



Minerva plc
Interim report
for the six months to
31 December 2002

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Minerva is a property investment and development company whose principal strategy is to create shareholder wealth through investment in commercial property.

Its policy is to invest in assets with strong cash flow, rental growth potential and where the opportunity exists to add significant value through active and entrepreneurial management. Central to this strategy is the maintenance of a broad based financial framework which is able to evolve alongside the changing profile of the Group.

Financial highlights

£26.1m

Rental income
(December 2001:
£24.3m)

£1.2m

Profit before tax
(December 2001:
£4.4m)

1.05p

Interim dividend
per share
(December 2001:
1.03p)

£85.7m

Cash reserves
(June 2002: £120.2m)

Chairman's statement

Sir David Garrard, Chairman

What has defined our activities since I reported to you in September of last year has been our clear policy of further enhancing our property assets whilst at the same time increasing the Group's cash reserves which now stand at over £140 million.

Having lived through more property cycles than I care to remember, I and my colleagues recognise that in uncertain times it is an unarguable strength to focus on the fundamentals of one's core business.

Before I articulate the activities that we have undertaken in this intervening period I would firstly like to turn to the financial results for the six months to the 31 December 2002.

Profit before tax was £1.2 million compared to £4.4 million for the corresponding period last year. The principal reasons for this reduction are the high level of cash reserves that we choose to hold in our treasury; our estate management policy relating to our three medium-term development opportunities namely The Minerva Building, Park Place, Croydon and the Walbrook Estate where in each case there is a trade off between current long-term income and significant future returns from redevelopment; and the costs relating to our recent head office consolidation into 42 Wigmore Street, W1, which has now taken place.

The Directors have resolved to pay an interim dividend of 1.05 pence per share (2001: 1.03 pence) and this will be paid on 14 May 2003 to those shareholders on the register at close of business on 11 April 2003.

The recent acquisition of Allders plc, through our 60 per cent subsidiary Scarlett Retail Group Limited, represents the culmination of a three and a half year activity which has now enabled us to obtain control of an extremely important property asset which lies at the very heart of our Park Place development proposal. The total cost to Scarlett of the Allders acquisition was approximately £145 million, substantially underpinned by property assets and financed by a combination of non-recourse debt and a total equity investment of around £14 million. Our original investment in Allders of £30 million was sold to Scarlett for £33 million, thus realising a profit of £3 million. As part of the transaction, Minerva invested approximately £10.5 million for its 60 per cent share in Scarlett, thus repatriating over £22 million to cash deposits. Taking account of the £3 million profit, Minerva's net investment in Scarlett equates to around £7.5 million, in return for which it has secured its shareholding in Scarlett, which is a partnership with Lehman Brothers and new management who together will share equally the remaining 40 per cent of the equity.

The Minerva Board and management will continue, consistent with our policy, to concentrate on our core property activities whilst our retail subsidiary will be run by Terry Green and Phil Cox, whose combined reputations are of the highest calibre having pursued successful careers at Debenhams, Bhs and Asda. We will of course seek to ensure that the interests of Minerva shareholders are uppermost on the agenda as the new management seeks to maximise the potential from a retail business which has a turnover in excess of £550 million per annum.

Turning to The Minerva Building I am able to report that further progress has been made in our pursuit to obtain planning consent for the City of London's first headquarters building with a total floor area of over 1 million sq.ft. The detailed design is at an advanced stage, our having now consulted with all the relevant parties. We hope that our planning application will be considered

by the Corporation of London by the middle of this year and if successful, notwithstanding the weakness in the current Central London office market, we will have created a development opportunity which has not yet been achieved in a single building within the Square Mile. It is important to emphasise at this juncture that we will not commence development of this or any of our other projects without having first protected against potential exposure through pre-leasing prior to commencing construction. We have never been major speculative developers and we most certainly do not propose changing this long-term philosophy.

Our proposals for Park Place are now at the final stages of the decision making process. Croydon Council has already resolved to grant consent for this development but, due to the size and nature of our proposal, the matter has been referred to the Government Office for London. We feel that the discussions which we have been having with the Greater London Authority have reached a conclusion and we will imminently be making a formal request of the Government Office for London to give permission to Croydon Council to formally issue the planning consent. We believe that the Park Place development represents one of Greater London's largest urban regeneration projects and, when complete, will elevate Croydon to one of the top retail destinations in the United Kingdom.

In administering the activities of the Group we have maintained our focus on our income producing investments.

In respect of 90 High Holborn, our tenant, Olswang, was also our 50 per cent joint venture partner. We have now acquired Olswang's interest for £12.5 million and, in so doing, obtained full ownership of the completed office development. We have subsequently refinanced this project on a long-term investment facility with a leading commercial bank which has enabled us to fully recover the total development

cost along with the additional funds required to acquire Olswang's stake in the joint venture. This refinancing, which took place in January, resulted in a £0.5 million charge which will be recognised in the profit and loss account in the second half of this year. However, as a consequence we have been able to recover our entire equity investment in this project whilst retaining 100 per cent ownership of the property.

With regard to our Wigmore Street development, we have leased the 29,000 sq.ft. of offices available in entirety to the Government who will occupy the building on a long-term basis. Notwithstanding the small scale of this development, our approach here was aimed at securing certainty of income with the minimum level of exposure to the speculative office market in Central London.

Looking to the future and the uncertain nature of the economic climate that prevails, we as a company will continue to focus our attention on maintaining our property investment income, preserving our high cash reserves and working to achieve a successful outcome in respect of our three major development proposals, two of which are currently pursuing their path through the planning process.

Experience tells me that this is a time for extreme caution and the avoidance of speculative market risk. By remaining focused on our property assets and looking to new opportunities that might arise, we will seek to further enhance returns to you, our shareholders.

28 March 2003

Consolidated profit and loss account

	Note	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
For the six months ended 31 December 2002				
Rental income		26,100	24,273	47,782
Net property outgoings		(2,870)	(1,969)	(3,924)
		23,230	22,304	43,858
Administrative expenses		(3,363)	(2,464)	(6,577)
Other income		98	42	188
Operating profit		19,965	19,882	37,469
Income from listed investments		943	733	1,401
Net financing costs	3	(19,720)	(16,213)	(32,597)
Profit on ordinary activities before taxation		1,188	4,402	6,273
Taxation	4	(287)	(472)	(1,463)
Profit on ordinary activities after taxation		901	3,930	4,810
Dividends	5	(1,682)	(1,650)	(4,966)
(Withdrawn from)/transferred to reserves		(781)	2,280	(156)
Earnings per share:				
– basic	6	0.6p	2.5p	3.0p
– diluted	6	0.6p	2.4p	3.0p

Consolidated balance sheet

	Note	(Unaudited) As at 31 December 2002 £000	(Unaudited) As at 31 December 2001 £000	(Audited) As at 30 June 2002 £000
As at 31 December 2002				
Fixed assets				
Investment properties	7	1,089,481	1,016,104	1,075,026
Other fixed assets		1,416	537	412
Investments		29,889	20,831	24,648
		1,120,786	1,037,472	1,100,086
Current assets				
Debtors		20,953	10,696	8,170
Cash at bank and in hand		85,718	116,651	120,236
		106,671	127,347	128,406
Creditors: Amounts falling due within one year		(42,444)	(37,271)	(39,523)
Net current assets		64,227	90,076	88,883
Total assets less current liabilities		1,185,013	1,127,548	1,188,969
Creditors: Amounts falling due after more than one year		(618,892)	(577,888)	(607,266)
Provisions for liabilities and charges	10	(4,211)	(2,933)	(3,924)
		561,910	546,727	577,779
Equity minority interests		–	(15,117)	(15,088)
Net assets		561,910	531,610	562,691
Capital and reserves				
Called up share capital		40,048	40,048	40,048
Share premium account		197,101	197,101	197,101
Revaluation reserve		286,236	252,719	286,236
Other reserves		41,795	41,795	41,795
Profit and loss account		(3,270)	(53)	(2,489)
Equity shareholders' funds		561,910	531,610	562,691
Net assets per share	11	350.8p	331.9p	351.3p

Statement of total recognised gains and losses

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
For the six months ended 31 December 2002			
Profit on ordinary activities after taxation	901	3,930	4,810
Unrealised surplus on revaluation of properties	–	–	33,488
Equity minority interest share of surplus on revaluation of properties	–	–	29
Total recognised gains and losses for the period	901	3,930	38,327

Note of historical cost profits and losses

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
For the six months ended 31 December 2002			
Profit on ordinary activities before taxation	1,188	4,402	6,273
Historical cost profit on ordinary activities before taxation	1,188	4,402	6,273
Historical cost (loss)/profit for the period retained after taxation and dividends	(781)	2,280	(156)

Reconciliation of movement in shareholders' funds

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
For the six months ended 31 December 2002			
Profit on ordinary activities after taxation	901	3,930	4,810
Dividends	(1,682)	(1,650)	(4,966)
	(781)	2,280	(156)
Unrealised surplus on revaluation of investment properties	–	–	33,488
Equity minority interest share of surplus on revaluation of properties	–	–	29
Net movement in shareholders' funds	(781)	2,280	33,361
Opening shareholders' funds	562,691	529,330	529,330
Closing shareholders' funds	561,910	531,610	562,691

Summary cash flow statement

		(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
For the six months ended 31 December 2002	Note			
Net cash inflow from operating activities	12a	20,248	15,187	38,101
Returns on investments and servicing of finance		(15,720)	(14,907)	(29,454)
Taxation		–	–	–
Net operating cash inflow		4,528	280	8,647
Capital expenditure and financial investment		(21,966)	(28,740)	(54,846)
Acquisitions		(21,209)	–	–
Equity dividends paid		(3,315)	(3,203)	(4,854)
Cash outflow before use of liquid resources and financing		(41,962)	(31,663)	(51,053)
Movements in liquid resources		33,884	3,300	2,298
Financing		7,444	24,957	47,932
Decrease in cash	12b	(634)	(3,406)	(823)

Notes to the accounts

1. Accounting policies

The financial information included in the Interim report comprises the consolidated profit and loss account and balance sheet, statement of total recognised gains and losses, note of historical cost profits and losses, reconciliation of movement in shareholders' funds, summary consolidated cash flow statement and summary notes. This has been prepared in accordance with the normal accounting policies of the Group, except for that disclosed in note 7 regarding valuation of investment properties.

2. Companies Act 1985

The financial information for the year to 30 June 2002 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. It is extracted from the statutory accounts for that period, on which the auditors, PricewaterhouseCoopers, gave an unqualified report under Section 236 of the Companies Act 1985 which did not contain a statement under Section 237(2) or Section 237(4) of the Companies Act 1985. Statutory accounts for the year to 30 June 2002 have been delivered to the Registrar of Companies.

The financial information for the six months to 31 December 2002 is unaudited and has not been reviewed by the Group's auditors.

3. Net financing costs

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
Interest receivable	1,988	2,800	5,233
Interest payable and similar charges	(23,678)	(21,645)	(43,790)
Capitalised during the period	1,970	2,632	5,960
	(19,720)	(16,213)	(32,597)

4. Taxation

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
UK corporation tax	–	–	–
Deferred tax	287	472	1,463
	287	472	1,463

5. Dividends

The interim dividend of 1.05 pence (2001: 1.03 pence) per ordinary share is payable on 14 May 2003 to members on the register at close of business on 11 April 2003.

6. Earnings per share

Earnings per share have been calculated on a weighted average 160,193,213 ordinary shares of 25 pence each in issue throughout the period (year to 30 June 2002: 160,193,213 ordinary shares; six months to 31 December 2001: 160,193,213 ordinary shares), and have been based on profit on ordinary activities after taxation of £901,000 (year to 30 June 2002: £4,810,000; six months to 31 December 2001: £3,930,000).

Diluted earnings per share have been calculated after allowing for the exercise of share options, and have been based on 160,375,792 ordinary shares of 25 pence each in issue throughout the period (year to 30 June 2002: 160,518,401 ordinary shares; six months to 31 December 2001: 160,502,332 ordinary shares).

7. Investment properties

Investment properties owned at 30 June 2002 are included in the balance sheet at 31 December 2002 at the independent valuation at 30 June 2002, as adjusted for UITF 28, plus costs incurred on the properties since that date, less disposals at valuation. Investment properties acquired during the period under review are included at the cost of acquisition plus any costs incurred on the property since the date of acquisition.

8. Borrowings

The debt maturity profile of the Group's bank and building society borrowings at 31 December 2002 is as follows:

	(Unaudited) 31 December 2002 £000	(Unaudited) 31 December 2001 £000	(Audited) 30 June 2002 £000
Less than one year	7,571	7,203	7,413
Between one and two years	89,817	3,521	77,307
Between two and five years	101,650	105,474	100,540
Over five years	431,492	473,444	434,015
	630,530	589,642	619,275
Unamortised loan issue costs allocated to future periods	(4,067)	(4,551)	(4,596)
	626,463	585,091	614,679

9. Fair value of financial instruments

A valuation was carried out as at 31 December 2002 by J C Rathbone Associates Limited, to calculate the market value of the Group's debt instruments on a replacement basis, taking into account the difference between fixed, fixed-swapped and collared interest rates for the Group borrowings and the prevailing interest rates for the respective periods of the appropriate debt instruments.

The fair value at 31 December 2002 was £50,146,000 (30 June 2002: £25,931,000; 31 December 2001: £21,860,000) greater than the book value, which if taken to reserves after tax relief at 30 per cent, would reduce the Group's net asset value by £35,102,000 (30 June 2002: £18,152,000; 31 December 2001: £15,302,000) or 21.9 pence per share (30 June 2002: 11.3 pence; 31 December 2001: 9.6 pence).

Notes to the accounts continued**10. Provisions for liabilities and charges**

	(Unaudited) 31 December 2002 £000	(Unaudited) 31 December 2001 £000	(Audited) 30 June 2002 £000
At beginning of period	3,924	–	–
Adoption of FRS 19	–	2,461	2,461
Charge for the period	287	472	1,463
At end of period	4,211	2,933	3,924

The provision is entirely for deferred taxation, primarily relating to accelerated capital allowances and other timing differences.

11. Net assets per share

Net assets per share have been calculated on 160,193,213 ordinary shares of 25 pence each in issue at 31 December 2002 (30 June 2002: 160,193,213; 31 December 2001: 160,193,213) and have been based on net assets attributable to shareholders of £561,910,000 (30 June 2002: £562,691,000; 31 December 2001: £531,610,000).

12. Cash flow statement**a. Reconciliation of operating profit to net cash movement from operating activities**

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
Operating profit	19,965	19,882	37,469
Depreciation charges	293	181	351
Profit on sale of tangible fixed assets	(7)	(8)	(23)
Movement in debtors	(3,483)	(2,171)	342
Movement in creditors	3,480	(2,697)	(38)
Net cash movement from operating activities	20,248	15,187	38,101

12. Cash flow statement continued***b. Reconciliation of net cash flow to net debt***

	(Unaudited) Six months to 31 December 2002 £000	(Unaudited) Six months to 31 December 2001 £000	(Audited) Year to 30 June 2002 £000
Decrease in cash during the period	(634)	(3,406)	(823)
Cash inflow from movement in liquid resources	(33,884)	(3,300)	(2,298)
Cash inflow from movement in debt financing	(7,444)	(24,957)	(51,887)
Other movements	(4,340)	(3,591)	(10,204)
Movement in net debt during the period	(46,302)	(35,254)	(65,212)
Opening net debt	(494,443)	(429,231)	(429,231)
Closing net debt	(540,745)	(464,485)	(494,443)
	(Unaudited) 31 December 2002 £000	(Unaudited) 31 December 2001 £000	(Audited) 30 June 2002 £000
Net debt			
Debt due within one year	(7,571)	(3,248)	(7,413)
Debt due after one year	(618,892)	(577,888)	(607,266)
	(626,463)	(581,136)	(614,679)
Cash at bank and in hand	85,718	116,651	120,236
	(540,745)	(464,485)	(494,443)

13. Post balance sheet event

Scarlett Retail Group Limited ('Scarlett'), a company registered in England and Wales, declared on 20 February 2003 that its recommended cash offer to acquire the ordinary share capital of Alders plc was unconditional as to acceptances. The offer of 164.1 pence per share was financed by a combination of paid up share capital and loan finance.

Minerva has subscribed for 60 per cent of the ordinary share capital of Scarlett for £60,000. In addition, Minerva has subscribed for approximately £10,375,000 of preference shares in Scarlett. The total investment in Scarlett by Minerva will be reduced by the profit arising from the sale of its 26.5 per cent investment in Alders plc to Scarlett.

14. Copies of the Interim report

Copies of the Interim report are available from the Company Secretary at 42 Wigmore Street, London W1U 2RY.

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