MEPC Limited

Report and Financial Statements 2002

Company No. 420575

Contents

Business Review

MEPC's primary focus on its portfolio of business and science parks has been maintained over the past year. Taken together, the parks have performed creditably in a weaker occupational market. Our overall result has also been enhanced by a strong performance from our retained factory outlet business.

Following the very large scale disposals of non core property in 2000 and 2001, there has been considerably less change in the portfolio over the past year. Nonetheless, taking into account both the property portfolio and joint venture assets, further sales totalling £394 million occurred, producing a profit of £5.8 million. The most significant of these disposals were a £187 million portfolio sale of non core investment properties (in March) and the sale of our 50% share in the Westfield shopping centre joint venture (in September).

Development activity at the business parks and in the factory outlets has continued, albeit at a slower pace than in the previous two years, reflecting our caution over market conditions and occupational demand in the business space sector in particular. While we have not started a significant speculative business space development since January 2001, there has continued to be demand for prelets at parks such as Milton, Warrington and Granta.

Details of the portfolio, of developments completed during the year, and of current developments and sites held for future development are set out at pages 5 and 6 below. Across the portfolio, the underlying property valuation result for the year was an increase of 0.3%. Business space (total assets £1,073 million) recorded a 0.8% deficit whilst factory outlets (total assets £172 million) achieved a 7.4% uplift. The business space result was enhanced by very active asset management and the successful completion of a number of developments. These factors offset the negative impact of a weaker occupational market which has affected land values in particular. It should be noted that we now have no London property and only one asset in the M4 office market. In contrast, our large mixed use parks serve their local markets as well as national and international businesses, and offer a spread of office, science and industrial facilities. This diversity of appeal has stood them in good stead. The factory outlet portfolio, meanwhile, has benefited from the expansion of Clarks Village at Street and almost a full year's trading of the relaunched Royal Quays outlet at North Shields.

Balance sheet net assets have increased over the course of the year by 3.45% to £2,015 million. Cash resources not expected to be required in the business in the near future have been lent upstream to our shareholder Leconport Estates. Excluding such upstream loans, MEPC's net assets at 30 September 2002 stood at £514.6 million.

Financial Review

Results

Net income from properties was £60.8 million, significantly less than last year due to the sale of properties which largely occurred in the prior year. This also meant smaller disposal proceeds being received and a smaller gain on disposals in comparison to last year.

The net cost of finance again fell reflecting the reduced level of net debt and additional interest receivable from upstream loans to Leconport Estates.

Shareholders' funds increased by £67.2 million to £2,015 million reflecting the retained profit and revaluation surplus. Treating the loans to Leconport Estates as a reduction of shareholders' funds would give adjusted shareholders' funds of £514.6 million.

Deferred Tax

The adoption of FRS 19 results in an increase in shareholders funds of £66.5 million and a net deferred tax debtor of the same amount on our balance sheet. Details of the new accounting policy can be found in Note 1 on page 12 and the make up of the provided and unprovided deferred tax is set out in the second half of Note 8 on page 17.

Under FRS 19, MEPC has a net deferred tax debtor, largely as a result of losses we have available to carry forward and set off against future taxable profits. The deferred tax debtor will be recovered as those losses are utilised in the future. It must be noted that potential liabilities to capital gains tax which could arise if our properties were sold at their book value, estimated at a maximum of £88 million, are not provided for as a deferred tax liability under FRS 19.

Financing and Treasury

Our objective continues to be to use our financial capacity in support of our property strategy to maximise shareholder return within a prudent, efficient and flexible capital structure.

At the year end net debt was £611 million and gearing was 30%. Pro-forma gearing if the loans to Leconport are treated as a reduction of shareholders funds was 119%. The loans to Leconport are repayable on MEPC giving fourteen days notice or at maturity if not repaid earlier. Interest is received on them quarterly in arrears.

During the period we repurchased in the market approximately £80.4 million of bonds and $12.6 million of QUIPS.

MEPC has a centralised treasury function that operates under policies set by the board. Its objectives are to meet the financing needs of the business in a pro-active and cost effective manner whilst maintaining a prudent and efficient financial structure.

The average cost of our borrowings at 30 September 2002 was 9.8% and their weighted average maturity was 9 years. The group also had undrawn committed bank facilities of £355 million.

MEPC uses interest rate swaps and options to manage existing exposures to movements in interest rates on its underlying net debt. Following the sale of its overseas assets the group has little foreign exchange exposure arising from its operations. Currency swaps are used to remove any currency exposures arising from non-Sterling borrowings.

Counterparty risk that arises from credit exposures to institutions is carefully monitored and controlled by the use of approved credit limits.

Post Balance Sheet Events

On 3 December 2002 an interim dividend of £320 million was paid to our shareholder Leconport Estates. This was partially financed by a £220 million reduction in loans to Leconport.

Proforma gearing taking account of the dividend and the sales proceeds from disposals as set out in Note 26 on page 23 is 39%.

Audit Committee

The Audit Committee meets at least twice a year and is made up wholly of non-executive directors. The committee reviews the application of the company's accounting policies and the integrity of its financial statements. It also reviews the scope and quality, including the independence and objectivity, of internal and external audit, the fees paid to the external auditors and the company's system of internal control. MEPC has complied with the requirements of the Turnbull report in respect of risk management and internal control through the financial year ended 30 September 2002.

Portfolio analysis

Property values at 30 September 2002

	Business Space £m	Outlet Centres £m	Total £m	%
South East England	806.8	-	**806.8**	65
Rest of UK	265.8	172.1	**437.9**	35
Total value (note)	1,072.6	172.1	**1,244.7**	100
Percentages	86	14	**100**	

The total value of properties above has been included in the balance sheet at 30 September 2002 as **£1,220.9m** under investment and development properties and **£23.8m** under debtors.

Underlying valuation increase in year to 30 September 2002

	Total %
Business Space	(0.8)
Outlet centres	7.4
All investment and development properties	**0.3**

Other key statistics at 30 September 2002

		Business Space	Outlet Centres	Total Portfolio
Estimated Rental Value (ERV)	£m	83	12	**95**
Rent roll - net of ground rents	£m	67	10	**77**
Net reversionary potential (note 1)	%	4.6	6.3	**4.8**
Rent roll subject to breaks and expiries within 5 years (note 2)	£m	23	7	**30**
Number of tenancies	No.	678	239	**917**
Average lease length (note 3)	Yrs	9.6	4.9	**8.9**
Occupancy rate (note 4)	%	83	93	**84**
Running yield (note 5)	%	6.9	6.0	**6.8**

1 Excess of ERV over rent roll for occupied space
2 Includes all rent subject to a break at the tenant's option and all turnover rents.
3 Lease length is measured only to the first break at the tenant's option where applicable
4 Calculated as rent roll/ (rent roll + ERV of unoccupied space)
5 Rent roll net of ground rents/book value of investment properties only

Gross rental income and other charges by sector and location in year to 30 September 2002

	Business Space £m	Other £m	Total £m	%
South East England	54.1	0.9	**55.0**	63
Rest of UK	17.7	14.8	**32.5**	37
	71.8	**15.7**	**87.5**	100
Percentages	82	18	**100**	

Development programme as at 30 September 2002

Authorised development programme

The authorised development programme comprises those projects that are in progress or where authority has been given to proceed. Where development is phased, only those phases authorised to proceed are included. At 30 September 2002, there were **6** separate projects with an estimated value on completion of circa **£58m**. Total anticipated rental income from the programme is **£4.6m**, of which **70%** is covered by agreements for letting.

Project	Description	Estimated completion	Lettings agreed
Birchwood Park, Warrington (2 projects)	2,400 sq m offices let to NNC and a 600 sq m Creche.	Winter 2002	100%
Granta Park, Abington, Nr Cambridge	2,400 sq m let to Ribotargets.	Autumn 2003	100%
Milton Park, Abingdon, Nr Oxford	6,200 sq m let to Evotec.	Spring 2003	100%
Clarks Village, Street	1,900 sq m phase 6 extension.	Summer 2003	38%
The Yorkshire Outlet, Doncaster	1,500 sq m extension and refurbishment	Summer 2003	67%

Sites held for future development

The future developable area at our business park assets, totalling **434,900 sq m**, is detailed in the property list on page 6. These are sites that MEPC already owns and upon which we have or expect to obtain planning permission. The aggregate estimated end value of these sites when fully developed is over **£730m**. In addition MEPC controls a further **266 hectares** of land which has the potential, over time, to facilitate further expansion of our business park assets.

The figures above do not include the potential which exists at several of our business parks for the continued replacement of older low value buildings with larger and more valuable assets.

Developments completed and transferred to the investment portfolio since 1 December 2001

Since 1 December 2001 the following projects were transferred to the investment portfolio at an aggregate investment value of **£355m.**

Project	Description	Lettings agreed
Birchwood Park, Warrington (2 projects)	1,500 sq m distribution unit let to Brake Bros and 800 sq m fitness facility.	100%
Callaghan Square, Cardiff	12,900 sq m office building partly let to Eversheds.	67%
Chineham Park, Basingstoke (2 projects)	10,600 sq m speculative office buildings and 2,400 sq m of amenity buildings.	9%
Granta Park, Abington, Nr Cambridge (2 projects)	6,300 sq m let to Cambridge Antibody Technology and 8,400 sq m let to Millennium Pharmaceuticals.	100%
Hillington Park, Glasgow	500 sq m childrens' nursery	100%
Leavesden Park, Nr Watford (2 projects)	Total of 27,600 sq m offices including 17,600 sq m let to BT which was sold in October 2002.	61%
Milton Park, Abingdon, Nr Oxford (3 projects)	Business Campus II 5,700 sq m let to Oxford GlycoSciences, Park Square 8,400 sq m and 2,400 sq m Park Club.	78%
Wellesbourne Park, Nr Stratford Upon Avon	4,200 sq m industrial units. Now sold.	100%
Northgate House, Moorgate, London EC2	14,300 sq m let to Cazenove. Now sold.	100%
Two Rivers Retail Park, Staines	Phase 3 – 12,500 sq m leisure and retail scheme. Now sold.	97%
Clarks Village, Street	1,100 sq m phase 5 extension.	100%

Property list as at 30 September 2002

Property	Net lettable area (sq m)	Net area in development (sq m)	Future developable/ lettable area	Tenure	Type	Number of tenants	Vacancy %
BUSINESS SPACE							
Axis Park Langley, Nr Heathrow	8,900	-	-	Freeh'd	Office Park	1	42
Birchwood Park Warrington	103,000	3,000	21 ha / 63,400 sq m	Freeh'd	Mixed Use	115	18
Callaghan Square Cardiff	12,900	-	3 ha / 31,200 sq m	Freeh'd	Office Park	1	33
Chineham Park Basingstoke	73,000	-	7 ha / 31,000 sq m	Freeh'd	Office Park	54	25
Granta Park Abington, Nr Cambridge	35,400	2,400	1 ha / 4,000 sq m	Freeh'd	Science Park	20	-
Hillington Park Glasgow	181,600	-	26 ha / 90,700 sq m	Freeh'd	Mixed Use	248	24
Leavesden Park Nr Watford	81,700	-	18 ha / 104,800 sq m	Freeh'd	Office Park	5	32
Manston Park Thanet, Kent	-	-	-	Freeh'd	Industrial Land	-	-
Milton Park Abingdon, Nr Oxford	367,000	6,200	7 ha / 29,700 sq m	Freeh'd	Mixed Use	225	9
South Marston Park Swindon	8,500	-	19 ha / 80,100 sq m	Freeh'd	Industrial Park	1	99
Uxbridge Park Uxbridge	23,500	-	-	Freeh'd	Mixed Use	8	-
BUSINESS SPACE TOTAL	**895,500**	**11,600**	**102 ha / 434,900 sq m**			**678**	**17**
OUTLET CENTRES							
Atlantic Village Bideford	9,000	-		Freeh'd	Outlet Centre	43	1
Clarks Village Street	17,100	1,900		Leaseh'd 99.9%	Outlet Centre	86	6
K Village Kendal	2,500	-		Freeh'd	Outlet Centre	16	-
Royal Quays Outlet Centre North Shields	13,700	-		Freeh'd	Outlet Centre	51	11
The Yorkshire Outlet Doncaster	11,800	1,500		Freeh'd	Outlet Centre	43	8
OUTLET CENTRE TOTAL	**54,100**	**3,400**				**239**	**7**
GRAND TOTAL	**949,600**	**15,000**				**917**	**16**

2002 Group profit & loss account

For the year ended 30 September

	Note	2002	2001 (Restated – Note 1)
		£m	£m
Group turnover			
Gross rental income and other charges		**126.0**	183.4
Relative to joint ventures		**(38.5)**	(42.8)
	2	**87.5**	140.6
Net income from properties	3	**60.8**	95.4
Administrative expenses			
Recurring administrative expenses	4	**(6.8)**	(6.9)
Supplementary bonus	5	**-**	(72.8)
		(6.8)	(79.7)
Operating profit		**54.0**	15.7
Share of operating profit in joint ventures		**25.8**	28.9
Other income		**1.4**	0.9
Net gains on fixed asset disposals	6	**5.8**	35.0
Profit on ordinary activities before finance and taxation		**87.0**	80.5
Cost of finance (net)	7	**(36.2)**	(59.0)
Profit on ordinary activities before taxation		**50.8**	21.5
Taxation credit on profit on ordinary activities	8	**17.7**	81.3
Profit on ordinary activities after taxation		**68.5**	102.8
Minority interests	19		
Equity		**(0.5)**	(0.4)
Non-equity		**(11.8)**	(12.1)
		(12.3)	(12.5)
Profit for the financial year		**56.2**	90.3
Equity dividends paid		**-**	(500.0)
Retained profit/(loss) for the financial year	21	**56.2**	(409.7)

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

2002 Balance sheets

As at 30 September

	Note	GROUP 2002	GROUP 2001 (Restated – Note 1)	MEPC 2002	MEPC 2001 (Restated – Note 1)
		£m	£m	**£m**	£m
Fixed assets					
Tangible assets					
Investment and development properties	9	**1,220.9**	1,415.9	**-**	-
Other fixed assets	10	**3.1**	3.3	**3.0**	3.3
		1,224.0	1,419.2	**3.0**	3.3
Investments					
Subsidiary undertakings	11	**-**	-	**2,895.8**	2,905.8
Joint ventures	12				
Share of gross assets		**78.4**	464.2	**-**	-
Share of gross liabilities		**(55.3)**	(332.9)	**-**	-
		23.1	131.3	**-**	-
Other fixed asset investments	13	**43.7**	45.9	**9.9**	7.0
		1,290.8	1,596.4	**2,908.7**	2,916.1
Current assets					
Loans to ultimate parent company – Leconport Estates	14	**1,500.4**	1,181.6	**1,500.4**	1,181.6
Amounts due from subsidiary undertakings		**-**	-	**899.5**	1,074.0
Deferred taxation	8	**66.5**	53.4	**84.8**	73.2
Other debtors falling due within one year	15	**62.2**	75.8	**10.9**	26.4
Total debtors		**1,629.1**	1,310.8	**2,495.6**	2,355.2
Cash and short term deposits	16	**75.3**	200.2	**74.5**	193.6
		1,704.4	1,511.0	**2,570.1**	2,548.8
Creditors falling due within one year					
Loan capital and bank overdrafts	18	**(212.3)**	(75.9)	**(109.9)**	(55.3)
Other	17	**(163.8)**	(130.2)	**(91.1)**	(40.2)
Net current assets		**1,328.3**	1,304.9	**2,369.1**	2,453.3
Total assets less current liabilities		**2,619.1**	2,901.3	**5,277.8**	5,369.4
Creditors falling due after more than one year					
Loan capital	18	**(474.0)**	(749.1)	**(474.0)**	(619.3)
Other	17	**-**	(70.6)	**(3,803.4)**	(3,740.7)
Minority interests	19				
Equity		**(9.4)**	(6.5)		
Non-equity		**(120.7)**	(127.3)		
		(130.1)	(133.8)	**-**	-
		2,015.0	1,947.8	**1,000.4**	1,009.4
Capital and reserves					
Equity shareholders' funds					
Ordinary share capital	20	**105.8**	105.8	**105.8**	105.8
Share premium account	21	**78.1**	78.1	**78.1**	78.1
Revaluation reserve	21	**293.6**	338.9	**-**	-
Capital redemption reserve	21	**405.2**	405.2	**405.2**	405.2
Profit and loss account	21	**1,132.3**	1,019.8	**411.3**	420.3
Total equity shareholders' funds		**2,015.0**	1,947.8	**1,000.4**	1,009.4

Approved by a duly appointed and authorised committee of the board of directors on 6 December 2002 and signed on its behalf by:

Jamie Dundas

Jamie Dundas, Chief Executive

S J East

Stephen East, Finance Director

2002 Other primary statements

For the year ended 30 September

Statement of Group total recognised gains and losses

	2002	2001 (Restated – Note 1)
	£m	£m
Profit for the financial year	**56.2**	90.3
Net surplus on revaluation after adjustments for minorities:		
Properties	**3.5**	54.0
Joint ventures	**7.7**	(3.0)
Currency translation movements	**(0.2)**	(1.9)
Taxation	**-**	(3.4)
	67.2	136.0
FRS 19 prior year adjustment (note 1)	**53.4**	
Total recognised gains and losses for the year	**120.6**	

Note of Group historical cost profits and losses

	2002	2001 (Restated – Note 1)
	£m	£m
Profit on ordinary activities before taxation	**50.8**	21.5
Realisation of property revaluation surpluses and deficits	**56.5**	134.0
Amortisation charge (difference between historic cost and revalued amount)	**0.3**	0.3
Historical cost profit on ordinary activities before taxation	**107.6**	155.8
Historical cost profit/(loss) retained after tax, minorities and dividends	**113.0**	(275.4)

Reconciliation of movements in shareholders' funds

	2002	2001 (Restated – Note 1)
	£m	£m
Opening shareholders' funds as previously stated	**1,894.4**	2,346.6
FRS 19 prior year adjustment (note 1)	**53.4**	(32.6)
Restated opening shareholders' funds	**1,947.8**	2,314.0
Capital repayment and related costs	**-**	(2.2)
Property revaluation adjustments	**11.2**	51.0
Currency translation movements	**(0.2)**	(1.9)
Profit attributable to ordinary shareholders	**56.2**	90.3
Dividends to ordinary shareholders	**-**	(500.0)
Taxation	**-**	(3.4)
Movements in shareholders' funds	**67.2**	(366.2)
Closing shareholders' funds	**2,015.0**	1,947.8

2002 Group cash flow statement

For the year ended 30 September

	Note	2002	2001
		£m	£m
Net cash inflow from operating activities	22	**59.5**	75.1
Dividends from joint ventures		**0.2**	1.2
Returns on investments and servicing of finance			
Interest and dividends received		**55.5**	41.0
Interest paid		**(80.3)**	(106.9)
Parent preference and minority dividends		**(11.7)**	(12.5)
Net cash outflow from returns on investments and servicing of finance		**(36.5)**	(78.4)
Taxation			
United Kingdom Corporation tax		**3.0**	(18.2)
Overseas taxes		**(1.6)**	(1.8)
Taxation paid		**1.4**	(20.0)
Capital expenditure and financial investments			
Payments for acquisition and development of properties		**(110.5)**	(278.8)
Payments for acquisition of other fixed assets and investments		**(5.7)**	(1.7)
Receipts from disposal of properties		**306.6**	1,793.5
Receipts from disposal of other fixed assets and investments		**6.4**	9.3
Loans to ultimate parent company	14	**(318.8)**	(1,181.6)
Net cash (outflow)/inflow on capital expenditure and financial investments		**(122.0)**	340.7
Acquisitions and disposals			
Receipts from disposals of joint venture investments		**119.5**	34.8
Equity dividends paid		**-**	(500.0)
Net cash inflow/(outflow) before liquid resources and financing		**22.1**	(146.6)
Management of liquid resources			
Investment in term deposits		**127.8**	346.0
Financing			
Redemption of parent preference shares		**-**	(2.2)
Purchase of QUIPS preference shares	19	**(7.3)**	(1.1)
Loan capital		**(139.7)**	(199.0)
Cash outflow from financing		**(147.0)**	(202.3)
Increase/(decrease) in cash		**2.9**	(2.9)

Reconciliation of increase/(decrease) in cash to movement in net debt

	2002	2001
	£m	£m
Increase/(decrease) in cash	**2.9**	(2.9)
Decrease in loan capital	**139.7**	199.0
Decrease in liquid resources	**(127.8)**	(346.0)
Change in net debt from cash flows	**14.8**	(149.9)
Other non-cash items	**(1.0)**	(1.6)
Movement in net debt for the year	**13.8**	(151.5)
Opening net debt	**(624.8)**	(473.3)
Closing net debt	**(611.0)**	(624.8)

Notes to the accounts

1. Accounting policies

Basis of consolidation and presentation of financial information

The Group accounts include the audited financial statements of the Company and its subsidiary undertakings and the appropriate share of the results of joint ventures. The joint ventures included in the consolidated accounts have a non-coterminous year end.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment and development properties, and in accordance with sections 226 and 227 of, and Schedule 4 to 4A to, the Companies Act 1985 and applicable accounting standards.

FRS 19 (Deferred Tax) was adopted during the year as described under 'Taxation' below. The impact of applying FRS 19 as described has been to increase profits attributable to ordinary shareholders by **£13.1m** (2001:increase £86.0m) and to increase reserves by **£66.5m** (2001:increase £53.4m).

In accordance with section 230 of the Companies Act 1985 a separate profit and loss account of MEPC Limited is not presented.

Rental income

In accordance with Urgent Issues Task Force (UITF) Abstract 28 (Operating Lease Incentives), all incentives given for lessees to enter into leases (such as contributions to fitting out costs) are treated as revenue costs and rental income is accounted for from the commencement of a lease rather than from the expiry date of any rent free periods. The costs of all incentives, including rent free periods, is offset against the total rent due (effectively a transfer from investment properties to debtors on the balance sheet) and allocated to the profit and loss account on a straight line basis over the period from the rent commencement date (or rent free date if sooner) to the date of the next rent review (or lease end date if sooner).

Properties

The Group's properties are valued semi-annually for the board. The bases of valuation of investment and development properties are described in note 9. Investment and development properties, which are classified as fixed assets, are included at valuation less amounts transferred to debtors in accordance with UITF 28 as described above.

All surpluses and deficits arising on the valuation of properties classified as fixed assets are taken to the revaluation reserve except for those deficits expected to be permanent, which are included in the profit and loss account. Net gains or losses on disposal of investment and development properties are calculated by reference to book value at date of disposal.

Finance costs and other direct costs attributable to properties in the course of development are capitalised to those properties without deduction of tax relief. A property ceases to be treated as being in course of development when it has reached completion and is available for occupation. Attributable finance costs are arrived at by reference to the rate on borrowings specifically for development purposes or, if the development cost is financed out of general funds, to the average rate paid on funding the assets employed by the Group.

In relation to note 9 leasehold properties where the lease has more than 150 years to expiry are classified as freehold, and where the lease has less than 50 years to expiry, as short leasehold.

Depreciation and amortisation

In accordance with Statement of Standard Accounting Practice No 19 investment properties are revalued semi-annually and the aggregate surplus or deficit is transferred to revaluation reserve except deficits expected to be permanent which are charged to the profit and loss account. No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to expiry. This treatment may be a departure from the requirements of the Companies Act concerning the depreciation of assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Notes to the accounts (continued)

Translation of overseas currencies into sterling

The financial statements of overseas subsidiary undertakings and other currency assets and liabilities are translated using the rates of exchange ruling at the balance sheet date. Exchange differences arising on revenue items are reflected in the profit and loss account, together with any translation differences arising on other currency borrowings which are not covered by translation differences arising on investments in other currency assets. All other translation differences are reflected in reserves.

		£ 1 equivalent at 30 September	
		2002	2001
American dollar	US$	**1.57**	1.47
Euro	€	**1.59**	1.61

Taxation

All current taxation is recognised in the profit and loss account except to the extent that it relates to an item which is in or has been recognised in the statement of total recognised gains and losses in which case it is taken to reserves.

Following the application of FRS 19, deferred taxation is provided in respect of all timing differences that have originated but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future by the balance sheet date except for:

- Provision is not made in respect of capital gains which might be realised if properties were sold at the net amount at which they are included in the financial statements unless by the balance sheet date a binding agreement has been entered into the sell the properties.
- Provision is made in respect of gains on disposal of assets that have been rolled over into replacement assets only where there is a commitment to dispose of the replacement assets.
- Provision is not made in respect of the remittance of a subsidiary or joint venture's earnings that would cause tax to be payable where no commitment has been made to the remittance of the earnings.
- Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates enacted at the balance sheet date.

The estimated unprovided contingent taxation which might become payable on the disposal of the Group's investment and development properties is quantified in note 8 to the accounts.

Pensions

Pension costs for Group pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over the normal expected service lives of employees. The transitionary disclosure requirements of Financial Reporting Standard 17 (Retirement benefits) have been provided in note 5.

Notes to the accounts (continued)

2. Gross rental income and other charges

	2002	2001
	£m	£m
Gross rental income (from contractual leases)	77.0	122.0
Other property income	2.5	1.5
Recoveries from tenants	8.0	17.1
Gross rental income and other charges (all from United Kingdom)	87.5	140.6
Joint ventures and associates		
United Kingdom	38.5	38.9
Australia	-	3.9
	38.5	42.8

3. Net income from properties

	2002	2001
	£m	£m
Gross rental income and other charges	87.5	140.6
Ground rents	(0.3)	(2.4)
Leasehold amortisation	(0.4)	(0.3)
Other property outgoings	(26.0)	(42.5)
Net income from properties (all from United Kingdom)	60.8	95.4

4. Administrative expenses

	2002	2001
Administrative expenses are stated after charging:	£m	£m
Depreciation of office furniture, equipment and computers	1.2	2.8
Auditors remuneration		
-Audit	0.3	0.3
-Other services (principally taxation advice)	0.3	0.4

Note: Administrative expenses exclude costs attributable to the management of the Group's properties which are included in other property outgoings in note 3.

5. Employee information

Employee numbers

At 30 September 2002 the total number of persons employed by the Group was **63** (113) which included **3** (18) part-time employees. The average number of persons employed by the Group during the year, including part-time employees, was **79** (129) as analysed below.

	2002	2001
	No	No
On-site management	28	43
Property management	14	39
Administration	37	47
Total	79	129
Part time	4	14
Full time	75	115

Notes to the accounts (continued)

Staff costs

The aggregate remuneration and associated costs of the Group, including directors' emoluments, were as follows:

	2002	2001
	£m	£m
Wages and salaries	**6.4**	14.0
Social security costs	**0.7**	1.4
Pension contributions	**0.7**	0.7
	7.8	16.1

Directors' remuneration

	2002	2001
	£m	£m
Directors' emoluments	**1.2**	1.2
Amounts paid under Supplementary bonus plan	-	1.9
Company contributions to pension schemes	**0.3**	0.2
	1.5	3.3

The total includes **£0.4m** (2001: £0.9m) in respect of the highest paid director including company pension contributions of **£0.1m** (2001: £0.1m) made to defined contribution pension schemes on his behalf. Retirement benefits are accruing to **3** (2001: 3) directors under defined contribution schemes and **2** (2001: 2) directors under defined benefit schemes.

Supplementary bonus plan

Included in administrative expenses for the year ended 30 September 2001 were payments and accruals for amounts potentially payable under a participation and supplementary bonus plan established at the time of acquisition of the Company's shares by Leconport Estates in 2000. Members of MEPC staff, including the Executive Directors, will be provided with bonuses under the terms of the plan. The amount of the bonus pool will depend upon profits and internal rate of return hurdles achieved over the three years following acquisition (August 2000 to July 2003); at a 15% internal rate of return and a profit of £160m or less the bonus pool will be nil rising to £65m for an internal rate of return of over 28% and a profit of £325m or more.

Of the total potentially payable under the plan, **£2.8m** (including employer's national insurance) has been paid to date. During the year ended 30 September 2001, full accrual was made of the maximum potential future liability arising under the plan amounting to **£70m** (including employer's national insurance contributions at the current rate) and this amount is included in other creditors on the balance sheet.

Pensions

The MEPC Group operates a number of schemes. The two principal schemes are, the MEPC Limited Pension & Assurance Scheme (the MEPC Scheme), which is of the defined benefit type, and the MEPC (Defined Contribution) Pension Scheme, which is of the defined contribution type. With effect from 1 August 1998, all new employees who have joined the Group have (subject to eligibility) been offered membership of the MEPC (Defined Contribution) Pension Scheme. The assets of all the schemes are held in separate Trustee administered funds. The total pension cost for the Group was **£0.7m** (2001: £0.7m). The pension cost is assessed in accordance with the advice of qualified actuaries in accordance with SSAP24.

An actuarial valuation of the MEPC Scheme was carried out as at 31 December 2000. The Attained Age method was used and the principal assumptions adopted were investment returns of 5.75% per annum, earnings increases of 4.75% per annum and Retail Prices Index increases of 2.75% per annum. As at 31 December 2000, the market value of the MEPC Scheme's assets was £80.1m and this was sufficient to cover 118% of the benefits that had accrued to the members, after allowing for expected future increases in earnings. The next actuarial valuation of the Scheme is due to be carried out as at 31 December 2002. It is estimated that at 30 September 2002 the scheme was 100% funded on the Minimum Funding Requirement basis.

Notes to the accounts (continued)

FRS 17 disclosures

FRS 17 requires the disclosure of the market value of the scheme's assets at a single point in time measured against the liabilities of the scheme measured in accordance with defined rules. Both the trustees of the scheme and MEPC Limited as sponsoring employer continue to review the ongoing funding of the scheme based on actuarial valuations and advice from qualified actuaries. Funding of the scheme is determined to ensure the existing fund assets together with future contributions and growth in value will be sufficient to meet liabilities as they fall due.

Under the transitional arrangements of FRS17 the Company is required to disclose the following information about the scheme and the figures that would have been shown under FRS17 in the current profit and loss account and balance sheet:

	2002	2001
Assumptions and net liability		
Valuation method	**Projected unit**	Projected unit
Rate of inflation	**2.4%**	2.5%
Rate of earnings increases	**4.4%**	4.5%
Rate of increase in pensions in payment or deferred	**2.4%**	2.5%
Discount rate applied to liabilities	**5.4%**	6.1%
Rate of return on equities	**6.5%**	7.0%
Rate of return on UK Government bonds	**4.5%**	5.0%
Rate of return on bonds and other investments	**4.9%**	5.4%
Market value of assets at 30 September:	**£m**	£m
- Equities	**39.4**	46.4
- Bonds and other fixed interest investments	**13.8**	16.6
Total market value of assets	**53.2**	63.0
Discounted value of scheme liabilities at 30 September	**(73.1)**	(63.0)
Liability in the scheme	**(19.9)**	-
Related deferred tax asset	**6.0**	-
Net pension liability	**(13.9)**	-

Movement in liability during the year	**£m**
Current service costs	**(0.5)**
Past service costs	**-**
Service costs	**(0.5)**
Contributions in year	**0.4**
Expected return on scheme assets	**4.0**
Interest on pension scheme liabilities	**(3.8)**
Finance costs	**0.2**
Actual return less expected return on scheme assets	**(12.0)**
Experience gains and losses arising on scheme liabilities	**0.6**
Change in assumptions underlying the present value of scheme liabilities	**(8.6)**
Actuarial loss	**(20.0)**
Liability in the scheme at 30 September 2002	**(19.9)**
Actual return less expected return on scheme assets as a percentage of the market value of scheme assets	**(23%)**
Experience gains and losses arising on scheme liabilities as a percentage of the discounted value of scheme liabilities	**1%**
Actuarial loss as a percentage of the discounted value of scheme liabilities	**(27%)**

Under the provisions of FRS17, service costs and finance costs would be included in operating profits and finance costs respectively in the profit and loss account in both cases net of related deferred tax. The actuarial loss would be included in the statement of total recognised gains and losses for the year. Inclusion of the net pension liability measured under FRS 17 as above would reduce shareholders funds at 30 September 2002 from £2,015.0m to £2,001.1m and reduce the profit and loss reserve at 30 September 2002 from £1,132.3m to £1,118.4m.

Notes to the accounts (continued)

6. Net gains on fixed asset disposals

	2002	2001
	£m	£m
Disposal of properties	**6.4**	29.4
Disposal of other fixed asset investments	**(0.5)**	-
Share of joint ventures' net (losses)/gains on fixed asset disposals	**(0.1)**	5.6
	5.8	35.0

7. Cost of finance (net)

	2002	2001
	£m	£m
On loans not wholly repayable within 5 years	**18.0**	41.5
On loans repayable wholly within 5 years	**56.1**	47.7
On bank overdrafts	**-**	0.1
Costs of repurchasing bonds	**2.2**	4.0
	76.3	93.3
Transfer to cost of properties	**(6.3)**	(14.1)
	70.0	79.2
Interest income on loans to ultimate parent company – Leconport Estates	**(50.4)**	(40.6)
External interest income	**(5.4)**	(6.0)
	14.2	32.6
Share of joint ventures' finance costs	**22.0**	26.4
Cost of finance (net)	**36.2**	59.0

8. Taxation / Deferred taxation

	2002	2001 (Restated – Note 1)
	£m	£m
Taxation credit /(charge) in profit and loss account		
United Kingdom corporation tax at 30.0%	**(0.4)**	(1.9)
Overseas taxation	**5.3**	(2.1)
Share of joint ventures' taxation	**(0.3)**	(0.7)
Total current taxation	**4.6**	(4.7)
United Kingdom deferred taxation on timing differences in respect of:		
Potential clawback of capital allowances	**3.7**	44.5
Losses and other timing differences	**9.4**	41.5
Total deferred taxation credit (see below)	**13.1**	86.0
Taxation credit on profit on ordinary activities	**17.7**	81.3
Factors affecting tax charge for year		
Profit on ordinary activities before taxation multiplied by tax at the UK standard rate of 30%	**(15.4)**	(6.5)
Effects of:		
Capital allowances	**3.8**	3.4
Losses utilised and other timing differences	**6.1**	(15.6)
Permanent differences	**(5.0)**	(9.7)
Group relief from parent	**15.1**	23.7
Total current taxation	**4.6**	(4.7)

Notes to the accounts (continued)

	2002	2001 (Restated – Note 1)
Deferred taxation in the Group balance sheet		
Balance at start of year	**53.4**	(32.6)
Transfer to profit and loss account (see above)	**13.1**	86.0
Balance at end of year	**66.5**	53.4
Comprising:		
Potential clawback of capital allowances	**(18.0)**	(21.7)
Losses and other timing differences	**84.5**	75.1

The net deferred tax asset at 30 September 2002 in the balance sheet of MEPC Limited amounts to **£84.8m** (2001 £73.2m), which comprises losses and other timing differences.

The Group's net deferred tax asset at 30 September 2002 is expected to be recovered by set-off against tax liabilities arising on future trading profits and realised capital gains.

The taxation credit (charge) on profit on ordinary activities includes **£nil** (2001 £nil) in relation to taxation on fixed asset disposals.

Unprovided taxation in respect of capital gains, which might become payable if the investment and development properties were sold at the net amount at which they are stated in the financial statements is estimated at a maximum of **£88m** (2001 £84m).

9. Investment and development properties

	GROUP			
	Freehold	Long leasehold	Short leasehold	Total
	£m	£m	£m	£m
1 October 2001	1,307.1	103.9	4.9	1,415.9
Additions	73.7	4.3	-	78.0
Disposals	(242.2)	(36.4)	-	(278.6)
	1,138.6	71.8	4.9	1,215.3
Net surplus/(deficit) on revaluation	(4.5)	9.2	0.9	5.6
30 September 2002	**1,134.1**	**81.0**	**5.8**	**1,220.9**

Investment and development properties were valued at 30 September 2002, on the basis of "open market value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors, by Messrs Knight Frank as external valuers. The external valuation was **£1,244.7m**. The book value of investment and development properties totalling **£1,220.9m** is stated after reclassifying **£23.8m** (2001: £9.8m) of lease incentive costs under debtors in accordance with UITF 28.

There were no long leasehold properties (where the lease has more than 150 years to expiry) classified as freehold properties in either year presented.

The historical cost of properties at 30 September 2002 was **£942.1m** (2001: £1,192.3m). Development properties at 30 September 2002 amount to **£11.6m** (£191.4m). The total interest included in development properties at 30 September 2002 was **£0.1m** (£11.6m).

Security for secured borrowings is provided by charges on certain Group properties.

10. Other fixed assets

Other fixed assets comprise office furniture, equipment and computer hardware and software held at a cost of: Group **£14.5m** (£13.6m), MEPC **£14.1m** (£13.1m) and a depreciated net book value of: Group **£3.1m** (£3.3m), MEPC **£3.0m** (£3.3m).

Notes to the accounts (continued)

11. Investments in subsidiary undertakings

	Shares at cost less provisions	Loan stocks at cost	Net
	£m	£m	£m
1 October 2001	2,835.8	70.0	2,905.8
Disposals	(10.0)	-	(10.0)
30 September 2002	**2,825.8**	**70.0**	**2,895.8**

Principal subsidiary undertakings at 30 September 2002 are listed in note 27.

12. Investments in joint ventures

	£m
1 October 2001	131.3
Additions	7.2
Disposals & loan repayments	(126.0)
Share of profits	3.1
Share of surplus on revaluation	7.7
Dividends received	(0.2)
30 September 2002	**23.1**

At 30 September 2002 the Group's investment in joint ventures comprised:

Name	Participation in ordinary shares	Share of borrowings
City Link (Cardiff) Limited	50%	£24.7m
Metropolitan & Capital Properties Limited	50%	-
Prestbury Capital Ventures Limited	50%	£24.6m

All the joint ventures are engaged in property investment, development and related services. All the external borrowings of the joint ventures have been undertaken without recourse to the Group. In aggregate, £30.8m of the Group's share of properties held by joint ventures have not been valued at 30 September 2002. In the opinion of the directors the open market value of these properties is not less then their carrying value. The Group's investments in joint ventures comprise £67.3m in fixed assets, £11.1m in current assets, £6.0m in liabilities due within one year and £49.3m in liabilities due after one year.

At 30 September 2002 there were no trading balances between the Group and any joint venture.

13. Other fixed asset investments

	GROUP			MEPC
	Listed securities	Unlisted investments	Total	
	£m	£m	£m	£m
1 October 2001	2.8	43.1	45.9	7.0
Additions	-	6.6	6.6	6.6
Disposals and provisions	(0.7)	(8.1)	(8.8)	(3.7)
30 September 2002	**2.1**	**41.6**	**43.7**	**9.9**

The directors are of the opinion that the carrying value of other fixed asset investments reflects their fair value. The market value of listed securities at 30 September 2002 was £2.1m.

Notes to the accounts (continued)

14. Loans to ultimate parent company – Leconport Estates

The balance represents the full utilisation of a £1billion 5 year facility established on 28 November 2000, full utilisation of a £250m 5 year facility established on 30 April 2001 and utilisation of £250.4m of a £300m 5 year facility established on 30 October 2001. All amounts lent under these facilities carry interest payable quarterly in arrears and are repayable on 14 days notice to Leconport Estates. These loan facilities are deemed to be financial assistance under s.151 of the Companies Act and have therefore been subject to the required declarations.

15. Other debtors falling due within one year

	GROUP		MEPC	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Rents and sundry receivables	**9.6**	12.8	**-**	-
Funds held by trustees	**3.3**	9.9	**1.3**	9.4
Outstanding disposal proceeds	**5.0**	16.9	**-**	-
Other debtors	**44.3**	36.2	**9.6**	17.0
	62.2	75.8	**10.9**	26.4

16. Cash and short term deposits

	GROUP		MEPC	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Short term deposits	**71.4**	199.2	**71.4**	193.6
Bank and cash balances	**3.9**	1.0	**3.1**	-
	75.3	200.2	**74.5**	193.6
Sterling	**72.1**	196.6	**72.1**	193.6
Other currencies	**3.2**	3.6	**2.4**	-
	75.3	200.2	**74.5**	193.6

17. Other creditors

	GROUP		MEPC	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Amounts due within one year				
Taxation	**18.2**	22.4	**-**	-
Accrual for supplementary bonus (note 5)	**70.0**	-	**70.0**	-
Other accruals and deferred income	**75.6**	107.8	**21.1**	40.2
	163.8	130.2	**91.1**	40.2
Amounts falling due after more than one year				
Amounts due to subsidiary undertakings	**-**	-	**3,803.4**	3,670.1
Accrual for supplementary bonus (note 5)	**-**	70.0	**-**	70.0
Other accruals and deferred income	**-**	0.6	**-**	0.6
	-	70.6	**3,803.4**	3,740.7

Notes to the accounts (continued)

18. Loan capital and net debt

Movements in loan capital and borrowings

	£m
1 October 2001	**825.0**
Loans drawn down	**51.3**
Repayments	**(190.0)**
30 September 2002	**686.3**

Analysis of loan capital and borrowings

	Secured	Unsecured	**Total 2002**	Total 2001
	£m	£m	**£m**	£m
Sterling				
Debenture stock	67.3	-	**67.3**	72.4
Eurobonds	-	299.7	**299.7**	341.7
Unsecured loan stock	-	141.1	**141.1**	146.2
Bank loans	-	74.5	**74.5**	113.0
Bank overdrafts	-	1.3	**1.3**	2.0
	67.3	516.6	**583.9**	675.3
Other currencies (swapped into sterling)				
US$225m bond	-	102.4	**102.4**	129.8
Luxembourg Franc bonds	-	-	-	19.9
	-	102.4	**102.4**	149.7
Total loan capital			**686.3**	825.0
Cash and short term deposits (note 16)			**(75.3)**	(200.2)
Net Debt			**611.0**	624.8

	GROUP		**MEPC**	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Balance sheet classification				
Falling due within one year	**212.3**	75.9	**109.9**	55.3
Falling due after one year	**474.0**	749.1	**474.0**	619.3
	686.3	825.0	**583.9**	674.6
Repayment analysis				
Less than one year or on demand	**212.3**	75.9	**109.9**	55.3
In more than one year but less than two years	**45.9**	184.4	**45.9**	54.6
In more than two years but less than five years	**226.0**	232.1	**226.0**	232.1
In more than five years	**202.1**	332.6	**202.1**	332.6
	686.3	825.0	**583.9**	674.6
Security analysis				
Secured	**67.3**	72.4	**67.3**	72.4
Unsecured	**619.0**	752.6	**516.6**	602.2
	686.3	825.0	**583.9**	674.6
Interest rate profile (note)				
Up to 6%	**(75.0)**	-		
6% to 10%	**699.1**	797.2		
10% to 12.5%	**(8.1)**	(10.6)		
At variable rates of interest	**70.3**	38.4		
	686.3	825.0		

Note: The above analyses reflect the effect of currency and interest rate derivatives in place at 30 September 2002. At 30 September 2002, the weighted average time for which fixed rate borrowings were fixed was **2 years** (2001: 3 years).

Notes to the accounts (continued)

Cost of borrowings

The weighted average rate of interest on Group borrowings at 30 September 2002 was as follows:

	2002	2001
On fixed rate borrowings	**9.6%**	9.5%
On all borrowings	**9.8%**	9.5%

Variable rate borrowings bear interest at rates fixed in advance for periods ranging from one day to six months by reference to LIBOR.

Available facilities

At 30 September 2002 the Group had undrawn committed facilities totalling **£355m** (2001: £352m) of which **£nil** (2001: £1m) expire within one year.

Currency contracts

The Group uses currency swap contracts to ensure there are no foreign exchange exposures arising from the issue of non Sterling debt. The Sterling equivalents of the currency contracts outstanding at 30 September 2002 are reflected in the analysis of loan capital and borrowings above under other currencies, and the maturity of these contracts matches the maturity of the respective debt outstanding.

Interest rate contracts

At 30 September 2002 the Group had net fixed interest rate payable swaps on a notional amount of £700m at a weighted average interest rate of 6.4% and for a weighted average period of 2 years. The Group also had net fixed interest receivable swaps on a notional amount of £576m to translate the sterling debt from fixed interest rates to floating interest rates. The weighted average interest rate on the fixed receivable swaps was 10.2% with a weighted average maturity of 11 years.

Fair values of financial assets and liabilities

	2002			2001		
	Book value £m	**Fair value £m**	**Fair value adjustment £m**	Book value £m	Fair value £m	Fair value adjustment £m
Net Debt						
Loan capital and borrowings	**691.9**	**808.3**	**116.4**	836.8	933.1	96.3
Currency swaps	**(5.6)**	**(7.1)**	**(1.5)**	(11.8)	(16.8)	(5.0)
Interest rate swaps	**-**	**(40.8)**	**(40.8)**	-	(29.6)	(29.6)
Cash and short term deposits	**(75.3)**	**(75.3)**	**-**	(200.2)	(200.2)	-
Total net debt	**611.0**	**685.1**	**74.1**	624.8	686.5	61.7
Fair value adjustment after tax			**51.9**			43.2
Non-equity minority interests						
QUIPS including currency swaps	**120.7**	**98.4**	**(22.3)**	127.3	106.5	(20.8)
Fair value adjustment after tax			**(15.6)**			(14.5)
Total fair value adjustment after tax			**36.3**			28.7

Fair value has been calculated independently and is based on market values of the respective investments at 30 September 2002. Debtors and creditors falling due after more than one year not reflected in the above analysis are not financial assets or liabilities. The directors consider that the fair value of other fixed asset investments (note 13) and loans to the ultimate parent company (note 14) is equal to their book value.

Notes to the accounts (continued)

19. Minority interests

Equity minority interests at 30 September 2002 represent the share capital and proportionate share of reserves of subsidiaries not 100% owned by the MEPC Group.

Non-equity minority interests at 30 September 2002 represent the outstanding capital, net of unamortised costs, of the QUIPS preference shares issued in September 1995 through MEPC International Capital, L.P, a special purpose limited partnership which is non-credit supported. The QUIPS have been structured to provide a guarantee by MEPC Limited such that the holders are effectively in the same position as holders of preference shares with respect to payment of dividends and amounts payable upon liquidation, dissolution and winding-up. The capital outstanding and the dividends payable are, therefore, classified as non-equity minority interests on both the balance sheet and the profit and loss account. Details of the fair value of the QUIPS and currency derivatives hedging the issue are disclosed in note 18.

20. Called up share capital

	Authorised		Allotted, issued and fully paid	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Equity: Ordinary shares of 30^{5}/19p each	**140.0**	140.0	**105.8**	105.8
Non- equity: 4.75% non-cumulative redeemable preference shares of 96p each (B shares)	**5.8**	5.8	**-**	-
	145.8	145.8	**105.8**	105.8

At 30 September 2002 there were 349,794,991 ordinary shares in issue.

21. Reserves

	Share premium	Revaluation reserve	Capital redemption reserve	Profit and loss	Total
	£m	£m	£m	£m	£m
Group					
1 October 2001					
As previously stated	78.1	338.9	405.2	966.4	1,788.6
FRS 19 prior year adjustment (note 1)	-	-	-	53.4	53.4
Restated	78.1	338.9	405.2	1,019.8	1,842.0
Currency translation	-	-	-	(0.2)	(0.2)
Net surplus on revaluation, adjusted by minority interests:					
Properties	-	3.5	-	-	3.5
Joint ventures	-	7.7	-	-	7.7
Retained profit	-	-	-	56.2	56.2
Transfers	-	(56.5)	-	56.5	-
30 September 2002	**78.1**	**293.6**	**405.2**	**1,132.3**	**1,909.2**
MEPC					
1 October 2001					
As previously stated	78.1	-	405.2	347.1	830.4
FRS 19 prior year adjustment (note 1)	-	-	-	73.2	73.2
Restated	78.1	-	405.2	420.3	903.6
Currency translation	-	-	-	0.6	0.6
Retained loss	-	-	-	(9.6)	(9.6)
30 September 2002	**78.1**	**-**	**405.2**	**411.3**	**894.6**

MEPC had a loss of **£9.6m** attributable to ordinary shareholders (2001: loss £50.5m) for the financial year.

Notes to the accounts (continued)

22. Notes to Group cash flow statement

	2002	2001
	£m	£m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating Profit	**54.0**	15.7
Accrual for supplementary bonus	-	70.0
Other non-cash movements	**(2.1)**	2.2
Sundry income	**0.7**	0.8
Other movements arising from operations:		
Debtors	**12.6**	21.9
Creditors	**(5.7)**	(35.5)
Net cash inflow from operating activities	**59.5**	75.1

23. Commitments

Capital commitments, for which provision has not been made in these financial statements, amount to:

	GROUP		MEPC	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Contracted	**9.9**	60.7	-	-
Authorised but not contracted	**23.5**	31.2	-	-
	33.4	91.9	-	-

Of the total capital commitments **£31.5m** (£91.9m) relates to development projects, **£1.9m** (£nil) to investment properties. All commitments relate to continuing operations.

In the opinion of the directors, the disclosure requirements of SSAP 21 to show leasing commitments in respect of ground rents are not relevant to a property investment company.

24. Contingent liabilities

MEPC Limited has given guarantees totalling **£237m** (2001 £321m) in respect of loan capital of other group companies and the guarantee on the QUIPS (see note 19).

The Company has also given normal warranties in relation to the disposal of its Australian and United States operations in 1998. The directors believe that such warranties will not have any material effect on the Group's overall financial position. The Company has also given various guarantees in respect of the obligations of subsidiaries in the ordinary course of business.

25. Related party transactions

On 27 September 2002, the Group disposed of its 50% interest in a joint venture with Westfield Holdings Limited to clients of Hermes Investment Management Limited who are also joint venture partners in Leconport Estates, the ultimate parent company of MEPC Limited. The sale proceeds amounted to £115 million, which approximated the book value of the investment, and were received in full prior to 30 September 2002.

26. Post balance sheet events

- On 10 October, 2002 a partial sale of Leavesden Park was completed. The net sale proceeds were £57 million which approximated the book value of the property sold.
- On 3 December, 2002 an interim dividend of £320 million was paid to Leconport Estates. This was partially financed by a £220 million reduction in loans to Leconport Estates.

Notes to the accounts (continued)

27. Principal subsidiary undertakings at 30 September 2002

Country of incorporation

Name of company

England, Scotland and Wales

Birchwood Park Estates Limited
Caledonian Land Estates Limited
English Property Corporation Limited
FOC Holdings Limited
Iceni Estates Limited
MEPC Developments Limited
*MEPC Holdings Limited
MEPC Investments Limited
MEPC Leavesden Limited
MEPC Projects Limited
*MEPC UK Holdings
*MEPC UK Limited
MEPC Milton Park Limited
The Metropolitan Railway Surplus Lands Company Limited
PSIT Limited
Threadneedle Property Company Limited

The Netherlands

*Metropolitan Estate and Property International NV

United States

MEPC Finance Inc.
*MEPC International Capital, L.P.
*MEPC US Holdings Inc.

All of the above subsidiary undertakings are wholly owned.

*Ordinary capital directly held in whole by MEPC Limited.

The principal activities of the Group companies are property investment, development and trading, together with the management of the Group's properties.

28. Ultimate Parent Company

The ultimate parent company Leconport Estates, which is an unlimited liability company registered in England and Wales, is a joint venture company formed by GE Capital Real Estate and clients of Hermes Investment Management Limited.

Copies of the accounts of Leconport Estates are available from Clarges House, 6-12 Clarges Street, London, W1J 8DH.

Report of the independent auditors to the members of MEPC Limited

We have audited the financial statements on pages 7 to 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 27, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6 December 2002

Report of the directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 30 September 2002.

Profit and dividends

Details of the Group profit and loss account are on page 7. Profit on ordinary activities of the Group for the year amounted to £50.8 million before taxation.

Approval of financial statements

The board approved the financial statements on pages 7 to 24 on 6 December 2002.

Activities

The principal business of the Group is property investment, development and trading, together with the management of its properties.

Properties

Details of the Group's properties and the bases of valuation thereof are given in note 9 on page 17.

Share Capital

Details of the Company's share capital are given in note 20 on page 22.

Directors and their interests

The directors who served during the year were as follows:

Mr C E Alexander	
Mr A S Burger	(appointed 24 June 2002)
Sir Tim Chessells	
Mr M Collins	(resigned 23 April 2002)
Mr G A Davidson	
Mr J F T Dundas	
Mr S J East	
Mr R A Harrold	
Mr J A Malehorn	(resigned 27 February 2002)
Mr N C W Mustoe	(appointed 27 February 2002)
Mr O Piani	(appointed 27 February 2002)
Mr M E Pralle	
Mr A Ross Goobey	(resigned 31 December 2001)
Mr R T E Ware	
Mr A Watson	
Mr I R Watters	

Except as outlined below no director had any interest in the Ordinary shares or loan capital of any Group company as at 30 September 2002.

	At 30 September 2002 Leconport Estates Loan Notes of £1 each	At 1 October 2001 Leconport Estates Loan Notes of £1 each
Mr G A Davidson	3,206	12,732
Mr J F T Dundas	18,028	77,142
Mr S J East	3,938	14,108
Mr I R Watters	77,659	77,659

Payment of suppliers

The Group has for many years maintained a policy of agreeing appropriate terms and conditions in advance with its suppliers and of making prompt payment in accordance with those terms and conditions, provided the supplier has complied with them. The Company subscribes to the Confederation of British Industry's prompt payers code of good practice. The Group's and Company's trade creditors figure as at 30 September 2002 was equivalent to 15 days based on average daily amounts invoiced by suppliers during the year.

Report of the directors (continued)

Going concern
After making due enquiry, the directors consider that the Company and the Group have adequate resources to continue its operations for the foreseeable future, and that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

Environment
In our commercial activities we seek to reduce, wherever possible, any adverse environmental impacts. We are committed to effective environmental management, regarding regulatory compliance as a minimum threshold and seeking continuous improvement in our environmental performance. This will be achieved through identifying appropriate environmental objectives and targets, against which progress will be regularly monitored and reviewed.

Charitable and political donations
Charitable donations during the year totalled £90,774 (2001 £73,342). There were no political donations.

Auditors
A resolution proposing the re-appointment of KPMG Audit Plc as auditors and the fixing of their remuneration will be submitted to the Annual General Meeting.

Directors' responsibilities in respect of the preparation of financial statements
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

By order of the board

P A Batchelor Secretary
6 December 2002