mepc

Report and financial statements 2001

M E P C

Property
Solutions for
business

Contents

Business Review

In our interim statement in May 2001 we reported on progress in reshaping the company to focus principally on the development and operation of business space assets. That process has continued in the second half, with further sales of non-core properties taking place in parallel with reinvestment in our business park development programme.

The scale of the transformation has been very large. Over the year ending 30 September 2001 we have completed sales of £1.8 billion, while capital expenditure has totalled £280 million. The net effect, taking into account the revaluation of our retained assets, has been that total properties and investments of £3.1 billion at September 2000 had reduced to £1.6 billion at September 2001.

Capital released through the disposal programme has either been reinvested, mainly in our business park developments, or else returned to our shareholder, Leconport Estates. During the year we paid a dividend of £500 million and made upstream loans to Leconport of £1,182 million.

Details of our retained assets, our current development programme, and of sites held for future development are set out at pages 4 to 8 below. We are now a much simpler business and our concentration on a much reduced number of large high quality assets has helped performance. Across the portfolio the underlying property valuation increase for the year was 3.9%. Our business space assets, offering over 10 million square feet of lettable space, predominantly in large mixed use business parks, science parks and industrial estates, outperformed in an uncertain market environment, producing a valuation uplift of 4.7%. We have benefited from many successful development completions (see page 6) and from the variety of offer that we can provide at unique estates such as Milton Park, near Oxford, Granta Park at Cambridge, Birchwood Park at Warrington or Hillington Park, Glasgow, all of which have proved more resilient than pure office park assets.

At the balance sheet date MEPC's net assets, excluding shareholder loans, stood at £713 million. On the same measure, pro forma adjusted net assets have subsequently reduced further to £533 million as a result of additional upstream loans to Leconport of £180 million.

Looking ahead, we are well placed to maximise shareholder return off that capital base. In the near term we have developments under way with an estimated end value of about £222 million (see page 5 below). Almost all are scheduled to complete between now and April 2002, and more than half of the expected income of £19 million is covered by pre-lettings. These completions will release significant further value.

Beyond the current programme we have very large scale further development potential in our existing assets (see page 5 below). In present markets, although there continue to be specific requirements which we can meet on the basis of pre lettings, we are taking a cautious stance on committing to new speculative projects. Nonetheless we are confident of eventual demand, and we estimate the aggregate value of our potential programme at approximately £900 million.

Outside the business space sector we retain our 50% interest in the Westfield joint venture which owns six major UK shopping centres. Under Westfield's focused management, the joint venture has grown net income and is working on major redevelopment proposals for four of the six centres. Planning applications for two of these expansions (Guildford and Belfast) have recently been submitted. We also retain ownership of the specialist REALM factory outlet business, where the year's highlights have included the successful redevelopment of the Royal Quays outlet on Tyneside, relaunched in October with Marks and Spencer and Nike as anchors. Both the Westfield joint venture and REALM have separate specialist management teams with very strong skills in their respective fields.

Whether in business space or in our retail investments our underlying objective is to create value through active hands-on management and development of quality assets to meet occupier needs, and to translate that value through tight capital discipline into maximum shareholder return. We have been successful in doing so over the past year, and we see many opportunities to build on that success.

Financial Review

Results

Net income from properties fell to £95.4 million from £205.1 million reflecting the sale of retail and other properties since the announcement in May 2000 of our intention to focus on our business space assets. A full provision has been made for the future potential liability arising under the supplementary bonus plan established under the terms of the acquisition of the Company by Leconport Estates. Income from joint ventures increased reflecting the first year of the retail joint venture with Westfield.

The net cost of finance fell from £90.4 million to £59.0 million reflecting the benefit from last years cancellation of historic long term interest swaps and proceeds from property disposals.

Tax charged in the profit and loss account amounts to £4.7 million. Tax of a further £3.4 million in relation to revaluation gains on properties sold during the year has been charged to the revaluation reserve.

An interim dividend of £500 million was paid on 26 October 2000. No further dividends have been paid or are proposed.

Financing

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

At the year end net debt was £624.8 million and gearing was 33%. Proforma gearing if the loans to Leconport are treated as a reduction of shareholders funds was 88%. The loans to Leconport are repayable on MEPC giving 14 days notice or at maturity if not repaid earlier. Interest is received on them quarterly in arrears.

During the year we repurchased in the market £54.1 million of bonds and $1.6 million of QUIPS.

Treasury

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 proactive and cost effective manner whilst maintaining a prudent and efficient financial structure.

The average cost of our borrowings at 30 September 2000 was 9.5% and their weighted average maturity was 9 years. The group also had undrawn committed bank facilities of £352 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.

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 throughout the financial year ended 30 September 2001.

Portfolio analysis

Property values by sector and location at 30 September 2001

	Business Space £m	Other £m	**Total £m**	%
London & South East England	918.8	48.5	**967.3**	68
Rest of UK	296.4	162.0	**458.4**	32
Book value at 30 September 2001 (note)	1,215.2	210.5	**1,425.7**	100
Percentages	*85*	*15*	***100***	

Note : The total value of properties above has been included in the balance sheet at 30 September 2001 as **£1,415.9m** under investment and development properties and **£9.8m** under debtors.

Underlying valuation increase in year to 30 September 2001

	Total %
Business Space	**4.7**
Other	**1.7**
All investment and development properties	**3.9**

Other key statistics

		Business Space	Other	**Total Portfolio**
Estimated Rental Value (ERV)	£m	80	13	**93**
Rent roll - gross of ground rents	£m	65	12	**77**
Rent roll - net of ground rents	£m	65	12	**77**
Net reversionary potential (note 1)	%	6.6	-	**6.6**
Rent roll subject to breaks and expiries within 5 years (note 2)	£m	24	6	**30**
Number of tenancies	No.	746	230	**976**
Average lease length (note 3)	Yrs	8.8	6.8	**8.5**
Occupancy rate (note 4)	%	87	94	**88**
Running yield (note 5)	%	7.0	7.1	**7.0**

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 2001

	Business Space £m	Other £m	**Total £m**	%
London & South East England	54.5	31.5	**86.0**	61
Rest of UK	23.3	31.3	**54.6**	39
	77.8	62.8	**140.6**	100
Percentages	55	45	**100**	

Development programme as at 30 November 2001

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 November 2001, there were **14** separate projects with an estimated value on completion (excluding pre-sold) of circa **£222m**. Total anticipated rental income from the programme (excluding pre-sold) is **£19m**, of which **57%** is covered by agreements for letting.

Project	Description	Estimated completion	Lettings agreed
Birchwood Park, Warrington	1,500 sq m distribution unit let to Brake Bros.	Spring 2002	100%
Bute Square, Cardiff	13,000 sq m speculative office building partly let to Eversheds.	Spring 2002	55%
Chineham Park, Basingstoke (2 projects)	10,600 sq m speculative office buildings and 2,400 sq m amenity building.	Spring 2002	8%
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.	Spring 2002 – Winter 2002	100%
Leavesden Park, Nr Watford (2 projects)	Total of 27,600 sq m offices including 17,600 sq m let to BT.	Spring 2002	61%
Milton Park, Abingdon, Nr Oxford (2 projects)	Business Campus II 5,700 sq m let to Oxford GlycoSciences and Park Square 8,400 sq m.	Winter 2001 – Spring 2002	48%
Wellesbourne Park, Nr Stratford Upon Avon	4,200 sq m industrial units, partly let to Artel Rubber	Spring 2002	38%
Northgate House, Moorgate, London EC2	14,000 sq m offices let to Cazenove and pre-sold.	Winter 2001	100%
Two Rivers Retail Park, Staines	Phase 3 – 12,500 sq m leisure and retail scheme. Contracted for sale when complete.	Winter 2001	94%
Clarks Village, Street	1,100 sq m phase 5 extension.	Autumn 2002	84%

Sites held for future development

The following are sites that MEPC already owns and upon which we have or expect to obtain planning permission. The aggregate end value of these sites when fully developed is over **£900m**. In addition MEPC controls a further **267** hectares of land which has the potential, over time, to facilitate further expansion of our business park assets.

Site	Developable Area Ha.	Lettable Area Sq. m.
Birchwood Park, Warrington	21	62,000
Boulevard & Estuary Parks, Liverpool	19	61,900
Bute Square, Cardiff	3	31,200
Chineham Park, Basingstoke	6	27,800
Granta Park, Abington, Nr Cambridge	1	4,000
Hillington Park, Glasgow	26	91,700
Leavesden Park, Nr Watford	14	104,800
Milton Park, Abingdon, Nr Oxford	6	24,800
South Marston Park, Swindon	19	80,100
Wellesbourne Park, Nr Stratford Upon Avon	4	14,400
Shire Park, Welwyn Garden City	1	3,700
Total	120	506,400

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.

Development programme as at 30 November 2001 (continued)

Developments completed and transferred to the investment portfolio since 1 December 2000

Since 1 December 2000 the following projects were transferred to the investment portfolio at an aggregate investment value of **£259m.**

Project	Description	Lettings agreed
Axis Park, Langley, Nr Heathrow	8,900 sq m speculative office units 2,900 sq m industrial units. **Now sold.**	0% 100%
Babcock Park, Glasgow	10,400 sq m technology centre let to Mitsui Babcock. **Now sold.**	100%
Birchwood Park, Warrington (3 projects)	4,200 sq m offices let to Vodafone, 1,900 sq m speculative offices and 4,800 sq m speculative industrial units.	53%
Boulevard Industry Park, Liverpool (4 projects)	6,900 sq m, 5,000 sq m, 7,000 sq m and 1,900 sq m industrial units let to Visteon, Stadco, FX Coughlin and Infast respectively.	100%
Chineham Park, Basingstoke (2 projects)	8,000 sq m offices let to Ericsson and 4,000 sq m speculative offices.	67%
Granta Park, Abington, Nr Cambridge (5 projects)	2,900 sq m let to PPD Developments, 2,000 sq m let to Cambridge Antibody Technology, 3,300 sq m let to Gilead and Lidco and 1,550 sq m amenity and nursery buildings.	93%
Hillington Park, Glasgow (3 projects)	Total of 11,500 sq m let to Hays 2,300 sq m, Scottish Enterprise Renfrew 3,600 sq m and 5,600 sq m speculative.	63%
South Marston Park, Nr Swindon (2 projects)	1,900 sq m offices let to Windriver and 8,500 sq m speculative industrial units.	33%
Uxbridge Park, Uxbridge (2 projects)	3,900 sq m offices let to Compass Group and 6,800 sq m speculative industrial units.	60%
125 Colmore Row, Birmingham	13,900 sq m offices mostly let to Lloyds TSB. **Pre-sold to USS.**	86%
***Clarks Village**, Street*	*1,900 sq m extension.*	*100%*
Royal Quays Outlet Centre, North Shields	400 sq m additional space (plus 9,000 sq m refurbished) created in remodelling of the property.	77%

Property list as at 30 November 2001

Property	Net lettable area (sq m)	Net area in development (sq m)	Future developable area (sq m)	Tenure	Description	Number of tenancies	Vacancy %
BUSINESS SPACE							
Axis Park Langley, Nr Heathrow	8,900	-	-	Freehold	Office Park	-	100
Birchwood Park Warrington	102,600	1,500	62,000	Freehold	Mixed use	111	28
Boulevard Industry Park and Estuary Commerce Park Liverpool	66,300	-	61,900	Leasehold	Industrial Park	10	-
Bute Square Cardiff	-	13,000	31,200	Freehold	Office Park	-	-
Chineham Park Basingstoke	60,000	13,000	27,800	Freehold	Office Park	52	12
Drakes Way Swindon	17,300	-	-	Freehold	Industrial	1	-
Granta Park Abington, Nr Cambridge	21,500	14,700	4,000	Freehold	Science Park	15	4
Hillington Park Glasgow	181,600	-	91,700	Freehold	Mixed use	252	18
Leavesden Park Nr Watford	53,300	27,600	104,800	Freehold	Office Park	3	-
Manston Park Thanet, Kent	-	-	-	Freehold	Industrial land	-	-
Milton Park Abingdon, Nr Oxford	360,600	14,100	24,800	Freehold	Mixed use	226	3
New Horizons Court Brentford	16,100	-	-	Freehold	Office Park	10	-
Patriot Drive Milton Keynes	18,300	-	-	Freehold	Industrial	1	-
South Marston Park Swindon	13,700	-	80,100	Freehold	Industrial Park	15	45
Uxbridge Park Uxbridge	34,300	-	-	Freehold	Mixed use	13	11
Wellesbourne Park Nr Stratford Upon Avon	61,800	4,200	14,400	Freehold	Industrial Park	29	27
Shire Park Welwyn Garden City	21,100	-	3,700	Freehold	Office Park	8	-
BUSINESS SPACE TOTAL	**1,037,400**	**88,100**	**506,400**			**746**	

Property list as at 30 November 2001 (continued)

Property	Net lettable area (sq m)	Net area in development (sq m)	Tenure	Description	Number of tenancies	Vacancy %
OTHER						
Clough Road Hull	6,500	-	Freehold	Retail warehouse	4	-
HollyWood Green Wood Green, N22	5,900	-	Freehold	Leisure	6	-
Atlantic Village Bideford	9,500	-	Freehold	Outlet Centre	41	2
Clarks Village Street	15,700	1,100	Leasehold 99.9%	Outlet Centre	81	3
K Village Kendal	2,300	-	Freehold	Outlet Centre	14	-
Royal Quays Outlet Centre North Shields	13,400	-	Freehold	Outlet Centre	35	23
The Yorkshire Outlet Doncaster	12,100	-	Freehold	Outlet Centre	48	-
The Grange Nursing Home Edinburgh	n/a	-	Freehold	Nursing Home	1	-
OTHER TOTAL	**65,400**	**1,100**			**230**	
GRAND TOTAL	**1,102,800**	**89,200**			**976**	

Note: The above list excludes the second phase leisure and retail development at Two Rivers Retail Park in Staines which has been pre-sold.

Shopping centres held by joint venture with Westfield

MEPC has a 50% share in the following town centre shopping centres through our joint venture with Westfield.

Property	Net lettable area (sq m)	Tenure
Brunel Shopping Centre Swindon	51,400	Freehold
Castle Court Shopping Centre Belfast	30,700	Freehold
Eagle Shopping Centre Derby	56,000	Freehold
The Friary Shopping Centre Guildford	23,100	Leasehold 95%
Millgate Shopping Centre Bury	33,600	Leasehold 88%
Royal Victoria Place Shopping Centre Royal Tunbridge Wells	37,100	Leasehold 90%
Total	**231,900**	

2001 Group profit & loss account

For the year ended 30 September

	Note	2001	2000 (Restated – Note 1)
		£m	£m
Group turnover			
Gross rental income and other charges		**183.4**	308.0
Relative to joint ventures		**(42.8)**	(13.8)
	2	**140.6**	294.2
Net income from properties	3	**95.4**	205.1
Administrative expenses			
Recurring administrative expenses	4	**(6.9)**	(9.9)
Supplementary bonus	5	**(72.8)**	-
Reorganisation costs	4	**-**	(13.4)
Total administrative expenses		**(79.7)**	(23.3)
Operating profit		**15.7**	181.8
Share of operating profit in joint ventures		**28.9**	10.4
Other income		**0.9**	1.9
Net gains on fixed asset disposals	6	**35.0**	38.8
Profit on ordinary activities before finance and taxation		**80.5**	232.9
Cost of finance (net)	7	**(59.0)**	(90.4)
Exceptional finance costs	7	**-**	(125.6)
		(59.0)	(216.0)
Profit on ordinary activities before taxation		**21.5**	16.9
Taxation (charge) credit on profit on ordinary activities	8	**(4.7)**	17.5
Profit on ordinary activities after taxation		**16.8**	34.4
Minority interests	20		
Equity		**(0.4)**	(0.4)
Non-equity		**(12.1)**	(12.9)
		(12.5)	(13.3)
Profit for the financial year		**4.3**	21.1
Dividends on preference shares		**-**	(0.1)
Profit attributable to ordinary shareholders		**4.3**	21.0
Dividends on ordinary shares	9	**(500.0)**	-
Retained (loss) profit for the financial year	22	**(495.7)**	21.0

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

2001 Balance sheets

As at 30 September

	Note	GROUP 2001	GROUP 2000 (Restated – Note 1)	MEPC 2001	MEPC 2000
		£m	£m	**£m**	£m
Fixed assets					
Tangible assets					
Investment and development properties	10	**1,415.9**	2,900.0	**-**	551.3
Other fixed assets	11	**3.3**	6.0	**3.3**	6.0
		1,419.2	2,906.0	**3.3**	557.3
Investments					
Subsidiary undertakings	12	**-**	-	**2,905.8**	2,956.9
Joint ventures	13				
Share of gross assets		**464.2**	543.4	**-**	-
Share of gross liabilities		**(332.9)**	(364.2)	**-**	-
		131.3	179.2	**-**	-
Other fixed asset investments	14	**45.9**	9.2	**7.0**	39.5
		1,596.4	3,094.4	**2,916.1**	3,553.7
Current assets					
Loans to ultimate parent company – Leconport Estates	15	**1,181.6**	-	**1,181.6**	-
Debtors due after more than one year	16	**-**	0.6	**1,074.3**	1,581.8
Debtors due within one year	16	**75.8**	69.4	**26.1**	23.0
Cash and short term deposits	17	**200.2**	549.1	**193.6**	544.3
		1,457.6	619.1	**2,475.6**	2,149.1
Creditors falling due within one year					
Loan capital and bank overdrafts	19	**(75.9)**	(210.7)	**(55.3)**	(191.0)
Other	18	**(130.2)**	(212.2)	**(40.2)**	(44.0)
Net current assets		**1,251.5**	196.2	**2,380.1**	1,914.1
Total assets less current liabilities		**2,847.9**	3,290.6	**5,296.2**	5,467.8
Creditors falling due after more than one year					
Loan capital	19	**(749.1)**	(811.7)	**(619.3)**	(621.2)
Other	18	**(70.6)**	(0.8)	**(3,740.7)**	(3,315.4)
Minority interests	20				
Equity		**(6.5)**	(4.0)		
Non-equity		**(127.3)**	(127.5)		
		(133.8)	(131.5)	**-**	-
		1,894.4	2,346.6	**936.2**	1,531.2
Capital and reserves					
Equity shareholders' funds					
Ordinary share capital	21	**105.8**	105.8	**105.8**	105.8
Share premium account	22	**78.1**	78.1	**78.1**	78.1
Revaluation reserve	22	**338.9**	425.5	**-**	37.9
Capital redemption reserve	22	**405.2**	403.0	**405.2**	403.0
Other reserves	22	**-**	1,216.4	**-**	469.9
Profit and loss account	22	**966.4**	115.6	**347.1**	434.3
Total equity shareholders' funds		**1,894.4**	2,344.4	**936.2**	1,529.0
Non-equity share capital	21	**-**	2.2	**-**	2.2
		1,894.4	2,346.6	**936.2**	1,531.2

Approved by a duly appointed and authorised committee of the board of directors on 4 December 2001 and signed on its behalf by:

Jamie Dundas

Stephen East

Jamie Dundas, Chief Executive

Stephen East, Finance Director

2001 Other primary statements

For the year ended 30 September

Statement of Group total recognised gains and losses

	2001	2000 (Restated – Note 1)
	£m	£m
Profit for the financial year as reported	**4.3**	21.1
Net surplus on revaluation after adjustments for minorities:		
Properties	**54.0**	196.5
Joint ventures	**(3.0)**	(1.2)
Currency translation movements	**(1.9)**	(0.1)
Taxation (see note 8)	**(3.4)**	(68.1)
Other movements (net)	**-**	(1.0)
Total recognised gains and losses relating to the financial year	**50.0**	147.2

Note of Group historical cost profits and losses

	2001	2000 (Restated – Note 1)
	£m	£m
Profit on ordinary activities before taxation	**21.5**	16.9
Realisation of property revaluation surpluses and deficits	**134.0**	404.1
Amortisation charge (difference between historic cost and revalued amount)	**0.3**	0.3
Historical cost profit on ordinary activities before taxation	**155.8**	421.3
Historical cost (loss) profit retained after tax, minorities and dividends	**(361.4)**	425.4

Reconciliation of movements in shareholders' funds

	2001	2000 (Restated – Note 1)
	£m	£m
Opening shareholders' funds	**2,346.6**	2,189.1
New share capital subscribed	**-**	0.3
Adjustment for issue of shares in lieu of dividend	**-**	10.3
Capital repayment and related costs	**(2.2)**	(0.2)
Property revaluation adjustments	**51.0**	195.3
Currency translation movements	**(1.9)**	(0.1)
Profit attributable to ordinary shareholders	**4.3**	21.0
Dividends to ordinary shareholders	**(500.0)**	-
Taxation	**(3.4)**	(68.1)
Other movements (net)	**-**	(1.0)
Movements in shareholders' funds	**(452.2)**	157.5
Closing shareholders' funds	**1,894.4**	2,346.6

2001 Group cash flow statement

For the year ended 30 September

	Note	2001	2000 (Restated – Note 1)
		£m	£m
Net cash inflow from operating activities	23	**75.1**	182.8
Dividends from joint ventures		**1.2**	1.1
Returns on investments and servicing of finance			
Interest and dividends received		**41.0**	5.8
Interest paid		**(106.9)**	(285.3)
Parent preference and minority dividends		**(12.5)**	(12.4)
Net cash outflow from returns on investments and servicing of finance		**(78.4)**	(291.9)
Taxation			
United Kingdom Corporation tax		**(18.2)**	(12.1)
Overseas taxes		**(1.8)**	(1.2)
Taxation paid		**(20.0)**	(13.3)
Capital expenditure and financial investments			
Payments for acquisition and development of properties		**(278.8)**	(646.6)
Payments for acquisition of other fixed assets and investments		**(1.7)**	(169.9)
Receipts from disposal of properties		**1,793.5**	1,415.3
Receipts from disposal of other fixed assets and investments		**9.3**	0.9
Loans to ultimate parent company	15	**(1,181.6)**	-
Net cash inflow on capital expenditure and financial investments		**340.7**	599.7
Acquisitions and disposals			
Receipts from disposals of joint venture investments		**34.8**	-
Receipts from disposal of subsidiary undertakings		**-**	494.9
Net cash inflow from acquisitions and disposals		**34.8**	494.9
Dividends paid on ordinary shares		**(500.0)**	(5.6)
Net cash (outflow)/inflow before liquid resources and financing		**(146.6)**	967.7
Management of liquid resources			
Investment in term deposits		**346.0**	(523.9)
Financing			
Redemption of parent preference shares		**(2.2)**	(0.7)
Purchase of QUIPS preference shares	20	**(1.1)**	-
Loan capital		**(199.0)**	(440.5)
Cash outflow from financing		**(202.3)**	(441.2)
(Decrease)/increase in cash		**(2.9)**	2.6

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

	2001	2000
	£m	£m
(Decrease)/increase in cash	**(2.9)**	2.6
Decrease in loan capital	**199.0**	440.5
(Decrease)/increase in liquid resources	**(346.0)**	523.9
Change in net debt from cash flows	**(149.9)**	967.0
Other non-cash items	**(1.6)**	0.7
Movement in net debt for the year	**(151.5)**	967.7
Opening net debt	**(473.3)**	(1,441.0)
Closing net debt	**(624.8)**	(473.3)

Notes to the accounts

1. Accounting policies

Basis of consolidation and presentation of financial information

The Group accounts include the audited 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.

The transitionary balance sheet disclosure requirements of Financial Reporting Standard (FRS) 17 (Retirement benefits) have been provided in note 5 in preparation for full adoption of the standard during the year to 30 September 2003. The adoption of FRS 18 (Accounting policies) has not resulted in any changes in disclosure nor to the reported profits and shareholders' funds of the years presented. FRS 19 (Deferred tax) will be adopted for the first time in the interim financial statements for the six months to 31 March 2002.

Following the application of Urgent Issues Task Force (UITF) Abstract 28 (Operating Lease Incentives) during the year, 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 now 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). This change in accounting policy has been applied in respect of all leases beginning on or after 1 October 1999. The adoption of UITF 28 has had the effect of decreasing profits for the year ended 30 September 2001 by **£0.2m** (2000: £2.0m increase) but has not resulted in a change to reported shareholders' funds in either year presented.

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

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 10. Investment and development properties, which are classified as fixed assets, are included at valuation.

All surpluses and deficits arising on the valuation of properties classified as fixed assets are transferred to the revaluation reserve except for those deficits expected to be permanent, which are included in the profit and loss account and then transferred to other reserves. 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 10 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	
		2001	2000
American dollar	US$	**1.47**	1.48
Australian dollar	A$	**2.98**	2.73
Deutsche mark	Dm	**3.16**	3.28

Taxation

All current taxation, including advance corporation tax (ACT) previously written off but now recoverable, 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.

Deferred taxation is provided by the liability method on short term timing differences only to the extent that a liability to pay tax is foreseen. No deferred taxation is provided on capital allowances attributable to assets which are not subject to depreciation. The estimated 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. FRS 19 (Deferred tax) will be adopted for the first time in the interim financial statements for the six months to 31 March 2002.

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 balance sheet disclosure requirements of Financial Reporting Standards (FRS) 17 (Retirement benefits) have been provided in note 5 in preparation for full adoption of the standard during the year to 30 September 2003.

2. Gross rental income and other charges

	2001	2000 (Restated – Note 1)
	£m	£m
Gross rental income (from contractual leases)	**122.0**	248.4
Other property income	**1.5**	6.5
Recoveries from tenants	**17.1**	39.3
Gross rental income and other charges (all from United Kingdom)	**140.6**	294.2
Joint ventures and associates		
United Kingdom	**38.9**	9.6
Australia	**3.9**	4.2
	42.8	13.8

3. Net income from properties

	2001	2000 (Restated – Note 1)
	£m	£m
Gross rental income and other charges	**140.6**	294.2
Ground rents	**(2.4)**	(12.2)
Leasehold amortisation	**(0.3)**	(0.3)
Other property outgoings	**(42.5)**	(76.6)
Net income from properties (all from United Kingdom)	**95.4**	205.1

Notes to the accounts (continued)

4. Administrative expenses

Administrative expenses are stated after charging:

	2001	2000
	£m	£m
Depreciation of office furniture, equipment and computers	**2.8**	2.8
Auditors remuneration		
-Audit	**0.3**	0.3
-Other services (principally taxation advice)	**0.4**	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.

The charge for reorganisation costs in 2000 mainly comprised costs incurred in relation to the cash offer by Leconport Estates for the issued share capital of the company together with costs associated with review and reorganisation of the business.

5. Employee information

Employee numbers

At 30 September 2001 the total number of persons employed by the Group was **113** (169) which included **18** (31) part-time employees. The average number of persons employed by the Group during the year, including part-time employees, was **129** (195) as analysed below.

	2001	2000
	No	No
On-site management	**43**	47
Property management	**39**	76
Administration	**47**	72
Total	**129**	195
Part time	**14**	18
Full time	**115**	177

Staff costs

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

	2001	2000
	£m	£m
Wages and salaries	**14.0**	16.6
Social security costs	**1.4**	1.8
Pension contributions	**0.7**	1.0
	16.1	19.4

Staff costs for 2000 included amounts reported within reorganisation costs.

Directors' remuneration

	2001	2000
	£m	£m
Directors' emoluments	**1.2**	2.1
Amounts paid under Supplementary bonus plan	**1.9**	-
Amounts paid under long term incentive schemes	-	2.0
Gains on exercise of options	-	0.4
Company contributions to defined contribution pension schemes	**0.2**	0.2
	3.3	4.7

The total includes **£0.9m** (2000: £1.3m) in respect of the highest paid director including company pension contributions of **£0.1m** (2000: £0.1m) made to defined contribution pension schemes on his behalf. Retirement benefits are accruing to **3** (2000: 3) directors under defined contribution schemes and **2** (2000: 2) directors under defined benefit schemes.

Notes to the accounts (continued)

Supplementary bonus plan

Under the terms of the acquisition of the Company's shares by Leconport Estates, in 2000 the Company established a participation and supplementary bonus plan under which members of MEPC management, including the Executive Directors, will be provided with bonuses. 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 employers national insurance) has been paid to date. These financial statements contain full accrual for the maximum potential future liability arising under the plan amounting to **£70m** (including employers national insurance contributions) of which £43.6m would be payable to executive directors of the Company.

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** (2000: £1m). The pension cost is assessed in accordance with the advice of qualified actuaries.

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 Company and Trustees have agreed to a continuation of the current contribution rate in the light of falls in the equity market during 2001. The next actuarial valuation of the Scheme is due to be carried out as at 31 December 2002.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. Under the transitional arrangements of FRS17 the Company is required to disclose the following information about the schemes and the figures that would have been shown under FRS17 in the current balance sheet.

The full actuarial valuation of the MEPC Scheme carried out at 31 December 2000 was updated to 30 September 2001 by a qualified independent actuary using the Projected Unit method. The major assumptions used and result of the valuation are as follows:

Rate of inflation	2.5%
Rate of earnings increases	4.5%
Rate of increase in pensions in payment or deferred	2.5%
Discount rate applied to liabilities	6.1%
Rate of return on equities	7.0%
Rate of return on UK Government bonds	5.0%
Rate of return on bonds and other investments	5.4%

	£m
Market value of assets at 30 September 2001:	
- Equities	46
- Bonds and other fixed interest investments	17
Total market value of assets	63
Discounted value of scheme liabilities at 30 September 2001	63
Net at 30 September 2001	-

Despite the fall in equity values which took place in the latter half of September 2001, the scheme remains well funded on a going concern basis.

Notes to the accounts (continued)

6. Net gains on fixed asset disposals

	2001	2000
	£m	£m
Disposal of properties & subsidiaries	29.4	30.2
Disposal of other fixed assets	-	(2.4)
	29.4	27.8
Share of joint ventures' net gains on fixed asset disposals	5.6	11.0
	35.0	38.8

7. Cost of finance (net) / Exceptional finance costs

Cost of finance (net)

	2001	2000
	£m	£m
On loans not wholly repayable within 5 years	41.5	58.8
On loans repayable wholly within 5 years	47.7	62.2
On bank overdrafts	0.1	0.2
Costs of repurchasing bonds	4.0	-
	93.3	121.2
Transfer to cost of properties	(14.1)	(33.5)
	79.2	87.7
Interest income on loans to ultimate parent company		
– Leconport Estates	(40.6)	-
External interest income	(6.0)	(5.6)
	32.6	82.1
Share of joint ventures' finance costs	26.4	8.3
Cost of finance (net)	59.0	90.4

Exceptional finance costs

The charge in 2000 comprised:

(a) **£110.1m** in relation to cancellation and inception of interest rate swaps pursuant to a reconfiguration of the Group's interest rate profile.

(b) **£15.5m** in relation to the cancellation of a put option matching the Group's call option on the QUIPS issue.

Both figures are stated net of related interest accruals.

8. Taxation (charge) credit

	2001	2000
	£m	£m
United Kingdom corporation tax at 30.0%	(1.9)	(22.1)
ACT recoverable	-	50.8
Overseas taxation	(2.1)	(7.1)
	(4.0)	21.6
Share of joint ventures' taxation	(0.7)	(4.1)
	(4.7)	17.5

Of the total charge **£nil** relates to taxation on fixed asset disposals (2000 £9m).

Unprovided taxation, 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, net of relief for losses, at a maximum of **£31m** (2000 £108m). This amount includes £89m in respect of capital gains, £22m in respect of potential clawback of capital allowances previously claimed less £80m in respect of losses and other timing differences.

Taxation charged through reserves, as reflected in the statement of total recognised gains and losses, relates mainly to revaluation net gains realised in respect of properties disposed of during the respective year.

Notes to the accounts (continued)

9. Dividends

On 26 October 2000 a dividend for the year ended 30 September 2001 of £500m was paid to MEPC's sole shareholder Leconport Estates.

10. Investment and development properties

	GROUP				MEPC		
	Freehold	Long leasehold	Short leasehold	Total	Freehold	Long leasehold	Total
	£m	£m	£m	£m	£m	£m	£m
1 October 2000							
As previously stated	2,502.8	397.7	7.9	2,908.4	387.8	163.5	551.3
Effect of UITF 28 (note1)	(8.4)	-	-	(8.4)	-	-	-
Restated	2,494.4	397.7	7.9	2,900.0	387.8	163.5	551.3
Additions	261.8	15.5	-	277.3	-	-	
Disposals	(1,491.3)	(323.4)	(2.5)	(1,817.2)	(387.2)	(163.5)	(550.7)
	1,264.9	89.8	5.4	1,360.1	0.6	-	0.6
Net surplus/(deficit) on revaluation	42.2	14.1	(0.5)	55.8	(0.6)	-	(0.6)
30 September 2001	**1,307.1**	**103.9**	**4.9**	**1,415.9**	-	-	-

Investment and development properties (with the exception noted below) were valued at 30 September 2001, 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 **£1,389.7m**. A development property has been valued based on contracted net selling price at **£36m.**

The book value of investment and development properties totalling **£1,415.9m** is stated after reclassifying **£9.8m** (2000: £8.4m) of lease incentive costs under debtors in accordance with UITF 28 (note1).

Long leasehold properties where the lease has more than 150 years to expiry, which are classified as freehold properties, amounted to: Group **£nil** (£33.2m), MEPC **£nil** (£nil).

The historical cost of properties at 30 September 2001 was: Group **£1,192.3m** (£2,596.5m), MEPC **£nil** (£518.4m).

Development properties at 30 September 2001 amount to **£191.4m** (£427.1m). The total interest included in development properties at 30 September 2001 was **£11.6m** (£13.9m).

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

11. Other fixed assets

Other fixed assets comprise office furniture, equipment and computer hardware and software held at a cost of: Group **£13.6m** (£13.5m), MEPC **£13.1m** (£13.4m) and a depreciated net book value of: Group **£3.3m** (£6.0m), MEPC **£3.3m** (£6.0m).

12. Investments in subsidiary undertakings

	Shares at cost less provisions	Loan stocks at cost	Net
	£m	£m	£m
1 October 2000	2,886.9	70.0	2,956.9
Disposals	(51.1)	-	(51.1)
30 September 2001	**2,835.8**	**70.0**	**2,905.8**

Principal subsidiary undertakings at 30 September 2001 are listed in note 27.

Notes to the accounts (continued)

13. Investments in joint ventures

	£m
1 October 2000	179.2
Currency translation	(1.6)
Additions	1.6
Disposals & loan repayments	(51.1)
Share of profits	7.4
Share of deficit on revaluation	(3.0)
Dividends received	(1.2)
30 September 2001	**131.3**

At 30 September 2001 the Group's investment in joint ventures comprised:

Name	Participation	Share of borrowings
City Link (Cardiff) Limited	50%	£25.2m
Metropolitan & Capital Properties Limited	50%	-
Prestbury Capital Ventures Limited	50%	£62.5m
*Westfield JV**	50%	£231.5m

* This joint venture takes the form of a series of investments in individual partnerships.

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, £70m of the Group's share of properties held by joint ventures have not been valued at 30 September 2001. 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 £439.9m in fixed assets, £24.3m in current assets, £15.1m in liabilities due within one year and £317.8m in liabilities due after one year.

At 30 September 2001 there were no trading balances between the Group and any joint venture.

14. Other fixed asset investments

	GROUP			MEPC
	Listed securities	Unlisted investments	Total	
	£m	£m	£m	£m
1 October 2000	9.2	-	9.2	39.5
Additions	2.8	41.0	43.8	3.8
Loans	-	-	-	(30.3)
Reclassification	(2.1)	2.1	-	-
Disposals and provisions	(7.1)	-	(7.1)	(6.0)
30 September 2001	**2.8**	**43.1**	**45.9**	**7.0**

MEPC's fixed asset investments relate to its investments in joint ventures and are held at cost. 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 2001 was £2.5m.

15. Loans to ultimate parent company – Leconport Estates

The balance represents the full utilisation of a £1billion 5 year facility established on 28 November 2000 and utilisation of £181.6m of a £250m 5 year facility established on 30 April 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.

Notes to the accounts (continued)

16. Debtors

	GROUP 2001	GROUP 2000 (Restated – Note 1)	MEPC 2001	MEPC 2000
	£m	£m	£m	£m
Amounts falling due after more than one year				
Other debtors	-	0.6	**0.3**	0.6
Amounts due from subsidiary undertakings:				
Inter-company balances	-	-	**1,074.0**	1,581.2
	-	0.6	**1,074.3**	1,581.8
Amounts falling due within one year				
Rents and sundry receivables	**12.8**	19.2	-	1.2
Funds held by trustees	**9.9**	0.5	**9.4**	-
Outstanding disposal proceeds	**16.9**	-	-	-
Other debtors	**36.2**	49.7	**16.7**	21.8
	75.8	69.4	**26.1**	23.0
Total	**75.8**	70.0	**1,100.4**	1,604.8

17. Cash and short term deposits

	GROUP 2001	GROUP 2000	MEPC 2001	MEPC 2000
	£m	£m	£m	£m
Short term deposits	**199.2**	545.2	**193.6**	544.3
Bank and cash balances	**1.0**	3.9	-	-
	200.2	549.1	**193.6**	544.3
Sterling	**196.6**	548.7	**193.6**	544.3
Other currencies	**3.6**	0.4	-	-
	200.2	549.1	**193.6**	544.3

18. Other creditors

	GROUP 2001	GROUP 2000	MEPC 2001	MEPC 2000
	£m	£m	£m	£m
Amounts falling due within one year				
Taxation	**22.4**	43.1	-	0.3
Accruals and deferred income	**107.8**	169.1	**40.2**	43.7
	130.2	212.2	**40.2**	44.0
Amounts falling due after more than one year				
Amounts due to subsidiary undertakings:				
Inter-company balances	-	-	**3,670.1**	3,314.6
Accrual for supplementary bonus (note 5)	**70.0**	-	**70.0**	-
Other accruals and deferred income	**0.6**	0.8	**0.6**	0.8
	70.6	0.8	**3,740.7**	3,315.4

Notes to the accounts (continued)

19. Loan capital and net debt

Movements in loan capital and borrowings

	£m
1 October 2000	**1,022.4**
Loans drawn down	**113.8**
Repayments	**(311.2)**
30 September 2001	**825.0**

Analysis of loan capital and borrowings

	Secured	*Unsecured*	**Total 2001**	Total 2000
	£m	£m	**£m**	£m
Sterling				
Debenture stock	72.4	-	**72.4**	83.4
Eurobonds	-	341.7	**341.7**	372.5
Unsecured loan stock	-	146.2	**146.2**	151.2
Bank loans	-	113.0	**113.0**	35.6
Bank overdrafts	-	2.0	**2.0**	3.5
Medium term notes	-	-	-	49.0
	72.4	602.9	**675.3**	695.2
Other currencies (swapped into sterling)				
US$225m bond	-	129.8	**129.8**	135.6
Luxembourg Franc bonds	-	19.9	**19.9**	39.0
Medium term notes	-	-	-	152.6
	-	149.7	**149.7**	327.2
Total loan capital			**825.0**	1,022.4
Cash and short term deposits (note 17)			**(200.2)**	(549.1)
Net Debt			**624.8**	473.3

	GROUP		**MEPC**	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Balance sheet classification				
Falling due within one year	**75.9**	210.7	**55.3**	191.0
Falling due after one year	**749.1**	811.7	**619.3**	621.2
	825.0	1,022.4	**674.6**	812.2
Repayment analysis				
Less than one year or on demand	**75.9**	210.7	**55.3**	191.0
In more than one year but less than two years	**184.4**	54.9	**54.6**	-
In more than two years but less than five years	**232.1**	261.3	**232.1**	125.7
In more than five years	**332.6**	495.5	**332.6**	495.5
	825.0	1,022.4	**674.6**	812.2
Security analysis				
Secured	**72.4**	119.0	**72.4**	83.4
Unsecured	**752.6**	903.4	**602.2**	728.8
	825.0	1,022.4	**674.6**	812.2
Interest rate profile (note)				
Up to 6%	-	25.0		
6% to 10%	**797.2**	948.0		
10% to 12.5%	**(10.6)**	(5.2)		
At variable rates of interest	**38.4**	54.6		
	825.0	1,022.4		

Note: The above analyses reflect the effect of currency and interest rate derivatives in place at 30 September 2001. At 30 September 2001, the weighted average time for which fixed rate borrowings were fixed was **3 years** (2000: 3 years).

Notes to the accounts (continued)

Cost of borrowings

The weighted average rate of interest on Group borrowings at 30 September 2001 was as follows:

	2001	2000
On fixed rate borrowings	**9.5%**	9.2%
On all borrowings	**9.5%**	9.2%

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 2001 the Group had undrawn committed facilities totalling **£352m** (2000: £515m) of which **£1m** (2000: £25m) 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 equivalent of the currency contracts outstanding at 30 September 2001 are reflected in the analysis of loan capital and borrowings above under other currencies, and the maturity of these contracts match the maturity of the respective debt outstanding.

Interest rate contracts

At 30 September 2001 the Group had net fixed interest rate payable swaps on a notional amount of £800m at a weighted average interest rate of 6.4% and for a weighted average period of 3 years. The Group also had net fixed interest receivable swaps on a notional amount of £633m to translate the sterling debt from fixed interest rates to floating interest rates. The weighted average interest rate on the fixed receivable swaps was 10.3% with a weighted average maturity of 12 years.

Fair values of financial assets and liabilities

	2001			2000		
	Book value	Fair value	Fair value adjustment	Book value	Fair value	Fair value adjustment
	£m	£m	£m	£m	£m	£m
Net Debt						
Loan capital and borrowings	**836.8**	**933.1**	**96.3**	1,041.5	1,199.3	157.8
Currency swaps	**(11.8)**	**(16.8)**	**(5.0)**	(19.1)	(17.1)	2.0
Interest rate swaps	**-**	**(29.6)**	**(29.6)**	-	(29.9)	(29.9)
Cash and short term deposits	**(200.2)**	**(200.2)**	**-**	(549.1)	(549.1)	-
Total net debt	**624.8**	**686.5**	**61.7**	473.3	603.2	129.9
Fair value adjustment after tax			**43.2**			90.9
Non-equity minority interests						
QUIPS including currency swaps	**127.3**	**106.5**	**(20.8)**	127.5	112.7	(14.8)
Fair value adjustment after tax			**(14.5)**			(14.8)
Total fair value adjustment after tax			**28.7**			76.1

Fair value has been calculated independently and is based on market values of the respective investments at 30 September 2001. 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 14) and loans to the ultimate parent company (note 15) is equal to their book value.

Notes to the accounts (continued)

20. Minority interests

Equity minority interests at 30 September 2001 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 2001 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 19.

21. Called up share capital

	Authorised		Allotted, issued and fully paid	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Equity: Ordinary shares of $30^5/19$p 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	**-**	2.2
	145.8	145.8	**105.8**	108.0

On 12 April 2001 the Company redeemed the remaining B shares still in issue at their nominal value of 96p each. At 30 September 2001 there were 349,794,991 ordinary shares in issue.

22. Reserves

	Share premium	Revaluation reserve	Other reserves	Capital redemption reserve	Profit and loss	Total
	£m	£m	£m	£m	£m	£m
Group						
1 October 2000						
As previously stated	78.1	427.5	1,216.4	403.0	113.6	2,238.6
Effect of UITF 28 (note1)	-	(2.0)	-	-	2.0	-
Restated	78.1	425.5	1,216.4	403.0	115.6	2,238.6
Currency translation	-	(0.2)	(1.5)	-	(0.2)	(1.9)
Net surplus on revaluation, adjusted by minority interests:						
Properties	-	54.0	-	-	-	54.0
Joint ventures	-	(3.0)	-	-	-	(3.0)
Taxation (see note 8)	-	(3.4)	-	-	-	(3.4)
Retained loss	-	-	-	-	(495.7)	(495.7)
Transfers	-	(134.0)	164.7	2.2	(32.9)	-
Reclassification (note)	-	-	(1,379.6)	-	1,379.6	-
30 September 2001	**78.1**	**338.9**	**-**	**405.2**	**966.4**	**1,788.6**
MEPC						
1 October 2000	78.1	37.9	469.9	403.0	434.3	1,423.2
Currency translation	-	-	(2.9)	-	-	(2.9)
Net deficit on revaluation:						
Properties	-	(0.6)	-	-	-	(0.6)
Retained loss	-	-	-	-	(589.3)	(589.3)
Transfers	-	(37.3)	59.1	2.2	(24.0)	-
Reclassification (note)	-	-	(526.1)	-	526.1	-
30 September 2001	**78.1**	**-**	**-**	**405.2**	**347.1**	**830.4**

Note: Other reserves are fully distributable and have historically arisen from the sale of properties and other investments. The reclassification is considered appropriate and is consistent with the Company's Articles of Association.

MEPC had a loss of **£89.3m** attributable to ordinary shareholders (2000: loss £36.6m) for the financial year.

Notes to the accounts (continued)

23. Notes to Group cash flow statement

	2001	2000 (Restated – Note 1)
	£m	£m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating Profit	**15.7**	181.8
Accrual for supplementary bonus	**70.0**	-
Other non-cash movements	**2.2**	2.0
Sundry income	**0.8**	1.4
Other movements arising from operations:		
Trading properties	**-**	2.1
Debtors	**21.9**	27.3
Creditors	**(35.5)**	(31.8)
Net cash inflow from operating activities	**75.1**	182.8

24. Commitments

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

	GROUP		MEPC	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Contracted	**60.7**	240.3	**-**	-
Authorised but not contracted	**31.2**	59.3	**-**	-
	91.9	299.6	**-**	-

Of the total capital commitments **£91.9m** (£259.9m) relates to development projects, **£nil** (£39.7m) 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.

25. Contingent liabilities

MEPC Limited has given guarantees totalling **£321m** (2000 £348m) in respect of loan capital of other group companies and the guarantee on the QUIPS (see note 21).

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.

Notes to the accounts (continued)

26. Post balance sheet event

On 30 October 2001, a further £300m loan facility was signed between MEPC Limited and Leconport Estates bringing the total of such facilities to £1,550m. Since 30 September 2001 a further £180m has been lent to Leconport under these facilities.

27. Principal subsidiary undertakings at 30 September 2001

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 Horizon 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 will in due course be 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 9 to 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 28, 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 2001 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
4 December 2001

Report of the directors

The directors present their report and the audited consolidated financial statements of the Group for the year ended 30 September 2001.

Profit and dividends

Details of the Group profit and loss account are on page 9. Profit on ordinary activities of the Group for the year amounted to £21.5 million before taxation.

Approval of financial statements

The board approved the financial statements on pages 9 to 25 on 4 December 2001.

Activities

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

De-listing of ordinary shares

On 13 October 2000, following the acquisition by Leconport Estates, the Company's shares were de-listed from the UK Listing Authority and the London Stock Exchange. On 30 October 2000 MEPC plc re-registered as a private limited company and changed its name to MEPC Limited.

Properties

Details of the Group's properties and the bases of valuation thereof are given in note 10 on page 18.

Share Capital

Details of the Company's share capital are given in note 21 on page 23.

Directors and their interests

The directors who served during the year were as follows:

Mr C E Alexander	
Sir Tim Chessells	
Mr M Collins	(appointed 10 May 2001)
Mr G A Davidson	
Mr J F T Dundas	
Mr S J East	
Mr R A Harrold	
Mr D B Henry	(resigned 13 April 2001)
Mr J A Malehorn	
Mr M E Pralle	
Mr A Ross Goobey	
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 2001.

	At 30 September 2001		At 1 October 2000	
	Leconport Estates Loan Notes of £1 each	96p Non-cumulative Preference Shares (B Shares)	Leconport Estates Loan Notes of £1 each	96p Non-cumulative Preference Shares (B Shares)
Mr G A Davidson	12,732	-	12,732	712
Mr J F T Dundas	77,142	-	77,142	-
Mr S J East	14,108	-	14,108	-
Mr I R Watters	77,659	-	77,659	1,506

Report of the directors (continued)

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 trade creditors figure as at 30 September 2001 was equivalent to 13 days based on average daily amounts invoiced by suppliers during the year.

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 £73,342 (2000 £177,012). 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

D B J Price Secretary
4 December 2001

MEPC

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Business

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