Derwent London plc
Report & Accounts
2010

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Cover:
The Angel Building, EC1

Who we are

Derwent London is the largest real estate investment trust focused on the central London commercial property market.

Principal objective

We aim to deliver above average long-term returns to shareholders.

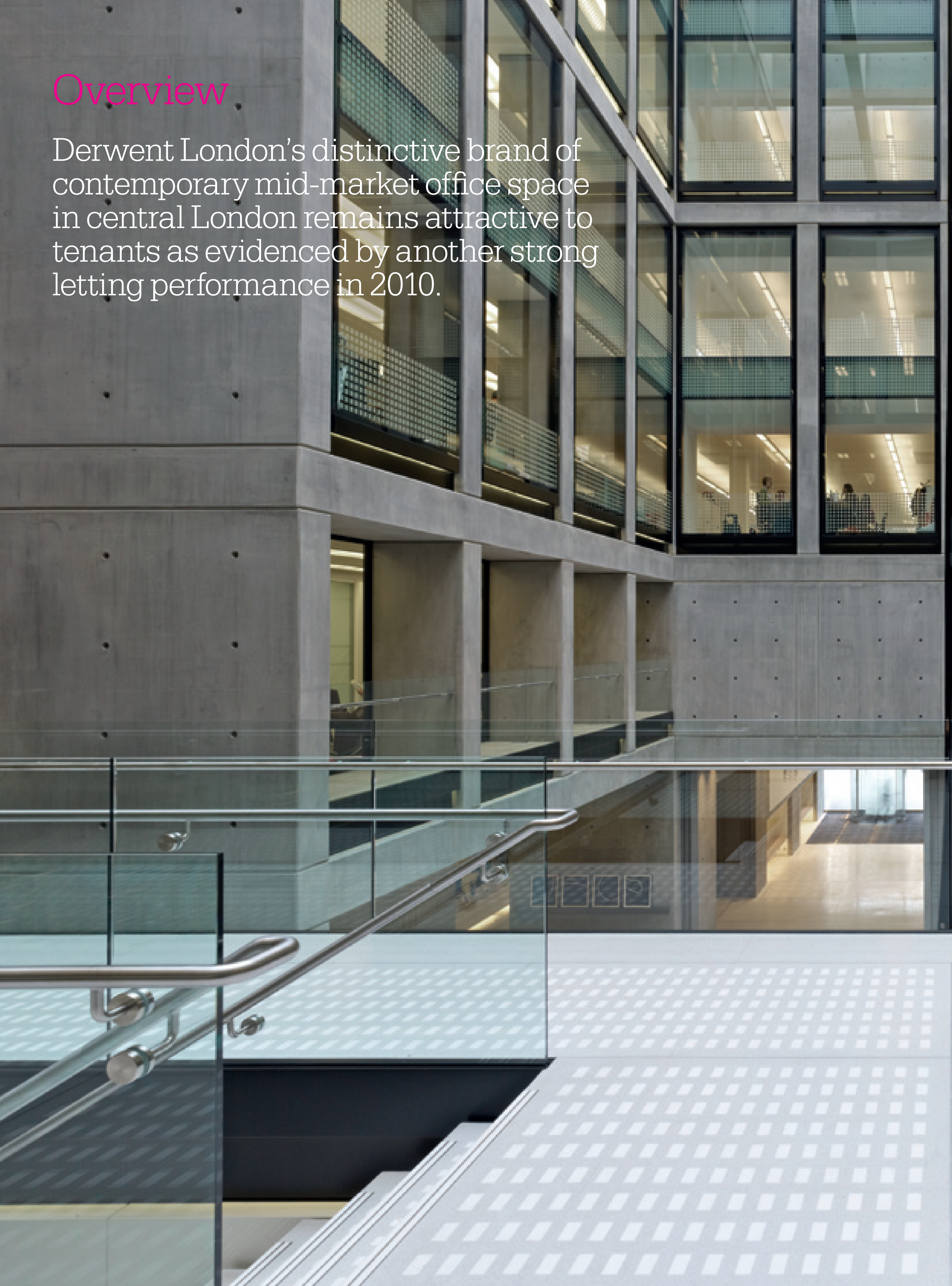
Strategy

Our core strategy is to acquire and own a portfolio of central London properties that offer significant opportunities to enhance and extract value through refurbishment, regeneration and redevelopment.

Business model

We will deliver this strategy by:

- investing in our portfolio, actively seeking opportunities to acquire properties with income-generating characteristics and regeneration potential;
- creating exciting new spaces that meet the current and future needs of our tenants and benefit the local communities;
- managing our assets to maximise income whilst freeing up space for development; and
- retaining financial strength and flexibility.



Overview

Derwent London's distinctive brand of contemporary mid-market office space in central London remains attractive to tenants as evidenced by another strong letting performance in 2010.

At a glance

Our portfolio comprises 5.4 million sq ft (500,000m^2) valued at £2.4 billion.

95% of the properties are located in central London, grouped in 17 'villages', each with its own culture and identity. 76% can be found in the West End and 19% in the City borders. The balance relates to properties held in Scotland.

Percentages weighted by valuation

Scotland: 5%
Ladbroke Grove: 1%

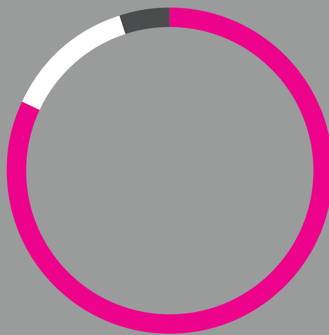
Previous spread:
The Angel Building, EC1

We have a portfolio of income-producing and development properties which mostly comprise office buildings with some retail. We offer a range of well-designed space at mid-market rents to a diversified tenant base across a range of business sectors.

The central London office market continues to outperform the rest of the UK. Our portfolio has retained reversionary characteristics and more than 50% has been identified as suitable for refurbishment or redevelopment.

Derwent London's business model has proved robust and adaptable to the changing economic environment. We are able to match market conditions by flexing the balance between income generation and development, whilst our financial strength allows us to take advantage of opportunities when they arise.

Profile of use type[1] %

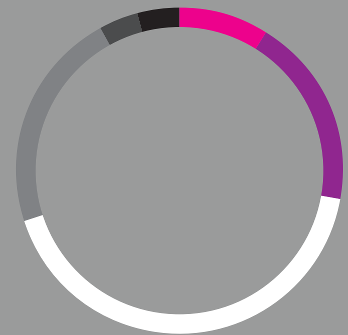


Office	82
Retail	12
Other	6

Profile of tenants' business sectors[1] %

Media, TV, marketing and advertising	28
Professional and business services	24
Retail sales	12
Retail head offices, showrooms	11
Government and public administration	7
Financial	7
Other	11

Office rent banding %



£0 – £20 psf	9
£20 – £30 psf	19
£30 – £40 psf	42
£40 – £50 psf	22
£50 – £60 psf	4
£60 + psf	4

[1] Percentages weighted by rental income

130
buildings

600+
tenants

£116.2m
annualised net contracted rental income

At a glance

2010 key achievements

March

Converse and BrandOpus lettings at the Charlotte Building **£0.9m pa**

July

Completion of 65 Whitfield Street refurbishment (**30,000 sq ft** / 2,800m²)

August

Acquisition of Central Cross **£146m**

LinkedIn letting at Charlotte Building **£0.35m pa**

Charlotte Building **100%** let

Post year end achievements

1 Page Street acquired for **£45m**

Network Building acquired for **£31m**

Morelands Buildings headlease extended to **125 years**

Woodbridge House lease regeared to enable **2011 refurbishment**

109,000 sq ft (10,100m²) lettings completed or under offer for **£4.7m pa**

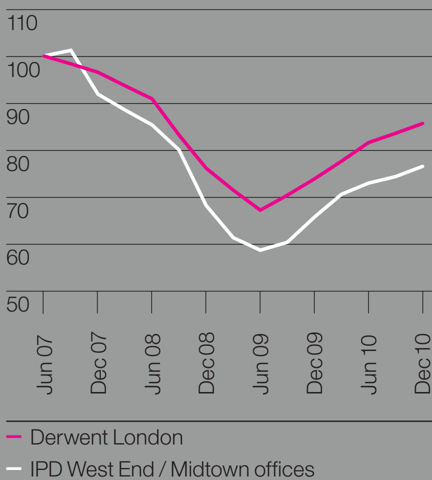
Another successful year for lettings

100
lettings

£8.0m pa
income

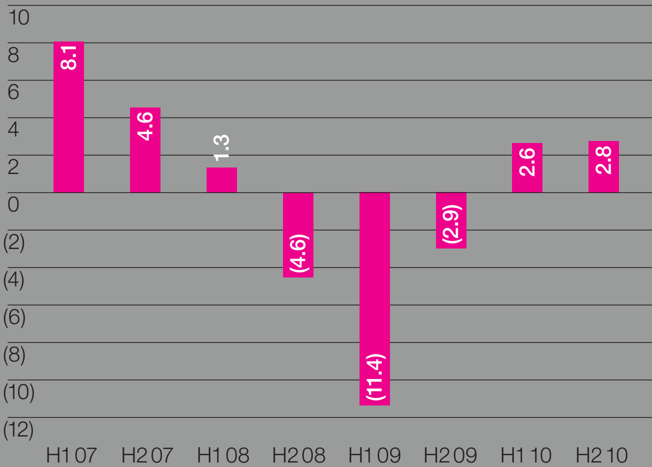
347,000 sq ft
32,200m²
space let

Valuation movement[1]



[1] June 2007 = 100

Rental value growth[1] %



[1] Half yearly movement in estimated rental value of the portfolio

September

Completion of the Angel Building (**263,000 sq ft** / 24,400m²)

Completion of 1 Maple Place / 12 Fitzroy Street (**20,000 sq ft** / 1,900m²)

November

Planning consent received at 60 Commercial Road (**122,000 sq ft** / 11,300m²)

£100m bank facility arranged

December

Planning consent received at 132-142 Hampstead Road (**265,000 sq ft** / 24,600m²)

£90m bank facility arranged

100th letting of the year giving total of **347,000 sq ft** (32,200m²) at **£8.0m pa**

Continued investment in our portfolio in 2010

£148m
acquisition spend

£49.5m
capital expenditure

411,000 sq ft
38,100m²
projects completed

BREEAM ratings

	Completed	Rating
Charlotte Building	Q4 2009	Very Good
Arup Phase III	Q4 2009	Very Good
Angel Building	Q3 2010	Excellent

Five-year vacancy rates[1] %

Derwent London (by rental value)
Derwent London (by floor area)
CBRE West End offices (by floor area)

[1] The vacancy rates by rental value have been calculated in accordance with EPRA guidelines

Financial highlights

Adjusted net asset value

2010

1,484p

2009

1,168p

Recurring net property income

2010

£113.0m

2009

£114.8m

Recurring profit before tax

2010

£55.4m

2009

£60.2m

Recurring earnings per share

2010

52.89p

2009

55.55p

Gearing

Interest cover ratio

2010

328%

2009

330%

Balance sheet

2010

59.4%

2009

61.9%

Loan to value

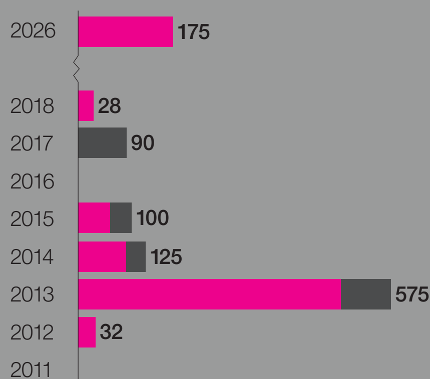
2010

35.7%

2009

36.4%

Maturity profile of debt facilities £m



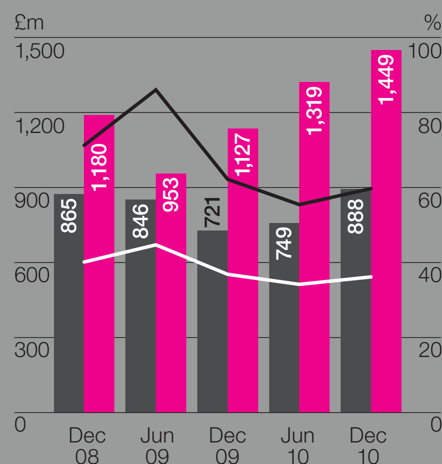
- Drawn
- Headroom

Hedging profile[1] %

Fixed	20
Swaps	57
Capped	1
Floating	22

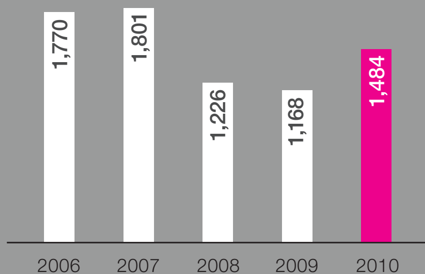
[1] Including additional £70m swap entered into in January 2011

Debt, net assets and gearing

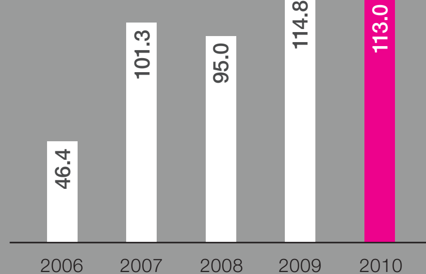


- Net debt
- Net assets
- Balance sheet gearing
- Loan to value ratio

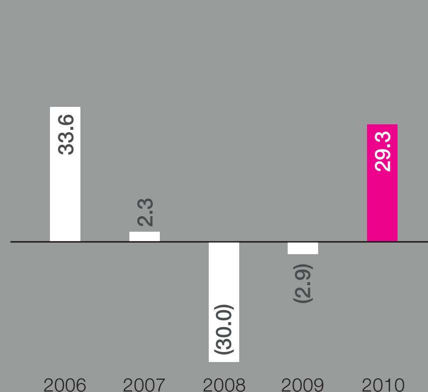
Adjusted net asset value p



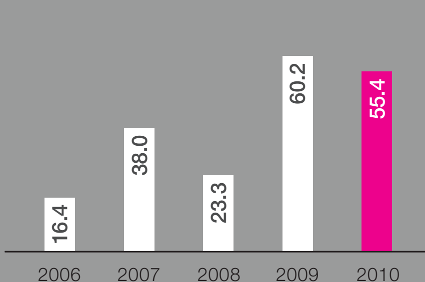
Recurring net property income £m



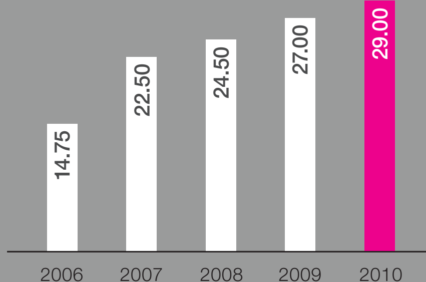
Total return[1] %



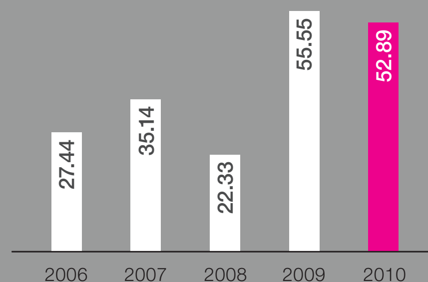
Recurring profit before tax £m



Dividend per share p



Recurring earnings per share p



[1] The total return figures for 2009 and 2010 have been calculated in accordance with EPRA guidelines

EPRA figures

EPRA profit before tax

2010

£55.3m

2009

£61.8m

EPRA earnings per share

2010

52.99p

2009

57.14p

EPRA NAV per share[1]

2010

1,474p

2009

1,161p

EPRA NNNAV per share[1]

2010

1,425p

2009

1,126p

EPRA net initial yield

2010

4.7%

2009

5.7%

EPRA 'topped up' net initial yield

2010

5.3%

2009

6.2%

[1] On a fully diluted basis

Chairman's statement

Derwent London, with its strategic focus on central London commercial property, continued to be one of the strongest performers in the FTSE 350 REIT sector in 2010. Total shareholder return amounted to 20.6% compared with a sector average of 6.9% and the adjusted net asset value increased by 27%.

Overview

During 2010 we continued to invest in the portfolio, spending £197.5m which included the acquisition of Central Cross W1 for £146.0m before costs. The building offers considerable rental and capital growth prospects. It is strategically located in an area where the Group has substantial holdings and where we expect significant infrastructure enhancements, principally from Crossrail. Since the year end we have also exchanged contracts on two acquisitions; the first is 1 Page Street SW1 for £45.0m before costs and the second is the Network Building, 95-100 Tottenham Court Road W1 for £31.0m before costs. Page Street is a 118,000 sq ft (11,000m²) vacant office building which will be refurbished in the next 12 months and available to the letting market in the first half of 2012. At the Network Building, where the Group already owns the freehold, it has bought in the headlease to gain control of this 64,000 sq ft (5,900m²) building. The multi-let property produces £2.1m pa of rental income and has 15,200 sq ft (1,400m²) of vacant offices ready for refurbishment.

In September, we completed the redevelopment of the 263,000 sq ft (24,400m²) Angel Building EC1, of which nearly half was pre-let and where a further 22,900 sq ft (2,100m²) is now under offer. We are seeing good interest from potential tenants for the remaining space. During the year we carried out other refurbishment projects totalling 227,000 sq ft (21,000m²), of which 148,000 sq ft (13,700m²) had been completed by 31 December. We have also been able to free up space for regeneration; at the end of March 2011, the 75,400 sq ft (7,000m²) Woodbridge House EC1 will become vacant under an agreement with the outgoing tenant which maintains our rental income until March 2015. The property will be refurbished and extended and delivered to the market next year. The headlease at Morelands Buildings EC1 has also been regeared, increasing the tenure to 125 years and allowing a 41,000 sq ft (3,800m²) refurbishment of approximately half the building to commence in 2011.

Important planning consents were achieved during the year at 132-142 Hampstead Road NW1 for 265,000 sq ft (24,600m²) and at 60 Commercial Road E1 for 122,000 sq ft (11,300m²). At Hampstead Road, which is next to Euston Station, there has been encouraging pre-letting interest. However, we are delaying finalising the extent and scale of our development plans pending further clarity on the impact of the proposed high speed rail link, HS2, and the associated expansion of Euston Station. The Commercial Road scheme mostly comprises student accommodation and we are considering a sale of the site now it has this valuable planning consent. In addition, two major office applications for redevelopment were submitted, one of 320,000 sq ft (29,700m²) at 80 Charlotte Street W1 and the other of 285,000 sq ft (26,500m²) at the City Road Estate EC1 which incorporates our White Collar Factory concept.

Throughout 2010 there was sustained demand for the Group's contemporary, mid-market office space and our leasing team was very active, concluding 100 transactions. Vacant space in the portfolio fell from 3.8% of floor area at 31 December 2009 to 2.7% at 30 June 2010, but increased to 4.9% by the year end with the completion of the Angel Building; this compares to the overall central London vacancy rate which fell to 5.5%. This squeeze on available space led to rental growth across our portfolio; on open market lettings we achieved rents at an average of 4.5% above December 2009 estimated rental values.

The supply-demand imbalance is likely to continue for some time, in the West End in particular. A new market cycle has already begun and we believe Derwent London is well placed to unlock considerable value in this period. During 2010 we pushed forward with several schemes and currently have plans in place to undertake projects totalling 0.9 million sq ft (84,000m²) in the next two years. Looking further ahead, we are progressing developments amounting to an additional 1.8 million sq ft (167,000m²).

To support our continued expansion we have refinanced a £200m debt facility that was due to expire in 2011 and have also strengthened our management team.

Results

Reflecting the strong performance of both the central London office and investment markets in 2010, our underlying portfolio increased in value by 15.7% compared with a decrease of 3.3% in 2009. Estimated rental values increased by 5.4% and the portfolio's true equivalent yield fell from 6.4% to 5.8% with most of the compression occurring in the first half.

Adjusted net asset value per share at 31 December 2010 was 1,484p against 1,168p a year earlier, an increase of 27%. The EPRA net asset value per share, which is fully diluted, also increased by 27% from 1,161p to 1,474p in the same period.

Recurring profit before tax for the year was £55.4m compared with £60.2m in 2009. The reduction was due mainly to the combination of lower commercial property rates credits in 2010 and a foreign exchange gain in 2009. The EPRA measure, which excludes the effect of cash-settled share options, fell from £61.8m to £55.3m and EPRA earnings per share moved from 57.14p to 52.99p. Despite the loss of £10.8m income on £201.8m of investment property sales made in 2009, underlying earnings were boosted by our lettings performance and low void costs and only fell by £1.6m.

The Board is proposing an increase in the final dividend of 7.4% to 20.25p all of which will be paid as a Property Income Distribution on 16 June 2011 to shareholders on the register on 20 May 2011. This year we are also offering a scrip alternative. Together with the interim dividend of 8.75p per share, this makes a total dividend for the year of 29.00p per share, an increase of 7.4% on 2009 and an overall increase of 29% over the last three years, reflecting the Board's commitment to a progressive dividend policy.

The Group's financial position remains strong. Balance sheet gearing fell to 59.4% from 61.9% a year earlier as the valuation increase more than offset the £197.5m of cash invested in capital expenditure and acquisitions. The loan to value ratio also fell from 36.4% at the 2009 year end to 35.7% at 31 December 2010.

As previously indicated, a £200m credit facility, that was due to expire in December 2011, was refinanced in the last quarter of 2010 with a new revolving £100m five-year secured facility and a part revolving £90m seven-year secured facility. At the year-end, the weighted average cost of drawn debt, including the Secured Bonds, was 4.34% against 5.00% a year earlier and, following a new £70m interest rate swap which we entered into in January 2011, 78% of the Group's borrowings are now hedged or fixed. We retained significant headroom at the year end with £261m of unutilised, committed bank facilities and £484m of uncharged properties.

The Board

During the year we welcomed Stephen Young to the Board as a new non-executive Director. He is the Finance Director of Meggitt plc, the FTSE 350 engineering and aviation electronics company, and brings valuable experience from outside the sector. Stephen sits on the Audit, Remuneration and Nominations Committees. At the forthcoming Annual General Meeting, Donald Newell will be stepping down from his position as non-executive Director. Donald joined the Company when it merged with London Merchant Securities where he had been on the Board since 1998. I would like to thank him for his valuable contribution and sound counsel throughout this period.

Our people

Our strong performance would not be possible without a highly committed and experienced team. We were delighted to see this recognised in December when Derwent London came first in the property sector in the 2010 awards for 'Britain's Most Admired Companies', sponsored by Management Today and Accenture.

Outlook

Whilst the UK is struggling to come to terms with the aftermath of the recession and the announcement of the coalition Government's austerity measures, the London economy has shown great resilience and demand remains strong from both UK and international purchasers for central London property. Supply of office space is particularly constrained in the West End and Derwent London's portfolio remains attractive to potential tenants. In 2011 we have already completed 13 lettings, covering 109,000 sq ft (10,100m²) with an annual contracted income of £3.2m and at rents above December 2010 estimated rental values. A further 44,000 sq ft (4,100m²) is under offer at £1.5m pa. With little new property coming on stream in the near-term in our market, we believe rental values will continue to increase and our reversionary portfolio should benefit.

Subject to final design and satisfactory planning consents, we plan to commence work on six schemes this year, totalling 412,000 sq ft (38,300m²). These are Woodbridge House, Central Cross, 2-14 Pentonville Road, 88 Rosebery Avenue, Morelands Buildings and the recent acquisition, Page Street. We will also be submitting an application at Riverwalk House in Victoria for a high-grade residential development of approximately 135,000 sq ft (12,500m²).

Within Derwent London's existing portfolio there is considerable scope for value creation over the next decade, particularly with important schemes in Fitzrovia, Oxford Street, Paddington, Victoria and Belgravia. We also expect to add to our stock and to crystallise some value through disposals when appropriate. Derwent London has the ambition and the resources to exploit the opportunities available to us and I am confident that it will continue to meet its principal objective of delivering above average long-term returns to shareholders whilst preserving a strong financial position.

R.A.Rayne
10 March 2011

Strategy

Derwent London is well known for its innovative design-led philosophy and creative approach to development and regeneration.

Business model

There are four key strands to Derwent London's business model which help to create long-term value for our shareholders, tenants and the communities in which we operate. Within each strand there are certain metrics and key performance indicators that are monitored to ensure we are on track. We also measure our performance against appropriate benchmarks.

1. Investing in our portfolio

Derwent London aims to build and own a diversified portfolio with a reversionary profile and an emphasis on properties that offer refurbishment and redevelopment opportunities. The portfolio covers a variety of types, sizes and locations of properties, primarily in the West End and the borders of the City of London, which command mid-market rents and appeal to a wide range of tenants. We anticipate the portfolio will remain focused on central London for the foreseeable future as it represents our area of expertise and we are well placed to understand its set of unique characteristics. Currently, according to LaSalle Investment Management, London offers the strongest growth prospects in the UK.

Within the portfolio we aim to keep a balance between income-producing properties and development projects, phasing our pipeline to maintain a strong financial position. We are always looking for interesting acquisition opportunities, which may take the form of portfolios, companies or individual properties. Since the acquisition of London Merchant Securities in 2007, which doubled the size of our portfolio, we have focused on assets of strategic importance, usually close to existing holdings. Recent acquisitions have included Central Cross W1 and the Network Building W1 which are close to our other properties in Fitzrovia and North of Oxford Street. We have also purchased 1 Page Street SW1, opposite Horseferry House and near our other holdings in Victoria.

"Our recent acquisitions in 2010 and early 2011 are in line with our strategy and offer excellent regeneration opportunities."

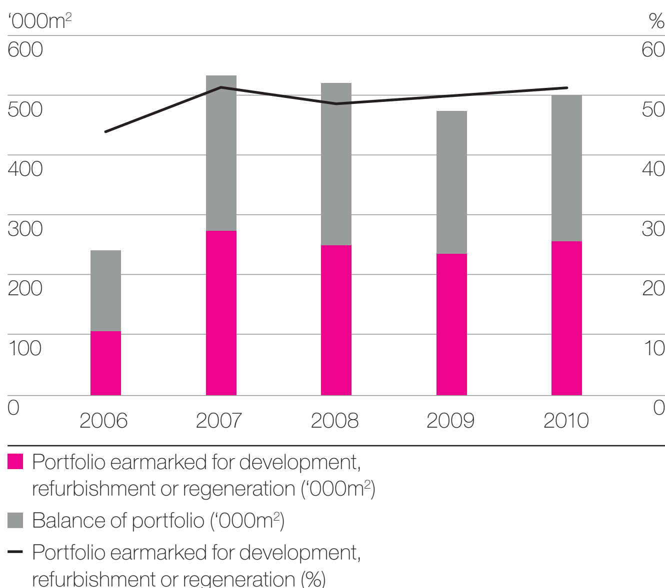
John Burns, Chief Executive Officer

Key metrics

Reversionary percentage – our current reversion is 27%.
→ see page 30

Development potential – 51% of our portfolio has potential for refurbishment or redevelopment.

Derwent London portfolio



■ Portfolio earmarked for development, refurbishment or regeneration ('000m²)
■ Balance of portfolio ('000m²)
– Portfolio earmarked for development, refurbishment or regeneration (%)

Previous spread:
1 Maple Place, W1

2. Creating exciting new spaces

Derwent London provides contemporary office space at mid-market prices and is well known for its strong design-led ethos. We work with a range of established and up-and-coming architectural, design and engineering practices to combine exciting and innovative architecture with environmentally friendly, high quality construction.

Sustainability has become an increasingly important issue to tenants and local planning authorities and some tenants choose a Derwent London building due to its environmental footprint. Most of our developments adapt existing structures, saving embedded carbon and reducing the use of new materials. We also build in features to minimise future energy and water consumption. In addition, we work closely with planning authorities and engage with local communities to ensure we deliver tangible improvements to the areas in which we operate.

"We are very excited about the move to our new stylish, self-contained offices. Derwent London's approach and reputation towards design complements our own profile and aesthetic which we are keen to present with our new head office."

Pandora Jewellery UK Limited
33 George Street, W1

Key metrics

Awards – during the year we have won a number of awards including the BCO Best Commercial Workspace London and South-East 2010 and the London RIBA Regional Award 2010, both for the Charlotte Building.

Energy Performance Certificates (EPC) – we design projects to achieve a 'B' certificate for all new-build projects over 5,000m^2 and a minimum of a 'C' for all refurbishments over 5,000m^2.

Communities – we participate in a number of business-led initiatives in local communities:

- The Fitzrovia Partnership
- New West End Company
- Westminster Property Association
- The Paddington Waterside Partnership
- Chancery Lane Association

→ see page 64

Key performance indicator

BREEAM ratings – we require all developments in excess of 5,000m^2 to be assessed using the Building Research Establishment Environmental Assessment Method (BREEAM) and achieve a 'Very Good' rating or above. Since the end of 2007 our three major completions have received at least a 'Very Good' rating with the Angel Building receiving an 'Excellent' rating in 2010.

		Ratings	
	Completed	EPC	BREEAM
Charlotte Building	Q4 2009	B	Very Good
Arup Phase III	Q4 2009	B	Very Good
Angel Building	Q3 2010	B	Excellent

Business model

"We are in the process of completing a lease regear with Derwent London, taking more space and extending the term to expiry on our existing leases. It is a win-win for us and for Derwent London. We are able to expand our business and we both have the security and stability of a longer lease."

Chime Communications plc
Greencoat House, SW1

3. Managing our assets

The asset management team seeks to minimise voids, capture the portfolio's reversion and work closely with tenants to understand their needs, provide the best space to meet their budgets and accommodate any expansion, contraction or relocation requirements. By doing so we are able to maximise income, retain flexibility and free up space for regeneration when needed. As an example, we were recently able to relocate an existing tenant into 100 George Street W1 upon completion of its refurbishment which allowed another tenant to expand into the space that had been vacated. We also reached agreement with the occupier in Woodbridge House EC1 to gain vacant possession with rental income of £2.45m pa protected until March 2015, the original lease expiry date. This now permits us to undertake a full refurbishment of the building in 2011.

Where appropriate, we work with landlords at our leasehold properties to regear headleases and improve the viability of future developments. For example, this year we have regeared the headlease at Morelands Buildings EC1. As a result we are able to refurbish nearly half the building and add an additional floor, expanding overall floorspace by 10% to 88,500 sq ft (8,200m²). Once complete, we anticipate an existing tenant will move into the new floor to meet their needs for expansion.

Understanding the day-to-day needs of tenants is also important. We have developed tenant websites for each multi-let building we own and manage and run forums to discuss issues such as waste management, recycling and energy and water efficiency. We also use standardised 'green' leases in plain English and clauses to encourage improved sustainability. In 2010 we participated in a pilot customer service questionnaire which we intend to develop and roll out in 2011.

Key metrics

Diversity of tenants – a diverse tenant base protects our income stream; we currently have more than 600 tenants across 130 buildings and from a range of business sectors.

Tenant retention – where we wish to retain income it is important our tenants do not exercise breaks built into their leases and that leases are renewed at the end of existing contracts. During 2010 the total rental exposure to lease breaks and expiries was £13.9m, of which £2.4m related to space which was required for future projects. During 2010 there was a further improvement in tenant retention.

	Rental income exposure £m pa	Retention %	Re-let by year-end %	Total income retention %
2010	**11.5**	**72**	**17**	**89**
2009	12.1	66	18	84

Key performance indicator

Void management – our aim is to minimise the space immediately available for letting and that this should not exceed 10% of the portfolio's estimated rental value. The increase in the vacancy rate between the end of 2009 and 2010 is largely due to the completion of the Angel Building.

	Performance %	Benchmark %
2010	**5.9**	**<10**
2009	3.6	<10

"We are growing rapidly and Derwent London has always responded quickly to our expansion requirements. We have already taken more space this year and are looking to continue to grow in this building."

Morningstar (UK) Ltd
1 Oliver's Yard, EC1

"The Group retains a healthy balance sheet and interest cover covenants under our bank facilities were met very comfortably during 2010. Two new facilities arranged in 2010 provide us with flexibility and reasonable pricing in the context of current market conditions."

Damian Wisniewski, Finance Director

4. Retaining financial strength and flexibility

At Derwent London we believe in flexible and uncomplicated financing and have maintained excellent long-term relationships with our core lenders. We arranged a new £100m facility with HSBC in November 2010. Recently we have moved to widen the pool of lenders and signed a new seven-year £90m facility with Eurohypo in December 2010.

To date we have been able to manage cashflow requirements through our policy of balancing refurbishment and development activity with income generation. We aim to maintain a sustainable level of gearing based on a minimum level of interest cover and a maximum level for the overall Group loan to value ratio and plan to retain sufficient headroom so that we can take advantage of market opportunities. Our record of recycling capital by disposing of properties where we can realise an attractive price also helps us to manage Group gearing.

The strength of our balance sheet and the flexibility of our financing allow us to act quickly according to the different phases of the property cycle. This resulted in £201m of disposals in 2009 and increased investment of £198m in 2010.

We will continue to keep all forms of debt finance under review and move to refinance facilities well in advance of their expiry dates. We also aim to provide adequate protection against unpredictable changes in short-term interest rates through hedges and swaps (see page 49).

Key metrics

Gearing

	Balance sheet %	Loan to value %
2010	**59.4**	**35.7**
2009	61.9	36.4

The derivation of both these measures is shown on page 128.

Available resources

	Headroom £m	Immediately drawable £m	Unsecured properties £m
2010	**261**	**245**	**484**
2009	425	353	338

Disposals – there were no major disposals in 2010.

Key performance indicators

Interest cover ratio – this figure demonstrates the Group's ability to meet its interest obligations and is similar to that which is included in many of the Group's security-specific bank covenants.

	Performance %	Benchmark %
2010	**328**	**200**
2009	330	200

Tenant receipts – these are monitored closely in order to assess the strength of our tenants and to maximise rent collection. Our aim is to collect on average greater than 95% of rent invoiced within 14 days of the due date throughout the year.

	Performance %	Benchmark %
2010	**96**	**95**
2009	96	95

A high rate of collection within 14 days was maintained throughout the year ranging from 95% to 96% (2009: 95% to 97%).

Business model

"The Group has the ambition and the resources to exploit the opportunities within its portfolio and I am confident it will continue to deliver above average long-term returns to shareholders whilst preserving its strong financial position."

Robert Rayne, Chairman

Measuring overall success

Our objective is to achieve above average long-term returns against a series of measures including capital growth in central London, shareholder return in the UK REIT sector, total return for other major REIT companies and total property return in the UK real estate sector.

In 2010 we marginally underperformed the IPD Central London Offices Indices for capital return and total property return. Our returns were affected by an increased proportion of properties which were being prepared for development and where we were accepting a lower rent. However we continued to outperform the UK REIT sector on the basis of total shareholder return and total return and we continued to outperform the IPD All UK Property Index on a three-year rolling basis.

Key metrics

Capital return – we compare our performance with the IPD Central London Offices Capital Growth Index.

	Performance %	Benchmark %
2010	**15.7**	**16.6**
2009	(3.3)	(5.4)

Total shareholder return – we compare our performance against the FTSE All-Share Real Estate Investment Trust Index.

	Performance %	Benchmark %
2010	**20.6**	**11.1**
2009	86.7	11.4

Key performance indicators

Total return – we aim to exceed the return achieved by the other major UK REIT companies using an annualised calculation based on published information provided by them.

	Performance %	Benchmark %
2010	**29.3**	**19.9**
2009	(2.9)	(51.7)

Total property return – we aim to exceed the IPD Central London Offices Index on an annual basis.

	Performance %	Benchmark %
2010	**21.3**	**23.0**
2009	1.7	0.9

Total property return – we aim to exceed the return achieved by the annualised IPD All UK Property Index on a three-year rolling basis.

	Performance %	Benchmark %
2010	**1.4**	**(1.2)**
2009	4.3	(8.3)

A list of definitions is provided on page 135.

Risk management

The Board recognises that risk is an inherent part of running a business and that whilst it aims to maximise returns, the associated risks must be understood and managed. Overall responsibility for this process rests with the Board whilst executive management is responsible for designing, implementing and maintaining the necessary systems of control.

The Group operates principally from one central London office with a relatively flat management structure. This enables the executive Directors to be closely involved in day-to-day matters and therefore able to quickly identify and respond to risks.

A key element in the systems of control is the Group's risk register which is reviewed formally once a year. The register is initially prepared by the executive Board which, having identified the risks, collectively assesses the severity of each risk, the likelihood of it occurring and the strength of the controls over the risk. This approach allows the effect of any mitigating procedures to be considered recognising that risk cannot be totally eliminated at an acceptable cost and that there are some risks that the Board will choose, based on its experience, to accept.

The register is then reviewed and commented upon by the Audit Committee before being considered and adopted by the full Board. The register was reviewed in December 2010 and the principal risks and uncertainties that the Group faces in 2011, together with the controls and mitigating factors, are set out below.

Strategic risks

That the Group's strategy doesn't create the anticipated shareholder value or fails to meet investors' expectations.

Risk	Mitigation	Action
– The Group's strategy is inconsistent with the market environment. – The Group's development programme is not consistent with the economic cycle.	– Each year the Group carries out a five-year strategic review and in addition it prepares regular rolling forecasts covering the next two years. In the course of both exercises the Board considers the effect on key ratios of changing the main underlying assumptions. These can then be set so as to best realise the Group's long-term strategic goals given the prevailing economic and market conditions. This flexibility arises from the policy of maintaining income from properties until development commences.	– The Board carried out its annual five-year strategic review in June 2010 and considered the sensitivity of five key measures to changes in eight underlying assumptions including interest rates, property yields, rental growth, capital recycling and letting success. – The three rolling forecasts prepared during the year focused on the same key measures but considered the effect of varying different assumptions to reflect changing economic and market conditions. – The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations.

Risk management

Financial risks

That the Group becomes unable to meet its financial obligations or finance the business appropriately.

Risk	Mitigation	Action
– A substantial decline in property values or a material loss of rental income results in a breach of the Group's financial covenants. This may accelerate the repayment of the Group's borrowings or result in their cancellation.	– The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as balance sheet gearing. Treasury control schedules are updated weekly whilst the rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken. The Group has a considerable amount of uncharged property that could be used in such circumstances.	– The Group tested its compliance regularly and operated comfortably within its financial covenants throughout 2010. – At the year end the Group owned £484m of uncharged properties.
– The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources.	– The Group's five-year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This allows sources of finance to be identified and evaluated and, to a degree, the finance to be raised when market conditions are favourable.	– The Group's financing comes from a number of different providers and has a varied maturity profile. – During 2010 the opportunity was taken to refinance a loan that expired in December 2011. – The weighted average duration of the Group's debt is 5.2 years. – At the year end the Group had £261m of unutilised committed bank facilities.
– Financing costs are higher due to increases in interest rates.	– The Group uses interest rate derivatives to "top up" the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	– Several interest rate swaps were either extended or initiated during the year which enabled the Group to lock in the lower rates that were available. – Following the new £70m swap taken out in January 2011, 78% of borrowings are now fixed or hedged. – The weighted average cost of drawn debt at the year-end was 4.34% compared to 5.00% last year.

Operational risks

The Group suffers either a loss or adverse consequences due to processes being inadequate or not operating correctly.

Risk	Mitigation	Action
– The implementation of the Group's strategy is inhibited by an inability to acquire assets at an attractive price.	– The size of the Central London market in which the Group operates means that such a situation is unlikely to persist for very long. During this time, the Group is able to develop opportunities from within its existing portfolio.	– The acquisition of Central Cross, Page Street and the Network Building demonstrates the Group's ability to identify and acquire properties with opportunities to add value. – Over 50% of the Group's portfolio has been identified as having future redevelopment potential.
– The Group's development projects do not produce the anticipated financial return due to delays in the planning process, increased construction costs or adverse letting conditions.	– Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. – The scale of the Group's development programme is managed to reflect anticipated market conditions.	– The Group is advised by top planning consultants and has considerable in-house planning expertise. – Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. – The procurement process used by the Group is designed to minimise uncertainty regarding costs. – The Group's style of accommodation remains in demand as evidenced by the 100 lettings achieved in 2010 and the 13 already made in 2011.
– The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt.	– Prospective tenants are considered by the Group's credit committee and security is taken where appropriate. The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.	– The Group has a diversified tenant base. – The credit committee meets each week and considered 145 potential new tenants during the year. – In total the Group holds rental deposits amounting to £8.9m.
– The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	– The remuneration packages of all employees are benchmarked regularly. Six-monthly appraisals identify training requirements which are fulfilled over the next year.	– The Group has recruited 23 new members of staff during the year including key appointments in project delivery and corporate communications. – Staff turnover during 2010 was 7.7%.

Spread overleaf:
The Angel Building, EC1

Performance

Derwent London's strong performance in 2010 has continued into 2011 and we are accelerating schemes to deliver new space into a supply-constrained market.

Our portfolio

Derwent London's portfolio remains focused on central London with a wide range of properties and tenants.

The capital's economy has proved remarkably resilient during the economic crisis outperforming most other UK regions

Derwent London's property portfolio comprises 5.4 million sq ft (500,000m^2), with over 600 tenants across 130 buildings, and is focused on the central London office market. We hold 76% of our portfolio in the West End, with key properties in Fitzrovia, Victoria, Covent Garden, Belgravia and Marylebone, and 19% in the City borders, including the 'villages' of Clerkenwell, Holborn and Shoreditch. The remaining 5% of our holdings are in Scotland, on the northern outskirts of Glasgow.

The portfolio's annualised net contracted rental income at the year end was £116.2m and, with an estimated rental value of £147.3m, there is a strong reversion. Tenants from the media, television, marketing and advertising sectors account for 28% of our income, with professional and business services comprising 24%. Retail space contributes 12% of our income whilst retail head offices account for a further 11%.

We focus on contemporary office space with innovative design which is priced at affordable mid-market rents. Our portfolio holds significant value-creating opportunities that can be realised through asset management and regeneration.

Ten principal tenants % of rental income[1]

Tenant	%
Government	7.1
Arup	5.4
Burberry	4.5
Saatchi & Saatchi	3.7
FremantleMedia Group	2.9
MWB Business Exchange	2.7
Thomson Reuters	2.3
Pinsent Masons	2.1
BBC	2.0
House of Fraser	1.7
	34.4

[1] Based upon contracted net rental income of £116.2m

Profile of tenants' business sectors %

Sector	%
Media, TV, marketing and advertising	28
Professional and business services	24
Retail sales	12
Retail head offices, showrooms	11
Government and public administration	7
Financial	7
Other	11

Our market

Overview

Having emerged from recession at the end of 2009, the UK economy grew through most of 2010 with an expected annual growth figure of about 1.5%. Unemployment and inflation also rose during 2010. The outlook for 2011 is uncertain with the Governor of the Bank of England predicting that inflation will rise towards 5% and that GDP growth will be weakened by the impact of fiscal consolidation and continuing credit restrictions for smaller companies and households. Most commentators now expect interest rates to rise in the summer and that GDP growth will again be less than 2% in 2011.

In London, where 95% of Derwent London's portfolio is located, the economy has very different characteristics to the rest of the UK and its performance has increasingly diverged, outperforming most other UK regions. Despite the importance of the financial services sector, the capital's economy has proved remarkably resilient during the economic crisis and London continues to attract major UK and international companies and the service providers that support them. During the year there was strong demand from both tenants and investors. In 2010 LaSalle Investment Management rated London as having the strongest growth score of 104 European cities, on the strength of its 'dynamic and flexible' economy and being the 'major European business hub'. LaSalle predicts that London's leading position will continue, aided by investment related to the 2012 Olympic Games and the development of Crossrail.

Central London office occupier market

The central London office market totals more than 218 million sq ft (20 million m^2) with 50% located in the City, 41% in the West End and 9% in Docklands. Derwent London's focus is towards the West End where there is a more diverse and dynamic tenant base that is centred on media and professional and business services. We tailor our space for these businesses, rather than for the financial and legal companies that are concentrated in the City and Docklands.

The 2010 central London office statistics, published by surveyors CB Richard Ellis (CBRE), show a strong performance, especially in the fourth quarter. During the year there was a total take-up of 15.0 million sq ft (1.39 million m^2), 23% above the long-term annual average and 67% higher than in 2009. Despite the completion of 3.9 million sq ft (360,000m^2) of developments during 2010, total central London supply fell to 14.6 million sq ft (1.36 million m^2) at the end of December, 6.5 million sq ft (600,000m^2) below the peak in mid 2009. As a consequence, the central London vacancy rate fell from 7.2% at the start of the year to 6.3% in June and then to 5.5% by the year end, its lowest point for two years. The supply-demand imbalance led to the return of rental growth with a 13.1% increase in the CBRE prime office rent index. This improved rental trend is encouraging, especially as the quantity of office space under construction is at a five-year low. CBRE estimates there will be just 1.6 million sq ft (149,000m^2) of central London office completions in 2011 with 2.4 million sq ft (223,000m^2) in 2012. This compares favourably to the long-term annual average of 5.1 million sq ft (474,000m^2) and is relatively low for this stage of the property cycle. This should benefit our current pipeline of projects as we deliver space into a market with limited supply.

The strong central London office performance in 2010 was largely driven by recovery in the City where there was total take-up of 6.4 million sq ft (595,000m^2), the second highest on record. City vacancy rates fell to 6.8% and prime rents rose 19.9%, with a headline rent of £55.00 per sq ft (£590 per m^2). Development completions amounted to 2.1 million sq ft (195,000m^2) but are expected to fall to 0.9 million sq ft (84,000m^2) in 2011 and to only 0.3 million sq ft (28,000m^2) in 2012, before rising again sharply from 2013.

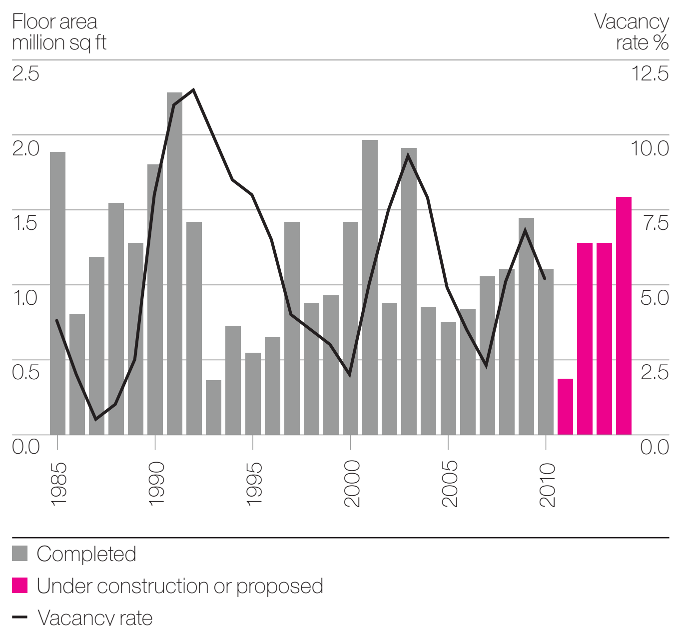
In the West End there was total take-up of 4.7 million sq ft (437,000m^2), an increase of 50% on 2009 and 15% above the long-term average. Availability fell throughout the year, giving a total decrease of 35% since mid-2009 and the vacancy rate dropped from 6.8% to 5.2% in line with the long-term average. The CBRE prime rent index for the West End increased 9.6%, with a headline rent rising to £87.50 per sq ft (£940 per m^2). This is the strongest growth since early 2008, but the index still remains 30% below its peak. Development completions amounted to 1.1 million sq ft (102,000m^2) in 2010 but are expected to fall to a near-record low of 0.4 million sq ft (37,000m^2) in 2011 before rising to 1.3 million sq ft (121,000m^2) in 2012 with a similar level of completions possible in 2013.

Central London investment market

On the investment side, there was strong interest in central London during the year, especially from overseas buyers, who accounted for 67% of all transactions and were encouraged by favourable exchange rates. Overall, activity was held back by both a lack of quality stock and limited bank lending. However, we saw an increase in the number of buying opportunities in the second half of the year and expect this to continue as some banks reduce their property exposure.

Central London investment volumes totalled £9.1 billion during the year, boosted by £4.1 billion of final quarter transactions. Overall, this turnover was 9% lower than the 10-year annual average but was 30% higher than 2009. With good investor demand and improved outlook, property yields tightened and capital values rose throughout the year. Prime office yields in 2010 declined from 5.0% to 4.0% in the West End and from 6.0% to 5.4% in the City. Yields now appear to have stabilised with the focus for future performance moving towards rental growth, active asset management and developments.

West End development pipeline

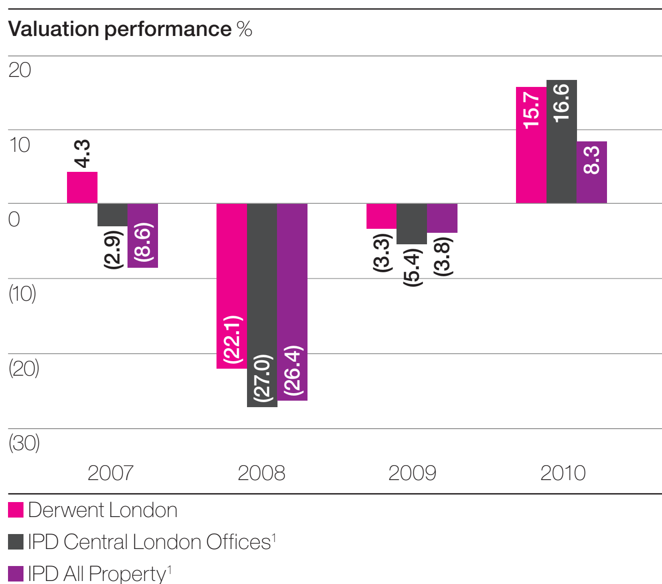


Source: CBRE

Property review
Valuation

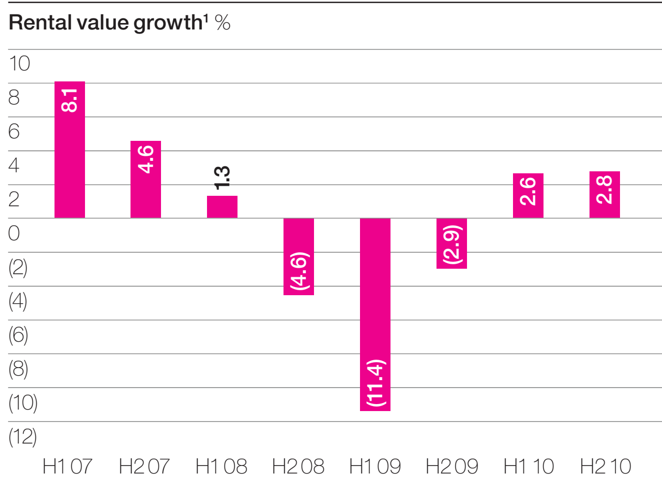
During 2010 we saw improving investor confidence in the UK commercial property investment market, supported by low interest rates and an economy that had begun to recover.

Valuation performance %



[1] Quarterly Property Index

Rental value growth[1] %



[1] Half yearly movement in estimated rental value of the portfolio

Overall, the IPD All UK Property Index registered capital value growth of 8.3% for the year with the improvement in property values coming largely from yield compression. Generally, investors focused on better quality assets, particularly those in central London which saw much stronger capital value growth and where the office sector saw growth of 16.6%. A combination of ongoing tenant demand, limited office development completions and falling vacancy rates also brought a return to rental growth in central London.

For investors, property yields continued to be attractive in 2010 compared with alternative investments such as bonds and gilts and overseas buyers continued to benefit from the weakness in sterling.

The Group's investment portfolio was valued at £2.4bn at 31 December 2010. There was a valuation surplus of £309.4m for the year, before lease incentive adjustments of £7.8m, giving a total movement of £301.6m. This compares favourably to 2009 when values declined by £81.1m.

The underlying valuation increase over the year was 15.7% compared to a decrease of 3.3% in 2009. Our capital values have improved strongly over the last 18 months, recovering by 27%. Approximately two thirds of the 2010 valuation gain arose in the first half of the year when yield compression was most pronounced.

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation performance[1] %	Valuation performance[1] £m	Total floor area m²	Available floor area m²	Project floor area m²
West End							
Central	1,679.7	69	16.4	215.8	284,600	6,700	10,800
Borders	178.2	7	19.1	28.5	53,700	12,700	3,100
	1,857.9	76	16.7	244.3	338,300	19,400	13,900
City							
Borders	456.1	19	11.3	46.5	125,200	3,900	3,700
Central London	2,314.0	95	15.5	290.8	463,500	23,300	17,600
Provincial	112.1	5	20.2	18.6	36,700	1,200	–
Total portfolio 2010	**2,426.1**	**100**	**15.7**	**309.4**	**500,200**	**24,500**	**17,600**
2009	1,918.4		(3.3)	(72.5)	475,600	18,100	11,900

[1] Properties held throughout the year

The portfolio's underlying estimated rental value increased by 5.4% during the year compared to a decline of 14.0% in 2009. It is encouraging that there was growth throughout the year, with 2.6% in the first half and 2.8% in the second. This trend, in conjunction with improved tenant demand and limited available space in our market, is favourable for our refurbishment and development programme.

Looking at our performance by location, capital values in the West End, 76% of the portfolio, increased by 16.7% whilst the City border properties, 19% of our holdings, increased by 11.3%. Overall, our central London portfolio increased by 15.5%. The remaining 5%, our Scottish holdings, rose by 20.2%, due primarily to the favourable change in planning use obtained during the year.

The investment portfolio includes acquisitions made during the year and development properties. The former, principally the Central Cross purchase in August, were valued at £148.4m at the year end, which reflects a marginal increase over the acquisition price after costs. Development properties, mainly comprising the Angel Building which was completed in 2010, were valued at £124.9m showing a 22.8% increase over the year as the development surpluses came through.

As at 31 December 2010 the net initial yield, based upon EPRA guidelines, was 4.7%. This would rise to 5.3% on an EPRA 'topped up' basis, after the expiry of rent free periods and contracted uplifts. The portfolio's true equivalent yield was 5.8% at the year end, a hardening from 5.9% at the half year and 6.4% at the end of 2009. The true equivalent yield has recovered from 7.3% at the bottom of the cycle.

Overall, the Group's total property return for 2010 was 21.3%, compared to 1.7% last year. This is one of our Key Performance Indicators (KPIs) and was marginally below the IPD Central London Offices Index, which returned 23.0%, and was impacted by the increased number of properties where we are retaining lease flexibility ahead of development. Looking at our broader KPI return measure, the Group's three-year average total property return was 1.4% pa compared to -1.2% pa for the IPD All UK Property Index.

EPRA yields

Net initial

4.7%

(2009: 5.7%)

"Topped up"

5.3%

(2009: 6.2%)

Property review
Portfolio management

Optimising portfolio management is a key component of our business model and underpins our performance. It is co-ordinated by our leasing and asset management teams who have extensive market knowledge and a reputation for an active approach. They are focused on lettings, lease renewals, rent reviews and lease regears, working to minimise voids, capture the portfolio reversion and free up space for regeneration projects.

Another strong year with
100
lettings at
£8.0m pa

Letting space
Our distinctive brand of contemporary office space appeals to a wide range of occupiers and it was another very successful year for our leasing team which concluded 100 lettings with a total annual rent of £8.0m and floorspace of 347,000 sq ft (32,200m²). At the start of 2010 this space was generating £3.6m pa of rental income. Activity was sustained throughout 2010 with 47 transactions totalling £3.5m pa in the first half and 53 transactions amounting to £4.5m pa in the second half of the year. Over the last three years, we have let 1.2 million sq ft (111,000m²) at a rent of £34m pa and continue to be one of London's most active landlords.

Open market letting transactions in 2010 amounted to £6.1m and achieved rents 4.5% higher than their December 2009 estimated rental values. The balance was short-term transactions at properties such as Grosvenor Place, City Road Estate and Turnmill where we are preserving development flexibility and rentals were therefore below their market levels. Overall, lettings in the year were just above December 2009 estimated rental values.

The Group's vacancy rate by rental value, measured as space immediately available for occupation, ended the year at 5.9% compared to 3.6% at the start of the year and 2.2% at 30 June 2010. The majority of the increase was due to completion of the Angel Building. By floor area, the vacancy rate increased from 3.8% to 4.9% over the year, just lower than the CBRE central London year end rate of 5.5%. The portfolio's 10-year average vacancy rate is 5.6% by both rental value and floorspace.

"Derwent London has been very professional to deal with throughout the letting process and since we moved in. They communicate well and are very responsive to our business needs."

LinkedIn Europe Limited
Charlotte Building, W1

"It is a pleasure to work with Derwent London. They are flexible and work hard to meet our needs as they change, recently accommodating our space requirements at Grosvenor Place."

Berendsen plc
1-5 Grosvenor Place, SW1

"We recently moved into the Tea Building in Shoreditch. As a converted warehouse it has an edgy feel to it and has become a hub for media and technology companies with a similar mindset to ourselves."

Mind Candy Limited
Tea Building, E1

Open market lettings at

4.5%

above December 2009 ERV

Key letting activity during 2010 included:

- **Charlotte Building**, 17 Gresse Street W1 – this 47,000 sq ft (4,400m²) new-build development is now fully let following three lettings totalling £1.2m pa in 2010. Rental levels improved from £44 per sq ft (£475 per m²) at the start of the year to £47.50 per sq ft (£510 per m²) for the final transaction. The new tenants are BrandOpus, Converse and LinkedIn.
- **1-5 Grosvenor Place** SW1 – we continue to maximise income through shorter-term lettings whilst retaining the development potential at this prestigious Belgravia location. Nine lettings totalled £1.2m pa with office rents averaging £42 per sq ft (£450 per m²). Activity also included a new retail unit let to Pret a Manger.
- **Tea Building**, Shoreditch High Street E1 – over the last few years, we have transformed this Shoreditch landmark into a well-established media and lifestyle hub. Good rental growth was achieved in the year with a new rental tone set at £26.50 per sq ft (£285 per m²). Overall, seven office lettings were completed totalling 26,000 sq ft (2,400m²) at a rent of £0.6m pa.
- **Greencoat and Gordon House**, Francis Street SW1 – we have upgraded this core Victoria holding over a number of phases. During the year, we let 9,900 sq ft (920m²) of offices to The Benefit Express, Brand Rapport and VCCP at £0.4m pa with rental levels averaging £38 per sq ft (£410 per m²).
- **Strathkelvin Retail Park** near Glasgow – we were successful in widening planning use from Class 1 'bulky goods' retail to Class 1 'open' retail on the majority of units. Over the year, there were six lettings totalling 94,600 sq ft (8,800m²) at £1.2m pa. New tenants include Matalan, SportsDirect and Boots and the retail park is now 96% occupied.

Throughout the year, we maintained our high tenant retention rate with 72% of income retained, 17% re-let prior to the year end and a further 5% re-let or under offer since the year end.

Rental collection continued to be prompt with an average of 96% collected within 14 days of the due date. Our key performance indicator target is 95%.

Property review
Portfolio management

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		116.2
Contractual rental increases across the portfolio	15.4	
Letting 24,500m² available floor area	8.6	
Completion and letting 17,600m² of project floor area	4.9	
Anticipated rent review and lease renewal reversions	2.2	
Portfolio reversion		31.1
Potential portfolio rental value		147.3

Capturing the reversion
During 2010, we continued to capture the portfolio's reversion through rent reviews and lease renewals. In total, we concluded 82 such transactions increasing the income by 7% to £9.3m pa.

Freeing up space for regeneration
We progressed a number of asset management initiatives in 2010, which have now come to fruition including:

- **Woodbridge House**, 30 Aylesbury Street EC1 – we will take possession of this 75,400 sq ft (7,000m²) prime Clerkenwell office building at the end of March 2011. Under an agreement with the outgoing tenant our rental income of £2.45m pa will be maintained until March 2015, the original lease expiry. Including dilapidations, total future payments to the Group could amount to £10.8m. This building will undergo extensive refurbishment during 2011.
- **Morelands Buildings**, 5-27 Old Street EC1 – we regeared the headlease on this 80,000 sq ft (7,400m²) building in February for a premium of £5.8m, increasing our tenure from 45 years to 125 years whilst maintaining the 10% ground rent payable. This allows us to commence a phased refurbishment and extension in 2011. When complete, total space at Morelands Buildings will increase to 88,500 sq ft (8,200m²).

Outlook for 2011
Excellent letting progress has already been made across the portfolio in 2011 with tenant demand for our space continuing to be strong. We have let 109,000 sq ft (10,100m²) since the year end at a rent of £3.2m pa whilst a further 44,000 sq ft (4,100m²) is under offer at £1.5m pa. This compares with £3.5m pa for the lettings made in the first half of 2010.

Of the lettings, 39,800 sq ft (3,700m²) was for space that was either available or under refurbishment at the 2010 year end and achieved a total rent of £1.3m pa. This includes the 13,000 sq ft (1,200m²) pre-let of our **33 George Street** refurbishment in Marylebone to jewellery company Pandora at £0.74m pa where we achieved £58 per sq ft (£625 per m²) on the office space, 13% above the December 2010 estimated rental value.

The remaining 69,200 sq ft (6,400m²) of lettings arose from asset management initiatives with existing tenants and total £1.9m pa. The largest transaction was at **88 Rosebery Avenue** EC1, where 49,000 sq ft (4,600m²) was pre-let to City University at £1.2m pa on a 20-year term with a tenant's break in year ten. The existing occupier's lease expires in September 2011 and we will refurbish the space prior to the new tenant taking occupation.

"Restructuring the lease at the Morelands Buildings forms an integral part of the wider strategy for our investment property portfolio. It has enabled us to release capital for reinvestment and allows Derwent London to extend and enhance the building, which benefits both parties."

The Fishmongers' Company
Freeholder
Morelands Buildings, EC1

£4.7m pa

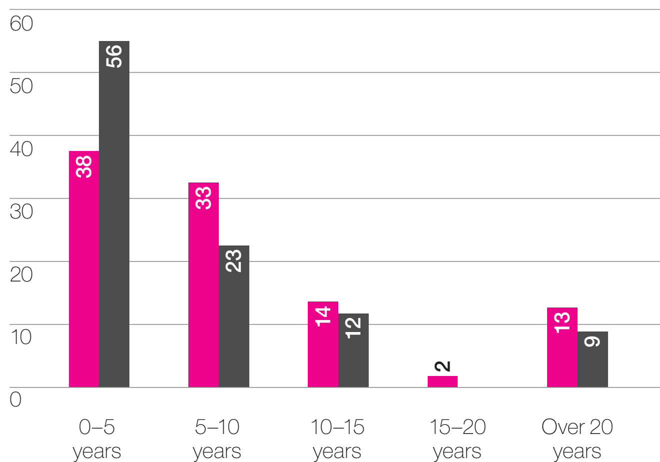
153,000 sq ft (14,200m²) let or under offer since the year end

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End						
Central	79.3	299	6.2	10.2	95.7	8.3
Borders	3.2	85	5.6	5.3	14.1	5.0
	82.5	272	11.8	15.5	109.8	8.2
City						
Borders	28.5	244	1.6	1.6	31.7	4.7
Central London	111.0	264	13.4	17.1	141.5	7.3
Provincial	5.2	145	0.1	0.5	5.8	6.9
Total portfolio 2010	**116.2**	**255**	**13.5**	**17.6**	**147.3**	**7.3**
2009	114.9	243	7.9	8.4	131.2	7.7

[1] Lease length weighted by rental income and assuming tenants break at first opportunity

Profile of rental income expiry[1] %

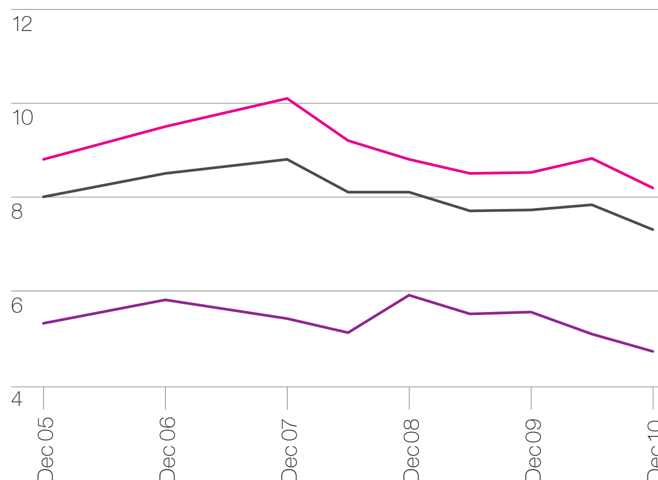


No lease breaks exercised

Lease breaks exercised at first opportunity

[1] Based upon net contracted rental income of £116.2m

Average unexpired lease length[1] Years



West End

City Borders

Central London

[1] Lease length weighted by rental income and assuming tenants break at first opportunity

Property review
Investment activity

We continually review new opportunities to add to our portfolio where we can create value through regeneration and our particular blend of design and project skills.

Acquisitions

£146m
Central Cross

£45m
1 Page Street

£31m
Network Building

Acquisitions and disposals

A number of opportunities were considered during the year and we made one substantial acquisition, the purchase of **Central Cross**, 18-30 Tottenham Court Road W1 in August for £146.0m, before costs. The 251,000 sq ft (23,300m²) freehold property, let to tenants such as FremantleMedia Group, S Technologies (the owner of Skype) and Encompass Digital Media, has an annual rental income of £8.1m, which reflects a low average rent of £34 per sq ft (£365 per m²). This prominent West End building comprises 216,000 sq ft (20,100m²) of offices, 24,000 sq ft (2,200m²) of retail space fronting onto Tottenham Court Road and an 11,000 sq ft (1,000m²) cinema. The property is strategically located in an area where the Group has substantial holdings and where we expect to see significant improvements from infrastructure enhancements, principally Crossrail. The building offers considerable rental and capital growth prospects. As discussed in the Projects section, there is significant scope to reconfigure and extend the property and we are well advanced with our plans.

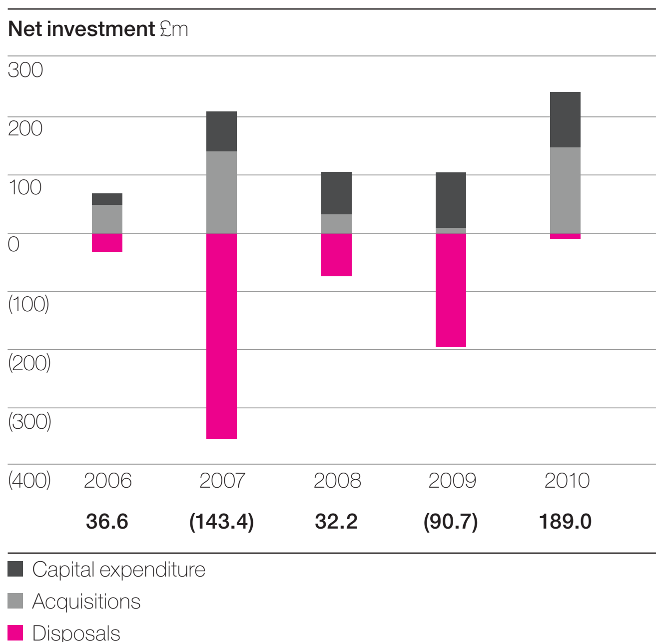
No other significant acquisitions or disposals were made in the year. However, since the year end we have exchanged contracts on two separate purchases totalling £76m before costs. Both were off-market transactions and offer the opportunity to increase value through refurbishment.

We have exchanged contracts to acquire **1 Page Street** SW1 for £45m. This is a 118,000 sq ft (11,000m²) vacant office building opposite our very successful Horseferry House project. We are looking to refurbish the building extensively with completion due in mid-2012, to meet improving tenant demand.

The other acquisition is the **Network Building**, 95-100 Tottenham Court Road W1, which is located in our Fitzrovia Estate. The Group already owns the building's freehold and we have exchanged contracts to acquire the existing headlease for £31m. The lease runs until 2054 with a fixed nominal ground rent. The 64,000 sq ft (5,900m²) multi-let office and retail building produces £2.1m pa and there is 15,200 sq ft (1,400m²) of vacant offices which require refurbishment.

Property review
Projects

Derwent London has a reputation for creating exciting spaces that meet the current and future needs of its tenants and the communities in which it operates.



Management believes that rental and capital growth can be achieved through design-led innovative projects which can range from refurbishment of an individual floor to redevelopment of a complete building. We strive to identify and progress such opportunities and, at present, are assessing projects for more than 50% of our 5.4 million sq ft (500,000m^2) portfolio. Vacant possession of 1.8 million sq ft (167,000m^2), or 34% of our portfolio, could be gained for such schemes over the next five years.

Review of 2010 activity

During the last three years, despite the economic downturn, the Group has continued to invest in its portfolio incurring £214.0m of capital expenditure, including £49.5m in 2010. A number of projects were de-risked through pre-lettings including the 263,000 sq ft (24,400m^2) **Angel Building** which was completed in September 2010. Nearly half the building was pre-let and we are now marketing the remaining space, which has a rental value of approximately £5.0m pa. We have 22,900 sq ft (2,100m^2) under offer at a rent of £0.9m pa and are seeing good interest from other potential tenants. The Angel Building is discussed in more detail in the case study on pages 36 and 37.

We also completed 148,000 sq ft (13,700m^2) of other refurbishments during 2010 with an estimated rental value of £4.8m pa. These were principally located in the West End and included:

- **65 Whitfield Street** W1 – a 30,000 sq ft (2,800m^2) five-storey office refurbishment that is 70% let or under offer.
- **1 Maple Place/12 Fitzroy Street** W1 – a 20,000 sq ft (1,900m^2) office refurbishment.
- **9-10 Rathbone Place** W1 – a 12,000 sq ft (1,100m^2) retail and office refurbishment where approximately half the space is let.

In addition, we achieved two major planning consents during the year (Hampstead Road and 60 Commercial Road) and submitted two important planning applications (80 Charlotte Street and City Road Estate).

411,000 sq ft

(38,100m^2) project space completed in 2010

Property review
Projects

Over
50%
of our portfolio is earmarked for refurbishment, regeneration or redevelopment

Projects - 2011

With our leasing activity, strong tenant enquiries and the short-term central London supply constraints, we have been advancing the project pipeline across our villages.

At the year end, we were on site with four schemes which totalled 79,000 sq ft (7,300m²). Upon completion, these will have an estimated rental value of £3.5m pa and involve future capital expenditure of approximately £9.2m. The largest is the 48,000 sq ft (4,500m²) office, residential and retail refurbishment of **Victory House**, 170 Tottenham Court Road W1 which will be available later this year. The others are **33 George Street** W1, which has been pre-let, and refurbishments within the **Tea Building** E1 and **Holden House** W1.

For commencement this year, subject to final design and, in some cases, a satisfactory planning outcome, we have six projects totalling 412,000 sq ft (38,300m²) and are discussed in detail on pages 38 to 40. The proposed capital expenditure is about £68m and a rental value of approximately £15m pa is anticipated, an uplift of £8m on the current rental income of £7m pa. These are:

- **Woodbridge House**, 30 Aylesbury Street EC1
- **Central Cross**, 18-30 Tottenham Court Road W1
- **Morelands Buildings**, 5-27 Old Street EC1
- **2-14 Pentonville Road** N1
- **88 Rosebery Avenue** EC1
- **1 Page Street** SW1

491,000 sq ft
(45,600m²) of schemes on-site or starting in 2011

Projects - 2012 onwards

Planning consent was obtained in December 2010 for an exciting scheme at **Hampstead Road** NW1. This would deliver 233,000 sq ft (21,600m²) of offices, incorporating our White Collar Factory concept, and 38 residential units totalling 32,000 sq ft (3,000m²). We have already received encouraging pre-letting interest on the majority of the office space. However, the property is located adjacent to Euston station, which may be extended to form the London terminus of the proposed high speed rail link, HS2. The exact location, timing and funding of this major project is subject to public consultation which is currently underway. If HS2 progresses as currently proposed, our Hampstead Road property could be impacted and, consequently, we are seeking clarification before finalising the extent and scale of our redevelopment plans. The existing leases expire by September 2011 and we are looking to firm up our plans towards the end of the year.

Further office projects at **40 Chancery Lane** WC2 and **Turnmill** EC1 are earmarked to start in 2012 and total 170,000 sq ft (15,800m²). These are in various stages of evaluation and planning.

A considerable amount of the planning work undertaken in 2010 involved a number of major projects for 2013 and beyond. These are well advanced and 2011 will be an important year with planning decisions anticipated at City Road Estate EC1, 80 Charlotte Street W1 and 1 Oxford Street W1. Elsewhere, we continue to progress appraisal studies at 1-5 Grosvenor Place SW1 and 55-65 North Wharf Road W2. Finally, although our projects are generally office-led, we look at alternative uses if greater value can be gained. We are investigating two such opportunities at 60 Commercial Road E1 and Riverwalk House, 157-166 Millbank SW1.

Project summary

2011–2012

	Existing area m²	Proposed area m²	Capital expenditure £m	Potential delivery Year
On site				
Victory House W1	4,500	4,500	7.8	Q3 2011
33 George Street W1	1,200	1,200	0.7	Q1 2011
Tea Building E1	1,000	1,000	0.5	Q1 2011
Holden House W1	600	600	0.2	Q1 2011
	7,300	7,300	9.2	
2011				
1 Page Street SW1	11,000	11,000	16.0	Q2 2012
Woodbridge House EC1	7,000	7,900	15.2	Q3 2012
Central Cross W1 – Phases 1 and 2	4,900	5,900	12.2	Q4 2012
2-14 Pentonville Road N1	4,100	5,100	10.7	Q4 2012
88 Rosebery Avenue EC1	4,600	4,600	3.2	Q2 2012
Morelands Buildings EC1	3,000	3,800	10.5	Q1 2013
	34,600	38,300	67.8	
2012				
132-142 Hampstead Road NW1	21,400	24,600	86.0	Q4 2013
40 Chancery Lane WC2	5,700	9,300	41.0	2014
Turnmill EC1	3,800	6,500	26.0	2014
	30,900	40,400	153.0	
Other	–	–	48.0	
Total	72,800	86,000	278.0	

2013 onwards

	Existing area m²	Proposed area m²	Vacant possession Year	Comment
City Road Estate EC1	11,500	26,500	2012	Planning application submitted
80 Charlotte Street W1	18,600	31,200	2013	Planning application submitted
Balmoral Grove Buildings N1	4,600	15,100	2013	Appraisal studies
1-5 Grosvenor Place SW1	15,600	24,200	2014	Appraisal studies
55-65 North Wharf Road W2	7,200	29,100	2014	Consented scheme
Central Cross W1 – Phase 3	2,200	3,300	2014	Appraisal studies
1 Oxford Street W1	–	25,700	c.2017	Appraisal studies
Other	9,900	12,100		Inc. Covent Garden Estate, 65 Whitfield Street
	69,600	167,200		

Other

	Existing area m²	Proposed area m²	Vacant possession Year	Comment
Riverwalk House SW1	7,000	12,500	2011	Appraisal studies for residential
60 Commercial Road E1	2,800	11,300	2012	Consented scheme
Wedge House SE1	3,600	7,400	2012	Renewing planning permission
Leonard Street EC2	–	5,100	Site	Consented scheme
Smaller schemes	3,700	6,000		Inc. Vauxhall Bridge Road, Bishops Bridge Road
	17,100	42,300		

Property review
The Angel Building

The Angel Building is Derwent London's largest regeneration project to date, transforming the original 1980s office block into contemporary urban office space with a curving frontage and new perimeter landscaping.

"The design of the Angel Building incorporates a number of environmental features which will help us to minimise our running costs and reduce our carbon footprint. Our move has enabled us to work more efficiently and will reduce our property operating costs by 20%. We are very pleased we made the decision to move here."

Cancer Research UK

Overview

Village
Islington/Clerkenwell

Architect
AHMM

Size
263,000 sq ft
(24,400m²)

62% uplift

Capex
c£90m
on time, within budget

Type
95% offices
5% retail

Rental income
48% pre-let at
£5.0m pa
ERV of c£10m pa

Key tenant
Cancer Research UK

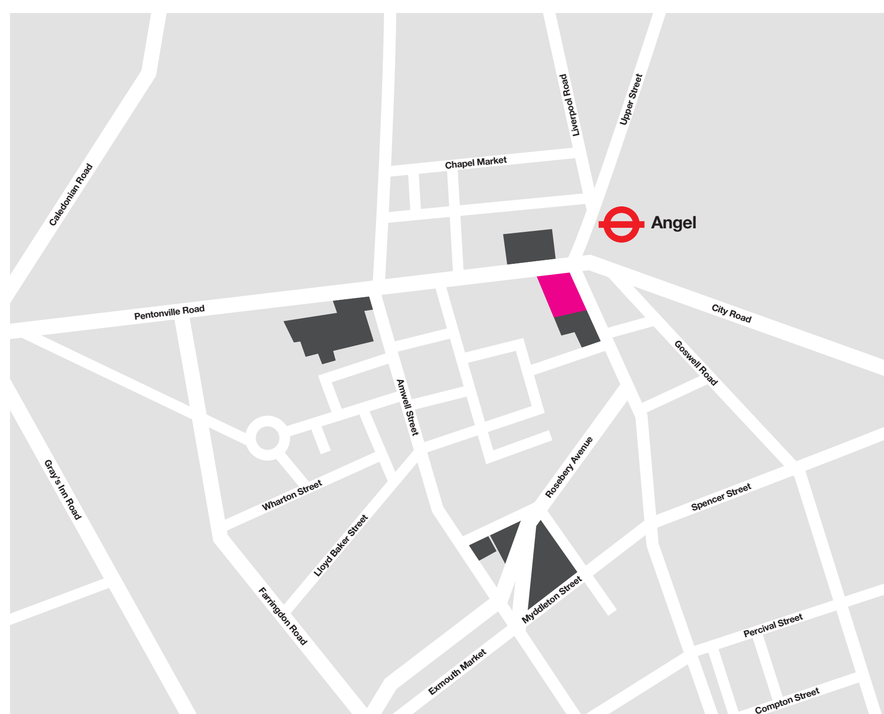
The property is located on the corner of St John Street and Pentonville Road, where the City of London meets the West End. Under an agreement with BT, the previous tenant, the income stream was maintained during development and the project was further de-risked by pre-letting nearly half the space to Cancer Research UK. Since completion we have had good interest from prospective tenants for the remaining space with 22,900 sq ft (2,100m²) under offer at the beginning of March 2011.

Creating exciting new spaces

Originally set back from the road and hidden behind trees and shrubs, the building was in need of regeneration. Our regeneration strategy was focused on re-using the existing structure and extending forwards, gaining substantially more floorspace and reconnecting the frontage with the streetscape. A striking new façade was clad in a high-performance double-glazed system with solar shading and retail and restaurant units with double height volumes have been created on the ground floor.

Within the building there is an emphasis on natural light and innovative design. A previously under-utilised central courtyard was enclosed and converted into a full height atrium allowing light into the large, divisible office floor-plates, which are capable of open-plan and part-cellular layouts. A new top floor was also added with 20,000 sq ft (1,860m²) of terraces that surround the building with stunning views of the London skyline and a 4,000 sq ft (370m²) terrace was added to the fourth floor. Internally, smooth 'fair-faced' exposed concrete provides a modernist feel while many of the common areas feature elegant terrazzo floors in a grid-pattern of small white marble blocks, based on a 1950s Venetian design.

■ Angel Building
■ Other Derwent London properties



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1 The full height atrium with Ian McChesney's sculpture 'Out of the strong came sweetness'.

2 A view from the top floor terrace.

3 The striking frontage of the Angel Building on St John Street.

Communal space

The reception area acts as a hub, featuring a café and lounge for use by occupiers and their visitors. A mezzanine area at first floor level and further break-out spaces on all floors also overlook the atrium. In addition, part of the top floor terrace is accessible by all tenants.

The Angel Building showcases works by a number of artists including 'Out of the strong came forth sweetness', a spectacular 15 metre high sculpture by Ian McChesney, which also provides seating, an installation by Teresita Fernandez featuring a swarm of graphite pieces on a large canvas and a collection of black and white works by four photographers. These help create a unique and stimulating environment.

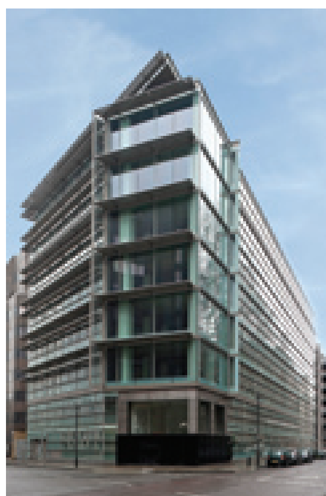
Sustainability

Sustainable issues were central to our plans for the Angel Building and we were pleased it was awarded an 'Excellent' BREEAM rating and an EPC 'B' rating. The building is well-served by public transport and is cycle friendly. We also saved energy by re-using the existing structure and installed a wide range of energy-saving and other environmental features.

Examples of environmental measures at the Angel Building:

- high performance glazing offering good insulation and solar shading;
- clever concrete: re-use of existing concrete frame and new concrete uses pulverised fuel ash, a by-product of power stations;
- low energy lifts which use 50% less energy than conventional lifts;
- only sustainably sourced timber from renewable sources was used;
- displacement ventilation system using heat recovery gives a 44% saving in CO_2 emissions compared to a fan-coil system;
- intelligent lighting (DALI) which adapts to changing levels of daylight and occupancy;
- renewable fuel: two biomass boilers provide 50% of the heating demand;
- water saving: harvested rainwater and waterless urinals save the equivalent of 455,000 WC flushes per year;
- biodiversity: existing mature trees were retained; and
- cycles: there is secure storage for 182 cycles and there are 30 more spaces for visitors with showers and substantial changing facilities.

Development pipeline
Short-term



Victory House W1
Village: Fitzrovia
Type: Offices/Residential/Retail
Size: 48,000 sq ft (4,500m²)
Completion date: 2011
Architect: Ben Adams Architects

This building is currently being refurbished to provide four floors of modernised offices, eleven high quality residential apartments to be rented out and new retail frontage on the ground floor.

1 Page Street SW1
Village: Victoria
Type: Offices
Size: 118,000 sq ft (11,000m²)
Completion date: 2012
Architect: PLP/Architecture

This recent acquisition is situated opposite the Group's holding of Horseferry House. It is a ten-storey office building which is currently vacant and the whole building will be refurbished over the next 12 months to provide high quality, contemporary office space with a remodelled entrance. The property will be suitable for either single or multiple occupancy.

88 Rosebery Avenue EC1
Village: Clerkenwell
Type: Offices
Size: 103,000 sq ft (9,600m²)
Completion date: 2012

A 49,000 sq ft (4,600m²) refurbishment, approximately half the building, which has been pre-let to City University at £1.2m pa.

Victory House
1 Page Street
88 Rosebery Avenue
Woodbridge House
2-14 Pentonville Road
Central Cross Phases 1 & 2
Morelands Buildings
132-142 Hampstead Road
Turnmill
40 Chancery Lane

2011 Q1 | Q2 | Q3 | Q4 | 2012 Q1 | Q2

Woodbridge House EC1
Village: Clerkenwell
Type: Offices
Proposed size: 85,000 sq ft (7,900m²)
Completion date: 2012
Architect: Buckley Gray Yeomen

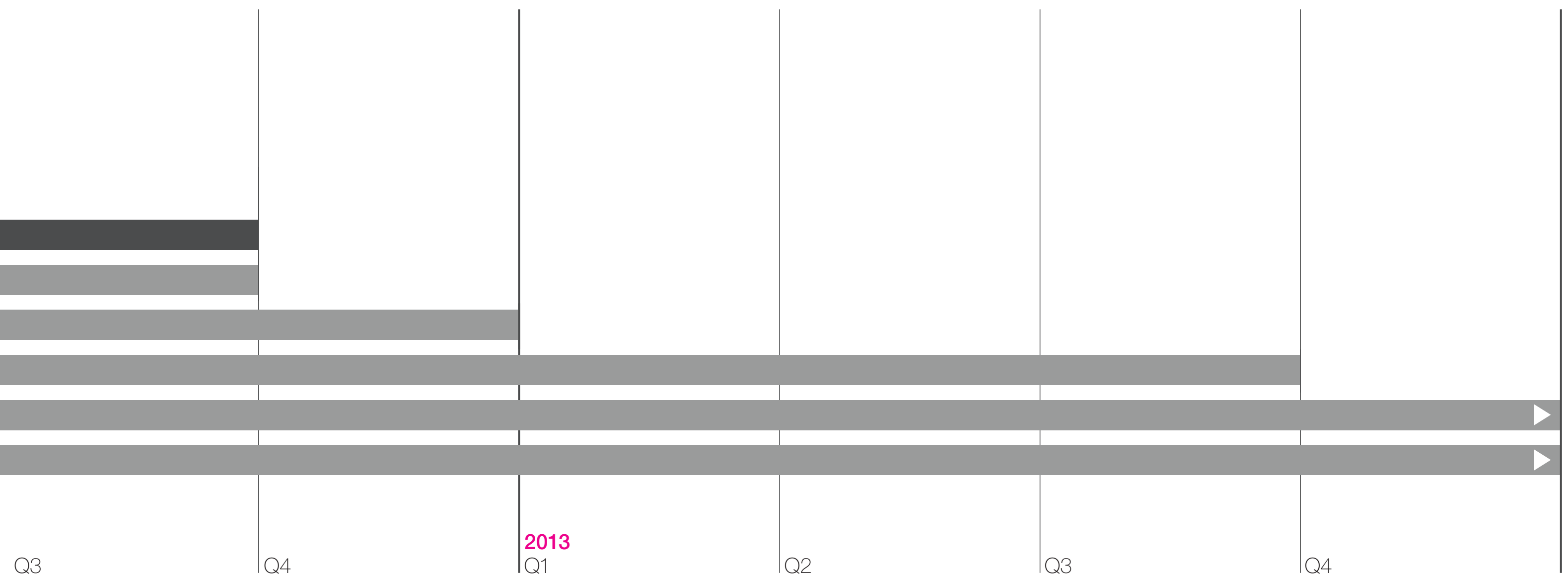
We intend to refurbish and extend this building to deliver an uplift of 13% on the existing floorspace. The scheme will involve infilling the atrium to create additional office space, relocating the entrance and remodelling the ground floor fascia.

2-14 Pentonville Road N1
Village: Islington/Camden
Type: Offices
Proposed size: 55,000 sq ft (5,100m²)
Completion date: 2012
Architect: Stiff + Trevillion

Located opposite the Angel Building, we are proposing an office refurbishment and extension that will increase the existing floor area by over 20%. Vacant possession will be obtained in June 2011.

Riverwalk House SW1
Village: Victoria
Type: Residential
Proposed size: 135,000 sq ft (12,500m²)
Architect: Stanton Williams

The existing 75,000 sq ft (7,000m²) office building occupies a prestigious riverside location in Victoria. The office lease expires in April 2011 and we are finalising a planning application for a high-grade residential development. Consideration will be given to a sale or possible joint venture once planning permission has been obtained.



Development pipeline
Short-term

Central Cross W1 Phases 1&2
Village: Fitzrovia
Type: Mixed
Size: 251,000 sq ft (23,300m^2)
Completion date: 2012
Architect: ORMS

Our plans to give this property a new identity and to transform the building are firmly progressed. A planning application has been submitted to reconfigure the office entrance and create 23,000 sq ft (2,100m^2) of ground floor offices. The refurbishment could also include a further 41,000 sq ft (3,800m^2) of offices subject to lease expiries.

Morelands Buildings EC1
Village: Clerkenwell
Type: Offices/Retail
Size: 80,000 sq ft (7,400m^2)
Completion date: 2013
Architect: AHMM

Following the headlease regear, we now have the opportunity to undertake a 41,000 sq ft (3,800m^2) refurbishment on part of the building. This will include a new penthouse office floor of 8,500 sq ft (800m^2) for which planning permission has been obtained. When complete, the building will total 88,500 sq ft (8,200m^2).

132-142 Hampstead Road NW1
Village: Euston
Type: Office
Proposed size: 265,000 sq ft (24,600m^2)
Completion date: 2013
Architect: AHMM

Planning consent was obtained in December 2010 for an exciting scheme at Hampstead Road NW1. This would deliver 233,000 sq ft (21,600m^2) of offices, incorporating our White Collar Factory concept, and 38 residential units totalling 32,000 sq ft (3,000m^2). We have already received encouraging pre-letting interest on the majority of the office space. However, we are seeking clarification in regards to the impact of the high speed rail link HS2 before finalising the extent and scale of our redevelopment plans.

Victory House
1 Page Street
88 Rosebery Avenue
Woodbridge House
2-14 Pentonville Road
Central Cross Phases 1&2
Morelands Buildings
132-142 Hampstead Road
Turnmill
40 Chancery Lane

2011 Q1 | Q2 | Q3 | Q4 | 2012 Q1 | Q2

Turnmill EC1

Village: Clerkenwell
Type: Offices
Proposed size: 70,000 sq ft (6,500m²)
Completion date: 2014
Architect: Piercy Conner

A revised planning application was submitted in early 2011 for a new office development. The building occupies a major corner site near to Farringdon station, which is currently being redeveloped as part of Crossrail.

40 Chancery Lane WC2

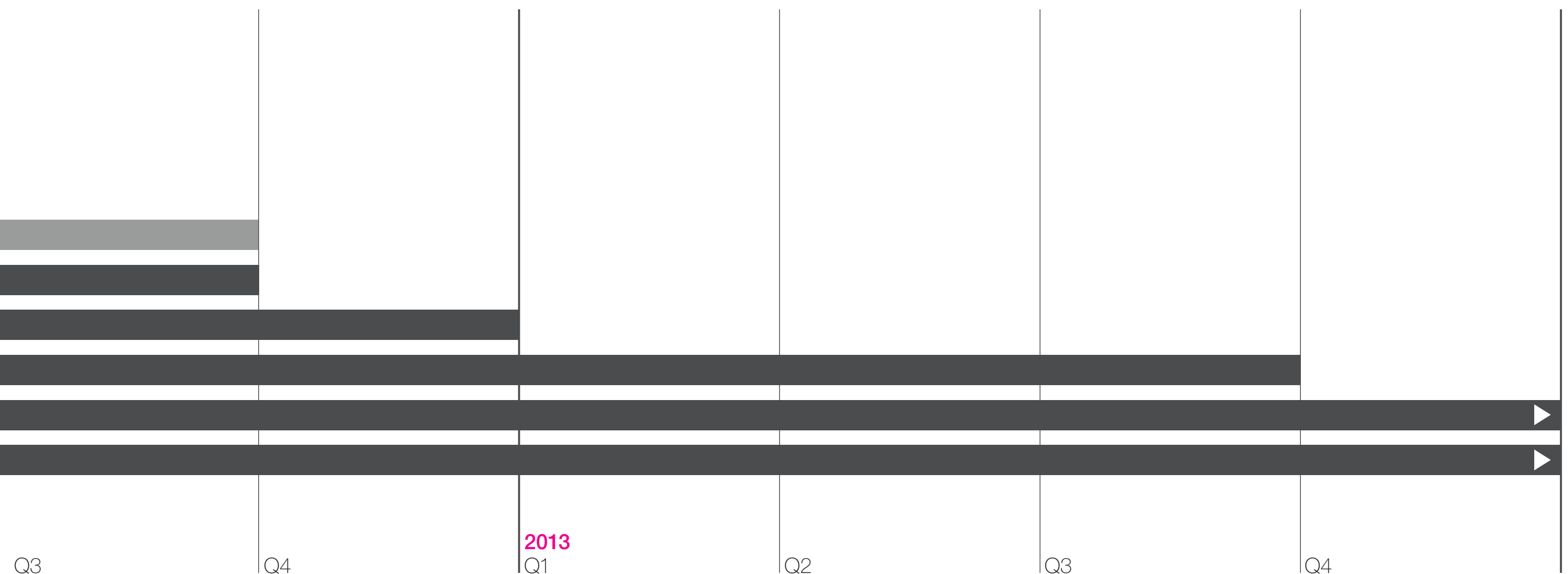
Village: Holborn/Midtown
Type: Offices
Proposed size: 100,000 sq ft (9,300m²)
Completion date: 2014
Architect: Bennetts Associates

Redevelopment of a large corner site in the City of London to create a six-storey new-build office including the refurbishment of a building on Took's Court. The development will include a new retail unit on Chancery Lane and a publicly accessible passageway to a landscaped courtyard that brings natural daylight to the new office floors.

60 Commercial Road E1

Village: Shoreditch
Type: Student housing/Offices
Proposed size: 122,000 sq ft (11,300m²)
Architect: Buckley Gray Yeoman

In 2010, planning permission was obtained for a mixed-use development to replace existing buildings of 30,000 sq ft (2,800m²). The scheme comprises 417 student rooms and 26,500 sq ft (2,460m²) of office space and vacant possession can be obtained in 2012. It is possible this holding will be sold in due course.



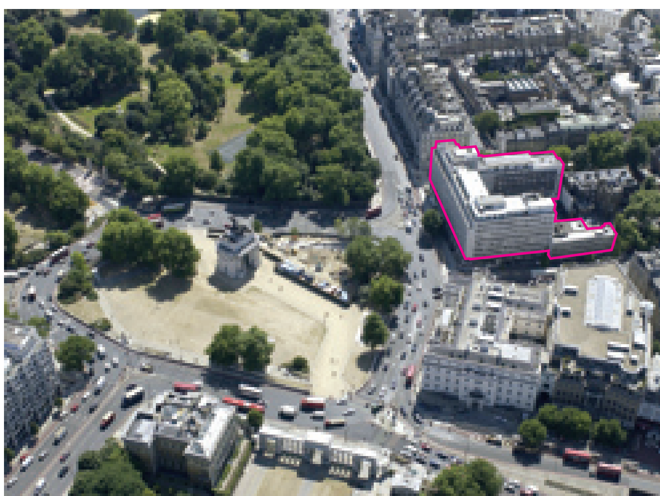
Development pipeline
Long-term

City Road Estate EC1
Village: Old Street
Type: Offices
Proposed size: 285,000 sq ft (26,500m²)
Architect: AHMM

In August 2010, a planning application was submitted for an office-led regeneration that includes a new 16-storey office building incorporating our White Collar Factory concept and represents an uplift of 161,000 sq ft (15,000m²) over the existing buildings. This location has been identified as the centre of a Government initiative to attract technology companies and has been dubbed 'Silicon roundabout'.

80 Charlotte Street W1
Village: Fitzrovia
Type: Offices/Residential
Proposed size: 336,000 sq ft (31,200m²)
Architect: Make

Located in the heart of our Fitzrovia Estate, we are proposing an office-led regeneration on a 1.4 acre island site. It would replace office buildings of 200,000 sq ft (18,600m²) which are let to Saatchi & Saatchi, at a rent of £4.3m pa, until 2013. The planning application was submitted in December 2010.



1-5 Grosvenor Place SW1
Village: Belgravia
Type: Mixed
Proposed size: 260,000 sq ft (24,200m²)

We are in discussions with our freeholder, the Grosvenor Estate, for a major scheme that will replace the existing buildings of 168,000 sq ft (15,600m²) in this prime Belgravia location.

55-65 North Wharf Road W2
Village: Paddington
Type: Offices/Residential
Proposed size: 313,000 sq ft (29,100m^2)
Architect: Fletcher Priest

We have planning consent for an office and residential scheme and are furthering the detailed design. We hold a leasehold interest to 2096 and the occupational leases have breaks or expiries in 2014.

Central Cross W1 Phase 3
Village: Fitzrovia
Type: Mixed
Size: 251,000 sq ft (23,300m^2)

Subject to planning, we intend to extend the retail units on Tottenham Court Road out to the edge of the colonnade, increasing the existing space by up to 12,000 sq ft (1,100m^2) or 50%. Vacant possession can be obtained in 2014 but we expect to submit a planning application in 2012.

1 Oxford Street W1
Village: Soho/Covent Garden
Type: Mixed
Proposed size: 277,000 sq ft (25,700m^2)
Architect: AHMM

Although our interests were compulsorily purchased in 2009, we have an option to re-acquire the site upon completion of the Tottenham Court Road Crossrail station works around 2017. This is a major regeneration opportunity in a core West End location that incorporates approximately 277,000 sq ft (25,700m^2) of offices, retail and theatre above the proposed station. We are master-planning the scheme's commercial element which, when built, will bring immense benefits to the area. It is likely that our planning application will be submitted in mid-2011.

Property review
Central Cross

Central Cross is strategically located in an area where we already have substantial holdings and expect to see significant improvements from infrastructure enhancements, principally Crossrail.

Overview

Village
Fitzrovia

Size
2.1 acre site
251,000 sq ft
(23,300m^2)

Type
86% offices
10% retail
4% cinema

Purchase price
£146m funded from existing facilities

Rental income
£8.1m pa
Average rent
£34 per sq ft

Yield
5.2% (EPRA net initial)

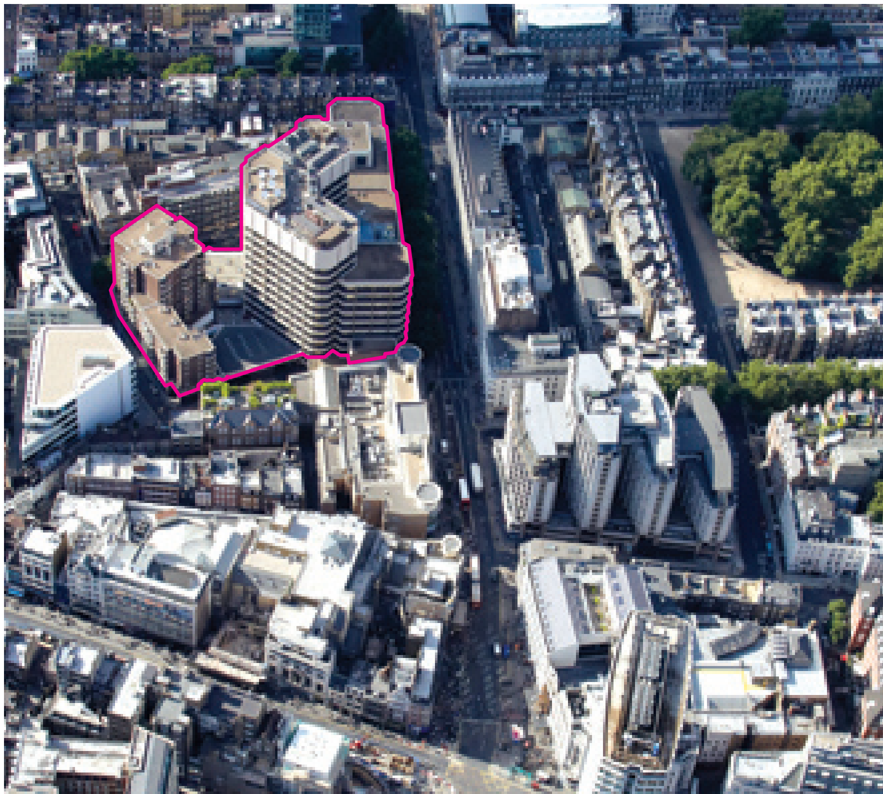
Key tenants
FremantleMedia Group
S Technologies (Skype)
Encompass Digital Media (formerly Ascent Media)

The property offers significant regeneration potential and value creation through the development of a new entrance and ground floor studios, refurbishment of the offices and extension of the retail space.

The building was originally built in the 1970s and now incorporates a mix of uses. Unusually, it spans a roadway, Stephen Street, which connects to Tottenham Court Road via a short passage under the building. The office entrance is on Stephen Street and there is retail frontage on Tottenham Court Road.

Our immediate priority is to create a more inviting aspect from Tottenham Court Road, encouraging footfall along Stephen Street and welcoming tenants and visitors to the building. It should also enhance east-west links through to Gresse Street and the Charlotte Building, another Derwent London property.

Central Cross represents an excellent opportunity to demonstrate Derwent London's 'place-making' skills, opening up an otherwise back-street environment and contributing to further urban regeneration in the neighbourhood.



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1 Aerial view of Central Cross with the Charlotte Building to the left.

2 Proposed entrance on Stephen Street.

3 Proposed refurbished entrance and reception area.

3

2

A more positive experience

Our vision for transformation of the property begins on Stephen Street where we have drawn up plans to rejuvenate the façade and entrance. Currently, the office entrance is set back from the road and overshadowed by a large canopy whilst the walls have no windows, creating an unwelcoming environment for occupiers, visitors and passers-by.

We intend to remove the existing canopy and vehicle drive-in and bring the office entrance out closer to the road, connecting it better with the street. It will then be visible from all angles on Stephen Street and from the passage to Tottenham Court Road.

A larger, contemporary entrance and reception area will be developed with an internal café and lounge space for occupiers and their visitors and a new canopy at six metres above street level will run continuously along Stephen Street and Gresse Street, curving around the property. Underneath, a sweeping façade of full-height glass and perforated metal will unify the building, generating a feeling of greater light and space. Four new double-height studio spaces will also be created with frontage on the street allowing for separate entrances if required.

A planning application was submitted in February 2011.

Working with residents and the local community

A key element of Derwent London's business model is to build strong relationships with its tenants and the local communities in which it operates. We are already working closely with the tenants at Central Cross and meet regularly with local residents. We also have plans to upgrade the entrance in Gresse Street with new finishes and lighting as part of the initial refurbishment.

We are very excited about our plans for the area. We believe it is important to maintain a regular dialogue with those who live and work locally so we can all share in the benefits.

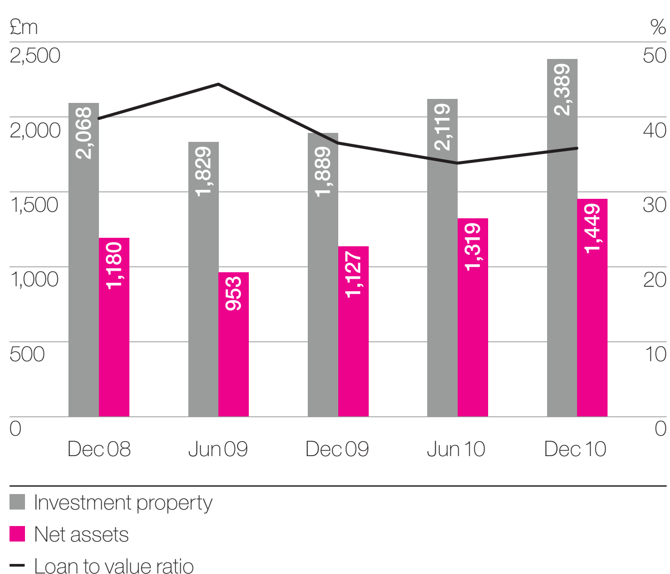
Finance review

The Group's adjusted net asset value per share increased to 1,484p and the overall profit before tax increased to £356.4m due mainly to the strong recovery in central London property valuations during 2010.

Adjusted net asset value per share

Driven by the pronounced recovery in central London commercial property values during 2010, the Group's adjusted net asset value per share increased by 27% to 1,484p per share at 31 December 2010 from 1,168p a year earlier. The EPRA adjusted net asset value per share, which is a fully diluted measure and which we will be adopting from now on, increased accordingly from 1,161p to 1,474p per share. A full explanation of the underlying calculations is provided below and in note 16.

Investment property, net assets and gearing



EPRA net asset value

	2010 £m	per share p	2009 £m	per share p
Net assets	**1,494.7**		1,163.9	
Less minority interest	**(45.9)**		(36.7)	
Net assets attributable to equity shareholders	**1,448.8**	**1,432**	1,127.2	1,117
Adjustment for:				
Deferred tax on revaluation surplus	**8.9**		8.1	
Less share of minority interest	**(0.3)**		(0.3)	
Fair value of derivative financial instruments	**25.4**		23.0	
(Less)/add share of minority interest	**(0.4)**		0.4	
Fair value adjustment to Secured Bonds	**19.4**		20.2	
Total adjustments	**53.0**		51.4	
EPRA adjusted net asset value – undiluted	**1,501.8**	**1,484**	1,178.6	1,168
– diluted		**1,474**		1,161

Like-for-like rental income

	Properties owned throughout the two years £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2010					
Rental income	109.7	3.4	0.1	5.5	118.7
Property expenditure	(6.2)	(0.4)	(0.1)	(1.4)	(8.1)
Net rental income	**103.5**	**3.0**	**–**	**4.1**	**110.6**
Surrender premiums	0.7	–	–	–	0.7
Other income	1.7	–	–	–	1.7
Net property income	**105.9**	**3.0**	**–**	**4.1**	**113.0**
2009					
Rental income	107.1	–	10.9	5.7	123.7
Property expenditure	(8.7)	–	(1.0)	(0.8)	(10.5)
Net rental income	98.4	–	9.9	4.9	113.2
Surrender premiums	0.1	–	–	–	0.1
Other income	1.5	–	–	–	1.5
Net property income	100.0	–	9.9	4.9	114.8
Increase based on gross rental income	**2.4%**				
Increase based on net rental income	**5.2%**				
Increase based on net property income	**5.9%**				

Despite £201.8m of disposals in 2009, underlying earnings per share increased to

51.17p

from 50.49p in 2009

Group income statement

As anticipated in last year's report, gross property income fell from £123.8m in 2009 to £119.4m for the year ended 31 December 2010 as the impact of the £201.8m of investment property sales made during 2009 took effect. The year on year reduction in income from those sales of £10.8m was partly offset by additional income of £6.4m from lettings, rent reviews and new acquisitions net of voids.

Helped by very low void levels during most of the year and dilapidations receipts of £1.6m, net rental income for 2010 was £111.3m which was only £2.0m lower than the previous year. That figure also took account of a further recovery of £1.7m of commercial rates rebates from prior years though that was less than the £2.8m rates credit recognised in 2009; this exercise is continuing but recoveries are expected to be lower in the future. Including other fee income, net property income for the year was £113.0m against £114.8m in 2009.

With effect from 1 January 2010 and as already explained in the interim results, the Group changed its method of presentation of loan arrangement costs and non-utilisation fees to align the treatment with standard practice. There is no impact upon the Group's net asset value, underlying profit or the overall profit or loss before taxation as a result of these changes and the minor presentational effect on the previously reported figures is shown in note 1.

Finance review

For the year ended 31 December 2010, administrative expenses, excluding the movement in cash-settled share options, increased to £20.9m from £17.5m in 2009 due mainly to increased staff and office costs as we added further breadth and depth to the management team for the next cycle of development projects. The comparative figure in 2009 only took into account the cost of the property management function for seven months as it was outsourced prior to May 2009 and was reduced by the reversal of £0.3m of accruals from prior years. Net finance costs, excluding foreign exchange movements, fell from £39.5m in 2009 to £37.7m in 2010 due to the lower average borrowings in the first half of the year and also due to a reduction in the average cost of debt. Floating UK interest rates remained low through 2010 though there are now expectations that this period of historically low rates may be about to end. A fuller explanation of the financing initiatives undertaken during the year is included below.

The EPRA profit before tax was £55.3m for the year compared to £61.8m in 2009; the EPRA earnings per share for 2010 were 52.99p compared to 57.14p in 2009. The EPRA earnings definitions, which we will now be adopting as our principal adjusted reporting measures, include the impact of the rates credits referred to above and a foreign exchange movement on the retranslation of a US dollar denominated intercompany loan. These items are not likely to be significant in future periods and, if they are excluded, the underlying profit before taxation for the year moves to £53.8m against £55.4m in 2009.

The Group will commence capitalisation of interest on developments from 1 January 2011

The overall profit before taxation for the year was very robust at £356.4m compared to a loss in 2009 of £34.9m. This was predominantly due to property revaluation movements, the surplus arising in 2010 from the revaluation of the Group's property portfolio of £301.6m contrasting with a deficit in 2009 of £81.1m. The revaluation of our joint venture property interests also gave a surplus of £0.9m in 2010 against a loss of £1.3m in the previous year.

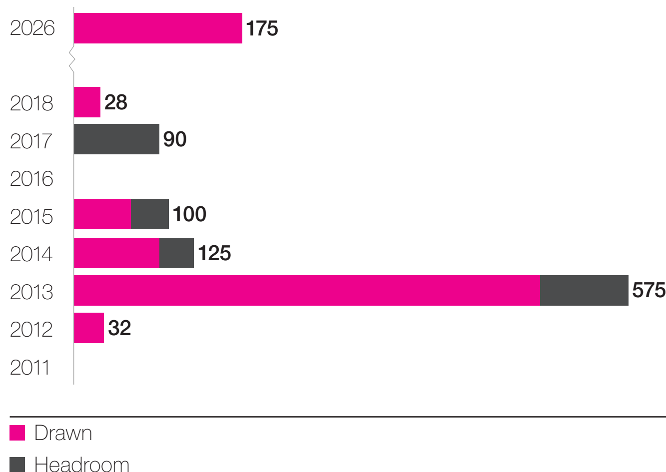
The gain on the disposal of investment properties of £0.9m reflects the final reckoning of the settlement of Crossrail's acquisition of our properties at Charing Cross Road. Total proceeds received were agreed at £49.3m, the balance of £8.3m being received in December 2010. Since acquisition, the overall historical loss on disposal of these properties, which included the old Astoria theatre, was £0.5m but we retain the right to buy back the site for redevelopment once the Crossrail works are complete.

A mark-to-market deficit of £2.4m arose in 2010 for the Group's hedging instruments against a gain of £3.9m in 2009. In the final quarter of the year, inflationary fears and sovereign debt concerns pushed bond yields upwards and the theoretical cost of unwinding the Group's hedging fell by £13.4m.

In the light of the anticipated level of redevelopment over the next few years, we have also reviewed thoroughly the Group's policy with respect to interest capitalisation on developments. IAS 23 permits the capitalisation of interest on development expenditure as long as this is applied consistently, an approach followed by all of our peer group in the UK REIT sector with significant development activity. Accordingly, and in order to improve comparability within the sector, the Board has concluded that the Group will capitalise interest on development projects with effect from 1 January 2011; for 2010, this would have reduced finance costs by £1.0m and for 2011, it is expected to increase adjusted profits by about £2.3m. This change of accounting policy does not alter our approach to financial management within the Group and the Group's interest cover bank covenant calculations, which are monitored closely and forecasted as part of our business planning, are generally unaffected by the change of accounting policy.

Taxation

The current year tax charge relating to the non-REIT part of the business was £1.0m after allowing for losses brought forward. The prior year tax credit benefitted from the reversal of tax provisions as losses from prior years were utilised. The deferred tax provision in 2010 was almost unchanged as the effect of the higher revaluation surplus was almost entirely offset by the reduction in the UK corporation tax rate which will fall to 27% from 28% in April 2011.



Two facilities totalling

£190m

were arranged during the year

Financing, net debt and cash flow

In 2010 and in response to the more favourable economic conditions in our markets, we reinforced our investment in the Group's property portfolio with capital expenditure and property acquisitions totalling £197.5m. After netting off the proceeds received from property disposals, mainly from Crossrail in December, the net cash outflow relating to the portfolio during the year was £189.0m. This contrasts with 2009 when proceeds from disposals exceeded capital spending by £90.7m. The net cash generated from operations in 2010 also decreased to £46.5m, the reduction from the previous year's figure of £66.4m due mainly to lower rental receipts following the property sales in 2009 and the £6.5m contribution from the sales of trading properties in 2009. As a result of these factors, the Group's net debt at the balance sheet date increased to £887.8m from £720.8m in 2009.

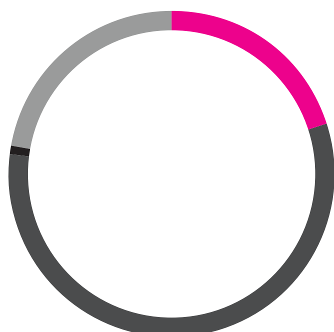
In spite of this level of investment in the portfolio, overall gearing levels have fallen since 1 January 2010 due mainly to the uplift in property values. Taking account of unamortised loan arrangement costs, the overall loan to value ratio fell to 35.7% at 31 December 2010 from 36.4% in 2009 and balance sheet gearing fell to 59.4% from 61.9% a year earlier. Overall interest cover for the year was 328%, almost unchanged from the 2009 figure.

Turning now to the Group's debt facilities, we took the decision early in 2010 to set about refinancing the £200m facility that was due to expire in December 2011. There has been much written about the availability and pricing of secured senior finance and it is undeniable that margins and arrangement fees have increased substantially in the last two to three years. What the overall data mask is that, for some borrowers, senior debt is all but unavailable while for others such as ourselves, there is still an appetite from lenders to provide new or replacement facilities on appropriate terms.

Derwent has historically borrowed almost exclusively on a secured basis from the UK clearing banks, with whom we continue to enjoy an excellent relationship. The terms of these loan facilities provide the Group with a high level of flexibility. This remains a fundamental element in our financing strategy and we were pleased to agree a new £100m fully revolving five-year secured facility with HSBC in November 2010. It has been apparent for some time that the UK banking sector faces considerable pressure to reduce its exposure to commercial property lending. We were, therefore, also intent in our strategy on introducing a new relationship from the wider group of established property lenders and signed a new £90m part-revolving seven-year secured facility with Eurohypo in December 2010. This facility has a ratcheted margin which falls as LTV ratios decrease. The amount drawn under the Eurohypo loan has been fixed for seven years by means of an interest rate swap at a cost, based on the existing loan to value ratio, of 4.73% pa inclusive of margin. As a combination, these two new facilities provide us with flexibility and reasonable pricing in the context of current market conditions.

Finance review

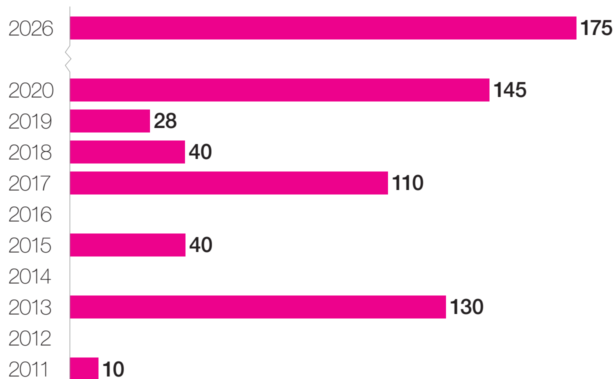
Hedging profile[1] %



Fixed	20
Swaps	57
Capped	1
Floating	22

[1] Including additional £70m swap entered into in January 2011

Maturity profile of fixed and hedged debt[1] £m



[1] Including additional £70m swap entered into in January 2011

In order to provide some compensation for the higher margins payable under these two new facilities than under the previous facility, we were able to agree with the former lender that they would pay £0.8m when the loan was refinanced. This additional income has been taken to the income statement in 2010, as required by IAS 39.

The weighted average length of unexpired debt facilities at 31 December 2010 was 5.2 years, only marginally down from 5.3 years at the 2009 year end.

The other main financing activity during 2010 took advantage of the low interest rates then prevailing to extend and blend downwards the weighted average rates that are paid under interest rate swaps. In anticipation of rising interest rates, in July 2010 the Directors increased the target range of fixed rate debt as a proportion of the whole from 40-75% to 60-85%. Following the agreement of a new £70m swap in January 2011, the Group now has £493m of interest rate swaps in place with a weighted average unexpired term of 6.2 years. As at 31 December 2010, the proportion of overall debt fixed was 70% though this increased to 78% in January 2011 following the new swap contract referred to above.

As a result of this and continuing low floating rates, the weighted average cost of debt, including the Secured Bonds, fell from 5.00% at 31 December 2009 to 4.34% at 31 December 2010.

The next significant round of bank refinancing arises in 2013 when three facilities totalling £575m fall due. Discussions have already commenced with those lenders and we are also looking at alternatives to provide the Group with additional sources of debt funding through the next property cycle.

With continuing low interest rates, interest cover covenants under our bank facilities have been very comfortably met during 2010 and the average loan to value ratio under those facilities was 46% at the year end against a range of covenants from 50% to 75%.

Following the acquisition of Central Cross in August 2010, the level of undrawn bank facilities has fallen but remained substantial at £261m at the year end of which £245m was immediately available. While the available facilities represented a reduction of £108m since the previous year end, the level of uncharged properties has increased by £146m to £484m during the same period giving us the scope to acquire new projects such as the new acquisitions in Page Street and Tottenham Court Road.

The Group retains a healthy balance sheet and we have been able to increase the dividend again this year by 7.4% in accordance with our policy of a progressive dividend backed by careful cash flow management. In order to provide our shareholders with choice, we are also offering a scrip alternative for this year's final dividend as is now permitted under the REIT regime rules.

Net debt

	2010 £m	2009 £m
Cash	**(7.2)**	(19.0)
Bank overdraft	**5.6**	5.9
Revolving bank facilities	**661.0**	503.0
Unsecured loan	**31.4**	31.1
Loan notes	**1.1**	1.4
Secured Bonds 2026	**175.0**	175.0
Fair value and issue costs	**17.9**	18.6
Leasehold liabilities	**7.4**	7.4
Bank loan arrangement costs[1]	**(4.4)**	(2.6)
Net debt	**887.8**	720.8

[1] The comparative figure has been restated for the presentational changes outlined in note 1.

Gearing and interest cover ratio

	2010 %	2009 %
Balance sheet gearing[1]	**59.4**	61.9
Loan to value ratio	**35.7**	36.4
Interest cover ratio	**328**	330

[1] The comparative figure has been restated for the presentational changes outlined in note 1.

Hedging and borrowing costs

	2010 adjusted[1] £m	2010 £m	2009 £m
Bank loans			
Floating rate	**189.4**	259.4	126.1
Capped	**10.0**	10.0	10.0
Swapped	**493.0**	423.0	398.0
	692.4	692.4	534.1
Floating rate loan notes	**1.1**	1.1	1.4
Fixed rate Secured Bonds 2026	**175.0**	175.0	175.0
Total	**868.5**	868.5	710.5
Hedged and fixed rate (%)	**78**	70	82
Weighted average cost of debt (%)	**4.54**	4.34	5.00
Weighted average cost of bank debt (%)	**4.05**	3.90	4.65
Weighted average maturity of facilities (years)	**5.2**	5.2	5.3
Weighted average maturity of swaps (years)	**6.2**	6.1	4.0

[1] Including additional £70m swap entered into in January 2011

Principal properties

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m²
West End: Central (69%)				
Fitzrovia[1]/Euston (37%)				
Central Cross, 18-30 Tottenham Court Road, W1	100+	O/R/L	F	23,300
132-142 Hampstead Road, NW1	25 – 50	O/I	F	21,400
80 Charlotte Street, W1	75 – 100	O	F	18,600
Arup Phases II & III, 8 Fitzroy Street, W1	100+	O	F	13,700
Qube, 90 Whitfield Street, W1	100+	O/R/Re	F	10,200
Holden House, 54-68 Oxford Street, W1	75 – 100	O/R	F	8,400
Henry Wood House, 3-7 Langham Place, W1	50 – 75	O/R	L	7,400
Middlesex House, 34-42 Cleveland Street, W1	25 – 50	O	F	6,000
95-100 Tottenham Court Road, W1	0 – 25	O/R	F	5,900
88-94 Tottenham Court Road, W1	0 – 25	O/R	F	4,900
Victory House, 170 Tottenham Court Road, W1	0 – 25	O/R/Re	F	4,500
Charlotte Building, 17 Gresse Street, W1	25 – 50	O	L	4,400
80-85 Tottenham Court Road, W1	25 – 50	O/R	F	4,100
60 Whitfield Street, W1	0 – 25	O	F	3,400
75 Wells Street, W1	0 – 25	O/R	L	3,200
43 and 45-51 Whitfield Street, W1	0 – 25	O	F	2,900
53-65 Whitfield Street, W1	0 – 25	O	F	2,800
120-134 Tottenham Court Road, W1[2]	25 – 50	R	F	2,700
7-8, 9 and 10 Rathbone Place, W1	0 – 25	O/R/Re	L	2,100
Victoria (12%)				
Horseferry House, Horseferry Road, SW1	100+	O	F	15,100
Greencoat and Gordon House, Francis Street, SW1	50 – 75	O	F	11,900
Riverwalk House, 157-166 Millbank, SW1	50 – 75	O	F	7,000
Premier House, 10 Greycoat Place, SW1	25 – 50	O	F	5,800
6-8 Greencoat Place, SW1	0 – 25	O	F	3,100
232-242 Vauxhall Bridge Road, SW1	0 – 25	O	F	2,200
Soho/Covent Garden (7%)				
Bush House, South West Wing, Strand, WC2	0 – 25	O	F	10,000
Covent Garden Estate, WC2:	50 – 75	O/R/Re	F	6,700
19-26 and 19a Floral Street				
26 and 27-32 King Street				
34 Rose Street				
Tower House, 10 Southampton Street, WC2	25 – 50	O/R	F	4,900
Davidson Building, 5 Southampton Street, WC2	25 – 50	O/R	F	3,900
Jaeger House, 57 Broadwick Street, W1	0 – 25	O/R	F	2,300
Belgravia (5%)				
Hyde Park Corner Estate, SW1:	100+	O/R/Re	L	15,600
1-3 Grosvenor Place				
4-5 Grosvenor Place				
3-5 Pembroke Close				
Baker Street/Marylebone (5%)				
19-35 Baker Street, W1	25 – 50	O/R	L	6,600
88-110 George Street, W1	0 – 25	O/R/Re	L	4,200
30 Gloucester Place, W1	0 – 25	O/Re	L	2,200
16-20 Baker Street and 27-33 Robert Adam Street, W1	0 – 25	O/R/Re	L	2,000
17-39 George Street, W1	0 – 25	O/R/Re	L	2,000

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approx. net area m²
Mayfair (2%)				
25 Savile Row, W1	50 – 75	O/R	F	3,900
Paddington (1%)				
55-65 North Wharf Road, W2	0 – 25	O	L	7,200
West End: Borders (7%)				
Islington/Camden (6%)				
Angel Building, 407 St. John Street, EC1	100+	O/R	F	24,400
Balmoral Grove Buildings, N1 and 1-9 Market Road, N7	0 – 25	O/I	F	4,600
Suncourt House, 18-26 Essex Road, N1	0 – 25	O/R	F	2,500
2-12 Pentonville Road, N1	0 – 25	O	F	2,400
14 Pentonville Road, N1	0 – 25	O	F	1,700
Ladbroke Grove (1%)				
Portobello Dock and Kensal House, W10	0 – 25	O/R	F	4,800
City: Borders (19%)				
Old Street (5%)				
1 Oliver's Yard, EC2	50 – 75	O/R	F	17,200
City Road Estate, EC1:	25 – 50	O/R	F	11,500
70-74 City Road				
Sophia House, 76 City Road				
Transworld House, 82-100 City Road				
36-37 Featherstone Street				
13-15 Mallow Street				
210 Old Street				
Monmouth House, 58-64 City Road, EC1	0 – 25	O	F	3,900
186 City Road, EC1	0 – 25	O	F	3,600
18-30 Leonard Street, EC2	0 – 25	–	F	Site
Clerkenwell (5%)				
88 Rosebery Avenue, EC1	25 – 50	O	F	9,600
Morelands Buildings, 5-27 Old Street, EC1	0 – 25	O/R	L	7,400
Woodbridge House, 30 Aylesbury Street, EC1	25 – 50	O	F	7,000
Turnmill, 63 Clerkenwell Road, EC1	0 – 25	O	F	3,800
5-8 Hardwick Street and 161 Rosebery Avenue, EC1	0 – 25	O	F	3,300
151 Rosebery Avenue, EC1	0 – 25	O	F	2,200
Holborn (5%)				
Johnson Building, 77 Hatton Garden, EC1	75 – 100	O	F	14,600
40 Chancery Lane, WC2 and 20-21 Tooks Court, EC4	0 – 25	O	L/F	5,700
6-7 St. Cross Street, EC1	0 – 25	O	F	3,100
Shoreditch (4%)				
Tea Building, Shoreditch High Street, E1	50 – 75	O	F	23,000
60 Commercial Road, E1	0 – 25	O	F	2,800
Provincial (5%)				
Scotland (5%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50 – 75	R	F	28,600
Triangle Centre, Bishopbriggs, Glasgow	0 – 25	O/R	F	6,800
Land, Bishopbriggs, Glasgow	25 – 50	–	F	5,500 acres

[1] Includes areas North of Oxford Street
[2] Includes a 324-room hotel
() Percentages weighted by valuation

Derwent London is committed to managing the environmental, social and economic impacts of its business activities.

Sustainability

Sustainability commitments underpin Derwent London's business objectives. Not only does this improve the environmental and social impact of the business but it also reduces costs.

We build sustainability into all stages of the property lifecycle, including development, refurbishment and property management. We also work to maintain strong stakeholder relations, engaging with the communities in which we operate and aspiring to be an employer of choice.

We aim to refurbish rather than rebuild as far possible; this saves embedded carbon and significantly reduces transportation of demolition and construction waste. We also maximise the use of recycled materials, prioritise the use of sustainably sourced timber and install a wide range of environmental and energy-saving features to optimise building efficiency.

In terms of building management we seek to reduce consumption and improve waste recycling, working in partnership with our tenants, suppliers and staff who increasingly recognise the importance of sustainability. In the communities in which we operate we also participate in local partnerships and aim to maintain good relations with local residents.

The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme in particular has emerged as a key driver for our sustainability efforts, underpinning our energy management strategy. Derwent London is committed to working with tenants in multi-let buildings to improve energy efficiency and reduce CRC exposure. The majority of our sustainability initiatives are focused at a building level where we implement tailor-made programmes to optimise building efficiency and deliver high performance business space where our tenants can thrive.

A key indicator of our sustainability performance is our continued listing in the FTSE4Good, a global socially responsible investment index for listed companies with a strong commitment to sustainability. We also continue to participate in the Carbon Disclosure Project (CDP), the world's leading benchmark for carbon reporting. This year we achieved a disclosure score of 72 out of 100, up 18 points from 54 in 2009, and a performance score of C.

Further evidence of our performance can be found in our ranking in a recent JP Morgan survey of listed real estate companies' sustainability performance. We came 10th out of the 40 companies benchmarked, scoring well above the UK and EU averages.

Case study: Portfolio management

'Arup Appraise' energy reviews were carried out on three multi-let office buildings in 2010.

A range of measures to improve building energy performance and lower carbon emissions were implemented including:

- automatic metering;
- reduced base electrical loads for boilers, chillers and air handling units; and
- improved management of out-of-hours use of lighting and 'small power'.

The outcome was carbon savings of 19% (1 Oliver's Yard), 7% (Johnson Building) and 7% (Davidson Building). Corresponding savings in costs from lower energy and gas consumption were £178,000 combined across the three buildings.

Previous spread:
The Angel Building, EC1

Managing sustainability
Our Sustainability Policy details our key sustainability commitments. It is our goal to integrate sustainability across all our business functions so that it becomes part of the way we operate.

Our approach has been in place for several years and continues to evolve. It ensures continual monitoring of progress against our targets and policy objectives, and incorporates both building and corporate considerations.

Paul Williams, an executive Director, oversees Derwent London's sustainability strategy, with the support of Tim Kite, Company Secretary. They meet with the Group's external consultants Arup and Jones Lang LaSalle on a quarterly basis. Quarterly meetings also take place with key individuals responsible for the delivery of our corporate targets in five key areas of activity:

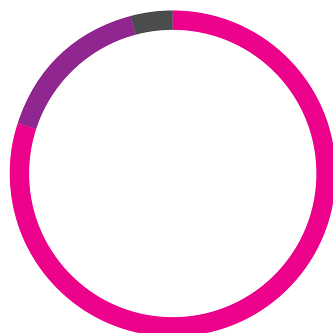
- Environment
- Tenants
- Employees
- Suppliers
- Communities

Our 2010 Sustainability Report provides a detailed insight into all our sustainability activities. Both this and our Sustainability Policy can be found on the Derwent London website at www.derwentlondon.com. The following sections provide a high-level overview of our sustainability strategy and performance for the year ended 31 December 2010.

Summary of progress against targets in 2010
As in previous years, we continue to set ourselves a number of targets to work towards our policy commitments. All targets are in areas where Derwent London has operational control (or at least the ability to influence, such as via tenant or contractor engagement). References to our managed properties/portfolio are to the 38 multi-let properties in our portfolio that we manage and represent 29% of the whole portfolio. The remainder of our buildings are either single-let or buildings that we do not manage.

Performance against our 25 targets, where performance could be measured, is shown in the chart below.

2010 target status %



Achieved	80
Partially achieved	16
Not achieved	4

Progress towards our targets has been assessed by our external consultants and only one has not been achieved. 20 have been fully achieved and four partially achieved. We are committed to addressing those areas where we did not completely reach our target.

For our 2011 targets, we have focused on setting specific and measurable targets which allow more transparent and accurate assessments of progress.

2010 performance highlights
We are pleased with our achievements in 2010 and have outlined below some of the highlights:

Environment
- 11% decrease in electricity consumption on a per m^2 basis in managed buildings.
- 15% decrease in gas consumption on a per m^2 basis in managed buildings.
- 49% average recycling rate across managed buildings.

Tenants
- A new tenant sustainability engagement programme was implemented including free energy audits and tenant websites for all managed buildings.
- Zero RIDDOR health & safety incidents in our managed buildings.

Employees
- 7.7% employee turnover (excluding retirees) in 2010, compared to the national average of 13.5%.

Suppliers
- 78 key suppliers engaged on supply chain management practices and other environmental issues.

Communities
- 36 out of 40 achieved in the Considerate Constructors Scheme (CCS) at the Angel Building, placing it in the top 7.5% of sites, and earning a bronze award.
- Our investment in the communities where we own and manage buildings continued to increase in 2010.

Further detail in relation to these and other achievements is provided in the following sections.

Sustainability
Resource efficiency

Energy, water and waste are growing costs for business and represent approximately 16% of our tenant's service charge. As energy and water supplies become more stressed, and in response to increasing environmental regulation, Derwent London is committed to managing resources in an efficient manner.

2010 Action

Energy and carbon

Monitoring and managing energy use is a key priority for our business, not least because of the Carbon Reduction Commitment Energy Efficiency Scheme which is currently being rolled out by the UK government. Our focus in 2010 was to develop an energy strategy to reduce energy use and related carbon emissions in both the design of our development projects and across our managed buildings. Key 2010 highlights include:

- 11% decrease in electricity usage per m^2 across our managed portfolio.
- 15% decrease in gas usage per m^2 across our managed portfolio.
- 'B' rated Energy Performance Certificate achieved for the Charlotte Building, Arup Phase II/III and the Angel Building ('B' rating or higher is generally only awarded for exceptional air-conditioned offices. A typical EPC rating for central London buildings is a 'C').

Case study: Carbon Reduction Commitment

Derwent London is preparing for the implementation of the Carbon Reduction Commitment Energy Efficiency Scheme in April 2012, adapting to the changes implemented in the scheme in 2010. Derwent London is registered as a participant in the scheme and, with the assistance of consultants Arup, is on course for submission of Annual and Footprint reporting in July 2011.

At an operational level, Derwent London's attention is focused on reducing the likely impact of the CRC charges and accelerating environmental improvements across the portfolio ahead of implementation in 2012. This is being achieved by a combination of initiatives, including:

- development and implementation of a Sustainability Framework for Asset Management; the Framework identifies sustainability and energy efficiency measures to achieve improvements;
- implementation of an Energy Management Strategy to deliver improvements across the portfolio in energy efficiency through 'smart' metering, energy audits and the planned maintenance regimes; and
- creation of tenant engagement working groups to secure reductions in energy consumption and improvements in sustainability across the portfolio.

"At AHMM, we appreciate the importance of the social, environmental and economic issues that we can influence; they are all an integral part of great architecture. We work with Derwent London to actively address all sustainability issues in a focused, committed and effective manner, promoting wherever possible an intelligent and considered approach to the way buildings are designed, developed and enjoyed."

Architects AHMM

2010 Performance

Gross carbon emissions (tonnes CO_2)

	Scope 1	Scope 2	Scope 3	Total
Energy use	3,728	2,756	225	6,709
Travel	13	n/a	9	22
Total	3,741	2,756	234	6,731

Notes: The table above has been prepared in accordance with the Greenhouse Gas Protocol.

a. Energy use: Scope 1 covers gas and oil usage; Scope 2 covers electricity generation; Scope 3 covers electricity losses through transmission.

b. Travel: Scope 1 covers fuel used in company cars; Scope 3 covers business air travel.

Multi-let building electricity consumption and carbon emissions (landlord-controlled areas)

Year	Total electricity usage MWh	Electricity intensity kWh/m²	Carbon intensity $kgCO_2/m^2$	Year-on-year change in carbon intensity per m² %
2008	1,772	158.84	86.03	n/a
2009	4,030	168.73	91.39	6
2010	5,329	149.79	81.13	(11)

Notes:
a. In 2010 electricity data was provided for 37 (out of 38) managed properties (including Head Office), compared to 28 managed properties in 2009.

b. Historical carbon emission figures were restated using Defra carbon conversion factors. Carbon emission intensities for 2008–2010 were calculated using the latest Defra carbon conversion factor for electricity.

c. 0.50076$kgCO_2$/kWh for electricity generated (Scope 2) and 0.04084$kgCO_2$/kWh for electricity losses (Scope 3). Total electricity carbon emissions is the sum of electricity generated emissions and electricity losses emissions.

d. Electricity use is reported for landlord controlled areas only.

Electricity use has reduced due to the implementation of our energy management strategy and the implementation of recommendations from our Phase 1 reviews, including installation of movement sensors and energy efficient lighting.

Multi-let building gas consumption and carbon emissions (whole building)

Year	Total electricity usage MWh	Electricity intensity kWh/m²	Carbon intensity $kgCO_2/m^2$	Year-on-year change in carbon intensity per m² %
2009	15,830	116.37	21.51	n/a
2010	19,561	98.65	18.23	(15)

Notes:
a. In 2010, gas data was provided for 30 (out of 38) managed properties (including Head Office) compared to 18 managed properties in 2009.

b. Historical carbon emission figures were restated using revised Defra carbon conversion factors. Carbon emissions for both 2010 and 2009 were calculated using the latest Defra carbon conversion factor for gas which is 0.18485$kgCO_2$/kWh.

c. Gas use is reported for the whole building.

Gas use has reduced due to optimisation of plant at various buildings and implementation of recommendations as a result of the energy surveys undertaken.

2011 Priorities

- Reduce total annual carbon emissions per square metre by 25% against 2009 consumption at 1 Oliver's Yard, Johnson Building and Davidson Building.
- Reduce total annual carbon emissions per square metre by 15% against 2010 consumption at Holden House, Greencoat House, Gordon House and Qube.
- Achieve 'B' Energy Performance Certificate (EPC) for all new-build projects.
- Achieve 'C' Energy Performance Certificate (EPC) for all major refurbishments over 5,000m².

Sustainability
Resource efficiency

Case study: Refurbishment

We are planning to regenerate our 80 Charlotte Street site from 2013 to provide 336,000 sq ft (31,200m²) of office/residential accommodation. Key sustainability features that we are designing into the building include:

- a high performance façade that will maximise natural daylight whilst minimising solar heat gains;
- natural ventilation in the atria with opening windows around the perimeter combined with the ability to use mechanical ventilation and extraction when required and incorporating waste heat recovery;
- capillary tube cooling with chilled water flowing through thin ceiling tubes using high performance coolers and 30% less energy than an all-air system;
- reduced lighting load maximising the use of natural daylight and intelligent lighting; and
- harvesting of rainwater for use in WC cisterns, cleaning bins and landscape irrigation.

With the measures that are being put in place we expect to achieve an 'Excellent' BREEAM rating and an EPC Rating 'B'.

2010 Action

Water

Water consumption is an emerging concern, and one that we believe will increase in importance over time as regulation on supply and demand becomes tighter. As water use is an integral part of the services used by our tenants, we aim to reduce water consumption where possible, as well as take steps to prevent water pollution. Key 2010 results include:

- Average water usage in 2010 across monitored managed properties was 0.63m³/m². This is a 23% increase compared to 2009, which we believe is largely a result of improved data reporting this year due to installation of sub-meters. We will review this conclusion once two years' comparable data is available.
- Our Sustainability Framework for projects includes targets for water sub-metering for all tenancies, and design limits of no more than 3.0m³ per person per annum for new offices and 4.5m³ per person per annum for refurbishments.

Waste and materials

Efficient use of resources and waste reduction lead to environmental benefits and cost savings. We aim to reduce the amount of waste sent to landfill by encouraging recycling at our Head Office and within the managed buildings, and monitoring waste arising during construction.

- Our average recycling rate has decreased this year from 57% in 2009 to 49% in 2010 which may be the result of an improved waste measurement method.
- In accordance with our Sustainability Framework for Projects, all our projects are required to divert from landfill at least 90% by weight of non-hazardous construction and demolition waste.
- Our Sustainability Framework for Projects specifies that at least 75% of softwood timber and 100% of hardwood timber must be certified to a third-party standard such as FSC (Forest Stewardship Council) which promotes responsible forestry.

2010 Performance

Multi-let building water consumption (whole building)

Year	Water usage m^3	Water intensity m^3/m^2	Water carbon intensity $kgCO_2e/m^2$	Year-on-year change water carbon intensity %
2008	64,654	0.49	0.13	n/a
2009	61,182	0.51	0.15	14
2010	123,979	0.63	0.19	23

Notes:
a. In 2010, data was provided for 30 properties, compared to 19 in 2009.
b. A conversion factor for CO_2 is not provided in the Defra guidance, therefore a factor for CO_2e has been used.
c. Water use is reported for the whole building.

2011 Priorities

- Reduce consumption to less than 0.50 m^3/m^2 mains metered water usage per annum for offices.
- Ensure that water supplies are metered in 90% of managed properties in order to improve data quality further.
- Design new office projects to achieve mains water usage of less than 3.0m^3/person/year.

Multi-let building waste recycling (whole building)

Year	Recycling rate %	Waste to landfill %
2009	57	43
2010	49	51

Notes:
a. In 2010, data was provided for 24 properties compared to 13 in 2009.
b. Previously waste quantities were estimated; weights are now derived from data on the type of bin used, average bin weights and the number of collections made.

- Achieve a 50% recycling rate in all properties for which Derwent London has control over waste management.
- Design new projects to include a minimum 20% recycled materials by value.
- Manage new projects to divert a minimum of 90% of demolition and construction waste from landfill.

Sustainability
Stakeholders

Maintaining strong stakeholder relations is a core element of our sustainability strategy. Key stakeholders include our tenants, employees, suppliers and the local communities where we regenerate and manage buildings. We work in partnership with these stakeholders to maximise added value from our development and asset management activities.

Case study: Development

The Charlotte Building is a new office building, comprising 47,000 sq ft (4,400m^2). It was completed in 2009 and contains a number of energy-saving and sustainability features including:

- displacement ventilation which uses the natural circulation of air rather than fan coils and gives the opportunity to use outside air without the need for mechanical cooling;
- exposed concrete wall and ceilings with reduced material finishes which absorb heat better during the day and release it slowly at night, helping to reduce the energy needed to cool offices in summer and heat them in winter;
- thermal mass night time cooling which uses larger slabs of concrete between the floors to absorb lower night temperatures and cool the office during the day;
- good natural daylight via large perimeter windows;
- low energy, intelligent lighting which dims in stronger daylight and is motion sensitive; and
- dual/low flush WC cisterns and water saving tap specifications.

As a result, the Charlotte Building achieved a 'Very Good' BREEAM rating and an EPC Rating 'B'.

2010 Action

Tenants

Meeting the needs of each of the commercial tenants in our 130 buildings is a primary concern of Derwent London. We understand that each organisation will present its own unique set of occupation requirements and we are committed to meeting these and providing excellent service in the process. Key 2010 highlights include:

- Participation in the Real Service benchmark, an external third-party tenant survey, which was piloted at one building. It is our intention to run a more extensive tenant survey in 2011.
- Further development of our tenant websites for each multi-let building we own and manage (www.derwentlondontenants.com). These websites represent a unique opportunity to engage with tenants on issues such as waste and recycling, and energy and water efficiency.
- Zero RIDDORs (Reportable Injuries, Diseases, and Dangerous Occurrences) at assets under management.

Employees

As our business grows it becomes increasingly important to offer first class employment opportunities for our employees. We are committed to providing a stimulating and nurturing culture, and rewarding them for their commitment to the business. Key 2010 highlights include:

- Employee turnover remained low at 7.7%, (10.9% including retirees), well below the national turnover rate for the UK companies which stands at 13.5% according to the Chartered Institute of Personnel and Development.
- Spending on training and development equalled approximately £1,100 per employee in 2010. Over 46 individual training needs were addressed over the year, covering a broad range of skills and competency areas.
- No near misses or RIDDOR incidents involving Derwent London employees in 2010.

2010 Performance

Health and safety incidents – multi-let buildings

	Minor incidents	Near misses	RIDDORs
2008	–	–	–
2009	7	3	–
2010	9	1	–
2011 target	–	–	–

Notes: The table above is based on categorisations of health and safety incident as specified by the Health and Safety Executive.

2011 Priorities

- Further enhance tenant websites at all multi-let managed buildings. Trial interactive tenant website at Tea Building through adaptation of the Teabuilding.com website.
- Deliver customer service training to property management staff.
- Develop and roll out a tenant questionnaire, either internally or through a third-party supplier.
- Zero RIDDOR incidents at managed buildings and Derwent London's head office.
- Hold formal meetings with tenants to discuss service charge budgets. Provide budgets in advance to improve transparency on large expenditures such as the CRC.

Employee statistics

Year	Total number of employees at year end	Annual turnover %
2009	83	7.4
2010	98	7.7

Notes: This table records all full-time equivalent employees. Annual turnover excludes retirees.

There are no formal corporate targets on employee related issues in 2011. However, our priorities are as follows:

- Continue to build on the development of a performance management culture with appropriate training courses, coaching, reviews and personal development programmes.
- Identify, nurture and retain key members of staff.
- Ensure fair and consistent reward and recognition throughout the Group.
- Further enhance the Group's reputation as an employer of choice.

Sustainability
Stakeholders

2010 Action

Suppliers

The management of our supply chain is important to improving the sustainability performance of buildings. It is our aim to foster an open working relationship with suppliers to ensure we are all working towards the same goal. Key 2010 highlights include:

- Our average payment settlement period was 23 days, well ahead of our target of 28 days.
- In a supply chain management survey (20 respondents – 66% response rate), 90% of those who responded rated Derwent London's supply chain management as 'good' or 'very good' and 80% rated us as 'better' or 'significantly better' than comparable peers in the property sector (in both cases no suppliers stated less than satisfactory).
- In a supply chain risk survey (29 responses – 59% response rate), 96% of those who responded have a member of top-level management responsible for environmental legislation compliance.
- There were two contractor RIDDOR incidents at our development sites.

Communities

Our visible presence in local communities where we develop and manage property is important to maintain our licence to operate and corporate image. We are committed to creating a positive impact in local communities where we operate, often going beyond planning requirements. We also strive to minimise disruption during construction and refurbishment works. Key 2010 highlights include:

- Community investment, including mandatory contributions, totalled £1.1m.
- We continued to be a major supporter of various local community initiatives as detailed in the case study.
- 36 out of 40 achieved in the Considerate Constructors Scheme (CCS) at the Angel Building, placing it in the top 7.5% of sites, and earning a bronze award.

Case study: Local communities

We continue to support, with both our time and financial resources, the following organisations committed to the regeneration and enhancement of their respective areas of central London.

- **Westminster Property Association** (WPA) aims to contribute to and build on London's pre-eminent global status, to provide a world class city experience for residents, businesses and visitors, and therefore to contribute to the economic success of the UK. David Silverman is President of the Westminster Property Association.
- **New West End Company** (NWEC), a Business Improvement District for Bond Street, Oxford Street and Regent Street and 12 neighbouring streets, is dedicated to driving forward London's West End as the world's top shopping destination. With a £34m budget until 2013 NWEC is supported and run by major retailers and property owners and strives to ensure the ongoing commercial success of the area by promoting the district, delivering street management services, and funding public realm projects to improve the shopping environment.
- **Chancery Lane Association** has been designed to provide long-term guidance for the creation of a public realm that is of the highest quality within Chancery Lane and its immediate surroundings. Nigel George is a Director of the Chancery Lane Association.
- **The Fitzrovia Partnership** is a business-led initiative bringing together local businesses to add value and make a tangible difference to the management of Fitzrovia.
- **The Paddington Waterside Partnership** (PWP) which began in 1998, involves 14 different development schemes across 80 acres. Established initially by developers, landowners and transport interests the PWP works alongside local agencies and communities to ensure that this new location fits socially, economically and physically with its surroundings.

2010 Performance

Supplier information

Year	Average payment period (days)	Number of suppliers engaged on sustainability issues
2008	24	–
2009	21	8
2010	23	78

Health and safety incidents – developments

	Minor Incidents	Near misses	RIDDORs
2008	4	6	2
2009	–	–	3
2010	3	–	2

Notes: The table above is based on categorisations of health and safety incident as specified by the Health and Safety Executive.

Total community investment

Year	Recorded charitable giving £	Community investment (commercial initiatives) £	Mandatory contributions £
2008	14,466	157,500	56,397
2009	30,102	191,950	258,695
2010	104,922	248,800	784,267

Notes: Mandatory contributions are contributions tied to planning approval (section 106 payments).

2011 Priorities

- Review key supplier contracts with a view to including formal sustainability requirements in contractual terms.
- Pay invoices within an average of 28 days from receipt.

- Register all developments and major refurbishments with the Considerate Constructors Scheme with a target score of 32 out of 40 (defined as 'a very good site').
- Launch a pilot work experience programme in Fitzrovia with a local school and major tenants.
- Review community investment strategy and practices.
- Continue to support the Fitzrovia Partnership in the implementation of a recruitment strategy, focusing on corporate members and outreach to local communities.

Spread overleaf:
12 Fitzroy Street, W1

12

Governance

The Board believes that good governance and risk management are inherent to running a business and seeks to follow best practice in these areas.

Board of Directors

1. R.A. Rayne, 62
Non-executive Chairman

The Hon R.A. Rayne joined the Board in February 2007. He has been on the Boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc and is currently Chairman of LMS Capital plc, a company listed on the London Stock Exchange. He is also a non-executive Director of Weatherford International Inc., an international oil services company quoted on the New York Stock Exchange, and was Chief Executive Officer of London Merchant Securities plc.

2. J.C. Ivey, 69
Non-executive Deputy Chairman

A chartered accountant, Mr Ivey was a Director of RWS Holdings plc until January 2010 and was formerly Chief Executive of The Davis Service Group plc. He has served on the Board since 1984 and is a member of the Nominations Committee.

3. J.D. Burns, 66
Chief Executive Officer

Mr Burns has been a Director of the Company since 1984 and has overall responsibility for Group strategy, business development and day-to-day operations. He is a partner in The Pilcher Hershman Partnership, estate agents.

4. S.P. Silver, 60
Head of Regeneration

Mr Silver has overall responsibility for the development and regeneration programme. He became a Director in 1986 and is an honorary fellow of the Royal Institute of British Architects. He is also a partner in The Pilcher Hershman Partnership.

5. D.M.A. Wisniewski, 49
Finance Director

Mr Wisniewski joined the Board on 1 February 2010. He is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting. Previously, he was Finance Director of Treveria Asset Management. Prior to that, he was Chief Operating Officer of the Wood Wharf Limited Partnership and Group Finance Director of Chelsfield plc.

6. N.Q. George, 47
Executive Director

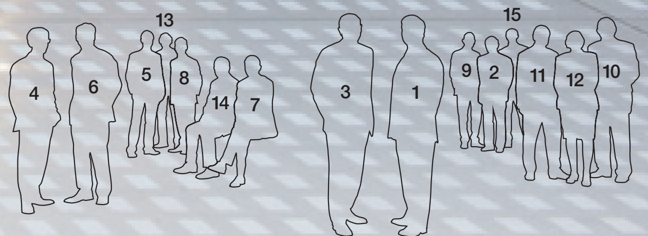
A chartered surveyor, Mr George was appointed to the Board in 1998. He has responsibility for acquisitions and investment analysis.

7. P.M. Williams, 50
Executive Director

Mr Williams is a chartered surveyor and was appointed to the Board in 1998. His responsibilities include portfolio management, supervision of refurbishment and development projects and sustainability.

8. D.G. Silverman, 41
Executive Director

Mr Silverman joined the Board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals.



9. R.A. Farnes, 65
Senior independent Director

Mr Farnes is a chartered surveyor. He was previously the Chairman of CB Hillier Parker and joined the Board in 2003. He chairs the Remuneration Committee and is a member of the Audit and Nominations Committees.

10. S.J. Neathercoat, 62
Non-executive Director

Mr Neathercoat is a chartered accountant. He joined the Board in 1999 and chairs the Audit Committee whilst serving on the Remuneration and Nominations Committees. He is Deputy Chairman of Lombard Medical Technologies plc and was previously a Managing Director of Dresdner Kleinwort Wasserstein.

11. S.A. Corbyn, 66
Non-executive Director

Mr Corbyn is a chartered surveyor. He was appointed to the Board in 2006. Until December 2008, he was Chief Executive of Cadogan Estates, one of the principal private estates in London, and is a former president of the British Property Federation. He chairs the Nominations Committee and is a member of the Audit and Remuneration Committees.

12. J. de Moller, 63
Non-executive Director

Mrs de Moller joined the Board in February 2007. She is a non-executive Director of Temple Bar Investment Trust plc and Archant Limited. Previously, she was Managing Director of Carlton Communications Plc and a non-executive Director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc and London Merchant Securities plc. She is a member of the Audit, Remuneration and Nominations Committees.

13. D. Newell, 68
Non-executive Director

Mr Newell is a chartered surveyor. He joined the Board in February 2007. Previously, he was senior partner of Hillier Parker May & Rowden, Chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services Inc., a non-executive Director of London Merchant Securities plc and a past president of the British Council of Offices. He is a member of the Audit, Remuneration and Nominations Committees.

14. S.G. Young, 55
Non-executive Director

Mr Young is a chartered management accountant. He joined the Board in August 2010. He is Group Finance Director at Meggitt plc. Previously, he held the position of Group Finance Director at Thistle Hotels plc and the Automobile Association. He is a member of the Audit, Remuneration and Nominations Committees.

15. T.J. Kite, 51
Company Secretary

Statement of Directors' responsibilities

Directors' responsibilities

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors confirm to the best of their knowledge that:

- they have complied with the above requirements in preparing the financial statements which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the business review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the Board

J.D. Burns,
Chief Executive Officer

D.M.A. Wisniewski,
Finance Director
10 March 2011

Previous spread:
The Angel Building, EC1

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 2010.

Business review

A review of the development of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects is included in the Chairman's statement and the business review. The information required by section 417 of the Companies Act 2006 and by rules 4.1.8 to 4.1.11 of the Disclosure and Transparency Rules is given on pages 10 to 65. These sections should be read in conjunction with this report and are incorporated into the Directors' report by reference. The disclosures in respect of the use of financial instruments are given in notes 25 and 26 of the financial statements.

Corporate governance

Compliance

The Board supports the principles of good governance. The Company is subject to the provisions of The Combined Code published by the Financial Reporting Council and the Board believes that the Company has, except as noted, complied with the main and supporting principles thereof. The Company has not complied with code provision A.2.2, concerning the independence of the Chairman on appointment for the reasons described in the following section. A number of other code provisions were not applicable in the current year.

In addition, the Board had regard to the requirements of the UK Corporate Governance Code, which will be the Group's relevant code from next year, and believes that it has complied with its provisions where possible during the year. Unless stated otherwise, section numbers refer to the Combined Code.

The Board

At the start of the year, the Board comprised a non-executive Chairman, six non-executive Directors and six executive Directors. On 1 February 2010 Damian Wisniewski replaced Chris Odom as Finance Director and on 2 August 2010 Stephen Young joined the Board as a non-executive Director. Donald Newell will retire from the Board at the forthcoming Annual General Meeting (AGM).

The Board assesses the independence of the non-executive Directors with regard to the guidance on independence contained in code provision A.3.1 and notes that Robert Rayne, John Ivey and Simon Neathercoat cannot automatically be deemed independent. The Board is also aware that code provision A.2.2 requires a new Chairman to be independent on appointment. In accordance with principle A.6 of the code, the Board has carried out an annual review of the roles and performance of all Directors which included reconsidering the independence of the non-executive Directors.

Robert Rayne served in an executive capacity at London Merchant Securities plc prior to the merger in 2007 and consequently is not deemed independent. However, in view of his significant contribution as Chairman of the Board, the Board continues to consider that his position is fully justified.

John Ivey has served on the Board for more than nine years and is therefore not deemed independent. The Board has considered his expertise, commitment and the manner in which he carried out his duties during the year, and is satisfied that his independence remains unimpaired.

Simon Neathercoat has also served as a non-executive Director for more than nine years and is therefore not deemed independent. Having reviewed his performance of his duties during the year, the Board has concluded that he continues to exercise strong independence in both his judgements and his contributions to the matters of the Board.

Neither Director has any association with management that might compromise his independence.

Directors' report

The Directors also considered the composition of the Board and continue to believe that it has the appropriate balance of skills, experience, independence and knowledge of the Company to satisfy the requirements of good corporate governance. During the year the Nominations Committee continued to implement the three year process of refreshment introduced last year which will ensure an orderly process of change. This saw the appointment of Stephen Young as a new independent non-executive Director, who will become Chairman of the Audit Committee on 1 April 2011, and Donald Newell is to retire at the AGM. Another independent non-executive Director will be recruited during the next year and the Committee is reviewing which firm of external advisers to use for this exercise so as to ensure that a varied source of candidates is identified for consideration.

A formal schedule, which has been approved by the Board, sets out the division of responsibilities between the Chairman, who is responsible for the effectiveness of the Board, and the Chief Executive Officer, who is responsible for the day-to-day operations of the business.

The Board is responsible for setting the Company's strategic aims, ensuring that adequate resources are available to meet its objectives and reviewing management performance. The formal list of matters reserved for the full Board's approval is maintained and reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2011. Extra meetings will be arranged if necessary. Additionally, the executive Board, which consists of the executive Directors, met 12 times in 2010. Both bodies are provided with comprehensive papers in a timely manner to ensure that the Directors are fully briefed on matters to be discussed at these meetings.

The Board maintains a number of Board Committees. The terms of reference of each Committee are available on the Group's website. Set out below are details of the membership and duties of the three principal Committees.

Remuneration Committee

At the start of the year the Committee comprised of June de Moller, Simon Neathercoat, Stuart Corbyn and Donald Newell under the Chairmanship of Robert Farnes. Stephen Young joined the Committee in August 2010. It is responsible for establishing the Company's remuneration policy and individual remuneration packages for the executive Directors. There were five meetings of the Committee in 2010. The report of the Remuneration Committee is set out on pages 82 to 91.

Audit Committee

This Committee is currently chaired by Simon Neathercoat and was served throughout the year by Stuart Corbyn, Robert Farnes, Donald Newell and June de Moller. Stephen Young was appointed to the Committee in August 2010 and will take over as Chairman on 1 April 2011. The Committee is responsible for considering the application of financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's Auditor. The Committee met four times during 2010. The report of the Audit Committee is on page 93.

Nominations Committee

Stuart Corbyn took over the chair of this Committee on 1 January 2010. At any point in time, the Committee consists of all of the non-executive Directors, except the Chairman. Its responsibilities include identifying external candidates for appointment as Directors and, subsequently, recommending their appointment to the Board. If requested, the Committee will make a recommendation concerning an appointment to the Board from within the Company. The Committee met three times during the period under review. The Nominations Committee report is on page 92.

Directors' attendance at Board and Committee meetings during the year was as follows:

	Full Board	Executive Board	Remuneration Committee	Audit Committee	Nominations Committee
Number of meetings	6	12	5	4	3
Executive					
J.D. Burns	6	12	–	–	–
S.P. Silver	6	10	–	–	–
C.J. Odom (to 31 January 2010)	–	1	–	–	–
D.M.A. Wisniewski (from 1 February 2010)	6	11	–	–	–
P.M. Williams	6	12	–	–	–
N.Q. George	6	12	–	–	–
D.G. Silverman	6	12	–	–	–
Non-executive					
R.A. Rayne	6	–	–	–	–
J.C. Ivey	6	–	–	–	1
S.J. Neathercoat	6	–	4	4	3
R.A. Farnes	6	–	5	4	3
S.A. Corbyn	6	–	5	4	3
D. Newell	6	–	4	4	3
J. de Moller	6	–	4	4	3
S.G. Young (from 2 August 2010)	3	–	2	2	1

Performance evaluation

The Board conducted an internal evaluation of its own performance and that of its Committees and individual Directors. The review was initiated by all the Directors completing a questionnaire which covered the processes and performance of the Board and its Committees together with an assessment of fellow Directors' performance as Directors of the Company against set criteria including the skills that they bring to the Company and the contribution they make.

The responses were summarised by the Company Secretary and reviewed by the Chairman, the senior independent Director or the Committee Chairmen as appropriate. Any significant matters were discussed with the individual Directors by the Chairman.

As a result of the evaluation, the Board is satisfied that the structure, mix of skills and operation of the Board continues to be satisfactory and appropriate for the Company. In addition, the Chairman is satisfied that the non-executive Directors standing for re-election at the AGM continue to be effective and show commitment to their roles.

The performance of the Chairman was separately assessed by the non-executive Directors under the leadership of the Chairman of the Nominations Committee.

Having regard to provision B.6.2 of the UK Corporate Governance Code, the Board will consider the use of external consultants for future reviews.

Directors' report

Appointment and replacement of Directors

Appointment of a Director from outside the Company is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

The Directors shall be not less than two and not more than 15 in number. The shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Other than as required by the Remuneration Committee, a Director shall not be required to hold any shares in the Company. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company and is then eligible for re-appointment. The Board or any Committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

The articles provide that at every AGM of the Company any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. In accordance with provision B.7.1 of the UK Corporate Governance Code the Board has decided that in future all Directors will be subject to annual re-election. Therefore, at the next AGM all the Directors will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on pages 68 and 69.

The Company may by special resolution remove any Director before the expiration of his period of office. The office of a Director shall be vacated if: (i) he resigns or offers to resign and the Board resolve to accept such offer; (ii) his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number; (iii) he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt or enters into an agreement with his creditors generally; (vi) he is prohibited by law from being a Director; (vii) he ceases to be a Director by virtue of the Companies Acts; or (viii) he is removed from office pursuant to the Company's articles.

If considered appropriate, new Directors are sent on an external training course addressing their role and duties as a Director of a quoted public company. Existing Directors monitor their own continued professional development and are encouraged to attend those courses that keep their market and regulatory knowledge current.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. Directors and officers liability insurance is maintained by the Company.

Powers of the Directors

Subject to the Company's articles, the Companies Acts and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property and assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors

The Directors of the Company during the year and their interests in the share capital of the Company, including shares over which options have been granted, either under the executive share option scheme or the performance share plan, are shown below. All of these interests are held beneficially.

	Ordinary shares of 5p each		Options	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
R.A.Rayne	4,350,017	4,350,017	157,345	382,746
J.C. Ivey	79,072	79,072	–	–
J.D. Burns	718,268	784,669	248,875	243,800
S.P. Silver	340,687	377,687	212,075	171,240
C.J. Odom (resigned 31 January 2010)	–	47,952	–	137,075
N.Q. George	30,348	24,482	130,155	162,955
P.M. Williams	35,168	29,302	130,155	140,455
D.G. Silverman	–	–	108,140	97,450
D.M.A. Wisniewski (appointed 1 February 2010)	–	–	34,590	–
S.J. Neathercoat	8,000	8,000	–	–
R.A. Farnes	6,838	6,838	–	–
S.A. Corbyn	1,000	1,000	–	–
J. de Moller	2,985	2,985	–	–
D. Newell	1,492	1,492	–	–
S.G. Young (appointed 2 August 2010)	1,000	–	–	–

There have been no changes in any of the Directors' interests between the year-end and 10 March 2011.

During the year, Directors exercised options over 179,500 shares granted under the executive share option scheme. The exercise prices were as follows: 11,000 shares at £5.015; 69,000 shares at £4.265; 23,000 shares at £6.725; 57,000 shares at £7.235; 9,500 shares at £8.59 and 10,000 shares at £10.71. No new options were granted to Directors under the executive share option scheme. In addition, options over 225,401 shares granted under the LMS executive share option scheme were exercised at an exercise price of £9.54. A conditional grant of 263,240 shares was made to Directors under the performance share plan whilst 39,034 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 43,011 shares of this award lapsed.

Other than as disclosed in note 38, the Directors have no interest in any material contracts of the Company.

Directors' report

Conflicts of interest

The Company's articles permit the Directors to regulate conflicts of interest. The Board operates a policy for managing and, where appropriate, approving conflicts or potential conflicts of interest whereby Directors are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The Board is satisfied that this policy has operated effectively throughout the period.

Communication with shareholders

The Company recognises the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive Directors, through the giving of presentations and organising visits to the Group's property assets. The Board receives regular reports of these meetings which include a summary of any significant issues raised by the shareholders. The annual report, which is available to all shareholders, reinforces this communication. The AGM provides an opportunity for shareholders to question the Directors and, in particular, the Chairman of each of the Board Committees. An alternative channel of communication to the Board is available through Robert Farnes, the senior independent Director.

Risk management and internal control

The principal risks and uncertainties facing the Group in 2011 together with the controls and mitigating factors are set out on pages 19 to 21. The systems that control the risks form the Group's system of internal control. The key elements of the Group's financial control framework are:

- an approved schedule of matters reserved for decision by the Board supported by defined responsibilities and levels of authority;
- the day-to-day involvement of the executive Directors in all aspects of the Group's business;
- a comprehensive system of financial reporting and forecasting including both sensitivity and variance analysis;
- maintenance and regular review and updating of the Group's risk register; and
- a formal whistleblowing policy.

The effectiveness of this system and the operation of the key components thereof have been reviewed for the accounting year and the period to the date of approval of the financial statements.

The Board has considered the need for an internal audit function but continues to believe that this is unnecessary given the size and complexity of the Group.

Share capital

As at 10 March, 2011, the Company's issued share capital comprised a single class of 5p ordinary shares. Details of the ordinary share capital and shares issued during the year can be found in note 28 to the financial statements.

Rights and restrictions attaching to shares

The Company can issue shares with any rights or restrictions attached to them as long as this is not restricted by any rights attached to existing shares. These rights or restrictions can be decided either by an ordinary resolution passed by the shareholders or by the Directors as long as there is no conflict with any resolution passed by the shareholders. These rights and restrictions will apply to the relevant shares as if they were set out in the articles. Subject to the articles, The Companies Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Voting

Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act. Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the articles.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting

Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he has not paid all amounts relating to those shares which are due at the time of the meeting, or if he has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

Directors' report

Variation of rights

If the Companies Act allows this, the rights attached to any class of shares can be changed if it is approved either in writing by shareholders holding at least three quarters of the issued shares of that class by amount (excluding any shares of that class held as treasury shares) or by a special resolution passed at a separate meeting of the holders of the relevant class of shares. This is called a "class meeting".

All the articles relating to general meetings will apply to any such class meeting, with any necessary changes. The following changes will also apply:-

- a quorum will be present if at least two shareholders who are entitled to vote are present in person or by proxy who own at least one third in amount of the issued shares of the class (excluding any shares of that class held as treasury shares);
- any shareholder who is present in person or by proxy and entitled to vote can demand a poll; and
- at an adjourned meeting, one person entitled to vote and who holds shares of the class, or his proxy, will be a quorum.

The provisions of this article will apply to any change of rights of shares forming part of a class. Each part of the class which is being treated differently is treated as a separate class in applying this article.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

No person holds securities in the Company carrying special rights with regard to control of the Company.

Powers in relation to the Company issuing or buying back its own shares

The Directors were granted authority at the last AGM held in 2010 to allot relevant securities up to a nominal amount of £1,686,346. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,686,672, and (ii) comprising equity securities up to a nominal amount of £3,373,343 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the "section 551 authority"), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £253,001. A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 10,120,030 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Substantial shareholders

In addition to those of the Directors disclosed on page 75, the Company has been notified of the following interests in the issued ordinary share capital as at 10 March 2011.

	Number of shares	Percentage of issued share capital
Withers Trust Corporation	6,217,444	6.16
Withers Trust Corporation Ltd and James McCarthy	5,548,731	5.48
Cohen & Steers Capital Management Inc	5,231,757	5.17
Standard Life Investments Ltd	4,284,390	4.23
Blackrock Investment Management (UK) Ltd	4,048,417	4.00
Third Avenue Management LLC	3,944,764	3.90
Lady Jane Rayne	3,593,838	3.55
Legal & General Investment Management	3,482,391	3.44

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking arrangements are terminable upon a change of control of the Company.

As a REIT, a tax charge may be levied on the Company if it makes a distribution to another Company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the Company, (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made. The Company's articles give the Directors power to take such steps, including the power:

– to identify a substantial shareholder;

– to withhold the payment of dividends to a substantial shareholder; and

– to require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement which is essential to the business of the Company.

Amendment of articles of association

Unless expressly specified to the contrary in the articles of the Company, the Company's articles may be amended by a special resolution of the Company's shareholders.

Creditor payment policy

The Group's policy is to agree terms of business with suppliers prior to the supply of goods or services. In the absence of any dispute, invoices are paid in accordance with these terms. For the year ended 31 December 2010, the average payment period was 23 days (2009: 21 days).

Going concern

Having made due enquiries, the Directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to adopt the going concern basis in preparing the accounts.

Fixed assets

The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2010, resulting in a surplus of £309.4m, before deducting the lease incentive adjustment of £7.8m. The freehold and leasehold investment properties are included in the Group balance sheet at a carrying value of £2,388.5m. Further details are given in note 17.

Post balance sheet events

Details of post balance sheet events are given in note 36.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information.

Auditor

BDO LLP have expressed the willingness to continue in office and accordingly, resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the AGM. These are resolutions 17 and 18 set out in the notice of meeting.

Annual General Meeting

The notice of meeting contained in the circular to shareholders that accompanies the report and accounts includes four special resolutions to be considered as special business.

Resolution 19 is an ordinary resolution which will renew the authority of the Directors under Section 551 of the Companies Act 2006 to allot shares. Paragraph (A) of the resolution gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £1,686,672 which represents about one third of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

In line with guidance issued by the Association of British Insurers, paragraph (B) of the resolution gives the Directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £3,373,343, as reduced by the nominal amount of any shares issued under paragraph (A) of the resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

The Directors have no present intention of issuing shares except on the exercise of options under the Company's share option scheme, on the vesting of shares under the Company's performance share plan or in connection with the scrip dividend scheme if approved at the AGM. The authorities will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier, the close of business on 20 August 2012.

Resolution 20 is a special resolution, proposed annually, which will renew the Directors' authority under Section 571 of the Companies Act 2006. The resolution empowers the Directors to allot or, now that the Company may hold shares as treasury shares (as further described below), sell shares for cash in connection with pre-emptive offers with modifications to the requirements set out in Section 561 of the Companies Act 2006, in connection with the scrip dividend scheme where the scrip election is made after the declaration (but before payment) of a final dividend, or otherwise, up to an aggregate nominal value of £253,001 which is equivalent to approximately 5% of the issued share capital as at the latest practicable date prior to the publication of this document.

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

The authority will expire at the conclusion of the next AGM after the passing of the resolution or, if earlier, the close of business on 20 August 2012.

Resolution 21 is proposed in order to renew the authority enabling the Company to purchase its own shares, if, having taken account of all major factors such as the effect on earnings and net asset value per share, gearing levels and alternative investment opportunities, such purchases are considered to be in the Company's and shareholders' best interest while maintaining an efficient capital structure. The special resolution gives the Directors authority to purchase up to 10% of the Company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought.

The Companies Act 2006 permits the Company to hold any such repurchased shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them (as had previously been required under the relevant legislation). Accordingly, if the Company purchases any of its shares pursuant to resolution 21, the Company may cancel those shares or hold them in treasury. Such a decision will be made by the Directors at the time of purchase on the basis of the Company's and shareholders' best interests. As at the date of the notice of meeting, the Company held no shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 10 March 2011 was 1,299,600, which represented 1.28% of the issued share capital (excluding treasury shares) at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 10 March 2011 would represent 1.59% of the issued share capital (excluding treasury shares).

Resolution 22 is required to reflect the implementation of the Shareholder Rights Directive, which in the absence of a resolution to the contrary increased the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

By order of the Board

T.J. Kite ACA
Secretary
10 March 2011

Report of the Remuneration Committee

Remuneration Committee

The Remuneration Committee (the 'Committee') is chaired by Robert Farnes with Simon Neathercoat, Stuart Corbyn, Donald Newell and June de Moller serving throughout the year. Stephen Young joined the Committee on 2 August 2010. None of the members who have served during the year had any personal interest in the matters decided by the Committee, or any day-to-day involvement in the running of the business and, therefore, are considered to be independent.

The Committee's responsibilities include determining remuneration packages for the executive Directors and selected other senior executives. It also oversees the operation of the Group's bonus scheme and performance share plan and considers whether the schemes encourage the taking of excessive business risk. The full terms of reference of the Committee are available on the Company's website.

Hewitt New Bridge Street (HNBS) – a trading name of Aon Corporation – was retained to provide independent assistance to the Committee regarding the setting of salaries and the operation of the performance share plan and bonus scheme. In particular, HNBS determine entitlements under the bonus scheme and the extent of vesting of outstanding share awards and ensure that the measures used for both schemes are comparable and consistent. HNBS did not provide any other services to the Group during the year. No Director had any involvement in determining his own remuneration although some of the matters considered by the Committee were discussed with John Burns. The Company Secretary acted as secretary to the Committee.

Remuneration policy

The key aims of the Committee's remuneration policy for senior executives are:

- to ensure that the Company attracts, retains and motivates executives that have the skills and experience necessary to make a significant contribution to the delivery of the Group's objectives;
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to the level of remuneration of the Company's senior management and in similar sized FTSE 350 companies. The Committee also took account of the pay and conditions throughout the Company noting that the constituent parts of the employees' remuneration package were similar to those of the Directors and that the average pay increase awarded for 2011 was in line with the basic increase made to the Directors;
- to align, as far as possible, the interests of the senior executives with those of shareholders by providing a significant proportion of the Directors' total remuneration potential through a balanced mix of short and long-term performance related elements, that are consistent with the Group's business strategy and desired risk profile; and
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice.

Elements of remuneration package

A full review of executive remuneration arrangements was last carried out by HNBS during 2007 and a revised remuneration structure applied from 2008. This structure has now operated for three years and the Committee will consider whether there is a need to review it during 2011. The key elements of the structure are outlined below:

a) Base salary and benefits

Base salaries for executive Directors are reviewed annually by the Committee with changes being effective from 1 January. At the review carried out in December 2010, the Committee agreed a basic increase of approximately 5% for 2011 which took into account the excellent results that the management team had produced over the past year and the competitive nature of the market for top performing executives in the sector.

The Committee continued its practice of awarding recently appointed Directors an additional salary increase above the basic increase, as a reflection of their increasing experience and importance to the business, so as to move them over time to an appropriate market benchmark. At the December 2010 review, the Committee agreed an additional £10,000 increase for David Silverman and Damian Wisniewski which closes the gap between their salaries and that of the other Directors but which still leaves a differential.

Resultant salaries effective from 1 January 2011 (2010 equivalents in brackets) are John Burns £550,000 (£525,000), Simon Silver £472,000 (£450,000), Nigel George £350,000 (£335,000), Paul Williams £350,000 (£335,000), Damian Wisniewski £340,000 (£315,000), David Silverman £300,000 (£275,000).

The executive Directors receive a pension contribution worth 20% of base salary to a defined contribution scheme or a salary supplement in lieu of this contribution. The principal benefits in kind comprise a company car and medical insurance.

b) Annual bonus

The annual bonus structure has been unchanged since 2008 and the Committee will consider whether there is a need to review it during 2011. For 2010 the scheme offered a maximum bonus potential for John Burns and Simon Silver of 150% of salary and for the other executive Directors, 125% of salary.

Any bonus worth up to 100% of salary is paid in cash. Any bonus earned above 100% of salary is compulsorily deferred in shares with half released 12 months after the award and the remainder released 24 months after the award. These shares will be potentially forfeitable if the executive leaves prior to the share release date.

The bonus is based 75% on two annual financial measures, namely net asset value (NAV) growth compared to the total return of properties in the IPD Central London Offices Total Return Index and total return (being NAV growth plus dividends) measured against that of other major real estate companies. An additional 25% is available for the Committee to award at its discretion.

Provision has been made for a bonus for 2010 of 87.5% (2009: 62.5%) of the maximum potential. In making this award, the Committee has given due regard to the performance measures mentioned above, the Group's total return for the year and the other achievements outlined earlier in the report and accounts.

c) Long-term incentives

The Group's Performance Share Plan (PSP) was established in 2004, with a number of changes approved by shareholders at the 2008 AGM. During 2011, when the PSP in its current form will have been through a complete three-year cycle, the Committee will consider whether there is a need to review the scheme.

The maximum permitted annual award of shares under the plan is 200% of salary (with a higher limit of 300% of salary for use in the event of exceptional circumstances such as recruitment). The Committee's policy for 2010 was to limit awards to no more than 175% of salary for John Burns and Simon Silver and 150% of salary for the other Directors.

Report of the Remuneration Committee

Vesting of awards under the PSP will normally occur to the extent that pre-set performance targets have been satisfied provided that, in usual circumstances, the executive is still employed at the end of the three-year vesting period. Special rules apply where an employee retires during the three-year vesting period, in which case their award will be adjusted to reflect the time that they were employed during the vesting period. Performance targets for awards granted in 2010 were as follows:

– 50% of an award will be determined by the Company's total shareholder return (TSR) compared to that of the companies listed below:

Land Securities plc
British Land plc
Hammerson plc
Segro plc
Great Portland Estates plc
Shaftesbury plc
Capital Shopping Centres Group plc
Quintain Estates and Development plc
Workspace Group plc
Big Yellow Group plc
St Modwen Properties plc
Capital & Regional plc
Minerva plc

TSR will be measured over a single three-year performance period from the date of grant and will be calculated by comparing average performance over three months prior to the start and the end of the performance period. TSR calculations are performed independently for the Committee by HNBS.

– 50% of an award will be determined by the Company's NAV growth compared to the return from properties in the IPD Central London Offices Total Return Index over the performance period. Performance will be measured over a single three-year period from the start of the financial year in which the award is granted.

– Vesting will be on the basis outlined below:

TSR performance	NAV growth performance	Vesting Percentage
Below median	Below median	0%
Median	Median	25%
Upper quartile	Out-perform median by 5% p.a.	100%
Intermediate performance	Intermediate performance	Pro-rata between 25% and 100%

This mix of measures is felt by the Committee to be appropriate as it rewards executives for achieving above market levels of growth in asset value and above market returns to shareholders.

The Committee will have discretion to reduce the extent of vesting in the event that it considers that performance against the relevant measure of performance (whether TSR or NAV growth) is inconsistent with underlying financial performance.

Awards will be satisfied by either newly issued shares or shares purchased in the market. Any use of newly issued shares will be limited to corporate governance compliant dilution limits contained in the scheme rules.

Details of outstanding share entitlements under the scheme, along with associated performance conditions, are set out on page 87 in table 2.

Shareholding guideline

Following the independent review in 2007, and in line with best practice, the Company has a share ownership guideline for executive Directors requiring them to retain at least half of any share awards vesting from 1 January 2009 as shares (after paying any tax due on the shares) until they have a shareholding worth at least 100% of their salary (200% of salary for the CEO). David Silverman and Damian Wisniewski, who have both recently joined the Board and therefore not received any shares from the Group's performance share plan, have yet to reach the guideline.

Service contracts

The service contracts of John Burns and Simon Silver are dated 20 May 1997 whilst those of Nigel George and Paul Williams are dated 31 March 1999 and that of David Silverman 2 January 2008. These contracts have no stated termination date but require 12 months' notice of termination by the Company or six months' notice by the executive. A provision is included whereby the Company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary, benefits in kind and a pension contribution or salary supplement of at least 20% of basic salary. No defined contractual entitlement to compensation arises from a change of control of the Company. Damian Wisniewski's service contract is dated 2 February 2010. In addition to terms similar to those of the other Directors, his contract includes certain post termination restrictions and a mitigation clause. Under this mitigation clause, instead of paying the liquidated damages provision outlined above, the Company can, at its discretion, alternatively make monthly payments throughout the notice period until the executive obtains an alternative employment at which point (except in the event of the Company giving notice following a change of control) monthly payments cease or are reduced depending upon the value of remuneration arising from the alternative role. If this clause is used by the Company, monthly payments would comprise one-twelfth of the total of his annual basic salary, annual pension contribution, annual value of benefits in kind and 20% of his maximum bonus potential.

Chairman and non-executive Directors

The remuneration for the Chairman is set by the full Board. The remuneration for non-executive Directors, which consists of fees for their services in connection with Board and Board committee meetings and, where relevant, for additional services such as chairing a Board committee, is also set by the whole Board. Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes although the Chairman has a number of unexercised options granted under the historic LMS Executive Share Option Scheme.

The non-executive Directors do not have service contracts and are appointed for three year terms which expire as follows: John Ivey, 12 December 2011; Robert Farnes, 31 March 2012; Stuart Corbyn, 23 May 2012; June de Moller and Donald Newell, 31 January 2013; Simon Neathercoat, 28 February 2014 and Stephen Young, 9 July 2013. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31 January 2013. In addition to his fee as Chairman, it provides for a car, driver and secretary, together with a contribution to his office running costs. His letter of appointment also contains provisions relating to payment in lieu of notice, which are similar to those for the executive Directors.

Report of the Remuneration Committee

Details of Directors' remuneration are given in table 1 below:

Table 1

2010	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Gains from equity-settled schemes £'000	Total £'000	Pension and life assurance £'000
Executive						
J.D. Burns	525	689	46	377	1,637	111
S.P. Silver	450	591	26	110	1,177	101
C.J. Odom*	26	–	1	235	262	7
N.Q. George	335	366	14	520	1,235	77
P.M. Williams	335	366	20	365	1,086	77
D.G. Silverman	275	301	16	104	696	60
D.M.A. Wisniewski	289	316	18	–	623	62
Non-executive						
R.A. Rayne	150	–	31	825	1,006	–
J.C. Ivey	58	–	–	–	58	–
S.J. Neathercoat	49	–	–	–	49	–
R.A. Farnes	53	–	–	–	53	–
S.A. Corbyn	49	–	–	–	49	–
J. de Moller	44	–	–	–	44	–
D. Newell	44	–	–	–	44	–
S.G. Young	18	–	–	–	18	–
	2,700	**2,629**	**172**	**2,536**	**8,037**	**495**

*The remuneration for C.J. Odom relates to the one month that he served as Director during 2010

2009	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Gains from equity-settled schemes £'000	Total £'000	Pension and life assurance £'000
Executive						
J.D. Burns	500	469	42	249	1,260	107
S.P. Silver	425	398	22	97	942	96
C.J. Odom	315	246	18	328	907	80
N.Q. George	300	234	15	83	632	70
P.M. Williams	300	234	19	238	791	69
D.G. Silverman	235	184	15	–	434	52
Non-executive						
R.A. Rayne	150	–	31	–	181	–
J.C. Ivey	62	–	–	–	62	–
S.J. Neathercoat	53	–	–	–	53	–
R.A. Farnes	49	–	–	–	49	–
S.A. Corbyn	44	–	–	–	44	–
J. de Moller	44	–	–	–	44	–
D. Newell	44	–	–	–	44	–
	2,521	1,765	162	995	5,443	474

Stephen Young joined the Board in August 2010. John Burns served as a non-executive Director of Berendsen plc (formerly The Davis Service Group Plc) until 24 September 2010 and received fees of £30,000 (2009: £40,000). In accordance with the Committee's policy, the fees were retained by Mr Burns.

Performance Share Plan

Details of the conditional share awards held by Directors and employees under the Group's performance share plan at 31 December 2010 are given in table 2 below:

Table 2

Market price at award date £	Earliest vesting date	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	D. M. A. Wisniewski	Employees	Total
16.19	06/04/09	25,940	21,610	16,670	15,440	15,440	–	–	8,640	103,740
22.30	03/04/10	20,175	16,815	13,000	12,330	12,330	–	–	7,395	82,045
11.57	05/06/11	75,625	64,275	40,825	38,875	38,875	28,500	–	15,550	302,525
Interest as at 1 January 2009		121,740	102,700	70,495	66,645	66,645	28,500	–	31,585	488,310
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
8.25	15/04/12	106,000	90,150	57,250	54,500	54,500	42,700	–	23,000	428,100
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
16.19	11.74	–	–	–	(5,636)	(5,636)	–	–	–	(11,272)
16.19	12.20	(9,468)	–	(6,085)	–	–	–	–	(3,154)	(18,707)
16.19	12.28	–	(7,888)	–	–	–	–	–	–	(7,888)
16.19	Lapsed	(16,472)	(13,722)	(10,585)	(9,804)	(9,804)	–	–	(5,486)	(65,873)
Interest as at 31 December 2009		201,800	171,240	111,075	105,705	105,705	71,200	–	45,945	812,670
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
13.66	01/04/13	67,250	57,650	–	36,780	36,780	30,190	34,590	14,640	277,880
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
22.30	13.81	(9,597)	(7,998)	(6,184)	(5,865)	(5,865)	–	–	(3,517)	(39,026)
22.30	14.09	(2)	(2)	(1)	(1)	(1)	–	–	(1)	(8)
22.30	Lapsed	(10,576)	(8,815)	(6,815)	(6,464)	(6,464)	–	–	(3,877)	(43,011)
Interest as at 31 December 2010		**248,875**	**212,075**	**98,075**	**130,155**	**130,155**	**101,390**	**34,590**	**53,190**	**1,008,505**

	31 December 2010	31 December 2009	1 January 2009
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.30 years	1.76 years	1.77 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2010 was £nil (2009: £nil). The weighted average market price at the date of vesting in 2010 was £13.81 (2009: £12.08).

Report of the Remuneration Committee

For all awards granted under the PSP:

- half of the shares vest based on TSR performance relative to a comparator group of companies. This element will only vest if the Committee is also satisfied that the TSR performance reflects underlying financial performance; and
- half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index.

The TSR comparator group comprises the constituents, as at the date of grant, of the FTSE All-Share Real Estate Index for awards granted up to 2007 and a defined comparator group of real estate companies for subsequent awards. The comparator group for 2011 is likely to be the same as for 2010 which is set out earlier in this report. 25% of awards subject to the TSR target vest for median performance over the three-year performance period increasing to full vesting for upper quartile performance.

If the Group's NAV performance matches that of the median performing property in the Index over the three-year performance period 25% of awards subject to the NAV target vest. Vesting increases on a sliding scale to full vesting for matching the return from the upper quartile performing property in the Index (awards up to 2007) or for out-performing the median performing property by 5% per annum (subsequent awards).

The performance criteria in respect of the 2007 award were measured on 7 April 2010 and showed a vesting percentage of 47.58%. The balance of the awards lapsed. As required, before allowing any vesting, the Committee considered whether the Group's TSR performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the Committee concluded that this was the case.

Share option schemes

Details of the options held by Directors and employees under the Group's share option schemes at 31 December 2010 are given in table 3 opposite. Disclosure relating to a further share option scheme in which the Directors do not participate is given in note 13.

Table 3

Exercise price £	Date from which exercisable	Expiry date	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total
5.530	16/04/02	15/04/09	–	–	–	8,750	–	–	–	8,750
5.015	14/04/03	13/04/10	–	–	–	11,000	13,000	–	–	24,000
7.235	12/04/04	11/04/11	42,000	–	26,500	15,000	18,000	–	–	101,500
6.725	15/04/05	14/04/12	24,000	–	15,000	10,750	12,250	–	6,500	68,500
4.265	22/04/06	21/04/13	–	–	26,000	20,500	22,500	–	11,500	80,500
8.590	05/07/07	04/07/14	–	–	–	–	–	9,500	10,500	20,000
10.710	26/04/08	25/04/15	–	–	–	–	–	10,000	10,000	20,000
13.630	08/06/09	07/06/16	–	–	–	–	–	6,750	7,500	14,250
Outstanding at 1 January 2009			66,000	–	67,500	66,000	65,750	26,250	46,000	337,500

No options were granted during 2009

Options exercised during 2009

Exercise price £	Market price at date of exercise £		J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total
5.530	7.13		–	–	–	(8,750)	–	–	–	(8,750)
5.015	11.74		–	–	–	–	(13,000)	–	–	(13,000)
7.235	11.74		–	–	–	–	(18,000)	–	–	(18,000)
7.235	13.16		–	–	(26,500)	–	–	–	–	(26,500)
6.725	13.16		–	–	(15,000)	–	–	–	–	(15,000)
6.725	12.25		(24,000)	–	–	–	–	–	–	(24,000)
			(24,000)	–	(41,500)	(8,750)	(31,000)	–	–	(105,250)
Outstanding at 31 December 2009			42,000	–	26,000	57,250	34,750	26,250	46,000	232,250

No options were granted during 2010

Options exercised or lapsed during 2010

Exercise price £	Market price at date of exercise £		J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total
5.015	13.31		–	–	–	(11,000)	–	–	–	(11,000)
7.235	13.31		–	–	–	(15,000)	–	–	–	(15,000)
6.725	13.31		–	–	–	(10,750)	(12,250)	–	–	(23,000)
4.265	13.31		–	–	(26,000)	(20,500)	(22,500)	–	–	(69,000)
7.235	13.04		(42,000)	–	–	–	–	–	–	(42,000)
6.725	13.04		–	–	–	–	–	–	(6,500)	(6,500)
4.265	13.04		–	–	–	–	–	–	(11,500)	(11,500)
8.590	13.04		–	–	–	–	–	–	(10,500)	(10,500)
10.710	13.04		–	–	–	–	–	–	(3,000)	(3,000)
8.590	15.03		–	–	–	–	–	(9,500)	–	(9,500)
10.710	15.03		–	–	–	–	–	(10,000)	–	(10,000)
13.630	Lapsed		–	–	–	–	–	–	(3,000)	(3,000)
			(42,000)	–	(26,000)	(57,250)	(34,750)	(19,500)	(34,500)	(214,000)
Outstanding at 31 December 2010			**–**	**–**	**–**	**–**	**–**	**6,750**	**11,500**	**18,250**

The weighted average exercise price of options exercised in 2010 was £6.36 (2009: £6.63) and the weighted average market price at the date of exercise was £13.19 (2009: £12.03). The weighted average exercise price of options that lapsed during 2010 was £13.63. No options lapsed in 2009.

Report of the Remuneration Committee

Table 3 continued

	31 December 2010	31 December 2009	1 January 2009
Number of shares:			
Exercisable	18,250	218,000	323,250
Non-exercisable	–	14,250	14,250
Weighted average exercise price of share options:			
Exercisable	£12.51	£6.40	£6.48
Non-exercisable	–	£13.63	£13.63
Weighted average remaining contracted life of share options:			
Exercisable	5.01 years	2.78 years	3.32 years
Non-exercisable	–	6.44 years	7.44 years

The exercise of options granted under the 1997 executive share option scheme is subject to a three-year performance criterion. This states that a year's options can only be exercised once the growth of the Group's net asset value per share over a subsequent three-year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more. All options have met this criterion.

Following the acquisition of LMS, options that had already vested under the LMS executive share option scheme were converted to options over Derwent London shares. Details of these options, all of which are exercisable, are given in table 4 below:

Table 4

Exercise price £	Expiry date	R.A. Rayne
9.54	05/11/11	225,401
7.54	29/08/13	65,615
9.92	01/09/14	50,274
12.03	28/06/15	41,456
Outstanding at 1 January 2009 and 31 December 2009		382,746

Options exercised during 2010

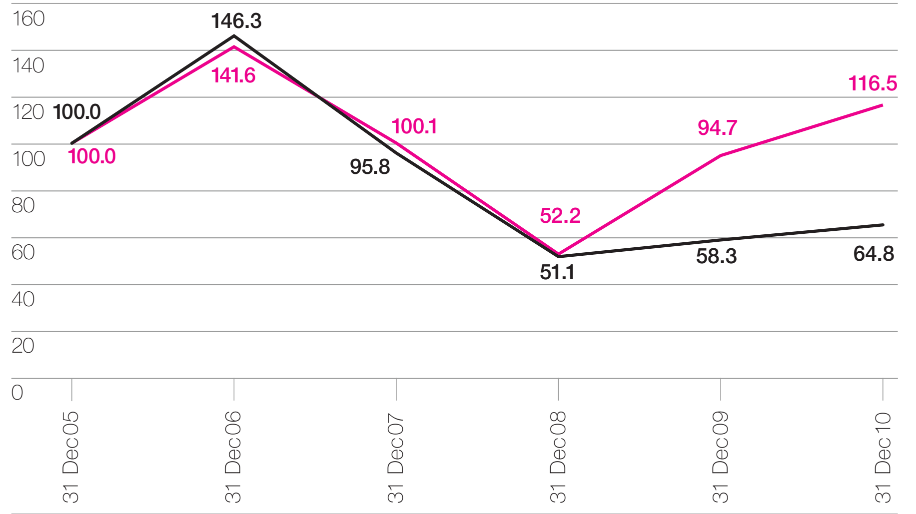
Exercise price £	Market price at date of exercise £	
9.54	13.20	(225,401)
Outstanding at 31 December 2010		**157,345**

The weighted average exercise price of options exercised during 2010 was £9.54 and the weighted average market price at the date of exercise £13.20. No options were granted or lapsed in 2010 or 2009. No options were exercised during 2009.

In respect of the options outstanding at 31 December 2010 in table 4 the weighted average exercise price is £9.48 (2009: £9.52) and the weighted average remaining contracted life is 3.5 years (2009: 2.4 years).

The market price of the 5p ordinary shares at 31 December 2010 was £15.61 (2009: £13.20). During the year, they traded in a range between £12.08 and £16.05 (2009: £4.60 and £13.89).

Performance graph
Total shareholder return compared to the FTSE All-Share Real Estate/ All-Share Real Estate Investment Trusts Indices.



This graph shows the value, by the end of 2010, of a return over five years of £100 invested in Derwent Valley Holdings / Derwent London compared to that of £100 invested in the FTSE All-Share Real Estate Index (up until 30 November 2009) and the FTSE All-Share Real Estate Investment Trusts Index (from 1 December 2009). These indices have been chosen by the Committee as they are considered the most appropriate benchmarks against which to assess the relative performance of the Company for this purpose. To produce a 'fair value', each point is a 30-day average of the return.

The disclosure on Directors' remuneration in tables 1, 2, 3 and 4 above has been audited as required by the Companies Act 2006.

On behalf of the Board

R. A. Farnes
Chairman of the Remuneration Committee
10 March 2011

Report of the Nominations Committee

Membership

Stuart Corbyn became Chairman of the Nominations Committee on 1 January 2010. Throughout the year, Simon Neathercoat, John Ivey, Robert Farnes, June de Moller and Donald Newell served on the Committee with Stephen Young becoming a member in August 2010. All members are considered independent by the Company having no day-to-day involvement with the Company.

Roles and responsibilities

The terms of reference for the Committee are available on the Company's website.

Meetings

The Committee will meet at least once a year to carry out the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's responsibilities in connection with identifying and nominating to the Board suitable candidates to fill vacancies for non-executive Directors and, if requested, executive Directors. The Committee met three times in 2010.

Work of the Committee

During the year, the Committee has carried out the following:

- supervised the annual appraisal of the Board, its Committees and the Chairman;
- considered the size and membership of the Board Committees;
- continued to implement the policy of change and refreshment, introduced in 2010, under which it is intended that a further independent non-executive Director will be appointed in 2011;
- instructed an independent executive search agency in connection with the recruitment of a non-executive Director. Subsequently met with the candidates and recommended the appointment of Stephen Young to the Board; and
- instigated a selection process to identify an appropriate search agency to use in the appointment of a further non-executive Director to ensure that sufficiently diverse candidates are identified and considered.

S. A. Corbyn
Chairman of the Nominations Committee
10 March 2011

Report of the Audit Committee

Membership

The Committee is chaired by Simon Neathercoat and was served throughout 2010 by Stuart Corbyn, Robert Farnes, Donald Newell and June de Moller. Stephen Young joined the Committee in August 2010 and will take over as Chairman on 1 April 2011. All members are considered independent by the Company having no day-to-day involvement with the Company. Both Simon Neathercoat and Stephen Young are qualified accountants and considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise at the Company's expense, if required.

Roles and responsibilities

The terms of reference for the Committee are available on the Company's website.

Meetings

The Committee met four times during the year to discharge its responsibilities. Meetings are attended by the Group's external Auditor, independent property valuers (CBRE) and members of the Group's senior management when invited.

Work of the Committee

During the year, the Committee has carried out the following:

- reviewed the interim and annual financial statements and considered the appropriateness of the accounting policies used, assumptions and judgements adopted and estimates made;
- reviewed the Group's published interim management statements;
- held meetings with the Group's external valuers prior to the interim and final results;
- held meetings with the Group's external Auditor;
- reviewed the scope of the annual audit and the level of associated fees;
- considered the adequacy of the Auditor's statement of independence;
- monitored the operation of the Group's policy regarding the use of the external Auditor for non-audit work which helps protect the Auditor's independence and objectivity and introduced a limit of £25,000 above which the Committee would need to be consulted prior to any engagement;
- after due consideration of the conduct of the audit and the matters raised in the management letter, recommended the re-appointment of the Group's external Auditor;
- considered the need for an internal audit function;
- reviewed the Group's conflict of interest register;
- reviewed, commented upon and approved the preparation of the Group's risk register;
- reviewed an internal report regarding the control environment in the Group's small office in Scotland; and
- considered the implication for the Group of the Bribery Act.

S. J. Neathercoat
Chairman of the Audit Committee
10 March 2011

Independent Auditor's report

Independent Auditor's report to the members of Derwent London plc

We have audited the financial statements of Derwent London plc for the year ended 31 December 2010 which comprise Group income statement, Group and parent Company statements of comprehensive income, Group and parent Company balance sheets, Group and parent Company statements of changes in equity, Group and parent Company cashflow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

– the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and

– the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

– the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of Directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

– the Directors' statement, set out on page 70, in relation to going concern;

– the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and

– certain elements of the report to shareholders by the Board on Directors' remuneration.

Richard Kelly
For and on behalf of BDO LLP, statutory Auditor
London
United Kingdom
10 March 2011

BDO LLP is a limited liability partnership registered in England and Wales
(with registered number OC305127).

Spread overleaf:
The Angel Building, EC1

Financial statements

Derwent London continued to perform strongly in 2010. Adjusted net asset value increased by 27% and the loan to value ratio fell despite further investment in the portfolio.

SADLER'S

Group income statement

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Gross property income		**119.4**	123.8
Other income		**1.7**	1.5
Total income	5	**121.1**	125.3
Property outgoings	6	**(8.1)**	(10.5)
Net property income		**113.0**	114.8
Administrative expenses	1	**(20.9)**	(17.5)
Movement in valuation of cash-settled share options		**0.1**	(1.6)
Total administrative expenses		**(20.8)**	(19.1)
Revaluation surplus/(deficit)		**301.6**	(81.1)
Profit/(loss) on disposal of investment properties	7	**0.9**	(16.6)
Profit/(loss) from operations		**394.7**	(2.0)
Finance income		**1.9**	2.0
Foreign exchange gain		**–**	3.6
Total finance income	8	**1.9**	5.6
Finance costs	1	**(39.6)**	(41.5)
Foreign exchange loss		**(0.2)**	-
Total finance costs	8	**(39.8)**	(41.5)
Movement in fair value of derivative financial instruments		**(2.4)**	3.9
Share of results of joint ventures	9	**2.0**	(0.9)
Profit/(loss) before tax	10	**356.4**	(34.9)
Tax (charge)/credit	15	**(1.0)**	9.4
Profit/(loss) for the year		**355.4**	(25.5)
Attributable to:			
Equity shareholders	30	**346.2**	(26.8)
Minority interest		**9.2**	1.3
Profit/(loss) per share	16	**342.25p**	(26.59)p
Diluted profit/(loss) per share	16	**340.03p**	(26.59)p

The notes on pages 103 to 133 form part of these financial statements.

Statements of comprehensive income

for the year ended 31 December 2010

	2010 £m	2009 £m
Group		
Profit/(loss) for the year	**355.4**	(25.5)
Actuarial losses on defined benefit pension scheme	**(0.4)**	(0.2)
Foreign currency translation	**0.2**	(3.6)
Other comprehensive expense	**(0.2)**	(3.8)
Total comprehensive income/(expense) relating to the year	**355.2**	(29.3)
Attributable to:		
Equity shareholders	**346.0**	(30.6)
Minority interest	**9.2**	1.3
Company		
Profit/(loss) for the year	**131.3**	(67.0)
Actuarial losses on defined benefit pension scheme	**(0.4)**	(0.2)
Other comprehensive expense	**(0.4)**	(0.2)
Total comprehensive income/(expense) relating to the year	**130.9**	(67.2)

The notes on pages 103 to 133 form part of these financial statements.

Balance sheets

as at 31 December 2010

	Note	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Non-current assets					
Investment property	17	**2,388.5**	1,888.6	**–**	–
Property, plant and equipment	18	**1.5**	1.4	**0.7**	0.6
Investments	19	**8.4**	6.4	**712.7**	569.9
Deferred tax asset	27	**–**	–	**2.6**	1.6
Pension scheme surplus	14	**0.7**	0.8	**0.7**	0.8
Other receivables	20	**45.8**	38.9	**–**	–
		2,444.9	1,936.1	**716.7**	572.9
Current assets					
Trading properties	21	**–**	1.0	**–**	–
Trade and other receivables	1, 22	**37.7**	44.0	**686.1**	632.7
Corporation tax asset		**–**	–	**2.1**	–
Cash and cash equivalents	32	**7.2**	19.0	**–**	–
		44.9	64.0	**688.2**	632.7
Total assets		**2,489.8**	2,000.1	**1,404.9**	1,205.6
Current liabilities					
Bank overdraft and loans	25	**5.6**	5.9	**0.2**	5.4
Trade and other payables	23	**63.4**	59.0	**310.0**	267.8
Corporation tax liability		**3.3**	5.4	**–**	1.6
Derivative financial instruments	25	**–**	1.6	**–**	1.6
Provisions	24	**0.3**	0.2	**0.3**	0.2
		72.6	72.1	**310.5**	276.6
Non-current liabilities					
Borrowings	1, 25	**889.4**	733.9	**347.5**	290.9
Derivative financial instruments	25	**25.4**	21.4	**10.2**	7.8
Provisions	24	**1.8**	2.9	**0.7**	0.8
Deferred tax liability	27	**5.9**	5.9	**–**	–
		922.5	764.1	**358.4**	299.5
Total liabilities		**995.1**	836.2	**668.9**	576.1
Total net assets		**1,494.7**	1,163.9	**736.0**	629.5
Equity					
Share capital	28	**5.0**	5.0	**5.0**	5.0
Share premium	29	**158.2**	156.9	**158.2**	156.9
Other reserves	29	**918.1**	916.8	**475.1**	331.2
Retained earnings	29	**367.5**	48.5	**97.7**	136.4
Equity shareholders' funds	30	**1,448.8**	1,127.2	**736.0**	629.5
Minority interest		**45.9**	36.7	**–**	–
Total equity		**1,494.7**	1,163.9	**736.0**	629.5

The financial statements were approved by the Board of Directors and authorised for issue on 10 March 2011.

J.D. Burns,
Director

D.M.A. Wisniewski,
Director

The notes on pages 103 to 133 form part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2010

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
Group							
At 1 January 2010	5.0	156.9	916.8	48.5	1,127.2	36.7	1,163.9
Total comprehensive income for the year	–	–	0.2	345.8	346.0	9.2	355.2
Share-based payments expense transferred to reserves	–	–	2.2	–	2.2	–	2.2
Transfer between reserves in respect of performance share plan	–	–	(1.1)	1.1	–	–	–
Premium on issue of shares	–	1.3	–	–	1.3	–	1.3
Dividends	–	–	–	(27.9)	(27.9)	–	(27.9)
At 31 December 2010	**5.0**	**158.2**	**918.1**	**367.5**	**1,448.8**	**45.9**	**1,494.7**
At 1 January 2009	5.0	156.2	923.4	95.0	1,179.6	35.4	1,215.0
Total comprehensive expense for the year	–	–	(3.6)	(27.0)	(30.6)	1.3	(29.3)
Share-based payments expense transferred to reserves	–	–	2.2	–	2.2	–	2.2
Transfer between reserves in respect of performance share plan	–	–	(5.2)	5.2	–	–	–
Purchase of minority interest	–	0.7	–	–	0.7	–	0.7
Dividends	–	–	–	(24.7)	(24.7)	–	(24.7)
At 31 December 2009	5.0	156.9	916.8	48.5	1,127.2	36.7	1,163.9
Company							
At 1 January 2010	5.0	156.9	331.2	136.4	629.5	–	629.5
Total comprehensive income for the year	–	–	–	130.9	130.9	–	130.9
Share-based payments expense transferred to reserves	–	–	2.2	–	2.2	–	2.2
Premium on issue of shares	–	1.3	–	–	1.3	–	1.3
Transfer between reserves in respect of performance share plan	–	–	(1.1)	1.1	–	–	–
Transfer between reserves†	–	–	142.8	(142.8)	–	–	–
Dividends	–	–	–	(27.9)	(27.9)	–	(27.9)
At 31 December 2010	**5.0**	**158.2**	**475.1**	**97.7**	**736.0**	**–**	**736.0**
At 1 January 2009	5.0	156.2	379.2	178.1	718.5	–	718.5
Total comprehensive expense for the year	–	–	–	(67.2)	(67.2)	–	(67.2)
Share-based payments expense transferred to reserves	–	–	2.2	–	2.2	–	2.2
Premium on issue of shares	–	0.7	–	–	0.7	–	0.7
Transfer between reserves in respect of performance share plan	–	–	(5.2)	5.2	–	–	–
Transfer between reserves†	–	–	(45.0)	45.0	–	–	–
Dividends	–	–	–	(24.7)	(24.7)	–	(24.7)
At 31 December 2009	5.0	156.9	331.2	136.4	629.5	–	629.5

† £142.8m (2009: £45.0m loss) relating to the impairment of the investment in LMS in the Company has been transferred to or from other reserves to retained earnings.

The notes on pages 103 to 133 form part of these financial statements.

Cash flow statements

for the year ended 31 December 2010

	Note	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Operating activities					
Cash received from tenants		**117.1**	125.4	**–**	–
Direct property expenses		**(9.8)**	(10.2)	**–**	–
Cash paid to and on behalf of employees		**(13.7)**	(11.4)	**(12.9)**	(11.4)
Other administrative expenses		**(5.7)**	(5.7)	**(4.3)**	(1.7)
Interest received		**0.1**	1.6	**0.1**	0.9
Interest paid		**(38.8)**	(38.5)	**(24.0)**	(13.1)
Other finance costs		**(1.8)**	(2.2)	**(1.4)**	(3.0)
Other income		**2.1**	1.0	**2.0**	0.7
Disposal of trading property		**–**	6.5	**–**	–
Tax paid in respect of operating activities		**(3.0)**	(0.1)	**(2.0)**	–
Net cash from/(used in) operating activities		**46.5**	66.4	**(42.5)**	(27.6)
Investing activities					
Acquisition of investment properties		**(148.0)**	(10.2)	**–**	–
Capital expenditure on investment properties		**(49.5)**	(94.6)	**–**	–
Disposal of investment properties		**8.5**	195.5	**–**	–
Purchase of property, plant and equipment		**(0.4)**	(0.4)	**(0.4)**	(0.4)
Disposal of property, plant and equipment		**0.1**	–	**0.1**	–
Distributions received from joint ventures		**–**	0.5	**–**	–
Sale of investment in subsidiary undertaking		**–**	–	**–**	0.9
Advances to minority interest holder		**(1.0)**	–	**–**	–
Tax received in respect of investing activities		**–**	6.6	**–**	8.0
Net cash (used in)/from investing activities		**(190.3)**	97.4	**(0.3)**	8.5
Financing activities					
Repayment of revolving bank loan		**(94.2)**	–	**(94.2)**	–
Drawdown of new revolving bank loan		**60.0**	–	**60.0**	–
Net movement in intercompany loans		**–**	–	**14.7**	178.6
Net movement in other revolving bank loans		**193.0**	(134.0)	**94.0**	(140.0)
Drawdown of non-revolving bank loans		**0.3**	1.9	**0.3**	1.9
Repayment of loan notes		**(0.3)**	(1.9)	**(0.3)**	(1.9)
Net proceeds of share issues	28	**1.3**	0.7	**1.3**	0.7
Dividends paid	31	**(27.8)**	(24.3)	**(27.8)**	(24.3)
Net cash from/(used in) financing activities		**132.3**	(157.6)	**48.0**	15.0
(Decrease)/increase in cash and cash equivalents in the year		**(11.5)**	6.2	**5.2**	(4.1)
Cash and cash equivalents at the beginning of the year		**13.1**	6.9	**(5.4)**	(1.3)
Cash and cash equivalents at the end of the year	32	**1.6**	13.1	**(0.2)**	(5.4)

The notes on pages 103 to 133 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2010

1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee interpretations (IFRICs) issued by the International Accounting Standards Board as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

The principal accounting policies are described in note 2. The accounting policies are consistent with those applied in the year ended 31 December 2009 with the exception of the new standards adopted during 2010 and the presentational changes outlined below:

IFRS 2 Share-based Payment (amendment);
IFRS 3 Business Combinations;
IAS 27 Consolidated and Separate Financial Statements;
IAS 39 Financial Instruments: Recognition and Measurement (amendment);
IFRIC 12 Service Concession Arrangements;
IFRIC 15 Arrangements for Construction of Real Estate;
IFRIC 16 Hedges of a Net Investment in a Foreign Operation;
IFRIC 17 Distributions of Non-cash Assets to Owners; and
Amendments arising from the 2008 and 2009 annual improvements project.
These either had no material impact on the financial statements or resulted in changes to presentation and disclosure only.

With effect from 1 January 2010, non-utilisation fees payable on the undrawn part of the revolving credit facilities and the amortisation of the loan arrangement costs have been reclassified into finance costs from administrative expenses. In addition, the prepayment of the loan arrangement costs, which was previously included within trade and other receivables, has now been included as a deduction against borrowings in accordance with IAS 39, Financial Instruments: Recognition and Measurement. There is no impact on underlying profit, profit before tax or net assets as a result of these changes and they do not materially affect the results for the year ended 31 December 2010 or the comparative period. Both Group trade and other receivables and borrowings have reduced by £2.6m at 31 December 2009 (Company: £1.6m) from those figures previously reported. In addition, Group administrative expenses were reduced by £2.5m for the year to 31 December 2009 with a corresponding increase in total finance costs over the same periods.

At the date of authorisation of these financial statements, the following standards and interpretations applicable to the Group's financial statements which have not been applied in these financial statements were in issue but not yet effective at the year end. All are deemed not relevant to the Group or to have no material impact on the financial statements of the Group when the relevant standards come into effect.

IAS 24 Related Party Disclosures (revised);
IAS 32 Financial Instruments: Presentation (amendment);
IFRIC 14/
IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendment);
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
Improvements to IFRS's 2010; and
Deferred tax recovery of underlying assets (Amendments to IAS 12).

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Additional detail is provided in note 3.

2 Significant accounting policies

Basis of consolidation
The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiary undertakings are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences and until the date control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IAS 31, Interests in Joint Ventures, and following the procedures for this method set out in IAS 28, Investments in Associates. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the period to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Gross property income
Gross property income arises from two main sources:

(i) Rental income – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free periods or capital contributions in lieu of rent free periods and the effect of payments received from tenants on the grant of leases.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IAS 17, Leases. Minimum lease payments receivable, again defined in IAS 17, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

(ii) Surrender premiums – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement.

Other income
Other income consists of commissions and fees arising from the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of service.

Expenses
(i) Lease payments – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

(ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

(iii) Reverse surrender premiums – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

(iv) Other property expenditure – Vacant property costs and other property costs are expensed in the year to which they relate.

Employee benefits

(i) Share-based remuneration

(a) Equity-settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of options granted is calculated using a binomial lattice pricing model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.

(b) Cash-settled – For cash-settled share-based payments, a liability is recognised based on the current fair value determined at each balance sheet date. The movement in the current fair value is taken to the Group income statement.

(ii) Pensions

(a) Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

(b) Defined benefit plans – The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the statement of recognised income and expense.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Investment property

(i) Valuation – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive debtors. Fair value is the amount for which an investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.

(ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. Borrowing costs that are directly attributable to such expenditure are expensed in the year in which they arise.

(iii) Disposal – The disposal of investment properties is accounted for on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received.

(iv) Development – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Property, plant and equipment

Property, plant and equipment, is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and their net asset value. Any impairment is recognised immediately in the income statement.

2 Significant accounting policies (continued)

Non-current assets held for sale
Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

Trading properties
Trading properties include those properties which were acquired exclusively with a view to resale or development and resale and are held at the lower of cost or transfer value and net realisable value.

Financial assets
(i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

Financial liabilities
(i) Bank loans and overdrafts – Bank loans and overdrafts are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.

(ii) Bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.

(iii) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(iv) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement.

(v) Trade payables – Trade payables are recognised and carried at the original transaction value.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historic cost of the properties and any available capital losses.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Dividends
Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

Foreign currency translation
On consolidation, the assets and liabilities of foreign entities are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statement and cash flows are translated at the average rate for the period. Exchange differences arising from the retranslation of long-term monetary items forming part of the Group's net investment in foreign entities are recognised in the foreign exchange reserve on consolidation.

Transactions entered into by Group entities in currencies other than the entity's functional currency are recorded at the exchange rate prevailing at the transaction dates. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the Group income statement.

3 Significant judgements, key assumptions and estimates

The Group's significant accounting policies are stated in note 2 above. Not all of these significant accounting policies require management to make difficult, subjective or complex judgements or estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts.

Exceptional items

Exceptional items are defined as those items which are sufficiently material by either their size or nature as to require separate disclosure. Deciding which items meet this definition requires the Group to exercise its judgement.

Estimated compulsory purchase proceeds

During 2009, compulsory purchase orders issued under the Crossrail Act 2008 were received in relation to three of the Group's investment properties. At 31 December 2009, the proceeds recognised in respect of these properties were the Directors' best estimates of the amounts to be received. These transactions, and, as a result, the total proceeds, were finalised during 2010 and the difference between the final proceeds and the estimates made at the 2009 year end have been recognised in the Group income statement.

Investment property valuation

The Group uses the valuation carried out by its independent valuers as the fair value of its investment properties. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

Outstanding rent reviews

Where the rent review date has passed, and the revised annual rent has not been agreed, rent is accrued from the date of the rent review based upon an estimated annual rent. The estimate is derived from knowledge of market rents for comparable properties.

Compliance with the real estate investment trust taxation (REIT) regime

On 1 July 2007 the Group converted to a REIT. In order to achieve and retain REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

– at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets;

– at least 75% of the Group's total profits must arise from the tax exempt business; and

– at least 90% of the tax exempt business must be distributed.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business which is within the REIT structure.

4 Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is its executive Board comprising the six executive Directors) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's executive Board contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the adjusted earnings per share, net asset value and profit figures. Reconciliations of each of these figures to their statutory equivalents are detailed in note 16. Additionally, information is provided to the executive Board showing gross property income and investment property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's investment property portfolio comprises 90% office buildings* by value. The Directors consider that these properties have similar types of tenants; they demonstrate similar long-term financial performance and have similar economic characteristics. Therefore, these individual properties have been aggregated into a single operating segment. The remaining 10% represents a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right. Accordingly, the Directors are of the view that it is appropriate to disclose two reportable segments, 'office buildings' and 'other', by reference to gross property income and investment property value.

*Some office buildings have an ancillary element such as retail or residential.

4 Segmental information (continued)

	Gross property income		Investment property[1]			
			Carrying value		Fair value	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Office buildings	**109.2**	114.3	**2,173.8**	1,709.3	**2,205.8**	1,736.4
Other	**10.2**	9.5	**214.7**	179.3	**220.3**	182.0
	119.4	123.8	**2,388.5**	1,888.6	**2,426.1**	1,918.4

[1] A reconciliation between the fair value and carrying value of investment property is set out in note 17.

All of the Group's investment properties are based in the UK. The Group also has a joint venture in Prague which represents 0.2% of the Group's assets (see note 19). No geographical grouping is contained in any of the internal financial reports provided to the Group's executive Board. Therefore, no geographical segmental analysis is required by IFRS 8. However, the following analysis is included to provide users with additional information regarding the geographical areas contained in the business review.

	Gross property income		Investment property			
			Carrying value		Fair value	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
West End central	**82.6**	78.4	**1,662.6**	1,284.8	**1,679.7**	1,299.1
West End borders	**7.3**	7.9	**174.5**	121.4	**178.2**	121.7
City borders	**23.9**	29.2	**443.3**	392.5	**456.1**	405.5
Provincial	**5.6**	8.3	**108.1**	89.9	**112.1**	92.1
	119.4	123.8	**2,388.5**	1,888.6	**2,426.1**	1,918.4

5 Income

Gross property income includes surrender premiums received from tenants during 2010 of £0.7m (2009: £0.1m). The balance of £118.7m (2009: £123.7m) is derived solely from rental income from the Group's properties. Of these amounts, £1.0m (2009: £4.2m) was derived from a lease to BT of the Angel Building, EC1, where in March 2007, the Group entered into an arrangement with BT to restructure the lease arrangements such that the Group could obtain possession of the building whilst maintaining rental income from BT until March 2010 (albeit that, if the Group disposed of this property, the right to that rental income would pass to the purchaser). The Group has included the income from this building within gross property income as, although similar to a lease surrender arrangement, the Group's entitlement to this rental income is linked to its continued ownership of the property rather than being an unconditional amount receivable (whether as an upfront payment or through a series of instalments).

Other income of £1.7m (2009: £1.5m) relates to fees and commissions earned in relation to the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of services.

6 Property outgoings

	2010 £m	2009 £m
Ground rents	**0.3**	0.7
Reverse surrender premium	**0.2**	–
Other property costs	**7.6**	9.8
	8.1	10.5

Property outgoings include £0.1m (2009: £0.1m) of costs relating to properties which produced no property income during the year.

7 Profit/(loss) on disposal of investment property

	2010 £m	2009 £m
Disposal proceeds	**1.1**	201.8
Carrying value	**(0.2)**	(216.0)
Adjustment for rents recognised in advance	**–**	(2.4)
	0.9	(16.6)

8 Finance income and costs

	2010 £m	2009 £m
Finance income		
Interest on development funding	**–**	0.9
Return on pension plan assets	**0.8**	0.6
Bank interest received	**–**	0.1
Other	**1.1**	0.4
	1.9	2.0
Foreign exchange gain	**–**	3.6
Total finance income	**1.9**	5.6
Finance costs		
Bank loans and overdraft	**25.4**	27.1
Non-utilisation fees[1]	**1.4**	1.2
Amortisation of loan arrangement costs[1]	**0.9**	0.8
Loan notes	**–**	0.1
Secured Bonds	**11.4**	11.4
Amortisation of the fair value and issue costs of the Secured Bonds	**(0.7)**	(0.7)
Finance leases	**0.5**	0.6
Pension interest costs	**0.6**	0.5
Other[1]	**0.1**	0.5
	39.6	41.5
Foreign exchange loss	**0.2**	–
Total finance costs	**39.8**	41.5

[1] The comparative figures have been restated for the presentational changes outlined in note 1.

The foreign exchange loss of £0.2m (2009: £3.6m gain) resulted from the translation of an intercompany loan from a non-trading US subsidiary. The impact on net asset value from this exchange movement is minimal as there is an offsetting entry in equity (see Group statement of comprehensive income).

Other finance income includes £0.8m (2009: £nil) received as a contribution towards the costs of arranging alternative financing upon the early repayment of a banking facility. In accordance with IAS 39, this amount was credited to the income statement.

9 Share of results of joint ventures

	2010 £m	2009 £m
Revaluation surplus/(deficit)	**0.9**	(1.3)
Other profit from operations after tax	**1.1**	0.4
	2.0	(0.9)

See note 19 for further details of the Group's joint ventures.

10 Profit/(loss) before tax

	2010 £m	2009 £m
This is arrived at after charging:		
Depreciation and amortisation	**0.2**	0.2
Contingent rent payable under property finance leases	**0.3**	0.7
Auditor's remuneration		
Audit – Group	**0.2**	0.2
Audit – subsidiaries	**0.1**	0.1
Other services	**–**	0.1

11 Directors' emoluments

	2010 £m	2009 £m
Remuneration for management services	**5.0**	4.0
Adjustment in respect of prior years' incentive schemes	**–**	0.3
Non-executive Directors' remuneration	**0.5**	0.5
Gain on exercise of share options	**2.5**	1.0
Pension contributions	**0.5**	0.4
	8.5	6.2
National insurance contributions	**1.2**	1.1
	9.7	7.3

Included within the figures shown in note 12 below are amounts recognised in the Group income statement, in accordance with IFRS 2, Share-based Payment, relating to the Directors. These are an expense of £2.6m (2009: £2.0m) and a credit of £0.1m (2009: £1.6m charge) relating to equity-settled and cash-settled share options respectively.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 82 to 91. The only key management personnel are the Directors.

12 Employees

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Staff costs, including those of Directors:				
Wages and salaries	**10.0**	8.9	**10.0**	8.9
Social security costs	**1.2**	1.3	**1.2**	1.3
Pension costs	**1.2**	1.0	**1.2**	1.0
Share-based payments expense relating to equity-settled schemes	**2.6**	2.0	**2.4**	2.0
Share-based payments (credit)/charge relating to cash-settled schemes	**(0.1)**	1.6	**–**	–
	14.9	14.8	**14.8**	13.2

The average number of employees in the Group during the year, excluding Directors, was 77 (2009: 68). The average number of employees in the Company during the year, excluding Directors, was 73 (2009: 64). All were employed in administrative roles.

13 Share-based payments

Details of the options held by Directors and employees under the Group's share option schemes are given in the report of the Remuneration Committee on pages 82 to 91.

Group and Company – equity-settled option scheme

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled option scheme operated by the Group. This scheme is separate to the performance share plan and other option schemes as disclosed in the report of the Remuneration Committee on pages 82 to 91. The Directors are not entitled to any awards under this scheme.

	2010	2009
Option pricing model used	**Binomial lattice**	Binomial lattice
Share price at date of grant	**£13.20**	£6.10
Exercise price	**£13.20**	£6.10
Number granted	**58,500**	69,500
Number lapsed	**2,500**	10,000
Contractual life	**10 years**	10 years
Risk free interest rate	**3.4%**	2.7%
Volatility	**40.0%**	37.0%
Dividend yield	**2.0%**	4.0%

For both the 2010 and 2009 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last three years.

There were 115,500 options at 31 December 2010 (2009: 64,500).

13 Share-based payments (continued)

Group – cash-settled option scheme

All options relating to the cash-settled option scheme arose as a result of the acquisition of London Merchant Securities plc.

A binomial lattice pricing model was used to value the cash-settled options. The closing share price at 31 December 2010 of £15.61 (2009: £13.20) and a dividend yield of 1.8% (2009: 1.9%) were used together with risk-free interest rates of between 0.5% and 1.3% (2009: between 0.5% and 2.3%) depending on the term of the options.

Due to the small number of individuals who have been granted these options, an assumption of zero employee turnover has been made. Additionally, volatilities of 21% pa, 44% pa and 46% pa (2009: 58% pa, 49% pa and 40% pa) have been used.

In general, the value of an option is affected by how quickly employees are assumed to exercise their awards after vesting. In this case, however, given the other assumptions, the share price at 31 December 2010, and the fact that the expected lives of the options are relatively short, the fair values are not sensitive to this assumption. It has been assumed that employees try to maximise their returns and therefore do not exercise their options immediately, but tend to exercise their options later at the financially optimal date.

14 Pension costs

The Group and Company operate a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees will join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group companies.

Defined contribution plan

The total expense relating to this plan in the current year was £1.1m (2009: £0.9m).

Defined benefit plan

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions are invested in a Managed Fund Policy with Ignis Asset Management and F&C Investments plus annuity policies held in the name of the Trustees.

The pension charge for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary. The most important assumptions made in connection with the establishment of this charge were that the return on the fund will be 7.7% pa (2009: 7.1% pa) and that salaries will be increased at 5.0% pa (2009: 5.0% pa). The market value of assets of the scheme at 31 December 2010 was £12.0m (2009: £10.7m) and the actuarial value of those assets on an ongoing basis represented 110% (2009: 108%) of the benefit of £10.9m (2009: £9.9m) that had accrued to members allowing for expected future increases in earnings. The pension surplus is £0.7m (2009: £0.8m).

Defined benefit obligations

	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded obligations	**(10.9)**	(9.9)	(7.7)	(8.8)
Fair value of plan assets	**12.0**	10.7	8.7	11.6
Unrecognised surplus	**(0.4)**	–	–	–
Recognised surplus for defined benefit obligations	**0.7**	0.8	1.0	2.8

Movements in present value of the defined benefit obligations recognised in the balance sheet

	2010 £m	2009 £m	2008 £m	2007 £m
Net surplus for defined benefit obligation at 1 January	**0.8**	1.0	2.8	–
Arising on acquisition of subsidiary	**–**	–	–	1.4
Net return	**0.3**	–	0.3	0.1
Actuarial (losses)/profits recognised in reserves	**(0.4)**	(0.2)	(2.1)	1.3
Net surplus for defined benefit obligations at 31 December	**0.7**	0.8	1.0	2.8

Income recognised in the income statement

	2010 £m	2009 £m	2008 £m	2007 £m
Current service costs	**(0.1)**	(0.1)	(0.1)	(0.1)
Interest on obligation	**(0.6)**	(0.5)	(0.5)	(0.5)
Expected return on plan assets	**0.8**	0.6	0.8	0.6
	0.1	–	0.2	–

The income is recognised in the following line items in the income statement:

	2010 £m	2009 £m	2008 £m	2007 £m
Administrative expenses	**(0.1)**	(0.1)	(0.1)	(0.1)
Other finance costs	**(0.6)**	(0.5)	(0.5)	(0.5)
Finance income	**0.8**	0.6	0.8	0.6
	0.1	–	0.2	–

14 Pension costs (continued)

Change in the fair value of plan assets

	2010 £m	2009 £m	2008 £m	2007 £m
At 1 January	10.7	8.7	11.6	–
Arising on acquisition of subsidiary	–	–	–	10.8
Expected return	0.8	0.6	0.8	0.6
Total contributions	0.1	0.1	0.1	0.1
Benefits paid	(0.4)	–	(0.4)	(0.1)
Actuarial gains/(losses)	0.8	1.3	(3.4)	0.2
At 31 December	12.0	10.7	8.7	11.6

The actual return on the plan assets for the year was £1.6m (2009: £1.9m). The overall expected return on plan assets is derived as the weighted average of the long-term expected returns from each of the main asset classes. The long-term expected rate of return on cash is determined by reference to gilt rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected rates of return on equities and property are based on the rate of return on bonds with allowance for outperformance.

Changes in the present value of defined benefit obligations

	2010 £m	2009 £m	2008 £m	2007 £m
At 1 January	9.9	7.7	8.8	–
Arising on acquisition of subsidiary	–	–	–	9.4
Service cost	0.1	0.1	0.1	0.1
Interest cost	0.6	0.5	0.5	0.5
Benefits paid	(0.5)	–	(0.4)	(0.1)
Actuarial gains/(losses)	0.8	1.6	(1.3)	(1.1)
At 31 December	10.9	9.9	7.7	8.8

Experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m
Experience gains/(losses) on plan assets	0.8	1.3	(3.4)	0.2
Experience gains on plan liabilities	(0.8)	(1.6)	(1.3)	(1.1)

Analysis of plan assets

	2010 £m	2009 £m	2008 £m	2007 £m
Equities	2.9	9.3	6.6	9.7
Bonds	2.0	1.0	1.3	0.8
Property	–	–	0.1	0.1
Cash	0.3	0.4	0.7	1.0
Funds	6.8	–	–	–
Total	12.0	10.7	8.7	11.6

Principal actuarial assumptions

	2010 % pa	2009 % pa	2008 % pa	2007 % pa
Discount rate at 31 December	5.4	5.7	6.3	5.9
Expected return on plan assets at 31 December	7.7	7.1	6.8	7.3
Future salary increases	5.0	5.0	4.4	4.7
Inflation	3.5	3.5	2.9	3.2
Future pension increases	5.0	5.0	5.0	5.0

15 Tax (charge)/credit

	2010 £m	2009 £m
Corporation tax charge/(credit)		
UK corporation tax and income tax on profit for the year	**(1.2)**	(2.6)
Foreign tax	**–**	(0.4)
Utilisation of losses from prior years	**–**	11.9
Other adjustments in respect of prior years' tax	**0.2**	(0.8)
	(1.0)	8.1
Deferred tax credit		
Origination and reversal of temporary differences	**0.2**	1.7
Adjustment for changes in estimates	**(0.2)**	(0.4)
	–	1.3
	(1.0)	9.4

The losses from prior years of £11.9m which were utilised in 2009 were not recognised in prior years due to the uncertainty of their availability.

The effective rate of tax for 2010 is lower (2009: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2010 £m	2009 £m
Profit/(loss) before tax	**356.4**	(34.9)
Expected tax (charge)/credit based on the standard rate of corporation tax in the UK of 28.0% (2009: 28.0%)	**(99.8)**	9.8
Difference between tax and accounting profit on disposals	**1.6**	(8.5)
REIT exempt income	**8.5**	8.2
Revaluation surplus/(deficit) attributable to REIT properties	**83.3**	(19.7)
Expenses and fair value adjustments not deductible for tax purposes	**1.4**	4.0
Capital allowances	**3.4**	4.6
Other differences	**0.4**	(0.1)
Tax charge on current year's profit/(loss)	**(1.2)**	(1.7)
Adjustments in respect of prior years' tax	**0.2**	11.1
	(1.0)	9.4

16 Profit before tax, earnings and net asset value per share

The European Public Real Estate Association (EPRA) issued updated Best Practices Recommendations in October 2010, which give guidelines for performance measures. The Group has adopted their measures for earnings per share and net asset value per share for 2010 and the calculations below have been made in accordance with these guidelines.

In accordance with EPRA guidelines, Company specific adjustments have been made to the EPRA adjusted earnings per share in order to reflect the Group's underlying position. These "underlying" measures were, in 2009, previously described as "adjusted recurring". In addition, for comparative purposes, the calculations for recurring profit and earnings per share have also been shown.

	Weighted average		At 31 December	
	2010 '000	2009 '000	**2010 '000**	2009 '000
Number of shares				
Number of shares for use in basic measures	101,155	100,802	101,200	100,950
Dilutive effect of share-based payments	661	597	669	605
Number of shares for use in diluted measures	101,816	101,399	101,869	101,555

	Profit before tax £m	Earnings £m	Earnings per share p	Diluted earnings per share p
Year ended 31 December 2010	356.4	346.2	342.25	340.03
Adjustment for:				
Disposal of properties	(0.9)	(0.9)		
Group revaluation surplus	(301.6)	(300.8)		
Joint venture revaluation surplus	(0.9)	(0.9)		
Fair value movement in derivative financial instruments	2.4	2.4		
Minority interests in respect of the above	–	7.5		
Recurring	55.4	53.5	52.89	52.55
Movement in valuation of cash-settled share options	(0.1)	0.1		
EPRA	**55.3**	**53.6**	**52.99**	**52.64**
Foreign exchange loss	0.2	0.2		
Rates credits	(1.7)	(1.7)		
Underlying	53.8	52.1	51.51	51.17
Year ended 31 December 2009	(34.9)	(26.8)	(26.59)	(26.59)
Adjustment for:				
Disposal of properties	16.6	16.6		
Group revaluation deficit	81.1	80.3		
Joint venture revaluation deficit	1.3	1.3		
Fair value movement in derivative financial instruments	(3.9)	(3.9)		
Prior year tax relating to capital items	–	(11.1)		
Minority interests in respect of the above	–	(0.4)		
Recurring	60.2	56.0	55.55	55.23
Movement in valuation of cash-settled share options	1.6	1.6		
EPRA	61.8	57.6	57.14	56.81
Foreign exchange gain	(3.6)	(3.6)		
Rates credits	(2.8)	(2.8)		
Underlying	55.4	51.2	50.79	50.49

The diluted profit per share for the year to 31 December 2009 could not be reduced by dilution in accordance with IAS 33, Earnings per Share. At 31 December 2010, there were 668,916 share options and contingently issuable shares (2009: 597,244) which could potentially dilute earnings in the future.

16 Profit before tax, earnings and net asset value per share (continued)

	£m	Basic p	Diluted p
At 31 December 2010			
Net assets	1,494.7		
Minority interest	(45.9)		
Net assets attributable to equity shareholders	1,448.8	1,432	1,422
Adjustment for:			
Mark-to-market of Secured Bonds	2.7		
EPRA triple net asset value	1,451.5	1,434	1,425
Adjustment for:			
Deferred tax on revaluation surplus	8.6		
Fair value of derivative financial instruments	25.0		
Fair value adjustment to Secured Bonds	16.7		
EPRA adjusted net assets	**1,501.8**	**1,484**	**1,474**

	£m	Basic p	Diluted p
At 31 December 2009			
Net assets	1,163.9		
Minority interest	(36.7)		
Net assets attributable to equity shareholders	1,127.2	1,117	1,110
Adjustment for:			
Mark-to-market of Secured Bonds	16.3		
EPRA triple net asset value	1,143.5	1,133	1,126
Adjustment for:			
Deferred tax on revaluation surplus	7.8		
Fair value of derivative financial instruments	23.4		
Fair value adjustment to Secured Bonds	3.9		
EPRA adjusted net assets	1,178.6	1,168	1,161

Following further guidance from EPRA in October 2010, the 2009 EPRA net asset value per share measure has been restated to include the fair value adjustment to Secured Bonds. In addition, the 2009 EPRA profit before tax and EPRA earnings per share have been restated to include the movement in valuation of cash-settled share options.

17 Investment property

	Freehold £m	Leasehold £m	Total £m
Group			
Carrying value			
At 1 January 2010	1,537.8	350.8	1,888.6
Acquisitions	148.0	–	148.0
Capital expenditure	42.1	7.4	49.5
Additions	190.1	7.4	197.5
Transfers from trading property	1.0	–	1.0
Disposals	–	(0.2)	(0.2)
Revaluation	252.0	49.6	301.6
At 31 December 2010	**1,980.9**	**407.6**	**2,388.5**
At 1 January 2009	1,722.5	363.1	2,085.6
Acquisitions	–	9.8	9.8
Capital expenditure	80.2	11.3	91.5
Additions	80.2	21.1	101.3
Disposals	(207.9)	(8.1)	(216.0)
Revaluation	(57.0)	(24.1)	(81.1)
Movement in grossing up of headlease liabilities	–	(1.2)	(1.2)
At 31 December 2009	1,537.8	350.8	1,888.6

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total £m
At 31 December 2010			
Fair value	2,023.1	403.0	2,426.1
Adjustment for rents recognised in advance	(42.2)	(2.8)	(45.0)
Adjustment for grossing up of headlease liabilities	–	7.4	7.4
Carrying value	**1,980.9**	**407.6**	**2,388.5**
At 31 December 2009			
Fair value	1,573.3	345.1	1,918.4
Adjustment for rents recognised in advance	(35.5)	(1.7)	(37.2)
Adjustment for grossing up of headlease liabilities	–	7.4	7.4
Carrying value	1,537.8	350.8	1,888.6

The investment properties were revalued at 31 December 2010 by external valuers, on the basis of market value as defined by the Valuation Standards published by The Royal Institution of Chartered Surveyors. CB Richard Ellis Limited valued properties to a value of £2,396.2m (2009: £1,889.9m); other valuers, £29.9m (2009: £28.5m).

At 31 December 2010, the historical cost of investment property owned by the Group was £2,093.1m (2009: £1,894.8m).

18 Property, plant and equipment

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
At 1 January	**1.4**	1.2	**0.6**	0.4
Additions	**0.4**	0.4	**0.4**	0.4
Disposals	**(0.1)**	–	**(0.1)**	–
Depreciation	**(0.2)**	(0.2)	**(0.2)**	(0.2)
At 31 December	**1.5**	1.4	**0.7**	0.6
Net book value				
Cost or valuation	**3.6**	3.4	**1.9**	1.7
Accumulated depreciation	**(2.1)**	(2.0)	**(1.2)**	(1.1)
	1.5	1.4	**0.7**	0.6

19 Investments

Group

The Group has 50% interests in the joint ventures Primister Limited, Dorrington Derwent Holdings Limited and Miller (Swinton) Limited and a 25% interest and 50% voting rights in the joint venture Euro Mall Sterboholy a.s.

	2010 £m	2009 £m
At 1 January	**6.4**	7.6
Additions	**–**	0.2
Distributions received	**–**	(0.5)
Share of results of joint ventures (see note 9)	**2.0**	(0.9)
At 31 December	**8.4**	6.4

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture companies.

	2010 £m	2009 £m
Non-current assets	**20.5**	17.2
Current assets	**1.8**	1.7
Current liabilities	**(4.0)**	(4.4)
Non-current liabilities	**(9.9)**	(8.1)
Net assets	**8.4**	6.4
Income	**3.8**	2.2
Expenses	**(1.8)**	(3.1)
Profit/(loss) for the year	**2.0**	(0.9)

Company

	Subsidiaries £m	Joint ventures £m	Total £m
Shares in subsidiaries			
At 1 January 2009	620.6	–	620.6
Additions	4.1	–	4.1
Disposals	(6.2)	–	(6.2)
Impairment	(49.0)	–	(49.0)
At 31 December 2009	569.5	–	569.5
Impairment reversal	142.8	–	142.8
At 31 December 2010	712.3	–	712.3
Loans			
At 1 January 2009, 31 December 2009 and 31 December 2010	–	0.4	0.4
	–	0.4	0.4
At 31 December 2010	**712.3**	**0.4**	**712.7**
At 31 December 2009	569.5	0.4	569.9

At 31 December 2010 and 31 December 2009, the carrying value of the investment in London Merchant Securities Ltd was reviewed in accordance with IAS 36, Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and net asset value and recognise any impairment, or reversal thereof, in the income statement. In the opinion of the Directors, the most appropriate estimate of the recoverable amount is the net asset value of the subsidiaries. In view of the valuation movement relating to the investment properties, there has been an increase in the net asset value of the subsidiaries (2009: reduction) which has been reflected as an impairment reversal, though not as to exceed the initial cost net of dividends, in the Company income statement of £142.8m (2009: £49.0m impairment charge). Of this amount, £142.8m (2009: £45.0m) relates to the investment in London Merchant Securities Ltd. There is a reserve transfer from retained earnings to the merger reserve within other reserves upon an impairment or an impairment reversal. In the prior year, the remaining £4.1m relates to two of the Company's other investments and remains within retained earnings.

The Company liquidated its investment in Bramley Road Ltd during the prior year. The investment was being carried at £6.2m and made a loss on liquidation of £3.5m.

During the prior year, the Company became the direct beneficial owner of the shares in LMS (Kingston) Ltd, an indirect subsidiary Company, for nil consideration. These shares were sold to a third party realising net proceeds of £1.0m and a profit on disposal of £0.6m.

The Company increased its investment in two of its subsidiaries during the prior year: Derwent Valley West End Ltd by £2.0m and Derwent Valley Property Trading Ltd by £2.1m, as these entities were in a net liability position. In accordance with IAS 36, these investments were written down to their net asset value.

20 Other receivables

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Accrued income	**41.3**	34.2	**–**	–
Other	**4.5**	4.7	**–**	–
	45.8	38.9	**–**	–

Accrued income relates to rents recognised in advance as a result of spreading the effect of rent free periods and capital contributions in lieu of rent free periods over the term of their respective leases. At 31 December 2010, the total rents recognised in advance were £45.0m (2009: £37.2m), with £3.7m of this amount (2009: £3.0m) included within trade and other receivables.

21 Trading properties

During the year ended 31 December 2009, £6.5m of trading properties were disposed of by the Group at book value. During the year ended 31 December 2010, the remaining trading properties of £1.0 m were transferred to investment property at book value, as the Directors are now of the opinion that these properties will be held for long-term capital appreciation.

22 Trade and other receivables

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Trade receivables	**7.5**	11.9	**–**	–
Amounts owed by subsidiaries	**–**	–	**684.8**	631.1
Other receivables	**10.6**	10.5	**0.2**	0.2
Prepayments	**14.8**	10.6	**0.5**	0.5
Sales and social security taxes	**–**	–	**0.6**	0.6
Accrued income	**4.8**	11.0	**–**	0.3
	37.7	44.0	**686.1**	632.7

	2010 £m	2009 £m
Group trade receivables are split as follows:		
less than three months due	**7.2**	10.0
between three and six months due	**0.2**	1.7
between six and twelve months due	**0.1**	0.2
	7.5	11.9

Group trade receivables includes a provision for bad debts as follows:

	2010 £m	2009 £m
At 1 January	**1.9**	1.3
Additions	**0.5**	0.7
Released	**(1.5)**	(0.1)
At 31 December	**0.9**	1.9
The provision for bad debts is split as follows:		
less than six months due	**0.4**	0.4
between six and twelve months due	**0.1**	0.2
over twelve months due	**0.4**	1.3
	0.9	1.9

None of the amounts included in other receivables are past due and therefore no ageing has been shown.

23 Trade and other payables

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Trade payables	**1.9**	1.7	**2.6**	1.2
Amounts owed to subsidiaries	**–**	–	**296.9**	259.5
Other payables	**10.4**	7.8	**0.6**	0.2
Sales and social security taxes	**0.2**	1.9	**–**	–
Accruals	**16.2**	12.8	**9.9**	6.9
Deferred income	**34.7**	34.8	**–**	–
	63.4	59.0	**310.0**	267.8

24 Provisions

	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2010 Total £m	Share option liability £m	Onerous contract £m	National insurance on share-based payments £m	2009 Total £m
Group								
At 1 January	2.1	0.5	0.5	**3.1**	0.5	0.6	0.3	1.4
Provided/(released) in the income statement	(0.1)	–	0.2	**0.1**	1.6	–	0.3	1.9
Utilised in year	(0.9)	(0.1)	(0.1)	**(1.1)**	–	(0.1)	(0.1)	(0.2)
At 31 December	1.1	0.4	0.6	**2.1**	2.1	0.5	0.5	3.1
Due within one year	–	0.1	0.2	**0.3**	–	0.1	0.1	0.2
Due after one year	1.1	0.3	0.4	**1.8**	2.1	0.4	0.4	2.9
	1.1	0.4	0.6	**2.1**	2.1	0.5	0.5	3.1
Company								
At 1 January	–	0.5	0.5	**1.0**	–	0.6	0.3	0.9
Provided in the income statement	–	–	0.2	**0.2**	–	–	0.3	0.3
Utilised in year	–	(0.1)	(0.1)	**(0.2)**	–	(0.1)	(0.1)	(0.2)
At 31 December	–	0.4	0.6	**1.0**	–	0.5	0.5	1.0
Due within one year	–	0.1	0.2	**0.3**	–	0.1	0.1	0.2
Due after one year	–	0.3	0.4	**0.7**	–	0.4	0.4	0.8
	–	0.4	0.6	**1.0**	–	0.5	0.5	1.0

National insurance is payable on gains made by employees on the exercise of share-based payments granted to them. The eventual liability to national insurance is dependent on:

– the market price of the Company's shares at the date of exercise;

– the number of equity instruments that are exercised; and

– the prevailing rate of national insurance at the date of exercise.

The onerous contract relates to the excess of rent payable over rent receivable on a lease at the Group's previous head office which expires in 2014 and reflects the discounted present value of future net payments under that lease.

A provision is made for the potential liability for cash-settled share options based on the valuation carried out at each balance sheet date (see note 13).

25 Borrowings and derivative financial instruments

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Current liabilities				
Overdraft	**5.6**	5.9	**0.2**	5.4
	5.6	5.9	**0.2**	5.4
Non-current liabilities				
6.5% Secured Bonds 2026	**192.9**	193.6	**–**	–
Loan notes	**1.1**	1.4	**1.1**	1.4
Bank loans	**661.0**	503.0	**319.0**	260.0
Unsecured loans	**31.4**	31.1	**31.4**	31.1
Leasehold liabilities	**7.4**	7.4	**–**	–
Unamortised loan arrangement costs	**(4.4)**	(2.6)	**(3.8)**	(1.6)
	889.4	733.9	**347.7**	290.9
Derivative financial instruments – expiring in less than one year	**–**	1.6	**–**	1.6
Derivative financial instruments – expiring in greater than one year	**25.4**	21.4	**10.2**	7.8
	25.4	23.0	**10.2**	9.4
Total liabilities	**920.4**	762.8	**358.1**	305.7

	Group 2010 £m	2009 £m	Company 2010 £m	2009 £m
Secured				
Bank loans	**661.0**	503.0	**319.0**	260.0
Unamortised loan arrangement costs	**(4.4)**	(2.6)	**(3.8)**	(1.6)
6.5% Secured Bonds 2026	**192.9**	193.6	**–**	–
	849.5	694.0	**315.2**	258.4
Unsecured				
Loan notes	**1.1**	1.4	**1.1**	1.4
Bank loans	**31.4**	31.1	**31.4**	31.1
Overdrafts	**5.6**	5.9	**0.2**	5.4
	38.1	38.4	**32.7**	37.9
Gross debt	**887.6**	732.4	**347.9**	296.3
Leasehold liabilities	**7.4**	7.4	**–**	–
Total debt	**895.0**	739.8	**347.9**	296.3
Cash and cash equivalents	**(7.2)**	(19.0)	**–**	–
Net debt	**887.8**	720.8	**347.9**	296.3

At 31 December 2010, £1,482.4m (2009: £1,225.2m) of the Group's properties were subject to a fixed charge to secure the Group's bank loans. In addition, the bonds are secured by a floating charge over a number of the Group's subsidiary companies which contain £436.6m (2009: £339.1m) of the Group's properties.

At 31 December 2010, £750.8m (2009: £738.7m) of the Group's properties were subject to a fixed charge to secure the Company's bank loans.

IFRS 7, Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the anticipated undiscounted cash outflows arising from the Group's gross debt.

25 Borrowings and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2010							
Bank overdrafts	5.6	–	–	–	–	–	5.6
Bank loans	–	–	484.0	89.0	60.0	28.0	661.0
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Loan notes	–	1.1	–	–	–	–	1.1
Unsecured loans	–	31.4	–	–	–	–	31.4
Total on maturity	5.6	32.5	484.0	89.0	60.0	203.0	874.1
Leasehold liabilities	0.6	0.6	0.6	0.6	0.6	43.5	46.5
Interest on gross debt	19.7	25.6	22.0	15.5	14.6	119.2	216.6
Effect of interest rate swaps	12.7	8.9	3.0	0.6	(0.7)	(7.2)	17.3
Gross loan commitments	38.6	67.6	509.6	105.7	74.5	358.5	1,154.5
At 31 December 2009							
Bank overdrafts	5.9	–	–	–	–	–	5.9
Bank loans	–	95.0	–	315.0	65.0	28.0	503.0
6.5% Secured Bonds 2026	–	–	–	–	–	175.0	175.0
Loan notes	–	–	1.4	–	–	–	1.4
Unsecured loans	–	–	31.1	–	–	–	31.1
Total on maturity	5.9	95.0	32.5	315.0	65.0	203.0	716.4
Leasehold liabilities	0.6	0.6	0.6	0.6	0.6	44.1	47.1
Interest on gross debt	22.1	28.2	30.0	22.2	14.0	133.0	249.5
Effect of interest rate swaps	13.3	7.7	3.3	–	(0.2)	(1.5)	22.6
Gross loan commitments	41.9	131.5	66.4	337.8	79.4	378.6	1,035.6

Reconciliation to total debt:

		Adjustments:				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
Group						
At 31 December 2010						
Maturing in:						
< 1 year	38.6	(19.7)	(12.7)	(0.6)	–	5.6
1 to 2 years	67.6	(25.6)	(8.9)	(0.6)	–	32.5
2 to 3 years	509.6	(22.0)	(3.0)	(0.6)	(0.7)	483.3
3 to 4 years	105.7	(15.5)	(0.6)	(0.6)	(0.9)	88.1
4 to 5 years	74.5	(14.6)	0.7	(0.6)	(1.4)	58.6
> 5 years	358.5	(119.2)	7.2	(36.1)	16.5	226.9
	1,154.5	(216.6)	(17.3)	(39.1)	13.5	895.0
At 31 December 2009						
Maturing in:						
< 1 year	41.9	(22.1)	(13.3)	(0.6)	–	5.9
1 to 2 years	131.5	(28.2)	(7.7)	(0.6)	–	95.0
2 to 3 years	66.4	(30.0)	(3.3)	(0.6)	–	32.5
3 to 4 years	337.8	(22.2)	–	(0.6)	(1.3)	313.7
4 to 5 years	79.4	(14.0)	0.2	(0.6)	(1.2)	63.8
> 5 years	378.6	(133.0)	1.5	(36.7)	18.5	228.9
	1,035.6	(249.5)	(22.6)	(39.7)	16.0	739.8

25 Borrowings and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2010							
Bank overdrafts	0.2	–	–	–	–	–	0.2
Bank loans	–	–	170.0	89.0	60.0	–	319.0
Loan notes	–	1.1	–	–	–	–	1.1
Unsecured loans	–	31.4	–	–	–	–	31.4
Total on maturity	0.2	32.5	170.0	89.0	60.0	–	351.7
Interest on debt	4.2	7.0	7.4	3.1	2.1	–	23.8
Effect of interest rate swaps	5.2	3.4	1.6	0.5	(0.5)	(4.8)	5.4
Gross loan commitments	9.6	42.9	179.0	92.6	61.6	(4.8)	380.9
At 31 December 2009							
Bank overdrafts	5.4	–	–	–	–	–	5.4
Bank loans	–	95.0	–	100.0	65.0	–	260.0
Loan notes	–	–	1.4	–	–	–	1.4
Unsecured loans	–	–	31.1	–	–	–	31.1
Total on maturity	5.4	95.0	32.5	100.0	65.0	–	297.9
Interest on debt	5.8	9.1	7.9	6.8	1.0	–	30.6
Effect of interest rate swaps	5.2	2.2	0.8	0.1	0.1	–	8.4
Gross loan commitments	16.4	106.3	41.2	106.9	66.1	–	336.9

	Gross loan commitments £m	Adjustments: Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Total debt £m
Company						
At 31 December 2010						
Maturing in:						
< 1 year	9.6	(4.2)	(5.2)	–	–	0.2
1 to 2 years	42.9	(7.0)	(3.4)	–	–	32.5
2 to 3 years	179.0	(7.4)	(1.6)	–	(0.3)	169.7
3 to 4 years	92.6	(3.1)	(0.5)	–	(0.9)	88.1
4 to 5 years	61.6	(2.1)	0.5	–	(1.3)	58.7
> 5 years	(4.8)	–	4.8	–	(1.3)	(1.3)
	380.9	(23.8)	(5.4)	–	(3.8)	347.9
At 31 December 2009						
Maturing in:						
< 1 year	16.4	(5.8)	(5.2)	–	–	5.4
1 to 2 years	106.3	(9.1)	(2.2)	–	–	95.0
2 to 3 years	41.2	(7.9)	(0.8)	–	–	32.5
3 to 4 years	106.9	(6.8)	(0.1)	–	(0.4)	99.6
4 to 5 years	66.1	(1.0)	(0.1)	–	(1.2)	63.8
	336.9	(30.6)	(8.4)	–	(1.6)	296.3

25 Borrowings and derivative financial instruments (continued)

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2010	**4.4**	**–**	**91.0**	**36.0**	**40.0**	**90.0**	**261.4**
At 31 December 2009	4.1	105.0	–	260.0	60.0	–	429.1
Company							
At 31 December 2010	**4.4**	**–**	**30.0**	**36.0**	**40.0**	**90.0**	**200.4**
At 31 December 2009	4.1	105.0	–	100.0	60.0	–	269.1

Fixed interest rate and hedged debt

At 31 December 2010 and 31 December 2009, the Group's and Company's fixed rate debt comprised the Secured Bonds 2026 together with the instruments used to hedge its floating rate debt.

Secured Bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the Secured Bonds 2026 were included at fair value less issue costs. This difference between fair value and principal value is being amortised through the income statement. The fair value shown in note 26 was determined by the mid-price of £109 per £100 as at 31 December 2010 (2009: £101 per £100). The carrying value at 31 December 2010 was £192.9m (2009: £193.6m).

Hedged debt

The hedged debt consists of interest rate swaps and an interest rate cap. The fair value of the interest rate swaps represents the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2010 for the period to the contracted expiry dates. The fair value of the interest rate cap represents the net cost of replacement on identical terms at prices prevailing on 31 December 2010.

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2010						
Interest rate swaps	423.0	4.199	5.80	195.0	3.867	6.60
Interest rate cap	10.0	6.010	0.46	10.0	6.010	0.46
At 31 December 2009						
Interest rate swaps	398.0	4.731	4.03	170.0	4.712	4.10
Interest rate cap	10.0	6.010	1.46	10.0	6.010	1.46

25 Borrowings and derivative financial instruments (continued)

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's gross debt was:

	Floating rate £m	Hedged £m	Fixed rate £m	Gross debt £m	Weighted average cost of debt %	Weighted average life Years
Group						
At 31 December 2010						
Bank overdrafts	5.6	–	–	5.6	2.50	–
Bank loans	223.6	433.0	–	656.6	3.90	2.93
6.5% Secured Bonds 2026[1]	–	–	192.9	192.9	6.50	15.22
Loan notes	1.1	–	–	1.1	0.18	1.09
Unsecured loans	31.4	–	–	31.4	1.78	1.47
	261.7	433.0	192.9	887.6	4.34	5.35
At 31 December 2009						
Bank overdrafts	5.9	–	–	5.9	2.50	–
Bank loans	92.4	408.0	–	500.4	4.65	2.93
6.5% Secured Bonds 2026[1]	–	–	193.6	193.6	6.50	16.22
Loan notes	1.4	–	–	1.4	–	2.09
Unsecured loans	31.1	–	–	31.1	1.36	2.47
	130.8	408.0	193.6	732.4	5.00	6.58
Company						
At 31 December 2010						
Bank overdrafts	0.2	–	–	0.2	2.50	–
Bank loans	110.2	205.0	–	315.2	3.94	3.20
Loan notes	1.1	–	–	1.1	0.18	1.09
Unsecured loans	31.4	–	–	31.4	1.78	1.47
	142.9	205.0	–	347.9	3.74	2.15
At 31 December 2009						
Bank overdrafts	5.4	–	–	5.4	2.50	–
Bank loans	78.4	180.0	–	258.4	4.23	2.31
Loan notes	1.4	–	–	1.4	–	2.09
Unsecured loans	31.1	–	–	31.1	1.36	2.47
	116.3	180.0	–	296.3	4.02	3.07

[1] The weighted average cost of debt for the Secured Bonds is based on the nominal amount of £175m.

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2010 Receivable £m	**2010 Payable £m**	2009 Receivable £m	2009 Payable £m
Group				
Maturing in:				
< 1 year	**5.1**	**(17.8)**	4.8	(18.1)
1 to 2 years	**8.9**	**(17.8)**	8.2	(15.9)
2 to 3 years	**9.9**	**(12.9)**	12.2	(15.5)
3 to 4 years	**9.5**	**(10.1)**	8.0	(8.0)
4 to 5 years	**8.8**	**(8.1)**	5.2	(5.0)
> 5 years	**36.5**	**(29.3)**	12.5	(11.0)
Gross contractual cash flows	**78.7**	**(96.0)**	50.9	(73.5)
Company				
Maturing in:				
< 1 year	**2.3**	**(7.5)**	2.0	(7.2)
1 to 2 years	**4.1**	**(7.5)**	2.8	(5.0)
2 to 3 years	**5.9**	**(7.5)**	4.0	(4.8)
3 to 4 years	**5.8**	**(6.3)**	4.7	(4.8)
4 to 5 years	**4.8**	**(4.3)**	3.9	(4.0)
> 5 years	**19.1**	**(14.3)**	6.9	(6.9)
Gross contractual cash flows	**42.0**	**(47.4)**	24.3	(32.7)

26 Financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
Group					
Financial assets					
Cash and cash equivalents	–	7.2	–	7.2	7.2
Other assets – current[1]	–	22.9	–	22.9	22.9
	–	30.1	–	30.1	30.1
Financial liabilities					
Bank overdrafts	–	–	(5.6)	(5.6)	(5.6)
Borrowings due after one year	–	–	(696.5)	(696.5)	(700.9)
6.5% Secured Bonds 2026	–	–	(192.9)	(192.9)	(191.7)
Derivative financial instruments	(25.4)	–	–	(25.4)	(25.4)
Other liabilities – current[2]	–	–	(28.5)	(28.5)	(28.5)
	(25.4)	–	(923.5)	(948.9)	(952.1)
At 31 December 2010	**(25.4)**	**30.1**	**(923.5)**	**(918.8)**	**(922.0)**
Financial assets					
Cash and cash equivalents	–	19.0	–	19.0	19.0
Other assets – current[1]	–	33.4	–	33.4	33.4
	–	52.4	–	52.4	52.4
Financial liabilities					
Bank overdrafts	–	–	(5.9)	(5.9)	(5.9)
Borrowings due after one year	–	–	(540.3)	(540.3)	(542.9)
6.5% Secured Bonds 2026	–	–	(193.6)	(193.6)	(177.3)
Derivative financial instruments	(23.0)	–	–	(23.0)	(23.0)
Other liabilities – current[2]	–	–	(22.3)	(22.3)	(22.3)
	(23.0)	–	(762.1)	(785.1)	(771.4)
At 31 December 2009	(23.0)	52.4	(762.1)	(732.7)	(719.0)

[1] Other assets includes all amounts shown as trade and other receivables in note 22 except prepayments of £14.8m (2009: £10.6m) for the Group and prepayments and sales and social security taxes of £1.1m (2009: £1.1m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] Other liabilities for the Group include all amounts shown as trade and other payables in note 23 except deferred income of £34.7m (2009: £34.8m) and sales and social security taxes of £0.2m (2009: £1.9m). All amounts are non-interest bearing and are due within one year.

26 Financial assets and liabilities (continued)

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m
Company					
Financial assets					
Other assets – current[1]	–	685.0	–	685.0	685.0
	–	685.0	–	685.0	685.0
Financial liabilities					
Bank overdrafts	–	–	(0.2)	(0.2)	(0.2)
Borrowings due after one year	–	–	(347.7)	(347.7)	(351.5)
Derivative financial instruments	(10.2)	–	–	(10.2)	(10.2)
Other liabilities – current[2]	–	(296.9)	(13.1)	(310.0)	(310.0)
	(10.2)	(296.9)	(361.0)	(668.1)	(671.9)
At 31 December 2010	**(10.2)**	**388.1**	**(361.0)**	**16.9**	**13.1**
Financial assets					
Other assets – current[1]	–	631.6	–	631.6	631.6
	–	631.6	–	631.6	631.6
Financial liabilities					
Bank overdrafts	–	–	(5.4)	(5.4)	(5.4)
Borrowings due after one year	–	–	(290.9)	(290.9)	(292.5)
Derivative financial instruments	(9.4)	–	–	(9.4)	(9.4)
Other liabilities – current[2]	–	(259.5)	(8.3)	(267.8)	(267.8)
	(9.4)	(259.5)	(304.6)	(573.5)	(575.1)
At 31 December 2009	(9.4)	372.1	(304.6)	58.1	56.5

[1&2] See page 125 for key.

Reconciliation of net financial assets and liabilities to total borrowings and derivatives:

	Group 2010 £m	2009 £m	**Company 2010 £m**	2009 £m
Net financial assets and liabilities	**(918.8)**	(732.7)	**16.9**	58.1
Other assets – current	**(22.9)**	(33.4)	**(685.0)**	(631.6)
Other liabilities – current	**28.5**	22.3	**310.0**	267.8
Cash and cash equivalents	**(7.2)**	(19.0)	**–**	–
Total net borrowings and derivatives	**(920.4)**	(762.8)	**(358.1)**	(305.7)

All the Group's and Company's financial liabilities designated at fair value through profit and loss are defined as level 2, in accordance with IFRS 7, as they are derived from inputs other than quoted prices which are observable from the liability. There have been no transfers between level 1 and level 2 in 2010 or 2009.

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

– credit risk;

– fair value or cash flow interest rate risk; and

– liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 19 to 21 and page 76.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

The Company has the same risk profile as the Group (except tenant credit risk, which does not exist in the Company) and therefore no separate analysis has been provided in relation to the Company.

26 Financial assets and liabilities (continued)

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank, bank overdraft, trade and other payables, floating rate bank loans, Secured Bonds, interest rate swaps and interest rate caps.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to executive management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and its ability to maximise returns. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from its lease contracts. It is Group policy to assess the credit risk of new tenants before entering into contracts. The Board has established a credit committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings, when available, and, in some cases, forecast information and bank and trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained.

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time. The Group does not enter into derivatives to manage credit risk. The quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 22.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Market risk
Market risk arises from the Group's use of interest bearing instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk).

Fair value and cash flow interest rate risk
The Group is exposed to cash flow interest rate risk from borrowings at variable rates. It is currently Group policy that between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being at least 60% and no more than 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. During both 2010 and 2009, the Group's borrowings at variable rate were denominated in sterling.

The Group monitors the interest rate exposure on a regular basis. A sensitivity analysis was performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates and this would result in an increase of £1.3m (2009: £0.7m) or a decrease of £1.3m (2009: £0.7m).

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps (quantitative disclosures are given in note 25). The Group generally raises long-term borrowings at floating rates and swaps them into fixed.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient headroom in its loan facilities to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain committed facilities to meet the expected requirements. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further explained in the 'fair value and cash flow interest rate risk' section above.

The executive management receives rolling three-month cash flow projections on a monthly basis and three-year projections of loan balances on a regular basis as part of the Group's forecasting processes. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group's loan facilities are spread across a range of UK and European banks so as to minimise any potential concentration of risk. The liquidity risk of the Group is managed centrally by the finance department.

26 Financial assets and liabilities (continued)

Capital disclosures

The Group's capital comprises all components of equity (share capital, share premium, other reserves, retained earnings and minority interest).

The Group's objectives when maintaining capital are:

– to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders; and

– to provide an above average annualised total return to shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of balance sheet gearing and the loan to value ratio. During 2010, the Group's strategy, which was unchanged from 2009, was to maintain the balance sheet gearing below 80% in normal circumstances. The three gearing ratios are defined on page 135 and are derived below.

Balance sheet gearing

	2010 £m	2009 £m
Total net borrowings and derivatives[1]	920.4	762.8
Less: derivative financial instruments	(25.4)	(23.0)
Total debt	895.0	739.8
Less: cash and cash equivalents	(7.2)	(19.0)
Net debt	887.8	720.8
Net assets	1,494.7	1,163.9
Balance sheet gearing	59.4%	61.9%

Loan to value ratio

	2010 £m	2009 £m
Net debt	887.8	720.8
Loan arrangement costs and fair value adjustment to Secured Bonds	(17.9)	(18.6)
Fair value adjustment to Secured Bonds	4.4	2.6
Leasehold liabilities	(7.4)	(7.4)
Drawn facilities	866.9	697.4
Fair value of investment property	2,426.1	1,918.4
Loan to value ratio	35.7%	36.4%

Interest cover ratio

	2010 £m	2009 £m
Gross property income	119.4	123.8
Surrender premiums	(0.7)	(0.1)
Ground rent	(0.8)	(1.3)
Net rental income	117.9	122.4
Net finance costs	37.9	35.9
Foreign exchange (loss)/gain	(0.2)	3.6
Net pension return	0.3	0.1
Finance lease cost	(0.5)	(0.6)
Amortisation of fair value adjustment to Secured Bonds and loan arrangement costs	(0.2)	(0.7)
Non-utilisation fees	(1.4)	(1.2)
Net interest payable	35.9	37.1
Interest cover ratio	328%	330%

[1] The comparative figures have been restated for the presentational changes as outlined in note 1.

27 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
Deferred tax liability			
At 1 January 2010	8.1	(2.2)	5.9
Provided during the year in the income statement	1.1	(1.1)	–
Released during the year in the income statement	–	0.2	0.2
Change in tax rates	(0.3)	0.1	(0.2)
At 31 December 2010	**8.9**	**(3.0)**	**5.9**
At 1 January 2009	8.9	(1.7)	7.2
Provided during the year in the income statement	–	1.0	1.0
Released during the year in the income statement	(0.8)	(1.5)	(2.3)
At 31 December 2009	8.1	(2.2)	5.9
Company			
Deferred tax asset			
At 1 January 2010	–	1.6	1.6
Provided during the year in the income statement	–	1.1	1.1
Change in tax rates	–	(0.1)	(0.1)
At 31 December 2010	**–**	**2.6**	**2.6**
At 1 January 2009	–	0.3	0.3
Provided during the year in the income statement	–	1.3	1.3
At 31 December 2009	–	1.6	1.6

Due to the Group's conversion to REIT status on 1 July 2007, deferred tax is only provided on the revaluation surplus of properties outside the REIT regime. Deferred tax on the revaluation surplus is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment property portfolio as at each balance sheet date. The calculation takes account of available indexation on the historic cost of the properties and any available capital losses.

The Finance (No 2) Act 2010 included provision for legislation to reduce the main rate of corporation tax from 28.0% to 27.0% from 1 April 2011. The effect of this reduction was substantively enacted at the balance sheet date and, therefore, has been reflected in these financial statements.

28 Equity

The authorised share capital was £6.04m at 1 January 2009, 31 December 2009 and 31 December 2010.

The number of 5p ordinary shares in issue at the year end was 101,200,297 (2009: 100,950,263). During the year, 211,000 shares (2009: 105,250) were issued as a result of the exercise of share options which realised proceeds of £1.3m (2009: £0.7m) and 39,034 shares (2009: 37,867) were issued as a result of awards vesting under the Group's performance share plan. The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee on pages 82 to 91 and note 13.

29 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc.
	Fair value of equity instruments granted but not yet exercised under share-based payments.
	Foreign exchange reserve amounting to £4.2m at 31 December 2010 (2009: £4.0m) which relates to gains or losses arising on retranslating the net assets of overseas operations.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement.

30 Profit for the year attributable to members of Derwent London plc

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. Profit for the year includes a profit of £131.3m (2009: £67.0m loss) which has been dealt with in the accounts of the Company.

31 Dividends

	Payment date	Dividend per share p	**2010 £m**	2009 £m
Current year				
2010 final dividend	16 June 2011	20.25	**–**	–
2010 interim dividend	5 November 2010	8.75	**8.8**	–
Distribution of current year profit		29.00	**8.8**	–
Prior year				
2009 final dividend	17 June 2010	18.85	**19.1**	–
2009 interim dividend	6 November 2009	8.15	**–**	8.2
Distribution of prior year profit		27.00	**19.1**	8.2
2008 final dividend	19 June 2009	16.35	**–**	16.5
Dividends as reported in the consolidated statement of changes in equity			**27.9**	24.7
2010 interim dividend withholding tax	14 January 2011		**(1.4)**	–
2009 interim dividend withholding tax	14 January 2010		**1.3**	(1.3)
2008 final dividend withholding tax	9 January 2009		**–**	0.9
Dividends paid as reported in the consolidated cash flow statement			**27.8**	24.3

32 Cash and cash equivalents

	Group 2010 £m	2009 £m	**Company 2010 £m**	2009 £m
Overdrafts	**(5.6)**	(5.9)	**(0.2)**	(5.4)
Short-term deposits	**7.2**	19.0	**–**	–
	1.6	13.1	**(0.2)**	(5.4)

33 Total return

	2010 %	2009 %
Total return	**29.3**	(2.9)

Following the Group's decision to adopt EPRA performance measures in 2010, total return is now calculated as the movement in EPRA net asset value per share on a diluted basis plus the dividend per share paid in the year, expressed as a percentage of the EPRA net asset value per share at the beginning of the year. Previously, the total return measure was based on the undiluted adjusted net asset value per share. Based on this method of calculation, total return would have been 29.4% for the year ended 31 December 2010 compared with the previously reported figure of (2.7)% for 2009.

34 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2010 and not provided for in the accounts amounted to £11.6m (2009: £31.4m). These contracts relate wholly to the construction, development or enhancement of the Group's investment properties.
At 31 December 2010 and 31 December 2009, there were no obligations for the purchase, repair or maintenance of investment properties.

35 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing the overdraft and certain bank loans. At 31 December 2010 the maximum liability that could arise for the Company from the cross guarantees amounted to £5.4m (2009: £0.4m).

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

36 Post balance sheet events

Since the year end, the Group has exchanged contracts for the purchase of two freehold properties for £45.0m and £31.0m, before costs.

37 Leases

	2010 £m	2009 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**112.2**	107.3
later than one year and not later than five years	**315.4**	302.4
later than five years	**815.7**	470.5
	1,243.3	880.2

	2010 £m	2009 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	**0.6**	0.6
later than one year and not later than five years	**2.4**	2.4
later than five years	**43.5**	44.1
	46.5	47.1
Future contingent rent payable on finance leases	**(5.9)**	(6.0)
Future finance charges on finance leases	**(33.2)**	(33.7)
Present value of finance lease liabilities	**7.4**	7.4
Present value of minimum finance lease obligations:		
later than one year and not later than five years	**0.1**	0.1
later than five years	**7.3**	7.3
	7.4	7.4

In accordance with IAS 17, Leases, the minimum lease payments are allocated as follows:

	2010 £m	2009 £m
Finance charge	**0.5**	0.6
Contingent rent	**0.3**	0.7
Total	**0.8**	1.3

The Group has over 800 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 15 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs.

The weighted average lease length of the leases granted during 2010 was 8.4 years (2009: 8.9 years). Of these leases, 47% (2009: 46%) included a rent free period at the start of the lease, the weighted average being 8.6 months (2009: 5.0 months).

38 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 82 to 91 and note 11. Other related party transactions are as follows:

Group

Messrs J.D. Burns and S.P. Silver are partners in The Pilcher Hershman Partnership (PHP), estate agents. The partnership received fees at a commercial rate in respect of the letting, acquisition and disposal of certain properties owned by the Group of £0.5m (2009: £0.3m) during the year. In 2009 the partnership occupied offices owned by the Group for which they paid a commercial rent in the year of £0.1m. The lease expired at the end of 2009 with no further rent being received. Procedures have been established whereby the Audit Committee are able to verify that neither Messrs Burns nor Silver derive any direct benefit from these fees.

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which occupies offices owned by the Group for which they paid a commercial rent of £0.4m (2009: £0.4m). The Group also contributed £0.1m (2009: £0.1m) to LMS Capital plc's running costs in the year.

During the year, the Group paid fees at a commercial rate in respect of the acquisition of certain properties of £0.2m (2009: £nil) to Everton Philips LLP, a firm in which the son of Mr J.D. Burns is a partner, and £nil (2009: £0.1m) in respect of the disposal of certain properties to Hamilton Investment Properties Ltd, a company of which Mr S.P. Silver's son is a Director.

There are no outstanding balances owed to the Group with respect to all of the above transactions.

At 31 December 2010, included within other receivables in note 22 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £9.7m (2009: £8.7m). The majority of this amount represents advances to the Portman Estate, relating to proceeds received upon the disposal of jointly owned properties. This debt will be discharged by a distribution to shareholders.

Company

The Company received dividends and interest from some of its subsidiaries during the year. These transactions are summarised below:

	Interest (payable)/receivable		Dividend received		Balance owed/(owing)	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Related party						
Derwent Central Cross Ltd	**2.9**	–	**–**	–	**145.6**	–
Derwent Henry Wood Ltd	**0.2**	–	**–**	–	**49.4**	–
Derwent Valley Central Ltd	**12.0**	–	**–**	–	**219.5**	251.9
Derwent Valley London Ltd	**6.4**	–	**–**	–	**135.7**	129.4
Derwent Valley Property Developments Ltd	**2.7**	–	**–**	–	**58.6**	55.9
Derwent Valley Property Investments Ltd	**(0.2)**	–	**–**	–	**(3.2)**	(3.5)
Derwent Valley West End Ltd	**(0.1)**	–	**–**	–	**(2.1)**	(1.9)
Derwent Valley Property Trading Ltd	**0.1**	–	**–**	–	**0.1**	(2.1)
Derwent Valley Railway Company*	**–**	–	**–**	–	**(0.2)**	(0.2)
London Merchant Securities Ltd†	**(6.4)**	–	**–**	8.6	**(215.5)**	(57.9)
	17.6	–	**–**	8.6	**387.9**	371.6

* Dormant Company.
† Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand.

In 2009, no interest was charged on intercompany balances. From 1 January 2010, interest was charged on the intercompany balances at an arm's length basis.

During 2009 the Company became the beneficial owner of the shares in LMS (Kingston) Ltd, a company within the LMS sub-group (see note 19 for further details). During 2009 the Company also increased its investment in two of its subsidiaries: Derwent Valley West End Ltd, by £2.0m, and Derwent Valley Property Trading Ltd, by £2.1m.

39 Principal operating companies

The principal operating companies within the Group at 31 December 2010 are:

	Ownership	Principal activity
Subsidiaries		
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Central London Commercial Estates Limited	100%	Property investment
Derwent Central Cross Limited*	100%	Property investment
Derwent Henry Wood Limited*	100%	Property investment
Derwent Valley Central Limited*	100%	Property investment
Derwent Valley Limited	100%	Property investment
Derwent Valley London Limited*	100%	Property investment
Derwent Valley Property Developments Limited*	100%	Property investment
Derwent Valley Property Investments Limited*	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
LMS (City Road) Limited	100%	Property investment
LMS Offices Limited	100%	Property investment
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Portman Investments (Baker Street) Limited	55%	Property investment
Caledonian Properties Limited	100%	Property trading
Derwent Valley Finance Limited	100%	Finance company
London Merchant Securities Limited*	100%	Holding company

*Indicates subsidiary undertakings held directly.

All holdings are of ordinary shares.

Joint ventures		
Primister Limited	50%	Property investment
Euro Mall Sterboholy a.s.	25%	Property investment

The Company controls 50% of the voting rights of each of the joint ventures. All are accounted for and disclosed in accordance with IAS 31, Interests in Joint Ventures.

All of the above companies are registered and operate in England and Wales except for Euro Mall Sterboholy a.s., which is registered in the Czech Republic.

Five year summary

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Gross property income	119.4	123.8	119.0	111.7	51.3
Net property income	113.0	114.8	95.5	103.8	58.0
Recurring profit before tax	55.4	60.2	23.3	38.0	16.4
EPRA profit before tax	55.3	61.8	n/a	n/a	n/a
Profit/(loss) on disposal of properties and investments	0.9	(16.6)	1.2	130.8	2.9
Profit/(loss) before tax	356.4	(34.9)	(606.5)	(99.8)	242.8
Net assets	1,494.7	1,163.9	1,215.0	1,841.9	783.4
Investment property at fair value	2,426.1	1,918.4	2,108.0	2,671.7	1,282.7
Revaluation surplus/(deficit)	301.6	(81.1)	(602.1)	90.3	223.2
Net debt[1]	887.8	720.8	865.4	782.8	349.8
Cash flow	(171.6)	139.5	(83.7)	116.9	(59.4)
Net cash inflow/(outflow) from operating activities	46.5	66.4	38.3	28.4	(5.6)
Acquisitions	148.0	10.2	31.9	140.7	48.9
Capital expenditure on properties	49.5	94.6	72.9	68.3	18.9
Disposals	8.5	195.5	72.6	352.4	31.2
Recurring earnings per share (p)	52.89	55.55	22.83	35.14	27.44
EPRA earnings per share (p)	52.99	57.14	n/a	n/a	n/a
Dividend per share					
IFRS (p)	27.60	24.50	23.15	18.03	13.98
Distribution of year earnings (p)	29.00	27.00	24.50	22.50	14.75
Adjusted net asset value per share (p)	1,484	1,168	1,226	1,801	1,770
Net asset value per share (p)	1,432	1,117	1,170	1,770	1,460
EPRA net asset value per share[2] (p)	1,474	1,161	n/a	n/a	n/a
Total return[3] (%)	29.3	(2.9)	(30.6)	2.8	33.6
Gearing					
Balance sheet (%)	59.4	61.9	71.2	42.5	44.7
Loan to value (%)	35.7	36.4	39.7	28.2	26.8
Interest cover ratio[1] (%)	328	330	247	224	257

[1] The comparative figures for 2009 have been restated for the presentational changes outlined in note 1. The 2006 to 2008 figures have not been altered.
[2] Calculated on a fully diluted basis.
[3] The 2010 and 2009 figures for total return are now calculated in accordance with EPRA guidelines (see note 33).

A list of definitions is provided on page 135.

List of definitions

Net assets per share or net asset value (NAV)
Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Earnings/earnings per share (EPS)
Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

Diluted earnings per share
Earnings per share adjusted to include the dilutive effects of potential shares issuable under the Group's share option schemes. However, a loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants who strive to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. In October 2010, EPRA published its Best Practices Recommendations which can be found at www.epra.com/media/EPRA_2010_BPR.pdf. This includes guidelines to be used for the calculations of the following performance measures:

- Adjusted net asset value per share;
- Adjusted earnings per share;
- Net initial yield;
- "Topped up" net initial yield; and
- Vacancy rate

Derwent London has adopted the EPRA methodology for all of these measures in 2010. Recurring profit before tax and recurring earnings per share (see below) are also included in this report and accounts to provide comparability with the measures used in 2009. In addition, in accordance with EPRA guidelines, we have made Company specific adjustments to adjusted profit and adjusted earnings per share to arrive at the underlying positions (see below).

Recurring profit before taxation
Profit before tax excluding the revaluation movement in investment properties and financial instruments and the profit or loss on disposal of investment properties.

Recurring earnings per share
Earnings per share adjusted to exclude the after tax effect of non-recurring items, profits or losses on sales of properties and investments, and the fair value adjustments to the carrying value of assets and liabilities.

Underlying earnings per share
EPRA earnings per share adjusted for items which are excluded to show the underlying trend. In 2010, recurring earnings per share has been adjusted for rates credits and the foreign exchange movement.

Property income distribution (PID)
Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

Non PID
Dividends from profits of the Group's taxable residual business.

Net debt
Borrowings plus bank overdraft less cash and cash equivalents.

Balance sheet gearing
Net debt divided by net assets.

Interest cover ratio
Gross property income, excluding surrender premiums, less ground rent divided by interest payable on borrowings less interest receivable. This is similar to that used in the Group's bank covenants.

Loan-to-value ratio (LTV)
The nominal value of borrowed funds divided by the fair value of investment property. This is equivalent to the loan-to-value calculations used in the Group's bank covenants.

Ground rent
The rent payable by the Group for its leasehold properties. Under IFRS, these leases are treated as finance leases and the cost allocated between interest payable and property outgoings.

Building Research Establishment Environmental Assessment Method (BREEAM)
The BREEAM rating assesses the operational and the embodied environmental impacts of individual buildings. The ratings are Pass, Good, Very Good, Excellent and Outstanding.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)
These regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

IPD Central London Offices Index
An index, compiled by Investment Property Databank Limited, of the central and inner London offices in their quarterly valued universe.

Capital return
The annual valuation movement arising on the Group's portfolio expressed as a percentage return on the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

Total return
The movement in adjusted net asset value per share between the beginning and the end of each financial period plus the dividend per share paid during the period expressed as a percentage of the adjusted net asset value per share at the beginning of the year.

Total property return
The annual capital appreciation, net of capital expenditure, plus the net annual rental income received, expressed as a percentage of capital employed (property value at the beginning of the year plus capital expenditure).

Total shareholder return
The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the period, expressed as a percentage of the share price at the beginning of the year.

Rent roll
The annualised contracted rental income, net of ground rents.

True equivalent yield
The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimate rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Assumes rent is received quarterly in advance.

Reversion
The reversion is the difference between the rent roll of a property or portfolio and the rental value as estimated by the Group's external valuers. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

Underlying portfolio
Properties that have been held for the whole of the financial period.

Financial calendar

Issue of first quarter 2011 management statement	17 May 2011
Annual General Meeting	20 May 2011
Payment of 2010 final dividend	16 June 2011
Announcement of 2011 interim results	August 2011
Issue of third quarter 2011 management statement	November 2011
Payment of 2011 interim dividend	November 2011
Announcement of 2011 results	March 2012

Advisors

Auditor
BDO LLP

Solicitors
Slaughter and May

Brokers
UBS
JP Morgan Cazenove

Clearing banker
HSBC Bank plc

Registrar
Equiniti

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