)	348.5p	(53,844)	285.2p
<b>At 31 December</b>	<b>810,285</b>	<b>325.4p</b>	<b>989,218</b>	<b>274.4p</b>

# Notes to the financial statements

## 116. 42. Share-based payment arrangements (continued)

### 42(ii) – Save-as-you-earn option scheme (continued)

The options outstanding at 31 December 2006 were exercisable between 218.4 pence and 528.4 pence per share. The grants made since 7 November 2002 have been fair valued using the Black-Scholes model. The assumptions are as follows:

Grant date	19-Mar-03	28-Aug-03	17-Mar-04	26-Aug-04	23-Mar-05	22-Sep-05	13-Apr-06	13-Sep-06
Market price	290.0p	380.8p	465.5p	465.0p	493.5p	540.5p	604.0p	660.5p
Exercise price	218.4p	304.6p	372.4p	372p	394.8p	432.4p	483.2p	528.4p
Risk-free interest rate	5.1%	5.1%	5.1%	5.1%	4.8%	4.8%	4.7%	4.7%
Dividend yield	4.8%	3.8%	4.8%	4.1%	3.8%	3.5%	2.9%	2.9%
Volatility	21.2%	22.4%	22.6%	22.7%	21.0%	21.2%	22.0%	22.0%
Term of option	3–5–7 years	3–5–7 years	3–5–7 years	3–5–7 years	3–5–7 years	3–5–7 years	3–5–7 years	3–5–7 years
Fair value per share 3 years	74p	96p	123p	122p	118p	134p	158p	172p
Fair value per share 5 years	74p	103p	135p	134p	126p	144p	174p	191p
Fair value per share 7 years	73p	106p	142p	140p	129p	150p	184p	202p

### Details of share options exercisable at 31 December 2006

Date of grant	Scheme	Price per share	Number of shares	Exercisable between
22 March 2000	Save-as-you-earn option scheme 1981	249.6	32,237	2003 and 2007
31 August 2000	Save-as-you-earn option scheme 1981	313.6	1,171	2004 and 2007
21 March 2001	Save-as-you-earn option scheme 1981	296.4	12,397	2001 and 2008
28 March 2001	Executive share option plan 1994	356.5	11,445	2004 and 2011
28 March 2001	Executive share option plan 1994	356.5	57,991	2004 and 2011
30 August 2001	Save-as-you-earn option scheme 1981	284.8	6,064	2004 and 2008
29 August 2002	Save-as-you-earn option scheme 1981	276.4	28,584	2004 and 2008
6 January 2003	Executive share option plan 2002	344.0	8,720	2007 and 2013
6 January 2003	Executive share option plan 2002	344.0	107,559	2007 and 2013
19 March 2003	Save-as-you-earn option scheme 1981	218.4	337,021	2006 and 2010
20 March 2003	Executive share option plan 2002	290.0	20,688	2006 and 2013
20 March 2003	Executive share option plan 2002	290.0	263,440	2006 and 2013
28 August 2003	Save-as-you-earn option scheme 1981	304.6	38,584	2006 and 2010
17 March 2004	Save-as-you-earn option scheme 1981	372.4	43,848	2007 and 2011
14 April 2004	Executive share option plan 2002	467.8	32,065	2007 and 2014
14 April 2004	Executive share option plan 2002	467.8	999,552	2007 and 2014
26 August 2004	Save-as-you-earn option scheme 1981	372.0	47,804	2007 and 2011
2 September 2004	Executive share option plan 2002	459.8	13,048	2007 and 2014
2 September 2004	Executive share option plan 2002	459.8	40,404	2007 and 2014
23 March 2005	Save-as-you-earn option scheme 1981	394.8	56,803	2008 and 2012
29 April 2005	Executive share option plan 2002	476.8	37,746	2008 and 2015
29 April 2005	Executive share option plan 2002	476.8	616,637	2008 and 2015
22 September 2005	Save-as-you-earn option scheme 1981	432.4	41,750	2008 and 2012
13 April 2006	Save-as-you-earn option scheme 1981	483.2	97,829	2009 and 2013
13 September 2006	Save-as-you-earn option scheme 1981	528.4	66,193	2009 and 2013
<b>Total</b>			<b>3,019,580</b>	

The weighted average remaining contractual life for share options outstanding at the year end is 1.95 years (2005 2.02 years).

#### 42. Share-based payment arrangements (continued)

##### 42(iii) – Long term incentive scheme (LTIS)

Awards under the LTIS are granted at the discretion of the trustees of the scheme on the recommendation of the Remuneration Committee. Employees are granted the right to shares which will vest at the end of a the three year period subject to meeting certain performance criteria. The Company does not issue shares. The shares are purchased on the open market and placed with the trustees for the three year period. Dividends are waived.

	2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 January	1,223,783	398.2p	835,477	355.0p
Shares granted	950,978	589.2p	388,306	491.2p
Shares vested	(92,367)	323.8p		
Shares sold	(55,252)	325.8p		
Shares expired/lapsed	(246,802)	332.1p		
<b>At 31 December</b>	<b>1,780,340</b>	<b>536.8p</b>	<b>1,223,783</b>	<b>398.2p</b>

At 31 December 2006, employees held the right to be granted 1,780,340 shares (2005 1,186,775 shares) if performance criteria is met. The Black-Scholes model has been used to fair value the shares granted since 7 November 2002. The assumptions used are as follows:

Grant date	7-Jan-03	20-Mar-03	1-Apr-04	2-Sep-04	4-May-05	25-May-06
Exercise price/market price	344p	306p	433.2p	461p	491.2p	589.2p
Risk-free interest rate	5.0%	5.0%	5.0%	5.0%	4.8%	4.6%
Dividend yield	4.6%	4.6%	3.5%	3.3%	3.9%	2.9%
Volatility	20.0%	21.3%	20.0%	20.0%	21.0%	22.0%
Term of option	3 years	3 years	3 years	3 years	3 years	3 years
Fair Value per share	299p	267p	390p	417.8p	437p	540p

##### 42(iv) – Share incentive plan

The share incentive plan started in May 2003. An employee is entitled to a percentage of their salary in shares which is capped. The shares are held in trust for five years and then released to the employee. There are no performance conditions except that the employee must remain with the Group for at least three years.

	2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 January	464,632	432.4p	384,634	393.6p
Shares granted	116,354	581.2p	131,451	532.4p
Shares paid out to leavers	(60,496)	442.5p	(44,751)	404.2p
Shares not paid out to leavers	(34,765)	425.1p	(6,702)	393.6p
<b>At 31 December</b>	<b>485,725</b>	<b>467.0p</b>	<b>464,632</b>	<b>432.4p</b>

Of the shares outstanding at 31 December 2006, 485,725 (2005 446,407) were exercisable. The fair values of the share incentive plan were determined by the price of the shares at the date of the grant.



# Notes to the financial statements

## 118. 42. Share-based payment arrangements (continued)

### 42(v) – Cash settled share based payments plan

The plan for senior employees was settled for cash of £0.4 million on 5 May 2006, and then closed.

This plan had shadowed the LTIS. A notional number of shares were granted to the employees equal to 25 per cent of their salary and divided by the share price on the date of the grant. 161,443 notional shares had been granted in June 2003 and the Black-Scholes model was used to fair value these shares at prevailing market rates. At the settlement date, there were 143,453 shares at a price of 635.0 pence. Under the performance criteria of the LTIS, 40 per cent of the total value was paid to employees in 2006.

	2006	2005
Number of shares	<b>143,453</b>	143,453
Number of shares vested	<b>(143,453)</b>	–
Current share price (settlement date 5 May 2006 for 2006, 31 December 2005 for 2005)	<b>635.0p</b>	553.5p
Risk-free rate	–	5.0%
Expected life of option (years)	–	0.4
Volatility	–	0.1%
Dividend yield	–	2.6%
Fair value of option 31 December	–	547p

### 42(vi) – Cash settled international senior employees' scheme

The plan for international senior employees is a cash settlement scheme which mirrors the performance of the Executive share option plan in 42(i) above. A notional number of shares are granted to the employee equal to 100 per cent of their salary and divided by the share price on the date of the grant. 78,271 shares were granted in 2005, based on the performance and assumptions of the senior management share option plan on 29 April 2005. The Black-Scholes model was used to fair value these shares at prevailing market rates, at a share price of 476.8 pence per share.

### 42(vii) – Total payments

The total payments for share based payments for the Group were £2.9 million (2005 £1.6 million).

## 43. Related party transactions

### Group

Transactions between Group companies have been eliminated on consolidation and are not disclosed in this note.

Transactions between the Group and its joint ventures and associates are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group.

	Associates		Joint ventures		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
New loans/(repayments) during year	<b>0.5</b>	–	<b>9.0</b>	15.7	<b>9.5</b>	15.7
Loans outstanding at the year end	<b>0.5</b>	–	<b>34.2</b>	25.3	<b>34.7</b>	25.3
Dividends received	<b>0.3</b>	0.3	<b>34.4</b>	2.5	<b>34.7</b>	2.8
Disposal of joint venture – book value	–	–	–	12.6	–	12.6

None of the above balances are secured. All of the above transactions are made on terms equivalent to those that prevail in arms length transactions.

Mr D Kramer is Chairman of both Slough Estates USA Incorporated and Draper & Kramer Inc. In 2006, there were no transactions between the Company (or any related companies in the Group) and Mr D Kramer or any other company associated with him. In 2005, Slough Estates USA Incorporated purchased an insurance policy for the period 1 March 2005 until 1 March 2006 through Draper and Kramer Agency Corporation, an affiliate of Draper & Kramer Inc. for approximately £481,000. This policy was cancelled on 1 August 2005 and insurance was switched to a provider not considered to be a related party. As of 31 December 2006, £nil (2005 £314,000) was listed as a receivable from Draper and Kramer. Total insurance expenses recognised in 2006 relating to Draper and Kramer is £nil (2005 £278,000), and total credits relating to insurance refunds in 2006 were £nil (2005 £253,000).

In addition to this £nil (2005 £55,000) was paid to Draper and Kramer for miscellaneous services provided in conjunction with the sale of Hacienda.

#### 43. Related party transactions (continued)

##### Company

The transactions between the Company and other group companies are shown below:

Related party	Nature of transaction	2006 £m	2005 £m
Allnatt London Properties PLC	Dividend	38.6	–
Bilton p.l.c.	Dividend	122.0	–
Bredero Properties Plc	Redemption of preference shares	10.0	–
Bredero Properties Plc	Preference dividends received	10.8	–
Kwacker Limited	Dividend	10.0	–
Pentagon Developments Chatham Limited	Dividend	13.7	–
SE Insurance Limited	Dividend	1.8	–
Shopping Centres Limited	Dividend	31.0	1.7
Slough Estates Administration Limited	Recharge	(2.9)	(1.5)
Slough Estates Holdings France SAS	Capital contribution	(1.0)	–
Slough Properties Limited	Investment	(500.0)	–
Slough Properties Limited	Dividend	108.4	–
Slough Trading Estate Limited	Dividend	162.4	–
HelioSlough Limited	Interest receivable	2.9	0.9
HelioSlough Limited	Management fee	0.1	–
Subsidiaries	Total interest payable	(2.5)	(0.9)
Subsidiaries	Total interest receivable	104.1	87.9
		<b>109.4</b>	<b>88.1</b>

Employer contributions to the Slough 1957 Retirement Benefit Scheme for 2006 were £3.9 million (2005 £19.1 million).

Significant balances outstanding between the parent company and Group companies and joint ventures are shown below:

	Amounts owed by		Amounts owed to	
	2006 £m	2005 £m	2006 £m	2005 £m
Allnatt London Properties PLC	24.1	27.0	–	–
Anglo French Industrial Developments Limited	38.2	37.9	(45.4)	(14.4)
Bilton p.l.c.	134.7	–	–	(23.3)
Bredero Properties Plc	–	–	(134.0)	(120.8)
Farnborough Business Park Limited	159.0	–	–	–
HelioSlough Limited	3.9	13.1	–	–
Slough Developments Limited	–	–	(49.8)	–
Slough Estates Finance plc	150.1	196.1	(20.1)	–
Slough Estates (KNBC) Limited	32.1	–	–	–
Slough Estates (Winnersh) Limited	92.6	–	–	–
Slough Heat & Power Limited	23.2	29.6	–	–
Slough Industrial Estates Limited	–	–	(20.5)	–
Slough Properties Limited	370.0	1,108.5	–	–
Slough Trading Estate Limited	62.4	215.9	–	–
Other subsidiaries	451.5	140.9	(75.2)	(35.9)
	<b>1,541.8</b>	<b>1,769.0</b>	<b>(345.0)</b>	<b>(194.4)</b>

None of the above balances are secured. All of the above transactions are made on terms equivalent to those that prevail in arms length transactions.

# Notes to the financial statements

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## 43. Related party transactions (continued)

### Directors' and executives' remuneration

Remuneration paid to the Directors and other members of key management during the year was as follows:

	2006 £m	2005 £m
Salaries, bonuses and other short-term benefits	5.0	4.7
Post-employment benefits	1.0	0.9
Termination benefits	0.6	–
Share based payments	0.9	0.4
	<b>7.5</b>	<b>6.0</b>

The remuneration of the Directors and key executives is decided by the Remuneration Committee having regard to comparable market statistics.

## 44. Notes to cash flow statements

### 44(i) – Reconciliation of cash generated from operations

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Operating profit	<b>785.3</b>	811.8	<b>367.9</b>	(7.8)
Less gain from sale of gas interests separately disclosed	–	(99.7)	–	–
Adjustments for:				
Depreciation of property, plant and equipment	<b>4.7</b>	5.1	–	–
Share of profits from joint ventures and associates	<b>(13.3)</b>	(13.5)	–	–
Profit on sale of properties	<b>(4.8)</b>	(14.0)	–	–
Profit on disposal of property, plant and equipment	–	(0.4)	–	–
Profit on disposal of joint ventures	–	(7.8)	–	–
Loss on disposal of subsidiary	–	–	<b>0.5</b>	0.3
Revaluation surplus on investment properties	<b>(532.2)</b>	(409.1)	–	–
Other income reallocated	<b>(8.5)</b>	(5.5)	<b>(487.9)</b>	(1.7)
Other provisions	<b>(1.1)</b>	(17.8)	<b>101.8</b>	(3.2)
	<b>230.1</b>	249.1	<b>(17.7)</b>	(12.4)
<b>Changes in working capital:</b>				
(Increase)/decrease in trading properties	<b>(108.8)</b>	14.3	–	–
Decrease in inventories	<b>0.6</b>	0.3	–	–
Increase in debtors	<b>(13.9)</b>	(21.6)	<b>(4.1)</b>	(0.6)
Increase/(decrease) in creditors	<b>29.6</b>	(4.8)	<b>2.5</b>	(0.2)
<b>Net cash inflow/(outflow) generated from operations</b>	<b>137.6</b>	237.3	<b>(19.3)</b>	(13.2)

### 44(ii) – Issue of shares

Group and Company	Ordinary share capital £m	Share premium £m	Total £m
<b>Balance at 1 January 2006</b>	105.7	256.8	362.5
Issued on conversion of preference shares	11.8	105.1	116.9
Ordinary shares issued for cash	0.5	5.4	5.9
<b>Balance at 31 December 2006</b>	<b>118.0</b>	<b>367.3</b>	<b>485.3</b>

44. Notes to cash flow statements (continued)

44(iii) – Reconciliation of net cash flow to movement in net debt

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
(Decrease)/increase in cash in the year	(15.1)	(51.8)	22.3	(42.5)
Increase in debt	(331.5)	(706.8)	(7.6)	(642.2)
Repayment of debt	10.1	366.8	168.3	304.2
Decrease in term deposits	–	(185.6)	–	(0.1)
Restricted deposit	3.9	–	–	–
Change in net debt resulting from cash flows	(332.6)	(577.4)	183.0	(380.6)
Translation difference	96.2	(33.4)	44.6	(28.5)
Conversion of preference shares	106.5	–	106.5	–
Net debt assumed on purchase of subsidiaries	–	(11.4)	–	–
Net debt disposed of on sale of subsidiary	–	50.0	–	–
Non-cash adjustment	(1.2)	(84.8)	(1.4)	(82.9)
Movement in net debt in the year	(131.1)	(657.0)	332.7	(492.0)
Net debt brought forward	(2,092.3)	(1,325.3)	(1,783.6)	(1,183.8)
Restate for IFRS – inclusion of preference shares	–	(110.0)	–	(107.8)
<b>Net debt carried at 31 December</b>	<b>(2,223.4)</b>	<b>(2,092.3)</b>	<b>(1,450.9)</b>	<b>(1,783.6)</b>

44(iv) – Deposits

Term deposits for a period of three months or less are included within cash and cash equivalents. The restricted deposit relates to cash held within an account against which a Letter of Credit has been issued.

44(v) – Analysis of net debt

	Note	At 1 January 2006 £m	Cash flow £m	Non-cash adjustment* £m	Net debt disposed of £m	Exchange movement £m	At 31 December 2006 £m
<b>Group</b>							
Bank loans and loan capital		(2,259.2)	(321.4)	(1.2)	106.5	97.0	(2,378.3)
Bank overdrafts		(5.7)	(0.9)	–	–	0.1	(6.5)
<b>Total borrowings</b>	24	<b>(2,264.9)</b>	<b>(322.3)</b>	<b>(1.2)</b>	<b>106.5</b>	<b>97.1</b>	<b>(2,384.8)</b>
Cash in hand and at bank	21	172.6	(10.3)	–	–	(0.9)	161.4
<b>Net debt</b>		<b>(2,092.3)</b>	<b>(332.6)</b>	<b>(1.2)</b>	<b>106.5</b>	<b>96.2</b>	<b>(2,223.4)</b>
<b>Company</b>							
Bank loans and loan capital		(1,782.1)	160.7	(1.4)	106.5	44.6	(1,471.7)
Bank overdrafts		(1.5)	1.4	–	–	–	(0.1)
<b>Total borrowings</b>	24	<b>(1,783.6)</b>	<b>162.1</b>	<b>(1.4)</b>	<b>106.5</b>	<b>44.6</b>	<b>(1,471.8)</b>
Cash in hand and at bank	21	–	20.9	–	–	–	20.9
<b>Net debt</b>		<b>(1,783.6)</b>	<b>183.0</b>	<b>(1.4)</b>	<b>106.5</b>	<b>44.6</b>	<b>(1,450.9)</b>

\* The non-cash adjustment relates to the amortisation of issue costs offset against borrowings.

# Notes to the financial statements

## 122. 45. Group entities

The principal entities at 31 December 2006 are listed below (all equity holdings unless otherwise stated).

	Country of incorporation	Subsidiaries % holding	Joint ventures % holding
<b>Property</b>			
* Allnatt London Properties PLC	England	100	
* Bilton p.l.c.	England	100	
Cambridge Research Park Limited	England	100	
Farnborough Business Park Limited	England	100	
HelioSlough Limited	England		50
Slough BV (operating in Netherlands and Central Europe)	Netherlands	100	
* Shopping Centres Limited	England		50
Slough Commercial Properties GmbH	Germany	100	
Slough Developments (France) SA	France	100	
Slough Estates USA Inc.	USA	100	
Slough Investments Limited (operating in Germany)	England	100	
Slough Industrial Estates Limited	England	100	
Slough Management N.V.	Belgium	100	
* Slough Properties Limited	England	100	
Slough Properties N.V.	Belgium	100	
* Slough Trading Estate Limited	England	100	
Woodside & Heywood Manager Limited	England	100	
<b>Service</b>			
* Slough Estates Administration Limited	England	100	
* Slough Estates Finance plc	England	100	
<b>Other</b>			
Slough Heat & Power Limited	England	100	
* Kwacker Limited	England	100	

\* Held directly by Slough Estates plc

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

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

We have audited the Group and parent company financial statements (the "financial statements") of Slough Estates plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expenses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

#### 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 law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 as regards the group financial standards, 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards the group financial standards, Article 4 of the IAS Regulation. We also report to you if, whether in our opinion, information given in the the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the financial highlights, Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Corporate

Governance Statement, Five Year Financial Results and the other information set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

#### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006 and cash flows for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

#### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London

7 March 2007



## Five year financial results

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	2006 IFRS £m	2005 IFRS £m	2004 IFRS £m	2003 UK GAAP £m	2002 UK GAAP £m
<b>Group income statement</b>					
Net property rental income	247.2	223.9	228.1	227.1	216.9
Profit on sale of trading properties	6.1	7.0	3.7	3.1	2.8
Share of pre-tax operating profit from investment property joint ventures and associates less valuation gains	3.2	4.7	13.5	15.1	14.8
Share of operating profit/(loss) from trading property joint ventures	3.8	0.6	(0.8)	0.2	–
Net income from utilities	2.1	1.2	(4.1)	(4.2)	(4.5)
Net loss from gas	–	(2.1)	(3.3)	(3.5)	(1.2)
Administration expenses	(28.9)	(20.7)	(14.7)	(14.0)	(14.9)
Other investment income	8.5	5.5	6.1	4.8	6.1
Net finance cost including notional preference share interest less debt repayment and close out costs	(99.3)	(100.6)	(108.4)	(88.5)	(76.5)
<b>Adjusted profit before tax and exceptional items</b>	<b>142.7</b>	<b>119.5</b>	<b>120.1</b>	<b>140.1</b>	<b>143.5</b>
Exceptional lease surrender premium	–	36.4	7.5	–	–
Net exceptional gains and profits on sale of Quail West, Tipperary & joint ventures	–	121.7	12.7	(37.9)	–
Gains on sale of investment and development properties	4.8	14.4	56.4	1.6	(0.1)
Net valuation gains and losses including joint ventures and associates	541.5	419.6	182.1	–	–
Notional interest on preference shares	–	–	13.2	–	–
Net gain/(loss) on derivatives	4.1	(1.0)	–	–	–
Exceptional cost of debt repayment	–	(126.0)	–	–	–
Joint ventures' tax	(3.0)	(2.3)	(4.0)	–	–
<b>Profit before tax</b>	<b>690.1</b>	<b>582.3</b>	<b>388.0</b>	<b>103.8</b>	<b>143.4</b>
<b>Group balance sheet</b>					
Investment and development properties	5,616.3	4,876.4	3,729.5	3,563.9	3,632.6
Trading properties	232.3	123.6	125.3	121.6	144.9
<b>Total properties</b>	<b>5,848.6</b>	<b>5,000.0</b>	<b>3,854.8</b>	<b>3,685.5</b>	<b>3,777.5</b>
Plant and equipment	48.1	45.0	118.0	–	–
Joint ventures and associates	84.5	100.1	84.1	209.3	188.7
Other assets	247.4	238.9	166.5	205.9	168.7
Cash and deposits	161.4	172.6	397.4	159.3	93.9
<b>Total assets</b>	<b>6,390.0</b>	<b>5,556.6</b>	<b>4,620.8</b>	<b>4,260.0</b>	<b>4,228.8</b>
Borrowings	(2,384.8)	(2,264.9)	(1,722.7)	(1,667.1)	(1,583.5)
Deferred tax provision	(298.5)	(635.9)	(448.4)	(182.3)	(186.4)
Other liabilities and minority interests	(334.0)	(215.4)	(284.6)	(234.5)	(218.1)
<b>Shareholders' funds</b>	<b>3,372.7</b>	<b>2,440.4</b>	<b>2,165.1</b>	<b>2,176.1</b>	<b>2,240.8</b>
<b>Total return</b>					
Profit attributable to ordinary shareholders	916.5	385.1	285.8	81.8	86.8
Items taken directly to equity	15.8	(6.2)	(63.1)	(88.3)	(22.4)
	932.3	378.9	222.7	(6.5)	64.4
<b>Data per ordinary share:</b>					
<b>Earnings per share:</b>					
Basic earnings per share	201.8p	91.7p	68.5p	19.6p	20.9p
Adjusted diluted earnings per share	25.1p	24.3p	24.4p	27.6p	28.8p
<b>Net assets per share basic:</b>					
Basic net assets per share	718p	579p	486p	490p	506p
Adjusted basic net assets per share	777p	733p	595p	536p	551p
<b>Net assets per share diluted:</b>					
Basic diluted net assets per share	716p	542p	461p	464p	480p
Adjusted diluted net assets per share	775p	680p	558p	505p	519p

# Property Portfolio

## Group data

### Completed Investment Properties\* – Rental and Valuation Data Group Level

	Lettable space (sq m)	Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Gross rental income for the year (£m)	Net rental income for the year (£m)	Valuation at year end (£m)	Valuation percentage of total %	Valuation surplus (£m)	Valuation surplus %	Initial yield %	Reversionary yield %
<b>UK – by asset type</b>											
Industrial	2,312,525	143.7	169.9	154.5	129.7	2,941.5	59	302.4	11.5	4.9	5.8
Offices	177,506	28.4	31.5	30.0	23.8	494.7	10	27.4	5.9	5.7	6.4
Retail	64,532	12.6	13.5	13.8	11.5	262.4	5	24.2	10.2	4.8	5.1
<b>Total</b>	<b>2,554,563</b>	<b>184.7</b>	<b>214.9</b>	<b>198.3</b>	<b>165.0</b>	<b>3,698.6</b>	<b>74</b>	<b>354.0</b>	<b>10.6</b>	<b>5.0</b>	<b>5.8</b>
<b>Continental Europe – by asset type</b>											
Industrial	652,900	19.8	23.5	18.4	15.7	267.0	5	16.6	6.6	7.4	8.8
Offices	85,684	10.3	10.7	8.9	7.6	143.9	3	8.6	6.4	7.1	7.4
<b>Total</b>	<b>738,584</b>	<b>30.1</b>	<b>34.2</b>	<b>27.3</b>	<b>23.3</b>	<b>410.9</b>	<b>8</b>	<b>25.2</b>	<b>6.5</b>	<b>7.3</b>	<b>8.3</b>
<b>Total USA</b>	<b>453,317</b>	<b>58.1</b>	<b>70.5</b>	<b>78.6</b>	<b>60.4</b>	<b>902.6</b>	<b>18</b>	<b>118.8</b>	<b>15.2</b>	<b>6.4</b>	<b>7.8</b>
<b>Group – by sector</b>											
Industrial	2,965,425	163.5	193.0	172.9	145.4	3,208.5	64	319.0	11.0	5.1	6.0
Offices	263,190	38.7	42.2	38.9	31.4	638.6	13	36.0	6.0	6.1	6.6
Retail	64,532	12.6	13.5	13.8	11.5	262.4	5	24.2	10.1	4.8	5.1
US Biotech/office	453,317	58.1	70.5	78.6	60.4	902.6	18	118.8	15.2	6.4	7.8
<b>Group Total</b>	<b>3,746,464</b>	<b>272.9</b>	<b>319.6</b>	<b>304.2</b>	<b>248.7</b>	<b>5,012.1</b>	<b>100</b>	<b>498.0</b>	<b>11.0</b>	<b>5.4</b>	<b>6.4</b>

\* Including the Group's share of joint ventures' properties. Excluding land held for investment and properties in the course of construction.

→ 3.7 million sq m of built space → £273 million annual rent roll

→ £5.0 billion investment portfolio → 470ha land bank



## Reconciliation of Total Properties

	UK (£m)	Continental Europe (£m)	USA (£m)	Total (£m)
<b>Valuation per Investment Portfolio Table – inc share of JV's</b>	<b>3,698.6</b>	<b>410.9</b>	<b>902.6</b>	<b>5,012.1</b>
Add Trading Properties	23.7	208.6	–	232.3
Add Joint Ventures – trading properties	13.6	13.6	–	27.2
Company occupied buildings	16.8	–	–	16.8
Land & construction in progress	440.1	74.6	210.0	724.7
<b>Total</b>	<b>4,192.8</b>	<b>707.7</b>	<b>1,112.6</b>	<b>6,013.1</b>
<b>Included within:</b>				
Investment Properties	3,758.2	406.2	925.6	5,090.0
Development Properties	233.7	74.6	161.4	469.7
Trading Properties	23.7	208.6	–	232.3
Joint Ventures – investment properties	107.0	4.7	25.6	137.3
Joint Ventures – trading properties	13.6	13.6	–	27.2
Non-current assets held for sale	56.6	–	–	56.6
<b>Total Properties per Balance Sheet</b>	<b>4,192.8</b>	<b>707.7</b>	<b>1,112.6</b>	<b>6,013.1</b>

## Lease Expiries, Rent Reviews &amp; Customers

Investment properties only*	Number of customers	Average lease length		Passing rent (at 31.12.06) of leases which expire:			Passing rent subject to rent review:		
		To break years	To expiry years	In 2007 £m	In 2008 £m	In 2009 £m	In 2007 £m	In 2008 £m	In 2009 £m
<b>UK</b>									
Industrial/warehousing	1,250	6.2	8.6	6.2	5.9	10.9	19.9	23.6	19.8
Offices	119	4.9	7.9	0.5	0.2	3.7	2.8	4.3	3.8
Retail	109	9.5	9.6	0.1	–	–	1.1	9.2	0.3
<b>Total UK</b>	<b>1,478</b>	<b>6.5</b>	<b>8.6</b>	<b>6.8</b>	<b>6.1</b>	<b>14.6</b>	<b>23.9</b>	<b>37.1</b>	<b>23.9</b>
<b>Continental Europe</b>	<b>221</b>	<b>5.9</b>	<b>8.6</b>	<b>3.0</b>	<b>0.4</b>	<b>1.3</b>	–	–	–
<b>USA</b>	<b>61</b>	<b>15.3</b>	<b>15.3</b>	<b>1.2</b>	<b>1.8</b>	<b>1.4</b>	–	–	–
<b>Group Total</b>	<b>1,760</b>	<b>9.5</b>	<b>10.8</b>	<b>11.0</b>	<b>8.3</b>	<b>17.3</b>	<b>23.9</b>	<b>37.1</b>	<b>23.9</b>

\* Including share of joint ventures

## Development Pipeline

	Construction in Progress	Potential Development Starts in 2007	Potential Developments 2008 & Beyond	Total programme
Land area	ha	55	151	264
Space:				
Industrial	sq m	197,510	619,511	735,404
Offices	sq m	71,841	80,287	515,636
Retail	sq m	–	6,065	1,858
Biotech	sq m	68,951	27,870	87,812
<b>Total</b>	<b>sq m</b>	<b>338,302</b>	<b>733,733</b>	<b>1,340,710</b>
Investment properties	%	76	74	77
Trading properties	%	24	26	23
Pre-Let	%	57	4	1
Planning status				
– fully approved	%	100	20	5
– zoned/outline approval	%	–	58	55
Rental value when completed	£m	42.3	56.8	138.7
Current book value – at valuation	£m	359.9	235.9	507.8
Forecast future costs to completion	£m	251.4	501.7	1,249.3

All amounts are indicative only and are liable to change. Certain properties included above are currently income producing and are expected to be redeveloped; such properties have a current book value of £288 million and produce current rental income of approximately £12 million pa.

# UK Property Portfolio

127.

## Completed Investment Properties\*

	Rental data			Valuation data						
	Lettable space (sq m)	Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Valuation at year end (£m)	Valuation percentage of total %	Valuation surplus (£m)	Valuation surplus %	Initial yield %	Equivalent yield %	Reversionary yield %
<b>UK – By region</b>										
Slough	659,914	69.7	80.5	1,375.9	38	133.8	10.8	5.1	5.3	5.9
West London	354,659	27.9	30.3	566.5	15	63.7	12.7	4.9	5.2	5.3
Thames Valley & the West	404,862	28.4	30.6	533.3	15	45.2	9.3	5.3	5.8	5.7
Midlands & the North	417,211	18.7	22.6	367.3	10	38.3	11.6	5.1	5.7	6.2
North London & the East	448,641	22.2	26.7	449.7	12	40.1	9.8	4.9	5.8	5.9
South London & the South	246,596	13.1	18.9	315.1	9	25.1	8.7	4.2	6.0	6.0
Tesco JV	22,680	4.7	5.3	90.8	2	7.8	9.4	5.2	5.3	5.8
<b>Total</b>	<b>2,554,563</b>	<b>184.7</b>	<b>214.9</b>	<b>3,698.6</b>	<b>100</b>	<b>354.0</b>	<b>10.6</b>	<b>5.0</b>	<b>5.5</b>	<b>5.8</b>

\* Including the Group's share of joint ventures' properties.

## Largest Holdings

	Rental data			Valuation data						
	Lettable space (sq m)	Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Valuation at year end (£m)	Valuation percentage of total %	Valuation surplus (£m)	Valuation surplus %	Initial yield %	Equivalent yield %	Reversionary yield %
Slough Trading Estate	659,914	69.7	80.5	1,375.9	37	133.8	10.8	5.1	5.3	5.9
Winnersh Triangle, Reading	121,119	14.6	15.3	250.2	7	18.5	8.0	5.8	5.3	6.1
Kings Norton Business Park, Birmingham	74,774	4.5	5.4	94.0	2	9.9	11.8	4.8	5.4	5.7
North Feltham Trading Estate	68,071	7.6	7.4	136.3	4	14.8	12.2	5.6	5.1	5.7
Woodside, Dunstable	141,868	7.1	8.7	134.7	4	12.1	9.9	5.3	5.9	6.4
Heywood, Manchester	239,611	8.6	11.5	183.3	5	21.3	13.1	4.7	5.6	6.1
Portsmouth	69,703	4.2	6.1	85.3	2	9.6	12.7	4.9	5.4	7.2
Tesco JV	22,680	4.7	5.3	90.8	2	7.8	9.4	5.2	5.3	5.8
Treforest	94,271	2.9	4.6	65.8	2	6.4	10.8	4.5	6.1	6.8
<b>Total</b>	<b>1,492,011</b>	<b>123.9</b>	<b>144.8</b>	<b>2,416.3</b>	<b>65</b>	<b>234.2</b>	<b>10.7</b>	<b>5.1</b>	<b>5.4</b>	<b>6.0</b>

→ £3.7 billion portfolio

→ £185 million passing rent

→ 2.6 million sq m  
of lettable space

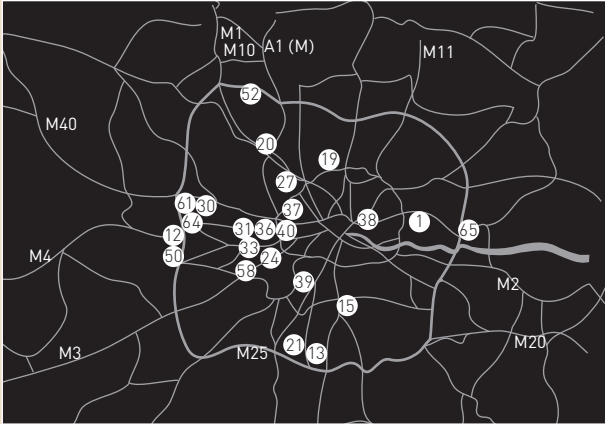
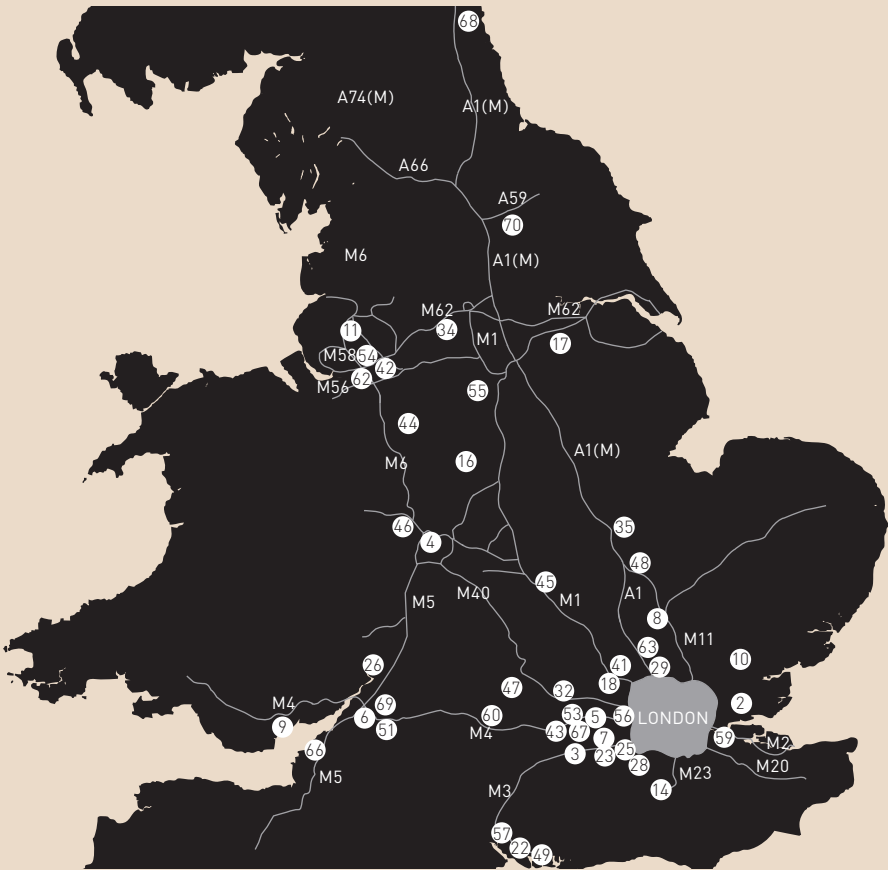
→ 158 ha land bank  
800,000 sq m build potential

# UK Property Portfolio (continued)

## 128. Development Pipeline

		Construction in Progress	Potential Development Starts in 2007	Potential Developments 2008 & Beyond	Total programme
Land area	ha	20	36	102	158
Space:					
Industrial	sq m	69,514	124,894	277,773	472,181
Offices	sq m	38,408	60,340	223,081	321,829
Retail	sq m	–	6,065	1,858	7,923
Total	sq m	107,922	191,299	502,712	801,933
Investment properties	%	93	88	98	95
Trading properties	%	7	12	2	5
Pre-Let	%	46	5	2	9
Planning status					
– fully approved	%	100	11	10	22
– zoned/outline approval	%	–	37	66	50
Rental value when completed	£m	12.9	28.7	71.6	113.2
Current book value – at valuation	£m	171.1	177.4	380.9	729.4
Forecast future costs to completion	£m	59.9	265.1	656.3	981.3

## Portfolio by Location



London (inside M25)

- |               |                 |                          |                       |
|---------------|-----------------|--------------------------|-----------------------|
| 1 Barking     | 21 Epsom        | 40 London W3             | 59 Swanley            |
| 2 Basildon    | 22 Fareham      | 41 Luton                 | 60 Swindon            |
| 3 Basingstoke | 23 Farnborough  | 42 Manchester            | 61 Uxbridge           |
| 4 Birmingham  | 24 Feltham      | 43 Newbury               | 62 Warrington         |
| 5 Bracknell   | 25 Frimley      | 44 Newcastle-Under-Lyme* | 63 Welwyn Garden City |
| 6 Bristol     | 26 Gloucester   | 45 Northampton           | 64 West Drayton       |
| 7 Camberley   | 27 Greenford    | 46 Oldbury               | 65 West Thurrock      |
| 8 Cambridge   | 28 Guildford    | 47 Oxford                | 66 Weston-super-Mare  |
| 9 Cardiff     | 29 Hatfield     | 48 Peterborough          | 67 Wokingham          |
| 10 Chelmsford | 30 Hayes        | 49 Portsmouth            | 68 Wynyard*           |
| 11 Chorley*   | 31 Heston       | 50 Poyle                 | 69 Yate               |
| 12 Colnbrook  | 32 High Wycombe | 51 Pucklechurch          | 70 York               |
| 13 Coulsdon   | 33 Hounslow     | 52 Radlett               |                       |
| 14 Crawley    | 34 Huddersfield | 53 Reading               |                       |
| 15 Croydon    | 35 Huntingdon   | 54 Runcorn               |                       |
| 16 Derby      | 36 Isleworth    | 55 Sheffield*            |                       |
| 17 Doncaster* | 37 London NW10  | 56 Slough                |                       |
| 18 Dunstable  | 38 London SE16  | 57 Southampton           |                       |
| 19 Edmonton   | 39 London SW19  | 58 Sunbury               |                       |
| 20 Elstree    |                 |                          |                       |

\* HelioSlough property





#### IX Europe, Slough

A 7,222 sq m pre-let data centre on the Slough Trading Estate, due to be completed in May 2007. This is IX Europe's fourth and largest bespoke facility in the south-east.

#### Winnersh Triangle, Berkshire

Outline planning consent recently granted for a 1.9 million sq m redevelopment master plan, with the first phases scheduled to start on site in 2007.

#### Heywood Distribution Park, Greater Manchester

Acquired in 2005, this park has the potential to accommodate a further 63,000 sq m of warehousing, bringing the total built area to over 300,000 sq m. A 7,098 sq m phase of development is scheduled for completion in February with 2,909 sq m pre-let.

#### Safestore, Slough

A 1,735 sq m pre-let self storage facility on completed in November 2006 after a build period of only eight months. The building takes advantage of a prominent location on the Farnham Road, Slough Trading Estate.

#### Colnbrook Logistics Centre

Acquired in partnership with BAA plc and Morley, the centre is situated immediately adjacent to the M25 and Heathrow Terminal 5. The majority of the site is leased to Heathrow Airport Ltd.

#### Crawley, East Sussex

The first phase of this 36,548 sq m pre-let to Thales commenced on site in February 2006. Completion to shell and core stage is planned for mid 2007.

#### Treforest Industrial Estate, Wales

The holding entity of this 53-hectare industrial estate was acquired in April 2006. The property is in a prime location just north of Cardiff, close to the M4.

#### Nimbus Park, Doncaster

HelioSlough secured funding of £42 million for its 69,680 sq m distribution facility at the beginning of the year and achieved practical completion in December 2006. The park has potential for a dedicated rail link. A second phase of up to 18,580 sq m is planned in 2007.

#### Farnborough Business Park, Hampshire

New and refurbished office accommodation of 11,736 sq m and a new public square were completed in October 2006. New lettings have been completed to DS&S, Red Hat and Augusta Westland.



# Continental Europe Property Portfolio

## Completed Investment Properties\*

	Lettable space (sq m)	Rental data		Valuation data					
		Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Valuation at year end (£m)	Valuation percentage of total %	Valuation surplus (£m)	Valuation surplus %	Initial yield %	Reversionary yield %
France	354,325	10.9	12.9	149.6	36	14.5	10.7	7.3	8.6
Germany	193,781	5.0	6.1	73.2	18	4.7	6.9	6.8	8.2
Belgium	138,734	12.4	13.2	166.4	40	3.3	2.0	7.4	7.9
The Netherlands	8,733	0.6	0.8	6.9	2	–	–	8.7	11.1
Central Europe	43,011	1.2	1.2	14.8	4	2.7	22.3	8.4	8.4
<b>Total</b>	<b>738,584</b>	<b>30.1</b>	<b>34.2</b>	<b>410.9</b>	<b>100</b>	<b>25.2</b>	<b>6.5</b>	<b>7.3</b>	<b>8.3</b>

\* Including the Group's share of joint ventures' properties.

### Belgium

#### Brussels

- 1 Bornem
- 2 Diegem
- 3 Kontich
- 4 Kortenberg
- 5 Nivelles
- 6 Rumst
- 7 St Stevens-Woluwe
- 8 Zaventem
- 9 Zellik

### Czech Republic

#### Prague

Hostivice

### Hungary

- 11 Budapest
- 12 Biatörbágy

### Poland

#### Lódz

- 12 Stryków
- 13 Poznań
- 14 Komorniki
- 15 Mokotów

### France

- 16 Aulnay sous Bois
- 17 Bondoufle
- 18 Colombes
- 19 Gonesse
- 20 La Courneuve
- 21 Le Blanc Mesnil
- 22 Les Ulis
- 23 Lyon
- 24 Saint Priest
- 25 Marly la Ville
- 26 Marseille
- 27 Aubagne
- 28 Nanterre
- 29 Saint Denis
- 30 Saint Ouen l'Aumône

### Germany

- 29 Aachen
- 30 Jülich
- 31 Berlin
- 32 Braunschweig
- 33 Dortmund
- 34 Holzwickede
- 35 Kesseldorf
- 36 Düsseldorf
- 37 Ratingen
- 38 Essen
- 39 Flensburg
- 40 Frankfurt/M
- 41 Alzenau
- 42 Butzbach
- 43 Darmstadt
- 44 Gießen
- 45 Göttingen
- 46 Hamburg
- 47 Kiel
- 48 Rendsburg
- 49 Krefeld

### Lübeck

- 44 Mönchengladbach
- 45 Neuss
- 46 Dormagen
- 47 Grevenbroich
- 48 Nürnberg
- 49 Frauenaurach
- 50 Fürth
- 51 Marklustenau
- 52 Neumarkt
- 53 Saarbrücken
- 54 Schweinfurt
- 55 Sennfeld
- 56 Stuttgart
- 57 Aulendorf
- 58 Bad Waldsee

### Italy

- 50 Bologna
- 51 Nepi-Viterbo
- 52 Parma

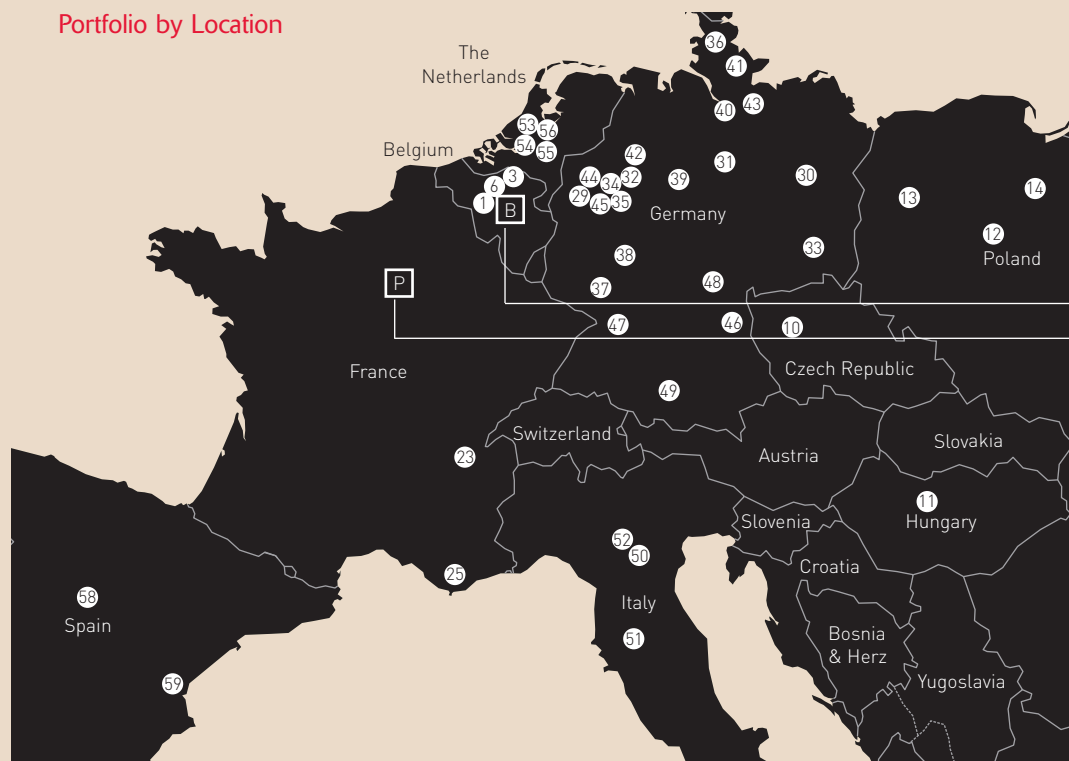
### The Netherlands

- 53 Amsterdam
- 54 Osdorp
- 55 Haarlemmemeer
- 56 Nieuw-Vennep
- 57 Hoofddorp
- 58 De Hoek
- 59 Rijswijk
- 60 Hoornwijk

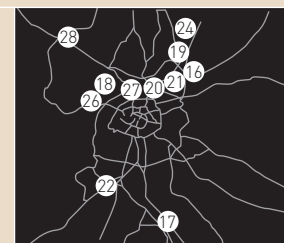
### Spain

- 58 Madrid
- 59 Torrejón de Ardoz
- 60 Velilla
- 61 Valencia
- 62 Paterna

## Portfolio by Location



Brussels



Paris

## Largest Holdings

	Rental data			Valuation data					
	Lettable space (sq m)	Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Valuation at year end (£m)	Valuation percentage of total %	Valuation surplus (£m)	Valuation surplus %	Initial yield %	Reversionary yield %
Pegasus Park, Belgium	79,623	9.3	9.4	124.7	30	5.2	4.4	7.4	7.5
Marly La Ville, Paris, France	108,382	3.0	3.6	46.2	11	2.9	6.7	6.4	7.7
Blanc Mesnil, Paris, France	21,167	1.4	1.6	16.3	4	1.6	10.9	8.9	9.6
Poznan, Lodz, Poland	43,011	1.2	1.2	14.8	4	2.7	22.3	8.4	8.4
La Courneuve, Paris, France	66,043	1.0	1.0	13.9	3	3.1	28.7	7.3	7.3
Cergy Pontoise, France	51,645	2.0	2.0	22.6	6	2.2	10.8	8.6	8.6
Frankfurt	47,592	1.7	2.3	30.0	7	1.9	6.8	5.8	7.8
Nurnberg	54,650	2.0	1.7	22.4	6	0.8	3.7	9.1	7.6
<b>Total</b>	<b>472,113</b>	<b>21.6</b>	<b>22.8</b>	<b>290.9</b>	<b>71</b>	<b>20.4</b>	<b>7.5</b>	<b>7.4</b>	<b>7.8</b>

## Development Pipeline

		Construction in Progress	Potential Development Starts in 2007	Potential Developments 2008 & Beyond	Total programme
Land area	ha	27	112	114	253
Space:					
Industrial	sq m	127,996	494,618	457,630	1,080,244
Offices	sq m	33,433	19,946	177,453	230,832
Retail	sq m	–	–	–	–
<b>Total</b>	<b>sq m</b>	<b>161,429</b>	<b>514,564</b>	<b>635,083</b>	<b>1,311,076</b>
Investment properties	%	54	67	53	58
Trading properties	%	46	33	47	42
Pre-Let	%	50	4	–	8
Planning status					
– fully approved	%	100	24	3	24
– zoned/outline approval	%	–	69	63	57
Rental value when completed	£m	8.8	19.6	39.6	68.0
Current book value – at valuation	£m	43.6	46.5	74.2	164.3
Forecast future costs to completion	£m	54.8	176.4	385.8	617.0

→ £411 million portfolio

→ £30 million passing rent pa

→ 8.3% Reversionary yield

→ 253 ha land bank

→ 740,000 sq m  
built space

→ 1.3 million sq m  
buildable space



#### Rumst, Belgium

A 15-hectare logistics site held in a joint venture with KBC Vastgoed, where SEGRO recently signed a 12-year lease with nine year break for an existing 9,745 sq m warehouse with Cummins Fleetguard and a 4,952 sq m extension for delivery in 2008. A second pre-let was agreed with DHL Exel for a 42,433 sq m build-to-suit warehouse on a ten-year lease with break at the fifth year.

#### Pegasus Park, Belgium

Pegasus Park is a modern high quality 16-hectare business park where SEGRO currently owns 79,623 sq m of existing office accommodation in a landscaped environment adjacent to Brussels Airport, with a four star international hotel, fitness centre and direct access to the train station. We have started the construction of a 17,081 sq m headquarter office for Ernst and Young, based on a 15-year lease.

#### Tulipan Park, Strykow, Poland

A 61-hectare industrial site near to Lodz, with 73,500 sq m of warehousing already completed and delivered to a variety of occupiers including Corning Cabling Systems, Sonoco, Azymut and Komfort.

#### Tulipan Park, Czech Republic

Located on the western edge of Prague, close to the city's airport and ring road, this development site comprises 30 hectares of land where SEGRO is creating a flexible business park scheme, which will total 105,000 sq m. The first building of 17,000 sq m was delivered in the first quarter of 2007, with 4,800 sq m of this already pre-let during construction to logistics and supply chain specialists Kuhne + Nagel.

#### Le Blanc Mesnil, France

A new concept activity park currently being developed just off the A1 motorway between Paris and Charles de Gaulle airport, comprising 10 units and totalling 37,000 sq m of Flexible Business Space, of which 20,000 sq m has already been delivered and leased. Units from 700 sq m are available in an attractively landscaped and secure environment with excellent on-site facilities such as a shared restaurant.

#### KarstadtQuelle, Neu-Markt, Germany

The property is located to the south-east of Nürnberg on a 5.7-hectare site and comprises a two-storey 3,883 sq m office and separate warehouse building totalling 15,753 sq m. The property was built in 2002 and is the headquarter offices and main distribution centre for Fritz Berger the camping equipment and leisure wear group.

#### "De Hoek" Business Park, The Netherlands

An industrial business site, totaling 55 hectares, of which SEGRO currently owns approximately 27 hectares; five hectares provide 35,000 sq m of existing Flexible Business Space and 22 hectares are greenfield land on which SEGRO will develop a Security Park of 110,000 sq m, offering occupiers increasing levels of security for storage and shipping valuable products.

#### Bologna, Italy

A 24,629 sq m warehouse, logistics and office facility which has been bought and leased back to Antalis until 2015. The property benefits from a good location close to Bologna airport and is on a 6.5-hectare site, having further potential for development.

#### Madrid, Spain

A 19,415 sq m office, logistics and high-bay distribution warehouse, built in 1998 which has been bought and leased back to Antalis until 2015. The property is well located in Velilla, just off the M-208 motorway to the south-east of Madrid and provides further development potential.

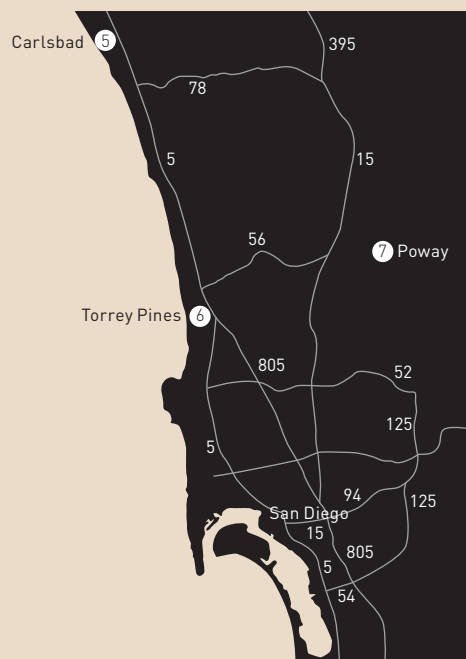
# USA Property Portfolio

## Completed Investment Properties\*

	Rental data			Valuation data					
	Lettable space (sq m)	Passing rent at year end (£m)	Market rental value (ERV) at year end (£m)	Valuation at year end (£m)	Valuation percentage of total %	Valuation surplus (£m)	Valuation surplus %	Initial yield %	Reversionary yield %
Largest Holdings									
Britannia Oyster Point, South San Francisco	45,070	16.8	12.9	198.8	22	22.8	12.9	8.4	6.5
Britannia East Grand, South San Francisco	42,427	7.8	7.7	181.3	20	12.2	7.2	4.3	4.2
Seaport, Redwood City, CA	57,674	4.2	7.3	99.1	11	27.4	38.1	4.3	7.4
Shoreline, Mountain View, CA	67,492	4.3	10.1	132.5	15	22.1	20.1	3.2	7.7
Torrey Pines, La Jolla, CA	54,932	7.5	8.6	115.2	13	7.6	7.0	6.5	7.4
Pointe Grand, San Francisco	58,576	10.2	9.4	111.8	12	13.7	14.0	9.1	8.4
Point Eden, San Francisco	49,396	3.8	2.8	45.6	5	0.2	0.4	8.2	6.1
Total	375,567	54.6	58.8	884.3	98	106.0	13.6	6.2	6.7
Total USA	453,317	58.1	70.5	902.6	100	118.8	15.2	6.4	7.8

\* Including the Group's share of joint ventures' properties.

## Portfolio by Location



- North California**
- 1 South San Francisco
  - 2 Hayward
  - 3 Redwood City
  - 4 Mountain View
- South California**
- 5 Carlsbad
  - 6 La Jolla/Torrey Pines
  - 7 Poway

## 134. Development Pipeline – USA

		Construction in Progress	Potential Development Starts in 2007	Potential Developments 2008 & Beyond	Total programme
Land area	ha	8	3	48	59
Space:					
Offices	sq m	–	–	115,103	115,103
Research & Development	sq m	68,951	27,870	87,812	184,633
Total	sq m	68,951	27,870	202,915	299,736
Investment properties	%	100	100	100	100
Trading properties	%	–	–	–	–
Pre-Let	%	90	–	–	21
Planning status					
– fully approved	%	100	–	31	44
– zoned/outline approval	%	–	–	–	–
Rental value when completed	£m	20.6	8.5	27.6	56.7
Current book value – at valuation	£m	145.2	12.0	52.7	209.9
Forecast future costs to completion	£m	136.7	60.2	207.2	404.1



→ £903 million

investment portfolio

→ £58 million

passing rent

→ 450,000 sq m

lettable space

→ 300,000 sq m

development pipeline





### Britannia Oyster Point I

Developed on a former brownfield site, this seven-building, 53,884 sq m master-planned development features state-of-the-art life sciences facilities in an attractive campus setting adjacent to San Francisco Bay. The project is located prominently at the junction of Highway 101 and Oyster Point Boulevard.

### Britannia Oyster Point II

As part of its strategy to develop business park configurations, SEGRO acquired a large warehouse building on the adjacent site to its BOP I development. Construction commenced in 2006 on the 30,194 sq m, three-building Britannia Oyster Point II life sciences campus redevelopment which features different design elements, but will be integrated with Britannia Oyster Point I.

### Britannia Shoreline Technology Centre

In mid 2005, SEGRO acquired this 11-building, 67,541 sq m office park in Mountain View, California to extend its life sciences platform to service companies in the southern areas of the San Francisco Peninsula. Over the next few years SEGRO will progressively convert the client base into life sciences companies.

### Sierra Point

As part of its general strategy to expand and to consolidate its position in the San Francisco Peninsula life sciences cluster, SEGRO completed the acquisition of this superb, Bayside site in early 2007 and is currently in the process of securing planning consent for a master-planned, 50,168 sq m, Silver Leed standard, life sciences business park. The plan contemplates a series of four and five-storey buildings, attractively positioned to maximize views of the San Francisco Bay.

### Point Grand Redevelopment

The rapid growth of the life sciences industry in South San Francisco has created an opportunity for SEGRO to redevelop one of its original core business parks into a sophisticated life sciences campus. SEGRO is in the process of securing planning consent to demolish the original, 16,351 sq m, four-building core of its Point Grand project to develop a modern, integrated, four-building campus totalling 44,594 sq m.

### Britannia Modular Labs I

SEGRO invested two years in the conception and development of a 6,000 sq m modular lab facility designed to accommodate the needs of small, early-stage life sciences companies seeking more flexible solutions to their leasing needs. Britannia Modular Labs I is a former industrial building, retrofitted to provide highly-improved lab units, ranging in size from 465 sq m to 929 sq m. This initiative is part of SEGRO's strategy to access smaller life sciences companies with high future growth potential.

### Britannia Modular Labs II

The second phase of the modular labs concept features a 5,946 sq m, two-storey, purpose-built facility, designed to accommodate up to four life sciences companies requiring approximately 1,394 sq m. Alternatively it can be combined to house larger users.

### Britannia East Grand

SEGRO acquired this 9.3-hectare, bayside site in 2000 and secured planning consent to redevelop the former paint factory facility into a master-planned, eight-building, 73,394 sq m life sciences business park in 2002. The entire development was leased to Genentech in 2005, with 42,427 sq m delivered in 2006 and the balance of the project in 2007 and 2008.

### Ligand Pharmaceuticals

In late 2006, SEGRO acquired a sophisticated facility at 'ground zero' of the Torrey Pines life sciences cluster in San Diego, California. Occupied by Ligand Pharmaceuticals, the 7,664 sq m facility also has two hectares of land, which can be developed with 8,361 sq m of life sciences product. This opportunistic transaction further consolidated SEGRO's position in the important San Diego life sciences community.



## SEGRO

## Development Completions in 2006

		UK	Continental Europe	USA	Total
Space (sq m):					
Industrial	sq m	42,612	43,011	–	85,623
Offices	sq m	11,655	–	–	11,655
Research & development	sq m	7,121	–	48,166	55,287
Retail	sq m	–	1,260	–	1,260
Total	sq m	61,388	44,271	48,166	153,825
% Let	%	29.5	100	100	71.9
Rental value (when fully let and after expiry of rent free periods)	£m	7.5	1.4	12.0	20.9
Total development cost (note 1)	£m	109.3	17.8	119.6	246.7
Valuation surplus recognised in the year	£m	13.2	3.0	12.3	28.5

Note 1

Total development cost comprises land, all construction costs and fees, capitalised interest. Land cost is taken as valuation at the start of the year.

## Development pipeline – reconciliation to accounts

	UK £m	Continental Europe £m	USA £m	Total £m
<b>Current book value per development programme table on page 15</b>	729	164	210	1,103
Add land relating to finance leases	14	–	–	14
Add owner occupied premises	17	–	–	17
Less redevelopments in completed land & buildings	(288)	–	–	(288)
Total per Accounts	472	164	210	846
<b>Included within:</b>				
Investment Properties	206	–	49	255
Development Properties	252	75	161	488
Trading Properties	8	49	–	57
Joint Ventures	6	40	–	46
Total	472	164	210	846

## Anticipated Development Completions

	Analysed by expected year of completion					
	2007	2008	2009	2010	2011	Thereafter
<b>Space (sq m)</b>						
Construction in progress	218,035	91,003	–	29,264	–	–
Potential 2007 starts	125,879	276,150	7,935	35,000	256,370	32,400
Potential starts 2008 & beyond	–	84,902	299,500	194,190	192,173	569,945
Total	343,914	452,055	307,435	258,454	448,543	602,345
<b>ERV (£m)</b>						
Construction in progress	17.2	15.5	–	9.6	–	–
Potential 2007 starts	6.1	22.9	1.1	1.3	23.3	2.2
Potential starts 2008 & beyond	–	5.5	24.3	17.8	19.5	71.7
Total	23.3	43.9	25.4	28.7	42.8	73.9
Amount already pre-let	10.3	12.8	1.7	7.4	–	–

Rents of approximately £12 million pa are currently passing on buildings expected to be redeveloped and which are included in the figures above.

Development Pipeline: Under Construction at 31 December 2006

	Space to be built (sq m)	Pre-let space (sq m)	Estimated ERV £m	Current Book value £m	Estimated future spend £m	Estimated total spend £m	Expected completion
<b>UK</b>							
Buckingham Avenue, Slough	7,222	7,222		12.9	2.3	15.2	May-07
Ajax Avenue, Slough	5,693	–		4.3	4.0	8.4	Oct-07
Argyle Street, Birmingham	21,601	–		7.0	10.4	17.5	Aug-07
Heywood, Manchester	2,505	–		2.0	0.3	2.2	Mar-07
Heywood, Manchester	4,589	2,897		2.8	1.4	4.1	Mar-07
Forest Road, Feltham	10,282	–		16.3	5.3	21.6	Aug-07
Faggs Road, Hatton Cross	8,900	–		16.3	2.2	18.5	Apr-07
Bilton Way, Hayes	1,466	1,466		2.3	0.6	2.9	Jun-07
Crawley	36,548	36,548		74.9	26.3	101.3	Feb-08
Farnborough Business Park, Heritage site	n/a	n/a		20.8	1.7	22.5	Feb-07
Winnersh Triangle, Reading	1,860	1,860		5.3	1.1	6.5	Jun-07
Centennial Park, Elstree	7,256	–		6.2	4.3	10.5	Jun-07
<b>Total UK</b>	<b>107,922</b>	<b>49,993</b>	<b>12.9</b>	<b>171.1</b>	<b>59.9</b>	<b>231.0</b>	<b>–</b>
<b>46%</b>							
<b>Continental Europe</b>							
Frankfurt	8,275	–		6.4	–	6.4	Jan-07
Blanc Mesnil, Paris	5,452	5,452		1.5	1.4	2.9	Jun-07
Saint Denis, Paris (50%)	12,379	–		7.4	19.2	26.7	Aug-08
Rumst, Belgium (50%)	21,217	21,217		4.9	2.1	7.0	Feb-07
Pegasus Park II, Belgium (50%)	2,536	2,536		0.4	3.6	4.0	Oct-07
Mönchengladbach	6,224	–		–	1.7	1.7	May-07
Strykow, Lodz	9,624	9,624		2.4	0.7	3.0	Mar-07
Strykow, Lodz	23,680	20,466		5.0	1.0	6.0	Mar-07
Komorniki I, Poznan	23,127	17,221		5.8	0.1	5.9	Jan-07
Tulipan Park II, Prague	17,363	4,800		4.0	1.9	5.9	Apr-07
Domaniewska, Warsaw	18,518	–		2.4	21.6	24.0	Mar-08
Vendel Park, Budapest	13,034	–		3.4	1.5	4.9	May-07
<b>Total Continental Europe</b>	<b>161,429</b>	<b>81,316</b>	<b>8.8</b>	<b>43.6</b>	<b>54.8</b>	<b>98.4</b>	<b>–</b>
<b>50%</b>							
<b>USA</b>							
BEG (Blg 2), San Francisco	10,007	10,007		23.6	11.1	34.7	Jul-07
BEG (Blg 7), San Francisco	8,547	8,547		18.1	15.8	33.9	Mar-08
BEG (Blg 8&9), San Francisco	12,475	12,475		25.8	24.2	50.0	Jun-08
BOP II, San Francisco	29,264	22,628		48.6	77.1	125.7	Sep-10
BOP I, San Francisco	8,658	8,658		29.1	8.5	37.6	Jan-07
<b>Total USA</b>	<b>68,951</b>	<b>62,315</b>	<b>20.6</b>	<b>145.2</b>	<b>136.7</b>	<b>281.9</b>	<b>–</b>
<b>90%</b>							
<b>Total Group</b>	<b>338,302</b>	<b>193,624</b>	<b>42.3</b>	<b>359.9</b>	<b>251.4</b>	<b>611.3</b>	<b>–</b>
<b>57%</b>							

Details of potential development starts during 2007 can be found on the Investor Relations page of our website [www.segro.com](http://www.segro.com)

## Shareholder information

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### February 2007

Payment:	7 <sup>1</sup> / <sub>8</sub> per cent bonds 2010 interest	19 February
	6 <sup>3</sup> / <sub>4</sub> per cent bonds 2024 interest	23 February

### March 2007

Announcement of year end results		8 March
Payment:	7 per cent bonds 2022 interest	14 March

### April 2007

Ex-dividend date for final dividend		18 April
On-record date for final dividend		20 April

### May 2007

Annual General Meeting		22 May
Payment:	Dividend	25 May

### June 2007

Payment:	5 <sup>1</sup> / <sub>2</sub> per cent bonds 2018 interest	20 June
	5 <sup>3</sup> / <sub>4</sub> per cent bonds 2035 interest	20 June

### August 2007

Payment:	7 <sup>1</sup> / <sub>8</sub> per cent bonds 2010 interest	17 August
	6 <sup>3</sup> / <sub>4</sub> per cent bonds 2024 interest	23 August
Announcement of half year results		August

### September 2007

Payment:	7 per cent bonds 2022 interest	14 September
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### October 2007

Payment:	6 <sup>1</sup> / <sub>4</sub> per cent bonds 2015 interest	1 October
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### December 2007

Payment:	5 <sup>5</sup> / <sub>8</sub> per cent bonds 2020 interest	7 December
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### Analysis of shareholders – 29 December 2006

#### Shareholder Analysis

Range	Holdings	% of Holdings	Shares	% of Shares
1 – 100	378	3.2	17,665	0.0
101 – 500	1,777	15.2	577,772	0.1
501 – 1000	2,382	20.3	1,863,720	0.4
1001 – 5000	5,371	45.8	12,063,483	2.6
5001 – 10000	816	7.0	5,837,520	1.2
10001 – 25000	375	3.2	5,860,028	1.2
25001 – 50000	170	1.4	5,954,871	1.3
50000+	457	3.9	439,775,014	93.2
<b>Totals</b>	<b>11,726</b>	<b>100</b>	<b>471,950,073</b>	<b>100</b>

## Category Analysis

Category	Holdings	% of Holdings	Shares	% of Shares
Bank/Nominee	3,484	29.7	423,242,962	89.7
Other Corporate Bodies	21	0.2	2,216,050	0.5
Other Companies	271	2.3	16,492,344	3.5
Individuals	7,873	67.1	29,400,012	6.2
Insurance Companies	39	0.3	204,005	0.0
Investment Trusts	30	0.3	262,632	0.1
Pension Trusts	8	0.1	132,068	0.0
<b>Totals</b>	<b>11,726</b>	<b>100</b>	<b>471,950,073</b>	<b>100</b>

## Shareholder enquiries

If you have any questions about your shareholding or if you require further guidance (e.g. to notify a change of address or to give dividend instructions to a bank account) please contact Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone 0870 707 1296. Alternatively you can email your query to [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk). You can also check your shareholding by registering at [www-uk.computershare.com/investor](http://www-uk.computershare.com/investor).

## Electronic Communications via eTree UK

Shareholders now have the opportunity to elect to receive shareholder communications electronically e.g. Annual Reports, Corporate Responsibility Reports, Notice of the Annual General Meeting and Proxy Forms. For every shareholder that signs up to electronic communications eTree will donate a sapling to the "Woodland Trust's Tree for All" campaign.

When you register, there will be a quick verification process and you will need to provide your SRN number (which appears on your share certificate) and once registered, eTree will send you an email confirming your registration. To register, or find out more, please visit [www.etreuk.com](http://www.etreuk.com).

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

## Individual savings accounts and low cost share dealing service

The company has selected the Halifax as its preferred ISA provider. Details of this service can be obtained from Halifax Share Dealing Limited on telephone 0845 722 5525.

## ShareGift

The purpose of ShareGift is to make it easy for shareholders to donate any number of shares to charity. The service can be particularly useful for shareholders with a small number of shares, which would be uneconomic to sell. Shares donated through ShareGift are transferred into the name of The Orr Mackintosh Foundation, registered charity number 1052686. ShareGift's purpose is to realise as much value as possible by collecting such shares, selling them and using the proceeds to make donations to a wide range of UK charities. Further details can be obtained from The Orr Mackintosh Foundation, 46 Grosvenor Street, London, W1K 3HN. Telephone 020 7828 1151. The website address is [www.sharegift.org](http://www.sharegift.org)

## 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 25 pence each (adjusted for capitalisation issues in 1967, 1979, 1982 and rights issue in 1993)	11.76p	108p

## Stock Market prices

Financial Year	2006	2005	2004	2003	2002
Highest	796p	598.5p	551.25p	442.0p	432.0p
Lowest	559p	469p	413.5p	273.0p	303.5p
31 December	785.5p <sup>1</sup>	598.5p <sup>2</sup>	550.0p <sup>3</sup>	439.25p <sup>4</sup>	339.0p <sup>5</sup>

1 As at 29/12/2006

2 As at 30/12/2005

3 As at 31/12/2004

4 As at 31/12/2003

5 As at 31/12/2002

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## **Adjusted earnings per share**

EPS based on adjusted profit before tax and excluding deferred tax on investment properties.

## **Adjusted net asset value per share**

NAV per share adjusted to add back deferred tax associated with investment properties, as recommended by EPRA.

## **Adjusted profit before tax**

Reported profit before tax, after reflecting EPRA adjustments and excluding items which are exceptional by virtue of their size or incidence.

## **Book value**

The amount at which assets and liabilities are reported in the accounts.

## **Combined portfolio**

The investment, development and trading properties of the Group, including the relevant share of joint ventures' properties.

## **Development pipeline**

The Group's current programme of developments authorised or in the course of construction at the balance sheet date, together with potential schemes not yet commenced on land owned or controlled by the Group or its joint ventures.

## **Diluted figures**

Reported amounts adjusted to reflect the dilutive effects of convertible preference shares and of shares held by the employee share ownership plan trusts.

## **Dividend cover**

Adjusted earnings per share divided by the ordinary dividend per share.

## **Earnings per share (EPS)**

Profit after taxation attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

## **EPRA adjustments**

Adjustments to income statement and balance sheet amounts reported under IAS arising from adopting the recommendations of the Best Practices Committee of the European Real Estate Association ("EPRA"). The adjustments to income statement amounts principally relate to the exclusion of valuation gains and losses, whilst the balance sheet adjustments relate to the exclusion of deferred tax on investment properties.

## **Equivalent yield**

The internal rate of return from an investment property, based on the value of the property assuming the current passing rent reverts to ERV and assuming the property becomes fully occupied over time.

## **Estimated rental value (ERV)**

The estimated annual market rental value of lettable space as determined biannually by the Company's valuers.

This will normally be different from the rent being paid.

## **Estimate to complete (ETC)**

Costs still to be expended on a development or redevelopment to practical completion (not to complete lettings), including attributable interest.

## **Finance lease**

A lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

## **Gearing (net)**

Total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus non-equity shareholders' funds as a percentage of equity shareholders' funds.

## **Gross rental income**

Contracted rental income recognised in the period, including surrender premiums, interest receivable on finance leases and service charge income.

Lease incentives, initial costs and any contracted future rental increases are amortised on a straight line basis over the lease term.

## **Hectares (ha)**

The area of land measurement used in this report. The conversion factor used, where appropriate, is 1 hectare = 2.471 acres.

## **Initial yield**

Annualised current passing rent expressed as a percentage of the property valuation.

## **IPD**

Investment Property Databank.

## **Joint venture**

An entity in which the Group holds an interest and which is jointly controlled by the Group and one or more partners under a contractual arrangement whereby decisions on financial and operating policies essential to the operation, performance and financial position of the venture require each partner's consent.

## **Net asset value (NAV) per share**

Equity shareholders' funds divided by the number of ordinary shares in issue at the period end.

## **Net rental income**

Gross rental income less ground rents paid, service charge expenses and property operating expenses.

## **Over-rented**

Space that is let at a rent above its current ERV.

## **Passing rent**

The annual rental income currently receivable on a property as at the balance sheet date (which may be more or less than the ERV – see over-rented

and reversionary). Rents on leases signed but currently subject to a rent-free period are excluded.

## **Pre-let**

A lease signed with an occupier prior to completion of a development.

## **REIT**

A qualifying entity which has elected to be treated as a Real Estate Investment Trust for tax purposes. In the UK, such entities must be listed on a recognised stock exchange, must be predominantly engaged in property investment activities and must meet certain ongoing qualifications. Slough Estates plc and its UK subsidiaries have elected for REIT status from 1 January 2007.

## **Rent roll**

See passing rent.

## **Reversionary or under-rented**

Space where the passing rent is below the ERV.

## **Reversionary yield**

The ERV of a property, expressed as a percentage of the property's valuation. In the case of portfolio data, the reversionary yield assumes all properties are fully occupied.

## **Square metres (sq m)**

The area of buildings measurements used in this report. The conversion factor used, where appropriate, is 1 square metre = 10.639 square feet.

## **Total development cost**

All capital expenditure on a project including the opening book value of the property on commencement of development, together with all finance costs capitalised during the development.

## **Total property return**

The valuation surplus, profit/(loss) on sale of investment properties and net rental income in respect of investment properties, expressed as a percentage of the closing book value of the investment property portfolio.

## **Total return**

Dividends per share plus annual growth in diluted adjusted net asset value per share, expressed as a percentage of the opening diluted adjusted net asset value per share.

## **Trading properties**

Properties held for trading purposes and shown as current assets in the Balance Sheet.

## **TSR**

Total shareholder return based upon share price movement over the period and assuming reinvestment of dividends.

## **Voids**

The area in a property or portfolio, excluding developments, which is currently available for letting.



**UK**

**Head office and registered office**

Slough Estates plc  
234 Bath Road  
Slough SL1 4EE  
England  
Telephone: (44) 1753 537171  
Fax: (44) 1753 820585  
www.segro.com  
e-mail: uk@segro.com

**US**

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

**Europe**

Slough Estates International  
20, rue Brunel  
75017 Paris  
France  
Telephone: (33) 1 56 89 31 31  
Fax: (33) 1 56 89 31 35  
e-mail: europe@segro.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: belgium@segro.com

**Germany**

Slough Commercial Properties GmbH  
Berliner Allee 51-53  
40212 Düsseldorf  
Germany  
Telephone: (49) 211 49765-0  
Fax: (49) 211 49765-111  
e-mail: germany@segro.com

**The Netherlands**

Slough Estates Mainland B.V.  
Wegalaan 35  
2132 JD Hoofddorp  
The Netherlands  
  
P.O. Box 3008  
2130 KA Hoofddorp  
The Netherlands

Telephone: (31) 23 55 44 020  
Fax: (31) 23 55 44 030  
e-mail: thenetherlands@segro.com

**France**

Slough Developments SA  
20, rue Brunel  
75017 Paris  
France  
Telephone: (33) 1 56 89 31 31  
Fax: (33) 1 56 89 31 35  
e-mail: france@segro.com

**Poland**

Slough Estates Polska Sp. z o.o.  
ul. Uniwersytecka 13  
40-007 Katowice  
Poland  
Telephone: (48) 32 603 03 00  
Fax: (48) 32 603 03 01  
e-mail: poland@segro.com

Slough Estates Polska Sp. z o.o.  
ul. Ziebicka 35  
60-164 Poznań  
Poland  
Telephone: (48) 61 864 94 95  
Fax: (48) 61 864 94 99  
e-mail: poland@segro.com

Slough Estates Polska Sp. z o.o.  
WFC  
Ul. E. Plater 53  
00-113 Warszawa  
Poland  
Telephone: (48) 22 528 67 74  
Fax: (48) 22 528 67 01  
e-mail: poland@segro.com

**Czech Republic**

Slough Estates ČR s.r.o.  
Na Příkopě 9 a 11  
110 00 Praha 1  
Czech Republic  
Telephone: (420) 224 234 963  
Fax: (420) 224 237 073  
e-mail: czechrepublic@segro.com

**Hungary**

Slough Estates Hungary  
Tóth Lőrinc u. 31  
1126 Budapest  
Hungary  
Telephone: (36) 1 214 6636  
Fax: (36) 1 214 6639  
e-mail: hungary@segro.com

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[www.segro.com](http://www.segro.com)